Your safety, is our business

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Cutting Costs or Increasing Sales to Increase Profits? Which is Better? The Psychology Involved and How You Should Handle It

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1. Introduction

   Monit works to make sure your business becomes OSHA compliant and remains OSHA compliant. To do this, we provide you with an app that works in conjunction with Monit's experienced safety & health professionals, who are assigned to you as virtual consultants, working in the background. Continual advances in technology mean that the Monit experience gets better and better, utililizing very little of your time while keeping your costs of compliance very low. Essentially, Monit enables your business to not only have a "live" Safety & Health system, but also a "continuously improving" system, and these two criteria satisfy the OSHA regulators and your local community. But Monit does much more, including lowering your carbon footprint and providing "brand protection" to corporates with a geographical spread of branches or franchises. Essentially Monit documents all your activities relating to OSHA and/or Brand Protection, gathering, storing and producing this evidence when needed, for your protection and convenience.

   In this whitepaper, Monit would like to address an important question; is your business as profitable as it should be? If not, then what can be most easily changed, beginning today?

   If you're like most entrepreneurs, then you're probably focused on working hard to increase your sales. After all, if you're in business then you're probably good at talking with people, articulating the benefits of your products and services and closing the deal. Won't these added sales increase your profits?

   Although true, the fact is, cutting costs is a quicker and more permanent way to increase profits. However, like most

business owners, you probably struggle with this kind of adjustment, even though it is critical to your overall success.

This whitepaper seeks to highlight the importance of reducing expenses as a first step in growing profits; explains the real cost of an expense, specifically OSHA compliance expenses and explains how to go about it effectively. Even if you've been dreading the idea of cutting costs, now is the perfect time to make a change.

2. The Psychology of Cutting Costs

So why is it that so many business owners and managers loathe the cost cutting process? For many reasons it is the most prudent measure a business owner can undertake for their business, and it's something that can be done today, but for many reasons it is the most dismissed measure and viewed by decision makers with negativity. Once one understands the numbers and reasons for this negativity, it all makes sense why this important part of running a business is unavoidable and should be a priority. Cost cutting is in fact an uncomfortable psychological dilemma for most business owners. Understanding the forces at work will enable a leader to start making better business decisions immediately. The reasons for having a dismissive attitude towards cost cutting, which one can change today, are as follows:

a) Typically, cost cutting will mean that someone somewhere is losing a job, and money, which can weigh heavily on the business owner or manager. In a cost cutting scenario, invariably someone (at least one person) is made SAD. Alternatively, instead of cost cutting, a business owner could choose to rather increase turnover, because emotionally this makes people happy and is an easier option. It's important to

check the numbers to understand why. When it comes to increasing sales to maintain profitability, the result is that both your buying customers plus your selling suppliers are made happy. **That's <u>two</u> happy parties!** Alternatively, the other option, to maintain profitability, is to cut costs, but in so doing, at least one person is made sad. **That's <u>one</u> sad party!** This equation is not emotionally attractive to a decision maker and brings discomfort. Making two people happy versus making one person sad, at the least, results in a strong leaning towards sales and a denial of the need to cut costs. Notably, cost cutting has three times the discomfort levels and some would argue more. The inherent preference amongst business owners therefore, is to rather try increase sales than decrease costs to achieve the same result.

b) Additionally, there is the thrill in making a sale, an adrenaline rush if you will, in concluding a sale. This euphoric emotion, although short-lived, is seldom, if ever experienced in dropping a supplier, with all the negativity involved.
c) This psychological dilemma is also complicated by the fact that business owners are usually more comfortable handling the front end of the business – speaking with customers and making sales – than the unfamiliar territory of cost cutting, an area of the business in which they are seldom immersed. Thus, not being a daily task, cutting costs with specific suppliers is not a comfort zone.
d) Furthermore, there exists a pervasive mentality amongst many business owners that big turnover demonstrates successful business, even if it's at the expense of profit margins. Many publications reinforce this erroneous thinking by asking for and stating total sales (turnover) figures in their editorials in preference

to profitability, which admittedly, may not be as forthcoming. However, we need to remember that the road to bankruptcy is littered with many companies having had large turnovers, but crippling cash flows owing to their thin or nonexistent profit margins.

