

BRING DOWN RISING COSTS

Operating costs are always going to be a major consideration for small business owners. Without a calculated plan in place, rising expenses can escalate quickly and catch you by surprise, writes **John Corias**.

One of the most common issues faced by small businesses is keeping control of finances and ensuring that the business continues to be profitable on a consistent basis.

Keeping a lid on rising costs is not a matter that small business owners should attend to on an ad hoc basis. Having an ongoing management plan that monitors your regular and one off expenses can stop shock expenditure from creeping up.

As in all aspects of life, balance is essential. The key for you in understanding how costs can rise is to break them down into three key categories: service costs, fixed costs and variable (or operating) costs.

SERVICE COSTS

Broadly speaking, these are the costs that directly relate to your service – the time it takes you to carry out a job and the cost of labour.

Ways you can take control of your expenses in this area are:

- Meeting with suppliers on a regular basis to check out possible specials, discounts for early payments and discounts for bulk buying.
- Don't get too comfortable with your current suppliers – always check out alternatives to ensure you are getting the best deals.
- Wastage often amounts to a sizable percentage of your product costs. Minimising this via better internal business practices is paramount.

FIXED COSTS

Fixed costs essentially relate to expenses the business has by simply existing. If the business had no customers and no staff, there would still be costs of being in existence. Keeping such costs at a minimum without affecting the ability to successfully trade

will impact on your break-even point. The lower your break-even point is, the less sales you need to make to break-even, therefore any 'extra' sales that the business makes will generate a better bottom line.

Fixed costs to keep in mind:

- Rent is normally your biggest expense and based on the standard three or five year lease, it's an expense that can have a long term impact on your bottom line. Careful research and planning to ascertain the suitability of location, size and future potential of a rented site is a critical business decision that should not be made without proper advice.
- Financing costs of buying your business or equipment for your business need to be paid whether or not the equipment is producing anything. Structuring your finances to suit your business circumstances is not just about getting the lowest interest rate; there are many other factors to consider that your finance broker can advise you on.
- Many small businesses will have a key group of staff that can be considered a fixed cost. Build a strong team that covers the key areas of your business, then tailor the remainder of your workforce around them.

VARIABLE COSTS

Variable costs are the one area where business owners need to remain vigilant on an ongoing basis. Some examples that affect small business owners are:

- Aside from the cost of goods sold and rent, your staffing costs are going to be the one variable expense you have the most control over, and in turn, can vary the most. Keeping on top of staffing requirements and rostering can reduce costs significantly.
- Electricity prices have been in the headlines of late and we're lucky to

be in the industry that is the first to know if they're rising. Take advantage of this. Competition between energy suppliers is a key factor that you can capitalise on. Aside from that, look into the efficiency of the business. Many trade workers are selling and installing energy efficient products, and cutting costs for homeowners and companies, but not implementing these solutions in their own business.

- Insurance coverage is an essential business expense, but also one that can be highly variable depending on the level of cover needed and the insurance company. Shop around and get fresh quotes every year. Just make sure that your policy covers your essentials so the business can recover from any disasters.
- Franchise fees are a variable expense that can impact significantly on a franchised business. Once the original franchise agreement has been signed, there is not a lot that can be done in this regard. The lesson here is to conduct proper planning before signing off on a franchise agreement.

For the struggling small business owner, a balance must be struck between seeking a stronger sales platform and monitoring your business expenses. Focusing on one and neglecting the other is a waste of time.

Driving increased sales without focusing on the cost of doing so can actually see businesses fall backwards in their financials. The opposite also applies – driving costs down to a bare minimum can lead to an inability to service existing customers, let alone win new ones. It is so often the case that applying a balanced approach will result in the best outcome overall.

After all, you wouldn't focus on doing all the exercise in the world to lose weight if your diet wasn't first modified to match your goals, would you? ■

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