9 Ways to Manage Costs AND PREPARE FOR FUTURE GROWTH

How HR & Finance can reduce expenses and prepare for a return to profitability.
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Organizations with less than 500 employees make up 47% of private-sector payrolls.

For the American economy, SMBs should be too big to fail, which is why legislation that normally would have taken years of debate got passed and messily implemented in weeks, though some worry it wasn’t fast enough. In the coming months, all levels of government will work with banks and financial technology firms to supply SMBs with access to liquidity. SMBs need help, they can’t do it alone.

In the meantime, finance & HR will work together as never before.

SMB leaders are working day and night to navigate the crisis. Successfully managing it requires the CFO and HR leader to make complex decisions quickly, without rushing into an uncoordinated response. Foremost among these decisions will be cost containment. The way you manage costs now will determine how well your company performs during and after COVID-19.

The question is: how to contain costs with an eye toward future profitability?

In this guide, Paycor outlines nine ways to cut costs, with an eye toward a return to health and profitability in the future. Some of these approaches you’ll have already implemented, others might not work for your business. The list is meant as a framework for a conversation between CFOs and HR leaders, both of who will come to these decisions with a unique and valuable perspective.
Forego Discretionary Spending

Belt-Tightening Starts Here.

A discretionary expense is any cost that isn’t absolutely essential to the short-term operation of your business. Travel was the first to go, but there may be other non-essentials in your budget.

To Do:
Develop a 90-day cashflow forecast based on your fixed and variable costs. Then, stress test the forecast against best/worse-case scenarios. You want to get a sense of how much (and where) you need to cut.

90-Day Cashflow

Make a plan based on best/worst outcomes.
CONSIDER

“Discretionary” doesn’t mean not important.

After all, some discretionary costs are investments you make to keep customers loyal and employees engaged, healthy and productive. When we return to a new normal a lot might have changed, but customers and employees will be as important as ever. Look for ways to recalibrate; are there cost effective alternatives that can achieve similar outcomes (e.g., hosting a virtual event for loyal customers you can’t take to lunch)?
Reduce Extra Supplies & Inventory

REEVALUATE & REASSESS

Reassess any standing orders you have in place to replenish inventory or consumables you may not need. Included in this is anything from Vendor Managed Inventories to recurring Subscribe-and-Save orders that you may have forgotten about.
To Do:
Reevaluate inventory and supplies from the bottom up—ask what you need, rather than what you can reduce. Consider both best-case and worse-case scenarios: running down stocks might leave you unable to meet the demand of a quick return to growth, but you’ll be less exposed to an extended slump.

Don’t forget Subscribe-and-Save payments

CONSIDER
Don’t assume that you’re stuck with leased equipment you no longer need. Talk to the leasing company about your options, including canceling the lease in exchange for a return on the equipment.
3. Renegotiate debt and rent obligations

EVERYTHING’S NEGOTIABLE

Banks and landlords know all signed contracts are at risk. Now’s the time to reassure creditors that your business wants to stay in business but could use a little help, which is in everyone’s best interest. Rent and debt payments are recurring, significant expenditures and any forbearance might help you maintain staffing until the market recovers. It’s definitely worth a conversation.
To Do:
Show your landlord (or lender) that you’ve exhausted your options; invite them into the process so they feel like a partner. Propose a temporary deferment or a rent reduction, spread out over the remainder of the lease. **At minimum, ask for forgiveness on late fees and an agreement not to report late payments to the credit bureaus.**

**CONSIDER**
Is a brick & mortar presence necessary for your business?
If the answer is not a hard yes, it might be worth considering how much you’d save by transitioning to a virtual office in the future. Granted, it’s not going to happen overnight, and work-from-home is not without difficulties, but whole sectors of the economy are shifting and WFH might be here to stay.
4. Outsource Payroll

INHOUSE PAYROLL IS MORE EXPENSIVE THAN YOU THINK.

PwC found that outsourced payroll can be nearly 30% less expensive than inhouse. Hidden costs, like installing and maintaining the system plus the time it takes to collect, approve and prepare employee hours for payroll processing, drive up the inhouse price tag.
To Do:

**Compare the cost of inhouse vs outsource, but don’t stop there.**
Remember that whoever is in charge of your payroll has a legal obligation to stay on top of emergency legislation and rapidly integrate changes into the system. That’s a daunting (and risky) task even in normal circumstances.

**CONSIDER**

If you currently outsource payroll, make sure you’re getting your money’s worth. Your provider should be automatically updating your payroll software every day to handle the latest changes in tax, compliance, and federal, state and local relief programs, at no additional cost.

**30%**

*Outsourced payroll can be 30% less expensive than inhouse.*
5. Create Maximally Efficient Schedules

MAKE SCHEDULING A SCIENCE

Spoiler alert, our last cost-cutting suggestion is the elephant in the room: layoffs. But before we get there, let’s consider “maximally efficient” scheduling as a far less risky way to reduce labor costs. If your schedule isn’t perfect—if there’s any error in either direction, too little coverage or too much—then you’re wasting money. Scheduling software helps you find and fill gaps so that your workforce is always maximally deployed.
To Do:

Take a closer look at your scheduling practices. Are managers routinely under or over-scheduling? Are you making payroll mistakes due to inaccurate timesheets? Are you consistently surprised by unplanned overtime? If so, scheduling software may actually save you money.

