Challenger, Gray & Christmas, Inc.
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FOR IMMEDIATE RELEASE

Challenger Corporate Cost-Cutting Survey
NEARLY HALF OF EMPLOYERS AVOID LAYOFFS; LIKE PRESIDENT OBAMA, 27% FREEZE SALARIES

CHICAGO, January 26, 2009 – With the economy sinking deeper into recession, a new survey reveals that companies are digging deeper into the cost-cutting toolbox. In many cases, they are using a creative combination of measures, from salary freezes to forced vacations, to achieve savings objectives. The most surprising result of this multifaceted approach to cost containment is the fact that nearly half of the companies surveyed have been able to avoid making permanent layoffs.

Few companies remain unscathed from the current economic crisis, with 92 percent initiating some type of cost-cutting action, according to the survey findings released Monday by global outplacement and business coaching firm Challenger, Gray & Christmas, Inc. The results are based on responses from approximately 100 human resource executives in a variety of industries nationwide.

While permanent layoffs are by no means fading, this was not the leading cost-cutting method in the survey. The most often-used cost-cutting initiative was reducing travel expenses, cited by 67 percent of survey respondents. It was followed by hiring freezes and reductions, which are being utilized by 58 percent of companies in the survey.

Permanent workforce reductions were made by 56 percent of the companies surveyed. Other leading cost-cutting measures included cancellations of holiday parties, salary freezes, cuts in workers' hours, reductions in or the elimination of year-end bonuses, and cutbacks in various perks.

"One thing is clear from this survey," said John A. Challenger, chief executive officer of Challenger, Gray & Christmas. "Very few companies rely on a single cost-cutting initiative. While layoffs are usually the most visible action, and usually the most painful, companies are finding a multitude of ways by which to cut costs and, in some cases, delaying, reducing or eliminating the need to make permanent job cuts."

According to the survey, 82 percent of companies have employed at least two cost-cutting methods. The average number of cost-cutting actions initiated among companies taking a multi-tiered approach was 5.3. One Midwest manufacturing firm in the survey had enacted 15 of the 17 cost-cutting measures provided in the survey.

Only two percent of companies used permanent layoffs as their sole cost-containment initiative. The 56 percent of companies making permanent layoffs have utilized an average of five additional cost-cutting initiatives.

"Many companies cannot cut their payrolls as deeply as they have in previous downturns, simply because they did not do as much hiring during the most recent expansion. As a result, they are forced to find alternative ways to keep their costs down. Companies that have thus far avoided job cuts may not be able to do so for the entire length of this recession, but by reducing costs in all these other areas, they may be able to limit the size of the cuts," said Challenger.

In order to stave off layoffs, one consulting firm in the Southwest cut its travel budget, reduced year-end bonuses, trimmed or eliminated some perks and indefinitely postponed salary increases for management. A healthcare association in the northeast has ratcheted down on all expenses, including travel, is cutting back its tuition reimbursement program and not filling open positions.

"Many of these steps will probably be unpopular with workers, particularly when it comes to reducing benefits, salary or other once-untouchable programs, such as tuition reimbursement and matching contributions to 401(k) accounts. However, as unpopular as these moves may be, they are undoubtedly much preferred over permanent job loss," said Challenger.

"One interesting trend we have seen in this downturn is the increased use of across-the-board salary reductions. In the past, companies were more inclined to cut jobs than reduce wages, reasoning that productivity would drop and turnover increase among high-performing workers. However, we are seeing a reversal in that line of thinking, due to the severity of this downturn and the idea that everyone, including the top executives, will have to make sacrifices to ensure the company's survival."

Nearly 30 percent of companies in the Challenger survey have instituted a salary freeze or reduction because of the downturn. While respondents to the Challenger survey were anonymous, several employers have publicly announced salary freezes, including President Barack Obama, who enacted salary freezes for White House aides earning $100,000 or more.

Last Thursday, Yahoo Inc. announced that its employees would not be receiving annual salary increases this year. Pay freezes have also been announced by Starbucks, Avis, the Tropicana Resort in Atlantic City and engine-maker Cummins Inc.

