

Effective Cost **CONTROL** STRATEGIES

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Uncertain economic times

In the current challenging global

economic environment, there is downward pressure on sales and margins. The overall effect is an adverse impact on the bottom line, leading to lower profits or even losses. In such times, reigning in costs and expenses are even more crucial. Let's explore some cost control strategies that could help a company adapt and survive through the current uncertain economic times, as well as to position it strongly for the upturn. Broadly, we could look at them as financial and people strategies.

Financial strategies

BALANCE SHEET

There are 3 aspects in a company's balance sheet which we could look for cash flow and cost saving opportunities:

Accounts receivables (credit management)

Most businesses offer credit to customers. The related costs of credit to a company include the cost of financing (borrowing cost or opportunity cost for funds tied up), cost of running credit operations, cost of time to chase for debts, cost of bad debts and cost of debt recovery (legal fees).

This area is particularly critical given the present tight credit situation faced by many companies. By invoicing promptly and accurately, a company can ensure that its debt collection process is timely and efficient and that crucial cash flows are received promptly from customers. Having a robust credit management process will help a company reduce the risk of slow payments. In particular, through rigorous credit screening and taking early recovery efforts with delinquent customers, it would help limit the eventual amount of bad debt exposure and hence brings down the costs of credit.

Inventory management

In lean manufacturing thinking, inventory represents waste. This is even more so when the company suffers from overproduction. These costs include opportunity cost of funds tied up, warehousing and handling as well as potential write-offs due to stock obsolescence.

Clearing out old stock will free up valuable cash flow, thereby reducing the company's financing costs. Storage space freed up could be redeployed or rented out to generate cash flows that could offset other overheads. Accuracy in forecasting processes will help maintain an optimal, not excessive, level of inventory. Strong physical internal control processes will ensure that stock items are not lost to pilferage, which is another aspect of inventory costs.

Fixed assets

The current economic slowdown represents a valuable opportunity to review existing processes for efficiency and productivity gains.

If processes can be streamlined, redundant functions can be eliminated. This would in turn free up capacity and release surplus equipment. These could either be sold for cash, or be leased out to generate cash flows that will offset existing running expenses.

Outsourcing certain functions would also free up infrastructure resources and enable the liberated cash to be redeployed. No further costs would be needed to maintain or upgrade equipment to maintain productivity.



INCOME STATEMENT

DIY (Do-It-Yourself)

To the extent you can get your customers to serve themselves, you have transferred part of the operating costs to them. Think of ATMs (Automated Teller Machines) which dispense money and other banking machines that allow customers to update their bank savings passbooks and topping up of petrol at petrol stations by patrons. This mode of operation allows companies to keep a leaner staff strength while maintaining its operations.

Buy in bulk

If concentrating your purchases and buying in bulk make sense for your business, this would reduce reordering and receiving costs. Paperwork and payment by finance and other departments would also be reduced. If you are in the cash-terms business, i.e. you receive cash upfront from customers, consider paying cash upfront to your supplier in exchange for a larger discount. This could in turn boost sales and profit margins.

Accumulate and batch

Avoid adhoc processing where possible as this disrupts the normal flow, for example, such as making an urgent payment to a particular supplier. The cost of processing an individual item goes up phenomenally as compared to processing it in a batch. This would be particularly true too if your company ships a small quantity of order each time for a customer. Consider enticing your customer with a larger minimum order quantity for each sales order.

Conserve energy

Oil prices have remained high in spite of weak demand in many business sectors. Keeping your energy bill low should be an important short term and long term cost saving objective. Switch off electronic gadgets when not in use. They consume power even when in standby mode. Use energy efficient air-conditioner and bulbs. Research shows that energy-efficient bulbs last 10 times longer and consumes 80% less electricity.

Look for free stuff

Are there free lunches? Yes---think of Skype for international communication via internet. Sign up for free incoming call mobile phone packages for your staff.

Go electronic

Think of automated voice responses, e-invoicing and e-authorisation of transactions. Print less paper and use electronic archives.

Update your technology

Use up-to-date equipment and software. This would reduce waiting time for processing, equipment down time and maintenance expenses. Besides, you get to tap into more capabilities and productivity by using the latest software tools with enhanced time saving features. Overall your staff would be more productive and could do more with less.

Instead of travelling, think of using web conferencing to replace your regular overseas meetings.

Outsource

When a company outsources, it in effect only pays for effective performance. As a result of outsourcing, the need for supervisory staff would be reduced. This would in turn reduce personnel costs and eliminate the need to upgrade the skills of the internal workforce for a particular function. The costs of supervision, attrition and resourcing (hiring) and training could be avoided.

Eliminate processes

Very often, in a down time, companies delayer costs through headcount elimination. Unfortunately, the existing job processes remain the same. This leaves the leaner remaining workers having to handle the same volume of work. The result is a tremendous amount of stress for these staff and morale takes a hit, which leads to higher attrition.

This would lead to cost of resourcing and training of new and inexperienced workers who will initially perform at a lower level of productivity. It is hence important to review the existing process for inefficiencies and streamline them to not only avoid an unfavourable cost impact, but also to position the company more competitively for the coming upturn.

People strategies

Structure determines behavior. At the end of the day, it is the people in a company that ultimately drives and delivers the results of a company, whether it is revenue or cost savings. Hence people strategies are an important part of the equation. To encourage the desired response, the company needs to have effective structures that are geared towards the results it wants to achieve.

Accountability

Provide the right incentives for the right behavior. If you want to control a particular cost or expense item, track, measure, report and make someone accountable for it. For



example, some companies impute a finance charge on the business units' level of accounts receivables and inventory to encourage efficient management so as to achieve the above objectives of lowering the cost of financing working capital.

Build the right culture

PUNCTUALITY

Start meetings on time and end on time. Much time and hence money is wasted when meetings start late because people show up late. Time and money are again wasted with lengthy meetings. Ensure that an agenda with a time frame is used. Assign a time keeper for your meetings to keep them on track.

DO IT RIGHT THE FIRST TIME

Mistakes are costly to rectify. If everyone checks their work, this would greatly reduce unnecessary mistakes. Make this a part of the company culture.

Team development

When teams do not cooperate with each other, and where inter-departmental conflicts are rife, the company suffers from a lot of inefficiencies. Much time is spent on conflict resolution resulting in productivity lost. Get the team together with a common vision, resolve differences and put in place a structure for conflict resolution. Upskill the team in emotional intelligence and develop the team spirit. Move them from frequent "storming" to "performing". This would not just reduce your costs but may actually increase your revenue when the team starts to collaborate with each other and engage the customer more creatively.

Conclusion

In times like this, it is important to think creative to survive. While controlling or eliminating costs in the short term, do not lose sight of the strategic focus of your business over the long term. Take advantage of the lull period and enhance your long term competitiveness.

James Leong Chan Foo is the founder and master trainer of VisionsOne Consulting, a company which specialises in delivering customised corporate training programs to companies internationally. James' highly popular workshop, "Finance for Non-financial Managers" have been presented to participants from more than 18 countries. He is also an Adjunct Associate Professor with National University of Singapore. James has the honour of being the first invited speaker in Asia to present at InterCall's Asia Pacific webinar series with his topic on "Upsizing your financial intelligence in a financial crisis". James' views on financial analysis and financial planning have also been sought on Media NewsRadio 93.8FM. At the recent Asian Investment Conference, James also spoke on the topic "Interpreting Annual Reports for stock selection".

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