

A QUARTERLY
E-NEWSLETTER from
Alliance Cost Containment

IN THIS ISSUE:

- ACC Recognized as a “Top Franchise Trend for 2009”
- ACC Generates Nearly \$300,000 in Value for Audio Video Company
- How to Grow in a Recession: CEOs Getting Involved in Procurement
- Found Money: Equipment Maintenance Contracts
- About Alliance Cost Containment

*Discovering Efficiency.
Delivering Results.*



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Delivering Results.

Welcome to the Alliance Cost Containment e-newsletter, **Delivering Results**. Our Winter/Spring 2009 edition includes articles and opportunities that you should find interesting. Our 1,000 plus clients have benefited from our proprietary methodology to significantly lower costs and improve profitability. To see how we can help your organization, or to explore a franchising opportunity, please email us at MLee@alliancecost.com, visit our website at www.alliancecost.com, or call us at (866) 364-2848.

Alliance Cost Containment Recognized as a “Top Franchise Trend for 2009”

As more and more businesses cut back on their expenses, franchise concepts that provide what businesses *need*, as opposed to what they *want*, are well positioned for growth in 2009. Low cost, low overhead franchises are becoming a popular option for experienced executives looking for a new career.



According to Smallbiztrends.com, ACC and other similar consulting franchises are great opportunities in this current business climate. They offer flexibility and low overhead, because they are usually home-based. The article also pointed out that it is important that you are comfortable with the sales and marketing aspect of business consulting, and it is important for consultants to build up a referral pipeline.

ACC serves an untapped niche of business professionals looking to invest in a low overhead, high return consulting business.

Please contact Miles Lee at (866) 364-2848 or MLee@alliancecost.com if you are interested in learning more about an ACC franchise.

ACC Generates Nearly \$300,000 in Value for Audio Video Company

The California Principals of Alliance Cost Containment (ACC) significantly improved the profitability of an audio video transport solutions company. According to the COO, his company was already “quite aggressive in cost control...but did not have the necessary expertise in the telecommunications area.”



Prior to engaging ACC, this client had significantly reduced their long distance billing from \$3,700 to \$800 per month. However, ACC's telecommunications subject matter expert (SME) analyzed several months of phone bills and was able to identify an additional \$34,000 in savings and credits that the client was unable to identify on its own. In addition, this client did not realize that they were being billed for phone lines at locations that were no longer part of the company. Not only did ACC help disconnect the lines, but we also generated a twelve-month credit, netting \$8,000. In total, the communications company cut this client a check for \$42,000.

As an added bonus, the owner had just sold his company and was on an earn out at seven times EBITDA. Thus, the total value was nearly \$300,000. Our client, very pleased with the results of the ACC engagement, has referred six opportunities to ACC and remains a valued partner.



How to Grow in a Recession: CEOs Getting Involved in Procurement

By Miles Lee, President, Alliance Cost Containment

These are scary times for business owners. Demand for products and services is slowing, equity values are plummeting, and it is becoming more difficult to gain access to working capital.

So what are your plans to maintain or grow profitability in this climate? Raising prices could put your business at a competitive disadvantage.

Reducing capital spending or initiating another round of layoffs are not tools for growth. The answer that many small and mid-market companies are turning to is the adoption of best practices in purchasing.

Strategic procurement is not typically a top priority for executives of small and mid-sized companies when the economy is strong and cash is flowing freely. However, when times get tough, reviewing your procurement practices may be the best and quickest way to free up the cash flow necessary to sustain your business.

Industry analysts suggest that each \$1 in procurement cost savings has the same impact as \$5 in new revenue to the typical company. Using that ratio, \$100,000 in savings would replace \$500,000 in lost sales.

The same is true for non-profit organizations. Every dollar saved replaces a dollar lost through attrition in donations, grants, endowment income, and fund raising activities. Miles, did you mean to say 'every dollar saved replaces \$5 lost? That would be consistent with the above and with what you said in October.

