

Winning in the Global Recession

So here we are today.

This credit-crisis induced recession is far more damaging and far-reaching than a typical economic-cycle recession. The sub-prime induced housing crisis has led to increased foreclosures and dramatically falling property values. The “wealth effect” of rising home prices has now disappeared and consumers have less confidence in their long term financial future and in fact already have less discretionary income. Purchases that are not necessities have no priority.

The US economy has been built on excessive consumption which is now dramatically slowing. Individual and corporate spending is significantly down and the rate of savings is going up. Very quickly the economy is right-sizing itself. As sales fall and confidence weakens, businesses are scrambling to stay alive and reduce costs. The rate of unemployment is soaring.

For many managers, this is a new and unpleasant experience.

This is not business as usual. Competitors once considered formidable may go out of business. Your customers stop reacting to your ads or responding to your emails. Suppliers are cutting back and the right product may not be available. Banks you relied on for working capital now either slow the process or deny additional credit all together.

The smallest flaws in your business are now exposed. Companies that don't focus on getting their basic foundations right or strengthening their competitive strategies find that even the smallest problems could become life-threatening.

No company can assume that it will come out of this recession looking like it did.

One of the hardest decisions that must be made is to reduce headcount. Even though survival is the number one priority, there is a risk in reducing managerial and line staff. Eliminating the most tenured employees is risky. Yes they are your highest paid employees but they also have

the most experience. Once the recovery is underway, if you have to rely on inexperienced leaders or managers, your recovery could be harder to achieve. As companies strategize cutting payroll costs, underperformers must be the first to go, not your more expensive high performers.

Communicating to internal and external stakeholders is critical. The internal rumor mill is as big a threat to your business as your disappearing customers. Company morale will be affected. Now is the time for leadership to over-invest their time and effort to clearly communicate to their employees. This also means listening to what your employees have to say. Providing insight and demonstrating confidence will help kill the rumors. Surprises are not a good thing. You must inform your business partners, shareholders, creditors, bankers and suppliers what to expect. Now is the time for humility and honesty.

Leadership must develop credible plans to deal with current and future situations. Beyond your “priority plan” you will need several backup plans. It is better to think through multiple scenarios now than to have late night emergency meetings to come up with the next new plan by tomorrow.

In difficult times like these, it is easy to turn inward and shut off outside partnerships and influence. It is more important now than ever for companies to embrace opportunities to diversify their business, keeping an open mind to new initiatives that will build your business for the future. Diversification beyond your core may be pivotal to long-term success. This may cost money now but may be the best money spent.

It is possible that you may have to seek outside expertise to clearly assess your current state and help develop strategies that will assure that you exit the crisis in the strongest position possible. It may not be enough to just “buckle down” and get back to basics in order to survive the economic downturn. Preparation for the recovery is vital. Market consolidation is likely and weaker players will not survive. Companies need to wisely allocate their limited resources now to build their strategy for the future. If your plans seem credible, the question remains “Does your leadership have the ability to implement?”

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 after sale service and installation, and employing attentive customer-centric employees will assure that you have to chance to win the game. As companies reduce costs, inventories will be cut, store updates will be postponed, older unproductive stores will be closed, and customer service and store labor will be reduced. Now is not the time to destroy the customer experience.

Adaptable companies should be able to use the slowdown in the global economy 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 that can adapt most quickly to the changes that are taking place at lightning speed. Most importantly, long-term survival is dependent on leadership's openness and responsiveness to change.