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Cost Reduction More Important Than Ever

Unfortunately, the economy hasn't improved since our last newsletter. For many, revenues and corporate profits are still declining. More than at any time in recent memory, companies now need to be aggressively cutting their costs... it's a survival issue. Yet many companies have little experience with this risky process and make mistakes that have severe consequences.

External expertise is both advisable and available. Good first steps are a Strategic Assessment and Spend Analysis—essential to proper execution. Properly managed, cost reduction can improve cash flow and profitability, permit critical investment, and free up resources for more critical tasks.

This edition of CheckMate News focuses on the importance of Spend Analysis and explores why some companies don't seem to want help. Paladin is available for those that do!

Our first article in this issue, "*Spend Analysis: A Prerequisite for Sourcing*", discusses the importance of having actionable information prior to beginning Strategic Sourcing activities. Our second article in this issue, "*Who Can Afford Consultants at a Time Like This?*" explores the reasons most companies don't seek external help even when difficult times call for it.

Got a comment or a question? Don't be shy. We'd love to get your opinions.

Sincerely,

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Spend Analysis: A Prerequisite for Strategic Sourcing

Barbara M. Ardell, Vice President, Paladin Associates

It's an old adage that you can't get to where you want to go unless you know where you're starting. In today's challenging environment, it is critical for sourcing organizations to know where spending is occurring. Financial statements show expense categories, but not suppliers. Accounts Payable reports show where cash went but not what it was for. Neither shows what business unit made the expenditure. Lost? Don't be. Yours is a common location. You are in a dimension called The Spend Analysis Twilight

Zone. To escape you must know who spent the money, for what, and with whom. It all has to come together in order to get past the starting point—and to move on to strategic sourcing.

An automated spend analysis solution enables you to consolidate spend data and leverage the purchasing power of your entire enterprise across multiple systems and businesses. Data enrichment can then map the relationships between the "who", "for what" and "with whom." The end result is actionable data that your company can use to develop plans to control expenditures and identify sourcing savings opportunities.

Specifically, spend analysis allows your sourcing organization to:

1. Identify saving opportunities
2. Prioritize spend categories
3. Increase spend under management
4. Improve negotiation leverage
5. Identify off-contract spend; and
6. Improve procurement operations.

Many organizations currently use a manual or semi-automated process to analyze spend data. However, companies often compromise efficiency, speed of data updates, general accuracy, and analytical and reporting capability by following this approach. Conversely, companies that use automated spend analysis solutions report the following:

Performance Metric Incremental	Benefit *
Average savings achieved from a sourcing effort	93.0%
Spend under management	39.4%
Contract compliance rates	30.6%
Maverick spend reductions	16.3%

Automated Spend Analysis:

1. Combines data from disparate systems including ERP, AP, P-Card, T&E, etc.
2. Cleanses data to re-map errant transactions and group supplier spend (e.g. AT&T, ATT, etc.)
3. Categorizes spend according to classification schema that meet the needs of Sourcing rather than Accounting or Manufacturing
4. Enriches data with supplier financial ratings, diversity classifications, supplier performance scores, etc.
5. Analyzes data to identify sourcing opportunities and priorities, and monitor compliance
6. Refreshes data for ongoing benefits

Some may argue against automated spend analysis because they have ERP systems. But ERP systems were designed to meet the needs of Finance—and maybe manufacturing—not Sourcing. Spend analysis takes "dumb" data and transforms it into actionable spend intelligence. Effective spend analysis is imperative for strategic sourcing, and strategic sourcing is increasingly important to business survival.

L.P. Lamont, an early 1900s economist, observed that "a business' judgment is no better than its information". I find this a chilling thought when juxtaposed with Aberdeen's findings that "few enterprises

know what they spend, on which products, or with which suppliers." Ask yourself: are you making cost reduction and cost management judgments without a complete set of relevant information? If you are, it's time for change. Automated spend analysis provides a comprehensive view into total enterprise spend, enabling sourcing professionals to focus their efforts and deliver desperately needed savings.

Paladin Associates performs comprehensive spend analyses, using Ista's SmartAnalytics solution as a foundational tool. Working with Paladin, clients get access to the people, process and technology without having to pay up-front license fees, thereby minimizing risk and speeding implementation and cash flow improvement. This service may be done at no charge in conjunction with a strategic sourcing initiative performed on a gain-sharing basis. ■

* Aberdeen Group. "Spend Analysis: Pulling Back the Cover on Savings". October 2008.

"Who Can Afford Consultants at a Time Like This?" Why Some Companies Fail to Seek Needed Cost-Reduction Help

Patrick J. Horgan, Partner, Paladin Associates, Inc.

