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17 Ways to Grow Profits in a Downturn

by Stuart Cross

Adapting to the new reality

The recession is starting to bite and we are faced with daily reports of job losses, closures and businesses that have gone into receivership. To date the business failures have been focused on those that were already struggling in the buoyant economy, but as the recession continues more organisations will be affected.

Research from the last recession showed that those companies that adapted quickest to the new conditions not only performed better during the downturn, but they also grew faster as the economy improved.

The objective of this paper is to give you ideas to help you and your business respond to the current conditions and take the necessary action for immediate and longer term gain. I haven't focused particularly on how to reduce your cost of goods or levels of service, as I am sure that you are already seeking to be as efficient as possible. Instead I have focused on these four areas:

- **Establish Strategic Focus.** Action is required to survive and thrive in the current economy, but action without direction may be as dangerous as doing nothing.
- **Develop a Growth-Focused Mindset.** The recession means change, but change also provides opportunity. It will be those organisations that maintain an external growth perspective that will be most likely to adapt and survive.
- **Create a Lean Organisation.** The ability to adapt requires agility and any excess organisational 'fat' will inhibit your ability to change.
- **Manage Your Assets As Fanatically As Your Costs.** Reducing unnecessary investments frees up vital cash for your key activities, yet many organisations do not give sufficient attention to better capital management.

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Establish Strategic Focus

1. **Have clear strategic objectives.** Any boat in a storm will need to alter course to survive. However, only those that have a clearly identified port of call will know just how far the course should be altered.

   Similarly only those companies with a clear strategy will be able to make the best trade-offs in the downturn.

   It's never too late to establish a clear, compelling strategy and if you don't know which port your business is heading for now is the time to determine your destination.

2. **Identify new, high-potential customer segments.** The downturn is quickly highlighting problem areas, but there may also be new opportunities for your business.

   Sainsbury's, for example, seems to have benefitted from customers who have forsaken the higher-priced M&S food offer and Virgin Atlantic is currently running an advertising campaign for its Premium Economy cabin, presumably to attract business travellers who can no longer afford to travel full business class.

   What customer groups, previously out of reach, are now becoming available for you to target?

3. **Focus on recession-proof markets.** Not all markets are hit equally by the recession. Some, such as housing and cars, will be hit hard, but others will only see mild downturns and could even experience upturns. Competition is bound to be stiff in these areas, but the potential for new growth may well exist.

   So what are these markets? For starters try these: healthcare, government, infrastructure development, pet care, food, outsourcing services, home entertainment, security, the tobacco and drinks industries and utilities.

4. **Ensure cost reductions follow your strategic focus.** Having run several cost reduction programmes I know from (bitter!) experience that democratic cost reductions do not work. Demanding that all areas of the business reduce costs by 20%, for instance, simply leads to excessive negotiation, game playing and can unnecessarily cut important activities and assets.

   All cost reduction should be focused on delivering your strategy. This means making real choices and will inevitably mean making bigger cuts in some areas than in others. For example, Unilever's recent growth has been created by a focus on a handful of core categories, and it has either significantly reduced investment or sold businesses that didn't fit with this strategy.

5. **Reduce your number of 'strategic' projects.** Many large organisations create a portfolio of 'strategic' projects that have no impact on the performance of the business. They are established either to feed the ego of a senior executive (and will be called 'pet projects' across the organisation) or because the company does not have a coherent, focused strategy.

   When Sir Stuart Rose, for example, first became CEO of M&S one of his first acts was to reduce the number of strategic projects from over 30 to nine. Now is the time for you to do the same for your business. The result will be vital cost savings, but you will also benefit from greater organisational focus on the few things that matter.

Develop a Growth-Focused Mindset

6. **Unbundle your products and services.** You may be experiencing a fall in revenue as your customers become reluctant to pay 'full price'.

   Unbundling allows you to better match your value with your customers' individual needs. For example, Ryanair's business model is based on extremely low fares with add-ons for in-flight food, extra baggage and even for check-in!

   What can you do to unbundle your offer to give your potential customers more options to buy from you?

7. **Develop lower-spec, discount ranges.** Late last year Tesco launched its new Discounter range, which was designed to offset the competition from low-priced competitors such as Aldi and Lidl. The range sits between its entry-level, Value brand and its more premium own-brand ranges.

   Executives admit it may cannibalise some of its sales, but they also acknowledge that it is more desirable to gain sales at lower value points than to lose customers.

   As CEO, Sir Terry Leahy, has commented: *"These products already represent over 5% of our UK food and grocery sales. As a result, over 300,000 more customers are shopping with us every week and we are also beginning to see strongly improving sales volumes."*

8. **Innovate for ongoing competitive advantage.** At some point, the recession will pass. Companies with an external focus, high-growth mindset and innovation-based strategy will best survive current trading conditions and accelerate their growth into the next period of economic growth.

