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Back-Office Layoffs Likely in New Year

By Whitney Beckett

Layoffs could be looming in seventh avenue back offices.

Many back-office jobs might be casualties of consolidation. Job consolidation often drives healthy M&A activity and is essential in distressed situations.

“One of the reasons companies merge is because they are looking for economies of scale and synergies in their back-office operations,” said Kirk Palmer of Kirk Palmer Associates, a boutique New York-based executive search firm. “I can't think of a combination when companies haven't consolidated jobs.”

Palmer estimated that 10 to 30 percent of total executive jobs in a home office could be cut when two New York-based vendors merge — or up to half of the acquired company, said Net Worth Solutions Inc. president Jack Hendler. Most of those jobs, sources agree, will be on the back end, where new companies can share corporate services.

This makes jobs in human resources, IT, finance, logistics, distribution, supply chain and strategy most vulnerable. On the other hand, merchandising, design, marketing and sales will likely be safer.

“The back-of-house operations are at risk because that's where you can more likely get economies of scale or efficiencies,” said Palmer. “But whoever has brand ownership involved with product should be safe at the top. But even a level or two down can be at risk.”

In a multidivisional consolidation or a consolidation of two companies where cost cutting is an objective, senior positions can be combined, leaving one — not two — chief financial officer, operating vice president, head of sourcing and production, and in some cases, senior vice president of sales, according to Elaine Hughes, president of the executive search firm E.A. Hughes & Co.

“In addition, if the merger is being driven by the acquired company requiring a rescue, those executives viewed as responsible for the poor performance are also highly at risk,” said Bob Grayson, principal of the Grayson Co., a retail consulting firm.

Other than merging, companies are restructuring or making cost-cutting layoffs. For example, Warnaco Group Inc. plans to lay off 7 percent of its staff because of the economic downturn, and Liz Claiborne Inc. has laid off about 1,500 employees during its corporate restructuring over the past two years.

Not all layoffs are equal. Any job that affects the product or the consumer experience also affects business.

“In tough times, cutbacks are not always the wise move,” said Hughes. “In a store chain, if there is a cutback on floor personnel, it affects the customer service, which will be remembered by the customers when business resumes at a healthier pace.”

Sources warn against cutting high-talent employees, whom the competition will quickly scoop up, for the sake of making numbers.

“It's better to make selected cuts that should have been done anyway but put off in good times,” said John Henderson, a director at Net Worth Solutions, who for years worked at Kellwood Co.

Layoffs are as much a reality in tough times as over-hiring is in robust times, and part of what's going on now is a needed correction in favor of efficiency.

For those who lose their jobs, with most firms in the middle of layoffs and hiring freezes, finding a new position may be a prolonged search of three to six months, or even upward of a year.

“This is a consolidating industry, and there will be less jobs going forward,” said Allan Ellinger, senior managing partner at Marketing Management Group. “Company management has to create a higher level of accountability within their staffs, and they should be looking for the highest level of productivity from their staff, talking to their staffs about how to improve their processes and not assuming that the way that things have always been done is the best way of doing it.”