

Cost-reduction tactics for small businesses

Cutting costs can be a quick and easy way to improve the profitability of your business. Introducing cost-control measures can bring immediate savings and ensure you remain profitable in the long term.

But it's important that cost-control measures are carefully managed. Eliminating errant expenses is clearly beneficial, but indiscriminate cost cutting could lead to a drop in quality, or poor morale if staff fear being made redundant or are not given the tools they need to do their job efficiently.

This risk is heavily reduced by identifying where you can safely trim costs, setting clear cost-reduction targets, and researching any cost-saving initiatives before making changes to your business.

Planning for effective cost-control

The first step towards reducing costs is identifying your major cost centres. These are likely to include:

- Production
- Purchasing
- Sales and marketing
- Financing
- Administration
- Facilities maintenance.

Start by assessing your profit and loss statement for the last six months and rank all your expenses from highest to lowest, working your way down the list and identifying areas where you can reduce costs. It's a good idea to first focus on identifying cost-saving measures in areas where you'll see the biggest return. For example, it's smart to work toward saving 5% on a \$200,000 expense rather than a slightly higher percentage on a lower-cost expense.

Trial new ideas

You might find it's difficult to anticipate savings without actually implementing new systems and processes. Remember that any changes you make don't need to be permanent. If you aren't sure if a cost-saving measure is suitable for your business, consider trialling it for a few months then assessing the results. This way, you'll soon get an idea of the real cost savings without having to commit long-term to new processes or changes.

Any new processes or systems should be benchmarked and frequently revisited to ensure they are still suitable for your business. Consider asking staff for feedback around any changes to make sure there are no hidden problems that could be costing you more than the cost-saving value.

If you are in doubt about any potential changes, consider seeking professional advice from an accountant, industry association, or business mentor.

Quick savings

You might be surprised to find that significant savings can be made without having to worry about your quality and performance being affected. Here are the most popular ways to trim costs without making radical changes.

- Eliminate unnecessary costs – start with waste reduction, heating costs, and utilities charges.
- Reduce inefficiency by identifying manual tasks that could be computerised or completed less frequently.
- Avoid frequent, small orders that cost more than larger orders and take additional time to complete.
- Reduce travel expenses by booking air travel earlier and using cheaper accommodation on business trips.
- Find alternatives to high-priced suppliers or negotiate better payment terms or discounts on purchased goods.
- Revise your credit policies to encourage prompt payment.
- Brainstorm quick cost savings with your staff – they might have some useful suggestions you may have overlooked.

Significant savings

Once you have identified your major cost centres, you may want to investigate potential ways to save money by changing existing processes.

Some of the most common opportunities are listed below, but before adopting any changes you should be aware of any potential damage to your core business activities.

- Cut payroll costs by outsourcing non-essential activities.
- Redesign your existing processes to eliminate duplication, and cut time wastage.
- Make use of current technology, or latest industry thinking.
- Agree to long-term supply contracts, or guarantee a minimum purchase amount to secure better terms.
- Trim back or revise your current product offering and remove poor-performing products.
- Form strategic alliances with other businesses to buy larger volumes.
- Consider subletting office space, or relocating to a more cost-efficient location.

There may also be other costs such as long-term, fixed-rate business loans or fixed-price contracts for raw materials that you may be able to reduce when these are up for renewal or tender.

Pitfalls to avoid

Reducing costs can have a negative effect, so you'll need to be sure that changes will not compromise your operational performance.

Some common pitfalls include:

- Over-dependence on one supplier could put you at risk if your supplier fails.
- Reducing your marketing budget could affect your marketing strategy.
- Tighter control of business finances could leave you without a safety margin if cash flow becomes tight.
- Cutting short-term costs such as training, research and development, or advertising can lead to long-term weaknesses.

Employee costs

Reducing employee-related costs is generally risky and counterproductive in the long-term. Reducing costs such as staff training or meeting times could lead to poor staff morale and reduced productivity.

Changing an employee's terms and conditions can also create legal issues in some circumstances, so it's always a good idea to get expert advice before making a decision. Making employees redundant could bring short-term costs and the risk of possible employment proceedings. It may also contribute towards low morale.

These problems can be minimised by maintaining clear communication with employees. Introducing cost saving through improved practices and procedures will require a degree of employee 'buy in' so it's important your employees are aware of why you are making changes. Employees may need additional training and support over these periods.

Next steps

- Schedule a staff meeting to review your costs and brainstorm possible saving measures.
- Commit to an ongoing cost-control and monitoring process (or delegate to key staff to manage the process).
- Ask your accountant to assist you with cost-saving initiatives or brainstorm ideas.