

A woman with long, wavy blonde hair is smiling as she looks down at her smartphone. She is wearing a dark blue dress with light-colored piping. She is sitting at a desk with a notebook and a pair of red glasses. The background is a blurred office or business setting.

# A guide to controlling costs in business

Understand your  
spending costs  
and habits

Create a cost-  
cutting plan

Get top tips from  
money expert  
Jasmine Birtles

# Regaining control of your business costs

Regaining control of your business costs can be quick and easy and soon your business could be in a far better position.

Shrewd owners minimise their spending when starting their business. It makes it easier to turn a profit and limits losses should the business fail. In the early days, they continue to control costs in all areas.

But, gradually, things can change - even in just a few years - especially if a business grows and takes on staff.

With so many things competing for their attention, the owner can no longer keep track of all expenditure. Inefficiencies can quietly creep into systems, too. The net result is the business wastes money - often significant sums - paying too much or buying things it doesn't need.

Inertia is another factor. When the owner started the business they probably shopped around for the best deals. Over time, many businesses come to rely on regular suppliers. Sticking with current deals and relationships might appear wise - it's less hassle and less risky - but what if you could get better value elsewhere?

Failure to control costs can place serious strain on your cash flow, which could ultimately spell the end for your business. At very least, your business won't be as profitable as it could be. You could also be throwing away money you could instead use to develop your business. Fortunately, regaining control of your business costs can be quick and easy and soon your business could be in a far better position. Our guide shows how it's done.

## How to get your costs under control

### Assess your current costs

Take a close look at all your outgoings - don't leave anything out. Major costs could include wages, premises, utilities, materials/stock, travel, transport, equipment, IT, marketing, telecommunications, maybe R&D and finance. Break down each of these so you can better understand them. For example, utilities will include water, electricity and possibly gas. Look for less obvious costs. Find out exactly how much you spend, when you spend it, what you spend it on and whom you buy from. Detail your outgoings in a spreadsheet or accounts software - it will make analysis easier.

### Understand your spending habits and trends

Compare current spending over 12 months to the same period in the previous year and the year before that. How much have your costs increased? Why? If necessary, seek answers from other team members. Have any of your costs gone down? Why? Be clear in your mind why changes have occurred, either in prices or consumption habits.

### Remind yourself of your objectives

This will help you to judge whether spending is justified, as well as expose areas where spending isn't in line with your goals. Are you being overly ambitious perhaps? If you're not a premier supplier, should you be paying less for materials? Are you spending too much bringing non-core products to market?



**The 80/20 rule:**  
Typically 80% of costs come from 20% of your supply items or services.

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### **Involve your staff**

You won't be able to come up with all of the solutions - successful cost control is a team game. If you employ people, ask them how your business could reduce its costs. Find out what problems they encounter that waste time or resources. Reward those who come up with the best cost-saving ideas. You must get full buy-in from your team. If you're likely to need to make redundancies, make sure your communication with employees is good and that they understand why your actions are vital to the business's well-being.

### **Speak to your customers**

Could you be providing your customers with things they don't really want? The best way to find out is to ask them. Present it as something you're doing to ensure they're happy with what they get from your business. Why pay for excess packaging the customer doesn't want or need, for example? Why serve a side salad or fries when some won't eat it? Why send your customers expensive leaflets through the post when they don't read them?

### **Go for the 'quick and easy wins' first**

Rule nothing out when making your initial assessment, because businesses can waste money in all areas - some more obvious than others. And savings can be made quickly and easily without affecting quality and performance. If your spending far outweighs your budget, look for savings in these areas first. Sometimes just using less can provide significant savings. Energy is a good example of this: making sure that premises aren't being lit or heated unnecessarily can provide big savings. Unnecessary journeys (e.g. deliveries or client meetings) could be adding significantly to your travel costs.

### **Look for savings in less obvious places**

There might be areas where you simply cannot reduce costs, but don't consider anything to be a 'fixed cost'. Also try to find ways to make your processes more efficient and consider whether better use of technology could help. Ask your bank how you can reduce any charges you might be paying them. Check your supplier invoices to make sure you're not being overcharged or double-billed. Investing in software to take care of tasks for which you currently use manual systems could also save you time and money. Bulk purchases could save time and money.



