

# **Tips on strategic cost, purchase and supplier management**

A Guest Article by Mike Lennard  
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### **Lessons from the government's Spending Review 2010**

In the wake of the government's public expenditure review, organisational spend is firmly in the social, business and political spotlight.

The measures outlined by Chancellor George Osborne in the Spending Review on 20 October 2010 marked the biggest UK spending cuts for decades and followed Sir Philip Green's review of Whitehall efficiencies.

Green even went as far as to say he believed that most businesses would have collapsed if they had been spending money like the government.

#### **Cost control: the overriding priority**

The parameters within which government departments work are clearly different from those of the private sector. But in these austere times, managing costs is more important to businesses than ever – a view supported by research from Deloitte, which identified cost control to be the overriding priority for CFOs in the next 12 months.

There is clearly a huge opportunity for the private sector to follow the government's lead and focus on identifying and eliminating surplus expenditure without compromising service levels.

While this includes reviewing complex cost areas such as insurance, business rates and logistics, closer management of more "everyday" overheads should also be encouraged.

For example, during a cost, purchase and supply review for Paul Smith Ltd, a look at the company's postage identified savings of around 40%, as well as a rebate from Royal Mail due to overcharging from previous years.

#### **Measures that can make a difference**

Simple measures such as sending invoices and statements by email rather than in hard copy and connecting to local (often free) Wi-Fi networks instead of using data roaming on mobile handsets when travelling abroad can all result in significant savings.

The following examples of cost management – across a range of cost categories – can also make a genuine difference to the health of a business's bottom line without compromising service levels.

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### **Top ten tips for reducing costs**

1. Create a cost-conscious workplace culture so that everyone within the organisation is responsible for challenging costs, from the receptionist booking a courier to senior management reviewing their nationwide logistics provision.
2. Lead by example, by demonstrating to employees that you care about saving money, even on the smallest items. Don't book the most expensive flights and hotels when you are asking your own management teams to take the budget option in both cases.
3. Instil a sense of urgency regarding cost savings, so that employees act immediately to reduce costs and maximise profitability.
4. Forensically examine and benchmark your costs line by line. However, this demands significant resource, so consider using outside agencies, consultants and benchmarking services to establish your costs by getting comparisons against competitors and other suppliers.
5. Make sure you stay up to date on the constantly changing supplier market for the costs you are examining and any developments that you may be able to capitalise on.
6. Buy what you need and not what your suppliers would like to sell you. Suppliers will often use bait-and-switch tactics to move you onto their higher-margin items.
7. Let your suppliers know that you are undertaking a review of all overhead costs, but refuse to accept suppliers' statements such as "Our prices are higher because we provide superior quality and service".
8. As well as reviewing prices, look at establishing key performance indicators that are appropriate to your business. Setting them higher than required will add to the cost base.
9. Reducing costs is not just about going to a cheaper supplier. By following the above tips and working in partnership with your suppliers to identify cost cutting strategies, you can in the majority of cases generate savings without affecting or disrupting the standards of service you receive by changing suppliers.

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10. Potential savings are great, but they don't mean anything unless they are realised. After implementing a culture of cost consciousness, appoint cost champions to drive the programme forward.

By following these ten steps you should be able to guarantee a return on your cost reduction programme.

*Mike Lennard*

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If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.