
The Upside of a Downturn

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Leaders need to go on offense by leveraging the changes in the market to their long-term advantage.

Given the scale of this worst-in-a-generation financial downturn, it's no surprise that corporate leaders find themselves in a defensive crouch. As with any crisis, triage is the first order of business, with leaders focusing on the kind of short-term cash needs that drive rapid cost-cutting initiatives. While quick decisions are often necessary to react to the fast-moving economic turmoil, the pressure to drive immediate results can keep business leaders from calmly assessing their current situation, the changing competitive landscape, and the strengths and weaknesses of their organization. Without careful consideration of this larger set of factors, long-term strategic and operational opportunities may be missed.

Once the initial triage is complete, leaders need to go on offense by leveraging the changes in the market to their long-term advantage. Looking beyond 2009, leaders need to ask themselves how they want their business to be positioned in 2010 or 2011 when the market rebounds. 2009 then becomes a year of foundation building, of preparing for the next phase of growth.

To win in the long term, leaders like you should focus on five areas during 2009:

1. Cut costs without losing sight of strategy
2. Simplify your strategy
3. Focus on your customers
4. Engage your organization
5. Upgrade your talent

By devoting significant time to all five, you will be able to capitalize on unique market-driven opportunities while also responding to immediate financials-driven challenges.

1. Cut Costs Without Losing Sight of Strategy

Getting costs in line with projected revenues has to be the first order of business in this harsh economic environment. And taking a hard look at cash flow, budgets and revenue streams present both challenges and opportunities.

One major challenge is that your cost-cutting efforts need to be targeted to the current financial realities while taking into account the long-term strategic direction of your business. When you think only of the short term, defensively, you may miss the opportunity to use the current turmoil to leap ahead of the competition in the long term. Contraction and growth cycles always create winners and losers – as you rethink the financial engine of your business, make sure you keep one eye focused three to five years out. This will help to ensure that the new operating

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and financial platform you're constructing will provide the right foundation for future growth.

On the flip side, a downturn presents an opportunity to build into the culture of your organization the mindset and discipline of continuous improvement, operating efficiency and cost control. Well before the current downturn, it had become increasingly clear that learning to do more with less is a strategic imperative for every business. With the crisis in full swing, it will never be easier to institutionalize the disciplines that drive operating efficiency. Ask leaders throughout the organization to assist you in improving the way the business runs by getting rid of waste and inefficiencies. Kill reports no one reads, meetings that burn time and don't accomplish much. Streamline the corporate calendar and create more process discipline. Make continuous improvement part of the leadership competencies you demand. You will never have a better opportunity to lead change and overcome the natural resistance that arises. And the more you engage your key leaders in helping to refine your operating systems, the greater their sense of inclusion and control.

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2. Simplify Your Strategy

Even when the wind is at your back, executing on strategy can be challenging. Tough economic times can easily widen the gap between strategy and execution. Too often, organizations are guided by strategies that are overly complex, with too much analysis, too many priorities and too little specificity about necessary actions. We find that the greater the complexity of the strategies, the less effective their execution. Especially now, with the remarkable complexity of today's marketplace, your job as a leader is to make your organization's strategy as clear as possible.

Difficult economic times mean fewer resources, a more chaotic working environment and lower morale. During such periods, it is critical that your strategy be accessible and comprehensible, simple and explicit. Your people need to understand which opportunities you want to go after and why – and which ongoing initiatives should be put on hold. The strategy needs to be clear enough that it helps managers prioritize their actions and make smart tradeoffs between cost control and critical work.

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Whether your organization is made up of 50 people or 50,000, you should strive to get your strategy on one or two sheets of paper. Create a document that articulates the key four or five strategies that you need to pursue. Under each, list the few key initiatives that need to be achieved to deliver on that strategy. Decide on a format that works for you and can be easily communicated and then get your team in a room and start filling in the blanks. Keep the format of the strategy straightforward, the process for building it inclusive and the communication of it consistent.

