

Controlling costs

How to curb spending without cutting critical resources **Interviewed by Kristen Hampshire**

Companies are tightening their belts, trimming the fat and squeezing operations. Businesses are engaging in cost analysis at all levels, putting their budgets under the microscope as they determine what resources must be redistributed or reinforced to weather the economic storm.

"These times are tough, but companies that review their cost structure and revenue sources will come out of the downturn in a much stronger position," says Bill Willbrand, member, tax and accounting, Brown Smith Wallace LLC.

"It's a time of concern, but also of great opportunity," says Ted Flom, member and co-leader of the risk services practice at Brown Smith Wallace LLC.

A careful review of costs includes evaluating key areas of the business such as customers, margins, contracts and leases, health insurance, and travel. Willbrand suggests a "clean piece of paper" approach to budgeting to determine a company's real value stream and isolate waste that can be cut from the organization.

Smart Business spoke with Flom and Willbrand, who shared cost control and reduction strategies that companies should implement today.

How can a customer analysis shed light on cost inefficiencies?

A careful review of customers can unearth opportunities to improve profitability and mitigate risk. Evaluate direct and indirect customers of your products and services — including your customers' clients. Their financial health can affect your business. For instance, if you do not directly serve the building industry, but you supply a product to a company that sells into the housing market, you can expect their financial stresses to trickle down to your organization. Also, examine your customer base and identify those that are unprofitable or those with low margins. You may decide to renegotiate pricing with these clients, or you may be able to use this information as leverage to demand other concessions such as quicker payment terms. Lastly, look for clients who are notoriously behind in payments. These clients are treating your business like a bank. The longer receivables string out, the less likely you are to collect on them.



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How can companies find opportunities to cut costs by evaluating profit margins on products and services?

In this economy, companies should evaluate profit margins on products and services to identify those that are selling for low margins or at a loss. Consider the labor and raw materials invested in producing these products and services along with other costs, such as warehousing and packaging. If you can focus your efforts on products and services that sell at margins that support your business, you will be able to improve the company's overall profitability.

What cost savings can be realized through analyzing contracts and leases and renegotiating where possible?

Companies need to get a handle on their most significant vendor relationships, which often include leases. Review contracts with your most significant vendors and be sure you are receiving all promised discounts or rebates. Read the fine print and hold vendors to these agreements. You may be receiving charges that are not consistent with the terms of the agreement. For leases, common area maintenance (CAM) expenses are often a source of inappropriate charges. If you feel your contracts or leases might present opportunities, consider conducting an audit.

As you review vendors' contracts, you may

recognize opportunities to reduce the number of vendors and realize economies of scale by giving more business to a single vendor. Also, revisit contracts with existing vendors and ask about renegotiating pricing and other key terms. Today, vendors really want to keep your business, and they may be willing to offer discounts and incentives or adjust payment terms. Don't be afraid to shop around. Being smart about your contracts is one way companies can quickly and easily impact the bottom line.

What can be done to reduce health costs?

Businesses are having a difficult time managing health insurance costs, which continue to increase. Review plan design and the premium you ask employees to pay. Health insurance is a valued benefit, so you should help employees understand how much premiums actually cost. Companies today are asking employees to take on more of these costs. You should also check into lower cost plans, such as health savings accounts bundled with high-deductible health plans. Finally, if your company is self-insured, enlist a third party to audit the plan administrator to identify cost savings, such as participants enrolled in the plan who are not eligible and claims that are not being handled properly.

How can companies trim travel expenses without hurting client relationships or new business development?

Companies are finding opportunities to reduce travel costs by tightening their policies, renegotiating arrangements with travel partners and by enabling employees to utilize technology. Tighten your travel policies to make employees be more prudent with their travel expenses. In this economic climate, there are also opportunities to negotiate better deals with air carriers, hotels and car companies. In addition, some companies are asking employees to reduce the number of trips they take and to make greater use of existing technologies such as conference calling and Internet-based, application sharing tools like WebEx. <<

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