

# REDUCING COSTS

**Reducing costs is an important factor in improving profitability and preserving cash in your business. Every business should regularly review its costs to ensure money is not being wasted. However the current economic downturn makes this an essential task. How should you approach cost reduction in your business?**

## **DIRECT VS OVERHEAD COSTS**

Direct and overhead costs should be approached separately. Direct costs vary with output and are the ingredients for the services and products you sell. Overheads are the costs associated with keeping your business running and tend to remain relatively static despite changes in output.

### **DIRECT COSTS**

Direct costs can be reduced absolutely (e.g. by re-negotiating) or through more efficient use of resources e.g. by reducing waste or improving productivity or methods. This will improve your gross margin which is a key business performance indicator. We find that most businesses will have improvements that can be made in this area.

### **OVERHEAD COSTS**

Overhead costs can be reduced by close examination and questioning. List all your outgoings and scrutinise in the cold light of day ask yourself, "is this essential?" Independent help can provide you with a more objective and effective outcome. We often find businesses are paying for things they don't really need or no longer use.

## **PEOPLE**

For many businesses people are their greatest asset but also the greatest cost. During the pandemic you should make use of as much government support as necessary, however sadly it may be that you no longer have the sales or cash to sustain all the staff you have. Take professional advice when making redundancies to ensure you treat your staff fairly.

## **CUT NOW**

Cutting direct costs improves your gross margin and reducing overheads leaves you with more net profit. What's stopping you reducing costs today?

