

The 3C Cost Control FrameworkTM

A proven framework to control cost and get better cashflow visibility

PREPARED BY **PROCUREDESK**

Our Story

- **What we do?**

We help small to medium-sized companies automate their purchasing and invoicing process so that they get better cost control and cash flow visibility.

- **3C Cost Control Framework**

3C cost control framework provides you with a step by step process to help control cost and improve EBITDA.

- **What to expect?**

Use this framework to control expenses and build a cost conscious culture.



Introducing the 3C Framework

THE 3C FRAMEWORK FOR COST REDUCTION

After working with 100's of large and medium-sized companies, we have noticed a common set of techniques to reduce cost year over year without compromising the revenue or EBITDA growth.

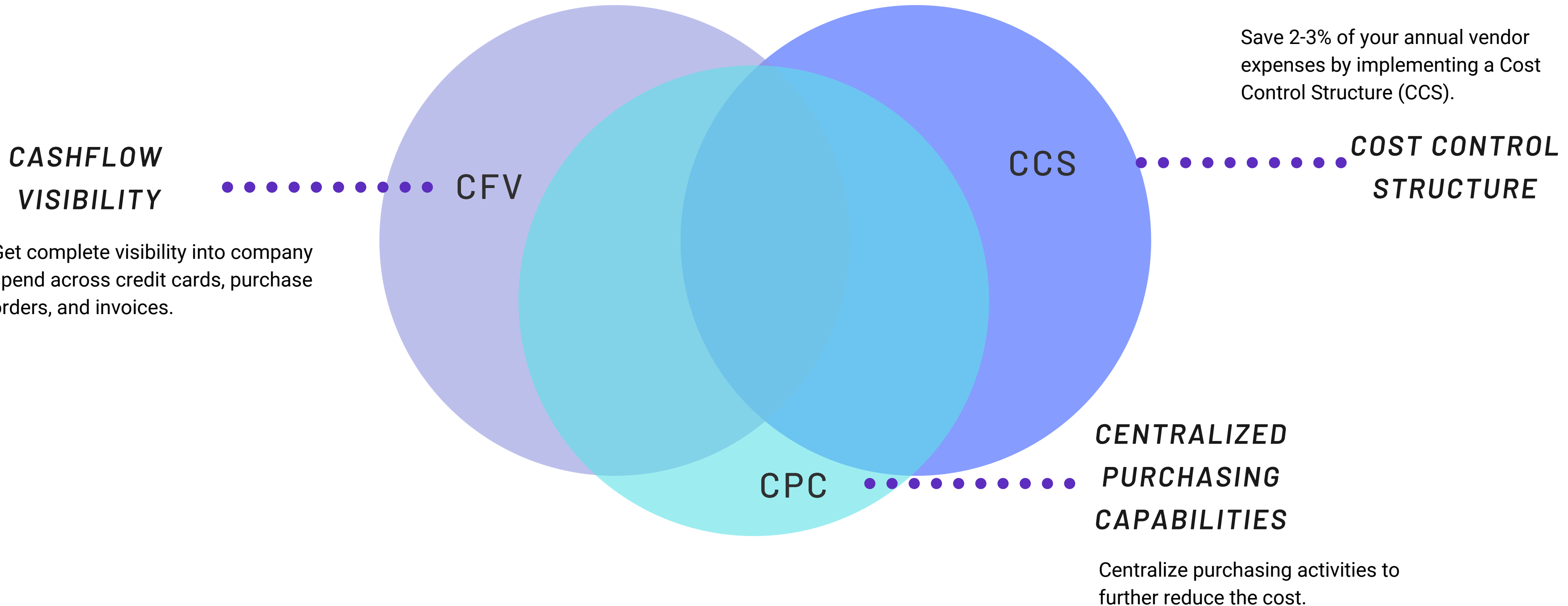
- Many growing companies struggle to keep their external vendor expenses under control.
- Over a period of time, they learn how to reduce costs without the need for strong oversight.
- So we designed this **3C Cost Control framework** to give you everything you need to manage cost as you grow your company.
- Rather than a hit a trial method, use a proven technique.

In this new 3C framework, we have captured the key strategies leveraged by Fortune 1000 companies to keep the cost under check.

