



ASSESS EACH COMPETITOR'S OVER-ALL FINANCIAL HEALTH; TRY TO GAUGE ITS STATE OF MIND.

November, when business activity plunged at a rate not seen since 1983. In response to the crisis, firms have carried out layoffs, bargained hard with suppliers, tightened inventory, deferred investments, slimmed-down R&D, reduced prices on some product lines, introduced new, lower-price products and services, stretched out payments and hoarded cash. Some manufacturing firms have gone further, developing one- to three-year scenarios of how bad things could get and setting contingency plans based on those scenarios. None of this is pleasant work, but it is essential for survival.

All that survival thinking creates a hunker-down mindset which needs to be balanced with positive ideas. This period of travail does have an upside: it creates opportunities for future growth. Consider these five ways to foster that growth:

- 1.) Fire some customers.
- 2.) Seek optimum pricing.
- 3.) Target and pursue competitors' areas of weakness.
- 4.) Revise your acquisition targets and strategy.
- 5.) Selectively revamp your manufacturing capacity.

FIRE SOME CUSTOMERS

Now is the time to look more closely at your customers. Do you really need them all to survive and grow? Now that you have slimmed down, perhaps you cannot provide the level of service you did before. Normally, that's not a good thing, but you can make it good by "firing" some of your customers. Paradoxical? Perhaps, but a focus on the best customers can actually increase sales. In fact, it is

GO AFTER GROWTH

DON'T BE SCARED BY THE ECONOMY

We are in a serious economic crisis, no doubt about it. The brief reprieve of the spring has given way to a late summer of renewed doubts about the future. Savvy manufacturing firms have long since taken key actions for survival, particularly after the over-the-cliff experience of last October and

worth doing not only in a recession, but at any time. Here is how.

Assess the profit and growth potential of each market segment (or each customer) in the current situation. Identify the customers or segments best able to weather the crisis and contribute to your future growth. Strengthen connections with them by (1) identifying your deficiencies in serving their needs and (2) carrying out plans to give them the best possible value without compromise.

To focus on the best, your company will need to “fire” the weak customers. “Firing” covers a range of actions from giving the weak customers limited support to actually severing contact.

Plastic injection molder Nypro is an extreme example of this practice. The company was able to generate 10-fold growth in revenues by firing 80 percent of its customers so it could offer unsurpassed quality and service to the remaining 20 percent.

SEEK OPTIMUM PRICING

Reviewing pricing strategy at this time is critical. Couple this initiative with the “fire some customers” initiative to get the maximum benefit from each. Examine several aspects of pricing strategy: pricing by market segment and level of offering; value of bundling; use of price for brand positioning; and optimum pricing. Let’s take a look at the last of these.

The basic idea of optimum pricing is to use the price that maximizes profit. The application of this idea is easy to describe, not easy to do.

It involves four steps:

1. Build a profitability model for a particular product that shows how profit from product sales changes as the volume of sales changes, price is kept constant.
2. Estimate how the demand for product changes as price changes.
3. Select a series of prices. For each price, you need to calculate demand from the results of Step 2, and then calculate profit at the demand level using the profitability model.
4. Estimate the optimum price from the results of Step 3.

Smart retailers like the United Kingdom’s Tesco use this approach routinely and with great success. Business-to-business companies use it less frequently, but it can be quite beneficial. One company, for instance, had a monopoly position on a product and charged a premium price. It also had data on sensitivity of demand. Implementing these four steps showed the company that it could greatly increase sales volume, revenues and profits by cutting its price in half.

With some misgivings, the company reduced prices and was well rewarded. If you have done optimum pricing before, repeat it now because the sensitivity of demand to price has changed and will continue to do so.

TARGET AND PURSUE COMPETITORS’ AREAS OF WEAKNESS

Now is the time to gain market share by outperforming your competitors. Focus on areas of their neglect and weakness. Consider the following steps:

- Assess each competitor’s overall financial health; try to gauge its state of mind.
- Develop a competitive matrix showing product and service offerings by market segment for each competitor.
- Rate in each cell of the competitive matrix how each competitor is doing.
- Focus on the cells with good potential and significant competitor weakness.
- Develop and carry out a strategy to capture market share for each target cell with shifts in product and service offerings and in pricing.

Then, take this one step further: Rate yourself in this analysis, too. You will spot your areas of neglect and weakness, hopefully before your competitors do. You can then decide what actions, if any, to take to prevent competitors from doing to you what you are planning to do to them.

REVISE YOUR ACQUISITION TARGETS AND STRATEGIES

This year is an excellent time for strategic acquisitions if your firm has the financial resources. First, of course, revise

your strategy to fit likely future economic realities. Your revised strategy provides you with the criteria to identify acquisition targets based on how the targets could help you gain market share, enter new markets, gain key competencies or gain economies of scale. Reassess prior lists of acquisition candidates against the new selection criteria to identify the best current targets. For each best target, develop an acquisition strategy. If prior efforts with candidates have led to indications of price, all such prices are now obsolete and should be reset.

SELECTIVELY REVAMP YOUR MANUFACTURING CAPACITY

The crisis calls for an outside-in “zero-based budget” approach to manufacturing capacity (and analogously, to service capacity). This discussion assumes that only in-house manufacturing capacity is being examined. Space does not permit discussion of the outsourcing vs. in-house issue.

To establish a capacity plan, first estimate by region the likely sales mix over the next two to three years. Identify the plant locations and capacities that would be ideal based on your estimates. Compare this ideal vision with the current situation. Then, from this comparison, identify and prioritize changes that are feasible and have high potential. Now is a good time to make such changes as the cost of so doing is less.

JUST DO IT

Growth in a recession? Yes, it is possible! Perform these five actions, and watch what happens. Done properly, the five strategies can make up for a lot of lost sales and cash flow. While competitors are hunkering down to survive, you can take your business to the next level by seizing the opportunities this difficult time has to offer. **mt**

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