

Reviewing organizational processes to reduce cost helps organizations remain competitive and encourage innovation. This paper shows how it is done by taking actual example of a process. Keeping focus on client requirements—stated or perceived i.e. “Client Demandments” while reviewing processes ensures satisfied clients at lower costs for the organization—enabling improved bottom-line!



Review Processes to Cut Cost

A previous white paper by VK described the benefits of reviewing Processes in an organization to enhance the Value Addition. It also described the three basic Client Demandments (CD's) as Cost, Quality and Quickness—(every thing is required yesterday!). This paper deals with reviewing processes to reduce cost of operations.

Cost Cutting?

Reviewing processes to enhance value by cutting out NVA's (non-value Add activities), reducing or minimizing BVA's (Business Value Adds) and fine tuning AVA's helps in significant reduction of cost and cycle time. The removal of NVA' automatically reduces job-hours, use of facilities and equipment and related expenses. The next logical step is to investigate whether review of Process Maps help in reducing COST.

Traditional Accounting

The usual accounting methods report the expense data in a manner which can be used to evaluate overall cost of producing goods or delivering services of the organization. Thus for example the balance sheet data of a typical travel company gives details of the expenses shown in Table 1.



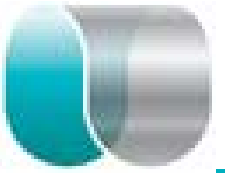
VK— Vinod K Mehandru

VK is CEO of NiMble Systems. He can be contacted at vkm@nimble.in

Table 1—Various expense heads of a Travel Company

Advertising & website design	Postage/telephone-email
Bank charges & comm.	Printing & stationery
Bank interest paid	Rent and service charges
Directors remuneration & fees	Repairs and maintenance
Entertainment	Salaries & wages
Insurance	Staff medical/training
Legal and professional fees	Travelling - domestics
Light and water	Travelling – overseas
Office & miscellaneous expenses	Vehicle running expenses

(Continued on page 3)



Review Processes to Cut Cost

The data of this nature does not indicate whether the cost incurred is excessive or is there a scope for reduction and if so where? Some idea can be gathered if the costs are benchmarked against other similar companies as percent of total turn-over or as cost per employee or cost per ticket sold. Employees generally do not buy-in management's ad-hoc directives on cost reduction when the decisions are based on the expense head analysis.

Further this approach may affect the basic effectiveness of processes and also client satisfaction—since the perceived value by the client can get effected.

Developing sound cost reduction strategy from this data requires good insight of operations and requires trying of various methods. In reality, this method is used in budgeting exercise when the management essentially takes the expense head based decisions.

PROCESSES FOR A TRAVEL ORGANIZATION			
MANAGEMENT PROCESSES			
Management		MIS Processes	
Strategy Formation Strategy Review Annual Plan Formation Budgeting Marketing Plan		Budget Performance Monthly Sales Reports Debtors List	
CORE PROCESSES			
Enquiry Handling	Tour Booking	Ticket Booking	Invoicing
SUPPORT PROCESSES			
HR Processes	IT Processes	F&A Processes	Marketing Processes
Training Appraisal Leaves	Complaint Handling New Hardware Purchase Web Site Up-gradation Data Base Management	Receiving Tours Payments Receiving Travel Payments Cash Flow Analysis Company Accounts	Bus.Dev. – Clients Bus.Dev. – Supplier Offline Promotions Online Promotion Tour Designing Customer Relationship



Review Processes to Cut Cost

Process Approach

We would explain the process approach to cost reduction by way of a travel company example. Various steps are as described below.

Step 1—List Processes

First step in the process approach is to list KEY processes of the organization. Some minor processes can be ignored to keep the exercise within practical limits. Thus Figure 1 shows the processes for a travel company. The processes have been categorized under three major groups i.e.:

1. Management Processes
2. CORE Processes and
3. Support Processes

Step 2—Determine Process Usage Frequency

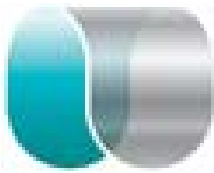
Though each process is important and consumes resources, the process frequency has bearing on the cost savings potential. Table 2 shows the list of Processes and the frequency of their usage. In this table, processes used yearly have a frequency of 1, used monthly have frequency of 12, used weekly have frequency of 52. T indicates that the process is used for each Transaction—like issuing Tickets, booking Tour etc. Processes with frequency “P” are based on the company plan and there-

fore it’s frequency changes. Cost is an important factor. when the plan budget is approved.

