

Are You Running Your Business Backwards?

By Emmet Robinson

"As you go through life, make this your goal: watch the donut, not the hole."

How's Business?

As business operators, we are still feeling the effects of the worst recession in seventy years. Regardless of market conditions at the moment, however, every dip in the Dow reminds us that good times don't last forever. What that means to you is that, sooner or later, there is a strong possibility that your sales will begin to decline. What will you do when that happens?

Responses

It's been said that, in any given situation, the party with the greatest range of responses will eventually dominate. Faced with declining revenues, our most common response is the reduction of expenses – cost containment. The big companies set the pace and the pattern, and we follow along. Although it's a *common* response, it's not a *good* one because it only works in the short term. Remember: cost containment is an *accounting* solution for a *sales* problem. When the solution to the problem is to increase sales, we concentrate on cutting costs instead. Why do we run our businesses backwards?

Reasons

With large, publicly held companies, unrealistic stockholders often demand perpetual growth, with each quarterly earnings statement expected to exceed the last. In order to retain their positions, chief executives may be forced into doing whatever seems necessary in order to produce measurable gain by the end of the current accounting period. Expenses are generally addressed first because the impact is immediate, and numbers are easier to manipulate than people. There are well-meaning, highly placed executives with extensive training in finance who agree with this approach, and have lowered sales commissions in order to reduce expenses. In some cases, top sales people have actually been laid off to completely eliminate the cost of their compensation! In addition, a growing number of companies are beginning to use the Internet in an attempt to sell directly to consumers and bypass their sales reps altogether.

A parallel tactic is to cut back on support

staff to further reduce expenses. In a recent economic downturn, millions of Americans lost their jobs as a result. Some of those jobs were in sales. Legendary sales trainer Elmer Wheeler said, "You can't sell from an empty wagon." That's true. *And you can't sell without salespeople, either!*

In fairness it should be noted that these methods are simply the natural result of the fact that the training and experience of top executives may often be very different from those who interact directly with customers. Unfortunately, it can put executives in the position of scorekeepers being asked to coach the team without having a full understanding of the plays and how they're performed.

At a handful of America's leading companies, a few in the executive suites who have never worked in sales may not truly understand how their companies became so successful. It wasn't done by cutting corners and pinching pennies. The established dominance of America's best-known businesses was accomplished through the efforts of tens of thousands of dedicated salespeople pounding the pavement, making phone calls and knocking on doors to make tens of millions of individual sales the old fashioned way – in person.

At the grass roots level we find that continued devotion to cost cutting is producing interesting – and often annoying – results:

- The near total elimination of gas station attendants maintains petroleum profits at the expense of customer service.
- Nearly all computer software is defective because the labor cost of more comprehensive debugging would reduce short-term profits.
- We spend hours every week playing Voice Mail Phone Tag with companies too cheap to pay support staff.
- Major department stores are losing market share as a result of being unwilling to provide sufficient competent sales staff.
- The fast food industry is operated and managed by teenagers because grownups would reduce profits by demanding a living wage.
- And customer service nearly everywhere is lousy because no one wants to pay for either the troops or their training.

Extremes

Cost containment is important, provided it's not made an end unto itself. Taken to extremes, the results can be disastrous.

- Airline profits can be increased through payroll reduction by laying off the co-pilots. That will only work as long as nothing goes wrong in the air!
- If a baseball team requires 9 players, 8 would certainly be cheaper. Although that might look good on a spreadsheet, it won't work at the ballpark. The game will become less interesting and attendance revenues will suffer.
- Cutting back on expensive testing of new pharmaceutical products could save millions. The patients can serve as guinea pigs – until someone has an adverse reaction.
- Reducing commissions paid to sales reps would boost profits by reducing expenses. This might work quite well in the short term until the sales reps defect and go to work for the competition – taking their customers with them. That may not be ethical or legal, but it will happen anyway.
- When profits fail to meet expectations, reducing features and benefits provided to the customers could compensate for the shortfall – until they find out about it and begin seeking new providers.
- Nationwide, a number of professional associations are experiencing financial problems as the result of declining membership. To compensate for declining revenues, member benefits are reduced by eliminating the paid professional speakers who make the meetings worth attending. This causes a further reduction in active membership, followed by still more spending cuts, creating a descending spiral resulting in the eventual collapse of the organization.

There are times when excessive cost-containment can take a terrible toll.

