



# THE ALTERNATIVE BOARD®

*Change Perspective. Improve Business. Enjoy Life.*

## **Planning for the Strategic Triple Threat**

*John F. Dini, CMBA, BCB, CBI*

### **1. The new need for multi-level strategy**

Over the last 4 months, I've been devouring information on the recession and economic crisis. I have come to the conclusion that small-business owners are faced with unprecedented complexity in their planning process. In order to secure their livelihood, entrepreneurs must be positioning for not one or two, but three scenarios simultaneously.

These scenarios will occur over a time continuum, but by their nature will blend in a way that makes the end of one and the beginning of the next impossible to discern. Each business, regardless of size, should be developing:

- A strategy for the current recession
- A strategy for the following recovery, and
- A strategy for the new economy that will follow

Before I begin, I believe it is appropriate to thank the many, many people, whose input went into this paper. Recognizing them at the end or in a footnote would diminish their important contributions. My appreciation goes out to the dozens of business-owner members of The Alternative Board® in San Antonio (<http://www.thealternativeboard.com/>) who willingly engaged in these discussions. My economic "think tank" of Tina Corner in Baltimore, Steve Davies in New York, Bernie Moscowitz in Hilton Head, and Chris White in Tulsa shared both their thoughts and valuable source materials. Also to Jim Blasingame, the Small Business Advocate (<http://www.jbsba.com/>), the Economist magazine, and David Walker of the Peter G. Peterson foundation, especially his terrific documentary IOUSA. (<http://www.iousothemovie.com/>)

### **2. Small business strategy for the recession**

"Strategy" is probably too grand a term for the actions any small business will have to take to get through the coming 12 to 18 months. Surviving a cyclical downturn, even one that spans 18 to 24 months as this one will, is a tactical exercise. It typically revolves around immediate and forced decisions regarding the expenses involved in sales, marketing, finance, personnel, and overhead. These are the key factors to remember.

Presumably you have already looked at your general and administrative costs for 2008 on a detailed basis. In this case "detailed" means pulling out the item by item supporting documentation for each expense line. In good times, we are all in danger of death from a thousand little cuts. Downturns are an appropriate trigger for curtailing some of those feel-good benefits and luxuries that we introduced when there was plenty.

When it's time to get lean, we all find that tap water tastes about the same as bottled, gourmet coffee has no better caffeine than the supermarket brand, and many packages don't actually *have* to be there absolutely, positively, overnight

Cutting personnel is a massive topic in its own right. This is not an article on the mechanisms of downsizing or morale management. It is important, however, to keep our eye on the balance between reducing employee costs and maintaining organizational capabilities.

If there isn't sufficient work for everyone, the only solution is to eliminate unnecessary workers; but if that reduction would deprive the company of core skills, then the appropriate action is to reduce compensation across the board. Eliminating key workers to save money in the short term is a grave mistake. Reducing a key worker's salary to save an unneeded job is equally damaging in the long run.

In finance, the adage is "Cash is King," but the corollaries should be "Credit is Queen" and "Margin is the Crown Prince."

Cash flow should never be mistaken for cash. Although cash flow is vital to your survival, nothing beats the warm security of a big fat pile of money. It may be tempting to use your cash to pay down debt or to help refinance at lower rates. *Don't*. Cash not only helps protect your company from unforeseen circumstances, but also gives you the flexibility to grasp the opportunities that come in turbulent times.

If you have credit, maintain it. Continue the dialogue with your banker, who's reading the same bad news in the newspaper that you are. Keep him apprised of how your company is doing, and make sure he isn't making risk decisions based only upon his perception of your market or industry.

Use <http://www.fdic.gov/> to check on the stability and leverage of your bank. If their loan to asset ratio is high, you can expect higher interest rates or reduced limits on your next credit review. It may be time to look for a bank with sounder underpinnings.

It's easy to let margins erode under the pressure of competitors' discounts and slow-paying customers. There comes a time when any customer, regardless of how old or large, may no longer contribute to the health of your company. If you merely reduce expenses to address continually shrinking margins, you are entering a financial death spiral from which you won't recover.

Marketing is one of the easiest areas to cut under financial stress. Its results are nebulous and often difficult to measure. You should certainly be examining every marketing dollar for maximum effectiveness. Remember though, media companies are among the hardest hit in this downturn. Newspapers, yellow pages, radio, television broadcasters and Internet advertisers are all far more flexible than it any time in recent memory. Under no circumstances should you be paying the same for any advertising medium as you did a year or two ago.

