

## Focus on cost-cutting or plan for growth?

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**"We've done a great job cost-cutting. We're making bigger profits than ever, even though sales are down 12 percent. Should we keep focusing on profits and stay away from growth?"**

Taking a pause to economize can be a useful and rewarding exercise. Expense reductions help to keep any small business fiscally healthy. Savings drop to the bottom line as profits. However, at some point scaling back can move past reducing the fat and cut into the muscle and bone of the organization's future.

Once small-business owners have gotten maximum impact from cleaning up inefficiencies and reducing costs, they have to be smart about pursuing growth. They must build a robust operation that can handle additional sales profitably. Going forward it's important to monitor performance, setting goals for growth and profitability, and holding people accountable for achieving both.

### **Cutting back**

Companies have gotten lean. They've downsized unprofitable clients, products and services, eliminated expenditures, confronted unproductive employees and cleaned up inefficient parts of the business. Most organizations put the brakes on investing in upgrades of equipment, facilities and people.

It's important to know when to stop slashing and shift focus to rebuilding. Cost reductions can be seductive because of the profits they yield. It can be tempting to sit back and ride the wave of increased profit, pay off old debts and take some money off the table. However, unless the business owner starts again to invest in growth, there's every likelihood that the business is headed toward a cliff.

If the business owner pursues cost-cutting too long, or goes too far, breakdowns crop up. Processes get stale and worn out. People get so busy doing, they don't have time to work smart. Equipment wears down. Effort gets wasted trying to make do with not enough resources. Slips in quality and missed delivery schedules upset good customers.

Net profit, which was temporarily up due to cost-cutting, starts to decline again as good customers walk away and fixing errors eats up gross margin. There's less money to go around, including fewer dollars to invest in sales, marketing and infrastructure. The business loses ground in terms of customers, products, quality and innovation and is no longer at the forefront of its market. Customers see fewer enhancements or have to put up with recurring and unresolved problems. As margins start to drop, and customers drift away or demand lower prices, a vicious downward cycle is off and running.

### **Building up**

Once the decision is made to refocus on building up sales, everyone has to be strategic. Ask some key questions before re-energizing sales:

- Which customers are the most profitable?
- What else do those customers want that can be produced or acquired?
- Are there any worthwhile competitors that have become vulnerable, and if so, what can be done to grab their clients?
- How much additional business can the overall operations handle in its reduced state and still remain efficient?
- Is there any opportunity to corner a supply, carve out a niche?
- Is there any business for sale that can be picked up cheaply that would help boost volume profitably?

Earmark some of the newfound profits from cost-cutting for re-investment in operations. Look for ways to increase efficiency through technology. Focus on new, upcoming and high-profit margin products or services. Continue to weed out low performers. Ensure that margins stay high as volume increases. Document best practices based on what's been learned about running a lean operation. Use that documentation to train the next generation of workers.

Set team goals that reward sales, operations, marketing and administrative staff for achieving growth and continuing to improve margins. Be clear that as volume picks up, you expect everyone to remain focused on reducing waste. Build compensation plans that reward employees for improving profit margins and for bringing on-line new products, services and customers that represent the future of the business.

Looking for a good book? Try "Optimizing Back Office Operations: Best Practices to Maximize Profitability," by Zahid Khalid.

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