

# PROFIT NEWS

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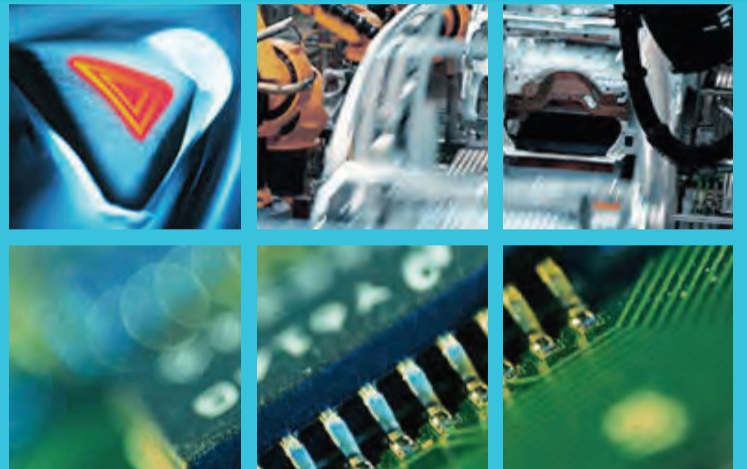
“Expense Reduction Analysts have been superb in finding significant savings”



“I cannot thank the Expense Reduction Analysts Property team enough for their professionalism and care with this project. They have been a pleasure to work with and once again have saved our organisation a considerable amount of money and time.”

Julie Wells, Facilities Manager, SQS Group Limited

Excellence through  
Independence



## EXPENSE REDUCTION ANALYSTS SUCCESS STORY

# Expense Reduction Analysts help SQS save £200,000

SQS Group Ltd is Europe's largest Testing and Quality Management Consultancy with its Head office in Germany. Its UK base is in the heart of the City of London with a back office training, finance and admin support function in Woking, Surrey.

The company leased 6,200 sq ft over two floors in Albion House, Woking which has been earmarked for inclusion in the

town centre redevelopment scheme. The scheme is on hold in the present economic climate and therefore the developer landlord approached the client in April 2010 for a short-term renewal of the lease, reducing the rent from £17 per sq ft to £15 per sq ft from February 2011.

Already having a strong relationship with Paul Pearse from Expense Reduction Analysts, SQS appointed the property

team in September 2010 to evaluate the landlord's proposal and in particular to advise on whether to stay in the building or to relocate beyond the redevelopment area in order to secure better terms and avoid future disruption.

The property team undertook a thorough review of the lease and associated documentation to ascertain the client's basis of occupation. In particular, one floor had been sub-let and the sub-lease was due to expire at the same time – and the sub-tenant was vacating, creating a possible dilapidations liability to assess.

**The landlord offered a rent of £15 per sq ft; Expense Reduction Analysts achieved £7.50 per sq ft**

Furthermore, with the business having been in occupation for a number of years with the protection of the Landlord & Tenant Act (“the Act”), it could be entitled to circa £45,000 compensation in the event of the building being redeveloped. The “sting in the tail” however was that, if the client wanted to use provisions of the Act to secure a new lease, then it would have to apply for a new lease on both floors – including the one previously sub-let and becoming empty, thereby doubling the client's property costs.

Following a discrete review of alternative options in the market, to avoid alerting local agents one of whom was working for the landlord, inspections of a number of properties were made and competitive proposals negotiated on two possible

alternatives. This enabled the property team to report on the comparative cost and suitability of alternative space and to benchmark the landlord's offer. The preference was to stay to avoid immediate disruption to the business, particularly if a slightly longer guaranteed lease term could be secured.

Working closely with the client's property lawyer, Expense Reduction Analysts were able to advise the client on a route not invoking the Act to secure better terms, but to rely on our relationship and negotiation skills to position the client's situation effectively.

The client agreed in November 2010 and negotiations commenced in December and continued into the New Year. With robust, costed options available, we were able to satisfy the client's needs in terms of lease length and to reduce the rent from £15 per sq ft to £10 per sq ft, with 6 months' rent free period spread over two years. This has reduced the rental cost of the first two years to £7.50 per sq ft.

“As always, the service was professional, helpful, clear and concise”

Significantly, the property team were able both to ensure that the new lease is within the security of tenure provisions of the Act, keeping both security of tenure and the possible future compensation and to ensure that the new lease covers only the floor occupied and not the floor becoming vacant. The overall cost savings were circa £190,000 for 2011/12 alone on a

worst-case basis, but it should be noted that the cost and disruption caused by relocating was also avoided. Other cost benefits secured included capping the service charge, simplifying the car park charges and ensuring that the basement store is retained on a rent-free basis.

