

Stop Cutting Costs. Start Fixing Your Cost Base.

Most cost programmes reduce spend, very few improve the business.

The case for Cost Transformation.

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Executive Summary

Cost reduction is one of the most widely used and least well-executed, levers in business.

When performance drops, leadership teams tend to respond quickly and predictably. Recruitment stops. Travel and training are cut. Discretionary spend is reduced. In more severe cases, headcount is removed with a blunt-instruction to managers to cut x% of their costs. These actions are visible, decisive, and sometimes necessary.

But they come with a consequence that is rarely acknowledged.

The moment the language of "cost cutting" enters an organisation, something shifts -morale falls, discretionary effort declines and the most capable people begin to question their future. What starts as a financial intervention quickly becomes a cultural signal, and not a positive one.

At the same time, most cost programmes focus on what is easiest to remove, rather than what should be changed. The result is a familiar pattern, short-term savings are delivered, but capability is weakened, operational friction increases, and over time, cost finds its way back into the system.

The most effective companies treat cost very differently. They do not see it simply as something to reduce, but as something to shape. They move beyond reactive cost cutting and towards a more deliberate idea, building a cost base that is aligned to strategy.

This is the shift from cost reduction to cost transformation.



A Narrow View of Cost

Most organisations approach cost in a single dimension. When under pressure, they look for opportunities to take it out. When performance improves, they allow it to return. Cost becomes something that shifts reactively with circumstances, rather than something that is intentionally designed.

In reality, there are three different ways to engage with cost. The first is the most visible and the most widely used, **Cost Reduction**. This is the rapid removal of expense, reducing discretionary spend, exiting underperforming roles, and cutting back on external support. (In essence, doing things that should be business as usual anyway!) This approach is fast, often necessary, and sometimes unavoidable. But it is also inherently a blunt instrument.



The second is more structured. **Cost Management** focuses on how work gets done. It looks at processes, productivity, capacity, and quality. It requires more effort and more discipline, but it leads to more sustainable outcomes. Here, organisations begin to control cost, rather than simply react to it.

The third is rarely executed well, but it is where the real value lies. **Cost Transformation** is not about reducing cost in isolation. It is about fundamentally reshaping where and how cost is deployed across the business. It asks different questions, not how to spend less, but how to spend better.

Cost Reduction	Cost Management	Cost Transformation
"Reduce People-Related Costs" Can be achieved with little or no impact on the work performed – may not be sustainable	"Reduce Work Cost" Requires work to be either eliminated or changed	"Align Cost to Strategy" Requires a holistic approach to transforming the operating model
Scope: Individuals, Teams, Functions	Scope: Functions, Service Lines	Scope: Business Units, Entire Business
EXAMPLE ACTIONS + Dictate/Set line managers % saving target by date + Close open vacancies + Freeze recruitment (selective) + Reduce contractors (and/or convert to Permanent) + Exit poor performers + Reduce working hours + Reduce discretionary spend (e.g. Travel, expenses, off-site meetings) + Introduce budget cuts (e.g. conferences, training and development) + Spans and Layers Assessment + Use budget process to lower establishment cost + Reduce bonus payments, other comp/benefits + Reduce 3 Party procurement spend	EXAMPLE ACTIONS + Stop low-value activities, do without + Reduce quality + Reduce quantity/frequency of reporting + Focus on operational excellence and continuous improvement + Eliminate duplication and re-work + Eliminate non-essential work reviews + Stop/Reduce internal meetings + Consolidate work to reduce handoffs + Enforce usage of shared services + Introduce Employee Self-Service + Stop non-essential projects and investments + Improve process efficiency and standardisation through workflow automation + Contract renegotiation and supplier consolidation + Address tail spend and non-contracted spend	EXAMPLE ACTIONS + Map costs to strategy to determine 'good, bad and necessary cost + Eliminate or reduce bad costs and redirect savings into strategic capabilities and differentiation + Withdraw from non-strategic, non-profitable product or service lines - eliminate associated work and people costs + Transform Operating Model incl. Right placing work across organisation, right place work to best-value geographies, leverage strategic business partners + Outsource, In-Source, Partnering + Align property/facilities footprint to strategy + Introduce project portfolio management + Better align leadership objectives and performance management to strategic goals - include cost focus + Introduce procurement category management, strategic sourcing and disciplined P2P
Ensure saving and allocations flow to P&L (incl. budget adjustments to ensure sustainability) via disciplined benefits tracking and management process		

Most organisations never move beyond the first of these. As a result, they reduce cost without ever improving their cost base.

Not All Cost Is Equal

One of the most important, and most overlooked, ideas when considering cost is that not all cost is created equal.

In many organisations, cost is treated as a single pool to be reduced. Targets are set, percentages are applied, and functions are asked to "do more with less." But this assumes that all cost has the same value. It does not.

Some cost exists because the business has become complex, inefficient, or misaligned. It supports low-margin work, fragmented processes, duplicated activity, or legacy decisions that have never been revisited. This is bad cost. It consumes resource without creating meaningful value.