By implementing this framework

- You would reduce costs without needing to approve every single requisition.
- You would develop a culture where accountability of expenses and cost management is the role of all employees and not just the CFO.

THE 3C FRAMEWORK FOR COST CONTROL



1st C -Cost Control Structure

COST CONTROL STRUCTURE

THE CHALLENGE

CFO's of many growing companies struggle with managing costs because:

- The purchases are not authorized before the invoices show up.
- Excessive credit card purchases without pre-authorization.

The end result is a chaotic purchasing process that lacks a cost control structure.

Result: The finance team has to spend precious time figuring out who authorized this purchase.

THE OPPORTUNITY

What is the quantifiable opportunity for cost control?

- As per the research done by Spend Matters - growing companies can easily avoid **2-3%** of the external cost just by having strong cost controls for purchase authorization.

As per Bain & Company, on an average **44%** of company revenue is spent on external vendors.

- For example - if your company has an annual revenue of \$20M, \$8.8M (44%) is spent on external vendors.
- **2-3% is \$176,000 to \$264,000 in annual savings!**

THE SOLUTION

So how do you go about setting up Cost Control Structure, here is the step by step process.

1. Setup a purchasing policy that covers who can authorize the purchase and when employees need approval.
2. Set up a purchase approval process. This could be a manual (e-mail based) approval process but you would get better adoption if the process is automated.
3. Revise the approval matrix so that at least 80% of the approvals are being done at the department owner level. For example - head of Marketing, Sales, etc. The end result would be cost control and increased cash flow visibility.

2nd C -Cash Flow Visibility

CASHFLOW VISIBILITY

THE CHALLENGE

CFO's and their teams generally rely on last year's forecast to decide on the next year's budget.

You go through budget review meetings and cut the cost based on the set financial targets.

End result: You probably would meet your numbers but you might compromise on Company's growth.

THE OPPORTUNITY

Use the cash flow visibility to drive better investment decisions.

- Successful companies realize that cost management is a continuous process and not a one-time activity.
- They build frameworks to review costs on an ongoing basis and then decide how to best spend capital.
- They review their spend more often and build a cost-conscious culture.

THE SOLUTION

Use granular spend data to review the investment results and decide on next year's budget.

- For example - instead of saying that we need to reduce marketing expenses by 10%. You could look at the granular spend across different buckets and channels.
 - Advertising
 - Direct, Indirect, and Online
 - Creative agency
 - Creative design, Web site updates.
- Let's take advertising. Instead of cutting 10% across all channels, you could look at the effectiveness (leads generated) across all channels and cut the least effective channel.

This is in essence a Zero-Based Budgeting model.

3rd C - Centralized Purchasing Capabilities

CENTRALIZED PURCHASING CAPABILITIES

THE CHALLENGE

As you grow, so does the Spend with external vendors. Employees purchase products and services from different vendors *but how do you know if you are getting the best price?*

It is not uncommon to hear this - we are too small to receive any sort of vendor discounts.

But you would be surprised how much you can save by consolidating your vendors and implementing a simple bid process. One of our customers was using 3 different vendors for office supplies!

By consolidating the vendors, they were able to reduce their office supplies costs by 10%.

THE OPPORTUNITY

As per research by Ardent Partners, companies with mature purchasing programs can save anywhere between **6.5% to 7.6% of their negotiated spend.**

So let's say on an annual basis, you are able to negotiate 40% of your external vendor spend.

For a \$20M revenue company, that is \$8.8M in external vendor spend. 40% of \$8.8M is \$3.5M.

The opportunity is to save anywhere between **\$228,000 to \$266,000 (6.5% to 7.6%)** on an annual basis

PROCUREMENT

THE SOLUTION

- Implement a strategic sourcing process i.e a process to negotiate purchases with the vendors.
- Hire a professional who has previous experience with strategic sourcing.
- Set up a threshold for spend that must go through a strategic sourcing process.
- For example, any spending over \$50,000 must be negotiated by the purchasing team. Review the stakeholder engagement every quarter and adjust the thresholds accordingly.

