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Cost-Cutting Beyond the Obvious

By David Moin

Facing myriad challenges because of the troubled economy, retailers are cleaning house.

Downsizings have been dramatic at Macy's Inc., AnnTaylor Stores Corp., Talbots Inc., Zale Corp., Starbucks and Gap Inc. Payrolls, capital expenditures and every component of selling, general and administrative costs are being subjected to greater scrutiny, along with merchandising and marketing strategies.

High-profile consulting and accounting firms, such as Kurt Salmon Associates, McKinsey & Co., Accenture and Deloitte & Touche LLP, often are called in to reengineer the merchandising or marketing to achieve efficiencies and bolster operations.

But for retailers seeking creative ways to save money without an upheaval or cultural shift, there's also a subset of smaller consulting firms, such as New York-based Callydus Group LLC; the larger Stout, Causey & Horning, and EnerNOC Inc., which embraces cost-cutting from a slightly different angle. They investigate often overlooked areas where there could be room for savings, such as advertising; freight; printing; IT; telecom; office, store and warehouse equipment; maintenance; supplies; leases; utilities, and property tax assessments.

Don Eugene and Bennett Gross of Callydus even see opportunities for cost savings in disposing of trash.

Their firm, which specializes in expense reduction at retailers and other businesses, last July rummaged through the accounts payables of one client, a 400-unit regional general merchandiser, and saw a red flag — costs for garbage removal were piling up faster than the garbage.

"They were paying \$1.8 million for trash disposal because they were using several trash removal companies, and the stores had anywhere from one to seven pickups a week," Gross said. "There was no relationship between the pickups and the size and volume of the stores or how much trash they generated."

Callydus came up with a national trash hauler and a schedule applied across the board and



EnerNOC's network operations center in Boston automatically gets retailers, groceries and other businesses to reduce energy usage during peak demand periods.

Callydus partners Don Eugene and Bennett Gross.



saved the company \$380,000 a year, or 28 percent of the previous expenditure. "It was a matter of understanding the number of pickups, the number of bins, the size of bins and the extent they were used to capacity," Gross said. "We understood the volume of trash that every store generated."

Tax payments are a favorite target of SC&H, based in Sparks, Md. It operates as an accounting and consulting firm for department, apparel and supermarket chains, challenging state and

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local personal and real property tax assessments and ensuring that assets are properly valued and classified.

SC&H identifies unrecorded disposals, known as ghost assets, and identifies credits and exemptions. It also consults on issues such as Sarbanes-Oxley compliance and supplier assurance, scrutinizing contracts to see that billings adhere to contract terms, such as discounts

for retailers that pay suppliers within 30 days.

In addition, SC&H will help retailers pay appropriate sales tax on properties being bought and the appropriate personal property taxes, bringing in appraisers to eye items such as clothes racks, shelving, cash registers and other equipment that most states value and tax.

"Sometimes people don't focus on personal property taxes quite as much as they do on real estate," said Jeffrey Glock, a partner at SC&H.

Glock noted, for example, that computer equipment goes into one category that depreciates at a certain rate and furniture goes into another category at a different rate. "Frequently, retailers don't classify assets correctly," he said. "Then they overpay their taxes."

SC&H said it obtained personal property tax refunds in 32 states totaling more than \$22 million for one national retailer, and reduced real property tax assessments 28 percent annually for another chain for two distribution centers.

"The current challenging economic environment mandates keeping close control over all expenses," said Peter Costa, director of property tax at Target Corp., an SC&H client. "Close property tax control and administration ensures that real and personal property tax expense is fair and equitable. Maintaining tight valuation

controls is a key factor in reining in these expenses.”

Boston-based EnerNOC’s enemy is overconsumption of energy. It helps retailers, manufacturers, hotels, hospitals, ski resorts, distribution centers and dairies reduce consumption during peak demand periods that can stretch utilities to the max, and helps companies obtain competitive energy supply contracts and even receive payments for participation in energy conservation programs, sometimes amounting to hundreds or thousands of dollars each month.

EnerNOC, a \$61 million public company, has an “energy network operations center” that, from its Boston location, will curtail power usage at many client companies. For example, on a hot August day when power use reaches a peak, the center will automatically turn off certain lights at a store, or reset air-conditioning at a higher temperature. It also could turn off the antifogger heaters in refrigeration units at grocery stores.

“We use technology to do interesting things with energy,” said communications manager Sarah McAuley. “Demand response is our primary business.”

For taking the energy load off, utilities pay EnerNOC and, in turn, EnerNOC passes along a portion of that money to its clients, which include AT&T, Stop & Shop and the Cabot Creamery dairy farm.

“Lots of firms talk about being energy efficient through capital-intensive projects like switching out the lighting infrastructure or production equipment or using energy-efficient appliances,” McAuley said. “But EnerNOC is a zero capital investment and an additional revenue stream. Money is coming in, instead of going out. There is a time investment, but no capital investment.”

Eugene said Callydus has saved its clients,

including law firms, manufacturers and publishers, as well as retailers, a combined \$135 million, or an average 10 to 15 percent across all areas of nonpayroll expenses, since the firm started two years ago, and helped them reset the bar on their pricing and purchasing practices.

Callydus, which is Latin for “skillful,” has a staff of 12, including 10 who analyze clients’ expenses and conduct vendor negotiations with suppliers, ad agencies, shipping firms and others. The firm also will introduce retailers to new vendors to leverage existing suppliers.

“Very typically, the vendors are anxious to keep the business, but it’s very important we don’t disrupt relationships with vendors,” Gross said.

When there are multiple vendors performing the same service or long-term relationships with vendors, bells go off.

“It means it could have been a long time since anybody has looked at the relationship with any healthy skepticism,” Gross said. “We are not just providing a business plan, or a set of recommendations; we actually do the negotiations with major vendors.”

Callydus does a free diagnosis, which usually takes a week to 10 days, and guarantees a minimum savings of twice what it gets paid. The company requests a weekly fee based on the amount of work and a percentage of the savings.

“Unlike most consultants, we don’t attempt to offer all things to all people, tell our clients how to run their businesses or develop broad business plans for our clients to implement,” said Eugene, a former Macy’s chief financial officer and former president of retailer I. Magnin. “Instead, we provide a discrete service — actually putting into place concrete and very significant savings in a very short time frame.”

Callydus just saved one Internet retailer \$2 million a year by renegotiating terms with credit card processors and the issuing bank. “There is a multitude of charges from Master Card, Visa, banks, processors, membership fees, chargebacks, that most merchants aren’t even aware of,” said Gross, a former attorney at Weil, Gotshal & Manges and a former associate general counsel at Macy’s, where he met Eugene. “There’s a chain of organizations involved in processing your credit card transactions.”

One general merchandiser saved \$1 million annually that had been spent on printing, store supplies, newspaper inserts and pre-media work, including photography.

“The chief executive officer was in charge of advertising, and he didn’t want us to touch it, but we felt we could save him \$1 million and convinced him he was overpaying the advertising agency for media purchases,” said Gross. “There was a person on-site from the ad agency who was being paid too much and overcharging for production, and the agency also got a bonus based on increased sales.”

In another case, Callydus said it saved a retailer \$300,000 a year by changing the grade of the paper for circulars. For a multistate discount retailer, in just seven months Callydus produced annual savings of \$3.6 million in areas such as printing, advertising and freight.

“Think of it like running a household,” Gross said. “You have to be cost-conscious, but you have other priorities, like getting your kids to school, getting food on the table, checking on relatives who may be sick. You don’t necessarily have time to check the fuel bill to see if you’re getting the best rate, or looking at something like biofuel. We do things retailers can’t do.”