

The Cost of Always Trying to Save Money

By Joe Sharp

I've always taken pride in finding ways to save money.

I've renegotiated contracts, challenged assumptions, found efficiencies, eliminated unnecessary expenses, and looked for savings both large and small. Particularly in mission-driven organizations, where every dollar saved can be put toward something else that matters, that discipline is important.

But experience has also taught me something that may sound strange coming from a CFO: Sometimes trying too hard to save money gets very expensive.

I've watched the old expression "penny wise and pound foolish" come to life more than a few times.

At one organization, we moved to a lower-cost payroll processor that promised both savings and better service. We got neither.

Paychecks were routinely released late. There were mistakes on virtually every payroll. Turnover at the payroll company was extraordinarily high, so our business office was constantly dealing with new representatives who didn't know our account or its history.

The real cost went well beyond correcting payroll errors. Our employees had to wonder whether their paychecks would be right and arrive on time. Our business office had to spend time troubleshooting problems it hadn't created instead of doing the work it was actually there to do. And confidence in something as fundamental as payroll began to erode. Eventually, it affected morale.



The invoice from the payroll company may have been lower. The cost to the organization wasn't.

I've seen the same mistake in a completely different environment. Years ago, a factory producing products for a company where I worked found an opportunity to shave a penny or two from the cost of each unit by switching to a less expensive cardboard carton.

Multiply those pennies across thousands of units, and the savings looked perfectly rational. Then the products started arriving damaged.

Whatever we had saved on cardboard was overwhelmed by damaged inventory, returns, replacements, additional shipping, customer-service time, and unhappy customers. We had successfully reduced the cost of the box. We had increased the cost of delivering the product.

I've seen it with service contracts, too. Award a janitorial contract to the lowest bidder and the savings are easy to calculate. What's harder to see is whether that price depends on lower wages, weaker employees, inadequate supervision, or constant turnover.

Eventually, the organization experiences those choices through inconsistent staffing, poor-quality work, and the time its own employees spend dealing with problems the contractor was hired to solve. Some consequences are even harder to quantify. A poorly maintained facility communicates something to employees, students, families, donors, and visitors. Constant turnover creates its own issues with security, relationships, and institutional knowledge.

Those costs won't necessarily appear on the line labeled "janitorial services." They're still costs.

Sometimes Spending More Costs Less

I've experienced the reverse as well.

During the planning of a major construction project, we were evaluating security systems, including surveillance cameras and access control. There were established vendors the contractors and consultants knew and had worked with before. I wanted to go in a different direction.

The company I preferred was more expensive. Changing direction wasn't particularly convenient, either. We were already well into the process, the implementation timeline was getting tight, and I had to work through a difficult negotiation rather than simply accepting the vendors with whom others already had relationships.

But I didn't think installation price was the right measure.

The system I preferred offered superior technology and, more importantly, a platform we could continue building upon. The hardware received ongoing over-the-air updates, allowing its capabilities to expand as the technology evolved. The less expensive alternatives were at risk of becoming obsolete almost as soon as we installed them.

So we spent more upfront, and that decision paid dividends for years.

The higher-priced option wasn't a departure from financial discipline. It was financial discipline applied over a longer horizon. Instead of asking only what the system would cost to install, we considered what we would own, how long it would remain useful, how it could evolve, and what replacing an inferior system later might cost.

Sometimes the more expensive

proposal is the less expensive decision.

The Costs That Don't Appear in the Proposal

It's tempting to think of financial decisions as relatively simple equations. Option A costs \$100,000. Option B costs \$85,000. Choose Option B and save \$15,000.

But that only works if everything else is equal. Often it isn't.

Maintenance, replacement, reliability, staff time, turnover, morale, burnout, risk, aesthetics, and stakeholder experience all have economic consequences, even when we can't assign each of them a precise dollar amount.

There's also opportunity cost. Every hour a finance team spends correcting a payroll provider's mistakes is an hour it isn't spending improving financial reporting, supporting employees, analyzing the budget, or working on something else that could move the organization forward. Every hour an operations team spends chasing a poorly performing contractor is an hour it isn't spending improving operations.

And every dollar spent replacing something we bought primarily because it was inexpensive is a dollar we don't have for something else.

The question, then, isn't simply: Which option costs less?

It's: What are all of the costs associated with each option—and where will we ultimately experience them?

Some of those costs belong in a spreadsheet. Others require judgment. Both belong in the decision.

Save Where It Doesn't Hurt. Spend Where It Matters.

None of this has made me less interested in saving money. If anything, it has made me more deliberate about where I save it.

I want to reduce costs anywhere we can achieve the same—or better—result for less. If quality isn't diminished, risk isn't meaningfully increased, and employees or other stakeholders won't experience a negative difference, I'll happily take the savings. I've spent much of my career finding those opportunities.

But there's a second benefit to doing that work well: Thoughtful savings create the capacity for thoughtful spending.

The money saved on things that don't matter gives an organization more flexibility to spend on the things that do. Sometimes that's better technology. Sometimes it's better people. Sometimes it's maintaining a facility at a standard that communicates pride in the institution. Sometimes it's preventing burnout or improving someone's experience. And sometimes it's investing in something whose value may never be particularly visible to the people we serve.

Not every higher-priced option is better, of course. Spending more isn't inherently strategic any more than spending less is inherently responsible.

That's where judgment comes in.

Cost discipline asks whether we can spend less.

Financial leadership asks the harder question:

What will spending less actually cost us?

About the Author

Joe Sharp is the founder of Sharp Focus Consulting and a finance and operations executive with more than 30 years of leadership experience in schools, nonprofits, and businesses. He advises organizations and leaders on financial, operational, and organizational challenges and writes about the lessons that come from the decisions leaders make every day. Learn more at sharpfocusconsult.com.