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Bradley Marquez: Reduction in Force (A)

Don't let emotion get ahead, remember this is a companywide decision, we have to back the company line.
—Senior manager counseling other managers the day before the layoff

Andrew Lauder pushed his untouched sandwich and soup to the edge of his desk trying to make more room to spread out the financial reports. He could not eat. It was April 2001, and once again Bradley Marquez was missing its earnings projections by a wide margin. He thought they had been conservative in making projections, but clearly not enough, and there was not enough work coming in to support his current staff levels. The thought of carrying out another layoff made Lauder's stomach turn. The only thing that had made executing the first layoff bearable was thinking that it would never have to happen again, it would be a one-time fix to make the ship watertight in this new rougher market. But again, the company was in life-threatening danger, and Lauder wondered whether layoffs were going to be the necessary course correction.

An Agency is Born

Bradley Marquez was created by Jim Bradley and Alberto Marquez in 1995 with the basic mission of helping companies bring their businesses to ethnic markets. Bradley Marquez made headlines beating traditional advertising and marketing firms for ethnic advertising projects from corporate giants like British Airways, Compaq, Nike, Sprint, and Texaco. According to a leading industry publication, Bradley Marquez was one of the top 10 ethnic advertising agencies by 1996. While many of the other companies on that list stumbled and fell during the market correction beginning in March 2000, Bradley Marquez remained on the publication's top 10 list in 2001.

In 1997, The Omnicom Group, an international holding company specializing in advertising and public relations, formed an ethnic services umbrella and bought a number of small companies including a 40% share of Bradley Marquez. The Omnicom relationship helped Bradley Marquez expand its capabilities by having the cash infusion to both hire more people and acquire other

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Research Associate Vineeta Vijayaraghavan prepared this case under the supervision of Professor Thomas DeLong. HBS cases are developed solely as the basis for class discussion. Certain details have been disguised. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

companies. Over the next two years Bradley Marquez acquired companies in New York, London, San Francisco, Boston, and Chicago. Then, in the first half of 1999, it purchased a 30% stake in a company in Singapore and made acquisitions in Paris, Amsterdam, and Denmark. Each of these acquisitions brought additional interactive experience and talent and the ability to serve clients in more parts of the world. In 2000, Bradley Marquez | KOREA was created as a joint-venture office to provide a presence in northern Asia, and an affiliation with Miami-based Quaxar provided representation to Latin American clients. In 2001 another affiliate office was launched in Sydney, Australia.

Gaining capabilities including strategy and complex systems integration allowed Bradley Marquez to compete for business with consulting companies such as EDS and Arthur Andersen. The company's mission statement had evolved from helping to bring businesses in touch with ethnic markets to helping organizations plan strategically for ethnic marketing. Because Bradley and Marquez had focused on winning big traditional clients from the beginning, they hoped to weather the current market's disfavor for all things advertising-related. But traditional clients were not immune to the market downturn, with many big companies cutting or delaying advertising projects as they faced shrinking revenues and budgets themselves.

Pulling the Fire Alarm

Lauder joined Bradley Marquez on September 11, 2000, almost five months after the stock market bubble had burst in the spring of 2000. But Lauder says he believed in ethnic advertising services as a real business with real revenues, and Bradley Marquez was still hitting its numbers, so even if the market was going down, "Bradley Marquez was not." He came in as chief operating officer (COO) of a business that had over 1,500 employees in nine offices. The company was still operating in aggressive growth mode, planning for at least 90% growth over 1999 revenues of $106 million. Immediately, he noticed a disconnect between the client pipeline and employee requisitions. "There was a big imbalance," Lauder said, "between what people wanted and what I thought we could let them do." The company offered technology, strategy, and creative services. The requisitions were mostly for creative work, but the customers wanted technologists. Professionals and offices were measuring their success based on utilization, not based on profitability. Because most professionals were recording high utilization rates, they felt that they were doing well, regardless of whether the work they were doing had decent profit margins. This led employees to believe they had leverage to get not only the work they wanted, but the facilities they wanted. Many of the offices were lobbying for more real estate. New Jersey had been promised new office space, and "they wanted it to be beautiful like New York." They were in temporary office space and very cramped and some consultants were threatening to quit. "HR is still hiring like a freight train and I'm watching a budget that I'm not controlling keep growing like crazy," Lauder recalled. Meanwhile, the pipeline of client work did not look good.

