



# Cost Advantage Program Workbook

# Contents

Introduction.....	1
Pitcher Partners nine step guide Cost Advantage Program.....	2
Identify costs, assign responsibility and set targets.....	3
Analyse.....	6
Options.....	8
Recommendations and approvals.....	15
Implementation and communication.....	17
Measure, monitor and report.....	18
Conclusion.....	20

Copyright © 2015 Pitcher Partners

*Disclaimer // All rights reserved. This publication is copyright and may not be resold or reproduced in any manner (except excerpts thereof for bona fide study purposes in accordance with the Copyright Act) without the prior consent of the Publisher.*

*Limit of Liability // Disclaimer of Warranty. Whilst the publisher and its respective employees and agents have used their best efforts preparing this booklet, they make no representations or warranties with respect to the accuracy or completeness of the contents of the booklet and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written promotional material. The advice and strategies contained herein may not be suitable for your individual situation.*

*As such you should seek individual professional advice where appropriate. Neither the publisher nor its employees or agents shall be liable for any loss or profit or commercial damages including but not limited to special, incidental, consequential, or other damages.*



BRW Client Choice Awards 2014



BRW Top 50 Companies to work for in Australia



Winner of the 2014 Thomson Reuters Accounting Firm of the Year



Winner of the 2014 Thomson Reuters Indirect Tax Team of the Year



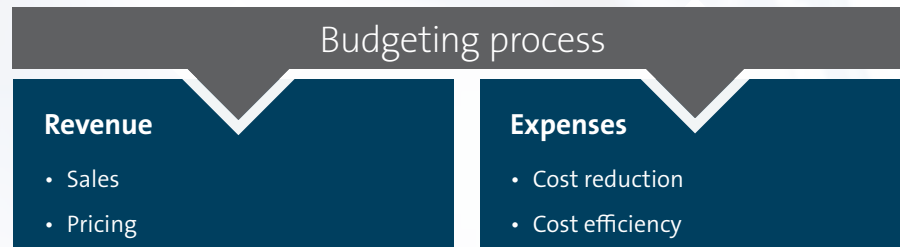
Winner of the 2014 Thomson Reuters Tax Team of the Year

# Introduction

Uncertain economic conditions make us look at business efficiency, but critically reviewing our organisation is something we need to do every day.

Small to medium (SMEs) and emerging businesses often fail to dedicate enough time to preparing financial budgets. This step is critical to the success or failure of a business, as it provides a basis to evaluate actual performance.

An overview of the budgeting process is as follows:



## The budgeting process

One of the ways to improve business efficiencies is also the most obvious – implementation of a cost review program to achieve sustainable cost savings. These can be achieved through a combination of cost reduction and maximising efficiency.

Businesses may often find they can make small changes in cost structures that will immediately improve their profitability.

The following guide has been compiled by Pitcher Partners to help owners, managers and staff identify, analyse and assess the different layers of costs and look for more efficient means of conducting their business.

Cost review programs should be a part of every organisation's culture. Involving all of your staff and critically reviewing all aspects of your business will lead to cost savings in the short term and help position you for success in the future.

# Pitcher Partners nine step guide Cost Advantage Program

Pitcher Partners has produced a simple, nine step guide to assist businesses through a review of their cost structures. This methodology aims to identify cost saving opportunities by focusing on both traditional and non-traditional cost saving strategies, and ensuring successful implementation throughout the business.

## 1 Identify costs

- A good place to start is the comparative profit and loss statement. A cost review program involves systematically reviewing each and every purchase made by the business.
- Broadly speaking, there are four types of costs:
  - Essential: where value is delivered to a customer
  - Necessary: required to keep the business running, but do not necessarily add much value to the customer
  - Discretionary: the overall performance of the company is not affected and they are the easiest to reduce
  - Avoidable/Inefficient: associated with operational inefficiencies and often require a lot of analysis and investigation to identify

## 2 Assign responsibility

- This will often be employees closest to the cost; for example the accounts payable clerk for administration costs or the sales manager for selling and distribution expenses.

