



Small businesses want to make more sales, but *Carl Reader* explains that saving money can be just as important.

TEN SECOND SUMMARY

- 1 Many small and early-stage businesses operate on a tight budget, so managing finances correctly is crucial to success.
- 2 Plan ahead by mapping likely business expenditures with a cashflow projection to prepare for any difficult times.
- 3 Keep track of business terms to chase overdue debtors as soon as they become due.

It is a basic fact of economic life that businesses need to keep on top of their costs. Lowering overheads and increasing cost-efficiencies are welcome ideas for most small business owners, many of whom are working on a shoestring budget. Anyone who has been in business knows that a key factor in being able to sleep at night is having enough cash to pay the bills.

Often, many small and early-stage businesses are “bootstrapping” or at least operating on a tight budget, so ensuring that finances are managed correctly is crucial to success. But how can a business make sure that it doesn’t have more month than money?

First things first, one of the biggest challenges with saving money is that businesses can sometimes become consumed by focusing on cost-cutting, rather than growing their business. It’s therefore important to keep such matters in perspective and, with that in mind, I offer my top ten tips for small businesses to save money.

1. Lean, not mean

Working to a tight budget doesn’t necessarily mean not spending. It’s not about cash splashing, rather it is about a business strategically and carefully choosing where to put its money. Be lean, not mean – and this needs to happen from the start. Ditch the extras and focus on the essentials.

For example, does the business need brand new furniture and office equipment or could some second-hand items meet its needs? For some businesses, investment in a high-spec laptop might be a vital piece of kit; for others, they might need only a few low-cost items.

2. Use best judgement

Work out how to spend with careful judgement. Is every bell and whistle that is offered with a product really needed? Probably not, but bear in mind it needs to be fit for the business as well. Do not scrimp if this will affect what clients can be offered because with no clients a business has nothing. That can be the make and break of a business – spend money where it matters and adds most value for the business and its customers. Make economies if possible, but don’t sacrifice the business and its values.

However, it’s vital to keep a close eye on costs and, regardless of the size of the business, there are always ways to make savings.

3. Look ahead

Plan ahead. Map out likely business expenditures over the year and create a cashflow projection. This will help plan for any tight months, as well as providing a clear picture to factor in any “emergency” expenditure such as machinery or vehicle breakdowns into the financial situation.



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Knowing the expenses that are approaching will save the easiest cash. Every pound that must be paid in late fees or penalties is a pound that should be in the business's pocket. Avoid nasty surprises such as surcharges, fines and interest by making sure that these unnecessary outgoings can be avoided by being organised, efficient and making payment on time. The savings there – everything from unplanned overdraft charges to HMRC late fees – will soon add up.

Next, look at the biggest numbers on the profit and loss (P+L) account. This is usually where the opportunities for the biggest savings are.

4. Staffing

Every business will have different outgoings but, for most, staffing costs are a large proportion of the cost of sales in the P+L account. To start with, make sure that the right people are in the right positions. Are there ways to make them more efficient or more profitable for the business?

A big drain on productivity can be meetings – ensure they are not just “talking shops”. Meetings should be efficient and focused on problem solving, agreeing mutual actions, deadlines and accountability.

For many small businesses, hiring staff is a time-consuming and expensive process. Consider whether outsourcing tasks such as payroll or marketing would be more cost effective in the long run than hiring someone full-time to do this.

5. Check your P+L

Other substantial outgoings on the P+L are expenses such as property overheads, heat, light and phones.

While long-term leases can tie the business's hands in some cases, it is always worth investigating whether there are ways to reduce these costs. This might be through using agencies (often on a “no win, no fee” basis), or simply shopping around oneself; the internet makes this very easy through comparison sites. Ensuring that the best possible deals are obtained from utility suppliers is a great way to reduce costs without disrupting the business.

Generally, the easiest way to save money and increase efficiency is to “go paperless” and use electronic communication and record-keeping as much as possible. This is becoming increasingly important to customers for reasons of both speed and the environmental impact, but it's also brilliant from a cost perspective as well. By switching to digital documents, back office and administrative functions can be run much more efficiently as well as saving substantial amounts on stationery, postage and storage.

6. Go digital

For those entrepreneurs who are not highly tech-friendly, there are plenty of low-cost and easy-to-use pieces of software and apps that can help increase staff efficiency, keep track of spends and maintain everything centrally and easily accessible online. Many of these products

are cloud based, which minimises the need for expensive upgrades or installations. When printing really is unavoidable, buy a printer that prints on both sides to minimise paper waste.

7. Check payment terms

Many businesses automatically default to 30-day terms for payment. However, a business can set whatever terms it wants. Make sure that the accounting system is able to report on overdue debtors as soon as they become due to keep money coming in.

On the flip side, suppliers will also have payment terms and it is possible for a business to use these to its advantage. For example, if a supplier provides 30 days' credit, this could be used to help fund the business. To be clear – I am not suggesting that a business continually makes late payment to its suppliers; however, it can sometimes be beneficial to make the most of the permitted credit terms. On the other hand, suppliers may offer good settlement discounts, so check the options. Likewise, a business should also consider using settlement discounts on its own invoices.

8. Cost of finance

Some businesses could be paying crippling interest rates – perhaps they are caught in an invoice discounting or factoring arrangement that has high costs attached. There are likely to be more cost-effective ways for a business to fund its ongoing capital and development plans. It is always worth monitoring the profile of business funding and ensuring that this is as cost effective as possible.

9. Don't be afraid to negotiate

Digging a little deeper can result in some great bargains. Talk to vendors and suppliers to check whether a better deal can be obtained. People often shy away from this unnecessarily, but there's no need to be ruthless or tirelessly drive a super-hard bargain. Remember, it never hurts to ask – the worst they can say is no. Always look elsewhere as well, make comparisons and see where the best deals can be found.

10. Digital marketing

Although there is much value in many traditional marketing and advertising practices, consider digital options as well. Social media marketing and advertising allows a business to have a precise relationship with its audience. The business should choose platforms and networks that its audience engage with most often and use trial and error to ascertain which content works best to raise its profile.

Conclusion

These top ten tips are just a few ideas as to how a business can cut its costs. Every business is different – the best way to make savings is to look closely at processes and identify where things could be more cost effective.