By October, a month into his job, Lauder told his boss, Kevin Rowe, CEO of North America, "I know I'm the new guy in the organization but I have to bring this up. We have too many people, and, given the evolving nature of the client work, not the right people with the right skill sets."

Lauder's boss told him to draw up a plan for how a layoff would be handled, were that to happen. What would be the criterion for selecting those who would be asked to leave? How would management limit damage to morale? How and when would they begin?

Managing by Spreadsheet

Lauder decided very quickly that the central criterion would be external: The customer. The main objective in the layoff was to cut costs without interrupting any customer work. Lauder determined the number of people to cut by plugging in numbers in a spreadsheet. Bradley Marquez had a network model where work was shared across all offices and shared one profit and loss rather than individual offices or regional profits and losses. This made it hard to track each office's performance, so Lauder had to try to estimate some of these numbers. Based on revenue outlook, which kept getting more grim over the month that Lauder was coming up with a layoff plan, he backed out what number of people would have to be cut to keep the firm treading water: 150. This was in the area of billable staff only, those whose cost was normally charged out to clients. "We did not look into corporate overhead," said Lauder, "nor did we take a very complete look at how many non-billable staff would be affected by this move." Before he had even reached an aggregate number, Lauder had started making small cuts by the end of October, asking the New York office to downsize 10%, or 19 people, and asking Chicago to cut nine people. Lauder made these decisions based on gross margin. Both New York and Chicago had high salaries relative to other offices and were not producing the desired gross margin of 56% or better. Lauder described this:

> I had established a metric of 56% gross margin, 3% new business expenses, 13% other operating expenses, for a 40% contribution margin for each office. Direct costs in our business are people and subcontractors, essentially. Too many people chasing too little revenue is simply not efficient. Also, I wanted to introduce the concept of stack ranking people—constantly trying to cycle the bottom 10% of our staff.

On Halloween, when many people came into the New York office in costume, the creative director of the New York office asked Lauder, "Where's your scythe and black robe?"

Lauder began meeting daily with Bradley, Marquez, the CFO, and the head of HR. Bradley and Marquez had been involved since early on in trying to determine what revenue was going to look like for the first quarter, but these meetings were the first face-to-face ones to deal with the layoffs. Bradley and Marquez often looked shaken at the meetings. As Lauder described, "This was deeply personal and foreign to them. What they knew how to do was *build* a business."

On December 1, Lauder reached the conclusion that the best way to execute the layoff was to close the entire Vail office. Vail had been servicing the largest client account for the entire company, about $12 million-$15 million expected in revenues. But that client had suddenly stalled on spending and Vail had little other business. Lauder recalled, "They had good delivery capabilities, but no work coming in the door." Vail also had incurred very high real estate expenses relative to other offices. There were not a lot of local clients to cultivate in the area and travel costs were high. Vail also had about the right headcount that Lauder had targeted so that the company would substantially benefit from the cost savings.

For a company that had often considered itself a family the timing was particularly unfortunate. The layoff announcements would come three weeks before Christmas. But to firm management in New York, there did not seem to be much of a choice. The revenues were not there to support the current staffing levels of the firm, and the company did not want to eat into its cash—at the time, there was $70 million in the bank. There also would be an earnings call which would be better received if it came together with the layoff announcement to demonstrate that the company was being proactive about managing its growth.

