

Cuts on Indirect Costs do not affect staff morale

Managing *Indirect Costs* implies dealing with vendors that provide services to the business. Any change on negotiated terms will only involve third party vendors, rather than employees. As a matter of fact, only the people that deal with these vendors will be involved and the process can be totally transparent to the rest of organization.



Recently we were involved in a project where we were able to replace a Telecom vendor for a manufacturer with savings of 67%. The process was managed with extreme care and only the IT and Finance people involved were aware of the change. On another case, we renegotiated better terms for Garbage Removal with current vendor and no operational employees were involved in the process.

As a result, these companies were able to generate additional profit without affecting their headcount or morale.

Reductions on Indirect Costs are relatively easier to implement and provide rapid results.

Unlike layoffs, product reformulations and relocating/closing facilities, reducing *Indirect Costs* are usually initiatives that can be achieved quickly, with lower implementation costs and with minimal effect on operations. For example, at a Furniture manufacturer the change of their Property/Liability insurance generated 56% savings, and required only 3 weeks for analysis, quoting and implementation.



Same situation occurs with services like Copying, Merchant Processing, Courier and Freight just to name a few. There are other changes like Payroll Processing, Cellphones or Health Insurance that may imply an extra effort, however, it will compare much favorably to the disruption that a relocation or lay-offs imply. It is always preferable to create some temporary extra tasks than being forced to tell employees they no longer have a job. *Indirect Costs* reduction initiatives also typically represent minimal change in processes, demanding less time from staff.

As a consequence of this faster and less costly implementation, results are shown sooner than longer restructuring or reformulating processes.



Indirect Costs reductions can yield better than expected savings. Typically *Indirect Costs* are fragmented in many categories and they represent individually a small portion of total spent. As a result, they get frequently overlooked and slip under the radar. However, collectively they can account for 30-40% of the expenses pie. Carrying out cost reduction initiatives on some of these categories can result in relevant savings.



Recently we were involved with a company that was thinking of letting several employees go. After implementing several *Indirect Cost* reduction initiatives, we were able to save significantly and avoid the need to reduce their headcount.

Final Thoughts

Businesses are frequently forced to reduce expenses. Changes in materials, labor and processes imply risks of affecting quality of product/service and company morale. They are usually harder and take longer to implement and realize savings. On the other side, reductions in *Indirect Costs* can be implemented at a faster pace, lower cost and without affecting product quality or employee morale. That is why they can be considered the *Low Hanging Fruit in Expense Reduction*.

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