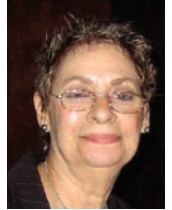


Hidden in Plain Sight

How Cost Management Can Uncover Thousands in Savings for Your Business

A conversation with Arleen M. Kahn
President, AMK Associates



The two most critical success factors of any business are to maximize revenues and minimize expenses. A good, well-executed, strategic marketing plan can handle the revenue part just fine. But how do you make sure that expenses are really as low as they can go? Successful businesspeople and professionals are usually too busy running their organizations to dig into the cost issue. Fortunately there are people with the expertise — and tenacity — to do exactly that. For most firms the net savings from hiring a cost management consultant can range from tens to hundreds of thousands of dollars. We wanted to find out more about this, so we spoke with Arleen M. Kahn, President of AMK Associates. Arleen has been a cost management consultant for nearly two decades, working with organizations in every category, from professional firms to manufacturers.

1. *Where are businesses most likely to be overcharged?*

The main culprits are must-have areas that most of us view as commodities: telecommunications, printing, shipping and office supplies.

2. *What is the biggest cause of these overcharges?*

First, let me start by saying that it is seldom any kind of dishonesty or malfeasance on the part of the vendors. What happens is that each vendor has a standard discount window depending on the anticipated size of the account. Neither the vendor nor the client typically looks far past the price when they are negotiating the contract. Often there are opportunities to bundle expenses — especially across multiple locations — so that the value of the account is greater to the vendors and they can readily offer better pricing. I worked with a company that had a number of offices and we looked at office supplies, among other things. Each satellite office spent about \$5–\$10K per year on supplies, so they didn't seem to have much leverage with the vendor. But because the vendor was national, we were able to negotiate an umbrella agreement that took into account the more than \$100,000 the company spent on office supplies across locations each year. Suddenly both the vendor and the client realized that the account was significant and the landscape changed. Another factor is that the marketplace changes, but vendor contracts can remain in place for a long time after they are negotiated, so there can be some misalignment between what made sense a few years ago and what's possible now.

3. *Does the same kind of thing apply to services like printing and telecom?*

Absolutely. I've been to companies where they use one printer for stationery because they originally got a better price on paper or a better turn-around, they use another printer for a brochure, and a third printer for something

else. The company was spending a lot on printing, but they were spending it in small chunks, so they had no leverage. The same is true with telecoms; many companies have two different contracts: one for data, and one for voice. Each one of those contracts comes with a certain usage level, usually according to the carrier's standard contracts. That built-in usage level may or may not have anything to do with what the company is actually using. Each of these contracts is too small for the client company to get the relatively large carrier to tailor its standard offerings. Another key with any service is understanding the real distinctions between the various offerings. For example, if you're shipping to a major city, there is little effective difference between standard overnight and priority overnight shipping; in nearly every case, packages will arrive by about 10:30 am. There is, however, a big differential in the price.

4. *It sounds like there must be a lot of savings to uncover.*

Most small companies will realize a savings of at least \$15,000 per year — and it goes up from there. I had a company with 8 employees hire me to assess their expenses and we found \$37,000 during the assessment, but after digging deeper we uncovered \$80,000 if they made some additional changes. It's not uncommon for an organization to realize over \$100,000 in savings, and that often repeats in subsequent years.

5. *Do you generate savings by substituting less-known brands or reducing the quality of a good or service?*

No. My initial assessment of potential cost savings is based on a value-for-value concept. I take lists of the products and services my client is purchasing to various vendors I've worked with and get item-for-item matches. Sometimes when we move into a full-scale engagement I may suggest some substitutions. For example, many of my clients have been looking at VOIP (voice over internet protocol) as a substitute for traditional calling plans. But I couldn't suggest that they go "cold turkey" from a traditional plan with robust customer support to a big "bare-bones" service like SKYPE or Vonage, so we talk to various telecom carriers and brokers who can bring the right level of service and support to the table. I gather all the information my client needs to make a solid decision and then negotiate the best deal possible once the decision has been made.

