

Keeping Business Cost Under Control - Practical Corporate Cost Saving Ideas

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With challenging economic times upon us, Alliance Cost Containment offers practical business cost savings ideas and techniques that every corporation or organization can take advantage of.

I never cease to be amused by the most typical reaction I get from business owners or senior managers when I tell them that my cost management consulting group helps companies enhance profits by negotiating lower operating costs for our clients. The standard response is “that sounds like something lots of businesses must need ... just not my business. We’re already saving all the money that we can.” The ugly truth is that every company is bleeding profits through a thousand little cuts. While it’s comparatively easy to stay focused on high-dollar raw materials or the big annual healthcare insurance renewal bill, few CEOs, CFOs and Purchasing Managers watch the pennies. In these most challenging of times, let’s consider some ways that watching the pennies could help your company save money in 2009 and beyond.

* **Corporate Purchasing Cards:** Placing a corporate purchasing card in the hands of numerous employees seems like a great idea upfront. Unfortunately, this often becomes the “black hole” of business expenses. Most of the clients I’ve worked with who use these cards simply treated “American Express” or “Corporate VISA” as a line item on the income statement and rarely, if ever, allocate the associated expenses. The theory is that if bosses review and approve expense statements, the purchases won’t get out of hand. The reality is that your staff is buying a lot of items at full retail from multiple vendors in each category rather than getting volume discounts by shopping through a designated supplier in each category. Most companies wouldn’t dream of letting buyers purchase raw materials or strategic components from five or six different sources. So why is it acceptable to purchase from multiple office suppliers, MRO suppliers, travel agencies, maintenance providers, etc?. P-cards are convenient, but they shield thousands of dollars of inefficiency and wasted money. Periodic auditing of P-card related expenses is recommended as it is often illuminating...but just as often humiliating and scary.

* **Utilities:** There are lots of ways to reduce utility bills (and enhance your corporation’s “green” reputation) through energy conservation. Motion sensors to turn lights on and off in places like rest rooms, programmable thermostats, company directives to shut down computers at night before leaving, upgrades of fluorescent fixtures and more efficient light bulbs, selling used corrugated packaging and styrofoam to recyclers – the list may not be endless, but it’s pretty long. Ask your electric power company for an energy audit and recommendations on conservation tools. They might even help you pay for some of them.

* **Parcel Shipping:** Overnight shipping is another area where a little discretion can save a lot of money. How often are packages sent via overnight delivery qualified to go 2nd-day delivery? Is your company using multiple overnight shipping vendors and missing out on volume discounts? Are things routinely going via overnight delivery that could go ground at a fraction of the cost? When the spend is marginal and employees are free to choose the “convenient” way or work with suppliers that make them “comfortable”, accountability is lost in the process. A few policy controls and a little supervision in this area can pay back big dividends.

* **Association Discounts:** Do any of your industry associations offer group purchasing discounts that your company can take advantage of? If you haven’t explored these discounts, you should. While generally not the lowest costs available, these discounts can often get you an easy 10% off retail with a few clicks of a mouse or a signature and a fax. Sometimes it’s as easy as asking. Typical association-related discounts are related to fleet services, insurance, and maintenance services, but can often include uniforms, restaurants,

hotels, telecom and workers compensation premiums.

* **Travel & Entertainment:** What sort of policies does your company have on travel and entertainment expenses? Traveling staff are entitled to eat decent meals while on the road serving the company's interest, but if you don't have a per diem allowance for food when not entertaining a client you're probably paying a lot more to feed the troops than you need to. If employees are traveling on a corporate credit card, are they being directed to hotels in a specific hotel group to capture the bonus points for free future corporate room bookings? If not, you could be missing out on a lot of free nights for future trips.

* **Supplier Consolidation:** Set a goal of reducing your total suppliers by 5% in the next year, and pay employees a bonus each time they figure out a way to do it. Buyers in every business develop purchasing habits of buying selected items from each supplier. In many cases, however, you can consolidate five suppliers to three, or three suppliers to two, and become a more valuable customer to the remaining suppliers. This practice allows the negotiation of better pricing through higher volume, and it also contributes soft savings in bill processing, bill payment and time saved vis-a-vis fewer supplier meetings, phone calls and emails.

Most of these expense areas are tied to the empowerment of staff to make purchases without central controls. While I appreciate being treated as a responsible adult as much as the next person, the evidence suggests that many companies have taken the "management" out of cost management. Discipline imposed through a little more corporate structure and some external auditing can help to sometimes significantly improve your bottom line. As a cost management colleague of mine likes to say, "there are few ways to save \$1 million, but there are a million ways to save a buck". From our experience, most companies spend 15-30% more on indirect operating costs than necessary. If you think your company is saving everything it can, think again. Cost management is a process that never ends, but the dollars you save and efficiencies you gain are real. Start watching the pennies and you'll see the dollars add up.

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With over 40 offices spanning North America, Alliance Cost Containment's purchasing aggregation and vendor-management processes provide small and mid-sized business access to the kind of large corporate purchasing power they are often unable to capture on their own. ACC also facilitates detailed vendor management and reporting processes to make sure our clients capture the savings that we help generate. Established in 1992, ACC has served nearly 800 clients nationwide.

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