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Managing Your Non-core Expenses: It's Not Just about Turning off the Light

By Philip Moorcroft

There have been some rosy predictions made about the economy lately. Federal Reserve Chairman Ben Bernanke predicts the recession will end by the end of this year and the recovery will begin in 2010. Markets have rallied with news the U.S. government is pumping \$1.15 trillion into the financial and housing markets. There is a growing sense that the economy is improving and that government assistance will enable organizations to ride out the storm without having to focus attention on small-ticket items. That is a very dangerous stance to take in any economic climate.

These "small-ticket items" — ranging from limiting company travel to reducing free snacks — are often what we think of when we hear the term "non-core expenses," and yet this is farthest from the truth. Executives increasingly view non-core as cutting very basic elements from a budget, questionable items that very often have very little bearing on a company's bottom line. However, these costs are crucial when it comes to a company's expense management, often resulting in thousands or even millions of dollars in savings when managed correctly.

For example, a \$1.1 billion oil and gas company we worked with recently sought help in cutting costs and increasing cash flow by looking at their non-core expenses, including travel, telecommunications, warehousing and purchasing. The company had 1,000 employees and a \$4.2 billion market cap. After reviewing non-core expenses, the company was able to save 27 percent in non-core costs alone, totaling nearly \$1 million.



That said, we recently conducted a comprehensive study of nearly 150 senior executives to find out just how important they felt it was to manage these costs. The scope of the study was significant as the median company polled had annual revenues of \$464 million and more than 1,400 employees. The results were concerning to say the least: Just 31 percent of senior executives in the technology industry in North America view non-core expense management as important, significantly trailing other leaders in the services and manufacturing industries.

In contrast to the low numbers posted by technology executives, 57 percent of senior executives in the services industries consider non-core expense management to be important, followed by those working in the resources industry (51 percent) and manufacturing industries (45 percent).

Also, in our widespread interviews with executives, we found that most cost-cutting measures that were being looked at tended to be confined to non-core areas such as limiting travel or undertaking cuts such as switching to cheaper coffee brands.

We've seen countless examples of this in the media. General Motors recently announced it would stop sending its press releases over PR Newswire. Prior to that, the company decided to take the clocks off the walls to save on battery replacement costs, and the money spent paying someone to change the time by an hour in the fall and spring. Chrysler followed suit and announced they would be going from two to one fluorescent bulb in the overhead lights in offices at company headquarters. In addition, the company would be dropping the temperature in office suites by four degrees. While this may please the CEO and board members for the time being as effective cost containment tools, as there are savings to be found here, the reach of non-core expenses extends much further than these small areas.

Those companies that realize that non-core savings leads to greater cash flow are ultimately in a better financial position for the long term. And this improvement will lead into other areas of the business. In the end, layoffs may be avoided, company morale will improve because crucial benefits won't be slashed, and companies may receive much sought after loans from banks because they have increased cash flow.

Now that's the real rosy picture.

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