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PERSONAL PLANNING

Guidebook #82:

Reducing Business & Living

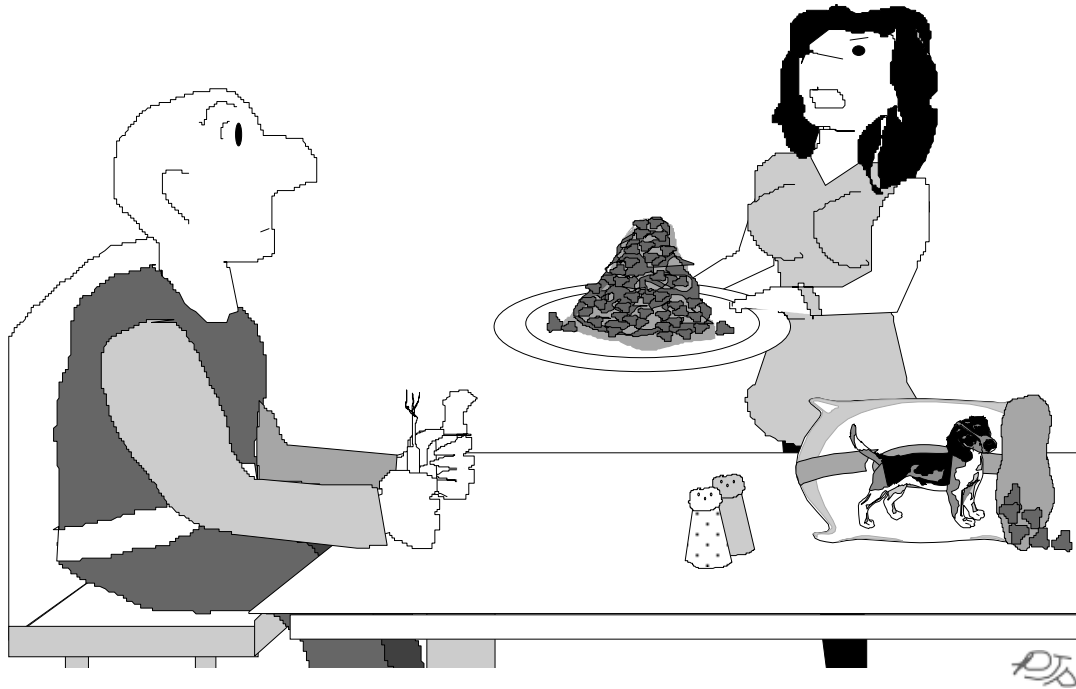
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“You said cut back on our food bill so we’re cutting back!”

Smallbusinessstow.com

REDUCING BUSINESS & LIVING OPERATING EXPENSES

THERE is one cardinal rule known to every successful entrepreneur:

“The best way to increase profits is to lower overhead.”

For example, if you're operating at a 10 percent profit ratio, for every \$100 you spend, an additional \$1,000 is needed in increased sales to balance these expenditures.

Thus, one of the most effective ways to generate profits and increase the amount of cash you have available for investment purposes is to implement cost-cutting strategies to control & reduce your expenses.

Remember, overhead *kills* profits.

ALL TIME BIGGEST MONEY WASTERS

TO START you off on the road to reducing your business and personal overhead, browse through the following checklist of “All Time Biggest Money Wasters.” Find out, how many you've fallen victim to.

- Buying a new car every few years
- Buying anything new & improved without asking yourself if it *really* is new and improved
- Buying anything on sale that you don't really need
- Buying designer clothing
- Buying life insurance for children

Most of the money a businessman calls profit is merely money that has not been wasted.

JOSEPH E. COSSMAN

- Driving to work alone
- Eating in fancy restaurants
- Getting the wrong kind of life insurance
- Investing in “get-rich-quick” schemes
 - Keeping money in low interest savings accounts
 - Lending money to friends
 - Playing the lotteries
 - Taking credit card loans
 - Taking expensive vacations
 - Taking no money down real estate courses
 - Using a *gold card* because it makes you feel rich



47 SCROOGE STRATEGIES

ANYONE CAN spend a thousand or even a million dollars without much trouble (large corporations do this all the time). But it takes patience, determination, planning, and research, to spend it wisely, or better yet, not spend it at all. The following “47 Scrooge Strategies” are directed towards helping you gain more control your business and living operating expenses.

