Navigating Perilous Waters
Don’t Just Survive…Thrive!

John Bell

In early 1917, a 17 year old entrepreneur from central North Carolina started a company to manufacture “Gee-Haw Plowlines.” While in Atlanta a few months later to sell his plow lines to major distributors, he noticed in the paper one morning that Henry Ford had developed the tractor. At the time, Henry Ford could do no wrong, and he concluded that the “mechanical mule” would succeed and the end was near for his fledgling plow line business. And we think we have problems. The internal combustion engine hasn’t been rendered obsolete, yet.

We are in a period of unprecedented volatility. Who could have imagined daily swings on the Dow of 700-900 points, or that it would become sufficiently commonplace that swings of 200 points barely rate a passing mention on the nightly news? Who could have imagined the credit markets seizing up in a matter of weeks, trillion dollar bailout plans, or much of the American automotive industry on the verge of bankruptcy? In reality, few of us could, least of all the experts, prognosticators, and pundits. Here are a few predictions from early 2008[1]:

- AIG “could have huge gains in the second quarter.” May 9, 2008; Friedman, Billings, Ramsey analyst
    - AIG lost $5B in second quarter, $25B in third and was on its way to receiving $150B in government aid in September

- “Freddie Mac and Fannie Mae are fundamentally sound…I think they are in good shape going forward.” July 14, 2008; Barney Frank
    - Two months later, both were forced into conservatorships

- “I think you’ll see $150 a barrel [of oil] by the end of the year.” June 20, 2008; T. Boone Pickens
    - Oil was at $135/barrel at the time. By December, it was $40.

- “In today’s regulatory environment, it’s virtually impossible to violate rules.” October 20, 2007; Bernard Madoff
    - He was arrested 14 months later for running a $50B Ponzi scheme.

The voices that were breathlessly extolling the “new economy” in 1999, where anyone with an idea and dot com in their name was worth $1B, were wrong. The 2004-2005 “flip this house and get rich on real estate” craze was obviously not a sustainable business model. Those who thought they could eliminate credit default risk through securitization were sadly mistaken. Why should these same voices now be correct when they predict financial Armageddon and the next Great Depression?

To be sure, there are some very real issues today, starting with the dysfunctional credit markets. But the constant bludgeoning with doomsday scenarios that we receive every day has the general US population scared to death. Pick your favorite metric and historical benchmark: "The worst _____ since ______." A large portion of the slowdown is the result of gloom and doom psychology. We are experiencing the evil twin of the "wealth effect," i.e. "If my 401k is up and my house is worth more, I can spend freely." It wasn't real money then unless you happened to sell your assets and cash out. The converse is true today. Consumers, retailers, manufacturers, and service providers have adopted a bunker mentality and have assumed a purely defensive position.

The business environment is always volatile, sometimes in a positive direction, and sometimes in a negative direction. In every kind of financial environment change is evident: competitors come and go, customers come and go, workforce availability rises and falls, technology changes, expenses rise and fall, the regulatory environment evolves, and demographics change. We have two choices in today's environment: we can remain hunkered down, play defense and hope to survive or we can look for opportunity. I can think of few games that can be won by playing only defense. The best outcome is a 0-0 tie. However, if your competitor is playing offense, his chances of success are substantially higher. Even in these economic times (maybe especially in these economic times), we need to keep playing focused, disciplined offense and defense. The companies that look ahead and position themselves for the eventual turn around will be the long term winners. How do we do that? Here are five key activities to position your company for long term success.

1. **Revisit your strategy**

By strategy, I don't mean a 3 or 5 year plan and I don't mean SWOT analysis. Strategy is the framework that guides an organization's decisions and choices that determine the nature and direction of that organization.[2] Strategy is what your organization is about and is top down. Strategic implementation is how you get there. By having clarity on the organization's strategy and laying the foundation, the organization is better prepared to exploit the unexpected and capitalize on serendipity.

An example of exploiting change is Steve Jobs summary of Apple's strategy: "We wait for the next big thing, and then we jump on it." According to Steve Wozniack, Apple's co-founder and chief technologist, the idea for a digital music player came from an episode of "Star Trek." At the time, the technology made such a device impractical. But, when memory technology reached an appropriate point, Apple jumped and the iPod was born. Did the world know that it needed an iPod? Not likely, but Sony had already established that we loved portable music.

Clear strategy also gives clarity of purpose. In the early 1980's, Intel's strategy must have been something like "we will own the microprocessor market." During a downturn similar in magnitude to what we are seeing today, Andy Grove (Intel's CEO at the time) was building new factories and preparing for the inevitable upturn. The market did turn around, demand for personal computers soared, Intel was wildly successful and their primary competitor, AMD, never recovered. Now even the Apple Macintosh has "Intel Inside." IBM rolled out its new personal computer in the same time frame (designed around Intel's microprocessor) and rode the same wave. Intel announced this month

(February 2009) that they would be spending $7B to upgrade their plants. To put that into perspective, that is $1B more than the state of NC is expecting to receive from the recently enacted stimulus bill. CEO Paul Otellini said “Spending this money will lower our costs and give us more competitive products. It’s something that’s fundamental to our business model.” Intel’s revenue is down 20% from last year and their operating income is down 50%, but they are continuing to execute their strategy.

