

Finding Savings without Sacrificing Quality or Service

A Tutorial for Local Government Managers

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About ERA...

~200 cost reduction consultants across U.S.

~ 20% avg. implemented savings & benchmarks across 15,000+ projects

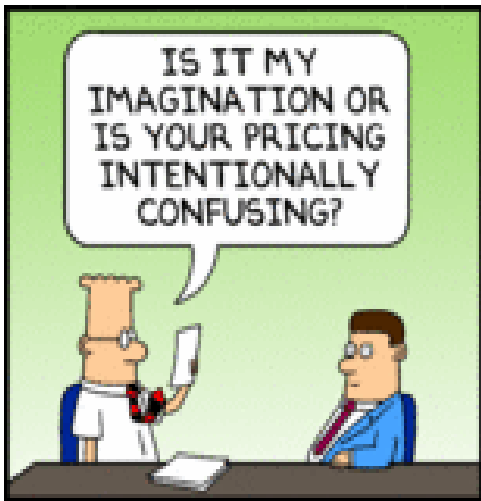
category expertise across ~30 expense areas

Success Fee model

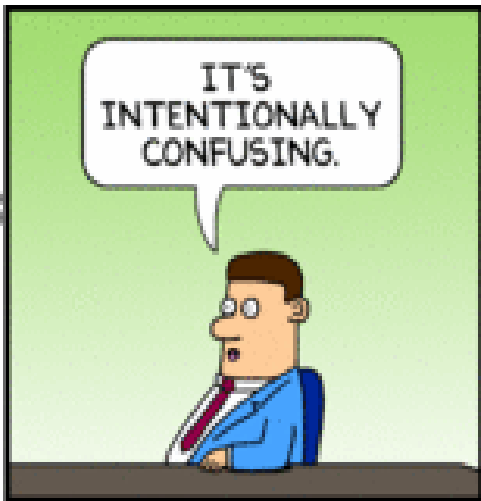


Expense Reduction Analysts

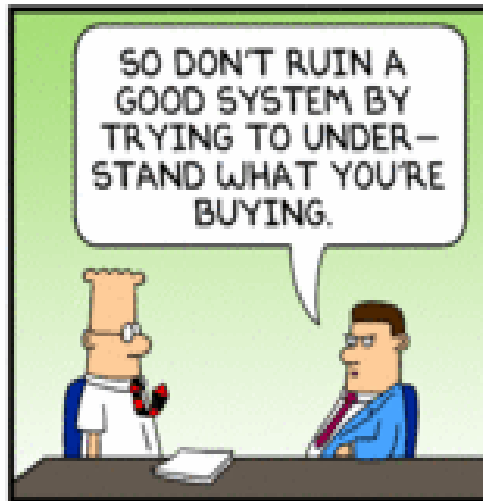
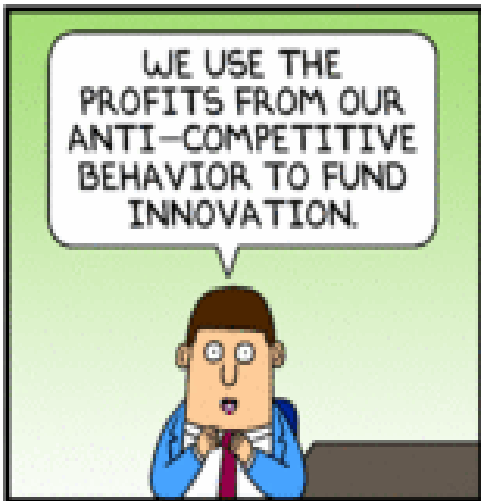
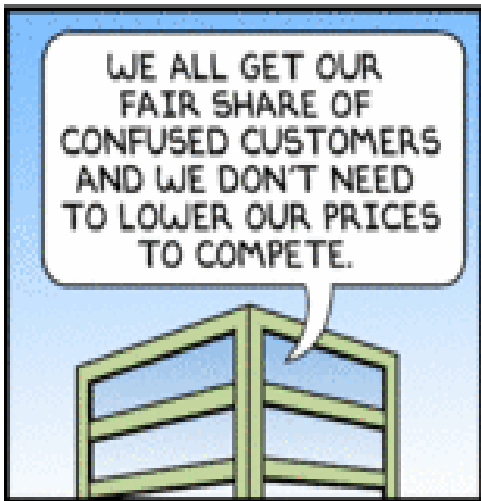
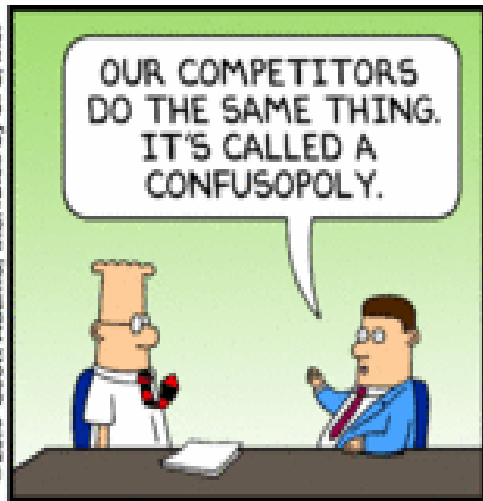