The Day

Because the layoff would be announced the same day as earnings, the plan was for Bradley, Marquez and Rowe to stay in New York and take care of announcing the earnings and Lauder would travel to Vail and inform the staff of the layoff. It would be timed to coincide with the earnings announcement at 5 p.m. in New York. Afterwards, Jim would speak in a live Web cast to offices around the world and address employee concerns. Lauder had some apprehensions about flying out to Vail alone. He knew the head of the Vail office, Mike Rollins, was very attached to his people. Rollins had a hard time even standing at the front of the room with Lauder as Lauder explained to the Vail office what was going to happen. There were 110 people in the room, and they spent the next 45 minutes asking Lauder increasingly hostile questions, until he turned to Rollins and said, "We have to end this." Lauder said one or two people later came up to him and told him they knew of other layoffs and that the severance being offered here was generous, but generally nobody was interested in that. People were angry. Lauder reflected on it as "the worst thing I have had to do in my professional life."

"Visiting Executive"

Lauder wondered whether he should have been able to expect the office head in Vail, Rollins, to be more helpful. But maybe that was too much to ask. Rollins had done everything the company had asked him to do, and then they had closed his office. He had been sent to Vail from the New York office in November 1999, with a mandate to grow the office. He pitched and won the account that became Bradley Marquez's biggest client. He had grown the office to 87 by the fall of 2000, and had billed for over $5 million in client work with their major client, and expected another $7 million in the third and fourth quarter. Rollins was the star at a meeting before the board of directors in October to present the best of Bradley Marquez's work. According to Marquez, at that point, Bradley Marquez had become Vail's second largest employer after Vail Associates, the huge skiing empire. Rollins had moved them into bigger offices in October 2000, which could fit 125 people. But he had slowed hiring, as he had become concerned about the health of their biggest client when they started to delay project work. In November, the client halted all project work for a mixture of reasons including its own budget tightening and some dissatisfaction with parts of Bradley Marquez's work. To someone else it might seem sensible to close the Vail office when it lost the client that formed 76% of its revenues, but Rollins disagreed. He had been tirelessly pitching new work, had booked revenues for January and February, and had a decent pipeline. Additionally, he said there had been other client work offered to him that he had passed on to other offices, thinking that this was part of being a good team player. It would help other offices build up their client base and he could focus on what he had been told to do, which was to deliver great service to their critically important account.

Six months later, Rollins still had a list on the tip of his tongue of the other offices that management could have closed rather than closing Vail: Portland, San Francisco, Dallas, Chicago. It was a list he had recited to himself many sleepless nights since the office closed, trying to make sense of what had happened, trying to figure out if he could have made things turn out differently for his people. But really, he did not feel like senior management had given him much room to plead his case. They had called him while he was on vacation in southern California and basically told him they had made their decision. "Not even two weeks to get a lifeline, it was a done deal," he recalled. The double kicker, Rollins said, was that management was deciding to close his office and they were also simultaneously telling his people they were not valuable enough to transfer. Most of the employees had moved out to Vail for this job, bought houses, put their children in school, made a life there. But they did not have roots there, and would have perhaps moved if Bradley Marquez offered them jobs elsewhere. Rollins said many of his employees were highly qualified people turning out very good work, but only 10%-15% of them could be offered transfers. The decision, as Rollins saw it, was "to centralize the firmwide pain by closing Vail."

Rollins did not think there was much more he could have or should have done to aid Lauder on the day of the announcement. A senior manager at headquarters had called the day before the layoff announcement and advised Rollins, "Don't let emotion get ahead, remember this is a companywide decision, we have to back the company line." Rollins' visceral reaction was "No way. I can't wave the company flag." He said later of the meeting he ran with Lauder, "I couldn't stand there in good faith and say that I had supported the decision."

Lauder had asked Rollins to transfer to headquarters. Rollins was now sitting in an office in New York that had a sign on the door saying "visiting executive" and it was unclear whether he would accede eventually to having his name on the door and settling into a new role. Rollins continued to come into work every day and took his work seriously, but he was not sure how to treat his colleagues or how to feel about Bradley Marquez. "I cashed out emotionally in December."

