



When faced with tough times, fast management response and real change should be the first step.

What to do when times get tough

In the last *Raymond's View* you learned how industrial giant Toyota is dealing with problems stemming from internal faults in its processes. Most of those issues were within the scope of its control inside the company and fixable with changes in its management policies and practices.

Often, companies face critical issues outside of their control. The biggest of those bogeys is a weak economy. Today all but a few companies in the wood products industry are facing such tough times.

In that circumstance, what should you as a manager do? The first step is realizing that such times require a fast management response and real change.

Look inside your company

Like Toyota, you must take a hard look at your internal processes.

Manage Your Cash. Nothing is more critical when sales falter than cash. For many small businesses, managing cash is second nature. But even in a highly profitable business, a downturn can drain a solid cash position. Your first step is developing a *realistic* cash flow projection. Realism requires that the rate of sale, the timing of supplier and customer payments, as well as your ongoing costs, are being accurately portrayed. To achieve such accuracy, you must build a system for gathering the latest information quickly. Being successful at that task demands great communications. More on that point later. Once the data is in hand, you build the projection in spreadsheet form and examine a number of what-if scenarios.

Squeeze Cash from Receivables. Tough balance sheet management con-

tributes significantly to step one above. Run your receivables report regularly, identify which customers are paying and investigate the history of those orders for which payment is overdue. Find out why payment is late. Often the problem is bad quality, billing or shipping error, or simply ill-designed customer service rules.

Balance Capacity with Demand. In the face of a business slowdown, your first reaction is real cost reduction. Unfortunately, doing so often requires the difficult step of cutting your workforce. Every facet of your operating cost also warrants thorough evaluation. Can you temporarily postpone some maintenance costs? Can insurance costs be reduced? What steps must be taken to cut utility costs?

Strip Time Out of Your Process. When sales drop backlog falls too. That situation often leaves a plant under-utilized unless its order entry process can quickly release customer orders to production. Compressing the time from customer order to payment is a great way to improve cash flow. Make no mistake however, process improvement is hard work when human resources are reduced and everyone is wearing more than one hat. But hard work must not be an excuse.

Learn to Handle Demand Spikes. Staffing cuts can harm process efficiency and lengthen production lead times, a result that runs counter to the faster order-to-cash cycle discussed in the previous step. Your response to layoffs must be increased cross-training, reorganized process flow, and continuous measurement of through-

continued

put time. You cannot afford to let your production efficiency decline. Again, such effort is hard but necessary work.

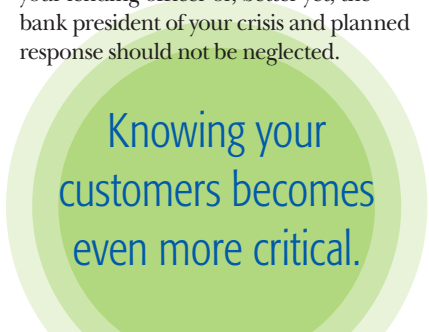
Look outside your company

Rearming your internal processes alone will not remedy the effects of slow times. You must look beyond your four walls:

Work with Your Key Vendors. This effort goes beyond standard tactics for managing payables and inventory to building better intelligence about the business you are in. Companies in your supply chain serve competitors. In that position they have a wider view of market conditions — who is surviving, who is struggling, plus what trends are emerging in materials, technologies and products that may impact the econom-

ics of your market space. Your vendors are probably suffering, too. Cooperative efforts aimed at revenue generation and/or cost reduction must continue to receive your attention. Buying value-added components can be a sound tactic for dealing with work-force reductions.

Keep Your Bank Appraised. Maintaining the availability of credit is often a prerequisite to survival in tough times. Today's sub-prime lending crisis has bankers worried about the stability of their loan portfolios, and such concern can negatively impact a firm's viability. Company owners and CEOs must attend to their banking relationship. Informing your lending officer or, better yet, the bank president of your crisis and planned response should not be neglected.



Knowing your
customers becomes
even more critical.

Get Closer to Your Customers. When times get tough, the marketplace changes. Knowing your customers, a full-time job in good times, becomes even more critical. This task goes beyond determining their creditworthiness, even though that fact is important. Rather, the key is identifying any changes to their purchasing factors that slower business has caused. Are your primary customers, those 20 percent that produce 80 percent of your revenues, now worried more about delivery time, payment terms, quality or other factors than before? Can you take over steps in their process that improve their survivability?

Set priorities for follow-up

These steps will no doubt call for follow-up action — the real changes in your present processes and organization designed to cope with the new reality. As mentioned above, you will most probably be implementing these changes with fewer resources. The solution then is to set action priorities, first by identifying the areas of greatest vulnerability and then the fastest, effective action steps. Harvard Professor Rosabeth Moss Kanter likens this two-dimensional approach to triage, the medical model that decides the order of treatment for wounded

soldiers: first, the seriously wounded with a chance for survival; second, the superficially wounded and, third, the hopelessly wounded.

This method acknowledges the impossibility of changing everything at once. You should first make change where quick intervention has a high potential to remedy a critical problem successfully. Then move to less crucial changes with a high probability of success. Finally, your efforts can focus where crucial change is necessary, but the success potential is low. The latter step recognizes that wasting resources on difficult changes is most often counterproductive.

Communicate

Maximizing the impact of limited resources is the secret to great crisis management. To do so requires winning people over to the need for change. The basics of doing so are:

Tell why change is necessary. Crisis breeds uncertainty. So you must provide the facts about the business conditions and the response their company must undertake.

Establish a sense of urgency. Let no one forget that time is of the essence.

Explain the personal impact. Reassurance about your employees' job prospects must be balanced with the expectation of extraordinary performance. New, achievable targets should be set, and new metrics put in place to monitor execution.

Looking the business downturn squarely in the eye and confidently communicating your response will go a long way toward motivating your workers to cinch up their belts and making the needed extra effort.

Bottom Line: An economic crisis can be a decisive moment in the life of a company. If properly managed, the experience can strengthen a company's culture, prove its adaptability and set new courses for the future. ●

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