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Today's Agenda

- Perspective about challenges for today's local governments
- Common perceptions and misconceptions about procurement
- Opportunities and strategies for savings
- What to do next



Perspectives on spending



Cash is tight for everyone

Your Culture

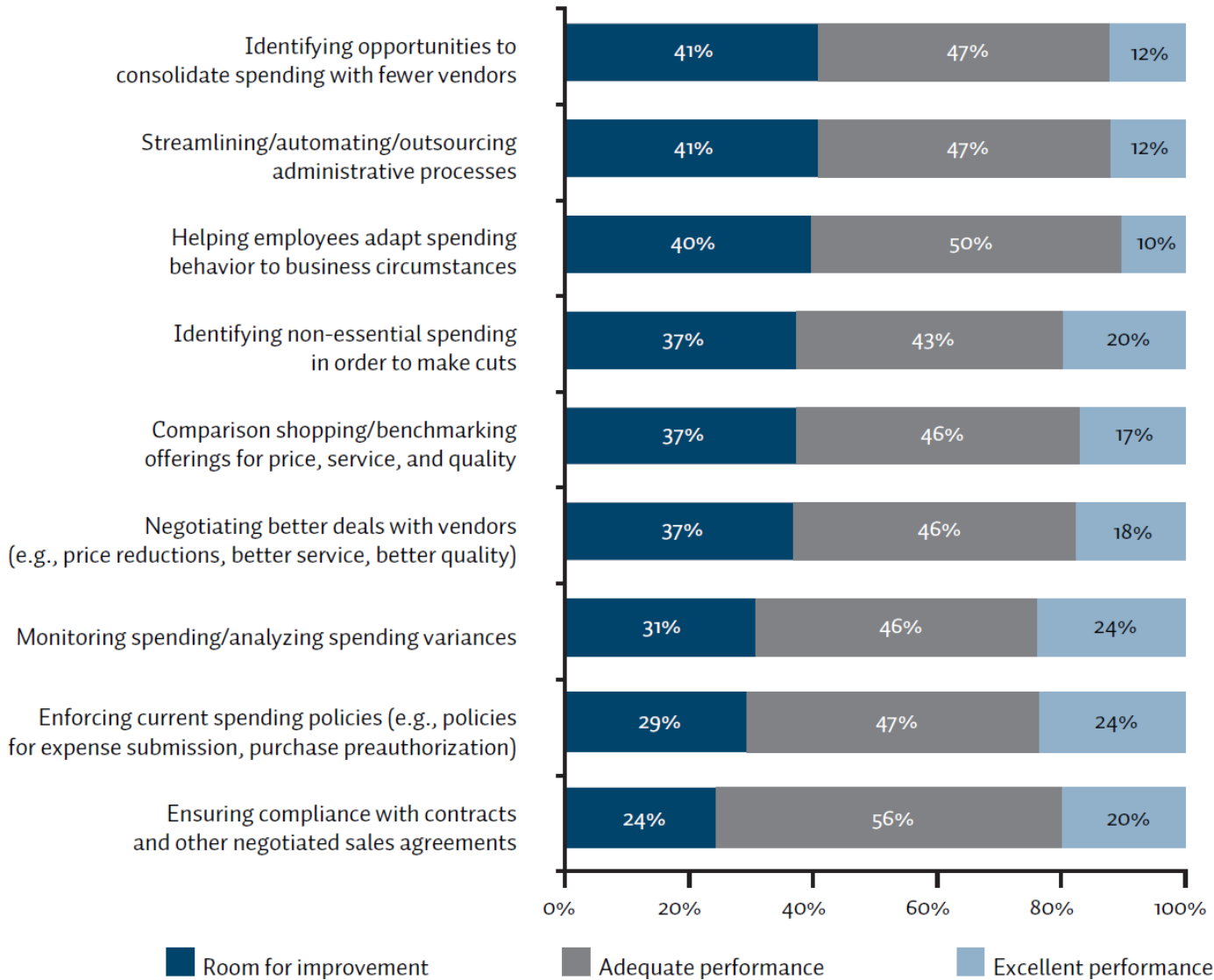
- Cost control is a culture and mindset first; techniques, policies and procedures second!
 - Does everyone spend money like it is their own?
 - Does the team understand the effects savings could have on raises, bonuses and other performance incentives?
 - Are savings ideas acknowledged – are suggestions encouraged and followed up on?
 - Do employees understand the relationship between savings versus the quality of your services, i.e., savings are important but quality and services may come first.

