Managing Your Company in Times of Uncertainty

By Michael Neidle, President of Optimal Management, Inc.

During the first 3 years of this decade we first had a recession followed by 9/11 and to put it mildly things for staffing companies were both bad and uncertain. During the last 3 years times have been good and we have learned to live with threats such as offshoring and higher energy prices. Although the market is still good, we recognize that the economy is both fragile and that we are 6 years into the current business cycle, which typically only lasts about 10 years. There are many unknowns that can short circuit this process during the remaining 4 years. We have a variety of external threats that we have no control over such as: another major terrorist incident, a major spike in oil prices, or another natural disaster such as Katrina. We can however have the foresight to have a disaster recovery program to minimize the impact of these events and take advantage of new opportunities and niches that are created by these situations. The key to this process is thinking out of the box and doing contingent planning.

But in addition to these major events, there is the garden variety of problems that every company needs to deal with proactively. Examples of these events include: having a significant competitor moving into your market, losing a major client, the resignation of a key employee, having your line of credit pulled by your bank, being out ill for an extensive time, etc.

So just what does a staffing company do to insure that this company can both get through uncertain times and even prosper? We will discuss some strategies and mind sets that can and have been instituted by various staffing companies.

THE ROLE OF THE CEO

The principal role of the CEO is to insure the survival of his enterprise and to maximize the value of the company. The CEO should provide the leadership, vision and sense of mission for the company and then inculcate those concepts within the organization. To do this he needs to define the problem accurately and then find their optimum solution. The CEO should spread out management responsibilities so that too much is not invested in one or two key people. An example of proactively planning for uncertainty is in the company's exposure in having a few large accounts that it depends upon. The company should identify its key accounts, determine how much each contributes to their profits, what they have to do to retain that business, who is responsible for these accounts and if they were to leave who is responsible for preserving that relationship and how we will broaden our client base to reduce this dependency.

In smaller companies, the CEO has to wear many hats and constantly reprioritize which one to wear. During times of uncertainty the CEO will have a difficult balancing act of motivating his staff to maximize their efforts when the company is under financial pressure, while insulating them from the fact that they may still unfortunately lose their job even if they perform. The CEO must be the guardian of the company's reputation, providing an iron clad set of ethics and standards that are decidedly non-Enron like and verify that people earn their commission not at the expense of the company's image or legal exposure. As CEO you need to perform a SWOT (strengths, weaknesses, opportunities and threats) analysis and make your plans accordingly. You need to identify and quantify the effects of uncertainty, then come up with a game plan and test that plan to see if it holds up under scrutiny.

SALES AND MARKETING

The role of sales and marketing is to generate revenue and a profit under varying conditions. Will our clients be able to pay their bills if there is an economic downturn? Is our customer concentration too large, so that the loss of a few key clients can jeopardize our viability? Can our costs be brought down sufficiently to still make a profit, if competition turns the screws? What are our core competencies that we can use to provide value added services to justify a premium price or increase our market share? How strong is our reputation and client satisfaction level, and will we be able to retain our client base if business conditions worsen? Do we know where our leads are coming from, and where does our best cost/benefit ratio come from? Do we have sufficient bench strength and management contacts so that if we lose a key sales rep we can retain the business?

COMPENSATION AND EMPLOYEE RETENTION

The market is tight now and employee retention is a challenge for many companies, but market conditions will change and one needs a flexible comp plan for a win-win scenario for both employer and employee. Compensation is more then dollars and cents, but economics always comes first. Nevertheless, do not forget the importance of employee recognition, participation in management and benefits and perks can be critical. So the objective is to create a compensation and retention plan that will work under all circumstances. When times are good everyone responsible for success will prosper, but when times are bad there must be sacrifices so the company can survive. Retention plans may provide pseudo or true equity, either way key personnel should be invested in the long term success of the company

FINANCE AND ACCOUNTING

The role of finance and accounting is to protect the assets of the company, provide checks and balances within the system and accurately portray the performance of the company. Finance needs to obtain the working capital for growth at appropriate interest rates and conditions and if the economy weakens, can rates be renegotiated and can we still be in conformance with any loan covenants? Are we running our financials in accordance with GAAP and using accrual accounting to produce our income statement? It is surprising how often staffing companies do not match revenue with expenditures and are surprised by things that they should have anticipated. Examples include: not booking a “provision for doubtful accounts” as a monthly P&L expense based on its experience; not fully reflecting workers comp liabilities in calculating margins; or not recognizing commissions at the time of sales.

CASE STUDIES

A commercial staffing company was very successful, but saw its sales fall by over 1/3rd after the dot com bubble burst. They survived and reconstituted themselves due to several key factors. First of all staff compensation was tied to commission and the staff, who did very well in good times, were encouraged to save for a rainy day. As sales did fall, compensation and costs were self correcting. As the new technology wave of biotech took root, the staff was taught the new jargon and was able to succeed by penetrating this lucrative new market.

A healthcare company's' sales plateaued as they appeared to have exhausted their labor pool. After evaluating their situation several changes were made. We moved into allied healthcare lines of business; we then expanded our market geographically, penetrating into adjacent areas with greater potential; we then set staff productivity and efficiency standards and terminated those who did not get with the program. We then instituted an incentive program tied to results and then brought in solid management to motivate through example.

A commercial IT staffing company was all but put out of business during the last recession and the impact of offshoring. They decided their best course of action was to reinvent itself as a defense related staffing organization and obtained the requisite government approvals and certifications to do business with the various federal agencies. Though their margin rates fell, they reorganized and cut their overhead costs and their incremental government sales volume which returned them to profitability.

<u>SUMMARY</u>

Staffing is a challenging business that tends to be more volatile then most other business sectors. To succeed, one needs to pay particular attention to early warning signals so that they can take prompt corrective action when threats are seen and convert these situations into an opportunity or to at least minimize their danger. Some things can be anticipated by analyzing one's metrics (i.e. when new orders go down, lower sales will follow), others can only be ascertained by speaking with people and knowing when things don't quite look right based on your own experience. Good management has the ability to integrate the numbers as well as what their instincts are telling them. They know when people are hiding things or when what they are being told doesn't quite add up. They know when to dig deeper and to begin contingency planning to assume that things are resolved favorably.

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