

# Coronavirus: How to Reduce Business Costs In A Crisis



Even before being declared a pandemic by the World Health Organization (WHO) on March 11, 2020, the COVID-19 (SARS-CoV-2) virus—commonly referred to simply as “the Coronavirus”—had begun to alter the lives of millions of people around the world, and the economies in which they work, live, and play.

As the virus spread to every corner of the globe over the weeks that followed the pandemic announcement, governments, businesses, and entire countries responded to the threat in a variety of ways, ranging from public contact and sanitation guides to shelter-in-place mandates.

And as the severity of the crisis deepened, closures and quarantines began to take their toll on large and small businesses in every sector of the global economy.

Consequently, business owners have found themselves scrambling to cut costs and reduce risk in order to preserve not just profitability and production, but their very existence.

In these challenging times, it pays—quite literally—for both small business owners and larger corporations to develop and execute a concrete plan for reducing business costs and optimizing efficiency in order to weather the storm.

## How to Reduce Business Costs: The Basics

The Coronavirus crisis has shuttered businesses and disrupted supply chains around the globe, forcing companies to perform economic triage in order to survive.

And while every company is indeed unique, when it comes to tightening budgets and eliminating needless business expenses, two methods are almost universally valuable for large and small businesses of all types:

1. Creating and enforcing business cost control measures. (Cost Reduction)

## 2. Increasing spend visibility while reducing total spend. (Spend Management)

While these two approaches are smart choices at any time for a business looking to optimize its spend and build value, they're especially relevant during an economic downturn, when business finances and business goals rapidly come to center around survival.

In addition to reducing costs and managing spend effectively, crisis control presents an excellent opportunity to execute a third set of cost cutting measures:

## 3. Broader overall process optimization improvements designed to eliminate waste and fraud while generating value through more strategic workflows and general organizational efficiency.

*Cutting costs is just the beginning. Even in a crisis, companies need to spend money to make money, and ensuring you have total visibility into your spend and complete control over every penny headed out the door will go a long way toward ensuring you're getting your money's worth.*

## **Cost Reduction Measures**

With production and profitability disrupted and the bottom line in flux, cutting business costs rapidly becomes a priority during a crisis.

It might seem like a good idea to slash all your expenses across the board, but this situation requires a scalpel, not an axe.

Cutting too many costs in one fell swoop may leave your business vulnerable to opportunistic competitors with a more strategic approach.

Some of the ways you can control costs strategically and plan ahead while preserving your competitive strength and agility include:

## **Review and Revise Your Short Term and Long Term Budgets**

Before you can begin cost cutting, you need a clear view of your current and

future expenses.

- Review your overall budgets for variable spend.
- Run revised break-even analyses based on current data to plan for multiple contingencies.
- Develop financial forecasts for both “best case” and “worst case” outcomes
- Adjust your budgets and anticipated expenses based on serving the revised expectations of your customers and the business costs needed to meet them.
- Develop one or more post-recovery plans to ensure you’re ready to hit the ground running when the economy begins to improve.

## **Shift Your Focus to Cash Flow**

When the economy takes a turn, reliable cash flow is essential to maintaining operations, especially for small business owners who may not have access to more robust sources of credit or extended terms with creditors.

Other ways you can prioritize cash flow include:

- Review and refine your payroll and personnel expenditures.
  - Consider adjusting schedules from full-time to part-time as feasible.
  - Consider adopting a work from home program for all eligible staff if you don’t already have one to reduce travel and rent expenditures (for office space, meeting facilities, etc.) and minimize the need for office supplies, utilities, etc.
  - Curtail hiring to the absolute minimum until the crisis is resolved.
  - Consider delaying or canceling non-essential projects and contracts with freelancers and other independent contractors.
- Examine all existing service contracts, including media and software subscriptions, and consider postponing renewals or canceling those that aren’t absolutely necessary to daily operations or strategic goals.
- Engage your vendors with absolute transparency and constant communication to protect important relationships.
  - Supplier relationship management can be an invaluable tool during this time, as it allows you to leverage the relationships

you've built with your best vendors to renegotiate contracts for better pricing and terms.