6. *You talked about going to various vendors you've worked with; how often does one of your clients switch vendors because of your recommendations?*

Less than 20% of the time. My job is not really to recommend; it's to evaluate, educate and negotiate. After I've done my initial research and reporting, if the client decides to go forward with a full-scale engagement, I'll go to all of the vendors they are currently using and share all the information — including pricing — I found.

Most companies will realize a savings of at least \$15,000 per year — and \$100,000 is not uncommon.

In 9 out of 10 cases, the vendor will match the best price I got for the product or service; in 8 out of 10, they will come back with an even better price.

7. *Can you give us a thumbnail sketch of your process?*

Sure; it's pretty straightforward. First, a client will hire me to do an assessment, which generally takes about six weeks, from start to finish. I'll start by spending a fair amount of time on site at the client's offices and digging through their various vendor invoices. I assemble all the data — what they purchase, where they purchase it and how much they pay. Then I send out the relevant pieces of that information to three or more vendors for each specific area. Once I have their prices back, I compile a report calculating potential savings. If the client decides to go forward with a full-scale engagement, the next step is to contact their current vendors with all the information and invite them to match the prices. As I said previously, most of the time, the vendor will match or beat the best pricing I was able to obtain. At this point, I'm trying to negotiate the best possible contracts to meet the client's demonstrated business needs. We may move beyond that into looking at some substitute products and services, like the VOIP example I mentioned earlier. The full engagement usually takes about eight to ten months. And sometimes clients will retain me for a period of years so we can hit all of their contracts as they come up for renewal. I'm also seeing an increasing trend of companies coming back after three years or so for a check-up.

8. *How do you get paid?*

There is a flat, up front fee for the assessment, which if a client decides to move forward with a full-scale engagement, will be deducted from the schedule fee. The scheduled fee is also done on a flat basis, based on the range of savings. More importantly, I should state that I don't get paid on a contingency basis, nor do I receive any consideration from vendors.

9. *Why can't a CEO, CFO or firm administrator do this on their own?*

Probably the single biggest issue is time. Most c-level people are too busy making their businesses run to be able to look at the mechanics of cost. They can — and usually do — have a great grasp of the bottom line, but that only tells you what is there; it cannot tell you what isn't. The second issue is expertise. You have to know what's possible in terms of bundling services, negotiating for better deals, etc., and you have to understand how the vendors think and how they arrive at their decisions. Finally, there's the issue of personal relationships, which cuts both ways. A client company may not want to rock the boat with its vendors because people think they have a good relationship; I can ask some tough questions precisely because I do have good relationships with people in the vendor industries I look at, but they are different relationships than clients are likely to have. I want to add that there's no shame in a CEO, CFO or firm administrator not knowing how to look properly at costs; it is a specialized knowledge area. I can accomplish in an hour what someone without my background would take days to do, if they could do it all.

Arleen M. Kahn is President of AMK Associates, a cost management consulting firm that centers on helping businesses reduce and control basic operating expenses. The reductions are substantial, often ranging in the hundreds of thousands of dollars.



AMK Associates' client base includes familiar names like Christie's, The Corcoran Group, J.A. Henckels, New York Sports Clubs and Anchin Block & Anchin, as well as firms of various sizes in such diverse fields as accounting, law, financial services, real estate, manufacturing and not-for-profit.

Arleen speaks regularly on cost containment, has been featured twice in Crain's New York Business and has contributed to important management publications, including Strategic Edge and Management Review. She was a member of the Board of Directors of the Manhattan Chamber of Commerce for 12 years and was the first-ever at-large board member to be honored by the Executive Committee for her service. A native of Washington, DC, Arleen makes her home on Manhattan's Upper East Side and is completely addicted to the Sunday morning political talk shows. She can be reached at 888.345.8008 or by email at amk@amkassociates.com.



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