

WATCHING THE PENNIES

Essential business services currently cost companies in the UK around £350 billion annually and with this figure increasing every year across the board it is squeezing profitability for organisations of every size. **Chris Allison** of Auditel discusses how to tackle these spiraling costs and ultimately increase your bottom line



It is a fact that all organisations need to spend money to do business. Premises-related costs, fixed and mobile communications, information technology, utilities, waste management and finance such as insurance and bank borrowings are just some of the essential operational overheads. Without these services, a business cannot function.

Given the vast expenditure involved, organisations need a way to identify all the potential service providers in the market and assess their respective offerings – not only in terms of price but also whether they can meet the required levels of service.

Are you thinking: 'Yes. We know. And we have people in our company who

look after all that.' Well here's the bad news. According to a global survey of 427 senior executives by Intelligence Unit earlier this year, 'lack of broad commitment across the organisation to good cost management manifests itself in the patchy application of industry best practice in this area.' The survey goes on to say; 'One of the single biggest barriers to achieving targets is the lack of adequate internal processes to drive cost reduction.'

Accountants KPMG, which sponsored the survey, concluded: 'Today's businesses are under constant pressure to reduce cost, yet many find it hard to do so in a sustainable fashion. Nine out of ten cost reduction programmes fail to achieve their targets, and the gains that are achieved appear to be short-lived.'

The traditional approach

One solution would be to hire a full-time specialist. However, the vast majority of organisations simply cannot afford to do this. Those having the resources to employ their own experts invariably need to focus on fulfilling their core procurement activities. In many smaller to medium-sized businesses the responsibility passes to office managers who have little relevant experience and more than enough duties anyway!

What this means is that these matters are routinely left in the hands of individuals whose expertise probably lie elsewhere. As a result, many businesses opt for what appears on paper to be the 'cheapest' supplier. Adopting this purely headline-cost based model may ►

seem logical, but it fails to take into account a wide variety of additional factors contributing to the overall total cost of purchasing an essential business service. This traditional approach to service procurement is fundamentally flawed and results in many organisations throughout the UK spending more than they need to.

Outsourcing

More and more organisations are turning to outsourced providers of cost and purchase management services. By doing so, they can access specialist insider knowledge, eliminate the financial loss of taking key individuals away from their core responsibilities and mitigate the cost of employing in-house specialists as well as taking advantage of a thorough methodical analysis of their expenditure.

Consultancies such as Auditel will review the total cost of procuring goods and services and then use their independence and experience in the marketplace to help their clients make intelligent and effective purchasing decisions.

One of the most important things to consider when employing an outsourced cost management expert is their auditing procedure. A consultancy adhering to cost management, best practice review processes should include the following:

- A comprehensive, in-depth review of current essential services expenditure
- A thorough analysis to determine where savings can be made



- A detailed report of recommendations including information about how the consultancy will earn their fees, e.g., on a contingency basis or a set fee
- The consultant will take full responsibility for managing relationships with existing, or new suppliers.

computers and monitors off at the end of the day.

Benchmark

Carry out a benchmarking exercise to establish exactly what you are paying for your essential services and what other suppliers are offering. Now go back to

“**Effective cost and purchase management isn't a one-hit wonder it needs to be an ongoing activity**”

Achieving the projected savings (and rebates for overcharges in the past) should be just the beginning of the job. The consultant should continue to assess current expenditure against new tariffs and services as they become available, to ensure continuing benefits from optimum cost efficiencies across all essential business outgoings.

ABC – Awareness, Benchmarking, Consistency

There are of course some simple steps that as a business owner you can implement yourself. This simple acronym provides a basic guide to try and reduce business costs.

Awareness

Profit-leaks directly impact on every aspect of business development by draining resources away from growth and income-generating investment. Try and raise awareness of cost management as an important business objective for everybody in the organisation. Encourage your staff to think about the expenses they incur and how they use resources. For example, have a stationery amnesty, ask staff to reuse 'waste paper' for draft printing, install low-energy lighting and encourage everybody to switch

all your current suppliers and ask for their best price. If you've been with them for a few years, the chances are you're not on the best available tariff. If they won't budge on price, see if they can throw in some 'extras' in terms of service. If your insurance is arranged by a broker, don't assume they always find you the best premium available so shop around with several brokers.

Consistency

The key to maintaining best value purchasing is to be consistent. Effective cost and purchase management isn't a one-hit wonder it needs to be an ongoing activity. Markets change all the time, as do the needs of your business.

If you're thinking 'that's great but is it really worth the effort?', let's look at it from another angle. Suppose your company has a gross profit margin of 25 per cent. Now suppose that as a result of bringing in a cost management specialist you save £100,000 on your essential overhead expenditure. In order to generate this additional profit through sales, you would have to increase turnover by £400,000. Try that line on your Finance Director on a cold wintry, Monday morning! ■