

Managing Through Tough Times

by William Lawson

Down times are as much a part of business as up times. In the 25 years we owned a company in the laser business we went through four major downturns. Through each downturn I tried to manage with the goal of coming out the other side with as much capability intact as possible. Each time economic conditions did improve and we were able to grow.

The ideas in this article are ones we learned but are by no means a complete list. You will need to analyze your individual situation and consult with knowledgeable people to develop a plan of action that fits your organization. I hope the ideas in this article will be useful in your quest to survive these difficult times.

RESPONDING TO A DOWNTURN

Decide main goals – First, decide on two or three main goals to guide your decisions and actions from here on. The two primary goals I used for long-term survival were 1) cash is king; in hard economic times, keeping a positive cash flow is often more important than the ultimate profit of each job, and 2) good people are your most important asset; it is worth finding ways to keep them if at all possible.

Gather employee input on reducing costs – It is a good idea to have a meeting to explain the situation and get employees' ideas how to reduce costs and/or improve sales. Do not sugarcoat the problem, as they know sooner and better than you what is happening. The best way I found to retain people was to always be open and honest with them, and work to bring them into the process. I first looked at how we could save money without layoffs, basically looking for expenses that could be reduced, such as turning down the heat or reducing inventory. Employees will have good ideas but may not offer them unless specifically asked.

Cut your salary – If cost cutting wasn't enough, next I cut my own salary to what I could reasonably live on. Don't cut too much as the boss cannot be worried about paying his mortgage. His No. 1 focus must be on running the business. This is a great action to help the troops see you're sincerely looking at all expenses.

Ask for voluntary layoffs – Then ask if anyone wants to go on voluntary layoff. Amazingly there are almost always people for whom a few months off would be nice. Make sure in this process you do not make any promises you can't keep about bringing people back. Only tell them what is true and make only the promises you know you can keep.

Let go those you should already have let go in good times – If a few people no longer fit their job well, lay them off first. Early on we had a supervisor who had not grown with the job. We agonized for a year before letting him go but not long after we finally did he became a well respected local small business owner. He found the right niche for his talents. That taught me I was not helping anyone by dragging things out.

Do necessary layoffs and then cut everyone's salary equally or by a formula – Once the necessary number of people has been laid off, cut everyone's time equally, or by a formula. This type

of action is very situational. Incremental layoffs are very demoralizing and should be avoided but may be necessary through the course of the downturn.

Keep communicating with bankers and investors – Talk to the people you owe money to before you're in great danger of not paying the bills. As hard as it is to go and talk to the bank or key suppliers, it's of utmost importance to let them know you're taking actions to reduce costs. Ask them also for things like extended terms or even discounts. It's amazing how much slack people will give you if they know you've already taken many of the steps they're expecting you to take.

Know what's happening with your customers – Increase your visits to current customers and contact old ones. This is, first, to see if you can get more business and, second, to watch your customers carefully for signs that they are in trouble. When you visit, look around for signs of a slowdown, such as not as many people around, less production activity, etc. If one month they ask for very large orders, do not accept the orders without making sure they will be good for the money.

Search out other kinds of work your company can do – Get creative; figure out how you might generate other work with the people and equipment you have. When we were small, five or six people, I paid both my salary and a few bills for the company through a consulting job for four months until things turned around. Later, building special machines for a totally different industry helped support the company for a year or so.

Move people to other work within the company – If one area is down, see if key people will work elsewhere. In one slowdown we experienced, one of the designers became the fastest operator of a particular production job. It wasn't what he was being paid to do but his willingness to do a production job for a few months allowed us to keep him when otherwise he might have been laid off.

Seek input from knowledgeable outside people – Talking to advisors outside the company is important to get different perspectives and to test ideas. The problem with consulting the company's regular advisors and your inside management group is that your "what if" thought could be mistakenly seen as a final plan of action, causing unnecessary, possibly harmful shockwaves to go through the company.

Seek advice from outside people who have "been there, done that" and who do not have a stake in what happens to your organization. Consult with someone with real-life experience, in a similar business setting as your own.

Do not hesitate to pay for good advice. Finding the right course of action can be money well spent. Typically, you get what you pay for. You want advice from someone totally on your side with your best interests in mind.

PLANNING & PREPARATION

Start as soon as you can to plan ahead for the next hard times – The most important advice I can give, which is useless if you're now in the middle of the slowdown, is to prepare for hard times when times are good. The more eventualities you've prepared for, the less you'll need to figure out in a hurry.

1. Build a relationship with your bank. Get an adequate line of credit and use it sparingly. From my experience the line should be enough for three to six months of direct expenses but used on average only 10% to 20%. This will cost you some interest, but, as the bank gets used to you borrowing and repaying money, they will be much more comfortable when you need to use most of the line in a slowdown. If you don't already have the line of credit in place, it's almost impossible in

hard times to get one or get an increase in the one you have.

2. Take calculated risks. When you invest in another piece of equipment or more people, expect to support the additional cost for at least a year out of existing business.

3. Set up your relationships as much as possible so you have outs. Leasing equipment can be advantageous, especially with terms allowing you to send it back and not be responsible for the balance. Hiring people on a contract basis allows personnel costs to be reduced much easier in the future if necessary.

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