



Creating a culture of cost optimisation

Incorporating cost optimisation into your business strategy on an organisation-wide scale.



Expense Reduction
Analysts

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Executive summary

In any organisation, across any industry, there is usually one common denominator—change is a constant.

As technologies such as artificial intelligence, autonomous transportation, and virtual reality applications continue to evolve and make inroads within the commercial sector, the ways in which your organisation conducts business will likely transform in the coming years.

Whether business changes are caused by emerging technologies or subsequent disruptors, data protection, or new legislation, your organisation will have to develop the nimbleness to pivot operations accordingly.

However, emerging technologies and changes don't only represent potential challenges, they can also signify opportunities to propel your organisation forward.



'In any organisation, across any industry, there is usually one common denominator – change is a constant.'



Incorporating cost optimisation into your strategic planning

Finding ways to capitalise on industry transformations and the opportunities they represent should be incorporated into your organisation's strategic planning efforts. Not only does a strategic planning process help your organisation to define bigger-picture initiatives, it can also help answer the question of: **how do we plan to fund our larger goals?**

It's not unusual for organisations to prioritise finding savings from within daily cost expenditures, yet this method often only focuses on short-term results. For example, reducing overall costs by a certain percentage compared to the previous year or 'freezing' purchases in certain expense areas could do more harm than good. The potential savings gathered by this approach might be unsustainable and also could generate resistance from affected departments and staff.

A more sustainable, long-term approach to fund initiatives can be achieved by actively seeking additional cash flow through strategic cost-optimisation efforts, driven by a cost-management philosophy embedded in an organisation's culture.

A key to uncovering sustainable cost-savings opportunities from within your supplier base is twofold. Not only should your organisation create a culture of cost reduction by championing expense management efforts across all departments, but also encourage greater familiarisation with incumbent and potentially new suppliers and their industries to find opportunities to obtain greater value for the products and services they provide.

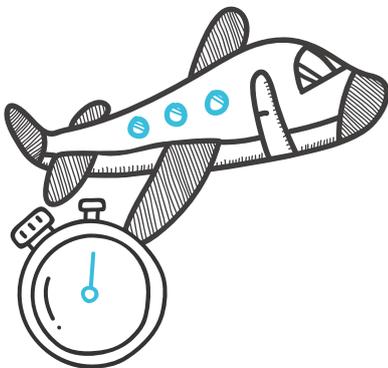
Articulate the impact of expense savings

Along with communicating the broader reasons why the organisation is taking on cost-optimisation strategies, explaining the value of cost savings in equivalent terms to revenue and what it does to the bottom line can help employees understand the bigger-picture significance behind cost-saving measures. Staff should understand that no expense area should be considered 'sacred' or go unchallenged.



For example

If staff members realise that \$1 million in company savings is equivalent to \$5 or \$10 million in sales, they could be more inclined to find areas within their department where costs can be reduced or streamlined.



For example

If documents are always sent to clients using one-day air shipping, considering second-day air or ground delivery on non-time sensitive items could result in savings.

Make cost reduction an organisation-wide initiative

In order to foster the development of a culture of cost optimisation within an organisation, a strategic initiative must be set by the senior management and the motivating factors driving the company's move in this direction must be well understood by all stakeholders.

To secure maximum staff buy-in, the management must be able to answer 'why' the cost savings initiative is needed and how the company will benefit from it.

Management should be able to articulate:

- What is the additional cash used for?
- How much is needed or desired?
- How will the organisation benefit from such initiatives?
- Are there any low-hanging fruit, and where else might we find additional opportunities?

Clear communication throughout all levels of the organisation will lead to a cost-awareness mindset across departments. Leaders must inspire ownership of the new spend culture, by taking the initiative seriously and by setting an example for others to follow through their own actions.

The companies that best execute organisational changes possess the strongest core capabilities for implementation

Average capability score out of 4



Clear, organisation-wide ownership and commitment to change across all levels of the organisation.



Ability to focus organisation on a prioritised set of changes.



Clear accountability for specific actions during implementation.



Effective program management and use of standard change processes.



Planning from day 1 for the long-term sustainability of changes.



Continuous improvements during implementation and rapid action to devise alternate plans, if needed.



Sufficient resources and capabilities to execute changes.

