Reduce Operating Expenses and Keep Your Country Club "Up to Par"

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<u>Most companies are leaving 10-30% on the table in operating expenses</u>. *In the golf industry, savings opportunities exist in Food Service, Chemicals/Fertilizer, Waste Management, Uniforms & Linens, Insurances, Utilities, P/R Processing, Leased Equipment, Bank Charges and Merchant Card Fees.*

The Problem: Most companies believe they do a good job of managing expenses, but it will be surprising to most managers that they are still leaving significant dollars on the table across many large expense categories. Observation based on 18,000 engagements and with over 700 consultants, validates this viewpoint every day, and it continues to surprise companies by how much, and where, additional savings are found.

The Reasons: We will begin by exploring how these levels of savings are still possible, without any sacrifice to supplier quality or service.

How is overspending 10-30% possible? Well, there are a lot of reasons why it is not just feasible that a club is overspending but it's likely. And most companies are not just surprised at how much savings are found, but where they are found. It's usually not where you think it is.

Below are listed the **Top 6** most common misconceptions about procurement held by most professionals in procurement roles and how those misconceptions further contribute to the problem.

1. First of all, the goal of any supplier is to win all the business they can, at the highest price they can, and make it difficult for the buyer to get the lowest price. It takes "insider knowledge" of the suppliers' industries to find the best deal, and buyers rarely have it. It can be impractical to dedicate equal resources to less strategic cost categories. Most companies lack Benchmark Data to provide a pricing frame of reference for best pricing.
2. To get the levels of recovery we're identifying here, you have to go beyond general best practices in procurement, buyers need to start leveraging the idiosyncrasies within the suppliers' industries. You know your industry, but that's not where the money is when dealing with suppliers---it's knowing THEIR industry.
3. If you're a manufacturer, you may already be an insider in a strategic raw material, but in general, the challenge is that it may not be practical to invest that much time in most of your other expense categories;
4. Most procurement groups just don't know what price and terms are really possible in many industries, and those things change all the time. This information can be hard and timely to get and difficult to interpret for an outsider, so using an extensive knowledge base offered by cost savings experts may be the first step in understanding where you stand.
5. Negotiation Leverage is limited to the volume of the company's purchases---that's why Group Purchasing Organizations, or GPOs, are attractive to many people. Although supplying some savings, you'll learn in this article, you can do better than GPOs;
6. Lastly, a big reason why companies are overpaying suppliers is that there are many misconceptions that procurement professionals have about best practices and supplier behaviors.

The Solution: Following are **top 10 Best Practices** that accomplish positive results to take your expense management strategies from good to exceptional and key principles that clubs can implement to begin recovering significant cash flow:

1. **Getting the Results requires a Commitment---Develop a Strategy and a Plan**
   A Plan is **Not** just:

- Deciding to review the expense when it comes up for contract renewal
- Asking for a new quote from your current supplier
- Picking the top 3 industry names and pitting them against each other

2. **Analyze and Validate your Actual Purchasing History**
- How much do you actually spend?
- How many suppliers are you using?
- Are you buying what you thought you were buying?
- Who is really buying---How and When?
- How much of your purchasing is off-contract?
- Getting the credits you thought?
- Billing errors? Changes in Supplier Part Numbers?
- Pricing tied to the right Index? Bundling or Unbundling properly?

The answers to these questions will surprise you in that most buyers do not track this nearly to the degree they should.

Some Examples:

- Same Supplier was serving 3 local clubs but was providing different pricing on all the same items.
- For 15 years a New Jersey based club was splitting their purchasing between the Industries 2 largest broad line suppliers. The solution in this case was to approach the market with a RFP and two local suppliers provided saving of 22% and 15% over and above the two large broad line suppliers. The two incumbent suppliers offered NO Savings.

3. **Quality vs. Price**

It's not just all about the Price---you should be looking for the greatest value—often not the lowest price:
- Service Level Agreements
- Vendor Credibility & Reliability
- Quality & Delivery Records
- Account Management
- Problem Solution Processes, etc.

