



# So What?

**H**ow do you earn your income? Perhaps you receive an allowance, or you make extra money by babysitting or mowing lawns. Why is your income important to you? You may like having spending money for the weekends, or perhaps you're saving for a car or college. What steps do you take to control your income? You might make decisions such as:

- Waiting to buy new jeans until the ones you want are on sale
- Choosing fast-food over an expensive restaurant
- Shopping around for the best deals on textbooks or other school supplies

If you spend your money on anything and everything you want, you'll find your expenses will quickly spin out of your control. Businesses face the same issues with their expenses. Controlling expenses is crucial for the survival and success of any business, even a not-for-profit organization. Learn more about why expense control is important and the role that employees play in this essential task.

# So Controlling



▲ Even popular businesses can fail if expenses aren't kept under control.

**T**he Collins brothers, Liam and Scott, had always dreamed of opening their own bookstore. So, last year, they leased space in a local shopping center, bought bookshelves, ordered books and magazines, purchased an electronic cash register, and hired employees. The shopping center was popular, lots of customers visited the bookstore, and sales were good.

There *were* a few problems—customer complaints, high utility bills, and a couple of dishonest employees. But, the brothers considered these problems to be “minor.” They ordered more books and continued to expand the business. Over the course of the year, the bookstore's debts increased to the point that the income from sales was not enough to cover expenses. The brothers had to borrow money to pay their bills. Not long after, the sign in the front window said “Going out of business.”

## Objectives



**Discuss the importance of controlling expenses.**



**Explain ways that employees can help control expenses.**

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## Effects of expense control

As you can see from the Collins brothers' example, ignoring problems and continuing to spend money can cause a business to fail. Liam and Scott made the mistake of believing that because sales were good, their business would be a success. Their major error was **ignoring** expenses—the money that the business spends. The brothers failed to consider an important fact—uncontrolled expenses reduce profits. In this case, uncontrolled expenses had a very serious outcome—business failure. But, there are other ways a business can benefit from controlling expenses besides simply *staying* in business. Controlling expenses allows a business to save money that it can use for many other important purposes. Let's look at some of the things controlling expenses allows a business to do.

**To reinvest in or expand the business.** Many businesses can compete successfully in the beginning because they have great goods or services that appeal to customers. However, businesses cannot continue to be competitive unless they have enough profit to reinvest in themselves. For example, if a company's first restaurant is successful, it can reinvest its profits to open more restaurants and to remain competitive in the market.

**To provide adequate supplies and equipment.** For workers to produce at their maximum level of productivity, they have to have the supplies and equipment necessary to do their jobs. In many cases, this means the business must keep up with advances in technology and replace old equipment with new. A tax-preparation service, for instance, must provide its employees with such necessary office supplies as pens, paper clips, staplers, printers, fax machines, etc. It must also provide the latest computer equipment if it expects its employees to prepare tax returns for clients at a speed that will be competitive with that of similar companies.



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- ▲ Controlling expenses allows a business to provide the supplies and equipment that employees need to be productive.



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- ▲ Uncontrolled expenses can reduce a business's profits to ashes.

**To maintain the business facility.** A business's building and equipment need regular maintenance to keep everything in good working order. A regular maintenance program is effective in preventing breakdowns that add to the business's expenses. Serious breakdowns can require costly emergency repairs, or they can even cause a business to shut down temporarily. Here's an example. A business that has elevators or escalators should make sure that they are regularly maintained. If this equipment stalls or breaks down, customers and/or employees may be injured. The business may have to close for repairs, and it may even be sued for damages.

“...the fashion of the world is to avoid cost...”

—William Shakespeare





*To renovate or redecorate the business facility.* Most businesses need to renovate or redecorate their facilities from time to time. It is important to a business's success for its facilities to be attractive to customers and to provide a pleasant working environment for employees. Appearance helps to create an appropriate image for the business. For instance, a hair salon needs periodic painting or wallpapering to keep it looking fresh and inviting. If the salon doesn't have enough profits to pay for redecoration, it may find that its customers are switching to the competition.

*To use promotion to attract customers and increase sales.*

All businesses need to make their target customers aware of their existence. They want to keep their current customers, and they also need to attract new ones. Most businesses do this through various kinds of promotion such as advertising, sales promotion, personal selling, and publicity. A drugstore chain might regularly buy newspaper and television advertising to attract customers. It may also use numerous displays and automatic coupon dispensers in its stores to increase sales.

