

Cut Costs Now

Aug 21, 2007

Don't just worry about making money. Scrutinize how you spend it, too. Here are six strategies for trimming the fat from a blighted balance sheet.

By: MATT ALDERTON

Each and every Saturday morning, Tom Peric goes to the office to play with numbers. He doesn't work on client projects. He doesn't organize his desk. He just does math.

"I strictly look at the money," says Peric, who is president of Cherry Hill, N.J.-based [Galileo Communications](#) and author of *Wacky Days: How to Get Millions of \$\$\$ in Free Publicity*. "My goal this year, in addition to the usual one—grow the business—was to check every expense I had."

And he's done just that. In the course of his weekly financial reviews, Peric has discovered a wealth of wasted cash. He found out, for instance, that his accountant was overpriced; his new CPA charges him 70 percent less than his old one. He also found out that the landline phone in his home office was costing him \$250 per year; in the last four years he's paid \$1,000 for a phone that he's used for a total of five hours. Finally, he realized he was still paying \$250 a year for a dial-up Internet connection, which he used as a back-up for his broadband connection; instead, he now has a \$20 calling card that gives him 200 emergency minutes of dial-up time.

"Every penny you save is a penny that goes directly to the bottom line," Peric points out. Pinching those pennies, then, pays—especially for cash-conscious small businesses, which too often fold under the pressure of financial stress.

"The small businessperson, often an entrepreneur, is running full speed ahead," Peric says, "and all he or she can think about is how to bring in revenue."

If it's financial success you're after, though, revenues should only be half of your capital equation. The other half? Costs. If yours are too high, all the revenue in the world won't rescue you from the fiscal deep end. Here are six strategies to help you cut them today.

1. Review Your Outflows

The first step to cutting your costs, according to Peric, is knowing what they are to begin with. "You should check all your expenses at least once a year," he says. "Twice is better."

Look at what you're spending, then ask yourself, quite simply, "Is this expense necessary?" If the answer is, "No," cut it.

"The best thing to do is read your general ledger every month," advises Gene Marks, president of [The Marks Group](#), a Bala Cynwyd, Pa.-based financial management company, and author of *The Streetwise Small Business Book of Lists*. He pens the syndicated weekly [Penny Pincher's Almanac column](#) for the *Philadelphia Business Journal* and says that cost cutting is far too often a reactive measure among small businesses. Instead, he insists, it should be a proactive one. "Print out all the detail of your expense accounts, make a cup of coffee—with a shot of bourbon, if necessary—and read how you're spending your money. Make notes to yourself and others. Investigate items you're not familiar with. Question expenses you're not happy with."

2. Seek Sage Advice

If you're wondering what things ought to cost, in comparison to what you're currently paying for them, the best people to ask are other small business owners.

"Join an executive or trade group and ask others how they cut costs," Marks recommends.

Peric agrees. "Ask your peers if they faced a similar problem," he suggests. "It's amazing how a buddy realizes he or she is spending too much on a similar item or service and says, 'I got Joe to do that for me, and the charge is 20 percent less than what you're paying.'"

If you're short of small business buddies, get your advice by reading it. Small business Web sites, magazines and journals often include valuable cost-saving tips in their articles.

3. Consider Human Capital

Perhaps the most expensive costs in any business are labor costs. Before you go out and fill your new office with friendly faces, therefore, consider what positions you truly need to fill. If you can avoid hiring someone—and the costs of paying the benefits, taxes and salary associated with employees—you should.

"Always consider outsourcing a service if it makes sense," Marks says. Contractors often sound more expensive, but they can often save you money in the long term. If you already contract out a lot of work—to freelancers, to your accountant, etc.—it's worth looking at what you pay for their services and revisiting their rates in order to find out whether they're still reasonable.

If you've already got employees, it might still make sense to cut labor costs. Evaluate employee productivity and decide if your team members are pulling enough weight to justify the expense of employing them. Before you eliminate a position altogether, though, take caution not to hurt your bottom line. "If you eliminate a position, and that person is an income producer, you run the risk of hurting the business," Peric says.

4. Start Small

Labor may represent the largest cost at most companies, but the easiest costs for cutting are often the smallest ones, instead.

"I consider the small, often unnoticed regular expenses that you seemingly overlook to be important," Peric says. "A small service bills you only \$14 per month, but it's been two years since you availed yourself of the benefits. That should come under scrutiny. This has become particularly vexing with automatic billing, because it often 'sneaks' in the bill almost without notice."

Common things that might be costing you too much money include insurance, banking fees, telecommunication costs and office supplies. Do you really need that water cooler? Can you save money on overnight shipping? Maybe you can pay less by recycling your printer cartridges instead of buying new ones.

Pay attention to usage, too. "The cliché with clothing is that if you haven't worn it twice in a year, get rid of it," Peric says. "Ask yourself, 'How much do I really use this product or service?'"

5. Negotiate

Once you've identified costs worth cutting, get on the phone in order to renegotiate your billing terms and rates. "It's that simple," Peric says. "Say, 'I like your service, but because I check expenses every year, I went out and called three competitors, and each one was less expensive than you. But I like you. How much can you adjust your price to keep my business?'"

Cutting costs doesn't have to mean canceling them altogether, either. Maybe it means reducing the number of monthly cell phone minutes you pay for, or maybe it means paying the custodian to clean your office weekly instead of nightly.

"Saving costs isn't about pinching pennies," Marks cautions. "It's about getting the right bang for your buck."

6. Know When to Stop

Finally, if you're cutting costs, be careful to exercise restraint. If you get slash-happy with your budgeting knife, you may just handicap your business further.

For instance, Peric cautions, don't skimp on anything that brings you income or on things that have the potential to save you money in the long run, such as legal or regulatory counsel.

"Pay top dollar for a service if you're getting a high return for the money," Marks says.
"Don't just save money for the sake of saving money."