NOTE Reducing business overhead costs, such as rent, utilities and interest, immediately lowers a company’s break-even point. When the break-even point is lowered, the company can reach profitability sooner.

Beware of little expenses: A small leak will sink a ship.
BENJAMIN FRANKLIN

Strategies for Reducing Business Overhead

Scrooge Strategy #1 – Always think of ways NOT to spend your money.

Don’t spend one cent until you can answer the following three questions with absolute clarity: **1)** Can you justify the new expenditure (i.e., do you really need it)? **2)** Is there another solution that is cheaper or perhaps free? **3)** Will the new expenditure greatly improve your profitability, financial condition or quality of life?

Scrooge Strategy #2 – Attend free IRS sponsored workshops to reduce taxes. The IRS frequently sponsors seminars and workshops on topics ranging from tax savings to record keeping. Call your local IRS office for the next date.

Scrooge Strategy #3 – Buy in small quantities at first. It's not a good idea to buy too much inventory or supplies when just starting out. You can always reorder.

Scrooge Strategy #4 – Buy in large volumes once established. Once you have a clear understanding of your markets, inventory & supplies can be bought in larger quantities to get volume discounts. However, cash can also be saved by getting agency discounts, co-op advertising or group rates on insurance.

It's not a good idea to buy too much inventory or supplies when you are just starting out.

Scrooge Strategy #5 – Buy quality to save in the long run. Cheap equipment and furniture wear out faster and become obsolete quicker. More often than not, it is better to spend a little more to get a little more. Always upgrade with

the best of fixtures and appliances, so as to reduce maintenance and replacement costs.

Scrooge Strategy #6 – Carefully consider all new technology before spending any money on it. Decide

whether you really need new technology by asking yourself:

- How long will it take me to learn how to use this new technology?
- How long will this new equipment last?
- How much will supplies and maintenance cost?
- What will be the additional costs, such as special furniture or accessories?
- Will I have to continue to use the old

manual system too, until I know for sure that this new technology works?

- Will it increase my income?
- Will it reduce my expenses?
- Will it save time or increase production output?

Scrooge Strategy #7 – Develop a categorized file of “Best Business Letters.” Organizing common business correspondence for easy future access will save you the time and costs associated with writing similar letters in the future.

Scrooge Strategy #8 – Develop a good relationship with your suppliers and service providers. In addition to being on good terms with manufacturers, distributors and retail-

ers who provide you with products to resell, you need to develop close ties with all the people and businesses who supply you with services, such as accountants, lawyers, landlords, the post office, copier technicians, gardeners, and your utility company. Contacts in the supply and service business are one of the most important resources you have. Not only can good contacts lead to discounts, buy suppliers and service providers are often are your best link to keeping up with the latest trends.

Obviously, it's wrong to price according to gender, but it happens quite a bit. That's why women need to be more assertive and not pay more than they should.

**FRANCES
CERRA
WHITTELSEY**

Scrooge Strategy #9 – Follow the 80/20 rule. Spend money where it counts. Remember, that your profits lie in the 20% of your customers which give you 80% of your business.

Scrooge Strategy #10 – Follow the two-thirds rule. Always put two-thirds of your energy into reducing costs and one-third into increasing income. The reason for this is that choosing not to spend will give you results immediately, while attempting to increase income will usually involve additional expenditures, no guarantee of success, and delayed results.

NOTE Sometimes it's hard for new entrepreneurs to see that cost cutting can be superior to marketing because they get swept up in the enthusiasm generated by increased sales. But just keep reminding yourself that cost cutting gives you direct control while even good marketing can lead to loss of control.

A man is the richest whose pleasures are the cheapest.
HENRY DAVID THOREAU

Scrooge Strategy #11 – Join a local, state/provincial or national barter exchange and swap for items you need to run your business. A barter exchange works like a bank, except that it issues its own currency called barter credits.

When you join a business barter exchange, you generally pay a one-time membership fee for registration in their computer system. You are then given a list of all the other businesses in the exchange.

The better exchanges will have hundreds if not thousands of active members with whom you can barter. The barter exchange's members will offer a wide range of goods and services that they will sell at retail to any other member in return for barter credits. The barter exchange makes money by taking a commission on

each transaction – a typical business barter commission structure is 3% each way.

At first look, the barter commission structure may seem disadvantageous to a business. However, a number of other factors make barter transactions attractive even when the net result seems to be a loss.