Corporate decision makers, sitting in their big board rooms, are much more at ease when promulgating their cost cutting measures, especially since they don't work on the coal face and experience the discomfort from saddened suppliers. Nevertheless, they are very conversant with the process and benefits of cost cutting exercises and that is why they frequently implement them. They know to stay viable, it's imperative to show prudency in expenditure and maximize output with the least amount of input. This is not only good for profitability, but also very good for cash flow. Only in very rare circumstances might they chase turnover, perhaps to squeeze out a competitor or to corner a market with loss leader advertising, however, be sure of your own business strategy to avoid financial disaster.

Other than cutting supplier expenses, you may feel the need to cut employee hours to reduce your wage bill expenses. However, again, this will likely make you feel bad that your employees are making less. Similarly, if you need to remove certain slow-moving items from your inventory, you may be upsetting some of your most loyal customers.

As such, there's usually always a psychological discomfort in being prudent and it's imperative that you adjust your thinking to make this process a positive experience and to understand certain cost cutting is essential to survival. Rather than focusing on the negative aspects, focus on how these changes will improve your business. Sure, a customer may initially be upset that you're taking away a product that they had bought in the past, but if they get better service and

attention on all the remaining products they buy, they become more satisfied. Likewise, a supplier may be upset that you're eliminating their service offerings, however view it in the context of the bigger picture. Efficiency gains benefit everyone, even the affected supplier in the long-term. Imagine if people, since the beginning of time, had always chosen "people's happiness" over "efficiency gains." Would we have the luxuries and standards of living that we have today? Would we not all still be using paper maps? Generally, improving an efficiency results in a reorganization of the labor force and a reduced carbon footprint, as is the case when engaging Monit's compliance services. Click this link to watch **How Monit Works**.

Is cutting an inefficient (expensive) service really being unkind? Whenever you deploy your scarce resources to another means of more efficient production or a more efficient solution, you're not only minimizing your carbon footprint for the good of all mankind, but you're shifting your expenses to others who may be more deserving. They are more efficient and likewise you're able to pass on these efficiency gains and cost savings to your customers. Efficiency requires less resources than inefficiency. The beneficiaries of efficiency include everyone. Progress with technology and computers do not take opportunities away from people. Momentarily it might, as people have to get retrained and upskilled, but overall the added efficiencies improve the standard of living for everyone while repetitive and demeaning jobs can be eliminated.

"More-hands-on-more-tools" (working hard) used to be the mantra for success. But today, it's "less-hands-on-better-tools" (working smart).

In the end, it's imperative that you get into the right mindset and approach this topic with the care and attention it deserves. Rather than cutting costs based on percentages, reduce your spending in a meaningful and proactive way.

2.1 Why is Cost-Cutting Essential as a First Step?

Let's first address the elephant in the room; business owners can often be heard saying: "We will just write this expense off on taxes." Firstly, if you're in partnership, expenses decrease the profit that is shared, so it generally doesn't help. Secondly, your business partner's tax affairs are most likely very different from yours and may not be beneficial to him/her. Using expenses as "tax write-offs" can only possibly help if you are a sole proprietor and you have a very stable monthly income. For example, steady and unchanging rental income, where by virtue of good tax accounting knowledge, an expense will help reduce your profit and in so doing will place you in a lower tax bracket at year end. But for the majority of business owners, this luxury is only a fanciful hope and predicting our annual revenue stream or exact taxable income for the tax year is impossible.

No matter what kind of business you're in, it is always a good idea to focus on lowering costs of production. You may be operating inefficiently in certain areas of the business without even knowing it. Cost containment is always better than trying to increase turnover, because sales are usually unpredictable and random. You cannot guarantee what sales you will close today, or tomorrow. But with cost containment – you can get started today and it is guaranteed! In other words, you have control of your expenditure, but not your sales. Usually, when the business is making money, cost-cutting is not on anyone's mind. As you expand and grow your business, you're often spending more to make more, so tightening your belt usually is the last

thing on your mind. However, expenses do not have to be out of control before you begin to take action. Don't wait until it's too late! Streamlining your operation will enable you to keep more money in your business bank account.

