PROFIT BUILDING

CUTTING COSTS WITHOUT CUTTING PEOPLE

PERRY J. LUDY

An Excerpt From

Profit Building: Cutting Costs Without Cutting People

by Perry J. Ludy
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Preface

Improving profits is one of the main objectives of business, yet based on my 25 years of experience as a senior executive with direct profit and loss accountability, I have observed that most managers do not truly understand how to move beyond the basics of cost reduction and profit improvement.

Rapid changes in technology and the world market exacerbate this problem, making profit improvement harder to achieve than ever before. Increasingly, organizations across the country and throughout the world face the difficult tasks of developing and then executing an e-strategy, meeting the challenge of globalization, and keeping up with fierce competition. Innovation and change have become the centerpiece of our business environment. Business leaders, entrepreneurs, small business owners, and managers are struggling to find the tools they need to achieve success and avoid the pitfalls of inappropriate strategies. Yet it is interesting to note that even though the business environment is changing and the challenges are becoming more difficult, profit improvement continues to be a key part of the solution.

Could there be a more effective way to focus our daily business activities? If profit improvement is one of the essential elements of our business strategies and challenges, why don't we develop the ability to focus continuously on profit improvement the same way we focus on marketing, operations, and human resources? Why don't cost reduction and the resources and leadership necessary for its success receive management's constant attention? *Profit Building* answers these questions. It demonstrates how a large corporation, a small business, or a single department can improve profits and reduce costs, using a proven approach that is based on *team* innovation management.

This book is a blueprint for executives, managers, business professionals, small business owners, and change leaders who are seeking appropriate profit improvement strategies for their organizations. It shows how companies can benefit—rather than suffer—from the unprecedented changes occurring in today's marketplace. It also makes the point that in order to achieve success beyond today, business leaders must leverage the total means available within the organization to improve profits, reduce costs, and create a better place to work.

Typically, a company's knee-jerk response to the need to reduce costs is to reduce the workforce. People are laid off in large numbers, and dollars are saved—or so it seems. In most situations this is a mistake or merely a short-term solution. The better approach is to give employees a chance to participate in developing cost reduction strategies so that profit improvement is perpetual. In this scenario, people are not laid off in large numbers but, instead, are better utilized within the organization. This is the approach that I have found the most successful, and it is the basis of this book.

Profit Building introduces the methodology of the Profit Building Process (PBP): a system of step-by-step activities designed to produce immediate and ongoing results. PBP shows managers how to apply concepts gleaned from prior learning to create appropriate strategies for many different types of organizations and businesses.

Why I Wrote This Book

I have always wanted a book about how to increase profits. Yet each time I searched for such a book, I was forced to settle for a publication on business theory, financial management, or process costing. Throughout my career, I never found a book that specifically told me how to take a business, organization, department, or team through an easy-to-follow process to achieve cost reduction or profit improvement. No matter what our industry or management position, we all need creative new ideas on how to make our business more profitable. This book is designed to meet these needs.

Profit Building is an easy-to-read road map to profit improvement. It explains a simple process by which business leaders can stimulate employees' thinking and problem-solving skills, thereby generating a multitude of creative ideas and effective solutions for profit improvement. This book also includes a list of more than 100 innovative ideas generated through the PBP approach that can be applied to most businesses with immediate results.

I wanted to develop a valuable handbook for executives and managers who do not have time to read volumes on business theory, and I believe that this brief book offers an effective short cut. *Profit Building* embraces most managers' knowledge of familiar business concepts, moving beyond abstract theory to actual demonstrations of how to get quickly to the point of reducing costs and boosting profits. This book introduces the basic concepts of the Profit Building Process, showing managers both how to get started and how to move on to a higher level of performance.

