INSIDE INDIRECT

Supplement to *Inside Supply Management*®

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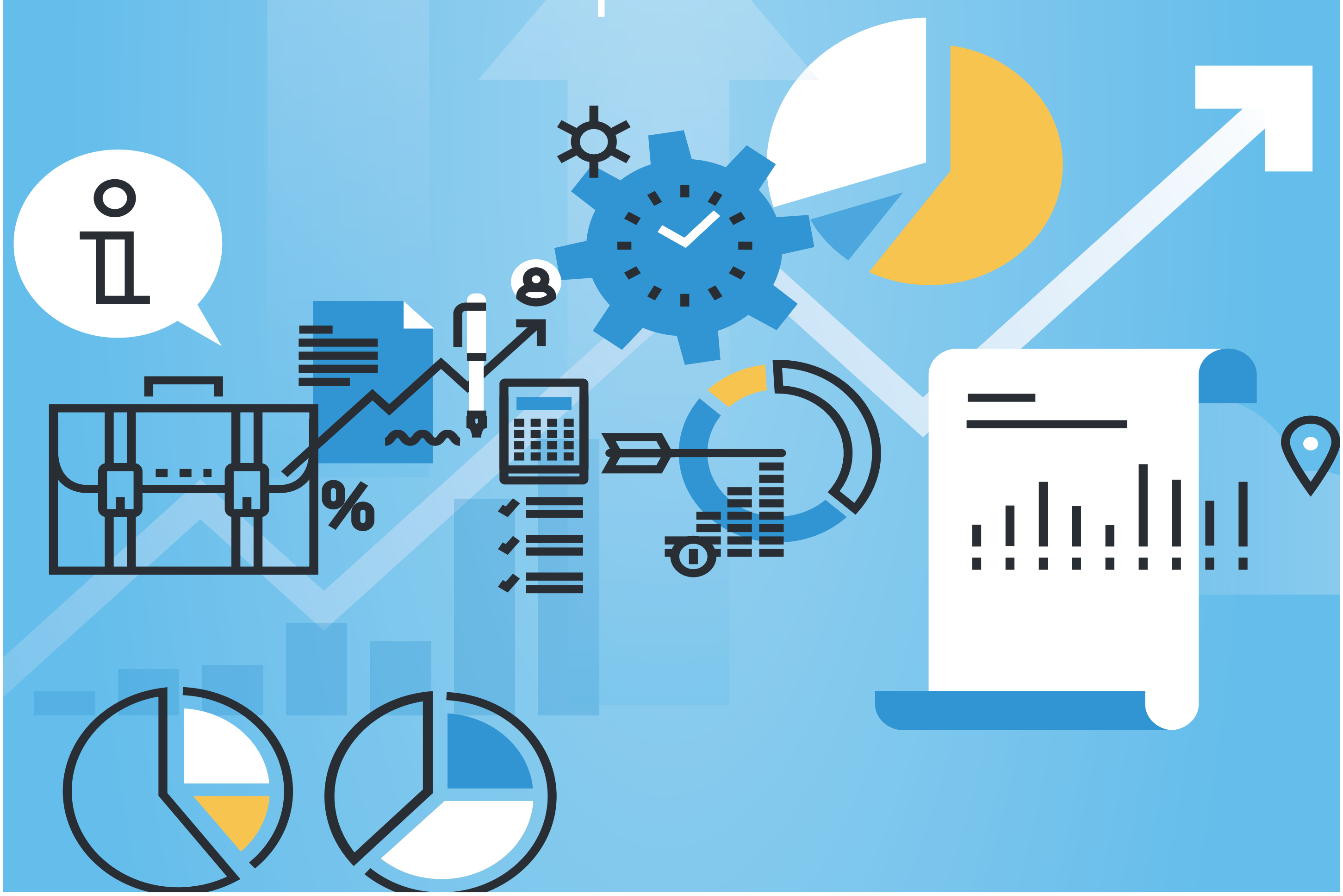
Maximize

