

Becoming Best in Class

How to maintain savings over time



Expense Reduction
Analysts

www.expensereduction.com

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Imprint

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Executive Summary

Now more than ever, the need for organizations to develop a culture of cost reduction is paramount. Uncovering additional cash flow within your organization can yield many important benefits and enable your business to reach new heights. Whether you are looking to reinvest in your people, technology, marketing, or more - the extra dollars you save today can help you achieve what's possible for tomorrow.

In our previous whitepaper, *Creating a Culture of Cost Optimization*, we addressed the importance of developing organization-wide strategies that lead to improved purchasing practices, ultimately resulting in substantial savings potential.

Our latest whitepaper, *Becoming Best in Class*, introduces simple methods your organization can utilize to achieve savings from your supplier base and best practices that can lead to maintaining savings over time.

The illustration features a blue silhouette of a person's head in profile, facing right. Several gears of different sizes and colors (orange, grey, and brown) are positioned around the head, some appearing to be part of the brain or connected to it. A large, light blue speech bubble is positioned to the right of the head, containing the main quote. The background is a soft, light blue gradient with faint gear patterns.

“Now more than ever, the need for organizations to develop a culture of cost reduction is paramount.”

Common Myths to Keep in Mind:



Group Purchasing Organizations (GPOs) will always get you the lowest price



You are asking the right questions in your RFPs



National pricing agreements are always better than local/regional agreements with the same supplier



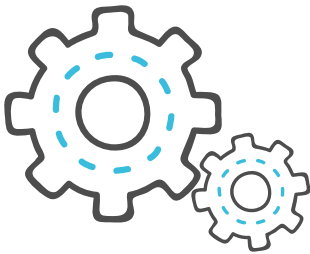
MYTH

Negotiate More Effectively

In order to successfully negotiate favorable agreements with your suppliers, it's imperative to understand how suppliers can glean profit within their contracts.

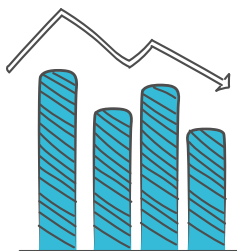
Suppliers will typically develop contracts that are in their favor to reduce risks that could be costly on their end. Depending on the industry, suppliers can incorporate multiple profit-generating components into their agreements, including non-contract products/items, accessorial charges, or termination clauses. Each itemized fee may be negligible, but when combined within a multi-year agreement, the costs can add up quickly.

However, this doesn't mean you don't have room to add elements that will benefit your organization as well. You need to come to the table with an offer that takes into consideration your organization's current requirements and relevant benchmarking data to ensure your offers are competitively priced.



Whether you are considering negotiations with an incumbent supplier or kickstarting the bidding process, review your organization's current needs and what products and services will be necessary to keep your organization running smoothly.

By keeping your organization's must-have requirements top of mind, you'll be able to articulate this during the negotiation process better. Providing suppliers with greater context can reduce their risk and potentially secure you with improved services (compared to their standard offer).



It is also important to rely on industry benchmarking to ensure that the offer you're receiving from a supplier is competitive. You can develop industry-specific benchmarks as well as per capita benchmarks to ensure that you are getting the best pricing as compared with your peers as well as compared to other industries.

Negotiation Tactics to Utilize

Separate negotiator and relationship owner

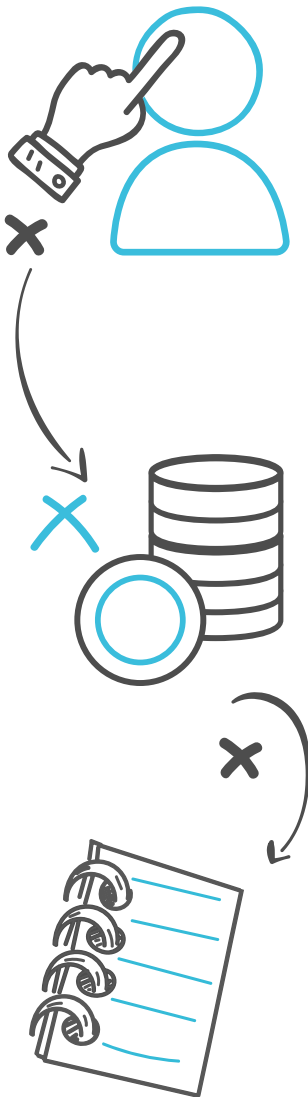
One effective technique to manage a fair negotiation process is to consider bringing in a third-party or designating a different employee within the company to be responsible for facilitating a new contract. Doing so removes the emotional aspect of discussions - and it takes the pressure off the individual who directly deals with the supplier. A third party can also help negotiate more significant savings. For example, a supplier may initially offer a 5 percent discount, whereas a knowledgeable third party may get a vendor to agree to a 20-25 percent discount.

Help the supplier save money

A supplier will likely be more accommodating during the negotiation process if you can convey that your organization is willing to find ways to optimize their costs associated with serving your organization. For example, if your organization can consolidate deliveries from multiple times per week to once a week, it will streamline your supplier's delivery process. If there are fewer deliveries placed or shipments are sent to a centralized facility, it is ultimately more economical for your supplier. As a result, they may provide you with a bonus or incentives that allow your organization to capture savings as well.