Who Should Read This Book

Because profit improvement and cost reduction should be every manager's responsibility, I believe that this book is most effective when all managers in the organization read it. Anyone concerned with improving profits will find it useful. If every manager and every supervisor follow the techniques discussed here, eventually the whole company will be contributing to the process of profit building. Senior executives, consultants, small business owners, and accountants will find this book valuable. Of course, profit improvement is a worldwide business objective, and international business leaders will also find some cost-cutting tactics of interest. The bottom line is that *everyone builds profit.*

As you read this book, you will find that PBP uses a team approach to achieving profitability. Managers should make *Profit Building* a part of their training programs, and all employees should become aware of the opportunities for cost reduction that surround them and should actively participate in perpetual profit improvement. Ideally, Profit Building is a company-wide program spearheaded by a profit building team.

I have enjoyed writing this book and am confident that reading it will be beneficial to all those who seek a direct, proven method for profit improvement in a simple, informative format. My hope is that through this book, more companies will realize that profit improvement is an ongoing process that demands constant attention and company-wide participation. Many cost reduction questions can be answered by those who know the situation best—the employees. Please read on to discover how to develop this forgotten "people-resource" in the search for profit improvement.

1 What Managers Need to Know About Cutting Costs and Improving Profits

Ah, to build, to build!
That is the noblest art of all the arts.
—Henry Wadsworth Longfellow

In our businesses, we are continually challenged to reshape our organizations in order to utilize and preserve the resources that fuel profitability. We have put organizations in place, and continue to operate them, in accordance with the philosophy that control, compliance, structure, procedures, and policies lead to a profitable organization. Most of today's business books emphasize similar organizational structure and departments (marketing, human resources, finance, and so on). Remarkably, however, there is one key area where we continue to miss the mark. We do not view profit generation as an organizational function, and as a result, it is not managed as a process. Organizations need to view profit building as a process similar to the processes that drive marketing, human resources, and finance. Wouldn't it be refreshing if, on your next business trip, the person seated next to you introduced herself as the director of profit building for XYZ Corporation. I believe most investors would attempt to purchase stock in that company as soon as they could! This book introduces the Profit Building Process (PBP), an innovative concept based on incorporating profit improvement teams into the daily processes of the organization or business.

When viewed as a process, profit building can be broken down into a series of straightforward procedures that are in many ways similar to the process of constructing a building. Using the Profit Building Process as our blueprint, we begin with a strong foundation—in this case, a *well-trained and well-prepared team.* The next step is to construct a framework by *asking all the pertinent questions,* just as a plumber, electrician, or carpenter might do before undertaking a task. In the case of building profits, this amounts to *brainstorming for appropriate solutions.* Then construction begins. Profit building is in progress and *action steps* are implemented. Finally, in both examples a *review and follow-up* must be implemented to ensure that everything is "to code."

Regrettably, many companies have no plan at all for profit building. Thus it is not surprising that when profits sag, these companies cut costs the only way they know how. They strip the organization of the most significant resource it has: people.

This response to reducing costs is all too common. We live in a world where mergers, acquisitions, and leveraged buyouts have become the norm. Profitable organizations are being acquired by investor groups that gain tremendously by downsizing, reducing large numbers of employees, and focusing on short-term returns. When they deliver short-term results, senior executives are rewarded with stock options that build wealth. Increasing shareholder value is the "shield" behind which investor groups and boards of directors hide as they sell cash flow and other assets—and garner rich rewards. Yet these once-solid, profitable organizations now have considerably more debt, and management has a chance to reap additional rewards by finding new ways to service this debt—usually, by enforcing further layoffs.

This book can help reverse that trend. A blueprint for success, *Profit Building* shows how organizations that are sensitive to team dynamics can take advantage of a broad range of opportunities to improve profitability continuously, and achieve cost reduction, *without layoffs.* As organizations increasingly find themselves evaluating and planning the nearterm and long-term future of the business, managers must delve into and make use of all the means available within the organization to reduce cost on an ongoing basis and consistently improve profits. This includes developing the people who make up the teams that support the business. In other words, business leaders must learn how to mine the organization not only for hidden profits but also for hidden *people*-resources. Whether you are an international business leader, corporate executive, manager, business professional, entrepreneur, or change leader, this book will help you effectively develop teams dedicated to profit improvement. But before we delve into the details of the Profit Building Process, let's examine how profit improvement is currently addressed in *your* organization.

