

Controlling Business Costs

By BNET Editorial

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Wise control of business costs will help you improve profitability, grow during good times, and better survive the bad times. If you look carefully at your business operations, you'll probably find many opportunities to control and even reduce costs.

What You Need to Know

How can I get a handle on what costs to control?

Start by clearly identifying each of your business costs. Make sure that you keep records of all bills, receipts, and anything else related to your business costs. Review your costs regularly, basing the timing on when your accounts are normally completed (weekly, monthly, quarterly). It is not enough to calculate whether the business is in profit or loss, important though that is; you also need to be aware of what normal costs are, so that you can spot anomalies and take action to address them.

Whose job is it to control costs?

Cost control is the responsibility of everyone working in the business. All your employees have countless opportunities to affect costs throughout each day. If employees are unhappy at work, they can do a lot of damage, if only through what they *don't* do to monitor and manage costs. If they're bored, frustrated, or feel undervalued, they're less likely to feel that the business's welfare is their responsibility. If they're motivated and feel that they have a stake in the business, they'll be more likely to help control costs.

You can ask employees for their ideas on cost control, but be careful not to give them the impression that their jobs may be on the line as a cost-cutting measure! Do let employees know, however, that cutting back on what look like insignificant costs will help the business overall.

What to Do

Conduct Cost-Benefit Analyses

Whether you're planning ways to develop yourself, your staff, or the company's direction in general, think of how the overall impact of any decision will play out in terms of business profitability. In other words, a cost-benefit analysis will weigh the benefits of a particular course of action against its

costs. For example, a person may be assigned to carry out a piece of research that could, in fact, be done quicker by a consultant, or even bought off the shelf. It can be hard to keep a professional distance when you have to make hard decisions to pursue or abandon a project or issue that you have invested a lot in personally. But this is exactly what you have to do to keep your business in the black.

Conduct Value Analyses

Value analysis is a detailed examination of each part of a product, service, or system, in which you consider whether there's any way to reduce costs without degrading quality. Value analysis is usually done as a group exercise, so it's a good way to involve employees and increase general awareness of cost control. The group has to decide, for example, whether the product is really necessary, can be made with cheaper materials, is actually cheaper to buy than to make, can be made more quickly, or can be simplified to reduce potential faults.

Evaluate Your Purchasing Practices

No bill or invoice that your business receives should be taken for granted. Regularly review what you pay for supplies and talk to your suppliers about bulk purchases and other ways to obtain discounts. If you rent your premises and believe the rates are too high, do some research on comparable rental values and talk to your landlord about an adjustment.

Maintain Tight Inventory Control

Careful inventory control can reduce storage and working capital costs. In particular, if your products include electronic equipment, pharmaceuticals, alcohol, or cigarettes, your business may be highly susceptible to theft, so make sure you have adequate security measures in place. Your insurance should cover theft, of course, but it's much better to keep your stock secure so that you don't lose money as a result of someone else's actions.

Evaluate Staff Costs

Staff costs often offer the greatest potential for savings, but don't pare back staff until you've analyzed the long-term consequences. You may be able to manage with fewer people on your team, but you risk cutting back so much that the business can't function.

But do consider whether employees are delivering value for what they cost you in compensation. Is the pay appropriate for what they do? You may have to pay more to attract more valuable people. Are you managing and motivating them to work more productively for the business? That's part of your responsibility as the business owner.

Manage Your Energy Costs

Managing energy costs is not only smart business but also environmentally friendly, which both your employees and customers may appreciate. Encourage your employees to use energy as responsibly at work as they do at home (where *they* are paying the bills). Make sure your utility meters are working correctly and find out how to set thermostats, etc., most efficiently. Proper insulation in buildings can really shrink energy bills. Also, look into the many grants now available for "green building."

Control Office Expenses

- With the many phone services and systems available, do your homework to ensure you've chosen the system that is most cost efficient for your business. Make sure you have a policy in place to prevent employee abuse of the business phones, and enforce that policy consistently.
- Photocopiers are easy to use, and the expense can soon get out of control if usage is not monitored. You or a trusted staff member should ensure that all copies are logged, that employees are encouraged to reduce copying costs (by double-sided copying, etc.), and that employees are charged for personal copying.
- You or a trusted employee should keep track of equipment and supplies to ensure that staff are not taking them home for personal use. Put in place recycling policies—for example, sending used laser printer cartridges to be refilled at a discount. Look for opportunities to sell waste to recycling companies.
- Finally, make sure you have a clear expenses policy and that all employees understand and abide by it. You or a trusted manager should review all employee expense claims and routinely review employee expenses to look for opportunities to cut costs.

What to Avoid

You Pursue False Economies

Don't cut back on the wrong things. If you reduce the level of service from what your customers are used to, for example, you'll probably end up losing money. Similarly, if you make working conditions

too harsh (for example, by cutting back on pay, benefits, and training), your staff will become demoralized and won't perform as well as they could—indeed, you run the risk of them leaving.

You Ignore Rising Costs

Confront cost problems immediately rather than putting them off in hopes they'll fall—they won't! Take action now to solve the problem before it escalates.

Where to Learn More

Book:

Doyle, David. *Cost Control: A Strategic Guide*, 2nd ed. Elsevier, 2006.

Web Sites:

U.S. Department of Energy: www.energy.gov

Entrepreneur.com: www.entrepreneur.com