

Lowering Your Business Overhead

By Aaron Turpen

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By Aaron Turpen of The Online Auction Academy

There are a lot of things that businesses need to spend money on just to keep running from day to day. There is no such thing as an expense-less business. All businesses have to spend money on something: be it payroll, shipping, packaging, Internet access, etc.

With a little imagination, however, the entrepreneur can lower these costs or even remove them altogether! The basic ways of lowering expenses fall into three categories: barter, negotiation, and research.

Barter

Bartering for goods and services is the most obvious and common way that a business shares or eliminates costs that would otherwise be incurred. By trading services, sharing the cost of goods, or even forming strategic partnerships to eliminate one or more expenditures can go a long way towards strengthening a small business.

Let's take an example. Mary runs a small pet store and grooming service. Next door to her is a small neighborhood grocery run by Frank. Frank regularly throws out bones, scrap meat, and other things. He spends \$200 per month for dumpster service to have his garbage bin in the back alley emptied weekly.

Mary, on the other hand, has a smaller garbage bin and spends only \$75 per month having it emptied only twice per month. One day the two strike up a conversation in the back alley as they do their end-of-day chores before going home. Frank laments at the cost of the garbage removal and the amount of trash he seems to accumulate. Smelling the evidence, Mary sees that fair portions of what he's throwing away are meat bones. Getting an idea, she makes a proposal. She rarely fills her own garbage bin, but still pays the fee to have it emptied. She proposes a deal with Frank. She'll cancel her own garbage service and use Frank's dumpster and pay \$60 per month for the use. She'll also take Frank's old meat bones instead of him throwing them away. She can give those to her customers as freebie incentives. Frank pays less for his garbage removal and Mary pays less for hers – plus gets the extra bonus of the meat bones for her customers. The deal is struck!

Negotiation

Bartering to trade services is one thing, but negotiating for something you have no choice but to pay for is another. Many small suppliers, especially if you are a regular customer, are willing to give various incentives to keep you as their customer or reward you for your loyalty. Sometimes a five-minute talk with the manager can result in a discount, credit line, or other incentive. It never hurts to ask.

As an example, let's go back to Mary who runs the pet store. Every month, Mary makes a trip to a warehouse in the next city, which sells pelleted rabbit food to farmers and wholesalers. These alfalfa pellets are fairly expensive at \$10 per fifty pounds. Mary generally stocks ten bags per month and pours them into bins to sell by the pound to city-bound pet owners. She has a good rapport with the manager of the warehouse who always helps her load her small pickup with the goods - she is one of a few customers who don't take delivery from the warehouse.

She asks the manager one day how long he thinks she's being coming to his warehouse. The conversation moves towards the costs of delivery and her per shop's regular struggle to stay profitable. Finally, Mary asks the warehouse manager if they've ever thought of giving incentives to customers who pick up their own goods. The manager makes a quick call to his boss and approves a 2% discount for will-call customers. Mary's conversation has saved her \$2/month, which totals \$24 per year. It also means that her pellets are more profitable as this also increases their profit margins at sale!

Research

The final and possibly the easiest of the three types of cost-saving for the business owner is research. Whether your business purchases goods, services, or supplies – somewhere out there is someone willing to sell these things for less. Doing some research can save you money when you find these better sources.

Mary is having trouble keeping her sales of dog collars profitable. One particular type is most troublesome, with a profit margin of only 8%. She cannot raise the price or she will no longer be competitive with the larger retail stores in the area. Her only options are to continue taking a loss or find a cheaper source for this product. She looks through several vendor catalogues and finds that no one has a substantially lower price than anyone else. She does notice, however, that one vendor gives lower prices on larger volume purchases. Looking at sales histories, she can see that she averages 20 collars per month and normally buys them every third month from her vendor. Buying a year's worth in advance would save her about 12% on the cost, thus boosting her marginal profit to 20% - much better than eight!

Basic business sense and a little effort can net higher profitability for your business by lowering your costs of doing business. You would be surprised at how many entrepreneurs and managers fail to put forth the slight effort it takes to lower these costs!

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Aaron is the Webmaster for the Online Auction Academy – the largest independent auction training facility online! Our newsletter is FREE and so is your first class! www.AuctionTrainer.com

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