■ The Profit Improvement Paradox

In most business conversations, only moments pass before some reference is made to improving profits. This is predictable because a main focus of business is to make profits. What is not so predictable is most managers' limited ability to formulate effective plans for profit improvement. This is what I refer to as the Profit Improvement Paradox: Although a key goal of management is to improve profitability and reduce costs, few managers have the tools or ability to do so. How can that be? It is profit that drives the Wall Street machine. It is profit that drives shareholder interest. It is profit that drives return on investment. Our managers should be profit pros, but few are. Although this paradox pervades today's business environment, it is so deeply entrenched and so well camouflaged that I fear business leaders will continue to overlook it. If profit improvement is a main goal of business, why is it that most business people do not know how to reduce costs continuously?

Let's take a few moments to test for the existence of the Profit Improvement Paradox in *your* company. Conduct the following exercise with a cross section of your management team.

The Profit Improvement Paradox Test

A. Choose a group of 10 to 15 managers from different areas of responsibility within your organization, including human resources, finance, marketing, operations, training, information technology, purchasing, engineering, and telecommunications. Their experience level can range from junior managers to senior executives. If you are a small business owner or department head of a large corporation, choose diverse members from your company or team.

B. Call an impromptu meeting, asking your managers to come to a conference room with a blank pad of paper and a pen. It is important that you not inform them of the nature of the meeting in advance.

C. Once they are assembled, have them quickly write down, to the best of their ability, their answers to the following questions.

   1. What are the top five most costly items on your profit and loss statement?
   2. What written action plans are in place to reduce cost for those five line items?
   3. What are your variable costs and what have you done to reduce them?
   4. What are your fixed costs and what have you done to reduce them?
   5. Name five vendors from whom you purchase supplies or services. When was the last time you negotiated a better price from these vendors?
   6. Which of your costs are down from a year ago and why?
   7. What have you done to reduce labor costs in your area of responsibility?
   8. What are you doing this week to reduce costs on your next P&L statement?

9. How do you know you are being charged the correct rate on your long-distance telephone bills?
10. What amount of cost reduction is planned for next month?

D. When they have finished, ask your managers to read their answers aloud. Take time to discuss each response as a group. During this process, notice your managers' reactions: Are there blank looks? Do few leaders emerge? Do their answers lack innovative, proactive approaches? Are there few written action steps?

E. Now ask your managers what *they* believe are the main objectives of business, and write their responses on a flip chart. Most should agree that profit improvement and cost reduction are main objectives. (If not, you have some work to do!) Then discuss the paradox: If profit improvement and cost reduction are main objectives, why is it that so few managers were prepared to answer the questions you asked? What do they focus on each day? Where does their time go? Clearly, it is time to reprioritize.

I believe most of us would agree that the questions in this exercise are pretty basic. After all, profitability is a main objective of business, right? Yet your managers' responses are not unusual. As I mentioned, the Profit Improvement Paradox is insidious, and one that many of your managers may be shocked to discover.

■ Development of the Profit Building Process

The Profit Building Process (PBP) is a step-by-step method for developing people-resources, analyzing the situation, and coming up with creative solutions. Built around the team concept, PBP relies on the creative thinking of a diverse team of managers and employees who represent various departments in the company. Training in innovation management, a unique brainstorming method, and developing action plans are the backbone of the PBP process. An organized system of follow-up and accountability, along with continuous input from managers and employees, ensures PBP's success.

PBP is not a fad—it is a set of sound, reliable business practices with a humanistic bent. For the past 25 years, I have seen it used in a variety of industries in corporations across the United States and internationally, including manufacturing, retail, restaurants, banking, and automotive testing. It works for small businesses and multi-million-dollar corporations alike. The process grew out of my background in human resources and my experience in senior operations positions.

