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How to Recession-Proof Your Business

Introduction

Economic times are tough and will be for the foreseeable future, and your company needs to be prepared for the worst. Your company simply cannot afford to stay the course when the course itself is changing beneath you.

So what does your organization need to do? What steps can you and your management team take to mitigate the risks the turbulent economy poses your business?

This solution teaches you three techniques you can use to protect your business now:

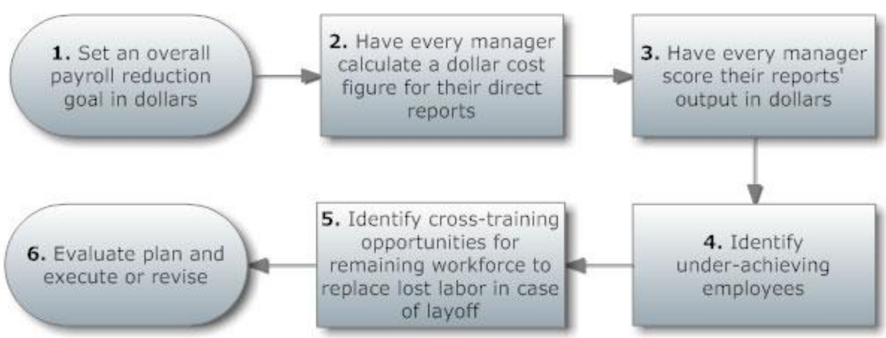
1. How to cut payroll with minimal impact to your organization's productivity;
2. How to reprioritize your company's projects; and
3. How to revise your strategy now.

Cutting Payroll with Minimal Impact to Output

The subject of layoffs and pay cuts is as touchy as it is necessary - organizations have to make carefully considered decisions about whether or not they can afford to keep every employee on payroll.

If you and other members of the management team deem it necessary to consider layoffs and cutbacks within your organization, then this technique is right for you; you will learn how to evaluate the efficacy of each employee and make carefully considered cuts that are designed to minimize the impact on output.

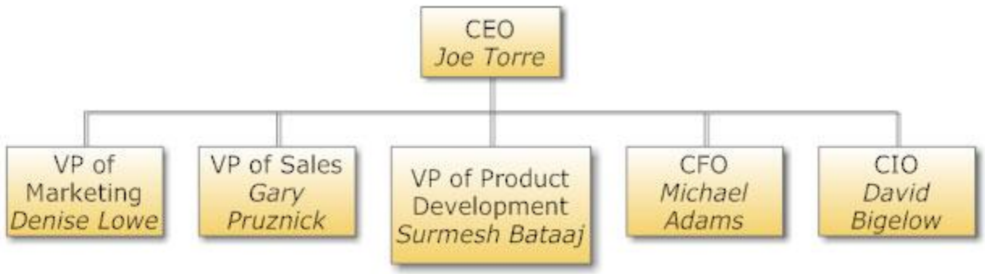
The process works as follows:



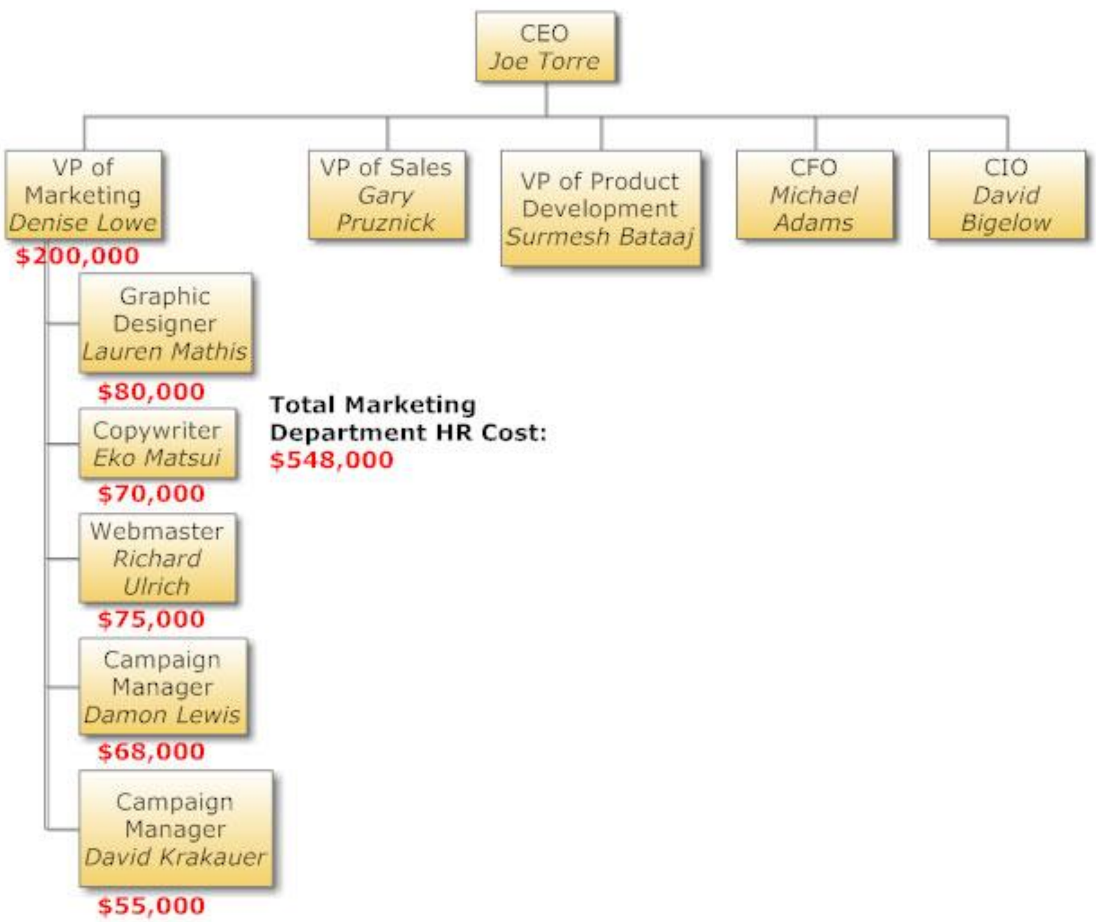
Set a payroll reduction goal
The first step in this process is setting a payroll reduction goal. If you and other members of the executive management team decide that it's necessary to go forward with a reduction in force initiative then you need to set a payroll reduction goal; such goals are often expressed as a percentage decrease in payroll cost from the previous year.

Suppose your organization had fixed human resource expenses totaling four million dollars last year and given that the company has experienced a twenty percent drop in revenue as a result of the economic downturn you've decided that a ten percent cut in payroll is necessary in order to sustain the company's profit margin. Thus your organization needs to eliminate $400,000 from its payroll expenses in accordance with this plan.

Calculate the dollar costs of each employee
Once your organization has set a cost reduction goal then you and the members of the management team need to analyze your organization and find personnel in each department who can be released with minimal impact to the company's output. Consider the following org chart for an example company:



There are six members of the management team and five departments in the company; each of the five department heads must calculate the labor costs of their direct reports (not shown on the org chart) and the CEO should do the same of the other members of the management team. Here's an example which uses the marketing department:

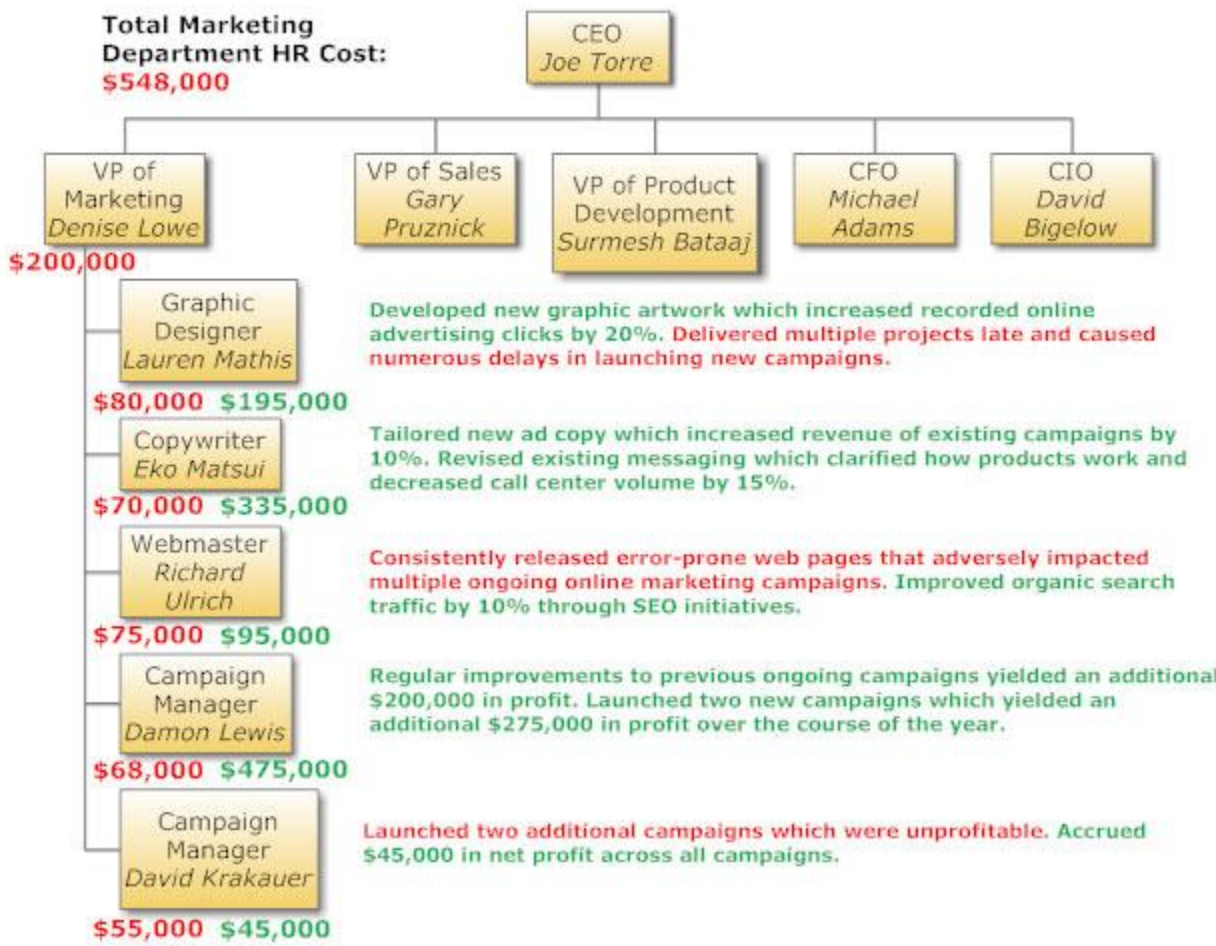


Denise Lowe, the Vice President of Marketing for this example company, determines that the total cost of the labor of her department, including her own, amounts to roughly $548,000. Every department head needs to do the same with their department before the next step can begin.

Calculate dollar output of each employee
The next step in this process is to attempt to score each employee's performance for the previous year in terms of dollars. For some employees such as sales agents and marketing campaign managers this process is trivial given that their output is already measured as a function of revenue directly attributable to their work.

For other types of employees like graphic designers, engineers, and other people whose contribution to the company isn't typically measured in dollars, this step is more challenging and arbitrary but nonetheless necessary. Each manager has to make the best judgments they can with the data they have available.

Consider the marketing department example from before:



As you can see, the Vice President of Marketing has associated a dollar value to the previous year's work of each of her reports and in cases where the numbers are more arbitrary she included a succinct justification for those figures. Ultimately the dollar value of the Vice President of Marketing's own work or that of any other member of senior management is decided by the CEO.

