

A dozen ways to start cutting business costs and improve profits



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As the economy slows and business costs grow, it's becoming increasingly difficult to rely on earnings growth to improve the bottom line. Astute managers are looking to unlock the profit opportunities that lie hidden within their businesses costs. They know the impact of a 1% decrease in costs can equal a 2% increase in profits — or 10% more in top-line sales on typical margins.

Here are a dozen simple ways you can start to reduce your company's expenses and find extra profit:

1. **Centralize purchasing.** You may be buying the same goods from different suppliers, particularly if each department seems to have its favorite suppliers. Centralize purchasing to maximize discounts through bulk purchasing power.
2. **Get a second opinion.** Obtain alternative quotes on everything. Advise existing suppliers that you are going out to bid and give them a chance to reduce their prices.
3. **Call in a bad guy.** Don't allow the person in daily contact with a supplier to negotiate price. Use the good cop/bad cop approach. The "bad cop" removes emotion from the process and the "good cop" can preserve the established, day-to-day relationship with the vendor.
4. **Ask for ideas.** Take advantage of your suppliers' expertise and for suggestions on how to improve the way you work together. Would ordering weekly instead of daily reduce their administrative costs? Would they split the savings with you?
5. **Review product specifications.** Ensure that products being used do not exceed requirements. Can you use second-hand pallets for transportation? Recycled toner cartridges?
6. **Clean up.** Are factory items such as mats being cleaned more often than necessary? You may be able to reduce the frequency of cleaning while still maintaining safety standards.
7. **Don't go to waste.** Your garbage dumpsters may be emptied well before they are full. Can you cut back on the frequency of collections? Also, one company's waste is another's treasure. Do you produce a by-product that another company would purchase?

A dozen ways to reduce expenses

8. **Consider couriers.** Understand how your couriers charge. Local services may be best for early-morning deliveries, while worldwide carriers such as FedEx and UPS may offer lower prices for local delivery of letters and packages scheduled for later in the day. Determine which services will be most effective for you and establish guidelines for your staff.
9. **Watch out for automatic renewals.** Contracts for leased equipment such as copying machines automatically renew. This automatic roll-over is called an "ever-green clause" and it locks you into subsequent years at the same terms as the original lease. Typically, you must notify the leasing company, in writing, 90-120 days before the expiration date to avoid an automatic renewal.
10. **Beware.** Service agreements, too, have ever-green clauses and need to be terminated, in writing, during a specific time window. Just to make things confusing, termination notification periods for service agreements vary from the periods used in the lease agreements. The window is typically 30-90 days before the expiration date.
11. **Try brand X.** Use suppliers' own-brand products. This can reduce costs by up to 30 percent.
12. **Stop the presses.** Always use standard paper sizes. Although printing larger quantities at one time means lower per-item costs, if you only need 7,000 brochures, it's still cheaper to order that number at \$3.30 per unit than it is to pay for 10,000 at \$2.80. Companies tend to over-order to get the price down but then don't use the stock.

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