

Recession Proofing Your Business
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About this book

Recessions are not mysterious. They're periods during which the economy gets smaller. Business activity goes down. People buy less and worry more. Everybody looks for ways to save money and conserve cash. The big fear is that you won't be able to pay your bills--and that, as a result, your company will fail.

To do well in such an environment, you have to turn the situation to your advantage. That means mobilizing your entire organization to focus on cash flow and then using the cash you have to maintain and expand your customer base. This book shows you how.

1. This book is written in a non-technical style and only a basic knowledge in spreadsheets and word processing is required.
2. The approach is that of a trusted management advisor on site and assisting you in analyzing your business in a systematic manner and gradually introducing you to tools for managing, monitoring, and improving your business.
3. ***At first, avoid skipping around the book.*** The presentation is based on the step method, that is, the sequence of material is designed to train you as well as help you develop new and better management habits in a systematic approach.
4. When you finish the book, you will be privy to the best tools and methods used in American business. In fact, you can use the book and the accompanying Excel and Word templates for creating you own consulting firm.
5. The templates accompanying this book were created in Microsoft® Excel 2003 and Word 2003; you may open them in any productivity software that has the correct converters. You may encounter problems in third party suites with the Visual Basic modules.

Why this book?

As a small business owner, there are many things for you to give your attention to on a daily basis. You do everything you can as well as you can, but often, you are too busy to really think about the little things and if you are doing them as well as you could be, as easily as you could be. Now there is a way to find out and fix what you maybe did not even know was broken.

This book and *Dynamic Small Business Manager*[™] (The Manager) Excel workbook and templates serve as a combination of tools for the small business owner that focuses on increasing profits and cash flow by improving productivity, efficiency and financial proficiency through programs like Microsoft Excel and Word. The book's practical messages are understandable and can be immediately applied in your own small business.

Find out how technology can help you:

- Determine your business health.
- Perform accounting operations.
- Create daily financial and other reports.
- Manage your cash flow.
- Create a Business Plan.
- Create a Strategic plan.

Written by Frank Vickers, a small business owner with over 35 years of small business ownership and consulting experience, *Recession Proofing Your Business* tells you like it is and helps you get — and keep — your business's health on track.

Chapter 1 - About Recession Proofing your Business

Recession Proofing requires a new way of business thinking. You can no longer actively plan for prosperity without simultaneously planning for a recession. A recent survey revealed that only 24% of all US businesses in 2005 had a plan for coping with a recession.

Laying off employees is usually the first option when it should be the very last. The real solution is controlling wasted resources.

Wasted resources are not always easily seen. It often goes without notice, or when noticed, it is treated as a luxury or ignored as an acceptable excess.

At present day prices, these excesses have become too costly to tolerate. Competition won't stand for them.

Business's big problem has been sharply defined. It has to pin responsibility down. In the past, most of the blame for waste has been placed on the shoulders of everyone but the top executive. It is high time someone looked the issue straight in the eye and defined the obligation with respect to waste.

If this top executive is you, you had better get busy and do something about it, and don't pass the buck. Perhaps you don't know exactly how to proceed. Well, here's a simple method. Start with yourself. That's important. Otherwise, you won't have time to follow through the program.

Keep a detailed record of your own time for a period of two weeks. Note with whom time was spent and the subjects dealt with. If you analyze this record, you will probably arrive at the same conclusion as did one very capable executive, the president of a medium-sized company. She found that 95 percent of her time was being consumed by insignificant problems of the moment that could have been handled by her subordinates. She didn't have time for more important functions of far-sighted planning and overall direction.

The alert executive needs accurate instruments of measurement for overall planning and waste reduction. Installation of adequate administrative controls is the first step in meeting both objectives.

Administrative Controls

Five major divisions of administrative controls should be considered:

1. Organization.

On the whole, management has failed to realize the value of charting its organization. Too often it is considered mere "efficiency" clap-trap or theory. No instrument of business could be more practical in its intent and accomplishment. The organization chart is a graphic diagram specifying the authority and responsibility of each management function. Thus, the organization chart clears away the fogs of uncertainty. It straightens out the bypaths and circuitous routes in the flow of authority, eliminates

overlapping and cross purposes. It rids management of the common causes of dissention and jealousy.

