CO$T CUTTING

ideas for surviving uncertain times

Learn how to tighten the belt without making big changes

By Dr. John Foltz and Dr. Christine Wilson

Benjamin Franklin once said, "Nothing is certain but death and taxes." Today, U.S. and world economic conditions, as well as tough competition from other firms in your industry and other nations, create enormous uncertainties for many businesses. There is no question that such considerable uncertainty impacts the feed and grain industry.

As the manager or owner of a feed and grain firm, you attempt to cope with these and other factors and maintain the strength and profitability of your business. When the economy is slow, consumers cut back on spending. This means cost-cutting, or at least additional cost-controlling, may be necessary for your business in order to maintain a selected level of profitability, or in order to survive during these times.

A thorough review of the entire financial position of the business — including all business expenses — should be periodically conducted, but is a critical activity during times of increased uncertainty. Review the way

you do business and attempt to keep costs reasonably low without compromising your operation. Many times controlling the expenses of relatively smaller ticket items can generate greater and more sustained value than cutting an important large expense.

Here are some possible options for evaluating your business when in search of cost-cutting areas.

Gross profit margins

It is an understatement to say that margins are extremely important to your business. Since they are so important, it can be useful to examine your margins and trends in margins on all of your products and services.

One option for reducing costs by examining margins is to examine the cost benefit of carrying low-margin items or offering low-margin services. Determine if carrying the item or offering the service is still in the best interest of your business. Another is to reformulate or redesign products or services to create cost savings. An example of this in another industry would be self-service gas stations. The industry moved in this direction in order to reduce expenses, so that all that was needed was a cashier rather than a service station attendant and a cashier.

Be careful with this sort of approach, as it can be perceived as negative or detrimental by your customers. Carefully outline the costs and benefits of such a change before you implement it, and realize that you cannot anticipate all the impacts of such a change.

Another idea is to increase the sales to existing customers. This approach reduces costs without cutting specific expenses, i.e., there are little to no increased sales and billing expenses for existing customers. You might also consider bundling products and/or services to create new options for customers.

Credit and debt policies

Your credit policy and your customers' use of it affect your business's cash flow and your profitability. The longer customers take to pay you, the greater the risk of loss for the business. In many cases, roughly 80% of revenues will be generated by 20% of your customer base. Reviewing the other 80% of customers to determine their payment patterns can help you determine if your current credit policy is cost-effective or if changes to the policy would be beneficial.

Interest on loans can eat up profits during slow economic times. If possible, consider paying off some debt to reduce expenses. Refinance debt at a lower interest rate if one is available, or change lenders if such

a strategy is prudent.

Fixed assets & inventory levels

Consider leasing company vehicles instead of purchasing them. Extended depreciation periods create longer cost recovery periods on company-owned vehicles. The tax advantages of leasing and the generally lower payments may be a benefit to your firm.

Leasing may be possible with other major assets as well. Assets that are used infrequently and those that experience rapid technological change are good candidates for leasing.

Additionally, consider disposing at salvage value any excess or obsolete equipment, machinery or inventory. With some creative thinking, it may also be possible to repackage or rework some inventory for increased dollar sales.

Duplication of assets and services is common in today's grain industry — particularly with some firms that have underutilized capacity. This challenge has presented itself as farmers and elevators have both become larger, and consolidation has occurred. Yet, all too often a grain handling firm may be reluctant to close a facility because of the impact that it will have on nearby producers. Sometimes you just have to "bite the bullet," and close these facilities — realizing that the decision is in the best interest of your company.

Payroll costs

Your firm's payroll is an area where large expense savings can be quickly attained by reducing employee numbers. However, this may not be the most beneficial long-term solution.

Instead, review fringe benefits, employee classifications and insurance programs to determine if cost-saving modifications exist. Make sure all employees are properly classified for workers' compensation insurance.

Premiums are based on classifications and gross wages. Higher risk categories cost more, so accuracy is important. Review insurance invoices for errors. A review will ensure the company is not overpaying.

