

Capturing Lost Profit

Preserving precious capital by eliminating waste and reducing the overhead of business print and marketing collateral.

By Todd Hawkins

The goal of preserving cash and reducing costs is to maintain maximum efficiency at the lowest expense, across all channels and for each asset category of commercial print and marketing collateral. Realize measurable savings in product cost, storage space, and man-hours by automating procurement, distribution, reporting and concentrating company resources on core activities and primary initiatives. **Recapture 10-20 percent of budgeted expense by measuring and managing usage and obsolescence.** The savings does not include subsequent improvements in procurement (e.g. group purchasing, aggregating orders, etc.).

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Implementation does not require total outsourcing or terminating employees. Partnering enables your organization to refocus worker roles, top to bottom in marketing, operations, finance, and supply chain so each employee is not distracted from primary, higher-level tasks. Additionally, your company will not be forced to develop a proprietary system. E-commerce inventory management already exists and can be applied without disrupting your current vendor relationships.

In a growing economy, companies focus on top line revenue. The recession forces management to concentrate almost exclusively on the bottom line, conserving profit by eliminating waste and improving processes. Controlling operational print and marketing assets presents an area of potential savings. Decision-makers need not hire expensive consultants to assess their circumstances. Merely ask logistical managers the Cornerstone Question, "How much?" and, if the answer isn't an up-to-the-minute, exact number, the company could be wasting profit.

Buying is only the beginning

Smart procurement is the start of successfully managing expense and preserving cash. **Myopic attention to cutting per unit costs to the exclusion of managing assets post procurement creates "invisible costs", expensive waste along each logistical stage of the supply chain.** The final cost of each item increases with each misstep.

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Despite large sums spent on print and marketing collateral, procurement synchronized with distribution and reporting has escaped optimization in most companies. Fulfillment tasks are typically spread throughout an organization and frontline employees are unaware of the costly consequences of inefficient purchasing and undisciplined stock control. Many order too much and lose budget by overpaying for rush services and avoidable reorders. According to the Aberdeen Research Group, top performing companies achieve, on average, 23 percent hard-dollar cost savings through standardized policies, on-line reporting/scheduling and active management of procurement, distribution and usage.

Wasted profit multiplies the lower base cost of each product if a company mismanages shipping/delivery, storage and the man hours dealing with the assets and, not included in this loss, is the often unknown quantity of obsolete material that eventually gets discarded, or worse, sits in storage.

Evaporation of Capital Through Obsolescence

Obsolescence of commercial print and marketing collateral is unavoidable because of the inevitability of changes within a company, industry, product or service. However, habitual or large scale obsolescence is a sign of over-ordering, and can be limited by monitoring detailed reporting. Product that is purchased isn't necessarily employed so it's important to know specific numbers for what is distributed/used as well as discarded.

Obsolescence is most severe in companies that budget by purchase tradition, allotting for what has been expensed without tracking usage. Real time knowledge of what is distributed and employed enables management to cut costs by striking a proper balance between purchasing just-in-time versus economies of scale as justified. If usage is unmeasured, stock control is subjective.

Control Contingent on Tracking

Review regularly on-demand reporting and detailed spend analysis to find opportunities for course corrections. Some companies order too much product, exacerbating the waste from obsolescence, unproductive employee man-hours and stuffed storage space. Other companies do not order enough based on historical usage, routinely run out and consequently pay unnecessarily for expedited freight and additional set-up charges for small orders. In either case, not knowing exact real time figures results in loss.

Automated reporting illuminates areas of waste in procurement and distribution, and therefore within budgeting. Historical tracking for each asset supports management's decision for ordering in economies or just-in-time and virtually eliminates obsolescence, rush charges, unnecessary set-up fees and spending over or "up to budget".

Forecasting Cash Flow, Protecting Profitability

Ensuring liquidity is imperative. In a no growth economy, companies must look within and preserve working capital by improving internal business processes. As top line revenue declines, company leadership actively pursues efficiency in both operations and the back office to conserve bottom line profit. Even among growth companies becoming leaner is prudent to guard the threat of a sudden drop in revenue.

To improve cash management, finance executives are concentrating more on forecasting and reducing costs in every area to reinforce cash flow. CFO Research Services surveyed 402 senior finance executives at North American companies with \$10 million to \$1 billion annual revenue and found 76 percent wished to "identify opportunities to consolidate spending" while two-thirds (67 percent) wanted to "identify patterns for use in business planning." Tighter budgeting and control is vital for bolstering liquidity and aggressively managing company cash flow.

Finance is reviewing all aspects of working capital management for cost-cutting opportunities. Print and marketing collateral often account for 4 percent of the total operating budget. **Formerly ignored or missed, financial executives are assessing the purchase and distribution of commercial print and marketing assets to eliminate avoidable waste.** In addition to complete or partial outsourcing of any business function not related to core competencies, CFOs can preserve profit by measuring actual usage for accurate budgeting, managing strategically with detailed spend analysis and eliminating waste of square footage, material and employee man-hours.

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The Cornerstone Question: How much?

- How much will be consumed/deployed?
- How much can you receive/store?
- How much will you distribute?
- How much does it cost?

...there is an opportunity cost for receiving, organizing, storing and distributing the product, with profit dollars in the balance of each of these considerations.

Assessing detailed and on-demand reporting is critical. One must measure in order to manage. The actionable answer for improved cash management is a hard number in real time, an actual usage figure as the basis for tighter budgeting, control and ultimately preservation of capital.

Aside from the price of the commodity, **there is an opportunity cost for receiving, organizing, storing and distributing the product, with profit dollars in the balance of each of these considerations.** Cash saved in one area can be lost elsewhere if assumptions prove incorrect anywhere along the logistical chain.

Red Flags of Waste

DOES YOUR COMPANY HAVE?

No or limited capacity for dock delivery

- No benefit from purchasing in economies of scale if you cannot receive skids
- Unloading by forklift is less expensive than by hand

Expensive square footage devoted to storage

- High-priced space best used to produce revenue
- Packed storage areas indicative of inadequate space or buying too much

Frequent charges for expedited freight

- Symptomatic of running out and of procurement being reactive versus proactive
- Reflective of manual procurement instead of automated re-order at par/date levels

Centralized Receiving

- Redundant or indirect shipping/delivery wastes money and time
- Assets should be delivered directly or ordered just-in-time based on historical usage

Decentralized buyers

- Potential for a host of inefficiencies including purchasing off-contract

No standardization or strategy among departments or locations

- Redundant procurement or distribution wastes employee man-hours and increases possibility of errors
- No savings for leveraging purchase power through consolidation or collaboration of orders

Manual tracking/reporting

- Use of spreadsheets is reactive, often unmanaged and/or incorrect

Employees diverted from core tasks

- Potential for costly waste if employee ill suited to fulfillment or distribution duties
- Employee distracted from primary, higher level work

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