CLARITY®

Surfing the Trough

Time for Some Clarity

This was posted on 28th June 2016, four days after the Brexit referendum result.

Three months ago we asked; what was the UK going to feel like on June 24th? We worried that the referendum campaigns by both sides were highly divisive and negative. We felt that if the debate couldn't elevate beyond propagating fear, then June 24th would be a miserable day for the United Kingdom whichever side won.

Depressingly, I don't think we have ever been more prescient.

Choppy Waters

Whether Brexit ends up being right or wrong for the UK, we are in a period of significant uncertainty. Inevitably this will lead to an economic downturn, though only history will tell if this results in outright recession (a fall in GDP in two successive quarters).

So let's remind ourselves of what business needs to do when the going gets tough.

Handling Economic Change

The classic reaction of both companies and individuals when tougher times loom is to 'batten down the hatches', stop all discretionary spending and minimise investment. Controlling expenditure is always important, but prudence on its own never saved anyone.

Economic downturns provide opportunities for the ambitious. There are more opportunities then, than in good times. The reasons for this are twofold. Competitors are likely to 'batten down the hatches', keep on doing what they have always done, less well, with fewer resources. And your customers tend to do the opposite.

Tougher times are all about economic re-balancing. They prompt customers to re-appraise what they are buying and where. They don't stop buying, but they become more considered. It's instinctively what we all do. We become less lazy in our purchasing. We assess a little harder what we are getting for our money.

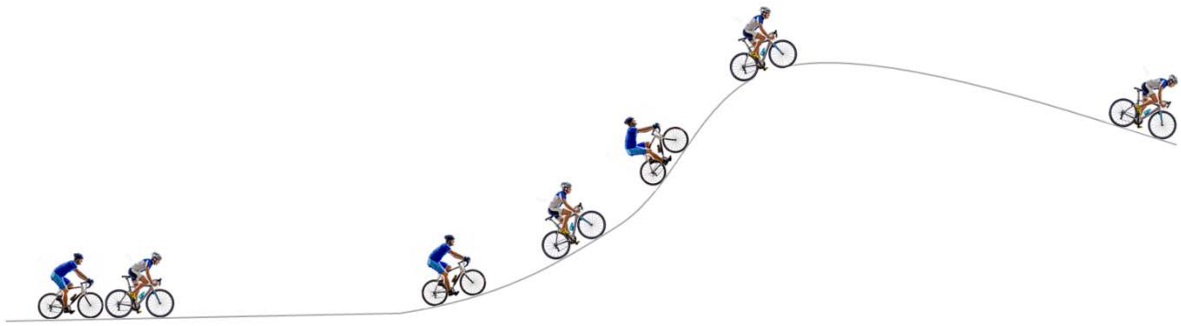
Bring More to the Table, Not Less

In tough times investing in being more innovative and competitive, adding value for customers is the route to survival and prospering in the upturn. It's like a bicycle race.

If you cycle on the flat (in the good times) at 25km per hour and your competitor cycles at 20km per hour after thirty minutes they will be 7.5 minutes behind you. In business you can cover up that 7.5 minutes for quite a while.

But if the going gets tougher and you cycle up a hill at 10km per hour for thirty minutes and your competitor is going up at 5km per hour (the same differential) after 30 minutes they will be 30 minutes behind you.

The difference comes when the pain arrives. It explains partly why in past recessions more businesses fail as the economy is recovering.



Proof of the Pudding

Harvard's Strategic Planning Institute has a massive PIMS database that offers definitive analysis and lessons learned on what has happened in the past. Set up in 1975 out of a research project that General Electric started in the 1960's, the database monitors the behaviour and movement of more than 3,000 companies, each owning many brands across Europe and North America. It's tracking of these companies stretches back to the 1940s. After decades of monitoring they have one overall conclusion; for strong businesses bold strategies are the way to continue thriving, and for weak businesses they are the route to survival.

They have looked at businesses during and after a downturn, and their results are clear and compelling. Businesses that invest in innovation and adding value for their customers suffer slightly in returns during a downturn and power ahead afterwards. Returns increase at least seven times more than their more timid competitors.

So let's wax our boards and catch that trough.