

MANAGEMENT GUIDELINE 2022

#INFLATION
#TEXTILE RENTAL

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CURRENTLY, THERE ARE STILL A LOT OF QUESTION MARKS

After Covid-19 comes Putin and the inflation.

The current challenges are:

- **Massive inflationary pressures** include wage increases, energy prices, higher prices for textiles, and general inflation.
- **How to increase prices** without downright upsetting customers?
- The **labor market** is beginning to ease in some areas but is still tight in some areas.
- **The utilization of the plants fluctuates** between far too much laundry and free capacity.

The situation is different in every nation. So everyone needs to evaluate the local risks.

The global risks are significant:

- How will the war in **Ukraine** develop? Will China invade **Taiwan**?
- There will be an energy and food crisis – the question is instead the extent.
- Higher energy prices and a shortage of raw materials lead to a slowdown in global GDP growth and significant geopolitical risks.

- Will the real-estate bubble of China burst and lead to a global financial crisis?
- The credit markets will become tighter, making financing harder for many enterprises.

This guide is intended to help you assess your company's situation and get an overview on one page.

This situation assessment is as of July 2022.

This is the 3rd edition, which deals with the current challenges with inflation after the Corona crisis

The situation assessment for the vital factors:

1. **Customer Satisfaction**
2. **Employees**
3. **Productivity**
4. **Innovation / Focus**
5. **Cash Flow/Cash Balance**
6. **Liquidity**

If you are "GREEN" on all these factors - or at least not "RED" - you can weather the current crisis just fine.

APPLICATION OF THE GUIDELINE

This guide is primarily for companies in the textile rental industry.

Please apply as follows:

1. Read through each section and make a **self-critical assessment** of the extent to which your company is GREEN/YELLOW/RED in each area and what actions are needed.
2. Check your assessment with the definition of **GREEN/YELLOW/RED** on page 9.
3. Enter the result into the summary sheet and estimate the **trend since the beginning of the crisis**.
4. Enter the most important tasks on this overview sheet.
5. **Inform your key employees and implement these measures as soon as possible.**
6. Please send comments and suggestions for improvement to office@leanlaundry.com.

DISCLAIMER

This guide is primarily influenced by the situation in Europe and to a lesser extent North America. Many parts might not be applicable to contract linen or other economies.

The business environment and the extent of the inflation may vary in each situation. It is therefore impossible to make a general guideline that suits every circumstance.

Therefore, the situation analysis and the recommendations might not be sufficient in a specific situation.

This guideline shall provide a tool for management to assess the situation and take action.

Every company is responsible for its own decisions, and Leanlaundry does not assume responsibility for applying this guideline in any case.

HOW TO IMPLEMENT

In software development, there is the Agile method. This way of project management consists of **short "sprints" of 4-8 weeks** in which small advances are implemented immediately. Then the result is evaluated, and the next sprint is carried out.

This is in conjunction with Parkinson's Law which states, "**Work expands to the exact amount of time available to complete it.**" (Student Syndrome)

Especially in this volatile environment, where it is necessary to react quickly to changes, such a method lends itself to:

1. **Evaluation of the current situation.**
Where is the fire? Where is the bottleneck? Where is the leverage?
2. **Decision on 1-3 very concrete measures** for the next 4-6 weeks.
3. **Setting very tight deadlines.** You can get a lot done in 24-48 hours.
4. **Communication with the team** about the tasks (who does what until when) - in Agile, you just do it with Post-Its on a wall.

5. **Just do it.** 80% implemented quickly is better than 100% late.
6. **Evaluation after 4-6 weeks, what has been achieved.**
7. **Start at point 1.**

MARKET POSITION / CUSTOMER SATISFACTION

ATTENTION: the market has changed due to behavioral changes during the pandemic and the effects of inflation!

The question is therefore essential:

- In which markets are we active? (Which customer groups? Which services?)
- How will these markets develop in the next 2-5 years?
- What is the actual market share? Are we at least in the top three locally?

INFLATION CHALLENGE:

Inflation affects each customer differently. Therefore, not every customer can pass on the price increases.

It is therefore enormously important to implement the price management process as professionally as possible.

END OF THE SELLER'S MARKET

(This might be a European issue)

It is foreseeable that the capacity bottleneck in the industry will be resolved relatively quickly.

Customers will then have a choice between different suppliers and often find themselves requesting comparative offers due to the price increases.

Customer satisfaction is therefore paramount!

RECOMMENDATIONS

- Define your market and estimate your market share. **Then, develop a strategy** for becoming the market leader in individual niches.
- Implement a **process for price management**.
- Personally question **the satisfaction of the TOP 5-10 customers** - ideally by visiting them on site.
- Implement a simple measurement to assess ongoing customer satisfaction.
- **Measure quality in operations** (delivery quality, product quality, complaint rate).
- Derive **specific actions** to improve customer satisfaction.
- **Open feedback to key personnel and employees**
- **Set SMART Objectives for 2022 and 2023**

Almost everywhere, except India, the Middle East, and Africa, the challenge is a **declining labor force**.

