

An approach to the recession and an alternative to retrenchment

Many companies faced with a forecast downturn in revenue and profits, indeed losses, will look to cut their costs by removing both fixed and variable expenses. Whilst a recession reduces spending for many companies in many traditional sectors, *it is obvious that all spending does not stop.*

Worse, applying the result from a recent Australian study that found the average total redundancy cost amounts to 35.8% of the annual wage to the average wage of \$63,154 (Australian Bureau of Statistics, 2009) *the cost of retrenchment per employee on average, is \$22,609.*

So we see companies looking to alternate suppliers, renegotiating with existing suppliers, forestalling expenditure, capital and expense, and retrenching staff.

An oft quoted number that is given as a benchmark is 20%. Reduce Costs by 20% and reduce staff by 20%. This is usually borne out by a risk analysis that shows that projected earnings and profits can be protected if costs are reduced by the recommended amount.

Problem 1: We failed to predict the global financial crisis but we are willing to take a chance on the new forecast. On what basis: fear?

The forecasts are based on an uncertain market and prevailing market conditions that were not forecast. So why have any faith in these forecasts? *We do because we are scared not to.*

How many times do we hear that a company has to make further cuts because those that were charged with the forecast were unable to see the depth of the economic downturn? *Too often. Why? Because we are scared not to.*

Problem 2: A lack of understanding of the cost of retrenchment.

Many do not understand the cost of retrenchments both financially and to the culture and strength of the company. A recent Australian study found that average total redundancy cost amounts to 35.8 percent of annual wage cost. This includes:

- procedural costs - 10.1%,
- severance costs - 25.3%
- Excludes annual leave, long-service leave, sick leave entitlements and accrued bonuses.

Problem 3: Many company leaders have not lead through a recession so do not have the experience, or confidence, to tread another path.

Let's face it, when you started the company, or started on your path to the top position, you could only see the positives. Your appetite for risk was large and everyone has been applauding your success. Now you have a family to support, children who may not have finished their education and

long term employees who you need to look after. And if you are like most other companies you leveraged the freely available finance to grow your company so you have a group of bankers or investors to support. And they are all telling you to cut. What they don't realise is that by telling you to cut staff is that you need to spend, on average \$22,609 per employee.

The Alternative

The alternative is to invest some or all of that money into your people, all of your people!

It stands to reason that if you have budgeted to spend that money and accept a reduced turnover by reducing your people which, by the way, will reduce your capacity and capability to maintain or increase revenue during or after the recession that a wiser investment is to invest in your people for growth, not loss.

Why do I think this will work?

I have worked through a number of recessions since 1974, and been retrenched a number of times. It was one of the times that I wasn't retrenched that set me on this path.

Recently I presented a luncheon seminar with the theme "Great Things about Recession". Originally I had focussed on only the sales environment but a chance call from a client started me on researching retrenchments. In the mid 1980's I worked for a state government organisation. The new CEO was charged with reducing the 4000 strong workforce by 50%. This was the time of a new Labour government so wholesale retrenchment was not on. He achieved his aim by investing in his people.

How should you invest in your people?

This training is not about skilling your people to do their job. You are probably already doing that. This is about a sustained program, over 6 or 12 months that can coach all of your people to **achieve the goals set by you.**

Find out more now. Call Paul Mizzi on 0409 229 331.

Bibliography

Australian Bureau of Statistics. (2009, February 26th). *6302.0 - Average Weekly Earnings, Australia, Nov 2008*. Retrieved May 11th, 2009, from Australian Bureau of Statistics: www.abs.gov.au