

## DON'T WASTE THE CRISIS OPPORTUNITY KNOCKS!

As we adjust to the mixed economic signals of 2009, a mood of relief is settling in. However, we perceive an insidious sense of resignation among far too many executives battered and bruised by the painful adjustments of 2008 and depressed by the realization that the good days are over. This has to stop. We are on the cusp of the biggest opportunity to come along in a lifetime.

Stock markets around the world greet the return of those investors strong and brave enough to ride what looks like a rollercoaster recovery. We're advised, however, that *on average* the recovery will be slow, 'L-shaped' and dependent on so many imponderables that we should be cautious in order not to put it in jeopardy. *On average* that's as good a guess as any. But executives need to be wary. Investors don't invest in the company offering *average* returns, customers don't want to buy *average* products or services and the employees you want to drive superior performance certainly don't choose to invest years of their lives working for the *average* employer. Forget the prevailing wisdom contaminated by the doomsayers; *average* is not for winners.

Wake up to the opportunity. The drivers of the global economy – customers – call for 'more' and 'better' in a world that for them is changing beyond recognition. Customers no longer tolerate substandard solutions and delivery. Rightly, they demand value

in all segments. Further, they require that their favorite brands evolve and respond to the new world. While your competitors bury their heads in the solace of the norm, you can steal the initiative.

For management teams ready to step up to the new leadership challenges and with the ambition to shape the economy going forward, now is the time. Based on our respective research agendas, which have centered on driving organizations to higher performance through implementing customer focus and now address the challenges presented by the unprecedented economic conditions, we offer straightforward advice to all executives: sort out the core, build around it and then – only then – change the game. Don't waste this crisis. Don't ignore the opportunity and don't blow it!

### Sort out the core

During recessions, we hear many companies talking about 'going back to basics'. This makes sense as long as it entails addressing what customers really want. Customers *really* want superior performance on the category basics, a compelling segment proposition topped off with an appealing unique selling proposition. Toyota, Procter & Gamble and Hilti are among the exemplars in this regard and also happen to have been highly resilient through many recessions.<sup>1</sup> This approach has particular value



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because so many companies have become overly obsessed with themselves (the single thing that made them unique) irrespective of whether this matters to customers or not.

Regrettably, 'back to basics' is all too often a mantra behind which lies the swinging axe of unfocused cost-cutting by desperate management. For example, in the dark days of the post dot-com bust in 2001, Circuit City, figuring that consumers would replace defective appliances rather than pay to have them fixed, closed 30 repair centers, leaving only 7 open. The company began an online training program for store employees, but then laid off 3,900 of its most experienced, commissioned sales staff and replaced them with 2,100 new associates on hourly pay. It added a third manager to two-thirds of its stores to help with customer service, but this failed to placate disgruntled customers who began airing complaints over the internet. In March 2007, Circuit City announced plans to replace 3,400 of its highest paid hourly employees with lower paid workers.

Its competitor, Best Buy, decided that focusing on customers was the top priority in a new four-pronged strategy. It created an adaptive operating platform that empowered local employees while cutting costs, and it launched a customer-centric development program. By 2005, Best Buy had reduced head count, lowered health costs and increased store productivity. Its profits soared, while Circuit City was operating at a deficit. Circuit City finally closed its stores for good this past January.

Best Buy's choices were based on complete clarity of its strategy and customer value proposition. The company was absolutely dedicated to delivering it, and then building on it. With that positive reinforcing cycle of progressive offer and complete satisfaction in tow, it could use the resultant brand equity to extend its brand further, sometimes into adjacent or quite new spaces. With the strength of its brand, Best Buy was able to enter the competitive but fragmented service space successfully with the Geek Squad. It effectively broke new ground by providing a service experience with a sub-brand that was

consistent with a friendly, problem-solving approach, core to the in-store experience.

Far from *slash and burn* survival being the modus operandi of exemplars, Monitor research spanning 7 recessions over 40 years reveals that the companies emerging from such economic downturns as winners adhere to 4 key areas in which they 'sort out the core' while simultaneously driving sustainable competitive advantage:<sup>2</sup>

**1. Focus on core products and core markets and the underlying capability systems.**

For example, Intel's laser focus on microprocessors in the early 1990s contrasted sharply with Texas Instrument's diverse interpretation of the available opportunity. Earlier, Best Foods adopted a similar laser focus on processed and corn-based foods allowing it to outperform the acquisitive Sara Lee in the post-recession 1970s.

**2. Invest more heavily than competition in market communications in core markets.**

In the early 1980s, Anheuser Busch and Kimberly Clarke out-manoeuvred recession-panicked rivals through extremely focused investment in single, uncomplicated brand formulations (Budweiser and Huggies respectively). Both built brand equity at the expense of competitors and ultimately translated this into successful brand extensions in due course.

**3. Bias cost reduction efforts toward non-customer value-adding expenses; invest in a fantastic customer experience.**

Anheuser Busch launched three separate and focused streamlining initiatives designed to enhance its cost position. Everything from cost reductions in brewery labor, administration and supply chain to employee-suggested productivity improvements eased the negative effects of the difficult operating environment, allowing the company to focus on enhancing the wholesaler services.

Selective and successful investments were made in sales force training and optimization programs.

