

Expense Reduction – How to Avoid Overpaying for Overhead

By Allan Maurer, Atlanta*

Craig Kaplan, one of many consultants focusing on corporate expense reduction, says his company's experience with more than 14,000 cost-saving projects indicates "That most businesses overpay for common overhead products and services by an average of 20 percent."

Kaplan specializes in reducing overhead expense with fees coming from the derived savings.

"Regardless of your company's promising technology or innovative business model, chances are your firm's growth projections have been scaled down in response to the current economy," Kaplan says. But cutting back on staff and R&D can leave a company in a weakened competitive situation.

"Surely it's preferable to cut expenses such as telecommunications and office products before considering more drastic measures that could affect your company's ability to compete," says Kaplan.

Expense reduction consultants help their clients improve profitability and avoid those meatier cuts by reducing non-core overhead costs, says Kaplan, and "Not necessarily by cutting down on consumption," he adds.

Many consultants charge a fee of half the savings they find for 18-24 months. "If there's no savings, there's no fee," Kaplan.

How do they manage to find those savings?

"Every industry has its own pricing model that only people with expertise in that particular industry fully understand," Kaplan says. "We're experts in the categories we analyze. We understand how the supplier sells it and what their margins are."

The 30 different categories include insurance, shipping, telecom, and factory and office supplies, among others.

Most companies overlook potential savings that objective-eye outsiders find based on their experience, Kaplan notes.

"For example, take credit card processing fees. Many companies successfully negotiate the best rate, but few actually transact in the way they are required to for that rate to apply.

"Or look at the office supply industry. Vendors usually offer a multi-tiered discount approach

and customers typically are able to negotiate a substantial discount on “market basket” items. However, most employees don’t realize they are being directed toward items that are not in the market basket – and therefore don’t qualify for the discount.”

“Some of the ways you can get better pricing is by obtaining better data – finding out what other companies of comparable size are paying for their products and services – and by being a better customer,” Kaplan continues.

“By finding ways to work more efficiently with your suppliers, you can cut their costs, sometimes dramatically. These savings can be passed through to you. Sometimes, all you need to do is ask, “How can I help?”

For example, a company receptionist scheduled a 5:15 p.m. pick-up time for overnight deliveries. The company paid a substantial “late pick-up” fee because the supplier had to unload its truck at the airport at 6 p.m. By simply moving the pick-up time to 5 p.m., the 15-minute difference made the supplier’s job easier and saved the customer more than 25 percent annually.

“You can also be a better customer by putting yourself in your suppliers’ shoes. When developing a Request for Proposal, think about your request from the supplier’s perspective. The more detailed, accurate and complete your specs, the easier it is for a supplier to present aggressive pricing. Why? Because a thorough, specific RFP minimizes the supplier’s risk.”

Another suggestion: “Businesses commonly purchase service contracts on leased devices. Such agreements usually include supplies such as toner and drums—good idea—as well as paper and staples—bad idea - they can be purchased more cheaply elsewhere.”

Kaplan also suggests, “Use the good cop/bad cop technique when dealing with vendors. Don’t allow the person (the good cop) in daily contact with a supplier to negotiate price. Bring in a second person (the bad cop) to handle negotiations so that the established day-to-day relationship can continue.”

*Redacted in part