

Managing in a downturn and its aftermath

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WHAT'S A
MARKETING
BIATHLON?



YOU SKI
UP TO
PEOPLE
WHO
WON'T
BUY YOUR
CRAP AND
YOU SHOOT
THEM.

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In the recent past we have seen the shocking impact and long-lasting repercussions of:

1. Global market volatility
2. Near collapse of the banking system
3. Near paralysis in business lending

Been a vicious circle of

- ❖ Weak banks
- ❖ Withdrawal of lending
- ❖ Declines in real activity
- ❖ Government interventions in the monetary system (monetary easing, fiscal stimulation, partial bank nationalisations)

- ❖ Extreme shifts in demand
- ❖ Unusual competitor and customer reactions
- ❖ Supply chain vulnerabilities
- ❖ Drastic revisions to plans and strategies
- ❖ Massive public and private sector debt will force up the cost of capital and weaken recovery

Over reactions?

What can we learn from all this?

- ❖ Need to lift our eyes from the gloom
- ❖ Opportunities to drive transformations
- ❖ Long-term trends – growth will return because recessions tend to be shorter than later growth phases

The bad news is that the structural issues and attitudes to risk that brought these unstable conditions such as:

- ❖ Excessive borrowing in the west
- ❖ Savings glut in China
- ❖ Inconsistent (weak) regulation
- ❖ Poor government and oversight

are still with us

It raises the very reasonable question:

“can markets fail?”

Yes they can, and can we trust free markets in the future?

John Maynard Keynes said back in the 1930s that:

- ❖ capitalism is prone to periodic collapses and is inherently unstable
- ❖ the business cycle is a fact of life so plan for it

- ❖ Economists have repeatedly stressed the efficiency of markets over government intervention
- ❖ Few would argue that politicians have not got the answers, indeed many think they are the fundamental problem

- ❖ Politicians and policy makers are generally short-sighted and incompetent
- ❖ Few of them have had a job outside politics

- ❖ The banks got greedy and took enormous risks
- ❖ Investors were naïve
- ❖ Shareholders and non-executive directors exercised no real control over wayward senior managers

- ❖ In truth, behind all this, the methodology of modern economics has let us all down
- ❖ It has evolved into “an over-mathematical, narrow-minded, exclusive discipline” – Keynes back in 1942
- ❖ And if we are not careful the professions of marketing and sales might go the same way

