Analysis of

THE LAYOFF

by:

Madeline M. Gregory

December 5, 2013

Table of Contents

1. Organizational History & Company Growth

Astrigo Holdings has been in business since 1962 under the management of Chief Executive Officer Robin Astrigo. Robin became the CEO after his father passed in 1996. His father "Pop," was a financial conservative and believed in a maintaining a strong company cash flow. He taught Robin that in order to keep its reputation for great customer service, the company needs to treat employees well. Robin currently runs the firm and insists on keeping several million dollars in the bank just in case the company needs to make critical acquisitions.

Fig. 1. Excellent Customer Service

Exhibit 1 - Astrigo's Mission Statement

Astrigo has been in operation since 1996. Its mission statement reads:

"Astrigo is made up of 12,000 teammates whose highest goal is to take care of our customer. We accomplish this by selling the highest-quality goods at the best price, with the best customer service, in the world. Great customer service begins with talented, innovative team members."

Recently, Astrigo Holdings has missed its earning estimate by 20 cents a share. Despite the efforts to slash inventory and expenses, profits have dropped by double digits. Astrigo home-improvement stores are losing sales to cheaper retailers with far worse customer service regardless of the aggressive promotions and price cuts. In past recessions, Pop Astrigo had been forced unwillingly to let people go. Robin feels that in this current recession, a layoff is the only course of action.

2. Astrigo's Strengths and Weaknesses

Astrigo's strengths consist of a history of long-term employees and great customer service. Aside from the cost problem, the weaknesses comprise of a combination of the overall strategy of the company, management, and cultural problems. One weakness is the lack of a skilled executive committee of which is not communicating effectively to allow for Robin to gather the information he needs to make an important decision. Furthermore, none of the top managers are challenging the notion that ten percent of the employees must go and is thus posing a threat to the company. Chief Financial Officer Morris Meyers, Head of Legal Lisa Warren, Executive Director of Strategy Bob Slater, Head of Human Resources Marzita Vasquez, Vice President of Marketing and Strategy Sushil Bhatia, and Julie Cox a member of Astrigo's PR team all need to communicate and work together to create the best alternatives for the company.

During tough economic times, all of the various divisions of the company have different interests and opinions when it comes to laying off employees and the future success of the company. Additional weaknesses include the outdated historical methodology used by “Pop”. His answer to the loss of profitability was layoffs of personnel. Robin could accomplish the same cost cutting measures without running the risk of poor customer service by simply furloughing employees for short weekly terms and rotating those employees affected by the furloughing, depending on departments where cost measures should be implemented. Robin needs to further analyze the strengths, weaknesses, opportunities, and threats for a strategic action plan.

Exhibit 2 - SWOT Analysis

Strengths	**Weaknesses**
• Long term company history. • CEO is aware of and acting on cost situation at hand. • CEO has money set aside that can be used for outsourcing consultants. • CEO has several executives to gather feedback from. • CEO has a head of HR to refer to when deciding on possible. • Company has a good reputation based off of their high customer service standards.	• Lack of a skilled executive committee. • Executives are not communicating and collaborating together. • Outdated historical methodology. Company is losing customers to competitors. • Type of inventory on shelves creating a Lack of competition. • CEO is not presenting leadership to the Executives during this time of need. • Did not meet current revenue projection.
Opportunities	**Threats**
• CEO has several alternatives to layoffs. • Can outsource the situation to a consulting firm. • Maintain high level of customer service by focusing on a marketing strategy. • Change or add new inventory to shelves for less cost during the recession period. • Company has several levels of employment which can allow for a rotating furlough. • Company can analyze the competitors’ market strategies and inventory and adjust accordingly.	• Top managers are not challenging the layoff. • All divisions of the company have different interests and opinions. • Company is not able to adjust to market conditions. Margins continue to decline. • Inventory costs are not declining in absence of sales. • Layoffs or furloughs may cause employee turnover. • Decline in customer service.

Weaknesses are also evident by the type of inventory levels being kept on the shelves and the lack of inventory that can compete with lesser quality and sold for a lower price. It appears the company is not able to adjust for market conditions during a recessionary period where lower priced inventory would be more competitive. The obvious threats are apparent: first, the company is not competitive and margins are declining, second, existing inventory costs are not declining in the absence of sales, third, employee turnover caused by either layoffs or furloughs is causing a decline in customer service. Lastly, the company is losing customers due to their poor marketing strategy and their competitors offering more attractive products at lower prices.

