

5 Ways Businesses Can Reduce Cost Effectively



5 WAYS BUSINESSES CAN REDUCE COST EFFECTIVELY

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What is the importance of cost reduction?

Every dollar counts

Profit is an important aspect of any business. A company's potential to earn impacts its ability to secure bank financing and attract investors to fund operations. Without profit, a company cannot stay in business.

However, your company's growth depends on not only the amount of money you generate from products and services, but also how much you spend. This calls for cost reductions.

Before implementing any cost reduction strategy, you have to first understand your business's cost management. Ask yourself these questions:

- What are my business costs (e.g., taxes, labor, electricity, raw materials, etc.)?
- What will be the positive and negative effects of cutting these costs?
- Which areas of my business will be affected? How will these reductions impact them?

It's not enough to just cut random business costs, however. While this may work in the short term, you may eventually lose valuable employees or profit because of inadequate planning.

For instance, if cost reductions result in substandard product or service quality, you may be forced to reduce prices to maintain the same sales levels. This eliminates any potential gains and results in a net loss. Or it may also result in your company gradually losing market share since the quality reduction makes it more difficult to maintain expected sales figures.

However, by properly planning cost reduction efforts, you ensure higher savings and improved profitability. With a strategic plan, you have solid figures to use for financial forecasting and decision-making. It ensures that no expense is overlooked, and every dollar spent is not wasted.

So what are the most effective cost cutting strategies your business can try? Let's take a look at the top five.



Cost reduction tip #1: *Cut supply costs* Cheaper is sometimes better

It's ideal for any small business to save as much money as possible. If you regularly make supply purchases, getting the most out of these can improve not just your profit margins, but also your operations as a whole.

This means regularly checking for discounts and other ways you can save on supply costs. If you own a tailoring shop, for example, you may find another company selling the same quality fabrics for considerably less than your current supplier. You can choose to either switch suppliers or ask your current one to give you a discount.

You may feel embarrassed to do the latter, especially if you have been working with the supplier for a long time. But asking for a discount is a healthy business strategy, and many businesses are willing to offer price cuts to deserving clients.

You have a better chance of getting discounts by:

1. Paying early

Some vendors may give you a discount to speed up their cash flow. Payment terms may be printed on invoices or contracts, but you can also ask about early payment discounts. To see if it makes sense for your business to pay your supplier early, compare the rate of return you would yield from the early payment to the charged interest rate on your internal rate of return or credit line.

Let's say your business receives a \$5,000 invoice with 10/10, net 30 terms. This means that the invoice is due in 30 days, but you are eligible for a 10% discount off the total cost if you pay within 10 days. If you decide to pay early, you'll only pay \$4,500 — that's a \$500 discount!

2. Checking affinity relationship discount offers

Getting a discount can be as simple as showing a membership card, entering a membership number online, or signing up for a business account.

Check the service pages of your suppliers' websites for discount offers along with price breaks on shipping services. Look for upfront discounts or cashback offers arranged through partnerships between your bank and your vendors.

Cost reduction tip #1: *Cut supply costs*

Cheaper is sometimes better

3. Increasing your volume

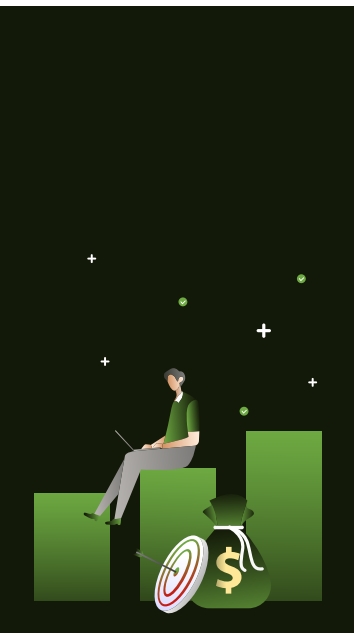
Some suppliers offer discounted tiered pricing for volume purchases. Or they may give you a discount if your business can guarantee a certain purchase amount. Ask them about volume-based discounts, and consolidate your purchases to qualify for further discounts.