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Organizations accelerate the delivery of results if their strategy development process is open, transparent and engaging. Most Executive Teams run into trouble when they develop strategy in isolation, or ask one person to pull it together, or bring in an outside expert to build it for them. Teams we work with see great advantage in turning the development of strategy into an iterative dialogue with the organization, and we believe strongly that *the process* of building strategy is an opportunity to engage and align a critical mass of leaders in your organization around operational priorities.

We recommend that you ask your entire Executive Team to work with you on building a first draft of the strategy. In addition to creating a comprehensive document, the Executive Team's authorship will drive explicit alignment and the kind of ownership and commitment that won't be deterred by resistance or implementation setbacks. Before locking it down, ask the group of leaders who directly report into the Executive Team to provide feedback, ideas and recommendations on how to improve the strategy – and identify ongoing initiatives that need to be stopped. In addition to a better document, the dialogue will produce greater understanding, alignment and commitment among the key leaders who will ultimately drive implementation.

When communicating strategy, consistency and clarity are essential. By sending the same simple messages every time, you will improve the likelihood that everyone in the organization is pulling in the same direction. A one or two-page strategy document will help facilitate this kind of consistent communication. And by being on the same page (literally and figuratively), leaders throughout your business will be able to see a clear path from your goals to strategy to action to results – and understand the role they play in that process.

3. Focus on Where You Make Money – Your Customers

When you work inside a large company, it is not unusual to lose track of the source of revenue and profits. The complexity of modern business can lead individual departments and functions to become disconnected from the fundamentals that the owner of a mom-and-pop business knows intuitively. Who are our customers and what will they pay us for? What is the value proposition of our products and services? How does cash get generated and flow through the business? The tougher the economy, the more critical it is that you get everyone in your organization to know who your customers are, what their needs are and how you can present a compelling value proposition.

Take the time to get everyone in your organization talking about your customers. Segment your customers; understand their individual needs, their current profitability and their long-term value to your business. As the economy slows, answers to these questions are critical. As your own resources are depleted, you must find a way to focus your organization's attention on customers who can generate profit and ensure your long-term success.

This is a time to invest in key customer relationships. Work to understand their needs – in bad times they are often willing to share these more openly. Customers who used to put innovation at the top of their list may now prioritize pricing, payment terms or inventory flexibility. Engaging customers directly to better understand their changing needs and priorities will improve your ability to respond and build lasting, mutually beneficial relationships. This approach applies whether your customers are external or, in the case of a functional organization like HR or IT, internal. By getting closer to customers when times are tough, you have the opportunity to increase long-term customer loyalty and build market share.

4. Engage Your Organization

In a tough economy, personal and professional uncertainty increases for employees at all levels. When the papers are filled with stories of mass layoffs and bankruptcies, you need to expect that your people will absorb some amount of insecurity about their own prospects. It's human nature. As with strategy, your job as a leader is to find the best way to leverage current conditions for the long-term success of your business. In response to higher levels of insecurity, you have the opportunity to truly engage your employees to drive results – your people are motivated to help the business succeed and you need their help.

Employee engagement is a popular buzzword – yet despite the hype, the central idea is important. Organizations perform better when employees feel their ideas and opinions are heard and they have the opportunity to participate and contribute meaningfully. An engaged workforce has greater output and the organization benefits from harnessing the full brain and muscle power of everyone involved. But many organizations do a poor job at keeping employees engaged. The cause can be as simple as a leader who doesn't listen or as complex as confused role definitions throughout the enterprise.

In a downturn, when resources become scarce, you need to get more productivity from your people and engagement is an essential strategy for doing this. Start by increasing communication with employees and establish open forums where ideas and concerns can be exchanged. Put a process in place that gives them an opportunity to contribute. Ask all employees – especially those at the frontline – to help identify cost reductions through efficiency improvements, and then provide them with the opportunity to deliver on those ideas. With customer-facing employees, the same kind of process can be used to uncover new revenue opportunities and build stronger customer relationships.

