

**Surviving Tough Economic Times:
"Increase Your Profitability By Boosting Your Investment in Continuous
Improvement Initiatives!"**

By: Greg Jerralds, Chief Operating Officer (www.ProfitInnerCircle.com)

It's official. We're in a recession!

It never fails. As soon as the economy takes a downward turn and annual revenue projections are lowered, the first place, after lowering headcount projections, companies search to reduce operating cost is employee development initiatives. I can't tell you how often during my 20 plus years in corporate leadership I have been challenged by executive leaders to reduce the employee training and development dollars for my department or division. And, each time I am tasked with such an outlandish request, I prepare for battle.

Need to Reduce Your Operating Costs? Increase Your Employee Development Spending!

Don't get me wrong - I don't enjoy confrontation! As a matter of fact, on most issues, I'd rather search for compromising alternatives. But I am a firm believer in the value of continuous employee education and development. So when it comes to cutting costs needed for development initiatives, my strong convictions usually have me reaching for the latest advancements in corporate battle gear. Let the jousting begin!

In a desperate quest to lower operating cost, senior executives search for ways to reduce headcount expense. If it is not reduced headcount, then it is to significantly slow its current rate of growth. Of course, senior executives target other budget categories, but headcount generally has the greatest influence on a company's operating expenses, particularly in large production-oriented businesses.

But, here's where the friction occurs most often. In contrast with senior executives, middle managers are constantly lobbying for additional resources. They never seem to have enough employees to meet the demands of the business. So, their motivation is to retain current headcount levels, while justifying the need for additional resources. As a result, requests for headcount reductions are generally met with resistance from middle managers. Therefore, to avoid cutting headcount, managers often sacrifice their budgeted dollars allocated in other areas, particularly employee development. When that happens, the entire business suffers!

An \$80,000 Investment Delivered a \$200,000 Return!

Lauren, a contact center director for a growing manufacturing company, was asked by the department vice president to reduce her expense forecast for the upcoming budget year. Her VP explained, "Although we continue to realize significant growth, our average sales are slightly down for the third straight quarter. This is primarily due to fluctuating trends in consumer buying. So, to insure we meet our profit projections for the upcoming year, our combined operating budget must be lowered by one million dollars. I am looking for \$100 thousand of that to come from your contact center budget." Without hesitation, Lauren's VP stated, "I see you forecasted \$80 thousand in employee

development initiatives. Cut that, and you'll only need to cut your headcount projection by one Full-Time Employee (FTE) to meet the target!"

Seems so simple, right? Wrong! And here's why!

Like most department leaders, Lauren was asked to trim her budget forecast -- what she already considered to be aggressively tight -- even more. Understanding she was on the hook for \$100K in reductions and her employee development dollars were at risk, Lauren had to get creative!

Lauren realized the value of providing ongoing development to her employees. She had seen favorable results in the past, particularly with her leadership team members. But now, she faced a tough dilemma. Either reduce her headcount forecast by three FTE (equivalent to \$120K), or postpone her employee development initiatives for full a year. With the exception of headcount, which contributed the lion's share of her annual operating expenses, the \$80K allotted for employee development stood out like a tall, ugly weed begging to be chopped by her VP's financial sling blade. And, it was no doubt her VP was prepared to swing!

After intense thought and planning, Lauren submitted her revised budget. Lauren's VP called after reviewing the revisions and said, "I noticed you reduced your headcount growth projection by five FTE, but retained your employee development allocation of \$80,000. How do you propose to handle next year's growth in business?" Lauren replied, "My \$80,000 allocation will be used to create and implement two employee development programs: one designed to improve process efficiencies, and the other to improve quality. The efficiencies my department will gain after completing our new process improvement training programs will enable us to increase productivity by 10% - equivalent to the production of two employees." Lauren went on to say, "In addition, our new quality assurance program will enable us to reduce data entry errors and rework by 15% - equivalent to three more employee."

It's all about synergy...where the whole of a system is greater than the sum of its parts; being powerful in effect with little waste of effort results in more being done by fewer people. The objective is to leverage your resources to effectively capitalize on the full potential of the entire unit; a common goal, a common message, and a common direction!