One can debate whether employee satisfaction is more important than customer satisfaction.

Only a motivated team can perform an excellent job for the customer, and employees' statements "behind closed doors" are inside information.

If a driver proudly tells a customer how well the company has things under control, this is much more credible than a press release or a statement from the managing director. The reverse is also true.

Employees must see the meaning of their work. "He who has a WHY to live for endures almost any HOW" (Viktor Frankl).

When employees know their work's importance to customers and the company, they are more willing to work overtime when necessary.

First and foremost, the **3-7 most important key employees** are essential here.

RECOMMENDATIONS:

- QUESTION: **Who are my 3-7 key employees?**
- **Take one hour with each key employee** (e.g., spend the lunch break together) and above all, LISTEN!
- Update the **entire team** 1-2x per month. (briefly 5-15 minutes).
Topics: Customer status, implementation of COVID measures, working hours ... and celebrate SUCCESS!
- During a site visit, talk to different employees and **listen for 3-5 minutes about improving the workplace.**
- **Provide for employee health.**
 - Collaborate with the company doctor (e.g., vitamin D, influenza vaccination, protection of vulnerable people).
 - Compliance with hygiene regulations
- Implement **sick leave return interviews**
- Read the book "**Gung Ho**" from Blanchard.
- **Set SMART Objectives for 2022 and 2023**

PRODUCTIVITY

The cost increases are currently enormous!

Productivity in textile service means:

- productivity of work
- productivity of energy
- productivity of the textile used

Lean management focuses on the **reduction of waste:**

1. redundant material movements
2. excessive stock
3. movement of employees (walking, hand movements)
4. waiting times
5. overengineering ("busywork", unnecessary complexity, complicated processes, wrong technology)
6. overproduction
7. errors, rejects, rework

The title of a book about lean management is very appropriate: "**Learning to See.**"

If you train yourself and your key employees to learn to see the waste, the potential is infinite ... and much of it without much investment.

Important: it is better to implement an 80% solution quickly than a 100% solution only in 2-3 years.

Tip: classify savings measures according to effort and effect and implement one after the other.

RECOMMENDATIONS:

- For rental businesses: **Take inventory of the entire operation:** Which linen is not currently needed? Mark these containers and laundry bins with a Post-It. (MATTER FOR THE BOSS).
- Declutter the operation** of all linen that is not currently needed.
- Where is the current bottleneck in production?** Which machine is dictating the hourly throughput?
- Measure the throughput at the bottleneck on an hourly basis.**
- Adjust the production staff present** to this throughput.
- Measure productivity AND delivery capability daily.**
- Measure the **number of soiled containers** daily. (Avoid backlogs)
- Conduct **energy audit** externally if necessary. Many small measures can make a big difference overall.
- Make a "Waste Exercise" – Video to come on my YouTube Channel.
- Create a list of those **improvements** that can be implemented without much investment and execute them consistently.
- Set SMART Objectives

INNOVATION

Andrew S. Grove, CEO of INTEL, wrote a book, "**Only the Paranoid Survive.**" - Recognizing strategic inflection points ahead of time.

OR: If you stand still, you'll already be overtaken.

QUESTION: Which competitor is overtaking us out of left field right now? Are competitors outside the industry (e.g., disposables) replacing our products?

Then ask the question:

- **Who are our customers?** (e.g., restaurants)
- **What are they paying for?** (good, clean environment for the guest).
- **What problems do we solve?** (clean table, cleaning cloth for mouth or decoration material)
- **What are the alternative solutions to problems?** (Disposable, wipeable table, own linen, ...).

But first, you must create **free space**. Hence the question:

- What do we not do in the future?
- Where are our strengths?
- What do we focus on?

Clearing out the business model is already the beginning of innovation.

Then at least start to develop a clear target picture for 2030 and take the first step in 2022.

RECOMMENDATIONS:

- **Where are our strengths?** What comes easily to us? Where have we been successful in the last 3-5 years?
- In which business areas are we "ahead of the game"? Where do we stand out from the competition? **Which business areas do we want to focus on?**
- **What do we no longer want to do?** Which customers do we no longer want to supply? Which services do we no longer want to offer?
- **How can we simplify existing services?** (Reduction ordering systems, special requirements from customers, ...).
- **Create a clear action plan:** Which customers will be terminated by when, and which services will be discontinued by when. Who is responsible?
- **Create a clear target picture for 2030.** Tip: Write a 1-2-page essay in the present tense with a year in review for 2030.
- **Define SMART goals for 2022.**

CASH FLOW

Inflation threatens the existence of many companies!

Attention: The year 2022 probably requires better budgeting than in the past.

I recently read the book "Profit first." It is an exciting paradigm shift to plan for profit first and put it on the side.

