

Competing in a Downturn

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Abstract: The new business realities require both cost reduction and new avenues for growth and ways to have both compassion and competitiveness. Here are some tips for leading in a downturn.

Competing in a downturn has unique challenges and opportunities.

It is a given that markets and economies go through cycles that are at times uncontrollable by the firm. It is also true that downturns do not impact all sectors (consumer versus business; industry, etc.) equally. Each company must reach deep inside to lead in and through downturns.

Considered the following examples:

- A data storage company reeling from several rounds of cost cutting must not only fight to reclaim its throne in tape storage, it must compete in the disk and networking business that will grow exponentially due to the internet and global needs for data storage.
- An electronics manufacturing services firm, once a darling on Wall Street with a string of double digit annual growth rates, finds itself cutting deep into the heart of the company: its site product-oriented, printed circuit board shops dominated by a local P&L mentality. At the same time customers are pushing the company to provide customer solutions in a more integrated, seamless fashion across its boundaries.

To maneuver successfully in these troubled waters requires a new **orientation** about the cultural attitudes required in a downturn, a **framework** or way to think about competing in downturn and an **action agenda** detailing what can/should be taken in downturn.

Orientation

We have found that there are required cultural norms in downturn:

BOLD Decision-making

- Response times shortened: how can we get decisions made faster?
- Leaders must act more quickly but also consider longer-term impact in their decisions: what can we do now and how does it affect the future?
- Time for creativity: what are some novel ways of doing things?
- Time for clear differentiation: what do we do that is unique?
- Use a downturn to “clean up” what needs to be done anyway (independent of the downturn): what work do we need to fix up regardless of downturn?

FOCUSED Efforts

- Recognize that not all things worth doing are worth doing well (satisfice): Excel in those that give you advantage capabilities; maintain or outsource those that don't.
- No time for politics. Focus initiatives by work type, not degrees. Many companies cut across the board or divvy up budgets equally. For example, if there are 5 initiatives that would each receiving 20 units of energy requiring 20% cutback, don't go 4% on each, go 20% on the highest priority.

CUSTOMER Pursuit

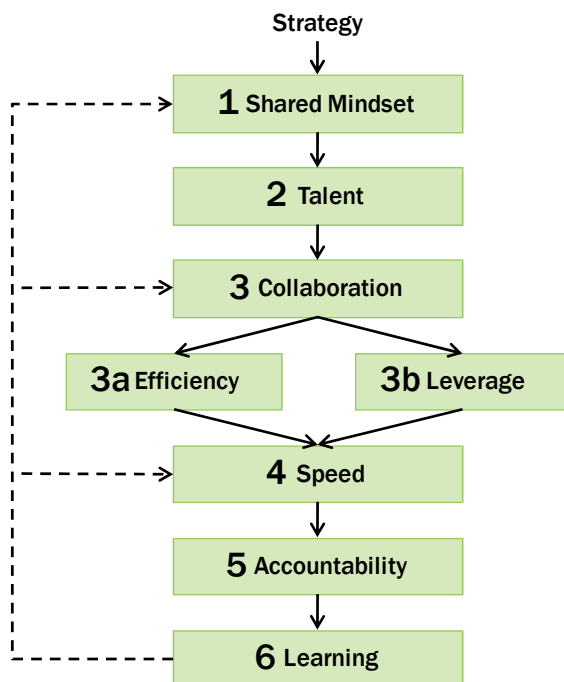
- The companies that keep focused on "outside/in" perspective will be the ones leading the upturn.

Our research has found that a company's organization capabilities – how it executes its business priorities – to be the distinguishing factor in leading in and out of a downturn. These broad capabilities are the company's DNA; they cut across the organization and give the company its culture and leadership its edge.

- Shared Mindset about where you are headed – Cultural change, transformation, firm identity, firm equity, firm brand, shared agendas
- Talent to get you there even during layoffs – Intellectual capital, know how, competencies, and commitment, workforce, employee results, career orientation
- Collaboration for efficiencies and leverage – Governance, coordination, network organization, teams to drive both cost reduction and spur growth
- Speed on the right things – Agility, adaptation, flexibility
- Accountability on the set of decisions in play – Performance, execution, implementation
- Learning to sense and respond throughout the organization – Knowledge management, best practices, coordination, etc.

