

Lesson from the Downturn: Cut Inventory, Not People

Cutting costs via working capital improvements can be as effective as layoffs, says a new survey.

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Relying heavily on layoffs and wage reductions to cut costs over the past year, midsize and small businesses missed a huge opportunity to generate cash out of improvements in inventory and working capital, a newly released survey suggests.

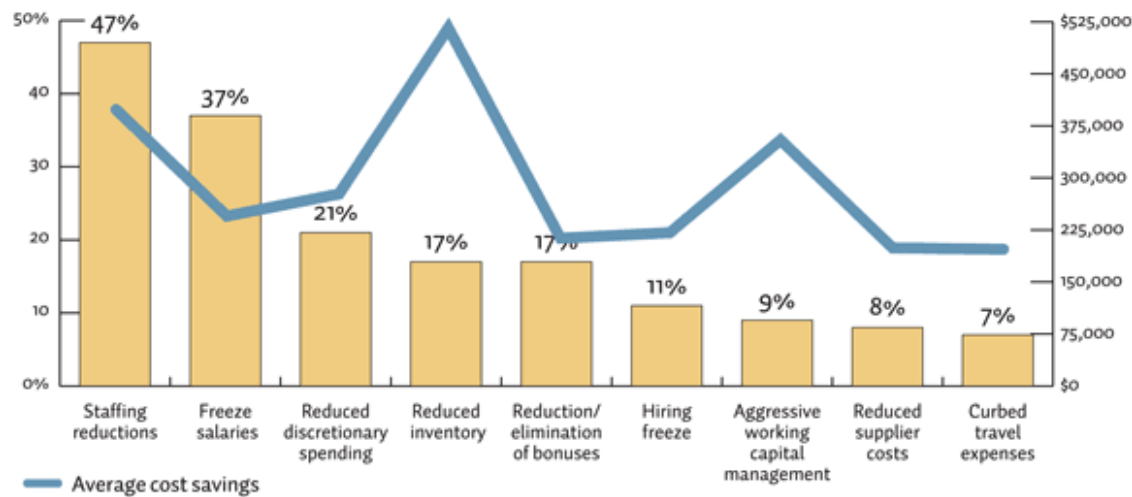
The potential to cut costs by slashing inventory seems especially large among midsize companies (\$10 million to \$500 million in revenue), according to a Greenwich Associates survey of 519 financial decision-makers from small and midsize outfits. Although only 17% of the midsize companies cut inventories last year, the ones that did so saved an average of almost \$520,000. While layoffs were much more popular — 47% of midsize companies cut staff or management — the reductions saved an average of just \$400,000 (see chart below).

Indeed, layoffs were far and away the most common cost-cutting tool among the companies represented in the survey, which was conducted from March 1 to March 26, 2010. About 40% of small businesses (\$1 million to \$10 million) slashed staff or trimmed management during the previous 12 months, saving about \$175,000 for the effort. But 16% averaged savings of more than \$100,000 by pulling back inventory.

Another painful cost reducer — salary freezes or changes to pay packages — was also popular. Thirty-seven percent of midsize companies and about 33% of small businesses decided to freeze compensation, averaging \$245,000 and \$56,000, respectively, in the process.

The few that moved forcefully to reduce their working capital, however, seemed to fare at least as well — and probably with a good deal less pushback. While only about 9% of all the companies represented cut costs through "aggressive working capital management," midsize companies that did so saved a tad more than \$350,000 and small businesses saved more than \$33,000.

How Midsize Companies Cut Costs Last Year



Source: Greenwich Associates March 2010 survey of 243 financial decision-makers at midsize companies (\$10 million- \$500 million in revenue)