



## The Importance of Strategic Cost Cutting

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When the recession first hit more than four years ago, the first reaction of many CEOs and CFOs was to cut costs to help keep their businesses afloat. In the process, many companies streamlined their operations, tightened their procedures and learned how to do more with less, thus creating leaner and more efficient organizations.

Unfortunately, some companies implemented cost-cutting initiatives haphazardly that didn't take into account potentially damaging long-term impacts. Undisciplined, across-the-board cost cutting can severely damage a company's foundation and undercut its strategic advantages, limiting its ability to take advantage of new opportunities to add market share and boost profits during an economic rebound.

### Cut Costs Strategically

Rather than take a "slash and burn" approach to cost cutting, CFOs should instead strive to cut costs *strategically*, according to a well-thought-out plan. Here are a few thoughts to keep in mind as you develop a strategic cost-cutting plan:

**Look for ways to increase operational efficiency first.** Take a fresh look at every aspect of how your products are manufactured and/or your services are delivered by re-examining your people, processes and technology. For example:

- Are the right people in the right places, performing the right jobs?
- Are there any barriers that might be hindering efficient workflow?
- Are there opportunities to streamline and automate cumbersome manual processes and procedures?
- Are you using technology to its fullest potential?

**Search for ways to reduce overhead next.** The opportunities for overhead reduction are practically unlimited. For example:

- Can you renegotiate your rent? It's a tenant's market in many areas of the country today.
- Can you cut travel expenses by conducting meetings via videoconference instead?
- Can you reduce client entertainment expenses by paring back on expensive gifts like tickets to concerts and sporting events and dinners at five-star restaurants?
- Can you cut shipping costs by sending packages two- or three-day instead of overnight?
- Can you bundle your telephone/cell phone/Internet services with one provider to get a lower rate?

**Ask your employees for cost-cutting ideas.** Since they are on the front lines of your business, your employees are often in the best place to see areas where costs can be cut with minimal impact on your operations. One middle-market business started a company-wide cost-cutting initiative in which all employees were asked to think of ways they could save the company \$400 a month, which the CEO calculated would result in total annual cost savings of \$800,000 for the company.

More than 800 ideas were submitted in 10 months, and nine out of 10 employees submitted at least one idea. While not every idea translated directly to the bottom line, the CEO says that the initiative got everyone thinking about how they could be smarter about spending the company's money and resources.

**Get your vendors and suppliers involved.** Let your vendors and suppliers know about your cost-cutting initiative and ask them to suggest ways that you can work together more cost-efficiently. Don't hesitate to re-bid their work, and let vendors know that, all other things being equal, the lowest bid will get the job.

**Think carefully before slashing your marketing budget.** Cost cutting in this area should be done very carefully, as it could severely impact sales and revenue. Instead, consider *increasing* your advertising and marketing budget if this is feasible to gain a strategic advantage over your competitors. This is also a good time to reexamine how effective your marketing and advertising programs are and adjust your expenditures accordingly.

**Don't lay off employees unless you absolutely have to.** While layoffs will obviously reduce your expenses in the short term, they may have serious long-term ramifications for your business—by making it harder to take advantage of opportunities for growth, for example.

Some alternate strategies might include reducing employees' hours and/or overtime and requiring monthly or quarterly furlough days. Also delay hiring to fill new or open jobs as long as you can; instead, distribute the work to existing employees or use freelancers or contractors. By holding onto your best and brightest employees now, you'll find it easier to take advantage of opportunities during the inevitable economic rebound.

### **Concluding Thoughts**

With the economic recovery still sputtering along in fits and starts, many Los Angeles and Southern California CEOs and CFOs remain focused on cost cutting as a strategic imperative. They may want to talk with a provider of outsourced CFO services, as a resource of this nature has many years of experience viewing cost reductions from a high-level, strategic perspective and frequently has direct experience in those executives' industries.

### **About CFO Edge**

CFO Edge, LLC is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit [www.cfoedge.com](http://www.cfoedge.com) or call 626.683.8840.

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