

RSM! McGladrey

Accounting | Tax | Business Consulting

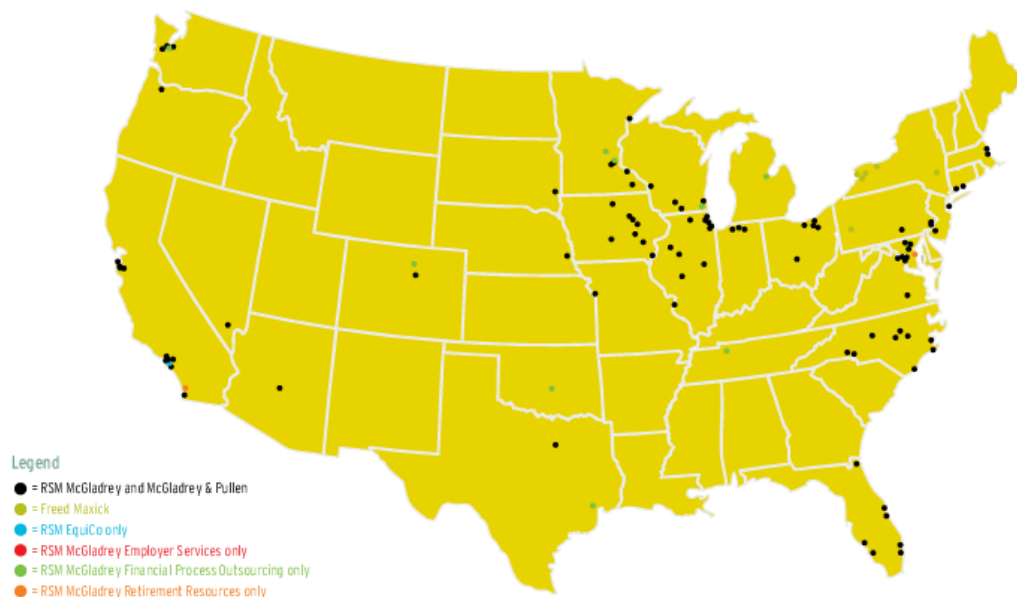


Eliminating Costs Without Layoffs



Firm Overview

- Founded in 1926 in Cedar Rapids, Iowa
- Fifth largest accounting, tax and business consulting firm in the U.S with nearly 8,000 employees in 120 offices nationwide
- Over 1,600 professionals in Economic Unit





Government Sector Practice

- We serve nearly 1,000 clients nationally in the industry
- Dedicated team of industry experts
- Local presence with a significant client base which includes city, county, state, and federal entities.
- Develop various collateral related to the industry
- Members and participants:
 - GFOA
 - AICPA
 - State Societies



Session Objectives

- Learn about 5 focus areas for strategic cost management
 - Spend Visibility
 - Information Technology
 - Claims Administration Review
 - Cash Flow Optimization
 - Operational Effectiveness
- Understand how these focus areas can help you meet your budget challenges for 2010 and beyond



How do I deal with tomorrow's budget pressures today?

In these turbulent times, reducing costs to address declining revenues is a daily battle for government organizations.

“As the drumbeat for historic state budget cuts grows louder in Topeka, Kansas school districts are **preparing parents and staff members for the pain.**”

– Kansas City Star, January 30, 2009

“The governor gave the South Dakota Legislature a revised budget Thursday, saying the projected **budget shortfall is twice as bad as had been expected** in December. State tax collections are falling faster than expected because of the recession, he said.”

- Rapid City Journal, January 22, 2009

“Mayor Michael Bloomberg says Wall Street firms are expected to lose a total of \$47.2 billion for 2008, and even more in 2009. The figures are **devastating for New York City.** Bloomberg is presenting his plan to address the city's growing budget problems as the economic picture worsens.”

- USA Today, January 30, 2009

“Non-profit organizations in Canada are **caught in a squeeze from the current financial crisis**, with a decline in charitable donations as demand rises for social services, says an investment analyst.”

