

## 7 Best Practices of Leading Businesses

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The economy is in a recession and revenue growth seems out of reach. Profits margins are under pressure and cash flow is constrained. Remaining profitable in these circumstances is a challenge for most businesses. With all this adversity out there, how is it that some businesses are doing quite well and actually growing their bottom line?

In this context, there are basically three categories of businesses:

- Leaders
- Survivors
- Laggards

The *laggards* exhibit the following common traits in dealing with this challenge:

- Reduce headcount aggressively to achieve *temporary* cost reduction
- Reduce marketing activities
- Cut back on products or services
- Reduce quality

With the mindset that cost is a bad thing, these businesses focus on cost reduction. While their actions are intended to do more with less, they fail to help the business deal with the challenge. The implications of these actions go far beyond the current quarter or even fiscal year. Yes, they show an immediate improvement in profit margin but the benefit is not sustainable. It comes at the cost of reduced current capability and a disadvantaged future position when the

economic climate changes (as it always does). These businesses may be sold, go bankrupt due to lack of liquidity, or just survive at a reduced level of profitability long after the economic conditions change.

The *survivors* exhibit the following common traits in dealing with this challenge:

- Reduce *some temporary* headcount
- Increase marketing activities to increase revenue
- Rebalance the product and services portfolio
- Negotiate better terms with value-chain partners

In order to deal with the challenge, these businesses engage in activities that focus on protecting revenues. They depend on their strong liquidity position to weather the storm and preserve their capability to take advantage of the positive economic conditions when they return. However, they achieve this at a cost in terms of short-term reduction in profits.

The *leaders* exhibit the following common traits in dealing with this challenge:

- Focus on fundamental and permanent cost reduction
- Maintain margins
- Take advantage of acquisition opportunities

These businesses avoid making big changes to their product and services while dealing with the challenge. They do not sacrifice their brand loyalty and long-term advantage for short-term gains. Their strategy is to maintain margins or even improve them even as revenues come under pressure, by taking

advantage of hidden opportunities that are entirely in their control. What are these opportunities and how do they exploit them?

The “7 best practices of leading businesses” used by this category reveal their secret for success:

1. Upgrade your core processes *more often* than the boardroom furniture
  - Process costs are very real. Measure them. Control them
  - Process automation is ***not*** process improvement
  - First improve a process. Then automate it
2. “What gets measured, gets improved”
  - Use frequent benchmarking and performance gap analysis
3. Invest in your human capital
  - Use an objective methodology to hire, retain, reward, and promote employees
  - Provide mentoring to help employees grow professionally
  - Provide growth paths based on qualifications and effort

4. Value objectivity
  - Use tools that enforce objectivity in decision-making
  - Numbers don’t lie (but first make sure they are the right numbers)
5. Don’t ignore the opportunity costs
  - Consider the cost of time to make a decision, a hard dollar value
  - Remember the time-value-of-money in the context of project timelines
6. Don’t get caught-up in NIH Syndrome (Not Invented Here)
  - Get expert outside help
7. Information Technology is a tremendous asset if used as a differentiator

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