

Why Wait for the Market to Grow?

I don't have a crystal ball but I can tell you that if you wait to build (grow) your business, you won't have a business to build!

As I read newspapers, listen to the news and talk to friends, everyone says the economy is getting better. But as I talk to people in the industry, the question remains, "When is business going to improve?".

Business has stabilized, but expectations for next year are for only 2-4% growth – not something to write home about.

History says that business will grow. But,

- When?
- How much?
- Can you wait?
- How can you better position yourself?

Don't Throw Out the Baby With the Bath Water

In an Accenture report titled "Creating Sustainable Shareholder Value From an Economic Downturn," Brian McCarthy, senior manager, wrote "Companies that don't do a good job during a recession typically set short-term expectations that are out-of-line with what they can deliver. These companies focus on significant cuts and the result is that they *unwittingly erode their competitive advantage*. The short-term goals are met, but long-term goals are missed because they got rid of their capability to grow profitably when the economic environment improves."

Best Practices Revealed

The report focuses on key best practices:

- **Revisit corporate strategy** – it is easier to gain relative position in a downturn. Balance expectations, take advantage of

opportunities but keep strategic goals in mind.

- **Everything is less expensive** in a downturn ... acquisitions, capital, people ...
 - I know a number of distributors who are using this opportunity to upgrade/open locations, acquire smaller competitors or have renegotiated their credit lines and are making opportunistic hires.
- **Strategically manage costs** – use a holistic approach to costs, don't cut to the bone.
- **Leverage your capital base** ... receivables, working capital, cheaper financing, extend supplier terms, excess inventory.
- **Manage your communications** – position your moves, and let others know where you are going, and why.
- **Focus on the right information** – are you mining your data? Are your salespeople asking customers questions to determine where their business is going? Are they sponges, soaking up information and are you pooling the information to identify trends?

Successful Companies Continue to Spend

McKinsey & Co., the consulting firm, recently conducted a study of 1000 mainly industrial companies from 1982-1999 that were either industry leaders or became successful challengers.

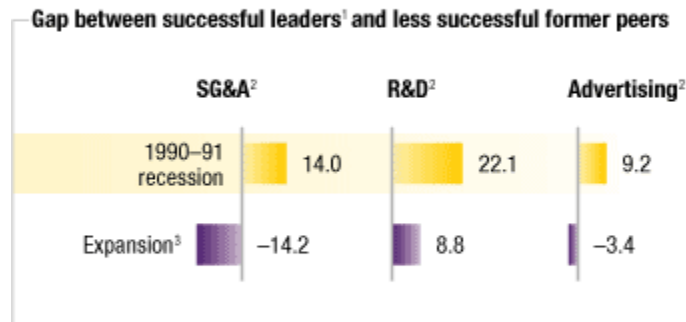
Important observations:

- Successful challengers in a recession were **not afraid to spend their cash reserves**.
- Leaders that remained successful **pursued many smaller acquisitions**
- Successful leaders traded short-term profitability for long-term gain by **refocusing their spending**
- Successful leaders **spent more money** (as a % of sales) **on advertising and marketing** during a recession than during periods of growth

EXHIBIT 2

A contrarian approach to operating expenses

Change in spending behavior, percent



¹Successful leaders remained in top quartile of their industries as reckoned by market value added and return on invested capital during the period 1982-99.

²Selling, general, and administrative (SG&A) expenses are measured by index of SG&A spending to sales, R&D expenses by index of R&D spending to sales, and advertising expenses by index of advertising spending to sales; all are measured on size-adjusted basis and compared with industry averages.

³1985-86 and 1995-96.

What does this mean? To make money you need to spend money, especially if you have faith in your company and your people.

Out Maneuver the Competition

Now is the time to capitalize on your competitors' lethargy. Most have made cuts and are waiting ... for the economy to help them grow (as the pie grows, so does their business) ... and waiting and waiting and What is the saying "Those who procrastinate are lost?"

What to do? Increase your share within each of your customers. It is 5-10 times more cost-effective to market to existing customers. You know them, they know you. Use the information to your advantage. Develop new services, offer solutions, ask questions and ask for the business.

How do you increase customer share?

1. Your salespeople need to **become customer information specialists.**
 - Do your salespeople definitively know what your share is within their top 10-15 accounts? Do they know the business (SIC) of their customers? What is the forecast

for their industry, their business? What are they doing to drive growth and/or profitability? How can you help? Who are your competitors in the account, how much share do they have, why, what do they offer you don't?

2. Use your data

- Look at historical information. What are you selling them? What are you not selling them? How have margins been going? Project vs. stock business?

3. Analyze the competition

- Look for trends when you analyze the information your salespeople bring back – talk in a group – leverage your collective knowledge

4. Talk to the customer

- Ask him how you could earn more of the business, profitably (most companies understand you need to make some money)

5. Think outside the box

- The mother of invention is necessity. Let your people identify ways for you to add value to your customers' business. Can you offer a service or delivery guarantee? Leverage manufacturer capabilities (bringing them to a market where they are under-utilized)?

The key is seeking ways to outperform your competition to out-earn them.

If your competition is waiting, do you think their customer can afford to wait?

Can you wait for the economy to change?

David Gordon is a principal of **Channel Marketing Group, Inc.** Channel Marketing Group develops share-taking strategies for Manufacturers and Distributors. He can be reached via email at dgordon@channelmkt.com. Register for their monthly newsletter at www.channelmkt.com.