## 3 Set targets

- The target should be attainable and sustainable
- The overall strategic direction or inherent nature of the business will also drive targets for cost advantage

## 4 Analyse

- This process should take approximately two to four weeks
- Analysis involves:
  - Checking existing policies of the business
  - Checking KPI's for errors
  - Looking at trends in spending
  - Comparing costs with industry benchmarks
  - Looking at cost drivers

## 5 Options, recommendations and approvals

- This process should take approximately two to four weeks
- Utilise findings from step four to deliver the top three cost advantage recommendations including new policies

## 7 Implementation

- Implement cost advantage recommendations

## 8 Communication

- Cost review strategies are most successful when employee support and understanding is gained.
- Outline critical objectives fully and clearly communicate these to staff
- To be effective, cost review strategies must:
  - Clearly communicate policy and be understood by employees, including the financial impacts of the decision
  - Ensure employees adhere to policies, which may include an enforcement program
  - Provide appropriate mechanisms so that policies are easily accessible
  - Support employee compliance with the use of effective communication tools such as timely reminders of policies

## 9 Measure, monitor and report

- Measure progress frequently and adjust the Cost Advantage Program as needed
- Report progress regularly

## Overall program checklist

Steps		Completed
1	<b>Identify costs</b> Prepare a schedule of costs, comparing actual costs in current and prior financial years a – For labour costs, also refer to the Labour Program separate checklist b – For cost of sales, also refer to the Cost of Sales Program separate checklist	<input type="checkbox"/>
2	<b>Assign responsibility</b> Identify persons to be given responsibility to analyse major components of each expense item and identify major suppliers	<input type="checkbox"/>
3	<b>Set targets</b> Set a target for cost savings for each expense item taking into consideration nature of expense and potential impacts on other operating activities	<input type="checkbox"/>
4	<b>Analyse</b> Prepare a cost advantage summary for each person allocated a task, to be used to monitor each person's progress and for base-line reporting i.e. report of findings from analysis	<input type="checkbox"/>
5	<b>Options</b> Each responsible person to prepare a plan as to how cost savings can be achieved	<input type="checkbox"/>
6	<b>Recommendations and approvals</b> Recommended action steps and dates set for program to be finalised and approved	<input type="checkbox"/>
7	<b>Implementation</b> Once program has been approved, establish an implementation plan including timeframe for implementation and targeted cost savings achieved	<input type="checkbox"/>
8	<b>Communication</b> Communicate implementation of the Cost Advantage Program to employees as well as the new procedures and responsibilities resulting from the implementation. Communicate progress of implementation and celebrate achievements	<input type="checkbox"/>
9	<b>Measure, monitor and report</b> Schedule quarterly meetings for responsible people to meet with senior management to review whether targeted savings are being achieved and/or whether further action is required. Measure results and monitor – ongoing Report progress	<input type="checkbox"/>

## Steps

- 1
  - 2
  - 3
- ### Identify costs, assign responsibility and set targets

#### Identify costs

- Prepare a schedule of costs, comparing actual costs in current and prior financial years.
- Benchmark each major cost against industry standards. Pitcher Partners can assist by providing reports detailing KPIs, costs and margins for your specific industry.
- Classify costs as either value add or non value add. Costs that do not add value to your business may include bad debts, bank charges, fines and penalties, rates and taxes.

Costs should be categorised into Essential, Necessary, Discretionary or Avoidable/Inefficient.

Non value add costs should always be the subject of close scrutiny regardless of their level. Value add costs should only be reduced to the extent they do not have a negative impact on your business.

While all costs should be reviewed, undertaking the above analysis will assist in identifying costs that require closer scrutiny.

The following table should be considered as a minimum for reporting purposes. The Cost Advantage Program may be integrated into the regular management financial reporting of the business. The reduction of many major costs can be aligned with the KPIs of the business such as:

- Gross profit margins
- Labour efficiency
- Capacity utilisation

Integrating the Cost Advantage Program into the regular management reports not only helps to keep the process front of mind, it also reinforces the financial and non financial benefits.

Below is a sample comparison of costs spread sheet to assist in steps 1 – 3.

