How to Cut Costs & Keep Your Business Running During a Crisis

Matt Putra is the Vice President of Finance at New Market Funds, a community-focused, impact investing fund management firm with operations across Canada. Matt also owns Eightx, a small financial advisory practice that provides CFO services and commercial transaction advice to small businesses. Matt has a decade worth of experience in finance, operations, and technology management in more than five industries. He shares with us insight and tips on cost-cutting during a crisis.

A month before the 2000 market crash, online-bookseller Amazon.com sold $672 million in convertible bonds, giving itself the cushion it needed to pass the economic turmoil. Jeff Bezos' biographer, Brad Stone, explained how close the company came to going bankrupt by saying, "The deal was completed just a month before the crash of the stock market, after which it became exceedingly difficult for any company to raise money. Without that cushion, Amazon would almost certainly have faced the prospect of insolvency over the next year." According to reports, the CEO is now on track to become the world's first trillionaire by 2026. Had the dot-com bubble burst a month or two before, the fate of this e-commerce giant probably would have been very different. There's a couple of lessons we can learn from previous economic downturns and, with the advice of experts like Matt, find our way forward into the future.

Recession, research, & recovery

Businesses suffer during a recession mainly because demand and revenue decrease, while uncertainty about the future increases. "Roaring Out of Recession," a Harvard Business Review article, researched 1980, 1990, and 2000 recessions and found that 17% of the 4,700 public companies they studied went bankrupt, private, or were acquired. What was shocking? 9% of companies didn't simply recover in the three years after the recession – they flourished, outperformed competitors in sales and profit. What did these firms do, and how did they do it? The solution lies in a lot of what Matt explains about cost-cutting measures.

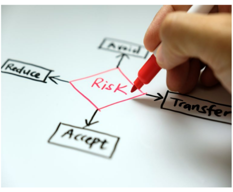
A mix of defense & offense

Firms that cut costs faster and deeper than rivals don't necessarily flourish.

Matt says, "You don't want to panic and cut costs that are maybe non-essential for three months but would become pretty impactful in a six-month time window." The research affirms this too. Firms that cut costs faster and deeper have a low probability of outpacing the competition when the economy gets better. But this doesn't mean businesses should make bold investments. Matt suggests maintaining a balance between cost-cutting and investing; applying a mix of defensive and offensive strategies. Research has shown that companies that focus on operational efficiency, developing new markets, and enlarging their asset bases become the strongest performers after a recession. Matt and his team did this by going through their budget in detail and identifying areas to save costs. "We started with our biggest expenditures down to our smallest expenditure to see, How much can we cut out of this? When can we cut it out? Is it feasible to cut it out?" The next thing was a detailed cash forecast to figure out the runway for the next six months.

In a 2020 survey, 43% of CFOs highlighted a need to streamline their overall budgeting processes to react more quickly and efficiently to the COVID-19 crisis. Some leaders suggest collaborating with stakeholders to survive during a time of crisis. "I always expect my vendors and suppliers to be partners in this business with us, and when we have to cut costs, I expect them to share the load. If I can shave a fraction of a percent off two or three raw materials, it adds up to a lot," says Jason Wilson, Founder, and president at Back Forty Beer, a beer producer.

The biggest risk with cost-cutting?



The most significant risk while cost-cutting, Matt says, is looking at a short time frame. For example, one of the major areas people are cutting costs on is ad spend. "That's creating opportunities for other businesses because when businesses stop their ad spend, the overall cost of buying ads goes down. People who continue to spend will likely get more coverage." It's a missed opportunity because screen-time rates have gone up with everyone stuck at home. "Advertising is going to be one of the big ways that businesses will bounce back through. So for those that have cut it out, there is a risk that they have to fight an uphill battle to get back to the coverage that they were at, before the crisis."

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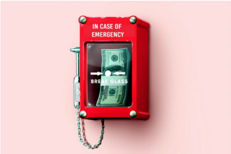
> ***– Matt Putra, Vice President of Finance at New Market Funds***

Pivoting during a downturn

Matt says it is important to keep the customer in focus when pivoting. While businesses may not be able to change their core offering, the language around the core offering can change. "I read an article recently that you can't have people shaking hands on your website anymore because people can't shake hands. So you have to change your copy, pictures, and your creative."

Pivoting is crucial, but the focus must always remain on the customer, an understanding that they too are under financial distress and may not be able to pay for services right now. Matt suggests, if businesses can, they should defer payments because that will help build a more substantial customer base. It's part of how you pivot. It also means engaging with people and businesses that might benefit from your expertise. At the time of this interview, in his capacity at Eightx, Matt had spoken with over 200 firms and spent almost 40 hours interacting with people giving them advice and direction for the future.

Biting the bullet, cutting back your spending, & building a reserve



So what's been the biggest lesson for Matt during this crisis? There's a few, he says. One of the biggest ones is reserves. Businesses may have kept it because they had specific plans for the future, but it's coming to another use now. "As a CFO, you often don't want to have cash sitting around idle, but when you have a crisis, that cash becomes a cushion. There are businesses out there that don't have to lay anybody off. And they're operating as normal because they have that cushion of cash."

The other thing is accounting. "A lot of small businesses that didn't put enough attention into good accounting, bookkeeping, or record keeping are struggling to apply for financial subsidies from the government." For example, if you have a December 31 year-end, any bank will want to see that year-end and your March interim financial statements, but many businesses don't do that. "They're shooting themselves in the foot because now they're scrambling to compile their year-end and scrambling to get their March 31 interim statements to access these programs, but now the accountant bookkeepers are so busy."

According to studies, the higher the impact of a crisis, the greater the demand for higher-order skills jobs. Matt agrees that adopting new technologies will help companies prepare better for any future situation. In a general sense, employers get picky with the talent they hire during a high unemployment rate. Businesses become more agile and flexible to adapt themselves to sudden changes. Matt says automation drives data-driven results, and companies recognize that.