Financial Management

Controlling Expenses

Over the past several columns I have been sharing some financial management ideas. I started with suggestions for business owners about maximizing the income of the business. Now I will start to focus on the other side of the ledger, the expenses.

Earlier this month, I had the opportunity to remind a business owner of the old maxim: “Success is not based on how much a business takes in, but on how much it does not spend.” In other words, the easiest way to increase profits is to lower expenses. That may mean lowering variable expenses (expenses that fluctuate based on your sales) or fixed expenses (expenses that don't vary from month to month).

If expenses keep rising, how do you go about lowering them? That is a big question for small business owners in today’s economy. Cutting costs is not easy and it will take some effort. There's no big secret to lowering costs. My first suggestion is to determine your major costs and research alternatives for pricing and quality. So now, here’s a question for the reader: Can you guess the top six small business expenses?

Answer: According to a National Federation of Businesses (NFIB) survey, the top six small business expenses include:

- Cost of goods (materials and supplies that are direct costs of goods),
- Inventory acquisition and management,
- Wages, salaries and commissions,
- Employee benefits (excluding taxes such as FICA),
- Energy (electricity, gasoline, natural gas, etc.), and
- Rent

Other lesser expenses include interest expenses, vehicles, business insurance, and business taxes. Many business owners are surprised to find out that the business expenses that appear to be the most modest for small business owners are marketing and advertising, and professional services.

I will share some practical guidance and considerations on this topic. Start with doing your homework. If, for example, you're trying to get a better rate from your landlord,
you can't do it without accurate marketplace knowledge about comparable rents. At the same time, keep in mind that the lower price quoted for that cell phone vendor, freight company, or importer, may also mean lower quality services (always a possibility). So, research should never be limited to price alone.

Another consideration could be to ask for price breaks. A penny-pinching mindset can sometimes be helpful but more important is a willingness to negotiate with everyone over everything. You may find it hard to ask for a price break but as my father always reminded me…You'll never know unless you ask. Once you get over that hurdle, you may find that the attitude of negotiating price reductions is addicting.

Here are a few more quick considerations:

**Spending and taxes.** Sometimes it pays to buy that new computer; sometimes it doesn't. Find out how spending can lower your taxes.

**Fixed expenses.** Have you thought about lowering insurance costs or reducing lease payments? Consider ways to chip other fixed expenses.

**Employees versus contractors.** Your choice of hiring a worker as an independent contractor or as an employee can make a big difference in your balance sheet and cash flow. But make sure you check the IRS checklist on this.

**Inventory Costs.** Do you have an unnatural relationship with your inventory? Maybe it's time to end that love affair and cut some inventory costs.

_______________
Dean L. Swanson
Southeast Minnesota SCORE
c/o Rochester Area Chamber of Commerce
220 South Broadway, Suite 100
Rochester, MN 55904
*Dean is a volunteer SCORE Mentor and District Director of SCORE Minnesota*