Case Study

Layoff Aversion

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What was Michigan's Emergency in 2008?

Generally *Known* Issues:

- Six year single-state recession
- Single-state depression had begun
- Unemployment near 15% - highest in nation
- Over 550,000 jobs lost in six years
- Sixth worse foreclosure rate in the nation
- Dramatic decline in manufacturing output and jobs base
- GM and Chrysler teetering on bankruptcy

Generally *Unknown* Issues:

Many large banks were quietly divesting automotive, real estate, and construction clients

Traditional alternative lenders had credit issues

Traditional alternative lenders were more selective

Assets had degraded, thus borrowing power was down

Reasonably stable companies were being forced into bankruptcy or liquidation

Conventional Actions:

- Reliance on Michigan Works! career centers and contracted service partners to assist dislocated workers through assessment, training, and placement
- Utilization of current economic development tools to attract and retain businesses

Concerns:

- Michigan Works! was being over-run by an excessive number of dislocated workers
- Job placement rates were low due to limited job availability
- Companies were failing and standard economic development tools weren't effective

EDSI Consulting's Approach

Save jobs by getting to the root-cause of the problem; underperforming companies.

Stabilize distressed companies before they are sent to workout or become insolvent

A centerpiece to the process is a **Proactive Business Review (PBR)**

A PBR is a tool used by turnaround professionals to:

1. Quickly assess:
   a) Financial health
   b) Operational efficiency
   c) Organizational structure
   d) Functional effectiveness
   e) Strategic direction

Assessment Defines:
- Urgency of Situation
- Changes Required

2. Identify short-term actions required to stabilize the company.

3. Identify long-term actions required to ensure the company returns to growth and profitability.

EDSI's staff has worked to save hundreds of at-risk companies, and working in partnership with local Workforce Investment Boards and Economic Development Corporations, EDSI Consulting has now worked with over 20 at-risk companies utilizing public funding streams through Layoff Aversion programs. Companies are identified by Economic Development staff, Workforce Investment Staff, as well as Bankers, CPAs, attorneys, and other networks developed by EDSI consulting.

Utilizing corporate assistance programs to provide services at no cost to the at-risk company, **EDSI is proud of the 100% company survival rate, as well as the 10% growth in cumulative employment levels.**

Case Studies

Machine Shop

June 2009 Status

- **Revenues:** Down 52% from peak of $4MM
- **Employment:** 14 from a peak of 26
- **Financial Condition:**
  - Revenues down 52%
  - Net Loss of $168k
  - Negative Cash Flows
  - In workout at bank
- **Key Recommendations:**
- Create a Stabilization Plan to stop the cash losses
- Create a 13-week cash forecast
- Begin searching for alternative financing
- Re-engineer scheduling process to reduce overtime and improve delivery performance

Current Status

- **Solvency:** Company solvent and operating
- **Employment:** 16
- **Financial Condition:**
  - Monthly revenues have increased over 15%
  - YTD profits achieved
  - Cash flows are positive
- **Key Changes:**
- Stabilization Plan fully implemented (reduced operating expenses by $336k)
- 13-week cash forecast created
- Re-finance book created, re-finance efforts under way
- Scheduling processes modified

Metal Fabricator

June 2010 Status

- **Revenues:** Down 31% from 2008
- **Employment:** 12 from a peak of 17
- **Financial Condition:**
  - Steep revenue declines
  - Net losses in both 2008 and 2009
  - Negative cash flows
- **Key Recommendations:**
- Create Stabilization Plan to stem the cash losses
- Hire a Production Manager to organize plant activities
- Re-engineer quoting process to improve both win-rates and customer service levels
- Cross-train all production personnel

Current Status

- **Solvency:** Company solvent and operating
- **Employment:** 17
- **Financial Condition:**
  - Operating cash flows are positive
  - 2010 projected to be profitable
  - Company is expected to be “bankable” by year-end
- **Key Changes:**
- Organization completely restructured
- Quoting and scheduling processes re-engineered
- Financial processes and reporting completely restructures
- Cross- training plan designed and being implemented

Fastener Manufacturer

Status Before Assistance

- **Revenues:** Down 18% from prior year
- **Employment:** 51 from a peak of 70
- **Financial Condition:**
  - Commercial line of credit maximized
  - Net losses for two consecutive years
  - Negative cash flows
- **Key Recommendations:**
- Create Stabilization Plan to stem the cash losses
- Diversify revenue streams
- Eliminate SC plant → Consolidate production into Michigan plant
- Implement lean manufacturing processes in plant
- Restructure organization and benefits
- Attain an alternative lending agreement
- Re-engineer purchasing processes

Current Status

- **Solvency:** Company solvent and operating
- **Employment:** 55
- **Financial Condition:**
  - Operating cash flows are positive
  - 2010 operating results are profitable
  - Company has bank credit
- **Key Changes:**
- All production consolidated into Michigan Plant
- Alternative financing gained to fund operations
- All employees trained in lean manufacturing concepts → Initial concepts fully implemented
- Purchasing processes upgraded to reduce material costs

