Beat the Crisis: 33 Quick Solutions for Your Company

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Foreword

The idea for this book came from my wife Cecilia. After having given presentations on the current crisis to managers all over the world, she asked me one Sunday morning in the summer of 2009, “Why don’t you write a book about the crisis?” If I decided to take her advice, one thing was immediately clear to me: it would have to be done very quickly. Within one week I had the contract settled with my publisher and a project team assembled at Simon-Kucher & Partners that would support me. A total of one month and eight days had passed between finishing the first chapter and delivering the completed manuscript. As I wrote, the publishing team prepared the production process, the market introduction and the cover design – an unusual application of “simultaneous engineering” in the publishing world.

“Quick solutions” is the key phrase of the book. By this, I mean solutions that can be implemented quickly and that generate quick results. The unexpectedness and magnitude of the crisis has put companies that do not react fast and decisively in great danger. The importance of responding quickly to the crisis cannot be emphasized enough. The many quick solutions offered in this book show that there are various ways and means of beating the crisis. Resignation is certainly not one of them. Despite the urgency, however, companies must absolutely avoid making fatal mistakes. A wrong step might be forgiven in good times, but in the crisis it can result in a company going under. The severity of the crisis demands that you understand its causes, diagnose your specific situation carefully, implement decisively and monitor closely. This book provides practical support for all these aspects.

For the post-war generation, to which I belong, this crisis poses a totally new challenge. In our entire lives, we have been fortunate to experience peace, growth, and prosperity. The last great depression took place before our time. We are now called upon to mobilize all our strengths to fight this secular crisis. This fight must not be limited to firing people and lowering prices. No, we must become active on the sales and revenue fronts if we are to contain the damage and ensure that our companies survive. The purpose of this book is to offer effective solutions to companies, entrepreneurs, managers and employees on how to beat the crisis. The 33 quick solutions won't rid the world of the crisis, but if implemented, they will definitely contribute to containing the damage.

The crisis has been and will continue to be a big challenge for companies all over the world. While positive signals appear on the horizon and give reason for optimism, we must remain proactive and alert. Above all, we must continue our fight against the repercussions of the crisis and for the recovery. The sooner we come back to a path of sustainable growth, the better for our company and our economy.

As an old Asian proverb says: "When the storm comes some build walls, others build windmills." This book is for the companies who build windmills and thus will come of the crisis stronger than those who build walls.

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Chapter 1

Diagnosing the Crisis

In this first chapter the current crisis will be analyzed. Our goal is to give practical advice for managers and companies on how to fight and beat the crisis. Therefore we will focus on concrete issues related to everyday business matters. This book is very different from most other works in that it is not primarily concerned with the macroeconomic aspects of the crisis.

It's a Sales Crisis, Not a Cost Crisis

The current crisis, which started in 2007 and worsened in subsequent years, is a sales and revenue crisis, not a cost crisis. Sales volumes and revenues have dropped to a shocking extent in the ensuing period. In many markets customers are simply refusing to buy. The reason is not that their purchasing power has suddenly evaporated or that prices and costs are too high. Nor is the competition from low-wage countries or an unfavorable dollar exchange rate the main problem, which has been the case in former crises. Indeed, many factors such as declining prices for oil and raw materials have actually induced some relief on the cost and price front. The reason that both private and business customers are refusing to buy is that the fear of the future has them hoarding their money. "Cash is king" is true for companies and consumers alike. In contrast to earlier recessions, consumers' savings rates have gone up.[1] Consumers are not using their savings to make up for lower incomes. One motive for hoarding cash is to make up for losses in their investment portfolios. The more serious the crisis, the more pronounced these tendencies are becoming.

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How should companies respond to a crisis of this kind? One aspect is clear in any kind of recession: Everything needs to be done to reduce costs. Most companies have exercised a remarkable cost discipline in recent years. As one CEO expressed it, “We only hired an additional second employee when we needed a third one.” There has been immense progress with regard to automation, and costs of many products are a lot lower today than they used to be. This is not only reflected in the ever-sinking prices of consumer electronics. Today, you get a lot more value per dollar when you buy a car than ten years ago. Even sectors such as the food industry had to respond to the pressures of discounters like Wal-Mart in the U.S. or Aldi in Europe to bring down costs.[2] As a consequence, the potential for cost reduction is markedly lower today than it used to be.

