



Opportunities for Increasing Mission-Focused Funding

By Philip Gross

All associations have missions for which they were established and which drive their daily activities. Leveraging funds to focus on the mission is a key focus of all association executives. Generating additional funding can be accomplished in two ways: increase revenues or reduce expenses. This article will focus on expense reduction through better purchasing.

Organizations often overlook expense reduction opportunities that lie hidden within the operating costs. How can association leaders learn about potential expense reduction opportunities? Consider the following.

Who is accountable?

All organizations need clear lines of accountability to produce targeted expense reduction results. Because various departments incur operating costs such as office consumables, telecommunications, printing, or overnight delivery, it can be difficult to assign accountability.

To control these costs and to ensure the best value for the money, association executives need to assign responsibility for procuring and managing these services for the entire organization to specific individuals. A single focal point for an expense category will contribute significantly to ensuring that all funds spent on this product or service derive the maximum benefit, and funds saved through this process then can be redirected to other mission-focused activities.

What is the process for incurring cost?

If there are several suppliers providing a particular line item, the potential exists for cost savings through streamlining and efficient supplier management. The more business given to an individual supplier, the greater leverage you have with that supplier in terms of both price and service quality. Reducing the number of suppliers also has other benefits, including the number of invoices that have to be processed and the number of supplier relationships that have to be managed.

If staff members are in the habit of buying supplies as they use them, there usually is an opportunity to reduce costs. *Ad hoc purchasing* generally ends up costing more. When supplier contracts are negotiated, do employees have the necessary market knowledge, request-for-proposal capabilities, and negotiating experience?

These skills are particularly important if the items being contracted for are not part of the core expertise of the staff, in which case the staff may not be aware of the intricacies of the supply market. If an association has had the same supplier for a long period, managers also should be proactively identifying profit opportunities through innovation. Very often, asking the current supplier for suggestions on reducing expenses will result in suggestions for changes in buying habits that could result in additional savings.

For example, larger, less frequent orders might result in a cost savings. Ordering via the internet versus by phone or fax may yield another savings. Understanding the supplier's cost structure will help in negotiating better rates (e.g., an office supply vendor would rather deliver larger orders once or twice a week rather than smaller orders daily). This process reduces the supplier's delivery costs and can result in average order size discounts.

How can funds be freed up through cost management?

Get the fundamentals right by cultivating the supplier relationship. An optimal relationship creates value for both the buyer and the seller. The buyer wants fair pricing and good service, and the supplier needs to make a profit. In building supplier relationships, maintain a moderate rather than an extreme negotiating position. Not only is it unwise to base supply relationships on blind trust, it is equally unwise to take a "winner takes all" adversarial stance. Suppliers should be treated as partners in the process, should work cooperatively to identify savings, and should feel they are being treated fairly so that when you need that special service, they are ready and willing to provide it.

What are some specific suggestions for cost cutting?

Telecommunications expenses make up one of the highest categories for overspending—and staff cell-phone and personal-digital-assistant bills make up a growing portion of these expenses. Develop fair company policies for the use of cell phones and wireless devices. Then, make sure you are on the right rate plans. Rate plans constantly change, as do patterns of phone usage. Make sure that when employees leave, their cell phones either are terminated or assigned to other employees. Too often, employees leave, and their cell phone accounts never are terminated, even if the phones themselves are retrieved. These two factors need to be taken into account to obtain the best control over cell phone costs. A thorough understanding of the organizational needs and current service levels is especially critical in the various pricing elements that make up the contract.

Office consumables suppliers today have greatly broadened their offerings. The old-fashioned office supply companies now provide everything from paper clips to coffee to certain types of printing. They also offer very sophisticated but easy-to-use web-based ordering systems that provide the user with tools to control office supply purchases and costs. Directing employees to stick with contracted items or house brands alone can often save 20 percent to 40 percent on these costs.

Centralized purchasing coordinates both the purchasing from different suppliers and the spending of different departments to maximize discounts through bulk purchasing power. Request monthly consolidated invoices to improve cash flow and reduce administration costs. Obtain alternative quotes on all cost categories on a regular basis (at least every one to two years). Advise existing suppliers that the

company now is accepting proposals, and give them a chance to reduce their prices. Don't accept a price increase without a challenge, and never allow the person in daily contact with a supplier to negotiate price. This procedure allows the day-to-day relationship to remain unaffected.

Ask suppliers for suggestions on how to improve the way the two organizations work together. Could ordering weekly instead of daily allow them to reduce their own administrative costs and enable them to pass on the savings? Reduce stock levels and encourage suppliers to hold stock. Review product specifications to ensure that products being used do not exceed requirements. Can recycled toner cartridges or alternative brands be used where applicable?

To control printing costs, standardize various forms and combine several items to achieve a common result. Look at more economical print production in terms of stock, number of colors used, and the production method chosen. Increase batch size or print items together, and try to do the entire job with one supplier. Can plain envelopes be substituted for printed ones? One way to get the best out of volume-sensitive ordering is to print the items that require the same paper stock at the same time.

By focusing on expense reduction opportunities as a means of generating additional funds for mission-focused activities, an association needs to look no further than its own internal processes and buying habits. Savings can be realized from a variety of categories that, when taken together, significantly impact the availability of funds.

Lastly, if your staff doesn't have the time or expertise in a particular category to undertake a comprehensive procurement process, utilize the services of an outside expert. The outside expert should be active in procuring the types of products or services under review and should have access to the appropriate industry benchmarks to be able to determine if supplier proposals are competitive. The consultant also should know how to best position your requirements to the supplier community. Understanding what drives the supplier's costs will enable the consultant to position your requirements in the best light for the supplier.

A third-party consultant also levels the playing field between the buyer and the seller. While the supplier is in the market every day, the buyer usually isn't, especially for overhead types of expenses. The consultant can bring the industry expertise to put both parties on equal footing.

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