C-Level Exec's surveyed said:



Source: CFO Magazine

In your opinion, how well is your company currently performing at the following cost-management activities?



Despite recent improvements, a substantial number of respondents see room to improve on a wide range of cost-management activities

Source: CFO Research Services

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Common misconceptions



Common Misconceptions

- Pricing from suppliers is applied evenly to similar customers.
- Your expertise in purchasing in one cost category will produce similar results in another.
- National pricing agreements (e.g., GPOs) are always better than local or regional agreements with the same company.
- Loyalty to a supplier translates into best pricing and service.
- Volume will get me you the best deal.

The Opportunity

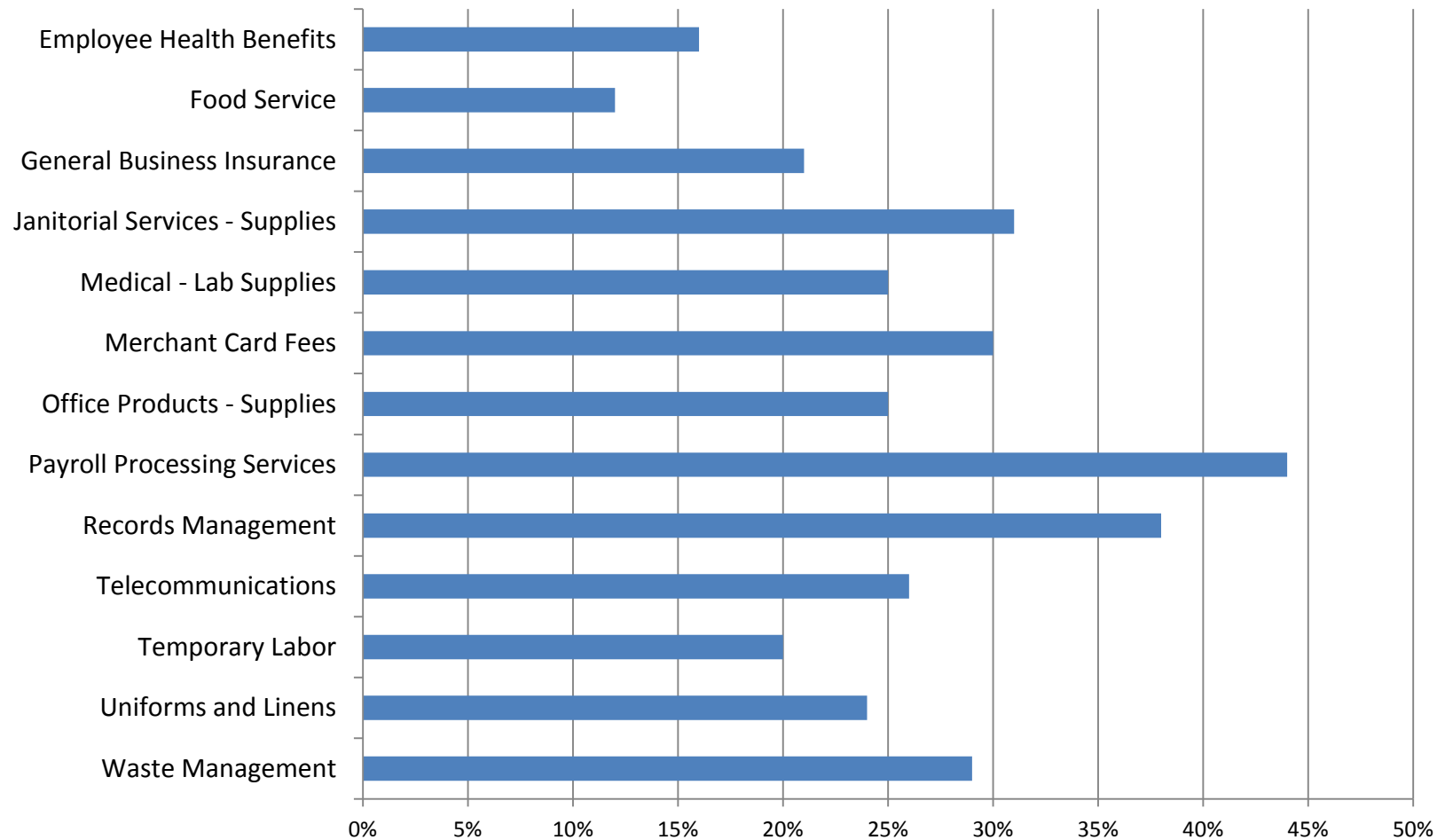


Cost reduction can generate cash

| | Baseline | 20% Cost Reduction |
|------------------------------|----------|--------------------|
| Taxes and other Revenues | \$ 100 | \$ 100 |
| Direct operating costs | \$ 35 | \$ 35 |
| Labor costs | \$ 35 | \$ 35 |
| Other costs – supplies, etc. | \$ 20 | \$ 16 |
| Net Cashflow | \$ 10 | \$ 14 |

*How many new taxpayers would you need produce \$4 in funding?
How much of a tax increase would it take to generate \$4 in cashflow.
How many more fees or other revenue activities would you need to produce \$ 4 in additional cashflow?*

