

Cost Reduction

- Is Your Company the Target?

MANAGEMENT GROWTH INSTITUTE, INC

I just received a letter requesting very detailed information about one of my clients. The sender of the letter, whom I don't know, demanded that I provide the information very quickly. PEG (Profit Enhancement Group) members recently received this email from a fellow PEG member. The responses indicated that other PEG members had found themselves the target of a cost reduction company.

The recent economic surprises have resulted in uneven impact on this industry. Many PRISM members have not experienced a dramatic impact on their businesses though businesses in other industries have. Many PEG members, especially those with businesses in industries more severely affected, have taken measures to reduce costs. With or without outside help these companies are reviewing their insurance policies, their phone and Internet plans, their vehicle maintenance providers and other business expenses. It's often a surprise to find that your vendors will negotiate to keep your business. We place a higher priority on reducing expenses when the economy falters, though regular cost reviews should happen in every business.

During this period of an unsteady economy, several PEG members have reported that their clients have hired cost reduction consultants to review their businesses. Some traditional cost reduction consultants that help find lower cost insurance policies or vehicle maintenance contracts have branched out to include services that PRISM members provide - record storage, shredding, etc. In addition, a brand of consultant that focuses specifically on this industry has approached clients of PEG members in different areas of the country.

PEG members report receiving bullet pointed letters from the cost reduction company requesting, with an aggressive deadline, specific information about the con-

tract they have with their client. In some cases the contact person at their client's business is out of the loop as the cost reduction company has been hired at a higher level. In other cases the PEG member may receive notification from the client with the name of the cost reduction company and the representative who will contact the PEG member. In many cases the client does not notify the PEG member. The PEG member receives a letter and the aggressive schedule to provide information to the cost reduction company.

Cost Reduction Companies

A search of the Internet reveals thousands of cost reduction companies. The most frequent descriptions of these companies list their expertise to reduce costs in overhead areas of the company: cleaning services, supplies, utility services, insurance, overnight mail services, leases, payroll processing, packaging, waste, recycling, etc. Most of these companies make their money by taking a piece of the cost savings they identify for their clients. If they identify \$1000 in cost savings, they take a percentage of that and the rest goes to the client (web site that provides advice on choosing a cost reduction company - <http://www.positive-way.com/business/benchmarking2.htm>). Some cost reduction companies have a relationship with the vendor they choose for their client, allowing them to gain revenue from this vendor as well as the client.

Many of these companies appeal to your clients because they do all the work and their pay is based on your client's savings. If your company is the target of the cost reduction company, that means you actually do the work saving the cost reduction company time. The cost reduction company asks the client for vendor names and contact information. They request that you, the vendor, produce reports, copies of contracts, tallies of the client's inventory etc.

Experiences

After the initial email from that PEG member looking for others with similar experiences, other PEG members responded. One PEG member described the cost reduction company experience: "This happened to me about a year ago on the shredding side. A large hospital chain hired a consultant. I cooperated fully and then came to find out that they were putting it out to bid. They of course awarded the bid to the lowest bidder,

Is your service superior to the vendor the cost reduction company will recommend?



which was not my company. I was only \$1-2 per bin higher and had been servicing the account with no problems for years. They did not even bother to compare facilities or take into account experience, etc. They are demanding and arrogant. It cost me gross revenues of \$125,000 per year".

Another PEG member reported: "We have been involved with two or three different cost reduction companies over the past few years exclusively with large law firms with 20K or more cubes. We have lost 3 and retained 1. We had to reduce our total fees by about 25% to retain that one client. In all cases, we had been providing excellent service. We never had a chance to bid on the three that we lost - the cost reduction company just used our existing pricing to compare with what the other vendor offered."

The PEG member asking the initial question provided additional detail: "One of our large, regional law firms – in several cities - has hired a 'cost reduction company'. They are asking us to provide them with complete information about the account service record history with us: list of accounts, contract terminations dates, rate schedules, list of what is stored, a year's worth of monthly invoice summaries, detailed activity for the year, complete box inventory list. The account has 40,000 cube. They have been with us for 22 years. We have a good relationship with the account. Service rates are normal and the storage rate is below our average." The list of accounts the cost reduction company requested included accounts the PEG member might have with different departments in the company. This shows another way they attempt to find new clients for their services. If they help one department in a company, what better recommendation when they go to find business from another department?

Be Prepared

Avoid the surprise cancellation of service notice by maintaining good relationships with your clients and act quickly when you first hear of a client engaging a cost reduction company or consultant.

- Connect with your client immediately
- Find out as much as you can about the cost reduction company e.g. paid only by the client, paid also by the vendor, etc.
- Gather as much information as possible from your client - do they have any choice about what the cost reduction company recommends? Is your service superior to the vendor the cost reduction company will recommend?
- Decide your limits in an effort to keep the client
- Develop proposals to adjust the contract and keep the client
- Maintain communication with your client Consider longer term actions to avoid losing clients this way.
- Examine the way you promote your company. If you have a membership in a global organization like the National Records Center (NRC) or are part of a larger company with branches in other locations, are you promoting your national coverage effectively? On your web site? In your materials? Part of the proposal language?
- Can you offer less active clients lower cost options? Is one of your facilities lower cost for you to maintain and service? Is the client less active saving you expenses?
- One web site for a cost reduction company indicated that they targeted companies with complex pricing plans. Are there ways to simplify your plan?

About the Author: Kathi Barry Albertini is the second generation CEO of Management Growth Institute, Inc. and leads the PEGs in the records and information services management industry.