An Essential Business Spend

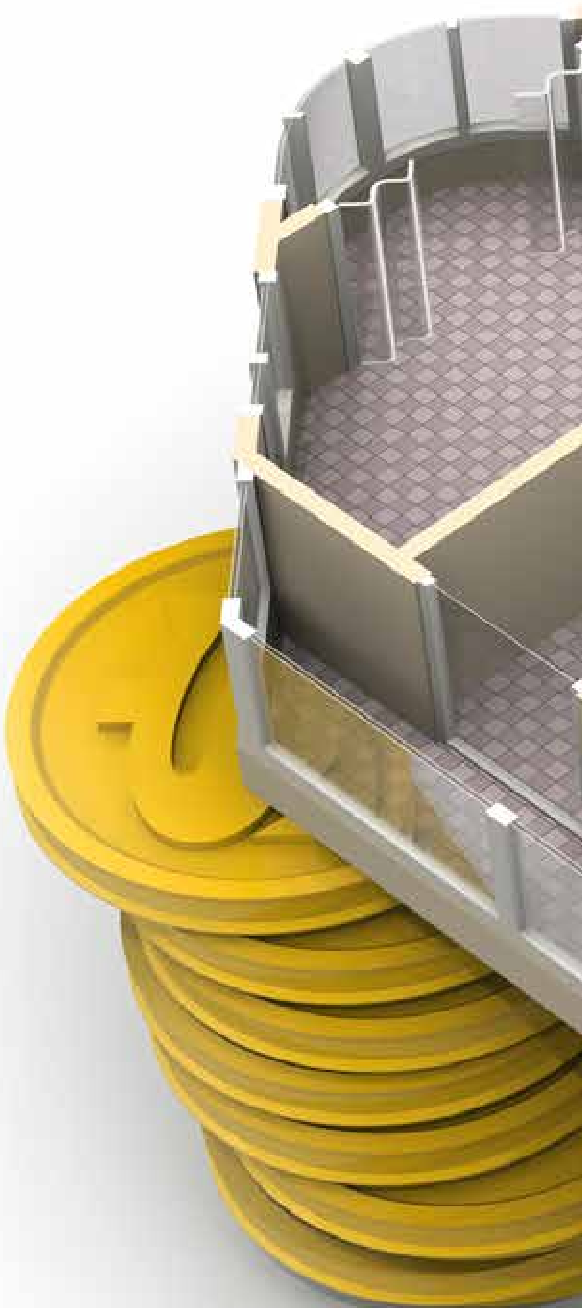


OPEN EVERY

SAVINGS DOOR

VIGILANCE AND CREATIVE SOLUTIONS ARE NECESSARY TO KEEP FACILITY AND SERVICE EXPENSES UNDER CONTROL.

By Dan Schneider



Companies and supply management departments naturally devote most of their attention to their major, top-line expenses, and with good reason. However, this can leave the bottom 10 percent to 20 percent of the operating budget ignored and unscrutinized.

While this segment of expenses represents a smaller piece of the budgetary pie, it also presents the most opportunity for improvement. If you're looking for the best way to quickly move the needle, it can be worthwhile to take a second look at recurring facility expenses and service charges.

Below are some of the challenges companies face in keeping their basic facility services and other overhead expenses under control, and some strategies for dealing with them.

Negotiate Hard (and Smart) For the Best Deal

The most important thing you can do to save money is drive a hard bargain for your company. This applies just as much to minor expenses as major ones. It is important to be assertive with incumbent suppliers that may be taking your business for granted. Even if you have a great working relationship, don't be afraid to push hard on pricing — after all, the relationship could have room for improvement if you

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discover you're getting overcharged.

The most useful tool for pricing negotiations is benchmark data from other facilities. If you manage multiple locations under separate contracts, look to your locations with the best rates and use those as a baseline for rates at all locations. There could be legitimate reasons some facilities get charged more than others, but often these reasons turn out to be arbitrary, and you can use the leverage of the lower rate to create a cost reduction across the board.

If you don't have much data to draw on, consider tapping into outside sources, such as a consultant with experience in your market, to help you negotiate and pursue best-in-class rates. Consultants often have access to extensive and up-to-date market pricing data, which might help you find discounts from your suppliers and service providers.

Don't Assume Service Levels Are Optimized

An organization can suffer from a "set it and forget it" mind-set regarding finances for supplier services. If you last arranged supplier services a year or two ago, a lot could have changed since then. Employees may have come and gone, sales volumes could have risen or fallen, and new technologies or pricing plans may have entered the marketplace without your knowledge. For these reasons, it makes sense to continuously re-evaluate your services to make sure they fit the company you are today, rather than the company you used to be.

Examples of service levels falling out of sync with actual service needs include individual accounts, software licenses or phone lines that are no longer being used due to a head-count reduction. When you have too few of these things, you know it immediately, but when you have too many, you might not realize it right away — and no supplier is going to point it out to you.

Other examples include any type of service with a regular pickup schedule (such as waste removal, shred bins or armored cars). If you're not using those services to their fullest capacity, you may be able to reduce the frequency of pickups, and a significant cost reduction could result. In waste removal alone, inefficient pickup schedules are a widespread problem; in fact, more than 80 percent of companies I've worked with benefited by addressing this issue.