SQS Facilities Manager Julie Wells comments, “I cannot thank the Expense Reduction Analysts Property team enough for their professionalism and care with this project. They have been a pleasure to work with and, once again, have saved our organisation a considerable amount of money and time. As always, the service was professional, expert, helpful, clear and concise.”

Commenting on the terms agreed/aspect of Expense Reduction Analysts' advice and service UK MD Stephen Fice said, “Not only did Expense Reduction Analysts help in the negotiation process but used their considerable property expertise, to give SQS the appropriate guidance to ensure that the contract was such that it maximised on all the legally available benefits for SQS as a long standing tenant.”

Expense Reduction Analysts Property team is now at work addressing the dilapidations claims in respect of the vacated floor with both the landlord and former sub-tenant, and good progress is being made.



# The Challenges of Procurement in the Third Sector

While the spending cuts announced as part of the Comprehensive Spending Review in the autumn of 2010 are only just starting to bite, the impact has been a central topic of conversation among many charities who find their grants are being cut at the same time as demand for their services increases. The situation is also not helped by the overall lacklustre economic picture for British households, who find their budgets increasingly squeezed and hence are likely to be more selective in their charitable donations.

Many charities also now face serious internal challenges; the economic boom of recent years got many third sector bodies accustomed to a regular stream of grants and donations, providing effectively an abundance of funding to support not only a fast growing number of worthwhile projects, but also, in some cases, expansion leading to an increase of overhead costs.

Buyers in charities have historically been rather risk averse, where procurement decisions were being made, reassured by the knowledge that their peers are buying the same product for the same price, irrespective of whether this represents value for money or not. This can lead to a culture of complacency, where procurement and investment decisions are not being challenged as long as they are aligned with an established overall public and third sector practice, irrespective of whether this represents good value or not.

In light of the challenges charities are facing, a few simple steps to increase internal efficiency, which, in turn, will lead to a more cost effective service delivery:

## 1. Set and manage targets

Something which private sector organisations live and die by is targets. For the third sector this may be unusual, but in the current austere climate, proper budgeting and financial planning is crucial. Break operating costs down into individual cost centres and hold departments accountable for their budgets. Moreover, if your funding has been cut, ask your staff to come up with suggestions to make cost reduction suggestions.

## 2. Can you measure-up to the best?

Having been sheltered for some considerable time from major funding constraints, third sector organisations often lack the appropriate tools and frameworks commonly used by the private sector to benchmark their costs against best in class. Simply setting targets, therefore, may not be enough. The award of grants and corporate donations is likely to increasingly favour charities, that can demonstrate that they obtain value for money. This offers a great opportunity to imitate private industry supplier selection processes and carry out rigorous tenders based on your organisation's very individual needs, even in categories where public sector framework agreements may look appealing.

## 3. Not all framework agreements offer good value

The purpose of public sector framework agreements is to offer a wide variety of public and third sector bodies a single source of supply at a competitive price based on the aggregate group negotiating influence. However, unfortunately, there are often situations where the use of a framework agreement is counterproductive.

The nature of this disadvantage is often the very purpose of the agreement: – its size and the very differing diverse needs of its participants need to be accommodated. Separate products and services, even within the same spend category, will attract different profit margins.

Many suppliers, therefore, in the absence of detailed actual purchase data, will have no choice other than to build-in extra margin into their framework pricing structures. For that reason, charities often will be better served by carrying out their own comprehensive tenders and negotiations, based on their very individual spend profile, while including the respective framework agreements in their considerations.

## 4. Supplier Selection

Time spent sourcing the best supplier for your organisation's needs is time well spent! In order to build a meaningful partnership, your needs and theirs should be well aligned. If you are a small, locally operating charity, it is unlikely that you will get the best service from a big national supplier whose main interest will be in large national accounts. A local contractor will have a much greater incentive to provide you with competitive pricing as well as excellent service levels, and will value your custom much more. Besides, remember that a supplier you develop a relationship with is also a prospective donor to your organisation.

## 5. Supplier Consolidation

Many charities like to empower their staff; as a result, Expense Reduction Analysts often find that the same or very similar products and services are sourced from a broad variety of channels at widely differing



prices. While staff involvement in supplier selection is very laudable, it also frequently means that a charity's own collective negotiating influence is being undermined. Again, this can easily be remedied by consolidating the contractors used but closely involving the staff in the vetting and selection process.

These are challenging times for the third sector in many ways, but they also offer the opportunity to make some crucial changes in the way procurement is being handled. The resulting process changes will not only increase funding available for the respective causes in the short term, but will also help instil confidence in providers of donations and grants, that funds are being spent wisely.

