



Checkmate News

Winning Approaches for Cost and Resource Productivity

Volume 1, Edition 2 | www.PaladinAssociatesInc.com

Welcome!

First, we want to thank all of you who provided comments and feedback on the first edition of Checkmate News from Paladin Associates. Your direct comments—as well as those you expressed across the blogosphere—were encouraging and we are delighted to again share with you our thoughts on critical cost savings issues. Whether you're a CEO, COO, CFO, CPO, sourcing professional, investor or owner of a middle market company, this is advice you can't afford to miss.

As the economic recession deepens, productivity improvements and cost savings are taking on an entirely new importance. They're not a nice-to-have—they're essential to stay in business. In this uncertain economic climate, it is essential for companies to identify simple and practical solutions for cost savings that they can implement quickly. We often observe that these pragmatic solutions are frequently more valuable to many businesses than more elegant and complex solutions that take months (or years) to implement. In today's market, we believe the concept of "Time to Benefit" is a critical tool when evaluating alternative solutions, suppliers' offerings, and consulting options.

In the articles this month, we offer more straight talk on critical cost savings subjects. Our first article in this edition discusses one of the most important aspects of sourcing. Cost Modeling, or knowing the cost drivers for the item or service you are buying, is critical in maximizing price reductions as well as limiting price increases when commodity prices increase. The second article in this issue, Cost Reduction is NOT a No-Brainer, we use a double negative to emphasize how difficult effective cost reduction programs can be to implement without negatively affecting the business. Finally, we've decided to again point you in the direction of a couple of articles that you shouldn't miss from around the industry.

Got a comment or a question? Don't be shy. Please let us know. We enjoy getting your comments, opinions, and suggestions.

Sincerely,

Donald J. Hoepfner, Executive Partner

Robert S. Matthews, Executive Partner

Cost Modeling Provides Key Benefits

Robert J. Patton, Sourcing Associate, Paladin Associates, Inc.

Amidst the recent financial crises, global rescue plans, and looming fears of recession, crude oil prices have been dropping at unprecedented rates. This has come on the heels of prolonged soaring crude oil prices, volatility across a broad range of basic commodity prices, currency uncertainties, and an upswing in the U.S. Producer Price Index. Will the PPI soon follow the downward spiral? If so when and how far? No one can know for sure where all this is headed, when it will bottom out, or when and to what extent it will turnaround. But one thing is certain—this economic turbulence underscores the need for rigorous cost modeling and supplier cost analysis.

Not since the mid-70s has the global economy been subject to such a flood of media coverage. Most consumers probably have some awareness of what's been happening, but few have a clue to exactly how and why, for example, the price of crude oil fluctuates—thereby affecting the price they pay for gasoline, diesel or home heating. But this same lack of cause and effect knowledge would be unthinkable for procurement professionals responsible for sourcing raw materials, energy, and manufactured feedstocks and derivatives.

Effective cost modeling is an essential element of cost control and cost containment. It also enables buyers to keep management informed via accurate cost reporting and timely forecasts of estimated future costs, and input to budgeting and pricing strategies. This is critical to developing winning sourcing strategies for current spend and to determining when and where to seek alternative supply options and materials. It is equally important to the planning and development stages of new product entries. The following analysis may help improve overall performance in these all important areas. [Click here to read more...](#) ■

Cost Reduction is NOT a No-Brainer

Patrick J. Horgan, Partner, Paladin Associates, Inc.

Cost-Reduction Key in Recession

In recessionary times, cost control is not optional—it's a core survival skill. With revenues under pressure, companies must reduce costs to maintain profitability. Most companies have cost-reduction initiatives in such times; those that don't may not be around when things improve.

NOT a No-Brainer

But effective cost-reduction is not as simple as it may appear. Many executives today have not actually managed through an economic downturn—they don't have the personal experience needed to significantly reduce costs in a rapidly deteriorating market environment. Because of this, cost reduction is definitely NOT a no-brainer. If they're improperly conceived, communicated, or implemented, cost-reduction programs have the potential to fail, stifle growth, adversely impact quality and customer satisfaction, damage morale, and perhaps even accelerate a death spiral.