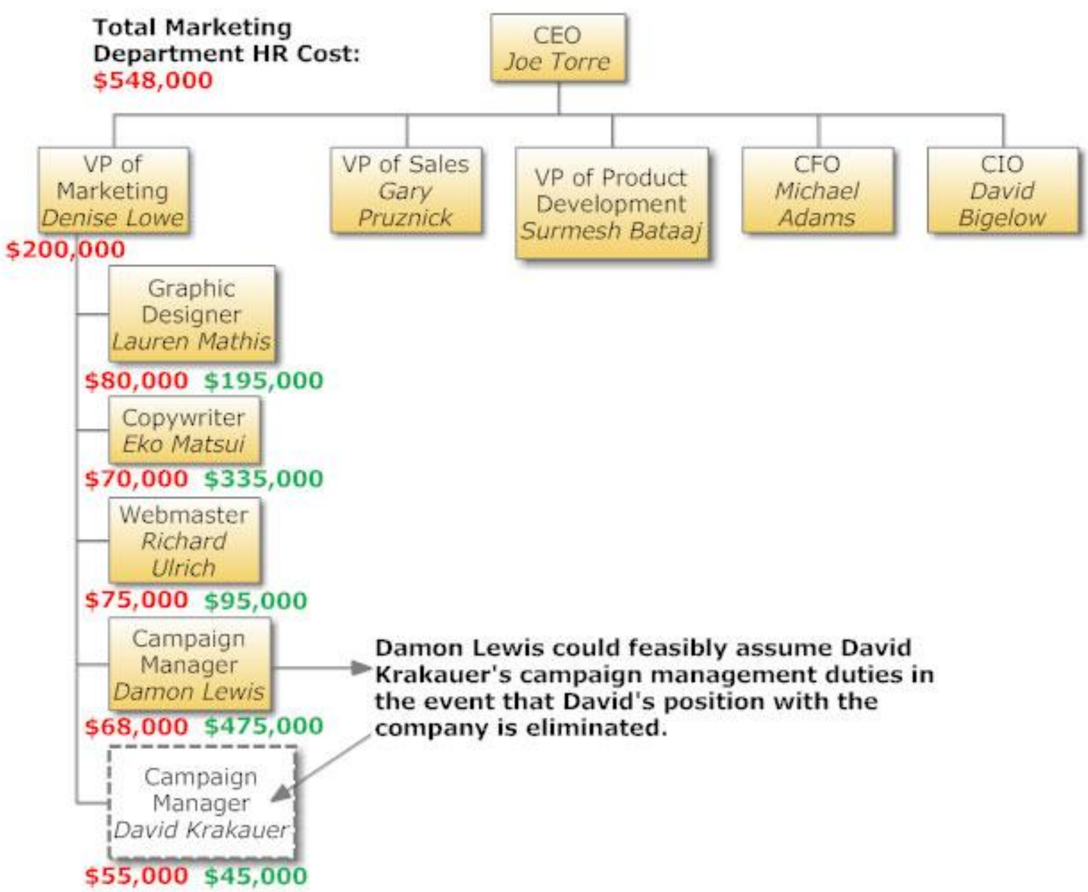
At this stage in the process, all of the managers have an approximate dollar cost and dollar output for each employee - this makes it easy to spot underperformers.

Identifying underperforming employees
In the marketing department there are two employees that stand out as underperformers relative to everyone else in the department: Campaign Manager David Krakauer and Webmaster Richard Ulrich. The rest of the VP of Marketing's reports have contributed substantially more to the organization's success.

Every other department head and manager should follow a similar process.

Identify cross-training opportunities and evaluate different scenarios
The key to cutting payroll without impacting output is to identify cross-training or substitution opportunities where remaining employees can feasibly assume the responsibilities of the individuals whose positions were eliminated during a reduction in force scenario.

Using the marketing department as an example again, the most obvious opportunity to feasibly reduce payroll without impacting output is to have Damon Lewis takeover the management of David Krakauer's campaigns - many of David's campaigns were unprofitable to begin with so they would likely be discontinued and Damon is experienced and capable enough to handle the additional workload.



