DOING THE RIGHT THING

Knowing the right thing to do isn't hard. Most often, it's very obvious. Actually *doing* it is something else again. For example, we all know that we probably eat too much refined sugar and fat, but when the double chocolate cheesecake comes by, it's easy to convince ourselves that one piece won't hurt.

By the same token, it doesn't take an MBA or a doctorate in economics to figure out that investing in the best new equipment we can afford on a consistent basis to keep our factories as up-to-date as possible is a wise business decision. Better to upgrade incrementally than one day to wake up and discover the whole factory is ten, twenty or more years out of date, and almost all the equipment needs replacing right away.

So why is it so hard to do that?

A couple of recent conversations have set me wondering about this question. Some employees of a high-production division of a very large company were effusive during a recent visit about how well their business is doing—sales, production volume and profits are all setting records; business has never been better. But they are not allowed to buy any new equipment now, even though a lot of the machinery needs upgrading, and investment in past years has been lagging. There might be a recession on the horizon, the corporate decision-makers explain. Better to keep the cash.

But if the company's not going to buy new equipment when business is good, when is it going to buy it? During a recession?

A tidy sum of readily available cash on the books may be a bit like that slice of chocolate cheesecake. It gives you a good feeling to have it right now, but is it really that good for you? Wouldn't prudent investment in capital equipment be better over the long haul?

Another, more ironic recent conversation was a variation on this theme. In this case, a manufacturer told me how he lost market share in recent years to competitors selling cheaper technology that wasn't as good as his. It really hurt until customers started coming back after realizing that the "cheaper" machines really weren't, when downtime, repair and quality problems were factored into the equation. It had taken some of his customers a while to relearn the truism that cheaper isn't necessarily better.

And yet this same manufacturer, who had suffered from the "cheaper is better" philosophy of others, didn't make the connection to his own buying practices. He was still giving bottom-line price the deciding vote in purchasing decisions. Short-term benefit looked better to him than long-term investment.

This short-term strategy can burn you in the long run. In current conditions, only the companies that have invested in new equipment and training and have adapted to the changing environments in both their home and international markets will survive.

Furthermore, the effects of this kind of investment are geometric. These companies have more profits and cash flow now to continue their investment, which only gives them a greater advantage over the companies that lag behind. And the farther behind the laggard companies that hoard their cash fall, the harder it will be for them to keep up.

I'm not suggesting that price is not important or that now is the best time for every company to invest heavily in new equipment. It is possible to overinvest or to invest unwisely or in the wrong equipment. But I think the greater danger now lies in underinvestment in capital improvements that increase productivity and lower costs.

That's a judgment call businesspeople have to make for themselves. But in making that call, beware of the temptation to go for the chocolate cheesecake every time. Short-term savings always look attractive at first glance. They may not be the best thing for the overall, long-term health of your company.

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