Other cost is essential. It supports growth, strengthens capability, improves customer experience, and enables scale. It is aligned to what the business is trying to become. This is good cost.

The distinction matters because most cost reduction programmes fail to make it.

Instead of removing bad cost and protecting good cost, organisations often do the opposite. They cut investment in capability, delay technology spend and reduce areas that drive long-term performance, while leaving structural inefficiencies untouched.

The result is predictable. The organisation becomes leaner, but not stronger.

The companies that outperform take a more deliberate approach. They focus on systematically identifying and eliminating bad cost, while actively protecting and often increasing investment in good cost. In doing so, they don't just reduce their cost base. They improve it.



The Cost Reduction Trap

The reason most organisations struggle with cost is not a lack of action. It is that they are caught in a cycle.

Performance dips, and a cost reduction programme is launched. Savings are delivered quickly, often under pressure. The business stabilises, attention shifts elsewhere, and over time, cost begins to creep back in. The cycle then repeats.

From the outside, this can look like discipline. In reality, it is a sign that nothing fundamental has changed.

This pattern persists because cost reduction is treated as an event, rather than a capability. Leadership teams focus on speed, because the pressure to deliver results is immediate. Deeper operational changes feel more complex and take

longer to implement. And in many cases, there is limited visibility into which parts of the business are truly creating value and which are not.

Without clarity, decisions tend to gravitate toward the quickest or most obvious cuts

The risk is not just that savings are temporary. It is that repeated cycles of cost cutting gradually erode the organisation. Capability is reduced, engagement and morale declines, and the underlying inefficiencies remain in place.

The opportunity, by contrast, is to step out of the cycle entirely.

That requires a shift from episodic cost reduction to a more deliberate, structured approach to cost, one that is embedded in how the business is designed and run.

What Cost Transformation Really Means

Cost transformation is often misunderstood as simply a more ambitious version of cost reduction. It is not.

It is a fundamentally different way of thinking about the role of cost in the business.

At its core, cost transformation is about alignment. It starts with a clear understanding of which products and services genuinely create value, and which do not. In many organisations, this alone is revealing. Underperforming service lines, subscale offerings, or overly complex portfolios often consume a disproportionate amount of resource.

Addressing this is not about incremental improvement. It is about making deliberate choices including, where necessary, stopping activities that no longer justify their cost. Retiring a poorly performing product or exiting a non-value adding service require bold decisions, but the impact on cost can be profound, not just on the direct product or service cost savings but also on their associated back office costs too.

From there, attention turns to how work is done. Processes are simplified, automated, duplication is



removed, and effort is focused on activities that matter and drive value. In parallel, the operating model is reconsidered. Decisions are made about what should be centralised, what could be outsourced, and where partnerships can create leverage.

But perhaps the most important shift is in how savings are used.

In traditional cost programmes, savings are an end in themselves. In cost transformation, they are a means to an end. Cost is actively reallocated, away from low-value activity and towards areas that drive growth, improve capability, and strengthen the business.

The outcome is not simply a lower cost base. It is a business that is more focused, more scalable, and better aligned to its strategy.

A Different Conversation About Cost

For many leadership teams, cost is framed as a constraint. Something to control, limit, or reduce when necessary.

But cost is simply a reflection of choices. It shows where the organisation is investing its time, energy, and resources.

Seen in that light, the question is not where to cut.

It is whether those choices are aligned to what the business is trying to achieve.

The language we use matters. "Cost cutting" signals retrenchment. It creates anxiety, reduces engagement, and narrows thinking. It drives short-term behaviour at the expense of long-term performance.

By contrast, a focus on cost transformation changes the conversation. It allows leadership teams to be explicit about what matters, what does not, and where investment should be concentrated. It shifts the emphasis from reduction to design.

The organisations that create the most value are not those that cut fastest. They are those that are most deliberate.

They understand that cost is not just something to manage. It is one of the most powerful levers available to them.

Call to Action

If cost reduction has become a recurring feature of your business, if savings are delivered but not sustained, or if the organisation feels leaner but no stronger, then the issue is not effort.

It is far more likely to be how cost is understood, structured, and managed. It is that cost is being treated tactically, not strategically

Moving from cost reduction to cost transformation requires clarity, alignment, and a willingness to make more fundamental choices.

The question is not how much cost you can remove. It is whether your cost base is aligned to the business you are trying to build.

If you are ready to move beyond incremental cost action and have a more fundamental conversation about how your cost base should be structured, it is worth doing so deliberately and with clear strategic intent.

Cost cutting delivers short-term relief.

Cost transformation creates long-term advantage.

Make execution your competitive edge

At **Stratex Plus**, we work with ambitious, PE-backed service businesses to build scalable operating models, embed execution discipline and unlock trapped value.

We don't provide off-the-shelf solutions and will never suggest (someone else's) best practice. We develop and deliver best for you, with focus and precision.

We help you see what's really going on, making the invisible, visible across strategy, operations, systems and people.

If your business has a cost challenge, let's talk.

Stratex Plus: Strategy Execution Specialists, Business Transformation Experts

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