*To provide good wages and benefits to employees.*

To compete with other businesses for competent workers, a business needs to be able to provide good wages and benefits to its employees. This helps to attract qualified workers to the business, and it helps to retain workers over time. A department

store that offers good starting wages with regular increases, health insurance, and a generous personal leave program will be better able to attract and keep an excellent sales staff than a competitor that can't afford to offer these advantages.

*To pay bills on time.*

Controlling expenses not only helps a business to have the necessary funds to pay its bills but to pay them on time and control its expenses even further! For example, a business that pays its water bill on time might avoid paying a 10-percent late penalty. In addition, a business with cash on hand avoids paying interest on loans because it doesn't need to borrow money to pay its bills.

Most businesses that buy goods for resale can save money by paying for them within a certain period of time and receiving a cash discount. Let's say an auto-parts business purchases \$3,000 worth of parts and receives a three-percent discount for paying within 10 days. This saves the business \$90.

*To carry out research and development activities.*

Many businesses need to have ongoing programs of research and development to compete successfully with other producers. Profits are needed to support these activities. Procter & Gamble, a global consumer-goods company, regularly allocates part of its profits to researching and developing new or improved soaps, detergents, toothpaste, and other items.



▲ Businesses are more likely to have funds available to renovate or redecorate their facilities if they keep expenses under control.



▲ By controlling expenses, businesses can devote funds to more research and development activities.



*To pay dividends to stockholders.* Businesses that are incorporated are owned by their stockholders. These companies are expected to earn money for their owners and to pay them regular **dividends** (returns) on their investments. If the business does not make enough profit to do this, investors are likely to sell their stock and to invest in another company. If you own stock in AT&T, and the company reduces its dividend payments, you might sell your AT&T stock and buy stock in another company that pays better dividends.

### Summary

Businesses must control their expenses because uncontrolled expenses reduce profits. Businesses need adequate profits to have money to reinvest in or to expand the business; to provide adequate supplies and equipment; to maintain the business facility; to renovate or redecorate the business; to use promotion to attract customers and increase sales; to provide good wages and benefits to workers; to pay bills on time; to carry out research and development activities; and to pay dividends to stockholders.



1. What are expenses?
2. What benefits does controlling expenses provide for businesses?



## THE GRAY ZONE

**Jennifer wants to help her business control its expenses. She submits quality work, respects company property, and follows all policies and procedures correctly. However, she often leaves work a little early to beat traffic on the way home. Even though she's supposed to work 40 hours per week, she often works about 37 or 38 hours. Jennifer's supervisors don't seem to notice this because she always completes her work on time. Jennifer doesn't think she's doing anything unethical since the company is pleased with her performance. What do you think?**

# Control Yourself

When the Collins brothers got into debt, do you think there was anything their employees could have done to help them? Was the failure of the business caused by Liam and Scott, or could the employees have helped to control expenses and prevent the failure of the business? Without knowing all of the business's problems in detail, we can't answer these questions. However, chances are good that the employees could have been helpful. It's important to learn some of the ways that employees can help in expense control so that you can help *your* business to succeed.

## Ways employees can help control expenses

Many of the ways that employees can help to control expenses are what would be described as common-sense ideas that you would think of on your own. Others are ways that you may not have thought of as expense-control measures. Let's consider some ways that employees can help to control a business's expenses.

**By managing their time.** One of the biggest business expenses is payroll. It is, therefore, crucial for businesses to get full value for their payroll dollars. Employees can make that happen by making sure they arrive at work on time, staying their full hours, taking only the number and length of breaks that are allowed, and using paid leave in a responsible manner. These measures will ensure that the business receives the time it pays for.

**By managing their work.** It isn't enough for employees just to put in their hours on the job. They also need to accomplish as much as possible while they are there. Some of the ways they can do this are by focusing on their job responsibilities and not allowing themselves to be distracted, keeping their work organized so they can be as productive as possible, prioritizing their tasks so that important work gets done first, meeting deadlines so they don't hold up coworkers' projects or disappoint customers, and taking the initiative to find other work to do when their own tasks are finished.

**By doing the job right...the first time.** Quality is often more important than quantity. In the long run, it's less costly to the business if its employees take a little longer to do a quality job than if they focus strictly on how much work they can get done. When workers emphasize quantity without regard to quality, they're wasting the company's money. They or someone else will eventually have to fix the problems resulting from any inferior work. So, it's important to do the job right—the first time.



