

Lessons of the Great Recession

The year's toughest lessons are worth remembering in more abundant times.

Now that U.S. GDP has chalked up a few consecutive quarters of growth, many are optimistic that an economic recovery is underway. With any luck, the difficult last year or so, wrought with decisions about which employees to keep and which to lay off, which suppliers to pay and which to stretch out, which necessary capital expenditures to make and which to defer, are things of the past ... for now.

If previous economic cycles are any indication, it won't be long before finishers made slimmer and more productive by the Great Recession go back to the old ways. For many in our industry, the tough lessons learned during the last two years will be tossed out the window. Payrolls will become fat, gains in efficiency brought about by a lack of sales volume and tightening cash resources will be lost, accounts receivable will balloon, and the quick-payback spending discipline born of economic reality and necessity will ride off into the proverbial sunset.

And what a shame, for in the process, gross margins will fall as a percentage of sales, cash flows will not be optimized as they could have been, and the future for these finishers will become less secure. At the onset of the next economic downturn, lessons will need to be learned all over again.

My wish is that your organization choose another path; one of economic discipline and sound financial decisions. In short, that you keep doing what you have been doing for the past 18 months. If you need any incentive, I invite you to ...

... Remember the day in 2009 that you announced your layoff. Better yet, remember the night before. Laying awake in bed dreading the next morning.

Standing in front of your employees, some of whom you had known for years, and hoping in vain that they would understand it wasn't personal. Trying to explain that revenue had dropped off to the point you couldn't afford to keep everyone. As employees see business coming back, they will express concerns about being short staffed and ask for positions to be reinstated. Many of these can be deferred in favor of overtime or outsourcing. Now that business is picking up, avoid the temptation to approve every request for additional personnel. Keep your headcount and payroll under control.

... Remember telling remaining employees that salaries, insurance benefits and company 401(k) contributions were being slashed. Looking them in the eye and trying to explain that this was actually good news; that others weren't so lucky. As business improves, make sure that whatever compensation and benefits improvements you make will be sustainable.

... Remember the scramble to improve efficiency and reduce direct cost in order to make it through 2009. The silver lining of economic recessions is that they can bring about significant improvements in productivity. Ensure that current throughput rates and yields become the minimum benchmark for future performance, and that any slippage is expeditiously addressed.

... Remember sweating payroll for the first time in years. The day the accounting department said "we're going to have to draw on the line of credit to pay our bills," or worse yet, "We're out of cash and the line is tapped out." When that reality set in, you likely took notice and began meticulously planning cash disbursements and aggressively collecting accounts receivable. Maintain the same level of cash discipline even when times are good.

... Remember the hand-wringing that went into choosing which capital expenditures to make and which to defer. Remember the focus on payback, making only those capital expenditures that were easily justified, and passing on those with longer or no definable payback periods. Analyze prospective capital expenditures with the same level of scrutiny.

If we are fortunate enough that the current level of economic expansion continues, that is good news for all of us. Those of us that maintain the good habits brought about by the recent economic turmoil will most certainly reap the benefits. ■



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