

The Advisor – Winter 2009

Retrench and Refocus

The next six to twelve months will be a challenge for most companies as they wade through the current recession. Our last newsletter discussed ways companies can survive an economic downturn and now these survival strategies are more relevant than ever.

Assuming companies are “battening down the hatches” for the next little while, what else can managers do to ensure the long term success of their companies?

In order to survive over the long haul, companies need to be able to do or produce something better than their competition. Phrases such as “Unique Selling Proposition”, “Critical Success Factor” or “Sustainable Competitive Advantage” have been used to describe this concept. And successful companies’ business models are structured to support and promote this advantage.

According to sales.org, most companies’ business models fall under one of three broad categories:

1. Product Leadership:

- a. Known for producing the best product in the marketplace.
- b. Known for product differentiation.
- c. Known for products that continually define state of the art.
- d. Examples include: Apple, Research in Motion, 3M.

Companies currently following this business model should think twice about cutting product development costs to the bone. Costs in all areas should be reviewed and curtailed where possible, but overall product development budgets should be examined very carefully before being reduced. The risk in doing this is that it will shrink the pipeline of new and innovative products that will be ready to be launched once the recession is over. And if an opportunity exists in the marketplace to obtain market share from competitors who are facing tough times and scaling back operations, it may make sense to increase these budgets.

2. Customer Intimacy:

- a. Known for being responsive to customer needs.
- b. Known for producing the best total solution for customers.
- c. Examples include: Nordstrom, Dell.

If there are fewer customers to service as a result of a weak economy, it follows that fewer customer service representatives are required. But if customer service and satisfaction levels fall as a result, this could cause irreparable harm to the company's reputation which may take years to recover from. Reducing costs while maintaining or improving customer service levels is the challenge facing managers who employ this business model. If staff is reduced, training for the remaining staff or investments in technology may be required to ensure service levels are not unduly affected.

3. Operational Excellence:

- a. Known for being operationally competent.
- b. Known for producing the best total cost for customers.
- c. Known for providing quality services or products at competitive prices.
- d. Examples include: Wal-Mart, WestJet.

How do companies such as Wal-Mart thrive during recessionary times while maintaining their operational excellence? They offer products with known brands at the cheapest price. They push back on suppliers, and ask for better pricing or more participation on sales programs. And they take early payment discounts if available. If not, they pay in 35 to 40 days even though most suppliers' terms are net 30. Most companies are not as big nor have the clout of a Wal-Mart. But this shouldn't stop managers from implementing similar strategies in order to trim costs while maintaining their operational excellence.

Summary

Managers need to reaffirm their business model and focus on doing what they do best. A recessionary period is not the time to try to do something different from what made the company successful in the first place. Customers are looking for consistency and reliability from their suppliers during difficult times.

Aries Advisory Group has extensive experience in assisting managers in reviewing their business models in order to save costs while maintaining their sustainable competitive advantage in the marketplace. We can assist you in performing a review of your business model to ensure costs are minimized while maintaining the appropriate service or product quality levels. If you or someone you know requires assistance in this regard, please contact us at info@ariesag.com or at (416) 467-7878 to see how we can help.