



FOUR KEYS TO RECESSION- PROOFING YOUR BUSINESS

by Verne Harnish “Growth Guy“

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Recession or not, during these volatile economic times it's worth taking a look at the playbook of turnaround specialists. And for many growth firms, who face the normal challenges of managing constant change, it can feel like a perpetual turnaround situation even during boom times.

One of my favorite turnaround stars is Greg Brenneman, founder of Houston-based TurnWorks. Credited with the phenomenal turnaround of Continental Airlines, he's now working his magic on sandwich franchise Quiznos.

In fact, spend \$6.50 and download the Harvard Business Review article Brenneman wrote detailing the Continental Airlines turnaround. He shares five critical turnaround lessons that represent solid management advice for any company. It's one of the best articles I've ever read on the subject and provides you a credible and detailed "playbook." Read it now – I made two critical decisions in my own business to help recession proof us moving forward.

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In every case, turnarounds revolve around just a handful of key strategic moves:

STOP UNPROFITABLE ACTIVITIES

Brenneman immediately uncovered that Continental had 18% of their routes that were badly unprofitable and draining cash. He

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shut them down. What products, services, territories, or customers are draining you? Do you even know?

The first step is to analyze profitability as granularly as possible. A huge weakness in small to midsize firms is the lack of accounting data and support. It's a natural instinct for entrepreneurs, given a marginal dollar, to want to spend it on either making/buying more stuff or selling it i.e. fund sales and operations. Accounting, in turn, is often underfunded and seen simply as a necessary function to keep the IRS off your back.

Hire an extra accounting clerk, have them pour over your specific numbers, and then deliver to you on a yellow legal pad (or Excel spreadsheet) the calculations of profitability by product/service line, customer, territory, store, sales person, etc. Then make the tough decisions. Pruning your operation is a healthy ongoing activity.

As for Quiznos, Brenneman slashed discounting and reduced the menu from 29 to 21 items. This latter move also reduced operational complexity, again, particularly useful when the economy is tightening up.

FOCUS ON YOUR BEST CUSTOMERS/OPPORTUNITIES

Neil Rackham, the famous sales researcher, studied sales teams during hard times and found that the less successful sales teams chased every deal they could, acting almost desperate at times. Instead, the successful sales teams focused on their best customers and opportunities.

As an interesting side note, his research found that customers do NOT buy on price during a recession but buy more based on safety. Why? Because during tough times decisions are often made more by committees and they seem to choose the safer options

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i.e. the suppliers most likely to provide reliable service. And for this safety customers were willing to actually pay 12% more! During a recession, people are walking on egg shells and don't want to risk failures. Interesting psychology.

For Brenneman, he had the executive team of Continental talk to what he called his “seat 9C” customers, those full fare business customers that are critical to an airline's success. And he was careful to differentiate between what they wanted vs. what they were willing to pay for – customers can “want you” to bankruptcy if you're not careful. Based on their feedback, he made immediate improvements to his “product” and won back his most highly profitable customers.

At Quiznos, based on talking with customers, Brenneman has introduced a \$2 Sammie and developed a web-based ordering system aimed at businesses needing catering services.

John Whitney, whom many consider the father of turnaround management, emphasizes the importance of gathering intelligence directly from the customer. In his seminal Harvard Business Review article entitled “Turnaround Management Every Day” (spend another \$6.50 and download!), he describes how one CEO of a \$50 million firm executed a 30-day sales blitz where the senior officers, including himself, called on as many customers as they could, garnering important feedback that saved several key accounts and helped improve operations.

STUDY WHAT'S WORKED IN THE PAST

It's never more important than during a downturn that you return to basics. And since the 2001 recession wasn't that long ago, take time to consider what worked and what didn't work.

Sam Goodner, founder of Austin-based Catapult Systems, did just this last summer. Anticipating the possibility of a recession, he assessed what helped his technology firm through the previous tech-bubble crash – and it was the 30% in government business that his company served that helped him weather the storm.

However, since the recovery, his company's share of government business had dropped to 10%, so he put a focus on pumping up that side of his business and was able to achieve the goal by the end of 2007.

Reade Fahs, another turnaround specialist, did the same for a Brazilian firm. In essence, he identified a period where the firm was doing exceptionally well, then he assembled a team of people that were present during that time period and met for two days to determine what they were doing then that wasn't happening now.

Fahs emphasizes the importance of identifying specific activities the company was doing that aren't happening now. In the case of the Brazilian firm, there were seven distinct activities, like the way product was merchandised, which they simply started doing again and the turnaround was realized.

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COMMUNICATE, COMMUNICATE, COMMUNICATE

Above all, keep the communications flowing. Brenneman and Gordon Bethune, Continental's Chairman and CEO, made it a point to talk to every employee they could, getting out to airports and in planes, loading baggage, and working the ticket counters. In addition, Bethune recorded a voice mail every Friday updating all the employees on the activities for the week.

Whitney emphasizes this same kind of direct and frequent contact with employees, and particularly your middle managers.

Stopping unprofitable activities; focusing on your best customers' needs (and eliminating the "wants"); understanding the activities that have driven outstanding performance; and communicating weekly with customers and employees are not only excellent steps for turning around a company, but the kind of activities that will keep your company growing.