4. Negotiating

Discuss with your vendors about ways you can get discounted pricing. Find out about operational charges that could reap savings for your business. For example, you can give greater order-to-delivery lead times that allow your vendors to avoid paying rush shipping charges. You can also accept shipments during your vendors' slow season.

Aside from seeking discounts, you can also engage in "[coopetition](#)." This involves pooling resources with other businesses to save on costs..





Cost reduction tip #2:

Cut advertising costs

Reaching customers need not be expensive

Advertising keeps customer flow steady and growing, and significantly increases your sales. When consumers see positive and relevant advertisements, they are more willing to invest in your business. And when you always meet your customers' needs, they become loyal clients.

But it seems businesses' budgets for advertising are shrinking. In fact, according to a 2019 study, [69% of companies expected to decrease their ad spend](#) in 2020. So how can you maximize your advertising potential while saving costs along the way? Try these ideas:

1. Build an online presence

Advertising has never been more easy these days, thanks to the internet. You can create a website or join social media so customers can easily reach you online. Creating a Facebook account, for instance, is free of charge and allows prospects to check out your products and services, as well as read customer reviews.

Podcasts are also a perfect way to reach your audience. [More than half of the US population has listened to a podcast](#), and millions are regular listeners. If you find a podcast relevant to your target market, you can sponsor the show to broaden your audience.

You can also send newsletters via email. Make sure to personalize them by using the recipient's name instead of an overly generic salutation like "Dear customer." This technique significantly boosts open and click-through rates.

2. Use remnant advertising

Remnant advertising refers to a media company's unsold advertising spaces or time slots. They don't want to waste these time-sensitive spaces, so companies sell them at a significant discount. You may have fewer options, but remnant advertising is a good way to get your services in front of as many people as possible on a limited budget.

Cost reduction tip #2: *Cut advertising costs*

Reaching customers need not be expensive

3. Use public relations

Advertising costs money, but public relations is essentially free. Exposure through local newspapers and TV stations gives your small business better credibility than a typical ad campaign does, so you can generate a better response for your company.

By informing your local media of your business activities, such as business trends, major promotions, expansions, and the like, you open your business to free publicity, saving you advertising costs along the way.

4. Start a rewards program

Turn your most loyal customers into a powerful sales tool by starting a rewards or brand ambassador program. Because they are happy clients, they will be more than willing to market for you and endorse your products to other people. Reward your customers for every referral that they make.

5. Talk to your customers

Many businesses make the fatal mistake of not conducting research before releasing a new product. As a result, they end up with a product with a limited or no market.

To avoid this, get your customers' opinions. You can directly ask for their feedback as part of your regular interactions, or carry out surveys.

Take your customers' opinions into consideration. Remember that your clients determine what sells and what doesn't, so don't disregard feedback, even if it's negative.





Cost reduction tip #3:

Reduce paper usage

Save trees, save money

Your printing costs are a major factor to consider when reducing costs. Did you know that an [average employee prints about 10,000 pages per year](#)? This would equate to about \$725 per person annually. That amount multiplies quickly if you have many employees.

Unfortunately, some businesses have no idea how much money they spend on printing. While printing documents is the norm for many companies, it often signals outdated workflow processes.

To reduce paper usage and costs, you need to identify your business's problematic areas first. Ask yourself these questions:

- How many printers, scanners, copiers, or multifunction devices does my business have?
- Which machines are used most or least frequently?
- Which devices require the most amount of maintenance?
- How many pages does my business print or copy per year?
- How many pages are printed in color and in monochrome?

Answering these questions will help you determine the actions your company should take to reduce paper usage and costs, such as the following:

1. Use less ink

Many businesses print documents on only one side of a piece of paper. Instead, try printing on both sides. Modern printers have a duplex printing feature, which prints on both sides automatically.