My business career began in 1974 at Procter & Gamble. Fresh out of college, I was hired into the company's training program for entry-level management. There I gained an understanding of the importance of two principles that have become the foundation of PBP:

1. *Team Preparation.* Through regularly scheduled team meetings (usually a half-hour at the start of each day), the team sharpens its skills with team-building and problem-solving exercises. This way, when a real problem arises, the team has the tools and ability to find the best solutions.
2. *Employee Participation.* The workforce must be involved in the problem-solving situations that constantly arise. In other words, most problems should be addressed at the lowest possible level of the organization through managed team participation.

I further developed this people-based approach while working for PepsiCo as a human resources professional. I was approached by a president of one of its divisions about participating in PepsiCo's senior management designate program, a fast-track strategy to develop future leaders of the organization. During my participation in this 24-month skills development program, I was trained to become a vice president with general management responsibilities for 20,000 employees and $500 million in revenue. Keep in mind that before I entered this program, my background was in human resources with a focus on developing people, team building, and training. Once I completed the program, I became a general manager with responsibility for net operating profits after taxes and for return on assets employed. Because of my human resources background, my approach to solving marketing and finance problems was rooted in the development of people and team consulting. Now, after 25 years of trial and error, I have devised and refined a program for cost reduction and profit improvement that can be applied with immediate results to any business situation. The Profit Building Process always mines the background and experience of the people driving innovation in the organization. In addition, PBP includes important strategies and insights on how to prepare the company for coming change—a process imperative to successful implementation.

The act of *preparing* the organization for change is a step that is often overlooked. Time and time again we have seen innovative ideas, which appear to have merit and seem to be just what the business needs, turn "dead on arrival" because the business is just not ready for them. Furthermore, many organizations are never aware that such a problem exists; managers assume that the *idea* must be faulty, never recognizing that the real fault lies in the organization's inability to accept change. *Profit Building* addresses this dilemma by providing some basic guidance on how to prepare both the profit building team and the organization to recognize barriers to change. The book also offers a variety of solutions that will help increase the rate at which new ideas are successfully adopted.

So why rely on layoffs? This book offers innovative alternatives to workforce reduction and makes the most of employees' desire to participate in enhancing profits. It shows organizations how to give employees that opportunity through a process that perpetuates cost reduction and helps sustain profit improvement. In fact, throughout this book you will discover a wide variety of new concepts and methods for cost reduction and profit improvement, including

1. The Organizational Complexity Predictor, a 20-question survey that measures an organization's ability to accept change.

2. Questions Brainstorming, wherein participants explore a topic by brainstorming an endless list of questions, rather than trying to come up with immediate answers. These questions are then carefully dissected, and the answers become the starting point for new profit improvement programs.
3. Preparing the organization for a renewed focus on profit improvement, just as you would prepare the organization for a renewed focus on quality or for reengineering.
4. Adopting the practice of holding regular meetings on profit improvement, thereby getting the organization into the habit of "ritualizing" profit improvement.
5. Not going after all profits at once, but instead focusing on one initiative at a time, and then re-igniting the profit building process to launch a new initiative once the previous action item has been completed.
6. A list of more than 100 cost reduction and profit improvement ideas for generating immediate results.

This is a book about profit improvement and cost reduction! It is designed to help business managers benefit, rather than suffer, from unprecedented organizational transitions. Conscientiously applied, PBP will produce long-term results for any organization or business.

2 Improving Profits: Better Ways Than Layoffs

Business must be profitable if it is to continue to succeed, but the glory of business is to make it so successful that it may do things that are great chiefly because they ought to be done.

—Charles Schwab

One of the first times I witnessed the power of a team in action was in 1975, when I was a manager at Procter & Gamble. It was approximately two years after the Charmin paper plant in Oxnard, California had opened, and sales had failed to meet our projections. It was a typical scenario: All managers were called into a meeting and told about the shortfall in revenue. Because sales had slipped, we were instructed to come up with a plan to cut costs by 10% in each of our departments.

I was among 20 managers in this meeting. Each of us had a team of employees who had been hired over the last year. When we reconvened to present our plans, 19 out of 20 of us proposed to cut costs through layoffs. Thanks to my team, my plan was different.

