Resource *deployment* strategies

By Rick Burris, Principal,
Oliver Wight Americas

The second article in the series on effective executive management during an economic downturn addresses the process of adjusting resource allocations during a period of reduced demand

Introduction

An economic downturn tests a leader's skills and mettle. In the first article of this series, we introduced a disciplined executive process to ensure that your company not only survives but is positioned to rapidly grow when economic conditions improve, as they will. This article will focus on the process of adjusting resource allocations, specifically, alternative views of how to accomplish the necessary reductions in a manner that rationally addresses the needs of the business now and at the end of the economic turmoil.

Executive action for simplifying the business

At one time or another over the past several years, most companies have been on a path of improving and leaning out processes. These activities have produced a wide range of results, from very effective to only marginal improvements. Bold decisions by executive management can have a greater effect than all of the prior process improvement activities when it comes to eliminating work and simplifying the business to support lower resource utilization and a reduced employee base.

In assessing what constitutes a business and causes a need for work, it is useful to view the business as a series of transactions multiplied by the volume of potential transaction drivers. This concept has its origins in the discipline of activity-based costing.

While the initial benefits of understanding true product and customer profitability were great, ongoing maintenance was more costly than the benefits received. Therefore, like many improvement tools, activity-based costing lost favor because it was time-consuming and expensive to maintain.

Nevertheless, many thought leaders came to realize that activity-based costing had great value when implemented in a shorthand form that simply measured cost drivers against a single cost unit of measure for the cost incurred to service the drivers. This "new" tool is a useful method for assessing management actions that could simplify and reduce the expense of ongoing operations.

In fact, this simple analysis often surprises executives who have never had information presented in this format. It leads the executive team to consider several different alternatives for addressing imbalances between cost drivers and the economic benefits of supporting those cost drivers.

Cost Driver	Costs Driven
Number of Products	Catalogs and Sales Collateral Inventory Investment Warehouse Material Handling Returns / Warranty
Number of Customer	Customer Service Sales Shipping Accounts Receivable Credit Management
Number of Suppliers	Purchasing Shipping Accounts Payable Quality
Number of Promotions	Advertising Catalog / Pricing Management Printing
Number of Facilities	Inventory Investment Shipping Middle Management
Number of Orders	Customer Service Logistics
Number of Executives	Salaries Travel Staff Stove Piping

© Oliver Wight

The Cost Driver / Costs Driven chart provides the high-level alternatives on how this assessment is conducted to rationally reduce the workload and the requirement for resources.

An alternative approach explained

I have always found it useful to follow a simple model for addressing costs that I learned early in my career. It began when the "value added" arguments became prevalent in the eighties and nineties. The company I worked for at the time had a large project underway to cut waste, and the customer perspective of value-add was used as the driver.

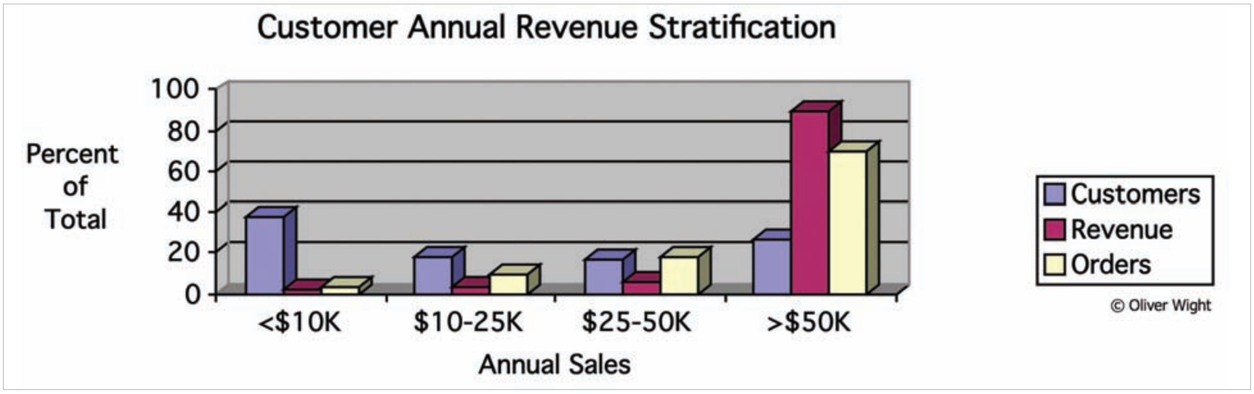
As happened with many companies, our behavior around this effort was less than mature. In meeting after meeting, team members engaged in heated exchanges and shouting matches over who was value added and who was not. In fact, during one session a business unit COO actually tried to get the corporate office allocation to his unit eliminated as non-value added.