Expense	Previous year actual (\$)	This year actual (\$)	Variance (\$)	Variance (%)	Cost reduction target (\$)	Action By	Report back date	Approved date	Implementation date
<b>Cost of Sales</b>									
Opening stock	663,678	1,019,526	355,848	54					
Purchases and other costs	53,078,730	54,666,489	1,587,759	3	1,000,000	JP	31-May		
Closing stock	(1,019,526)	(1,180,551)	(161,025)	16					
<b>Expenses</b>									
Advertising	229,824	211,962	(17,862)	-8	60,000	DH	31-May		
Bad debts	129,031	414,674	285,643	221	250,000	DH	31-May		
Bank charges	26,219	39,155	12,936	49	10,000	VB	31-May		
Casual labour	3,300	14,025	10,725	325	10,000	KS	31-May		
Cleaning	58,909	69,239	10,330	18	10,000	JP	31-May		
Commission paid	390,677	609,982	219,305	56	300,000	VB	31-May		
Computer expenses	61,117	94,836	33,719	55	25,000	JP	31-May		
Conference expenses	69,145	113,302	44,157	64	60,000	KS	31-May		
Consultancy fees	164,035	118,158	(45,877)	-28	60,000	KS	31-May		
Debt collection	29,385	31,203	1,818	6	5,000	VB	31-May		
Depreciation	1,276,890	1,432,216	155,326	12		RD	31-May		
Donations	1,799	1,556	(243)	-14		RD	31-May		
Entertainment expenses	22,338	18,035	(4,303)	-19		RD	31-May		
Fines and penalties	10,861	7,587	(3,274)	-30		RD	31-May		
Freight and cartage	59,281	72,558	13,277	22	15,000	VB	31-May		
Fringe benefits tax	93,029	111,072	18,043	19	25,000	KS	31-May		
Fuel and oil	29,509	42,850	13,341	45	15,000	JP	31-May		
Hire of plant and equipment	49,693	122,617	72,924	147	60,000	VB	31-May		
Insurance	229,047	291,673	62,626	27	35,000	DH	31-May		
Interest paid	1,019,701	1,214,855	195,154	19	250,000	DH	31-May		
Land tax	45,098	44,975	(123)	0		RD	31-May		
Leasing charges	29,712	42,729	13,017	4		RD	31-May		
Legal costs	231,375	130,416	(100,959)	-44	50,000	VB	31-May		
Light and power	190,762	215,648	24,886	13	20,000	JP	31-May		
Motor vehicle expenses	190,520	248,636	58,116	31	50,000	JP	31-May		
Patent fees	25,281	22,280	(3,001)	-12	10,000	VB	31-May		
Payroll tax	227,676	268,357	40,681	18	40,000	KS	31-May		
Postage	11,861	14,543	2,682	23		JP	31-May		
Printing and stationery	94,696	138,733	44,037	47	40,000	DH	31-May		
Professional fees	193,028	166,797	(26,231)	-14	30,000	VB	31-May		
Rates and taxes	72,992	103,225	30,233	41		RD	31-May		
Registration fees	104,075	119,040	14,965	14		JP	31-May		
Rent	335,261	442,858	107,597	32		RD	31-May		
Repairs and maintenance	605,072	935,826	330,754	55	300,000	DH	31-May		
Royalties	39,500	34,000	(5,500)	-14		RD	31-May		
Salary and wages	3,775,930	4,553,267	777,337	21	1,000,000	KS	31-May		
Security costs	10,235	10,248	13	0		JP	31-May		
Staff amenities	51,751	67,861	16,110	31	25,000	VB	31-May		
Staff training and welfare	19,354	22,057	2,703	14		KS	31-May		
Staff recruitment	63,096	190,629	127,533	202	150,000	DH	31-May		
Subscriptions	40,734	44,415	3,681	9	20,000	VB	31-May		
Superannuation	360,903	424,920	64,017	18	85,000	KS	31-May		
Telephone	197,282	241,446	44,164	22	50,000	DH	31-May		
Travelling expenses	58,117	61,509	3,392	6	10,000	DH	31-May		
Uniforms	148,955	218,992	70,037	47	50,000	KS	31-May		
Warranty costs	296,581	375,125	78,544	26	100,000	RD	31-May		
Waste disposal	62,560	124,129	61,569	98	60,000	JP	31-May		
Workcover premiums	56,750	196,043	139,293	245	60,000	KS	31-May		
<b>Total</b>	<b>64,215,829</b>	<b>68,995,723</b>			<b>4,340,000</b>				

## Include your own data.

Expense	Previous year actual (\$)	This year actual (\$)	Variance (\$)	Variance (%)	Cost reduction target (\$)	Action By	Report back date	Approved date	Implementation date
<b>Cost of Sales</b>									
Opening stock									
Purchases and other costs									
Closing stock									
<b>Expenses</b>									
Advertising									
Bad debts									
Bank charges									
Casual labour									
Cleaning									
Commission paid									
Computer expenses									
Conference expenses									
Consultancy fees									
Debt collection									
Depreciation									
Donations									
Entertainment expenses									
Fines and penalties									
Freight and cartage									
Fringe benefits tax									
Fuel and oil									
Hire of plant and equipment									
Insurance									
Interest paid									
Land tax									
Leasing charges									
Legal costs									
Light and power									
Motor vehicle expenses									
Patent fees									
Payroll tax									
Postage									
Printing and stationery									
Professional fees									
Rates and taxes									
Registration fees									
Rent									
Repairs and maintenance									
Royalties									
Salary and wages									
Security costs									
Staff amenities									
Staff training and welfare									
Staff recruitment									
Subscriptions									
Superannuation									
Telephone									
Travelling expenses									
Uniforms									
Warranty costs									
Waste disposal									
Workcover premiums									
<b>Total</b>									

## 4 Analyse

Below is a sample spreadsheet to assist in the analysis of costs. The comments section will help you and your team in the analysis.

