Brief

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Uncertainty is also an opportunity: what we can learn from recessions to accelerate performance

I thought about the recession and decided not to take part Sam Walton

Looking for the upside of a downturn can sound glib. Looking for certainty among uncertainty can be a sign of hubris. Walmart's Sam Walton is well-known for his response to the recession of the early 1990s. He said that when it was over, which is always easier. Not surprisingly in the years following the banking crash there was a flow of publications and research – some rehashed from previous recessions - on how companies succeed through a downturn.

We reviewed a range of material to identify what was being said on the subject of active, urgent but positive approaches to a downturn that combine tackling the short-term challenges, while also thinking about being in the best shape for the upturn. Among the pieces we looked at were articles by Booz, Bain and McKinsey, articles by Kaplan and Norton, and research by the American management Association.

Four lessons to learn

There are four recurring characteristics across these studies. These are the characteristics that can make the difference between a mainly defensive response, and a positive proactive response, to a downturn or longer period of uncertainty:

1. ***Speed of response***

   It makes all the difference if you can quickly stop or adjust activities that are not working; and turbo-charge, and invest in, those that are. Speed of leadership response depends significantly on three things:

   - the whole organisation understanding your business model, so that everyone can spot problems and opportunities and their consequences and take appropriate action fast and with confidence
   - leaders actively listening to the market and the wider context (including customers, competitors and the government), not just by looking at data but by getting out there and talking to people
   - being able to focus on a few big things at any one time.

Looking at those that have taken advantage of recessionary times to improve their market share, they have not treated changes in customer behaviour as a temporary blip to be managed around until a return to normality. They have assumed it is a new reality.

At the start of the recent UK recession, two major competitors in the retail sector noticed that some customers were switching to cheaper products and more basic lines. One well-known retailer immediately set about piloting several new format stores around the country and put in researchers to observe consumer reaction. They did not spend time trying to forecast which would work, they simply implemented and learnt. Within a couple of months, the company had chosen the successful format changes and was rolling them out. Their rival was still at the stage of market analysis and is probably only going to tinker at the edges. Both approaches will have provided success, but history suggests that the first gained a faster advantage.

A myth must be nailed: speed and quality are not mutually exclusive. The research shows that those companies that are good at fast decisions and actions deliver better outcomes. In downturns, one urgent action is to confirm what your essential products and services are, as well as the ones with the best potential, and focus on these quickly. As several studies have shown, consumers and businesses feel apprehensive during downturns and are more likely to seek the reassurance of brands they know and trust (even if they want to pay less for them). Reducing support or service quality to core customers, or undermining a strong brand, can cost you more than you save.

US-based toy company Mattel reacted to the early 1990s recession by cutting back to their core brands of Barbie and Hot Wheels. They came out of the downturn thriving. They entered the early 2000s downturn with an additional range of brands they had acquired during the economic boom. They lost out. After they entered the 2008 downturn they chose to 'go back to Barbie'.

2. ***Regular and direct feedback and metrics***

Ensure that there are good leading indicators and that they are fed into, and highly visible within, the executive team.

Most companies have enough data available to them - SAP allows infinite analysis, market research has never been more available and more sophisticated. This is now, many experts claim, the era of ‘Big Data’. Most organisations have input from all core constituencies but they do not use it effectively.

Two things make the difference:

- Firstly, that the organisation knows which its key leading indicators are. This is usually easiest in retailing or manufacturing and will vary by sector and organisation.
- Second and even more important, is that a small number of these indicators are regularly discussed by the leadership team and used to prompt rapid action. It is a vital route to a faster and more responsive executive team. This matters at any time, but even more so during a recession. As many have pointed out, everyone can succeed during a boom, but only some will succeed during a downturn. The better informed the decisions are, the better the outcome is likely to be.

There is a potential tension here with the need for speed. The essential rule is: use the best data you have at the time, do not put off the decision because you want better data. Data tells us where we have been recently and ideally, exactly where we are now. It does not predict the future. More and better data cannot not replace leaders making a decision.

