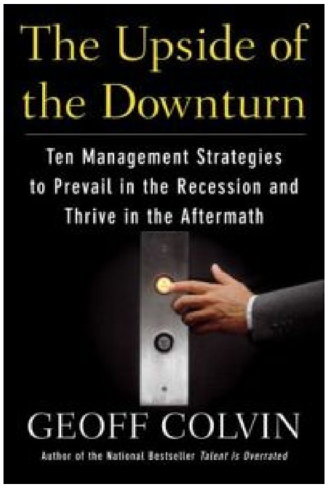

Book The Upside of the Downturn

Ten Management Strategies to Prevail in the Recession and Thrive in the Aftermath

Geoff Colvin
Portfolio, 2009

Recommendation

The 2008 recession and its lingering aftermath have undoubtedly transformed the global economy. All aspects of business have changed, including consumer attitudes, competition, employee relations, the role of government, and customers' saving and spending behaviors. Yet with all these shifts, few companies have consciously adapted to new business realities. Business journalist Geoff Colvin believes that the recession presents some intrepid managers with a rare opportunity to reinvent themselves and their businesses. He proposes 10 strategies that firms of all sizes can use to compete in the post-recession world. Unfortunately, some of his role models for those strategies haven't held up as well as he anticipated – his book appeared in mid-2009, before all the dust of the financial crisis had settled. Nonetheless, *BooksInShort* recommends his 10 sensible prescriptions to leaders who want a makeover for themselves and their enterprises.

Take-Aways

- Recessions offer firms and their leaders numerous opportunities.
- But you can't take advantage of them unless you recognize what changes are afoot.
- Follow 10 strategies to benefit from financial crises and economic slowdowns:
- Accept what's changed in your finances, clients and regulations, and "reset priorities."
- Protect your employees, who are "your most valuable asset."
- To mend your corporate reputation, "engage the outside world" and, to adjust to times of transformation, "re-examine your strategy."
- "Manage for value" by focusing on the long term. Learn how your customers have changed and use your "pricing power" wisely.
- Take a hard look at your "operational discipline" during business slowdowns.
- "Understand all your risks," including the ones that are inconceivable.
- Profit from tough times by learning to become a better leader.

Summary

Great Challenges – and Opportunities – Ahead

The 2008 recession, the longest since the Great Depression, has given managers worldwide many chances to demonstrate their capabilities. But, due to inertia and recession-related troubles, too many company leaders fail to recognize and act on this opportunity. They don't see that every crisis eventually ends and that, when it does, they must be ready to react and succeed in a new environment.

> "The great thing about a financial crisis and a recession is that they offer anyone the opportunity to be stretched in their current jobs."

Recessions allow new leaders to emerge and make them acquire fresh skills. Tough times teach hard lessons and force people to face rare, novel situations. Leadership traits are learned and not innate. If push yourself into unfamiliar areas, you will learn to become a stronger manager and a more resilient leader. You can't take advantage of the opportunities the economic downturn offers unless you recognize what changes are afoot.

> "Good times are when you'll experience your greatest success. But bad times...are your greatest opportunity."

Companies can use 10 strategies to make the most of bad times:

1. "Reset Priorities"

Facing facts about what's changed in your business, your industry and your environment is the first step toward assessing your new priorities. Many firms avoid the reality of what's happening right in front of them: In December 2008, in the thick of the financial crisis, a survey of struggling companies showed that few were proactively shoring up their cash reserves. An inability to admit past miscalculations, a sense of immobility due to a lack of information and just plain shock keep firms stuck in the past. Start gauging your new realities by using six parameters:

1. **"Financial strength"** – Judge your ability to raise capital and maintain liquidity.
2. **"Competitive advantage"** – Are you vying with new rivals? Have you lost your lead?
3. **"Government intervention"** – Assess how new regulations will affect your business.
4. **"The state of your customers"** – What if your clients cut back or can't get credit?
5. **"Your reputation"** – How you handle a crisis speaks volumes to customers and peers.
6. **"Your risks"** – List the changes in known risks and reflect on the inconceivable.

