

Why You Should Think Twice Before Cutting Costs

Achieve a Better Budget through Balance

“I’m gonna cut costs.”

That was the response offered by a presidential hopeful when asked how he would balance the federal budget. He proclaimed that by reducing critical expenses of specific government agencies, he could solve the country’s skyrocketing debt. Curious, I examined the budgets of the agencies he mentioned, and discovered that the “critical” cuts he wanted to make would barely make a dent in reducing the deficit.

The truth is that in politics or business, sweeping cuts are rarely a path to success when creating an effective budget. At best, they lead to a temporary state of relief, and at worst, they can destroy a business. I understand that budgets get bloated, markets change with such frequency that products come and go, and sometimes layoffs are necessary. But if those are your only strategies, you may be cutting your way into a bigger problem.

For example: when it comes to layoffs, instead of cutting the cost of doing business, often you’re cutting the people that get business done. Sure, management teams see some measure of success when the remaining employees are forced to find innovative ways to get the same amount of work done. But in the long-term, you have an overworked staff with low morale that looks for jobs elsewhere.

The answer lies in the word “balance.” And just like anything else, achieving balance in your budget comes from executing several complementary strategies and maintaining a critical eye. Over-reliance on one component does not make up for lack of another.

Change How You Operate

Changing operations to fit a new reality is a far better alternative, and it’s also a critical part of a balanced strategy. If a major customer isn’t as profitable to your business, focus on the parts of serving them that cost the most. This means pushing beyond payroll cost. What are the steps to completing this customer’s order, how long do they take and are they all necessary? Are you delivering things the customer doesn’t care about (and won’t pay for)? We had a client once who recycled inbound boxes to avoid buying outbound boxes, in the process spending \$2.00 to save \$0.40—an easy fix if you look at the problem correctly.

Get the Most Out of Your Technology

Better technology and data management can be part of an effective strategy, but the view of what an investment in technology means has changed. Managers used to think of big, expensive technology implementations, but I see a lot of low-cost, one-off options that solve specific problems even better. Probably the biggest and least expensive investment is to train your staff on systems you’re already using. Especially when it comes to data, a solid understanding of Microsoft Access and Excel makes a huge difference. We frequently see employees using just 10 to 15 percent of a software package, when they could better solve their problems with the remaining 85 percent if they only knew how.

Keep Your Eye on Growth

Whether we’re talking about a business or the economy, growth has to be a component of any budget balancing act. There is no amount of cost cutting that will save a business (or economy) that continues to shrink. One of the key ways to ensure growth is to make sure you have an understanding of your own information: where are you most profitable, who are your best customers and what are they looking for. Growth also comes from

accountability. Too many times sales people are not motivated correctly (and in some cases not at all). Aligning sales team payment to company goals may seem straight forward, but in many cases it isn't happening. Certainly there are other options for growth that are more impactful...but also more expensive (like a merger or acquisition). Same with new product launches. All viable options, but not pursuits to undertake until you've maximized everything else that is currently under your control.

The budget bottom line? A truly balanced business is a better business, a more valuable business and one that will return more to its owners.

EASIER, FASTER, BETTER.

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