



# Cutting costs!

What executives are  
reflecting on now

## A study on cost-cutting

- Reducing costs is a major concern and topic for decision makers
- This study identifies considerable potential for cutting product costs and cross-border savings in production, logistics and administration
- Selected case studies describe the levers and project results achieved



## Top executives agree: Costs must be cut!

In the summer of 2019, cutting costs and increasing efficiency are the two major topics for discussion of decision makers in national and multi-national companies. "We are continuously seeking to improve efficiency", tells Mohsen Sohi, Freudenberg SE's CEO, the business editors of the WELT AM SONNTAG, a high-ranking German national newspaper.

"To succeed in our competitive industry and make Ford win in a fast-changing future, we must reduce bureaucracy and empower managers to speed up decision making, focus on the most valuable work and cut costs", states Jim Hackett, Ford's CEO in the German newspaper FAZ. This move is intended to increase profits in the face of declining sales.

Machine tool and laser technology company Trumpf Group started a preventive program to plan for stormier times. According to an investor presentation, BMW intends to decrease its capital expenditure ratio to under 5 %. In 2018 it had increased to 5.2 %.

## Corporates are bracing themselves for stormy weather – by saving money

In an interview with the FAZ, Bram Schot, CEO of Audi, outlined how cost savings affect the product range: "We started by reducing the number of engine and gearbox variants by 27 %." And Audi's CFO, Alexander Seitz, adds in an interview with the manager magazin, a leading German business magazine: "The restructuring will not be easy. But for us profitability is more important than staying in the comfort zone."

At Daimler's last annual general meeting its former CEO Dieter Zetsche, made the following announcement: "Everything is under scrutiny – fixed and variable costs, material and labor costs, planned investments, the real net output ratio and the product range." These statements indicate

how important saving money currently is.

The need to save money is nothing new as such. But objectively, pressure has risen. Therefore automotive supplier MAHLE started an internal cost cutting program back in spring. It complements the profitability increase programs already in place.

"We need a strong earnings position in order to be able to continue the transformation of the MAHLE Group and being a driver of technology in our field in the future", said Dr. Jörg Stratmann, MAHLE's CEO, in front of the media. The group is currently scrutinizing its global footprint in the various regions and countries as well as its labor capacity. Sites and product lines not generating sustainable profits will be restructured at a greater speed.

## Insecurity increases pressure

Insecure markets make companies hesitate when it comes to new investments. After a long period of economic growth and rising sales, there is now a threat of overcapacity and increased cost pressure. Main Reasons are the trade war between the US and China, the rising protectionism in the US aimed at the European Union, the Brexit and the slowdown of economic growth in China.

The VDMA, the German Mechanical Engineering Industry Association, has adjusted its manufacturing forecast for the strongly export-oriented industry sector twice already and is now expecting negative growth of 2 % for the current year. According to its president Carl Martin Welcker: "The numbers have become so dire that we have to issue a warning. There is a storm underway, the hatches need to be closed."

Technological change also implies disruption. The automobile manufacturers and their automotive suppliers are facing the extraordinary challenge of having to develop electric cars for the mass market and suitable business models for future mobility. The mega trend digitization is changing the business models across all industry sectors.

## Saving money the right way, investing into the future

In order to make the best use of digitization considerable investments are necessary. The current need to increase efficiency is driven by the necessity to use the money saved for investments into the future.

Infineon, a chip manufacturer, is an example of a company that continues to invest in times of stagnation. "Of course we are reluctant to recruit new talent in times like these. But we apply prudence as we intend to grow further in the long term", says Jochen Hanebeck, Infineon's COO Manufacturing, in an interview with the German national newspaper Handelsblatt. In the current fiscal year, his company plans to invest a total of Euro 1.5 billion into plant and machinery which equals almost 19 % of Infineon's sales forecast.

## Review of production and logistics processes

ConMoto's consulting experience of thirty years has shown that processes in production, logistics and administration offer many levers to reduce manufacturing cost. Technological progress and digitization go along with this. In manufacturing and logistics digitization has two major effects – it accelerates processes and allows for better access to process design.

However, the increased speed also poses a challenge to production systems. In addition digitization facilitates controlling processes because a greater amount of real time data is available. The dispersed availability of the data and its aggregation, which is adjustable if needed, are equally important. Algorithms that summarize, evaluate and map data turn individual information into knowledge that can be used for decision-making.

Making the best use of this knowledge requi-

res the expertise of qualified staff. Correctly collected and interpreted data increases the transparency of both manufacturing and product costs and allows for better investment decisions. A further advantage is that cost transparency is achieved by effective cooperation - not only within the company, but also across the entire value chain..

## Standardizing products, optimizing product costs

Maximizing customer benefit and achieving cost targets are the main purposes of all efforts geared towards optimizing product costs. With the help of consistent modular management companies can standardize products and product design processes in order to reduce development costs.

The methodology also includes a value and cost effectiveness analysis to align product requirements, range of functions and actual versus best practice costs. This allows companies to be equally successful in insecure markets and safeguard their competitive advantage over their competitors. Companies that consistently optimize product costs free up sufficient capital for future investments.

With regard to reducing product cost and increasing efficiency in manufacturing and logistics we have listed some key findings from selected ConMoto projects of previous years. We have used the project data to develop some meaningful scenarios for cost-cutting programs.

The pages 4 to 11 are not included in this preview.  
Should you be interested in the whole study "Accelerate your company! Successful production systems – lessons learned, facts & figures based on recent projects", please contact:

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Our consultants have a wealth of managerial experience and adopt an entrepreneurial approach to create sustainable value enhancement for our customers. Using innovative methods and acting in a spirit of partnership, we systematically develop and implement solutions, efficiently change structures and processes and successfully motivate people.

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