Expense Reduction Agreements

The premise behind an expense reduction agreement is that by engaging expense reduction analysts you will be able to increase profits through cost cutting. The areas in which cost might be cut under such an arrangement are generally non-core operating expenses such as freight, gas, waste management, telecommunications, packaging and health & safety.

A customary engagement in these respects is an agreement with an independent procurement company to analyse your company's costs in these areas and seek and recommend savings by switching suppliers, generally targeting something in the order of a 20% cost saving in the nominated categories. That margin is then shared with the procurement company.

Are they a good idea? They can be. My experience suggests you should keep the term of your agreement with a procurement company short term and introduce appropriate safeguards to protect you against having to accept the procurement company's recommendations should you not wish to do so. For example, you may have contra deals or other reasons to stay with a particular supplier. If so you would not want to be bound to change to a different supplier upon a procurement company's recommendations. Nor would you want to be forced to use a supplier who also supplies one of your competitors, if confidentiality is an issue for you or, if adopting their recommendations may put you in breach of an existing contract.

In short, these can be a good idea but there is a little homework to be done first and care to be taken over the contract.