



**STRATEGIES FOR MANAGING BUSINESSES  
DURING ECONOMIC DOWNTURNS AND BEYOND**

COMPLIMENTS OF YOUR HR EXPERTS

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Small and mid-sized businesses face unprecedented challenges in today's economic climate. To be sure, the economic and business headlines in recent months have not been for the faint of heart, and the news going forward is anyone's guess. Eventually the economy will re-energize, as it has always done in the past, but for the moment, the business mantra of the day seems to be "hunker down."

In the final analysis, are the strategies that successful entrepreneurs use to manage their businesses during economic downturns that much different than the strategies they use to better position their businesses for success in general? How do businesses survive let alone thrive, even under tough business conditions?

As Daniel F. Muzyka, dean of the Sauder School of Business at the University of British Columbia and Lawrence Weiss, visiting professor at the McDonough School of Business at Georgetown University observed in a recent article outlining steps business owners should undertake to weather the current economic storm, "It's a perfect time for businesses to take their cues from the culture of surviving. Be bold and get into that charging barrel – staying focused, balanced and creative. And nimble enough to get out of the tube before the waves come crashing down."<sup>1</sup>

To survive let alone thrive in challenging times, there are five key strategies that are particularly useful and virtually universally accepted because they help form a firmer foundation on which to build when more favorable conditions return:

- Planning for change
- Managing cash flow
- Taking care of your employees
- Focusing on your core business, and
- Forging partnerships

### I. Planning for Change

Now may be the opportune time to challenge strategies that have worked in the past but may be less than optimum now. It is also a good time to position the business for the future.

In a recent article, Fred Whittlesey, a principal in Buck Consultants' Compensation practice, observed that employers evaluating how best to position their companies during an economic downturn, "should revisit what has/has not worked in the past and consider that solutions that may have worked well during the last recession may not fare as well in the current economic climate."<sup>2</sup>

As a starting point, assess exactly where your business stands. Darrel Rigsby of Bain & Company, a leading business consultant, says that businesses should ask three critical questions:<sup>3</sup>

- How is the slowdown affecting the industry in which you compete?
- What is your company's strategic position within that industry?
- What level of financial resources can your business draw on to weather a downturn?

#### Recession Cost-Cutting No-No's

In a recent interview with Entrepreneur.com, Virgin Money CEO Asheesh Advani, who started his own business during the 2001 recession, noted that, "The natural thing for business owners to ask is, 'Do you cut marketing, overhead or staff? I think the right answer is to do a little bit of all three.'" Advani adds that, "cost savings should never come at the expense of the ability to execute the long-term vision."



Current business conditions present an excellent opportunity to examine ways to reduce the costs of complying with regulatory burdens, which continue to exert a significant financial drain on small and mid-sized businesses. A Small Business Administration research study found that the cost for complying with federal regulations alone was \$7,647 per employee for firms with fewer than 20 employees, and \$5,411 for mid-sized firms (i.e., firms with 20-499 employees). Of the various types of regulations, employee benefits rules accounted for 20 percent of the total cost, and occupational safety and health rules accounted for 53 percent of the total costs. The time spent by businesses of all sizes on tax compliance accounts for roughly 53 percent of the total number of hours spent in trying to comply with the federal tax code.<sup>4</sup>

Some businesses that find the regulatory burden is consuming too much of their time and resources, turn to outsourcing. A 2007 survey by the Bureau of National Affairs, Inc. revealed that two-thirds of the smallest HR departments, i.e., those serving fewer than 250 workers, outsourced at least one activity.<sup>5</sup> Outsourcing has been a popular option for employers and has increased in the last decade. A recent BNA survey found that businesses that outsource often do so in order to access greater expertise (see graph below).

