

MANAGEMENT | BY GREG BILLINGS

# 29 Ways to Cut Costs

I'm sorry, but there are really only two ways to maintain a profit: increase revenue or reduce expenses. Those of us in the musical instrument business love to focus on sales. Unfortunately, the current economic conditions make increasing sales difficult. But there are many things we can change on the other side of the ledger, and the present circumstances provide both the motivation and the justification to make productivity improvements and budget cuts — big and small.

There has been a lot of talk these days about accountability. For the next 10 minutes, let's turn our attention to austerity. Managing expenses is not as much fun as planning a big sales event. We have to let go of things we hold dear, deal with thorny little issues and even admit we've made mistakes. However, the benefits are immediate and long-lasting. Changes in our expense structure benefit cash flow and the income statement right away, but they also position us to be more efficient and effective as we prepare for the inevitable next wave of growth. I like to think of it as polishing the stone.

Having realistic expectations is the key to fiscal management success. If there was one easy way to chop \$50,000 from your expenses, you probably would have thought of it by now. But there might just be 20 ways to save \$200 a month, which adds \$48,000 per year to your bottom line. Even if you only find half that much, it could be the difference between profit and loss in a difficult year.

So, here's my list. None of these are theoretical. Many are brutal. Your humble writer only recommends cost-savings he has actually used himself.

## OCCUPANCY

**1. Call your electric company, and have an energy audit.** It's free and easy. An expert will visit your store and use sophisticated computer modeling to make a series of energy consumption suggestions. He or she will sit and

review the results with you until you completely understand them. The expert will almost always find 10–15 percent of painless savings. Even in a two-year-old building, we were able to reduce our electric expense by \$1,500 in the first year.

**2. Study every incoming invoice for 60 days.** You'll be amazed at what you find. Nitpick: argue about changes, fees and odd charges.

**3. Take over all supply purchases yourself for 90 days.** Your employees are not as careful with spending your money as you are, and maybe (prob-

ably) all of those supplies aren't getting to your store. Buy generic brands in bulk at Sam's Club or Costco, and don't buy unnecessary junk like candy for a bowl on the receptionist's desk. Use these companies' Web shopping lists to keep employees in the store and to reduce impulse purchases. When it comes to supplies, use them up, wear them out and improvise. Expect 50-percent savings in the first year.

**4. Audit your telephone bill.** Are you paying more than a nickel a minute for long distance or 800 service? Are the incoming 800 calls generating business? Are 57-minute calls to your employee's hometown area code showing up on the bill? Look for odd fees like caller ID on your fax line. Do you need all those lines? Could VoIP (Voice over Internet Protocol) work for you? Are your employees using 411 at \$1.25 a call? Encourage employees to use their cell phones for all outgoing calls.

**5. Get competitive bidding on all your insurance policies at least every other year.** A new insurance agent will always find ways to save you money. Don't buy silly coverage on which you could never collect, such as business interruption insurance. Squeeze every penny out of your insurance expense. Look for duplicating coverage, and ask for a refund if you find any duplica-



**Tried-and-true ways to cut expenses, maintain profits in a tough economy**

tion. (We recently got a check for \$12,000, and it was easy.)

**ADVERTISING**

**6. Just say no.** There are hundreds of useless ways to spend money on advertising. Think in terms of cost per impression. Ask yourself, "Will this \$5 investment generate \$100 in new business?" Unless the answer is a definite "yes," say "no." This will eliminate team jerseys for the local soccer club, ads in playbills, pens and keychains with your logo, and all kinds of other goofy stuff that doesn't work.

**7. Eliminate Yellow Pages display advertising.** A bold listing is all you need. Co-op trademark ads from your suppliers are the best. Unless you are selling pizza or emergency

plumbing, *Yellow Pages* directories are just too expensive. This includes Internet *Yellow Pages*, which is a gimmick. *Yellow Pages* advertising is over. Everybody is online.

**8. Be careful with newspaper advertising.** Rates are up, circulation is down, and the demographics are old and poor. Their Internet portals are very expensive. Only use newspapers with a specific offer for a limited time, and monitor it closely to make sure it's generating \$20 in sales for every dollar spent. Special sections and editions are a sucker bet. Don't do it.

**9. Think cable, not radio.** No one but angry, old conservatives listens to the radio anymore. If you don't believe me, ask your kids. Cable TV

now provides the market segmentation radio used to offer. If you go on cable, do your homework, and make your offer specific and targeted.

**10. Don't use the word "sale."** It has been beaten to death, and nobody believes it anymore unless preceded by the words: going out of business. If you can't think of a better marketing plan than having a sale, consider putting someone else in charge of marketing.

**11. Reach customers with the Internet, direct mail from your home-grown list and free public relations initiatives.** Craigslist will reach many more buyers than an expensive classified ad. And if you do buy a classified, make sure there's a free link to your Web page.

**INVENTORY**

**12. Reduce your inventory.** If it's old, get whatever you can for it, and reinvest the money in something that will turn. Use the if-it-was-in-my-refrigerator-would-I-throw-it-out? rule.