2. Policies, Procedures and Duties.

Once the organization plan is perfected and charted, complete manuals should detail the specific duties of those charged with each function or sub-function. Procedures and policies must be set forth clearly. Thus, repetitive matters of policy and procedures are properly channeled. Many problems, previously referred to top management, become a matter of routine, completely understood and properly controlled by subordinates.

3. Costs.

Substantial wastes remain hidden in many businesses because of the absence of accurate cost finding. Lacking the basis for knowing where costs are excessive and the mechanics for keeping them under constant observation, top management has no adequate means of controlling and fixing the responsibility for excesses. A modern cost system is one of the most important "musts" in business.

4. Budgets.

One of the most severe indictments against top management is its failure to institute an adequate system of budget control. As a result, "half-baked" decisions, whims, snap judgments and intuitions bring grievous wastes reflected in profit and loss statements. How can management hope to plan accurately without knowing what is a reasonable expectation for each phase of the business and without a measurement of accomplishment?

5. Operating Reports.

With a sound system of costs and budgets, management has the basis for effective operating reports. Foremost is the monthly summary of each department which shows actual direct labor cost compared to budget allotment.

Monthly and quarterly reports contrast estimated and actual performance pertaining to production, labor, expense, buildings and equipment. Other reports cover such phases as activity; production labor and burden; idle time; production, labor, materials and manufacturing costs; estimated vs. actual costs. Effective operating reports afford management a direct control of waste.

Production Control

With controls established over administrative phases, management is in a position to consider Production Control. This major business device reduces waste in actual production time. In scheduling work, it coordinates the movement of materials with the needs of the various work centers, thus providing a smooth, steady flow.

Production control is divided into two main phases:

- (1) Elements of Planning, and
- (2) Mechanics of Control.

1. Elements of Planning

Comprehensive information is required on product analysis in order to determine what material is required. Consideration is given to the record of material, quality standards, work center capacities, operating methods and standards, and sequence of operations and scheduling. Planning also takes into consideration floor layout, transportation of material, storage and issue of material, standardization of equipment, product and operations.

2. Mechanics of Control

Through control charts, dispatching and inspection and a system of records, continuous control is exercised over the release and progress of orders, overall material movement, delays and stoppages. With these mechanisms of control properly established, a constant check is available on actual progress as compared with the planned schedule. A lag immediately shows up and the factors responsible are quickly ascertained.

Job and Methods Standardization

In top management's drive to abolish wastes, no field offers greater possibility than job and methods standardization.

Job and methods standardization is distinctly not a task for the novice. It calls for the skilled techniques of a Vicon analyst. The preliminary approach analyzes and records overall arrangements, processes, equipment and material handling from the standpoint of worker efficiency. Motion and time study is conducted of the worker's movements and methods. Consideration is given to the convenient placement of tools and parts. All of these elements are then brought together into one harmonious whole and clearly recorded in a manual.

Productivity Incentives

With a complete installation of job and methods standardization, top management has the basis for establishment of an adequate incentive plan set according to sound standards. The possibilities are so great in the reduction of waste time and the lowering of labor costs that incentives should have a place of prime importance on all top management agenda for increased profits.

Typical Situations

Let us consider the case of a certain manufacturer with 200 employees. Here were conditions typical of almost every type of manufacturing enterprise, from the small machine shop to the big shipyard. Serious bottlenecks had developed. Without regard for delivery schedule or productive limitations, one department piled up cuttings considerably in excess of the next department's capacity. With overproduction here, underproduction there, the whole operation was in utter confusion.

To bring order out of chaos, proper capacities were determined for each operation and a true balance was effected between every productive unit. Then, definite control was established over material going into manufacture and schedules were set up for all

operations. A smooth flow of work resulted. Output was balanced. Rejections were reduced to a minimum.