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### Top motives for Benefits and Employee Services Outsourcing

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|                               | Access to greater expertise | Potential cost savings | Improvement in service quality | Shift in strategic priorities |
|-------------------------------|-----------------------------|------------------------|--------------------------------|-------------------------------|
| Benefits activities           | 57%                         | 36%                    | 33%                            | 12%                           |
| Employees services activities | 68                          | 20                     | 40                             | 8                             |

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Source: HR Department Benchmark and Analysis Survey 2007-2008 ©2008, BNA, Inc.  
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## II. Manage Cash Flow

An Entrepreneur.com article observes that “at its simplest, cash flow management means delaying outlays of cash as long as possible while encouraging anyone who owes you money to pay it as rapidly as possible.” Especially in an economic downturn, do not assume that receivables will continue to come in at the same rate as previously, that you can extend your payables as far out as in the past, or that access to credit is as easy as it was, or on as favorable terms as before. There are several strategies that can be used to better protect cash flow, including:

- Improve the frequency of cash-flow projections by meeting more often with the sales force, service reps, collections department, accounts payable, and credit and finance departments. The critical question to ask is, “how much cash are we going to receive, from what sources, and when?”
- Improve receivables, i.e., turn your services and products into cash faster. Offer discounts for faster payments; take deposits when services are contracted or when orders are taken. Require credit checks on new non-cash customers. Issue invoices promptly and track accounts receivables closely.
- Manage your accounts payable by taking advantage of creditors terms (e.g., 30 days same as cash). Paying through electronic funds transfer will allow businesses to keep cash longer. Talk to key suppliers, and take advantage of vendor discounts so long as you are not crimping other payments.
- Focus on the quality of suppliers, not just who gives the lowest price. A slip in component quality or service sub-contractors may actually hurt profitability and/or cost more in the long run. Also, don’t hesitate to seek concessions from current suppliers.

- Review credit lines and access to capital before the need arises. Also explore creative financing alternatives (are there federal/state local government export programs, small business financing, or incentives for which your business may qualify?).
- Resist the temptation to cut corners on technology, especially that which relates to quality of service. And maintain the security of business data. Don’t hold off on investing in better equipment or software (e.g., installing workforce management and time and attendance solutions may actually save money), but do look to outsource equipment maintenance and software upgrades, etc.

## III. Take Care of Your Employees

Two recent employer surveys by benefits consulting firm Watson Wyatt reveal two trends: (1) the number of companies implementing cost-cutting measures affecting employees has risen sharply from even a few months ago<sup>6</sup>, and (2) employers are increasing their communication with employees in an effort to relieve their anxiety and improve their performance<sup>7</sup>.

Although somewhat counter-intuitive, some business experts believe cutting staff in a business downturn is not the best business strategy. These experts say that cutting staff may yield short-term results but ultimately may cost much more in the long run. Buck Consultants’ Fred Whittlesey explains that companies rarely measure and understand the true costs associated with cycles of layoffs and rehiring, tending to focus only on the hard-dollar savings of salary and benefit cost reductions (after severance costs).

Whittlesey emphasizes that the “loss of accumulated institutional knowledge, reputational damage, and productivity deficits resulting from outgoing, and later, incoming employees, may dwarf those savings.” And this often leads to “survivor syndrome” whereby the remaining employees suffer lower morale, productivity, and risk-taking. Layoffs frequently result in the best-performing and most



valuable employees searching for new opportunities, Whittlesey notes.<sup>8</sup>

### **Alternatives to Layoffs**

Many companies are seeking alternatives to layoffs to retain good employees. Jennifer Chatman, a professor at the Haas School of Business at the University of California, Berkeley, observed that companies are determined to find alternatives to layoffs, noting that, “the tactic builds long-term loyalty among workers who are not laid off and spares the company having to compete again to hire and train anew.”<sup>9</sup>

### **Options other than Outright Staff Reductions can include:**

- > Introducing reduced work weeks
- > Unpaid vacations and voluntary or enforced furloughs
- > Wage and hiring freezes
- > Eliminating/reducing training, travel
- > Introducing workforce management solutions, flexible scheduling and job sharing
- > Offering buyouts and early retirement windows
- > Reducing/eliminating benefits programs and/or pension/401K contributions

### **Improving Communications to Employees**

The current downturn has made employees insecure about their jobs and the company’s financial survival. Stress among employees hurts business and affects the bottom line in the form of increases in unscheduled time off, employee turnover, and health care utilization. A 2008 Watson Wyatt survey on workplace stress revealed that workplace stress is the single biggest reason employees leave.<sup>10</sup>

A good strategy for managing employees’ stress is to communicate on a regular basis. According to a recent survey by Watson Wyatt, U.S. employers are stepping up their communication to workers to help alleviate growing levels of stress and anxiety caused by the recession.<sup>11</sup> “With no end to the recession in sight, communicating regularly with employees will be critical for companies to keep their workers engaged and productive,” said Kathryn Yates, Global Director of Communication Consulting at Watson Wyatt in a statement announcing the results of the survey.



