



# How to Cut Overhead Costs

It costs you nothing to reduce overhead expenses, yet returns can be huge.

By Tod Snodgrass

Overhead is a silent killer of earnings. Most organizations are amazed when they find out how much they've been overpaying. Over time, overhead always rises as a percentage of revenues; it never becomes smaller on its own. The good news is that you can slash overhead-related costs with virtually no effect on how your organization functions.

## Have a Plan

An organized plan is essential before you can realize meaningful savings. First, create a cost-cutting consciousness. Circulate a memo to employees stressing how vital it is for everyone to support the organization's cost-cutting measures. Then continue to send memos detailing the progress you're making as you reduce expenses.

Once people see you're serious about cutting expenditures, they'll join the effort. After all, they're not being asked to give up salaries, benefits, or perks. The whole idea of reducing overhead is to achieve maximum savings for the organization while creating minimum problems for employees.

Set up a cost-cutting focus group composed of administrative, support, and purchasing personnel. Staff members have daily experience with how things can be done quicker, cheaper, and better, and will be happy to share their ideas. In one organization, a recent focus group of 11 staff resulted in 23 solid ideas for reducing expenditures and increasing productivity.

You'll receive the best cost-cutting results if all employees get behind

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the effort. The goal is for staff to spend the organization's money as if it were their own.

## Look at What You're Spending

Before you can cut overhead, you need to know how much you're spending. The most reliable source of this information is the accounts payable files. Total all overhead-related expenditures, excluding labor and rent. Look for information from categories such as equipment, office coffee, shipping, maintenance contracts, and third-party agreements.

Controlling costs starts with a detailed knowledge of what you're buying, from whom, and for what price. Once all the figures are in, the total amount of money involved may surprise you. Here are some proven suggestions to help your organization create a focus on cutting costs:

### Appoint a cost reduction man-

ager to oversee the effort.

**Audit vendor invoices and contracts every year** to ensure that vendors are abiding by their agreements. One organization's audit found that 26% of the quoted prices weren't being honored. If you unearth problems, ask for a refund immediately. Then audit the previous three years for even more potential refunds. It's a good bet that if contract pricing wasn't honored during the past year, the same is probably true for previous years as well.

**Be sure sales taxes aren't being wrongly charged** by out-of-state vendors who lack nexus in your state.

**Perform an 80/20 buying analysis.** In most organizations, 20% of items purchased represent 80% of money spent. Consult invoices to determine which items will yield the largest savings in the least time.

**Focus on large or seasonal expenditures well in advance of need** so that you can obtain competitive bids in time to avoid expensive rush buying.

**Implement adequate controls.** Less than half of all organizations have appropriate purchasing con-

## Best Practices Advice

- **Check to be sure vendors are complying with their contracts.** Doing so can yield results of 25% or more.
- **Ask staff for their input.** Veteran employees usually know how and where costs could and should be cut.
- **Move from printed media** to electronic versions. Sending material via the Web can result in an immediate savings of 50%-80%.
- **Offer ongoing training** on purchasing strategies. Provide good purchasing software to take the guesswork out of day-to-day purchasing
- **Take a look at your expenditures**, including an audit of vendors to be sure they're supplying what you need at the best price.
- **Stop accepting inbound faxes** and you'll save 40% or more.
- **Identify items copied in quantities of 1,000 or more per year** (where the copy stays the same from job to job), and convert those to litho printing. Savings are usually substantial: 40%-70%, on average.

You can reduce expenses with virtually no effect on how your organization functions.

trols or use a formal system for buying at competitive prices.

**Make certain that your staff isn't single-source purchasing.** This is an expensive practice that isn't compatible with a cost-cutting mentality.

**Ensure that vendor prices are competitive.** Solicit three bids on the items you spend most on each year.

**Provide state-of-the-art tools and training** to personnel involved in purchasing. Use purchasing-specific software and expert systems to help eliminate errors and speed procurement. Give all office buyers and administrators formal training and continuing education on reducing expenses.

**Grade vendors annually** on the basis of service, quality, and price. Don't retain vendors out of habit.

**Require vendors to justify their existence.** Every year, compare them to other alternatives. New suppliers can bring in fresh ideas, leading-edge products, lower prices, faster delivery, and productivity-enhancing ideas.

**Check that you aren't being incorrectly charged** for freight or shipping.

**Scrutinize inventory.** Are you stocking things you shouldn't? Premium office space is an expensive place to store inventory that may sit around for weeks or months. Why not let your vendors warehouse it for you? Options include stockless, modified stockless (use and replace), activity-based-costing (ABC), and just-in-time systems. Example: Suppliers of bulk goods such as forms, paper, envelopes, and other commodity-type products are usually

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willing to discuss (as part of the negotiating process) stocking large-quantity orders in their warehouses. Then, over time, they will deliver the product as needed. Also, make sure you have a policy for rooting out dead inventory, such as old office furniture that will probably never be used again. Sell, recycle, or throw out such dead items.

### Shift Costs

Cost shifting is relatively easy to implement. Here are a few shifts that can make a big difference:

**Stop printing** notices, bulletins, catalogs, booklets, manuals, brochures, and fliers. Instead, send them out as e-mail attachments. Post items for employees, board members, and other stakeholders on your organization's internal Web site. For details on sending board materials online, see "Beyond the Board Package" (*Nonprofit World*, Vol. 27, No. 5, [www.snpo.org/members](http://www.snpo.org/members)).

**Reduce or eliminate inbound fax transmissions.** Converting to a no-inbound-fax policy can save your organization a large sum on paper and toner. Ask those who send material by fax to convert to e-mail attachments. Once you receive the attachment, you can decide whether to print it out. If not, there's no cost. If yes, you can print the attachment on the lowest cost device within the organization, say a digital copier.

**Convert high-volume copies to litho printing.** In quantities of 1,000 or more, litho printing is cheaper than output from desktop printers or copiers. It's also much faster. And the more you buy, the cheaper it gets (on a per-piece basis). This is the result of the very high speeds at which litho presses run. Output from copiers and desktop printers, by contrast, represents a higher fixed cost per sheet. No matter how many copies you make on a desktop printer, copier, or fax machine, the cost per copy stays about the same. ■

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### More Ways to Cut Costs

The Society's Web site ([www.snpo.org/members](http://www.snpo.org/members)) offers many resources for becoming lean without being mean, including:

- **The Best Ways to Increase Efficiency** (Vol. 27, No. 1)
- **Highly Motivated Employees at No Cost? It's Not an Impossible Dream** (Vol. 19, No. 6)
- **Beyond Outsourcing: Five Shared-Service Ideas** (Vol. 26, No. 4)
- **Partnering: Keep Meeting Costs Down and Quality Up** (Vol. 21, No. 2)
- **25 Ways to Cut Costs** (Vol. 26, No. 2)
- **Need a CPA at Little Or No Cost?** (Vol. 28, No. 2)
- **Restructuring Contracts in Stressful Times** (Vol. 28, No. 3)
- **Nonprofit Communications on a Shoestring** (Vol. 8, No. 2)