Four Mistakes to Avoid During Downturns

By Melanie Warner
published on BNET.com 6/05/2009

It's easy to panic during a downturn. As clients or customers shut their wallets, revenues decline, and balance sheets go into the red, it's tempting to try every trick in the book to stop the bleeding and stabilize your business. Survival is important, of course, but that's no way to position your business to prosper in the future. These are some of the most common mistakes managers make when they neglect to look for potential upsides in an economic downturn.

Mistake No. 1: Repeated Layoffs

The danger: Lasting damage to staff morale.

Why: Trimming payroll expenses is a good idea, but not if entire departments will be decimated. Nobody wants to work at a company where layoffs appear as if they were executed by Freddie Kruger instead of a skilled surgeon. That saps morale because it makes remaining staff fear they will be next.

For example: For the past two decades, Eastman Kodak has implemented one wave of downsizing after another, to the point where management consultant Bob Legge says employees are resigned to the fact that job security at the company does not exist. Legge describes a recent conversation he had with one of Kodak's senior engineers: "I was asking him about the mood at the company, and his response was really interesting because he didn't say he was well protected. He was resigned to the fact that if his job goes away, it goes away. You're not going to get the most out of your people if that's how they feel."

Mistake No. 2: Lowering Prices (and Perception of Value)

The danger: Reduced perceptions of value in the marketplace.

Why: Price reductions do more than just compromise earnings. They affect the way customers view your products and your brand, which ultimately affects the long-term equity of the franchise. Rather than look to price reductions, try doing things that will enhance the perceived value of your product. Get your products to customers more quickly, increase marketing activities, and show customers how they can use your products to improve their lives.

For example: In the late 1990s, Vlasic not only sliced the price of its famous pickles, it piled them into gallon jars and sold them at Wal-Mart for $2.97, less than most other brands were charging for

a quart. Sales increased, but Vlasic's profits plunged, and several years later the company went into bankruptcy.

Mistake No. 3: Poor Communication with Staff

The danger: Information abhors a vacuum, so if you don't communicate, the rumor mill thrives.

Why: Managers often forget that a little information goes a long way. Let people in on what's going on as soon as possible, whether that means layoffs, reorganization efforts, or new initiatives. If you don't, a culture of fear and guesswork is likely to take hold, and nervous employees are never the most productive. If bad news is coming down the pipe, communicate ahead of time to lay the groundwork for employees to prepare for it.

For example: A financial services firm Legge works with recently announced layoffs, but didn't tell employees first. As a result, people who worked at the firm and lost their jobs found out at the same time as their neighbors. "This firm holds things close to the vest, and they don't want to go out and tell people something if it's not good news. It's a classic mistake," says Legge.

Mistake No. 4: Low Tolerance for Short-Term Financial Pain

The danger: No pain, no gain. It's essential to continue thinking strategically.

Why: Stepping up R&D or marketing spending in a tough sales environment may have the unfortunate effect of reducing earnings, even if spending is offset with cuts in other areas. But so what? If you're investing for the future, your quarterly reports will eventually improve, and the value of your company will recover. It may not be an easy sell to the board or your investors, but if you present strong leadership and a compelling argument, chances are they will appreciate the focus on a longer-term horizon.

For example: During the 2001 to 2002 recession, Home Depot watched anxiously as its store sales, which had been growing for years, slowed down. Worried that profits would not continue to grow, the company trimmed expenses by cutting store staff and reducing customer service. This was not a popular move among customers, and rival Lowe's was able to gain market share by investing in customer service and positioning itself as the more helpful and user-friendly store.

Copyright © 2009 CBS Interactive, Inc. All Rights Reserved.