For one thing, if the goods you sell are time-sensitive, like perishable fruits & vegetables, being on a barter exchange allows you to move the goods faster so they won't spoil.

In addition, being on a barter exchange increases your inventory turnover – the speed at which old goods replace new goods. This is advantageous to businesses where old stock, such as computer periph-

erals, can quickly become obsolete.

And last but not least, being on a barter exchange is an excellent and cost-effective way to promote a business and bring in new customers who might pay cash the next time around.

It should also be noted that for those in the service trades, being on a barter exchange may allow you to get extra work and credit for those left-over hours which in ordinary circumstances you might not be able to fill.

NOTE The IRS and Revenue Canada treat a barter exchange between businesses the same as buying and selling for cash. Sales taxes must be paid on all barter. However, to avoid tax complications, make sure you are always buying more

The IRS and Revenue Canada treat a barter exchange between businesses the same as buying and selling for cash.

than you are selling i.e., make sure your account is at all times in a slight debit or negative position. If you do this, it is possible to avoid showing taxable profits through your business barter transactions.

Scrooge Strategy #12 – Put your company on a budget. Saving money always starts with a realistic budget.

Scrooge Strategy #13 – Reduce energy consumption. To reduce energy consumption: turn lights off, fix leaky faucets, increase insulation values, fix drafts and other air leaks, put heating and cooling systems on a

Checkout scanners are notorious for pricing errors. Mistakes usually happen because the price was typed incorrectly into the computer (it's not the cashiers fault). To avoid these pricing errors, pay close attention when your purchases are being scanned. Always watch the register's display to make sure the scanned prices are correct.

SUPERTIP

timer, and ask yourself whether you really need that extra energy consuming company refrigerator or microwave.

Scrooge Strategy #14 – Reduce insurance premiums. Yearly reassess your own insurance needs and deductibles to see if you can't reduce these costs.

Scrooge Strategy #15 – Reduce training costs. There are several ways to reduce training costs. One option is the *Job Training Partnership Act* (JTPA), a federally funded program that will

assist in finding employees as well as reimburse up to 50 percent of employees wages for the first 2 to 26 weeks of em-

ployment. People hired must meet certain eligibility criteria because this program is intended to provide an incentive for hiring individuals who either are unemployed or have low income. The program also compensates for training expenses, but only when such training is merited. For specific information on the program's requirements, contact your local JTPA office.

NOTE State governments have other job-related training programs based on job specifications. These programs can be researched by contacting local employment agencies, state and federal departments of labor or community colleges. If employees need to learn a specific skill, the U.S. Department of Labor has an apprenticeship program that allows training to be provided at a reduced cost to

Every increased possession loads us with a new weariness.
RUSKIN

the employer. You can obtain information on this program by contacting the U.S. Department of Labor office in your state.

Scrooge Strategy #16 – Send faxes after 11 P.M. If possible send faxes after 11 p.m. Rates are as much as 60 % lower.

Scrooge Strategy #17 – Stay at budget motels on business trips. If business trips are necessary, stay at a budget motel for \$30 to \$50 instead of a brand name hotel or motel at \$45 to \$150.

Scrooge Strategy #18 – When first staring out, try and do most of the work yourself, especially if your business is small or home-based. As a one-person company, your goal is to streamline all operations so that you can

do most of your work yourself with a minimum of effort. Occasionally though, you will need a lawyer, part-time clerical help, or subcontract work with an accountant, bookkeeper or graphic artist.

Strategies for Reducing Personal Overhead

Scrooge Strategy #19 – Avoid buying convenience foods.

Convenience and junk foods not only cost more, but are in the long run bad for your health (and contribute to higher medical bills). Stick to more nutritious whole foods such as grains, fruits and vegetables.

Scrooge Strategy #20 – Be wary of get-rich-quick seminars. Much of the advice get-rich-quick schemers have to of-

With new cars depreciating by 20 percent after one year, and 50 percent after three years, should you be spending fifteen to twenty thousand dollars on a new car?

fer is simplistic, deceptive, wrong and quite often harmful.

Scrooge Strategy #21 – Buy a used car. With new cars depreciating by 20 percent after one year, and 50 percent after three years, should you be spending fifteen to twenty thousand dollars on a new car? To become an expert at buying a good used car:

- find out the market value of each brand of used car you are interested in
- research *Consumer's Report* magazines for reliability and performance ratings
- learn how to inspect cars for obvious repairs

- learn how to test drive cars and spot defects
- gain access to a good licensed mechanic to give your final choice a thorough examination before purchase
- learn how to bargain for a better price

Scrooge Strategy #22 – Buy food in bulk. Shop at supermarkets that allow you to buy food in bulk. Savings can especially be found in items like spices and other dried goods.