When I had taken the problem to my team to solve, the scope and variety of their answers had amazed me. Through brainstorming and teamwork, we had developed an action plan that significantly cut costs without cutting jobs. The plan we came up with included the following recommendations:

- *All employees would take an across-the-board pay cut during this period of revenue shortfall, as long as there would be an opportunity to earn back missed wages via incentives in future months.*
- *The team would organize a process for volunteers to take personal time off.*
- *We would use smaller containers for packaging product.*
- *We would reschedule the railroad cars, change truck shipping methods that utilized less than a full load, and combine customer shipping to make routes more cost-efficient.*
- *We would develop a procedure to change the way product was received from other departments to reduce damage and save time.*
- *We would review a recommendation to redesign the warehouse to improve efficiency in shipping and receiving.*
- *We would review a recommendation to streamline the way customers' orders were taken.*

Thanks to our plan, we did not have to lay off key people in the organization who had been hired and trained just a year before. We were able to save jobs while still cutting costs. And, as is usually the case, sales volume reversed its downward trend. Had we resorted to layoffs, we would have had to rehire these valuable people—if they were still available.

My team appreciated the opportunity to be involved in the problem-solving process. It gave them some control over the fate of their jobs, as well as a chance to contribute to the operation of the organization on a larger scale.

As I look back on that situation at Procter & Gamble, I realize that it was a significant milestone in my transition to senior management. I learned something that has remained a part of my management style throughout my career. You don't need to eliminate people to effect a short-term return. Get your people involved in the problem-solving process, and you will quickly find appropriate and lasting solutions.

■ The Downsizing Dilemma

Unfortunately, many companies did not learn this lesson. Throughout the 1980s and 1990s, downsizing was embraced as a quick and easy way to keep costs under control. Most such companies are now discovering the long-term disadvantages of having grabbed these short-term gains.

Reeling from the effects of downsizing, organizations are scrambling for ways to keep pace in today's active marketplace, with their smaller, less experienced staffs. Industry magazines are full of advice on how to pick up the pieces after downsizing has taken its toll. *Internet Telephony* characterized the effect of downsizing in the telephone industry this way:

> It is clear that the downsizing strategy generally used to prepare for competition is beginning to exhaust its usefulness. Just when salespeople need to be most enthusiastic about battling for and keeping customers, they're feeling the effects of downsizing.
>
> As the *Wall Street Journal* pointed out last summer, "After a decade of frantic cost cutting, the downside of downsizing is beginning to take its toll: Decimated sales staffs turn in lousy numbers. 'Survivor syndrome' takes hold, and overburdened staffers just go through the motions of working."[1]

Many other companies have discovered the downside of downsizing. In 1995, Connecticut Mutual Life Insurance Company tried to reduce costs by reducing its workforce. Its strategy was to offer a lucrative buyout program to its 1675 employees. About 900 workers—twice as many as expected—accepted the offer, forcing the company to refill 400 positions. Consequently, Connecticut Mutual Life ended up paying out an estimated $16.9 million in severance pay to eliminate jobs it later refilled.[2]

Eastman Kodak made similar blunders. To make up for the loss of employees after layoffs, the company began outsourcing work at peak periods. In many instances, the contractors charged 3 to 4 times more than the company had paid their former employees to perform the same work. Kodak eventually restaffed some of the positions it eliminated.[3]

At Nynex Corporation, layoffs resulted in poor customer service and heavy penalties. In 1996, the company was ordered by New York's Public Service Commission to rebate $50 million to customers because its reduced staff fell behind in responding to problems and requests. Eventually, Nynex ended up rehiring hundreds of former employees, many of them managers who were already receiving company pensions.[4]

Professor Nitin Nohria of the Harvard Business School has studied the effects of downsizing on America's top 100 companies. According to Professor Nohria, although downsizing yields short-term shareholder gains, it hampers economic growth and undermines long-term competitiveness. With few exceptions, the companies he studied had all downsized repeatedly, cutting their workforce an average of 20%. However, most had not seen improved results. Nohria comments:

> It's not that layoffs are good or bad, but that there are good layoffs and bad layoffs. There seem to be two approaches to downsizing. The first type, which we found among two-thirds of the companies we studied, was a simple, across-the-board cost-cutting approach. Most of those downsizings failed to produce productivity gains or profits over a three-year period subsequent to the layoffs.
>
> The second type, practiced by the other third of the companies we looked at, was more discriminating, motivated by a strategic vision of how to regain competitiveness. On average those firms improved their performances in the medium term.

