## Cut costs at the first sign of profit trouble.

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The basic premise of running any business involves maximising sales and minimising costs. Since men and women first crawled out of primordial caves, this premise has remained essentially unchanged.

Fine. Why is it then, that CEO's and CFO's (Chief Financial Officers) worldwide, place 99.99999999% of their efforts into reducing costs rather than maximising sales? Because reducing costs is relatively "brain-dead" easy, whilst increasing sales is relatively just damn hard work. All other things being equal, senior managers will take the "easy" way out, time and time again. End of story. No further conversation will be entered into.

Given the messianic fervour with which senior managers make these decisions, one wonders whether they even know that there are two ways of skinning a cat and that their way represents only half the cat, er, story.

Now, I am not suggesting that there are never any reasons to cut costs. That would be foolish indeed. Worldwide, there have been, and will continue to be, organisations that sport bloated, layer-laden organisational structures, bristling with highly talented people doing little more than warming the biros that they use to write little yellow "post it" notes onto, which they attach to their expensive LCD screens, reminding them to pick up a loaf of bread on the way home.
Cross that onerous task of the "to do" list. Now, what's next?

That last paragraph must be music to the ears of any of you budding "slashers and burners" out there, hell bent on de-layering and right sizing (see organising mass sackings). Hate to burst your bubble, but you're about ten years too late …

Management fads tend to be cyclical and the worldwide strategy of mass sackings is essentially a thing of the past. There would be very few organisations today that would have the characteristics displayed in my "paragraph from heaven" above, for those of you who are still yearning for a nice little bit of slashing and burning.

After twenty years of Business Process Reengineering (see mass sackings), organisational de-layering (see mass sackings), right-sizing (see mass sackings) and world best practice benchmarking (see mass sackings), for most of today's organisations, there's precious little left in the cupboard to de-clutter.

Might be time to get more cupboards maybe … Hmmm. You mean that maybe it's time to build businesses rather than to destroy them? What a novel idea! I wonder if it will ever catch on?

In actual fact, it has caught on already in a big way. But, as with most organisational characteristics, the disease that has caught on, is not what might have been expected. Rather than being based on organic growth (increasing turnover through internal growth), the disease has depended on acquisition. Not surprising really. As always, it's the path of least resistance.

Growing through *organic growth* requires creativity in finding new points of difference. It requires doing more things for more customers and doing them better. You got it: It's too hard. Let's just buy someone instead. Phew. I deserve my bonus now. Now, where's that little yellow post-it note?

The bottom line though, is that the record of *successful* mergers and acquisitions (M &A), attempted over the last 15 years is appallingly bad. By successful, I mean that shareholder value has been increased as a result of the M&A strategies.

I would be remiss though, to be fair, in stating that M&A's are always bad. That is certainly not the case. Several successful examples come to mind: The successful expansion of the Australian blood plasma products company, CSL through its M&A activities in Europe and the USA, the remarkable expansion of the Westfarmers Group with its "let's gobble everything in sight" Bunnings stores and the remarkable success of the Woolworth's group, led by the highly effective Roger Corbett, in its M&A activities with Liquorland, are cases in point.

These companies all have one thing in common though. None of them were "broken" before their M&A activities were undertaken. They were all very well managed, and successful companies before these activities were even mooted and they continue to be superbly managed now.

The conclusion is all too obvious: Taking a "broken" (see badly managed) company and trying to "fix it" through acquisition is akin to building a second storey extension onto a dilapidated, badly built old house that is barely standing on rotting stumps. Inevitably, the whole house collapses under the weight. And it's no different with organisations. Only more people get hurt. But then again, that's just the collateral damage that occurs through the ebb and flow of organisational life, isn't it … ?

Not all organisations though, have the balance sheets that enable these kinds of M&A activities to happen. For them, their mantra tends to be "Cut, cut, cut, cut".

I remember very well, as a senior manager in the early 90's what it was like to "manage" during the recession "that we had to have". I was working for the global giant, Philips then, and the company was in trouble worldwide. It did not take long for the word to be out: "We gotta cut costs. The headcount's gotta go down by X%. And it's gotta be across the board. Every business. Every department. No questions asked. And do it now."

Regardless of how successful or not successful, any specific business was, costs were to go down universally by X%. There was to be no specific individual business SWOT's undertaken. There was to be no tailoring of the X% due to individual business profitability. Just the brain dead reduction by X%. Wow. Years of business experience and university training boils down to a universal reduction by X% with no thought or analysis. Just do it. Or else. And this is management? Apparently so.

So, there we have it. We gotta cut costs. So what do we do? Well, after rolling as many heads as we can get away with, what other juicy bits of organisational largess can we jettison?

Let's see now. The training budget's a good one. After all, training is just one of those useless Human Resources (or is it "Remains"?) activities that is pretty useless anyway. Everyone knows that employees treat training days as a "bludge" and an excuse to get away from their work day. And in any case, after all the right-sizing, employees are far too busy doing the work of ten people to be let onto a training course. "Cut."

Now, here's another good one: Let's cut the advertising budget. Those wacky marketers and their even wackier advertising agencies should not be allowed to just spend money right, left and centre, on advertising and promotion. After all, who needs customers? Who needs turnover? What piffle. "Cut."

Here's another good one to cut: The logistics budget. All those damn trucks and warehouses. What a waste of money. Let's get rid of all our state-based warehouses and just have one almighty big one in one state and feed the goods straight into our customers. And let's make sure that we do it without getting our processes and IT right so that our deliveries are always late, with lots of run-outs, picking errors and breakages, and of course, delight our customers, who marvel in awe, as to how we have been able to reduce our costs at their expense.

Now, the best of all: Let's cut our customer service. After all, who cares about customer service anyway if the assassination of the advertising budget has driven our customers to our competitors anyway and, to those rarified few that are left, we'll do our best to destroy their day through poor logistics which means … alleluia, we'll have no customers left and therefore won't need a customer service department. Perfect. I love it. It's all falling perfectly into place now … into oblivion.

Now, let me see. I reckon I can easily meet that 15% reduction. I am such a star. Where's my bonus?

You know the really sad part? Managers worldwide were, and will continue to be, "bonused" for this remarkably capable assassination of their business. And they will do it on cue because they just have to. Those who don't are right-sized out of their organisation with a nasty blot on their record, in which the HR people note that they suffer from an "attitude" problem and are not behaving in a responsible way. That's rich, coming from an HR person …

As with almost any issue in management, fixes to management fiascos are not rocket-science. The fix to the above fiasco of "business assassination through cost cutting" is to actually have senior managers be allowed to use their brains and talents (without the threat of HR people accusing them of having an "attitude" problem), in managing cost reductions using departmental SWOT analyses and customer benchmarking.

In essence, they need to have the "luxury" to manage their cost reductions with minimal customer antagonism and loss of share to the opposition, who may just be less messianic with their cuts, and welcome these customers with open arms.

I use the word, "luxury" above because, in my 20 years' experience in business, I have seen that it is indeed, a luxury for senior managers to manage in this way.
Sad, but true.

So, next time one of those HR types accuses you of having an "attitude" problem, it might be opportune to ask whose attitude we are really talking about?