- CBC News, November 10, 2008

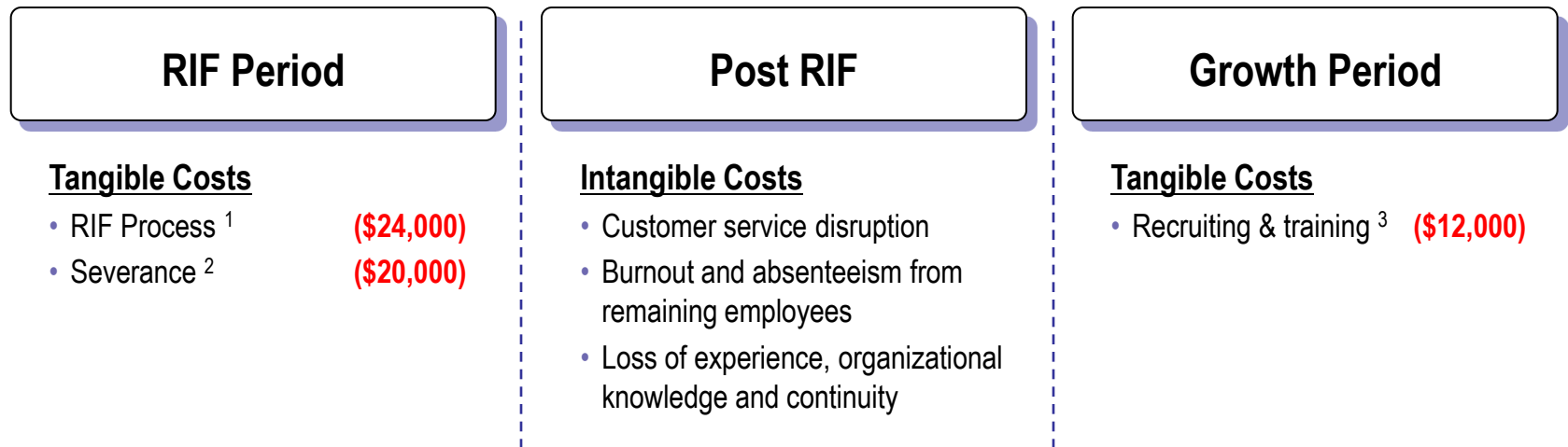
And the budget pressures are even greater for 2010 and beyond...



Strategic cost management is the key

Too often, organizations turn to reductions in force (RIF) and layoffs when faced with budget pressures. They provide short term cost reductions, but the savings are sometimes temporary and are eroded by the tangible and intangible costs of a RIF process.

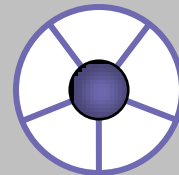
Example: Layoff of employee with \$60,000 annual salary and benefit load



¹ Average cost of a RIF process is reflective of 30% to 50% of the employee's annual salary (American Management Association)

² Severance levels vary widely, but typically range from 5 – 30 weeks for professional level employees based on tenure (Lee Hecht Harrison)

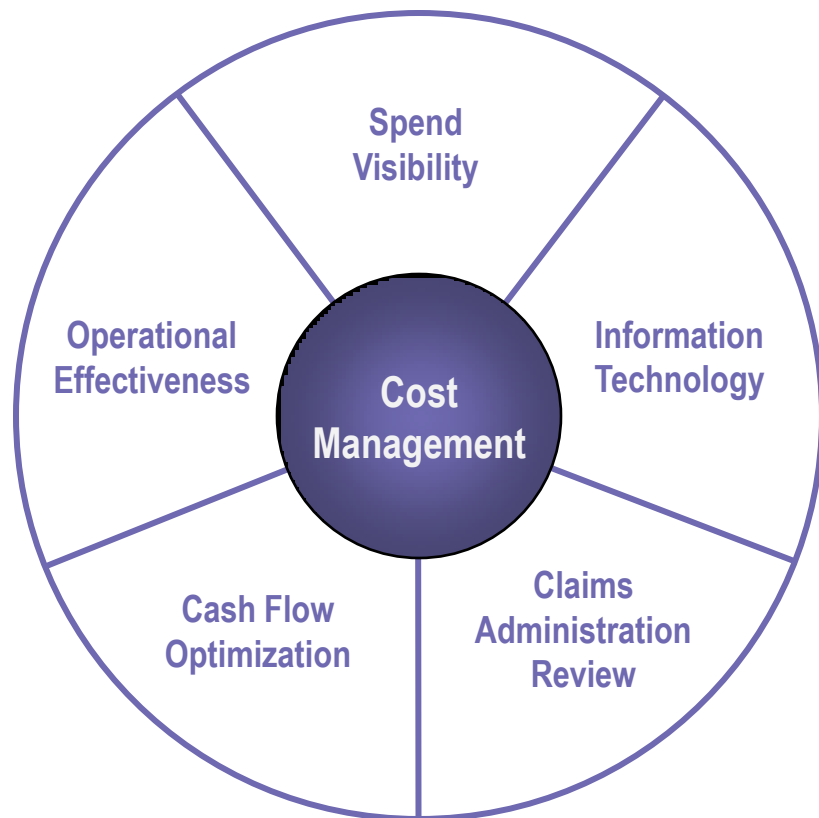
³ Average cost to recruit, screen and train new employees is between \$9,000 and \$15,000 (Workforce Management)