The experience of a New Mexico credit union illustrates the cost saving potential of workforce management scheduling systems. By implementing a system that tracks transactions at branch offices, the New Mexico Educators Federal Credit Union in Albuquerque, New Mexico, indicates how many tellers should be used to handle the workload. By tailoring work schedules to transactional loads, the credit union has saved approximately \$500,000 in salary and benefits expenses in five years.

Another example is Baptist Health in Little Rock, Arkansas. The organization uses workforce management scheduling software to manage approximately 1,500 workers across more than 120 facilities. Calculating employee overtime used to mean 70 different pay rules, requiring the organization to spend approximately 60 to 80 hours monthly on timesheets, reports, and manual checks. With a WM solution, the process was streamlined, and Baptist estimates that it has trimmed related expenses by approximately \$2 million yearly, including \$30,000 in paper costs. (“Managing the Distributed Workforce,” CFO.com, May 18, 2006)



### **Revamp Compensation Practices**

The current downturn presents an opportunity for employers to re-examine and revamp compensation programs. Buck Consultants suggests five themes to achieve short-term cost savings without mortgaging future returns:

- **Differentiate** – General, across-the-board pay freezes leads to further underpaying valuable employees and overcompensates less valuable employees. Rethink the elements of compensation (cash, benefits, equity, and “time and place”) to develop better methods of retaining top performers. Buck suggests that larger grants of restricted stock, significant multi-year cash retention bonuses with interim payouts based on company performance, and additional paid time off may have little or no short-term costs while yielding longer-term benefits for the company.
- **Be flexible** – To help employees caught by rising food, energy, and health costs, consider interim payouts of the annual incentive program, giving employees a choice between cash or equity, buying back underwater options.
- **Use soft dollars** – Consider offering flexible work schedules, additional work at home days to offset transportation costs, unpaid sabbaticals with benefits continuation, more time off without pay.
- **Understand the financial priorities** – Some ideas may conserve cash but lack an expense reduction benefit, which may be central to surviving a downturn. Firms flush with cash may prefer distributions rather than granting additional equity, which dilutes share value.
- **Measure the return on investment** – Weigh the costs involved in implementing a particular strategy against the financial and intangible benefits that may or may not be realized.

### **When Layoffs Can't be Avoided**

Layoffs generally should be an employer's last resort. If layoffs can't be avoided, be upfront about where the job cuts will occur, indicate critical areas where cuts won't occur, and strive to handle the process with honesty, integrity, and respect. Recognize that managers conducting the layoffs may themselves need counseling. And try to minimize fear and anxiety among the employees that remain. From a legal perspective, make sure that your organization is up-to-date on applicable labor and employment laws relating to layoffs (e.g., the WARN Act), consider establishing an ERISA-qualified severance plan. Develop a checklist of procedures that will be followed when planning the job cuts.

## **IV. Focus on Core Business**

### **Put Your Business under the Microscope**

If your company has a strong financial position, you may have options such as spending more than your competitors on marketing to increase customer loyalty and/or gain market share; acquiring weaker competitors; or revising pricing structures to gain market share. In contrast, if your company is in a weaker financial position, Rigsby suggests that the best options may be to get rid of non-core assets and restructure the balance sheet, accelerate decisions regarding reducing costs and debt, and seek alliances or merger partners. In short, shed everything that you don't need to survive so that you can focus on your core business.

### **Look to Outsource Non-Core Functions**

One innovative approach that allows small and mid-sized employers to better focus on their core business is to outsource their regulatory compliance and other administrative tasks to a Professional Employer Organization (PEO). PEOs provide comprehensive and integrated suites of human resources services which enable clients to cost-effectively deal with the management of human resources, employee benefits and workers' compensation.