## EXPENSE REDUCTION ANALYSTS SUCCESS STORY

# A high tide of savings for Wharton Grove Wharf

Wharton Grove Wharf is an inland port on the River Trent in Scunthorpe. Encompassing traditional values coupled with a modern outlook and ideas, the port now has a capacity of up to twelve berths and 3.5 million tonnes of cargo per annum.

Andrew Brown, Finance Director at Wharton Grove Wharf, had already heard of Expense Reduction Analysts, so, when approached by Andrew Brackenbury, he was keen to test out the promise of cost savings. Andrew Brackenbury takes up the story: "We first met in February 2007, and after discussing the potential opportunity, we decided to demonstrate the process on Office Supplies and Business Print."

"We were able to find good savings in these categories, and we agreed to extend the remit into other areas. The different categories that we undertook show how Expense Reduction Analysts' approach can be tailored to varying circumstances: in Office Supplies, for example, we

recommended a consolidation of suppliers to make the company's spend more attractive to the market, whereas in Business Print we suggested staying with the incumbent supplier, because of the value attached to the existing supplier relationship. With Fuel and Tyres, by contrast, we concluded, as the client expected we would, that they were already receiving best value in the market place, given the requirements for quality and service.

A relationship founded on trust, featuring savings, fostering peace of mind

"In both Telecoms and Waste, we undertook detailed analysis to gain a full understanding of the purchase profile and client requirements, ensuring that any solutions proposed would be acceptable. I actually remember one of our Waste specialists, Keith Robinson, rummaging through their bins – a process that was absolutely necessary for us to understand the mix of waste being produced and the

possible opportunities for savings and recycling.

"In Telecoms, the analysis was not quite so physically demanding, but our detailed examination of every call prompted a complete overhaul of the telecoms pricing structure under which Wharton Grove Wharf were being charged. Mike Stevenson undertook the Office Supplies and Business Print reviews the second time around and has achieved significant savings in this area again."

Andrew Brackenbury sums up the relationship between Expense Reduction Analysts and Wharton Grove Wharf: "We have always enjoyed an excellent relationship with Wharton Grove Wharf: I know they trust us; I know they appreciate the savings; and I also think that our ongoing monitoring service gives them peace of mind. Looking to the future, we have regular conversations about the possibility of extending our review to new categories of expenditure."



Andrew Brown, Finance Director at Wharton Grove Wharf, sums up the value of Expense Reduction Analysts to his company: "Having heard about Expense Reduction Analysts, I was keen to test them out – and we haven't been disappointed. Andrew Brackenbury and his team have uncovered significant

savings. They have also continued to audit supplier pricing and performance after their initial recommendations have been implemented. And, in doing so, they have allowed me to focus on the strategic financial decisions I have to take in the course of building our business."

**"Having heard about Expense Reduction Analysts, I was keen to test them out – and we haven't been disappointed. Andrew Brackenbury and his team have uncovered significant savings. They have also monitored supplier pricing and performance post-implementation, which has allowed us to focus on building our business"**

Andrew Brown, Finance Director, Wharton Grove Wharf

# Delivering logistics savings and service for PlastiKote

As the leading brand in the spray paint market, PlastiKote offers a portfolio of high quality spray paint products for a range of interior and exterior decorating applications. Since its inception in 1992, PlastiKote has grown and is now a wholly owned subsidiary of The Valspar Corporation, one of the largest global coatings manufacturers in the world. PlastiKote is continuing to expand in Europe and now has a presence in the UK, Ireland, Germany, France, Denmark, Sweden, Finland, Malta and Switzerland.

John Waine of Expense Reduction Analysts describes his original meeting with Joanne Garner, Site and Finance Manager at PlastiKote: “We discussed the business’s procurement and Joanne naturally wanted to ensure that PlastiKote was purchasing services as keenly as possible, especially in the critical area of logistics.”

“PlastiKote in the UK acts as a distribution hub, receiving product from the US, repackaging it and sending it on to retailers in this country and throughout Europe. In this regard, I was fortunate to be able to call upon the expert services of Expense Reduction Analysts’ Logistics Specialist, Fergus Smith.”

Fergus Smith takes up the story: “We started by analysing all of their distribution activities. Although there were some areas where they were obviously achieving good value, we identified three key areas that were worth investigating. A phased

approach was agreed, starting with their inbound sea freight.”

“PlastiKote told me that they sat down with their freight supplier every six months to ensure that they were getting the best possible deal. They were therefore justifiably sceptical that we could find any further savings, so they were delighted with the 18.3% that we eventually achieved for them.”

