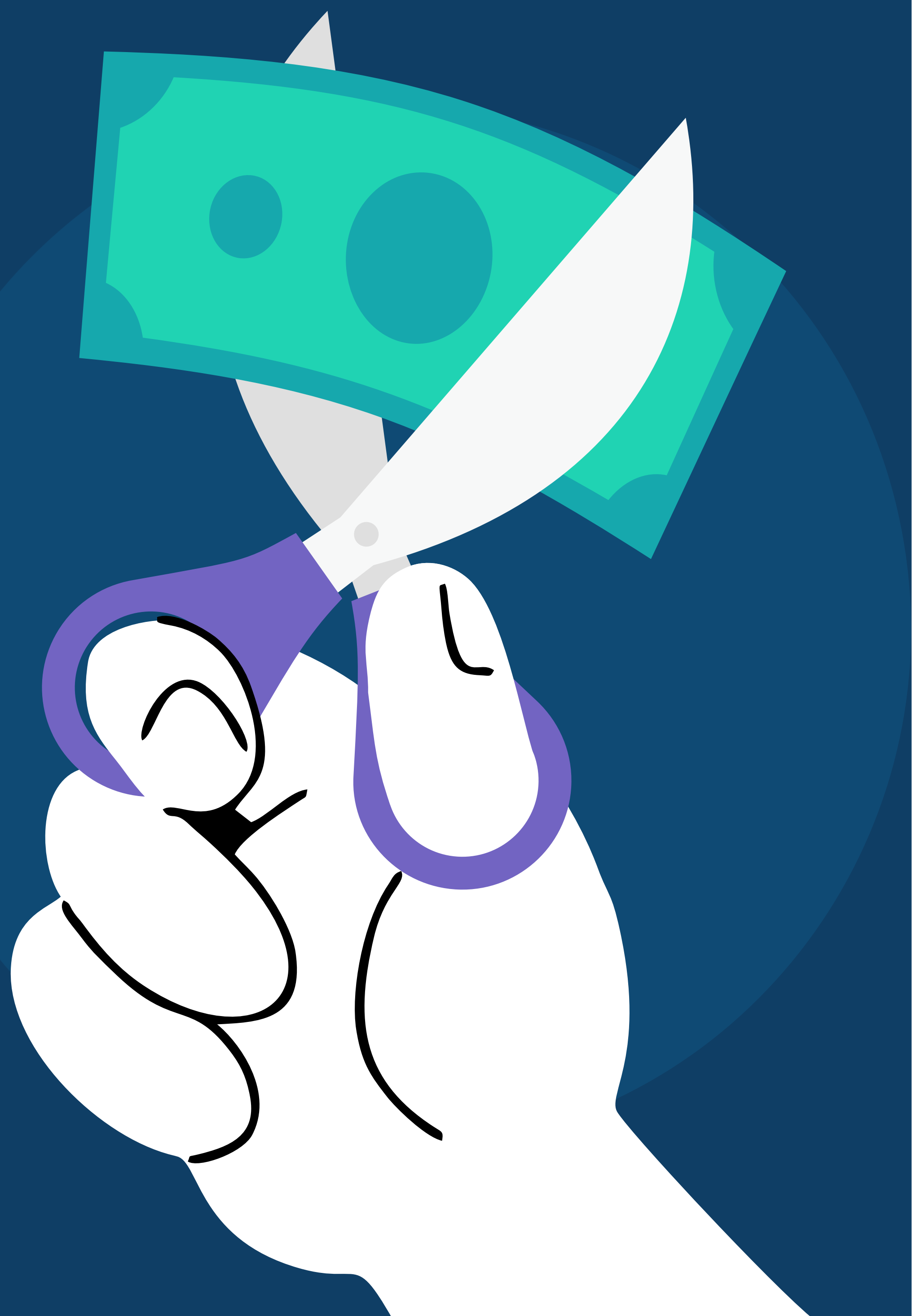
Abacum

Cost-Cutting Strategies *for Startups*



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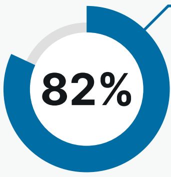
Introduction

You have just made your grand entrance into the startup world as an ambitious founder and are ready to stake your claim in the market. After meticulously designing your product or service, you move on to cultivating every part of your business plan. With a clear vision and execution plan in mind, it is now time to secure funding.

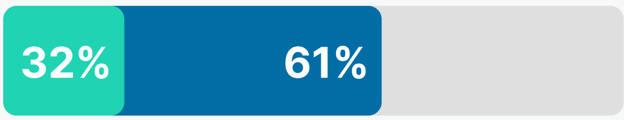
However, if you have successfully made it past your first seed or series A round, you are already further along than most startups.



