***What’s the impact of reducing costs by 1%?***

People working in a larger business often feel “I can’t have much of an impact, so there’s no point trying to change things.”

Most people can improve their game by 1%, if challenged. That could be about reducing waste by 1%; doing something 1% faster; reducing returns by 1%; increasing the average wagon load by 1%; reducing machine downtime by 1%. You get the idea!

1% isn’t much, but the trouble is that a 1% impact isn’t much either – or so we feel.

Hence this question. Ask it of your production managers, budgetholders, etc. Anyone with responsibility for managing costs. “If you reduce costs by 1%, what’s the impact on our profit?”

The answer from many people will be “Vanishingly small. So small, it’s not worth the effort.”

But let’s think about that.

Suppose we make goods for 80 each, and sell them for 100. If we can reduce our manufacturing costs, that’s only a saving of 0.8, reducing the cost to 79.2. But that increases the profit from 20 to 20.8: an increase of 4%.

Let’s take a more extreme example. Sainsbury had sales of £26.2bn in 2017. On those sales it made a profit before tax of £503m, after costs of £25.7bn. So if costs could have been reduced by 1% (£257m), profit would have been half as much again!

So reducing costs by even a small amount has a significant impact on profitability.

But people won’t try and reduce costs if they think it isn’t worth the effort…