

# 94 Ways to Cut Costs in 1994

By Glenn H. Matteson

Now more than ever, contractors are searching for ways to cut costs. How you go about cutting costs is just as important as where you look for those cuts. For example, too often the immediate reaction to the need for cutting costs is to eliminate positions. Unfortunately, eliminating people usually means stifling your company's ability to do more work.

Another typical cost-cutting move is to charge out overhead to projects or to require job site offices to do work previously done in the home office. While this may make the home office look more profitable temporarily, it rarely saves money in the long run.

Instead of taking these short-term steps to cutting costs, begin a systematic examination of your expenses in the office and in the field (see the figure below). Focus on structural improvements such as reducing turnover, minimizing rework, consolidating overhead functions and increasing input from all your employees.

Use the following list to generate thinking on possible new areas for cost reduction. All 94 items won't be applicable to your company, but they provide a good place to start a thorough examination of your expenses.

Figure 1  
**Prepare to Reduce Your Overhead**

- ⇒ Focus on output, not activity.
- ⇒ Slow down to do it right.
- ⇒ Cut paperwork to zero and redesign.
- ⇒ Train field managers to recognize and solve problems.
- ⇒ What gets measured; gets done?
- ⇒ Don't cut people, cut tasks.
- ⇒ Don't expect a quick fix.

## Auto and Truck

- 1.** Eliminate business and personal combination (start with top management).
- 2.** Get serious about preventive maintenance plan (evaluate total cost, including repair costs).
- 3.** Investigate lease purchase options.
- 4.** Use decals instead of special paint.
- 5.** Employ a part-time mechanic.
- 6.** Re-negotiate with your dealer each year.
- 7.** Tack on with another company for fleet purchase.
- 8.** Pay employees' mileage for use of their vehicles.
- 9.** Use trailers instead of vans or pickups.

## Bad Debts

- 10.** Be specific in contracts; include late penalties.
- 11.** Charge interest; ask for notes on old receivables.
- 12.** Use legal recourse, special attorneys.
- 13.** Purchase accounts receivable insurance.
- 14.** Require joint pay letters.
- 15.** Send Form 1099.

## Communications

- 16.** Ask your phone company to analyze costs (free personnel training) (WATS).
- 17.** Eliminate double or triple screen.
- 18.** Issue phone company credit cards to employees (avoid collect calls).
- 19.** Require vouchers for long-distance calls.
- 20.** Discourage personal phone calls.
- 21.** Reduce the number of lines in your office.
- 22.** Eliminate "beeper" service.
- 23.** Remove cellular phones or reduce the number.
- 24.** Cancel answering service.

## Depreciation

- 25.** Keep your company equipment longer (freeze capital expenditures with dates).
- 26.** Move to slower depreciation schedule in unprofitable years (but not vice versa) to “show” increased profitability.
- 27.** Overhaul existing equipment or facilities instead of purchasing.

## Insurance

- 28.** Get quotes with comparable specifications and review them annually; consider self-insurance in some areas.
- 29.** Ask for help from your insurance company to reduce workers’ compensation costs.
- 30.** Ask your industry trade association(s) or insurance company for ways to improve safety.
- 31.** Examine worker’s compensation classifications. (Check with your insurance agent for proper coverage; classifications vary by state.)
- 32.** Look for possible overlapping coverage.
- 33.** Obtain group medical coverage (perhaps including life and disability).
  - Look for larger group to be a part of (association plans are usually less expensive).
  - Build benefits that you really want.
  - Consider having employees pay a portion.
- 34.** Liability, casualty coverage.
  - Increase deductibles.
  - Check for areas in which you may be over-insured (reduced inventories).
- 35.** Park unused vehicles, remove tags and terminate insurance.

## Interest

- 36.** Reduce working capital needs; reduce your inventory, work-in-progress, accounts receivable,

retainage; negotiate improved accounts payable.

- 37.** Negotiate interest rates; shop for variable down rates.
- 38.** Maintain current cash flow projections to evaluate least borrowing amounts and time.
- 39.** Return borrowed money to your bank when possible, not just at the term’s end (keep small balances).
- 40.** Consider a reduction in volume (dropping work of marginal profitability) to reduce working capital needs.
- 41.** Eliminate company credit cards. (Interest is eliminated on company cards if your employees must use their personal cards.)
- 42.** Eliminate the “miscellaneous” account. Interest is eliminated on company cards if your employees must use their personal Cards.