Typical cost reductions by expense category



Expense management challenges

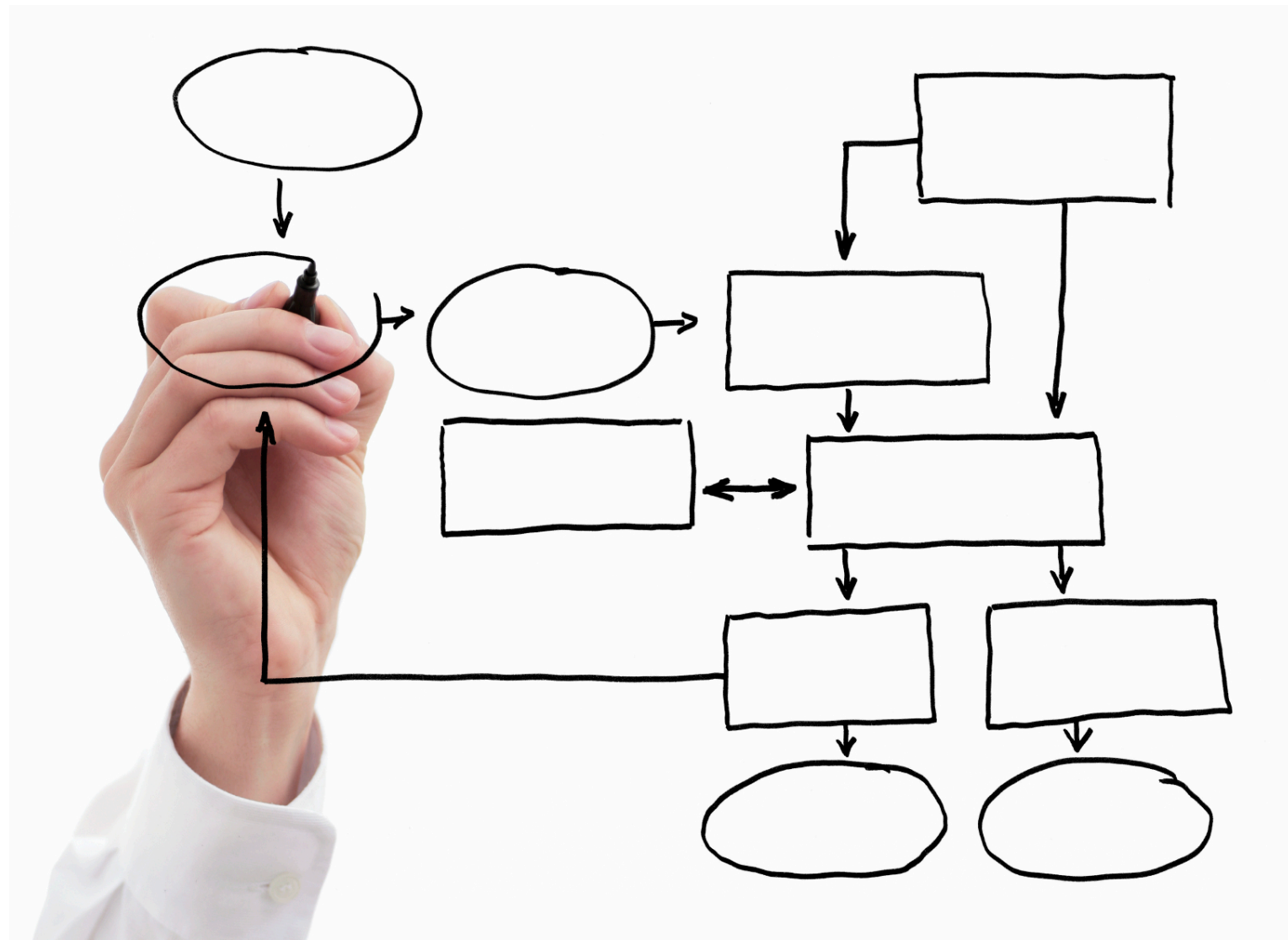


Expense Management Challenges

- **Multiple suppliers** and multiple order points.
- Staff and management have **limited time and resources** to address non-strategic costs.
- Employees with **limited purchasing experience** are making buying decisions.
- **Lack of benchmark data** to evaluate vendors.
- **Incomplete knowledge** of vendors' competitive position in the marketplace.



Steps for expense reduction planning



Expense Reduction Planning

- Identify components of non-personnel operating expenses starting with your General Ledger and a comprehensive supplier analysis
- Establish an overall strategy for cost reduction
- Develop a goal over a minimum threshold for each expense category – how much would you need to save to justify switching suppliers
- Establish expectations for each person who will participate in the process
- Measure results!




Take a
fresh look. . .

Ask your
suppliers what
you can do to
reduce costs



A hand-drawn diagram on a light-colored surface. The central element is an oval containing the word "OPERATIONS" in capital letters. Several arrows point outwards from this central oval to other elements: one points upwards to a circle, one points to the right towards a curved arrow, one points downwards to a rectangular box, and one points to the left towards another rectangular box. The background is slightly blurred, showing faint outlines of other diagrams and text.

Review processes

A close-up photograph of a pen nib hovering over a document. The document features a large dollar sign (\$) and the word 'DOLLARS' printed in a serif font. The pen is positioned diagonally from the top right, with its nib pointing towards the center of the frame. The background is a light-colored, textured surface, possibly a piece of paper or a document cover, with some faint lines and a grid pattern visible. The overall tone is professional and focused on financial matters.

Look at what you **pay** for the goods and services you buy.



Consolidate
your purchases

A close-up photograph of a business meeting. Several people in dark suits are gathered around a table, looking at and pointing to various documents. One document features a line graph with multiple data series. Another document has the heading 'DATA MANAGER' and a list of items. A yellow spiral-bound notebook is open on the left. A blue mobile device is visible in the bottom right foreground. The overall scene is professional and focused on data analysis.

Ask your vendors to
help you manage your
spend

Create a
competitive
environment





Be an
educated
consumer

The **bottom** line

To get best market pricing and terms:

- Use benchmark data (your own, plus market data)
- Utilize cost-category expertise (each category has its own pricing model, methodologies, jargon, etc.)
- Put yourself in the shoes of your suppliers
- Become a better customer to suppliers
- Keep suppliers competing for your business

Questions you should ask
to find savings in common
expense categories...



Office/Medical/Janitorial Supplies (and similar types of commodities)



Office/Medical/Janitorial Supplies

- Are you buying your supplies from one supplier per category, if possible?
- Do you have purchasing policies for supplies including minimum order size, contract item list, who can order items not on the contract list, etc.?
- How do you control product price increases?
- How do you audit supply transactions to insure there are no overcharges or substitutions without your approval?
- Are you receiving incentives/rebates for electronic ordering, average order size, or your annual volume?