									Responsible person: John Smith	
Expense	Previous year actual (\$)	This year actual (\$)	Variance (\$)	Variance (%)	Cost reduction target (\$)	Action By	Report back date	Approved date	Implementation date	
Advertising	229,824	211,962	(17,862)	-8	60,000	JS	31-May			
<i>Comments:</i>										
Bad debts	129,031	414,674	285,643	221	250,000	JS	31-May			
<i>Comments:</i>										
Insurance	229,047	291,673	62,626	27	35,000	JS	31-May			
<i>Comments:</i>										
Interest paid	1,019,701	1,214,855	195,154	19	250,000	JS	31-May			
<i>Comments:</i>										
Light and power	190,762	215,648	24,886	13	20,000	JS	31-May			
<i>Comments:</i>										
Printing and stationery	94,696	138,733	44,037	47	40,000	JS	31-May			
<i>Comments:</i>										
Repairs and maintenance	605,072	935,826	330,754	55	300,000	JS	31-May			
<i>Comments:</i>										
Staff recruitment	63,096	190,629	127,533	202	150,000	JS	31-May			
<i>Comments: After a sustained period of economic growth and a tight labour market, it was necessary for the company to deal with a number of recruitment agencies in order to find quality candidates. This is unnecessary in the current economic climate. The increase in cost in 2012 was partly due to the company experiencing higher than average turnover rates compared to the previous year and hiring of two members of senior management.</i>										
Telephone	197,282	241,446	44,164	22	50,000	JS	31-May			
<i>Comments:</i>										
Travelling expenses	58,117	61,509	3,392	6	10,000	JS	31-May			
<i>Comments: Current travel policy permits business class travel on both domestic and international flights. The policy on hotel selection is unclear and leaves too much discretion to the secretaries. Travel bookings are currently made by all secretaries via various websites such as wotif.com, lastminute.com etc. No reports were readily available to assist with analysis of travel patterns within the company. Approximately 60% of travel costs relate to interstate travel, 40% to international travel.</i>										



## Include your own data.

								Responsible person:	
Expense	Previous year actual (\$)	This year actual (\$)	Variance (\$)	Variance (%)	Cost reduction target (\$)	Action By	Report back date	Approved date	Implementation date
Advertising									
<i>Comments:</i>									
Bad debts									
<i>Comments:</i>									
Insurance									
<i>Comments:</i>									
Interest paid									
<i>Comments:</i>									
Light and power									
<i>Comments:</i>									
Printing and stationery									
<i>Comments:</i>									
Repairs and maintenance									
<i>Comments:</i>									
Staff recruitment									
<i>Comments:</i>									
Telephone									
<i>Comments:</i>									
Travelling expenses									
<i>Comments:</i>									

## Step

## 5 Options

This step will help you look at the 'big picture' changes required and specific strategies that could be implemented.

### General cost advantage strategies



Consider lower cost suppliers\*



Re-negotiate with all suppliers\*



Test the market



Ask for a discount/ take advantage of favourable payment terms

\* Care to be taken to ensure quality of service is at least maintained

### Specific Cost Advantage strategies

#### Advertising/ marketing

- Develop a strategic marketing plan to ensure your organisation advertises the right message, in the right place and to the right audience e.g. consider radio advertising vs television and online
- Utilise sponsorships
- Consider using promotional products and gifts rather than expensive advertising e.g. desktop calendars, keychains, t-shirts
- Consider lower cost options e.g. direct email marketing, direct mail, PR, remnant advertising space, networking, picking up the phone and staying in contact with loyal customers

#### Bad debts

- Be specific in contracts and consider charging late penalties and interest
- Raise invoices promptly after services provided
- Consider interim invoices where appropriate
- Consider purchasing accounts receivable insurance
- Tighten credit policies
- Check references before extending credit to a new customer
- Settle customer billing disputes promptly
- Consider debt and collection services

#### Bank charges, credit card processing fees

- Consider whether you are using the proper number of terminals and access points
- Consider whether you are using current processing rules to avoid being surcharged for certain transactions
- Review your bank fees/charges and streamline banking processes

#### Telephone and communication

- Consider VOIP vs traditional telephone i.e. leverage new technologies to reduce costs
  - Review plans to ensure they are appropriate i.e. are you using all that you are paying for such as telephone lines, information and reporting?
  - Review mobile phone usage and consider whether required by employees who rarely travel for business purposes
  - Be aware of flag falls or connection fees per call when assessing contracts
  - Consider the use of phone cards for long-distance calls
  - Eliminate beeper service
- Consider bundling mobile phone plans

#### Computer expenses

- Are you paying for licences that are not being used?
- Review all maintenance contracts
- Review software and whether actually being used

## Freight, courier and postage

- Consider other service providers
- Consider if next day delivery is absolutely necessary
- Consider email or fax vs mail or courier service
- Can these costs be passed on to your customers?

