

Best Practices to Lower your Business Expenses & Improve Cash Flow in the Short and Long Term

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Value Through Insight™





Impact of a Dollar Saved



Short Term Cash Flow Solutions:

- The three-prong approach to impact cash immediately



Reducing Costs Long Term:

- Top 10 Steps to Consistently Lower your Expenses and Keep them Down



Analyzing Spend:

- What Suppliers Don't Want you to know
- RFP Best Practices
- Cost / Expense Management Continuum

How Much is a Dollar Saved Worth to You?

	Today	20% Indirect Cost Reduction	Equivalent In Income
Revenue	\$ 100K	\$ 100K	\$ 140K
Direct costs (\$ 35K	\$ 35K	\$ 49K
Labor costs	\$ 35K	\$ 35K	\$ 49K
Indirect costs	\$ 20K	\$ 16K	\$ 28K
Net profit	\$ 10K	\$ 14K	\$ 14K

A 20% cost reduction = 40% increase in Net Profit

\$4K in expense savings = \$40K in revenue

Short Term Cash Flow Solutions

- The three-prong approach to impact cash immediately





Apply for grants and loans

- Employee Retention Tax Credit

Review Accounts Receivables

- Prioritize, follow up with overdue payments and negotiate payment plans if necessary
- Offer early payment discounts to incentivize quick pay
- Sell Accounts Receivable to a finance company – perhaps you do not have the internal time or resources to collect

Pivot to generate income

- Manufacturers: Can you pivot manufacturing to in demand items (i.e. PPE during the height of the pandemic).
- Restaurants: Sell gift certificates (consider discounting)
- Auto Dealers: Review records, call customers that have open recalls, overdue service intervals
- Loss Leader: Item done at a loss to generate higher profit margin business or services.

Review Accounts Payable

- Review current payment terms, and take advantage of net payment terms
- Prioritize, negotiate payment plans or extension of payment terms

Purchasing Card (P-card) and/or a Line of Credit

- Consider paying invoices with these
- Pay off in full to avoid interest charges

Request deferral or forbearance if needed

- Loans / mortgages / rent
- Sales and property taxes
- Payroll Taxes





- **Insurance - review rating factors**
 - Sales/payroll influence your premiums – if there has been a change in these areas reevaluate
 - Speed up audit terms Annual -> Quarterly
- **Understand Contract Commitments**
 - Uniforms- Lowering minimums
 - Waste Management- Changing pick up sizes or frequency
 - Operating Supplies- looking for substitutes at a lower price point with similar quality
- **Review other expenses**
 - Discretionary Expense
 - Mortgages- refinancing at a lower rate viable?
 - Leases – Even if under term, options exist
- **Staffing**
 - Think creatively on the best utilization of man hours and team structure.
 - Hybrid roles possible

Reducing Costs Long Term

Top 10 Steps to Consistently Lower your Expenses
and Keep them Down



01



COMMIT

Develop a
strategy and
a plan

02

ANALYZE

Analyze your actual
purchasing history---
It's NOT what you think



03

DEFINE QUALITATIVE NEEDS

Understand the qualitative requirements for each cost category –
It's NOT just about price



04

UNDERSTAND YOUR BUYING ASSUMPTIONS

Many of the assumptions & processes that drive supplier requirements are No Longer valid, appropriate, or necessary.

05



SUPPLIERS & THEIR INDUSTRIES

Understand each of your suppliers' businesses and their industries like you understand your own

- Market Trends, Pressures, Cycles
- New Developments & Alternatives
- Terminology & Jargon
- Business Practices & Unique ways to Contract
- Cost/Price Drivers
- Pricing Benchmarks for Similar Companies, with Similar Spends, in Other Geographies
- Their True Differentiation Among Their Competitors



06

RE-EVALUATE

Re-evaluate your current supplier relationships with these new insights



07

GO TO MARKET

Go to market with written bids (RFP's), proper frequency and ask the right questions

09

DECIDE, IMPLEMENT, MONITOR

Implement quickly

- This is equivalent to a cash leak!

Fight Price Creep

- Many mistakes—many line items and human error
- Processes---e.g., Off-contract purchasing
- Publish pricing & SKU changes
- Rebates, incentives, credits, etc.
- Suppliers have many methods to recover margin

Continue to Optimize over time



08

NEGOTIATE

Negotiate More Effectively

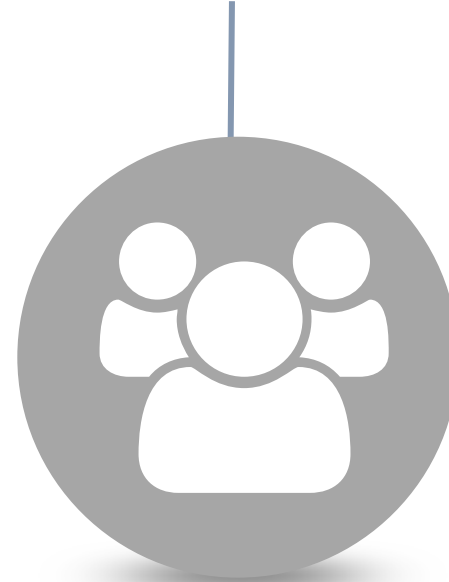
- Leverage all your new insights
- Separate negotiator & relationship owner
- Use pricing & terms behavior benchmarks
- Help the supplier save money
- Know all the contracting options