   During the last recession companies such as Apple and BMW continued to invest in new product development, and reaped the rewards as the economy began to grow again.

Create a Lean Organisation

9. **Integrate suppliers into your operations.** Toyota has been the exemplar of supplier integration for several decades, but their real advantage is in creating supplier integration that is cultural – involving real, two-way partnerships - rather than just transactional.

10. **Integrate customers into your operations.** Ikea has transformed the furniture market by establishing self-assembly as the norm at the value end of the market and Amazon has used its customers to do the heavy legwork of its product marketing by encouraging them to write reviews and recommendations.

    What opportunities exist for your business to remove activities, reduce cost and deliver greater customer value by allowing customers to become more involved in the process?

11. **Get rid of needless policies, procedures and reporting, and focus your people on results.** Over time any organisation creates its own bureaucracy. Some of this is necessary, but much of it is anything but.

I once spoke to an administrator in a health organisation about why she had diligently kept the records of ambulance mileage for the last three years. "Oh", she said, "That's so that the information is available if anyone needs it." "How many times has anyone asked for it?" I continued. "Never", she replied.

Conversely, US retailer, Best Buy, has encouraged all Head Office employees to determine the best way for them to achieve their results. Each employee can decide how to manage their time, which meetings to attend, what to work on, and when to schedule their work.

How many "administrators", of whatever description, are wasting their own and your organisation's energy on activities that add no value whatsoever, and where could you give more responsibility to your people to manage their time and their results?

12. **Radically reduce the size of Head Office.** A great way to achieve point #12 is to reduce the size of Head Office. Central organisations not only support field activities but also create new work in their own right, adding complexity and cost, particularly as everyone seems to be a 'manager' or 'director'.

    It's no coincidence that in many of the recent job loss announcements Head Office roles have borne the brunt of the cuts.

13. **Give your people a bigger slice of the action.** The pressure on wage bills will lead many businesses to ask their teams to take some sort of pay cut, reduced hours or pay holiday. A variation on this theme is to offer lower base pay with bigger performance-related bonuses.

    Performance pay is the bedrock of many new start-ups and the current economy requires a start-up mentality in many areas.

    What opportunities exist for you to introduce performance related pay to encourage your people to deliver ongoing growth?

14. **Hire newly available talent in core areas.** Other businesses are shedding staff or maybe even closing down. This may create opportunities for you to attract new leaders with new skills to help take your business forward.

    Turbulent times require innovative solutions and your search should therefore extend beyond your current industries.

    What highly talented individuals from struggling organisations can you attract to strengthen the quality of your team and drive your future growth?

Manage your assets as fanatically as your costs

15. **Share unproductive assets.** During any downturn immediate and detailed attention is given to reducing revenue expenditure. Far less attention is paid to reducing existing capital investments, mainly because it is harder to achieve and has a longer time frame. The irony, however, is that most companies face the same problem.

    Where it is not possible or sensible to exit unproductive assets, an alternative is to share assets. Sharing warehousing space, office space or retail space with other organisations may create win-win solutions.

For example, airlines have long sought to share routes with rival operators and many car companies share development investments (e.g. Citroen, Peugeot and Fiat developed a single base for their people carrier vehicles).

Where could you create better asset productivities by sharing, or renting, your assets with other, even rival organisations?

16. **Outsource rather than invest in new capital.** Investing in new capital is a luxury that few can afford. Building on the opportunity for sharing assets, seek to outsource any new capital requirements. You may spend more over the life of the asset, but, in the current conditions, having adequate short-term cash flow is likely to be more important.

17. **Drive down inventory.** How much cash is tied up in your inventory and what options exist to reduce this investment? Carrying a long tail of infrequently purchased items may have been possible in times of profit growth, but when cash is needed it is a luxury you possibly can't afford.

    Even Amazon, the exemplar of 'the long tail', has lead times of up to several weeks on their slower moving products. Similarly, you may wish to create a greater focus on having immediate availability of your core stock (following the 80:20 rule) and make special orders, with longer lead times, on your less popular lines.

Turning these ideas into action

The purpose of this paper is to give you a starting point for investigation, review and idea generation. By spending time on each of the 17 approaches you should be able to generate a long list of ideas to drive your business forward.

The key step though is to take action on the highest potential opportunities and that will require commitment, leadership and persistence. The rewards from action in these areas, however, will be benefits for the organisation that last beyond the current downturn and which will provide a platform for profitability and competitive advantage into the next wave of economic growth.

Stuart Cross of Morgan Cross Consulting helps some of the world's top companies find new ways to drive substantial, profitable growth. His clients include Alliance Boots, Avon and PricewaterhouseCoopers.

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