

# PROFIT NEWS

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“Expense Reduction Analysts has helped to save the company hundreds of thousands of pounds, and they’ve also become a trusted partner, providing advice on a range of process, compliance and general business issues”

Jason Ashby, Managing Director, UK Flooring Direct



## EXPENSE REDUCTION ANALYSTS SUCCESS STORY

# Wall-to-wall savings for UK Flooring Direct



UK Flooring Direct (UKFD) was named as the fastest growing firm in the West Midlands (Sunday Times Fast Track 100 December '10), and the 4th fastest growing retailer in the UK.

Although a relatively new company, UKFD's founders have over 25 years of experience in the flooring trade. The business has taken advantage of the opportunities presented by the internet age to offer an online service that cuts overheads and offers customers a huge range of high quality timber flooring at low prices.

Jason Adderley of Expense Reduction Analysts takes up the story of the partnership between the two companies: “UK Flooring Direct is a very dynamic company. The challenges posed by triple-digit growth are legion – not least the need to continually bear down on the cost base.

“We agreed a programme of work with Jason Ashby, and began by looking at either end of the company's logistics services, drawing in the expert services of Kevin Fryer from our Logistics Team.”

### Greater visibility & control in logistics

Kevin recommended a fundamental change in UKFD's terms with overseas suppliers, to take control of inbound ocean freight and place the business in the hands of a specialist agent. The resulting increase in control and visibility has enabled the company to plan shipments and promotions more effectively than before. UKFD is also saving 28% for each and every container landed in the UK.

As UKFD supplies directly to domestic addresses, the only physical contact most customers have with the Company is

when they take delivery of their product. The choice of delivery agent is crucial, as Jason Adderley explains “Timber flooring is unlike most products typically bought online. The average order weighs 500kg, has a retail value in excess of £600 and is delivered on a pallet.”

UKFD had outgrown their existing local supplier and Kevin Fryer was tasked with finding a suitable haulier. The key criteria for a new supplier would be network coverage and rigorous quality control from warehouse to final destination.

Armed with tender returns offering savings between 5-40% Kevin eventually focused on direct options with pallet networks' central hubs. Kevin explains “UKFD were able to contract centrally with a pallet network that was willing to become a key partner in their business. The supplier's helicopter view of product from dispatch to arrival minimises damages and handling errors. The supplier has also made further suggestions for improved efficiencies in pallet stacking and loading. UKFD will benefit from six-figure annual savings too.”

Once the outbound freight project had been implemented, Jason Adderley brought in Simon Phippen to analyse UKFD's use of pallets with Ruban Field – UKFD, Operations Director – and the pallet network. Working with a pallet manufacturer to redesign the pallet, and taking account of the specific load it carries, the dimensions were altered to allow a greater degree of tolerance during mechanical handling so that the product would suffer fewer damages in transit.

Jason Adderley describes “By utilising the experience of supplier, pallet network and client we were able to produce a design that should result in less damage in transit. At the same time we brought the cost of pallets down by a quarter.”

Alongside the freight projects Expense Reduction Analysts dealt with some of the other common costs borne by online retailers. Steve Whitlam assessed Merchant Card Fees, a major consideration for UKFD as virtually all customer transactions occur online or over the phone. Steve quickly realised that UKFD were not enjoying the rates that they could have been, and took some simple procedural steps to regularise the position before going out to a full market tender.

Jason Ashby was pleased with this quick win “We'd overlooked our merchant card fees for a while, and were staggered by the savings that Steve managed to achieve with some simple changes to our transaction processing, let alone the further savings achieved when he went out to tender. With the growth in the volume of transactions we're experiencing in 2011 paying a competitive market rate for our card fees is imperative.”

Steve Whitlam is currently engaged to identify a consumer credit partner.

Mike Stevenson, Expense Reduction Analyst's Fulfillment expert spotted an opportunity in UKFD's samples despatch operation. With over 300 samples sent out each day, the implementation of a more efficient process was overdue. By close observation, Mike suggested some procedural and procurement changes freeing

up an extra 1-2 hours a day for the Samples Manager. Mike also identified a 16% postage tariff saving and a 50% reduction in the cost of the associated stationery.

