

GIVE YOUR BUSINESS A 'COST HEALTHCHECK'

The economic downturn has affected organisations large and small across all sectors, and the motor repair industry is no exception. As the recession continues to take hold, how does a business keep costs in check to maintain a healthy bottom line without necessarily making redundancies? Robert Allison, Managing Director at Expense Reduction Analysts, a global cost and supply management consultancy, believes organisations can make savings in the region of 20% by putting the spotlight on a range of non-core operating costs.

Robert's Top 10 Top tips to trim business expenditure:

1. Create a 'cost conscious' workplace culture

The economic boom that preceded the downturn may have affected your employees' focus on cost control. Develop a culture where everybody within the organisation is responsible for challenging costs, from the receptionist booking a courier to senior management reviewing their nationwide logistics provision.

Celebrate cost reductions as you do business wins. Even create an internal awards scheme for cost reductions made by employees.

Make staff aware that savings go straight on the bottom line. Use powerful and simple monetary examples to educate your workforce regarding the quick and significant impact cost savings have on profitability. For example, based on a typical eight per cent profit margin, for £50,000 of savings, a company needs to increase sales by £625,000 to have the same positive impact on the bottom line.

It is important to start caring about cost management before the situation becomes critical and hasty decisions are made. Get your suppliers involved during the implementation of the cost reduction programme.

2. Lead by example

Business leaders need to set an example by demonstrating to employees that they 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.

As a business leader, you will need to open your organisation to scrutiny and examine every cost.

3. Keep the green light flashing

Instil a sense of urgency. If it does not remain high on the boardroom agenda, employees will see the directors' crusades as 'the flavour of the month,' and the drive to cut costs will fall to the bottom of everyone's in tray.

4. Establish your costs

You may believe your costs are under control but your perceived 'well kept ship' may not be as leak proof as you thought. Forensically examine and benchmark your costs line by line. This is where the barrier to making cost improvements lies as this demands significant resource. You could reap significant dividends by using outside agencies, consultants and benchmarking services to establish your costs by getting comparisons against competitors and other suppliers.

In doing so, you will highlight areas that have the most potential for improvement and set cost saving priorities.

5. Be marketwise

It is critical that you are aware of the constantly changing supplier market and any developments you may be able to capitalise on. To have any chance of negotiating favourable arrangements with suppliers, you must have knowledge of the prevailing market prices and practices. Do not rely on your supplier for this information.

Also don't waste time and energy on looking at individual item costs from different suppliers. By enhancing your knowledge of the supplier market place, you will increase your confidence of using one supplier for a number of items and gaining from a 'basket' cost rate.

6. Don't purchase things you don't need

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 or will try their version of the fast food pitch "would you like fries with that?" Many suppliers make much more money from supplementary services or add-on services such as service or maintenance agreements. Be sure you understand what you are buying and whether you really need it. For example, do not purchase premium services unless they are necessary, such as a 10am courier delivery if 5pm is acceptable.

7. Let suppliers know about your cost review

Let your suppliers know you are undertaking a review of all overhead costs. Refuse to accept price increases during these challenging times as well as suppliers' statements that 'our prices are higher because we provide superior quality and service' or "our prices cannot be beaten" - remember it is a buyer's market. You will be amazed how many suppliers will back down to retain the business.

Do your research and comparison-shopping before approaching suppliers. Negotiate from a position of strength and present the value of your business to the supplier.

8. Establish key supplier performance

In addition to reviewing prices, look at establishing key performance indicators appropriate for your business. Set them higher than required. This will add to the cost base. Conversely, if you set them too low, this could affect the quality of your service to your clients and business relationships in the longer term.

Make sure you obtain management information from suppliers relating to any cost increases/decreases, otherwise these could be easily be hidden, and therefore missed, in an invoice incorporating a large number of supplied items. This both helps avoid overcharging and ensures a transparent relationship with the supplier. Finally, constantly monitor the performance levels and adherence to the contract.

9. Jettisoning suppliers should be the last consideration

Reducing costs is not just about going to a cheaper supplier. Indeed good relationships in any line of business are fundamental, and the one with your supplier is no exception. By working in partnership with your suppliers to identify cost cutting strategies, you can in the majority of cases generate savings without affecting or disrupting standards of service through changing suppliers.

10. Create a long-term cost-management programme

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. Constantly monitor the situation to ensure staff are not slipping into old habits; suppliers are charging correct prices; and service standards match the agreed specification. Also remember to frequently review each business cost category whether it be logistics, property, banking, telecommunications, property costs and many more.

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