

CUTTING COSTS IN YOUR BUSINESSES

By Gary Haworth, CPA

Every business should seriously review all costs every year or two. Making selective and intelligent adjustments to the costs can help a business be more efficient and will increase profits.

Here are some ways you may be able to cut the costs in your business.

Review Your Credit Policies.

The longer it takes to get paid, the more likely you will eventually take a loss on the account. Make sure your customers have “earned” the credit you are providing them. You need to review the accounts on a regular basis to determine what changes should be made. No one can afford the dreaded “write-off”.

Watch the Gross Profit Margin.

Has your gross profit margin decreased over time? Find out why. Determine if the increases you have incurred in your direct costs can be passed along to the customer. Analyze the costs and determine if you can redesign or change items to be more cost effective.

Evaluate each product individually to determine what each gross profit margin is and the overall mix. Is it cost effective to continue to carry the low margin products?

Analyze Inventories.

Are you carrying too much inventory and thus incurring excess carrying costs in doing so? Do you have obsolete inventory that could be reworked or possibly sold for salvage?

Payroll Costs.

Usually payroll makes up a major expense for most businesses. Consider using temps or independent contractors if your business has seasonal variations. Would more automation result in less labor needs? The initial equipment or plant investment may be costly, but the savings in payroll and related costs in the future might make it a good choice.

The overhead related to payroll can be a significant cost to your business. Fringe benefits can easily amount to 20-50% of the direct payroll cost. A major review of these benefits could provide you with significant cost reductions. Review group insurance programs and solicit bids every three years. Consider higher deductibles as a way to reduce premiums. Review employee classifications for your workers' compensation insurance to make sure you are not overpaying due to improperly classified people.

Review Fixed Assets.

Determine whether it makes more sense to lease or buy when acquiring major assets. This is especially important for those subject to constant technological changes or if the asset will be infrequently used. Consider buying used equipment rather than new.

If you own excess or unused equipment, should you consider selling it and increasing your cash flow?

Review Telephone and Shipping/Postage Costs.

When did you last look at what you are paying for your telephone service? It has become very competitive, and in many cases, the costs have gone down over the last few years. Do you need all the services and lines you once did? Evaluate how you do your shipping and consider alternative types of shipping and the carriers.

Review Your Purchasing Policies and the Materials/Products.

Compare the prices and materials available from other suppliers. Consider switching suppliers where appropriate or **possibly** renegotiate for better pricing with your current suppliers.

Ask Others in Your Company.

Some of the best cost saving ideas can come from your employees if you just ask them. Consider implementing a bonus program based on savings for the best suggestions. Be careful to analyze them properly to make sure they will not hurt you long term for some short term savings.

Reviewing your expenses on a regular basis will allow you to run your business in a consistent manner. Avoid the temptation to “slash” or make across-the-board cuts. They generally don’t work and create other major problems within the company. Not all areas of your company work the same. Each area needs to be evaluated separately in how it contributes to your company’s profits.

Gary Haworth, CPA, is the owner of Haworth & Company, Ltd., a local CPA firm, and a member of the Small Business Resource Group, which helps small business owners be more successful by assisting them with their accounting, marketing and payroll needs. He started his practice 20 years ago, growing from one person to now more than 30 employees and three locations. He can be reached at ghaworth@haworthco.com.