Enabling duplex printing can help your company consume half as much paper than before. According to a study, [this small change can also reduce paper costs by 15%](#).

Many inkjet printers also allow you to change the print quality from "Best" to "Draft." Printing in draft quality is faster, uses less ink, and is sufficient for casual reading or reference. Laser printers, meanwhile, give you the option to decrease the print resolution, which is measured in dots per inch (dpi). Printing with a lower dpi requires less ink/toner, reducing your usage and saving you money over time.

Cost reduction tip #3: Reduce paper usage

Save trees, save money

2. Close deals digitally

Paper contracts are still widely used today despite the rise of digital contract management solutions, which allow you to send and collect signatures from customers and vendors online. Switching to such services will save your sales staff, customers, and vendors unnecessary trips, as well as cut down your paper usage. If paper contracts are still needed, however, make sure to print on both sides of each sheet of paper.

3. Go paperless in Accounts Payable (AP)

Your AP department accounts (pun intended) for the biggest amount of office paper waste. AP records have to be stored for several years, which requires printing a lot of documents and storing them in large filing cabinets.

Digital AP solutions, on the other hand, reduce the number of printouts and make it easier for your team to organize documents. You can receive invoices as a PDF file and capture the data they contain, as well as create digital copies of paper invoices.

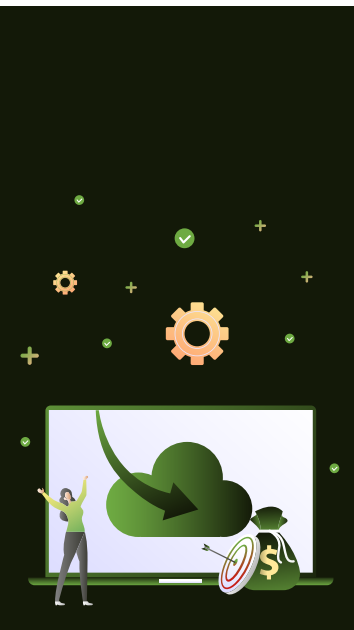
What's more, with digital AP tools, all captured data is organized and stored in the cloud, eliminating manual data entry. Accessing a certain invoice is as easy as using a search function. AP apps also support digital invoice approvals.

4. Do away with paper expense reports

Expense reports are a necessary part of business spending. However, they are often printed out on paper and then shredded once approved, creating more unnecessary office waste.

Switch to a digital expense report system to reduce your reliance on paper. Employees can also submit digital receipts, which further saves printing costs.





Cost reduction tip #4: *Migrate to the cloud* Leave your on-site servers behind

Cloud computing is the provision of on-demand computing services, including data storage, networking, software, servers, and databases via the internet. Unlike on-site servers, cloud servers are easier to maintain and more secure, which is particularly useful for businesses handling sensitive data.

But did you know that migrating to the cloud can also help small businesses reduce costs? Let's take a look at some of its benefits:

1. Improved scalability in cost structure

When your workloads are in the cloud, you don't have to heavily rely on on-site servers that you must maintain and pay for regardless of demand. You don't need to pay for idle infrastructure and you benefit from cloud services providers' (CSPs) optimized allocation of cloud computing resources.

2. Streamlined workforce

Your business's staffing budget can account for more than half of your operational expenses, mainly due to the inherently high employment costs. Aside from salaries, you also have to pay benefits and other employment costs, which usually exceed your hardware and software expenses.

If you migrate to the cloud through a CSP, however, you only need to pay a fixed monthly fee that's lower than the salary of full-time IT staff. In case a member of your IT staff resigns, you won't need to hire a replacement since your CSP can handle your IT tasks.

3. Consistently updated software

Cloud computing eliminates software upgrade costs as your business applications will always be updated by the CSP. Furthermore, you no longer have to install programs on individual devices, because installation of applications sync across all your gadgets.