TABLE -2 FREQUENCY OF PROCESSES			
SN	CATEGORY	PROCESS	FREQUENCY
1		Strategy Formation	1
2		Strategy Review	12
3	Management	Annual Plan Formation	1
4		Budgeting	1
5		Marketing Plan	1
6		Budget Performance	12
7	MIS Processes	Monthly Sales Reports	12
8		Debtors List	52
9		Enquiry Handling	T
10	CORE PROCESSES	Tour Booking	T
11		Ticket Booking	T
12		Invoicing	T
13		Training	4
14	HR Processes	Appraisal	1
15		Leaves	T
16		Complaint Handling	T
17		New Hardware Purchase	4
18	IT Processes	Web Site Up-gradation	12
19		Data Base Management	52
20		Receiving Tours Payments	T
21	F&A Processes	Receiving Travel Payments	T
22		Cash Flow Analysis	12
23		Bus.Dev. – Clients	P
24		Bus.Dev. – Supplier	P
25	Marketing Processes	Offline Promotions	P
26		Online Promotion	P
27		Tour Designing	P
28		Customer Relationship	P

Step 3—Short-List Processes

In a travel company, main business is issuing of tickets and booking tours. These transactions run into thousand per year and it is obvious that even a small improvement in efficiency of these processes can lead to substantial savings. Table 3 provides the selected processes for fur-



Review Processes to Cut Cost

TABLE -3 SHORT LISTED PROCESSES

SN	PROCESS	FREQUENCY
1	Debtors List	52
2	Enquiry Handling	62000
3	Tour Booking	5000
4	Ticket Booking	45000
5	Invoicing	50000
6	Leaves	300
7	Complaint Handling	700
8	Data Base Management	52
9	Receiving Tours Payments	6000
10	Receiving Travel Payments	48000

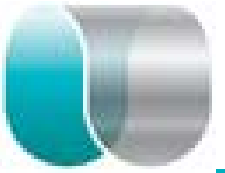
Step 4—Determine the Process Cost

In the process approach, the cost of executing each process is calculated by using Activity Based Costing techniques. In brief, each activity of the process is assigned a cost based on the resources used for the activity. Cost of running one cycle of the process, multiplied by it's frequency is a good measure of the total cost incurred by the organization. Table 4 shows this data for the example travel company—whose IT systems are not yet fully upgraded. The processes have been arranged on the decreasing annual cost basis. The top priority processes which can significantly impact the organization costing is quite obvious from this analysis. Even a 10% savings in the process cost of top 4 processes can lead to around 250,000 USD savings per year.

ther analysis. This table shows the estimated frequency of usage for each of the processes on an annual basis.

TABLE 4 – ANNUAL COST OF VARIOUS PROCESSES

SN	PROCESS	FREQUENCY	Process Cost in USD	
			Per Cycle	YEARLY COST
1	Enquiry Handling	62000	20	1,240,000
2	Receiving Travel Payments	48000	10	480,000
3	Ticket Booking	45000	10	450,000
4	Invoicing	50000	6	300,000
5	Tour Booking	5000	40	200,000
6	Receiving Tours Payments	6000	20	120,000
7	Complaint Handling	700	40	28,000
8	Data Base Management	52	120	6,240
9	Debtors List	52	80	4,160
10	Leaves	300	5	1,500



Review Processes to Cut Cost

Step 5—Assign Process Improvement Teams

With analysis leading to prioritization, the next step is to assign process teams for a careful look at the detailed process map and innovate improvements in the selected processes. Above analysis shows that if two teams—one from operations and the other from Finance & Accounts are assigned, the study can be easily undertaken without effecting the regular work.

Working of these teams can be greatly enhanced by assigning a senior member of the leadership team as Champion for each Process Improvement Project (PIP). The champion being a senior member can ensure that the team is made available for brain-storming sessions and get enough recognition when the processes have

been studied in detail. It is important to bring into team employees from different levels—to spread the TEAM WORK and deeper understanding of the processes. If the organization does not have a champion versed with improvements, hiring external facilitator to support the Champion can be very effective. The external facilitator should have experience of similar work with exposure to Six-Sigma Methodology.

Summary

This paper clearly demonstrates the advantage of Process Mapping and its use for cost reduction in a manner which can bring in quick returns for the organization.