This is one of the most critical steps as *82%* of startups fail due to cash flow problems.

With a blank canvas and sufficient funding in front of you, you must now decide how you will proceed. However, as any great entrepreneur knows, the road ahead is not easy. Every stage of a startup's growth comes with its blend of challenges, and this foundational period is often the hardest, as you must know how you will allocate your time, money, and energy.

And what is one of the most common challenges founders have to face? It is managing their money.



In fact, *61%* of small business owners regularly struggle with *cash flow management* even after they are up and running. Among those who have run into cash flow issues, nearly a third *(32%)* have not been able to pay vendors, loans, employees, or themselves.

To add to the already existent challenges of startup infancy, an economic downturn or a change in demand can spring up at a moment's notice. In these instances, you may be forced to reevaluate your financial plan and cut costs to stay afloat. However, if you cannot find a way to cut costs effectively, you may stunt your business's growth before you even get the opportunity to get off the ground.

So how can you, as a founder, be more intentional with how your business spends its money? Through proper cash flow management. In this guide, we will review some of the best cash flow management tips and cost-cutting strategies for startups. By learning the fundamentals of cost reduction, you and your team will be more adaptable, agile, and prepped for future growth.

Classifying Costs: How to Know When to Let Go

Before exploring cost reduction strategies, you must first understand the different cost classifications *cost classifications*. We will use traffic light colors to categorize the different cost levels.

Red is considered a bad cost. These are startup expenses that are non-essential to running your business. Examples might include utilities and rent.

Yellow would be considered good costs that are essential to running your business. Examples might include salaries, office supplies, equipment, and taxes.

Green is considered the best cost and is the most important asset to your company. They include things like customer acquisition and sales.

A simple way to determine which category something falls under is by asking yourself if your business could operate without that specific cost. Once you are able to allocate your costs in their respective categories, you can then decide which ones are worth keeping and which ones can be dropped. By having a clear idea of your potential costs, you can be more strategic with the cost-cutting measures you take and focus on maximizing your greatest assets.

Our Top 5 Cost Reduction Strategies for Startups

Don't know how to reduce expenses for your business? Read on to discover our most strategic tips and tricks on how to cut back on unnecessary spending.

1. Review your budget regularly

Regarding strategic cost-cutting, your budget should be a guiding north star that the entire organization can align on and follow. It is important to have a clear understanding of what your budget looks like before making any changes to your internal processes or teams. You may find that some areas of your budget are in line with expectations, while the cost of others is significantly higher than expected. In these cases, it may be time to review your budgeting process to determine where to allocate funds and where to reduce spending.

You will also want to deeply understand your actuals at any given time and use your budget as a benchmark to gain greater insight. This will provide you with an in-depth look into your company's performance and allow you to identify *budgeting roadblocks* that may have steered you away from your projections. By staying agile and analyzing your data, you can adjust your budget as needed and adapt to *uncertain market conditions* or changes in consumer demand.

2. Reduce overhead costs

Overhead costs are expenses that don't directly contribute to revenue generation. These include office space, utilities, rent, travel expenses, etc. Overhead costs can quickly eat up profits if they aren't managed properly.

To keep overhead costs manageable, you must be mindful of where you invest your money. For example, if you are paying too much for rent, you could look into moving to cheaper locations or adopting a fully-remote work model. Maybe you are spending too much on utilities by using a shared workspace instead of renting an office. Whether you switch locations or encourage employees to work from home, choose the best approach for your unique business model.

Typical overhead costs to evaluate include:

Utilities — If you think you may be paying too much for electricity, or internet, you may want to consider switching providers. You can also try to cut back on unnecessary usage.

Office Spaceities — Are you paying too much for rent? Consider sharing a location with other companies or even looking for a co-working space that could scale up or down depending on the changing size of your team.

Travel Expenses — Cut down on business travel if you want to reduce costs. While you may prefer to do business in person, try conducting all meetings virtually and limit your travels to when strictly necessary.

Payroll costs — Payroll costs don't just include an employee's annual salary. Other areas where you can reduce spending include bonuses, commissions, overtime, and paid time off, although they are much more sensitive areas to make changes to.

Insurance — Insurance is a necessary part of all businesses, but it's very easy to overspend or double up without realizing it. See if you can negotiate a lower rate and make sure your various insurance contracts do not overlap.

3. Be intentional with hiring

When cutting costs, you must first analyze your current workforce and evaluate how each contributor influences your business strategy. Most professionals think that letting people go is the quickest and easiest way to cut costs. While reducing your headcount does decrease spending mechanically, it is a drastic decision that should not be taken lightly. For instance, it could lead to losing critical skills or industry knowledge in your teams, a decrease in talent density, staff capacity issues in some areas, and affect your employees' morale. Instead, consider re-evaluating your current team's structure and immediate hiring needs, and adopt a more strategic approach to your hiring process moving forward.

