



Improving Profitability by Strategic Sourcing – Employee Benefits Example

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Client Situation

Native New Yorker, Dela De La Fuente, president and CEO of Alpha Title & Closing Agency, has been in the real estate arena since February of 1975. With her business and home now in Atlanta, Dela views this downturn in real estate as an opportunity to wisely improve, grow, and expand her business.

Alpha Title & Closing was looking for funding to enter new markets, and for processes to simplify the major spending decisions for growing the business in a very slow market. That is why Dela engaged COGNEGY to come in and help evaluate her current operations and help prioritize growth opportunities.

By first evaluating the current Fixed Expenses, COGNEGY found a way to save 60% on annual Employee Benefit costs, which then provided the working capital to reshape and re-position Alpha Title & Closing for improving both their growth and profitability in the midst of this historic downturn in the real estate market.

COGNEGY's Approach

When business slows down for an extended period of time, this is great time for a company's CEO and senior leadership team to invest the time and energy to develop new growth strategies. And with the current pressures on profitability across all companies, the best way to fund these new growth strategies is through re-allocating some of the current operational spend.

COGNEGY calls this 'self-funded business transformation'. Whenever possible, this is the way COGNEGY approaches each client; by reviewing the current operational expense structure and finding ways to create the savings to fund the new growth and profitability initiatives for the client.

One of the best places to start with this type of review is with Fixed Expenses; these are what impact profitability the most for any company when their market drops off or becomes very erratic. These costs are there each month whether the revenue is there or not.

Based on our experience with companies in both the service and manufacturing industry, the top Fixed Expenses are very similar. In almost every company, 4 of these top Fixed Expenses (less Payroll) are –

Employee Benefits, Real Estate, IT equipment and support, and Communication services and equipment. At least 3 of these 4 are always outsourced to an external provider, and IT is outsourced over 50% of the time. While Real Estate contracts are usually 3-5 years in length, the other 3 contracts are usually 1-2 year contracts. By reviewing and optimizing these 4 major Fixed Expense areas, COGNEGY has often found the funding for our client's growth initiatives – and were successful in doing so for Alpha Title.

Even if a company is not looking for growth funding, the worst thing to do for any of these major Fixed Expenses is to automatically renew these services; very few times are prices ever pro-actively reduced to market levels by a current vendor.

Impact for Alpha Title & Closing

Since their Employee Benefits had the closest renewal date, this was where COGNEGY started. The current services were from a major PEO provider, where the services included a bundled payroll, employee benefits, and workman's compensation program with a single price for all services.

In a PEO model (Preferred Employer Organization), a company's employees are legal employees of the PEO. The strategy behind a PEO services model is to provide a very large pool of employees from across dozens of smaller companies to help reduce the benefit rates from the insurance carriers. The logic in play here is that a this extremely large group of employees – on average - will have lower health care rates than any smaller group of employees from a single small business.

The challenge for any client in a PEO services model is their ability to understand their actual costs and compare it to the market. In most PEO's billing statements and other client communication, the rates for all services are 'bundled'. This makes it very difficult, if not impossible, for clients to understand if the health care rates are indeed lower than they could obtain directly from the market for their employee base.

For Alpha Title & Closing Agency, COGNEGY leveraged the help an independent insurance broker and was able to reduce the annual Employee Benefit, Payroll and Workman Comp costs by 60%. These 2009 savings provided the capital to work with COGNEGY on developing 2 new web sites - for both the commercial and residential markets - and to also invest in the SBA 8(a) certification process for improving Alpha's competitive positioning for pursuing HUD and other emerging, government-related Real Estate service opportunities.

And – even though Alpha Title & Closing was able to reduce their annual spend in this area by 60%, the employee benefits were not reduced significantly. The primary changes were small increases in both the deductible amount and the co-pay. The key to being able to do this was engaging the right independent broker that priced coverage from all major carriers – AND then provided this pricing information from all carriers directly to the client with complete transparency.

Expanding her business is, even within the present economic climate, still one of Dela's goals for 2009 - and this is now more achievable than ever with the transformational funding provided from COGNEGY's optimization of Alpha Title & Closing Agency's current operating expenses.