- While preserving existing vendor relationships is important, don't overlook the potential to develop new vendor relationships with companies that can meet your business needs and budget limitations if your current vendors can't or won't.

## **Move or Remove the “Big Rocks” in Your Budget**

If your pre-Corona plans included new facilities, substantial capital expenditures for new equipment, or other big-ticket items that come with a heavy price tag, consider delaying them until at least the next quarter (or, ideally, next year).

The same approach goes for splashy marketing campaigns, industry shows, conferences, and events (big public gatherings aren't exactly a good idea during a pandemic anyway), etc.

## **Spend Management Strategies**

Cutting costs is just the beginning. Even in a crisis, companies need to spend money to make money, and ensuring you have total visibility into your spend and complete control over every penny headed out the door will go a long way toward ensuring you're getting your money's worth.

The highest priority in this area is taking immediate control over both direct and indirect spend.

Controlling indirect spend is especially important, as rogue spend (sometimes called maverick spend) can quickly exhaust cash reserves and expose you to risk of fraud and theft.

- If possible, make your first essential purchase a modern procurement suite. A cloud-based, centralized solution like PLANERGY gives you access to advanced artificial intelligence and process optimization, making it much easier, and cost effective, to develop a closed buying environment driven by data management and analysis. Connecting vendor management, supply chain management, and contract management to your procure-to-pay (P2P) process makes it possible to track all

purchases, reduce both maverick spend and invoice fraud, and analyze performance, process, and compliance data for additional optimization opportunities.

- Review and target non-essential discretionary spending. Non-essential spending includes any spending that can be safely curtailed or eliminated without damaging the bottom line, team morale, or professional relationships with customers or suppliers. Look for these expenditures in:
  - Research and development.
  - Office expenses (including services, supplies for the company break room, etc.).
  - Repairs and maintenance (although care should be used here, as malfunctioning essential equipment could create a much larger expense than the bill for routine maintenance).
  - This is especially important for reasons of health and safety as well as expense during a pandemic.
  - Business credit cards. If your team uses corporate cards or reimburses expenses regularly, revise your policies to trim or eliminate credit card spending as soon as possible.
  - Training, conferences, team-building events, etc.

## Process Optimization

While a global outbreak is hardly business as usual, many of the same tools and techniques you can use to improve your company's financial and competitive performance during non-emergencies work just as well, if not better, when times are tough.

Process optimization—as part of a larger business process management strategy—can take many forms. But a few approaches are of particular use for businesses of all sizes and types during a downturn:

- Maintain or, if possible, improve the quality goods and services, with equally high-quality customer service. Customers will understand delays and disruptions much more readily if you communicate with them consistently, address their requests and concerns, and continue to meet or exceed their expectations where possible. Sustaining production costs may turn out to be a value when happy customers keep coming back for

more.

- Leverage technology. As with spend management, having a centralized, interconnected software environment anchored around a comprehensive procurement solution makes it much easier to:
  - Maintain communication with your team members, especially with more of them working remotely. The best software packages offer apps that make it easy for teams to access their files, analyze crucial data, and collaborate on projects regardless of location.
  - Offload repetitive and time-consuming tasks like data entry to software bots, freeing your staff to focus their time and skills on more value-centric tasks.
  - Achieve substantial cost savings and additional value by shortening cycle times, eliminating human delays and errors, and making continuous improvement a standard component of all your processes.
- Revise your marketing plans.
  - Engage your customer base and reward them with a referral program or other perks. Positive word-of-mouth marketing is priceless, especially when you may be spending less money on other marketing efforts.
  - Investing in social media marketing and creating a voice that speaks to your target audience can allow you to spend less on more traditional marketing efforts.
  - Reduce marketing costs by bringing tasks in-house to your marketing department or using remote contractors.

## **Help Inoculate Your Business against Disaster**

While no one is immune to the vagaries of the global marketplace, you *can* control how your business reacts in times of crisis.

By focusing on reducing costs, controlling spend, and optimizing your workflows for efficiency and value, you can keep your business alive and ready to thrive once the calamity passes.

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