Respondents were asked to evaluate statements about their organisational best practices and capabilities on a scale of 1 (strongly disagree) to 4 (strongly agree).

Data taken from McKinsey Global Survey Results, *Implementing Change with Impact* whitepaper.

Commit to change in order to achieve sustainable results

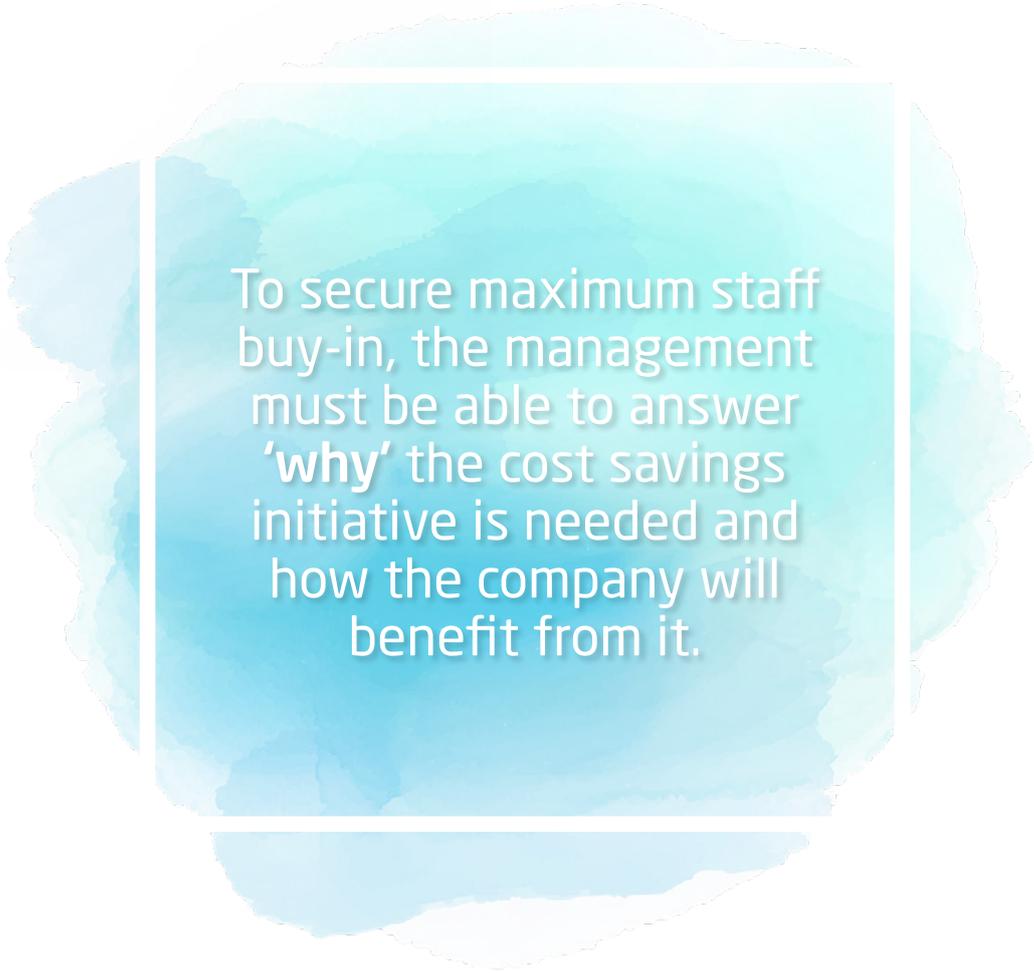
Companies will often experiment with making change efforts within their organisation, focusing on performance, development and optimisation in order to set themselves up for success throughout the business cycle.

The issue that a large proportion of companies will find is not the ability to develop these change efforts, but how to implement them and to sustain the results over a period of time.

A commitment to change can be the key deciding factor to an effort's success or failure. When high-level executives are questioned about implementing change within their business, they most often cite organisation-wide ownership of change and the commitment to sustain it as being the determiner for success or failure.

A major motivation for implementing change is that of financial benefits in order to invest back into business. Many executives say that companies can be ill-equipped to translate change into sustainable financial results. The reasoning behind this can be described as a funnel. Initially, numerous employees will have a range of potential ideas for change, how these can be implemented and in what form the success of these changes will look like. As these are developed the ideas are narrowed depending on the highest priority changes that are targeted for implementation. Value is lost at each stage of this process, as it is likely that most initial ideas have a good chance of success and results if implemented.

