# How to Grow During a Downturn

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The stock market is down, credit markets are as frozen as Arctic snow, and unemployment numbers are rising. But don't let the bad news deter you; even during a downturn, there are still plenty of ways for smart managers to improve the competitiveness of their businesses. Recessions are an excellent time to refocus on what your company does best, attract new customers, and build for the future. Here's how to find the upside in a sour economy.

### Things you will need:

- As long as you think the downturn will persist.
- Varies, but your goal is to trim costs intelligently so you can spend wisely elsewhere.
- **Good Accounting:** To cut costs effectively, it's essential to have a very clear picture of how your company spends money.
- **Competitive Insight:** To understand how your company can build advantage, you need to know how you stack up in the marketplace.
- **Patience and Poise:** You'll need lots of both to resist the inevitable pressure you'll face to meet short-term goals at the expense of long-term strategy.

## Treat a Recession as an Opportunity

### Goal: Don't just sit there: take an active approach to improving your competitiveness.

In trying times, the natural human instinct is to hunker down and simply survive. But that, experts say, is exactly what businesses shouldn't do in a recession, because it means you'll overlook huge opportunities. "Economic downturns are actually the best time to rethink your business strategy and gain a big advantage over your competitors," says Bob Legge, who runs Legge & Co. Management Consultants in Lyons, N.Y.

It seems counterintuitive, but recessions offer invaluable chances to grow your business, solidify relationships with customers, strengthen the talent pool in your organization, and gain lasting market share. As Warren Buffett once said, "Be fearful when others are greedy and greedy only when others are fearful."

Of course, it's not always easy to turn lemons into lemonade. It takes courage and lots of insight about which areas of your company are positioned to thrive and which departments could benefit from some fat trimming. It's also essential to keep a steady focus on the long

term, since additional spending today may create short-term pain, such as a hit to earnings. But in the long run, if you focus on the right things, it will be worth it.

### Nitty Gritty

#### Proof That It Pays to Be Proactive

In a 2003 study, Accenture researchers Jane Linder and Brian McCarthy studied 850 of America's largest corporations and found that companies that maintained their strategic focus during the global recession of 1990-1991 were able to reap lasting rewards for years after the recession ended. By focusing on core competitive strengths, deepening relationships with customers, improving management effectiveness, and holding prices at profitable levels, "companies that pull away from the competition during a downturn have lasting advantages, not just a fragile edge," they wrote.

step 2

## Stay on the Offense

### Goal: Look closely at your competition to see where you can gain the advantage.

Many of your competitors are probably retrenching. They're postponing investments, cutting research and development, slashing ad budgets, and demoralizing their staff through layoffs. Don't be tempted to follow suit. While some cuts will no doubt be necessary and beneficial, other aspects of your business should be beefed up, not slimmed down. The key is to figure out where you should stay aggressive. For some companies, for example, this may be an ideal time to boost spending on marketing to take advantage of lower advertising rates and reduced clutter in the marketplace as other players retreat. "There are things that are cheaper to do in a recession because other companies are pulling back," says Kevin Coyne, a senior teaching professor at the Goizueta Business School of Emory University. During the 1990-1991 recession, for instance, Intel launched its enormously successful "Intel Inside" branding campaign, spending $250 million over 18 months, the first time the company had ever made a direct appeal to computer buyers. The effort paid huge and lasting dividends, both in terms of boosting Intel's brand awareness and its market position relative to other chipmakers.

Research and development may also deserve extra focus. Having new products in the pipeline that will be ready to go when more economic growth resumes is a sure-fire way to boost sales. "In a period of economic turbulence, the question is not whether to innovate. The question is how to innovate," says Andrew Razeghi, a professor of marketing at the Kellogg School of Management at Northwestern University. "Use this time to be aware of the market, not afraid of it."

That is exactly what Exxon Mobil is doing right now. Undeterred by the severe decline in oil prices, the company has promised to significantly increase investment in new oil and

gas projects over the next five years, spending as much as $150 billion through 2014. "The question now becomes who can be successful in more challenging times," CEO Rex Tillerson told the *New York Times* in early March.