Reducing costs is essential in today's economy. Unfortunately, most managers have limited applicable experience in how to do so in a sustained manner. Mistakes in cost-reduction can damage morale, productivity, and can even precipitate a corporate death-spiral. Experts recommend independent cost-reduction consultants, but most companies don't seek external help. Their reasons sometimes make sense, but more often it derives from emotionally based fear and results in poorly thought-through strategies at an extremely vulnerable time for everyone. Some of the most common and defeatist rationalizations that prevent companies from seeking needed help to reduce costs and keep them that way may sound familiar:

"We don't need help."

- "We can do cost-reduction ourselves".
- "We should be able to do it ourselves."
- "We already have cost-reduction initiatives."
- "We will SOON have cost-reduction initiatives underway."
- "Who knows our business better than we do?"
- "External consultants will probably try to take credit for things we have already identified."

"We don't want help."

- "Consultants may find things that are embarrassing or that we probably should have found ourselves and may be blamed for."
- "We will not be able to personally control what they find or communicate."
- "We are currently too disorganized to undertake such an initiative."
- "We don't want a lot of change and turmoil."

"We can't afford help."

- "Consultants charge a lot, usually up front."
- "We have no budget for this and can do it for less."

- "Their fees will probably exceed whatever savings they find."

"We can't afford the time for this."

"We don't believe consultants can actually help."

- "Consultants just feed back what we already know. They don't actually produce results."
- "Consultants won't understand our business."
- "How would we know if we actually saved anything?"
- "We've had bad experiences with consultants and cost-reduction projects in the past."
- "External consultants are against company policy, or require high-level approval."

"We are not the decision makers."

- "We don't really know who decides this, and we don't want to ask."
- "Someone else is in charge of this; it's not our job."
- "IT/Telecom has sourcing responsibility; not Sourcing."
- "IT and Telecom are under different organizations, yet buy off of the same contract."

"It is not in my personal political interest to support this."

- "Cost-reduction can be risky... might result in reorganization, reassignment, budget cuts, layoffs, new priorities, loss of power, change—could be bad for me personally."
- "Our boss doesn't want to do this."
- "Our boss might want to do this, but we don't."
- "If this doesn't work out, we might be blamed." (But maybe we should pretend to be interested and slow-roll this.)

"We don't have or control the resources to support such an effort."

- "We have other priorities."
- "We don't have good data on costs and spending."
- "We don't have the staff for this."
- "We have lots of contract leakage as internal components are organizationally fragmented."
- "To capitalize on many initiatives may require cross-functional cooperation and coordination which we don't control, and priorities which we don't have."

"We don't want to disrupt our vendor relationships."

- "We already have great prices."
- "We depend on our vendors for things other than price."
- "The supplier has a personal relationship with the CXO."
- "We really enjoy the annual Vendor Golf Weekend at Pebble Beach."

Heard Enough?

Do any of these push-back objections help to reduce cost?

Here are some constructive facts:

Companies may have excellent relationships with their suppliers, but it's an inescapable fact that continuous competition improves the breed and reduces cost. Cost-reduction is irrelevant if it doesn't fall directly to the bottom line, and companies and executives must constantly pursue it aggressively in this economy despite fuzzy fears to the contrary.

There is a fundamental, if not insurmountable, problem in asking seasoned employees to successfully review their past actions and make them continually more cost effective going forward. It seems that companies "ought" to be able to initiate and run effective cost-reduction programs themselves, but in reality they can't—at least not in a timely and well structured manner. For reasons of budgets, staffing, expertise, priorities, timing, politics etc. the opportunities go unmined and the potential savings go unrealized. Cost-reduction consultants do this for a living, not just during recessions, and are experts and know all the tricks. External consultants can often help cut through internal politics and conflicts of interest. They can catalyze stalled activities and get them rolling.

Independent consultants can help analyze spending patterns and drive results—particularly if they are paid on a percentage of savings realized. This approach eliminates upfront fees, reduces risk, and ensures an excellent ROI. The money companies save can pay for fees many times over. External resources can accelerate cost-reduction savings and as we'd all agree—especially during a recession—time is money when it comes to savings delays.

Above all, external cost-reduction experts can jump-start and ensure execution of cost-reduction programs that can preserve a business in times like these. Cost-reduction programs should be win-win initiatives, structured and empowered to encourage company-wide cooperation. Senior management must play a key role in cost reduction programs, helping overcome the fear and concerns lower-level employees might surface in an attempt to avoid embarrassment and for fear of losing control—or worse.

Paladin Associates offers proven cost-reduction expertise and programs in Strategic Sourcing, Telecom, Transportation & Freight, Finance, Marketing & Sales, IT, Energy, Manufacturing, and HR. The firm works on a success-based fee model based upon a small percentage of the savings derived on your behalf. ■

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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