2. "Protect Your Most Valuable Asset"

During the 2008 recession, many managers had the same knee-jerk reaction: When business slows, fire staff. That's a mistake, because your employees matter more now than ever to the success of your firm. In prior downturns, when the economy was based on manufacturing, machinery and capital assets were the critical factors of production, and workers were more expendable. In contrast, today's knowledge-based economy depends on employee skill and talent, so people are your key assets.

> "Changing the direction of even a small business can feel like turning around an aircraft carrier."

To manage uncertainty, tell your employees what they can realistically control, stress the importance of teamwork, and keep your staff members motivated and well trained. Companies that mistreat or take their staff for granted during a recession lose their best workers to the competition when the economy recovers. Firing employees during a downturn creates hidden costs: Aside from large financial expenses for severance and other benefits, you can suffer declines in productivity, morale, brand growth and stock prices. When the economy improves, you'd face the costs of rehiring and retraining.

3. "Engage the Outside World"

The recession has dented and even devastated many companies' reputations. Surveys show that a strong majority of people worldwide – and Americans in particular – have less faith than ever in the solidity of business. Resist the temptation to hunker down and focus inward; instead, interact with your stakeholders to discern how to establish a better base for future cooperation.

> "A clear-eyed view of your reputation today is a vital element of your new reality."

As happened in the years during and after the 1930s Depression – and as is already evident now – government will have an increasing hand in how regulations and policies affect your operations, your industry and your environment. Savvy companies are proactively assessing how to rehabilitate their reputations, including refraining from the self-limiting practice of "giving guidance" to the markets on their profitability projections; these predictive announcements typically manage expectations downward, with results handily exceeding those expectations. This untoward practice is intended to boost stock prices. Corporate reforms also should include improving governance, directors' practices and shareholder voting rules.

4. "Re-Examine Your Strategy and Business Model"

Fashion designer Giorgio Armani took a risk when he opened his New York City store in early 2009 amid the depths of the recession. But Armani knew his fundamental strategy would survive in the long run: "An entrepreneur shows his true colors in a period of crisis, not in a period when everybody is having success." Economic uncertainty makes it imperative to reassess your firm's strategy and its mission.

> "One of the more striking social phenomena of recent times is that absolutely no one wants to admit to being a banker, a sure sign of reputational damage."

Ask yourself three questions:

1. **"What is our core?"** – Get back to basics. Know what you're good at and invest in making it even better.
2. **"How is this recession changing our customers and their behavior?"** – Your clients will react to recessionary times to different degrees and in different ways, from spending less on luxuries to spending more on health care. Understand how such vagaries will affect your business.
3. **"Will this recession hasten...a large-scale restructuring of our industry?"** – Business slowdowns can push struggling industries to the brink: The slow decline of the auto and newspaper industries accelerated after 2008.

5. "Manage for Value"

Recessions have a way of focusing the corporate mind on what really matters: capital. Knowing your firm's financials is always important, but, in good times, you can sustain some small lapses in precision and clarity about your financial metrics. A business's main goal is to create wealth, or value, for its owners and shareholders, yet you can lose sight of that goal in the day-to-day rush.

> "The most successful companies play offense, not defense, during a recession."

Today, it matters deeply to "get to know your capital." Look beyond the obvious stores of value in your business, such as land, equipment or buildings. Treat expenses such as R&D, marketing and employee training as critical investments in your firm's future. Figure out the cost of your capital, which will vary based on your operation's mix of debt and equity. If you manage for value, you'll be less tempted to indiscriminately slash spending on investments like marketing and research. Focus on uncovering hidden pools of cash that exist in unused inventory, slow receivables collection, and redundant locations or operations. To generate potential, take advantage of recession-reduced prices to acquire businesses that can catapult your company when the recovery starts. And to save money, stop paying dividends. Instead, invest for the future.

6. "Create New Solutions for Customers' New Problems"

Knowing how to realign your business to anticipate your clients' changing habits and expectations is not easy, especially amid the unpredictability of a recession. Successful firms "never stop experimenting" to learn what their customers want. For example, Amazon conducts some 300 tests daily using its online client-tracking capabilities. One Japanese convenience store anticipates its patrons' demand for hot food when weather forecasts predict a cold front. Quickly gathering and acting on customer information pays huge dividends in all economic times.