After a decade of downsizing, organizations throughout the United States and around the world are experiencing the repercussions and are focusing on finding better ways to become more profitable. The challenges that these organizations now face include e-business, e-commerce, new competitors, globalization, technological advances, and the high cost of doing business. In reaction to these new challenges, some organizations still resort to downsizing, reorganizing, and (in some cases) ineffective production changes. Unfortunately, such actions produce only short-term results for many of these businesses. I believe many of these organizations have the resources to provide the funds they need, if only business owners and managers knew where to look.

As a senior executive with experience in five different industries, I was often hired to help floundering businesses to survive and healthy businesses to improve. In most cases, the money they were seeking was right under their noses. Yet countless times I saw top managers flailing about for solutions. They knew instinctively that the solutions were there, but they just could not find them, like someone searching for a light switch in the dark. This dilemma commonly affects managers who are not properly focused on profit improvement and cost reduction strategies. Few people would argue that improvement in profitability and reduction of costs are the most critical aspects of business today. But instead of focusing on these vital areas, most managers rely on traditional short-term solutions that often turn out to be critical mistakes for the organization. The two most common mistakes that we as business leaders continue to make in search of increased profits are as follows:

1. We continue to lay off large numbers of people who are the key resources essential to improving profitability.
2. We do not effectively train management to improve profits.

According to the American Psychological Association, workers who have been laid off feel betrayed and are less likely to feel loyalty toward future employers. "At the heart of these layoffs is the severing of the 'psychological contract' that has traditionally bound professionals to their employers," said Steve Kozlowski, Ph.D., in an article on downsizing published in the *APA Monitor*. According to Kozlowski,

> Before the 1990s, it was generally understood that employers would train professional workers and not lay them off willy-nilly; in return, the employees would work hard and not take their skills elsewhere. Suddenly you have to change that. And you lose loyalty when the rules change.[5]

Demographically, laid-off workers are a cross section of all of us who make up the business population: Some have families, some have college degrees, and some have 5, 10, or 15 years of experience and have helped to build the organization to its current level. Some have turned down other opportunities during their careers and thus have remained loyal to the organization, trusting it to continue providing them with gainful employment. In many cases, these individuals are at the most productive stage of their work lives and can contribute much more than ever before because of their knowledge, motivation, and relevant experience—not to mention the "chemistry" that develops when a team has performed together over the years.

Eliminating these people from our payrolls is our first mistake, and we repeat it time and time again. These people have the answers to the profit improvement questions—if management would just ask. Having experienced people participate in the cost reduction process generates long-term solutions that stabilize transitions and deliver levels of improvement many times greater than those generated by a massive one-time layoff.

Our second mistake is that management is not prepared to deliver improved profits. Most managers do not know how to reduce costs or improve profits, even though profitability improvement is on the mind of all managers.

I do not deny that there are situations wherein a company may have no alternative but to reduce the workforce to reduce costs, but I feel this method of cost reduction should always be considered a last resort. Unfortunately, many companies rely on layoffs for cost reduction, and other alternatives are never explored. So often, however, a little creative thinking and ingenuity can save jobs, while achieving the cost reduction goal.

■ Perpetuating the Profit Improvement Paradox

Although improving profits and reducing costs are a main objective of business, few managers have the tools or ability to achieve these goals. Before we can dispel the profit improvement paradox, we need to examine why this paradox exists. I believe there are four basic reasons: management distraction, a lack of management training, high management turnover, and the lack of a consistent process for focusing on profitability improvement. Let's take a closer look.