Cost reduction tip #4: *Migrate to the cloud*

Leave your on-site servers behind

4. Better business continuity

An hour of downtime costs organizations around \$10,000 — enough to shut down small businesses. To mitigate this, some companies buy more servers and duplicate everything manually, which costs a lot of time and money.

With cloud computing, CSPs back up your files in geo-redundant off-site data centers. This is a much cheaper option than buying an on-site server, which can easily be damaged by natural and man-made disasters.

5. No upfront costs

Running your own servers will require you to pay upfront capital costs. Meanwhile, with a cloud-based environment, the CSP will handle your capital investments.



Cost reduction tip #5: *Cut staffing costs* Without laying off people

Reducing staffing costs is an effective way for your business to save money without laying off employees. Firing people to meet a short-term goal has long-term consequences, such as being understaffed and therefore unable to meet business operational demands. There's also the added burden of the high costs of hiring and onboarding new employees.

There are other ways to reduce costs without hurting your productivity, such as:

1. Considering nontraditional working arrangements

For instance, you can encourage employees to work from home instead of in the office. Even before the COVID-19 pandemic, 4.7 million people in the United States were already working from home, according to the [US Census Bureau and the Bureau of Labor Statistics](#). Some people prefer this setup because it [eliminates commute costs](#) and helps them attend to personal matters better.

You can also hire freelancers for one-off tasks. They only get paid whenever you need them, which saves you on taxes and other employee-related expenses.

2. Downsizing your office

If some of your employees have chosen to work from home, consider downsizing office spaces. For example, creating digital copies of physical documents can get rid of the space taken up by your filing cabinets. You can also use smaller PCs, printers, and other office equipment, or compress the layout of desks. [Desktop virtualization](#), or the process of running a virtual instance of a computer system separate from the actual hardware, can also make downsizing easier.

Consolidating your office space not just helps you save costs, but it also improves collaboration between departments.

Cost reduction tip #5: *Cut staffing costs*

Without laying off people

3. Reviewing salary levels

Ensure that your employees' salary levels are in line with industry standards. Paying each of your team members a competitive salary improves their job satisfaction and, in turn, decreases employee turnover rates and training costs.

In some instances, however, making pay cuts can benefit a company. Be careful when making such decisions, because this can significantly hurt employee morale, especially among the rank and file.

Consider reducing the salaries of your leadership team instead, as they tend to have the highest salaries in the entire organization. Determine their personal finances and cut their salaries accordingly.

4. Adjusting operating hours and employee work schedules

Some companies reduce costs by changing their operating hours. In line with this, employee work schedules should also be adjusted.

For instance, instead of a five-day workweek, employees can choose to have a four-day workweek with reduced hours in exchange for a slight pay reduction. This benefits your company by reducing operating costs, and employees will appreciate having more flexibility.





Ribbit Business Solutions can help you save costs even further

Reduce business costs without sacrificing profitability

Making significant cost reductions is a big business decision that requires careful strategy. Vastly reducing the budget of one business unit while leaving other units' budgets intact could have dire consequences. Fortunately, you don't have to face the challenges of strategic cost reduction alone. Outsourcing to a reputable managed IT services provider such as Ribbit Business Solutions can help.

Taking advantage of our cloud services over building your own infrastructure presents substantial cost reductions. We can customize cloud-based software platforms for your organization. We can plan, deploy, and manage your cloud environment to ensure that you make the most of your hard-earned money.

We can also proactively monitor your IT infrastructure for threats that may affect your business. You'll be protected even if you experience distributed denial-of-service (DDoS) or other attacks when your office is closed. The best part? You only have to pay a flat monthly fee that's cheaper than hiring a full-time IT staff. Our team of IT specialists will act as your in-house IT department or work with your current IT team.

**Want to learn more about our cost-effective services?
Contact us today!**

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