Scrooge Strategy #23 – Buy only the clothes you need and when you do buy, buy quality. It is surprising how much money men and women invest

in suits, blouses, shoes and even handbags. In 1995 alone, the National Association of Hosiery Manufacturers reported that American women spent \$2.4 billion on pantyhose. It's crazy. To lower your clothing expenses try:

The wealthy can't afford to waste time buying cheap things over and over again. But the poor always do and therefore, remain and look poor.

- rethinking your work clothes (maybe a uniform consisting of a T-shirt with your company logo and dark slacks would be cheaper to maintain)
- shopping around for expensive items (when you really need to impress clients)
- visiting second hand stores for everyday work clothes

NOTE The wealthy can't afford to waste time buying cheap things over and over

again. But the poor always do and therefore, remain and look poor.

Scrooge Strategy #24 – Clean with natural products. Use baking soda, ammonia, boric acid, vinegar, and lemon juice to clean your house. Not only is this cheaper but it's better for the environment.

Scrooge Strategy #25 – Convert your holidays into business trips. Make all your holidays, partially tax deductible as business trips.

Scrooge Strategy #26 – Cut down or give up tobacco and alcohol. Cutting down on tobacco and alcohol can save the average heavy drinker and smoker over \$3,000 a year.

Cutting down on tobacco and alcohol can save the average heavy drinker and smoker over \$3,000 a year.

Scrooge Strategy #27 – Cut your own hair. Learn to cut your own hair or adopt a low maintenance hairstyle.

Scrooge Strategy #28 – Don't buy more furniture than you need. You don't need a lot of furniture. In fact, the less you have, the more spacious your rooms will look. Your house will also be easier and cheaper to keep clean. And if you have children and pets, you won't have to worry as much about junior putting grape juice in his water gun or *fluffy* forgetting where her litter

box is.

Scrooge Strategy #29 – Don't waste time & money standing in line for stamps. Instead of standing in line at the post office or sending an assistant to buy

stamps, call 1-800 STAMP-24 to order any amount of stamps needed. Charge them to VISA or Master Card at \$2.00 above the face value of the stamps.

Scrooge Strategy #30 – Drastically reduce the amount you spend on beauty products. The best kept beauty secrets are almost free. To have healthier skin give up smoking, give up heavy drinking, don't sun-bathe too much, protect your skin from the wind, don't use soap and hot water regularly (this dries the skin), don't stretch the skin around the eyes, steam your face occasionally for deep cleansing, and don't eat too many sweets or cream cakes.

Is your second vehicle really necessary?

Scrooge Strategy #31 – Enter contests in which you have a good chance of winning. Many promotional

contests run by various companies offer excellent chances of winning. Some people even claim to make a living doing so.

Scrooge Strategy #32 – Get rid of your second car. Is your second vehicle really necessary? Could you get by using public transportation or by walking or biking? Just remember that cutting out that extra car payment, as well as insurance and maintenance costs, could easily save you \$300 to \$600 a month.

Scrooge Strategy #33 – Keep all warranties and bills of major purchases. You never know when clock radios, hair dryers and the like will suddenly expire for no good reason.

Scrooge Strategy #34 – Look for

coupons. Do you want to cut 15 percent off your total grocery bill? Using coupons, a family of four can save about \$700 a year. Coupons can be found in newspaper inserts, magazines, supermarket circulars and in-store coupon dispensers. Some products even have coupons printed on the packaging itself. To get the most out of coupons:

- Instead of just tossing coupons in a kitchen drawer, keep them organized. Divide them by food type, then file. For example, group all cereal coupons together.
- Throw out expired coupons.

Although it can be a good idea to reduce your living expenses, it is not a good idea to cut back on medical and dental insurance, life insurance, medications and the nutritional quality of your food.

SUPERTIP

- Use coupons during discount days at your supermarket. This is the way to earn the highest savings.

Scrooge Strategy #35 – Look for rebate offers.

Rebate offers can be found just about everywhere – in local supermarkets, your favorite magazines, and the food sections and inserts of your newspaper. Some rebates offer a coupon for a product, while others offer a cash refund. The good thing about rebates is their value is usually much higher than the value of a coupon. But to take advantage of them, you usually have to do a little more work. Most of

the time you have to mail in the product packaging and a sales receipt to the manu-

facturer. Expect the process to take anywhere from four to eight weeks.

