

Make the Right Cost Management Moves

Many manufacturing and distribution companies have already undertaken a number of financial realignment measures to accommodate the down economy. But before making any further cuts, it's wise to step back and review cost management options based on the company's "new normal."

At this point, it's likely that sales have leveled out. If so, it's reasonable to begin making realistic assumptions about what the company is facing in terms of revenues, at least in the next few months or year.

Once these new norms are established, the executive team can recommend cost management solutions that will not only satisfy the budget but also preserve the core capabilities of the company so that it's positioned for growth as the economy recovers. Here are some ideas to consider:

- **Stay close to lenders.** Maintaining a good relationship with bankers is essential. Keep them up to date on company developments, and inquire about any lending policies that might be changing. Get their reassurance that as long as you are hitting targets, they will work with you. Keep in mind that it's easier to work with current lenders than to find new ones.
- **Look at rightsizing, not downsizing.** Head count is typically where manufacturing and distribution companies start with cost cuts. Is your company the right size for the new norm? Make sure your labor costs are in line with updated and realistic revenue projections.
- **Review the budget line by line.** Once you know your break-even point, take a close look at the company's budget and carefully analyze every expenditure. You may find easy ways to conserve funds. For example, you might renegotiate insurance or other overhead expenses.
- **Meet with customers.** If you have information that underscores your financial stability, share it with your customers so they know you are strong and can be relied upon as a vendor. Also, ask them what you can expect from them in terms of upcoming and ongoing volume. A candid dialogue will help you plan for the future.
- **Communicate with vendors.** Once you are comfortable with the level of business you can expect from customers, let your vendors know what they can expect from you. Also make sure that your vendors are stable and thriving. If they aren't, seek others to fill gaps.

Sidebar:

Time to Spend on R&D and Sales?

While it may sound counterintuitive, now may be the best time to spend money, especially in R&D and sales. With new products in the works, the company will be able to leap ahead of the competition when the economy improves. Similarly, hiring a salesperson to warm up a new market may be prudent. Calling on prospective customers and introducing the company's capabilities may stir up some business, and even fill idle capacity. A few bites, and the salesperson's salary will be paid for.

Remember, your accountant can serve as a sounding board for some of these decisions, as well as offer a reality check on wise cost-cutting strategies.

Manufacturing / Distribution Advisor is produced quarterly by Bober Markey Fedorovich's Manufacturing / Distribution Services Team. If you would like additional information about the services we provide, please call or email our team leader Cindy S. Johnson, CPA, CIT at (330) 762-9785 or cjohnson@bobermarkey.com.

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