Release: August 19, 2019

Top 5 functional tactics to get ahead of the next economic crisis

When the economic crisis hit in September 2008, most of the business world was taken by surprise. The lesson I learned then,_ was to make sure that the next time it occurred, I would be poised and ready to seize the opportunity. I would gain market share and come at it with an assertive approach right from the start. As Warren Buffet says: "Be greedy when others are fearful and fearful when others are greedy."

But first, let's ask if an economic crisis is now looming? Many economists are predicting one before 2021. According to the Lombardi Letter, 5 elements indicate a potential crisis is around the corner: growing government debt, high stock-market trading, high unemployment rates, unstable political environment and rising national debt. Furthermore, the economy is typically cyclical and it has been 11 years since the market has corrected itself.

The Warren Buffet indicator (Stock Market Capitalization-to-GDP Ratio) at 136.2%, is almost 40% overinflated. For the first time since 2008 we are facing an inverted yield curve. The Guardian, a U.K. publication, specifically indicates that the economy is slowing down. Although the government debt is shrinking, it is still tremendously high and consumer and corporate debt are soaring. The political scene is unstable and tense between Europe and the U.K. (Brexit), and the United States and China. The potential military conflict with Iran, the new rocket tests in North Korea and increased alert statuses for terrorist attacks further increase uncertainty, which impacts the economy.

So indeed, if a crisis is pending, why not prepare yourself and to turn this threat into a competitive advantage? As a CEO / Sales and Marketing expert, I'd like to share the big picture advice I give our clients.

1) FINANCIAL

In a strong economic cycle, it's typical to invest in a growing market, which increases corporate debt. When the market is shrinking, austere cost-cutting measures are put in place. This is what macro economists call pro-cyclical behavior. However, cost-cutting in a downturn further decreases your competitiveness, weakens your company and directly impacts your bottom-line. With outstanding loans on your balance sheet, this hits your cash flow hard and can drive companies to bankruptcy.

The main advice is to start preparing in 2019 by building up cash reserves, while also reducing short-term liabilities and/or rebalancing them for longer term debt to reduce monthly cash out. This anti-cyclical corporate strategy, will create a stronger foundation to aggressively pursue market share in a shrinking market, while your competitors are fighting to survive. The gained market share will later turn into absolute growth once the economy is bouncing back.

2) OPERATIONAL

During growth cycles, capital investments are used to further increase the marginal productivity and total output. In a downturn, these machines standing idle lead to a wasted depreciation cost.

Therefore, I advise to shift from growth to optimization. Consolidate your mature production processes where combined volume drives cost reduction. Focus on trimming the waste. Older machines might not produce at maximum velocity, but with lower or no depreciation they might still be cost effective.

Also, plan for repairs and maintenance now, but execute these when overcapacity is expected in the downturn. This way you can temporarily right size your organization in the downturn, without having to cut capacity. This means you will be ready at full force once the economy restarts.

Finally, reduce inventory. Work together with sales to identify which products should be sold prior to the crisis, and which ones could be produced at lower costs during the crisis, as a sales spearhead. You might also start negotiation with suppliers on better payment, logistics, lower discount thresholds and delivery terms. Check for most favored nations clauses to capture future price drops. It is easier to negotiate risk reduction when the market is still strong.

3) HUMAN RESOURCES

When unemployment rates are low, the average productivity of your workforce goes down. Most high-quality professionals are employed and the additional demand pushes the wages up. In a downturn, your organization can increase the value of the human capital by being more stringent on who it employs.

Human Resources needs to prepare and keep evaluations up-to-date while performance is not under stress. Funds need to be foreseen for potential lay-offs and outplacement services contacted. Use the downturn to provide additional training and cross-functional reorientation for top performers. Make sure your top talents' KPI's are flexible to counterbalance a shrinking market. Absolute targets in an economic downturn can result in heavily reduced income which might push them to seek alternative employment. Giving them the trust and support in a downturn, will earn their loyalty in the long term.

4) PRODUCT

Product development during an upturn often results in incremental innovation, feature accumulation or service expansion. Without the necessity, there is less need for invention.

During an economic crisis, customers are stricter on needs versus wants. This is a great opportunity for a product team to rethink the value and cost of each feature, as customers are more open to consider a sleeker model in return for a price reduction. If the price reduction is smaller than the cost reduction, this increases your margin even in the downturn. You could keep the feature as an option and A/B test its value in the market with those that really want it.

As a Product Innovation leader, it pays off to evaluate the different customer segments for price sensitivity and identify counter cyclical markets. Focus your scarce development time on the right markets increase your ROI. Further, you can expand your customer range to the mid-market with stripped products at a lower cost. I advise against doing this under your own brand, but rather, work with a secondary brand or partner.

As an Operational Excellence leader, any drops in volume hit your bottom-line hard. It will be important to keep volume high by expanding into higher yield markets, that are more price sensitive during the downturn. Consider a merger or acquisition; especially if that competitor is hemorrhaging cash. As your suppliers will be looking for additional sales, renegotiate component prices or consolidate your supplier base. Also consider production and IT investments to further drive down costs after the crisis. As demand is low, parts of your production might be taken offline to upgrade the processes for future cost reduction, but on the upside, the crisis will make those investments cheaper.

If you are a Customer Intimacy leader, your brand value will be tested. Loyalty programs should focus on keeping customers from moving to cheaper competitors and acquiring new members that are value-based buyers rather than price-based buyers. Provide additional benefits or short-term loyalty discounts. Data gathered in this phase is extremely valuable, as it defines the price sensitivity on the edges of your customer base. Support multiple A/B testing projects. This info will be extremely valuable when the market picks up.

5) SALES and MARKETING

Sales and marketing are always focused on growth. During the downturn, focus on market share instead of absolute growth. HR has an important task to align achievable SMART goals with market expectations.

Great sales people engage and challenge a customer beyond the sales of the product. In a strong economy, it is about helping your customer grow faster. In a downturn, it should also be about helping your customer reduce their costs. This involves a deeper understanding your customers supply chain and working with your customers' suppliers to optimize the total cost upstream. Get to know your customers' crisis plans on a financial level to help them alleviate some of the potential problems. Prepare a crisis sales pitch to involve cost control, flexible payments and risk reduction.

This is a great time for business model innovation. A more flexible sales model, with a lower base price and higher optional services/features, gives great insight in the value of each service/feature. Do this before the crisis and you will be ready to pivot 3-6 months ahead of competition. This product trimming and business model refinement should always be checked with production to see if they can execute your plans. A more flexible model for the short term can generate more profit in the future.

Also, together with operations consider which inventory products should be sold off before the crisis (old costs) and which products show great competitive potential during the crisis.

These sales approaches should be closely tied in with marketing. Whether you are approaching new markets, unveiling new products and/or services, or delivering new positioning, you should be working on it now. Create a thought-leadership approach now to target crisis topics so that customers will automatically think of you when they are looking for solutions.

GR&AT Management is an executive management firm which focuses on strategic innovation, sales and marketing. Specifically, American companies entering the European market. We engage early on from analysis to strategy and budgeting up to the hands-on in-market implementation. Alternatively, we also consult, advise and mentor executives and executive teams, offer group awareness and training,

support in select development phases and deliver thought-provoking public speaking engagements. www.greatmanagement.biz