Be selective with the positions that you choose to hire, and prioritize positions that will drive the highest impact on your business outcomes. By taking the time to hire candidates with the right level of experience and seniority, at the right level of compensation, rather than hiring quickly for the sake of filling roles you are more likely to build a high-performing team that works at capacity, and remains in place for longer.

When implementing a lean growth strategy, take a deep dive into your *headcount planning* process to ensure you are as strategic as possible when hiring. By identifying skill gaps and steering hiring decisions towards improving efficiency and driving impact, you will be able to build a tailored workforce that caters to your organizational needs.

Another cost-cutting measure you can take is to incorporate a mix of freelance workers into your workforce. Freelancers are considered self-employed workers, which means the company will not have to pay health insurance, payroll taxes, and other additional overhead expenses. Not only will this help reduce labor costs, but it will also improve efficiency within teams. Depending on current projects and demand, companies can increase or decrease the freelance workforce on an as-needed basis. Plus, companies can hire specialized freelancers with niche skill sets to fill in any talent gaps that may be present within their current functions.

4. Cut Unnecessary Services

As startups grow, they tend to add to their existing tech stack - from sales and marketing tools, to project management platforms, CRMs, product tools, data platforms, etc... all progressively adding up to a staggering monthly or yearly spend on technology. As the company's needs evolve and tool owners change, it can be hard to keep track of the full tech ecosystem you have built up, and it is necessary to regularly re-assess whether you have the right technology in place for the right areas. With that being said, it is important not to eliminate all tech tools, as many solutions or services can actually significantly improve efficiency for your team, which is necessary to support business growth. Instead, regularly evaluate your *tech stack* solution by solution to see which ones are essential and which ones can be dropped. There is a wide range of tools out there. If you do choose to incur another business cost and sign up for additional software, verify that this new service fills a critical need.

5. Automate Data Processes

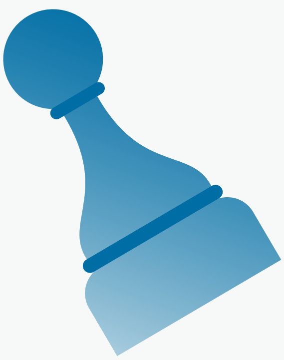
Data automation allows you to create automated processes that perform repetitive tasks without human intervention. Whether automating financial reports or the entire data consolidation process, encouraging automation across all teams will help streamline operations and increase productivity. By automating manual processes, you can free up valuable time for other projects and activities.

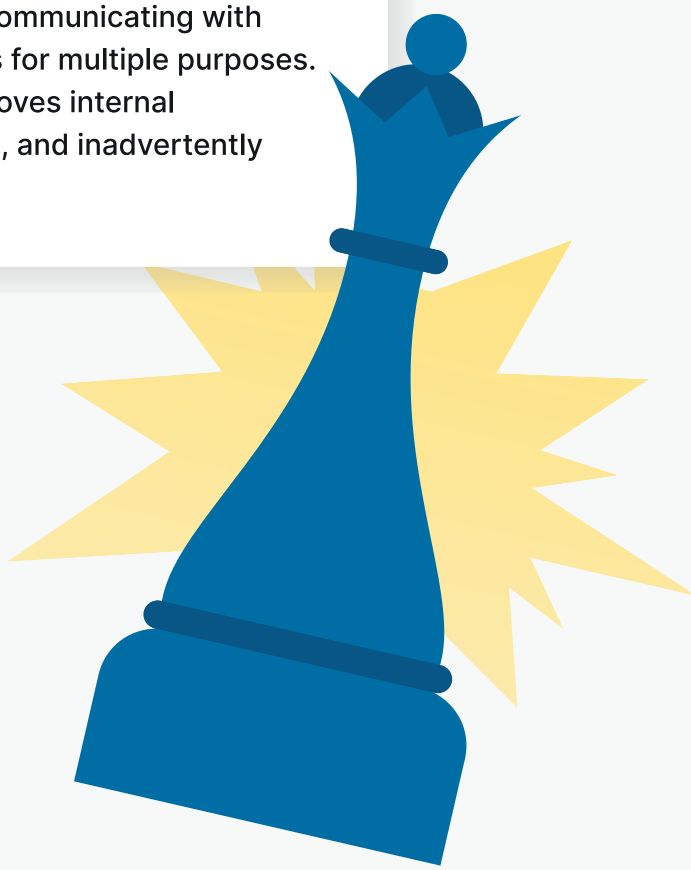
When incorporating automation into your strategic practices, search for tools that add value to your organization. Ask yourself, "is this helping my business become more efficient and productive?" If the answer to this question is yes, then you can have confidence that you are incurring the right administrative costs. Automating essential areas of a business, such as workflow management, will help you save money by eliminating redundant steps and allowing employees to focus on more complex issues.

