

## Getting To The Bottom Line

Expenses under control is the way to go

By Michael MacDonald

**W**ith the beginning of the New Year off to a roaring start, most of us are optimistic for a bigger and better year. It's also the time when we look at the previous year's financial statements in preparation of the company's income tax filing.

Usually, we first focus on the "top line" or revenue. We all have a tendency to put a lot of emphasis on how much the business grossed over the course of the year. Next, we look at gross margin, also an important metric. Gross margin is the cost of goods subtracted from revenue.

The next area of attention is net income, the so-called "bottom line" representing the difference between gross margin and expenses. And this leads us to the primary focus here: expenses.

### POINT OF DISCUSSION

In the rental, production, and contracting industry these days, the big

point of discussion is pricing. I hear comments like "Can you believe what rental company X is charging to do sound for tour act Y?" It seems that everyone has a beef with a competitor about rates for services.

While I have issues with the pricing policies in our industry (many of which have been shared in previous columns), I'd like to focus on cost controls that contain expenses – and therefore – increase profits.

A turn-of-the-century industrialist once said, "You can't become a billionaire by saving alone." While this is a true statement, the bottom line can indeed be substantially enhanced by keeping expenses as low as possible.

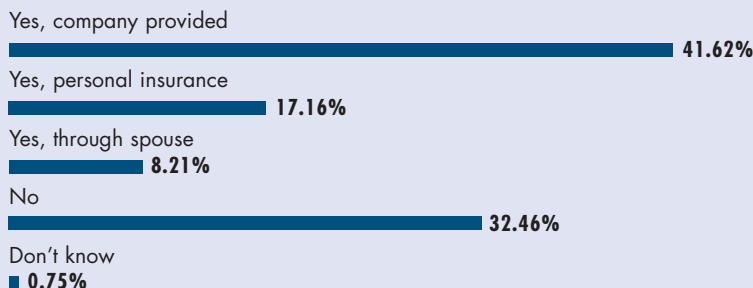
It's critical to keep in mind that once expenses get "structuralized" in a business, they are hard to take back. For example, current staff members will become reliant on additional personnel, and it becomes painfully difficult to remove this "luxury" later, even if the additional manpower isn't necessary.

Here are four key areas to categorize expense control:

- **People.** A while back, my friend and colleague Dennis Barry coined the phrase, "Expenses walk on two legs." While this sounds sarcastic and cold, it's also the total truth. Much of what we spend depends upon the number of people we employ. So be cautious when considering the addition of staff. Exhaust every available option before adding to your staff. Explore using independent contractors or temp firms, hire as a last resort

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and only after you have proven that adding a staff member will add to the bottom line.

- Shop and office facilities. Working space drives a significant amount of expense issues in a business. Many new business owners get pulled into the “room for expansion trap” that commercial real estate agents sometimes set. It goes something like this: “You should consider leasing more space than you need now because it is clear that your business will grow!” Challenge this kind of thinking, regardless of who poses it. Choose the right size and increase it only when absolutely necessary!
- Lifestyle issues. This is a phrase I use that refers to the difference between what is fair and right for a company to spend on its employees and what some employees think the company should spend based on their own personal aspirations. That’s a lot of words for employee “luxury”. This can be a big problem and needs to be addressed

in advance. Avoid excessive aggravation by discussing expectations – in advance – regarding topics such as class of air travel, meals, accommodations and business equipment.

- Impulse Purchases. Keep an eye peeled for impulse “equipment toy” purchases. Make the requesting staff person (and this includes you!) justify the “return

## How many times will we need to bill out the use of that piece of equipment before we break even?

on investment” or ROI. Your accountant can help with this if necessary. Ask, “How many times will we need to bill out the use of that piece of equipment before we break even and start to make a profit from it?” And/or, perhaps the question should be, “How many hours of labor do we save at rate X before we pay back the cost of the equipment?” No matter how you analyze it, the purchase must feed the bottom line, not the user’s ego!

### IT TAKES DISCIPLINE

When it comes to expense control, leading by example is important. Setting the example of appropriate expenditures makes it easier for the organization to stay lean. Don’t hesitate to spend where it counts and adds value to the business, but watch out for layers of runaway expense. And remember, the little stuff adds up; no cost is too small to cut if it makes sense.

Controlling expenses requires diligence and discipline. In practice, it’s much like gardening; if you put in a consistent effort in your garden, beautiful things begin to happen. But if you don’t tend to it regularly, the garden quickly gets unruly and out of control.

In the end, the investment in expense control is well worth it, and prevents the year-end shock of discovering that less has been made due to frivolous expenditures. And that can be a sad state of affairs. ■

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*Michael MacDonald has been involved in the professional audio industry for more than 20 years. Beginning as a freelance mixer/engineer in the '70s, he transitioned to working for manufacturers in the mid-'80s and has been employed by, developed products for, and consulted with major companies such as Yamaha and JBL Professional. Michael can be reached at [mchlmacdonal@aol.com](mailto:mchlmacdonal@aol.com).*

