



**Prepare & file  
your taxes on-line**



Serving a **WORLD** of Business Needs

**NEWSLETTER**

**Carter Tax Incorporated Newsletter August 2009**

## **Cutting Expenses May Yield Undesirable Results**

Due to the uncertainty of the economic future for most small businesses; planning and budgeting; has been made top priority. The number one focus for businesses everywhere has been to reduce operating expenses. The most frequently asked question is "what are our operating expenses?"

Operating expenses (also known as operational costs, fixed expenses, and indirect costs) are the expenditures that a business incurs as a direct result of operating the business. These expenses include rent, phone, utilities, fixtures, equipment, inventory, marketing budgets, insurance, payroll, professional services, etc.

Our objective in this article is to look at operating-cost reduction from a strategic point-of-view.

**Let's look at operating expenses and some of the reasons you may wish to reduce them.**

1. Decline in new or returning customers.
2. Shortage of local and/or government funding for projects.
3. The business is losing money and needs to return to profitability
4. Costs of operating the business has increased
5. The business is profitable, but management seeks a better return on their investment.

**Decisions for cutting operating costs vary, but cutting some of them, or all of them, can be detrimental to your company. So, to address the risks involved, you might ask yourself the following questions:**

- How will you compete effectively, while reducing operating costs?
- How will your product's quality be maintained?
- How will you continue to enhance your clients' experience with your company?
- How will you energize your management and promotion of your company?
- How will you maintain or increase the goodwill you have worked so hard to build?

The point here is that you need to consider the company-wide and market-wide consequences of your cost-reduction decisions.

**Operating cost-reduction (or in any business decision) requires a well thought through strategy. There are two very important ideas here:**

1. A strategy requires you to take a step back, put things in perspective, and look at the big picture.
2. A strategy demands that you express clearly the result you intend to achieve

### **Consider the Thirty Thousand Foot Level**

Taking a serious look at the future picture of your company is needed yet, often times, neglected because you are so close to your daily operations. Reviewing and analyzing the big picture forces you to look ahead, anticipate change, consider those impacts of change and develop a strategic road map; yielding positive financial results.

The individual who works in the trenches of the business has a limited perspective and dwells in the "here and now." It's difficult for someone stuck in the day-to-day operations to make strategic decisions that will impact the future of the company. This can limit your ability to make sound decisions regarding the overall business. YOU MUST take several steps back from the issues at hand to gain a broader perspective. This broader perspective gives you an advantage that helps see possibilities and alternatives. It is from that range of possibilities that the Manager can make better, more informed decisions.

It is good to gather information from your day to day operations and employees, as well as seeking and gaining the specialized knowledge and advice from outside sources. Consult with your investors, banker, attorney, accountant, and peers in your industry. Gaining the expertise of these specialists is often called: looking at the business from "the 30,000 foot level." David Allen uses the 30,000 foot view in his Getting Things Done book. He uses the altitude metaphor to cover what areas you want to focus on at each step. His scale tops out at 50000 ft. which identifies your entire life level and goes all the way down to runway level.

CONTINUED





Prepare & file  
your taxes on-line



Serving a **WORLD** of Business Needs

# NEWSLETTER

Carter Tax Incorporated Newsletter August 2009

- 50,000 feet:** Life
- 40,000 feet:** Three to five year visions
- 30,000 feet:** One to two year goals
- 20,000 feet:** Areas of responsibility
- 10,000 feet:** Current projects
- Runway:** Current actions (tasks)

Look at market trends, current and historical industry publications, and overall regional economic forecast for your region.

Clearly, good strategies are critical to making good business decisions. Poorly conceived strategies can haunt you. For example, in bad times, strategies such as "slash and burn" are often preferred by so-called industry experts.

However, be careful.

The slash and burn approach is short term. It is reactive in nature and characterized by the wholesale cutting of people and programs across the board, without much consideration of the consequences. The approach is reactive because it comes from no strategy at all, other than cutting costs. Hence, the tactic often achieves a positive short-term effect on earnings, while in the long run this often leads to disastrous long-term results. Why? Because short-term cutbacks are, for the most part, unsustainable.

For example, the surviving employees of a cut-back have the same amount of work to do, but have fewer people with whom to do it. The end result is that the cost-savings come creeping back, owing to the inefficiencies created by the cutback. Slash and burn cuts also ignore the time and money invested in recruiting, hiring and training; they discount the demoralizing effect the cuts have on current staff and they disregard the impact cuts have on the total customer experience.

## Know Your Business Financially

"A strategy demands that you express clearly the results you intend to achieve" Two things are important here: a) have the end result in mind before you start, and b) for clarity, quantify that end result."

Your strategy needs to be articulated into quantifiable results. With respect to cost reduction, ask yourself what level of profitability are you aiming for? Write it down and refer to it often.

Remember this: Cost reduction is only the means by which you increase profits. Cost reduction is just a way to help you get the end result you want: increased profits. So keep this important distinction in your top of mind awareness. It can have a major impact on the effectiveness of your strategy.

## Know your business financially.

Ask the questions.

- What is my break-even point?
- What is my sell point?
- What is my daily burn rate?
- What alternatives are available?

You must thoroughly understand the ramifications of your decisions, before you make them. This is called "means by strategic work". Strategic work is what keeps you in business; planning and organizing the steps you need to take; it includes clearly defining, measuring, and tracking the results you want. These are the tools that allow you to work on your business instead of in your business. Strategic work transforms you from being the employee in your business to being the entrepreneur.

Finally, often when a business realizes a downturn, owners cut expenses. In good and bad economies it is never bad to run a lean business. Running a lean business requires planning. So before you cut, STOP, THINK, STRATEGIZE.

