

EXPERTS' FORUM | Bank/Financial

Cutting Your Expenses – Not People

Cutting staff or wages, even shutting down plants, can be unfortunate responses to the current economy. Before heading down that road, however, it might be good to consider a few less drastic steps. Regardless of your business, as an owner or part of senior management, you have three main “levers” on your profitability dashboard:

Revenue, Expenses and Cash Flow Management.

Assuming for the moment that you’re doing all you can to maximize revenue, and you have cut expenses to the max—as most everyone has done in this economy—let’s look at some other options.

Personnel

Effective management requires balancing long term interests with short term needs. Over-emphasis on one or the other can get you into trouble. Every time you have to let good people go, you’ve just lost a critical investment in training and productivity, and you’ve taken a hit to morale. So what to do?

- “Lease” employees to another company, perhaps to a customer. You retain a valued resource at little or no cost, your customer benefits from the employee’s expertise without incurring more fixed costs, and you boost your reputation with both.
- Conduct a benefits review and make sure that what you’re providing (and paying for) is appropriate for your business. Changes here can represent an “annuity savings” – beyond immediate cash flow considerations.
- Take advantage of the Minnesota Shared Work Program. If you can identify at least five, non-seasonal, full-time positions that will otherwise be eliminated as a result of a (temporary) slowdown in your business, you may be able to retain these employees at a 20% reduction in work hours. In lieu of lost wages, they will receive equivalent of 20% of their eligible unemployment benefits. As a result, you will be able to maintain morale, productivity and flexibility in the workplace while temporarily reducing your personnel expense (for details, go to www.deed.state.mn.us/sharedwork).

- Ask your employees—at all levels—for ways to reduce costs, improve efficiencies and grow the business. Those on the front lines are typically most able to see opportunities, and they certainly understand the direct link to job retention. In too many cases, however, they’re also the least likely to be asked.

Occupancy

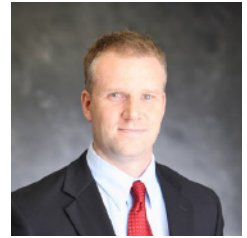
Commercial real estate goes through cycles – from “renters market” to “owners market” and back again. Here are some thoughts:

- If you’re a renter, and see a lot of empty space nearby, or hear of new tenants receiving significant incentives, it may be time to talk with your building owner or leasing agent.
- If you have more space than you need, consider subletting to someone in a similar or complementary business (strategic partner).
- Consider moving to a new location to reduce square footage or take advantage of landlord incentives.

Cash Flow Management

Cash flow management simply means receiving payment as quickly as possible and making best use of it for as long as you have it.

- Make sure that your receivables policy, procedures and terms are clearly understood and complied with – by both employees and customers. (And if not, know why.)
- Talk to your suppliers to see if you can agree to better terms. Simply delaying payments hurts relationships. They’re in the same boat you are, but they might be willing to negotiate in return for some commitment on your part.
- When there is excess cash in your accounts, sweep those funds into an interest-bearing account or pay down your line of credit to reduce interest expense.



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