Manufacturing Company

January 2010 Status

- **Revenues:** Down 44% from 2007
- **Employment:** 18 from a peak of 35
- **Financial Condition:**
  - Bank sent company to workout
  - Commercial credit frozen
  - Net losses in both 2008 and 2009
  - Negative cash flows
- **Key Recommendations:**
- Create Stabilization Plan to stem the cash losses
- Develop financial management and reporting infrastructure
- Re-engineer scheduling process to improve on-time delivery rates and reduce overtime levels
- Restructure organization
- Attain alternative lending agreement

Current Status

- **Solvency:** Company solvent and operating
- **Employment:** 20
- **Financial Condition:**
  - Operating cash flows are positive
  - June 2010 YTD losses converted to profits
  - A Forbearance Agreement has been arranged
  - Company will be “bankable” by year-end
- **Key Changes:**
- $320k of costs removed
- Financial and reporting processes restructured
- 13-week cash forecasts implemented

Food for Thought

To date, EDSI has been able to save jobs through Layoff Aversion programs at a cost of under $300 per job.

Below are just a few estimates around necessary expenditures and lost revenues in the event of a failure of a local company with 20 employees.

NUMBER OF WEEKS ON UNEMPLOYMENT	X	MINIMUM WEEKLY BENEFIT (PER EMPLOYEE)	=	TOTAL UNEMPLOYMENT BENEFIT PAYOUT (PER EMPLOYEE)	X	20 EMPLOYEES *AVERAGE EMPLOYEE COUNT*	=	TOTAL UNEMPLOYMENT BENEFIT EXPOSURE
14	X	$81	=	$1,134	X	20	=	$22,680
16	X	$81	=	$1,296	X	20	=	$25,920
18	X	$81	=	$1,458	X	20	=	$29,160
20	X	$81	=	$1,620	X	20	=	$32,400
22	X	$81	=	$1,782	X	20	=	$35,640
24	X	$81	=	$1,944	X	20	=	$38,880
26	X	$81	=	$2,106	X	20	=	$42,120

NUMBER OF WEEKS ON UNEMPLOYMENT	X	MAXIMUM WEEKLY BENEFIT (PER EMPLOYEE)	=	TOTAL UNEMPLOYMENT BENEFIT PAYOUT (PER EMPLOYEE)	X	20 EMPLOYEES *(AVERAGE EMPLOYEE COUNT)	=	TOTAL UNEMPLOYMENT BENEFIT EXPOSURE
14	X	$362	=	$5,068	X	20	=	$101,360
16	X	$362	=	$5,792	X	20	=	$115,840
18	X	$362	=	$6,516	X	20	=	$130,320
20	X	$362	=	$7,240	X	20	=	$144,800
22	X	$362	=	$7,964	X	20	=	$159,280
24	X	$362	=	$8,688	X	20	=	$173,760
26	X	$362	=	$9,412	X	20	=	$188,240

HOURLY WAGE	X	HOURS WORKED PER WEEK	=	WEEKLY GROSS PAY	=	EMPLOYER RELATED TAXES (Soc. Sec., Med)	X	20 EMPLOYEES *AVERAGE EMPLOYEE COUNT*	=	TOTAL LOSS OF TAX REVENUE (PER COMPANY)	X	52 WEEKS PER YEAR	=	TOTAL LOSS OF SOC. SEC. & MED. TAX REVENUE (PER COMPANY EACH YEAR)
$7.50	X	30	=	$225	=	$17.21	X	20	=	$344	X	52	=	$17,901
$9.50	X	30	=	$285	=	$21.80	X	20	=	$436	X	52	=	$22,675
$11.50	X	30	=	$345	=	$26.39	X	20	=	$528	X	52	=	$27,448
$13.50	X	30	=	$405	=	$30.98	X	20	=	$620	X	52	=	$32,222
$15.50	X	30	=	$465	=	$35.57	X	20	=	$711	X	52	=	$36,995
$17.50	X	30	=	$525	=	$40.16	X	20	=	$803	X	52	=	$41,769
$19.50	X	30	=	$585	=	$44.75	X	20	=	$895	X	52	=	$46,543

EMPLOYEE COUNT	X	1st $9,000 IN WAGES	X	TAXABLE WAGES	X	STATE UNEMPLOYMENT RATE - NEW BUSINESS		STATE UNEMPLOYMENT RATE - LOW END		STATE UNEMPLOYMENT RATE - HIGH END				LOSS IN SUI TAX REVENUE (PER COMPANY EACH YEAR)
20	X	$9,000	X	$180,000	X	2.70%		0.06%		13.3%				
20	X	$9,000	X	$180,000	X	$4,860								$4,860
20	X	$9,000	X	$180,000			X	$108						$108
20	X	$9,000	X	$180,000					X	$23,940				$23,940

EMPLOYEE COUNT	X	1st $7,000 IN WAGES	X	TAXABLE WAGES	X	FEDERAL UNEMPLOYMENT RATE - % OF TAXABLE WAGES (WITH MAXIMUM CREDIT)		FEDERAL UNEMPLOYMENT RATE - % OF TAXABLE WAGES (WITHOUT MAXIMUM CREDIT)						LOSS IN FUTA TAX REVENUE (PER COMPANY EACH YEAR)
20	X	$7,000	X	$140,000	X	0.6%							=	$840
20	X	$7,000	X	$140,000				6.0%					=	$8,400