THE COST OF LAYOFFS

To layoff or not to layoff? With the winter season coming up, it could increase your cash flow to layoff some employees until spring. But, in the long run, you may lose some customers next year.

by Rudd McGary and Ed Wandtke

In today's economy, many green industry companies are experiencing the unfortunate after-effects of this summer's dry spell: poor cash flow. Because of this reduction in company profitability, many of you might be seeking ways to reduce your operating costs this winter.

What are the implications of laying off employees that you would have otherwise kept on the payroll for the entire year?

Three areas of concern need to be addressed in order to determine the appropriate course of action:

- What did you plan on having these employees do this winter?
- What are the potential ramifications of laying off these employees this year?
- What will it cost to replace these employees if they do not return next year?

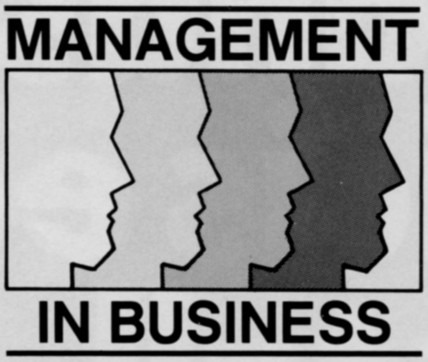
Plan their use

Companies often do not develop a written plan of off-season tasks for employees. They also often do not take the time to assign times for each task performance. If you take the time to detail the tasks and assign time to complete each task, you will be able to determine how many man-hours you need to plan for the winter. This planning is necessary now, if you hope to maintain or improve your financial performance for the year.

Laying off employees

Laying off non-essential employees has been a regular practice at those companies which have not been able to develop such a plan. In some cases, this may be an excellent manner by which you can continually improve the quality of your workers. Others, though, really hate to let potentially good employees leave.

Some states allow a green industry employer to be considered as seasonal with respect to his need for a specific size workforce. This allows the employee, when laid off, to qualify for unemployment benefits sooner, based on the fact that a specific return-to-work date is known at the time of the



layoff. Many employees look forward to this time off; others take seasonal employment counter to the turf industry.

Layoff implications

If you choose to lay off some or all of your employees, there are many potential effects on your workforce in the future.

- Employee morale will continue to be low. Individuals worry when it will be their turn to be laid off, especially if layoff policies are inconsistent.
- It will be extremely difficult to attract better employees; ones needed to provide the management and consistency needed for growth.
- There will continually be higher than average turnover of laborers who see no future for them with the company.
- Your company will acquire a reputation in the community of inconsistency of service because of employee turnover.

Cost of layoffs

In determining the cost of layoffs, it is important to consider the total cost of keeping an employee on the payroll. These costs would include payroll, benefits, training, taxes, insurance, medical and life insurance, uniforms, customer turnover and service efficiency.

We have found that customer turnover generally increases at the rate of 30 to 40 percent when the same service personnel fail to return from one year to the next. The higher the customer's financial base, the stronger the bond between service personnel and the customer. In addition, the more interaction between the on-site technician and the homeowner, the lower the customer turnover.

Service efficiency continues to be a key factor, since the costs of equipment and training are rising. So how do you quantify this cost?

Use this formula:

1.) Write down the cost to attract one new customer, in dollars.

2.) Write down your current cancellation rate.

3.) Write down increased cancellation rate due to change.

4.) Figure the adjusted cancel rate by multiplying line 2 by line 3.

5.) Figure the increased customers you need to attract by subtracting line 4 from line 2.

6.) Compute customer turnover cost due to layoffs by multiplying line 1 by line 5.

7.) Write the number of customers serviced at the end of the year.

8.) Write down the full-time employees at the end of the year.

9.) Compute average customers serviced by one employee by dividing line 8 into line 7.

10.) Write down number of customers in the third month of the year.

11.) Write down number of employees in the third month of the year.

12.) Calculate the average customers per employee in the third month of the year by dividing line 11 into line 10.

13.) Figure efficiency cost, line 9 minus line 12.

14.) Multiply efficiency cost, line 13, times average revenue cost.

15.) Figure total cost efficiency plus customer turnover by adding line 6 to line 14.

Conclusion

If your answers to lines 6 and 14 are so small that they are not financially significant to your company, laying off employees is obviously not that expensive. If otherwise, you must change: map a plan as to how you can avoid those costs in the future. **LM**