



How do they do that?

By Van Fleisher



How do they do that?

In this unprecedented crisis, reducing costs and making your companies more competitive makes perfect sense. We've been stressing that for 15 years, although not just during crises. One popular way of reducing costs is the "massive staff reduction" route. Job cuts in the USA are up 158% over last year with over 400,000 in January and February. And the cuts are not limited to the US.

Massive staff reductions are not a new phenomenon but the increase in occurrences forces me to ask some questions I've asked myself before – "How do they do that?" and importantly, "Why do they do it that way?"

Let's start with "Why do they do it that way?" Why did Caterpillar announce that they would cut 20,000 jobs? Boeing 10,000? SprintNextel 8000? Home Depot 7000? As many of the cuts may be phased in over a period of time, or accomplished via retirements or voluntary means, or transfers or they may even be unfilled jobs, why torture and de-motivate your staff who are sure to wonder when the axe will fall on them, especially as many of the announced job cuts will turn out to be more spin than reality. How many of the 20, 10, 8 and 7 thousand jobs will really be lost?

The only reason I have ever heard for the advance (and unrealistic) announcements is the boost it gives your stock. That may be, but how long will the boost last versus the negative feelings reverberating around your business and the perceptions of weakness in the markets?

The truth is that even if all the advertised cuts happen, there is only a chance that you will reduce significant costs, and the downside risks may actually be greater than the upside gains. Some of your key people with attractive skills may jump from a "sinking ship" so that you lose core competencies and business. In other words you lose the wrong people versus the planned approach of being *overly* aggressive in job cuts, to clean out weaker performers, making room for new stronger players, often at more favourable terms, can replace them.

Regarding *how* it's done, ie cutting 8, 10, 20 thousand jobs, I know one way through a personal experience many years ago. The very large US company that I worked for, decided that they needed to reduce costs and that the average salary of all employees was say \$50,000. So, it was reasoned, if we get rid of 1000 employees, that's \$50



million. Right? Wrong. The \$50,000 average took in everyone's salary from the CEO to the mail clerk. And guess who was amongst the victims of the downsizing? The mail clerk. Shortly after the cuts, I was looking all over for one of my highest paid managers. I finally located him and you probably guessed where. He was in the mail room unpacking boxes. I don't know the actual amount saved from the exercise, but the company did go bankrupt.

Renoir's collective experience over 15 years is that this methodology is commonplace, especially as a knee jerk reaction to a crisis. Our work in hospitals still shows that nurses (who are in short supply everywhere in the world) are, like my highly paid manager example, carrying out work that should be done by less skilled and lower paid support staff, who were let go in droves during the 1980's and 90's. Very little science. Very little math. And at best a very little result, and often net negative.

A far better way to reduce staff is as a result of finding a better way of doing something. After facing layoffs for two years running, I re-engineered our sales processes and distribution channels. The result was actually neutral in headcount but achieved far greater results (revenues) without needing more people, who would have been required as a result of our growth. I successfully used this argument to avoid the annual cuts the next year. Doing more with the same as in Lean thinking.

Layoffs often cost far more than you think and may be an expensive cost cutting "solution". Our recommendation is to think long and hard before taking action and put some higher math to work, too. Cost reduction through layoffs is not a simple formula. In addition to all the severance payments, outplacement costs, etc, you should also consider the following:

Employer brand equity is a key goal in many industries desperate to attract the best, brightest, and most talented. Even if Toyota succumbs to large layoffs, when the hiring begins again, they'll be first on everyone's list and they will get the best talent.

A New York law firm offered associates a chance to take a year off to work on public service projects for less than half their pay. Being bright, they knew that 50% of something is more than 100% of nothing. And when they come back, they'll be hero's and legends to attract the next waves.



Some industries are more prone to others in the area of **Leadership**. Layoffs are used by managers in different and not altogether appropriate ways. Troublemakers (read: "people who ask too many questions"), he/she didn't follow instructions (read: "competition") and even innocent layoffs often result in future leaders leaving. When the crisis is over, those losses will be felt and the pain can go on for 10, 20 years and more

When the economy heats up, and remember it is when, you'll need to **Rehire** to quickly ramp up to keep and capture business. The challenge is significant and in our experience a very risky and expensive period. Delays might cost you business, mistakes will cost you business and then there's the time and expense. Those companies who have not cut too deeply will have an easier task and be able to respond much more quickly.

So before you cut, try to understand the cost associated with the gains ask yourself if there are other ways to use your staff resource rather than let them go? Can they help your revenue side? Technical people going out with sales to get closer to customers? Using technical or non sales people to call or visit clients? Or using the situation to get volunteers to reduce their pay for some charitable work?

Finally, consider this example as one of the best reasons to think about your layoff cost cutting plan.

The American insurance company, Aflac, ranked 26th in Fortune's 2009 Best Company list, has never had a layoff, living up to the mandate of founders John, Paul, and Bill Amos: "If we take care of our employees, the employees take care of the business."

The employees play a key role in ensuring that the company remains fiscally responsible through their "Bright Ideas" employee suggestion program. Ideas including telecommuting and flex schedules have helped streamline the organization and save millions of dollars. Four recently approved "Bright Ideas" projects are expected to save \$3 million annually.

What companies would they be saving money for today, if they were laid off yesterday?



THE RENOIR GROUP

The Renoir Group is a world leader in implementation consulting. Founded in the UK in 1994, Renoir has offices located in the US, UK, Europe, Middle East, India, China, South East Asia, and Russia. With over 200 fully employed and highly trained consultants, their work across a wide range of industry sectors gives them a broader perspective of the issues facing your industry. It also allows them to be sensitive to your unique challenges, culture and specific business issues. This ensures that the solutions implemented are truly effective and sustainable.

Renoir offers a low risk approach and investment that delivers real and significant results to the bottom line, in timeframes that will surprise, because they plan the achievable. Their implemented solutions and measurable financial results have a lasting impact on the competitiveness and performance of their clients' businesses with the safety of a fixed price.

Renoir's client base covers oil and gas, construction, engineering, chemicals & petrochemical, financial services, power distribution, retailing, healthcare, telecommunications, automotive, logistics, transportation and others. Improvements are achieved, working with all levels of an organization, by developing management systems, business processes, structures and group behaviors that create performance-focused organizations.

Let Renoir help you implement your strategy. Contact Renoir at: renoir.office@renoirgroup.com or a regional office:

Australia, +61 2 8216 0901

Brazil, +55 11 3521 7319

China, + 86 10 6599 7934

France, +33 1 55 68 12 66

India, +91 22 670 78762

Indonesia, + 62 21 5290 9139

Malaysia, +603 216 84401

Mauritius, +230 203 6600

Oil & Gas Division-UK, +44 1224 626669

Oil & Gas Division-USA, +1 713 821 1719

Philippines, +632 849 3960

Russia, +7 905 2666 797

Switzerland, +41 22 819 9417

Thailand, +66 2 627 9368

United Arab Emirates, +971 2 406 9873

United Kingdom, +44 1865 481446

USA, +1 888 236 2945