So why doesn't every CEO and non-profit executive implement an across the board cost cutting initiative in the procurement arena? In short, it is not easy. Many unforeseen challenges make this more challenging than it appears. Here are some best practices considerations for executives who are serious about reducing procurement expenses:

- 1) **Make procurement a top priority.** The CEO or business owner must make it a top priority, providing strong leadership and on-going support to the effort throughout the organization. This requires establishing a direct line of communication with individuals responsible for procurement and working with them to deal with the internal resistance that often accompanies changing procurement practices.
- 2) **Review all expenses.** The CEO should emphasize that every dollar matters! Many organizations devote their procurement resources to their most strategic purchases, e.g. for a manufacturer that might be raw materials, for a restaurant it could be food and beverage. However, sometimes the greatest overall cost savings comes from the multitude of mundane, non-strategic expenses like office supplies, telecommunications and printing. Do not pass up savings because they seem too insignificant—they all add up.
- 3) **Oversee a fair evaluation of supplier alternatives.** Leverage your annual spend across each expense area and initiate a competitive bidding process that is fair, equal, and arms length. Be open to considering new suppliers and never allow the incumbent suppliers preferential treatment in the bidding process. (This type of practice rarely benefits the bottom line over the long term, and is unethical.) Let all suppliers know that the CEO is actively involved in the supplier evaluation process.
- 4) **Bring in new suppliers.** From the CEO on down, the company must be willing to terminate longstanding, "sacred cow" vendor relationships if there are lower cost alternatives. One of the greatest hidden cost drivers in an organization is its unwillingness to change vendors. For example, the traffic manager of one of our Los Angeles clients was the frequent guest of a key freight supplier at LA Lakers basketball games. That incumbent freight carrier's rates prices were 10-15% higher than alternative suppliers. The traffic manager was not willing to seriously consider proposals from other carriers, and as a result, his company was overpaying by tens of thousands of dollars per year.
- 5) **Challenge assumptions about supplier service and quality.** Low price and high quality are not mutually exclusive. Don't accept the myth that low cost always means poor quality. This is an objection that is sometimes raised by incumbent suppliers

and employees when an alternative supplier offers a lower price. Don't accept assumptions that are not based on the facts. For example, a large non-profit ACC client wanted to walk away from over \$100,000 annually in telecommunications savings due to unfounded concerns that the new provider "doesn't offer the same quality that we currently receive". Southwest Airlines has been the low priced provider for years, and it also has among the best service and safety records in the airline industry.



- 6) **Monitor compliance.** Once the suppliers have been carefully qualified and selected, provide support to purchasing in the enforcement of limiting purchases to these suppliers only. Maverick spending to non-qualified suppliers will reduce the performance leverage, pricing advantage and soft cost reductions that the company is trying to achieve. It will also damage your credibility in the eyes of the preferred suppliers.
- 7) **Treat your suppliers like clients.** Develop a scorecard to track supplier service, quality, delivery and price. Clearly articulate your quality and service expectations in a way that is fair and understandable. Build in goals with suppliers for annual improvement targets and ask suppliers for recommendations as to how they can be achieved. On the back end, be sure to thank suppliers who meet or exceed your expectations. A little appreciation from the CEO can really stimulate extra effort.

A recent study by The Aberdeen Group comparing purchasing practices between small businesses (under \$50MM), mid-market businesses (\$50MM to \$1B) and large businesses (\$1B+) found that small-to-mid-market businesses experience approximately 40% savings leakage compared to large businesses. Most of this was attributed to a lack of commitment to some or all of the practices listed above.

Whether through the adoption of new purchasing processes internally or with the assistance of third-party cost management consultants like Alliance Cost Containment, implementing a cost control regimen using best practices will almost certainly result in the easiest revenue enhancement your company will realize in this difficult economic environment.

Please contact Miles Lee at **(866) 364-2848** or MLee@alliancecost.com if you are interested in learning more about an ACC franchise.

Found Money: Equipment Maintenance Contracts

Does your company use maintenance or service agreements to maintain your array of equipment? Could you benefit from 15-25% reduction in maintenance costs for such items as alarms, communication systems, kitchen equipment, computers, office equipment, printers, mailroom, lab and facilities equipment?

Do you process too many purchase orders and invoices for maintenance contracts and related services? If you answered yes to any of these, Alliance Cost Containment may be able to help. ACC recently added equipment maintenance to our suite of cost containment services. By utilizing over 25 years of actuarial experience on millions of repair incidents, we now provide our clients with the following benefits:



- Typical cost reductions of 15-25% on maintenance agreements
- Greater administrative and operational efficiencies
- Consolidation of service contracts into one comprehensive agreement
- Ability to utilize the vendors of your choice
- Web based reporting
- And more.....

Equipment maintenance can be a great way to discover "found money" in your organization.

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About Alliance Cost Containment

Alliance Cost Containment is a leading national procurement company that helps businesses and organizations significantly reduce operating expenses. Since 1992, we've helped nearly 1,000 businesses and organizations find undiscovered cost savings. And there's no risk. We don't get paid unless and until you get the savings. Please contact us at **(866) 364-2848** or MLee@alliancecost.com if you are interested in how we can help you reduce your costs.

