Newsletter: Cost Containment Specialists Article 1
April 2010

Consistently monitoring and containment of the small costs will increase your profits.

Cost cutting. Could there be two less glamorous words…

How about Profit Adding…

The truth is that cost containment and profit increases can amount to much the same thing, if handled correctly. Cost cutting does not necessarily mean the reduction of budgets on a whim, nor does it mean the continual extreme scrutiny of expenses.

What if a company could save 20 percent a year on some of its expense areas? Or even as much as 76 percent annually on other expense areas?

Would that represent real savings - and increase the bottom line profits?

The reality is that a significant cause of poor business performance in companies is the lack of attention given to the cost of running the business that focuses on general overhead expense reduction. The reasons for this lack of attention are significant, and cost containment and review can be difficult to manage. Diligence is usually required, and cost-reduction initiatives are not always popular.

Any executive who chooses to undertake an initiative of cost containment is probably going to find him or herself needing to show discipline. Experts estimate that 90 percent of businesses are overspending on day-to-day expenses, by as much as 75 percent!

Where do we begin?

The following are some foundational areas to implement effective cost-containment initiatives:

1. **Focused goals are a prerequisite to effective cost containment.**
   If staff and management are complacent about financial performance, there is little opportunity for a cost-saving initiative to succeed. Management must take the time and show an interest in reviewing expenses and containing costs, and demonstrate this daily by example.

   Cost containment should not be allowed to become a temporary effort. It needs remain consistently motivated to keep costs monitored on a regular basis. If an attitude is not established, consistent employees will not adapt. It is, therefore, important to implement measurable tasks for cost containment.

2. **Over-confidence is a mistake.**
   Companies that assume their costs are under control based on history are at risk of over-confidence through arrogance. You know what you're paying, but do you know what your competitors pay for the same products? Never assume anything. Compare your cost containment performance to others in your industry and region. Collect data from outside sources, consultants or services. You must understand the data - data is useless unless it is interpreted correctly.

3. **Understand what you're buying.**
   Determine your product and service requirements. Don't purchase products and services unless absolutely necessary. Suppliers will often use tactics to move you on to their higher margin items. Additionally, watch for relationship-building tactics - do you really want to pay higher prices for the occasional lunch or social event?

4. **Talk to your suppliers.**
   Companies that buy the same product and the same quantities annually are likely paying too much. Realize suppliers will price their offering to what the market will bear. Do the research, alert suppliers that you are reviewing your costs, which have to be reduced, prepare to negotiate, and comparison shop.

5. **Stay consistently on focus.**
   Consistently monitor your cost containment initiatives. Don't slip back into old habits.

Whether you choose to undertake a cost-containment initiative on your own or choose to call in an expert, the benefits could be significant. When you know exactly where the money is going, it is easier to weather an economic downturn, and to gain higher profits when good times return.

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