

## **New Paradigms, New Challenges. South America**

### A Case for Change

#### **General Overview**

With the world in recession, most countries are working hard to minimize the economic effects on their people, financial institutions and commerce. Today, everything in the world is interconnected and what happens in the United States, Europe, the Middle East, South America or Asia affects everyone. As South American economies turn from prosperous to difficult, standard solutions do not apply. While leaders in these countries understand what is happening, they must develop strategies that minimize the duration and impact of the global crisis. For the first time in decades, these countries are experiencing a decline in GDP and this will impact the stability of governments and businesses in every sector.

On the political side, leaders must clearly communicate with the electorate on what actions are being taken to grow businesses and jobs, improve consumer confidence, stabilize currencies, grow international trade, and stimulate the economy. Intervention by government is required to assure the stability of their markets and economies. Turn-around strategies must be developed that promote employment, production and consumer confidence. Weak and ineffective leaders will lose influence quickly if the strategies that are implemented do not result in initial stabilization and eventual growth.

On the economic side, the health of financial institutions that face slowing growth and dwindling reserves must be assessed. Poor lending practices and creative investment schemes precipitated the international crisis. Creativity in banking must be eliminated and fiscally responsible banking practices instituted. Partnerships between government and the banking industry are critical to restoration of financial stability. Liquidity must be added back into the general economy and get businesses moving again.

In Brazil, “the solid financial position of the government and state banks will support countercyclical measures that will mitigate the impact of the global recession. However, this will not prevent the economy from slipping into recession with real GDP declining by 1.5% in 2009. A feeble recovery in 2010 will constrain Brazil’s growth in 2010 to a modest 2.7%.”<sup>[1]</sup>

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On the commerce side, business leaders must honestly evaluate the current state of their companies and develop and implement strategies that will allow them to emerge from the recession leaner, stronger and more competitive. Unfortunately, there will be casualties along the way as business segments consolidate. Weak companies will go out of business while the strong will survive and grow.

### **Challenges of Doing Business Today**

Today, there are very few leaders in business that have been through this kind of economic climate before. Although, these leaders are smart and educated and believe that they have the right solutions and can work through this, they still feel uncomfortable. Some will cut expenses, cut staff, reduce marketing and advertising budgets, close stores and factories and postpone capital spending. Some will treat this as a sales problem and run promotions to hopefully drive traffic and sales. These actions are part of the answer but the question remains: are the solutions enough to prepare for the future? In a business climate like this even the smallest flaws in any company will be exposed which will create more problems for immediate survival and future growth and competitiveness. No company can assume that they can weather the storm and emerge from this looking like they do today.

Today, more than ever, business leaders must evaluate the health of their entire business. If there is no clear strategy for profitable growth, the chances for survival are poor. Today, many businesses are the shape and size they are more by accident than being driven by a clear corporate strategy.

In terms of South American businesses, many leaders are not prepared to make hard decisions when it comes to rationalizing their company, brand and value propositions. Unproductive stores, distribution centers and warehouses remain open even though they are not profitable because managers feel it is too expensive to downsize, close down, pay off the lease or move to a better location. Poor quality and ineffective middle management is tolerated because it is just too hard to eliminate tenured employees. These mid-level managers sit between corporate leadership and the field and are not held directly accountable by either.

There can also be arrogance about the brand. If leaders believe that staying on the current track with their brand is the safest course, there may be a missed opportunity as the market changes. During this crisis it is imperative that the brand be evaluated.

- How the brand is viewed by existing and potential customers?
- Does the brand represent quality, value, safety, new technology?

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- Does the brand improve your customer's life?
  - Does the brand effectively represent the current value propositions?
  - Is the brand positioned to beat the competition and grow market share?

### **A Case for Change**

Today, customers are knowledgeable, demanding and have limited loyalty. In a difficult economy, it is especially important to understand the customer. Who are they? Where do they live? Where do they work? What do they want or need? Many companies have vast unused customer data. Unlocking this knowledge is critical. Success begins with gaining a deep insight into the customer, their problems and desires. Strategies must be developed by putting everything that is known about existing solutions or those that can be created. An important element for this is gaining insights and ideas from employees, vendors, business partners and financial institutions. Those who do a better job in providing their customers with the "right" solutions will grow their business and profits. Growing the base of loyal customers is critical to success.

Increasing the base of loyal customers provides many benefits. Loyal customers produce most of the profitability for the company. Building a lasting relationship with your best customers will help maintain business even during a difficult economy. There are five questions that must be answered to help assess your customer loyalty:

- Is the customer aware of your brand and value propositions?
- Do your customers consider buying your products and services?
- Did your customers buy from your company?
- Did your customers return to your company to make another purchase?
- Will your customers recommend your company to friends?

As the bottom of the recession is reached, it is urgent that a broad evaluation of all operational processes, procedures and systems be initiated. Problems must be assessed to determine root causes and strategies developed to exit as a stronger, more efficient and more competitive company. Over time, most companies have developed to do almost everything. These should all be reviewed to determine if there is a better way to do something that saves money or time and improves the employee experience.

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Also, it is critical to understand the efficiency and profitability of products and inventory. Analysis of inventory needs to include in-stocks. Is the product in-stock for the customer? How fast is the inventory turnover? Is there an at-risk inventory reduction strategy? Is there an effective assortment planning process that reduces product duplication? Rigor around inventory analysis will pay off in the future with leaner inventory levels and focused assortments of products that are important to the customer.

Increasingly, business today is shifting from product centricity to customer centricity. While price is important, providing value added services is critical to success. Offering needed services to your customers can provide differentiation, a competitive advantage and increased profitability. Increasing the times a customer can be touched, is important. Strategies should be built to provide services where the customer needs them: in a store, in the customer's office or in the customer's home. Quality and consistency are critical to any services offering.

Finally, the key differentiator and competitive advantage will always be an outstanding customer experience. Having the right product in-stock at competitive prices, providing an exciting shopping environment, having exceptional service offerings and employing attentive and customer centric employees will assure that a company has a chance to win the game. As labor is cut, inventories reduced, and capital expenses put on hold – now is not the time to destroy the customer experience.

Adaptable companies should be able to use the slowdown to strengthen their long-term franchise. A challenging economic environment should be regarded by the most progressive companies as an opportunity to refocus on maximizing the efficiency of their operations, holding on to their most talented employees and selectively expanding their operations.

The winners in today's challenging environment will be those who can adapt most quickly to changes that are taking place at lightning speed. Most importantly, long term survival is dependent on leadership's openness to responsiveness to change.

#### References:

<sup>[1]</sup>The Economist, May 5, 2009, "Outlook for 2009-2010, Country Briefings, Brazil