Floor Layout

Floor layout is always a major problem in the search for lower costs, particularly so because of changing and shifting conditions. Layout should be examined from the standpoints of orderly sequence of operations and the proper placement of desks, benches, machinery or equipment within work areas or departments.

Many concerns are still trying to get along with original floor layouts, entirely inadequate for present and future requirements. The waste of time alone in such cases may amount to many times more than revision costs.

Inefficient Layout is Waste

Simplicity-Flexibility

While complete waste elimination involves intricate analysis and scientific calculation, sometimes even the simplest readjustments may accomplish unbelievable time and cost savings.

For instance, a certain tool manufacturer continued to use facilities without considering present layout needs. Between two main operations, it was necessary to grind off the burrs resulting from a drilling operation. The parts were carted several feet away to the grinding and buffing department where a bottleneck developed. The parts waited hours at a time for this minor operation. A trained analyst suggested that a small bench grinder be put within easy reach of each operator. Important time was saved and the general manager was amazed that such a simple and obvious idea had never occurred to him. The company had been doing it the other way for 18 years.

We have thought too long in terms of grouping like machines by operation rather than an arrangement by product to be produced. The answer for many businessmen lies in layout of equipment for a new type of flexible operation, so that economical revisions can be accomplished when necessary to meet changing needs.

Waste Motions

High on the list for analysis is eliminating waste motions. Authorities state that the motions of the average business worker are at least 30 percent wasted.

Much misunderstanding exists regarding time and motion study. Scientific analysis is aimed not at making the worker labor harder and faster but at increasing his output without increasing energy expended. It seeks to eliminate needless, tiring motions. Excess lifting, moving, walking, reaching and bending are not only wasteful in cost but wasteful in energy.

What should all this mean to the individual businessperson? An alert executive might well say, "Competition is going to be much keener. I'll have to get my costs down or I won't get that next contract. Guess maybe I'd better look into the whole layout. I know

we're doing a lot or crisscrossing back and forth. Wonder how many man-hours we actually lose?" (And are they going to get a jolt when they really find out!)

"While we're doing it, maybe now is the time to make our facilities more adaptable. Then we could probably take on that additional work we've been considering-yes, and put ourselves in shape now to make some real profits on those new products we're talking about."

This expression represents just a start in the right process of thinking, the type of thinking urgently needed in all businesses. Such thinking is not important from the standpoint of necessity alone. It is also important from the purely selfish viewpoint of keeping in step with fast-moving business. The laggard is dropped by the wayside. The forward-looking and aggressive businessperson rises to new heights of achievement.

With few exceptions, every business can improve its productivity from 25 to 50 percent. Many can improve a great deal more by the elimination of common waste factors.

Frankly, is your business an exception?

Management's Attitude

It is the hidden wastes of space, time and energy, existing throughout a company's entire operations, which management frequently fails to understand. Diagnosing and prescribing for business complexities is not magic, conjecture or guesswork.

It is definitely not a job for the novice. It is a science, a highly skilled profession. Presidents, production managers, foremen and supervisors, when they realize that fact, welcome the professional skills of the specialist on waste elimination. Progressive management has come to realize that an outside viewpoint on the subject of management is refreshing and stimulating to internal thinking.

One of the greatest problems is the attitude of management itself. Pointing out examples of inefficiency often has the same effect as challenging a business executive's ability, honor and integrity. Here is an impenetrable barrier as long as the executive persists in refusing to face the facts. No longer can any businessperson afford to have such a shortsighted, thin-skinned attitude. It must be realized that a detached, objective viewpoint is necessary.

Another common reaction is, "Well, we've always done it this way and our profit statement has always been pretty good." That is the type of self-satisfied management which will likely find itself lost in the shuffle of an economic recession.

Still another objection of management-and a more valid one-is the fear of lost time and cost in making internal adjustments. A company may be tremendously busy on existing contracts, with production up to schedule and prospects favorable. Why disturb what seems to be a satisfactory condition? That is a fair question and deserves a straightforward answer.