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MANAGEMENT

Adopting An Opportunistic Approach To Cost Cutting

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A basic business law is that sales growth plus cost cutting equals more profit. Many executives overlook the cost-cutting part of the equation.

Smart entrepreneurs always seek ways to cut costs. They don't wait for a bad economy to squeeze more efficiency from operations.

By creating a culture of frugality, you send a message to employees that every dollar counts. They are more likely to invest company resources prudently and weigh cost and benefit if they know you do the same.

"Cost cutting involves determining the strategic value of each initiative in your organization," said Holly Green, managing director of the Human Factor, a consulting firm in San Diego, Calif. "But most people resist doing this. They'll say 'We don't have the time' or 'We already know our business well' or some other excuse."

Cost cutting carries certain assumptions for entrepreneurs. For instance, you might believe that reducing spending means sacrificing growth.

It's true that too much focus on retrenchment and cost savings can set the stage for misguided decisions. That's why the most effective entrepreneurs balance financial controls with aggressive pursuit of growth.

"Avoid the notion that you have to completely retard growth to cut costs," said Matthew Growney, an experienced venture capital investor and chief executive of Isabella Products, a consumer electronics start-up in Concord, Mass.

Opportunistic business owners invest aggressively in marketing during lean times. They realize it's easier to attract shoppers when the competition is laying low.

"If your technology or service is great, no one wins with less customers and more cash," added Growney, co-founder of Motorola Ventures, the venture capital arm of Motorola ([MOT](#)).

There's a bright side to cost cutting in a downturn, Growney says. That's because business consumers are well positioned to negotiate better deals.

"Today, a dollar buys a lot more resources than it did a year ago," he said. "Whether you're hiring contractors or outsourcing design, it'll cost you a lot less than you might think."

For example, Growney says that software developers who may have charged \$100 an hour a year ago might work for less than half that amount. He sees this as an ideal time to consider switching vendors, upgrading equipment or purchasing Web-based technology.

In an effort to control operating costs, beware of across-the-board cuts. Such drastic moves can backfire.

"Sure, it's easier to say, 'Let's cut everything 15%,'" said Green, author of "More Than a Minute." "But things are not equal, so weighting everything the same across every segment of your business can work against you."

Enlist your employees in expense control. Open the books so that staffers understand how you're deploying your limited funds. Solicit their ideas on how the business can reduce waste, streamline processes and adopt money-saving best practices.

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