These engagement processes don't need to be complex – in fact, as with strategy, simpler is better. The processes we develop for our clients typically have a few key elements:

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- Leaders communicating a clear picture of the market realities
- Establishing desired outcomes that are clear and measurable
- Training in basic process tools to help employees identify and act on cost and revenue opportunities that are in line with company strategy
- Tight timelines, going from launch to delivery in less than 90 days
- Explicit and open decision-making process that forces timely yes/no decisions in response to employees' recommendations
- Recognition and accountability for successes and failures

One of the best opportunities available to you in taking out costs comes from unleashing your employees in the effort. They know where operations are plagued by inefficiencies – and giving them permission and a process can yield deep cost savings, generate additional revenue streams and build real engagement.

5. Upgrade Your Talent

When times are good, mediocre talent is often tolerated or goes unnoticed. When things get tough, however, the cost of having “C” players (low performers) in key positions becomes very obvious. Use the downturn as an opportunity to fix the problem and upgrade your talent pool through both development activities and strategic recruitment.

Start with an explicit assessment of your people, individually and collectively. Identify talent gaps and areas where you need to upgrade. Use this challenging business environment to develop your key people. Get them involved in developing strategy, talking to customers, improving productivity and systems – each of your strategic and operational challenges provide ideal development opportunities for leaders throughout your organization. Ask them to develop new solutions and approaches – it will stretch their knowledge and help build strategic and managerial skills.

Stretch assignments like these have the added benefit of keeping your people aligned and focused. The greater the uncertainty, the more important it is to keep your people engaged and occupied. The alternative is a lot of unproductive behavior – discussing rumors, worrying about layoffs, political infighting.

There is no denying that a downturn of this type gives you more leverage to push people to perform. No one wants to lose their job during a recession – if you ask, if you demand higher performance from people, you will find them trying much harder to respond to expectations. With everyone outside their comfort zone, there are tremendous opportunities for learning and development to take place.

Finally, move out the players who can't produce results. In a downturn, the common excuse for tolerating mediocrity – “the devil I know is better than the devil I don't know” – becomes indefensible. Recognize that some high-quality people may be on the street looking for work. It is also a time when star players may be recruited from

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other organizations as they seek greater career opportunities in stronger organizations. Take advantage – recruit from weaker competitors or newly laid-off workers. Bringing in targeted external talent can help shake up old practices and develop current employees through exposure to new thinking.

By combining leadership development and strategic recruiting, you can help your business navigate the tough times more easily and emerge during the next period of growth better equipped to succeed in the marketplace.

Tying It All Together

The scale and speed of change in the global economy over the past six months has been jarring. Leaders at every level are now scrambling to adjust expectations and align the workings of their business to the new realities. When faced with complex challenges like these, it is natural for leaders to hunker down and play defense.

Large market shifts like this one, however, create powerful opportunities for every organization to go on the offense. Leaders can leverage this downturn to adjust market positioning, solidify customer relationships, and dramatically improve operating efficiency while engaging and upgrading their talent pool. By setting an agenda that positions your organization for growth in 2010 and beyond, you will create the positive energy necessary to change your organization and thrive in these tough market conditions. It's the silver lining in 2009.

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A Summary of Our Recommendations

- Communicate openly and consistently about the challenges of the current economy AND the unique strategic opportunities available to your business
- Create a one or two-page strategy that clearly prioritizes key initiatives for the current year and articulates the three-year path to growth
- Bridge the gap between strategy and execution by explicitly articulating what needs to be done, by whom, by when
- Conduct short-term cost cutting in the context of long-term strategy
- Stratify and segment your customers to better understand their changing needs and long-term value; invest in key customer relationships
- Involve all your employees in the effort to drive key initiatives, contain costs and engage customers
- Upgrade efficiency and effectiveness of your operating systems; build a continuous improvement mindset into your culture
- Upgrade your talent by tying development activities directly to strategy execution and recruiting opportunistically

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