



## **Managing Costs in an Improving Business Environment**

John W. Braine, Partner, CFO Edge, LLC

As we near the midpoint of 2017, both the business and economic environments in the U.S. remain relatively healthy and strong. This is reflected in the high levels of optimism among small business owners. The most recent National Federation of Independent Business Index of Small Business Optimism stood at 104.5, which was the sixth straight month for historically high optimism. This kind of sustained optimism among small business owners hasn't been seen since 1983, according to the NFIB. <sup>1</sup>

Forward-looking owners and CEOs of small and mid-sized firms have been monitoring their costs to manage their bottom lines and take advantage of this anticipated upturn in the U.S. economy. As the business climate of 2017 continues to unfold and opportunities present themselves, owners and CEOs must continuously assess cost drivers to make sure that their costs are in line with increased revenues to increase their profitability.

The good news is that most owners and CEOs appear to realize this. In a survey recently conducted by Accenture, four out of five (82 percent) of the 700 corporate executives surveyed said that their companies are "focused on cost reduction as a way to free up funds to invest in growth initiatives." <sup>2</sup>

### **Benefitting from Cost-Cutting Measures**

Businesses typically deal with sluggish economic conditions by cutting costs to maintain profitability, and many companies did this successfully during the years after the recession. Some, however, have failed to fully realize the benefits of implementing these cost-cutting measures. Sometimes, costs are merely shifted to other areas of the company instead of being eliminated. Other times, costs can slowly creep back in areas where they were originally cut.

Ineffective cost cutting can lead to many negative effects, including the following:

- Stymied corporate growth
- Limited or negative savings realized
- Drained corporate resources
- A loss of business productivity
- Harm to customers, stakeholders and the business' bottom line

In the current improving business environment, cost containment and the reinvestment of cost savings for selected priorities must continue to be a high priority and scrutinized with shared accountability among everyone. Understanding the causes of ineffective cost-cutting measures is crucial to successfully implementing a growth strategy funded at least in part by cost-cutting measures.

## **Perform a Cost-Benefit Analysis**

The best way to avoid these and other negative impacts of ineffective cost cutting is to perform a cost-benefit analysis before you implement a cost-cutting program. This will enable you to reinvest cost savings in alignment with your corporate strategy and develop your growth strategy with an understanding of how cost savings will be allocated.

It's usually smart to devote these saved dollars to two or three specific corporate initiatives rather than spread them thin among many different possible initiatives. This will help ensure that your company receives a true payback on your cost-saving measures while also making it easier to gauge the impact and ROI that's achieved because of implementing them.

Taking a measured and strategic approach to cost cutting can result in many benefits for your company, including the following:

- It's a more cost-effective approach to generating funding to pursue strategic growth initiatives.
- It becomes easier to identify the best areas in which to invest cost savings.
- Operating efficiency and ROI are improved.
- Customer service and customer relations are enhanced.

## **Concluding Thoughts**

As we near the midpoint of 2017, both the business and economic environments remain relatively healthy and strong. Forward-looking owners and CEOs have been monitoring their costs to manage their bottom lines and take advantage of this anticipated upturn in the U.S. economy. In the current improving business environment, cost containment and the reinvestment of cost savings for selected priorities must continue to be a high priority. An outsourced CFO services provider can help you perform a cost-benefit analysis that will enable you to reinvest cost savings in alignment with your corporate strategy.

*1 May 2017 Report: Small Business Optimism Index; National Federation of Independent Business  
[www.nfib.com/surveys/small-business-economic-trends/](http://www.nfib.com/surveys/small-business-economic-trends/)*

*2 CEOs, CFOs Misaligned on Reinvesting Cost Savings? David McCann; CFO.com; January 28, 2016  
[w2.cfo.com/capital-allocation/2016/01/ceos-cfos-misaligned-reinvesting-cost-savings/](http://w2.cfo.com/capital-allocation/2016/01/ceos-cfos-misaligned-reinvesting-cost-savings/)*

## **About CFO Edge**

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit [www.cfoedge.com](http://www.cfoedge.com) or call 800.276.1750 Ext 101.

This publication has been prepared for general information on matters of interest only, and does not constitute professional advice on facts and circumstances specific to any person or entity. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication. The information contained in this material was not intended or written to be used, and cannot be used, for purposes of avoiding penalties or sanctions imposed by any government or other regulatory body. CFO Edge, LLC, its members, employees and agents shall not be responsible for any loss sustained by any person or entity who relies on this publication.