# Saving money

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## Focus on human resources

The first major consideration is whether any job cuts are necessary, which is never an easy thing to do. Remember, you make roles redundant, not people, and only if you have no other choice (i.e. the role is no longer viable). A cheaper solution could be to outsource certain functions of your business (e.g. accounts, recruitment, payroll). Alternatively, using freelancers might provide the perfect cost-effective solution. Enabling your staff to work from home when possible could also slim your costs, providing output doesn't suffer as a result.

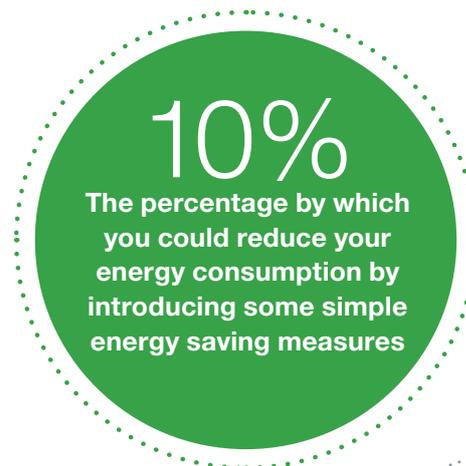
## Don't shy away from making difficult or unpopular decisions

Cutting costs often involves tough decisions, while reaction might not be universally favourable, especially if it means redundancies or cutting back on overtime, etc. That doesn't mean you can afford to shy away from your responsibilities to your business. Introducing new ways of doing things can be difficult and it can take time. You might even experience resistance to change, which you'll need to manage.

## Speak to your suppliers

Tell your suppliers you need to make savings and ask whether they can improve their prices or provide better value for money. If not, however much you value your relationships with them, explore your options.

Caution is advised, of course. You might get cheaper prices but inferior quality and service. Don't focus just on price - focus on value for money. Negotiating too strongly with existing suppliers can backfire. You might get a better deal, but simply leave your supplier eager to recoup lost revenue on other orders. When negotiating with suppliers both sides must feel reasonably satisfied if the relationship is to continue. Building strong personal relationships can enable you to get good deals over a long period. Another cost-saving option might be to consolidate your purchasing by buying from a limited number of suppliers.



Turning on the power save function on a computer monitor could save you



**Less than half** of small businesses are aware of other tariffs offered by their energy supplier

Source: FSB 2014 Energy Survey

# Think about the future

## The dangers of ill-considered cuts

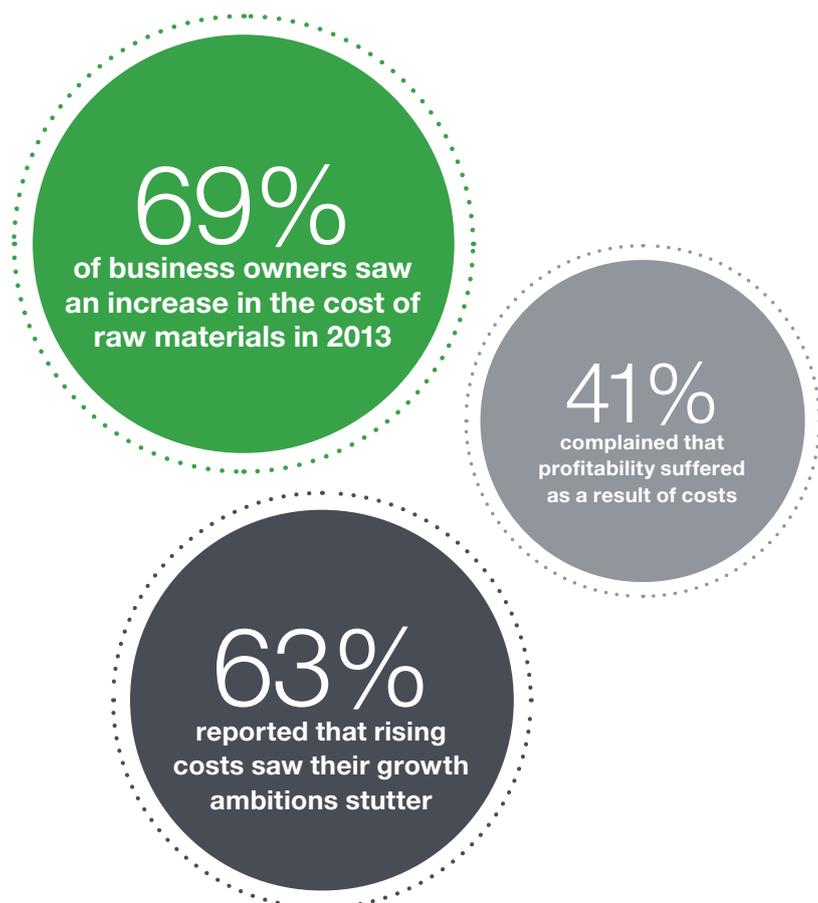
Cutting costs too severely or in the wrong places can leave your business in a weaker position. The quality of your products or services could suffer, which could hurt sales. Morale among the 'troops' could also dip, especially if you've made redundancies and cut back on overtime or bonuses. Knowing that you're making tough decisions for very good business reasons certainly helps and your communication with employees must be good at all times. If not, you risk losing good people. Some business owners immediately slash marketing budgets when seeking to make savings, but if done recklessly this can severely damage sales and threaten the business's longer-term health. Before making cuts, carefully think through the implications.