A western North Carolina example of capitalizing on an opportunity to advance the company strategy was Biltmore Estate’s recent announcement of an $18.6M expansion. When interviewed after the announcement, CEO Bill Cecil said that the project had been on the drawing board for a few years, but high demand for construction companies made the price too high. However, now <u>construction is a good deal</u>. He is confident that the economy will turn around sooner or later and the decided to move ahead.

This time last year, one of the biggest issues in Western North Carolina was the inability to hire enough people. The unemployment rate was about 3.5%. The unemployment rate is now about 8+% nationally, and 10% locally. If you have a clear strategy and know where you need to be, now is an ideal opportunity to bring on the right people to get you there. It may require exchanging a B or C player to get an A player, but the organization will be healthier for it.

2. **Know your value and capitalize on it**

Warren Buffett said “Price is what you pay. Value is what you get.” Ask yourself, “Why do your customers come to you instead of your competitor?” It may be because he is your brother in law, but it is usually because he is better off in some way by working with you. That value proposition must be nurtured and reinforced. Companies that emerge strong from this recession will be looking for ways to increase their real or perceived value to their customers. This can take the form of increased responsiveness, flexibility in payment terms, introduction of new products or services to existing customers, and introduction of existing products and services to new customers- especially where your competitors are reducing service levels.

What are some recent examples of companies seeking to increase their perceived value? Kia announced a sales program that included a promise to allow the car to be returned is the buyer lost his job in the next year with no credit score damage. Kia’s sales were up in January while the vast majority of auto manufacturer’s sales were down. They mitigated the <u>uncertainty</u> their customers were feeling. Now many auto manufacturers are following with a variant of their own. Starbucks is offering coffee breakfast combos for the first time. McDonalds has their 2 for $2 breakfast special. A local yarn store recently offered some creative discounting that resulted in a new single day sales record 200% above the old one. Added value need not be monetary. A local restaurant has had caricatures drawn of their regular customers and sent the customer a copy, cementing the close relationship. I recently changed auto service establishments to work with someone who answered the phone and could schedule me promptly. Value is in the eyes of the customer.

3. Communicate

Communicate with your employees, your customers, and your suppliers. These are uncertain times for everyone. People aren't afraid of change or the future. They deal with those things on a daily basis. People are afraid of uncertainty and the feeling that they lack of control over their situation. Sharing information restores some feeling of control.

I spoke earlier of the defensive posture many companies have assumed. In this type of environment, following the usual layoffs, pay cuts, work hour reductions, and so forth, it is easy for employees to become obsessed with internal issues (who is next; what is next?). As leaders, you can help your employees stay focused externally on your customer. Engage employees at all levels for creative solutions to the challenges you face. Last October, DuPont did just that. Then CEO Chad Holliday had created a crisis management plan to cope with the turmoil in the financial markets. Within 10 days of the plan's creation, every employee (60,000 world wide) had met with a manager and was asked to identify three things they could do immediately to conserve cash. Actions took hold quickly, although the plan did require tweaking to raise the level of urgency.[3] DuPont's reaction to the spreading financial troubles took place in less than 6 weeks and the entire company was involved! Information sharing and engagement serves to build trust, confidence, and interaction with employees and lets them see that the leaders are not panicked, care what they think, and have a plan for negotiating the rough seas.

Similarly, your customers and suppliers are uncertain. Regular and open communication and flexibility will go a long way to easing fears and strengthening relationships. An article in the Wall Street Journal on January 20 noted that many small businesses are cutting costs by renegotiation of supply agreements, leases, and so forth. Essentially, everything is on the table. But many companies have arrived at arrangements that benefit both parties, not just the one with the most leverage. Be open and be creative!

Finally, celebrate occasionally. With reduced staffs, it is a sure bet that everyone is working harder. Look for heroic efforts and incremental victories to recognize and celebrate. Morale will be higher as a result.

4. Work from knowledge

A clear strategy and value proposition can be translated into specific measurable objectives for the organization. Knowing where you are is crucial, because that is your current reality. Monitor conditions continuously, both internally and externally. And, as discussed earlier, engage everyone.

