



This article was published in the *automotivemanager* 2/2008.  
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# Reducing fixed costs by 40%

- > **Customer**
- > R&D
- > Procurement
- > Production
- > Sales
- > Services

## Optimizing the Cost Base While Creating Superior Customer Satisfaction

Economic recession has increased the importance of the cost positions of automakers and suppliers for their commercial success. Even in economically good times, their profit levels have been markedly below those of other sectors. At the same time, large investments are being planned – to develop CO<sub>2</sub>-cutting technologies and to meet expanding customer requirements and legal regulations.

Fabian Brandt,  
Peter Bosch

Typically, companies go through phases of less activity followed by sweeping efficiency-boosting programs that feature across-the-board budget cuts and layoffs, without having too much sustainable impact. Such cost-cutting frequently leads to drops in product and service quality, measures that lower customer satisfaction and the chance of creating sustainable customer loyalty. An example are the product-cost programs introduced by many manufacturers at the beginning of the 1990s, causing lower product quality. Those programs continue to have a negative effect on the brand image and customer satisfaction of the individual manufacturers today.

## Optimizing the Cost Base While Creating Superior Customer Satisfaction

### Focus on the customer's priorities

The challenge is to optimize costs systematically and sustainably, while also maintaining or even improving customer satisfaction. It is important to distinct between processes that directly address specific customer requirements and those that are primarily internal and affect customers only indirectly. In the sales area, for instance, customer-relevant processes on the wholesale level include offer preparation, complaint hotlines, and order handling. These areas should be optimized to promote growth and customer satisfaction. By contrast, internal processes such as payroll accounting and human resources can be trimmed to achieve cost efficiency.

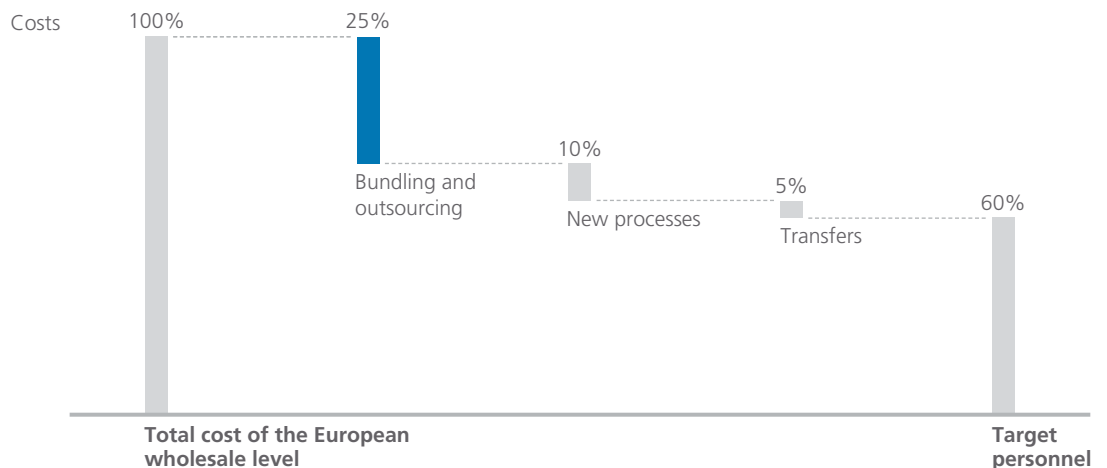
In one project with a European vehicle maker, we determined that overall wholesale costs could be reduced by 40 percent. The company cut a quarter of costs through bundling and outsourcing, and about ten percent through process optimization. An additional five percent came through efficiency-focused transfers to the manufacturer or to large retail groups. At the same time, customer satisfaction rose significantly in the affected markets over two years following the efficiency-boosting programs. Similar programs can be effectively carried out in development, administration, and indirect production areas.

### Sustainable success

To ensure that efficiency gains in indirect areas have long-term success in terms of earnings and customer satisfaction, there are five principles that managers should follow.

- 1 Direct the cost program to the market and customer. The "voice of the customer" is the undisputed basis for all optimization activities.
- 2 Focus measures on the added value that they produce for internal and external customers. This results in a sensible balance of performance- and cost-optimized organization.
- 3 Direct the optimization solutions at market performance, not at costs. Many processes operate more effectively and cost efficiently with lean structures and less duplication. The most important customer-relevant processes must be improved, not cut to death.
- 4 Draw on best practices and benchmarks of leading organizations in the automotive industry that focus intensely on customers.
- 5 Communicate the changes jointly from management and central employees. Otherwise, there is a strong possibility that motivation and sales will decrease, particularly within the sales force.

### Successfully optimizing costs for more satisfied customers



Source: Oliver Wyman project example