

Want to save on your expenses? Ask for help...

By Ben Lapscher

On my previous article titled “Why companies overspend?”, I discussed the reasons why businesses fail to dedicate enough efforts to expense reduction, and consistently overspend leaving significant amounts of money on the table.

Our experience in the expense reduction field since 1993, shows that these reasons can be grouped into four main buckets:

1) *Time constraints*, 2) *Lack of Industry Knowledge*, 3) *Focus on Sales and Direct Costs*, and 4) *Inertia/Lack of Will*. The article discussed each one in detail and concluded that the return on resources invested in reducing indirect expenses was very high and handsomely compensated the time invested by company staff. In addition, every dollar saved goes directly to the bottom line without affecting the product or service.



Despite these clear benefits, companies don't dedicate enough resources to expense reduction initiatives mainly due to the four reasons stated above. This lead us to formulate the next logical question: How can companies best overcome these limitations to benefit from cost reduction programs and initiatives?

Like any other business issue, companies can try to resolve these challenges by dedicating internal resources. However, we believe this is one of these business situations where it makes

more sense to ask for external help. The objective of this article is to explain why.

Assuming for a moment that the reader agrees with this proposition, who should companies contact? Strategy/Business or Operation Consultants, Accountants, Business Coaches, Financial Advisors? Some of them may be able to provide support reducing expenses, however their expertise is spread in many other areas, lacking the required depth on the field, particularly vendor management. In addition, their fees tend to be significant and based on hours worked, rather than performance. This can make the investment difficult to justify in many situations.



Fortunately, there is a group of professionals, not commonly known that can represent the best fit for this specific business need. They are known as Expense/Cost Reduction Professionals (CRPs). This a relatively new specialty initiated in the early 80's, just starting to become more popular in recent years.

Unlike other professions mentioned, CRPs attack directly the four root causes of why companies overspend, providing an adequate fit to lead expense reduction initiatives. Asking for CRPs help makes more sense than going at it alone, because of the following reasons:

- a) CRPs have *Industry Knowledge*,
- b) CRPs have the *Time* to research and implement,
- c) CRPs Focus on *Indirect Expenses*, and
- d) CRPs have the *Will and Incentives* to save.

CRPs have developed the *Industry Knowledge* in how to select the most competitive vendors and plans that best fit each situation. When faced with expense analysis, managers deal with critical questions, such as:

Which vendor provides reliable service at the best cost? Which services should be selected? What are the best plans for the company or department given their specific needs? Are there any incentives the company can take advantage of? What type of agreements, if any, should be committed to?

If managers try to do the research for multiple categories they end up with an incredible amount of information, almost impossible to gather and understand on a time restricted environment. Add all this to their particular industry knowledge for their specific businesses and you end up with an unmanageable amount of information.

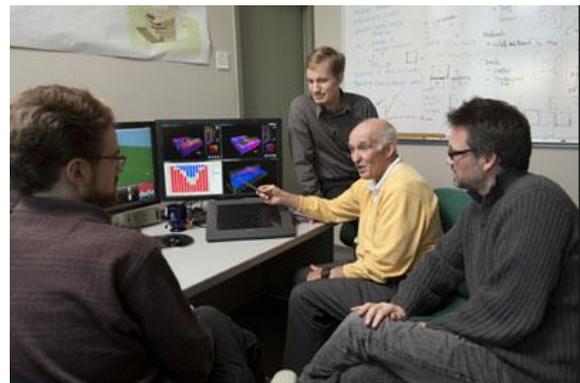


Since CRPs deal with these challenges and vendors on a daily basis, they have developed the *Industry Knowledge*: The Who, the What and the How, allowing them to approach each opportunity and make quick and effective recommendations to maximize savings. Sometimes it may be as simple as incorporating a new feature or plan offered by current vendor. However, given the number of categories and options, even these simple changes tend to slip under the radar.

Recently we analyzed the cellphone category for a company that has operations overseas. As anticipated, their bills were high due to the roaming and data charges while staff traveled abroad. Very rapidly, we identified that there was a new, better plan to cover the international service. Not surprisingly, the current vendor didn't bother to offer it to the client to keep enjoying the high revenues. As a result of the proposed change in plan, the company is enjoying a 35% reduction on their cellphone bills with minimal time invested, keeping current vendor and no impact on their operation.

CRPs have the time to research different industries and implement initiatives.

One of the main reasons why companies overspend is the lack of time to research vendors, service plans, and to implement cost saving initiatives. This is due to the highly competitive and dynamic environment that induce managers and employees to focus on customer demands, internal processes and changing regulations, rather than on cost reduction.