"Head of the Family"

Lauder wondered whether it had been a mistake from the outset to use the language of family, community, and democracy when talking about the company. The layoff felt like a betrayal of all those things. One employee said, "We acted too much like a democracy as the company grew. The troops needed lining up, more structure, not scattering, and we let them scatter too long. They needed some discipline." He said employees had not heard a vision communicated from the top level and they desperately needed a unified mission to gather around. Another employee explained that what employees were asking of senior management was not "do they feel our pain?" but "do they know what to do to get us out of this?" Another employee concurred, and said management needed to be more direct about giving information even if the information was not particularly comforting. What management did not realize, said the employee, was that "negative speculation fills the vacuum."

Making a Move

What employees did not realize was how constricted the senior management felt in what they could say to their employees because the company was public. "Being a public company, you're hog-tied," co-founder Marquez said. It meant there could be no early indications that a layoff was coming or any nudging of employees toward other jobs because this would be in violation of securities law. Legal counsel was in fact trying to script every interaction between senior management and the remaining employees, which resulted in distance and formality between people who had previously interacted like friends and equals. This conflicted with Marquez and Bradley's priority that they "act like human beings." They had always wanted their leadership style to promote transparency and authenticity.

Marquez's title at the time of the layoff was Chief People Officer. The title had seemed like a fun idea when they brought it into usage: Having final responsibility for managing employees was something Marquez had felt he was good at and would enjoy. Now it felt like a grim burden. Marquez talked about how cutting Vail altogether and therefore cutting less deeply in all the other offices was a decision that he thought at the time was "more human." In hindsight, as the company struggled through the first quarter of 2001, Marquez felt they should have cut deeper across all offices, because, while possibly more demoralizing, it would have better communicated the dire straits the company was in. Marquez was worried that people in other offices came to think of the Vail closing as an isolated event.

The Vail closing created intense focus for Marquez, and he wanted it to do the same for his employees. "Who are we, what do we do, and what do we stand for? Are we committed to being a leader in the business?" If not, if people just came to work at Bradley Marquez every day because it was a job, but they had no commitment to compete and to excel, then it was no longer a company Marquez wanted to run. He would rather transition the client work, take the money out of the bank and distribute it, and close shop. Marquez understood the nervousness and resentment with which some of his employees now treated him, but sometimes he was frustrated by it. "The week during and after the layoff, all employee behavior has to be forgiven," he said. He had a high threshold for trying to talk with angry employees, though he admitted, "I'd be lying if I said I didn't wonder whether someone one day would be here with a gun."

Marquez wanted to help his employees, but sometimes it was hard to know how. "They want you to be positive, so they don't worry about the company, yet remorseful, so they know you were affected by the layoff, yet they don't want to see any indication of weakness that you are concerned about the future," he said. "I went into neutral mode." To Marquez, this was not an appealing emotional state to run a business in, and a far cry from the celebratory energy behind the title Chief People Officer. "If we do our jobs perfectly right now, manage the layoff perfectly, the layoff still sucks," he said, in a particularly dark mood.

"How much should I share the internal struggle of making strategic and people decisions with my employees? At what point is it counterproductive? Perhaps including others can be taken too far."

First Quarter 2001—No Calm after the Storm

Employees of some North America offices had raised a Christmas fund to collect money for the people who had been laid off. While the employees were deeply sympathetic, some of them noticed that, in some uncomfortable sense, the continued existence of their jobs depended on those other people's jobs being cut. That is, the company could not have continued to survive with expenses rising over revenues, and soon everyone's jobs would have been jeopardized, if expenses had not been cut quickly. The employees desperately wanted to believe Marquez and Bradley, who had said that after this cut at Christmas, they would be okay. They had cut a lot of jobs at one time partly to avoid having to make many small cuts over a staggered period of time, and so people hoped they could go back to work without continued anxiety. Marquez and Bradley wanted people to feel committed to their jobs and not be looking over their shoulder. They had told their employees that the worst was now behind them. At the same time, they needed to incite a mad scramble to come up with revenues to support even the now smaller expense base.