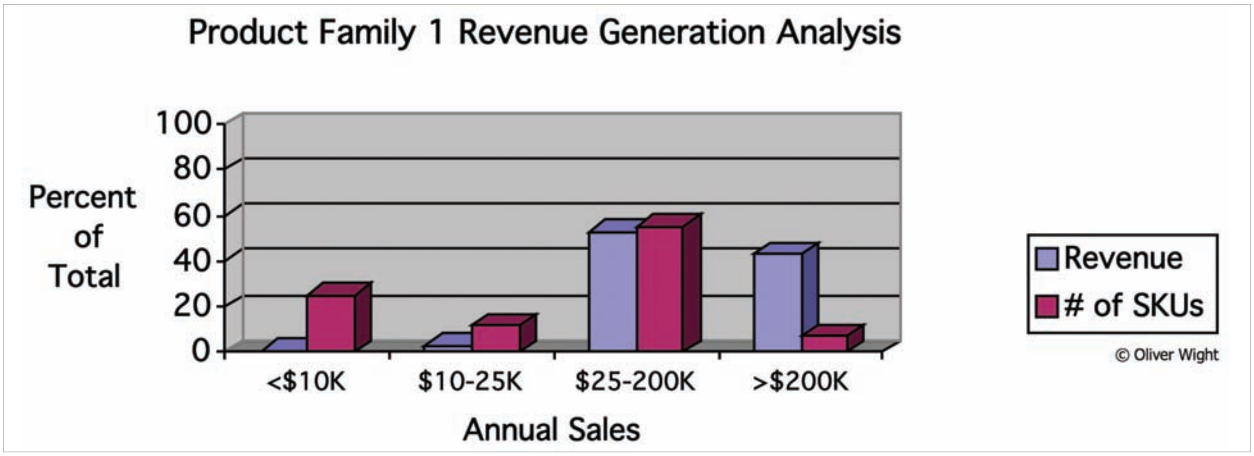
For this article, let's use the example of the accounting function to discuss a better model than the customer perspective of value-added. Clearly when viewed from a customer perspective, the internal accounting function has no value to the product purchased. However, for the company providing the product, the accounting function is essential. Only after a cost is determined to be non-essential should it be targeted for elimination.

But, it is not management's task to simply accept the cost of the essential function. They must determine whether they are receiving what they need from the function and if it is worth the cost of producing those requirements. For example, if your accounting function requires a great deal of human intervention and adjustment, if it takes days or even weeks to close the books, and if cost accounting information doesn't lead to effective business understanding and improvement, greatest impediment to growth, once the economy begins to revive and recover, is the inability of infrastructure processes and systems to accommodate the stress of increased volumes and expansion into new markets and customers. The message is: Fix it now or limit your opportunity in the upturn.

that the economics of maintaining a large product offering for an unlimited customer base were not sustainable in an economic downturn. Several strategies and tactics were then developed and alternative scenarios proposed with the full financial impacts included for each.

The company already had agreed to





the function and process needs to be changed or repaired.

The message here is that before instituting wholesale cuts in cost drivers to eliminate work and, therefore, costs, it is totally legitimate to challenge the performance of the process expending the costs.

This makes the best kind of sense when looking to the future. The

An Oliver Wight client engagement is presented as a representative example. A business analysis was initially conducted in anticipation of the need for a significant labor reduction. The findings presented to management led to executive action that reduced the workload in conjunction with the workforce reduction.

Specifically, the analysis revealed several assumptions for planning that included:

- A determination that the economic downturn would last at least a year and current expenditures were not affordable.
- 25 percent of the customer base would not survive the economic downturn.
- 20 percent of the competitors serving their markets would not survive the economic downturn.

• 30 percent of the suppliers would not survive the economic downturn.

Among the alternatives investigated and proposed were:

- Eliminating customers.
- Eliminating products from the offering.
- Raising prices on low-volume products.
- Instituting rewards for consolidating orders.
- Limiting certain customers to website ordering and customer service.

The solution that was implemented was a blend of these alternatives. The major impact was significant reduction in the product offering together with a managed disengagement from those customers who were considered both an economic risk and low-volume consumers. The amount of work eliminated allowed for workforce reductions without management just telling everyone they were going to have to work harder and longer in these tough times.

The downsizing was unpopular. However, the purposeful and courageous activity of company management made the remaining workforce more confident that there was a plan in place for survival; that it was actively being managed by the senior executive team; and that they were concerned for the financial health of the company and the remaining employees.

Conclusion

In an economic downturn, many products, customers, suppliers, and internal processes that were once sustainable need to be re-evaluated. Your own internal assessments may have determined that some of them will not survive a bad economy. Taking action to reduce work may be possible with a relatively small impact to the top line and a big one to the bottom line.

In the next article in this four-part series about effectively managing in an economic downturn, we will discuss the strategies and methodologies to advance the business in a down market. ■

By Rick Burris, Principal, Oliver Wight Americas