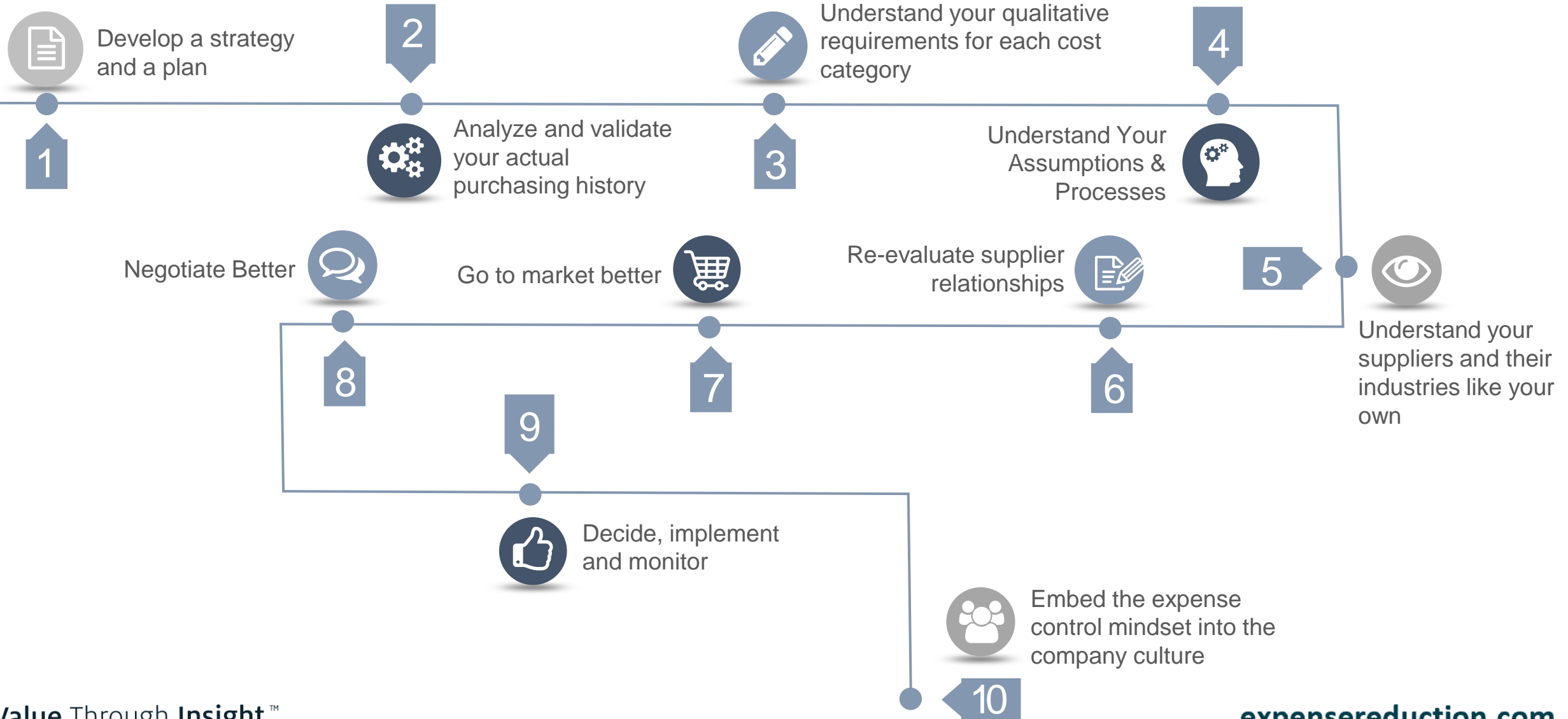
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CHANGE THE CULTURE

Embed a real expense control mindset into the company culture

- Mindset first – techniques, policies and procedures second
- Is no cost sacred?
- Do they spend money like it's their own?
- Do they understand the Impact on the company, e.g., \$1M Saved = \$5M-10M in Sales?
- Are cost-saving suggestions encouraged and pursued?
- Are they integrated into your reward systems?





| Analyzing Spend



What suppliers don't want you to know

Suppliers don't always give the same pricing to similar clients and customers



Supplier loyalty can translate to complacency and allow margins to increase



Strong-arming suppliers may lead them to start with higher pricing



Technology improvements may lower a Supplier's costs, but they may not automatically pass this to their customers



Contracts can help get you lower pricing but they can also lock you in during a down economy. Renewal clauses should be carefully reviewed



Group Purchasing Organizations or National Price Agreements don't always translate to lowest pricing for you



Every invoice should be reviewed for accuracy, pricing fluctuations, and understanding of all ancillary fees



Business Challenges

Multiple suppliers and multiple order points



No benchmarking data – what does 'good' look like?