6. Consolidate Resources

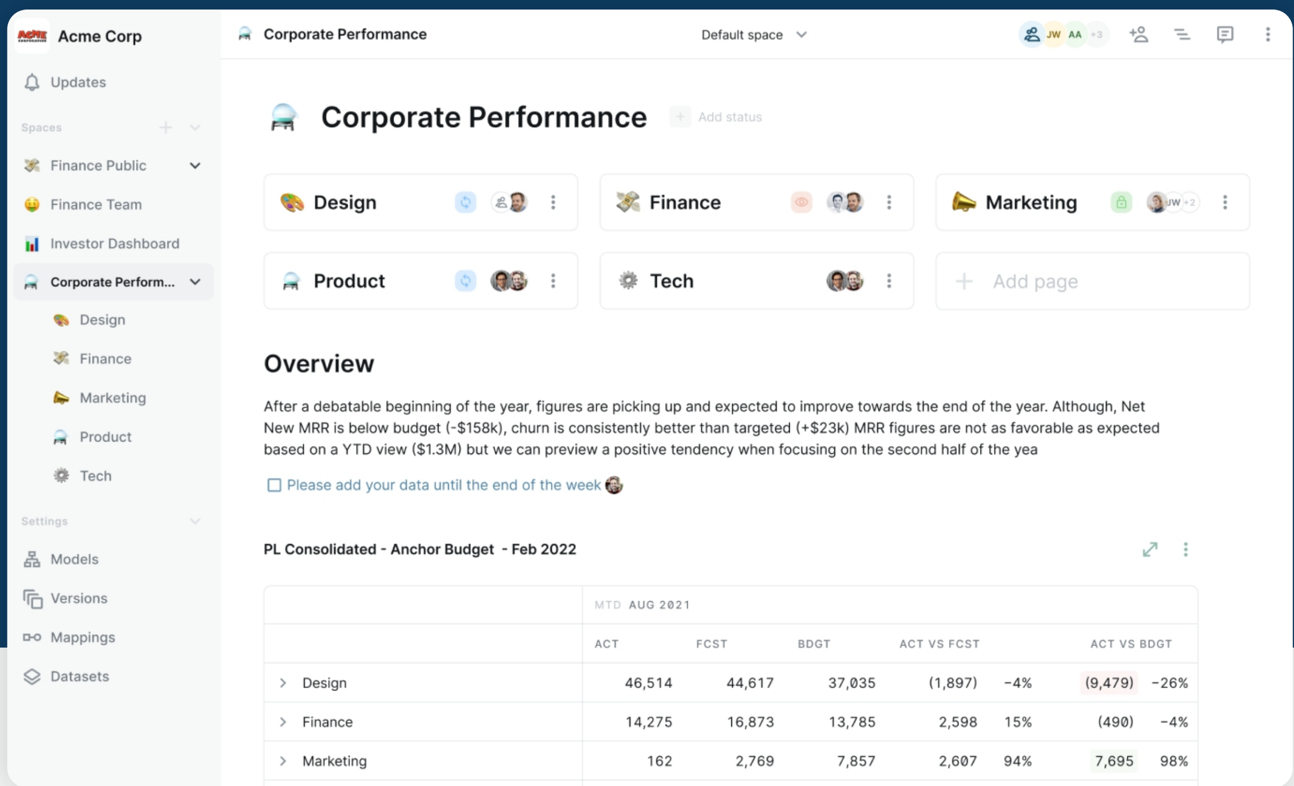
Consolidating resources is one of the best ways to cut back on overhead costs. When working with multiple vendors, it becomes difficult to manage each vendor's individual requirements. To avoid this problem, consider consolidating resources within your own organization. For example, if you work with several different CRM systems, consider creating a single system that integrates all of your customer information. This way, you will only need to pay for one vendor instead of many.

By consolidating resources, not only are you able to cut costs, but you are also able to improve organizational agility as well. Imagine each function of your business operating in its own individual siloes. Each team has its own tech stack and paid resources without consulting with the other functions to see if there is any overlap. Now imagine teams communicating with one another and using the same resources for multiple purposes. This cross-functional communication improves internal collaboration, supports strategy alignment, and inadvertently saves money in the process.





Wrapping Up



By incorporating FP&A software into your financial processes, your finance team will have the right resources to work smarter, not harder. Our *strategic finance software* empowers finance professionals to do exactly that.

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If you are ready to improve efficiency, spark growth, and serve as a strategic business partner for your organization, contact our team today to see how Abacum can help.

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