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Executive Briefing

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## Surviving and Thriving – How to Succeed in a Downturn

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Reversing the causes of a downturn results in real progress and success, not simply 'an end to the rot' but something much more positive. This is because in business you are either going forwards or backwards but rarely standing still. You may think you're standing still – for example, this year's results may look very similar to last year's – but your long-term prospects could be declining and you could be entering a downturn. So, don't think of surviving a downturn as being defensive, defeatist or essentially negative: it is entirely about making progress and achieving commercial success.

Included with this Executive Briefing:

- » Taking the right approach
- » Practical measures for surviving a downturn
- » Key questions: focusing on profitability and avoiding a downturn
- » Action checklist: how to survive a downturn

*In business, a downturn is never more than a few days away at best. After all, you are only as good as your last invoice. Despite obvious perils, surviving a downturn can be a positive process that leaves the business stronger, more capable and profitable. Success relies on several general skills as well as some practical measures.*

# Surviving and Thriving – How to Succeed in a Downturn

## Taking the right approach

The first principle is to remain entrepreneurial, looking for opportunities and emphasising profits. Entrepreneurship also means rediscovering the drive and qualities that led you to build the business in the first place. Foremost among these qualities is an ability to apply common sense, balance intuition with analysis, take personal responsibility, decide the right strategy, and execute. A downturn is an opportunity to display decisive leadership.

Another challenge is to get close to current and potential customers. Achieving this can help prevent a downturn arising, or give a warning if a sales-related decline is coming. It can also inform your thinking and provide a potential solution.

The next principle is to innovate. If you are in (or entering) a downturn it is probably a mistake to believe that simply tweaking an existing product or approach will deliver salvation. More radical thinking may be needed and this carries with it the need to manage and minimise risk.

## Practical measures for surviving a downturn

So, what are the practical steps to take when faced with intensifying competition or a market downturn?

1. **Develop the right strategy.** A strategy has three elements: development, implementation and selling (gaining commitment and buy-in). Underpinning all three is choice, in particular, the need to choose a distinctive, competitive position on three dimensions:
  - *Who* to target as customers (and who to avoid targeting).
  - *What* products to offer.
  - *How* to undertake related activities.

2. **Focus decisions on the most profitable areas** – concentrating on products and services with the best margin will protect or enhance profitability. This might involve redirecting sales and advertising activities.
3. **Strengthen customer focus.** Customer focus matters because this is how firms retain existing customers, sell more to existing customers and attract new business (from the market and also from competitors). This means segmenting markets and using data mining and the Internet for decision-making.
4. **Increase sales revenue** by increasing the effectiveness of your pricing, sales teams, sales process, sales activities and channels – or a combination of all five. An invaluable technique here is measurement.
5. **Manage the money.** The financial issues that influence success are cash management, costs, revenue and investment. Keep control of costs, reduce them aggressively wherever possible, and manage your cash by controlling suppliers' and customers' payment terms.
6. **Develop profitable new products.** While it may be risky to develop a new product in a downturn, inaction may be riskier – the momentum of innovation is what will carry you beyond the downturn. If you stay the same during a period of increased competition and falling demand, you will fall even further and faster behind your competitors.
7. **And remember the basics of sales, finance and leadership...**
  - Match customers' needs and wants with your product.
  - Meet with customers, gain their trust – and sell.
  - Choose the best pricing strategy and consider using price innovations.
  - Review past sales techniques and refine your approach.
  - Make it easy to buy.
  - Develop an awareness of competitors and build your competitive advantage.
  - Evaluate and develop the performance of sales teams.
  - Review costs and understand cost structures.
  - Manage debtors, purchasing, overheads and creditors.
  - Demonstrate a desire to learn, not blame.
  - Encourage people to find cost savings.
  - Keep people informed.

Above all, keep your head. There is no silver bullet to surviving a downturn. It is a time for sound common sense, energy and calmness, and the business basics.

## Key questions: Focusing on profitability and avoiding a downturn

A practical way to focus on profitability is to address the following *key questions*:

- What are the most profitable parts of the business?
- What is the trend for profitability in the short, medium and long-term?
- What are the sources of advantage that are sustaining your profitability (and have sustained it in the past)? How can these be developed?
- How precarious is the business? Where is it vulnerable – for example, does it rely on too few products, customers, suppliers, personnel or distribution channels?
- How clearly focused is the business? Is it over-burdened with too many products, markets and initiatives, or is it running on empty with too few opportunities on which to capitalise?
- What is likely to be the best method of growth?
- What are you doing to improve the profitability of existing products?
- Can you easily develop valuable new products or service options for customers?
- Is your problem attracting or retaining customers, sales channels, product quality, product pricing, costs – or something else?
- How can you reduce costs without harming your business? (Remember, few firms have managed to cut their way to growth.)
- Are you gaining maximum value from every resource? How could this be improved?
- Do you understand how the downturn has affected people, their motivation and attitude towards change? What is being done to provide a guiding vision and practical leadership?

## Action checklist: How to survive a downturn

**Prepare constantly by doing the essentials (there's no magic formula for success):**

- Get the right strategy and business model...
- ...and implement them efficiently
- Show leadership and get people engaged, focused on clear priorities and pulling in the right direction
- Stay close to customers and be competitive (e.g. by understanding what is happening in your markets and with competitors)
- Manage costs, risk, finance and cash
- Focus on profitability – not just revenue
- Innovate and be distinctive – value comes from providing something that is wanted and scarce
- Use technology (e.g. internet and email marketing)
- Think about the future (1. Prepare 2. Balance short and long term priorities)
- Prioritise ruthlessly – do more of the right things, less of the wrong ones

**Show leadership and take personal responsibility** for making these activities happen. This means being engaged, flexible and dynamic (don't be an ostrich or overly optimistic). It is particularly important to **lead people through change**, generating creative ideas and rooting out complacency. Leaders can achieve this by:

- Establishing a sense of urgency and a team spirit
- Creating a coalition or group to lead and advise (one that works to identify and manage risks and opportunities)
- Developing a clear strategy or 'game plan'
- Communicating the plan
- Empowering people so they can take the right action (without resorting to too much 'control-freakery')
- Generating short-term wins
- Building on successes
- Learning and improving every step of the way (this also means measuring and assessing)

**Constantly question** – for example:

- Ask 'What if...?'
- What works and why? What needs to improve, why and when?
- What can I learn from others?
- Where are the greatest risks and opportunities?
- What are the priorities?
- How can we use our resources to best effect?
- Why is there a downturn?

**Communicate – in particular, show empathy, listen, be open and trustworthy** – above all, when it's difficult. People (employees and customers) will respond well

**Find ways to boost profitability**, for example, consider:

- Pricing and marketing innovations
- Entering new markets
- Developing product extensions
- Cost savings and cash management

Also, consider new commercial options e.g. partnerships, investors

**Cut only as a last resort** – no one ever cut their way to growth.

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