Stacking 3C's for Growth

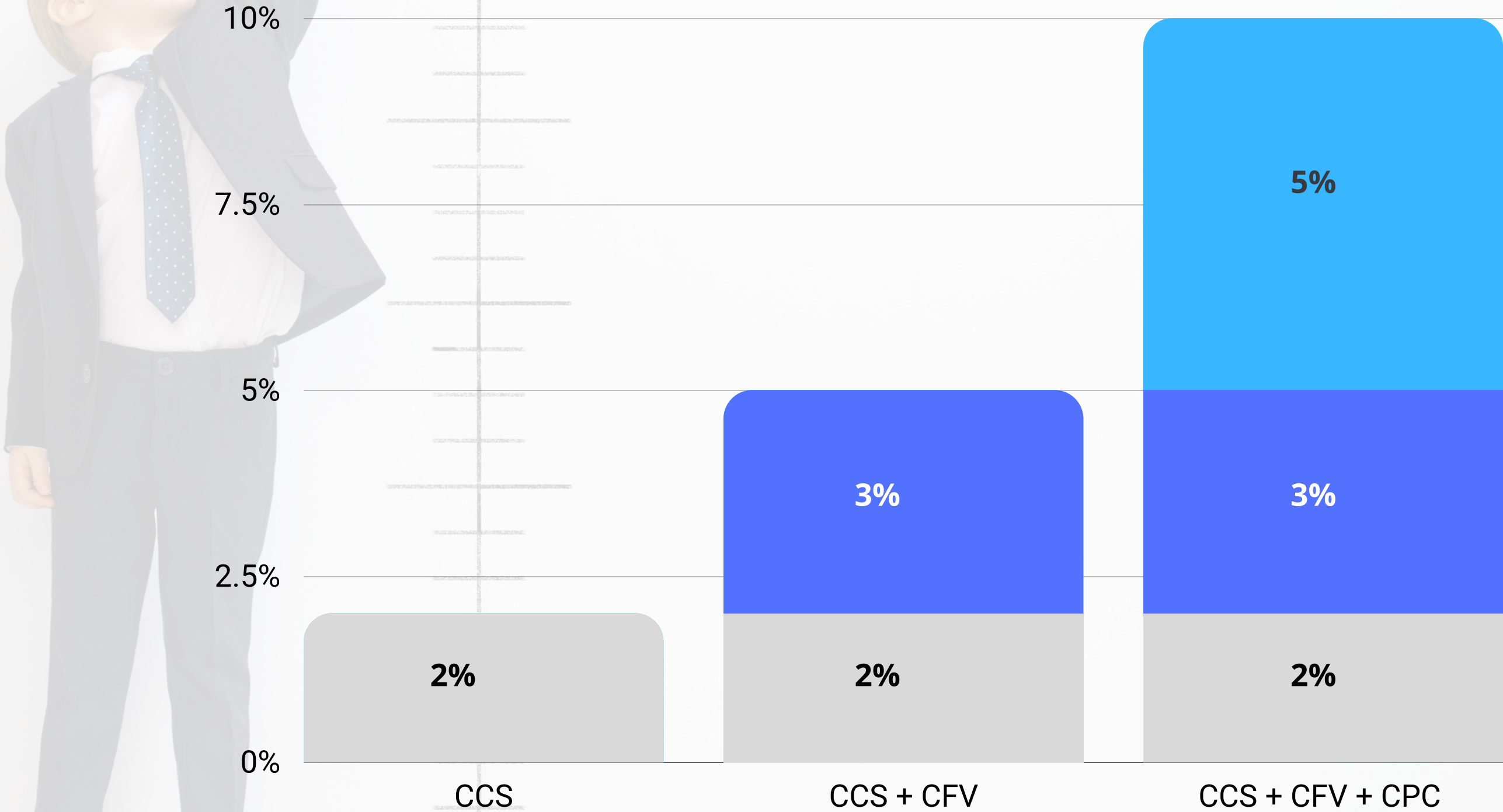
STACKING 3C'S FOR EXCEPTIONAL COST SAVINGS RESULTS.

Stack the 3C's to get better cost control over time. Here is what to expect when you move from a low maturity to a high maturity cost control model.

CCS: Cost Control Structure

CFV: Cash Flow Visibility

CPC: Centralized Purchasing Capabilities





**WHAT'S
NEXT?**

Next Steps

Use this framework to control cost and build a cost conscious culture.

We have built ProcureDesk to help you control cost and build a cost conscious culture so that you don't have to reinvent the wheel!

Want to work with us?
Sign for a demo and see for yourself.

[Schedule a Demo](#)