It has always amazed me how much knowledge resides with the people who are doing the hands on work. The knowledge frequently remains hidden because no one asks them to speak up and contribute. A colleague related the following story that illustrates this point perfectly. In an electronics assembly plant, a new product was passed on to production in spite a 50% first pass test yield. The product consisted of four stacked printed circuit boards connected by a plug and socket sandwiched between each board. The connector was marginally visible when the "sandwich" was complete. After 3 months of continued low test yields and high repair rates, my colleague was asked to investigate. His discussion with the test operator revealed the cause to be misalignment of the plug and socket between the boards. There had been no discussion with the assemblers. He then talked to the assemblers, who said that they had difficulty seeing the plug and socket, making correct alignment difficult. When asked for a recommendation, they volunteered that if there was a way for them to see the connector, they could seat it properly. No one had ever asked them about this issue. My colleague retrieved a dental mirror for each, and spent a few minutes showing them how to use it effectively. The test yield immediately jumped to over 95%.[4] In a similar vein, last year Shell Refining in Port Arthur, TX solicited advice from their top supervisors on how to improve their plant's performance. The result was a 30% reduction in unplanned maintenance costs and higher morale.[5]

Knowing the value of accomplishing your objectives is equally important. Not spending is a defensive position. Spending on strategic objectives with a high return on investment is an offensive position. Because of opportunities created in times of crisis, this may be a time to make a bigger investment, not a smaller one. If you can invest $50,000 now and recoup $200,000 in a year or two, it would be negligent to <u>not</u> spend the money. Focus on the output (value received) not input (money spent). Some of you have probably spent significant time and energy hiring and training people over the last year or two and are reluctant to let people go now that they are up to speed. An option is to put them to work on improvement projects. A common reason I hear for not working on improvement projects is insufficient time due to production demands. If sales are down, now there is time. If the company can save the equivalent of the retained salaries plus benefits, it is a break-even proposition. In all likelihood the result will be substantially better.

Training and development are usually the first casualties in a downturn. I would argue that training that supports the company strategy and value proposition is more vital in a down economy. Having a specific objective (tied to your strategy and designed to move the organization in that direction from your current reality) and measure of success (and following up to actually measure it!) will assure an appropriate return on investment. Training without strategic connections and a specific objective is never a good investment, even in good times.

5. Adapt to the new reality

Adaptability and agility will be hallmarks of successful companies. The business climate is still undergoing rapid change, and the needs of our customers will likely be changing rapidly as well. We need the agility to "jump on the next big thing" when the opportunity presents itself. Look at your organization's capabilities and define your capabilities as broadly as possible. What worked in the past may not carry you to the future.

Returning to the entrepreneur in the introduction; Leon Capel accurately read "the writing on the wall" regarding the future of his fledgling plow line company. He could have closed up shop and moved on, but he chose to adapt to the circumstances. Using the same raw materials, he purchased a braiding machine and braided the fibers rather than twisting them into rope. The braid was stitched into concentric circles to make rugs in a variety of sizes. Today Capel Rugs in Troy, NC is 92 years old, still performs the majority of its manufacturing in the US, and sells its product world wide.

I came across a quote attributed to Jimmy Dean that seemed especially appropriate: "I can't change the direction of the wind, but I can adjust my sails to always reach my destination." I am a sailor so this had a particular resonance. I can get anywhere I need to go as long as the wind is blowing. And when the wind stops…I carry a paddle! But the sailing metaphor is particularly appropriate to the ideas discussed here. The boat is the company. My strategy is my destination e.g. "I want to go to that island." Value is the pleasure I get from sailing. If I have a crew, we must communicate so that we move in concert with each other and with the boat. I must be knowledgeable of the wind, the tide, the location of sandbars, and the other boat traffic. I also have a blind spot (behind the sail) that my crew can help me to see. And I must adapt to the changing conditions. If I refuse to adapt, at least four things could happen: I can stall and make no progress; I can move in the wrong direction, I can run aground, or in the worst case, I can capsize. Finally, the paddle is risk mitigation and contingency planning. Only by adapting to changing conditions can I reach my goal.

President Obama spoke of gathering clouds and raging storms in his inaugural speech. Indeed we are in perilous waters. We have a choice. We can drop our sails, batten down the hatches, ride out the storm and see where we end up. Or, we can adjust our sails, keep our eyes on the objective, and thrive in spite of the storm.

[1]Deborah Stead, ed. "Worst Predictions About 2008," BusinessWeek, January 12, 2009, p15-16
[2]Tregoe and Zimmerman, *Top Management Strategy*, p17
[3]Ram Charan, "What DuPont Did Right," BusinessWeek, January 19, 2009, p36-38
[4]Gerald Keisler, private communication
[5]Emily Thornton, "Managing Through a Crisis: The New Rules," BusinessWeek, January 19, 2009, p34

John Bell is a business consultant, executive coach and mentor. He partners with clients who are ready to unleash the hidden value in their enterprise with solutions that are straightforward, effective, sustainable, customized to their situation, and deliver extraordinary return on investment. He can be contacted through his company's website at www.excelconsultinggroup.com.