## Customs duty

- Review the appropriate classification used for goods in relation to customers

## Donations

- Review donations and take a coordinated company approach
- Consider staff fundraising as alternative to business donations
- Consider work place giving – staff automatic deductions

## Depreciation

- Analyse the fixed asset register and highlight surplus/idle assets that can be sold
- Consider buying vs leasing
- Consider overhauling existing equipment or facilities instead of purchasing

## Light and power

- Analyse energy use patterns
- Use energy efficient lighting, appliances, etc
- Install programmable thermostats to control heating/cooling
- Shut down computers at night and switch off lights
- Consider using the services of an expense reduction analyst

## Fuel and oil/transport costs/motor vehicle costs

- Consider outsourcing delivery of products
- Consider consolidating the number of transportation carriers used
- Ensure all vehicles are properly maintained
- Consolidate trips where possible
- Improve route mapping and loadability
- Consider decreasing your delivery area e.g. free delivery within 20km radius rather than 50km radius
- Consider charging delivery fee that covers additional cost of fuel
- Have your clients come to you rather than going to them
- Trade-in vehicles for vehicles with better fuel economy or convert high mileage vehicles to gas
- Reduce size of fleets

## Insurance (including workers' compensation)

- Consider bundling of insurance policies
- Improve safety within your organisation to reduce the cost of workers' compensation
- Review your workers' compensation classification
- Lower your liability risk where possible e.g. install security system, consider eliminating risky products and services
- Ensure insurance coverage is appropriate e.g. older vehicles may only need collision insurance
- Ensure that currently owned assets only are covered

## Interest

- Consider reducing working capital requirements e.g. reduce inventory, WIP, accounts receivable, and negotiate improved accounts payable
- Maintain a cash-flow projection to enable evaluation of the least borrowing requirements and time
- Consider consolidating loans
- Pay promptly to avoid late payment interest accruing
- Use credit cards for purchases and utilise interest free periods

## Office and printing supplies

- Limit access to office supply storage cabinet
- Consider name brands vs house brands
- Consider using recycled toner cartridges
- Consider paper grade and stock, binding choices, etc
- Consider black and white vs colour documents
- Consider moving to electronic billing and statement mailing to eliminate paper
- Consider double sided printing of all internal documents
- Buy in bulk
- Consider electronic invitations and mailouts to customers

## Professional fees

- Consider hiring a bookkeeper or using an administrative staff member to maintain the bookkeeping and compile information
- Talk to your service providers to ensure your expectations are in line
- Consider in-house departments and outsourcing as alternatives

## Records management

- Avoid priority delivery of archived documents
- Review archived documents on a regular basis to determine if still required
- Consider removing documents off-site and putting available space to better use

## Staff recruitment

- Consider referral schemes
- Directly recruit by advertising on online job sites
- Recruit internally by developing existing staff into new roles
- Consider if the recruitment process can be improved as well as the quality of candidate recruited

## Rent

- Re-negotiate with your current landlord
- Lease unused space (or sublease)
- Downsize or consider larger building at a lower cost

## Repairs and maintenance

- Consider asking for guaranteed fixed prices for repairs
- Consider using equipment distributors with their inherent knowledge of their product to provide a more cost efficient means of repairing equipment
- Consider extended warranty services
- Review planned maintenance schedules
- Consider purchasing/replacing vs continued repair

## Small tools

- Consider 'selling' tools to employees for cost
- Put an identifying mark on major tools and keep appropriate records
- Consider paying a higher wage to field employees who furnish their own tools
- Consider a centralised tool storage with a check-in, check-out system

## Staff training/ seminars/ conferences

- Consider sending one person to attend a seminar and have this person subsequently present to other employees
- Attend local seminars only
- Take advantage of internal resources where possible

## Subscriptions/ publications/ memberships

- Consider if you really participate in clubs/associations
- Consider discontinuing publications that do not add value to the business
- Eliminate duplication across the organisation
- Consider online subscriptions

## Taxes

- Challenge council property valuations used in council rate notices and land tax if they appear excessive
- Eliminate unused operating licences
- Consider winding-up dormant entities
- Consider variation of quarterly PAYG income tax instalments
- Schedule a tax planning meeting with your accountant prior to year end
- Reduce non-business use of motor vehicles provided to employees

