

The Meltdown May Have Been Averted But the Crisis Remains

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The financial crisis is rapidly moving from Wall Street to Main Street as most organizations' (profit and non-profit) results are reflecting squeezed operating margins. In response, the news is rife with organizations conducting layoffs and cutting capital investments. While these actions provide short-term breathing room, they can severely impact an organization's long-term growth potential.

CEOs, CFOs and Procurement leaders must look for short and long-term prescriptions that their organizations can utilize to achieve cost reductions, reduce margin compression and release cash from operations while implementing cost reduction and containment related best-practices that will separate market leaders from laggards when the market eventually recovers.

The business environment always recovers...

The question is will you be around when the business environment is on its way up again?

The Financial Crisis and Its Impact

If financial markets are a leading indicator of economic activity, the recent tumultuous months are a clear sign that uncertain and volatile times lie ahead for most organizations.

Organizations are reacting as one would expect – with an increased focus on cost reduction and spending discipline. Cost cutting has suddenly been pushed to the top of every managers priority list and is seen as the key function offering potential opportunities to be tapped and resources to be conserved.

What is Indirect Spend Management?

Let's define Indirect Spend Management as a disciplined way of managing operational costs that do not relate to "raw materials" externally purchased goods and services. The traditional view of managing indirect spend includes spend analysis, strategic sourcing and effective contract management. Employees believe in cost control only if the management is consistent and serious about cost control and "walks the talk" rather than having a "program of the month mentality." The strategy of managing indirect cost through cultural change is a long term one and a crisis like this is a good time to start this change. However, we strongly recommend that unless top management is ready to go the distance and lead by example it will be very difficult to make this strategy work.

Focusing on indirect spend has the following benefits:

- It has no direct, negative effect on the culture of the company (compared to layoffs) and in fact, it drives the culture of lower costs and could become a competitive advantage.
- Short and long-term investments to achieve cost reductions are significantly lower (compared to severance and other benefits).
- Managing indirect spend creates a short-term impact while savings from price reduction and containment from suppliers can continue in the second and third years.

Where Do I Begin So That I Can Affect My Bottom Line Now?

In our experience, most organizations have not done a good job managing their indirect spend. For a typical organization, the indirect spend could be 20% to 30% of the total spend. An incremental savings of just 5% could mean significant savings to the bottom line in one year.

Most organizations struggle because they are unable to execute on any of the above strategies either due to lack of people, skills, cozy relationships with suppliers, low spend volumes, or, most importantly, corporate commitment.

Most organizations – including yours – may need the support of a third-party with specialized knowledge of these indirect spend categories and the ability to execute at a rapid pace within the boundaries of your culture. This third-party firm should have deep indirect sourcing and indirect spend management experience and bring methodology tools for accurate spend analysis, group aggregated spend volumes, and the right personnel who have a track record of delivering “real” savings in a short period of time.

While we recommend that organizations use the urgency created by the financial crisis as an opportunity to kick start these initiatives, once the crisis is over, indirect spend management initiatives should continue as it will add financial value to the organization. For most organizations that act immediately, these initiatives will achieve success within 8-10 weeks.

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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