EDSI CONSULTING

The Strategic Workforce Planner

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Revenue Stream Diversification:

It's Critical for Your Company and Your Workforce!

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Last week my wife and I met with our financial advisor. We go through this exercise annually, and as always, we discussed our long-term objectives, tolerance for risk, diversification strategies and action steps. It seems that the discussion revolving around diversification is the shortest and easiest part of the conversation. In fact, it's a given that any good portfolio is well diversified. This concept seems to be universally understood, promoted and supported by years of data. At the same time, the concept is generally understood and followed by the vast majority of investors.

> *"Recently, I was asked if I was going to fire an employee who made a mistake that cost the company $600,000. No, I replied, I just spent $600,000 training him. Why would I want somebody to hire his experience?"*
> *Thomas John Watson Sr., first CEO at IBM*

On the corporate front, however, the concept of diversification seems to get muddled. In fact, I'm regularly astounded at the lack of diversification in organizations of all sizes. It seems the old adage of "sticking to your knitting" is entirely misinterpreted by many business owners and executives. Many believe this means limited products, markets and geographies. The intended message behind this adage is to do what you are good at. In most cases, doing what you are good at means more than simply selling a single product category to a single industry. The adage was intended to make people and companies focus on core strengths, then leverage them for success, not stagnation.

Look at General Electric as an example; GE has played on its strengths to grow and diversify for many years. Today, GE has a broad variety of business lines, sells into dozens of industries, operates and sells in virtually all global geographies, has thousands of customers and makes a very healthy profit every year. During the "great recession," GE was highly profitable! How many non-diversified companies can you think of that were highly profitable in 2009 or 2010? When I think of large, non-diversified companies, I can't think of one that was highly profitable, or even marginally profitable, during the recession.

During the last 15 years, I've spent over half my time working with financially distressed companies. While doing this turnaround work, I've also participated in dozens of Turnaround Management Association (TMA) events. During these events, turnaround professionals such as myself discuss various turnarounds, practices and events.

It has become clear to me that over 95% of our turnaround clients lack diversification. It seems that, for undiversified companies, it only takes a few events to create a financial crisis. When dealing with turnaround clients, the financial issues are obvious. However, I've noticed other, non-financial issues. One of them is workforce continuity, stability and corporate attractiveness. It seems that most distressed companies have basic workforce issues. They struggle to retain and attract top talent and often have high costs associated with talent-related issues.

I attribute these workforce issues (partially) to cyclical sales increases and decreases. These changes create a work environment that is highly unstable and unpredictable. During busy times, employees are expected to work hard and often work significant amounts of overtime. During slow cycles, these same employees have reduced hours and are often laid off. These cycles make it very difficult for employees to plan their daily lives. These same cycles also create anxiety relative to the stability of employees' personal incomes. In these situations, the good employees seem motivated to look for "better" jobs.

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Delivering Happiness: A Path to Profits, Passion, and Purpose

-By Tony Hsieh

Upcoming Conferences

HCI – Human Capital Summit & Expo

April 8-10; Orlando, FL

SHRM – 2014 Annual Conference & Exposition

June 22-25; Orlando, FL

HRPS – Global Conference

March 30-April; La Jolla, CA

When companies are not diversified, their revenue streams can be whipsawed up and down. When revenues rise sharply, the companies' overtime costs can become excessive. At the same time, recruiting, on-boarding and training costs become excessive. During these periods, we also see quality and service levels suffer, creating a cycle that is hard to break. And when the next down cycle occurs, the company becomes distressed, and the employees become nervous.

These same non-diversified companies appear to have an extremely difficult time recruiting quality talent. Employee friends and family referrals almost never happen, and when they do, it's often for individuals that aren't high quality talent. Given the difficulty many companies have finding high quality talent, being a non-diversified company only makes this situation worse.

When a company isn't appropriately diversified, it is not a matter of **IF** they will experience a difficult business situation; it is a matter of **WHEN**! At the same time, this lack of diversification will have a significant, yet not obvious impact on the company's ability to attract and retain high caliber employees. Start thinking about and planning for the future, and remember that diversification is an important part of any successful business strategy. And, as always, please don't hesitate to contact us to help you build your own Growth & Diversification Plan.

Jim Bitterle
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