

Recovering From Your Budget Cuts

How to Generate Savings and Create Efficiencies within Weeks

As we work with management teams across the federal government, the number one issue that we see leaders grappling with is how to address imposed or impending budget cuts. The question is not whether agencies will have to change the way they do business, but how – and how fast.

So what can agency leaders do? One path is to cut across the board, spreading the pain equally across the organization. This path is relatively easy, but almost always damages the organization in the longer term. The problem is that this method does not differentiate between high and low value programs or resources. Cutting high value programs can immediately hamper the agency's ability to fulfill its mission. Over time, the agency loses critical resources and capabilities that will often cost more to rebuild in the future than the agency saves today.

The other path is to look for places to trim the fat without harming critical resources or programs. Rising budgets over the past few years (and decades) combined with limited focus on efficiency have created plenty of excess fat and many redundant programs. That is actually good news: agencies can capture savings without damaging operations or mission capability.

Getting Started - Look for Quick Hits

Censeo recommends that agencies examine two areas, operational costs and non-performing/redundant programs, to quickly generate cash. Also referred to as general and administrative expenses, operational costs account for a large percentage of agency budgets. Our clients are finding major dollars by reducing demand, eliminating waste or excess capacity, and strategically sourcing/negotiating vendor relationships. One client, for instance, found millions of dollars just by shutting off unused wireless phone plans. At a defense department agency, we identified ways to cut travel costs by using technology and taking advantage of an existing government-wide contract that offered 10% lower hotel prices.

As they found with operational costs, agencies are spotting programs created over time that are non-critical, redundant, or add no value. Identifying and eliminating these programs quickly can generate substantial savings. For example, the SBA proposed eliminating the PRIME program for micro-lending because similar programs support the same goals.

The great thing about harvesting this low hanging fruit is that benefits go beyond the immediate savings. The organization builds confidence, creates a culture where savings are valued, and provides funds that the agency can invest to achieve larger, long term savings that stick.



Getting to the actual efficiencies does require effort. For example, one client announced a transition to a new office supplies contract that would save more than 30%. However, they achieved only 5% compliance. Only through ongoing measurement, process change, and constant communications from leadership can agencies achieve the savings that seem so obvious.

Think Strategically – Stalking the Big Savings

Not all savings can be reaped as easily or as fast. Censeo recommends that, in addition to quick hits, agency leaders simultaneously start on the path to capturing medium to long-term efficiencies through four key levers:

- 1) Sourcing and supply chain
- 2) Operational effectiveness
- 3) Organization restructuring
- 4) Program consolidation

1) Sourcing and supply chain

Sourcing and supply chain functions, commonly referred to as “acquisition and contracting,” have long been identified as areas where substantial inefficiencies lurk. While the opportunities many times seem obvious, they require leadership support, right from the top, with the CFO or Deputy Secretary leading the way.

Where should agencies look? Across the entire spend base, agencies can begin to prioritize opportunities based on the size of the spend, the fragmentation of the supplier base, and how critical the area is to achieving policy goals. In addition, agencies may have become over-reliant on contractors to supply key capabilities, and could benefit from insourcing or at least renegotiating the contracts.

Sourcing and supply chain initiatives can save agencies as much as 5-20% of total spend. One client CFO is on track to save more than \$50 million per year.

2) Operational effectiveness

Over the years, much fat has crept into agencies, whether we are examining a process with multiple unneeded steps or excess capacity that regularly sits idle. While some of this fat is ripe for quick hits, more complex areas -- such as how citizen services are provided -- will require further review.



Operational effectiveness is about carefully examining and taking out waste, leading not only to savings, but improved service and quality. DHS, for instance, recently replaced multiple redundant email systems with one on the cloud. The agency has not only saved money, but also improved security and gained a lean process. Another agency started shutting down excess dining facilities when we discovered many were operating at less than 33% capacity.

3) Organization restructuring

In addition to process changes, more enduring structural changes may be required to sustain savings over the long-term. Most federal agencies operate in a very decentralized manner, leading to redundant capabilities and stove-piped processes. Coordinated sourcing of common items may be the best way to save in the short and medium term. But consolidating operations and organizations into a “shared services” capability may be the best approach to capture long-term savings.

The State Department, for instance, has realized enormous efficiencies by centralizing the procurement and management of common IT hardware.

4) Program consolidation

The GPRA Modernization Act of 2011 emphasizes the need for agencies to focus their efforts on a few high priority goals. This will allow agencies to accomplish their most pressing priorities. It also faces up to the reality of fewer dollars to support programming.

The truth is that not every program is needed. There is much redundancy in government programs, as highlighted in a recent GAO report. There is also the reality that some programs work while others don't.

Agencies can systematically map every program to agency priority goals and then identify redundancies and inefficiencies across programs. This exercise is just the first step. Agencies must then take the hard steps of eliminating those redundant programs and paring down others. SBA's elimination of the PRIME micro-lending program is a great example of the ultimate hard step: getting rid of a much favored but unnecessary program.

Time to Get Moving

The time for action is now. As you read this article, there is substantial money that can be saved and put towards the nation's critical needs. Putting into action the strategies discussed in this article will require the leadership of every department, its agencies, and programs. The key step is to launch SWAT teams that can begin to drive savings and put the freed-up funds toward other critical needs.



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