with Jerry Jasinowski, Proudfoot Consulting

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Jerry currently serves as the senior manufacturing advisor for Proudfoot Consulting. Previously, he served as CEO of the NAM (1989-2004), the largest industrial trade association in the U.S. Jerry joined the U.S. Air Force as an intelligence officer, serving in the Far East in the mid 1960s. He later became Assistant Professor of Economics at the U.S. Air Force Academy. In the early 1970s, Jerry managed research and legislative activities for the Joint Economic Committee of Congress. In 1976, he served as director of the Carter Administration's economic transition team for the Department of Treasury, Commerce, and Labor, the Council of Economic Advisors, and the Federal Reserve. He later was appointed Assistant Secretary for Policy at the U.S. Department of Commerce. Jerry is also a member of the Board of Directors of Harsco, Timken Company, and several other corporate boards. He is a nationally-renowned economic commentator, and an expert in how companies can successfully compete in the global economy. He is the author of Making it in America: Proven Paths to Success from 50 Top Companies (Simon and Schuster, 1995).

How might a manufacturer react immediately to the recent economic

downturn?

The first concern for a company in such a deep downturn is to be sure that it's balance sheet is sound and protected. Period. That means—in the first instance—maximizing cash flow by reducing working capital and excess inventories.

Following the reduction of working capital and excess inventories, then a firm has to look at the necessity to cut back capital expenditures, and probably reduce acquisitions. Finally, in the financial realm, a company has to ensure that its lines of credit are sound and accessible.

Protecting the balance sheet should not prevent firms from moving ahead in normal process improvements, as well as taking the restructuring actions that may be necessary in a downturn. Firms need to look at all of their process improvements they have under way—lean manufacturing, Six Sigma, and others—and accelerate those actions as much as feasible. It's a lot easier to get people to make process improvement changes in some cases, when there is a serious economic downturn that puts a lot of pressure on the bottom line.

Would you say that filters all the way to the plant floor?

I think so. I think it's actually a good time to undertake major restructuring that you would not have done in normal times—which can include plant consolidation, headcount reduction, and other really tough actions.

On the process improvement front, it's a tough time to initiate new process improvements, but it's a great time to accelerate all of those that you have underway, and get them to have larger returns sooner. I think that accelerating lean manufacturing and other process improvement efforts underway has really got big payoffs in situations where there is big pressure on the bottom line.

I think in a downturn, because there is sometimes pressure on reducing capital expenditures, it's a particularly good time to bring more discipline to your capital spending decision, ensuring that the capex spending that you're going to be making will improve processes and the bottom line as much as possible. In other words, this is not the time where you're going to undertake a new green field plant. This is the time in which we're bringing in new machinery to aid process improvements—it has a higher payoff, and should be focused on as you do a certain amount of reallocation within your capital spending budget.

What characteristics do manufacturers need to come out on top?

I think there are four essentials to surviving in this environment—

- A company must evaluate their balance sheet conditions to make sure they are maximizing cash flow and have ensured that their lines of credit are adequate and available.

- Protection of the balance sheet by focusing on cash requires firms to reduce working capital and cut back on excess inventories—quickly and dramatically. It's kind of a bridge to the process improvement points. Good inventory management is absolutely essential to improving cash availability, and company productivity.
- A sharp downturn offers an opportunity to undertake fundamental restructuring of plants and employment levels, that you could not advance during better economic times. People are simply more willing to accept consolidating plants, cutting back on outmoded production activities, and even carefully disciplined employee reductions.
- Difficult economic times also provide a wonderful opportunity for accelerating process improvement activities already underway, particularly in the areas of lean manufacturing. I think lean manufacturing—from what I'm hearing from some companies—is really getting more attention even now during this downturn than it does normally.

How would you respond to concerns that cutting labor will leave companies struggling to catch up with production goals once the economy stabilizes?

Smart companies turn to large employee reductions only after they've exhausted every other restructuring and process improvement technique, in order to cut costs and improve productivity. Each cyclical downturn is not going to go on forever, and it appears that when there are significant skill shortages, companies should be prudent in targeting employee reductions, and ensuring that they're not cutting back on key areas that would be difficult to ramp up as the recovery occurs. I put it as a last resort, and it ought to be targeted, even then, to ensure that you don't make headcount reductions that just aren't wise in the long term.