- Joe and Danny owned an independent grocery store on a busy corner in West Philadelphia. Poorly ventilated, the place became an oven in the summer months. Danny recommended central air conditioning, but Joe decided it would be cheaper to buy large fans instead. The following summer, Joe died of a heat-induced heart attack. Ah, but think of the money he saved – for his estate, anyway!
- The motion picture industry is owned and operated for the most part by financial men.

More acting careers have been ruined by accountants than by critics. Judy Garland once remarked about how “the men in suits” wanted to cut the song *Somewhere Over the Rainbow* from the movie *The Wizard of Oz* in order to shorten the film and cut production costs. Not trained in the creative arts, that was the only approach they knew.

These examples are included to simply make the point that cost containment has rather severe limitations. Trading short-term gain for long-term pain is not a beneficial arrangement. There is nothing to be gained by running a business backwards – *and quite a lot to be lost!*

Action Plan

Okay, so what does all of this have to do with you? If you find yourself having to work harder in order to maintain your current level of income, depart from tradition and avoid the temptation to cut back. Be brave, be bold, and follow these simple recommendations:

1. Maintain your image

Keep your place of business and your personal appearance bright and shining. Regardless of current revenues, you must always seem the picture of success. You cannot afford to be seen otherwise.

- Details are important. Your office or store may be a showplace, but a weathered sign can destroy the entire illusion. Also, prospects and customers will notice a worn shirt collar before they see that your suit is one season past its prime.
- Avoid the temptation to economize by eliminating amenities. Take away the coffeepot and you'll lose more than you save.

2. Maintain your support staff

Keep them engaged and fully employed. These are the folks who make it possible for you to spend your time where it counts: meeting with prospects and customers.

- Take time to review staff telephone skills and teach them how to improve. If you don't know how to do that, hire someone who does.
- In slow times, when current work is caught up, teach them how to prospect for you. Then, when a lead becomes a customer, share the wealth by offering commissions or bonuses. If financial reward isn't appropriate, offer dinner for two or a gift certificate for Nordstrom's.

- Rely on full-time employees. They may cost more than part-timers, but tend to be more productive. They know your products, services, pricing, facility, procedures, clientele – and you. They also feel much more a part of your business, and have a higher level of commitment. They'll be more likely to stretch when the situation requires.

- When a well-known speaker is presenting a useful seminar in your area, close the business and attend – and take the troops with you. They're bound to learn something that will improve their performance. The better they perform, the more you profit. This gesture also serves to reinforce the idea that all of you work together as a team.

3. Maintain – or increase – your advertising

Continue to reach out to attract new business – whether you think you can afford to or not. Although there are benefits to cutting back on advertising, none of them are yours.

1. By cutting back on advertising, you'll reduce the number of new prospects who bother you with their annoying phone calls. You'll have more time for leisure activities – activities you learned about through their magazine advertisements.

2. By advertising less, you'll provide extra work for your accountant. Bankruptcy is a complicated procedure. There are many forms to be filled out, and only your accountant knows how. He'll use *your* money to send *his* kids to the nice private schools he learned about – by reading their brochures.

3. Reducing your advertising will also provide additional fees for your attorney. When a business goes under, a number of legal procedures must be satisfied and only your lawyer can help. He can use your money to buy the nice vacation property he learned about – by watching a TV commercial.

4. Cutting back on your advertising budget also helps your real estate broker. She'll earn a nice commission by handling the sale of your property to the new owner she found – by placing an ad in a regional business publication.

5. By advertising less, you'll benefit your auctioneer as well. He'll get paid for selling all of your furniture, fixtures, inventory and equipment to the qualified prospects he found – by running an effective direct mail campaign.

6. When you reduce your advertising budget, you also provide wonderful opportunities for

your competitors. When you close your business, they'll be able to buy the entire contents of your property for pennies on the dollar. Then they can pass the savings on to the new customers they'll attract – through their advertising activities.

Am I making my point? Let me spell it out one more time: Advertising isn't an *expense*. Advertising is an *investment*! A farmer can reduce expenses by buying less seed. But less seed will produce a smaller crop – resulting in lower profits! Now listen carefully – this is important:

Advertising is the process of continually planting seeds in order to grow new customers. If you plant less, you will absolutely harvest less. Guaranteed!