## Draw up new budgets

Look at your business's forecasted revenue for the next 12 months and decide how much you need to use to operate your business. Your operating costs should be divided into separate budgets. You might be able to revisit previous budgets. If not, think carefully about how much money you need to commit so your business functions as it needs to. When setting **budgets**, there's no point in being stingy or overly generous. Once realistic budgets have been set, you must stick to them if you are to **control your costs**.

## Create a cost-cutting plan

Now you know exactly where you will cut costs and by how much if your business is to operate on a better footing. Stay focused on your objectives and set targets; then you'll be able to judge the success of your cost cutting. To prevent inefficiencies creeping back, carry out regular cost reviews (at least every quarter). To help stay on top of your business's finances, work more closely with your accounting software - it can really help you to minimise costs and run your business much more efficiently.



Source: Forum of Private Business, 2014

## An expert's view

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Jasmine Birtles, the founder of [moneymagpie.com](http://moneymagpie.com), explains how small businesses can cut their costs.

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"Turnover is vanity, profit is sanity, cash is king" goes the saying and it is a fundamental truth for any business. Keep costs right down and the cash flowing and you will always be all right. Entrepreneur Theo Paphitis says: "A lack of cash is like a heart attack for a business. If you can't pay the rent you shut down, just like you would if your heart packed up. Don't be without cash. You can live without profit for a while - but not without cash."

In tough times, it's even more important to keep the cash flowing and to make sure that you keep your eye on profit rather than be sidetracked by the many other aspects of running a business.

I have learnt through hard experience that the place to start - and finish - is by keeping costs right down and reviewing them every month to make sure that you're not slipping. Businesses must spend to make money, but the amount we spend often has no correlation with the profit it generates. Business owners need to check continuously that all spending is necessary and supports money-making rather than draining it.



Money expert: Jasmine Birtles

**"A lack of cash is like a heart attack for a business"**

# An expert's view

# Here are my tips for cutting costs and keeping spending down:

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## 01.

**Aim for zero cost at all times.** How much can you get for free? Get office furniture by picking it up on Freecycle or the 'free stuff' section on **Gumtree**. Barter goods and services with other businesses. Look around the net for free versions of software you usually have to pay for. See if big companies you deal with could sponsor your activities by giving goods in return for promotion from you.

## 02.

**Outsource where possible.** Every staff member is a high cost, whatever actual salary you pay them. Where possible use freelancers and outside companies for functions such as IT, publicity, accountancy and even administration. Timothy Ferris, author of 'The 4-Hour Work Week' suggests you hire 'virtual assistants' from Internet companies like **Your Man in India** and **AskSunday** who will perform all your admin tasks and more.

## 03.

**Get into remote working.** On a similar note, seriously look at ditching the office for working from home and contacting your team through Skype, email and instant messaging. Occasionally hire an office for a day or two through a temporary office rental company.

## 04.

**Keep a daily eye on money coming in and going out.** You don't have to be your own bookkeeper but you do need to know, to the penny if necessary, what money is coming in and, particularly, going out each day. Question all spending and get others in your team - particularly your accountant - to question your spending even further.

## 05.

**Shop around for cheaper versions of everything at least once a year.** Look into switching your phone system to VoIP technology, use a comparison service like **Makeitcheaper.com** to get cut-price gas and electricity, haggle on all insurance, get rid of cleaners and make it a job you and your team do. Whatever you spend, try and get it for less!

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To find out more go to:

[sage.co.uk/businessadvice](http://sage.co.uk/businessadvice)

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