

## **Cost Reduction according to Prewett**

It is as much about spending in the right way as it is about analysis and not spending.

1. Know what you end goal is and work backwards.
  - a. Minimises wasted effort and the expense that goes with it.
  - b. Helps target the areas where you do want to spend significant money.
    - i. Spend in these areas fully but keep all other expenditure tight.
2. Power, Phone & Internet
  - a. Strategically invest to ensure communication is very good.
    - i. Test that customers can easily speak to a real person and don't just go to voice mail.
    - ii. Ensure that whoever answers the phone can put on a sales hat to ensure that the customer or potential customer feels good about the organisation. For first time callers, this ensures that the initial 'sell in' is half done before the customer is passed onto a business development person.
    - iii. Answer the phone in 3 rings or less.
  - b. Analyse the plan, type and level of activity, and hardware/software.
    - i. Optimise.
3. Premises
  - a. Ensure good logistical location. Be near a motorway on and off ramp.
  - b. Ensure easy parking for customers.
  - c. Don't look more affluent than your customers.
  - d. Keep setup basic and humble.
  - e. Don't occupy too much space but allow for a little expansion room if growing.
  - f. Keep lease terms in line with growth rate. Don't sign a six year lease if you are going to significantly grow in two years. Sign a two year lease instead, with rights of renewal.
4. Staff Costs - Recruitment
  - a. Only hire stars.
  - b. Put maximum effort in assessment before the person is hired.
  - c. Rule of thumb – a person costs about their annual salary again in the first year. If they leave after one year it has cost the business double, for no payback.
5. Staff Costs – Development
  - a. Make targeted investment in social styles so that emotional intelligence is increased.
    - i. Staff will get on better with each other and with customers.
    - ii. The culture of the business will be enhanced.
  - b. Invest in customer focus.
    - i. L.A.S.T principle. Deal with an angry customer by: listening, apologising, solving the problem, and thanking the person for bringing the issue up.
  - c. Open door policy.
    - i. Be ready to talk, then talk again, and then talk some more.
6. Marketing/Advertising
  - a. Increase in the hard times. Keep other areas tight but not this one.
  - b. If you want to develop your business, spend up large in marketing.
  - c. Be smart in your spend.
    - i. Direct market as much as possible.
7. Shareholder Salary
  - a. Market rate.
  - b. Don't overpay yourself. Keep the business profit up and reinvest in business expansion. This maximises the amount that you can sell a business for when you want to retire.
8. Cost/Benefit Study
  - a. Don't spend the money unless there is a discernible benefit. Write it down and prove it to yourself before committing to the spend.
  - b. Rule of Thumb – accept nothing less than a 20% return on investment.