If revenues drop by 20, 30, or 40% companies face the challenge of survival itself. In such an extreme situation cost reductions alone will not suffice. No company will manage to lower costs by such drastic percentages within a short period of time. Moreover, in a first step, rationalization usually causes additional costs. Money is saved only after the measures have been implemented and some time has passed. Amortization periods for cost-cutting measures often last months if not years. If the current downturn is a sales and revenue crisis, it has to be fought on the sales and revenue front – with all means available to a company. Many companies have realized this. In a Simon-Kucher study comprising 2,600 industrial companies, 72% of the respondents said that they were going to combat the crisis not only on the cost side but also on the market front.[3]

Even more than in good times, profit and liquidity are imperative. Liquidity must be ensured at all times. According to the late Peter Drucker, profit is the cost of survival. Profit is defined as price times sales volume minus costs. Thus, there are only three profit drivers: price, sales volume, and costs. These fundamental relations are very simple and lead to the inevitable conclusion that all three profit drivers have to be mobilized in this crisis. It is not enough to use only one of the profit drivers, for example, only lowering costs, only changing prices, or only promoting sales. What is needed is a comprehensive program of quick solutions that can be easily implemented and have a fast and strong impact. This book provides such solutions and all three profit drivers will be dealt with. Costs are the topic of Chapter 3. Since there is no doubt about the necessity of action here and literature in this field exists already in abundance, this chapter is rather short. Our emphasis lies on the revenue side.

In Chapters 4–7, a total of 33 quick solutions will be presented including responses to changing customer needs, solutions for the salesforce, solutions for managing offers and prices, and solutions for services. The implementation of these quick solutions will be dealt with in Chapter 8. All quick solutions are practical and will be illustrated by concrete cases.

In view of the magnitude of the downturn it is unrealistic for most companies to defend revenues, sales and profit on the levels of the past boom years. More often the struggle will be against dramatic drops in revenues and profits that threaten a company's existence. If the market demand drops by 40% and a company can achieve a reduction in revenues of "only" 20% this is a huge success. Or if the competitors' prices go down by 20% a company that defends its own price level at –10% can be very proud.

Apart from the quick solutions that make up the core of the book we will discuss longer-term outcomes of the crisis in Chapter 9. This chapter is of a more speculative nature because no one can accurately predict what is going to happen. A characteristic of this crisis is that even finance ministers, central bank presidents, top bankers or leading economists don't fully understand the complexities. Although this does not keep some from making precise forecasts, an increasing number of experts have started to admit that they are at a loss themselves. Economics Nobel Prize laureate Gary Becker, professor at the University of Chicago, responded to a question on the crisis' further development, "Nobody knows. I certainly don't know." More and more experts use metaphors like "a wall of fog" when they speak of the crisis.[4] One insight from this crisis is that it seems highly doubtful that modern economists understand the global economy in all its complexity. In their new book, *Chaotics*,[5] Philip Kotler and John Caslione advise, "Don't trust economists who say they know."

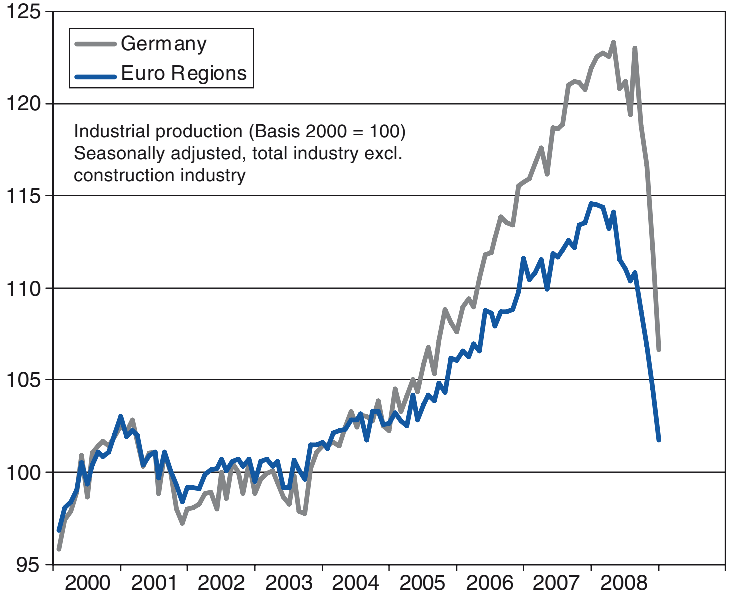
What Are Causes and Effects of the Crisis?