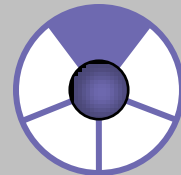


Strategic cost management is the key

Today we are discussing five cost management focus areas that can...

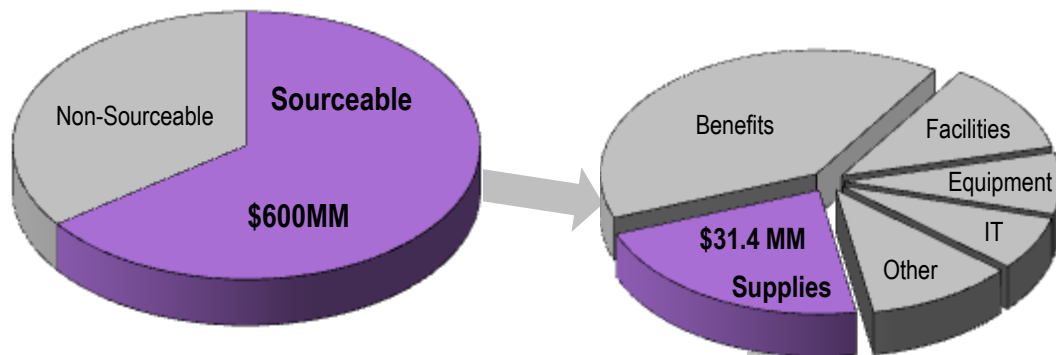
- Provide quick savings opportunities for today
- Provide reliable, sustained savings for tomorrow
- Help you better manage your budget for 2010 and beyond





Spend Visibility

First, understand what you are spending, *in detail, by category.*



Second, determine the actual spend you can address.

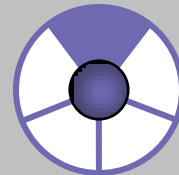
Total Category Spend	\$ 31,360,000		
Maverick Spend		4,704,000	15%
Other Not Addressable		3,763,200	12%
Addressable Spend		\$ 22,892,800	73%

Savings Projects	Addressable Spend	Save %	Save \$
Sourcing Event: Reverse Auction	\$22,892,800	10%	\$2,290,000
Category substitution strategy	\$5,151,000	5%	\$258,000
Category usage driver changes	\$7,211,000	20%	\$1,442,000

Total Savings

\$3,990,000

Third, execute strategic sourcing events or category-based cost savings tactics.



Spend Visibility

Strategic Sourcing Event: Reverse Auction

Category: IT Hardware

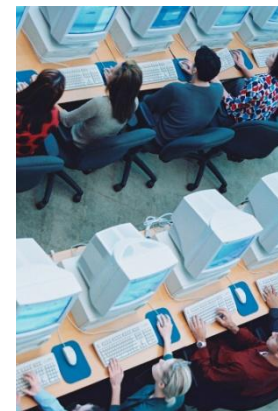
- Laptops, desktops, servers and monitors
- Historically, the annual anticipated volume was put out for bid to resellers
- Conducted a reverse auction among resellers and OEM's
- **36%** reduction in annual IT hardware spend
- **\$6.75 million** hard dollar savings



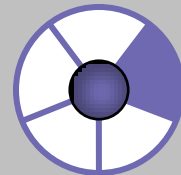
Cost Savings Tactic: Product Rationalization

Category: Training Materials

- Internally developed textbooks and workbooks
- Historically, textbooks and workbooks were separate items, ordered in the same quantities
- Combined textbooks and workbooks into single items
- **50%** reduction in print and freight cost
- **\$680,000** hard dollar savings



A detailed spend analysis *by category* identified these **hard dollar savings** opportunities.