3. Astrigo's External Competitive Environment

3.1. Astrigo's Holdings

Astrigo Holdings is a public company or firm that owns home-improvement stores. A holding company is a company or firm that owns other companies outstanding stock, or shares of a corporation. A holding company's purpose is to own shares of other companies and therefore usually does not produce goods or services itself. Astrigo's home-improvement stores are in competition against other home-improvement stores such as The Home Depot and Lowe's. The external competitive environment that Astrigo exists in is highly competitive retail business especially during the present recession.

Fig. 2. The Home Depot vs. Lowe's

3.2. Identify the Competitors

Analyzing the external competitive environment has not apparently occurred to Astrigo since it has not foreseen an economic recession occurring. The company should be constantly researching market conditions and evaluating products which sell (or not) in recessionary periods. It has failed to focus on pricing factors of competitors, the number of competitors, and tie their customers into loyal long term relationships via their marketing efforts. This has placed them in a position to now lose market share and profitable margins. These analytical failures are now impacting their products and market. Had Astrigo identified its market, the customer demographic and needs, they would be selling the correct products and potentially maintain profitability. Astrigo has failed to track their competitors' products and associated price sensitivity.

Exhibit 3 - PEST Model

Political	Economic	Social	Technological
•Company must abide by government regulations when implementing labor laws. •Possible unemployment tax ramifications.	•Astrigo's change in stock price after announcing a drop in revenue. •An economic recession has impacted the sales of inventory and overall business.	•High percentage of long-term employees complicate the option of a formulated layoff. •Range of high and low-potential employees allows for several layoff options.	•Company takes advantage of technological innovations by investing in superior inventory. •Company utilizes the market to adjust to technological advancements.

3.3. Failure to Evaluate SWOT

In conclusion, Astrigo management (including “Pops”) wholly failed to evaluate its SWOT, (strengths, weaknesses, opportunities, and threats) approach, and used poor historical management models in dealing with a highly competitive industry with nimble smaller companies serving the same customers and/or products. Having identified external market competitive factors above, the problem represented in the text case reflects the same competitive environment in which Astrigo would be competing.

4. Organizational Agility

Astrigo can no longer afford to sell their goods at the listed price. Due to the recession, Astrigo’s customers are buying goods at a cheaper price from their competitors. In order to compensate for the loss of services and maintain marketshare, the board of directors needs to advise management on the best strategy to take. Organizational agility is nonexistent because management is only looking at one factor to maintain stability which is employee layoffs. Astrigo needs to analyze the market and the needs of the market first to increase overall profit before deciding on what to do internally with the company.

5. Management Strategies

The range of strategies management seems to be applying vary from controlling the costs of the company to employee layoffs. CFO Morris Meyers believes based on his analysis that a ten percent workforce reduction would generate enough savings to keep profits in line with Wall Street’s expectations. A first-in, first-out policy would remove people in middle management who are close to retirement and who are not truly impacting the company. In contrast Head of Legal, Lisa Warren, believes that the first-in, first-out policy could lead to charges of age discrimination and that a performance-based layoff would be more beneficial to the company.

Exhibit 4 - Strategic Challenges

- Ten Percent Workforce Reduction
- First-In, First-Out Policy
- Last-In, First-Out Policy
- Sell-Off Business Acquisitions
- Refocus Core Business Strategies
- Five Percent Pay Cut

The Executive Director of Strategy, Bob Slater, believes in adopting the simplest layoff policy possible, last-in, first-out, to avoid having to pay people a high severance since there is a lack of time for anything further complex. Slater also does not believe that Robin will agree on getting rid of any strategic business units although these acquisitions might possibly be losing money for the company. Marzita Vasquez, the Head of Human Resources, disagrees with Slater regarding throwing good people out of work could result in a hurt morale leading to poor customer service, and ultimately a distrust of investors.

She wants to look deeper into the overall strategy of the company and refocus on “our core business” instead of recent acquisitions. The young Vice President of Marketing and Strategy, Sushil Bhatia feels that in order to prevent a layoff of employees, a five percent across-the board pay cut and even a larger one for people making six figures should be a consideration. Out of all the different management strategies listed, none of the employees mentioned alternatives to laying off employees. Communication and collaboration is a missing element from the executive staff.

6. Addressing Solution Implementation

The company has several issues that are impeding its ability to solve the problem. CEO Robin, is more concerned with keeping cash reserves in the bank and laying off employees rather than restructuring the business model to allow for future success. Management is not communicating effectively as a whole to come up with alternative measures for Robin besides employee layoffs. The core values to the company need to be re-established and new marketing strategies need to be implemented for accruing more business. This could lead to employee motivation and adjustments in responsibility. Each department needs to be understanding of the situation at large. All departments are going to have their own opinions as to what issues are most important. As a result, Astrigo’s success as a whole is compromised due to the lack of agreement and cultural conflicts.

