

Good Specifications: Mandatory for Effective Cost Reduction

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Businesses in virtually every industry are faced with the worst economic downturn this country has experienced in over fifty years. This downturn is causing all institutions to look at how they can reduce costs. Businesses and political subdivisions are developing and implementing plans to eliminate waste in their operations. The actions leading to this waste have been institutionalized over the years and are a part of the norm. Businesses must focus on reducing their operating costs in order to regain the trust of constituents.

A major part of the reduced operating cost will be made by process changes, utilizing tools like Six Sigma. However, even with process changes, manufacturing concerns have other opportunities to reduce their cost. Some of these opportunities are:

- Lower purchase price on a multitude of direct and indirect materials through aggressive sourcing practices
- Material substitution, utilizing different properties or products with the same of better quality but at a lower cost..
- Material and parts redesign, reducing the amount of variation and movable parts, which in turn will reduce the total cost.
- Products rationalizations to reduce small lot sizes and variations due to flaws in the new products introduction process, where minor differences exist that don't impact functionality, yet increase total cost.

- Utilizing supplier technology to improve cost by improving functionality and process capabilities that are their core competences.

The common element needed to achieve these cost objectives is good specifications. Specs are defined simply as “what is expected when providing a product or service to a customer” by Keynet Marketing Dictionary or more elaborately by Business Dictionary.com as an “exact statement of the particular needs to be satisfied, or essential characteristics that a customer requires (in a good, material, method, process, service, system or work) and which a vendor must deliver”. Business Dictionary.com further states that “specifications are written usually in a manner that enables both parties (and/or independent certifiers) to measure the degree of conformance”. The key to goods specs is a thorough understanding of what is critical to quality.

Many businesses have good specs, but many do not, as Paladin Associates Inc. has discovered on many cost reduction engagements. The essential issue is that you can not competitively bid, what is not accurately defined. Paladin has used various time consuming means to obtain the specs, including client engineering and sourcing staffs and incumbent suppliers who, in many cases, are the only source of specs. Many incumbents, however, are reluctant to provide the specs because of the amount of effort required to provide the documentation, or for fear of losing the business to competition.

Paladin has found that when clients have specs, they are often not well documented and usually reside in someone’s memory bank that has been lost to downsizing or retirement. Additionally, because of downsizing and workloads, remaining individuals who may possess the knowledge, are spread too thin to put a priority on document the specs. Good specs should be a business requirement and, the investment in documenting them is quickly recovered in greater and faster cost savings.

The economy is miserable now, but businesses have a lot to gain from ensuring that they have good specs in order to drive the required cost reductions. The investment in good specs may be viewed as a non-valued added project, but when only the incumbent knows the specs, he is in control of pricing. That is not a situation you want to be in.

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