EDITORIAL

A GOOD TIME TO REASSESS

No business has ever failed because management was too aggressive in cutting costs. That's a central message in retired General Electric Chairman Jack Welch's newly published memoir. During his celebrated tenure at the helm of one of the world's most respected corporate organizations, Welch saw managers reflexively resist cost-cutting measures, arguing that spending and payroll reductions would "go beyond the fat and weaken the muscle and bone" of a business. He understood the source of this resistance: No one likes to give up perks, lay off friends, or upset relationships with longstanding suppliers. However, he also recognized that if a business doesn't generate a respectable return on investment, it won't be around very long. At GE, Welch placed a premium on cost control and the results—20 years of double digit profit growth—bear out his approach.

The stock market meltdown, the computer industry recession, and general consumer uncertainty made the first nine months of 2001 a challenge. The tragedy of September 11th only made matters worse. We'll leave questions of whether or not the economy is in recession up to the economists. However, in what is clearly a more demanding competitive environment, we think Welch's thoughts on cost control are particularly relevant.

In periods of prosperity such as the industry experienced over the past ten years, there is a natural inclination to focus on top-line growth and ignore the expense side of the ledger. Now is a time to shift perspective and begin reviewing every expense line on your P&L. Services like insurance, telephone, and health care should be put out to bid. Staffing levels and commission structures should also be reviewed. On the promotion side, ask yourself how many Yellow Pages do you actually need to be in? While you're at it, procedures for curbing inventory shrinkage are worth a review.

If you start at the top of your most recent P&L and work your way down, there's no question that there are sizable potential savings to be found. And as the old saying goes, there is no single idea that will cut expenses by 10%, but there are probably 10 ideas that will cut costs by 1%.

This is also a good time to refocus on corporate strategy. Growing markets tend to mask poor choices and encourage wishful thinking. The result is me-too competition and the introduction of many products and services where companies have no real competitive advantage that will generate profits. Without naming names, there is a long list of manufacturers and retailers in the music products industry that, over the past five years, have expanded into ventures that are unlikely to pan out. Copies of market-leading products that can only be moved at cut-rate prices and big stores with nothing unique to commend them are just two recognizable examples.

The essence of strategy is defining how a company is unique and how it will deliver a distinctive mix of value. It's all about aligning every activity to create an offering that cannot easily be emulated by competitors. Now is the time for companies to be honest about where they have, or could have, a competitive advantage. If that means dumping product lines, closing stores, or hacking away at expenses, than so be it. Once you get past the initial pain, you'll be left with a better business.

The coming months will present a challenge. However, they also offer a unique opportunity to clear the slate and focus on those activities that will ensure future growth and prosperity. Properly positioning your business and bringing cost structures into line are not just about boosting profits, they are a moral imperative as well.

Elsewhere in this issue we chronicle the sad story of Baldwin Piano & Organ's unnecessary slide into bankruptcy. Five years ago, some 1,600 people were drawing a paycheck from Baldwin. As of last month, the number was closer to 200, and the salaries had been drastically reduced. The plight of Baldwin workers who are currently unemployed can be traced directly to a management that failed to address the basics of running a business. Failing to maximize the profitability of your business does a grave disservice to your employees, depriving them of opportunities and benefits. Walter Reuther, founder of the United Auto Workers Union, put it best when he said, "The greatest sin against a working man is an unprofitable company."

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