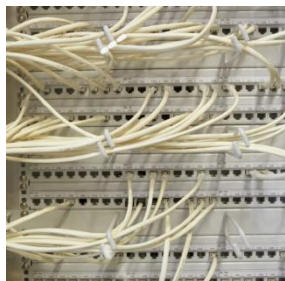


Information Technology (IT)

Proper selection and implementation of technology can significantly reduce your costs while maintaining or even improving IT services. Have you looked for cost savings in these four focus areas?

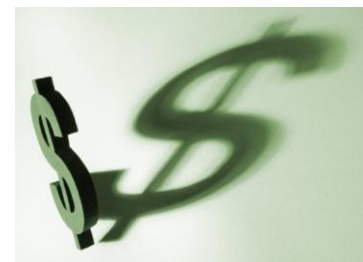
Architecture

- Thin client technology
- Server virtualization
- Storage optimization



Vendor Costs

- HW / SW maintenance
- Hosting fees
- Obsolete equipment or services



Telephony

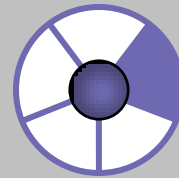
- Reduce # of PBX's
- Integrated call information
- Leverage wireless costs



Staffing

- Centralize
- Outsource
- Value stream





Information Technology (IT)

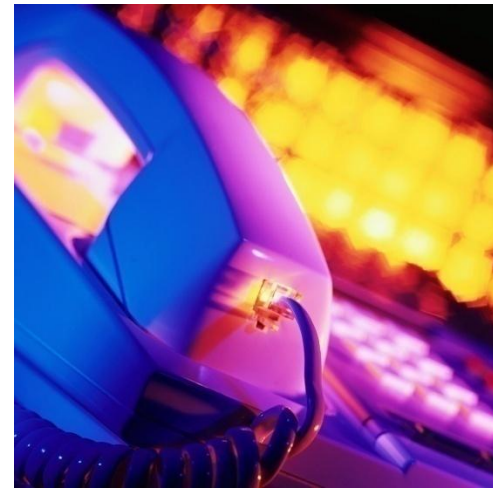
Organization: Major city in Iowa

Situation:

- Spent \$408,000 annually on voice and data circuits
- Five carriers provided services across 30 facilities
- Unable to determine types of existing services and contract obligations
- Resulted in delays with technology initiatives

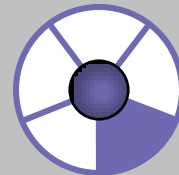
Approach:

- Conducted a carrier assessment (12 weeks)
- Consolidated to 2 carriers and renegotiated contract rates
- Introduced new technology



Results:

- Reduced annual spend to \$126,000
- **70%** reduction in telecom costs
- **\$282,000** hard dollar savings
- Removed roadblocks for technology initiatives



Claims Administration Review

Benefits are likely one of your top 5 spending areas. Often, organizations don't pursue cost savings in health care because of the perceived risk of changes for employees.

Is there a way to reduce health care spending without impacting employees?

Self-Insure Health Benefits

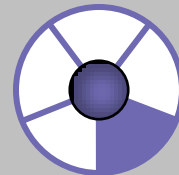
If you haven't recently, it may be worthwhile to assess the financial viability, benefits and risks of self-insuring health care benefits.

- Avoid insurance company loads
- Greater control over benefit structure & levels
- Participate directly in favorable experience

Claims Administration Reviews

There is often minimal visibility into the performance of third party administrators (TPA) or pharmacy benefit managers (PBM).

- Compliance with performance guarantees
- Deeper provider discounts passed through
- Drug manufacturer rebate program participation
- Dependent audits



Claims Administration Review

Organization: City government in Connecticut

Situation:

- 3500 employees with dependents covered by health care program
- 1:1.5 employee to dependent ratio
- ~\$6,000 annual cost per plan participant



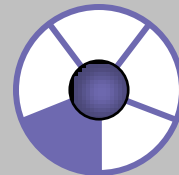
Approach:

- Conducted an audit of covered dependents
- Identified dependents that should be removed

Results:

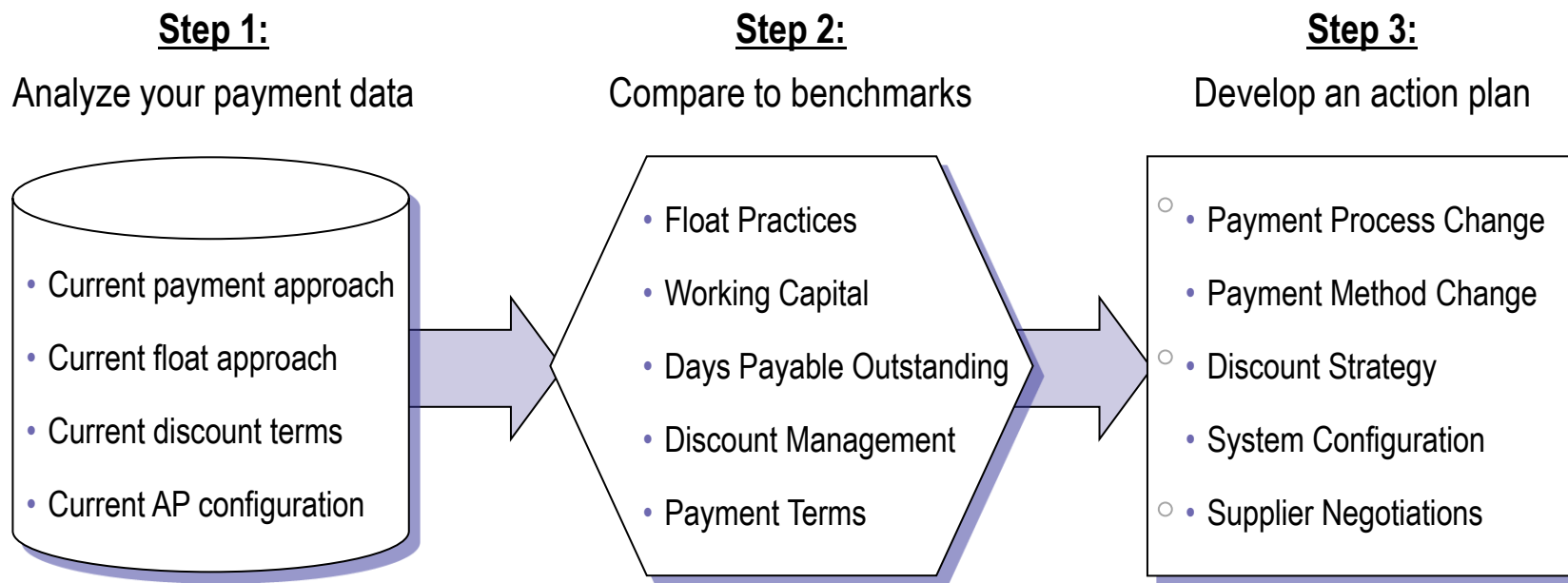
- Identified around 100 dependents to remove to date
- \$600,000 in prospective savings to date

The city has found real, hard dollar savings without impacting employees.

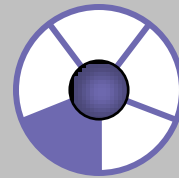


Cash Flow Optimization

Because Accounts Payable (AP) groups process practically every dollar spent by an organization, they are in a unique position to quickly and meaningfully increase cash flow and working capital.



There are likely *significant cash flow opportunities* hidden in your AP data.

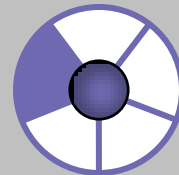


Cash Flow Optimization

In total, how much money does your organization spend? A typical cash flow optimization project can generate new working capital equal to 1% to 3% of total spend.

How Does it Work?

Annual Spend	\$250,000,000
DPO	14 days
Improve DPO	+ 6 days
<ul style="list-style-type: none">• Change automated pay cycle• Change standard payment method• Negotiate improved payment terms with suppliers	
Increase in Working Capital	
<ul style="list-style-type: none">• Percentage	2%
<ul style="list-style-type: none">• Dollars	<u>\$5,000,000</u>



Operational Effectiveness

Do parts of your organization operate ineffectively or inefficiently? The key to sustained cost savings is operational effectiveness.

For each function, ask yourself these 3 questions:

How are we organized to succeed?

- Activity Based Costing?
- Balanced Scorecard?
- Management Reporting?

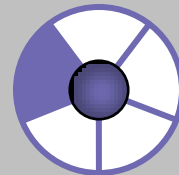
- Centralize?
- Outsource?
- Value Stream?

How do we measure performance?

