

# Why Most Organizations Are Not Getting the Most Out of Cost Reduction and Containment Initiatives

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Organizations with inadequate spend information really don't know what they are spending, who is spending, and who they are spending with. Without such fundamental intelligence chances are high that resources will be misdirected or wasted, and savings results will not be achieved.

Many organizations should focus on cost containment fundamentals. It is surprising how many organizations do not consolidate purchases, do not require line item pricing, or do not require suppliers to compete on a regular basis. Many organizations simply need to get back to basics.

A common oversight is in the indirect spending areas. Many organizations often focus exclusively on direct materials and ignore indirect spending on telecom, facilities, transportation, travel, commercial insurance, leases, office supplies, and so forth. Yet big savings are often available in these areas.

A frequent obstacle to efficient cost savings is lack of buy-in by the organization. It is an unfortunate fact that not everyone in a company is cost-sensitive, or sees cost reductions as being in their best interest. In fact, many employees, and even managers, are "empire builders," actually more interested in maintaining or growing budgets, organizations, and perceived power. They may talk a good game, but really are not committed to cost-reduction. They may even fear cost reduction. Internal politics and power struggles are very often the chief obstacle to more efficient processes and procurement efficiencies.

Frequently, the cost-reduction "team" lacks the specific functional expertise or spend volumes to effectively reduce costs in certain functions. Most staff are generally not the best people to effectively reduce costs. This type of initiative requires balancing both functional skills and cost awareness. Establishing cross-functional teams with both stakeholders and procurement expertise is one solution.

Frankly, overly cozy vendor relationships with suppliers can get in the way of effective cost-reduction. Suppliers' sales people work to establish personal relationships and "differentiate" their products for reasons other than price. They are often successful in minimizing competition as a result. But this situation usually costs the buyer money!!

An ironic mistake that organizations can make in tough times like these is locking into a new long-term "low" contract price, only to find that prices actually drop below that level over time...resulting in overpayment during the longer contract period. Don't mortgage the future simply to insure short-term savings.

Many organizations have a do-it-ourselves mentality. They do not believe they need help, or they don't want to invest in consulting help to confirm the organizations false assumptions.

They are just not getting the total job done and are leaving significant dollars on the table. “Not-invented-here” and the “we-already-thought-of-that” syndromes are common and naïve themes in many organizations. Many organizations have inadvertently set up win-lose scenarios on cost reduction that block the free flow of ideas and participation, and inhibit the use of consulting experts whose savings initiatives will achieve savings. All organizations have waste in their spending, and wise organizations want to find it and remove ASAP. Setting up a win-win environment is key, and getting outside help is smart.

Another common phenomenon is focus on identification of cost reduction objectives and process development, but inadequate attention on execution and results. Many organizations have long lists of opportunities, but short lists of what have actually been accomplished or resulted in tangible savings. Savings will erode over time if organizations don’t monitor results, update specifications, and review line item invoice detail. Implementation, follow-through, and measurement are essential in generating savings results.

Effective cost reduction and containment is not just about common sense. Like so many other things in life, it requires experience to do it right to avoid costly pitfalls. In challenging times like these, with so many managers being pushed into cost-reduction exercises, having access to experience to guide the process is critical. Experienced consulting help should be considered, particularly with a company whose fees are based on results.

### **About Cost Containment Specialists**

Cost Containment Specialists is a national expense reduction firm that provides advisory services to organizations to assist them in reducing their indirect operating expenses. We engage Subject Matter Experts (SME) that have specific expense expertise in over 20 spend categories to analyze and negotiate our clients current and alternative vendors to realize savings greater than can be done internally. Since 1998, CCS has helped over 1,500 businesses and organizations find undiscovered cost savings. Our fees are success-based, so you do not pay us until we produce savings.

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