



Minimizing Labor Costs

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Recession, economies of scale, profit, are all drivers for reducing labor costs - Doing more with less, or at least trying to not do less with less.

For many companies labor is the biggest cost component. If labor costs can be reduced without affecting production then either margin increases or selling price decreases resulting in improved profit or competitive advantage.

What happens when reducing labor costs destroy consumers?

Employee paychecks fund consumer wallets. Revenue is a share of wallet. When wallets have no money then no matter how large the share of wallet the result is zero revenue. What happens when all businesses within a economy pursue lower labor costs? What happens to all P&L's when all businesses reduce labor costs?

An individual companies pursuit of lower labor costs doesn't affect the P&L's in the economy. The payroll reduction is an insignificant change to national payroll. In 2006 the U.S. payroll was \$4.8 trillion¹. One company reducing payroll by several million dollars has no affect on national payroll. What happens when everyone makes a 10% labor reduction?

In 2006 there were 150,000,000 employees¹. A 10% reduction in labor would be 15,000,000 fewer employees and, for easy math, let's call it \$480 billion in reduced national payroll, 10% of \$4.8T. There is now \$480B less in consumer wallets because employees fund consumers. There is \$480B less in share of wallet. There is \$480B less in potential revenue. Expenses were reduced because of fewer employees but so was revenue because of fewer consumers.

Labor reduction can be viewed solely as an expense issue only when it doesn't contribute to a significant cumulative effort. Paychecks go into wallets which go into P&L's. You can view paychecks solely as an expense only to the point it doesn't impact revenue due to destroyed consumers.

The people in your org charts are employees and consumers and owners of government. It is in your financial interests to understand how they interrelate. Contact me if you want to know more.

¹ Bureau of Labor Statistics