CONSIDER

There’s no telling when employees will once again find it easy enough to pop into the office to look at “the schedule.” Now more than ever, scheduling needs to be entirely mobile, capable of being accessed and manipulated by managers and employees anytime, anywhere.

45%

45% of shift workers say they still receive paper schedules.

Source: Ximble State of Workforce Survey, 2019
6. **Optimize Benefits**

If there are ways to save money on benefits, a savvy, knowledgeable broker will help you find them. Immediate, short-term changes, like eliminating tuition reimbursement, 401k match or spousal coverage might do the trick. Your broker can quickly assess your situation and give you a menu of options. More importantly, your broker can help you weigh your options strategically to make sure you’re getting the most value, at the least cost to morale, from the changes you make.
To Do:
Work with a trusted broker to evaluate all the ways you could optimize your benefits spend.

Consider
For the self-insured, consider moving to referenced-based pricing. Instead of utilizing a carrier like Anthem, employers work with a TPA (third-party admin) that negotiates a price for health services based on a percentage of Medicare rates. You’ll be trusting the TPA to process claims and keep track of employee records, so it’s important to find the right partner.
Reduce Employee Hours

TO AVOID LAYOFFS, TRY REDUCING HOURS.

A temporary reduction in hours (or pay) helps reduce your payroll expense without laying people off. Moving to a 4-day workweek, converting full-time positions into part-time, a rotating furlough or job sharing, and unpaid leaves of absence are all different approaches to achieving the same goal.
To Do:

No one wants to reduce the hours or salaries of the team you worked so hard to recruit, train and develop. If you have make this move, scale salary reductions to protect lower wage earners (i.e., executives take a 15% cut, frontline workers take a 5% cut). Make sure your team understands what’s driving the decision and go above and beyond to do the right thing. When the economy recovers, you’ll want to be able to hire back your top talent and to do that, your company’s reputation must be intact.

Consider

In general, always want to consult a lawyer about your cost-reduction tactics, and that’s especially true here, as federal, state and local laws are in play. Be especially aware of employment classifications, as reducing an employee’s pay can change the employee’s status from exempt to non-exempt.
Reduce Your Workforce

Layoffs as Last Resort.

Here's where Finance and HR need to share a brain. You don’t want to lay off the wrong people, since it’s going to be expensive to fill those positions when the economy stabilizes and improves. (It costs an average of $4,129 just to hire a new employee according to SHRM, and that doesn’t count onboarding, training and the ramp time to productivity.) To make the right calls, you’ll need to settle on the right criteria for your company. For example, you may evaluate employees based on any number of factors including long-term potential value, organizational knowledge, culture fit, education, experience, quantity/quality of output and tenure.
To Do:
Look at duplicative roles across the organization and then conduct a critical skills assessment to make the tough call of which employee stays. As much as possible, transparency in decision-making is key; now is the time to over-communicate and to show that your decision-making was pragmatic and fair. You should also manage layoffs with an eye toward the future. What is the plan to shore up team morale post-layoff? The answer to this question will be unique and personal to your company, but one thing’s for sure: managers will play a key role (see our last suggestion for details).

CONSIDER
Know what is and isn’t your responsibility when it comes to unemployment insurance. Keep employee records, especially those regarding terminations, organized and accessible so you’ve got what you need if you’re notified that a former employee files for unemployment. Learn more about employers’ responsibilities here.

$4,129
It costs an average of $4,129 to hire a new employee (SHRM).
Invest in Managers

GREAT MANAGERS ARE A KEY TO RECOVERY.

Now and for the duration of this crisis, frontline managers will play a key role in your company’s recovery, especially if you’ve gone through layoffs. Years ago, Gallup released groundbreaking studies that found managers account for 70% of variance in employee engagement. They also found that only one in ten people have a naturally high capacity to be a manager. Investing in managers won’t cut costs in the short term, but it may ultimately save your business.
To Do:
Prioritize continuous education and learning for your managers. Your HCM provider should be able to provide both ready-made courses and the technology you need to easily design your own training. Core managerial skills to train for include balancing demands from multiple constituencies, interpersonal skills and emotional intelligence, delegation and the giving and receiving of feedback.

CONSIDER
If you reduce salaries or headcount, be sure to include your managers in the decision-making process (if at all possible) and communicate with them early and often so that they always have the most accurate information to share with their teams. Especially during tough times, managers do more than manage projects, they lead people. Give them the support they need to lead.

Managers account for 70% of variance in employee engagement.

Source: Gallup
About Us

Paycor creates HR software for leaders who want to make a difference. Our Human Capital Management (HCM) platform modernizes every aspect of people management, from the way you recruit, onboard and develop people, to the way you pay and retain them. But what really sets us apart is our focus on business leaders. For 30 years, we’ve been listening to and partnering with leaders, so we know what they need: HR technology that saves time, powerful analytics that provide actionable insights and dedicated support from HR experts. That’s why more than 40,000 medium & small businesses trust Paycor to help them solve problems and achieve their goals.

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