

Shape Up Before the Next Recession: Take a Reality Check and Be Decisive

By Jerry Vieira, President and Founder, The QMP Group, Inc.



Jerry Vieira is President and Founder of The QMP Group, Inc. a Portland-based management consulting firm that helps business-to-business companies rapidly turn under-performing businesses, product lines and service offerings into significant profit contributors. In addition to helping clients directly, he writes and lectures frequently motivating and energizing companies to maximize performance Visit <http://www.TheQMPGroup.com> for more information.

Notwithstanding the hiccup of 2001, (plus or minus a year), the last 15 years have witnessed an enormous global economic boom driven by technology-based productivity gains, inexpensive third-world labor access, open trade, and monumental economic gains among developing nations. But a number of factors are pointing to the possibility that a recession, or at least a significant slowdown, may arrive in the next year or so.

Anyone in business knows that downturns are inevitable and that planning for the arrival of downturn whose arrival time is not truly predictable is tough, particularly when your company is doing well in the current economic cycle. But planning is the only way to weather a downturn.

So, what should companies be doing now, in mid-year 2007, to prepare for the next recession? There are three important steps to take:

Step 1: Reality Check - Understand the real reason for your current success.

It's extremely important to understand and honestly assess the basis of your current success to know how to prepare for a slowdown in demand. There are really only three reasons why your company is succeeding in the marketplace. By knowing which of these three reasons is creating your current success, you can plan how to survive in the future.

Reason 1: You provide capacity to overheated market demand.

Consider the early days of VHS tape

recorders and movie rentals. Demand for taped movies was so strong, that anyone with \$5,000 could lease a storefront, buy an inventory of VHS movies, charge an annual membership fee and launch a business. This only worked as long as the basis for success was adding capacity to a rapidly emerging, overheated market demand. Once the basis for success evolved to the availability of new releases, rather than simply supplying any old movie, only those competitors who could strike deals with the studios for mass outlet distribution remained successful. Inability to understand and deal with the changing nature of the success requirements became the demise of thousands of small businesses.

Reason 2: You provide a unique value proposition.

If the economic or emotional value proposition offered by your company is unique, then demand for your product or service is proportional to the combination of a) the magnitude of that value proposition to customers compared to its cost and b) the extent to which there are many potential customers with the same problem that needs solving.

This basis for business success becomes shaky when a competitor replicates your value proposition – maybe not exactly, but close enough to begin to drain customers from your potential base. Patents sometimes protect this position but only temporarily if the profit umbrella is large.

Compelling economic value propositions, matched to compelling customer needs can sometimes override downturns.

Reason 3: You are exploiting a competitive vulnerability.

Said in a simpler way this means that you have a competitive advantage. In a recession, prices may come under pressure. Your ability to sustain prices may depend on the strength of your competitive advantage and your ability to translate that advantage into real economic return for the customer, thereby validating the difference in selling price.

Note that both *Reason 1* and *Reason 2* are unstable states. Eventually all bases for success will end with *Reason 3* as markets mature.

Step 2: Identify and assess your best current markets

Most companies sell to more than one market. This next step helps you identify the markets that will most likely be sustainable through the recession. The objective is to be prepared to reallocate

and quickly redeploy resources to those most lucrative markets when the downturn intensifies.

Decisiveness is key. The markets that will be most recession-proof for your specific company and its offerings are those for which the combination of the following factors is positive:

- Your product's value proposition is so economically positive (compared to its cost), and the customer's compelling need so strong, that it makes economic sense for the customer to buy in good or bad times.
- Market accessibility and/or your ability to communicate your value proposition to the prospects in these markets will not be affected by the downturn.
- The fundamental demand drivers, such as regulatory or demographic factors, won't change overnight.
- The number of potential customers that could benefit from your value proposition will remain relatively unsaturated in your target market during a downturn.

Once you've understand these factors, ask yourself the following questions:

- For which of your products can you calculate a significant three-year economic value received by the customer?
- Which of your markets have primary demand factors driven by regulatory or demographic factors (both normally unchanged by downturns)?
- Which of your markets have strong economic benefits from your products and services and low penetration?
- What percentage of your sales people can calculate that return, on-the-spot, when discussing product offerings with a qualified prospect?

- And last, but most important, if you suddenly started to see dropping sales from a downturn, from which of your markets would you pull marketing dollars and where would you redeploy them?

Step 3: Be decisive and make timely decisions once the downturn is at hand.

You're the CEO. The authority to allocate the buck that stopped at your desk is yours.

The last 15 years spoiled many of us. Economic momentum during this era was so strong in many sectors that even a dead man in a canoe would have made progress in the rushing economic river. In fact, the current was so strong that a live man in a canoe rowing backwards would still have been swept forward – but not as much as the dead man! It's only when the current slows down that you can really tell who's rowing backwards, who is “dead in the water” and who really knows how to row.

In tough economic times, wrong-headed behavior cannot be tolerated. The rocks are closer to the hull and bad navigation, even for a moment, can be disastrous.

In times like these, quick decision-making is essential – and ultimately it's the CEO's responsibility to assure that the tough decisions are made, and made quickly.

Here are the decisions that must be made to navigate the downturn:

Put a performance and progress dashboard in place.

Rapid field intelligence feedback is essential during tough economic times. Therefore, the key ingredient to monitor is the quality of your sales opportunity pipeline. This will validate quickly the relevance and sustainability of the

value proposition in each market and its relative immunity to the economic tide.

Reallocate resources quickly.

Move resources from markets that are slow and for which the value propositions are low, to markets that have relatively recession-immune momentum factors and high-value proposition returns for the customer.

Remove counterproductive and slow-to-respond people.

Be wary of your people (sales and marketing in particular) who believe that the only way to handle a recession is with price reductions and more head-to-head frontal assaults against the competition. OK, perhaps “removal” is too strong a policy but practice strongly saying “No!” to these types of unnecessary solutions. And, get these people quickly out of the decision making loop.

Redirect the sales force.

The quicker this is done the better. Place specific emphasis where you can communicate and calculate the economic value proposition of your offerings.

In tough times all companies will take some hits. It's inevitable. But planning now for the moves you will make during a slowdown will increase your ability to maneuver, will strengthen your position and will leave you in much better shape than if you just passively waited for the storm and ignored the warning signs
