

## How To Manage Your Business in a Recession

The following is a summary of a recent article published in Fortune magazine. The summary was written and circulated by Alan Sklar.

This recession is different than any of the others in our business experience. Employment is plunging more steeply. Consumer spending is falling sharply. In prior recessions, consumer spending still grew but at slower rates. Consumer spending is more than 70% of the economy. The credit crunch affects all businesses not only those highly leveraged. All recessions are a time to deleverage but it is happening even more quickly. Even companies able to pay higher interest rates may find that credit isn't available from the usual sources at any price. In times like this the strong get stronger and the weak get eaten. Here are 10 recommendations:

**Reset priorities to face the new reality.** Suddenly changing direction may seem drastic, but it must be done. Don't worry about your strategic plan for 2009-just focus on the fact that we are in the middle of a real crisis. You won't be bailed out by growth.

**Keep investing in the core.** The most successful companies never stop funding for their most critical competencies-product innovation, customer service or anything else. A critical part of the core is the continual development of employees.

**Communicate like crazy, balancing realism and optimism.** Employees are worried that they will be fired, suppliers that they won't be paid and customers that quality will decline or prices rise. Good managers respond by communicating even more than usual. They find that they don't need all the answers, but do need to say what they are thinking and be honest about conditions. Even when the news isn't good-which it usually isn't-effective leaders find ways to keep hope alive.

**Your customers face new problems, so give them new solutions.** In any industry the general principle is helping customers make the most of what they've got. No matter what business you are in, you can redefine value for the customers.

**Don't rush to cut prices.** In a typical S&P 1500 company, a price cut of 5% would have to generate increased sales volume of 19% in order to pay for itself. I'm sure that this applies to your business also. The implication is that holding prices steady may cause sales to decline somewhat but that course may be wiser. It does depend on the pricing dynamics in your business.

**Focus on capital-how you're getting it and where you are using it.**

This isn't about raising capital although additional capital may be good thing now for your business. It is more about how you utilize the capital (think cash) in your business. Do you invest in new equipment, more or less inventory, etc? I know someone who has always said "Cash is King".

*"Successful people ask better questions and as a result, they get better answers"*

Anthony Robbins

Where Lean Thoughts can become Reality

# Manage in a Recession

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**Reevaluate people-and steal some good ones.** If salaries and bonuses need to be wacked, you may be tempted to reduce them equally across the board in an effort to show that we are all in this together. But think of the message that practice sends to your best performers, who will feel like they're being punished rather than rewarded for their great work. The best companies take extra pains to assure their most driven and focused employees, the ones it is most important to keep.

**Reexamine compensation-what is it offering incentives for?** At Deere, incentives are based on economic profit and bonuses earned in any given year are paid out over 4 years; if performance falters, part of the bonus can be cancelled. This system encourages long term thinking and seeing recessions as part of a longer cycle.

**Think twice about off shoring.** The economics have changed greatly. The labor-cost advantage has shrunk and the wage gap may shrink further. Transportation costs may cut also cut into offshorings edge. Taxes, tariffs, speed and transportation costs can make a big difference.

**Be smart about mergers and acquisitions.** Companies are twice as likely to acquire business in their major segments during an upturn as they are during a downturn, the opposite of what makes sense. If you can afford it, this is a great opportunity to pick up small companies and their talent and/or product lines.

The only conclusion I can come to for 2009 is that it will be the most agile that will survive and potentially thrive. The markets are very skittish and not always in a bullish manner. I see more organizations and industry sectors reacting quickly to negative news ... but can they react equally as fast to positive news.

## A question from a recent Blog post ....

I have been reading your insightful posts on TPS. I also came across your post on VSM. I have a quick question, of all the books I have read on TPS by Japanese authors, I have never come across VSM nor Value Stream Managers. I have seen similar methodologies like arrow mapping or process mapping in a few Japanese books.

Regarding VSM... Toyota actually refers to value stream maps as material and information flow diagrams which probably explains why you have never read about them in any old Japanese books.

**“Our rapid rate of progress has caused Common Sense  
to be obscured –**

**- I see Lean as the antidote” –**

*Larry Schneider, Coordinator, SSMC*