The flow of these capabilities can be seen in Figure 1:

Figure 1. Executing Business Priorities



Key to building organization capability is forming a shared mindset around how the company wants to be known by its best customers. This keeps the company anchored in rough waters. Equally as important is the focus on talent. Companies must get to essential employees who are necessary for the future with financial and non-financial rewards.

Framework: a way to think about competing in downturn

There are three general phases a company goes through when responding to a downturn: make some internal changes within the business unit, make changes within the company and make changes within the industry. As companies go through this evolution and expansion in scope, attention must focus not only on cost reduction but also on growth as seen in Table 1.

Table 1. Focus on Cost Reduction and Growth

Phases	Attention Outcomes and domains to manage	
	Cost (reduce operating costs; the bottom line)	Growth (increase revenue; the top line)
I. Within Business (make changes within the existing business)		
II. Within Company (make changes within the company)		
III. Within Industry (make changes within the industry)		

In the case of the data storage company, they had to fix some internal hemorrhaging and get aligned around the strategy to become “storage experts.” This meant trade-offs within business units (sell solutions vs. products), within the company (new role for shared services) and within the industry to help set standards in virtual storage. Like many companies, the trick lies in reducing costs without sacrificing the future.

Attention

First let’s explore the cost-growth outcomes and domains.

COST REDUCTION

There are three legs to the cost challenge: productivity, process and projects (Figure 2).

Figure 2. Three Legs of Cost Savings

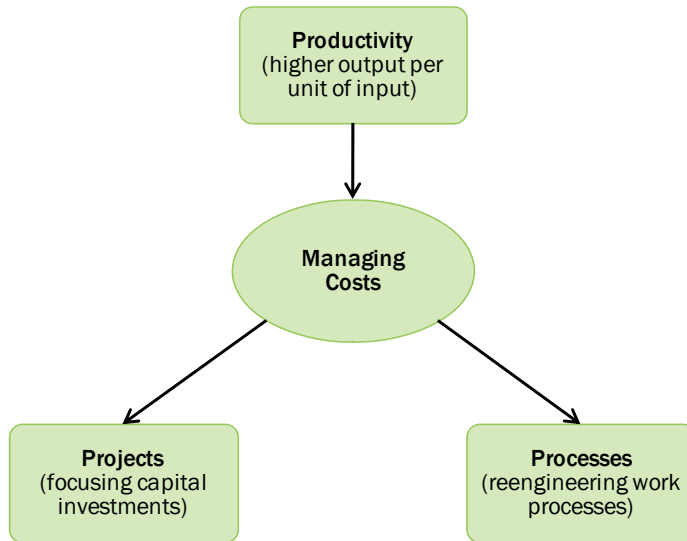


Table 2 provides some best practices to reduce costs:

Table 2. Best Practices for Realizing Cost Savings

Actions to reduce costs	
Productivity Outputs over inputs	Analyze how to do more with less <ul style="list-style-type: none"> • Reduce headcount and remove work and/or move work to lower cost locations (think globally – Costa Rica, India, Spain, Russia, etc.) • Reduce headcount: early retirements (incentives), reduce hiring, performance discipline, cut work time, job banks, • Engage employees in ways to improve work and reduce costs everywhere • Use 'workout' type exercise to analyze work: eliminate, do less often, do less frequently, do through technology, etc.) <ul style="list-style-type: none"> – Build shared service organization – Service Center: use technology to centralize and standardize administrative work – Centers of Expertise: corporate resources adapted to business unit requirements – Outsource: build alliances to manage costs on transaction work • Assess products and customers: identify the customers who will carry through and accelerate out of the downturn and identify the products that will keep those customers.