Quickly carry out a favorable contract offer

Once a contract with favorable terms has been reached, it's important to sign and put it into effect before the offer expires. Most offers are good for 30-60 days. Stakeholders should move forward with the vendor to maintain momentum and secure advantageous terms. This also helps lock in competitive pricing that can ultimately save money throughout the duration of the contract.



"It's crucial to use the supplier knowledge you've gathered to secure contracts with improved pricing and services."

Develop Systems to Prevent Price Increases Over Time

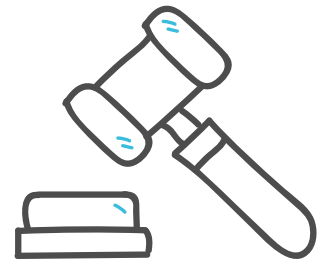
Once your organization has secured savings by implementing a contract with favorable terms, the next step is to maintain savings over time. No matter how great your agreement, price creep will eventually occur. However, you can mitigate this by developing protocols that streamline invoice monitoring and contract management.

If your organization has multiple facilities (or departments) in which staff members have purchasing responsibilities, it's likely that organizational procurement practices have become siloed. As a result, different departments or facilities may have separate contracts with various suppliers, at varying rates, for the same needs. Additionally, staff members are likely making off-list purchases that are not subject to discounted pricing or rebates. There is an opportunity to streamline this process to ensure that all facility contracts are consolidated and serviced by the same vendor (when possible) at a better rate.

One of the most critical aspects of streamlining contracts is to designate one centralized department or facility staff member to maintain current contracts and check supplier invoices for errors, new fees or additional charges. This individual should also keep track of when contracts are set to expire so that they do not automatically renew at a higher rate and to give staff enough time to renegotiate a new contract or start the bidding process, if necessary.

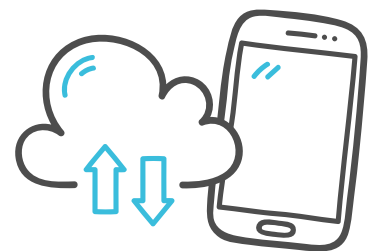
Go out to bid every few years to maintain competitive tension

If you've relied on the same supplier for many years, you may have become complacent in this relationship. As a result, your supplier knows that you are unlikely to switch and might not be offering you the most competitive rates. If your contract expires in less than one year, it may be worthwhile to see what other suppliers can offer. Get into the habit of sending out an RFP ahead of when your contract expires and notify your current supplier that your company will be considering additional offers when their contract ends. By introducing new players, it creates competitive tension and gives your current supplier more incentive to provide optimal pricing to keep your business.



Ask suppliers what new technology or services are available

To ensure that your organization is getting the most up to date and valuable services for your money, ask your suppliers what new technologies are (or soon will be) available. New equipment, streamlined delivery options, or a new supplier platform (that allows you to track orders or automatically load orders into your accounting software) can make your ordering process more efficient. Additionally, when it takes less time for your staff to reorder products and manage invoices, your organization will save money.



Establish Methods to Monitor and Maintain Savings

It is essential to develop key performance indicators (KPIs) and monitor them throughout the contract's term to continuously maximize savings over time. By establishing KPIs based on the cost-drivers of a particular service or supplier, your organization can track the trends and changes to determine the impact it will have on your organization's bottom line.

When developing cost savings KPIs, keep the three Ms in mind:



Meaningful

What criteria are necessary for your specific organization?



Measurable

How can data be monitored to ensure results are being achieved and maintained over time?



Manageable

What methods will be accepted and followed by all key players to ensure the implementation of cost-saving processes throughout your organization?

Conclusion

Achieving savings from within your supplier base and maintaining savings over time is critical to developing a culture of cost reduction. When combined with incorporating strategies that lead to improved purchasing practices and cultivating a better understanding of supplier industries, your organization can thrive. Additionally, you'll build a competitive advantage that will allow you to source products optimally and receive high-quality service from suppliers, which can be beneficial as your business continues to grow.

For over twenty-five years, Expense Reduction Analysts has been helping organizations achieve best in class standards through specialized cost and supplier management. Our global network of over seven hundred experts has exclusive access to data and resources that can be leveraged to identify opportunities for growth that will otherwise go unmissed.

Visit www.expensereduction.com today, and let's work together to define a customized plan for your organization.



About Expense Reduction Analysts

Established in 1992, Expense Reduction Analysts is a specialized cost and supplier management consultancy focused on delivering improved business performance to clients of all sizes in both the private and public sectors. Operating in over 25 countries with more than 650 consultants, Expense Reduction Analysts provides deep industry expertise in a wide variety of expense categories, such as Logistics, Facility Management, Operational and Medical Supplies, Corporate and Personnel Services, Banking and Financial Services, as well as Telecommunications and Information Technology.

Expense Reduction Analysts' clients include thousands of mid-sized companies and many well-known names. To find out more, visit www.expensereduction.com