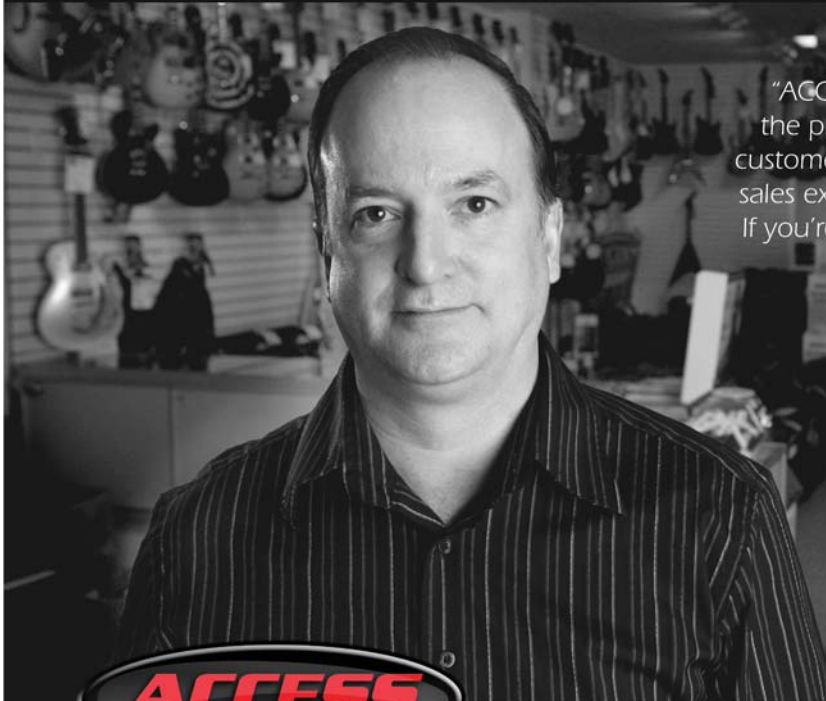
**13. Never buy on terms.** It is the No. 1 buying mistake dealers make. If you can't sell it in 90 days, don't buy it.

**14. Reduce your selection.** The idea that customers want or need a large selection is a myth perpetrated upon us by suppliers. There no evidence it is true. Mostly customers want just three choices.

**15. Eliminate duplication of price points unless one of the items is a decoy.** Eliminate brands that don't offer something unique.

**16. Eliminate brands that**

# Independent Thought.



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**don't generate sufficient gross margin.** There is no such thing as enough volume to make up for poor margin. You just go broke faster. (Remember Mars Music?)

#### CASH MANAGEMENT

**17. Get reimbursements for every warranty repair, no matter how small.** Sometimes just sending a supplier a bill for service is all you need to do. If the supplier has a system for reimbursement, learn it and work it. Charge suppliers your regular retail rate for service.

**18. Take every cash discount, no matter how small.** If you miss a discount date, call and ask for an extension. If there is no cash discount, insist on paying with a credit card. (Also, call to argue every late fee and interest or service charge.)

**19. Get a Costco American Express Card.** It pays back 5 percent on gas, 3 percent on travel and 1 percent on everything else. Pay for everything you can with it. In addition to the cash back, you'll get an extra 30–45 days. Citibank has a Dividends MasterCard you can use with vendors that don't accept American Express.

**20. Replace your floor plan with a line of credit from your bank.** Rates are low and usually float with prime. You can still take cash discounts and will be more disciplined in your purchases.

**21. Lean on suppliers for terms.** There are more suppliers and fewer dealers than ever before. Suppliers are desperate. Ask for terms and then ask again.

#### PAYROLL

**22. Reduce health insurance benefits, and institute a health savings account.** Everyone will be better off.

**23. Fire your worst-performing, full-time employee (or two), and replace them (if necessary) with part-time help.** Every organization has a wet blanket, whiner, complainer or sad sack. You probably have someone who's always late, lazy, unmotivated or unwilling to follow directions. Do you have someone who is just going through the motions to keep his day gig or finishes last in every sales tally? Do you have a drama queen? Fire them! Clearing the dead wood from your payroll isn't just going improve your bottom line. If it's done with fairness and conviction, it will be a big morale boost for

your best employees and a warning shot for those who might not have responded to other forms of motivation.

**24. Increase the remaining employees' workload.** You will be surprised how people step up in difficult times — and when jobs are scarce.

**25. Put full-time, hourly workers on salary, and work them longer when you're busy.** In exchange, give them comp time to use when things get slow. This reduces the amount of work necessary to prepare payroll, stabilizes your expenses and eliminates overtime.

**26. Engage a payroll service.** It's a bargain and will make your life easier.

**27. Take a close look at the Web sites your employees are visiting on your computer and on your time.** In addition to wasting time, these visits are a big virus risk. Speaking of virus risks, declare a strict, open-no-unknown-attachments rule. It's good for your staff to know you are watching.

#### NAMM

**28. Take a close look at NAMM's programs for saving members money.** It has several of them. Some are better than others, but many are great. Workers comp insurance and credit card processing alone can save a member thousands of dollars per year. (If you run \$1 million a year through your credit card machine, a half point savings could be \$5,000.)

#### LEADERSHIP

**29. Lead from the front lines.** If you are an owner or manager and you are not taking customers, get off your butt, and get on the floor. My dad used to say, "the first buck you make in this business is the sales commission." Show your staff how it's done. You have a better chance of closing a sale than anyone who works for you, so lead with your strength. There's no time like the present.

After you've made as many of these cuts as possible, revise your budget, and take a look at your new break-even point. You'll be pleasantly surprised, better situated to survive this recession and prepared to ride the next wave to greater profitability. **MI**

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