

HR Insights

6 Cost-cutting Tips for Small Businesses

Employers of all sizes are currently searching for ways to reduce expenses and save money in response to the current economic downturn and ongoing labor challenges. Instead of cutting costs randomly or conducting unnecessary layoffs, successful organizations tend to optimize their resources by identifying areas where they can reduce expenses without compromising productivity or future growth. While cutting costs is essential for any organization, it's especially important for small businesses since they tend to have fewer resources than larger employers.

This article outlines six tips to help small businesses effectively cut costs.

1. Invest in New Technology

Adopting new technology can bolster efficiency and create savings for small businesses. Investing in technology can help reduce costs by streamlining operations and allowing small businesses to operate more efficiently. Technology enables employers to improve or even automate manual and error-prone tasks. Examples of cost-saving technology include the following:

- Customer relationship management software
- HR management or information systems
- Digital communication
- Virtual recruiting services
- Low-code solutions
- Artificial intelligence
- People analytics technology
- Learning and development software

Additionally, many small businesses are turning to open-source software alternatives as a cost-effective alternative to brand-name software applications.

2. Strengthen Employee Retention

Prioritizing employee retention can be one of the most effective cost-cutting strategies for small businesses. Replacing workers is often extremely expensive. Employee turnover not only increases an organization's recruiting and training costs but also usually results in decreased productivity, lost proficiency and reduced profits.

Small businesses can strengthen employee retention with the following strategies:

- Provide opportunities for career development and advancement.
- Offer benefits to meet workers' evolving needs.
- Improve employee engagement by encouraging employee feedback, providing flexibility and strengthening workplace efficiency.
- Bolster workplace culture through public recognition and reward programs.
- Be transparent when communicating with employees to help them understand important decisions and establish opportunities for two-way feedback.

3. Manage Health Care Costs

It's not a secret that employer health care costs are rising. Finding cost-effective solutions is vital for small businesses to maintain affordable benefits and reduce costs. Solutions may include reevaluating plan designs and offerings, directing employees to cost-effective services and improving employee health care literacy. Employers can leverage their relationship with their insurance brokers to explore cost-saving solutions, like obtaining details on organizational health care spending and educating employees on shopping for health care services. By adopting several cost-cutting strategies, small businesses can better manage health care costs without sacrificing employees' needs.

4. Embrace Outsourcing

While performing tasks in-house can often be cost-effective, there are instances when outsourcing nonessential tasks can be more economical. Manual, time-consuming tasks—such as payroll and benefits administration—may be better suited for outsourcing for some organizations. Outsourcing these kinds of tasks can enable employees to focus on more important responsibilities that have a greater and more direct impact on a small business's bottom line and future growth.

5. Adopt Flexible Work Arrangements

The expense of having a physical workspace can add up. Each month, employers must pay rent, utilities, cleaning costs and other expenses. While these expenses are often unavoidable, some small businesses are transitioning to home-based businesses or remote and hybrid work arrangements to cut costs. These solutions may not be suitable for all industries or job positions, but small businesses of all kinds can explore ways to offer flexible scheduling and improve benefits, like enhanced leave and paid time off, to lower overhead expenses. If converting to a home-based business or going remote isn't possible, employers can consider downsizing their facilities to reduce their rent and utility bills. Small businesses can also explore other alternatives, such as co-working arrangements and renegotiating their leases, to reduce rent.

6. Review Expenses

Poor cash flow can strain and even jeopardize an organization's longevity. Reviewing expenses regularly can be an effective way to reduce and eliminate unnecessary costs. As part of the review process, employers can negotiate with providers, suppliers and vendors, such as banks and landlords, to potentially defer payments, reduce fees, improve rates and receive additional services to help during difficult times. By establishing and fostering relationships with these individuals and entities, organizations can cultivate allies and acquire strategic partners, which can pay dividends by creating cost-savings solutions and opportunities.

Summary

Effective strategies for cutting costs will likely vary for each small business. However, by planning properly and understanding effective cost-cutting approaches, small businesses can identify and reduce the costs that will have the most impact on their organizations. This can help small businesses bolster their financial stability, optimize their resources and position themselves for future growth.

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