On the other side, CRPs are dedicated to the expense reduction field and spend significant amounts of time researching every industry, vendors and service plans. As a result, they can identify saving opportunities and match particular needs with the best available vendors in a fraction of the time that will take a typical manager.

Recently, we were challenged to lower the inventory insurance cost for a manufacturer of office furniture. After a careful review of available options, we incorporated a broker that had extensive expertise with inventory and access to different insurance carriers. They were able to recommend a different carrier and a novel way of structuring policies that resulted in 55% savings for the company. The whole process took only a few days and minimal time from staff.

Lastly, CRP's support businesses on the analysis, negotiation and implementation process, demanding only very little time from company personnel. They typically have good project management skills and leverage with vendors to implement initiatives very fast with no disruption to the business.

CRPs focus on Indirect Expenses. Managers tend to concentrate their limited time on growing the business, managing staff and reducing direct costs. As a result, indirect costs such as Telecommunications, Utilities, Office Supplies, Insurance among many other tend to be left unattended and lots of money overspent.



CRPs focus specifically on these indirect expenses, that individually don't seem significant, but combined can account up to one third of total costs. This concentration allows them to quickly identify and implement saving initiatives complementing management efforts on the other relevant areas of the business.

Seeking CRPs support allows companies to dedicate their resources to growing their business and to reviewing high impact cost areas without neglecting to capture significant savings in other categories that otherwise would have slipped due to lack of time, knowledge or focus.

CRPs have the will and incentives to get results.

Change involves additional work, time and risk, so many managers tend to avoid it, in particular when there are no incentives to change. As a result, there is a natural tendency to keep current vendors and plans. As I was told by a IT Manager recently: "I get paid so telephones and computers work without interruption. As long as they do I am fine regardless of the cost". Despite presenting options up to 45% less expensive than current for exactly same service, the manager kept finding every possible excuse to avoid the change.



This attitude places companies on what we call "renewal mode", in which contracts are renewed periodically with obsolete and usually bad terms, sometimes without managers even noticing it. One of our clients in the restaurant business, was not aware of an agreement to supply propane gas with prices 60% higher than the market. Fortunately, it was caught on time and we were able to renegotiate significant better terms.

On the contrary, CRPs are trained to manage change and their incentives are aligned with generating results. CRPs' operational expertise and project management skills allows them to quickly implement saving initiatives, even those

involving vendor change. CRPs act as process “catalysts”, taking a leading role, inspiring confidence on company staff and removing most of the implementation burden from them. This by itself, represents sufficient justification to look for their assistance in reducing expenses.

In addition, unlike other professionals, CRPs’ fee structures are 100% based on performance, in this case savings captured, motivating them to rapidly achieve results. Otherwise, they don’t collect. This also takes all the risk and cost from hiring them as their fees are paid entirely by savings initiatives.



Consequently, cost reduction initiatives managed by CRPs are typically implemented on a much faster pace and higher success rate than projects handled without external help.

Other advantages. Due to their extensive opportunities developed in the industry, CRPs have excellent relationships with multiple vendors allowing them to negotiate better terms for their clients.

Despite these close relationships with vendors, CRPs represent their clients and their incentives are fully aligned with theirs. They remain vendor neutral to avoid any bias in the process, enabling them to get best conditions on every opportunity. Vendors are aware that CRPs are looking to maximize savings and competing against other vendors, so they go the extra mile to offer their best plans upfront.

Final Thoughts

In summary, there is a lot to be gained and value added by looking for external help on expense reduction initiatives. CRPs represent a good fit and provide great support in overcoming barriers that induce companies to constantly overspend. Namely, lack of knowledge, time, focus and will.

There seems to be very few, if any, logical reasons not to look for help when the company doesn’t have the resources to implement the required initiatives. Some managers may prefer to do it internally to save on fees involved. Our experience has shown that this is rarely in the best interest of the company. As I replied to one client that questioned our fee structure: What would you prefer: 100% of a grape or a lower percentage of a watermelon? Most times, due to the reasons stated above, there may not even be a grape.

Ben Lapscher is a Principal with Expense Reduction Coaching (ERC) in South Florida. Since 1993, ERC has helped multiple businesses save millions of dollars in indirect expenses. Before ERC, Ben accumulated extensive operational experience in different industries and positions in local and multinational businesses. Ben holds an Industrial Engineering degree from Universidad Catolica Andres Bello and an MBA from IESA, both in Caracas, Venezuela. He has also completed extension programs at Harvard Business School and Kellogg School of Management. Comments: blapscher@ERCcoach.com.