Telephone, postage and fax expenses

Telephone, mail and shipping, and fax expenses are integral parts of daily business operations. While these costs cannot completely be avoided, they are not expenses where the company wants to needlessly overspend. Examine the expenses in these areas and determine if all calls are necessary and if the telephone is being used efficiently. Compare the rates of several carriers, and examine the bills for overcharges. Saving only a few pennies per minute seems small on one call but adds up over all calls during a month and even more over a year.

E-mail can also be an effective

and cheap alternative in many situations. The same is true for mail and shipping expenses. Examine shipping rates and compare among competitors. Additionally, examine the use of any cellular phones used by the business.

Fax costs can also be reduced by transmitting faxes during off-peak time periods. Most fax machines can be programmed to input a fax during business hours, save the text, and then actually send the fax at a later time during the less expensive night rates.

Travel expenses

Travel is a very controllable expense, and costs can be reduced using a little practicality. Examine the necessity of trips regardless of whether it is across the country or just across the county. Cut out unnecessary trips or bundle activities together so that several stops or activities are completed on one outing.

Teleconferences may be good — and less expensive — alternatives to travel in some cases. An increasingly viable option is a "net" conference, utilizing the Internet for a live videoconference. All you need are fast computers, a "fast" Internet connection, a relatively inexpensive computer video camera (that digitizes the image), and a type of "Net" meeting software.

Supplies

Your purchasing policies and supply costs are areas where you can create some large cost savings. Comparing prices, renegotiating contracts, and switching suppliers where appropriate can benefit your business. Remember that your supplier should want to retain your business just as you want to retain the business of your customers. Developing a win-win relationship can benefit both firms.

Employee suggestions

Often in their daily activities, employees notice places where costs might be reduced. Eliciting suggestions from employees can generate useful cost-saving ideas that you may not otherwise consider.

Gathering this kind of data from employees not only makes you aware of these areas, but it provides you some insight into your employees as well. It allows you to take this data and analyze it with your other information and analyses, thereby allowing you to make more informed decisions.

Use these suggestions and information wisely to prevent making any quick fixes that might be more costly in the long run.

Marketing

Marketing generates sales for your business, and cutting marketing costs during slow or uncertain economic times further impairs the business's success. Lack of marketing makes generating new sales more difficult, and it allows competition to steal possible new sales as well as some of your long-time customers.

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Instead of cutting the marketing budget, review your marketing expenses and examine which activities generate the greatest sales for the firm. Make sure that you are getting the most "bang for your buck" with your marketing dollars by using the mix of advertising, sales promotions, public relations, direct marketing, and personal selling that generates the largest volume of sales and the greatest profit.

Miscellaneous expenses and activities

Examine these expenses and activities carefully because there may be numerous places for you to save money here. Be creative and think "outside the box." Many of the little extras that your company provides can be modified to reduce costs. As an example, you might scale back the annual holiday party to reduce expenses, or change the format of the party. Another alternative is to completely eliminate the party. However, doing this may cost more in employee morale than it saves in direct expenses, so use caution when cutting and changing activities.

The bottom line

Reviewing expenses on a regular basis is necessary for a business to be successful. It becomes an especially critical activity in periods of financial uncertainty. Cutting costs is not impossible nor is it simple. Reducing costs will be most affective if research and planning are effectively used.

Analysis of the firm's financial position will help you determine where to cut and where not to cut. Previous financial results, budgets and projections can help you analyze changes made in the past and their effects as well as estimate the impacts of any future changes that you propose making. You should avoid simple, large, across-the-board expense cuts since all areas of the business are likely not contributing equally to your firm's success. Keep in mind that your goal is to reduce expenses without losing business and profits and without lowering customer satisfaction.

For additional information on cutting costs see "Cutting Costs Without Drawing Blood" by Thomas E. Copeland, *Harvard Business Review*, 2000.

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