Webmaster Richard Ulrich, the other underperforming employee identified by the VP of Marketing, would be difficult to replace with another cross-trained employee. The Webmaster position requires skills which are highly technical in nature and there's nobody else in the marketing department who could easily pick up Richard's workload should the company eliminate his position. Therefore in this particular scenario it would be prudent to keep Richard on payroll.

Evaluate your HR plan with other managers before you execute it
Every manager in your company should come back to the table with possible payroll reduction scenarios in order to help the business achieve its cost-savings goals. The final step in this process is for you and the other managers to evaluate each other's proposals, such as the one you've witnesses for the marketing department at an example company, and go forward with the actions you deem most appropriate.

Reprioritize Your Company's Projects Now

In economically lean times like these your company is going to need to reevaluate its priorities with respect to its projects. Perhaps it's no longer the best time to relocate your offices and instead your organization should use those funds to execute a new marketing campaign.

In order to make an informed business decisions about which projects to execute immediately and which ones to posptone, you need to weigh the costs and benefits of each ongoing project.

One efficient way to do this is to have you and the rest of the company's management team fill out project prioritization table for all of the ongoing, strategy-impacting projects in your organization. Here's a blank table below:

Example Corp. Project Prioritization Table for 2010							
Project Name	Cost ($)	Estimated Delivery Date	Project Benefits	Benefit Score (1-10)	Project Drawbacks	Drawback Penalty (-10 - 0)	Priority Score (-10-10)
Project 1							
Project 2							
Project 3							
Project 4							
Project 5							
Project 6							

A project prioritization table consists of one row for each project, and each row has the following columns:

1. The project's name;
2. The cost of completing the project (future and recoverable costs only - sunk costs shouldn't affect your decision on whether or not to go forward with a project;)
3. The estimated delivery date;
4. A qualitative list of the project's intended benefits;
5. A numerical "benefit score" between zero and ten to indicate how much the organization stands to gain from going forward with this project;
6. A qualitative list of the project's drawbacks and opportunity costs;
7. A numerical "drawback penalty" between negative ten and zero to quantify the organization's opportunity costs for going forward with this project; and
8. A total "priority score," calculated as the sum of the benefit score and drawback penalty.

To use this process to reprioritize your company's ongoing projects, have every manager fill out a project prioritization table which addresses all of the company's strategically relevant projects. Here's an example project prioritization table with all of the company's projects listed already:

Example Corp. Project Prioritization Table for 2010							
Project Name	Cost ($)	Estimated Delivery Date	Project Benefits	Benefit Score (0-10)	Project Drawbacks	Drawback Penalty (-10 - 0)	Priority Score (-10-10)
Knowledge documentation initiative	$275,000	End of Q3	• Reduces training costs substantially • Preserves company's knowledge • Insulates company from "key employee problem" • Increases employee productivity		• Requires IT to install new document management system • Requires 100% of HR's time until the project is complete		
New product R&D	$1,165,000	Q1 2011	• Builds upon existing product line • Can generate additional sales to existing customers • Exposes company to additional vertical markets		• Less maintenance work can be performed on existing products • Known issues with existing products demonstrably result in lost sales		
Resolve product stability issues	$390,000	Middle of Q2	• Resolves issues which cause numerous sales objections • Will eliminate most common technical support issues • Will improve user satisfaction overall		• Delays development of new product		
Internal IT systems upgrade	$550,000	Beginning of Q4	• Fixes network file system issues • Real-time database fail-over will result in less lost sales and downtime • Moving email and documents to virtual co-lo mitigates against data loss in case of disaster		• Delays work on accounting compliance systems • Items are all risk-based measures		
Website redesign	$125,000	Middle of Q2	• Standardizes messaging and style • Uses improved calls to action which increase sales yield • Introduces UI improvements which make it easier for customers to answer their own support questions		• Utilizes 90% of the marketing team's time until completed		
Test new customer communications campaigns	$13,620	End of Q1	• Opportunity increased sales • Renews contact with customers		• Isolates 10,000 customer records for the test		
Upgrade accounting system for 2011 tax requirements	$93,000	End of Q4	• Enables finance department to comply with 2011 FASB accounting requirements • Eliminates company's exposure to non-compliance with new tax standard which go into effect starting in 2011		• Requires IT department to overhaul accounting system • Requires consultants from auditing firm to understand scope of new requirements		

