



What To Do When Your Clients Are Navigating Rough Waters

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While recent data indicates that the economy is growing, albeit very slowly, many Los Angeles and Southern California businesses are still navigating rough waters. This is especially true for businesses that suffered disproportionately to other businesses during the downturn, or those whose product lines are in an industry niche that has yet to recover from the downturn.

Business owners and executives of firms facing this dilemma are often faced with difficult choices. Should they cut expenses in an effort to boost cash flow and restore profitability? If so, which costs should they cut? Cost-cutting moves must be made very carefully and judiciously.

Unfortunately, companies in this predicament sometimes end up implementing cost-cutting initiatives in a haphazard way that doesn't take into consideration potentially damaging long-term effects on the business. "Slash and burn" cost cutting can severely damage a company's foundation and undercut its strategic advantages.

Strategic Cost Cutting

Rather than take a haphazard approach to cost cutting, you should encourage your clients to create a plan designed to cut costs strategically instead. Such a plan will focus cuts in the areas that are less likely to cause long-term damage to the business.

For example, employee layoffs are one potentially damaging cost-cutting move that companies sometimes rush into. Sure, layoffs will reduce payroll expenses in the short term — but letting go of highly trained and skilled employees can have serious long-term ramifications. These are the employees your clients will need in order to take advantage of new opportunities during an economic rebound.

Instead of laying off workers, businesses should first try reducing some employees' hours and/or overtime and requiring monthly or quarterly furlough days. They should also hold off on hiring to fill new or open positions as long as possible and spread the work out among existing employees, or use freelancers or contractors instead. It's especially important to hold on to the best and brightest employees, key managers and executives, as they will be critical to taking advantage of future opportunities.

More Cost-Cutting Ideas

Here are a few other suggestions you can recommend to your clients for implementing a strategic cost-cutting initiative:

Increase operational efficiency

Encourage clients to take a fresh look at every aspect of their operations by re-examining their people, processes and technology. Are the right people in the right places, performing the right jobs? Are there any barriers that might be hindering efficient workflow? Can they streamline and automate cumbersome manual processes and procedures? Are they using technology to its fullest potential?

Reduce overhead

The opportunities here are practically unlimited. Can your clients renegotiate their office rent or refinance their mortgage? Cut travel expenses by conducting meetings via videoconference instead of face-to-face? Reduce client entertainment expenses by paring back on expensive tickets to concerts and sporting events and dinners at five-star restaurants? Cut shipping costs by sending packages two- or three-day instead of overnight?

Ask vendors and suppliers for help

Tell clients to let their vendors and suppliers know about their cost-cutting initiative and ask them to suggest ways to work together more cost-efficiently. And clients shouldn't hesitate to re-bid their work, letting vendors and suppliers know that, all other things being equal, the lowest bid will get the job.

Cut marketing budgets judiciously

As with employees, cost cutting in this area should be done very carefully, as it could severely impact sales and revenue. Instead, encourage your clients to reexamine how effective their marketing and advertising programs are and adjust their expenditures accordingly.

One of the best cost-cutting moves your clients can make is to bring in an outside expert to help them prioritize where — and where not — to make cuts. Such an expert will bring an objective, outside perspective that's impossible for owners and executives to have from their position inside the company. Outsourced CFO services firms have helped many other companies cut costs strategically and can bring this real-world knowledge and expertise to bear for your clients.

Best of all, an outsourced CFO services firm works on a project basis. Once the cost-cutting initiative is finished, the engagement will be complete and the services firm will move on, with no ongoing overhead and costs to your client.

Concluding Thoughts

Los Angeles and Southern California businesses that are still navigating the rough waters of the recession often face difficult choices when it comes to cost cutting. Rather than take a haphazard approach, you should encourage your clients to create a strategic cost-cutting initiative that will focus cuts in the areas that are less likely to cause long-term damage to the business. An outsourced CFO services firm can prove helpful in creating this initiative by bringing an objective, outside perspective and real-world knowledge and expertise gleaned from helping other businesses meet similar challenges.

About CFO Edge

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