



## Don't Cut Your Costs, Manage Them!

by [Andrew Cooke](#), [Growth & Profit Solutions](#)

*How to avoid being a cost-cutter and create a thriving business from managing your costs.*



When times are hard the knee-jerk reaction for many businesses is to cut costs. Don't do it! Or to put it another way – **don't do it!**

Before we get into this I want to give you an operational definition of costs for the purpose of this article. Costs have several relevant definitions, costs are:

- a payment before something can be done or acquired
- an effort, loss or sacrifice necessary to achieve something
- a loss or unpleasant consequence

When we look at cost-cutting we are generally looking to reduce the first, to try to avoid the second, but we often end up with the third! Why is this? Especially when we are looking for an opposite outcome?

Cutting costs has only one direction, that is downwards, and this gives you a very limited set of opportunities. A cost-cutting mindset is that of seeing the issue of costs as a problem – you are responding to external events outside your control and not fully taking on responsibility. Here the individual will continue to cut the grass, even if he or she will kill off the lawn in doing so.

A successful company **thrives** on costs. This is not to say it incurs costs without any consideration or thought, quite the opposite, it actually understands that you need to incur the *right* costs in order to grow, thrive and survive. As such you need to be able to manage your costs.



Managing costs is about seeing potential opportunities and searching for a solution. To manage your costs you need to understand why you incur them, what they are for, and the relationships between different costs and the business outcomes you are looking to achieve, and when their impact takes place.<sup>3</sup>

So how do we manage costs? Here are six powerful tips.

### **Andrew's 6 Powerful Tips for Managing Costs**

#### **1. *Have a strategic focus – not operational***

Decisions made on how to manage costs are strategic. They are decided at the top and then cascaded appropriately. It is a long-term and considered process. A cost-cutter will look at the level of costs to be reduced and then look for where these cuts can be made without any guiding strategy. It is a short-term, knee-jerk reflexive action.

#### **2. *Be targeted***

Managing costs requires you to be targeted as to where your cost management efforts will be focused and implemented. This follows on from being strategic. A cost-cutter will look at the 15% reduction they are looking to realise and apply it across the board to all divisions and departments without consideration of how, the contribution made, or the consequences.

#### **3. *Be prepared to be brutal***

Too often insufficient costs are removed, the decision is a compromise and this is often due to weak leadership and their not wanting to be seen as the instigator of cost-cutting. So they try to soften the blow to make themselves feel better, and so that people won't think so poorly of them.



If you are managing costs you need to be brutal when necessary. It is better to make a single amputation, cleanly, quickly and fast rather than inflicting the pain of a thousand cuts on the business.

#### **4. *Make people accountable***

Those who are managing costs are good at making people accountable, they hold them responsible for doing the necessary work in the right way. Cost-cutting occurs when there is a lack of accountability – there is a lack of transparency and commitment, games are played with budgets, allocations and the transferring of money between different budgets.

#### **5. *Establish & enforce consequences***

A lack of clear and enforceable consequences is one of the reasons that managing costs does not happen, and people engage in cost-cutting. People need to know that if costs are not managed, not just in the short-run but on an on-going basis, then they will face repercussions – even with being fired – and that these will occur if they fail. Too many businesses have accountability creating a toothless lion with the associated consequences.

#### **6. *Lock up profit & dividends***

When you are managing your costs you need to work back from your dividends and profit goals and identify what you need to do in terms of costs **and revenue** to achieve them. In doing this the goals need to be sacrosanct. A cost-cutter will move the goals to suit the cost reductions – this undermines the whole process.

Are you a cost-cutter or a cost manager? What are you going to do to be an ongoing cost manager? How will you use this six tips? How have you successfully managed your costs? Share your ideas here.

For further information on managing costs and steps to optimise the impact of your cost management program [click here](#). Remember, share the knowledge – share the wealth!



### **About Andrew Cooke and Blue Sky GPS (Growth & Profit Solutions)**

#### **Andrew Cooke**

*An experienced executive coach, business facilitator, and management consultant Andrew has more than 25 years' national and international experience, working across a range of industries and businesses. He is passionate in helping people, teams and companies to unlock their individual and collective potential, enabling them to achieve their personal and business goals and, in turn, to help them unlock the potential of others.*

*Andrew has extensive experience in dealing with both blue-chip and start-up companies, and has had extensive international experience in the UK, the Middle East and Ireland across a range of industries.*

*He has post-graduate business qualifications with a Master's in Business Administration (MBA) from the London Business School. He is an accredited associate coach for Marshall Goldsmith Stakeholder Centered Coaching in coaching executives and leaders.*

#### **Blue Sky GPS (Growth & Profit Solutions)**

*Andrew runs [Blue Sky GPS \(Growth & Profit Solutions\)](#), working with individuals, teams, groups and corporate so they can unlock their potential, that of others, and create a life and a job they love and choose to lead.*

*Through customized development programmes using experiential learning, backed by group workshops, individual one-to-one coaching and on-going support the individual and group development needs are addressed, the skills and capabilities are unlocked and the people can grow and achieve both personal and business outcomes on a sustainable basis. His blog, Growth and Profit, can be found at <http://growthandprofit.me>.*

*To find out more about this visit the [Blue Sky GPS website](#) or contact Andrew at [andrew.cooke@business-gps.com.au](mailto:andrew.cooke@business-gps.com.au) or on +61 (0)401 842 673.*