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In Pursuit of a Cutting Edge

Cost performance may be a useful measure for companies that want to trim spending as effectively as possible.

[CFO Staff](#), CFO Magazine

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Even in the best of times, finance departments keep a close eye on costs. In bad times, they wield a sharp ax, cutting costs wherever they can and, truth be told, sometimes where they shouldn't.

But despite plenty of practice, not everyone swings that ax with equal effectiveness. Within and across industries there are wide variations. Often those are determined by a specific company's competitive position and focus. In other cases, however, the differences may be attributed less to deliberate strategies than to an organizational talent (or lack thereof) for driving costs out of the business.

To shed some light on what is, admittedly, a complex and highly differentiated practice, *CFO* partnered with Ariba Inc., a spend-management software and services provider, to develop certain metrics around "cost performance." The goal is to examine companies based on a number of spend-oriented criteria and explore trends within given industries, as well as to compare leading companies within a given industry on spend-related measures.

Focusing on key metrics that include general-and-administrative expense as a percent of revenue, cost of goods sold as a percent of revenue, and G&A expense per employee, we analyzed the top companies (up to 10) in several industries. (For a full explanation of the methodology, [click here](#).)

In focusing on these metrics, we hope to illuminate the kinds of cost cuts that can, in the aggregate, make a big difference in performance. "You can only close so many plants and lay off so many people," notes Ariba president Kevin Costello. "Then what? You have to manage your spending across categories, divisions, and geographies."

In Costello's view, the same economic conditions that make cost-cutting so imperative also provide an opportunity to cut better deals. With unemployment high and commodity prices (mostly) dropping, companies have a chance to negotiate better terms on everything from contract labor to shipping and transportation costs. Legal, marketing, IT, and other costs also offer new opportunities, he says.

While manufacturers' reliance on direct materials has led them to be savvy about cost-cutting in that area, Costello believes that no industry sector dominates in its grasp of total spend management. What separates companies that do it well from those that do it less well, he suggests, depends largely on how they align procurement, budgeting, and related finance and supply-chain activities.

The links below lead to snapshots of nine industries, showing the three-year trend for the industry and then highlighting leading companies within each. We plan to build on this initial examination of cost performance in the months ahead, and welcome your thoughts.

For a full explanation of the methodology used, [click here](#).

For a look at how some companies have fared in managing their external costs, click on the industry below.

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