



Cost Reduction: Saving Your Company Money Now

By Jeff Cohen

Entering its second year, the economic downturn has affected local businesses dramatically. Hardly a week passes without reading of layoffs, furloughs and other dramatic cost-cutting measures. Worse still, signs of a recovery may seem to be fleeting and sporadic.

In a financial climate filled with uncertainty, companies are forced to find innovative and creative ways to handle their finances and maximize profitability. Short-term tactics like layoffs create little long-term value, and generate minimal long-term sustainable savings.

Enter cost reduction.

There are several areas – most notably accounts payable and State and Local taxes (including Personal Property Tax and Sales and Use Tax) – that are likely costing businesses more than they should be. Unfortunately too many business owners are unaware they have a problem or perhaps realize they could have an issue, but think it is too costly to fix.

Cost reduction (sometimes known as “spend management”) can be an excellent method for businesses to reduce their tax burden, control and optimize the money they spend or cut operating costs without cutting employees. When companies are proactive in seeking cost reduction through a consultant, it can wind up saving them tens of thousands of dollars.

Accounts payable issues, for example, can provide an object lesson in the benefits of cost reduction. Too many businesses have an obsolete or simply unworkable system for paying invoices and the costs produced by the inefficiencies created can be crippling.

Running an effective cost reduction engagement in accounts payable can correct many of the traps businesses fall into such as paying duplicate invoices and missing discounts.

One of the largest obstacles business owners face in moving forward with a cost reduction program is their own inertia. Cost reduction engagements entail performing detailed work, like a line-by-line audit of accounts payable, working to correct any problems and ensuring overpayments don't occur in the future. State and Local Tax engagements require a very high level understanding of tax codes and asset classification. The temptation to continue business as usual, write a check and not pay close attention is strong.

The truth, however, is that any short-term bothers caused by beginning cost reduction are more than balanced by the 20 to 25 percent savings most companies see in the long-term. Furthermore, most cost reduction consultants complete their work in a month or less, without any net cost to the company.



These missed opportunities or oversights in the areas of accounts payable and State and Local tax are simply an issue of time restraints and lack of resources.

This year, it is especially important to pay attention to State and Local tax opportunities. There are a large number of new or enhanced credits available to small and medium businesses through state stimulus packages. Businesses capitalizing on all available credits and accurately reporting Personal Property Tax and Sales/Use tax will see noticeable savings on their tax bills this year, and improved cash flow going forward.

Large corporations have had internal cost reduction experts for several years, but small and mid-size companies have not historically had the resources to explore cost reduction. Those days, happily, are coming to an end, as consultants recognize the need to assist companies and companies are quick to recognize the value of streamlining their accounts payable systems – as well as reducing their tax burden – in difficult economic times.

True spend management engagements are done with no net cost to the client. Given that kind of success and lack of risk, isn't it time to consider a formal cost reduction strategy for your company?

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