

New Benchmarks on Cost-Cutting Efforts by U.S. Small and Mid-Sized Companies

May 2010

A new Greenwich Market Pulse of U.S. companies provides important benchmarks for small businesses and mid-sized companies looking to implement cost-cutting measures. The results suggest that companies in need of cost reductions should consider several aggressive management techniques that can generate significant cost-savings as a supplement, or perhaps in place of, more disruptive moves such as lay-offs and salary freezes.

The economic recession and historically difficult credit conditions have forced companies of all sizes to make tough decisions about costs. This Greenwich Market Pulse was conducted to determine the average amount of money saved during the past 12 months by small businesses and mid-sized companies that implemented staffing reductions, salary freezes, eliminations of bonuses, curbs on travel, and other cost-saving measures.

“In a sharp economic downturn, staffing reductions are often seen as the ‘low-hanging fruit’ because they can produce relatively rapid and lasting cost reductions,” says Greenwich Associates consultant Pete Garrison. “But our research shows that, by taking steps to more tightly manage working capital, supplier costs, and inventories, it is sometimes possible for companies to achieve cost reductions on par with those generated through lay-offs, salary freezes and other steps generally regarded as being more painful to the workforce.”

Staffing reductions were by far the most common cost-cutting measure implemented by U.S. businesses last year. Forty-seven percent of mid-sized companies and approximately 40% of small businesses said they laid off staff or reduced management layers over the last 12 months. On average, mid-sized companies that took this step generated close to \$400,000 in cost-savings, while the typical small business that reduced staff over the period saved close to \$175,000. Thirty-seven percent of middle market companies and about one-third of small businesses implemented salary freezes or changes to existing compensation packages. Mid-sized companies that took this action saved approximately \$245,000; small businesses saved about \$56,000 on average.

However, the research results show that it is possible to achieve cost reductions on par with those generated through lay-offs by adopting more aggressive business management techniques. Inventory management represents an important cost-savings opportunity for both mid-sized companies and small businesses. Although only 15–20%

of companies in these categories reduced inventories last year, middle market companies that took the step saved an average of almost \$520,000 and small-businesses that did so cut costs by more than \$100,000. About one-in-five middle market companies and 25–30% of small businesses reduced discretionary spending last year. Among those that did, mid-sized companies saved an average of nearly \$275,000 and small businesses saved approximately \$90,000.

Only one-in-10 middle market companies and small businesses implemented proactive measures to more aggressively manage their working capital. Mid-sized companies that did take this step generated an average cost-savings of slightly more than \$350,000; small businesses saved more than \$33,000. Likewise, mid-sized companies were able to save close to \$200,000 by reducing supplier costs and almost the same amount by curbing travel expenses. The 12% of small businesses that actively worked to reduce supplier costs achieved average cost-savings in excess of \$90,000, and the one-in-10 small business that curbed travel expenses saved an average of almost \$30,000.

The following charts list the most common cost-cutting measures implemented by U.S. businesses last year, along with the average amount of money saved by small businesses and mid-sized companies that took these steps.

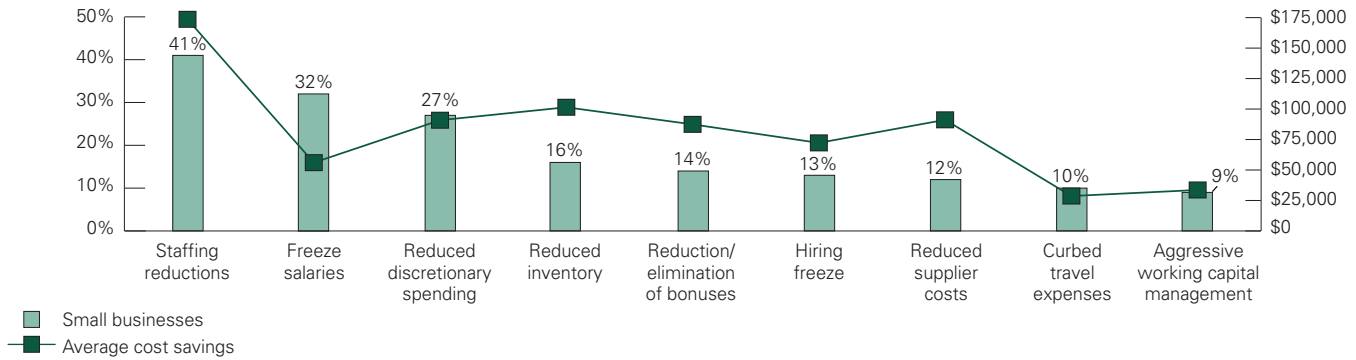
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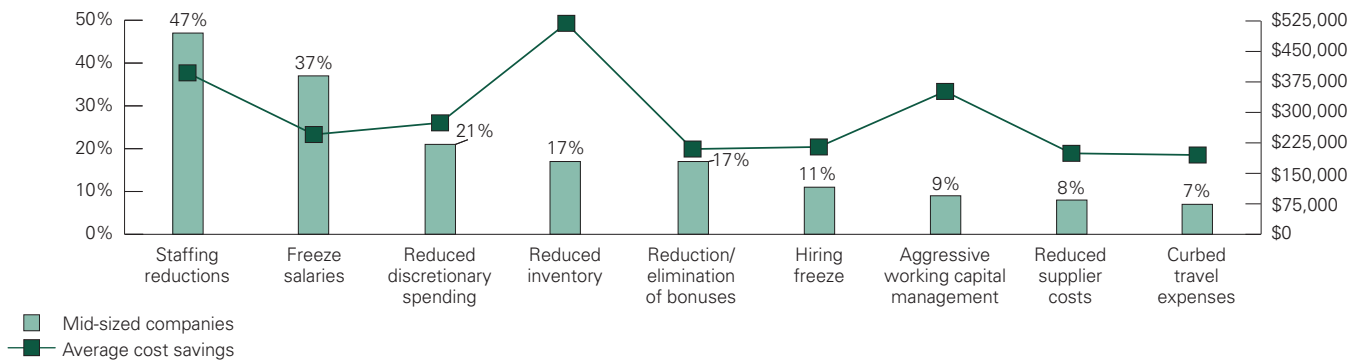
Realized Cost Savings for Small Businesses



Note: Based on 276 respondents in 2010.

Source: Greenwich Market Pulse v36

Realized Cost Savings for Mid-Sized Companies



Note: Based on 243 respondents in 2010.

Source: Greenwich Market Pulse v36

Greenwich Associates consultant Pete Garrison advises on banking in the United States.

Methodology

The Greenwich Market Pulse is a panel of approximately 30,000 financial decision-makers at small (\$1 million–\$10 million) and mid-sized (\$10 million–\$500 million) companies in the United States. The current survey was conducted from March 1–26, 2010 and included participation from 519 companies.

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