

OVERHEAD/EXPENSES

*"You must gain control over your money or the lack of it will forever control you."
– Dave Ramsey*

Building a Culture of Expense Management

Benefit of Overhead/Expense Reduction



C-suite executives, including CEO's and CFO's, senior managers, as well as entrepreneurs, business owners, high-potential leaders, and specialized teams.

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Improved Profitability and Financial Health, enhanced Strategic Decision-making, Increased Operational Efficiencies, Improved Cash Flow and Capital Allocation, Stronger Risk-management, Fostering a Cost-conscious Culture, and Talent Retention.

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Drives cost control, ensures financial security, and aligns spending with strategic objectives. Executives must set the tone for financial discipline, approve and enforce policies, and use expense data to make informed decisions about budgeting, forecasting and resource allocation. It is essential for profitability, compliance, risk management, and overall company success and health.



1. Define Overhead and Expense:

- Ensure a shared, precise understanding of what constitutes overhead (indirect costs) versus direct expenses, and the difference between fixed and variable costs. "Which of your current 'fixed' costs could be restructured into 'variable' costs to increase agility?"
- The Strategic Cost Mindset: Coach the executive to view cost control not as a reactive measure to a downturn, but as a continuous process tied directly to profitability and competitive advantage. The goal is to eliminate waste, not value. "Are you spending money on something simply because it's always been done, or because it clearly aligns with a strategic goal?" Is the expenditure considered an expense or an investment?
- Overhead Ratio Analysis: Work with the executive to calculate and benchmark the company's overhead ratio against industry standard. Use this metric to identify if the business is high-overhead (needs cost reduction focus) or low-overhead (needs to maintain discipline while scaling revenue).

2. Data-Driven Cost Visibility & Accountability:

- Comprehensive Cost Analysis: Coach the executive on how to mandate and lead a thorough audit of all overhead expenses. This means categorizing and tagging expenses by department, function, and cost center. Break expenses down into categories like utilities, wages, leases, software subscriptions, and travel. "Which of your current cost categories lack sufficient ROI data, and what is your plan to measure their value?"
- Implement Cost Accountability: Move budget ownership down the organizational structure. Empower department leaders to manage their own budgets, make trade-offs, and encourage a sense of financial ownership throughout the organization. Review executive's delegation practices—are they simply approving expenses, or are they empowering others to manage costs proactively?
- Technology & Automation Leverage: Identify areas where investing in technology (e.g., AI cloud-based systems, accounting software, automation of repetitive tasks) can reduce long-term administrative overhead and labor costs. The ROI of new technology should be justified by its ability to reduce a specific overhead cost (e.g., labor, paper, storage). Due-diligence is a must!

GROW COACHING MODEL

G-GOALS:

What do you want to achieve? In this session? Long-term? Define the specific, measurable outcome.

R-REALITY:

What is the current situation? What have you tried? Assess the current state, obstacles and resources.

O-OPTIONS:

What could you do? What are all the possibilities? Explore solutions and strategies without judgement.

W-WILL:

What will you do and by when? What support do you need? Commit to a concrete, actionable plan.



3. Strategic Mitigation Tactics:

- Strategic negotiation and recurring review
 - Leases, subscriptions, services (at least annually)
 - Consolidate purchasing and leverage volume
 - Eliminate unused software subscriptions
- Optimize talent and utilization (Workforce and Labor costs)
 - Right-sizing roles/identify redundancies
 - Cross-train employees
 - Focus on employee retention (mitigate high recruitment and training costs)
- Facilities and Utilities
 - Rethink physical footprint and consumption
 - Evaluate remote/hybrid work to reduce office space and utility bills
 - Implement energy-saving initiatives and preventative maintenance
- Operational Streamlining
 - Apply Lean principles to administrative processes
 - Paperless to save on supplies and storage
 - Streamline financial processes (e.g., expense approvals): eliminates delays and admin. time waste
- Overhead Value Analysis
 - Continuous process improvement
 - Evaluate overall effectiveness and ROI of every major cost driver and explore alternatives before cutting
 - Challenge assumptions about necessary expenses.

4. Sustaining a Culture of Cost Consciousness

- Communicate the "Why?" Coach the executive on how to be transparent with employees about the company's financial health and the rationale behind cost-saving initiatives. Employees are more likely to comply and innovate if they understand the goal.
- Incentivize Cost Saving: Establish a system to recognize and reward teams or individuals who proactively identify and implement cost-saving measures that do not harm quality or performance.
- Continuous Review: Coach the executive to institutionalize quarterly overhead reviews as a standard business practice, ensuring that initial savings are sustained and new inefficiencies are quickly addressed.
- Next Step: "How will you adjust your regular executive meeting agenda to ensure overhead and expense mitigation are continuously reviewed, not just when budgets are tight?"
- MAKE IT A PRIORITY!

Corporate Overhead

- **Production Overhead:** Costs not directly tied to a single product but necessary for production, like factory utilities or supervisor salaries.
- **Administrative Overhead:** General business management costs, such as executive salaries, accounting fees, and office supplies.
- **Selling Overhead:** Expenses related to selling and distribution, including advertising, sales commissions, and delivery costs.
- **Financial Overhead:** Costs of financing the business, like interest on loans or banking fees.

Corporate Budgeting

- **Incremental Budgeting:** Uses the prior period's budget as a base and adds or subtracts amounts for the new period, often based on inflation or minor changes.
- **Zero-Based Budgeting (ZBB):** Starts from a "zero base," requiring managers to justify every expense for each new budget period, rather than just rolling over old costs.
- **Activity-Based Budgeting (ABB):** Focuses on the cost of activities (like processing orders or marketing campaigns) that drive expenses, allocating resources based on the effort needed for those activities.
- **Flexible Budgeting:** Adjusts budget amounts based on actual activity levels (e.g., sales volume), rather than a single static level, allowing for performance comparison at different capacities.