Management Distraction

Instead of focusing on profitability and cost reduction, most managers become distracted by other aspects of their business. The factors that contribute to this distraction include new competition, e-strategy opportunities, the need to improve efficiency, market share strategies, new technology, procedural changes, reengineering, and, yes, even serving the customer.

Clearly, these are vital areas that routinely demand immediate and constant attention. No one can deny their value to successful business operations. Even so, companies should have an ongoing cost reduction process running in the background of such critical activities, allowing profit improvement to continue. If management could only refocus on profitability, then it would generate long-term positive results that would become the catalyst for ongoing profit improvement. It is this continuous focus on cost reduction and profit increase that is the basis of *Profit Building*.

Lack of Management Training

There is a growing trend among companies today to increase their spending on management training. This is extremely important. However, these dollars need to be redeployed to support current initiatives. As organizations continue to prepare their managers to meet the challenges posed by today's business environment, they must also earmark adequate dollars for training managers to become more aware of profit improvement scenarios. Such training should be increased proportionately in order to equalize or offset the distractions that will always tend to undermine the profit improvement process.

Unfortunately, many companies still refuse to recognize the importance of training programs, and those that are willing to spend the money are not sure what type of training is needed. Upon evaluation of how much money is allocated to training associated with profit improvement or cost reduction it becomes very clear that in many companies, this type of training does not exist.

If your organization is one of the few that provides training specifically designed for profit improvement, ask yourself, "Does my training program offer a process for continued focus on cost reduction and the generation of innovative ideas to reduce future costs?" If the answer is yes, then I congratulate you! If the answer is "no," read on.

Management Turnover

Management turnover is a problem that most businesses must deal with on a regular basis. Its impact on your business is twofold: You lose the experience, knowledge, and training invested in the manager who leaves, and each replacement takes you back to zero in terms of cost reduction and any associated activities that have taken place.

Cost reduction and profitability improvement should stand alone as a constant, dynamic process that is not affected by management turnover. This process should become a core competency of the business. Therefore, profit improvement training should be a part of every new manager's development program.

Lack of a Consistent Process for Profit Improvement

I see this as the main reason why the profitability paradox exists. Too many organizations simply do not have a consistent, systematic process for reducing costs and improving profits on a continuous basis. That is why it is so difficult for managers, business owners, and even senior executives to identify quickly any action steps taken toward cost reduction. They tend to be more comfortable with problem solving when the questions require broad-based solutions that may or may not tie into profit improvement. When asked, for example, "What thoughts do you have regarding efficiency improvement and its impact on profitability?" or "How will our reengineering activity generate higher levels of profitability?" managers may respond with answers or solutions that cover a wide spectrum of possibilities.

Conversely, when asked more specifically, "What line items on the P&L statement do your areas of responsibility cover, and what steps are you taking to reduce those costs?" managers become more halting in their answers.

Many books that have been written about cost management focus on activity-based practices. Most widely known is Activity-Based Costing, or ABC, which is addressed in such titles as *Activity Accounting: An Activity-Based Costing Approach,* by James Brimson. There are also books on activity-based budgeting and activity-based management. These excellent books offer a great deal of information about cost measurement. Once you have read them, however, you may find yourself asking, "But how do I *reduce* my costs after I have measured them carefully?" and "Where can I find a list of cost reduction *ideas* organized by line item?" The answers to these questions are the basis for this book. Without them, continuous improvements in profitability are unlikely.

■ Summary

In most instances, the massive layoffs of the last decade have proved to be costly and ineffective. Yet many managers are unable to come up with alternative cost-cutting solutions. Business leaders make two common mistakes in the search for profit improvement:

1. They continue to lay off large numbers of people who are the key resources essential for profit improvement.
2. They do not effectively train managers to improve profits.

The profit improvement paradox is perpetuated by the attitudes and actions of management. The four main reasons for this are management distraction, lack of management training, management turnover, and lack of a consistent process for profit improvement.

The Profit Building Process can turn this trend around. The next chapter introduces the five steps of PBP and explains how to generate a multitude of cost reduction and profit improvement ideas—so that layoffs will always be used as a last resort.

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by Perry J. Ludy
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