Here are a few specifics:

- Re-examine and re-design your business card, letterhead, brochure, website and other promotional materials to make them more effective. Consider using an independent consultant to help you. Although a designer can create materials that are more *attractive*, a marketing expert can make them more *effective*. You need both.

- If you maintain contact with prospects and customers through regular mailings, keep it up. If you don't, start – today, if possible. If you already use direct mail, improve on what you're sending. In addition, consider making random, non-business phone calls to customers. Once a week, call a customer and ask, "How are you?"

- Consider using a consulting service to find out what your customers really think about you and your business. Your customers will tell *them* things they'd *never* tell *you* – things you need to know.

4. Broaden Your Horizons

In addition to CE courses that may be required by your profession, continue training yourself in soft skills. Remember: In choosing between two equivalent and equally priced providers, the prospect or customer's final buying decision will be based on the *personal rapport* with the sales rep. You're in the *people* business!

- Read books, listen to audio CDs and watch videos on advertising, business, communications skills, conflict resolution, customer service, employee involvement, leadership, marketing, motivational psychology, negotiation, networking, public relations, public speaking,

sales and self-esteem. Implement one new idea every 60 days.

- Attend seminars on these topics at least once a year. Each check you write, and every hour you spend involved in one of these activities, will prove to be a profitable investment in yourself and your business.

5. Maintain Your Perspective

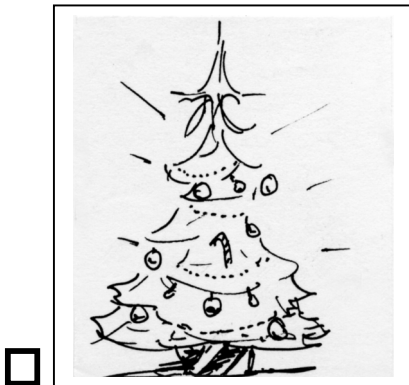
The secret of success is in keeping an eye clearly fixed on the big picture. The purpose of your business is not setting new records for thrift. Your business exists for the sole purpose of making a profit by serving customers. The best-run businesses have always been sales-driven. Remember this: *As sales increase in volume, expenses decrease in relative importance.* The old rhyme says, "As you go through life, make this your goal: watch the donut, not the hole." Words to live by!

What's Your Style?

There are two basic management styles: aggressive and defensive.

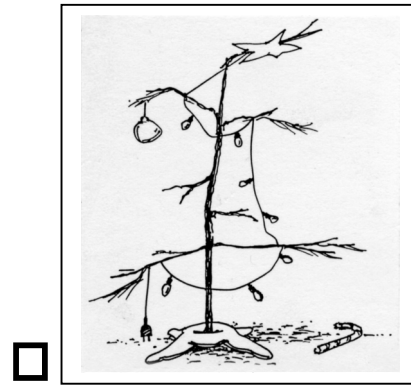
The *defensive* manager's first thought is "How can I save more money?" The *aggressive* manager's first thought is, "How can I make more sales?" Over the long term, *aggressive* managers make more money. The road to bankruptcy court is paved with the bleached bones of those former entrepreneurs who ran their businesses defensively by maintaining a primary focus on cost controls rather than on sales.

If you're like most of us, you have both an accounting side and a sales side to your personality. Be careful which side you put in charge. The following illustrations will allow you to determine your management style. Which tree looks best to you? Check one:



Aggressive Management Style

(Sales Driven)



Defensive Management Style
(Accounting Driven)
Graphics by FitzArt

The Future

If you look closely around you, you'll see the unmistakable signs of continuing cutbacks. Every business, industry and profession will continue to pursue cost cutting as their primary means of maintaining profitability. Although running a business backwards works to a certain extent, something else works better.

I recall reading about a manufacturing company faced with declining demand and shrinking sales. Offered the choice between cost containment and revenue enhancement, they took the aggressive approach. By training their idle technicians to be sales agents, they generated enough fresh revenue to restore profitability.

In sports, there's no future in playing the game trying not to lose. Dedicating yourself to cost containment would be equivalent to running your business backwards – like reducing your hours of operation to lower your electric bill. Short-term gain leads to long-term pain as your customers find other providers who are open when you're closed.

If the early settlers had followed our current prevailing philosophy, our entire population would number fewer than 500 – and we'd all live within a mile of Plymouth Rock! Dare to be different. While others are pulling back, step boldly forward. Looking at the big picture, do you really have another choice?

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