Business is like poker— know when to hold and when to fold

Category: Planning

Are you chasing revenues because your cost structure is too high? Do you say to yourself, "If only I could increase revenues x% then my cost structure would make sense and I would be making money"?

These are beguiling and tempting thoughts because it is much easier to add expense than it is to eliminate it. I often think that costs are like those wire hangers in your closet, the ones you get from the cleaners. There always seem to be more than you think and it seems like they get together in the night and breed.

Costs are like that. Some you can simply eliminate but others are more problematical and we continue to allow them even though they run outside the scope of what we can really afford. There comes a point at which you have to ask whether your business model really makes sense, a point when chasing revenues is no longer a realistic alternative.

You simply have to accept that you have to cut, yet cutting is really hard because you still think deep down that your revenues are going to grow and that then you won't have enough people to do the work that you will need to do.

That happened to me in my business. I had built an impressive organization with a great infrastructure that was actually far in excess of what I could afford. I was very reluctant to cut because I was so pleased with what I had put together and I thought that the revenue growth would happen and that it would take care of the problem. It didn't and the steps that I had to take when I did eventually take them were much more painful than they would have been had I acted in a more timely fashion.

A good litmus test for identifying whether it is time to cut is to look at three different scenarios:

- How long can the business survive as it is with no growth
- What would happen if revenues dropped 10%?
- What would happen if revenues dropped 25%?

At each level you should ask yourself the question: "what could I cut"? Sometimes if you look at things hypothetically and ask yourself what you would cut if something happened it is easier and less emotional than when you are looking at red ink and pressured to act.

If the exercise helps you identify costs that really can be cut ahead of a downturn in revenues then that is a big win.