

# 10 Tips for MTOs on Managing in a “Down Economy”



*Joseph Palazzolo, president of Palazzolo and Associates, explains how companies, marine terminal operators in particular, can manage tough problems during these challenging times.*

Two decades of trade expansion has dimmed the memory of prior recessions. The last time the U.S. economy contracted at comparable rates was over 25 years ago. However, experience from other industries and the application of planning tools, can provide up-to-date guidance on what you should do to best manage the effects of the arriving recession.

A recessionary economy demands that you:

## 1. Know your company's strengths and weaknesses

Knowing your business strengths, as well as the features that differentiate you from your competition, is an important step in dealing with sudden cargo contractions. For example, some marine terminals view their gate turn time as the means to successfully differentiate themselves from their competition. These companies should refrain from any cost savings activities that might have a negative impact on gate turn time, until no other options are available to them.

## 2. Collaborate with customers

Communication with customers is always important but it is crucial in times such as these. Your customers know the services they most value from your business compared with those that are marginally important. Use their evaluation as the basis of your identification of nonessential services that can be temporarily or permanently eliminated. Know the reasons why your best customers do business with you.

## 3. Have a deep understanding of your cost structure

You can't successfully cut your costs before you know your costs. You would be surprised to learn how many companies have only the most meager understanding of their major costs, especially labor costs, an expense that is roughly 60% of a terminal's costs. For many companies, years of accounting adaptations have produced bookkeeping allocations, corporate cross-charges and otherwise well-intentioned adjustments that serve to confuse management on the true cost of operations. Moreover, some companies stir major costs, such as operating labor, into one large pot without fully understanding the ingredients of this stew.

## 4. Utilize targeted cost cuts

While cost cutting is the first thing that many companies utilize in response to an economic slow down, successful companies know what elements of their business are critical to their reputation and, as a result, they avoid sweeping cuts which will be detrimental to these functions. Targeted cost cutting requires detailed knowledge of costs by department, by function and by activity, without allocations. There are no shortcuts; this is a tedious exercise but necessary to avoid overreacting or reducing costs in the wrong activities.

## 5. Make “savvy” investments

Forward thinking companies that are not capital-constrained understand that this is the time to make investments that will put them in a position of market strength when this recession ends. While it may be difficult to imagine while coping with the severe downturn in global trade and the corresponding cargo declines, the end of the recession will occur and now is the time to make investments in facilities, technology, and even strategic acquisitions that will place you on solid ground when the economy inevitably strengthens. If your IT systems cannot deliver the data necessary to understand costs, as described above, then it is time to make that investment to solve this problem.

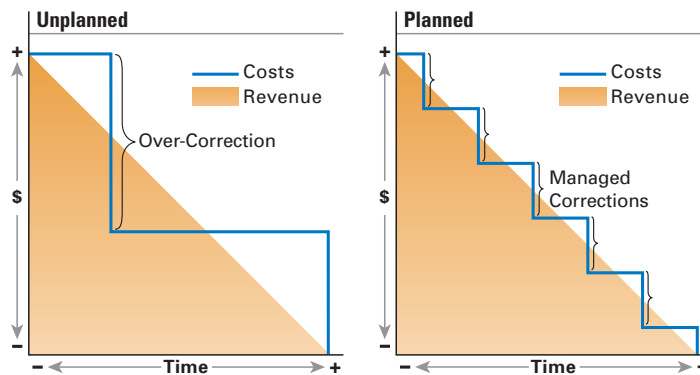
## 6. Use emulation tools to plan for multiple scenarios

Over cautious managers often wait too long to respond to declining volume and revenue, and then they “over-correct.” Their cost-cutting activities can be compared to a beginning skier cutting wide swaths across the slope instead of the precise movements of the expert. These managers do not have a plan for reversals of fortune and so they tend to:

- wait too long before cutting costs
- cut back too much, so when cost reductions do occur, they are too severe, with negative consequences for customer service levels

Planning tools, such as labor emulation tools, allow management to plan for volume changes (up or down) with a specific labor plan of action. These tools provide for precise and well-planned reactions to cargo volume changes, in contrast to unplanned reactions, as depicted in the following graphs:

## Types of Labor Cost Management



### 7. Work as a team

Teamwork plays into this in a number of ways:

- From the very beginning of planning for a recessionary economy, teamwork is required to communicate up and down the organization about the company's strengths and its plans to respond without compromising those sustainable business advantages.
- Second, understanding the cost structure requires teamwork between accounting and operations departments with full access to data and a willingness within operations to answer tough questions about costs.

### 8. Upgrade and fine tune your controls

Measuring the success (or failure) of a plan is as important as the plan itself. Timely and accurate reporting of plan variances is an essential step in controlling spending. Other controls used to alter "business as usual" behavior are:

- Modifying bonus and pay increases based on meeting planned goals
- Defining the course of action to be taken when cost cutting goals conflict with service level goals.

### 9. Act decisively

Companies that excel use a weak economy as an opportunity to take decisive actions that their competitors are reluctant to take. They are resolute in making commitments that improve their strategic position.

### 10. Leverage your management team to deal with recession planning

Managing in an economic crisis requires a substantial amount of introspection about your business, its sustainable business advantages and cost structure.

Establishing a plan of action and the organizational will to execute that plan requires "buy in" by management and staff to that plan of action.

A strong management team, armed with this information and the tools to analyze the underlying data, has a distinct advantage over its competition and is more likely to weather the economic storm.

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For more information on any of the planning and labor analysis tools offered by Palazzolo & Associates, or to find out how our team of financial, operations and technology experts can assist your organization, please contact us. [www.palazzoloassociates.com](http://www.palazzoloassociates.com)