



Stiernberg Consulting White Paper Connecting the Dots Q1 2009

Uncommon Sense In Uncommon Times Investing In Opportunity Amidst Uncertainty

As this is being written (March 2009), the US stock market has declined 50% since its recent peak, unemployment is approaching 10%, real estate values continue to fall, and consumer confidence is at its lowest level in recent memory. Though not widely reported, business confidence has also sunken to unprecedented lows. In addition, the economic turbulence is global—all major countries around the world are suffering their own version of what's going on in the United States.

Is this a time for businesses to pack up and go home, giving in to the pressures of an uncommon market situation? Is the converging entertainment technology, music products, and electronic systems industry as vulnerable as others like banking, retail, and automotive? Will there be customers to sell to in 2010 and beyond? These are tough questions. As we answer them, we all need to acknowledge three things:

1. The global economic crisis is real and unprecedented. No one knows how long it will last.
2. While the economy will recover, many things will never be the same.
3. Doing the same old thing will get you worse—not even the “same old”—results. It's time to innovate and invest. And let's be clear. “Investment capital” means more than just cash. It means time, talent, creativity, sweat, and resources.

This Stiernberg Consulting White Paper connects the dots and addresses the issues facing our industry headlong. Included here:

- Suggestions and examples of things you can do with little or no budget. No gimmicks or doomsday scenarios, just a focus on the basics.
- Perspectives on both the mainstream news media and the business press, citing polar opposite approaches and clearing the air so you can act now with confidence.
- Three things to do to benefit your business: re-think, re-focus, and re-tool, in that order.
- Why a counterintuitive approach is better, faster, and cheaper.
- Seven areas of low-cost investment in your future that have both short- and long-term impact and benefit.

What the Media Want Us To Believe

Let's make a distinction between the general news media and the business media. The general news media include broadcast television and radio, web portals and blogs, and the few remaining print newspapers. They are based on a business model that relies mostly on advertising, sponsorship, and promotion for revenue generation. Whether you favor CNN, Fox News, MSNBC, E!, MTV, or your local network affiliate, television news organizations broadcast the stories that get consumers (including all of us) to tune in and stay tuned in.

Unfortunately, that means we mostly hear about the bad stuff. Recession. Crime. War. Natural disasters. Corrupt politics. Celebrity blunders. You get the idea. Bad news sells ads because it gets people to pay attention.

Headlines are written to "grab eyeballs" even momentarily. They can also be misleading. Consider the following news item from the 2008 holiday shopping season.

"Retail Sales Plummet In December!"

To many people, the word "plummet" means "fall off a cliff to your death"—a grave consequence. Reading the article revealed that retail sales were down 1.7 % from the prior year and were below analysts' expectations. That's certainly disappointing but not necessarily fatal.

A Separate Reality

Thankfully the business media are a bit more objective and report on both successes and failures in the business world. Also, business experts ranging from Harvard Business School professor Michael Porter to Berkshire Hathaway's Warren Buffett offer constructive suggestions for dealing with business challenges, not just gloom and doom. Here are three axioms that business leaders agree upon relative to the current economic situation.

1. Some things will get worse before they get better. Some industries are more troubled than ours. Those hardest hit include banking, real estate, automotive, retailing, and the stock market.
2. Things will never be the same. While there will be a recovery, how business is conducted in the future will be different from the present and past. Sean Silverstone writes about consumer behavior in *The View from Harvard Business* blog:

"It is likely that the brands, tactics, and strategies that you took into the recession are not going to be what you need to bring back customers as we recover. Too much has happened. People have lost faith not only in Wall Street brands, but all corporate brands

to an extent. They also learned the value of savings, the high cost of credit, the sudden uncertainty of financial markets, and their vulnerability to job loss. All these shifts affect buying behavior.”

3. Doing nothing is a mistake—innovate and invest now. It’s more costly and damaging to ignore the situation than to deal with it. “Change Master” Rosabeth Moss Kanter writes:

“In these dire days, doing nothing is not an option. Passivity will only make things worse.”