Actions to reduce costs	
<p>Process A series of inputs and outputs that delivers value to a customer</p>	<p>Analyze and reengineer work processes (process mapping, removing time)</p> <ul style="list-style-type: none"> • PURCHASING: consolidate suppliers; share costs; improve processes • TECHNOLOGY: use technology to standardize and gain efficiency, but make sure that technology investments have pay-back (ideally 12 months or less) and low implementation risk. • REPORTING STRUCTURE: consolidate units and how work is organized (remove redundancies) • FACILITIES: reduce burden by consolidating • LOCATIONS: Lower cost locations • WORK REDESIGN: change how work is done (e.g., teams, layers) • POLICIES: modify approvals and policies to control costs (e.g., travel, meetings, overtime reduction, leave without pay) ; Standardize versus customize • CUSTOMER INTERFACE: focus on key customers and maintain contact with them.
<p>Projects An undertaking that usually involves research, data collection, analysis of data, causal analysis and solutioning. In other words the solution is not known at the outset (Compare Task Force whose job is to implement a solution). Projects build business capabilities.</p>	<p>Analyze and prioritize projects or investments</p> <ul style="list-style-type: none"> • Delay some projects (any with less than 12 months payback or without quantifiable payback); not spending money is far better the reducing expenses. • Cancel some projects • Examine projects and teams to minimize overlapping an counterproductive work

GROWTH

Growth can be generated from innovation, customers and geography (Figure 3).

Figure 3. Three Legs of Growth

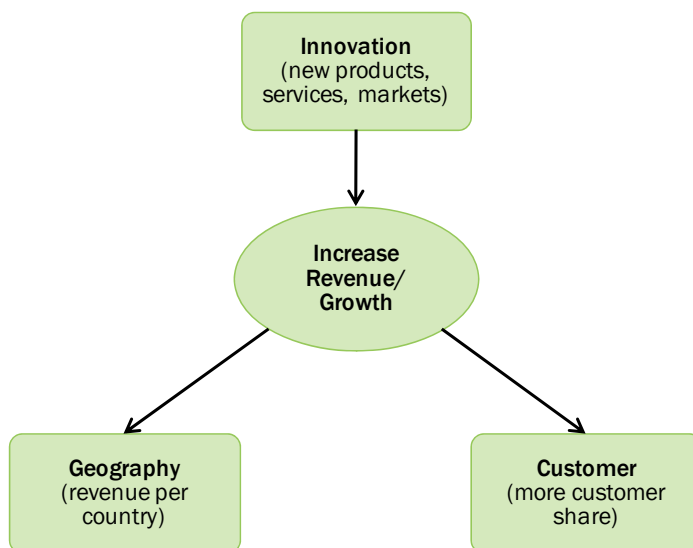


Table 3. Best Practices for Increasing Revenue

Activities to increase revenue	
<p>Innovation Our products are newer, more innovative, or more on the cutting edge than those of our competitors.</p>	<p>Explore ways to innovate products, services, work processes:</p> <ul style="list-style-type: none"> • Idea generation: seek and access ideas from competitors, thought leaders, seminars, customers, government agencies, universities, associations, creative employees, etc. • Incubation: sift ideas into pilots by running pilots, doing experiments. • Investment: assess market potential to prioritize projects, select key products and services to invest in • Implementation: commercialize products by forming teams, building incentives, connecting with customers, build market launch strategy (communication, early adopters); find pockets of early success • Integration: connect old to new products, move customers from old to new product or service • Improvement: continually improve products and services <p>Innovate in many areas:</p> <ul style="list-style-type: none"> • Distribution or channels (specialty retaining, web-based) • Customer experience or relationships • Product: core offering • Service: follow-up • Business model: how paid • Materials sourcing: capitalize on lower demand for raw materials and staff <p>Fold in customer requirements</p> <ul style="list-style-type: none"> • Find lighthouse customers • Anticipate customer needs • See world through customer eyes <p>Prioritize key innovations</p> <p>Build innovation culture: think big, act small, fail fast, learn rapidly</p>
<p>Customer Higher revenue for targeted customers</p>	<p>Focus outside/in</p> <ul style="list-style-type: none"> • Think of customers as “unit of value” and define a value proposition for the targeted customers. See their needs, opportunities, and desires. The innovation partner is the customer. <p>Create customer share</p> <ul style="list-style-type: none"> • Target key customers for present and future • Forge strong relationships with key customers • Define right channel for serving customers <p>Leverage within the company</p> <ul style="list-style-type: none"> • Establish Customers * Product grid <ul style="list-style-type: none"> – Move products to new customers – Involve customers with new products <p>Build and leverage brand identity in the minds of critical customers</p>
<p>Geography Refers to selling products and services in new geographic areas (e.g., countries)</p>	<p>Create geography share</p> <ul style="list-style-type: none"> • Target key markets for present and future • Build strong visibility and relationships within those markets • Form alliances to move into those markets

