

Cut Costs, Not Business

By Paul Gibson



Businesses that are going bankrupt, workers laid off or made redundant by the thousands, payrolls that never arrive, bank accounts that disappear out of fear. These are the signs of the times. However, companies need to be smart when it comes to crisis management.

Here are three cost-cutting practices that should definitely be avoided:

- 1- Given their variable cost structure, it is quite tempting to target cost reduction in training, advertising and recruitment, but none of these areas should ever be touched when contemplating an effective budget constraint.
- 2- Other cost reduction plans include a so-called equal distribution of costs that may prove to be devastating in the long-run. It is simply bad business to give equal importance to departments that have unequal significance in tangible results.

- 3- Finally, never convert a crisis into a political debate where departments offer emergency plans to protect their own. This is simply a practice which proves to be counterproductive and will never add value to the company's business.

Instead of committing these mistakes, make a decisive three-point action plan:

- a) Determine the key value drivers that have the most important impact on the evolution of your business. Focus on long-term value, not minimal short-term costs.

For your business, the key driver may be your investment in that new, but expensive enterprise management system, which has already increased productivity by over 50%.

- b) Identify the area where you are least competitive and disadvantaged in cost. This task may involve more than just a glance at your monthly bills. This may also include an exhaustive analysis of the cost structures of the competition to determine areas where your business might prove to be vulnerable.

If you noticed that your competitor invested thousands of euros in a special marketing campaign in a specific area and came up with next to nothing, don't make the same mistake.

- c) Highlight the areas that make you earn or lose money. An effective way to increase profits is also by eliminating loss of revenue, while at the same time, concentrating your efforts on major money-makers for the company.

You just can not argue with success. If a specific activity such as business consulting, accounts for over 20% of overall revenue, then you may want to double your efforts to come up with 40%. On the other hand, if that new office you opened up last year has yet to turn a profit, you might consider transferring personnel over to the business consulting division and close down in that location.

By replacing these three commonly mistaken practices, with these three productive guidelines, you might be able to revive, redirect and revamp your company's business significantly.