Read the Fine Print (and Check It Again Later)

When it comes time to bid out services or renegotiate a contract, there is a flurry of activity associated with securing the very best rates, terms and conditions. However, many companies act as if the work is finished once signatures are on the page.

If you're looking at contract compliance with your own suppliers, price increases should be a focal point. We've encountered annual increases of 10 percent to 15 percent when the annual cap is at 3 percent to 5 percent. Just as egregiously, we have found instances of "annual" increases being applied every nine or 10 months, rather than every 12 months. Over the life of a contract, this practice could add up to thousands of dollars in unnecessary expenditures.

A long-term automatic renewal is another pitfall to avoid. Ideally, you would like for an agreement to renew on a month-to-month basis following its initial term, but many contracts renew for a one-year or even multiyear term. If you don't keep close track of contract clauses and when your terms expire, you could be on the hook for a much longer commitment than you intended.

Specific Spend Areas to Target

There are a few areas of spend that are prone to unnecessary overspending and offer prime opportunities to cut costs. It might require taking a closer look at all bills and contractual fine print, but many companies find savings in the following places.

Telecom. Many expenses fall under the telecom umbrella: phone, internet, wireless devices, cable/satellite television and such security equipment as alarm systems and surveillance cameras. What these services have in common is that they are a common expense for any company and change frequently with new technologies and industry mergers.

Telecom is also an area that is ripe for service optimization. Companies can reduce their head count or switch to a new technology while forgetting to eliminate their old services, resulting in a "zombie bill" for unused service that must be paid month after month. Often, phone lines are billed despite being disconnected for months or years. Also, telecom bills can get crowded with unused, obsolete services (like turn-by-turn navigation for mobile phones) that inflate a monthly bill. Keep an eye out for these unneeded expenses and make sure they're not dragging down your bottom line.

Waste removal/recycling. Waste removal is an expense that adds up, especially for certain types of facilities (including anything with a food-service component). Management of these services is often outsourced to a third-party broker that handles every aspect of contract negotiation and sometimes even consolidates billing. Brokers can be a godsend in terms of reducing administrative burdens, but they don't always get you the best deal.

Brokers are usually paid based on a percentage of your total spend, which removes any incentive to keep costs low; if anything, they are incentivized to do the opposite. Also, they often have compensatory relationships with preferred suppliers, leading to a conflict of interest when it comes to getting you the best deal.

Finally, with a broker handling everything, there's a tendency to forget about it, and this complacency can lead to long-term losses. If your only priority is smooth operations and minimization of workload, a broker can be worthwhile, but if costs are a real consideration, you may want to re-examine the value of a direct relationship between your organization and its waste hauler(s).

Utilities. Electricity, natural gas and water/sewer services can be complex, and rate structures vary widely from geographical area. It's a good idea to set a recurring reminder to review these plans on a regular basis, because most utility companies won't go out of their way to point out more efficient rate structures to their customers.

It is also important to frequently check meters to make sure they're giving accurate readings. Any dramatic, short-term spikes in usage can signal faulty equipment that left unchecked could lead to major, unnecessary expenses over time.

Mail and shipping. Office expenses like mail and shipping are inevitable, but companies have options to optimize the cost of these services. Postage meters are typically provided by private-sector companies, and the fees are negotiable, like those of any other supplier or service provider. When it comes to express shipping by such parcel carriers as UPS or FedEx, tracking systems can determine whether shipments are delivered on time — and automatically obtain a refund or credit when a carrier falls short. This is an easy way to recover a small portion of your shipping spend without taking on a new administrative burden or making sacrifices in service.

Maintenance contracts. This is a broad, catch-all spending category, and you may be surprised at how the sheer number of maintenance services can add up. Maintenance spend includes equipment upkeep, heating and air conditioning repair, janitorial service, pest control and other services. These expenses tend to get "hidden" because individually they are relatively minor. But they can add up significantly, especially when performed under long-term contracts.

There's also the issue of price discrimination. We've seen a persistent trend of higher-end, white-collar service industries, such as finance or legal, being charged more for the same services than more workaday industries like food service or retail. However, there should be no difference in the cost of landscaping services for a bank branch versus a fast-food restaurant of similar square footage. Yet we consistently find that the bank is charged more, sometimes at double or triple the rate.

Simply put, maintenance companies will often charge above-market rates simply because they can. By comparing pricing across industries, it's possible to uncover these discrepancies and call out offenders.

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While this has only scratched the surface of strategies to lower facility expenses and services to scrutinize, the important thing is that even the smaller expenses add up. And the less attention they get, the greater the chance that they're costing you more than they should. Thus, any time you dedicate to taking a closer look at these expenses to consider their long-term impact on your company's finances is time well spent. ISM