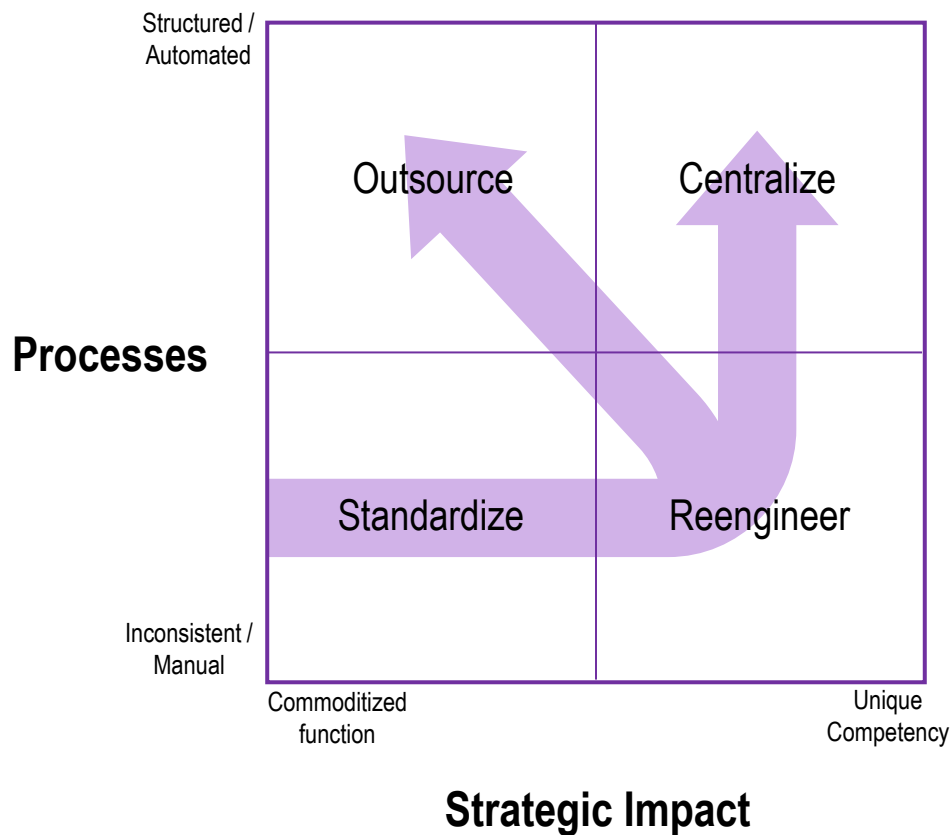
- Voice of the Customer?
- Process Redesign?
- Continuous Improvement Culture?

How do we improve ourselves?

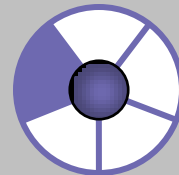
Now is the right time to reevaluate your core operations to find and keep savings...



How are you organized to succeed?



The right operational approach is critical to sustain your savings long term.



How do you measure performance?

Organization: Bureau of Waste Management

Situation:

- Finance Directors could not produce meaningful, reliable financial information at the bureau level
- Performance measured by only one metric
- Inadequate decision making and budgeting information



Approach:

- Established activity-based costing model
- Provided management reporting with complete costs and cost drivers
- Tied cost model to budgeting process

Results:

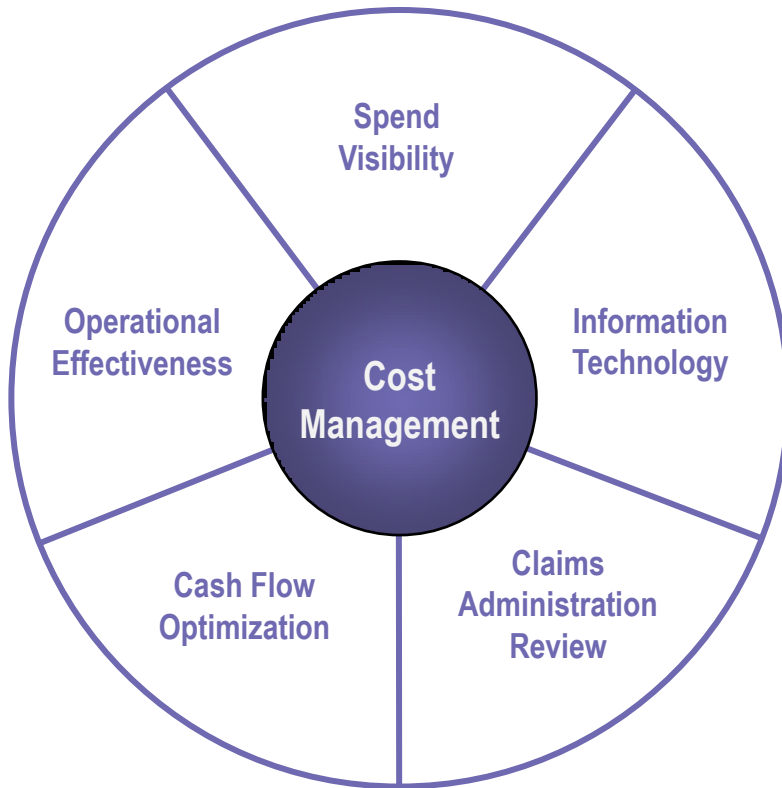
- More visibility to overall performance
- Better ability to manage and adjust budget
- Cost per trash pick-up crew and route