An investigative cost cutting exercise will benefit you by:

- Increasing your profit margins
- Ensuring that you're investing your money wisely
- Helping you pay more attention to where your money goes and why

2.2 How to Cut Costs Effectively

At first, you may dread the idea of reducing your expenses, but once you realize that it's an essential part of both business survival and business profitability, then it's time to start. However, be careful not to reduce them across the board as this would be an over-reaction. It's imperative that you first analyze your expenses, so that you can make cuts that are appropriate.

In short, it's better to cut 10% that is unnecessary to your operations than to cut 20% and lose quality. So, here are some things to keep in mind when cost cutting:

- Think of your expenses as investments, not as financial burdens. Overall, you want every dollar you spend to be earning you a profit
- Eliminate waste (i.e., time, unnecessary resources)
- Reduce redundancies and simplify operations
- Renegotiate costs with current suppliers and for further reductions, consider changing vendors
- Remove anything that isn't making money; focus on profitable items only
- Utilize technology, and work smart, not hard

2.3 Bottom Line

When it comes to cost cutting, Monit has the potential of saving you a couple thousand dollars every year. Monit's average cost savings to business is $2,880 per annum or $28,800 over ten years. Firstly then, you need to ask yourself, is my current OSHA supplier relationship worth $28,800 over the next 10 years? To get that back, you need to do a job or jobs totalling $110,000 and that's assuming you are working on a better than 25% profit margin. If the relationship with your current OSHA supplier is worth doing an extra $110,000 worth of work, great! If it is not, then an honest cost reduction Supplier Termination Letter needs be transcribed, today.

Remember however, this simple math assumes all goes well with your $110,000 job(s) and it does not consider the cost of covering warranties and guarantees for the next 1 or 2 years, nor does it incorporate finance costs (bank loan costs and signing surety) that may have been required to purchase materials upfront.

It's best to employ a logical and fair system to help you make the changes you need without all the negativity. An honest Supplier Termination Letter will help efficiency and is the best way to conclude matters.

The **Supplier Termination Letter** seen below, will vary depending on your unique circumstances, however, as a rule of thumb, it should be written in formal business style and sent by certified mail, so the sender has time/date proof of letter receipt. For your protection, this method provides documentation in the event that the supplier insists the terms of the contract have been violated and consequently demands extra payment. The sender should always keep a

copy of the original letter in order to have a record of the communication.

Please note, even though you may cancel a supplier's services in person or by phone, especially if you have that type of relationship, it is more professional and safer legally to send a letter of termination. This letter should clearly state, in writing the terms of the contract and the terms of the cancellation.

3. Sample Supplier Termination Letter

Name of Sender
Name of Sender's Company
Title of Sender
Address of Company
City, State, Zip Code

DATE

Name of Supplier Manager
Name of Supplier's Company
Address of Supplier's Company
City, State, Zip Code

Dear [Name of Manager],

I need to inform you that the relationship [OUR COMPANY] has with you for the supply of your OSHA consulting services will expire on [DATE] and we will not be renewing our contract with you. According to the contract, we may cancel at any time before the expiration of the contract.

Our company no longer requires your services because we have found an easier and quicker way to have our OSHA

requirements managed at lower cost. We will accept your regular services until the expiration date. You may send the last invoice at the end of the current month, and we will pay it immediately.

I would like to express gratitude on behalf of our company for the satisfactory service you have given. I would be happy to personally give a positive testimonial to your good service.

If you have any questions, please call or email me. I wish you all the best for your future endeavors.

Sincerely,

Signature of Sender
Printed Name of Sender
Position of Sender

3.1 Footnote

Before taking any steps to terminate a supplier, the manager or owner of a business should carefully review the supplier contract, to determine whether there may be fees or other financial penalties for contract cancellation. Every precaution should be taken to follow the terms and conditions for terminating a contract. The reason for terminating the contract should be stated in the supplier termination letter. If there is more than one reason for termination, each should be listed. If necessary, quote sections of the supplier contract to clarify that the business is following the contract's terms and conditions.

When providing the reason for terminating the contract, assuming it is not because of poor supplier business practices, the business manager may thank the supplier for

their services and offer to give a good reference. The business owner or manager should welcome any questions from the supplier.

A well planned supplier termination letter is the best way to cancel a business contract, agreement or service and shows consideration to the supplier.

