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Tough Times Mean Tough Decisions

By Larry Turner

Drastic measures are sometimes needed during these times of volatile economy just to have your company survive. It is tempting to make across the board cuts in what is probably your largest expense category... human resources. Be careful with across the board the headcount reductions. A wrong move may mean a steeper drop in sales or an inability to invest in areas once the economy bounces back.

Tribal Knowledge

Tribal knowledge is that historical and company specific intellectual property that is key to maintain and growing your business. This can be specialized product development talent that has knowledge specific to your company and industry that once lost would be very difficult to replace, or it may be that special person in customer service that knows all past issues and has a great relationship with key clients or distribution channel partners. In any event, identify these key individuals and do what is necessary to retain them.

Retaining Key Employees

Retaining key employees can come in many forms including retention bonus program, increased communication and soliciting input from these key employees. A retention bonus that is tied to their performance along with the company emerging from this difficult economic position (probably late 2009 or early 2010) is a good way to preserving talent without adding additional cash flow burden on your company. Increased communication to all employees is important, but even more important to those key people with the tribal knowledge to move you forward. Utilize the knowledge by soliciting input from these key employees and bring them into the fold as a part of the solution to the current economic environment.

An Example

I was appointed CEO of a company in August 2001... that's right, one month before 9/11. Not only did I need to maneuver in a difficult economic environment, but it was also a turnaround situation.

The best strategy and tactics used during the turn-around revolved around retention of key employees and using the talent in this group to help with company performance improvement. The key employees came from all disciplines of the company and at all levels including senior management team to front line employees.

Communication to the entire employee base on a regular basis was key to keeping everyone engaged, but additional focused communication to the key employee group allowed me to utilize their skills and knowledge to manage small cross-functional teams to tackle the many tasks that needed to be addressed. This got the employees involved with key turn-around activities, and kept morale up even with reducing the total employee headcount by 40% during the first 90 days.

The end result of the turnaround was an increase in net profits from a negative \$6 million to positive \$800,000 in the first full year on sales of \$38 million, and an increase in EBITDA from 15% of sales to over 35% of sales. I could not have done this on my own and enlisting the employees allowed us to accomplish this in a very short time frame.

Managing in a tough economy is not easy, but can be rewarding. Emerging from difficult economic times stronger than when you entered allows you to grow the business. As business owners and leaders, it is your responsibility to look out for the viability of your company. Take that responsibility seriously and manage expense reductions diligently to focus on the near term while keeping an eye to the horizon.



Larry Turner is CEO of Roundhouse Advisors, Inc. and has over 25 years experience growing, starting up, repositioning, and revitalizing organizations. Roundhouse Advisors is a consulting practice focused on helping businesses increase enterprise value by managing pain, growth and owner exits. Larry is consultant, public speaker, and the author of "Owner Exit Planning: Leave On Your Own Terms". For more information visit www.RoundhouseAdvisors.com