

Keeping Layoffs to a Minimum

Distributors increase focus on efficiencies, cuts beyond the work force

Wholesaler-distributors are searching far and wide for ways to cut costs without cutting people. Here is a look at how some distributors have approached the process.

By Jenel Stelton-Holtmeier

When business began to soften in November for W.P. & R.S. Mars Co., Bloomington, MN, the industrial distributor began preparing for a rough 2009. Then sales plummeted in January, and executives in the company knew some serious decisions had to be made.

The management team was pulled together to brainstorm ways to reduce expenses that wouldn't involve layoffs.

"Our employees are so important to us that we wanted to make cuts in every area before we considered reducing our staff," says controller Beth Ahrens.

A desire to avoid layoffs is common among distributors; many still have ties to the original family-owned business, says Nancye Combs, a human resources consultant to the industry. The employees are like family, and choosing who to cut can be emotional.

But, when conditions are as bad as they have become in the past year, how can a company achieve enough cuts without cutting people?

"They have to get creative and clever," says Bruce Merrifield, a long-time industry consultant.

Growing Efficiencies

Labor is often the first thing cut because so much of a distributor's expense is tied to payroll in some way, Merrifield says. "Unless your warehouses are super-automated like some of the giants, distributors require an army of people to process orders at every level."

But that also means that there are

plenty of places where processes can be improved to cut costs. With sales down, now is the perfect time to search every process for waste, according to Dr. Perry Daneshgari, president of MCA Inc.

"Waste shows up right away when you don't have as many orders coming in," he says.

In addition, employees at all levels are more likely to take initiative in implementing these strategies than they might have when the economy was stronger.

"People are averse to change, but because of the poor job market they are also less likely to jump ship for a new job right now," Daneshgari says.

Merrifield suggests conducting a full audit of the costs of doing business. "There are costs associated with your information system, accounting, everything," he says. "You need an audit by cost to see where slack is occurring in your company."

Once that slack has been identified, improvements can be put into place to remove the costs associated with that slack. And that may require downsizing every aspect of the business.

"I'm not just talking about people when I say downsizing," Merrifield says. "I also mean your client list, your inventory on-hand, everything."

Though opinions vary on whether firing customers is a good idea, Merrifield says that fewer clients may improve your bottom line because you may be losing money on smaller, more demanding clients without realizing it.

By eliminating the money-losers, the personnel previously dedicated to them can be repurposed into more profitable roles in the company.

Those areas may be new value-added initiatives or lean processes, Merrifield

continued on page 3

INSIDE

Commentary: Now is the Time to Act

Long-term planning must accompany focus on short-term survival.

Page 2

Align Your Selling Resources

After a sales force reduction, a strategic approach is needed.

Page 5

1Q Inflation by Commodity Group

Pricing trends for the first quarter.

Pages 7, 8 and Online

GPC: Cost Cuts a 'Balancing Act'

Distributor wants to retain service levels.

**Page 1 of Industrial and
Construction Markets
Update**

Stability in the Near Future?

Most recent economic forecasts suggest it's a possibility.

**Page 3 of Industrial and
Construction Markets
Update**



Cuts Beyond the Work Force

Continued from page 1

says. For example, distributors can have immense amounts of paperwork from contractors who place and receive multiple orders each day.

Offer to streamline the paperwork by consolidating those orders into one invoice at the end of the day. Less paperwork means less time spent on paperwork, Merrifield says.

Another way to reduce costs associated with filling those multiple orders each day would be to assign a person to pick and sort the orders for pickup in the morning.

"Get 10 totes, one for each of the vans that may come by individually to pick up the orders. Sort the orders into the individual totes and have them ready to be picked up by the contracting company," Merrifield says. "That will save time and money on both sides, which will help cement the value-add of your company."

Daneshgari, a co-author of the book, *Lean Operations in Distribution*, says that not every company is ready to implement a full lean program. But even lean-resistant companies can do small things to improve their processes for the short- and long-term.

Optimize the warehouse to reflect customer purchase habits. Improve inventory management.

"So many companies confuse inventory with availability," Daneshgari says. Also, simply focusing on where the waste is occurring in your company can go a long way in getting rid of it.

For W.P. & R.S. Mars, much of the focus was placed on eliminating errors. The company implemented a performance goal that allows for a 0.5 percent error rate, and increased monitoring to make sure that standard was met. "Errors cost money," Ahrens says.

Reducing Labor-Related Costs

It's difficult to significantly cut costs without trimming labor-related expenses; after all, they do make up the majority of a distributorship's overhead. Some distributors are reevaluating how they are allocating money to salaries, benefits and other employee compensation.

At 100-employee Strauss Paper Co. in Port Chester, N.Y., bonuses will replace raises for most this year, says Stewart Strauss, president. Half of the amount will be given upfront with the other half dependent on the balance sheet at the end of the year. Only a few people will receive base salary increases.

