

Control costs to beat the credit crunch

Four Business Solutions demonstrates that by adopting appropriate spend control systems strategy organisations can make welcome cost savings

Controlling costs is a core objective for firms, especially during the credit crunch. Faced with the expected economic downturn, firms increasingly need to find operational efficiencies wherever possible. One area that holds significant opportunities for gains is the procurement process. From 'purchase to pay' to the streamlining of processes in order to reduce overheads and boost overall performance by more accurate forecasting, the management and evaluation of supplier contracts is an extremely promising option for an increasing number of businesses.

To date, companies have paid scant attention to maintenance, repair and operational (MRO) costs. Most businesses have expended little or no resource on managing the money spent on products and services consumed through office management. This can include costs incurred through marketing, consultancy, IT, offices, and stationery, and even the processes through which these products and services are acquired.

Plainly, not all firms have reached the same point when it comes to using technology to manage office overheads and integrate procurement and finance. This can be a missed opportunity, as every penny saved goes straight to the bottom line.

Translating the cost of these inefficiencies into lost revenue can be quite a shock for senior management. According to a 2006 report by technology research company Aberdeen Group, only 23% of companies have aligned spend visibility programmes, and the failure to do so is costing firms more than £130.5 billion a year in missed savings opportunities.

Such an approach to purchasing, while endemic is, in essence, dangerously



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short-sighted and potentially very damaging. The good news is that it doesn't have to be this way. There are clear and established benefits of cost reduction and improved financial control, which can be calculated and included within any business.

Consumable costs

For most companies, the aforementioned consumables represent between 15% and 35% of cost base. Savings – which can be made, and easily – are quickly realised, allowing businesses the potential to pass those savings on, thereby

achieving immediate and highly visible improvements in cash, costs, service and administration.

By adopting appropriate spend control systems to streamline processes and concentrate spending with a few suppliers to get better discounts, businesses can reduce purchasing costs. The automation of requisition generation, authorisation and payment reconciliation processes removes the reliance on paper, increases efficiency and minimises errors. This in itself can save most businesses a significant amount of money.

New spend control systems that are built on the latest Microsoft technologies and standards are now available to facilitate system integration. All of them also integrate with familiar Microsoft Office tools such as Word and Excel. The benefit is that you already own and understand these tools: you've already got the skills in-house, which brings down the cost of implementation and training significantly.

Research carried out by management experts the McKinsey Group (2003) found that, for companies with sound purchasing principles in place, the heavier their usage of software tools for procurement, the more costs they were able to save. In fact, on average, the companies from the sample used in McKinsey's research began to realise the value of deploying software solutions once they had used them for approximately 13% of their expenditure. ■

Further information

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