## Travel and entertainment

- Take advantage of web-only airline specials and discounts
- Consider providers of low cost airline transport
- Retire the use of business class travel for domestic and short haul international travel
- Consider video conferencing instead of travelling
- Consider using the services of a corporate travel agency to consolidate travel management
- Consider flight and hotel packages vs booking independently
- Define hotel selection and disallow room service, minibar charges and other non-business related charges which may otherwise be hidden
- Set per diem rates on meals
- Reduce or eliminate cash advances and tighten receipts requirements
- Consider in-house entertainment rather than external
- Consider the use of corporate charge cards to improve spending visibility and manageability
- Utilise frequent flyer points where possible

## Warranty costs

- Implement quality-control programs
- Reduce the warranty periods on goods sold

Source:

- Dwayne Esterline (Cost Reduction Guide 2006)
- Glenn Matteson (100 Ways to Cut Costs in a Down Economy – Associated Construction Publications 3/5/2009)

## Cost of labour program checklist

Below are examples of some cost advantage strategies that may be of relevance to your business.

Steps	Completed
<b>1</b> Prepare the following: a. organisational chart b. schedule of every employee, allocating them between production/factory labour and other departments, detailing their salary/wage including on-costs	<input type="checkbox"/>
<b>2</b> Check if there is any legislation or union rules that require consideration	<input type="checkbox"/>
<b>3</b> Determine which roles are critical to the operation of the business	<input type="checkbox"/>
<b>4</b> Determine optimum staffing level in each department given current circumstances/workload	<input type="checkbox"/>
<b>5</b> Review current schedule of employees against optimum staffing level. If excess staffing levels do exist in any department then undertake an assessment of employees who should be retained	<input type="checkbox"/>
<b>6</b> Determine whether any excess staff may be retrained to fill vacancies in other departments	<input type="checkbox"/>
<b>7</b> Consider if there are any activities being conducted in-house which can be outsourced with no loss of quality in product or service to customers	<input type="checkbox"/>
<b>8</b> Consider the use of contract labour / temporary staff	<input type="checkbox"/>
<b>9</b> Identify staff that are working overtime on a routine basis and consider if this is required	<input type="checkbox"/>
<b>10</b> Identify part-time employees who are working beyond normal working hours	<input type="checkbox"/>
<b>11</b> Consider if employees can job share	<input type="checkbox"/>
<b>12</b> As an alternative to redundancies consider strategies such as: a. Voluntary reduction in hours eg. four day week b. Encourage time off without pay c. Consider reduced pay d. Enforce an employment freeze	<input type="checkbox"/>
<b>13</b> Map the day-to-day procedures and methods of each employee group and examine the process flow for inefficient procedures. Consider simplifying all processes and reducing the number of manual procedures	<input type="checkbox"/>

Labour and staff cost analysis

			On costs						
Employee	Division	Years of service	Salary (\$)	Superannuation (\$)	Payroll tax (\$)	Workers' compensation (\$)	Leave loading (\$)	Long service leave (\$)	Total (\$)

## Cost of sales program checklist

Below are examples of some cost advantage strategies that may be of relevance to your business.

Steps	Completed
<b>1</b> Prepare a schedule which details all products sold and the major cost component of each product. For a manufacturer, split costs between raw materials, labour and overheads. Prepare a summary of the current supply chain.	<input type="checkbox"/>
<b>2</b> Identify key suppliers and re-negotiate	<input type="checkbox"/>
<b>3</b> Consider whether the number of suppliers can be reduced	<input type="checkbox"/>
<b>4</b> Consider lower cost suppliers provided no loss of quality in product	<input type="checkbox"/>
<b>5</b> Check pricing on different materials and consider using more economical materials without compromising on quality	<input type="checkbox"/>
<b>6</b> Consider if the purchasing function can be centralised to take advantage of bulk discounts	<input type="checkbox"/>
<b>7</b> Consider rationalisation of your product range to eliminate the most non-standard products	<input type="checkbox"/>
<b>8</b> Consider standardisation of your product portfolio as standard products can be built to order without forecasts of inventory	<input type="checkbox"/>
<b>9</b> Consider reducing prices on slow moving items	<input type="checkbox"/>
<b>10</b> Ensure inventory is protected from damage, theft and spoilage	<input type="checkbox"/>
<b>11</b> Analyse warehouse procedures to identify inefficiencies resulting in slow inventory turnover, limiting of warehouse capacity and slow production times	<input type="checkbox"/>



## 6 Recommendations and approvals

Fill in one of these reports for each separate expense item. The following is a sample.

