Checkmate News

Winning Approaches for Cost and Resource Productivity

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Welcome!

In this first edition of Checkmate, a new Paladin Associates newsletter, we've decided to share with you our thoughts on issues which should be top of mind for CEOs, CFOs,CPOs and owners of mid-size companies. Checkmate promises to maintain an edge as an informal breath of fresh air by offering up winning approaches for cost and resource productivity for companies of all sizes.

You may be wondering: why are we doing this? Simple: because in today's economic climate, straight talk matters. And we could all use more of it. The good news is that we're here to give it to you—none of us have time for hype. In fact, you should look to use this newsletter as an actionable tool, because you won't find marketing hype in its virtual ink.

Our first article in this edition discusses the most challenging person to your business. Hint: it's not a competitor—it's someone who you may not see as a potential problem. Next, we tackle telecom cost reduction tips that companies of all sizes can take advantage of. Last, we've decided to point you in the direction of a couple of articles that you shouldn't miss from around the industry. Got a comment or a question? Don't be shy. We'd love to get your opinions.

Sincerely,

Don   Bob

Donald J. Hoeppner, Executive Partner   Robert S. Matthews, Executive Partner

Sourcing Challenge Number One: The Sales Person

Quick, what's the biggest enemy of sourcing organizations today? Might it be commodity price inflation, supply shortages, or the falling dollar? We'd argue no. In fact, procurement's biggest enemy hasn't changed much in recent years. In fact, this top adversary is pretty much the same as it has been since the advent of corporate buying. Who is this foe you ask? It's your supplier's sales guy.

Over the years, we've spent a good deal of time on all sides of the corporate buying equation, including selling into companies. And what we've discovered is a host of techniques that better professional salespeople often use to get around the procurement organization. All too often, most sourcing professionals don't find out about these tactics until it's too late—even if they discover them at all. Based on experience, we'd argue that in most cases, there's a silent war going on between salespeople and procurement where one side does not even know they're being targeted. It's time to change this by shedding light on some of the tactics smart salesmen will use to circumvent procurement organizations. Perhaps the most common technique we've seen is simply trying to bypass procurement entirely by calling on someone else in the organization that has buying authority or the power to influence decisions. A good salesman will then try to convince this individual that they should buy from them based on a factor other than price. If the salesman uses words like "brand, partnership, teaming or total cost of ownership," in these discussions, it's more than likely your company will end up paying too much.

Another common technique we see is when a good salesman appears to offer up concessions which end up being anything but. These might include an agreement on a price that is less than first offered but then is fixed for a period of time, even when industry prices are dropping. Another twist on this situation comes up when a salesman knows there will be changes to a product mix and quotes lower prices for certain SKUs knowing that they will change when actual orders are placed. We've also seen many examples when salesmen begin to apply influencing and game-theory types of approaches in competitive situations to avoid RFPs. In these cases, a salesman might attempt to influence the RFP process by offering to write or guide aspects of its creation—obviously in their favor—or might simply offer a "best and final" offer prior to a competitive negotiation with a promise to withdraw it prior to an actual face-to-face discussion or online bidding event.

Many of these techniques border on what we might describe as unethical behavior. But certain approaches absolutely cross the line. All too often, we see companies authorizing payment for invoices which are above and beyond contracted pricing and rates. This is often the result of salespeople knowing they can get away with overcharging. Sometimes the pricing is legitimate, but often times a salesperson will game a contract knowing that they will be able to charge extra for things like expedited orders, different quantities, etc.

What can procurement organizations due to minimize the impact of the notorious salesman? In each case that we have outlined, there are specific mitigation techniques, which we'll leave for further discussion in the future. But on the most basic level, procurement teams can put in place a couple of essential tactics to counter their most dangerous enemy. The first is to implement policies that mandate that the entire organization—including executive management—put contracts through the procurement organization for final negotiation and drafting. Our next suggestion is that it is critical to insure that a salesperson does not unduly influence specifications or requirements definitions. In this area, it is essential that the procurement organization create RFPs that maximize competition rather than minimize the universe of potential suppliers. By following these techniques and educating the organization on how a good salesman can wreak havoc with their bottom line, sourcing teams can take back control of the procurement process from the selling organization. ■

Eternal Vigilance is the Price of Telecom Savings

With apologies to Voltaire, our experience suggests that eternal vigilance is the price of telecom savings. Regardless of industry, inside most middle market companies across industries, if we could pick one spending category with the highest probability of achieving savings, it would almost certainly be telecom. One of the major benefits of telecom sourcing is the ability to drive savings without material disruption to the business—or a perceived threat to the purchasing organization. But this alone does not fully explain the opportunity telecom presents.

In organizations smaller than the Fortune 500, telecom spend is typically managed by an engineer who administers the function, rather than a professional sourcing manager. In addition, because procurement rarely controls telecom spend, the group is often not threatened by third-party experts that come in with targeted recommendations and strategies (unlike other spend categories in which they have direct sourcing responsibility for).

