
Lean Cost Management for Regulated Services
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Thank you for demonstrating a willingness to review our whitepaper
Please contact me with any questions.

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Increased Shareholder Value through Disciplined, Relentless Elimination of Waste

Identify Waste - Realize hard cost savings and Eliminate activity that adds no value
Recognize Value - Increase Return on Invested Capital and Earnings per Share
Discover Rapid Results - Analyze empirical data and Produce meaningful reports
Implement Policy Management - Manage workflow and accountability

One of the most routine administrative operations is the Accounts Payable Department. With the appropriate knowledge, the A/P department can become a major source for finding hidden profits in telecom and utility expenses.

The intention of most accounting systems is to track and report vendor invoice costs and compare the invoiced cost to standard or contracted cost. When businesses attempt to track and report regulated vendor cost, they are met with obstacles - the data arrives too late, is too complex, is not audited and/or is in a language or format most people do not understand.

Cost management reports present costs in a way that is faster, simpler and easier to follow. To achieve the desired results that cost management reports provide, business leaders need to understand their organization's current process and the burden of that process.

Once the current process to capture cost management is understood, a business leader should look at ways to reduce the cycle time - reducing the time and effort needed to collect required information and turn it into meaningful data.

Incorporating the "Lean" principles of efficiency and speed into the Cost Management process reduces the burden associated with the process. Consider this: If burden is based on labor hours then the only way to reduce the burden is to reduce the size of the workforce. However, when the burden is based on cycle time then the burden is lowered by reducing the cycle time of a process – making the process more efficient, freeing time to address matters relevant to the main line business.

Example: In a large manufacturing firm, the IT Director was spending 3 hours a month to track, and approve telecommunication invoices. Obviously, the firm could not remove the IT Director's approval function as a way to reduce the overhead cost of the process nor would they want to eliminate the IT Director's position. After value stream mapping the process, and implementing a future state by out sourcing the operation with Tariff Affiliates, Inc., the cycle time of the process was reduced from 30 days to 6 days. Tariff Affiliates, Inc. had found a better way to get the job done.

In the future state, the IT Director's time to approve telecommunication invoices was reduced to 30 minutes a month (from 3 hours a month). Removing 2.5 hours of the IT Directors time lowered the overhead cost of the process and allowed the IT Director to spend 2.5 hours on other essential actionable initiatives in the company.

In addition, the reduced cycle time eliminated all invoiced late fees, saving an average of \$4,000.00 per month.

As companies continue to downsize and find ways to improve efficiency and eliminate waste, incorporating lean initiatives in administrative and support activities is an important consideration.

When mapping the current state process most businesses use to pay utility invoices, it is not unusual to find the current state map contains 20 steps or more. In many instances the current process or cycle time takes over 30 days to complete which results in late fees and disconnect notices. When analyzing each of the steps of the current process, waste or “Muda” is evident. Duplication of work, information silos, and “over the wall” functions cause process complexity and slow important processes down. When a future state map is designed eliminating “Muda” from the current state map, cycle time can be reduced up to 75% and overhead cost reduced up to 50%.

Companies have little experience in applying lean concepts to administrative areas. A recent survey of Fortune 1000 companies showed that 80% have no process in place to monitor utility (gas, water, electricity, and telecommunications) expenses. Generally the current process is accepted as well as the burden fee and associated overhead cost.

When designing a future state map, in addition to identifying and eliminating waste many value added improvements (Kaizen) become evident. “Kaizen” improvements include improved inventory control, invoice verification, documentation of billing disputes, reduction of employee abuse of services, application of more favorable tariffs and identification of “breakage” (when a correct invoice suddenly has errors the following month).

Examples of Kaizen’s include:

- 1) Inventory: A large manufacturing firm’s telephone vendor was billing over \$900.00 per month for data services that were disconnected 6 years ago, resulting in a refund for over \$65,000.00.
- 2) Invoice verification: In a large Pipeline company, the telephone vendor billed for circuits 30% higher than the contracted price.
- 3) Employee Abuse: An employee’s personal cell phone calls overseas were over \$8,000.00 in a 2 year period.
- 4) More Cost Favorable Tariffs: A large franchisee company saved over \$50,000.00 a year in their utility cost when billed on a more cost effective service classification.
- 5) Breakage: A company was billed over \$1,500.00 a month for service after the billing error was corrected 6 months earlier.

Administrative functions represent a large percentage of the cost of doing business. Eliminating costly waste from administrative and office functions is a proven way to increase profit margin and shareholder value. Is your Accounts Payable Department doing all it can to add profit to the bottom line?