Cost advantage recommendation report	
Date	8 May 20xx
Expense	Staff recruitment
20xx figure	\$190,629
Cost down goal	\$150,000
New targeted figure	\$41,000
What are your recommendations? (Top 3)	
1	Rationalise the number of recruitment agencies used and renegotiate rates
2	Advertise directly on on-line job sites
3	Introduce referral schemes
What is the estimated time of implementing each recommendation?	
Option 1	1-2 months
Option 2	Immediate for all future hires
Option 3	Immediate for all future hires
What new policies need to be implemented?	
Option 1	Policy limiting contracts to top 2 agencies based on rates and past success
Option 2	Policy to be established detailing the procedure for online job advertising eg accounts to be established with specific web sites, HR approval required before add is placed
Option 3	Policy which details the requirements and conditions of the referral scheme e.g. monetary benefit matched to seniority of position, eligibility only if new staff passes probationary period

Cost advantage recommendation report	
Who else will be responsible/delegated?	
Option 1	HR Director and HR Manager (Recruitment)
Option 2	HR Director, HR Manager (Recruitment), HR Secretary to assist with placement of advertisements
Option 3	HR Director, HR Manager (Recruitment), Senior Management
Do you need assistance/resources?	
Option 1	No additional resources required
Option 2	No additional resources required
Option 3	Senior management to officially launch referral scheme

## Include your own data.

### Cost advantage recommendation report

Date

Expense

20xx figure

Cost down goal

New targeted figure

#### What are your recommendations? (Top 3)

1

2

3

#### What is the estimated time of implementing each recommendation?

Option 1

Option 2

Option 3

#### What new policies need to be implemented?

Option 1

Option 2

Option 3

### Cost advantage recommendation report

#### Who else will be responsible/delegated?

Option 1

Option 2

Option 3

#### Do you need assistance/resources?

Option 1

Option 2

Option 3

## Steps

# 7 Implementation 8 and communication

Once the program has been approved, establish a date by which implementation is to be completed and targets achieved. Communicate implementation of the Cost Advantage Program to employees as well as the new policies, procedures and responsibilities resulting from the implementation.

In carrying out the measures, it will be important to refer to the outcomes of steps previously covered, including consideration of:

-  **Project plan** – Ensure a project plan is developed including a timeline that clearly sets out key project milestones and dates
-  **Assigning responsibility** – Appoint project leader and team leaders for key components. These will act as drivers of the project, report on progress and ensure timely implementation
-  **Setting targets** – Enabling and encouraging feedback on the reasonableness of the targets set, the progress towards achieving these and the ability to meet the targets within the stated timelines
-  **Analysis** – Who will oversee the development of each person's plan and the continuity of the targets set?
-  **Options and approval** – Who will manage the continuity and clarity of the plans made and manage any possible conflict that may arise?
-  **Implementation** – Allocate tasks and responsibilities and incorporate reporting mechanisms
-  **Communication** – Essential to incorporate feedback mechanisms and that ensure communications are robust and flexible enough to accommodate any necessary changes
-  **Celebrate successes** – Maintain momentum by celebrating achievement of targets (and key milestones where relevant)



## Measure, monitor and report

Below is a sample spreadsheet that can be used to track progress of the Cost Advantage Program.