Importantly, always remember that it takes jobs totaling at least $110,000 working on a profit margin of at least 25% to cover an expense of $28,800. Also remember that these jobs won't always go smoothly. While doing them, one must consider opportunity cost, energy expended, work risks, insurance costs and the future costs in honoring warranties and guarantees. Bear in mind that doing this additional $110,000 job(s), securing such being an uncertainty, cannot be controlled or guaranteed. Given all the risks associated with adding more work, it is always easier and better to cut unnecessary costs rather than to try to secure additional jobs to make up for unnecessary expenses.

4. <u>Specific Costs and Benefits of OSHA Compliance</u>
   It's important to sum up both the direct and indirect costs as well as direct and indirect benefits in following OSHA's standards and procedures. Although there are many business owners who don't see the point in becoming OSHA compliant, workplace injuries and illnesses have a major impact on an employer's bottom line. Employers paid more than $1 billion per week for direct workers' compensation costs alone in 2014 according to the 2017 Liberty Mutual Workplace Safety Index.

4.1 Direct Costs of OSHA Compliance

OSHA compliance direct costs include workers' compensation payments, medical expenses, and costs for legal services.

Solutions to attain OSHA compliance include, for most small business owners (small business defined here as having 99 employees or less), one of the 3 monthly costs below, or a combination:

- DIY (Do It Yourself) system - time consuming
- Monit solution – quick & inexpensive (**How Monit Works**)
- Consultant system – expensive & inconvenient

4.2 Indirect Costs of OSHA Non-Compliance

Examples of indirect costs include the training of replacement employees, accident investigation and the implementation of corrective measures. In addition, there is lost productivity; repairs to damaged equipment and property; costs associated with lower employee morale and absenteeism; and damage to your company's reputation.

As concluded by OSHA (***White Paper*** on Injury and Illness Prevention Programs, January 2012), despite the combined efforts of employers, workers, unions, safety professionals and regulators, more than 4,500 workers lose their lives on the job with more than four million seriously injured each year. Tens of thousands more die or are incapacitated because of occupational illnesses including many types of work related cancer and lung disease. The human toll from this loss is incalculable and the economic toll is enormous. This social loss affects us all.

Small and medium-sized enterprises, often referred to as the backbone of any economy, account for a disproportionately

high percentage of occupational injuries. Since SMEs have very limited resources to invest in OSHA, good information on how interventions might both improve safety or health and reduce or maintain costs is of great importance. Research has shown that once SMEs understand the relationship between OSHA and productivity, they are then able to see the link between OSHA and economic performance.

4.3 Direct Benefits of OSHA Compliance

1. Protects the business and its assets.
2. Avoids heavy fines/penalties.
3. Avoids jail time.
4. Improves employee morale and therefore productivity. “Nobody cares how much you know until they know how much you care!”

4.4 Indirect Benefits of OSHA Compliance

OSHA is not exaggerating when it says that compliance to its regulations will reduce your business costs and enhance overall business operations. In this day and age of significant technological advancements, some OSHA regulations have incentivized manufacturers to use safety as a competitive advantage. Now business owners often have the choice to “Buy Safe” because many toolmakers are already fulfilling an industry need to “Sell Safe”. Essentially, they are creating and selling equipment that is already OSHA compliant and often, these “safe tools” are simultaneously providing more productivity.

Take, for example, the new Crystalline Silica rule that OSHA implemented on September 23rd, 2017. Silica, a mineral

commonly found in the earth's crust has been noted to be respiratory damaging. The purpose of the OSHA rule was to reduce the amount of employee silica exposure by significantly reducing it from construction sites, specifically in the areas of drilling, grinding, sawing and demolition.

Tool manufacturers immediately saw an opportunity to create products that would help their customers remain OSHA compliant while increasing their productivity. These companies have already created an entire line of tools dedicated to eliminating and reducing the silica exposure by introducing technology like hammer drills with hollow bits, which also enhance productivity.

Prior to these new technologies, when core drilling, for example, workers had to stop drilling to clean dust out of the hole, sometimes several times before it could be plugged. However, with the latest hollow drill bits and other dust removal technologies, these in-between steps are no longer necessary. This not only speeds up the drilling process, but also decreases the amount of time spent cleaning up dust, and all the while protects workers.