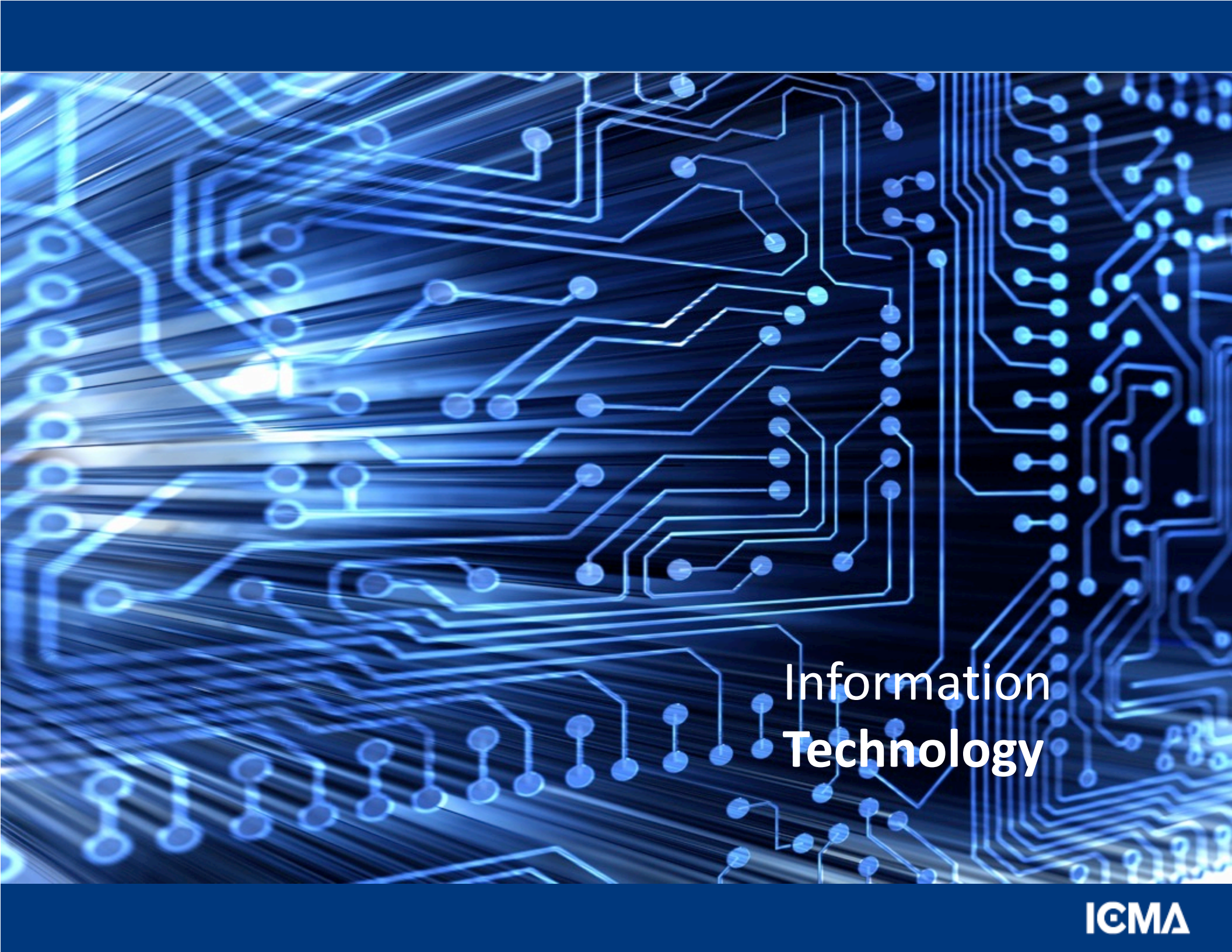


Merchant Card Processing Fees

Merchant Card Processing Fees

- Is your current fee structure optimized for your business?
- Up to 95% of the cost of processing a transaction is dictated by process, not pricing. Are you fully compliant with the rules and conditions required to obtain the optimum card association rates?
- The card associations offer beneficial rates for specific industries or card types. Could you be eligible?
- Are you confused by the various platforms, gateways and myriad of options available to process merchant card transactions?
- Do you have the tools and reports needed to manage this area of expense properly?





**Information
Technology**

Information Technology

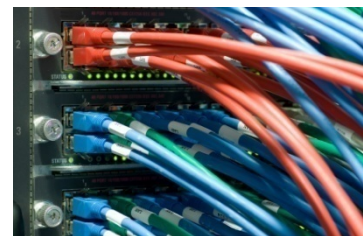
- Have you recently reviewed your standards & brand loyalty for: Configurables, Commodities & Consumables
- What hardware maintenance contracts are in place?
- Do you lease or buy? Centralized or decentralized IT purchases?
- Have outsourced services been explored?
- Have you recently conducted an Asset Audit?
- Does your current strategic IT process match your current mission?
- Might you reduce costs by pursuing an IT Alignment Study?



