



# COMPETITION

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## STAY TRIM, FIGHT LIGHT

REDUCING COSTS OF NONSTRATEGIC PURCHASES CAN HELP OPERATORS REDIRECT CASH FLOW TO THE FRONT LINES OF THE COMPETITIVE BATTLEFIELD.

In a competitive market, everything counts, including holding the line on costs. Fortunately, it's in MSOs' DNA to be careful about costs. In addition to the usual benefits, this provides financial scope to compete on price when required, and it makes available resources to invest in competitively important new products, marketing or customer service.

Most MSO attention and effort is on managing big-ticket costs of programming and of network equipment. Meanwhile, like other enterprises, cable operators may neglect costs of more diffuse nonstrategic purchases (see text box).

what they need to do their jobs." By changing the way things are done, eliminating waste or tightening policies, companies consume less, pay lower prices and improve the bottom line.

To illustrate, consider numbers reported by Comcast, which has done a lot of cost reducing following its merger with AT&T Broadband and is justifiably widely regarded as a well-managed company. In its 2005 annual report, Comcast reported \$5.186 billion as cable segment SG&A (selling, general & administrative) costs. Let's guess that nonstrategic purchasing expenses accounted for 25% of the cable segment SG&A, or approximately \$1.3 billion. Based on experience in other companies, let's further guess that the costs of such nonstrategic purchasing at Comcast could be reduced safely by as much as 10%. In 2005, this would have generated an additional \$130 million in operating income, thereby adding half a percentage point to Comcast's cable operating margin and adding almost 14% pre-tax to Comcast's overall net income. Savings in other nonstrategic purchasing categories that are classified as capex would have helped the capex reporting line as well.

Mindless bean counting undermines employee morale and can damage a business. What's needed, according to Jeff Wickham, is a common-sense approach: Look at the numbers to find out where there is a lot of money at stake and a reasonable potential for savings, then dig a bit deeper with the people directly involved to identify ways to make changes while continuing to support business needs. The result: a leaner, more flexible competitor. ■ ■ ■

### EXAMPLES OF NONSTRATEGIC PURCHASES

Document production	Office supplies	Courier services
Telecommunications	Office machines	Warehousing
HVAC	Training	Real estate management
Energy management	Mail handling	Inventory management
Temporary staff	Facilities maintenance	Insurance
Furniture supply	Subscriptions	Waste disposal
Vehicals	Office machines	Package delivery
Fleet vehicle management	Document storage	

Source: Jeff Wickham

According to Jeff Wickham, a sourcing and logistics consultant who is a longtime practitioner of the art of finding cost reductions in nonstrategic purchasing, it's not hard to spot the potential cost savings. For example, centralized purchasing contracts for some nonstrategic items drive down unit costs, but the amounts purchased under such contracts often are not closely monitored or managed. "If these stones have not yet been turned," he says, "you can readily find savings on the order of 5%-20% in many categories while still ensuring that employees have