Staff and management have limited time



Employees with limited buying experience left making buying decisions



Where to Look for Opportunity

Manufacturing Savings Examples:

\$901,000 in total MRO savings (22%)

- \$235,000 General MRO (9%)
- \$510,000 Oils & Lubricants (44%)
- \$156,000 Furnace Belts (46%)

\$660,000 in lower Chemical costs; savings of 47% with incumbent supplier

\$460,000 reduction in Packaging costs; savings of 15% with new and incumbent suppliers

\$273,000 in reduced Small Package Freight costs; ERA analyzed and priced 800 delivery points for 13% savings.

\$251,000 savings in TL/LTL costs for 9% savings; Transportation Management System employed for Optimal Carrier Selection, Auto-Audit & Process Improvement



Plan

Plan

- Analyze current spend
- Understand current contracts
- Understand the Market
- Decide if RFP or Negotiate
- Define and weight requirements

Execute

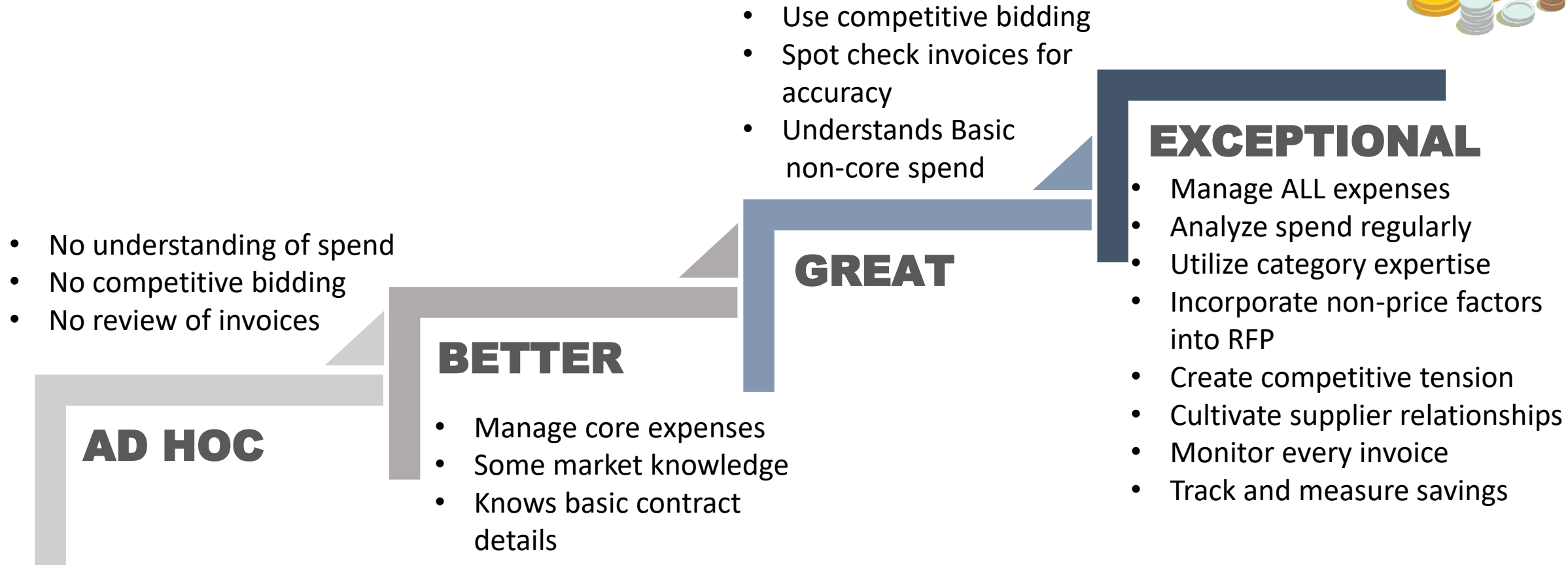
Execute RFP (Request for Proposal)

- Clear and understandable
 - Specifications
 - Forecasted volumes
 - Questions
 - Price List (like for like)
 - Allow alternates?
- Collect info for non-price factors
- Capture the Total Cost
 - Switching costs
 - Delivery Charges
 - Volume Discounts/Rebates
- Treat suppliers fairly

Analyze

Analyze

- Evaluate alternates
- Score responses
- Compare pricing
- Negotiate as needed
- Determine **best value** option
- Award multiple suppliers?
- Decide and implement quickly



Thank You

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Whitepapers Available:

- Creating a Culture of Cost Optimization
- Becoming Best in Class