### Hot Tip

#### Proper Placement Pays

Marketing and advertising don't have to break the bank. Instead, get creative. Consider what Ralston Purina did between the Great Depression years of 1930 and 1932, when the company saw its sales plummet from $60 million to $19 million. Instead of halting marketing, the company scored a product placement coup by supplying its Dog Chow Checkers dog food to feed the sleigh dogs on Admiral Byrd's South Pole expedition. More recently, Fiji Water got its bottles backstage and into celebrities' hands during the E! post-Academy Awards interview sessions in February 2009. "Rubbing a brand's shoulders with high-profile folks does make a difference in consumers' buying and decision making," Greg Sato, Fiji Water's Western regional event marketing manager, explained to Variety.

## step 3 Be Shrewd When You Play Defense

### Goal: Choose cost reductions and spending cuts wisely.

In the throes of a downturn, it is tempting to boast to investors and board members that you've slashed costs dramatically. Yet no matter what your company's financial circumstances, broad, across-the-board spending cuts are a big no-no, according to management experts. According to Kellogg's Andrew Razeghi, the toughest and most critical question for managers to answer during a downturn is what their offense/defense ratio should be. "It's a mistake to reduce costs in a democratic fashion, thinking everybody has to suffer, as opposed to saying, where are the costs that customers don't care about and which investments will give us the best return in our competitive position," he says.

Answering the offense/defense question requires a sharp understanding of your company's strengths, why your customers prefer doing business with you, and how your products and services really stack up against the competition. In other words, a little corporate self-knowledge can go a long way.

Author and management luminary Ram Charan preaches about the dangers in making any deep cuts in areas that have to do with product development, innovation, and brand building. "Keep building," he urged in a recent piece for *Fortune* magazine. If you do need to trim, start by looking at areas such as manufacturing, general and administrative expenses, and product lines that are ancillary to your core business. Another approach is to take a distinctive approach to reducing costs. "Look for ways to cut costs that your competitors would have a hard time imitating," suggests Kevin Coyne of the Goizueta Business School. For example,

outsourcing is a common way to cut costs, but it's very easy for rivals to imitate. On the other hand, if you can reduce costs by making your internal processes more efficient, or by leveraging relationships with key vendors or customers, you can create the kind of advantage that competitors can't touch.

## Case Study

### Merrill's Big Mistake

In response to the 1998 Russian financial crisis and the resulting meltdown of hedge fund Long-Term Capital Management, Merrill Lynch eliminated a large chunk of its staff in its fixed-income and emerging-market groups — a total of 3,400 people worldwide. The layoffs looked like a good idea at the time, because bond trading had fallen deeply out of favor. But in the end the move was short-sighted. When the economic recovery came sooner than expected, Merrill was unable to exploit the changed environment because it was caught off guard and short staffed.

step 4

# Create Loyalty Among Your Staff

### Goal: Maintain morale and make your people feel like they're part of the solution.

Nothing sends shockwaves of fear and loathing through an organization like the threat of layoffs. Whether or not your company is going to trim staff, it's important to let existing employees know that they are valued. This could be as simple as regular e-mail highlighting staff achievements or divisional meetings where managers talk openly about both the opportunities and challenges the company faces. "A lot of people would love it if their leadership challenged them with a set of problems to solve on behalf of the customer," says Razeghi. Employees who not only hold onto their jobs in a recession, but feel like they had a hand in bringing the company through hard times, are going to feel an enormous sense of loyalty in the long run.

## Big Idea

### Help Wanted

Even if you're doing layoffs to trim costs, a recession is a great time to think about hiring talented people. In a normal economic climate, recruiting takes a lot of work. In recessions, not only are there lots of talented people looking for jobs, but even those who still have jobs may be disillusioned with their current employer or fed up with holding stock options that won't be worth much anytime soon. Go poaching. Top talent may be flattered by interest from a new company and grateful for even a small bump in compensation. "Look for the specific positions where you can get the most value by hiring someone who was difficult to hire before," urges Bob Legge.

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