Telecommunications

Telecommunications

- Have you done a comprehensive review of your voice, data and wireless communication services?
- Can you reduce the number of suppliers to achieve greater discounts?
- Can you leverage new technologies to reduce costs?
- Have you audited historic invoices in order to obtain credits for incorrect billings?
- Service, Billing and support issues cost you money – are these under control?
- Are you using all the services that you are paying for?
- Have you terminated those old fax lines?





INSURANCE

**Insurance
& Risk
Management**

Insurance & Risk Management

- Is your organization maximizing the return on its insurance expenditures? Are you transferring risk appropriately?
- Have you completed a risk assessment/gap analysis and determined any gaps in coverage or overlapping or duplicative coverages?
- Is your broker or agent being compensated in a manner that puts them on your side of the table? Has the incentive of higher commissions been neutralized?
- Do you know the types of coverages similar companies are carrying and the premiums they are paying?



Fleet Management



Fleet Management

- Are you able to measure your vehicle lifecycle costs as a cost-per-mile?
- How tightly is the fuel purchase process monitored to minimize risks associated with waste, fraud and abuse?
- Can some of your fleet administrative tasks be more efficiently outsourced?
- Are you maximizing resale when disposing of your vehicles?
- Have you evaluated the cost of vehicle downtime due to maintenance?





Food Service

Food Service

- Are you leveraging your buying power by consolidating your suppliers or are you cherry picking each order, thereby increasing transactions and transaction costs?
- If I consolidate, how can I control price creep?
- How are you controlling price increases? How do you really know the pricing model your supplier is using?
- Can you retain quality while and still pay a lower price?
- Are you tracking your inventory, spoilage and other KPIs for your food service operation?



GPOs --- One Size Fits All?



Leveraging a GPO?

- We are members of a GPO(s), doesn't that generate me savings?
- Does the GPO pricing reward you for the value of your spend or the average member's spend?
- Does the GPO pricing take into account your specific requirements and purchasing profile?
- Do the GPO's incentives conflict with your own needs?
- GPO commission from the suppliers.
- Manufacturer rebates – do I benefit from these?