"It's a careful balancing act because good people can still find jobs so we have to make

sure that we keep paying them well, or we'll end up losing them," Strauss says. "For the most part, if we're asking someone to pick up significant extra responsibilities or moving them into a significantly different position, we'll make sure they are compensated fairly."

Changes were also made to the employee health insurance plan, with the company self-insuring the first \$1,000 for each employee.

"We made sure the employees don't have to pay that \$1,000," Strauss says. Instead, the company provides each employee with a debit card that charges the company's account for that amount.

The self-insurance plan has reduced the company's cost for providing health insurance by nearly 15 percent.

Employees were skeptical of the change at first but few actual issues have arisen since the plan went into place. And Strauss Paper has limited exposure from the plan because the accrual account for those payments already has enough to cover future claims.

Training can also be a big personnel expense, says Combs. Because of this, many companies are turning to more Web-based trainings.

At the same time, W.P. & R.S. Mars Co., with three locations, has found that slower times provide great opportunities to provide your employees with training that can improve skills and efficiency without disrupting normal business.

"We're using this time for training, enhancing procedures and improving our Corporate Best Practices," Ahrens says.

Help from the State

Sometimes more drastic measures are required. "This is the first time since the Depression that we're seeing across-the-board pay cuts," Merrifield says.

Employees at Equipment Controls Company, Norcross, Ga., took a 10 percent salary cut; managers took even steeper cuts, says president Jeb Bell.

And more companies are considering shorter work weeks to offset the lower sales activity.

While this option is usually taken by manufacturers to keep workers with a specific set of skills, interest in programs to support this course of action has spiked, according to Kristen Morell, communications director for the Minnesota Department of Employment and Economic

continued on next page

Development.

Minnesota is one of 17 states that offer a work-sharing program that allows employees to receive partial unemployment benefits if the company elects to reduce work hours rather than implement layoffs.

"In a typical year, there are about 50 active plans at any given time; presently there are about 300 companies in Minnesota participating," Morell says.

While these options may be beneficial for some organizations, they're not for everyone, Combs warns. Changes to hours can impact eligibility for benefits or how certain employees are classified, so make sure you are aware the legal risks.

External Costs

"Any check you write to someone outside your company has the potential to be reduced," Merrifield says. "Rent, utilities, phone, HVAC, and so on. Call them up and try to negotiate a better deal."

For W.P. & R.S. Mars, evaluation of all those outside expenses was central to its cost reduction plan. When Mars' lease came up for renewal in 2008, it took advantage of the economy to renegotiate payment terms. The company agreed to five-year lease but at significantly lower rates than it had been paying.

"We were able to work with the property owners, and they were willing to work with us, to keep a good tenant in place," Ahrens says.

In addition, the company stopped contracting with outside companies to provide basic building maintenance, including cleaning, snow removal, lawn care and small repairs. Instead, employees have been asked to step in and help out with these tasks.

Mars also conducted an energy audit on its facilities to identify where energy waste was occurring.

"We're focusing on what we can do with what we already have," Ahrens says.

"Because we lease, it doesn't make much sense for use to install improvements. But we can change the types of light bulbs we use, and we can shut off lights where we don't need it to be as bright."

Changing advertising strategies also may help reduce unnecessary expenditures. Equipment Controls has turned more of its focus to online advertising and is focusing on "being smarter about where we put our resources,"

Bell says. Bell also says that his company has cut back on trade show attendance and booth displays. Many distributors and manufacturers at the recent Industrial Supply Association Conference and Trade Fair reported decreased attendance from their companies, and some have grown more selective at which trade fair they decide to pay for a booth.

Challenges

"Anytime there are changes, there will be people who complain," Strauss says. "The biggest challenge while making these changes is keeping a positive environment throughout the process."

To deal with that challenge, Strauss Paper has implemented policies to make sure the employees receive the best information possible and have the opportunity to have their concerns addressed.

Any changes that will impact an employee have to be communicated to that employee in a one-on-one meeting with a supervisor or vice president, Strauss says.

"We make sure they know they can come to us with any question, and we'll deal with them straightly and directly," he says.

And management is leading by example. Entertainment budgets – including the holiday party – were cut internally and externally. That means no more Mets tickets for potential client meetings, Strauss says.

"How can we tell our people that we can't give them raises and still provide all of these other perks? That would just send the wrong signal."

Looking Ahead

Because other cost reduction measures have been so successful, Strauss has been able keep personnel cuts off the table. "We haven't completely said they won't happen, but right now I can say that we aren't planning any," Strauss says.

W.P. & R.S. Mars eventually decided it was necessary to eliminate four warehouse positions and delay filling the position of a retiree.

"Warehouse positions are ones that are easy to fill when things pick up, and we can fill them initially with part-timers," Ahrens says. "If cuts had to be made, it just made sense to do it there." And, because of the other measures implemented, more positions were saved and the company will be in a stronger position when sales begin to recover.

Add additional subscribers at your company at a lower rate.
Call MDM at 1-888-742-5060 for more information.