

## **Overheads - under control**

Cost management is not the most glamorous aspect of the business by any means. We know you'd much rather be laying plans to grow the business and secure more leads and opportunities. But keeping an eye on costs and tweaking as needed can help you free up your cashflow to do more of the exciting stuff.

Understand better how your costs affect your business by breaking down your expenses and analysing them critically. Some costs are constant essentials but others can just creep up over time till they're dragging back overall performance.

Our Cost of Sale and Overheads article looks at distinguishing between what a sale costs and what it costs just to keep your doors open. You can break it down further and segment overheads in different ways, depending on what kind of business you have. When you know what your overheads are, and if your business is divided into different departments, you can allocate overheads more accurately to the different departments.

For instance, a manufacturing business might look at overheads in terms of manufacturing and administrative overheads. The manufacturing overheads are general costs associated with keeping the factory in production. They're costs associated with production but which can't be tracked to a specific product line. They include depreciation of factory equipment, quality control, rent, general repairs and maintenance, and utilities specifically associated with factory operation. Administrative costs are those costs not linked to the development or production of goods or services, and include front office administration and sales, office supplies, power.

Once you have systems in place for tracking and analysing costs, you're better placed to forecast your budget, spot and fix blowouts earlier and decide whether you need to adjust pricing to maintain or grow your profit margin.

## **All together now**

Make your team part of the solution in your cost control programme. Let them know keeping costs under control is a priority and how costs affect the business. Involve them in ongoing review and development of your systems for reducing waste and managing costs without compromising on quality. Their commitment to trimming business expenses will make all the difference. If the numbers are large enough, it might even be economical to introduce an incentive scheme based around identified savings. Here are some ideas you might use to start the conversation.

Systems: part of the problem or part of the solution?

When you have analysed where the costs are for your business, look at the systems around them to see if they are driving up costs unnecessarily. For instance, if your business ships baked goods to supermarkets and cafes, what's the cost of wastage in spoiled or broken goods? Are your freight and handling systems letting you down? Could different choices result in lower wastage and better product delivery?

## **Costs and the customer**

Look at your inventory and balance against customer response to what you do. For instance, if a manufacturing business expands their product lines, they now have a complex (and costly) inventory of parts and tools. If customers love the expanded product lines and revenue is going up because of it, management will probably tolerate the cost. But if customer response is lukewarm (despite

marketing's best efforts), then perhaps inventory is dragging the business down. Maybe simplifying product offerings might work better for you and your customers.

### **Times change**

Sometimes costs are in the system because you've 'always' outlaid for this or that item. It's always worth asking whether an item is still necessary to core business.

What's in a name...really?

Ask whether you need to buy a 'name brand' item or service. Can a cheaper brand do the job or is it worth the extra expense to obtain the quality essential for the business?

Are you being scammed?

It's unfortunate, but there are operators out there that try to run dodgy invoices past the business, for example, for advertising in directories and trade journals that the business hasn't in fact asked for (or received). They rely on being able to pressure accounts staff into processing the invoices and everyone being too busy (or too disorganised) to query the invoice and refuse payment. Like those infamous email scams, they only have to succeed with 1% of their targets to be ahead of the game.

Cost control is an ongoing process of evaluating whether expenses are reasonable and affordable. Good cost control practices involving the whole team will help your business stay competitive, nimble and ready for growth.