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July/August 2013

Upcoming Events

- CAM-I Third Quarter Meeting
  September 9-11
  Naperville IL

- APQC 2013 Process Conference
  October 21-25
  Houston TX

People in the News

- Yours truly, principal author of a CMA Canada Management Accounting Guideline (MAG) titled *Calculating and Reporting Customer Profitability*

- Derek Sandison, CJ McNair, Steve Player, Anthony Pember, Bob Thames, Ashok Vadgama, Daniel Dube, Tony Adkins, Dan Swenson, and Frank Van Vliet, for reviewing and critiquing the MAG. Thank you very much.

Survivalist Cost Cutting

Back in the late 70’s and early 80’s, companies in the oil and gas service industry were reporting record earnings, their stock prices soaring.

In this industry, sales are driven by the number of rigs drilling for oil and gas. From 1973 to 1981, rigs drilling in the U.S. tripled, reaching a high of 4,352 in October 1981.

Smith International Inc., a manufacturer of drill bits, drill pipe, and mud motors was typical of this industry. With a record $1 billion in sales for 1981, expectations were high and like others in the industry Smith was building new facilities, adding people, investing in R&D, and sprucing up the corporate office.

But then the bubble burst. Driven by declining oil and prices, the rig count started to decline reaching a low point of 705 in 1986. The oil and gas service industry was decimated.

Reporting to the CFO of Smith during this time, I was a part of a “survival team” tasked to develop a cost reduction plan to reduce our costs to the point we would breakeven.

The plan had four components:

- Reduce footprint
- Streamline operations
- Strategic sourcing
- Headcount reductions

The reduction in footprint was achieved in two ways: moving high cost California based operating units to lower cost Houston and by consolidating those units. With fewer facilities and overlapping field operating offices the footprint was reduced by almost 60%.

Teams were formed and assigned to streamline operations to eliminate waste, duplication, and unnecessary work. Another team was responsible for strategic sourcing, negotiating long term agreements with fewer suppliers in exchange for lower prices.

Thousands of employees were displaced, including me as the head count was cut in half over a five year period. Most of us didn’t take the reductions personally. We all knew that survival was at stake and if we didn’t make the changes required, we would have all been gone. Smith survived and was sold to Schlumberger years later for $11.3 billion.

Survivalist cost cutting doesn’t just apply to the private sector. It also applies to government entities. A recent example is Detroit who filed for Chapter 9 Bankruptcy on July 18. For Detroit, survivalist cost cutting may be required. Our Federal government has outspent revenues (taxes) for years. With a deficit of $16 trillion increasing at a rate of about $800 billion a year, Washington DC may have something to learn from the private sector.

You do what you have to do to survive…
John A. Miller

arkonas