

Quitting, Strategically

By Timothy X. Terry
Harvest NY

How many of you remember those motivational posters that used to be plastered on the walls of your high school, especially in the hallway near the Guidance Office? Do you remember the one about “Winners never quit...” with some sort of sports themed backdrop? How about the one popular with many college co-eds of a kitten dangling from a rope by one claw with the caption, “Hang in there!”?

In our society the verb “quit” has acquired a very negative connotation, and rightly so, I suppose, if it’s associated with sloth, apathy, and failure to achieve. However, *strategic* quitting is part of a healthy and successful business plan. In other words, selectively quitting the right stuff at the right time. You need to discern which projects, tasks, initiatives, etc. are going to yield a great return and which ones are just sucking up time, talent, and treasure (mostly treasure); and/or are keeping you from doing the more valuable things.

Sunk Costs

One of the reasons it is so hard to quit a project or enterprise is that as managers we feel we’ve invested way too much time and effort to just walk away from something. In other words, we’ve succumbed to the Sunk Costs Fallacy, which also known as Loss Aversion.

I see this most often when it comes to retrofitting older facilities. The thought is, “We have it (the structure), so we must use it!” Thus a boatload of bucks and a mountain of effort are dedicated to the project only to have the final product scarcely more efficient and still housed in an older structure that may require considerable upkeep. Unfortunately, many times for a few dollars more (or even less, in some cases) they could have had a new, efficient facility, in a better location, with expansion capabilities and structural flexibility should another enterprise present a better opportunity.

Avoiding the Trap

So how do we avoid this insidious trap?

1. Only focus on future costs – not on the ones that have already happened. The money has already been spent, the effort expended. Like things dropped in the ocean there’s nothing you can do to get it back. Rather,

focus on the future. Don’t make decisions based on previous investment but on the financial viability of the enterprise going forward.

2. Realize that past investments do not obligate future resources. There’s no reason to throw good money after bad. This includes human capital, as well.
3. Ask yourself, “Does this enterprise have a fighting chance, or is it just a chance to fight?” If it’s more the latter than the former, then it might be time to pull the plug.
4. Sometimes the best decision is to quit. This is not admitting failure. Rather, it is a wise response to a changing business climate that makes the original goal no longer viable (i.e. – raising more calves and heifers than really needed with the intention of selling the excess).
5. Get the facts. Many times we may want to continue, or even start, an enterprise simply based on feelings.

However, the best option is to be brutally honest with yourself and analyze it against the facts. Then make your decision based on the “realities of the analyses” rather than emotion and pride. (See #2 below)

Don’t make decisions based on previous investment but on the financial viability of the enterprise going forward.

To Do

1. Diminish the stigma. Recognize and understand that strategic quitting is a normal, necessary, and healthy part of a change-oriented and responsive business plan.
2. Set up a system to detect winners and losers. This is something your Dairy Profit Team or Farm Advisory Group, especially your financial planner, should be able to help you do.
3. Acknowledge the “quit”, but keep moving forward and reallocate those resources to more profitable ventures.
4. Focus on the most rational thing to do next

Conclusion

Kenny Rogers once sang, “You got to know when to hold them, know when to fold them...” (*The Gambler*/Schlitz 1978). It takes more guts to admit you were wrong and make a change than to simply stay the course for no reason. Moreover, there is no shame in making the best decision for yourself and your business.