Experience Invaluable

Paladin Associates has extensive cost-reduction experience, including decades of training under Jack Welch at GE, arguably the world champion of corporate cost-reduction. They have managed through many business cycles and learned the hard way what works and what doesn't—observing cost-reduction

programs save businesses and successfully position them for the future, as well as mismanaged efforts that failed.

Some Lessons Learned

A cost-sensitive corporate culture is helpful but not absolutely necessary to effectively reduce costs. But experience, planning, good communication, and change management are. Executives must understand that not all employees are enthusiastic about cost control; many don't really care at all, or will even fear or oppose such measures.

Different functions often require different approaches to achieve cost-reductions without damaging performance. For example, Finance people are not ideally suited to cost-reduce Human Relations while Procurement people may not be well-suited to cost reduce Marketing & Sales. Specific functional experience and cost-reduction expertise are important to **simultaneously** reduce costs and improve functional performance.

In such cases, one size does not fit all!

In most companies, there is a hierarchy of cost-reduction opportunities, ranging from easy to identify "low-hanging fruit" to more complex, time-consuming, and perhaps even emotional process or organizational change. Companies new to cost control should consider tackling the easier projects first to gain experience, demonstrate success, and garner internal support.

How to Get Started

Paladin Associates typically recommends initiating cost-reduction programs in the Procurement arena. Often companies have under invested in procurement, leaving opportunity on the table. Generally, these savings come from extracting concessions from external suppliers, not from internal organization changes, downsizing, or other more difficult actions. Even companies that have done a good job procuring strategic "direct" material often do very little in attacking "indirect" costs like telecom, facilities, energy, transportation and freight, temporary employees, etc. These areas and others require specific expertise, and Paladin Associates can help with no-cost procurement assessments, while working for a percentage of savings realized. Translation: no savings, no fees!

Then, after realizing savings on purchased goods and services, a company can move on to more complex areas, depending on expenditure levels, complexity, risk, timing and cost. Paladin has experts in many functional areas in addition to Sourcing.

Get Started... But Do It Right!

A corporate culture of cost-sensitivity is an asset at any time, but cost-reduction is essential in tough times. Effective cost-reduction programs spell the difference between success and failure during downturns. But it is not intuitive and definitely NOT a no-brainer. This is clearly an area where experience matters and where even the most experienced managers should consider getting an outside opinion on the best course of action. ■

Do you believe that your organization has a telecom savings opportunity? If so, don't hesitate to contact us. In less than a few weeks, Paladin can provide a comprehensive assessment of the types of telecom

savings opportunities that your company might be missing out on. Since we are willing to work on either a contingency or gain-share basis, there is no cost or risk to your organization. Contact us today:

Donald J. Hoepfner

Paladin Associates

Risk Free Cost Reductions

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About Paladin Associates, Inc.

With over 600 years of collective financial and operating experience, Paladin Associates executives bring a unique perspective to productivity and profitability improvement. Founded by former GE executives with extensive experience working with middle market organizations, Paladin delivers hard dollar cost savings to companies of all sizes. Clients have nothing to lose in our relationships—if a company fails to realize savings or value creation, they pay nothing. In addition to providing world-class consulting and advisory capabilities in the Strategic Sourcing and eSourcing areas, Paladin also offers services in Telecommunications Sourcing, Financial Management, Marketing & Sales Productivity, IT Management, HR Productivity, Manufacturing Efficiency, Energy and Utilities Management, Mergers & Acquisitions Support, and Interim C-level Management. For more complete information visit us on the web: www.PaladinAssociatesInc.com

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**Look for the next issue of Checkmate in your in-box this fall.
We promise the same, hard-hitting pragmatic advice in each and every issue to come.**