

Cost Reduction Template



BUSINESS TEMPLATE

Improving your bottom line isn't just about increasing your revenue — it also comes down to reducing expenses where possible. Lowering direct costs can dramatically increase your profit on each sale while eliminating unnecessary business overhead.

Lower the cost of purchases

Reducing what you pay for raw materials, components, or employees who work directly on output may have a significant impact on cost optimization. This assumes of course that you can maintain the quality and service your customers expect. List your direct costs from the most to the least, select the top ten and then see if you can:

- **Source cheaper suppliers.** If you've been buying from the same businesses for some time, it's often wise to explore who else can sell what you need at a lower price, and at equivalent or better quality.
- **Ask existing suppliers to renegotiate deals,** offer early payment discounts, or review more favourable terms. If you haven't queried costs for a while, it's never too late to ask.
- **Buy in bulk,** an approach that often comes with volume discounts. Then, consider where you can streamline expenses through larger, less frequent purchases.
- **Consider switching materials or components** for a more cost-efficient alternative, if there's no discernible dip in quality.
- **Identify which products or services offer the slimmest margin** for your business. Investigate if there is an alternative approach, such as outsourcing or using contractors on an as-needed basis.
- **Change your product mix** and stop selling the things that are expensive to service or produce. If you can sell items that cost less to make or deliver, all things being equal, you'll save costs.
- **Use any group discounts** from chambers or industry groups. For example, association membership often provides supplier discounts to secure rates that are beyond the buying power of individual businesses.
- **Look offshore** to see if importing products or services will lower any direct costs.

Lower the cost of expenses

At times, it's possible to lower your overhead while still operating effectively. Rank your most expensive overhead costs in order and then work your way down, applying cost-saving tactics in areas where you'll see the most reward.

You can try:

Ask yourself: where could you potentially streamline your business through digitization or automation?

- **Subcontracting** instead of having full time overhead.
- **Delete a product line or service** if it's sold infrequently and is expensive to maintain or hold. This allows you to remove unneeded warehouse space, reduce headcount, or sell machinery that's not fully utilized.
- **Audit your operations** to spot wastage from inefficient processes, or shrinkage from theft or poor management of consumables.
- **Switch manual processes to digital operations** to cut down on things like paper, printing and stationery — not to mention labour, and the cost of inefficient workflow.
- **Pinpoint inefficient costs**, such as cutting down on energy costs or getting rid of obvious overcapacity, such as unused phones, subscription costs and computer equipment.
- **Measure the impact of advertising** and the return on your advertising spend. What may have worked in the past may not be bringing the returns it once did, and your marketing budget could perhaps be more beneficial if used in other channels.
- **Get smart about your tax bill** by claiming everything you can as an expense to reduce the amount of tax you have to pay. Work with your accountant to understand what you can claim, and ensure you keep all necessary documentation (good accounting software can help with this).

Refinance to lower costs

Find out if it's worthwhile to refinance or amend how you bank. It pays to keep an eye out for deals that would better serve your bottom line. Talk to your banker, accountant or financial advisor about whether leveraging house equity or selling other assets may be a better way to refinance other debt. Business loans may have higher interest costs than personal loans, so using personal cash to pay off debt may work out to be a more economical option.

Use technology to track and measure

Implement online accounting software to monitor your budget, track your payments and give visibility over your financials well before tax time. Put robust systems in place that are checked frequently — such as using regular cashflow forecasts, communicating clear payment terms and implementing a robust payments process using online banking — so you can catch inefficiencies early.

Call on your advisors

Lean on the expertise of accountants or lenders who can help keep you accountable to financial targets, highlight any areas of concern, and give you systems and benchmarks to keep you on track. Regularly taking the time to review processes and activity within your business can help you reduce costs, while still maintaining your brand integrity and the quality of your service.

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Replace the example expense categories, solutions and budgets with your own.

Monthly savings	Possible actions/solutions	Current budget	Target reduction	New budget	Monthly savings	Annual savings
Contractors	Ask to requote	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Equipment leases	Identify if any can be cancelled, or leased instead of bought	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Legal and compliance	Ask to requote	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Major suppliers	Ask suppliers to requote or sharpen their pencil	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Marketing	Cut advertising not measured or ineffective	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Mobile phones	Identify better deals or prepay	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Office supplies	Reduce wastage, move to paperless	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Rent	Investigate alternate premises	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Repairs and maintenance	Purchase warranties, equipment care program	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Subscriptions	Cut low-use services, downgrade to cheaper versions	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Travel	Reduce by using online meetings	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Utilities	Conduct an efficiency audit to identify savings	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Vehicles	Reduce allowances, identify alternatives, go electric	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Wages and salaries	Conduct an employee audit, reduce headcount if possible	\$ 0	0 %	\$ 0	\$ 0	\$ 0
Other		\$ 0	0 %	\$ 0	\$ 0	\$ 0
					Total monthly savings	Total annual savings
					\$ 0	\$ 0