With these ideas, let's turn attention to the timing or phases of their application – a method for bringing critical resources together to deliver value to customers and shareholders.

ROADMAP FOR LEADING THROUGH A DOWNTURN

There are three levels of change in a downturn (see Figure 4).

Figure 4. Three Levels of Change



Returning to the notion of phases to apply cost and growth ideas, companies must look inside for opportunities in terms of focusing on most profitable customers while cutting back on less profitable customers and look to customers who will provide growth opportunities in the future. Similarly, companies need to protect key employees while allowing other employees to self-select out. An emphasis on company synergies; backroom consolidation, shared services, and leveraging ideas and products follow this phase. Downturns also produce opportunities to shape the industry through alliances, acquisitions, and influencing standards.

Some best practices are listed in Table 4:

Table 4. Leadership Roadmap

Phases	Attention Outcomes and domains to manage	
	Cost (reduce operating costs; the bottom line)	Growth (increase revenue; the top line)
I. Within Business (make changes within the existing business)	<ul style="list-style-type: none"> • Do a “workout” to ask employees how to cut costs • Set cost cutting goals • Have each business develop cost-cutting scenarios 	<ul style="list-style-type: none"> • Set aggressive growth goals for existing business leaders • Promote innovation • Focus on targeted customers and products that have most potential for growth
II. Within Company (make changes within the company)	<ul style="list-style-type: none"> • Create service center for staff operations (finance, HR, IT) • Set corporate standards for managing processes • Automate • Consolidate to reduce redundancy • Reduce duplication • Reduce layers 	<ul style="list-style-type: none"> • Leverage ideas, customers, and products across business units • Create customer share goals for the enterprise • Build an enterprise wide brand that increases value
III. Within Industry (make changes within the industry)	<ul style="list-style-type: none"> • Do merger or consolidation to reduce capacity and costs • Create industry standards to reduce flexibility 	<ul style="list-style-type: none"> • Find innovative individuals from within the industry and bring them into the firm • Form alliances to grow new products and ideas • Build concentrated relationships with lighthouse customers

Summary

Leading in a downturn requires finding the balance of cost reduction and growth initiatives. One simple way to test your balance is to divide 100 points for strategic intent across “cost reduction” and “growth”. Giving 100 points on cost is an easy but dangerous trap. While the short-term results are easier to see, companies often cut both muscle and fat and are left too weakened to capitalize on opportunities.

We believe that effective leadership – especially during a downturn - means demonstrating effective attributes and results. Our colleague Warren Bennis’ says that leaders must have the ability to create a social architecture capable of generating intellectual capital and they must give followers direction, trust and hope. Two of the best ways to do that is are:

- Exhibit leadership resolve: bold, focused decisions;
- Maintain attention on customers – don’t cut activities that hurt customers or you risk long term erosion of confidence.

About the authors:

Dave is a co-founder of Results-Based Leadership. He is a Professor of Business Administration at the University of Michigan where he is on the core faculty of the Michigan Executive Program and Co-Director of Michigan's Human Resource Executive Program and of the Advanced Human Resource Executive Program. He has co-authored a number of books, including *The Boundaryless Organization: Breaking the Chains of Organization Structure* (Jossey Bass), *Human Resource Champions: The Next Agenda for Adding Value and Delivering Results* (Harvard Business Press), and *Results-Based Leadership: How Leaders Build the Business and Improve the Bottom Line* (Harvard Business Press).

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