Expense	Previous year actual (\$)	This year actual (\$)	Variance (\$)	Variance (%)	Cost reduction target (\$)	Action By	Progress (Qtr 1)	Progress (Qtr 2)	Progress (Qtr 3)	Progress (Qtr 4)
<b>Cost of Sales</b>										
Opening stock	663,678	1,019,526	355,848	54						
Purchases and other costs	53,078,730	54,666,489	1,587,759	3	1,000,000	JP				
Closing stock	(1,019,526)	(1,180,551)	(161,025)	16						
<b>Expenses</b>										
Advertising	229,824	211,962	(17,862)	-8	60,000	DH				
Bad debts	129,031	414,674	285,643	221	250,000	DH				
Bank charges	26,219	39,155	12,936	49	10,000	VB				
Casual labour	3,300	14,025	10,725	325	10,000	KS				
Cleaning	58,909	69,239	10,330	18	10,000	JP				
Commission paid	390,677	609,982	219,305	56	300,000	VB				
Computer expenses	61,117	94,836	33,719	55	25,000	JP				
Conference expenses	69,145	113,302	44,157	64	60,000	KS				
Consultancy fees	164,035	118,158	(45,877)	-28	60,000	KS				
Debt collection	29,385	31,203	1,818	6	5,000	VB				
Depreciation	1,276,890	1,432,216	155,326	12		RD				
Donations	1,799	1,556	(243)	-14		RD				
Entertainment expenses	22,338	18,035	(4,303)	-19		RD				
Fines and penalties	10,861	7,587	(3,274)	-30		RD				
Freight and cartage	59,281	72,558	13,277	22	15,000	VB				
Fringe benefits tax	93,029	111,072	18,043	19	25,000	KS				
Fuel and oil	29,509	42,850	13,341	45	15,000	JP				
Hire of plant and equipment	49,693	122,617	72,924	147	60,000	VB				
Insurance	229,047	291,673	62,626	27	35,000	DH				
Interest paid	1,019,701	1,214,855	195,154	19	250,000	DH				
Land tax	45,098	44,975	(123)	0		RD				
Leasing charges	29,712	42,729	13,017	4		RD				
Legal costs	231,375	130,416	(100,959)	-44	50,000	VB				
Light and power	190,762	215,648	24,886	13	20,000	JP				
Motor vehicle expenses	190,520	248,636	58,116	31	50,000	JP				
Patent fees	25,281	22,280	(3,001)	-12	10,000	VB				
Payroll tax	227,676	268,357	40,681	18	40,000	KS				
Postage	11,861	14,543	2,682	23		JP				
Printing and stationery	94,696	138,733	44,037	47	40,000	DH				
Professional fees	193,028	166,797	(26,231)	-14	30,000	VB				
Rates and taxes	72,992	103,225	30,233	41		RD				
Registration fees	104,075	119,040	14,965	14		JP				
Rent	335,261	442,858	107,597	32		RD				
Repairs and maintenance	605,072	935,826	330,754	55	300,000	DH				
Royalties	39,500	34,000	(5,500)	-14		RD				
Salary and wages	3,775,930	4,553,267	777,337	21	1,000,000	KS				
Security costs	10,235	10,248	13	0		JP				
Staff amenities	51,751	67,861	16,110	31	25,000	VB				
Staff training and welfare	19,354	22,057	2,703	14		KS				
Staff recruitment	63,096	190,629	127,533	202	150,000	DH				
Subscriptions	40,734	44,415	3,681	9	20,000	VB				
Superannuation	360,903	424,920	64,017	18	85,000	KS				
Telephone	197,282	241,446	44,164	22	50,000	DH				
Travelling expenses	58,117	61,509	3,392	6	10,000	DH				
Uniforms	148,955	218,992	70,037	47	50,000	KS				
Warranty costs	296,581	375,125	78,544	26	100,000	RD				
Waste disposal	62,560	124,129	61,569	98	60,000	JP				
Workcover premiums	56,750	196,043	139,293	245	60,000	KS				
<b>Total</b>	<b>64,215,829</b>	<b>68,995,723</b>			<b>4,340,000</b>					



## Conclusion

We are confident this guide will assist you to save unnecessary costs in your business and improve your business efficiency and profitability.

As your trusted business advisors, Pitcher Partners can work closely with you to help you achieve sustainable cost advantages.

**We can assist by:**

**Developing a structured methodology**

**Acting as intermediary**

**Delivering independent advice**

**Providing a full service, using our specialist divisions such as Tax Consulting, Superannuation and Consulting to identify cost saving opportunities across all areas of your organisation**

For more information please do not hesitate to consult your local Pitcher Partners contact or:



**David Thomson**

Partner/Executive Director –  
Private Clients

 +61 3 8610 5000


 david.thomson@pitcher.com.au



**Gavin Debono**

Partner/Executive Director –  
Private Clients

 +61 3 8610 5331

 gavin.debono@pitcher.com.au



**Michael Langhammer**

Partner/Executive Director –  
Business Advisory and Assurance

 +61 3 8610 5148

 michael.langhammer@pitcher.com.au



**Paul Toner**

Partner/Executive Director –  
Private Clients

 +61 3 8610 5182

 paul.toner@pitcher.com.au



**Adrian Fitzpatrick**

Partner/Executive Director –  
Business Advisory and Assurance

 +61 3 8610 5128

 adrian.fitzpatrick@pitcher.com.au



**David Knowles**

Partner/Executive Director –  
Business Advisory and Assurance

 +61 3 8610 5146

 david.knowles@pitcher.com.au

## MELBOURNE

**John Brazzale** | Managing Partner  
+61 3 8610 5000  
partners@pitcher.com.au

## SYDNEY

**Carl Millington** | Managing Partner  
+61 2 9221 2099  
partners@pitcher-nsw.com.au

## PERTH

**Bryan Hughes** | Managing Partner  
+61 8 9322 2022  
partners@pitcher-wa.com.au



## ADELAIDE

**Tom Verco** | Principal  
+61 8 8179 2800  
partners@pitcher-sa.com.au

## BRISBANE

**Nigel Fischer** | Managing Partner  
+61 7 3222 8444  
partners@pitcherpartners.com.au

## NEWCASTLE

**Greg Farrow** | Managing Partner  
+61 2 4911 2000  
newcastle@pitcher.com.au

Pitcher Partners is an association of independent firms. Liability limited by a scheme approved under Professional Standards Legislation.