Nonprofit: a Tax Status, Not a Business Philosophy

By Scott Martens, director of Office of Service and Continuous Improvement, University of Minnesota

When we look at cost-saving opportunities in higher education, we are really concerned with examining how, where and why our financial resources are being used and determining if our financial resources can be used more efficiently and effectively. We must focus on the disciplined allocation of resources.

Below, I pose 10 questions you should ask yourself and your department about in cost-saving opportunities. During my 20 years of experience in driving strategic and tactical agendas to improve service, reduce costs and increase revenues for the U.S. Navy, General Electric, American Express and, most recently, the University of Minnesota, I have learned that the disciplined allocation of resources is not a principle of business, but rather a principle of greatness. In today's challenging economic times, it is also a principle of survival.

1. Do we have the right spans of control?

Spans of control deal with the management structure of an organization. How many people should a manager be managing? How many people should a director be directing? How many people should a vice president be vide presidenting? How many people should an adviser be advising?

Positions freed up by right-sizing the leadership structure can be dedicated to leading other cost reduction opportunities full time. You can train your people in skills such as quality methods, facilitation, project management, team leadership and change management. Often, improvement efforts are stalled because of the lack of resources, including people and money. When you lead with a span initiative, it frees up people and money—in other words, you can get the snowball rolling, and we all know success breeds success.

2. Where are we spending the money?

Has your organization done a deep-drill spending analysis lately? The results of this work will help shape the focus of your cost-saving efforts. It's time to torture the data and make it tell you where the opportunities lay. Perform a spend analysis of the last three to five years across the organization. Look at spending in raw dollars, changes in raw dollars, percentage of total spend and percentage change of total spend. Analyze things from multiple perspectives—for example, by campus, by college, by department, by administration and by faculty.

Keep spinning the data until it talks to you and screams, "Look here! Something needs further exploration!" Does your spending and percentage of spending reflect where your strategic plan is trying to take you? If not, you have opportunities.

3. Are we benchmarking and employing best-in-class purchasing and sourcing practices?

The beautiful thing about purchasing is it is almost pure dollar cost savings—virtually no staff reductions are involved.

- **Do we have the right people on the bus?** Look at the purchasing spend in your organization and compare it to a similar best-in-class company in the private sector. Where is its purchasing department aligned? Who do they report to? Do they have a chief procurement officer reporting directly to the CEO or CFO? How are their purchasing and sourcing organizations structured, and what skills do their employees have?
- **Have we fully examined (rationalized) and exploited all outsourcing opportunities?** Outsourcing is not the same as off shoring. Is this something our college or university should be doing, or can a private company do it better, faster and cheaper?
- **Are we leveraging our buying power?** Are we so decentralized in our buying practices that we can't drive and negotiate best-in-class rates for an organization of our size? If you're not big enough for leveraging power, join with other colleges and universities, or partner with the city, county or state. Why are you buying things such as paper, computers and beakers from so many different vendors? Variation can lead to quality issues, and having multiple suppliers dilutes your ability to leverage prices.
- **Are we paying on terms and conditions?** Some organizations pride themselves on paying bills immediately upon receipt. Are you monitoring (measuring) payment cycles so you take full advantage of your terms and conditions? Have we negotiated the most favorable terms based on our spend volume?
- **Is travel and expense management under control?** Have we negotiated preferred rates for certain hotels and airlines? Do we use an agency to book travel to gain favorable rates? Are we using the latest expense management techniques so expenses do not need to be rekeyed and can flow paperless? Are we able to get good analysis from the quantity, type and amount of expense spending going on?
- **Is technology spending rationalized?** Has your organization set a standard for the type of desktop and laptop computers that are acceptable to buy or lease? Do you have standard configurations or load-outs for computers? What is the standard replacement cycle? Do you buy or lease technology on a one-by-one basis, or do you buy in bulk to take advantage of additional discounts?
- **Does your organization consciously examine the lease versus buy options on purchases?** See Dan Sholem's article in this issue of *ASQ Higher Education Brief* for a more detailed opportunity discussion.
- **When you contract, do you have adequate competitive bidding in the process to increase the probability that you are getting best price?** One university achieved a 5% savings on a capital equipment purchase by reopening the bid process, making a couple phone calls and getting three versus one bidder into the process. The savings amounted to $500,000.