> "Because room for error is so drastically restricted [in a recession], every decision carries a greater potential for damage or even disaster."

Figure out your "recession value proposition." When Electronics retailer Best Buy learned that home-theatre offerings are recession resistant, its managers decided to devote resources toward reaching that group of customers to maintain its overall sales. Verizon Communications became concerned about its profitable landline business when its customers sought ways to economize, so now it promotes landlines for emergencies and offers a cut-rate plan for 911 and customer service calls only. And Hyundai outshines its auto competitors by promising to cancel your purchase if you can't keep up your car payments, an option many recession-battered drivers appreciated. During the first month of this offer, Hyundai's sales rose 14% while its rivals' tallies fell.

7. "Price with Courage"

Dropping your prices is "one of the more momentous decisions you will make" for several reasons: First, "price cuts rarely pay for themselves." Research shows that you have to increase sales by 19% to make up for a 5% price decrease. Additionally, "price cuts can destroy brand equity," especially if you mark down luxury goods. Moreover, "price cuts train customers to behave badly," leading them to buy only when your price is low, and finally, "customers hate price increases more than they like price cuts."

> "Deals that make financial sense should be done in bad times as well as good, yet often they are not."

Be alert to your customers' sensitivities about your pricing. If you offer a special product that no one else has, you have some leeway to raise prices, even in recessions, but if your product is a commodity, you have little pricing power. Conversely, if you sell undifferentiated necessities – think light bulbs or toilet tissue – your brand won't matter. If you sell Rolls-Royces, brand cachet counts, but few people really need your product.

8. "Get Fitter Faster"

Business slowdowns force you to take a hard look at your "operational discipline." While few firms could envision paying their clients to take their business elsewhere – as American Express did in 2009 when it offered some account holders a $300 incentive to pay the balance on their cards, thus terminating the client relationship – it does make sense to find those aspects of your commercial offerings that you can change – that is, pare down or even ramp up – in order to ride out tough times.

> "Calamities visit everyone eventually. In the worst case, they damage us and leave us weaker, diminished. In the best case, they change us permanently into stronger people."

Know the profitability of all your sectors and invest in the ones with the most potential. Avoid making wholesale expense reductions across the entire company. You could starve your most profitable areas and hurt your earnings. Don't dismiss sustainability measures and green initiatives. After all, Walmart has recouped millions of dollars annually through energy savings. For a different viewpoint, consider how you would evaluate your business if it were for sale.

9. "Understand All Your Risks"

The 2008 financial crisis caught even the savviest risk managers by surprise; most could not imagine, much less prepare for, the "cascading systemic failure" that occurred. Take five steps when considering how to manage risk:

1. **"Turbocharge your imagination"** – Go beyond the conventional in identifying risks.
2. **"Build scenarios"** – The act of visualizing possible futures can bring new insights.
3. **"Think in probabilities"** – Assign numerical values to risks that you can name, but don't get caught up in statistics; recognize that probabilities might give you incomplete information.
4. **"Use the power of markets"** – Prediction markets can help in risk assessment. Channel the know-how and perceptions of your team by creating an in-house prediction market to forecast sales or research goals.
5. **"Create an organization and culture that adapt quickly"** – Remain flexible while being realistic about change.

10. "Don't Forget to Grow Yourself"

A recession can be the crucible that forges you and your management team into stronger, wiser and more capable leaders. Take this opportunity to "stand up and be seen." People need their leaders to be visible in times of crisis. "Be calm and in control" of your actions and emotions, especially when you're unsure. Be decisive and brave. Guide your team through turbulent times by explaining the relevance of "the crisis in a larger context." Help them to see problems as challenges and to view their own abilities as resilient and powerful enough to meet them.

About the Author

Geoff Colvin is *Fortune*'s senior editor at large, and he writes its popular column, Value Driven. He is the author of the bestseller *Talent Is Overrated*.