

Expense Reduction Analysts Global News

Improving non-core costs at Ikea Systems B.V.



IKEA Systems B.V. is a worldwide market leader in the retailing of designer, budget-friendly home furnishings. As part of the strategy of keeping prices low for their customers, IKEA Systems B.V. dedicates significant time and effort to all areas of cost management.

Yet, Expense Reduction Analysts found ways to substantially improve a number of non-strategic costs for IKEA Systems B.V.'s pilot store in Delft, Netherlands. As a result of Expense Reduction Analysts' intervention, the Delft store now enjoys savings on office supplies, courier services and freight. These savings go directly to the store's bottom line, increasing profits, while also contributing to the strategy of keeping costs to customers low.

"It was a great challenge to significantly improve costs for an organization as efficient as IKEA Systems B.V., and yet our results exceeded expectations," says Expense Reduction Analysts consultant Hugo Castermans. "Because they were surprised by the high level of savings we reported, IKEA Systems B.V. carefully checked our figures, and concluded that they were correct."

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"Being specialized in supplying low-cost home furnishings, we work hard to ensure that cost management and procurement are highly developed skills inside our organization," says Lars Diethelm, Chief Information Officer.

"But non-strategic items, like pens, pencils and courier services, are not our priority and not our specific areas of expertise. Somewhat to our surprise, that fact has been clearly proven by the results obtained by Expense Reduction Analysts. A healthy company like ours needs to remain focused on its core-business. Expense Reduction Analysts' services are therefore a welcome complement that creates no additional cost and requires very little time and effort, our involvement in the process being minimal."



Forget the quick fixes - identify and eliminate excess overheads effectively!

Business requires keeping your eye on the ball, consistently executing a set of basic skills, and, importantly, the ability to perform under pressure.

These skills are important in achieving success, especially the latter, and today's corporate managers are feeling intense pressure to reduce general and administrative (G&A) costs, while maintaining quality and service levels, in the face of increasing competition.

As global forces drive prices lower and customers commoditize every product, your competition is keeping their expenses as low as possible to gain a margin and pricing advantage over you. And the bad news is that this pressure is not likely to subside any time soon.

Such external business pressures combine to force rapid changes in how general and administrative (G&A) costs are managed, as corporate managements are under pressure to reduce yet maintain quality and service levels.

A G&A survey undertaken by Booz Allen Hamilton found that 85% of 156 CFOs interviewed said that cost reduction was the highest priority challenge that they confronted within their organizations. And yet just 3% of them felt they had reduced overhead costs as much as possible.

Within this study, 60% of respondents were found to be focused on reducing non-essential spending, restructuring costs, and standardizing the levels of service they provide. 45% reported working with business units to cut demand for overhead services.

Among many businesses, and despite these fiscal and management measures, there is still an uneasy sense that the "quick fixes" have all been exhausted. Senior managers must find an effective measure to cut costs, maintain service and quality levels, and keep costs in line into the future - but how can time-pressed managers find a resolution to this pressing issue?

Some companies have tried outsourcing, off-shoring, and shared-services models - but have found mixed results. While some improvements are gained through outsourcing, only 4% of CFOs were "very satisfied" with it, reporting concerns related to service quality, disruptions, and questionable savings. On the other hand, 68% of companies report satisfaction with the initial results of economically leveraged shared-services.

Senior management time is a limited resource in every organization.



Booz Allen found that while 67% of the CFOs surveyed assigned high importance to business unit involvement, and only 36% of companies had G&A functions that offered services that business units desired or could afford. This situation creates a number of reasons why cost reduction efforts meet with business unit resistance.

The top four reasons among them were (1) lack of communication, (2) lack of alignment between services and needs, (3) lack of stakeholder involvement in decision-making, and (4) overhead reduction efforts pushed off to business units.

When it comes to managing overhead, there is no love-match between service-providers and business users in organizations. This is because, when time gets tight, business units focus on the core business and ignore the overhead because they perceive the pursuit of overhead cost reduction to be low value.

Yet, in reality, **the impact of 1% of savings can equal 2% in profit or 10% in top-line sales (assuming typical margins)**. The elusive solution to the problem is that these would-be corporate adversaries need to be better partners not competitors.

In today's competitive business environment, many companies feel that they need independent advice to better navigate the technical aspects of G&A expenses, not to mention the benefit of having additional resources as a part of the solution.