NOTE When deciding whether a rebate is worth the cash back, factor in the cost of the envelope, postage and your time.

Scrooge Strategy #36 – Lower your thermostat. Heat is money. For each Fahrenheit degree above 68 degrees Fahrenheit, your fuel consumption goes up an average of 2.5 percent. If you permanently lower your thermostat from 72 degrees to 68 degrees you will save 10 percent on your annual fuel consumption. This means that if your yearly fuel bill is \$1200 you will save \$120/year. Furthermore, reducing your temperature at night from 68 degrees to 63 degrees can result in a saving of one percent per de-

Getting money is like digging with a needle; spending it is like water soaking into sand.

JAPANESE PROVERB

gree over an 8-hour period resulting in an additional 5 percent total saving.

NOTE Obviously, the total amount you save will also depend on your insulation, local weather conditions and the cost of fuel.

Scrooge Strategy #37 – Learn how to bargain. Always see if you can get an item for less than suggested retail. Although you can't usually haggle in a department store, most smaller independently owned stores will tolerate a little dickering.

Scrooge Strategy #38 – Minimize entertainment expenses. Go to movies during the afternoon or on special days when they're cheaper.

Scrooge Strategy #39 – Minimize transportation costs. Driving to and from your place of business is a daily expense. If you drove less, you could save on gas, parking, maintenance and repairs. You may even qualify for a low-mileage-driver discount from your auto insurance company. Consider, car pooling, walking or riding a bike.

Scrooge Strategy #40 – Never grocery shop on an empty stomach. Go shopping on a full stomach. Today's marketplaces are laced with smells, visuals and convenience pitches, all luring you to buy or eat foods you shouldn't really be buying or eating.

Scrooge Strategy #41 – Reduce meals out. If you're like most people, you

spend about \$5 a day on lunch and snacks. Preparing yourself a lunch from home could quite easily save you \$50 to \$100 a month. Likewise, eating dinner at home, could easily save an additional \$100 to \$200.

A bargain is something you have to find a use for once you have bought it.

BENJAMIN FRANKLIN

NOTE Instead of eating out, learn how to cook gourmet.

Scrooge Strategy #42 – Reduce personal long distance calls. Write letters instead, Fax or better yet, send E-mail.

Scrooge Strategy #43 – Repair broken appliances. If you learn how to fix your old appliances yourself, you won't have to buy new ones nor pay for a service man, at least not right away. Using this strategy, you can squeeze a few more years out of your hard-earned dollars.

However, remember to keep all owner's manuals and warranties.

Scrooge Strategy #44 – Review newspaper ads and grocery store circulars for special discounts.

When you receive a flyer, look through it for specials, especially fruits and vegetables and bulk purchases. Cut out the specials. Save them for next time you go shopping. It is also a good idea to keep track of these specials by writing them down on a cash-register receipt from a recent trip to the grocery store and making a note of the difference.

Scrooge Strategy #45 – Settle for a smaller house to keep your mortgage

This is the age of bargain hunters. If it had been this way in biblical times, we'd probably have been offered another Commandment free if we had accepted the first ten.

EARL WILSON
Newspaper Columnist

payments reasonable. Think twice about buying a large dreamhome. Higher mortgage payments, taxes and maintenance costs can quickly spoil all your fun. Instead, consider buying a home with one room less, or perhaps in a less exclusive – less expensive – neighborhood. Lower monthly payments mean less headaches.

Scrooge Strategy #46 – Take in borders or rent a basement suite. Many people can pay their property taxes, utility bills and part of their mortgage by taking in a border or renter. This is a very powerful overhead reducing strategy if you can handle the resulting change in lifestyle.

Scrooge Strategy #47 – Think 20 or 30 times before you buy a “business opportunity.” Those back-of-the magazine ads that claim you can “Earn Money in Your Spare Time” are often nothing more than books or software programs that describe how to run a business. Sometimes they deliver even less than that, though they can cost hundreds, even thousands, of dollars. There’s no such thing as a “just-ad-water instant business.” However, if any ad does happen to grab your interest, always ask yourself, “What am I really buying.” If it’s a blind offer or a business manual for an outrageous amount of money, start at your library instead.

There’s no such thing as a “just-ad-water instant business.”

