



# TAKE FOCUSED ACTION

*One of the important secrets for making it through tough times is to downsize your cost base without downsizing your future growth potential*

*By David W. Eller*

**T**he year 2008 has presented many management challenges and opportunities. For example, many businesses have incurred reduced revenues from operations, increased costs for energy, health care, insurance, taxes, etc. How can a typical business in the hospitality industry survive and prosper during this very bumpy time? We can ignore the situation, hope for the best or turn escalating costs into a new money making opportunity.

Instead, let's focus our attention on a new process of "cost units," such as human resources, and begin to mount a new profit center and growth plan. If done correctly, this could become a powerful source of new cash flow and profitability. The same approach could be used for other "cost units" such as energy, taxes, insurance, etc.

A much higher risk right now is to play it safe and re-trench. While retrenchment is an understandable reaction to negative economic, political or security issues, many companies are seeing it as a negative management attitude and habit. One of the important secrets for making it through tough times is to downsize your cost base without downsizing your future growth potential. Retrenchment can buy time, but it can't provide a future with growth possibilities.

How long can a business have deteriorating growth in sales, profitability and cash flow? The good news is that this trend can, and will, be reversed one step at a time with an integrated model for planning, analysis and control — or IMPAC.

## Introducing IMPAC

IMPAC is the foundation for launching a new profit center. The fundamental assumption is that the purpose of every

business is to make money. Money provides the grease for the IMPAC gears to turn. Today, management is presented with taking costs centers and repositioning them to become profit generators. The focus in every new profit center is to generate money and improve profits. All of these have results that appear on the bottom line.

All of the current cost centers can potentially improve the company's bottom line, and the human resources (HR) department is a good place to start. The IMPAC system helps HR management find new money-making opportunities, challenge them to identify problems, costs, opportunities, etc. The process has three characteristics:

1. Profit-improvement focused
2. Proactive and focused on specific business problems, then in turn produce new solutions to these problems
3. Succinct and simple. Everyone needs to understand and come to believe in the new profit center. This will become a place for innovation, growth and profit development.

## Six Steps to Launch the IMPAC Profit Center

The IMPAC profit center process follows these components:

1. *Clearly define the business problem(s).* This is the place to be candid and clearly state the problems that the group is facing. For example, high employee turnover, lower productivity, inadequate managerial effectiveness in developing a profitable operation.
2. *Cost explanation of the business problem(s).* It is essential to clearly define all of the costs associated with the identified problem (i.e. high employee turnover, low productivity, etc).

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3. **New HR solutions for the business problem(s).** With a spirit of positive energy and research, the HR staff identifies an array of measures to correct the problem.
4. **Define the cost of the solution.** Once the potential solutions have been identified, it is essential to carefully define the cost of the solution(s).
5. **Define the cost benefit from the new solution(s).** Carefully portray the potential dollar benefit from the new improved solution. For example, if the HR team found that it was possible to reduce employee payroll costs 30 percent by using employee leasing, this would be a substantial source of money and profitability for the profit center.
6. **Cost-benefit ratio.** In this final step, the profit center begins to identify what happens when costs are reduced by a given amount, such as 30 percent. This becomes a new “bottom line bell jar” of what the results are compared to the investment. When the investment is relatively small, the cost-benefit ratio can become extremely attractive. This is where the IMPAC profit center begins to earn its keep.

### Illustration of New Opportunities

Let's begin by tackling HR cost reductions, and identifying new sources of cash flow, profitability and growth. Many business managers view employee benefits as a source of escalating costs, legal liabilities and other problems. In many cases, managers see this cost rise constantly, without the ability to control the increases.

In the new profit center employee benefits are viewed as an opportunity with many development options. Today, many options exist for controlling

these costs. It is possible to reconfigure your benefits program not only to save money over what you're currently paying, but also to create the right mix of benefits for your employees.

To control costs, it is important not to get locked into standard benefit plans and refuse to explore other options. Research employee plans with high costs and identify and rank the costs. Once the cost structure is better known, implement new tactics for cutting costs and improving the HR benefits. Consider implementing one or more of the following sample tactics:

1. Gather competitive benefit quotes from insurance brokers
2. Evaluate the features and benefits of working through an employee leasing company.
3. Help your employees reduce their claims.

The cost cutting planning process can help you view your business in such a way that you will discover your new business growth opportunities and secrets for improving cash flow. This will result in increased sales revenue, decreased expenses, lower taxes, higher profits and improved cash flow.

### The Path to Discovery

Organizing a new profit center can be an effective process in discovering untapped business resources and weaknesses in your business. The analysis will help you identify hidden development resources such as sleeper ideas, creative employees and innovative new technologies. While this is happening, the problems that are causing inadequate cash flow and production obstacles will float to the surface and become more obvious. The business growth plan will also help to define new

strategic objectives, goals and marketing programs which will help you focus your management energy and resources. The audit of operational and technology inefficiencies will reveal management practices and systems that are draining the business.

Developing the planning process can be the most important factor in your business growth and cash flow improvement success. The IMPAC system motivates you to document management objectives, goals and the need for new practices. Your strategic growth plan should detail each step of your analysis. When you apply the principles and concepts of a business growth plan to your business, you will develop a complete system for growth and improved cash flow and become focused on areas that need to be worked on.

In our current business environment, we need to remind ourselves that we are living in a world with unlimited business development opportunities. If you focus on retrenchment and ignore short-term cash flow improvements, your business will never emerge from the doldrums and will continue to do business unprepared and without confidence. Now is the time to perform the necessary homework to discover your talented employees and ideal solutions in a strategic audit. Maybe it is just a matter of a change in attitude — yours.

### Next Step Questions

- What is your plan for dealing with the current economy and its future challenges?
- What are some small steps that you can take?
- Are you willing to dig for measurable results?

One final thought — take action. The year 2008 has shown us that our business revolves around money. When it becomes tougher to make money, the clue is to lean down, dig in and play a tougher game. By taking focused action, we can make a big difference in our organization's future financial success. Good stewardship will allow the “profit seekers” to contribute to new sources of human energy and money. ■