

Cash Management Excellence by Cutting Costs

By Mike Lubansky, Senior Analyst, Sageworks, Inc.

Whether in challenging or prosperous times, it is essential to manage your cash position through close monitoring of your costs and making appropriate cuts where necessary. Below, we explore 7 key things to review when managing costs.

- 1) Have a defined process in place to review all discretionary costs. With each scheduled review of your costs, examine both the budgeted amount and amount actually spent, as well as any return generated from that cost. If the cost incurred does not generate a return, then you must evaluate what value the cost brings in either [maintaining effective operations](#) or generating a potential future return. If the expense is not one that you would incur if it was part of your own personal budget, don't spend money on it.
- 2) In evaluating employee performance, continually review the return from revenue-generating employees, as well as the cost required in retaining non- revenue generating employees and their necessity in supporting the growth of the company. If the cost is not justified, then employee reductions or redeployment should always be an option.
- 3) For non-employee related expenses, consider any and all possible alternatives that could get the same benefit for a lower cost. As an example, carefully review all of your suppliers in the context of other sources. If comparable supplies or inventory can be obtained for a lower cost, do not hesitate to make changes rapidly, or to negotiate for a lower cost.
- 4) Consider leveraging technology to streamline costs. Jody Steinglass, owner of Empire Edge LLC, a New York-based company focused on individualized tutoring and standardized test preparation, says: "I categorize my tasks as being rote or requiring my analysis. For rote tasks, I hire software developers to create custom solutions. For example, I have managed to avoid costly payroll and bookkeeping solutions by setting up custom web applications that manage these actions. Custom software solutions are not cheap, but they require little ongoing maintenance and help improve cash flow."
- 5) Any new costs incurred need to have a strong business case justification. This must be instilled in all employees when they are requesting funds for any new expense. [Every investment must be carefully thought through](#), and there must be a process by which a substantial return is shown for each and every investment.
- 6) Incentivize your employees to find ways to manage costs and increase efficiencies. Set up programs and incentives for your employees to streamline processes and save on unnecessary expenses. Instilling a culture of efficiency in your organization will pay dividends beyond the direct efforts you as the business owner can make.
- 7) [Use industry benchmarks to ensure that you are not overspending on certain categories of expenses as compared to your peers](#). If you are spending significantly more than peers on certain expenses, then you need to closely evaluate that category of expenditure in your business to see if the added expense is justified by any additional return.

These are only some of the key principles to consider in cutting and managing costs, but the underlying principle in all of them is to put processes in place throughout all areas of your organization that closely evaluate every cost and its corresponding return.

About Mike Lubansky: Mike Lubansky is Senior Financial Analyst and Product Manager at [Sageworks](#) where he oversees product development, market research, and implementation in the financial institutions market. Mr. Lubansky has a background in both the financial and consumer industries. Before joining Sageworks in 2009, Mr. Lubansky served as Research Analyst for the Cherry Hills Fund and as Financial Analyst for Humana. Prior to that, Lubansky spent time as Specialty Account Manager for Pfizer and District Manager for consumer products marketing firm, Vector Marketing. Mr. Lubansky received his MBA with concentrations in Finance and Entrepreneurship from the University of North Carolina-Chapel Hill and his BA in American Studies from Yale University. He is also a CFA Level 2 candidate.

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