4. **Understand your Processes and the Real Usage Behaviors that drive your purchasing requirements**
- When you analyze your actual purchasing history and define your qualitative needs, you will find that you will question why you do what you do.
- When we take a client through this process, they are always surprised to find there are many business processes and assumptions that drive many of their supplier requirements are no longer valid, appropriate, or necessary.
- Many processes that drive purchasing requirements to suppliers need to be updated.
- As you re-evaluate these requirements you can have great impacts on lowering pricing.
- Also, always investigate how your Processes can integrate into your suppliers' processes?

5. Suppliers & their Industry - **Understand each of your suppliers' businesses and their industries like you understand your own**

- **Market Trends & Pressures**: This includes the timing of purchases, leveraging competitive behaviors, etc.
  - Example: Most chefs feel they can get the best price by spreading their purchases to multiple suppliers. **It's not uncommon that broad line suppliers will sharpen their pencil if they can count on getting 80% or more of your business**
- **Cost/Price Drivers:** This refers to how ordering patterns, frequency, location, timing, all have different impacts on supplier industries. Each supplier industry has a different "cost to serve".
  - Example: Restaurant managers sometimes place food orders each day, not realizing that for many suppliers that this ordering frequency was adding a lot of unnecessary cost to them, which the suppliers will pass back to you.
- **Pricing Benchmarks for Similar Companies, with Similar Spends, in Other Geographies**
  - Do you have Industry Benchmarks for your Uniforms/Linens, fertilizer/pesticide, and dumpster cost?
- **True Differentiation Among Their Competitors**
  - Understand the true differentiation among suppliers, as their products and services all have a particular position in their market.

6. **Re-Evaluate Your Current Supplier Relationships with these new insights**
    - You will likely see how you can restructure most of your current Supplier Relationships for better value to your club.
    - One rule that we find to almost always be true: The longer your relationship with the supplier the less likely you are anywhere near market on price or service unless you make them work for it.

7. **Go To Market Better**
    - Understand when to go out for written bids, and knowing what is the right frequency. This varies greatly.
    - It's not enough to go out to bid---It's knowing what the right Questions are to Ask within each supplier industry
    - Know all the ways to future-proof your bids and proposals within the various supplier industries.

8. **Negotiate Better** – Things to consider:
    - Develop Leverage from your insights
    - Separate Negotiator from Relationship Owner
        - Keep in mind that friendships will form and non-price related personal "perks", like box seats to sporting events, are often offered to buyers that may influence behavior in a way that's not in the best interest of the club.
    - Strategize & Plan the Negotiation---everyone in golf club management needs to be in sync
    - Help the Supplier Save Money: Don't be afraid to ask the questions of what you can do differently to get a better price.
    - Position to Be Their Dream Customer. What can the club do differently to allow the supplier to reduce their cost and pass those savings to the club.
    - Know All the Contracting Options

9. Do it quickly
- Equate it to a cash leak --- "This un-recovered cash flow is like a cash leak."
- Value of Monitoring
- Identify and fight Price Creep
    - One of our Analyst's overheard two Supplier sales reps at a conference where one asks about the big deal they were working on, and noted that they won it with a big hit to price, but then added, "don't worry, you know I can get it back within 6 months."
- Take the time to thoroughly review your invoices which may contain many errors --- many line items, orders and human error reside on both sides
- Suppliers don't believe you'll monitor invoices against the contract, track rebates and credits, and don't think you'll really change suppliers. They realize that the inertia of incumbency is real and it's on their side.
- SKU changes
- Passing on Industry-wide cost changes

10. Change the Culture.

Make expense management part of the clubs culture. Then, reinforce it with the right techniques, policies, and procedures.

- Do employees know that no cost is sacred?
- Do they spend company money like it's their own?
- Do they understand that a $1 saved can be the equivalent of $4, $6, or $10 in sales, depending on your margins?
- Are cost saving suggestions encouraged and pursued, and is all of this integrated into your penalty & rewards systems? One client, a Pennsylvania based club, rewarded their kitchen staff member with a $500 bonus for the best Cost Reduction suggestion.

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