

best practices: Cost Cutters: Trimming Payroll, Without Layoffs

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## Cost Cutters: Trimming Payroll, Without Layoffs

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**SMALL-BUSINESS OWNERS LOOKING** to stay afloat in today's choppy economy have a lot riding against them. Raw materials are pricier. The U.S. dollar is worth less. Credit is harder to come by. And the cost of health care continues to rise. As a result, many entrepreneurs are slashing one of their biggest expenses: payroll.

In fact, nearly half of small-business owners polled in a recent survey said they plan to lay off workers, curtail raises or offer days off instead of wage increases as a result of the economic downturn. The survey was conducted by PayCycle, an online payroll service in Palo Alto, Calif.

While layoffs may be necessary at some small businesses, employers should avoid sharpening the ax. Here's why: Not only do employees contribute to the company's productivity and bottom line, they're often well-schooled (at a great cost) on your specific business methods. Conduct layoffs now, and you'll spend even more to train a whole new batch once the economy picks back up.

Instead, consider these other payroll-trimming strategies:

**Keep employees working.** If there isn't enough work to go around, consider switching up people's duties, suggests Ray Friedman, a management professor at Vanderbilt University in Nashville, Tenn. "I have seen big companies make it through downturns by having factory workers do maintenance work [such as] painting, fixing tools" and the like, he says. Small companies, he adds, can receive similar cost savings by having current employees perform jobs that you would otherwise hire someone to do.

While such a role reversal will likely upset some workers, Christopher J. Collins, an associate professor of human-resource studies at Cornell University in Ithaca, N.Y., says that "complete honesty is really important." If you articulate to your employees that such a job shift is only temporary, they may appreciate your resourcefulness and pitch in where they can.

**Explore alternatives.** As you converse honestly with employees about your business's struggles, ask them for their cost-reduction thoughts, suggests Collins. "They may have creative ideas that have to do with nonpayroll ways to save money." For instance, there may be some inefficient processes that an employee may have noticed that, if fixed, could save the company a bundle.

**Ask for volunteers.** You might also ask employees to consider a voluntary furlough, which is typically an unpaid temporary layoff or leave of absence. "Some employees may want time off," says Friedman. "It's better to let those who want, and can afford, time off to not work, rather than forcing it on everyone." Some employees might consider using the time off to take a vacation, spend time with family or work on a personal project if they're promised a job when the furlough is over.

**Offer other incentives.** Look into other forms of compensation, says Gene Marks, a small-business consultant in Philadelphia. For instance, providing stock options in lieu of payment may be acceptable for a short period. Additionally, if your company regularly provides bonuses but can't afford them this year, consider offering nonpayment incentives instead, Marks says. "If you have anything like a vacation home or a timeshare that you can give to an employee that doesn't cost you really anything, offer it," he says. Just make sure you're upfront about the switcheroo, as (understandably) many employees will chafe at having their bonuses disappear.

**Install shorter work weeks.** Reducing your employee's hours may do the trick as well. For instance, Tray-Pak, a custom plastic packaging maker in Reading, Penn., has for the past two years instituted a four-day workweek during the typically slow months from February until April. "In our slow period, we really don't need full staff," says Ken Ritter, the company's chief financial officer. Historically, he adds "we would have laid those people off." However, Tray-Pak has found that it's worth keeping the employees on because the training process, which takes three weeks, is so costly.

**Reduce pay.** If all else fails, consider reducing employees' pay, says Collins from Cornell. This is obviously going to be controversial. However, since a person's livelihood is on the line, a pay cut vs. a job cut, for many employees, may be

preferable. The key to this predicament, he adds, is to "keep employees involved." It will be a difficult conversation, but after relaying to your staff that the business is being squeezed and its overall stability is in question, a pay cut may be an easier pill to swallow.

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