

## TACTIC #2

# RE-MARGIN YOUR BUSINESS – EXPENSE MANAGEMENT

*It is not necessary to change. Survival is not mandatory.*

W. EDWARDS DEMING

ANYONE WHO EXPECTS CHANGE to be comfortable hasn't been challenged enough. Change isn't easy and significant change is downright difficult. Yet long-term success requires it. My experience has taught me that the people most responsive to change are the ones most likely to survive and thrive. James Yorke, a University of Maryland mathematics and physics professor, put it perfectly when he said "the most successful people are those who are good at plan B." In other words, when change affects your plan, plan effective change.

To shift is to change. The market changes therefore you must change with it. With your thinking right and your role clear you must immediately identify the other effective business changes your current circumstances require. The first one is the only one that can get you back to profitability the fastest—cutting costs. The number one determinant of *thriving* is lead generation, but the number one determinant of *surviving* is expense management. When markets shift, the first change a business must make is "re-expense" itself. "Revenuing" your way out of a shift is iffy at best. Generating more income may be impossible in the short run and take too much time in the long run. This approach is always just too little too late. Now is the required speed when a shift occurs. Get your expenses lower—now!

I cannot overemphasize the importance of always working from a position of profitability. It is vital and must be protected at all times and at all costs. And therein lies the answer—time and costs. You must lower your costs now. To generate revenue you generate leads. To make a profit you manage expenses. Sam Walton explained his success this way: “We had to keep expenses to a minimum. That is where it started. Our money was made by controlling expenses.” This is true for all businesses. The profit you seek will always be made in the way you manage your money. So when the market shifts, you must create a budget that matches your revenue. We call this re-margining your business.

Interestingly one might think that the goal of profit would provide the motivation necessary to do this, but research and personal experience have proven otherwise. Fear of financial loss is a more powerful motivator than the opportunity for financial gain. It just seems that the push we get from our fears is stronger than any pull towards the profits we desire. A swift kick in the behind turns out to be a pretty good motivator and that’s okay.

Peter Drucker was famous for teaching this very straightforward point—you can’t build a business by cutting back, but you can find your profit and save it. Every business must make a profit. To do this they must find a profit margin they can achieve and focus on getting there. The only true competitive weapon you have as a businessperson is a margin of profit. It is the foundation from which all of your competitiveness stems. If a market shift causes your income to drop but your expenses don’t immediately drop in lockstep with it then your profit margin is gone. And along with it your competitiveness. If this lasts long enough you will go out of business because no profit and no competitiveness means no business.