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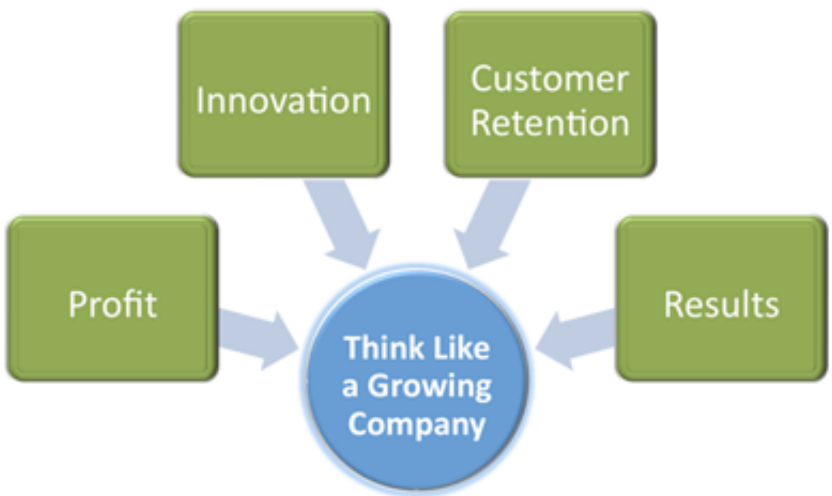
Be Careful with That Ax: Strategies for Reshaping Expenses and Staffing
by Janet Gregory

The economy is unstable. The economic outlook is cloudy and downright stormy. The prudent thing to do in business planning may be to reduce expenses. Which programs get cut? Where should staff be reduced? What perks or benefits get cut back? There is a method to this madness.

Think Like a Growing Company
This may sound counter-intuitive but it is the way to make the right decisions about where the right cuts should be made. An equalitarian approach, where all departments take an equal share of budget cuts, results in departmental protectionism and organizational mediocrity that is likely to lead to a long slow decline.

> **Structure follows strategy.**
> *Peter Drucker*

Think like a growing company and preserve the essential programs and staff that will foster growth for the company over time. Invest in profitable lines-of-business. Customer retention activities can maintain and grow sales results even in slow economic periods. Continue programs that provide differentiation and innovation to preserve your company's leadership position in its market place.



If you don't think like a growing company your cost cutting measures will result in bureaucracy, insulation from changes in your market place, risk avoidance and a fierce grip on the status quo. These are precisely the areas that you want to ax. Think like a growing company and you can thrive, not just survive, in these tough times.

Profit
Profitability will sustain your company, provide dollars to invest in the business and fuel growth when the economy stabilizes and strengthens. Which product lines are the most profitable? Which activities yield the highest return? Apply ROI thinking to evaluating which programs to keep in the budget and which ones get the ax.

Consider changing sales compensation plans and management bonus plans to align with profit motives. Reward profitable behavior, bottom line results, not just top line sales performance.

Make cuts in lines of business that are not profitable and where sales have been flat for a considerable period of time. Flat sales results are typically an indicator that you are in a declining market or that you are losing market share. The sales organization has done a good job insulating the company from market conditions by becoming more efficient. But, it is a clear indicator of declining revenue and profits ahead.

You can't save your way to profitability.

Tom van Overbeek

4-Time Turnaround CEO

Customer Retention

Existing customers are your greatest asset. When the economy softens new buyers for your products and services are harder to find. Prospects tighten their belts the same way you are tightening yours. This means that inertia sets in; buyers are reluctant to change vendors. The reluctance to change vendors is for a wide variety of organizational and personal reasons, which won't be covered here. The key concept is that your current customers want to continue to be *your* customer; help make it easy for them!

Consider assigning staff and adding marketing programs to support existing customers. Enrich service contracts and expand selling efforts to increase service renewals. Expand upgrade programs for hardware and software products. In many industries inside sales provides a very productive and cost effective method for selling to existing customers. Look for add-ons, expansions and extensions to current product lines. This may even include new product development to keep existing customers loyal, locked-in and buying more.

Make cuts in new customer acquisition programs that are high cost, low margin or low return. Closely look at marginal product lines that are adjacent to your core business, these often did not yield the promised sales or profitability expected. This might be the time to consider getting out of those adjacent businesses.

Innovation and Differentiation

Differentiation and unique business value are what distinguish you in the market place. It is why customers buy from you. It is why you win business over a competitive offering. It allows your company to stand out in a crowd. It is critical to continue to innovate and differentiate. In Geoffrey Moore's book "Dealing with Darwin," four innovation zones are identified: Customer Intimacy, Product Leadership, Category Renewal and Operational Excellence. There are multiple innovation types within each of the innovation zones. Pick your spots. What will deliver competitive differentiation between your offering and other solutions in the market place?

All established enterprises have the opportunity to innovate, carefully select areas that will provide competitive separation and economic rewards will follow.

Geoffrey A. Moore

"Dealing with Darwin"

Consider using a facilitator to help you identify the innovation areas. This is the most difficult area to make cut-and-keep decisions. Identify innovation areas in every department.

- Product innovation through features and functions.
- Platform innovations simplify highly complex operations.
- Marketing innovation differentiates the interaction with prospective customers.
- Experiential innovation connects the customer in unique and personal ways with your company, your product and your services.
- Process innovation removes non-value-adding steps from work flow and customer interactions.
- Integration innovation leverages disparate elements to form a greater result; leverage channel partners, technology partners and others in your eco-system.

Make cuts in departments that are creating silos, protecting their turf or insulating themselves from customers. These are organizational areas that are not growing in ways that will deliver profitable business results.

Results
Identify areas with a forward looking track record. Project the results for each major program. Finance is accountable for return on investment. Sales is accountable for quota performance. Marketing is accountable for metrics on integrated marketing campaigns. Product development is accountable for release schedules.

Establish specific performance metrics for every program in this year's budget. Monitor performance quarterly on metrics achievement and hold people accountable for the results. The effective use of metrics accelerates organizational learning and creates a discipline of achievement.

Make cuts in any area with unclear metrics or deliverables. Make cuts in any area that does not contribute to profit, customer retention or innovation and differentiation.

> **There are only two things in life: reasons & results.**
> **BTW, reasons don't count.**
> *Anonymous*

Summary
If you don't think like a growing company when you are reducing expenses, you will be thinking like a declining company and doomed to mediocrity and decline.

Keep line … Cut staff.
Reward profitable behavior … Ax non-profitable programs.
Mine diamonds from existing customers … Cut programs outside of the core.
Encourage innovation … Ax status quo.
Advance differentiation … Kill silos and turf protection.
Promote accountability … Squelch blame.
Simplify process … Cut bureaucracy.

If you think like a growing company, you will be a growing company, in any economy.

Janet Gregory is a veteran sales executive and co-founder of KickStart Alliance. For assistance with sales strategy, sales planning, assessing compensation plan options or any aspect of sales operations, contact Janet. Janet leads the sales readiness practice at KickStart Alliance. For help in aligning sales & marketing for results contact any member of the KickStart Alliance team.