The Economics of Continuous Improvement!

Lauren's \$80,000 investment in employee development programs resulted in total efficiency gains equivalent to five FTEs. With an average annual salary of \$40,000 per employee, Lauren's programs realized \$200,000 in cost avoidance (5 FTEs x \$40,000). This not only delivered a \$120,000 (\$200K benefit - \$80K expense) Return On Investment (ROI) to the bottom-line, but also slowed Lauren's annual employee growth rate by five FTEs. In other words, she absorbed new business growth without adding additional employees. Most importantly, the new programs had an extremely positive impact on customer satisfaction and quality assurance ratios.

So often, knee-jerk decisions to lower operating expenses by delaying or eliminating employee development and incentive programs, are met with substantial increases in

customer dissatisfaction, decreases in product and service quality, as well as downward trends in employee satisfaction and productivity. All of which, result in higher operating costs and less profit.

Employee cost is often the largest cost of doing business and if through constant and on-going small improvements, such as new efficiencies, employee cost can be reduced by just by 2% without any loss of production, an additional 5% to 10% in profit will result. And, an additional 5 to 10% in profit may well mean a two-fold improvement in the bottom line.

Unfortunately, many businesses do a poor job of anticipating these added costs, and an even worse job measuring them. Often, the true risk of their financial impact is overlooked during the budget planning and approval stages. But, one thing's for sure; the negative impact eventually shows on the bottom-line.

For businesses to truly realize their full profit potential, they must stop looking at their employees as negotiable financial control devices and begin viewing them as the valuable resources they are! When properly trained, led and inspired, employees have the potential to save companies far more than they actually cost them. Combine an effective strategic plan with modest investments in employee development and technology, and you will find healthy companies that realize sustainable gains in customer delight and retention as well as profitability.

Businesses must focus on continuous improvement to survive in today's competitive marketplace. If companies control the costs associated with the successful delivery of products and services by seeking constant improvement, they can be both competitive and profitable. As stated by Abe WalkingBear Sanchez, Co-Founder of Profit InnerCircle, LLC, "A business manager not focused on improvement becomes an administrator at best and a bureaucrat at worst."

"What Top Business Executives Don't Know and How It Can Hurt Your Business!"

At a time when the economy is slow and sluggish, many companies find that they have to cover the same fixed expenses out of fewer sales. However, by reducing the cost of production (the people part) through constant and on-going small improvements, profitability can be sustained or even enhanced.

So, as the current economic climate continues to resonate in the minds of consumers, businesses will need to become even more efficient, financially savvy, and customer-oriented to effectively:

- **Increase new sales**
- **Grow repeat sales**
- **Improve cash flow**
- **Raise customer delight and customer retention levels**
- **Drive down the cost of doing business (for themselves and their customers)**

Let's face it...there are many creative ways that companies can make a profit. They can rip off employees for their retirement plan or fail to fully fund the plan...sound familiar? They can also make a profit by cheating customers and suppliers...any companies come

to mind?

If you're a business executive or business owner (or aspire to be one) who is serious about increasing your profitability, I encourage you to read our FREE Special Report at www.profitinnercircle.com titled, ***"What Top Business Executives Don't Know and How It Can Hurt Your Business."*** This report will help you to significantly improve key areas of your business which leads to increased profitability.

About the Author:

Greg Jerrals is the Chief Operating Officer with Profit InnerCircle™, LLC. Greg has more than 20 years of customer service/contact center leadership experience.

Greg began his career as a mortgage banker in 1984. Since, Greg has held various positions in management with such organizations as BancPLUS Mortgage Corp., Citibank, Caremark Pharmaceuticals, Coventry Health Care, Checks in the Mail, and Kinetic Concepts Inc. (KCI). His background includes workforce management, project management, performance management, process improvement, organizational development, quality assurance, and technology integration.

Greg holds a Bachelor of Science degree in Business Administration/International Management. Greg also completed Executive Leadership courses at the University of Michigan - Ross School of Business. Greg is the former President-elect of the Professional Teleservice Management Association (PTMA), and a Continuing Education Workforce Instructor with Northwest Vista College, San Antonio, TX.

Yours in profitability,

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