#### **4. Selectively align talent development with the reset strategic agenda.**

Nucor, one of the largest steel producers in the United States, has been successful partly due to its people strategy. It selects plant locations based on easy supply of highly talented, mechanically inclined labor. When dealing with the recession in 2001, it chose to re-assert this commitment. It continued to invest in skill development through an abundance of on-the-job programs. In addition, the firm avoided lay-offs by implementing job sharing and reduced work weeks and by refusing to compromise its core. Nucor's strategy remained totally aligned in the face of dramatic cutting elsewhere.

It is absolutely critical that companies wishing to grasp the opportunity we perceive do as Best Buy did: nail their value proposition performance and build the customer franchise. Note that none of the companies cited stood still, nor did they adopt a survival attitude. On the contrary, they adopted a competitive and perhaps in the extreme, a combative mindset.

#### **Build around the core**

Toyota is one of most admired companies of all time. In a sector historically troubled by political interference, labor difficulties, fickle consumers and undisciplined dealers, Toyota slowly emerged as a leader by offering superior performance on the basics expected from all players in the category. As the auto sector is undergoing fundamental re-organization, many of the players are, simply put, paralyzed. Toyota is not immune to the effects of the current crisis. It is coping with severely depressed demand, unprecedented losses and massive management re-organization. But the story of the day at Toyota is its relentless march into the hybrid space. As we look at the runners and riders in the sector, who would underestimate Toyota as it continues to fill out its product line, expand geographically

and innovate? It does so around its core – quality, reliability and durability.

Sound businesses with great fundamentals, including highly relevant value propositions delivered well, were not immune from the pressures recessions imposed on management teams to come up with 'magic strokes' intended to push the company ahead. Temptation abounds amid depressed asset values. The urge to act needs to be tempered with reference to how any move will enhance the current brand franchise. Recession beaters investigate two core enhancement strategies:

#### **1. Partner or acquire to access new resources that shore up the core.**

Time Warner's decision to merge with AOL in order to get into the internet boom was an ill thought through deviation from its core businesses: magazine publishing and cable television. In contrast, News Corporation invested heavily in newspapers, magazines and television, all part of the company's core businesses. Intel and Pfizer both increased their ROI from marketing activities at critical junctures by coming up with innovative co-marketing programs with customers and competitors respectively.

#### **2. Enhance value chain flexibility and agility.**

In the early 1990s, Intel abandoned the benefits of sole supplier in several key areas and opted for dual sourcing to enhance supplier competitiveness in the areas of quality, responsiveness and technical support. Similarly, in the early 1990s, Anheuser Busch benefited enormously from its earlier decision to prioritize distribution flexibility and chose not to centralize brewing capacity to the same extreme extent as its competitor Coors.

While most companies struggle in a recession, a few manage to stay focused and build for the longer term by following the two aforementioned strategies and the four steps described in the previous section. Even fewer push the boundary further. These companies do so by building on

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their strengths: effective operations, strong finances, and above all, solid customer franchises founded on delivering on their promise and improving their performance under fire. They change the game!

### Change the game

Our observation is that recessionary times provide incumbents an opportunity to re-invent either their underlying economics and/or their customer experience for their core markets. This is not a simple task for incumbents precisely because their success strategies and 'plays' are well rehearsed. It is, therefore, all too often that we hear of the success of relative outsiders who take advantage of a down-cycle to re-think an industry's possibilities. Southwest and Amazon.com are well-known examples that have become leaders of their packs. The challenges involved in doing anything that resembles changing the game are daunting. Re-thinking the customer value proposition, the supply chain or employment models cause most executives to look the other way. What a shame! We'd encourage executives to be less fearful of reinvention. The challenge after all will be commensurate with the opportunity and incumbents don't need to bet the shop to explore the new ground.

Take the example of Teradyne, a leading automatic testing equipment firm for the semiconductor industry. In the early 1990s recession, the industry was built around ECL and UNIX system architecture. During this period, Teradyne management identified CMOS and Windows NT as an opportunity to create more compact and cost efficient test systems. As a result of this

effort, Teradyne was able to open a new line of business that created in excess of \$200 million over a short period of time.

Air Liquide, a leading supplier of industrial gases in commodity markets, broke new ground by re-thinking the customer experience. During the early 1990s, its product was seen as undifferentiated – even across varied customer groups. As a result of their move to client-site, in-house gas production, they locked in customers with a more comprehensive service offering. This move resulted in a more satisfied customer base. It also shifted the revenue base from purely products to one that had a service mix of 30% – or roughly \$600 million of their \$1.8 billion revenue base.

### What to do now

First decide not to be average. Don't hunker down mindlessly. See your business as your customer does – the solution to a problem. Realize that delivering well now has more value than ever for customers experiencing the same difficulties that you see daily. Be cognizant that now is the moment of opportunity. Address the three imperatives described above – don't pick and choose. Collectively the component principles – when implemented aggressively – have enabled firms to significantly outperform their rivals during periods immediately following recessionary times.

We believe that this type of bold change requires not simply a short-term focus on customers, but rather an industry leading point of view on the evolving customer to truly shape the markets in order to gain lasting competitive advantage.

1 Patrick Barwise and Seán Meehan. *Simply Better: Winning and Keeping Customers by Delivering What Matters Most*. Boston: Harvard Business School Press, 2004.

2 *Winning During and Post Recessionary Times*, March 2009, Monitor Research. The study draws lessons from learning from the likes of Intel, Best Buy, News Group, Nucor, Kimberly-Clarke, Weyth, Anheuser Busch, Air Liquid and Teradyne.

IMD is ranked first in executive education outside the US and second worldwide (*Financial Times*, 2009). IMD's MBA is ranked number one worldwide (*The Economist*, 2008).