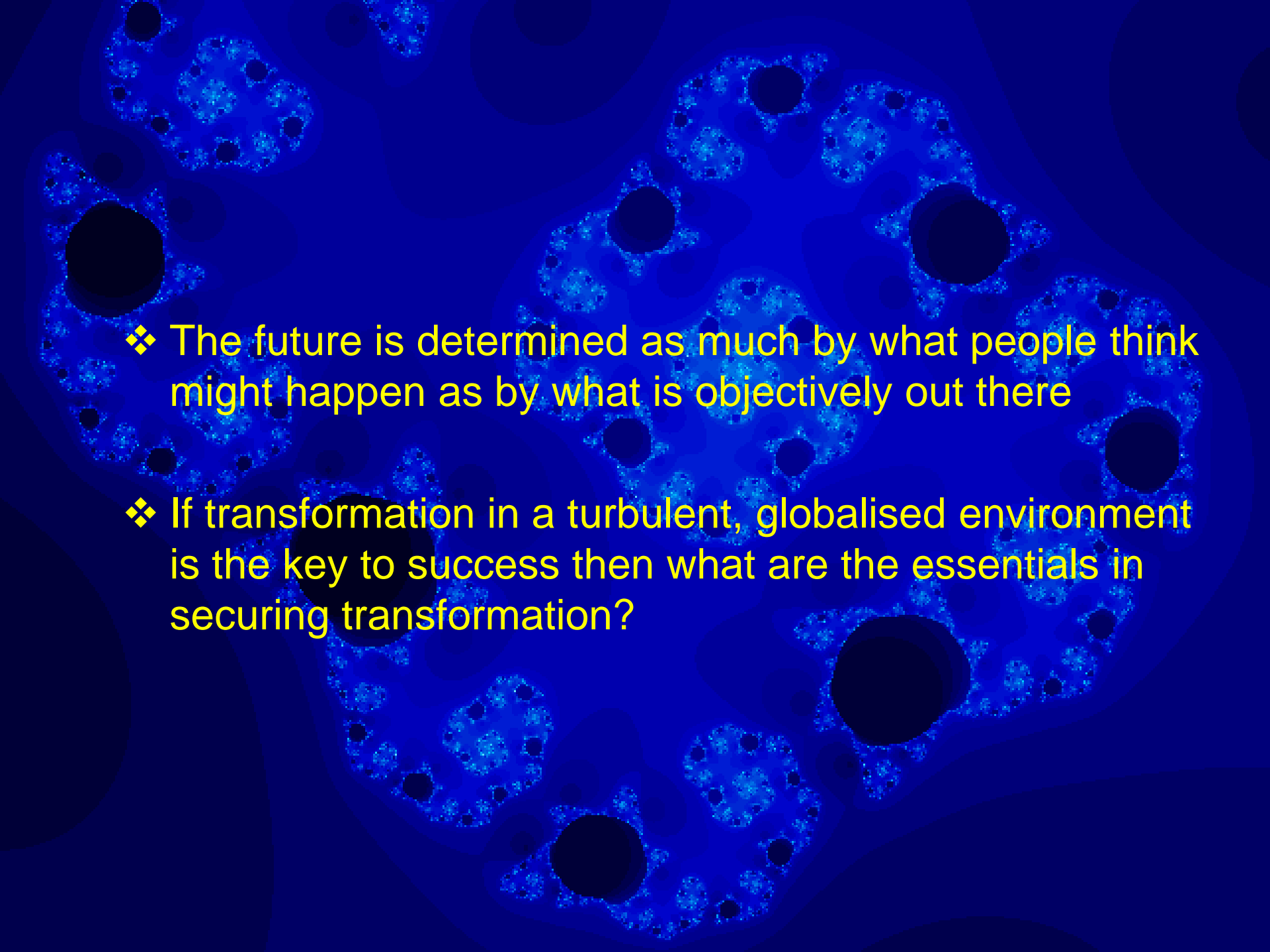
- ❖ Expectations are the key
- ❖ Decisions are characterised first and foremost by uncertainty followed by risk
- ❖ The future is unknowable
- ❖ Study of the past is no guarantee of what will happen in the future

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- ❖ Weaker companies tend to make more drastic cuts in investment plans
 - ❖ This destroys value
 - ❖ And so undermines their chances of survival

- ❖ Many companies have responded to recession with drastic cost reductions
- ❖ The more astute companies made painful decisions early on and reinforced lean disciplines but also selectively invested

“smart pruning is likely to be far superior to a haircut approach”

Book review by David Smith of *Managing in a Downturn: Leading business thinkers on how to grow when markets don't*. FT Prentice Hall, edited by Ranjay Gulati, in *Management Today*, 1 October 2009.

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- ❖ The future is determined as much by what people think might happen as by what is objectively out there
 - ❖ If transformation in a turbulent, globalised environment is the key to success then what are the essentials in securing transformation?

so what does all this mean for sales?

Sales Management is about getting *better* business not just more business

Fundamentally we must decide what business we are in and what business we should not be in

- ❖ Some companies are very successful by chance. They happen to be in the right place at the right time
- ❖ Most other companies or organisations need to plan their marketing and sales activities rather than rely on chance
- ❖ Need a matching process between an organisation's capabilities and customer wants, in order to achieve the objectives of both parties

There are five types of company or organisation:

1. those who make things happen
2. those who think they make things happen
3. those who watch things happen
4. those who wonder what happened, and
5. those that did not know that anything had happened

The winning company

- ❖ has focus, a clear strategy, cohesion, simplicity
- ❖ pace, conviction, enterprise, determination and competitive spirit
- ❖ innovates: new product and service development
- ❖ has enduring competitive advantage

The winning company

- ❖ puts the customer first and above all, engages in customer value management
- ❖ has detailed and on-going market knowledge
- ❖ identifies the profitable customers and works hard to retain them by providing good value
- ❖ more efficient and lower cost operator than competitors

The losing company

- ❖ No vision
- ❖ Avoids risks
- ❖ Little market/customer/competitor knowledge
- ❖ No sense of urgency

The losing company

- ❖ Runs to standstill, working all hours
- ❖ Lacks a distinctive product line
- ❖ A lot of housekeeping activity
- ❖ Maintains that the marketing approach is not affordable (no immediate payback)

The losing company

- ❖ Proliferation of many low volume, low profit lines
- ❖ Short-termism (current financial year focus)
- ❖ Little or no investment (under-invests in plant, new products, promotional activities and services)
- ❖ Increases prices even when revenues are static

Such a company has no future if it carries on like this.

