

Expense Reduction for Office Products & Supplies

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Alliance Cost Containment Principal Nancy Stanton explains a detailed and effective methodology for generating significant expense reduction and improved efficiencies in the procurement of office supplies and products.

Oftentimes office products and supplies slip under the radar; after all, most office product purchases are typically marginal relative to raw materials or other strategic purchases. The upside here is that because office products are not 'closely watched' as an expense category, there almost always exists ways to save significantly, particularly related to the most commonly purchased items. Often companies do not look at the annual aggregated purchase habits of all departments making office product purchases. These savings may also vastly be higher when companies total all of their divisions and locations.

The purpose of this article is to lay out an overall strategy for generating cost savings in office supplies. Let's start from the beginning, with the assumption that there is very little, if any, office supplies oversight within a company or organization. What are some basic cost reduction strategies and how could they be implemented?

Preparation

Where are you buying your office supplies? Not so long ago, local office supplies stores dominated the scene. However, with major office supply retailers offering efficient internet commerce sites, expanded product selections, corporate brands, and efficient delivery systems, purchasing from local office suppliers no longer provides financial or practical benefits. Local office supply retailers are essentially second tier distributors forced to mark up products, sometimes significantly, to pay for increased overhead. And while an argument exists for keeping dollars in one's local community, a greater argument, one that most CFOs might stand by, is that keeping dollars in the local community means keeping their companies healthy and retaining jobs.

So, to the point, major national office providers like Office Depot, Office Max, Corporate Express & Staples have the ability to offer lower prices due to their scale, logistical advantage and lower overhead expenses at the very local level. Furthermore, most offer next-day delivery on website orders and will waive shipping costs at certain minimum purchase thresholds. Oftentimes, if you need to get something right away, these suppliers will have a store that is reasonably close. Because of the higher turnover of their inventory, their carrying costs are low and the traffic they generate allows them to offer new offerings that turnover effectively. Because of significant purchasing clout with manufacturers, major retailers often sell the product before they actually pay for the product. This allows them to keep cash flow positive and offer low prices to customers. A bonus to their business customers is that they provide detailed reports of the company's purchasing which allows for better monitoring of total spend.

How much are you spending? Without a detailed list of what and how much your company spends in office supplies and products annually it is difficult, if not impossible, to capitalize on efficient purchasing. We recommend that you ask accounting to generate a report. Make sure that this report includes office products that are classified elsewhere, such as in a corporate credit card account. If you spend \$10,000 or more annually on office products, you've got negotiating leverage with suppliers.

What products are you buying with the most frequency? Now that you have a list, this should be a simple

task. Are they name-brands? Is it necessary to buy name-brand products, or are there alternative, generic products that would work just as well? Exploring alternatives could result in significant savings. Today, the major office supply providers have very high standards for their corporate brands; if their company name goes on the product, they want the best quality representation they can have.

Negotiation & Working with Suppliers

1. Once you have documented how much you purchase annually, from which suppliers and what items are purchased with the most frequency, you are ready to start negotiating.

2. Select a list of appropriate suppliers.

3. Contact the suppliers.

Approach suppliers with information regarding what you purchase, the annual quantities you purchase, any seasonality in your purchasing, and any special requirements that you have. I would recommend approaching at least 3 suppliers. Share your purchasing information with them and ask them for a full proposal including: pricing for the items you purchase with the most frequency, information related to corporate-brand products, catalog discount opportunities, rebate or incentive opportunities, rewards cards, information about any potential hidden costs (shipping, fuel surcharges), and copies of any agreement that you would have to sign.

Indicate that you are willing to sign an annual purchase contract with a non-binding spend requirement in exchange for their best prices and service. At first, agreeing to work with one supplier may seem counterintuitive, and many companies refuse to do it. The rationale is that by using multiple suppliers you can shop around and continually evaluate prices and establish benchmarks regarding what fair market prices are. This may be a great tactic with your major production purchases, but there are several concerns regarding less frequent, lower volume supply items:

- o Price comparison - Unless you are a multi-billion dollar company, devoting employees to price-checking and cross-referencing products by brand, sizes, and substitutions then establishing a price per unit so you can make accurate comparisons, it is probably not a good use of your employees' time, even if you are just looking at high volume items.

- o Volume discounts - By utilizing multiple suppliers, you are masking the true purchase volume by your company. You would be amazed at the reaction of suppliers when they discover that a company actually purchases 2-3x as much in supplies as they originally believed; volume will drive discounts and rebates.

- o Purchasing standards - By using a major supplier for all your purchases, it gives solid direction to employees by reducing the amount of time they are spending "cherry-picking" for low prices.

After receiving supplier proposals take some time to drill down looking for best overall value. Keep in mind that low prices on small volume or inexpensive items like pens, pencils and paper are not a good indicator of potential cost savings. It is best to look at the weighted average of the purchases you expect to make. Suppliers need to make money, but if they can plan their own inventory better, they can lower costs for you. This is the efficiency of supply-chain management.

Measure your success - Many companies use a combination of metrics to create a "scorecard" of benchmarks that make sense to their business and can easily be computed & assessed. A popular method is

to use statistically sound estimates. Using weighted averages on a representative sample of past purchases to determine a benchmark of savings is practical. This allows the savings to be measured based on the most frequently purchased items, not on every individual item.

Consider a cost containment specialist or business consultant. By leveraging their ability to quickly assess, quantify, consolidate, and negotiate new prices you can reap the benefits without distracting your team from higher dollar purchases. These specialists take only about 8-12 weeks to bring back major savings opportunities and require only a few hours of your team's time. Many operate on a contingency bases, so the compensation they receive is a portion of the savings that they negotiate. Some cost containment firms work with national suppliers that offer steep discounts based on the breadth and purchase volume of their client base.

By following these steps mentioned in this article you are sure to benefit not only in terms of actual savings, but your purchasing & negotiating skills will improve during the process.

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Alliance Cost Containment is a Michigan-based expense reduction and cost containment firm focused on reducing expenses for organizations related to commonly purchased items: freight, telecom, office supplies, MRO, janitorial, packaging, printing, and more.

Category	Human Resources, Shopping, Services
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