

Staff cuts aren't the only answer in tough times

The global financial meltdown has brought corporate and community governance sharply back into focus. Australia, America and New Zealand have decided changed political leadership is an important part of the solution, hoping that new leadership will pull the right economic levers.

Businesses are under pressure, confronted with decimated share values, tougher bank lending policies, wildly fluctuating exchange rates, declining commodity prices, and shrivelling demand.

Now is the time for strategic thinking. In tough times, smart businesses review all their business management options, and cutting staff may not be the first or only response.

This issue of *Activate* looks at cost management as a strategic value lever. Call Active Cost Management to find out how we can help you leverage cost management opportunities, to add value and increase profitability.

Yours in good business
The Active Cost Management Team

Quick Bits...

Global sourcing: shifting strategies

According to a recent PwC survey, the increased cost of transportation across the world could see a rise in local sourcing. Global retailers may soon need to look closer to home as high shipping costs from countries such as China and India take their toll. PwC also found that cost inflation is the top concern for three-quarters of global retailers and consumer companies.

Meetings - cost saving option

Companies in America spend upwards of \$US175 billion annually on company meetings, client events, hospitality and similar gatherings. Xerox is a recent convert to online meetings management programs as a way of saving costs on such events. Companies such as StarCite, Lenos Software, and Arcaneo provide websites that facilitate meeting registration or travel arrangements. These services also help companies aggregate spending to negotiate better rates.

Australia looking better

And we all thought Australian governments were a bit tardy on infrastructure spending. According to Russia's roads authority Rosavtodor, the country would need to invest €40 billion per year on the expansion of its road network alone to keep pace with the West. Lost orders resulting from inadequate infrastructure and a lack of logistics expertise are causing annual losses to the national economy amounting to billions.

Getting The Corporate Strategic Mix Right

Events in global and domestic financial markets over the last 12 months have again exposed fundamental weaknesses in corporate governance, and below par business management systems and practices. CEOs and their executive teams often ask operational staff to make greater contributions to the performance of the company, without involving them in the strategic decision making processes. Hence, cost management and risk optimization strategies are formulated with no input from the key area of procurement, where up to 70% of corporate expenditures are routinely committed annually. The attitude of CEOs towards procurement and risk management serves to illustrate this on-going disconnection between corporate strategy setting and procurement.

In 2007, the German consulting group BrainNet conducted a study of CEOs, on behalf of the software giant SAP, on "Where is Procurement on the CEO Agenda?". The study centred on the contribution procurement makes, and will be required to make in the future, to the success of a business.

The study found that CEOs are make increasing demands of their procurement departments. Over the next five years, procurement will be expected to contribute not only to cost reduction but also to safeguarding the innovation pipeline, the optimisation of the risk profile and value creation chains, and product design. Yet most companies lack the organisational framework required for procurement to meet these demands. Other findings of the study were:

Procurement is becoming a strategic corporate function

- Procurement is increasingly changing from an administrative to a strategic function as the importance of procurement is recognised.
- The range of tasks that management expects the procurement department to perform is growing.
- Procurement is increasingly becoming a cross-departmental function within the company. Effective coordination with other areas of the company, and an approach that looks at the value creation chain as a whole, are critical to the future success of the procurement department.

Procurement Structure lagging behind

- Only 10% of companies had a chief procurement officer (CPO) who was a Board member or on the company's management team.

- Only 30% of CEOs surveyed said that their procurement department was adequately networked with other functional departments.
- There is still a discrepancy between the increasing demands on procurement teams and the resources available to them at an organisational, process and staffing level. The need to bring procurement structures up to date is also reflected in the lack of transparency and metrics in procurement processes. The results of the study demonstrate that from the CEO's viewpoint, adequate information and monitoring processes exist only in relation to the traditional goal of cost reduction. By contrast, there are serious deficiencies in performance measurement and the recognition of the contribution by the procurement department to a company's success.

Unsatisfactory performance management instruments in procurement

The CPO usually doesn't have the tools to adequately document results, or the processes or the strategic overview to advise the CEO properly.

CEO and CPO have different perspectives

- CEOs and CPOs need to develop a common perspective of procurement
- The majority of CPOs in leading mid-size and major organizations believe that the rapid rise in the number of tasks assigned to their departments, is resulting in an urgent need for additional staff training. However, this opinion is shared by only 13% of CEOs surveyed.





Quick Bits...

Expect to pay more...for water

It is estimated that by 2015, water shortages will be the most critical resource issue world-wide.

