

Cost Reduction Template

Improving your bottom line isn't just about increasing your revenue but also comes down to reducing outgoings where you can. Lowering direct costs can dramatically increase your profit on each sale while eliminating unnecessary business overhead. Here are some things to consider for optimizing operational costs.

Lower the cost of purchases

Reducing what you pay for raw materials, components, or employees who work directly on output will have a significant impact on cost optimization. This assumes of course that you can maintain the quality and service your customers expect. List your direct costs from the most to the least, select the top ten and then see if you can:

- › Source cheaper suppliers. If you've been buying from the same businesses for some time, it's often wise to explore who else can sell what you need at a lower price, for the same or better quality.
- › Ask existing suppliers to renegotiate deals, offer early payment discounts, or review more favorable terms. If you haven't queried costs for a while, it's never too late to ask.
- › Buy in bulk, which often comes with volume discounts. Then consider where you can streamline expenses through larger but less frequent purchases.
- › You may also wish to consider whether switching out one ingredient or component for a more cost-efficient alternative is an option a customer may not notice or mind.
- › Identify which of your products or services offer the slimmest margin for your business. Investigate if there is an alternative way, such as outsourcing or the use of contractors on an as-needed basis.
- › Change your product mix and stop selling the things that are expensive to service or produce. If you can sell items that cost less to make or deliver, all things being equal, you'll save costs.
- › Use any group discounts from chambers or industry groups. For example, association membership often provides supplier discounts to secure rates that are beyond the buying power of individual businesses.
- › Look offshore to see if importing products or services will lower any direct costs.

Lower the cost of expenses

At times it's possible to lower your overhead while still operating effectively. Like reducing purchases, rank your most expensive overhead costs in order and then start working your way down, applying cost-saving tactics in areas where you'll see the most reward.

You can try:

- › Sub-contracting instead of having full time overhead.
- › Delete a product line or service if it's sold infrequently and is expensive to maintain or hold, allowing you to delete extra warehouse space, reduce employees, or sell machinery that's not fully utilized.
- › Audit your operations to spot wastage from inefficient processes or shrinkage from theft or poor management of consumables.,
- › Switch manual processes to digital operations to cut down on things like paper, printing and stationery, not to mention labor and the cost of inefficient workflow. Ask yourself: where could you potentially streamline your business through digitization or automation?
- › Pinpoint inefficient costs such as cutting down on energy costs or getting rid of obvious overcapacity, such as un-used phones, subscription costs and computer equipment.
- › Measure the impact of advertising and the return on your advertising spend. What may have worked in the past may not be bringing the returns it once did, and your marketing budget could perhaps be more beneficial if used in other channels.
- › Get smart about your tax bill by claiming everything you can as an expense to reduce the amount of tax you have to pay. Work with your accountant to understand what you can claim, and ensure you keep all necessary documentation (good accounting software can help with this).

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Refinance to lower costs

Find out if it's worthwhile to re-finance or amend how you bank. It pays to keep an eye out for deals that would better serve your bottom line. Also talk to your banker, accountant or financial advisor about whether leveraging house equity or selling other assets may be a better way to refinance other debt. Business loans generally have higher interest costs than personal loans, so using personal cash to pay off debt may work out to be a more economical option, long-term.

Use technology to track and measure

Implement online accounting software to monitor your budget, track your payments and give visibility over your financials well before tax time. Put robust systems in place that are checked frequently such as using regular cash flow forecasts, implementing clear payment terms and a robust payments process using online banking, so you can catch inefficiencies early.

Call on your advisors

Lean on the expertise of your accountant or lender who can help keep you accountable to financial targets, highlight any areas of concern and give you systems and benchmarks to keep you on track. Regularly taking the time to review processes and activity within your business can help you reduce costs, while still maintaining your brand integrity and the quality of your service.