“Expense Reduction Analysts puts us on a far better footing from which to achieve our expansion goals”

Jason Adderley of Expense Reduction Analysts summarises the relationship so far: “It's rare to get the opportunity to work with such a dynamic company. There's no doubt that UKFD is exceptionally good at sourcing and selling their products. Working in the background, we've helped to put processes and suppliers in place that should see UKFD enjoy a much greater proportion of the proceeds of their growth.”

Jason Ashby of UK Flooring Direct adds his view: “Expense Reduction Analysts has provided a dual benefit to UKFD; they've delivered savings which make a huge difference to our bottom line, whilst at the same time improving our processes and controls. We're on a far better footing from which to achieve our expansion goals and I'm already talking to them about other ways in which they can help us do that.”

## Table of Savings

Category	Saving(%)
Inbound ocean freight	28%
UK outbound pallet freight	16%
Merchant card fees	37%
Samples postage	16%
Samples stationery	50%
Pallets	24%

**Total Annual Savings: In excess of £250,000**

# Is your head in the cloud?

It is not unusual to hear entire departments within an organisation extolling the virtues of cloud computing which is the general term for anything that involves delivering hosted services online.

A cloud based service has three distinct characteristics that differentiate it from traditional hosting. It is sold on demand; a user can have as much or as little of a service as they want at any given time; and the service is fully managed by the provider (the consumer needs nothing but a personal computer and Internet access).

While there can be benefits in adopting services offered by a cloud service provider, the applicability of these services will depend on the business needs and profile of the enterprise. Not all services will be applicable for all organisations.

For example, an organisation with multiple sites, employees working from home and/or a sales team who are on the road may get greater benefit than an organisation without these facets within it.

It is therefore imperative that before deciding on the technology that will deliver a comprehensive IT solution a detailed requirements specification of business needs is first put together. Decide what the organisation requires to meet its aims and objectives before deciding how it will be delivered.

Expense Reduction Analysts IT Solutions and Services can help you specify new IT solution requirements; engage with potential suppliers; objectively evaluate products & service offerings and negotiate sound supply and service contracts. In this way you get the solution that meets your current and future needs, not what the salesman is trying to sell you

If you do decide to go down the cloud computing route here are some key considerations:

- What are the total costs for the entire solution?
- Are you looking for a bespoke system, or could you use a system 'out of the box'? Cloud based services are typically expensive to customise.
- Where is your data being held? Does the supplier give you any guarantees about its safety?
- What would happen if the system went down because of technical issues experienced by the supplier? Could you survive without it?
- How long would you use the system for? Vendor lock-in is one of the major issues in cloud based services. Changing suppliers within a cloud environment may be more challenging than migrating with on-premise software.

- What due diligence have you undertaken on the cloud supplier? Will they still be there tomorrow? What would happen to your data and service if your supplier disappears?
- How is your demand for using the cloud services provided by the vendor? Is it mostly constant or widely varying? Cloud services can be most cost effective for varying demands than for constant demand.
- What is the frequency of usage? Very frequent usage may make less economic sense in a cloud based 'Pay as you Go' model.

The above list is by no means meant to be exhaustive, and is only an extract of the type of questions Expense Reduction Analysts IT Solutions & Services would consider when recommending a suitable solution.



# Logistics: Mastering the supply chain

For over 200 years, the term 'supply chain' has adequately reflected the nature and resilience of a linear process, from raw material to finished product. However, the supply chain process has evolved and is now a network of interconnected (non-linear) systems.

## These changes mean:

- Production to delivery are now decentralised and reliant on 'just in time' principles rather than 'just in case'
- Relationships have become transactional and have eroded the levels of trust previously experienced.
- The supply chain can now be on a local, regional, national or international scale, without the need for the organisation to invest in large production facilities.

## What does this mean for UK Business?

In effect, as the marketplace has evolved, there has become an increasing concern to measure the robustness of the supply chain; if left unchecked this can present a significant risk to your organisation. Examples of this are the Icelandic volcano in 2010 effectively shutting down Europe for two weeks, and the Japanese earthquake which resulted in major manufacturers being closed, the effects of which are still being felt.