(For more see our *Brief* on metrics: *Smart metrics mean smart decisions: essential for speed, agility and resilience*.)

3. ***Switch to ongoing strategic planning***

Abandon the traditional annual cycle in favour of continuous focus on the few key issues that are of long-term importance, but require short-term action.

We know from other research that there are two broad approaches to leadership team decisions: most organisations still use the traditional way of annual strategic planning, with big decisions kept to one period a year.

A growing number of organisations are now choosing, instead, to build integrated processes to become continually decision-driven. These high performing organisations focus their decisions through the year around three or four key issues that need to be addressed and acted on. These executives are choosing their battle grounds and the timing, rather than being dictated to by the corporate calendar.

More businesses are moving to continual planning anyway. P&G is a well-known and successful example who have switched to continual responsiveness, based on ongoing competitive intelligence, an open and agile set of external relationships with potential providers of innovation and a proactive monitoring of consumer trends and opportunities.

When there is rapid change and uncertainty, the need for such speed becomes even more important. High performing organisations also make sure these decisions are about real choices. For example, a classic, well-meaning response to a slowdown is '10% across the board cutbacks'. A smarter decision is to cut areas with low potential and invest in those with the highest. This is best done by a small single team with high quality data.

The other important 'fast strategic decision' lesson from past recessions is that keeping as many of your best people as possible (rather than a percent of lay-offs across the business) is essential to benefiting from the upturn early. So being able to move people (or teams) from areas of lower demand to those with higher potential, quickly, is valuable. Investing more time, money and attention in the 'survivors' than those laid off is important. One study showed that companies that increased training after announcing redundancies were twice as likely to report improved profits and productivity as those that cut training investment.

4. ***Slowdowns mean fast change***

   Recessions seem to accelerate market change, and allow more to happen quickly - good or bad. Fast strategic decision-making is essential.

   In downturns, trends accelerate and change happens fast. Using the US retail example, Kmart lost ground in both recent recessions, and continued to slide downhill until it reached Chapter 11. At the same time Walmart continued to invest in service and product and grew market share during those recessions - share which it never gave up.

   One of the first acts of incoming Lucent CEO Patricia Russo, in the downturn of early 2002, was to set up fast-action SWAT teams to identify and set up new areas of business ready for when the upturn started. She saw that simply adjusting to the recession (which she also did) was only a short-term fix. So Lucent hit the ground running on the upturn ready to meet new demand growth. Russo also introduced ongoing strategic planning to take over from annual planning.

   A Bain study shows that during the most recent recessions, a fifth of companies in the bottom quartile in industries jumped to top quartile and a fifth of the leading companies fell to the bottom quartile. Only half as many make these dramatic changes outside of recession. Two-thirds of companies who accelerate past competitors do so in a recession rather than other times, and most keep their advantage.

   This suggests that effective leadership in downturns is the route to longer term growth. Alternatively, McKinsey argue that the quality of decisions made during boom periods, about which market sub-segments will provide the strongest growth, will determine how well you survive the downturns. Their study says that effective execution (to increase market share in existing markets) does not drive growth nearly as much as deciding which markets to be in the first place.

   What is clear is that, in both cases, success is more likely with faster decision-making, and faster execution of those decisions. It is this fundamental capability for pace and delivery which is the differentiator of performance in a downturn.

Sources

Sources used for this article include: Kaplan & Norton: How a Management System Helps You Cope with a Recession (Chapter in Kaplan & Norton on Strategy Management – Harvard); Klaus: *How to Succeed During the Recession: Act like an Entrepreneur* (American Management Association blog); *Agility and Resilience in the face of Continuous change - A Global Study of Current Trends and Future Possibilities 2006-2016* (American Management Association); *Upturn Thinking in Downturn Times* (Ashridge), *Taking Advantage of a Downturn* (Bain), *Upturn Thinking in a Downturn Year* (Booz Allen Hamilton), *Smarter Moves for Tougher Times* (Fast Company); *The Granularity of Growth* (McKinsey)