Being profitable as a business is not selfishness. It is a necessity.

A few **benchmarks** for operating profit*:

- > 10% for rental linen
- > 15% for rental uniforms

Set a goal for profitability for 2023. It should be realistic but also challenging.

Then budget to achieve this target.

*) Operating profit (EBIT) = profit after ALL costs, incl. salary for the entrepreneur but BEFORE interest and taxes.

Please do not like Elis & Co extra-natural expenses out 😊 - we do not want to lie to ourselves.

The entrepreneur's salary should be at least 30-50% higher than the best-paid employee and equal to that of a CEO of a company of similar size.

RECOMMENDATIONS

- Make a **very sober analysis** of the current situation.
- What are the profit margins of our competitors? (Research financial statements)
- What **profit target** do we set ourselves for the long term?
- **Very accurate budgeting of 2022 and 2023 on a monthly basis** (sales, labor costs, energy costs, other costs, textile purchases, investments, interest and repayment obligations).
- If possible: **fix energy prices for 2-3 years** - even if it seems to cost a lot. (e.g., 100% for 2023, 70% for 2024 and 50% for 2025)
- Critically scrutinize **investment projects** again. (just because something is subsidized, it is not always right).
- If necessary, consult an independent financial consultant.
- Read the book "**Profit First**" by Mike Michalowicz. (Note: implement it according to its meaning).
- **Define SMART goals.**

LIQUIDITY

A company can become insolvent even with positive cash flow if the bank cuts or cancels the credit lines.

If possible, **the open line should be more than one month's sales**. For listed companies, it is usually 2-3 months.

The **banking sector** will face enormous challenges in the coming months, especially if the real-estate bubble bursts.

Ultimately, therefore, banks cannot be relied upon to provide quick and unbureaucratic help if the worst comes to the worst.

You can assume that you will get new money only with more collateral and with due delay.

WARNING:

Entrepreneurs often overestimate their abilities in the field of financing.

Be cautious when seeking advice from banks, and, unfortunately, many tax advisors lack financial expertise.

Independent financing advisors can make a big difference!

In the event of **insolvency**, be sure to consult a lawyer and refrain from any criminal relevant actions!

RECOMMENDATIONS

- Update the documentation of the **financing agreements**.
- List all payment obligations, including deferrals.
- What is the financial lee-way at the worst time of the month? (cash or not used revolving credit facility)
- Is there a payment stall? (Short-term bottleneck that can be resolved).
- Is there insolvency?
- Is there a threat of insolvency if various deferrals are due?
- Which collateral was used for which financing instruments?
- Am I personally liable as an entrepreneur?
- Are loan installments due by the end of 2023?
- When does the revolving credit facility need to be extended?
- If necessary, talk to an independent financing advisor.

ASSESSMENT CRITERIA

CUSTOMER SATISFACTION

GREEN	Customers are generally delighted and grateful for the reliable service. No special measures are necessary.
YELLOW	There are some dissatisfied customers, and action is needed to ensure the long term relationship.
RED	The roof is on fire! Some customers have capitulated and no longer complain. The company risks that customers will look for another partner as soon as the contract expires.

INNOVATION

GREEN	Market risks are closely monitored and the company is very well positioned for the future.
YELLOW	In part, the service is not competitive in the current situation. Measures are necessary not to be overtaken out of left field.
RED	The hat is on fire! Important developments have been missed. Acute risk of being forced out of business.

EMPLOYEES:

GREEN	The employees are well informed, stand behind the company, and perform well.
YELLOW	There are some conflicts, absences, and possibly turnover. Measures are needed to stabilize the team.
RED	The roof is on fire! The working atmosphere is moderate to low. The team is not stable - this affects performance.

CASH FLOW

GREEN	The current account or cash balance improves from month to month.
YELLOW	The current account and cash balances are moving sideways. Further savings are necessary.
RED	The roof is on fire! The company is "burning" money. (the current account balance decreases every month).

PRODUCTIVITY

GREEN	Productivity is the same or better than before the crisis.
YELLOW	Due to inflation the costs are rising. Measures are necessary.
RED	The roof is on fire! Productivity is significantly lower due to insufficient or fluctuating capacity utilization. Personnel costs to sales have increased considerably.

LIQUIDITY

GREEN	More than one month's turnover is free credit or cash balance. The financing is long-term.
YELLOW	The open credit line is less than one month's sales. There is short-term financing.
RED	The roof is on fire! Payments are stalling, or insolvency has occurred or threatens to happen when deferrals expire.

SITUATION ASSESSMENT

Date:

	Green / Yellow / Red	Change since the beginning of the crisis			Necessary actions
		Worse 	the same 	improved 	
Customer Satisfaction					
Employees					
Productivity					
Bottle-neck in the production		Wo?			
Hygiene / Government regulations		Welche?			
Cash Flow					
Liquidity					