Fig. 3. Communication is Key

7. Recommendations

7.1. Communication is Key

A layoff can lead to a decrease in efficiencies, a loss of investment in talent, high turnover rates, and a loss of corporate morale. The executive employees did not collaborate on alternative measures of employee layoffs or recommendations for Robin to consider and believes that ten percent of its workforce must be cut. Communication is crucial when considering a company layoff. As a Human Resource Manager, Vasquez needs to have a one-on-one discussion with Robin and offer her suggestions and alternative measures in regards to his opinion on the layoff.

7.2. Hiring Freeze

Some alternatives for Astrigo could include a severance package, hiring freeze, cut bonuses, travel, and overtime pay, offer days of unpaid leave, and layoff part time employees, interns and contractors. Instituting a hiring freeze for all non-essential employees allows Astrigo to consolidate the remaining employees to complete the work that is essential to serving the customers of the company. Management needs to alert employees about a possible freeze in salary and benefit increases and when they can expect an update. Again, communication is essential to all employees. Vasquez can also let go of contract and temporary employees to provide a safety net for the regular employees.

7.3. Performance Appraisal and Incentives

By conducting a new employee performance appraisal, the company can layoff all the employees who are unsatisfactory and questionable in regards to a loss in sales. The elimination of underperforming employees could potentially motivate employees to improve performance. Since Astrigo home-improvement stores are losing sales to cheaper retailers with poor customer service, Astrigo needs to respond to consumer demand. A study of the local market can help understand possible reasons behind their deficit. Vasquez can incentivize employees to leave through voluntary layoffs, buyouts and early retirement. By offering a sum of money to end the employment relationship and early retirement to eligible employees, Astrigo is cutting costs effectively in the long term but not in the short term. This option is expensive in that none of the employees will be willing to walk away from his or her job without a substantial severance package.

Fig. 4. Budget Cut

7.4. Pay Reduction

Bhatia, Vice President of Marketing and Strategy, mentioned a reduce in pay rates by five percent and an even larger reduction for employees making six figures. This is not the best option considering the best employees are the ones that Astrigo needs to continue the growth of the company. These employees are critical for the company's future and can be negatively impacted by this decision. If Robin considered this option, this may cause his best employees to leave.

7.5. Assign Rolling Furloughs

The ultimate recommendation that should be taken above all else is the strategy that chairman and CEO of Honeywell, David Cote took during the recession in 2009. According to Harvard Business Review, Cote decided the best decision he ever made for Honeywell was to assign rolling furloughs (June, 2013). A furlough is an alternative to layoffs in which the employees are required to take unpaid time of work for periods of time ranging from weeks to a year. In contrast to layoffs, employee benefits still remain. In Cote's circumstance, the rolling furloughs did not compromise employees as they were never let go from their jobs which allowed the company to maintain the customer base successfully.

The employees took a series of unpaid weeks off during the first half of 2009 which were taken in one week blocks. Although there were less sales during the recession, the company stayed highly profitable and held its segment margin rates. As everyone was aware of the recession, the employees understood the situation and adjusted accordingly to the furloughs. Cote aside from the furloughs, sacrificed his own personal bonus of $4 million dollars to assist the company through the tough economic situation. In the case of Astrigo Holdings, furloughs would be the best alternative measure to avoid laying off employees and the high repercussions associated with the decision.

Bibliography

Awrey, M. (2011, July 8). [The Home Depot vs. Lowe's Home Improvement]. Retrieved November 20, 2013, from http://www.head-2-head.com/article/Head-to-Head-Review-The-Home-Depot-vs-Lowe-s-Home-Improvement/Conclusion.html?vote=scorecard

Cote, D. (2013, June 1). June 2013. *Honeywell's CEO on How He Avoided Layoffs*. Retrieved November 18, 2013, from http://hbr.org/2013/06/honeywells-ceo-on-how-he-avoided-layoffs/ar/2

Finkle, L. (2012, May 10). [Communication is Key]. Retrieved November 19, 2013, from http://incedogroup.com/the-key-to-smooth-mergers-and-acquisitions/

Fremont. (2011, April 4). [Excellent Customer Service]. Retrieved December 1, 2013, from http://fremont-california.olx.com/massive-company-growth-hiring-immediately-iid-177351166

Fryer, B. (2009, March). *The Layoff* [PDF]. Harvard Business School Publishing.

Rivedal, K. (2013, June 8). [Budget Cut]. Retrieved November 26, 2013, from http://medcitynews.com/2013/06/sequester-cuts-hurt-non-profits-that-pay-part-of-employees-healthcare-bills/