Revenues continued to decline steeply in January, February, and March, even as employees raced around trying to close deals. The sales cycle was getting longer, and clients wanted discounted billing rates, since many of the competitors were offering discounts. Even the most seasoned employees were having difficulty negotiating with clients.

Lauder watched closely as Bradley Marquez's competitors, as well as companies in other industries, announced workforce cuts. Many of them had been far less generous in terms of severance packages than Bradley Marquez had been the first time. This meant they preserved more cash, but

Lauder knew that generous severance packages often reduced the chance of lawsuits as well as making employees less likely to badmouth the company and more likely to come back and work as a contractor or an employee again once the company was hiring. This was certainly the view of Cisco and Motorola, who were also spending far more than average on outplacement services.

Professional services companies were especially aware of how difficult and expensive it could be to find good replacements when recovery did arrive. They also were predicting that there would be big revenue opportunities for those industry players who could be ready to mobilize right at the onset of the recovery. Some technology companies, such as Dell and Sun Microsystems, were trying to minimize actual workforce reductions by having workers reduce their hours or take unpaid leave for a certain number of days a month instead. Consulting companies like Accenture asked professionals at all levels to self-select to take a year off and go work at a not-for-profit or pursue other goals while being given 20% of their compensation as well as a definite job to return to; companies like Charles Schwab were trying similar programs.

The end of a new quarter was bearing down with sickening speed and disheartening results. Lauder felt that another round of cuts would be necessary, though he knew that Marquez and Bradley hoped fervently that there was some other solution than going back on their word. It was not just their reputation as leaders that would be damaged, but also the overall vitality of the firm. As a senior manager put it, "The first time we laid people off, we had fat to cut; this time we were cutting muscle." The first time around, "understanding business cycles was not part of our DNA." People were creative, and did good work, and assumed that clients would continue to choose them and pay them well. This time around, people had stopped depending on just delivering good work and tried to practice what Bradley and Marquez preached—client obsession. But even with this new heightened customer service dimension, there was no way this alone could overcome the macroeconomic slowdown and industrywide chaos.

How should Lauder carry out a layoff this time? What did management learn from the Vail experience? Was there any way to make a layoff a tolerable experience?

Exhibit 1 Background of Key Bradley Marquez Personnel

Jim Bradley

- Co-founder of Bradley Marquez, February 1995.
- Marketing director of Vibe in 1994. Helped launch Time's Pathfinder site and was eventually charged with bringing Vibe online.
- Led marketing efforts for various magazines including Details, Life, and Vibe.
- Nine years in marketing positions at Condé Nast and NewsCorp.
- Studied creative writing at Sarah Lawrence College in New York.

Alberto Marquez

- Co-founder of Bradley Marquez, February 1995.
- Created Urban Desires (first Web culture e-magazine) in 1994.
- Founder and president of World Wide Web Artists Consortium, 1994–98.
- Director, image processing, YAR Communications, 1993–1995.
- Professional actor and screenwriter, 1987–1994.
- B.F.A. in acting, Penn State, 1987.
- Raising twin sons.

Andrew Lauder

- Chief operating officer North America, Bradley Marquez, September 2000.
- Marketing and sales roles at IBM.
- Microsoft executive, including product manager roles in Seattle, international business manager for MS, Far East region director of organizational marketing for Asia Pacific in Sydney, acting GM for Indonesia region.
- CEO for Muze Inc, 500-person entertainment database company.
- MBA in finance and international business from New York University, B.S. in electrical engineering from Columbia University.

Mike Rollins

- Bradley Marquez: 23rd Bradley Marquez employee. Started in New York in client services and had various roles for 5.5 years, March 1996.
- Account director for Slater Hanft Martin (advertising agency), 1994–1996.
- 8th-grade English teacher in Lower Manhattan School (Nativity School), 1993–1994.
- Williams College B.A. 1993.