It is *impossible* to budget effectively if you do not understand your cost drivers.



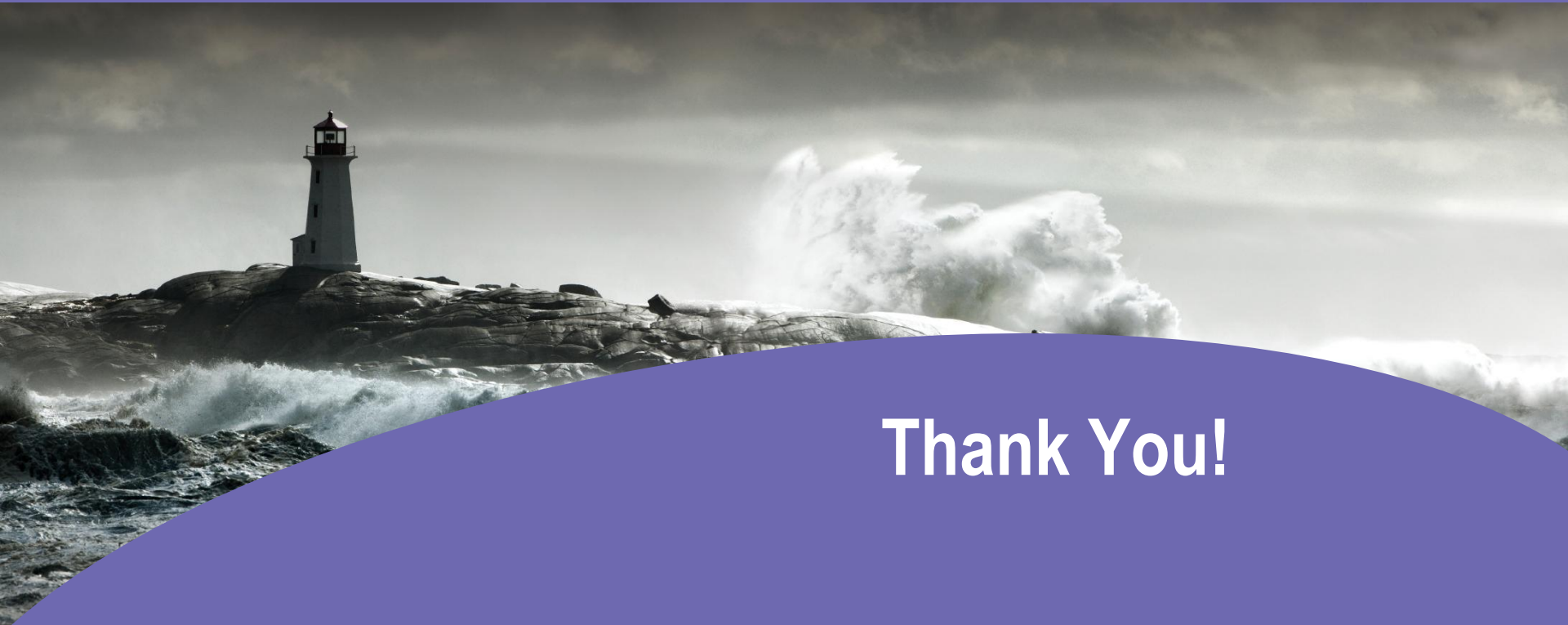
Strategic cost management is the key

Five focus areas for strategic cost management:



What should you do?

- Understand your spending *in detail*
 - Spend Visibility
- Consider *new areas* for savings
 - Information Technology
 - Claims Administration Review
 - Cash Flow Optimization
- Be *strategic* in your cost management efforts
 - Evaluate your operational effectiveness
 - Understand your true cost drivers



Thank You!

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