## Having product on their retailers’ shelves is imperative

“We quickly moved on to their outbound UK pallet requirement. In PlastiKote’s business, having their product on their retailers’ shelves is imperative; indeed, it is a vital part of their consumer marketing. We were able to find a much more local distribution company than the incumbent to fulfil their needs. The company had the infrastructure to handle both the smaller deliveries and the critical, time-sensitive, larger deliveries into the major multiples. This organisation interacted with PlastiKote very professionally from the outset, creating confidence in their abilities. And their performance ever since has certainly justified that trust.”

The third project looked at PlastiKote’s pan-European distribution, in particular to Germany and Switzerland. Different challenges emerged here. Fergus Smith explains: “Germany is a critical growth area for PlastiKote and their major

## Table of Savings

Category	Saving(%)
Inbound sea freight	18.3%
Outbound UK pallets	26.7%
Outbound European pallets	39.6%
<b>Average saving</b>	<b>28.2%</b>

customer there operates to a very stringent order cycle. This results in short delivery times from the UK to a very exacting two-hour delivery window to their customer’s distribution centres across Germany.”

“In delivering to Switzerland, as a non-EU country, the difficulty centres on dealing with the necessary import and export documentation. Again, we researched the market and recommended a supplier who was expert in fulfilling demand in the face of these obstacles.”

How would Joanne Garner sum up the value of Expense Reduction Analysts’ work?

We are very pleased with the savings that John and Fergus have uncovered, but we are even more delighted with the way in which these results have been delivered – with no loss of service and with a seamless transition between suppliers. For our business, these benefits have been vital.”

“Logistics is absolutely critical to an FMCG business like ours. If we don’t get the right product to the right place at the right time, our brand is damaged. Expense Reduction Analysts have been superb in finding significant savings, maintaining suppliers’ excellent service and effecting any changeovers between them completely seamlessly.”

Joanne Garner ACMA, Site and Finance Manager, PlastiKote



## EXPERT NEWS - THE COMMS TEAM

# Telephone Fraud – Is it Costing You?

A 2010 report from The Communication Fraud Control Association ranked the UK as a top five global hot spot for communication fraud, including telephone hacking, which was estimated to be running at up to \$80bn worldwide. According to research, the UK joined Cuba, the Philippines, Lichtenstein and India where the biggest outbreaks are concentrated, with problems continuing to escalate.

The Garda Bureau of Fraud Investigation says Irish firms could be paying out up to €75 million a year for PBX fraud, although the true figure is predicted to be much higher.

Within the communication industry, it is thought that fraud is increasing, probably as a result of new opportunities and changing technology.

Telephone fraud can take place in a number of guises and has been around for years. Generally, such fraud involves either making phone calls at your company’s expense, directly from your offices, such as employees’ or third parties with access to your handsets making personal calls directly from your offices, or through unauthorised access such as hacking into your PBX and/or telephone system.

Inevitably, technology develops on and the risks and opportunities continue to change which means companies need to be on their guard and ensure they are protected from significant loss. As telephone systems become more integrated into company systems and networks, and with as the convergence of voice and data proceeds, they need to be protected with firewalls, etc.. Modern phone systems using internet technology can be hacked into like any other computer system and unauthorised calls made at your expense including calls to premium rate numbers. Whilst technology changes, security principles sometimes don’t keep pace, and often there is a gap in security which can be exploited until people understand the implications, change practices to cope or wait for technical solutions to appear.

To mitigate the risks you need a combination of PREVENTION and DETECTION measures in place, such as:

- Institute Policies for personal calls by staff
- Ensure you apply your security policies for access, passwords, etc. equally to phone systems
- Know who is able to gain access to your phone systems (including suppliers) and how
- Ensuring suppliers comply with your security policies or tell you what theirs are

- Reviewing the call records from your phone bills to identify any misuse
- Set up alerts if your supplier provides them, e.g., to warn you if daily spend exceeds a fixed amount or to warn if call costs to specific call types exceed a fixed amount
- Implement or turn on call logging on your system and enable reports to detect misuse before your bill arrives

- Control any modems which allow dial-up access to phone systems

It is a major challenge for many companies to keep on top of the highly complex and constantly evolving communications market, as well as ensuring they have the right technology, procurement and cost management practices in place.

Our in-depth knowledge of the communications market and the technologies involved, and our relationships with suppliers, put the Expense Reduction Analysts Communications Team in an ideal position to provide offer companies with the best possible value in this area, as well as being able to provide valued advice through our consultancy services.