The individual—or handful of individuals—managing telecom are usually specialists with excellent technical knowledge of connecting systems into a provider's backbone or cloud, but few have experience with strategic sourcing. In the lingo of the business, they are "wires and pliers" types of engineers or technicians. Given that they're not oriented towards cost reduction, many will willingly accept a discount between 5-10% when a contract is up for negotiation. But what they don't know is that the actual savings they could achieve is a multiple of what a provider usually offers up. Add to this the fact that most organizations have decentralized billing, ordering and payment for telecom it becomes clear why such a large opportunity exists across the telecom spectrum including voice services, wireless, and data.

When it comes to achieving telecom cost reduction, it is imperative to not only negotiate the right packages and rates, but to insure that providers are not overcharging—or charging the tariff rate—for different services. This requires a close examination of line-item level detail at the invoice level not to mention making sure that the optimal services were specified in the first place. Our experience suggests that the majority of invoices have some types of errors. For example, in the case of wireless we often find misapplied programs or lines with little or no usage. In the case of voice, there are often significant errors such as misapplied designs, configurations and rates which exceed that of the market average or the accurate negotiated rates. Additionally, multiple country rates are not discounted.

When it comes to understanding demand information, many companies over or miss-specify requirements. For example, in the case of voice services, it is common to see one site with a dedicated circuit while multiple other locations have switched services that rely on local providers. The result for the sites relying on switched services can be charges as much as 3 cents per minute above what they could optimally be paying in a dedicated environment. Regarding frame relay or MPLS data, we often observe companies who buy many times the actual port capacity they will need to support their PVC throughput. This often occurs because an organization believes it will ultimately have the need for this type of capacity, but all too often, this expected requirement never materializes.

In the case of wireless, we often find similar opportunities to more accurately model the exact types of services an organization needs. Perhaps the most basic wireless approach is to "right-size" plans based on the number of minutes an organization actually uses. The key, however, is to do this on a regular basis, every few months to see if the number of minutes required changes. More advanced wireless demand and specification management strategies include plan/minute pooling, data services and handheld device negotiations.

Often times, though, the major savings from telecom sourcing initiatives come from better contracting rather than changing hardware or existing services for new ones. Many organizations believe that they have negotiated favorable telecom contracts only to realize that the discounted rates purchased for a large office location or headquarters do not apply to remote facilities—which can be charged at the maximum "tariff" rate for similar services. This is why it is critical to negotiate, implement and monitor a master contract that takes into account the service requirements across all facilities.

With detailed—or expected—usage patterns in hand, it is possible to negotiate significant savings from a preferred provider. Often times these savings will average at least 30% of overall spend—sometimes as high as 45%. In one case, we saw a consulting company negotiate a 90% reduction off of a previous service used by its client. Many of these savings numbers represent write-downs from incumbents, making it relatively straightforward to implement savings immediately. The essential component to achieving savings from incumbents is to have accurate price benchmarks based on service and usage requirements. Paladin Associates focuses significant effort on maintaining an accurate list of benchmarks to make these types of savings numbers possible.

Even in the case where a contract was recently renegotiated in-house by a non-telecom sourcing expert, it's often possible to open up a contract to additional negotiation by bringing to the table outside price benchmarks that show that an organization is paying too much. With this type of benchmarking data, it is also possible to negotiate clauses such as "most favored customer" that mandate that should prices fall within a set time period for other customers (e.g., 12–18 months), that the provider adjust the rates accordingly. Of course the onus is on the company to prove—by staying current with benchmark data—that prices have shifted in the market. After all, eternal vigilance is the price of telecom savings.

Do you believe that your organization has a telecom savings opportunity? If so, don't hesitate to contact us. In less than a few weeks, Paladin can provide a comprehensive assessment of the types of telecom savings opportunities that your company might be missing out on. Since we are willing to work on either a contingency or gain-share basis, there is no cost or risk to your organization. Contact us today:

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About Paladin Associates, Inc.

With over 600 years of collective financial and operating experience, Paladin Associates executives bring a unique perspective to productivity and profitability improvement. Founded by former GE executives with extensive experience working with middle market organizations, Paladin delivers hard dollar cost savings to companies of all sizes. Clients have nothing to lose in our relationships—if a company fails to realize savings or value creation, they pay nothing. In addition to providing world-class consulting and advisory capabilities in the Strategic Sourcing and eSourcing areas, Paladin also offers services in Telecommunications Sourcing, Financial Management, Marketing & Sales Productivity, IT Management, HR Productivity, Manufacturing Efficiency, Energy and Utilities Management, Mergers & Acquisitions Support, and Interim C-level Management. For more complete information visit us on the web: www.PaladinAssociatesInc.com

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We promise the same, hard-hitting pragmatic advice in each and every issue to come.