

Now more than ever contractors are searching for ways to cut costs. *How* you go about cutting costs is just as important as *where* you look for those cuts. For example, too often the immediate reaction to the need for cutting costs is to eliminate positions. Unfortunately, eliminating people usually means stifling your company's ability to do more work.

Another typical cost-cutting move is to charge out overhead to projects or to require job-site offices to do work previously done in the home office. While this may make the home office look more profitable temporarily, it rarely saves money in the long run.

Instead of taking these short-term steps to cutting costs, begin a systematic examination of your expenses in the office and in the field (Exhibit 1). Focus on structural improvements, such as reducing turnover, minimizing rework, consolidating overhead functions and increasing input from all of your employees.

Use the following list to generate thinking on possible new areas for cost reduction. All 100 items won't be applicable to your company, but they provide a good place to start a thorough examination of your expenses (Exhibit 2).

Auto and Truck

1. Eliminate business and personal combination (start with top management).
2. Get serious about preventive maintenance plan (evaluate total cost, including repair costs).
3. Investigate lease-purchase options.
4. Use decals instead of special paint.
5. Employ part-time mechanic.
6. Renegotiate with dealer each year.
7. Tack on with other company for fleet purchase.
8. Pay employees mileage for use of their vehicles.
9. Use trailers instead of vans or pickups.
10. Invest in GPS tracking systems to reduce insurance premiums and improve behavior.

Bad Debt

11. Be specific in contracts; include late penalties.
12. Charge interest; ask for notes on old receivables.
13. Use legal resource, special attorneys.
14. Purchase accounts-receivable insurance.
15. Require joint-pay letters.
16. Send Form 1099.

Communications

17. Ask phone company to analyze costs.
18. Eliminate double or triple screen.

19. Issue credit cards instead of cell phones.
20. Require vouchers for long-distance calls.
21. Eliminate "beeper" service.
22. Review cell phone use or reduce the number.
23. Review need for portable e-mail.

Depreciation

24. Keep equipment longer (freeze capital expenditures with dates).
25. Move to slower depreciation schedule in unprofitable years (but not vice versa) to "show" increased profitability.
26. Overhaul existing equipment or facilities instead of purchasing.
27. Review with a qualified CPA the opportunities in the new ARRA stimulus plan:
 - a. Bonus depreciation of 50 percent.
 - b. Section 179 depreciation.
 - c. General depreciation.
28. Accelerated write-offs will be allowed beginning in 2009.

Insurance

29. Get quotes with comparable specifications and review annually; consider self-insurance in some areas.
30. Ask for help from insurance company to improve safety and reduce cost of workers' compensation.
31. Examine workers' compensation classifications.
32. Look for possible overlapping coverage.
33. Group medical coverage (perhaps including life and disability).
 - a. Look for larger group to be a part of (association plans are usually less expensive).
 - b. Build benefits that *you* really want.
 - c. Consider portion employee paid.
34. Liability, casualty coverage.
 - a. Increase deductibles.
 - b. Check for areas in which you are over-insured (reduced inventories).
35. Park unused vehicles, remove tags and terminate insurance.

Interest

36. Reduce working capital needs; reduce inventory, work in progress, accounts receivable, retainage; negotiate improved accounts payable.
37. Negotiate interest rates; shop for variable down rates.
38. Maintain current cash-flow projections to evaluate least borrowing amounts and time.
39. Return borrowed money to bank when possible, not just at end of term (keep small balances).
40. Consider reduction in volume (dropping work of marginal profitability) to reduce working-capital needs.
41. Eliminate company credit cards.
42. Eliminate "miscellaneous" account.

Professional Fees

43. Don't get audited statements unless bank or bonding company absolutely requires them; try an unaudited statement and see what happens (consider qualified opinion).

44. Ask accountant what information is needed and have your clerk assist for significant reduction in cost.
45. Use an accountant who understands contracting (not necessarily a CPA). A local accountant can be just as good as a national firm, and you might get more individual attention by a senior accountant at a lower cost.
46. Use consultants that can outline what they are going to accomplish, how and at what price; check references; help them gather information so you don't pay their rates for something someone in your company can do.

Rent

47. Lease unused space (or sublease).
48. Consider a smaller building (or even larger at lower cost per square foot).
49. Renegotiate rent with alternative of moving.
50. Get indefinite lease with six-month cancellation instead of fixed-period lease.

Repairs and Maintenance

51. For office maintenance, services are often less expensive than having a janitor; consider part-time, after-hours maintenance person.
52. Consider capitalizing major repair items for profit and loss help (if it extends life).
53. Delay projects until people are available from jobs for good use of unapplied time.
54. Do it yourself, if possible.
55. Eliminate shop.

Salaries – Management

56. Pay moderate salaries; pay bonus for extraordinary results.
57. Consider reducing total management team (number) before dollars.
58. Consider stock bonuses instead of cash; they are deductible and there is no cash outlay.
59. Cut earnings or fringe benefits (deferred compensation, auto provided and club memberships, etc.).
60. Cut managers first.
61. Pay bonuses to field first, executives last.

Salaries – Office

62. Cross train to eliminate temporary employees.
63. Schedule time off, vacations during slow periods.
64. Consider personnel reduction and salary increase to remaining employees.
65. Encourage time off without pay; four-day week.
66. Don't use clerical staff as "gofers."
67. Use temporary help, such as retirees, for peak loads.
68. Give compensation increases on **merit**, not cost of living.
69. If hiring, consider veterans or "disconnected youths." Tax credit is now allowed in the American Recovery and Reinvestment Act.

