



WHITE PAPER

## The Hidden Cost of Time & Money

Discover proven techniques used by “Best in Class” companies to increase your profits by more than 6%

[www.vicone.ca](http://www.vicone.ca)

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**VICONE**

HIGH-PERFORMANCE RUBBER

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We’ve all heard the saying “time is money”. And yet few companies take the time to understand what it really means, and how it applies to their bottom line.

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## ***The average cost of processing one purchase order is \$130***

Business success is based predominantly on speed and profitable growth. Productivity, decision making and time to market are all related to speed (of execution). Speed, according to Webster’s Dictionary is defined as “distance travelled per unit of time”. For business owners and managers this could be translated as, “distance travelled per unit of money”.

You can’t afford to wait for products, information, or anything else you require to get a job done. Whether the inefficiency is related to poor communication between stakeholders, increased costs to expedite, poor quality or downtime due to back orders and late deliveries, it’s costing you money right now.

Quality of product, time to market, throughput time, service (communications), tangible cash flow management and increased productivity are not just buzz words, they are the key ingredients for a business to not only survive, but to thrive. These core competencies can make or break any organization with a great product.

In most firms, the cost reduction efforts are usually focused on variable costs (R&D, training, marketing etc...), whereas fixed costs (warehouse, labour etc.) are usually considered the cost of doing business, and therefore, remain untouched until slash and burn turnaround specialists are brought in to try and save the company. Successful companies have long understood that their eye needs to be on the other ball.

Your challenge is to support business growth by reducing transactional costs, as well as the cost of goods and services, while also maintaining or increasing service levels and quality, not to mention innovation. No small task, right?

It is easy to determine the lowest purchase price, by comparing unit costs from one supplier to the next. But it is much more difficult to measure the hidden costs associated with the overall business relationship you’ll have with a given supplier, especially if they have no track record. Supply chain management plays an integral role in the function of cost control, and it has nothing to do with the unit price paid.

It has become common knowledge that the average cost of processing one purchase order is approximately \$130. The term supply chain is often mistakenly referred to as “purchasing”, when in fact the chain starts at the R&D, innovation and design table, and ends with the consumer or end-user.

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## ***Cost of possession of inventory runs at 20-40% of the total value of your inventory***

The unit cost plays only a small part in the equation, even though it packs quite a punch. Identifying the fit, form and functional needs, source selection, managing the RFQ/RFP process, expediting late parts, internal/external communication, receiving product (and the freight associated with it), paying for the product, potential errors, returns, and poor quality are all “hidden costs”. Streamlining this process has led to many firms consolidating their suppliers to minimize the management costs of doing business. Doing more with less is another common buzzword that has lost a lot of lustre lately.

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Information is power, but it is also undeniably cheaper than inventory, unit costs or late deliveries. Whether you're talking products, services, lethargic internal communication, or downtime due to late parts, actual expenses are often not readily apparent and are many times not measurable. Unknown costs – two words that would make any CEO or CFO cringe.

To run an efficient business, all of the above must be “delivered” on time. The obvious example is product. When a product is delivered before it is needed, there are costs incurred for storing and insuring it, not to mention lost capital return (money tied up with no return). Paying for this inventory and warehousing it before you need it ties up cash and resources and slows growth. Cost of possession of inventory, typically runs at 20-40% of the total value of your inventory.

When it is delayed, the costs are even more gut-wrenching: expediting charges, lost time (time=money), extra delivery charges for partial shipments, schedule juggling and labour downtime – all avoidable expenses that can also have a disastrous effect on your firm's reputation.

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## **One dollar in direct cost savings translates into \$8 of gross sales**

For the average Fortune 1000 company, a 5% decrease in supply chain management cost translates into a \$20 million increase in profits. Even if you're not working for one of the big guys, there is a common yardstick measurement for cost savings that translates into real profit. One dollar in direct cost savings translates into \$8 of gross sales.

Best in class companies (defined as the top 20% in efficiency by the Performance Measurement Group) spent only 5.8% of their expenses on their supply chain, compared to the average 12.2%. Are you losing 6.4% of revenue straight off your bottom line?

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## **The ultimate cost of your supply chain**

***“It is unwise to pay too much, but it is worse to pay too little; you sometimes lose everything because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot on a consistent basis; it can't be done. If you deal with the lowest bidder, it is well to add something for the additional risk you run for things going bad. And if you do that, you will have enough to pay for something better in the first place”***

John Ruskin (1819-1900)

Writer and lecturer on social and political economy

For a more in-depth look at how to effectively reduce your cost of inventory, please read the article [Understanding the True Cost of Inventory: Best Practices for Reducing Costs & Managing Inventory](#).

For more information on improving relationships with suppliers and negotiating stocking agreements, please read the article [Just-in-Time? Not so fast](#).

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## About Vicone

Vicone High Performance Rubber is a leading edge company specializing in a select group of high performance rubber products for the industrial manufacturing market. The company’s value-added consulting services, procurement expertise, and extensive knowledge of the rubber industry are helping customers design, specify, prototype or troubleshoot new and existing products. Vicone draws on over ten years of experience to ensure top quality products, unparalleled customer service and 100% Just-On-Time™ delivery for the lowest total cost of ownership available.

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