The burst of the American subprime bubble in the summer of 2007 is usually seen as the beginning of the crisis.[6] There can be no doubt that the subprime shock had a trigger function. The deeper causes, however, go back much further and are found in the U.S. monetary policies with the removal of the gold standard by President Richard

Nixon in 1971. Since then, every financial crisis in the U.S. has been fought with the implementation of low interest rates and an expansion of the money supply.[7]

Eventually the long-term effects of these policies had to surface. Initially, the subprime shockwave spread slowly. Such time lags are typical for economic processes. When Lehmann Brothers collapsed on September 15, 2008, it became clear that this would be a crisis of unusual dimensions and unknown duration. Today, it appears naïve that people questioned whether the crisis would spread from the financial sector to the industrial sector or whether it would affect emerging countries. In sectoral and regional terms the economy is always a system of communicating pipes within which strong disruptions can never remain isolated. This applies to the interrelations between the finance and the industrial sector as well as to B2C and B2B markets[8] and to global interdependencies. By 2009, the crisis had definitely reached the economy on a broad scale. And it developed with a force and a swiftness nobody had anticipated. The sudden steepness of the fall had just as strong an effect on the sentiment of business people and the public at large as the extent of the collapse. Figure 1.1 illustrates the combination of steep ascent and steep decline. Similar curves can be found for other regions and other sectors. The steep fall is an almost universal

Fig. 1.1: Steep ascent, steep fall



Source : Eurostat

pattern, at least in the industries affected by the crisis. Within six months the progress of the last years was erased. Managers often repeated similar comments such as, "I have never experienced a similar downturn. It hit us overnight, like lightning."

Figure 1.1 suggests that one reason for the deep fall might be found in the preceding steep ascent. "What comes up must come down," seems appropriate here. Or as an expert expressed it, "The alpine wisdom on business cycles applies. Where the mountains are high, the valleys are deep."[9] From our current perspective it seems indeed illusive to expect that the rapid growth could have been sustained over an extended period of time. This applies as well to Chinese growth rates as to U.S. home prices, the global automotive industry or the excesses in Dubai. A striking example of steep ascent and fall is Cessna, the world market leader in private jets based in Wichita, Kansas. During the first half of 2008, order backlog continued to grow to $16 billion from $12.6 billion, an increase of 27%. Yet, what followed was an equally steep fall, when within a few weeks, lack of new orders and cancellations reduced the order backlog by 30% to 375 planes from 535.[10]

With the exception of the financial sector, 2008 still turned out to be a good year for most companies and industries. The strong growth of the first three quarters was not completely erased by the negative development towards the end of the year. The full impact of the crisis on volume, sales, and profits has only been experienced in 2009. In the context of the steep and strong decline, an important question is how long will the crisis likely last. Will the recession be over in a few months or will demand remain low for years to come? We will deal with this question in Chapter 9.

The purpose of this book is not to give a macroeconomic analysis of the causes of the current recession. Instead, we look at the crisis from the perspective of individual businesses. The aim is to help companies understand their situation better and to suggest quick and effective solutions to beat the crisis.

On the individual company level the main causes and effects of the crisis are as follows:

- Consumers are deeply unsettled and are saving their money instead of spending it. Purchases of products and services that are not immediately needed are postponed. We refer to such products and services as "postponables."
- The same applies to things that are "nice to have" but not really necessary. Purchases of "nice to have" items are either canceled

completely or cheaper means to satisfy these needs are chosen. Examples are luxury goods, extra equipment for cars, visits to restaurants, or vacation trips.
- The drop in in the demand for end products immediately affects the entire value chain. If no cars are bought, there are no orders for suppliers, who in turn order fewer intermediate products, machines, and raw materials.
- With some delay, jobs are lost, which causes the purchasing power of consumers to erode further, and the downward spiral intensifies.
- The loss in purchasing power is massively aggravated by the reduced willingness of financial institutions to grant loans. This credit crunch hits consumers and companies alike. For companies reduced credit equals reduced sales potential. Without credit insurance, many deliveries have to be canceled, they are simply too risky for the vendor.[11] This applies especially to exports.

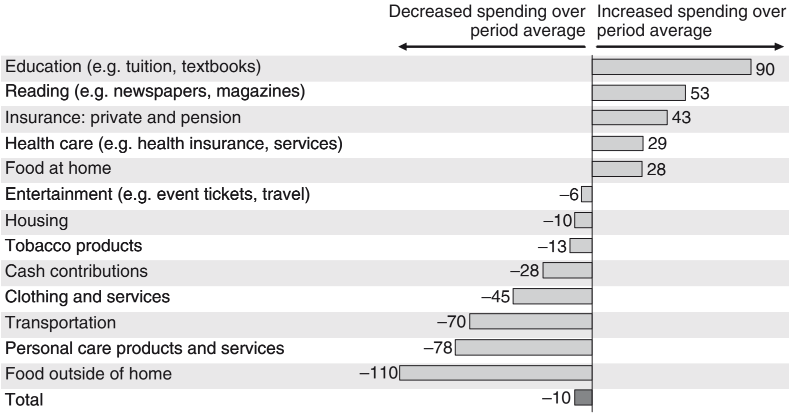
How Badly Affected Are Specific Industries?

The crisis affects industries and companies in very different degrees. Therefore, managers must analyze the crisis not from a general perspective but from the point of view of their specific industry and company. Products and services that consumers need on an everyday basis are much less affected than "postponables" or "nice-to-have" items. In this context, a study that looked at the changes in American consumer spending in the recessions of 1990–1991 and 2001–2002 is highly revealing. Figure 1.2 shows the results.