Shop Supplies and Small Tools

70. "Sell" tools to employees for cost.
71. Charge for replacement.
72. Put identifying mark on major tools; keep records.
73. Pay higher wage to field employees who furnish their own tools.

74. Centralize tool storage, install check-out system and cut number of tools owned by the company.
75. Create a separate company owned by your employees and then sell/give tools and supplies to it.
76. Implement tool bonus program.

Taxes – General

77. Minimum inventories reduce taxes in states with personal property taxes.
78. Challenge property valuations.
79. Eliminate unused operating licenses.
80. Close out dormant corporations to cut franchise taxes.
81. Reduce number of vehicles, therefore, tags. Request refund for unused tag life.
82. Deduct all meals and entertainment expenses for employees the full rate, not 50 percent.
83. Proposed 460 regulations include Home Construction Contract Exemptions where any contractor working on residential units or developments can apply the completed contract method of accounting versus percentage of completion. Defers tax obligations.
84. Take advantage of 10 percent solar-energy tax credits available through 2016. Use qualified energy-efficient products.
85. Take a 30 percent or up to \$2,000 tax credit on solar panels.
86. Take a 30 percent or up to \$2,000 tax credit on solar water heater (no pools or hot tubs). This is in addition to #85.

Taxes – Payroll

87. Defer hiring employees until after January 1 to reduce FICA.
88. Police unemployment claims to keep experience rate low.
89. File termination form with employment commission if employee quits or you fire with good cause.
90. Make sure you take what's called the Section 199, Domestic Production Activities Deduction—6 percent of all W2s for production labor deduction in 2007-2009 and 9 percent in 2010.

Warranty/Callback

91. Institute quality-control program.
92. Require employees who caused mistake to make repairs.
93. Reduce warranty period.
94. Process warranty claims promptly.

Warehouse and Yard

95. Consider reduction in personnel by letting job employees work in warehouse or yard when not on job.
96. Cut inventories or equipment to absolutely necessary items to reduce handling plus insurance, interest, etc.
97. Use graduate students in industrial engineering to evaluate space needs.
98. Investigate high-density stacking and storage systems.
99. Check with vendors about value and utilization of material.
100. Set up check-out system; positive control.

Conclusion

When you set cost-cutting objectives, consider long-term factors, such as your company's anticipated growth. Set challenging, but realistic, goals that take into account both your internal and external limitations. For example, consider the capability of your personnel, space and equipment limitations, and the timing of anticipated work.

Remember that effective cost reduction must be part of your company's culture. Reducing cost is everyone's responsibility every day. Consider establishing cost-cutting teams and reward those teams for cost savings.

Lastly, keep in mind that everything you do communicates your attitude toward cost reduction. You can't sell these cost-cutting strategies to your staff if you don't serve as a role model.

About the Author ...

As an FMI senior consultant, Glenn Matteson works with contractors to develop business plans and profit strategies. He also conducts audits of overall operations, focusing on project controls, financial management and equipment management.

Exhibit 1

Prepare to Reduce Your Overhead

- Focus on output, not activity
- Slow down to do it right
- Cut paperwork to zero and redesign
- Train field managers to recognize and solve problems
- Publicize mistakes that cost money
- What gets measured gets done
- Don't cut people, cut tasks
- Don't expect a quick fix

Exhibit 2

Cost Reduction Goal Sheet – Department or Total Company

Line		Last Year	%	Goal	%	% Change	Who Is Respon.
1.	Net Sales	XXX	XX				
2.	Cost of Sales:	XXX	XX				
3.	Material	XXX	XX				
4.	Direct Labor	XXX	XX				
5.	Subcontracts	XXX	XX				
6.	Other Direct Costs	XXX	XX				
7.	Total Cost of Sales	XXX	XX				
8.	Gross Profit	XXX	XX				
9.	Operating Expenses	XXX	XX				
10.	Variable Overhead:	XXX	XX				
11.	Advertising	XXX	XX				
12.	Bad Debts	XXX	XX				
13.	Auto and Truck	XXX	XX				
14.	Communications	XXX	XX				
15.	Contributions	XXX	XX				
16.	Delivery	XXX	XX				
17.	Interest	XXX	XX				
18.	Office Expense	XXX	XX				
19.	Shop Supplies	XXX	XX				
20.	Taxes – General	XXX	XX				
21.	Taxes – Payroll	XXX	XX				
22.	Travel and Entertainment	XXX	XX				
23.	Unapplied Material	XXX	XX				
24.	Unapplied Labor	XXX	XX				
25.	Total Variable Overhead	XXX	XX				
26.	Fixed Overhead:	XXX	XX				
27.	Depreciation	XXX	XX				
28.	Dues and Subscriptions	XXX	XX				
29.	Insurance	XXX	XX				
30.	Professional Fees	XXX	XX				
31.	Rent	XXX	XX				
32.	Salaries – Office	XXX	XX				
33.	Salaries – Officer	XXX	XX				
34.	Utilities	XXX	XX				
35.	Unclassified	XXX	XX				
36.	Total Fixed Overhead	XXX	XX				
37.	Total Operating Expenses	XXX	XX				
38.	Net Operating Profit	XXX	XX				