Going Back to Basics

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Whether you are an experienced small business owner or this is your first foray into the ranks of entrepreneurship, these challenging economic times may provide an opportunity for you to strengthen your income statement by trimming your expenses with a close eye on saving. Reducing excesses now will also reinforce a good habit that will serve you well during more prosperous times.

The first step requires going back to the basics. Start by reviewing every expense with a careful eye toward your bottom line. Distinguish between what is absolutely necessary versus what is above and beyond, including little extras. Don’t leave any stone unturned, as each dollar saved can help add to your bottom line. Review every item, from the smallest of expenses to the largest.

Scrutinize the cost of items such as office supplies and determine what can be used more sparingly and what your business can simply do without. Discontinue unnecessary subscriptions or services that were nice perks during better times. Reconsider upgrading software and technology unless it truly is an integral part of your business. This may also be a good time to review employee benefits and pass more of the costs along to the employees when appropriate.

As a supplement to your analysis, meet with your employees to gather additional ideas that may not have shown up on your radar. They deal with your products and services every day. They may have some great ideas to contribute and may appreciate the opportunity to participate in helping the business thrive. In fact, some companies offer a cash incentive or a percentage of the total savings, to help inspire and encourage creative thinking.

Examine your inventory levels with the same microscope of scrutiny. Evaluate your inventory turnover ratios by product line and consider offering deep discounts for products that are not moving as rapidly as others. Be cautious and reorder only for committed orders when budgets are tight.

Keep in mind that there are certain areas of your business where trimming should be a last resort. These include areas directly related to revenue generation, such as production-related expenses and marketing.

When it comes to staffing, if an employee position is vacated, let the position stay unfilled and pool the resources of your current staff to help handle the workload. You can also consider part-time, temporary or consulting services for help. This preserves cash and is better for morale than layoffs.

Additional savings can be realized by reducing excess in the following areas:

- Equipment. Sell or recycle machines that you only use occasionally, or which you bought as a “want” during better times. Negotiate to lease or rent equipment and software only when you need them.
• Space. Consolidate operations into one building, and sublease unused space. Renegotiate lease terms, especially with landlords facing high vacancy rates.

• Extras. Trim the luxuries. Reconsider providing meals for meetings or cut back on snacks for the break room.

Small business owners are the backbone of the economy and serve as an inspiration for and reflection of the American dream. By relying on the “can-do” attitude that inspired you toward entrepreneurialism and by going back to the basics, you can develop a keen eye for the key ingredients needed to run a successful business.

When better times are upon us again, this exercise in added discipline and thrift will become a routine you can continually count on to help your bottom line.

Joseph Benoit is the small business banking executive for Union Bank, N.A., a full-service commercial bank providing an array of financial services to individuals, small businesses, middle-market companies and major corporations. Union Bank is California’s fifth largest bank by deposits. The bank has 336 banking offices in California, Oregon, Washington, Texas, and New York and two international offices. Effective Nov. 4, 2008, UnionBanCal Corp. became a wholly-owned subsidiary of The Bank of Tokyo-Mitsubishi UFJ, Ltd. Visit www.unionbank.com for more information.