

Popping the Personnel Cost Bubbles

In recent discussions with business leaders throughout the state, excessive personnel costs have elevated to the top of many company agendas. Leaders characterize the issue as *too many people being paid too much*. Like others, your company may be facing a similar situation – and are trying to deflate the ever-ballooning personnel cost bubble.

Why the sudden elevation? The reduction in profits during the extended recession brightens the spotlight on all costs, especially the high burden of personnel costs to manufacturing. Not all personnel costs are a burden but there is waste, and waste is a burden. Waste disguises itself very well when the economy is robust. During the good times, personnel waste can remain undetected on management's attention radar.

At The Kanning Group we believe personnel waste ultimately manifests itself in two types of *"waste bubbles."*

- 1) Work being done that customers are not willing to pay for. Some sources list the size of this waste at 90%. This creates a *"manpower bubble."*
- 2) Excessive pay for the work being done creates a *"wage bubble."*
 - a. Higher than necessary labor and salary rates that have ballooned over time. (Example - paying \$14.00 an hour to someone holding a unskilled job of tightening bolts - most companies can hire off the street at \$9.00 an hour)
 - b. Excessive utilization of overtime.

We can debate who is responsible for the current situation. Our experience indicates no single group is blameless in this significant issue. Pinpointing blame will not deflate the bubble, and will delay the fix. The issue is, what to do now?

What steps should companies begin to implement?

Step 1 – Create true awareness.

- a. What is the size of the *"bubble"* gap?
- b. Inform *every one* of the gap size and the risk to company and to them.

Step 2 – Select an improvement process as way to address the *"manpower bubble."*

(Example - lean manufacturing, etc.)

Step 3 – Determine the primary way to address the *"wage bubble."*

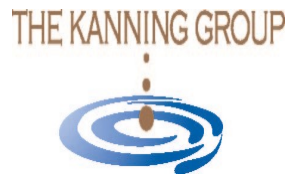
- a. Overtime is a waste and should be analyzed as such.
- b. Wages are higher than economically feasible for the work being performed. Determine choice to get back in line.
 - Increasing employee contribution – development and involvement
 - Lower hourly pay rates.

Most companies turn first to *“cut or slash”* manning. This is quick, but if it does not include re-engineering the work, it will lead to lower productivity and no sustainable profit gain. The second solution choice is to reduce labor rates. Likewise, is difficult to make the transition to lower wages without significantly lowering morale and increasing turnover – which in turn leads to loss of productivity.

We have seen it first hand. We have been involved with companies that forced manning reductions in one area while we utilized improvement processes and increased involvement in another to *“pop the bubbles.”* The combination of improvement processes and involvement significantly outperformed the forced area. While many think this conversion is harder and slower to achieve results, that has not been our experience when it is made a priority.

Currently we see companies trying to avoid the issue by outlasting the soft economy. They are just holding on and waiting for the economy to recover so they can go back to the way it was. In some cases this decision is risking the company. This is not fixing a problem, this is avoiding the problem! What happens if you delay taking action and the economy does not rebound for a one, two or even three years? Think about it. What will happen to your company? What do you need to be doing now?

Great leaders will not wait. They will utilize this lower volume time to right size the company while they can clearly see the bubbles that are draining their organizations – and thus avoiding the ultimate risk.



Questions, comments, or for additional information, call Myron Kanning (866) 933-1899, or e-mail mkanning@kanning-group.com.