

## Explaining year end to employees

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**“We’re just now coming to understand the impact of 2009. We had some tough decisions to make at year-end, including to forgo bonuses. How do I get my employees to understand that while it feels personal, decisions were made to protect the well-being of the entire company?”**

Last year had scary moments for just about every company and small-business owner. While some were able to dodge bullets, other companies took direct hits. Just about every business owner I talk to admits that somewhere along the line there were at least a few sleepless nights.

Many business owners felt a lot of pressure as they dealt with year-end. Employees were used to bonuses from previous years. Hearing that unemployment was way up didn't have a big impact for some employees who were counting on year-end bonuses to close their personal financial gaps. Many employees felt that if they still had jobs at the end of 2009, then it wasn't a question of getting laid off, it was a question of how the profits were going to get spread around. Others were totally unprepared for the more conservative routes that owners chose to take at year-end 2009.

### **The bottom line**

Understanding what impacts the bottom line is crucial in any business. In 2009, many companies took a quadruple hit. The work they did brought in less profit than in previous years. They put more time, money and effort than usual into marketing in order to build up their future. They used up a chunk of the profits they made to pay taxes and cover higher benefits costs. And having dipped into reserves sometime during the year, owners at year-end were challenged to build reserves back up. Sound familiar? Now it's time to help employees understand what's going on.

Why less profit per job in 2009? The average job was smaller. Many companies spent a lot more time taking care of each customer. And sometimes companies bid lower than they were used to just to get the work.

Building up reserve funds and ensuring that taxes are paid on time are two of the year-end's top priorities for most business owners. Companies that came up short on reserve funds in 2009 had a hard time making it through the year. Many companies that had deep reserves dipped into those funds during the year.

Explain to employees that ensuring that a company has reserve funds going forward may well be the difference between making it, and going bust in the future. Having on hand between one and three months of operating expenses is a minimum. If things go wrong, customers fall away, invoices don't get paid, prices escalate faster than expected, the company still has funds to make it through a rough patch, payroll still gets paid and employees still have jobs.

### **For the long-term**

I've heard employees question why the company is spending significant amounts of money on marketing and sales development. That's the company's future. Out of sales and marketing will come future customers who will pay for salaries and bonuses in coming years.

It's important to explain to employees that securing the company's future is a necessary discipline. Offering a smaller bonus, or possibly no bonus at all, and diverting the funds to finding future markets, means the company will be in business one to five years from now. The alternative, paying out bonuses to employees now, and letting the future play itself out later, could mean that down the road the company falls apart, everyone gets laid off and no one collects a salary, let alone a bonus.

It's also important to share with employees that costs are continuing to go up. Health care will cost more this year, as will taxes and other insurances. Ensuring the company has funds on hand to deal with increased costs and potentially lower margins is essential.

Look at who's in agreement with the decision to protect the company as a whole. Recognize your long-term, savvy

players as the ones who get that being financially conservative now means that the company will likely have a stronger future next year.

Think about boosting efforts that focus on fueling growth of the company's most profitable, growth-oriented accounts. Consider bonus programs that reward people for bringing in new accounts and selling what's the most profitable. Make this a time to challenge the assumption that just staying in a job through year-end justifies a bonus, by switching to compensation plans that drive the behaviors that lead to the company's long-term growth.

Looking for a good book? Try "The Compensation Handbook" by Lance Berger and Dorothy Berger.

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