

Uncontrolled Costs Can Put You Out of Business

A company with strong financial management habits can survive many other types of mismanagement, however, no matter how strong management is in other areas, without strong financial management a company will never reach the levels of profitability they could, and should, reach. In fact, they might not even survive very long

Reducing and controlling costs can keep your company in business or, at the very least, dramatically increase your profitability. Increasing and uncontrolled costs are hurting your company in hundreds of ways. Increased costs drain profits and devastate your cash flow. They force you to raise prices, which, in turn, makes you less competitive and, as a result, lose sales.

You must keep costs down during tough times to survive. During good times it is just as important to control and reduce costs. This will help you build a solid fiscal and operational foundation so that you can survive the difficult times that are sure to come and it will allow you to increase profits, expand your marketing efforts and improve your company during the good times.

Ineffective financial management can affect every area of your business, not just the bottom line. It reduces profits which influences the pay and benefits you give your people. This negatively impacts your ability to hire the best people you can, which in turn affects your ability to provide the best service and products you can.

It affects your ability to provide a higher rate of return to your stockholders. It may also affect your borrowing ability as you may be perceived as a higher credit risk. This could result in lower lines of credit, higher rates, poor terms, and even affect your ability to get credit at all.

Moreover, feeble financial management efforts affect your ability to develop new products and market them. It affects your ability to upgrade your facilities and equipment which can severely hamper your efforts to improve production, which in turn makes you less competitive. Yes, ineffective financial management severely hurts your company in hundreds of ways.

However, like a tea kettle on the stove, the areas of cost control and expense reduction are usually ignored until the warning whistle blows.

But why? The benefits of controlling and reducing costs are so obvious and can produce such a dramatic effect in most companies, why are they so often neglected?

Well, one reason is that many managers have a strong background and training in sales, management, marketing, administration, personnel, customer service, and many other conventional areas. But very few, if any, have training in cost control and expense reduction.

How could they? Schools don't teach it. Many employees, managers, executives, and owners don't practice it. Where would they learn it?

Cost control and expense reduction are perhaps the two most neglected areas of management in any company. Yet, they are possibly the areas of management that can have the most dramatic effect on your bottom line and, in fact, your entire operation, with the least amount of effort.

So why don't more companies and more employees give this vital area the attention it deserves?

Some reasons that come to mind are:

- **Convenience** - It is always easier to take the easy way. Sometimes this is just another word for being lazy.
- **Lack of knowledge** - They just don't know how to control costs.
- **Laziness** - They just don't try, they don't make the effort to learn how or they don't bother to think of better ways.
- **Loyalty** - Blind loyalty to certain suppliers, companies, or sales representatives.
- **The "who cares attitude"** - Many management personnel and employees simply don't care about profits. They see no direct connection to their jobs, advancement, or income with reducing or controlling costs. In other cases, managers or even company officers have many other things on their agenda. They are more concerned with building a power base, increasing staff and budgets, and taking care of their own individual goals regardless of the bottom line impact to the company.

These are the people more concerned with bureaucracy and politics than with productivity and profitability. These people thrive in large organizations and must be rooted out at all costs.

- **Indifference** - They don't care. It's not their money.
- **Low priority** - Many other more visible and pressing matters must be addressed.
- **No incentive** - They see nothing in it for them.
- **Example** - They follow the negative example of others.

Each of these problems can be overcome and will be the subject of future articles but let me give you a tip now. **The key to everything in business and, in fact, in life, is thinking and asking questions.** Thinking about what the problem is and thinking of ways to overcome that problem.

If you found money on the street you would stop to pick it up wouldn't you? You have money lying all over your company; all you need to do is look for it.

Controlling costs and reducing expenses is not being cheap. It is not being a bean counter. Getting the best buy for your money is being an intelligent businessman or woman. Eliminating waste is the only smart thing to do.

The alternative to total cost control is overpayment, waste, and inefficiency. Which do you think characterizes the better business person? Watching the bottom line and getting the best value for your money in order to ensure maximum profitability should be the goal of anyone in business.

I would call this doing your job. I would call this financial management.

Proper financial control is critical, not only for the growth of a business, but for its very survival. Without proper financial control all cost related management will be of a reactive nature. Reactive management is one small step above no management.

A very small step in many instances.

Reactive management takes place after the damage has already been done. The problem has been allowed to come into existence. It attempts to correct a problem.

In the areas of cost control and expense reduction, reactive management takes place after the cost has already been incurred. The drain on profits has already taken place and so reactive management then tries to find ways to lower the cost.

Proactive management attempts to make sure that the problem never exists. Prevention is better than a cure.

This edition of The Welch Report has been provided by Derrick Welch the author of **‘In Pursuit of Profits: How to at Least Double your Profits Without Increasing Your Sales’. Including 1,000 Cost Control, Expense Reduction, and Income Producing Strategies You Can Start Using Today To Dramatically Increase Your Bottom Line.**

And **‘Defy Mediocrity. Choose to be Uncommon. Think of the Alternative’.**

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