

A high-contrast, orange-tinted photograph of a welder in action. The welder is wearing a dark protective suit, a welding helmet with the visor down, and a welding torch. Sparks are flying from the torch, and a large plume of white smoke or steam is visible behind the welder. The background is dark and out of focus.

# Top 10 Money-Saving Tips for Manufacturers

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It's always a good time to think about cost-saving measures. For most manufacturers, the focus is on production, staffing, sourcing supplies and most importantly, getting that product out to their customers. All of those areas are essential components to running a successful business. Below are ten ways of saving money and improving profits:

#### 1. Apprenticeship Tax Credits

The Canada Revenue Agency introduced an apprenticeship job creation tax credit, which is a non-refundable tax credit equal to 10 per cent of the eligible salaries and wages payable to eligible apprentices for their employment after May 1, 2006. An "eligible apprentice" is someone who is working in a prescribed trade in the first two years of their apprenticeship contract. This tax credit is claimed on a business' corporate income tax return.

#### 2. Research & Development Tax Credits (SR&ED)

The SR&ED program is a tax incentive offered by the Canadian federal government to encourage and support Canadian innovation. Several provinces also offer similar programs. All Canadian businesses conducting research and development activities that lead to technological advancements resulting in new or improved products, processes, devices or materials may qualify.

#### 3. Appropriate and Efficient Tax Planning

**Family Trusts, Bonus, Dividends and Estate Freezes:** Not only do your manufacturing processes need to be lean and efficient, so does your tax planning. There are many different options available for dealing with profits or losses to maximize the return from your business. Use of family trusts to provide income to the next generation can be a useful tool for potential income splitting to individuals with lower tax rates. Effectively planning owner remuneration can also be a useful method

for maximizing your business returns. Implementing an estate freeze can be an exceptional way to plan for retirement, succession and taxes upon death.

#### 4. Insurance Structures and Individual Pension Plans

Insurance is an excellent tool to assist with mandatory shareholder buyout provisions, creating wealth for the next generation, sheltering and creditor-proofing corporate assets or assisting with future estate taxes. An individual pension plan is a Canadian retirement savings vehicle, which is, effectively, a defined benefit pension plan. It allows the plan member to accrue retirement income on a tax-deferred basis, and therefore, must conform to certain requirements of the Canada Revenue Agency. It replaces a conventional registered retirement savings plan and provides an opportunity for significant tax deductions in the company.

#### 5. Simplifying Corporate Structures

It is a good exercise to revisit your corporate structure and make sure that all companies have a “purpose”. Extra companies can result in extra administration, cost and complexity. Reduce corporate redundancy and operate as efficiently as possible.

#### 6. Reviewing Financing Arrangements

Spend the time to re-visit your current loan and banking arrangements. Are you using current loans to fund long-term assets? Are the financial covenants too onerous and “holding you back” from expansion? Look for competitive rates and terms, present them to your current lender and start negotiating. You may be able to secure better financing with more appropriate terms.

#### 7. Improving and Upgrading Equipment

Old manufacturing equipment may use too much energy and time. Look to improve your productivity by renewing

machinery and processes. This could lead to reduced costs, improved efficiency and reduced staffing needs. Consider equipment leases or long-term facilities to fund this type of expansion.

#### 8. “Upgrading” Employees

Review your staff complement and ensure that you are working with the “best.” Look at functions performed, training of employees, multi-tasking capabilities and coordination of resources. Make sure that you have the most qualified and efficient staff so that you can reduce costs and improve productivity. You may also be able to reduce the number of employees with new equipment and improved quality.

#### 9. Consider the Effect of Foreign Exchange

Fluctuations in foreign exchange can turn a profit into a loss. Consider the effect that foreign exchange has on your business and how sensitive your margins are to such fluctuations. Forward or fixed-currency contracts can help you to mitigate some of these effects. Purchasing your raw materials in the same

currency as your sales market may also help to reduce the potential negative effect of foreign exchange on your profits.

## 10. Revisiting Existing Contracts with Suppliers

In light of the very competitive marketplace, consider reviewing your supplier contracts. There may be some savings that can be negotiated to help improve your profits. Perhaps shipping or other costs can be transferred to your supplier? It may be worthwhile to have that discussion with your supplier.

By exploring these options on a regular basis, you can improve profits, streamline manufacturing processes and lower overhead while still reaching your target markets.

*This article has been prepared for the general information of our clients. Specific professional advice should be obtained prior to the implementation of any suggestion contained in this article.*

## Connect with the Author

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