Other companies are not stopping at simply freezing salaries. Last week, steep pay cuts were announced for top executives at Advanced Micro Devices (AMD). Thousands of executives at Seagate Technology also face pay cuts ranging from 15 percent to 25 percent, while professionals at the technology firm will see their salaries decline by 10 percent. Both AMD and Seagate have also announced permanent layoffs.

In December, Agilent Technologies Inc. trimmed salaries by 10 percent, and Brandeis University in Massachusetts recently introduced a 1.0 percent across-the-board salary cut to avoid cutting jobs.

Meanwhile, FedEx Corp., which has been adept over the years at avoiding large-scale workforce reductions, announced a 20 percent base pay cut for its CEO Frederick Smith and a cut of 5 percent to 10 percent for its approximately 35,000 senior executives and non-union salaried employees in the United States. FedEx will also take a one-year hiatus from contributing to the accounts of the 140,000 workers who participate in the company's 401(k) plan.

Other companies announcing pay cuts in recent weeks include Motorola, Caterpillar, and Eastman Chemical. Automotive parts supplier Visteon Corporation. not only will cut workers' wages by 20 percent, but it will also eliminate a full day of work, joining the 7 percent of companies surveyed by Challenger that instituted four-day workweeks to cut labor and operational costs.

Additionally, companies are cutting operational expenses by instituting forced vacations and furlough programs, which allow companies to temporarily shut down operations without resorting to permanent layoffs. In the Challenger survey, about 9 percent of companies have used forced vacations to cut costs and 6.7 percent have instituted furlough programs.

The University of Maryland Medical Center (not surveyed by Challenger) announced it is instituting unpaid temporary furloughs to 67,000 of its 80,000 employees. Other companies forcing employees to take unpaid leave include chemical manufacturer 3M and RV manufacturer Winnebago Industries.

Many companies are finding creative ways to cut expenses that not only eliminate or delay the need for job cuts, but also provide valuable benefits to employees. For example, about 7 percent of companies in the survey have increased the number of employees working remotely, which is cutting real-estate costs and providing enhanced work-life balance.

This downturn could provide the tipping point for widespread telecommuting, due in part to the significant cost savings these programs can generate. Sun Microsystems estimates that it saved $400 million in real estate costs over a six-year period by liberating employees from the traditional confines of the corporate office.

Meanwhile, Cisco Systems cut its travel expenses by 65 percent by investing in new video and teleconferencing technologies that allow its engineers to meet with clients remotely. In addition to reducing travel costs, the move increases productivity by eliminating travel time and will likely lead to improved morale among workers who no longer have to be away from friends and family.

“There can definitely be positive benefits to certain cost-cutting initiatives, beside the job-saving aspects. Companies that can manage their budgets while maintaining employee morale and productivity will have a leg up when an expansion begins. They will see lower turnover among disgruntled workers and be in a good position to recruit new talent. There is no telling how long this recession will last. However, when it ends, the hiring could be fast and furious.

“Employers will be faced with rapidly increasing demand for goods and services while, at the same time, watching retirement-age baby boomers exit the workforce. A much smaller population in the age groups immediately following the baby boomers could leave many employers shorthanded, even in the wake of a long and severe downturn,” Challenger concluded.

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ECONOMIC SURVEY RESULTS

Has your company had to cut costs in light of the current economic situation?	
Yes	91.8%
No	8.2%

What measures has your company taken to reduce costs? **(Select All That Apply)**	
Reduced Travel Expenses	**66.7%**
Hiring Freeze/Reduction	**57.8%**
Permanent Layoffs	**55.6%**
Cancelled Employee Holiday Party	**32.0%**
Other	**31.0%**
Reduced Or Eliminated Other Perks	**29.0%**
Salary Freeze/Reduction	**27.2%**
Reduced Year-End Bonus	**26.7%**
Cut Workers' Hours	**24.4%**
Eliminated Year-End Bonus	**22.2%**
Temporary Layoffs	**15.6%**
Cancelled Customer Holiday Party	**11.0%**
Cutback Tuition Reimbursement	**10.8%**
Reduced Or Eliminated Matching Contributions To Employees 401(k) Plans	**11.0%**
Forced Vacation	**8.9%**
Four-Day Work Weeks	**7.0%**
Instituted Furlough Program	**6.7%**
Cut Office Space Through Increased Telecommuting	**6.7%**

Source: Challenger, Gray & Christmas, Inc. ©