4. Why are we printing this?

Does it need to be printed? If so, set all your software and printers to default to two-sided printing and copying. Make single-sided the exception, not the rule. How many calendars do you and the alumni receive a year? Can it be sent electronically? Better yet, rationalize all your reporting. Is it even needed? How many resources are tied up in unnecessary reports? Have a rule: For every report added, one must be taken away. Hold off on doing a standard report and see if anyone notices—or how long it takes them to notice. Can it be delivered electronically? Why do we allow faculty or staff to purchase magazines or newspapers when our libraries provide all employees electronic access? At the 2009 University of Minnesota Quality Fair, a number of these grass-roots ideas surfaced and were captured as ideas for working smarter.

5. Do we have a print strategy?

Based on demand and usage, how many printers, copiers, fax machines and multifunctional devices do we need for an area? What is the best location and layout? Why do we have so many different brands of these devices? Do you have any idea how much an ink jet printer costs to operate? Why are we not using larger, generic ink cartridges and refills?

6. Why do a lot of our employees and dorm rooms need landline telephones?

Do all offices and rooms need to have landline phones? How about technology ports? What is the correct amount and type of technology connections to rooms and offices?

7. Are all those spouses, dependents and partners on benefit plans actually authorized to be on the plan?

An article in the *Minneapolis Star Tribune* details this opportunity.[1] The article states that pursuing this opportunity finds 10 to 15% of the dependents from company health plans are ineligible. Two friends I have at *Fortune 500* companies are required to verify benefit eligibility every year. I ran an analysis like the one depicted in the article for a university in 2005, and the estimated savings opportunity was between $3.8 million and $5.9 million annually. When was the last time your college or university asked you to verify or reverify dependents?

8. Have we rationalized our use of consultants?

We are so decentralized that, many times, a consulting firm has multiple contracts with various departments, colleges, centers and administrative units. When you aggregate the spending for any one consultant, does it exceed the contract threshold that would require a contract for services to be bid? How many years have we had contracts with certain consultants? Would it just be cheaper to hire these skill sets? Legally, are they really consultants, or have they become de facto employees?

9. What is the right model for our back office support services (such as HR, IT, finance, administration and communications)—decentralized, regionalized or centralized?

What is the right back office structure to provide a given level of service most efficiently? Does every center, department, unit or college need its own support staff?

10. When are we going to get started?

If you don't start down the road, you will be in the same place tomorrow. The worst action is inaction, and the worst decision is indecision.

As Robert F. Kennedy said: "There are those who look at things the way they are, and ask 'why.' I dream of things that never were, and ask 'why not?'"[2] I hope, after reflecting on the questions above, you can become more disciplined when asking questions about cost savings opportunities.

References and notes

1. H.J. Cummins and Liz Fedor, "NWA seeks to clean up health rolls; Ineligible dependents raise companies' costs," *Minneapolis Star Tribune*, http://business.highbeam.com/4871/article-1G1-133199260/nwa-seeks-clean-up-health-rolls-ineligible-dependents (case sensitive).

2. Robert F. Kennedy, http://thinkexist.com/quotation/i_dream_of_things_that_never_were-and_ask_why_not/11880.html.

3. To learn more about the University of Minnesota's (UM) leadership training and action learning activities, visit www1.umn.edu/osci/documents/jqp0409.pdf.

4. To learn more about UM's Quality Fair, visit www1.umn.edu/osci/programs/q_fair/2009/documents/2009workingsmarter.pdf.

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