The 5 Hidden Ways Small Companies Waste Money

By Eric Rudolf

At some point in our lives we have all heard the saying "*if you count the pennies, the dollars will take care of themselves*." Although this advice might have helped your grandparents survive The Great Depression, this kind of small-minded thinking carries no weight when it comes to running and attempting to grow a business. This is not to say carefully watching expenses is not important. But business-related expenses should be treated no differently than sales opportunities, where dealing with the big ones first is almost always the wiser choice.

In many cases, however, the biggest expenses of all are also the ones completely hidden from the naked eye of management. Any manager with a second grade-level grasp of mathematics can figure out that the difference between a $300 flight to Chicago and a $200 flight to Chicago is a hundred bucks. But sophisticated managers also realize that a $100 savings on a business trip is almost never the company's top financial concern . . . nor is it even in the top 10.

There are a number of ways in which money is sucked out of a small company each year, literally undetected. Five of the most common are outlined below.

Money-Waster #1: Under-Utilizing Employees

At a Fortune 100 company with 75,000 employees worldwide, one or two under-utilized employees can be easily overcome . . . if someone even bothers to notice. But at a small company, just one employee who is not being maximized—in terms of workload, skill set or effort—can mean the difference between a department's profitability and loss. The number once concern of every small company manager should be to make sure that each employee is not only productive, but also being pushed in terms of the LEVEL of tasks and projects they are given.

Look around your company: does your Event Coordinator have a Masters Degree? Did one of your Customer Service people oversee 25 direct reports at a previous position? Is your Office Manager a published freelance writer in her spare time? All small companies have employees with under-utilized or ignored skills—skills which could be used to improve the bottom line by saving the company money AND generating new revenue streams. It is your job as a manager to find them.

Money-Waster #2: Contracting Out Functions that Could be Brought In House.

Does your company spend $40,000 per year with a graphic design firm? $50,000 per year on an Accounting and HR consultant? $60,000 per year on outsourced IT services? If so, there is a good chance your company can save money, or at least break even, by bringing these functions in-house.

As a general rule, small companies should consider bringing a function in-house whenever the annual expenditure reaches about $20,000. At this point a company may realistically begin to weigh the pros and cons of either hiring a part-time employee to cover the function, or hiring a full-time employee who can absorb this responsibility and one or more others. If there is one universal truth at small companies, it is this: there is ALWAYS more work to be done than you think. Although hiring a new, salaried employee is one of the larger risks a small company can take, a lack of labor resources is easily the number one barrier to small company growth. More often than not a new employee will pay for him or herself many times over, even in the first year of employment.

Money-Waster #3: Re-Investing in Ineffective Marketing Campaigns.

Given the limited amount of time and resources (and in some cases skills) small company marketing departments possess, it is not uncommon for them to re-book and re-execute the same initiatives over and over again, with no consideration of how they are actually performing. Do you know how many sales were generated by the trade show you attend each year? Are you measuring response to the full-page ad your company places in the main industry rag every month? When was the last time someone reviewed—much less changed—your Google Pay-per-Click ads?

If you have come to the realization your company purchases the same ad space, uses the same messaging or exhibits at the same trade shows year after year, it is time to demand measurement of these initiatives. Simple metrics like inquiries, leads, downloads, clicks, names collected or even sales can be assigned to almost any kind of marketing campaign. Once metrics are assigned, repeated instances of the same campaign can be tracked and compared over time—allowing adjustments to be made in messaging, frequency and budget.

Money-Waster #4: Adding Friends and Relatives to the Payroll.

Whether your small company has 10 employees or 100, odds are good that someone on the Executive Team has championed the employment of least one friend or relative. Small companies are littered with spouses, siblings, in-laws, children and friends from college, to a degree that would make an HR Director at a Fortune 500 company seek therapy.

In situations where the employee has specific skills that could not otherwise be acquired, this move can be extremely valuable. But in most cases, hiring friends or relatives does a company much more harm than good. In addition to the risk of wasting money directly (these employees are often overpaid and/or under-qualified for their positions) they can be a significant de-motivator to other employees; especially when they are brought in as management. And even when these types of employees are not brought in at a high level, the person who made the hire rarely has the objectivity to manage them . . . or the foresight to allow someone else to do it.

Also, when personnel issues arise—and they absolutely will—the issues are seldom resolved. Instead, the non-relative or non-friend employees are forced to suffer in silence, eventually leaving the company for less stressful work environments. As tempting as it is to do so, hiring friends and relatives to work is almost never a good idea, unless your company goals include de-motivating employees and increasing the company's turnover rate—neither of which make a positive impact on the bottom line.

Money-Waster #5: Tolerating Under-Performing and Negative Employees.

With as much focus as small company executives put on concepts like Excellence, Dedication and Teamwork, the reality of working for a small company is often equivalent to 'employment for life,' meaning even employees who put forth a minimal level of effort can have their jobs as long as they want them. Every small company has at least one: the employee who refuses to work one minute more than published hours, is completely void of any sense of urgency, and snaps whenever asked to do something not specifically listed in their job description. At times they can be amusing, and often they make for great conversation at Happy Hour. But they are also hurting your company in ways too numerous to count.

Although many have tried, the fact is you can't grow a small company by filling the employee roster with people who contribute the absolute minimum—and complain while doing it. Even if these employees have been around since the beginning, as a manager you need to understand that your company is changing; and if growth is the goal, there is no room for unmotivated, perpetually grumpy ands short-sighted employees.

Conclusion

Wasted money at a small company doesn't always identify itself with a bright red bow and a blinking card that says "look here." In fact, more often than not a company can come out farther ahead in the end by better utilizing its existing resources than it can by cutting costs and expenditures. There are a number of non-traditional ways that small companies under-use or mis-use its resources, and although this document has outlined five, there are obviously many, many more. If you have identified a different hidden way that small companies waste money, please email it to me at eric@thesmallcompanyblog.com. I will gladly include it—and give you the credit—in my next downloadable tool.