## Areas for concern:

- Supplier economic sustainability – how financially secure are your suppliers? Have their payment terms changed recently? Have you checked out their credit score?
- What serious disruption plans do you have in place? What would be the cost of disruption within your organisation?

- How well equipped is your supply chain to cope with adverse weather conditions, such as excess snow and flooding? What would be the contingency if an area was hit by adverse weather conditions? Would they be able to source from an alternative supplier without disruption?
- Who will you contact in the event of a supply chain failure? How will you address issues? What are your emergency plans should something happen?



# Hitting the right note; are you aware of your broadcast music costs?

Businesses that broadcast music anywhere on their premises face the cost of broadcasting the music itself and also the associated license costs from Phonographic Performance Limited (PPL) and the Performing Right Society (PRS).



A recent review by an Expense Reduction Analysts expert presented one retail client with significant savings on their broadcast music costs. Further savings are also possible through lower licensing costs should they elect to review the music content.

This market is dominated by four content suppliers who control 80% of the market between them. Most contracts contain restrictions which mitigate against clients being able to uncover their available savings. Automatic rollover of contracts with anti-competitive notice periods is common practice.

**TECHNOLOGY:** Recent developments in technology now allow lower cost and lower maintenance options for delivery platforms. However, most supplier contracts are over a number of years (three plus), therefore the suppliers have little incentive to migrate clients to lower cost hardware solutions. Speakers and associated electrical items tend to be, but are not always, installed and owned by the user. The scope of a project will be affected by this.

**CONTENT:** Content ranges from simple music through sophisticated bespoke music profiles into video and promotional visual content. This is obviously service driven, and can be a commercially sensitive decision for a business. The copyright status of the music chosen will have implications for marketing communications and licensing costs.

**LICENSING:** Music license costs can account for approximately 45% of total cost in this area, so they are the key cost driver and often viewed as a necessary evil.

Performing Right Society (PRS) collects royalties on behalf of the copyright holder, which is usually the writer of the music. Phonographic Performance Limited (PPL) collects royalties for artists and performers. They both apply complex tariff structures that vary by venue type.

**Broadcast music and licensing is a complex area of expense in which Expense Reduction Analysts are keen to assist you.**

## Questions for uncovering savings

1. Do you know what qualifies as a 'public area' in music licensing terms?
2. Do you know how much your organisation spends on music and licenses per annum?
3. Are you satisfied that you are paying the correct license fee?
4. Do you know what equipment you own and what is rented?
5. How much does your business spend on service calls and maintenance?

# Risk Management for 2012

In early October 2011, many Blackberry customers experienced service interruptions and delays for up to 3 days in some areas. The affected regions included Europe, the Middle East, India, Africa, Latin America, Canada, and the United States. As of Thursday, October 13, service levels returned to normal.

This highlighted the need to consider risk management within communications, and what would an organisation be able to survive, should anything go wrong. However, there is a very clear cost element when implementing comprehensive backup provisions and as Blackberry experienced, do you need a back up for your back up?

Whilst mobile communications are one area of the risk management programme, increased use of the internet within organisations may be of more concern. What would happen if you couldn't pay your staff's wages online? What if you were unable to pay an invoice in time? Would your credit rating be affected or would the supplier stop supply?

The Communication's Team at Expense Reduction Analysts have experience in managing risk management issues, and are happy to discuss any concerns you may have.

## What to look out for in 2012:

Within the communications' sector, there is still scope for reducing the costs that are being charged to organisations as the amount of providers has increased, all offering different tariffs and service levels. How much are you spending on communications? How much would a 19% saving represent to your organisation?

One area of concern for organisations is the volume of calls being made when compared between mobile phones and landlines. Historically, there used to be a 50/50 split between landlines and mobile calls, but more recently there has been a significant rise in mobile usage, with a ratio of 80/20 being more common. Is your organisation on the right tariffs? Are your employees using their mobile phones out of work hours?



# Is thinking smart, costing you more?



In recent years, there has been a substantial increase in employees regularly working away from their main place of work as the benefits of better technology become available. Telecommuting of a work arrangement in which employees enjoy flexibility in working location and hours. Simply put, the daily commute to a central place of work is replaced by telecommunication links.

