

Cost Control Process



**RISK
& COST**



Rod Love redesigned and implemented a new policy and process within a Corporate Investment Bank to better control expenditure, which up until then had no Governance and was causing concerns for the CFO as the revenues had taken a sharp decline as a result of the Euro crisis.

Overview

The budgets set in 2010 were in line with an expected growth of 25% on the 2009's revenue and the newly hired senior managers were aggressively expanding their portfolios to match this expansion strategy.

However the Euro crisis at the start of the year had led to a steep fall in revenues and the CFO needed a way to turn the taps off and change the behavior within the organisation.

The Challenge

The management of the Accounts Payable was inefficient and open to fraud, because vendors could submit an invoice and it would be paid as there was little or no opportunity to check.

The existing sign off levels were fundamentally out of control (1 in 8 employees could sign off up to \$20k without requiring additional approval).

The issue required Rod to devise a framework that would change behaviour within the organisation. He wanted to ensure all outgoing costs had been reviewed and pre authorised, rather than after the fact.

The Solution

Rod used the Procurement process as a way to make people consider why they were spending money, and to get the team involved earlier in the sourcing decisions where they could add the most value in the process.

Rod went for a simple solution, in the new policy anything of a value higher than \$750 required counter signature from either the CFO or the CEO.

The approval would also require a Purchase Order – invoices submitted without one where rejected, saving on the cash flow and unauthorised expenditure.

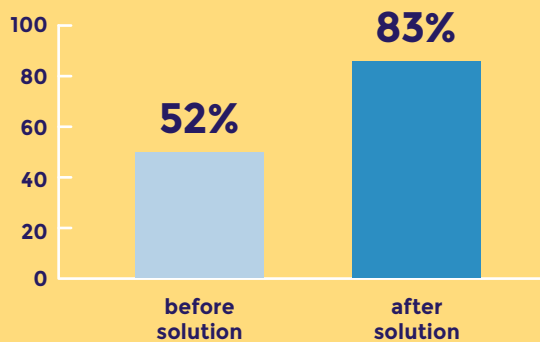
For this process to be adopted successfully, Rod enhanced the PO system so requisition approvals could be completed via smart phones. They did not need to be at their desks to sign off a requisition.

The adoption rate of the PO system rose from 52% to 83% within three months and the process is now embedded within the organisation. The other benefits were budget owners thought about how they spent their money as it was constantly under C-level scrutiny.

The Outcome

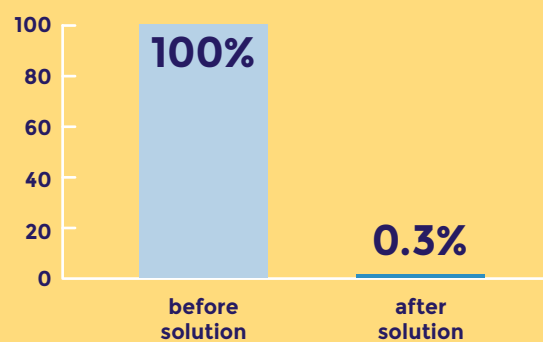
The CFO was able to gain control of the commitments the bank was making to third parties and prevent unnecessary spend before it happened.

Purchase Orders adoption



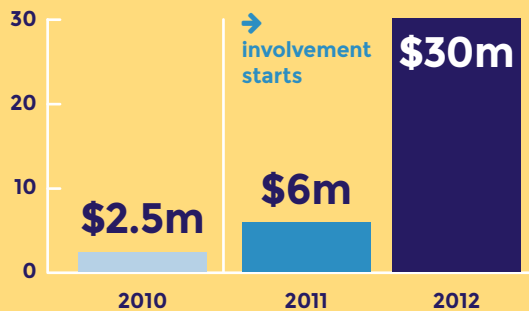
The adoption rates for Purchase Orders moved from 52% prior to the process being implemented to 83% (world class).

Payment duplication



Duplicate invoice payments shrank to almost zero.

Cost savings



The Procurement Team became involved earlier in the process and as a result booked savings of \$6m in 2011, an increase on the previous year of \$3.5m.

This contribution has continued to grow year on year. In 2012 the International Procurement provided \$30m in savings to the Investment Bank's Group.



Services delivered

- ✓ CXO²
- ✓ Driving Down Risk and Cost
- ✓ Vendor Management Solutions
- ✓ Financial Control
- ✓ Process Improvement