

RESEARCH REPORT:

Cost Analysis Methodologies

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RESEARCH REPORT:

WorkClothes.com is a 750 million-dollar provider of occupational uniforms for industrial, healthcare, and public safety organizations. The company is based in Toledo, Ohio and is served by a network of 500 depots and sales offices throughout the United States, Canada, and Europe.

The value proposition of WorkClothes.com during its ten years in existence has been to provide fashionable, durable, clothes through a comprehensive network of delivery and laundry services in which WorkClothes.com owns entirely.

There has been increased competition from companies in China, India, and Bangladesh who are offering lower prices due to reduced costs. It appears that the cost of similar services from these companies is significantly less than WorkClothes.com due to reduced costs related to manufacturing in their host countries. WorkClothes.com currently manufactures its own clothing in the United States in its textile mills located in Salisbury, N.C.

In pursuit of making WorkClothes.com more competitive in the market place and to meet competitor's price points, the following are five key areas in which to reduce fixed costs related to manufacturing and distribution.

1. Manufacturing Costs: Considering that the manufacturing of uniform and clothing items is done within the United States, there are multiple options in moving this area off-shore. By franchising the design and material characteristics, WorkClothes.com has two alternatives to manufacturing within the U.S.
 - a. WorkClothes.com can enter into agreement with an offshore clothing manufacturer to make the clothes to specification. Such an approach would virtually eliminate the need for factory space, personnel, and other assets related to the making of such clothes.

RESEARCH REPORT:

- b. If quality or other criteria is too critical for WorkClothes.com it may establish off-shore manufacturing facilities which would be managed by firm personnel. This would ensure that adherence to company standards and practices are upheld.

Unfortunately, a substantial investment in moving such operations abroad could be costly and substantial time may pass before benefit is realized. Issues relating to the purchasing or leasing of property, capital investment, and personnel would make this a secondary option.

The rationale behind these initial approaches would be that the value proposition of WorkClothes.com would remain around services related to clothing such as leasing, cleaning, deliver, etc., and where the clothes are actually made secondary.

2. Trucking: Currently, WorkClothes.com operates its own truck fleet it uses to transport clothing to and from client sites. All of these vehicles are gasoline or diesel powered trucks and are maintained by a fleet maintenance department staffed by firm employees in strategic locations throughout the world. Within this area, two options exist for WorkClothes.com to optimize on its fleet.

- a. The firm can instead lease its fleet through a third party. This would eliminate the capital expense and allow the firm to remove the depreciation it has on such equipment. Also, the maintenance of such a fleet would be transferred to the leasing company and remove the need for corporate fleet maintenance personnel.

The benefits would not just include fleet spending but would eliminate depreciating capital from the balance sheet and would enhance credit for the company (Tapsell, 2001).

- b. WorkClothes.com can also explore the options related to alternative fuel or hybrid

RESEARCH REPORT:

vehicle technology. This would no doubt increase the lease payments initially, but the savings in fuel costs should be explored as a viable option to traditional fossil fuels.

3. Management and Administrative Salaries: WorkClothes.com should examine the current managerial structure in both its corporate headquarters and field offices. Alternatives may include implementing self-directed work teams instead of using multiple levels of management. This might be one option, but not without significant adjustment and alteration of work teams to fit the new organizational structure (Druskat & Pescosolido, 2002).

Opportunity to seek an “Administrative Processing Outsourcing” or “Human Resources Outsourcing” supplier should be explored wherein WorkClothes.com would outsource its basic HR processes instead of it being completed by internal staff. Benefits administration, enrollment, employment applicant processing, and others present opportunity for such outsourcing. The benefits to WorkClothes.com can also be in the review and revision of such processes by the third party vendor who can identify efficiencies and implement them as part of an outsourcing strategy (Morgan, 1995).

4. Ordering Systems: Alternative ordering systems should also be explored to include expanded use of internet-based ordering and account management as well as interactive voice response systems. Special review and consideration should be made so that the customer experience is not diminished. WorkClothes.com’s current inbound call center and field representatives would continue to do important customer service functions and would insure that any new implementations would not force clients to use automated systems versus speaking to a “real person”. Complete audits and customer experience

RESEARCH REPORT:

reviews should be provided by a third-party supplier to ensure that agreed upon benchmarks are being achieved (Daniels, 1998).

5. Laundry Depots: As with other functions, there exists a real opportunity for WorkClothes.com to outsource its laundry and dry cleaning functions to outside, regionally-located services. Such an outside contractor would ideally have multiple locations worldwide in order to ensure consistency in service and quality. This, as with manufacturing, does have a degree of risk in quality assurance. Such outsourcing must come under substantial scrutiny in the quality of the cleaning of clothing items, in the delivery and timeliness of services, and the minimal damage or loss to clothes owned by either clients or WorkClothes.com. Some case studies realized a 10% reduction in costs when compared to internally managed laundries or co-ops (McKnight, 1992). The firm will have to ensure that measurable and agreed upon criteria is established with all vendors to ensure that the quality of such services does not adversely affect the reputation of the firm.

Certainly in theory, the above five suggestion areas hold substantial potential for cost savings, but as mentioned above, the customer perspective holds the highest concern.

In order to balance customer service with cost-effectiveness, the organization must first focus on initiatives that permit it to optimize its processes first while not compromising resources that maintain relationships with customers. Those processes that the customer least interacts poses the best possible opportunities. Areas such as laundry and HR functions are the best alternatives while items such as outsourcing call centers should be done with caution. Capital related cost reductions such as the fleet, facilities, and manufacturing pose significant cost savings as long as

RESEARCH REPORT:

the quality of the product and delivery are not compromised.

The method and decisions to be made regard such changes should rest in the weighting the greatest benefit to the organization while evaluating the ease in which to implement. When employees or other stakeholders are significantly affected, the public relations cost to an organization can often outpace the benefit in the short or long term.

Regardless of what methods are used, as long as such changes can help secure a better financial future and allow for expansion and growth, most approaches should consider and evaluated as needs arise.

RESEARCH REPORT:

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