PEOs can significantly improve an organization's ability to focus on its core competencies – customer service, marketing, strategy/vision, the overall bottom line – by providing core and optional services (generally through an assigned HR professional), including, but not limited to:

- Access to experienced HR, benefits, payroll, and risk management professionals and materials,
- Payroll and tax services and other regulatory compliance management (e.g., OSHA, EEOC)
- Workers' Compensation claims management
- Access to clear, easy-to-read and professionally written employee handbooks, policies and procedures
- Employee recruiting and selection through online candidate searches, job descriptions, and background checks

The national association for PEOs (NAPEO) reports that the average client of its membership is a small business with 19 employees. In addition to saving firms money, PEOs can actually improve a company's workplace. For example, PEOs can help companies provide and administer health care plans and 401K plans. The NAPEO reports that 40 percent of businesses that use PEOs upgrade their benefit packages, which no doubt helps attract and retain employees.

### **Resist the Temptation to Cut Marketing**

If business slows and you reduce your ability to get your name into the marketplace, it ultimately will mean fewer leads, fewer sales, and ultimately less income. In contrast, increasing the frequency with which you communicate with customers and the market place in general can stimulate demand for your products or services, which adds to your bottom line, especially if your competition is cutting prices rather than promoting the quality of their goods or services.

## **V. Forge Partnerships**

Critically examine current relationships with suppliers to evaluate their financial health, dependence/non-dependence on your business for sales, industry as a whole. Find ways to strengthen existing relationships and/or develop alternative sources to better manage risks and uncertainties associated with current suppliers. Pursue opportunities to partner with competitors who may provide your firm with access to new and/or underserved market segments. There may be products/services that a competitor is looking to offload, or that your firm is seeking to offload as it does not fit with your long-range goals.

Communicate your firm's concerns and needs to key suppliers – this may result in more favorable terms and improve current/future cash flow. This also may lead to innovation and cost savings.

An example is Duke Power, which partnered with Southwire, its cable supplier, to develop an alternative to the large wooden reels of cable. Duke agreed to share any cost savings with Southwire, up to a certain level. The partnership resulted in development of a reel-less delivery platform that saved Duke Power approximately \$500,000, reduced cable waste, saving another \$140,000 annually, and reduced waste disposal charges by \$10,000 annually. Two additional benefits were that no additional labor was needed to store and handle the new packages, and the need for wood to manufacture reels was reduced by approximately 135 acres of forest annually.<sup>12</sup>



## VI. Conclusion

There is only so much that you can control, so control what you can. Develop the flexibility to respond to changing market conditions in your industry to the greatest extent possible. Explore new markets, and consider products and services that you may be able to deliver better than your competitors but may have discounted in the past.

Have a solid communication plan within your business so that your employees and managers are all on the same page. Performance and financial expectations and goals must be clear. Also have a solid communication plan with your outside suppliers and vendors so that you can respond to their difficulties, create opportunities, and earn goodwill. If staff reductions are unavoidable, do so based on objective criteria, and with an eye towards preserving your core business capabilities and top performers.

Continue to build customer loyalty and increase marketing efforts to reach new audiences. Don't shy away from thinking big, as a competitor's loss may be your opportunity. As Franklin Roosevelt proclaimed, "The only thing we have to fear is fear itself." When roadblocks are encountered, find ways around them.

## Footnotes

- 1 The Globe & Mail, Oct. 27, 2008
- 2 "Compensation Innovations for the Economic Downturn," Insightout, Buck Consultants
- 3 "Winning in turbulence," Harvard Business Digital, Dec. 10, 2008
- 4 "The Impact of Regulatory Costs on Small Firms," Small Business Research Summary, Small Business Administration,
- 5 "HR Department Benchmarks and Analysis 2007 Report," Bureau of National Affairs, Inc.
- 6 Watson Wyatt/WorldatWork 2008/2009 Global Strategic Rewards Report, survey update Dec. 18, 2008
- 7 "Communicating to Employees During the Current Financial Crisis," Watson Wyatt survey, December 2008
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- 9 "More Companies Are Cutting Labor Costs Without Layoffs" New York Times.com, Dec. 21, 2008
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