Sales is the other area that requires some hard decision making. As hungry as you may be for revenues, a downturn is the best time to shed customers who are low in profit or high in maintenance. On expansions we tend to chase growth as an End in itself. This may be an excellent time to step back and analyze whether reduced revenues could lead to a better bottom line.

### **3. Strategizing for the recovery**

The good news is, the recession *will* end. Inventories will eventually decline to the point where businesses have to place orders. Capital equipment and consumer goods wear out, and must be replaced. At some point banks will remember that they need to lend money to someone or go out of business.

The bad news is, what will be technically termed a recovery is not going to feel like one. Unlike the recession of the 90s, when we came out into the dot com bubble, or the 2001 retraction, which morphed into the real estate bubble, this emergence will be slow and painful.

Some 70% of our gross domestic product is a result of consumer spending, and much of that spending has been driven by specious credit policies. It will be difficult for even the most aggressive lender to advance credit to a consumer who is struggling to make current installment payments, in danger of losing his job, and is tens of thousands of dollars upside down on his home mortgage.

K-Mart, Target, Marshall's and Sears have all resurrected their layaway plans, that anachronistic concept in which someone actually pays for something *before* they take possession of it. As The Economist (<http://www.economist.com/>) says, "Can Christmas Clubs be far behind?" When Wal-Mart announces a return to pre-payment plans for consumers, you'll know the credit card tide is turning.

James Eckler at Savannah Ventures (<http://jeckler.web.officelive.com/default.aspx>) an investment research organization, believes that we are seeing a return to the consumer economics of the 1950's, when people spent the bulk of their income on food, clothing and shelter, and saved for bigger luxuries and the proverbial rainy day.

If consumers return to their traditional saving habits as they existed into the early 1990s, it will mean massive retraction in the retail, construction, and service industries. According to Andy Serwer in Fortune (<http://www.money.cnn.com/>):

*In 1986 GLA (Gross Leaseable Area, a retail capacity measurement) per capita in America was 14.7 square feet. Today (2003) the figure is 20.2 square feet. Basically that means that retailing square footage per American has increased more than 37% since 1987.*

That was written *before* the current real estate boom! According to CoStar, the national Real Estate Information Service (<http://www.costar.com/>) there was 43.03 GLA square feet per American by Q3 of 2008. That is more than double the 2003 number, and a tripling in just over 20 years. People cannot continue to buy three times what they bought in 1987.

Reduced consumer spending and credit will drive naggingly high unemployment rates and further reductions in consumer spending. The spike in deficit spending, economic stimuli, and "quantitative easement" (the US Treasury's term for printing a lot more currency) all increase inflationary pressures.

For your business, this has several implications. Avoid eliminating needed components of your operations with the idea that you will "catch up" as soon as the economy revives. Neglected areas, like research or improvements in technology, will not suddenly become affordable with the "end" of this recession.

If you are in a service business, especially a consumer service business, carefully re-examine your value proposition now. Your brand identity and market position will have to be strong, or merely surviving the next couple of quarters isn't going to be good enough.

If you're in a product based business, begin to add incremental improvements to your differentiation now. When customers start buying again, they will do so more slowly and cautiously than at any time in recent memory. You'll need to be ready with a convincing argument as to why their painful parting with hard-earned dollars should be in your direction.

Lean and mean will become a permanent part of the business landscape. Slower buying decisions will generate longer sales cycles. Thinner inventories will favor vendors with effective logistics. User-friendly will decline in importance, as bottom-line friendly increases. Winners in the business-to-business world will be those who can document the cost effectiveness of their goods and services.

Begin investing in productivity enhancements as much and as soon as it is practical. This investment should be in both systems and personnel. Productivity returns compound in an inflationary environment, when underlying COGS is rising.

There is also a better selection of prospective employees now than there has been in quite some time, and the bias towards a buyer's employment market will continue for the foreseeable future. Think about higher expectations for employee performance, and be ruthless in your assessment of who on your team can meet them.

#### **4. Your strategies for the New Economy**

Our business media has proclaimed the "New Economy" so often that it is tempting to dismiss it as the flavor of the month. Nonetheless, there are seminal changes in the way business is done in America and the world that are here to stay. Not all of these changes have been fully felt down to the level of the smallest business, but they will be.

Communications capabilities, of which the Internet is part, are the biggest driver in global economic change. Thirty years ago, electronic business communications between the US and Germany, two of the most technologically advanced nations on earth, was done with keystroke-by-keystroke pounding on a Telex machine to produce many feet of punched yellow paper tape, which was then fed into a unit rented from Western Union.

