LESSONS LEARNED | BY GERSON ROSENBLOOM

The Cost of Cutting Costs

In a macro sense, the economy is a series of cycles. The fact that there will be ups and downs on some sort of cyclic basis is irrefutable. When, how, why — and how deep or high — is anyone's best guess. As business people, we must attempt to counteract the effects of a down economy and minimize their impact on our businesses. How we react to a tough economy is the subject of this month's column.

But let me first introduce one other phenomenon: Have you ever noticed how similar music stores are? As I have traveled around the country I have seen it all: the same displays, the same brand focus, everyone cutting the same corners during the recent recession. Reactions to tough times appear so universal that they seem instinctive. I have observed store after store with insufficient help, half their lights turned off, meager inventories, and in need of repairs. And lest it seem that I'm throwing stones. I did all the same stuff when times got tough in my own business.

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A SECOND LOOK

During the Great Recession, did you look at some companies (such as Apple, Chipotle and Walmart) and wonder how they got so lucky as to avoid the downturn? What they all have in common is that they chose to not participate. Rather than making their focus on cutting costs (although there was some of that), their guiding principle was to grow revenues and expand business.

The concept is actually simple; cutting costs virtually assures a particular set of outcomes. If your primary strategy is cutting costs, you are relegating your business to a defensive position where the goal is to survive, not thrive. Some of you may still be doing that, despite a recovering economy. Stop right now and ask yourself if that has been your modus operandi since 2008. I'll wait.

Rather than focusing on costs, the Apples and Walmarts of the world aggressively expanded. Rather than let themselves be another statistic, they elected to take advantage of the softer field of play, stepping over companies that made a decision to shrink during that same period. It's a classic game of the hunter and the hunted.

So ask yourself … do you prefer being prey or attacker? Taking the defensive approach of cutting costs nearly assures that some aggressive competitors will take advantage of your weakness and use it to their own advantage. I'm not advocating that you miss opportunities to trim needless spending, but cutting costs as a sole means of survival does a disservice to your customers, to your employees, and to your position in the market.

LISTEN. SERIOUSLY.

When my business stumbled back in 2008, I took a purely defensive stance. I cut inventory and personnel, stopped investing in my physical plant, stopped advertising, and, frankly, stopped being creative. I followed the instinctive impulse to dive into a trench and hope I could survive.

What was my alternative? I could have tried something new, something bold, something that upset the status quo. I could have decided to focus on a single product category or swap existing expenditures with an investment in the online space. I could have marketed better or built a more compelling destination.

I closed my business at the end of 2008. If I had been bold and refused to cave to the cost-cutting defense, I might have actually found the formula for survival. **MI**

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