Have we lost sight of the essential business truths?

Probably not but there are plenty of business and academic quacks who cloud the essential picture

Five ways of increasing profitability

these are the only ways - there are no others

- 1 raise prices
- 2 reduce costs
- 3 improve the product mix
- 4 increase the sales volume
- 5 reduce the capital employed

The Harvard “Rule of Four” requirements for business success:

1. Provide a product or service that no-one else has
2. Provide a product or service that everyone will want
3. Price for profit
4. Price for sales

Then sell until you drop

Customer orientation

**Competitor orientation
(what are they up to?)**

**Long-term focus
(plan ahead)**

**Good communications
and organisation**

Entrepreneurial drive

**Leadership and
organisational culture**

Study of 4,700 public companies published recently:

Gulati, R., Nohria, N., & Wohlgezogen, F. (2010).
Roaring out of recession. *Harvard Business Review*,
88(2), 62-69.

- Generally most admit (reluctantly) that the current crisis marks a turning point
- How to remake the organisation to cope with the “new normal”
- Little research on strategies to help companies survive a recession and get ahead during a slow growth recovery

Gulati et al studied 4,700 companies, examining the past three global recessions:

1. 1980-82
2. 1990-91
3. 2000-2002

Broke the data down into three periods:

- a) Three years before a recession
- b) Three years after a recession
- c) The recession years themselves

- 17% of companies didn't survive a recession (went bust, acquired, etc)
- Survivors were painfully slow to recover
- 80% did not regain pre-recession growth rates for sales and profits three years after recession

- Indeed 40% had not returned to absolute pre-recession sales and profit levels
- Only 9% of sample flourished after a slowdown (doing better on key financial parameters than had before recession)

- Firms that cut costs faster and deeper than rivals don't necessarily flourish (lowest probability of pulling ahead of competition when times get better)
- Firms that boldly invest more than rivals during a recession don't always fare well either

The post-recession winners:

1. Companies that master the delicate balance between cutting costs to survive today and investing to grow tomorrow do well after a recession
2. These companies reduce costs selectively by focusing more on operational efficiency than their rivals do

Gulati et al classify companies and their approaches to managing during and immediately after a recession into four types:

1. **Prevention-focused companies** (make primarily defensive moves; more concerned than rivals with avoiding losses and minimising downside risks. Approach every decision through a “loss-minimizing lens”)
2. **Promotion-focused companies** (develop a culture of optimism - invest more in offensive moves that provide upside benefits compared to rivals – the pie is shrinking and must capture an even larger share from rivals to keep growing)

3. Pragmatic companies combine defensive and offensive moves – manage cost cutting plus investment at the same time

4. Progressive companies deploy optimal combination of defence and offensive moves

- Invest in both existing and new businesses
- Develop new markets
- Take advantage of depressed prices to buy property, plant and equipment


So what could we learn from these experiences?

- ❖ Strong hands are needed on the tiller – leadership
- ❖ Focus on key performance indicators
- ❖ Selectively cost cut and invest at the same time
- ❖ Good communications (the key to creating the right behaviours and levels of trust)
- ❖ Efficient and integrated supply chain operations

There is growing evidence
that three factors are
key:

1. **Leadership:** is the CEO up to the job?
2. **Is the strategy simple and clearly communicated, with staff fully committed?**
3. **Organisational culture:** is creativity, innovation and customer-centricity rewarded?





But are our CEOs
and senior managers
up to the task?

- ❖ Need to manage external risk
- ❖ Understanding emerging trends through the blather of noise is a critical advantage
- ❖ Balance the difficult defensive cost cutting decisions with offensive investment decisions (a Janus-faced strategy)

- ❖ Recognise that buyers have reacted in unexpected ways to recession, tax and credit availability
- ❖ Web 2.0 technologies (new social media) provide new tools but are subject to fickle fashion

Above all we need:

1. Goals that are simple, consistent and long-term
2. Profound understanding of the competitive environment
3. Objective appraisal of resources
4. Effective implementation of cost saving measures and selective investment
5. Managers who know what they are doing (and don't hide behind the recession excuse)

Questions for discussion:

1. A focus solely on cost cutting causes problems – what problems?
2. A focus purely on promotion develops an optimistic culture which brings problems?
3. A combination of cost cutting and selective investment sounds easy to develop but is actually difficult. Why?