Good ideas for change are only part of the equation, companies need to have a long term change plan, consider if they are realistic and are likely to be sustainable for the foreseeable future. The skills for implementing this change must be practiced like any other skill, it needs to be underpinned by strong capabilities and organisational practices to assure success. It is also crucial that individuals and the company as a whole be socially aware of the conditions that surround them. They need to know how differences in industry sector, geography and financial climates will all have an effect on a change effort. An implementation plan taking into consideration these factors must be developed accordingly.



To secure maximum staff buy-in, the management must be able to answer 'why' the cost savings initiative is needed and how the company will benefit from it.

Leverage your suppliers by understanding their industries

As your organisation moves towards implementing cost-optimisation strategies, this is an opportune time to learn more about your suppliers' industries and determine how you can leverage this knowledge to gain the most value from their products and services.

Many organisations have a deep and specialised knowledge of their particular industry. When an organisation's sales department negotiates pricing with customers, the team often has intimate industry and company knowledge that the customer likely does not. The same is true of an organisation's suppliers. By developing a better understanding of your suppliers' industries, you gain knowledge and leverage that can be useful in ensuring that your organisation is getting competitive pricing for the services provided.

Some of the factors that your organisation should understand about your suppliers include:



Developing organisation-wide purchasing standards

When a client has facilities in multiple locations, it's important for the corporate management team to set a company-wide standard for purchasing supplies. If local managers or department heads chose their own suppliers, overall purchasing power becomes fragmented. Additionally, if each location manager has autonomy to set purchasing standards, managers can set their own rules, which can lead to organisation-wide inefficiencies.

By setting purchasing standards by which all managers follow, and using the same products across locations, the client can measure quality assurance and exercise greater control over purchasing to realise greater savings.



Terminology and jargon

There are times when suppliers will use terminology or jargon to assess a customer's level of sophistication with their business. If they find a customer doesn't understand specific terminology, the representative may use the opportunity to push a client to agree to a purchase that isn't in their best interest. There are also instances when a customer thinks he or she has purchased one thing, only to find out the reality is something different. This happens when customers don't fully understand terms or how to apply apples-to-apples comparisons.

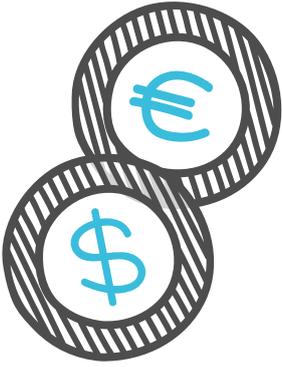
Understanding the complex supplier world and knowing the right questions to ask to uncover opportunities for savings can prove to be very beneficial. For example, understanding the difference between contract and non-contract items, knowing which supplies fall into each category, and understanding the ways in which suppliers price their non-contract items, can yield substantial long-term savings.

Your organisation also may be able to leverage newly-gained supplier knowledge to find unique ways to do business going forward. Depending on the business, a client may find that there are unique ways to contract for supplies and services based on industry, location, or other company-specific variables. For example, your organisation may not realise that it is common in the industry for a new supplier to pay for the client's contract termination penalties for a current supplier—and still offer a better rate.



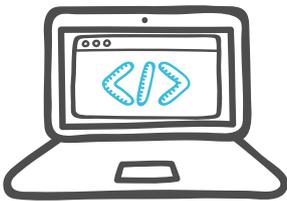
Finding unique ways to contract

When you've gleaned information about your suppliers' industries, cost-drivers and what sets them apart from the competition, you can utilise this information to get the most value from suppliers.



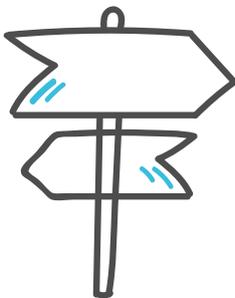
Cost/price drivers

A supplier's cost drivers include average order size, ordering patterns, frequency of orders, location(s), and timing. Each supplier has its own costs to consider. Oftentimes, when clients postpone deliveries until evening, they obtain better pricing because there is decreased dock congestion and fewer error rates. Understanding a supplier's costs can help you to improve decisions and realise the greater savings.