This opportunity is only likely to increase with new technologies such as the 'Cloud' becoming mainstream for many organisations which enables staff to access all information they need remotely from the office at any time.

Having employees work effectively away from the office certainly does have its benefits including, in some cases, a more efficient business process, better risk management and lower overheads. However, there is one cost that can also be significantly reduced when considering the telecommuting approach; property costs.

"We typically find, that organisations have already begun to implement policies where their employees can work remotely, or directly engaging with clients. However, as a result, they are then left with residual high property costs which they are unaware

how to manage, and this can then become a significant drain on resources, which many feel is completely unmanageable", says Andrew Pegg, Property Consultant for Expense Reduction Analysts. "In our experience, it does take an expert to realign a client's property portfolio, which does require a significant amount of time and expertise. The entire process can be extremely costly and involve lengthy lease agreements that are not easy to understand. However, most of our clients agree a contingency 'No Saving – No Fee' arrangement, so the cost is managed efficiently from the start", said Andrew.

Certainly, telecommuting will present an organisation with fresh challenges such as managing team working, providing "face time" to share knowledge and build relationships which in turn means that the role and function of the office has to evolve, and new skills have to be learnt.

"Overall, telecommuting can be an extremely effective way of making cost savings, and when combined with an intelligent business restructuring, IT and property realignment programme, the benefits to an organisation can be huge", said Andrew.

## Courier costs for 2012

2011 has seen a significant rise in UK organisations managing their courier costs more effectively with the help of Expense Reduction Analysts. This is not a surprise with the choice of suppliers increasing over recent years, and each courier offering different levels of service and price.

The following are predictions for 2012, together with how organisations can take advantage now, in streamlining their courier costs without impacting on the quality of service.

1. Domestic and international couriers are experiencing greater demand for Express Delivery options, as a result of organisations placing greater emphasis on 'just-in-time' logistics planning, bringing with it additional costs.
2. With fuel prices continuing to increase, UK and International couriers will be looking at strategies to offset this cost. It is predicted that increased charges or innovative surcharges may be introduced early in 2012.
3. With online sales becoming a significant revenue stream for some organisations, it brings with it additional challenges ranging from failed deliveries, the impact on customer service, through to how to deliver to international addresses. One expected change is the introduction of time slot deliveries and consolidated international mail solutions.
4. 2012 will begin to see an increase in the amount of couriers developing applications for smart phones. Text alerts are also expected to become more common, all with extra charges the customers will be expected to absorb.
5. Organisations exporting from the UK by air may be required to comply with enhanced security checks, with the possibility of additional security surcharges.



What to do now:

1. Check to see what you are already paying for your Express Delivery and whether this is necessary – can these items be sent by a more economical service?
2. Check for fuel surcharges, increased prices and other 'stealth surcharges' which begin to make their way onto your invoices - have you noticed any discrepancies? Does your courier have any planned increases in 2012?
3. Have you 'mystery shopped' your courier service recently to see what happens with failed deliveries and how this affects your customers? How much of your online ordering is repeat business?
4. Always adopt post dispatch management systems that proactively notify you of potential service issues. Speak to your provider about their solutions.
5. Check with your courier to see if they are introducing any security checks or surcharges in 2012.

## Have you thought about Employee Benefits?



Starting from October 2012, all employers will have to enrol their staff in a pension scheme and make contributions. Auto-enrolment will be phased in between October 2012 and February 2016, starting with the largest employers. Employees will also have to contribute unless they choose to opt out.

There are no exceptions, even for the smallest employers, and there are a complex range of changes surrounding eligibility and contributions all of which need to be taken into consideration when planning for this seismic change in the pensions landscape.

For most employers, particularly those that fail to plan for the changes, the advent of auto-enrolment will lead to significant extra costs in contributions and considerable additional administration. Despite this, Brian Morgan, Director, Employee Benefits at ERA Insurance Cost Management (ERAICM), says;

"Recent research conducted by ERAICM shows that the likely increase in numbers joining and the need to match employee contributions means the financial impact for employers currently contributing to employee pension arrangements could be as high as a 40% increase in overall contributions, plus additional administration and management time costs."

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