The overall growth of demand during the two former crises was 10% lower than the growth of demand for the comparison period 1984–2006. Given the variation across sectors, however, it would be misleading to look at averages here. In this study the hardest-hit sector was "food outside of home," a "nice-to-have" product. At the same time, "food at home" grew considerably. During former recessions, the demand for groceries actually increased. The increase of spending for education is surprising. When the job market is bad, young people tend to prolong their professional training or studies, get additional qualifications or apply for MBA programs.

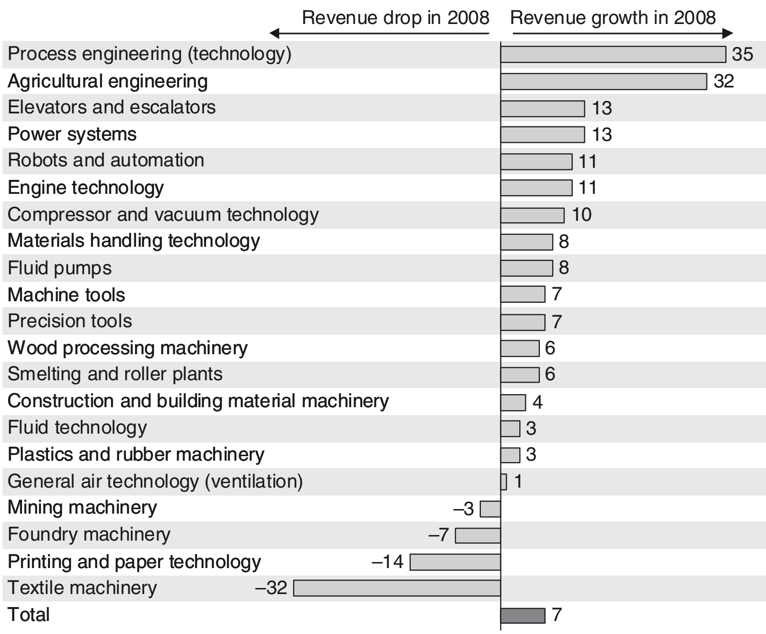
Even within an industry, subsectors can be differently affected. The machinery industry is generally considered to be strongly affected by the current crisis. But even this generalization is incorrect, as Figure 1.3 illustrates. A look at the subsectors reveals extreme differences.

Fig. 1.2: The growth of selected industries in former crises



Source: "Industry Trends in a Downturn," *The McKinsey Quarterly*, December 2008. A comparison of the average growth of consumer spending in the recessions 1990–1991 and 2001–2002 to the average change from 1984 to 2006. Index for the average growth in the entire period = 0

Fig. 1.3: Deviations from average growth rate in subsectors of the machinery industry



Source: Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA), Frankfurt 2009

The difference between a 35% revenue growth in process engineering and a 32% decline for textile machinery makes it clear that looking at averages is completely pointless. We observe similar deviations between subsectors in automotive, banks, or retail. In-depth analysis and understanding of causes and effects are indispensable.

The consequences for individual companies vary even more strongly. At the end of the day, it counts for a manager how his or her company is affected. It is entirely possible that a company grows in a shrinking industry or declines in a growing industry. Changes in the market position are particularly frequent in times of crisis. Market shares are redistributed in bad times, not in good times. When business is good everybody gets along easily and market shares don't change much. If the market shrinks, however, the weaker competitors often exit the market. This is the opportunity for the stronger ones to improve their market position. This pattern is similar to the hypothesis of the late evolution biologist Stephen Jay Gould, who claimed that evolution does not happen in a uniformly continuous way, but in leaps (theory of punctuated equilibrium).[12] Long phases with little development are followed by short periods of abrupt change. This hypothesis can also be applied to markets.[13]

An elite group of companies, the so-called hidden champions, definitely confirms this theory.[14] A majority of the managers of these companies say that the development of their companies occurred in leaps. Many have survived serious crises during their existence, 30% of them grave ones. This is why the hidden champions do not panic in view of the current crisis but react with relative calm. One reason is that with an equity ratio of 42% they are very solidly financed.[15] Many hidden champions expect to emerge from the crisis stronger than before. However, to achieve that goal they have to navigate around dangerous obstacles, act prudently and, above all, avoid grave mistakes.

How Are Certain Product Categories Affected?

We have seen that the crisis hits above all "postponables" and "nice to haves." But this is only a general rule of thumb. Every company has to take an in-depth look at the causes in order to understand its individual situation. This helps to anticipate further developments and is, above all, an essential requirement for the definition of quick solutions for the problems at hand. How are selected industries challenged by and coping with the crisis?