

THE FD CENTRE CHECKLIST

COST SAVING CHALLENGE

Some businesses have reacted to our recessionary woes by cutting costs aggressively. According to Colin Mills at www.thefdcentre.co.uk, *"In many cases, this is absolutely the right thing to do, so that the business's future is protected. However cutting costs too heavily reduces the capability, expertise and intellectual horsepower of the business"*. As a checklist perhaps you should consider some of the below:-

- When cutting staff costs, have you considered negotiating shorter working weeks, sabbaticals or reduced fixed cost elements of the employee cost? These mechanisms enable your business to retain its expertise and also its capability, when better times return and finding staff will be costly and time consuming.
- Have you considered all the activities carried out by the business and identified those that do not add value? Example: some Life Assurance businesses recognised that after they sell a policy, the paperwork is normally signed and returned within 5 days. They had a department chasing the pipeline to maximise the sales. However the cost of running that department was only marginally less than the revenue it generated. They stopped the activity and cut the cost of the whole department. Therefore, the easiest way to reduce your cost base is to reduce your activities to those that really generate profit.
- Although often overlooked tax is often in the top 5 spends of the company. Have you taken a look at your tax position recently? Consider more efficient ways of paying staff and directors and also consider the proportion of the remuneration of the principal owner is drawn as dividends.
- Supplier negotiations are tough at present. Many businesses are trying to increase their prices to get the maximum return on diminishing sales e.g. RBS is a great high profile example. At the same time their customers are demanding lower priced goods and services to "keep the business". The most significant price falls have been in the construction market. The right approach is to consider your alternatives to each supplier first. For those suppliers where you have a viable alternative, this presents your business with the strongest negotiating position. However to maximise the value of this position you need to nurture those alternative suppliers. Are you doing this?
- Have you looked at your property costs? The landlord is frequently considered an immovable rock when it comes to negotiations. In the current market, landlords are terrified of losing their tenant. You can try direct negotiation although if you want to move out of premises a creditor's voluntary arrangement "CVA" may be required. Businesses like www.companyrescue.co.uk offer a cost effective service for CVA, if a mainstream Insolvency Practitioner is inappropriate. Property costs are sometimes significant and expertise in maximising space utilisation can make a big difference. See www.Haywardsllp.co.uk for help in this area.

The banks have been forcing up the prices of their services dramatically over the last 12 months and one could be forgiven for thinking that the taxpayer is going to be asked to pay for the banks hubris twice, once through increased charges and secondly through higher taxes and reduced public services.

Unfortunately there seems to be little escape and one could be excused for believing that there was a degree of collusion between the banks driven by the government. However to drive the best deal with the banks you may well need to consider a different bank. Unfortunately for some this might not be an option. However for those businesses operating in “healthy” sectors or well managed businesses that are bucking the trend, shopping around pays huge dividends.

If you are struggling to identify the areas to focus on implementing the cost saving plan, you need to look at your finance function very closely and see if they are up to the task. A cost effective solution could be a part time FD – converting a costly finance function into one that delivers value to the business.

At www.thefdcentre.co.uk, we are committed to providing businesses the right level of financial support at the right time. As the largest supplier of part time FD’s in the UK, and a team of over 100 in 16 regional offices, we can help your business achieve the strategic financial support to ensure your company meets its goal, objectives and, most importantly, exceed its financial forecasts.

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