Good procurement makes money

The best procurement departments have operational costs 20% lower than average companies, and operate with little more than half the staff. For every \$1 million spent on purchasing operations, top-notch procurement outfits generate \$6.3 million in savings compared with \$2.7 million amongst the average companies (The Hackett Group).

ACM appointed distributor of decisionMAX Software

Active Cost Management, through its subsidiary Contract Central, has been appointed a national distributor of expert procurement and contract management software developed by DecisionMAX Software, Sydney.

DecisionMAX software products include TenderMAX Pro, ContractMAX and ProcureMAX. The software automates the procurement and contract life cycle and provides an end-to-end solution for business. The software is recognised by procurement and contract management professionals in government and industry as the industry benchmark.

ACM Director Terry O'Keefe said partnering with DecisionMAX was a natural progression for the company. "Consultants at Active Cost Management have long been supporters of DecisionMAX's expert systems, enabling them to deliver significant cost savings for clients quickly and efficiently, with the highest standard of probity, visibility and accountability," Terry said.

As more and more companies embrace e-commerce and move away from paper-based and dispersed contract management processes, they have the opportunity to introduce a cost effective industry best practice solution using a single platform. DecisionMAX systems enable companies to get maximum benefits from supplier arrangements and retain complete control of their procurement and contracts.



Cost Management Checklist

With governments and industry pedalling furiously to stay ahead of global recession, cost management has never been more relevant and timely. It is said that leadership is about knowing what to do and then doing it. You may find the following short checklist of principles a useful guide to start your cost review.

Is it necessary?

- Some expenses exist because no one has questioned the necessity.
- Prioritise the expenditure against other costs incurred in each area: is it vital, important, standard for the activity or industry, or 'just what we always do'?
- Ask 'why' more than once.

Is it appropriate?

ACM consultants worked on a cost reduction project with a client airline. The maintenance engineers insisted on jet engine fans rated as new, i.e. a service rating > 80,000 hours. The engine itself would only remain in service for another 20,000 hours. An overhauled fan with a service rating of 30,000 hours was considerably cheaper and an appropriate substitute.

Is the right person responsible for the cost?

Sometimes it is easy to delegate expenditure responsibility to those who have conflicting agendas. A mobile phone company had couriers lined up outside their premises because sales staff made ad-hoc commitments to deliver handsets urgently. These "urgent" deliveries happened so often, that it made good sense for the couriers to just wait for a package.

Are staff aware of the costs they are incurring?

Many businesses do not make information about expected costs (budgets) and current actual spend transparent to the staff making the decisions. There is no point berating staff for an overspend on the photocopying budget, if no one is told (a) what the budget is, (b) what has been spent to-date, or (c) what their decision to copy is costing the company.

Is the spend related to the company's objectives?

Why would a business with a low price/ high volume marketing strategy be printing promotional flyers on more expensive coated

paper, leaving the false impression that their target is the high quality/high cost end of the market?

Is the spend in line with policy?

Is the 6 cylinder car provided to the security guard in line with the company's green/sustainability policy?

Are purchases on negotiated terms?

If less than 80% of company spend is on contract, you are likely to be missing opportunities to negotiate improved services or pricing, especially where category aggregation is possible.

Are there numerous suppliers in a category of spend?

The more suppliers, the lower the volume discounts and the higher the administration costs.

Is there a dominant supplier who sub-contracts?

Not everyone has the capacity to do everything. A single supplier may be administratively attractive, but if they are only brokers or middlemen, room for margin creep is much greater.

Are you claiming all supplier discounts, rebates, incentives or other credits?

Many businesses lose track of the offers suppliers make, either before the contract is awarded, or when errors and omissions are identified during post-implementation audits.

Is technology providing a new supply alternative?

- Video conferencing is reducing the need for travel and related costs.
- Replacing paper-based or labour intensive processes with new integrated software solutions (e.g. procurement automation and contract management) can generate huge savings resulting in a rapid ROI.
- Mobile broadband internet is now almost as cheap as ADSL, without the recurrent cost of a monthly fixed-line rental.

Are you challenging prices?

As the Australian dollar falls, many suppliers pass on import costs quickly, just. However, few seem to pass on the benefits of higher exchange rates - and they won't, unless someone asks the question.

Start profiting from procurement

Contact us to find out how Active Cost Management's advisors and practitioners can help you reach your cost management and procurement goals in a wide range of expense categories including: telecommunications and data, freight and couriers, office supplies, printing, catering, energy, advertising, packaging, cleaning, waste management, document storage, and more.

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