## Professional Fees

- 43.** Don’t get audited statements unless your bank or bonding company absolutely requires them; try an unaudited statement and see what happens (consider qualified opinion).
- 44.** Ask your accountant what information he or she needs and have your clerk assist for significant reduction in cost.
- 45.** Use an accountant that understands contracting (not necessarily a Certified Public Accountant). A local accountant can be just as good as one from a national firm, plus you might get more individualized attention at a lower cost from a senior accountant.
- 46.** Use consultants who can outline what they are going to accomplish, how it will be accomplished and at what price; check references. Help them gather

the necessary information so you don't pay their rates for something that someone in your company can do.

## Rent

- 47.** Lease unused space (or sub-lease).
- 48.** Consider a smaller building (or even larger, at less cost per square foot).
- 49.** Renegotiate rent with alternative of moving.
- 50.** Get an indefinite lease with a six-month cancellation instead of a fixed-period lease.

## Repairs and Maintenance

- 51.** For office maintenance, services are often less expensive than having a janitor; consider hiring a part-time, after-hours maintenance person.
- 52.** Consider capitalizing major repair items for profit and loss help (if it extends life).
- 53.** Delay projects until people are available from jobs for good use of unapplied time.
- 54.** Do it yourself, if possible.
- 55.** Eliminate shop.

## Salaries—Management

- 56.** Pay moderate salaries, but award a bonus for extraordinary results.
- 57.** Consider reducing total management team (number) before dollars.
- 58.** Consider stock bonuses instead of cash; they are deductible and there is no cash outlay.
- 59.** Cut earnings or fringe benefits (deferred compensation, company vehicles and club memberships).
- 60.** Cut managers first.
- 61.** Pay bonuses to field employees first, executives last.

## Salaries—Office

- 62.** Cross-train current employees in order to eliminate the need for temporary employees.
- 63.** Schedule time off or vacations during slow periods.
- 64.** Consider a personnel reduction and a salary increase for remaining employees.
- 65.** Encourage time off without pay; implement a four-day work-week.
- 66.** Don't use clerical staff as "gofers."
- 67.** Use temporary help, such as retirees, for peak loads.
- 68.** Give compensation increases based on merit, not on cost of living.
- 69.** Consider a data processing service bureau instead of clerical personnel for management information.

## Shop Supplies and Small Tools

- 70.** "Sell" tools to employees for cost.
- 71.** Charge employees for replacement tools.
- 72.** Put an identifying mark on major tools; keep records.
- 73.** Pay higher wages to field employees who furnish their own tools.
- 74.** Centralize tool storage, install a check-out system and cut the number of company-owned tools.
- 75.** Sell/give tools and supplies to employees as a separate company.
- 76.** Implement a tool bonus program.

## Taxes—General

- 77.** Minimum inventories reduce taxes in states with personal property taxes.
- 78.** Challenge property valuations.
- 79.** Eliminate unused operating licenses.
- 80.** Close out dormant corporations to cut franchise taxes.
- 81.** Reduce number of vehicles, therefore, tags. Request refund for unused tag life.

## Taxes—Payroll

- 82.** Defer hiring employees until after Jan. 1 to reduce FICA.
- 83.** Police unemployment claims to keep experience rate low.
- 84.** File termination form with employment commission if employee quits or you fire with good cause.

## Warranty/Callback

- 85.** Institute quality control program.
- 86.** Require employees who caused a mistake to make repairs.
- 87.** Reduce warranty period.
- 88.** Process warranty claims promptly.

## Warehouse and Yard

- 89.** Consider a reduction in personnel by letting employees work in the warehouse or yard when they're not on the job.
- 90.** Cut inventories or equipment to absolutely necessary items to reduce handling, plus insurance, interest, etc.
- 91.** Use graduate students in industrial engineering to evaluate space needs.
- 92.** Investigate high-density stacking and storage systems.

- 93.** Check with vendors about value and utilization of material.
- 94.** Set up check-out system; positive control.

When you set cost-cutting objectives, consider long-term factors such as your company's anticipated growth. Set challenging, but realistic goals that take into account both your internal and external limitations. For example, consider the capability of your personnel, space and equipment limitations, and the timing of anticipated work.

Remember that effective cost reduction must be part of your company's culture. Reducing cost is everyone's responsibility every day. Consider establishing cost-cutting teams and reward those teams for cost savings.

Lastly, keep in mind that everything you do communicates your attitude toward cost reduction. You can't sell these cost-cutting strategies to your staff if you don't serve as a role model. □

#### **About the Author**

Glenn Matteson is a senior consultant for FMI, management consultants to the construction industry, in Raleigh, N.C., which is celebrating its 40th year of service to the construction industry. Matteson provides in-house consulting services in the areas of strategic planning, business planning, and compensation evaluation.