PLAN

Next
Steps

IDEA

SCOPE

BUDGET

PROJECT

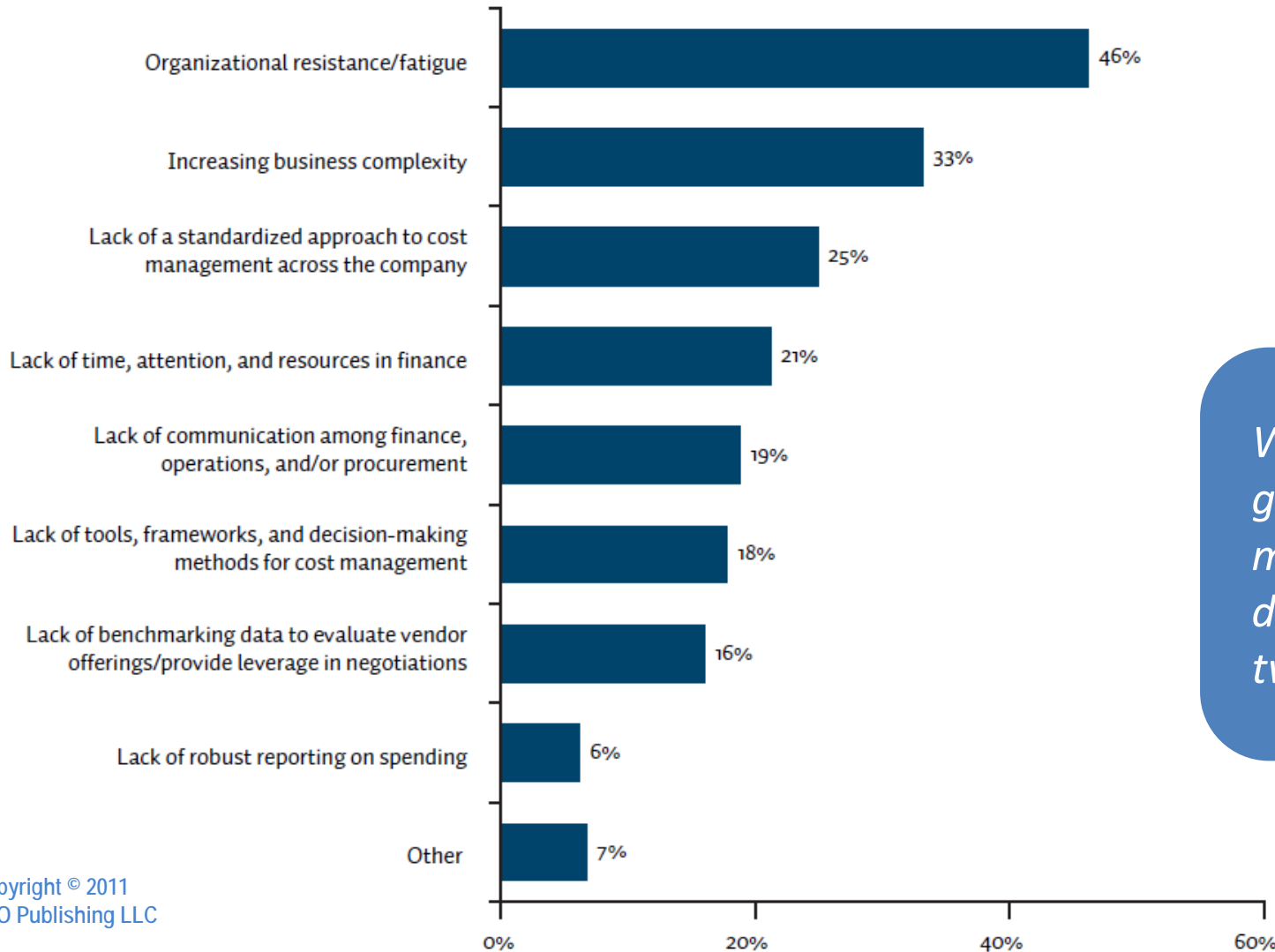
TEAM

Action Plan

- Develop an overall cost-management strategy
- Develop cost-reduction goals for each category
- Set expectations for each person who will participate in the cost-management process
- Set a timeline for results
- Audit savings on an ongoing basis



Obstacles to Maintaining a Cost Discipline



What will be the greatest obstacles to maintaining cost discipline over the next two years?

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Percentage of respondents
Respondents were asked to choose up to three answers.

Action Plan to Overcome Organizational Resistance

- Communicate the case for the cost management project.
- Assign an impartial project leader for each cost category to ensure an unbiased and objective review.
- Meet with stakeholders, define what a successful outcome is and confirm their support for the projects in those categories under their management.
- Thoroughly document the organization's past and future spends for each category under review.
- Use a formal and unbiased RFP process to create competitive tension and reinforce the objectivity of any changes to internal stakeholders.

Procurement Best Practices

Exceptional

- Understand supplier's pricing strategy for spend category
- Compare supplier pricing to current, industry benchmark pricing
- Weight solutions of each supplier based on criteria set internally
- Defined procurement process designed to minimize staff time
- Audit monthly spend to ensure contract compliance
- Manage stakeholder buy-in
- Repeat as required

Great

- Categorize spends
- Identify usage patterns
- Update requirements based on current spends
- Identify competitive offerings from new suppliers
- Include multiple suppliers for RFP process
