

## 'Tis the season to be frugal

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What's the story this year with client gifts, employee bonuses, etc.? What are you seeing other companies doing? We're in good shape financially, but careful about what we're spending at the moment. I would be interested in having another perspective. Thanks.

Discretionary spending is something just about every business owner is taking a good hard look at this year. Three categories that most owners are looking at are: client gifts, employee bonuses, raises for next year. As usual, there's no right answer, but there are some things to keep in mind.

Check your reserve funds before calculating bonuses, gifts, payroll increases. Cash is king in this new economy. You want cash reserves to equal at least 3 months of expenses, better if you have 6 months on hand. If you're short on reserves, you can't afford to lay money out for gifts, bonuses and raises.

Reserves are the foundation for your company to be around next year and the year after. You can only serve clients and employ people if you stay in business. If your company hits the skids in any way, how will your customers or employees feel when you tell them, "Sorry, I spent our reserve money on gifts, bonuses and raises, and now I have to close my doors."

One other thing to take into account : Bank covenants. Banks are calling in lines, and tightening standards. If you made commitment regarding amount of profit, cash on hand, etc., this is the year you want to make sure you hit those targets.

If you can afford client gifts, this may be a time to get creative and scale back on what you spend. This isn't the year to send a token gift. Everyone seems to want things to be more meaningful right now.

Consider donating to a charity. Ask clients for suggestions of charities they support. Pool the money you would have laid out in gifts, and send it to a charity instead, citing the clients who identified the charity. Send clients a note, along with a holiday card, letting them know you've made a donation in their name, in lieu of year end gifts. Now, that's meaningful!

Before we get into employee compensation, let me lay a little groundwork. We have just hit the ½ million mark in terms of jobs lost in the U.S. economy. There are a lot of people out of work. Those who have jobs are lucky.

It is also a great time to be looking for new employees. After several years of competing for workforce with the bigger, deeper pockets of larger firms, our day has dawned. There's great talent on the street, looking for opportunity and willing to accept trade offs to get a job, which makes this one of those rare opportunity times for small businesses.

Instead of laying out bonuses and raises in a knee-jerk fashion, use this economy as an opportunity to evaluate who belongs on the bus in your company, and who needs to be replaced. Look at who you can afford and who now exceeds their cost / benefit ratio. It's a good time to make changes happen. And focus on rewarding those employees who really get where you're going and want to pull their weight to help you get there.

If you have made commitments to employees throughout the year, you need to own up to those, if, and only if you can afford to do it. If you're short on funds, better to tell employees you're caught short, than to throw the business into financial trouble by trying to make good.

If you have a tradition of handing out year end rewards, you should re-evaluate the habit. Shift to paying rewards based on contribution rather than employment. If you're in jeopardy of missing bank commitments, delay employee rewards to 2009, first quarter, or even later, if necessary.

Many companies also think through raises for 2009, as they get to year end. Be very careful here. Check out who is over and under compensated. If people need to get raised up, calculate the impact on next year's budget before you make commitments.

If you can afford raises, put the increases into an at-risk agreement. Identify 2-4 tasks you want each employee to accomplish. Allocate next year's increase to task completion. Set the tone for performance rather than expectation.

In summary, be clear with employees and clients about the boundaries. This is a different time. Good employees and good clients will get that. This is not the time to be cheap for the sake of being cheap. It is a time to be careful and figure out who can get it.

Looking for a good book? Try *The Employee Compensation Solution: How to Develop an Employee Driven Rewards System*, by John E. Tropman.

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