Likewise, OSHA regulators continue to discuss the implementation of certain technologies to aid safety and health efforts, such as:

- Drones: To stretch their resources, OSHA has contemplated using drones to streamline and increase the number of site inspections with enhanced accuracy. Since some businesses already utilize drones to monitor their job sites, OSHA can work with them directly to review footage and open a new dialogue regarding onsite operations.
- Wearable Technology: With the ability to collect many types of data from wearable sensors, technology can

record “slip, trip and fall” incidents, increase response times on site, and streamline injury reporting and record keeping.

As technology continues to improve the visibility and safety in the workplace or job site, it has the power to transform and expand the business of OSHA management as well. Monit provides OSHA management and compliance services to any workplace, anywhere in the world, reducing carbon footprints while simultaneously protecting businesses from incidents and the possible resultant civil or criminal liability and attendant insurance premium hikes.

5. OSHA’s White Paper Summary

It was further emphasized by OSHA in their whitepaper as cited above that many employers in the U.S. have been slow to adopt a workplace “safety culture” that emphasizes planning and carrying out work in the safest way possible. OSHA in this white paper affirmed that injury and illness prevention programs are based on proven managerial concepts that have been widely used in industry to bring about improvements in quality, environment and safety, and health performance. Effective injury and illness prevention programs emphasize top-level ownership of the program, participation by employees, and a “find and fix” approach to workplace hazards. Furthermore, OSHA confirms that injury and illness prevention programs need not be resource-intensive and can be adapted to meet the needs of any size organization. OSHA believes that adoption of injury and illness prevention programs based on simple, sound, and proven principles will help millions of U.S. businesses improve their compliance with existing laws and regulations, decrease the incidence of workplace injuries and illnesses, reduce costs (including significant reductions in workers’

compensation premiums) and enhance their overall business operations.

6. A Case Study - Monit Proves Invaluable in Court

Monit was recently subpoenaed in 2017 to produce all communication between one of our customers and ourselves. The customer in this case was a prominent golf club and the action against it was civil, not statutory. The injury occurred when the wind blew over a tree on the golf course striking a player. The player was badly injured and became paralized. The claim was for over $2.8 million. The case was set to run for 10 days in the Supreme Court, however on the seventh day, the Monit audit trail was called into evidence. Because this customer had been with Monit for over 7 years, we were able to prove to the Court that this customer was addressing their safety & health responsibilities.
Monit offers excellence in gathering, storing and producing evidence. Although Monit was not called to attend the trial the manager of the golf club was, and here is their response in their own words:
"Things weren't looking too good for the club until our lawyer (defense) started reading out some of the HUGE amounts of signed paperwork which Monit had stored and sent in to the court. Within a short time, an adjournment was called by the prosecution team and an out-of-court settlement was quickly reached……there was no way we were going to win the case until this happened."

Although the settlement was for an undisclosed amount, it is important to note that the club was pleased for two reasons; they were found not guilty, so there was no prosecution, and the settlement was considerably less than what was sought by the plaintiff. Monit was designed to be a simple, user-friendly app system, however in court, where it was also

designed to be used, it proved to be an extremely powerful tool in producing enough evidence to stop a prosecution.

7. Conclusion

The Monit app, which works on smart devices, tablets and notebooks, has a dashboard to track all your OSHA activity and comes with its own virtual consultants. The virtual consultants are experienced OSHA professionals who work in the background doing all your OSHA compliance work for you. The methodology is designed to handle all your workplace OSHA policies and will ascertain all your work site risks. These include:

- Determining which employees are at the highest risk for present and future injury.
- When safety issues are more likely to occur.
- Where injuries are most likely to happen.

By utilizing experienced virtual consultants, Monit can standardize and even enhance data collection and analyses, which boosts safety in the workplace. To learn more about how Monit uses its proprietary app technology to keep your company OSHA compliant, contact us at either:
https://monit-international.com
support@oshamonitoring.com
or click this link to understand **How Monit Works**.

With new technology advances providing safety and improved efficiency, many traditional OSHA management methods and tools are being rendered obsolete. Business owners will do well to keep up with these high-tech advances pertaining to OSHA compliance. Taking advantage of them can bring efficiencies to the workplace and improve the bottom line. Soon, Monit's methodology will be the industry standard, especially for small business owners.