- Share purchasing data with suppliers

Good

- Quantify spends
- Monitor quality and service levels
- Obtain revised pricing from current vendors on a regular basis

Action Plan for Expense Management

Collaboration:

*Ask your suppliers what you can do to reduce costs.
Working with your suppliers to identify waste and inefficiencies
Takes the cost out of the supply chain in such a way that both parties benefit financially*

Consolidation:

*Consolidate your purchases
By purchasing more you pay less per unit*

**LOOK AT WHAT YOU
PAY FOR THE GOODS
AND SERVICES YOU
BUY**

Contracting:

Ask your vendor to help you manage your spend
Companies guarantees suppliers long term contracts
Large volumes are a distinct incentive for the supplier to negotiate a better price

Competition:

Create a competitive environment
Suppliers bid on their requirements
Producing a healthy air of competition that drives down costs.

Consider Outside Resources

- Consultants have access to proprietary Benchmark Data (price and service) across a wide range of expense categories.
- They know the types of deals/incentives currently being offered in a given market.
- Knowledge is power – using a consultant puts a category specialist on the client's side of the table.
- They know the industry tricks in the bidding process and thereafter.

Review

- Added perspective about cost management challenges and solutions to address them
- Common perceptions and misconceptions about procurement
- Opportunities and strategies for savings
- What to do next

Cost reduction/containment has to be driven from the top down. It must become part of your culture!

Questions/Comments?

Expense Reduction
Analysts



twenty years

FINDING EXTRA PROFIT

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