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▲ By focusing on job tasks and being as productive as possible, employees can help their employers control expenses.



*By following company policies and procedures.* Most businesses have specific policies that provide guidelines for the ways in which employees are expected to carry out their tasks. They also have specific procedures, or steps, that employees are to follow. Following policies and procedures will not only make employees' work go more smoothly but will, in many cases, save the business money. An example is a company policy that limits the time during which customers can return purchases. When employees accept returns that are past the time limit, the business may lose money on products it can neither return to the vendor nor sell to other customers.

*By respecting company property.* One way employees can respect company property is by handling equipment correctly so that it will last longer and need fewer repairs. In some instances, employees may be able to perform minor repairs themselves and prevent expensive breakdowns. Or, they can report any problems promptly to management so that repairs can be made in a timely manner. Employees should obtain permission before using company equipment, such as the copier or the company vehicle, for personal use.

*By helping to keep utility costs at a minimum.* Some of a business's expenses, such as rent or insurance, cannot be controlled, but utility costs can be controlled and even reduced. Employees can help with this effort by turning off lights in rooms no one is using; turning off equipment that is not in use; closing outside doors completely to conserve warm or cold air; using items such as heaters, lamps, or fans only when necessary; and using the telephone, fax, copier, etc., only for company business.



**N**ot every business engages in price-marking at the retail level. A large national chain, such as Macy's, will mark its products with price tags or UPC codes in the warehouse before shipping them to individual stores. A small local boutique, however, will rely on its employee to price-mark products before offering them for sale in the store.

*By treating customers in a professional manner.* Can the way employees treat customers help the business to control expenses? You bet! When employees serve customers efficiently and courteously, the customers are not likely to have complaints. Since handling complaints is an expense to the business, this effort saves money. It also means the business will retain customers, and it costs less to keep the customers you have than to try to attract new ones.

*By checking and price-marking products accurately.* Employees who check incoming shipments of goods and put price tags on them can save the business money by doing their jobs carefully. Checkers should make sure that the business received the amount of goods it ordered and will be billed for. Checkers also need to make sure that the items received are in perfect condition.

Markers can make sure that the correct price is put on items so that the business receives the expected amount of profit on each item. If they incorrectly mark goods too high, the business may lose money because customers won't buy the overpriced items. If they mark them too low, the business loses the amount of profit it expected to make.

*By handling sales transactions with accuracy.* Employees who handle sales transactions have excellent opportunities to save the business money. They can do this by filling out sales checks accurately, entering accurate amounts into the cash register, making change correctly, giving discounts only when appropriate, watching for counterfeit money, staying alert to price-tag switching, following company policy for accepting checks or validating credit cards, and handling exchanges according to company policy.





*By watching for and reporting theft of products.* Theft costs businesses billions of dollars each year. Studies indicate that employee theft causes businesses higher losses than shoplifting by customers. Examples of employee theft include taking supplies home for personal use, charging friends and family a lower price for products, pocketing money from the cash register drawer, and stealing merchandise from the business.

Vendors (suppliers) may also be dishonest and cause losses for the company. Employees can help to reduce these losses by paying close attention to what is going on around them. If they observe what they believe is theft, they should follow company policy in reporting it.

*By purchasing carefully.* Since employees with buying responsibilities are spending the company's money for resale items or items to be used in the business, they are obviously in a good position to help the business to control expenses. These employees should make sure that they obtain the best possible purchasing terms when they buy. That includes taking advantage of discounts and negotiating shipping terms that are beneficial to the business. Buyers should choose vendors who fill orders accurately and deliver on time so that the business has products to sell when they are needed. Buyers should also inspect the quality of the goods received to make sure they meet the business's needs and expectations.

▲ Depending on the extent of employee theft, individual businesses can lose hundreds or thousands of dollars every year.

## Summary

Employees can help a business to control expenses by managing their time; managing their work; following company policies and procedures; respecting company property; helping to keep utility costs down; treating customers in a professional manner; checking and price-marking products accurately; handling sales transactions accurately; watching for and reporting theft of products; and purchasing carefully.

1. In what types of businesses can employees help to control expenses?

2. In what ways can employees help to control expenses?

## Make It Pay!

What actions do you take in your current job position to control expenses for your company? What actions are you not taking that you think could help to control expenses? How could you incorporate these actions into your job during the next week? If you are not working right now, what actions do you take to control your personal expenses, your family's expenses, or the expenses of a club or group that you're in?



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