Market trends and new technologies

Electronic ordering and fulfilment provides users with the ability to set up a finite supply list, saving time because the previous orders are pre-populated once the user logs onto your account. By embracing technology and electronic billing, organisations can save money with accounts payable expenses, and also realise the potential for less errors. In short, when used in the right context, technology can yield efficiencies and savings.



Taking the direct approach with suppliers

Another approach to gain information about your supplier is to go to them directly and ask about the factors that impact their business. Meeting with your supplier(s) to understand their cost drivers, clarify any sections of your contract that you don't fully understand, or learn about how your processes impact their costs can help you determine if your supplier is working with you in a collaborative manner. If your supplier is unable to provide satisfactory answers to your inquiries, seek answers from others who use the same supplier or a competitor.

By understanding how your suppliers' respective industries function, your organisation can better evaluate whether your current suppliers are providing the best and most up-to-date services available and help you determine if it's time to go out to bid to ensure you are getting the best value for the price.



The true differentiation among competitors

Just because suppliers offer similar products doesn't mean that suppliers are all the same. Special services, such as desktop delivery, equipment repair, product training, inventory management and so on may have equal importance in reducing employee time. By discovering the nuances, special offers, and rebates each supplier can provide, you can determine the right partner to meet supply needs.

Often, clients think their situation is unique and that other suppliers won't be able to match the services of the incumbent supplier. While each supplier has its own position in the marketplace, typically there are a select few that will work the best for a particular company or organisation.

Continue the momentum

When an organisation makes a collective effort to implement cost-optimisation strategies, the progress can get off to a great start, but the initial efforts and interest can start to wane over time. To maintain momentum, it's imperative to keep staff motivated over the long run. One method of doing this is by incentivising cost-optimisation efforts, so staff continually experiences the value in finding ways to reign in expenses. For example, if an employee or department makes a suggestion that could result in a \$10,000 annual savings, a reward such as gift cards, a small cash bonus, or additional hours added to vacation time could provide the drive for staff to take steps towards continuing a cost-sensitive mindset within your organisation. Incorporating incentives—and creating an environment where employees feel encouraged to suggest new cost reduction opportunities—can create a more cohesive, and organisation-wide effort towards continuing cost optimisation efforts.

By taking a two-step approach to developing a larger culture of cost optimisation, both through staff participation and gaining knowledge of supplier industries to better understand underlying cost drivers, your organisation can find long-term sustainable savings that can be reinvested in the company for years to come.



About the authors



John Hall

John Hall has 30 years of management experience in the consumer packaged goods (CPG) industry, including 15 years as a Senior Vice President and company officer for a \$240 million privately held CPG company. His many responsibilities covered strategic planning and mergers and acquisitions, including the purchase and ultimate sale of Beech-Nut Nutrition to The Hero Group.

Hall also held sales management positions with Kraft General Foods and Procter and Gamble.

He graduated from Southern Illinois University and has taken professional development classes at institutions that include the University of Chicago Graduate School of Business.

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Linda Zager has 28 years of experience as a business professional at Motorola, Inc. Her background as an Account Management Director includes managing sales activities and customer relationships of \$400M+ of the yearly sales to a large account customer.

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John Lauchnor

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He has a B.S. in Computer Science degree from Clemson University, and an MBA from the University of Pittsburgh Joseph M. Katz School of Business. He holds three U.S. Patents in robotic software and product design.

Lauchnor is Chairman of the ERA Office Supply Practice.

Randy Mackay

Randy Mackay has extensive retail experience, primarily with the May and Macy's department stores. For more than 25 years, he was Vice President/General Manager at locations across the country.

He has an undergraduate degree from the University of Houston.



About Expense Reduction Analysts

Established in 1992, Expense Reduction Analysts is a specialised cost and supplier management consultancy focused on delivering improved business performance to clients of all sizes in both the private and public sectors. Operating in over 25 countries with more than 650 consultants, Expense Reduction Analysts provides deep industry expertise in a wide variety of expense categories, such as logistics, facility management, operational and medical supplies, corporate and personnel services, banking and financial services, as well as telecommunications and information technology.

Expense Reduction Analysts' clients include thousands of mid-sized companies and many well-known names. To find out more, visit www.expensereduction.com

