

Having a cost containment mindset is essential to every company wanting to maintain a high level of profitability. But sometimes conditions call for more than containment; they demand cost cuts involving services, personnel, supplies, and the like. While this is never pleasant, it is necessary that leaders quickly recognize when this becomes necessary and follow a few basic rules to lessen the pain, limit the distractions cost cuts create and get the biggest bang for the buck while you maintain as much morale as possible throughout the process. Here are a few ideas to consider.

**1. Get it over with.** Carefully consider what must be cut and don't play best-case scenario as you'll be betting against the odds. Once you've decided what must go then do it all at once. Get it over with and put it behind you. If you prolong the process by cutting this employee one week, two more next week, eliminate the cleaning service and bottled water the week after and so forth, it becomes like Chinese water torture where everyone is looking over their shoulders wondering who and what is next and failing to focus on performing as a result. This worsens the crisis.

**2. Communicate throughout the process.** When cost cuts take place, no news is not good news because people come to expect the worst; rumors fly and morale worsens as employees conjure up the most dreadful possible scenarios. Bring your team together, explain why the cuts were made, assure them that they are over for now and that everyone's job is safe and the company is more stable as a result. Remember: disappointment is easier to handle than anxiety. People can handle disappointment and begin to deal with it, but anxiety has no answer because you never know what is coming next...and normally you expect it to be the worst possible thing.

**3. Renegotiate with your vendors.** This is a great time to reevaluate your contracts with vendors, suppliers and the like and shop them to keep them honest or, better yet, ask for concessions in order to retain your business. Your first obligation is to your employees and the health of your organization. It is not to the feelings or friendship you have with a vendor. The good ones will understand that what you're asking for is nothing personal; it's strictly business. And you can rest assured that they routinely do the same thing with their own vendors or suppliers.

**4. Drop your image advertising.** Any marketing or advertising that doesn't bring in direct and immediate business revenue should be temporarily shelved. After all, what good does it do to build your image if your shelf life as a viable business may be limited? Besides, it won't help your image to lay off additional human beings because your ego convinces you to keep these mostly useless warm and fuzzy advertising outlets. Dropping your image advertising means that you stop sponsoring the pee wee softball team; you say "maybe next year" to the high school yearbook ad; you politely decline the ego stroke that comes with having your business name on the 50-yard line at the local football stadium and the like. You can pick up this type of advertising in the future if you like when business becomes more stable, but for now you need to tell these touchy-feely attempts at goodwill goodbye and focus on your more important obligation as an organization, which is to create a customer and to retain those customers that you already have and make a profit in the process.

**5. Leave pay plans alone if possible, but cut all monthly contests and incentives.** You present this in a positive light by having a conversation with your team that sounds something like this: "When times get tough for many businesses the first thing they do is cut pay plans. We know that you all have a certain standard of living to maintain and families that depend on your income. Therefore, we've decided to leave all pay plans as they are for now. However, we will have to temporarily shelve the additional contests and incentives we've had in the past until our business becomes more stable." Obviously, if you have pay plans that have gotten way out of kilter or that are no longer relevant in the

current market climate, you should bring them into line and start with your less-than-productive managers. When you reintroduce monthly spiffs, contests and so forth, make sure that you establish minimum performance requirements in order for employees to participate. In other words, “You must average XX amount of production over the past 60-day period in order to qualify to participate in the monthly incentive program because they are no longer entitlements. They are a privilege.

**6. Get rid of all visible signs of excess.** This includes driving the fanciest demos, weekly lunches at the country club, corporate gold cards, private jet flights and the like. It’s tough to build the credibility that you’re working hard to preserve your business as you lay off people and ditch monthly contests when you can’t find the personal commitment to sacrifice a few of the luxuries that may have contributed to your dire straits in the first place. Don’t think that your people won’t notice your hypocrisy. Asking others to sacrifice while you continue to live it up is the weakest and least credible form of leadership. Organizational preservation and prosperity should begin with personal sacrifice from the leadership of the organization. Not only will this help morale and elevate your own credibility, it will retain good people through the tough times as they will pull together and rally around a leader who has the courage to do what is tough rather than what is convenient.

**7. Don’t get cocky when business picks up again.** Unless you want to repeat these painful procedures during the next production dip, stay sensible in the areas mentioned here and others like them during the good times, so that you build a bulletproof business that not only survives tough times, but prospers in them as well.

**8. Be thankful for what you’re going through.** This may be a tough one to swallow, but the fact is that when things turn south you will be forced to look at expenses, procedures, employees and strategies with an eye that is much more discerning than when all the seas appear calm. Tough times will get you back to business basics and they will force new disciplines. As a result, you will emerge as a smarter, more efficient, well-run organization and you will have learned lessons that will help you prosper throughout the rest of your business career.