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How would you score these projects? Each member of your organization's executive management team will bring his or her own unique perspective on what the real benefits and opportunity costs of each project are. For instance the chief financial officer might score the projects this way:

Example Corp. Project Prioritization Table for 2010							
Project Name	Cost ($)	Estimated Delivery Date	Project Benefits	Benefit Score (0-10)	Project Drawbacks	Drawback Penalty (-10 - 0)	Priority Score (-10-10)
Knowledge documentation initiative	$275,000	End of Q3	• Reduces training costs substantially • Preserves company's knowledge • Insulates company from "key employee problem" • Increases employee productivity	8.0	• Requires IT to install new document management system • Requires 100% of HR's time until the project is complete	-4.0	4.0
New product R&D	$1,165,000	Q1 2011	• Builds upon existing product line • Can generate additional sales to existing customers • Exposes company to additional vertical markets	7.0	• Less maintenance work can be performed on existing products • Known issues with existing products demonstrably result in lost sales	-5.0	2.0
Resolve product stability issues	$390,000	Middle of Q2	• Resolves issues which cause numerous sales objections • Will eliminate most common technical support issues • Will improve user satisfaction overall	4.0	• Delays development of new product	-1.5	2.5
Internal IT systems upgrade	$550,000	Beginning of Q4	• Fixes network file system issues • Real-time database fail-over will result in less lost sales and downtime • Moving email and documents to virtual co-lo mitigates against data loss in case of disaster	3.0	• Delays work on accounting compliance systems • Items are all risk-based measures	-6.0	-3.0
Website redesign	$125,000	Middle of Q2	• Standardizes messaging and style • Uses improved calls to action which increase sales yield • Introduces UI improvements which make it easier for customers to answer their own support questions	6.0	• Utilizes 90% of the marketing team's time until completed	-4.5	1.5
Test new customer communications campaigns	$13,620	End of Q1	• Opportunity increased sales • Renews contact with customers	3.0	• Isolates 10,000 customer records for the test	-0.5	2.5
Upgrade accounting system for 2011 tax requirements	$93,000	End of Q4	• Enables finance department to comply with 2011 FASB accounting requirements • Eliminates company's exposure to non-compliance with new tax standard which go into effect starting in 2011	7.0	• Requires IT department to overhaul accounting system • Requires consultants from auditing firm to understand scope of new requirements	-1.5	6.5

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The CIO, VP of Marketing, or the Managing Director of Sales might all have different scores for each project, and it will be up to the executive management team to reconcile these differences through strategic planning and discussions to that effect. The greater point is that having some quantifiable assessments of each project's benefits and drawbacks will make it tremendously easier for the executive team as a whole to make good decisions and using project prioritization tables is an efficient way to achieve just that.

Revise Your Organization's Strategy Now

In an uncertain economy, many organizations are dumping onerous strategic planning processes in favor of techniques which are quicker and more agile. Businesses like yours need to be nimble if they're going to prosper, and a three-month strategic planning process isn't going to get you there.

You need to revise your strategy now and you need to revise it often, and the best way to do it is to plan your strategy visually.

Use visuals such as analysis maps (see below), issues maps, SWOT matrices, and generic strategy matrices to get from data to strategy quickly.

Read SmartDraw's "Visual Strategic Planning" solution to learn more about how to use visuals to arrive at actionable strategic plans more quickly.

This document describes one of the Visual Solutions that successful managers and companies use every day to be more effective, productive, and profitable.

For more Visual Solution articles, or to download a free trial of SmartDraw, visit www.smartdraw.com.
