

# AB DIRECT

CORPORATE SECTOR  
SPECIAL EDITION



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Welcome to a special edition of *AB Direct* dedicated to the corporate sector.

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**NEWS**

## Sustaining a healthy bottom line

*With organisations having made significant cost cuts over the last three years to counter the economic downturn, Andrew Brackenbury, consultant at Expense Reduction Analysts, the UK's leading experts on cost, purchase and supplier management, gives his views on how companies can sustain a healthy bottom line in the year ahead with economic uncertainty continuing unabated.*

Managing the financial aspects of your organisation is, in many ways, similar to a personal fitness programme – you have to keep working hard at it to keep on course and to ensure your organisation is 'fit' for profitability.

Whilst there have been major cost cutting programmes, through our experience of working with organisations across the corporate, public and not-for-profit sectors, there is still significant scope to increase the bottom line. So what should be the focus for the rest of this year and beyond?

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Financial Times

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**Saving you and your organisation money**

Firstly, we continue to find that there is enormous savings potential from addressing smaller items of business spend, which tend to fall into the bottom two-thirds of the purchase ledger. These items, which can often add up to significant amounts of money, often tend to go unnoticed.

By being aware of the constantly changing supplier market and closely monitoring such costs, which can be as diverse as banking and insurance, utilities, fleet management, logistics, office supplies, and communications, organisations can make a real difference to their bottom lines. For example, assuming a net profit margin of 8% an organisation would have to generate sales of £625,000 to have the same positive financial impact as £50,000 of savings.

In a recent *Comprehensive Spending Review Guide* published by Expense Reduction Analysts, we provided 50 top practical tips on how organisations can make a difference to their bottom lines: from introducing company credit cards for staff, which reduces the number of cheques issued, offers a cash flow benefit of up to 45 days, and a clear means of monitoring expenses; to turning off data roaming on your mobile handset and instead connecting to a local WiFi network, which is free in many hotels and cafes.

**Develop a cost management strategy**

Secondly, there is a strong case for a shift in the approach towards cost management. Too often we see organisations viewing cost management as a transactional exercise. However, simply achieving better pricing is a short fix as competition continues to heighten in the supplier marketplace. Instead, experience informs us that cost management should form an integral part of a finance departments' strategy in much the

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same way as sales does in a marketing departments' strategies.

In developing a cost management strategy, organisations need to set procurement objectives, set a clear vision for the buying process and create measurable outputs.

A more strategic approach will also require a review of buying policy, processes and culture. This is where we are seeing the best results for companies we advise.

There appears to be a growing recognition amongst businesses as to the key role that cost management can play in the overall strategic planning of their organisations.

### **Supplier relationship management**

This is reflected in trends such as Supplier Relationship Management (SRM) in order to control costs. SRM is all about the development of close working relationships between buyer and supplier for mutual benefit. This was exemplified by Premier Foods working with British Sugar - Premier achieved cost savings of £5.7m in two years, whilst British Sugar grew its business by 10% with the food manufacturer and gained improved adherence to payment terms.

Other organisations are also reengineering procurement functions to ensure a highly cost-efficient buying process. For example, we have been working with the Independent Living Group, which operates residential care homes, to centralise their purchasing. The result is now each home's requirements are purchased from an agreed list of suppliers and this has helped achieve major annual cost savings, such as 32% on stationery and 25% for cleaning materials.

A more strategic approach to cost management was also borne out in a series of roundtable debates we have been holding around the

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country for financial directors, procurement directors, managing directors and chief executives. They have informed us that they are:

- working more closely with their suppliers to understand their needs, as well as fully assessing and communicating their own requirements and objectives
- digging deeper into management information
- benchmarking the cost management performance of different parts of their own business in addition to their suppliers
- implementing invest-to-save initiatives in areas such as energy management
- opening up decision making on costs so that it is not just top down and goes beyond the financial director into the heart of the organisation.

As professional accountants, we can play a role in ensuring that the benefits of a strategic approach to cost, purchase and supplier management has the right level of focus within the business – whether we are the finance director or are acting as an external adviser.

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Expense Reduction Analysts was founded in the UK in 1992 and today is a Global leader in Cost, Purchase and Supplier Management, helping company directors save money, through realising optimum value from suppliers.

Our success in achieving typical savings of 19.7% is based on our approach. It involves providing regular independent reviews of our client's business expenditure, forensically examining potential 'profit leaks' and identifying areas for cost and purchase improvements.

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