Together with assistance from G&A experts, guidance from the CEO with day to day oversight by the CFO are among the highest factors contributing to efficiency gains and sustainable cost reduction of G&A expenses today.

These initiatives encourage fiscal discipline, but demand time and attention from management. As senior management time is a limited resource in every organization, it's not surprising that companies are seeking outside assistance to manage changes in G&A.

But building a trusted partnership should free you and your team to focus on the core business – not the overhead. And the right partner can manage the cost reduction program efficiently and with significantly more savings than you can do on your own.

At the end of the day, it's the top level players, CEOs and CFOs, that need to get involved and lead the way. They can do this by establishing objectives and instilling fiscal discipline. Don't let conflicting priorities and time-pressures interrupt your success; the outcomes are just too important to your company - **find a good partner and set yourself up for success!**

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By Richard D. Halperin, Expense Reduction Analysts USA

Business costs cut by a third? Double it!

When two South American companies were looking to put money back on their bottom line, they turned to Expense Reduction Analysts for help. With a growing reputation for cutting costs where others couldn't, the company is working with businesses in every area putting cash back on their bottom line.

So when the leading Argentinean confectionery producers were looking for ways to cut costs and sweeten their bottom line, three Expense Reduction Analysts consultants served them up a treat.

Uruguay-based consultants Diego Knuth, Gustavo Zunin and Ricardo Wasersztein were called in to assist ARCOR, the primary exporter of chocolates, biscuits and foods to Argentina, Brazil and Chile.

Through analysis of a number of non-routine expense categories - freight costs, telecommunications, energy, water, and security - the trio quickly identified areas in which significant savings could be made.

"Applying knowledge and an innovative approach, Expense Reduction Analysts found savings of more than 30% in categories that are complex to analyze and negotiate," ARCOR Uruguay general manager Guillermo Cruz revealed, deeply impressed by their findings.

While cutting nearly a third from a company's overall spend is of high significance, at almost double that, the savings achieved for Colombian telecommunications company Avantel could only be called phenomenal.

Specialized in providing connectivity solutions to government and corporate sectors, Avantel held staunch market position throughout the nation. Expecting substantial growth, the firm's executives were looking to optimize their internal management expenses.

Jorge Palacio, Avantel Financial Vice-president, aware of results Expense Reduction Analysts were achieving for other firms, called in consultants Juan Ricardo Buenaventura and Felipe Constaín for assistance. The pair

immediately undertook a market study of suppliers, the findings of which allowed them to negotiate far more preferential terms.

The savings derived from the renegotiation not only registered a massive 59% (equivalent to USD\$77.000), but also negated any need to change supplier.

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"We established very favorable supplier conditions for Avantel, representing an important saving for the company, without the need to perform an activity that does not belong to its main business," said Juan Ricardo Buenaventura, Director of Expense Reduction Analysts Colombia.

Found profits result in new gymnasium facilities for a Sydney strata complex

Consultants Ruth Cohen and Avron Newstadt were recently called in to review costs for a strata (condominium) project at Olympic Park in Sydney, Australia. The development consists of 15 buildings with a total of 1300 apartments. Owners of units in the complex had no way of knowing if the strata levies they were paying were competitive because they inherited contracts that had been put in place by the strata manager.

"As the assignment progressed, we discovered it was going to be difficult to manage because there were so many stakeholders; the owners represented by the Community Association, the strata management company as well as the developer, who was still selling units in the project and therefore demanded a continued high standard of appearance for all of the buildings," says Cohen.

Expense Reduction Analysts found that on the whole, power and security services for the complex were already competitively priced. However, insurance costs were less so as the policies had not previously been competitively marketed. When competitive tension was applied, significant savings were achieved. "Importantly, all strata now have a common renewal date which allows greater flexibility in negotiating rates for the group as a whole," says Newstadt.

The result achieved was nothing short of astounding with average savings of 38% for insurance, cleaning, and grounds maintenance, all without affecting the quality and efficiency of the services provided.

Furthermore, the owners and residents now have complete transparency of the costs involved across all of the areas reviewed.

Although the costs savings achieved by Expense Reduction Analysts normally go to improving the bottom line of businesses, the developer and owners decided to allocate the new found profits toward the construction of a new gymnasium complex.

Expense Reduction Analysts has been asked to review further cost categories as other contracts fall due for renewal. "It has been a great outcome for the residents with reduced costs and greater service and accountability being given by all the service providers," says Cohen.

Insurance Savings – 30% • Grounds Maintenance – 40% • Cleaning – 45%