



How to develop a sustainable 'cost-conscious' culture.

During the recession many organisations made a concerted effort to tighten their belts, reduce waste and eliminate unnecessary costs. However, the economy is now showing signs of recovery, but that does not mean you should be complacent. Now is the time to gain an advantage by introducing company-wide cost control measures that will enable you to dig deeper into the purchase ledger so you can find yet more ways of effectively reducing or controlling expenditure. Here's some tips on how you can achieve a sustainable long-term 'cost-conscious' culture that can see cash savings of between 5 and 10%.

Centralise control, decentralise administration

The first step you need to take is to set up a well-structured framework of control mechanisms that are managed and deployed centrally but still give every individual or department the power to make purchases independently within the rules of the system.

Put your trust in staff by giving them more responsibility

If you empower employees to make the right buying decisions, you will win their respect and co-operation. With a devolved approach to accounting, where individuals can order goods and services with minimal effort, you can speed up procurement as well as maintain sufficient controls on expenditure. You can even introduce some form of reward for those budget holders who achieve the biggest cost-savings.

Build in tolerances & thresholds

With most modern accounting systems it is straightforward to build in tolerances and thresholds that can be applied to particular departments or individuals when buying specific goods and services. For instance if a proposed order is above the standard threshold set, then a second level of approval may be required. Not only can such controls measure the amount paid for certain goods or services but it can



also alert the system when the volume of say 'paper being ordered' exceeds the level that is recommended within a particular time period.

Set up preferred supplier lists

Encourage staff to buy from preferred suppliers that have a proven track record and can offer the best economical terms. By introducing new controls for new or unknown suppliers your staff will think twice about ordering from non-approved sources. Opening up negotiations with existing suppliers could also generate cost-savings as a result of volume-buying or loyalty discounts.

Tighten & streamline the approvals process

With electronic based procurement it's easier to speed up and control the procurement process. By allowing individuals to set up POs and then send them via email to the necessary recipient for approval, will result in fewer orders being stuck in someone's in-tray or delayed or lost in the post. By replacing manual ordering your staff will feel less frustrated as they are not bogged down with excessive paper, and approvals from budget holders will be faster.



✓ Devil is in the detail

It is always tempting to focus solely on big ticket items when you are scrutinising the purchase ledger, however big savings can be made by drilling further down into the small detail which may not look much on its own, but collectively can add up to a substantial amount over a year. Once you have identified the areas where greatest savings can be made, put in place the above controls to avoid similar wastage in the future.

✓ Use real-time reporting to spot inefficient spending

By creating up to the minute reports on different cost centres or budget holders you can see if the controls and systems put in place are working effectively or whether they need tweaking. You can also give budget holders access to their own reports so they can discipline themselves on procurement. All the information you need to understand your cost base can be found within the purchase ledger, so flexible reporting tools can help you pinpoint areas where savings could be made. On-going reporting can of course help you to measure how 'cost-conscious' the organisation is becoming and whether further improvements could be made.

✓ Join e-procurement marketplaces

End-to-end e-procurement is becoming more common, and there are now dedicated sites to serve specific sectors. These not only allow you to take advantage of better deals but they also mean that you can save on administration because the whole process from creating a purchase order through to BACS payment is done electronically. E-auctions are another option for reducing costs.

✓ Suppress PO numbers until approval authorised

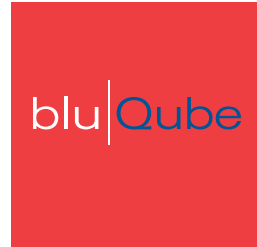
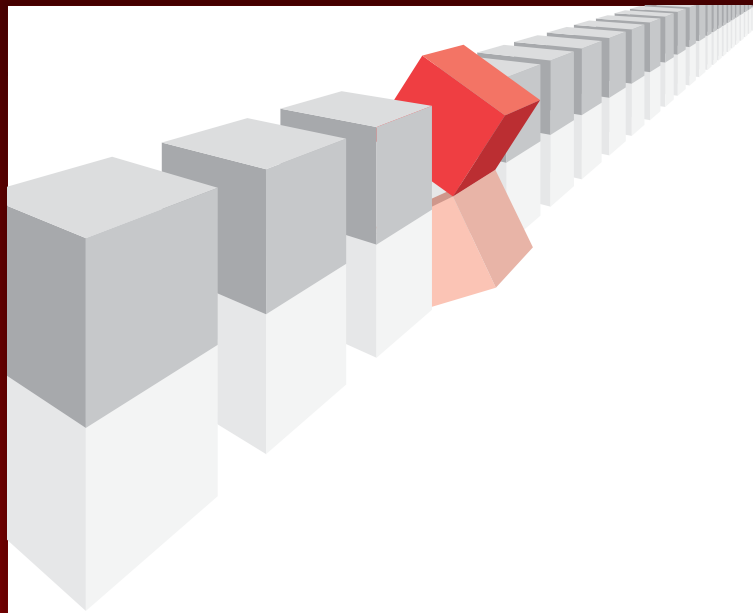
Maverick buying; that is goods being purchased without the necessary permissions, can be very expensive. Make sure you set your system, so that PO numbers are not revealed until approval has been given.

✓ Make it last

Continual review and evaluation of procurement patterns across an organisation will demonstrate whether a 'cost-conscious' culture is developing and targets are being met. The key to promoting such an ethos however, is to influence the behaviour of staff in a subtle way that improves the relationship and understanding between those that manage the company purse strings and those that spend the money.

With a devolved approach to accounting you can set the right balance between control and trust, allowing staff sufficient freedom that they don't feel they're being bullied, whilst maintaining enough positive influence over their buying actions.

Developing a lean, cost-conscious culture, with increased transparency will make your organisation more competitive, improve profitability, and make you more attractive to future investors. Doing so with latest technology delivers this culture with minimal day-to-day FD involvement in the finer detail of the purchase ledger, leaving you to focus on your more strategic tasks.



Find out more

An open, browser-based accounting solution such as bluQube that is based on a relational database platform helps you address key finance challenges. For further information call **08456 44 7788** or visit **www.bluQube.co.uk**

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