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Michelle Morgan, Managing Partner of the Earnings Optimization Practice Group of Pelorus Advisors, was featured in The Hartford Business Journal. In the July 1, 2009 issue, Michelle talks about ways companies can achieve significant cost savings in today's challenging economic times.

Wringing The Most From Expenses

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In today's climate, what proven sourcing strategies can middle-market companies implement to generate value for their shareholders and offset lower or flattened revenues?

In today's leaner times, mid-cap companies must be willing to implement low-risk, yet proven procurement techniques to lower operating costs. More specifically, companies must be willing to step-away from traditional expense management and take advantage of best-in-breed expense reduction processes.

To start with, companies need to look for suppliers who will "partner" with them. The corporate savvy buyer knows there is a floor to pricing reductions and there are limited economies of scale for mid cap companies to enjoy. To garner significant savings, companies must take a different approach to partnering with suppliers that can service multiple categories of expense consumption. Only then can the company make it viable for a large supplier to come in and offer value-based pricing "solutions" versus buying a commodity.

What's one way for a company to optimize expenses?

To start off with, a company should consider consolidating all of its expenses associated with external printing - said another way, it needs to look at anyone who puts ink on paper on its behalf. Most companies look at document servicing as the money they spend at the local copy center down the street - this is not always the case. For example, a middle market bank that looked to reduce its printing expenses thought it was spending only \$1 million a year with the print vendor, or at least that is what its income statement said. But when it applied this new definition it was really spending \$7.5 million. The company was able to consolidate with a single supplier that was able to handle all of its needs and "achieved a guaranteed 20% reduction in print expenses.

Do you have another example of how to optimize company expenses?

Another idea is to take advantage of your suppliers' or customers' buying power and their preferred rates. One company that spent less than \$500,000 on shipping was able to obtain the shipping rates of their large Fortune 500 IT supplier. Their shipping dropped to \$200,000 and all they had to do was ask. Their IT supplier realized it was in their best interest to help them succeed and since they were such a large client of the same shipping provider, they asked to have their favorable terms extended.

How does a company prioritize which expense savings to go after first?

Looking at savings alone will likely lead a company to make risky decisions. Operational risk modeling is critical to predicting failures associated with people, processes and technology. Leveraging a proven model that incorporates all necessary risk categories, assigns risk weightings that appropriately value the impact of implementation, and accurately predict the probability of success will provide the company with a successful road map for implementation. The risk model also provides the company with an opportunity to work with its supplier partners to develop mitigation strategies in advance. Finally it helps in identifying potential objections early on and creates a process for recognizing and addressing internal company concerns.

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