# Care costs increase pressure on already delicate industry

The cost of caring for the elderly could treble by 2050, according to a report by the Organisation for Economic Cooperation and Development. With an ever increasing elderly population, and growing numbers of people with dementia requiring support, governmental funding cuts to social care couldn't come at a worse time.

The chair of the industry body, the UK Home Care Association, Mike Padgham feels that comparatively little fuss is being made about such cuts compared with the cutting of student tuition fees, because the social care sector is poorly understood and older age issues attract little attention from both the public and politicians. Mr Padgham comments "If you don't fund social care properly, then you put more pressure on the NHS and it costs more in the long term."

The problem is that there are many variables which influence the amount of money available to social care including, but not limited to, property rental, salaries and other big overheads, such as energy, heating and food costs, which have all been rising steadily in recent years.

In the long term, new funding solutions for social care are clearly needed and it is to be hoped that the invaluable services this sector provide will be recognised when new funding solutions are developed as a result of The Commission on Funding of Care and Support (Dilnot Commission) due to report in July 2011.

Outside of the regulatory reforms this report will likely recommend, there is still scope for Care Home Providers at a local level to reduce the costs of care for both local authorities and private sector clients. Effective cost management can be achieved without reducing quality if the relevant expertise, time and effort are put into it, examples include:

1. Create a cost conscious culture and celebrate cost reductions by highlighting good practice to staff.
2. Minimise the number of suppliers in use across the group for each overhead to aggregate spend with a few rather than spread over many.
3. Consider the whole range of overheads for review and include both consumable items e.g., janitorial and medical supplies as well as key services such as waste and utilities.
4. Create more central control over purchasing rather than leave it to

individual homes to negotiate 'good deals' for products and services.

5. Adopt new technologies where appropriate, as innovative products and services can often result in real long-term savings.

6. Standardise and rationalise the range of products used to reduce clinical risks and improve scope for monitoring.

7. Trust your colleagues within the group. If a product/service has successfully been used in one home, then endorsement from staff using it should enable roll out across the rest of the group.

8. Monitor whether buying decisions made are actually implemented. Savings are not realised at the point of the buying decision but only when the purchase is made.

9. Don't rely on your suppliers for information on market prices and practices. Enhance your knowledge of the supplier marketplace to identify cost cutting strategies that will generate savings without affecting or disrupting standards of service through changing suppliers.

10. Potential savings are great, but they don't mean anything unless they are realised. After implementing a culture of cost consciousness, appoint cost champions to drive the programme forward.



# Manufacturing guide released, focusing on effective cost management strategies

Following on from the successful release of the Retail & Wholesale guide, in addition to the hospitality sector guide; Expense Reduction Analysts have just unveiled a guide specific to the manufacturing industry.

Every Manufacturing organisation has many, many areas of expenditure, and, in a guide like this, we can only touch upon a few. We have chosen to delve into the important cost areas of Waste, Logistics, Packaging and Work Wear, which, together with the wide-ranging introduction from our Manufacturing expert Ian Morrison and two contrasting case studies at the end, give you an idea of what savings are possible.

Furthermore, we hope that these examples give you the confidence that, if this level of cost reduction could be extrapolated over a significant percentage of your outgoings, your bottom line would indeed look very healthy!

This booklet has been written by consultants who specialise in finding savings in these areas in the Manufacturing sector, their knowledge gleaned from, and their expertise honed by, many years of delivering significant cost reduction for their clients.

Download your copy from [www.expense-reduction.co.uk](http://www.expense-reduction.co.uk)



# Financial Director Summit highlights key issues facing UK organisations



For the second consecutive year, Expense Reduction Analysts was one of the main sponsors of the Financial Director Summit, the leading conference for UK financial directors.

The Summit is designed to be the premier event in FDs' calendars, packed full of fresh, value-added thought leadership, the best speakers and advisors, and top-level, behind-the-scenes insights and best practice examples on how the best mid-market FDs operate.

2011 saw the Summit become a one-day event, better suited to the busy schedules of FDs, and attracted some 100 attendees from both the commercial and public sectors. As well as offering invaluable networking opportunities, the event also provided a forum for FDs to exchange learning and advice on what's to come.

Driven by its own delegates, the event focussed on the most pressing strategic issues and challenges facing FDs in 2011 and beyond, encompassing the reality of finding sustainable growth and how to demonstrate finance's critical leadership role in managing change and upheaval in the coming years.

Chris Aston, Marketing Director at Expense Reduction Analysts explains: "This is one of the most established events in the calendar of financial directors, who are a key target for our business. We are delighted to continue to demonstrate our support of the FD Summit and hope that it will help to raise further awareness of Expense Reduction Analysts as the premier cost, purchase and supplier management brand in the marketplace."

