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Surviving Bad Economic Times

Jack Welch was recently asked about the keys of survival in really bad economic times. Mr. Welch took the reins at GE in the early 1980s, a time when Paul Volker was fighting stagflation with tight money resulting in sky high interest rates and a major recession. He said there were four keys.

You can summarize his four keys as plan for worse than the worst, communicate like never before, take care of your best personnel and then think offensively. Each of these points deserves more exposition than this brief essay allows. Each also dovetails with and overlaps the others. While cost cutting may be the most important and most immediate, communication is the key that is necessary to keeping the key personnel and being positioned to act offensively.

Missing what should be the simplest key, communications, dooms the effort to less than optimal results. A solid, conservative cost cutting plan that is not well communicated will scare your personnel (uncertainty does that). Your best people are the most likely to leave when they are scared. You cannot be in a position to act offensively without those best people.

In the small to mid size business concentrating on communications and trying to keep your best people is particularly important. This is true from the top to the bottom of the organization. Smaller businesses have difficulty finding those solid performers to begin with, having to do it twice is painful.

During the down turn in 2001-2002 while I was CFO of Cincinnati Fiberglass, we lost nearly 40% of our business without losing a customer. Simply our customers' orders declined or they lost business. Worse, in some months the revenue decline was 80% as our customers adjusted their inventory.

I was principally responsible for designing the cost cutting plan. Needless to say it went far beyond laying off some hourly workers, though there was plenty of that. This plan was communicated throughout the organization and I think we did a pretty good job of telling the painful truths. Still we lost key people. Two department heads left as did some key front line production employees, both hourly and supervisors.

Throughout the ordeal we worked very hard to keep the channels of communication open and I do think this paid real dividends. The business did turn around starting in late 2002 and we were able to obtain new business. We had been able to keep enough key people to take business from competitors.

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We did have to go out and recruit new management people to fill some voids, but in one case we were able to recruit back a key department manager and in another case we were able to fill the department manager slot from within with a far more effect person.

The bottom line was that in 2005 when we sold the business, our revenue was 33% higher than our pre-recession peak. This would not have been possible unless we had effectively communicated our plans, forecasts and opportunities throughout the organization throughout the bad times.

- Greg Meurer, December 2008