



# IN SIGHTS

**Special Edition** March 2020:  
After first aid comes stabilization -  
opportunity for new approaches to cost  
management

In every crisis there is an opportunity. How often has this statement been heard in the past, both in private and professional life. However, none of us in our generation has ever experienced a crisis like the one currently being experienced due to the corona virus, in human interaction and also in the economy.

However, as with every crisis, there is a certain master plan. In the beginning there is always first aid. Once an emergency has become known, the necessary staff members organize themselves, make an initial diagnosis and provide first aid. This is followed by stabilisation and, if necessary, the combating and treatment of symptoms. This sequence of a paramedic intervention can be adopted as a blueprint for dealing with crises in companies.

## **Short-term capacity to act: diagnosis and first aid**

The last two weeks have shown that many companies can act quickly and react to a crisis. Already with the first corona infected in Germany, after the rapid spread in Italy, our customers and we have taken the first measures. No external visitors, meeting online and preparations for home office were the top priority and were implemented before the official measures to contain the chains of infection.

In addition to the protection of our own employees, securing supply chains was a top priority for purchasing and supply chain management. To this end, contact was made promptly with the most important suppliers and risk assessment was intensified as part of risk management.

Another important point in the context of first aid is the adjustment of demand planning to avoid supply bottlenecks and to ensure low inventory

levels. Automated demand planning often draws on historical values and does not see a crisis in its algorithms.

## **Securing results: Stabilization of the supply chain and cost management**

To stabilize cost management, three important components must be monitored regularly: planning, suppliers and inventories.

Regular coordination with production and sales allows supply chain management to quickly and actively adapt demand planning to requirements. This is where the strength of an efficient organization becomes apparent. Communication channels and rapid implementation by employees are particularly important.

One of the most important components of a functioning and active supply chain are the suppliers. Adapting one's own requirements planning does not bring any advantages as long as the suppliers are not able to react to it adequately. This requires close involvement of the most important suppliers to set up a supply chain team. Purchasing and supply chain departments that regularly classify their suppliers have a clear advantage here, they know their key suppliers at the push of a button. From our point of view, a classification according to strategic, key and core suppliers has proven to be very useful.

Once the planning and supplier components have been stabilized and the necessary transparency has been established, active inventory management is required. During growth phases, sufficient stocks are created



naturally. Capital tie-up and liquidity are not the focus of attention; the focus is on an adequate supply of value added. This changes abruptly after the start of a crisis situation. Excess stocks must be reduced and dead capital identified. All inventories must be reassessed on the basis of the current framework conditions and appropriate measures must be implemented.

## **Securing liquidity: active cost management through zero base budgeting**

For every type of crisis in a company, an examination of all costs must be carried out according to the formula „stop the bleeding - fix the business“. Since crises are mostly characterized by a decline in sales, costs must be evaluated and reduced synchronously. As with the classification of suppliers in order to react quickly to the system relevant ones, companies that have classified their costs are clearly at an advantage. One of the most powerful tools in this context is Zero Base Budgeting. Zero Base Budgeting follows the approach of determining the minimum costs that are necessary for the operation of a department.

If the output quantity for a company is set to 1,000 units, the minimum costs required for this output quantity are determined for each department. This applies to personnel, material and equipment. All costs that exceed this must be evaluated with their respective effects.

All costs that exceed this amount must be evaluated with their respective effects. If, e.g. by means of additional software, the performance required for the output quantity can be achieved more quickly, this must be evaluated, costs and added value. All additional costs that go beyond

the zero base approach are considered in a coordinated action for the entire company and the remaining costs are then distributed. This results in a classification of costs that can also be quickly reassessed in the event of a crisis. This results in a classification of costs that can also be quickly reassessed in the event of a crisis.

## **Use the chance of a crisis**

The conversion of cost management to zero base budgeting takes some getting used to for an organization and usually meets with low acceptance. Learned processes and cost bacon become transparent. We at ADCONIA are happy to provide you with our expertise in cost management and crisis management. Please contact us.

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