That archaic system has been replaced by near-instantaneous transmission of voice, pictures, and data at virtually no cost. An individual starting a home-based business in rural Wyoming has no more trouble requesting specifications and quotes from a dozen Chinese manufacturers than does a Fortune 100 corporation.

The service industry on the Indian subcontinent grew out of the prevalence of English as a business language coupled with cheap VOIP communications. Both trends are accelerating. There are now top-level executives in New York who have never laid eyes on their personal secretaries located 7000 miles away.

The explosion of American imports along with its unfunded commitments to retiring baby boomers is coming home to roost. Our trade and budget deficits have created a systemic weakness in the US dollar, and threaten its dominance as a world currency.

Already our dependence on China to fund our government spending influences our foreign policy. India has loudly protested the Chinese decision to establish a long-term naval presence in the Indian Ocean, near the Persian Gulf. The US State Department remains mute on the issue, except for a vague welcoming of Chinese "assistance" in the Somali pirate problem. This is just a small example of how our government policies will continue to be influenced by the mutual dependence between America's need for cheaper goods, and China's requirement for expanding employment.

Another long-term *fait accompli* in the American economy is the socialization of certain industries. While this is most obvious in health care, finance, education, and banking, expect to see it grow in construction, manufacturing, energy, and technology. To quote Jeffrey Immelt, CEO of GE: "Government is now our business partner. Like it or not it's the new reality." (MSNBC, 1/19/09).

How does this impact a small business that's planning for the next 10 years? There are a number of ways you should incorporate these trends into your thinking.

If you are in a business niche that is vulnerable to a low-cost supplier don't delude yourself that Asian competition will never find you. Begin now to develop your overseas outsourcing capabilities so that you can continue delivering quality at a lower price when the time comes.

For service businesses examine how dependent you have become on telephone and e-mail. If the bulk of your customer contact is through electronic communications you are vulnerable to replacement. Re-create your business model to incorporate face-to-face contact as a key part of what you offer.

If you're in one of the four industries named above that are already government influenced, accept it and examine whether you are correctly positioned to take the best advantage of it. If you're in one of the industries that is about to see much greater government influence, place yourself in the forefront of the trend. It makes no more sense to dig and resist the change than it does for a small dry goods store to pretend that Wal-Mart doesn't exist.

If your business already competes based on low-cost products from overseas, determine how you are going to add more value when your costs increase. Suppliers from developing nations are expanding their markets to reduce dependence on a declining dollar. Their reduced focus on our markets as their sole outlet, coupled with the eroding purchasing power of our currency, will make formerly cheap stuff more dear.

Regardless of the size of your business, think about exporting your goods or services. The same advances in instant communications that brought foreign suppliers into our markets can make you a worldwide company. If you can be the best-in-class, you could be selling anywhere. For too long American entrepreneurs have turned their nose up at markets that were "too difficult" to address because of language or logistics. If we are to succeed, we will have to become players in world commerce, and not just the buyers of other people's output.

Finally, get smarter. We are slowly arousing ourselves from the lethargy of 100 years spent developing our own domestic marketplace. Following the Great Depression regional

manufacturers decried their displacement by those who addressed in the entire country as a single market. In the 60s, the development of franchises and chain stores moved mom and pop entrepreneurs into standardized products and systems.

In the 1970s, the mills of the Northeast complained about their jobs being lost to cheap labor in southern states. In the 1980s, those jobs were in turn lost to Latin America, and Latin America lost them to Asia in the 1990s. In this decade those emerging economies have turned their sights on even newer developing markets like Africa while we continue to contemplate our navels and complain that things aren't what they used to be. Your ability to compete as a small business in a global economy will depend on how willing you are to invest in understanding what is happening around you.

## **5. Summary**

A small business owner in the United States has never had the need to look more than a couple years out in his or her planning process. The unfailing resiliency of the American economy assured that an ability to survive a short-term downturn would get you through to the next boom cycle.

That is no longer true. The combined impact of population, technology, and communications are compounding the effects of our historical decisions to create challenges in the immediate, mid-term, and long term economic environment. Dealing with just the short-term problems of the recession will not correctly position you for what is to follow. Merely adjusting your business for the next few years may not be enough to survive longer than that.

*John F. Dini is a consultant and coach to business owners, and since 1998 has operated the most successful franchise of The Alternative Board® in the world. His business tips and thoughts can be found at [www.awakeat2oclock.blogspot.com](http://www.awakeat2oclock.blogspot.com). He can be reached at [jdini@mpninc.com](mailto:jdini@mpninc.com)*