Success Tip: Filter the general news media sound bites and pay more attention to targeted and in-depth reporting by business experts.

Time for Uncommon Sense

Let’s cut through the media clutter. Here are five bits of “uncommon sense” to live by in the current economic environment.

1. Grow or die. This is just plain fundamental, recession or no recession. Growth does not mean unbridled expansion. It refers to enhanced sales, profits, capabilities, market share, buzz, and other improvements. It also refers to doing things in new and better ways. If your company is not growing, it is dying. Are you going to be around when things turn for the better? It’s time to decide.
2. The chain is only as strong as the weakest link. You might have great products or strong cash reserves, but if your sales, marketing, or operational approach is off-target, you will still have problems generating revenue, profits, and staying power. An integrated business system—in which all departmental functions from R&D to credit and collections work together as a well-oiled machine—provides the balanced strength necessary to prevail.
3. Only playing defense never won a game. While there is a common tendency to “pull back” and conserve resources, a solid business offense requires confidence and an investment in the energy needed to win the game. You need to score points, which in business means winning bids, signing new customers, growing market share, and hiring the best people. The best defense is a good offense.
4. Don’t cut into the “muscle.” In some companies, the current recession is the catalyst for deep cost cutting measures that were long overdue. While staff layoffs and trimming promotional budgets may be appropriate short-term moves, be careful to keep the essential foundation and successful programs in place now and into the recovery.

5. Someone is doing business even in a down market—why not you? The market is down and as the wry expression goes, “flat is the new up.” Nonetheless, customers are buying something as opposed to nothing. Example: Circuit City went out of business for reasons that extend back years and were intensified (not caused) by the recession in the United States. While profits were elusive, the company did over \$10 billion (!) in business in 2008. Even if the recession takes away 50% of that in 2009, surviving retailers will benefit from \$5 billion in new business.

The time is right for applying uncommon sense in uncommon times.

The Counterintuitive Approach: Invest Now

If doing nothing is wrong, what do we do? The conventional or intuitive approach is to “hunker down” and cut people, prices, and programs just to survive. While “lean thinking” and focus on profitability are healthy, pulling back too far can have negative consequences. That is what many of your competitors are likely doing right now. Here are three counterintuitive approaches.

1. Foster courage vs. fear. One of the negative results of paying too much attention to the news media is that we get scared and lose confidence. Viewers of mainstream media ask themselves, “*Oh s*#! (expletive deleted). Am I next? Will the value of my home, business, or investment portfolio go so low that I might as well give up?*” These are examples of fear reactions. Yet fear and excitement are near each other in terms of emotions. Why not turn fear into courage and courage into excitement and commitment to beat the odds? Scary becomes exhilarating.
2. Demand action vs. paralysis. Some people and entire organizations are choking and immobilized by the current market situation. Does it have to be that way? No. It is time to keep moving.
3. Plan for growth vs. stagnation and death. While it will not happen overnight or by doing the same old things, you can plan to grow in uncommon times. Growth requires planning, commitment, innovation, and investment (more on this later...). Considering the alternatives, isn’t it worth it?

The New Three R’s of Business

Remember the Three R’s from grade school—reading, ‘riting, and ‘rithmetic? These are fundamental life skills. Here are three new fundamental business rules for dealing with change in good times or bad. Stiernberg Consulting calls them the Three R’s of Business—Re-Think, Re-Focus, and Re-Tool.

1. Re-Think. Can we use the old rules and the old thinking? No. Everything is up for grabs. The industry will survive, but will never be the same. It is time to take a fresh

look at your mission, business strategy, product mix, organizational structure, customer programs, policies, and procedures.

2. Re-Focus. Many businesses in our industry are focused too broadly, others too narrowly. Whatever your situation, identify opportunities to adjust (narrow or broaden) to both the realities of the market and your unique set of resources. In the process, you will also target those customer or supplier relationships that are most conducive to partnering. R.M. Kanter reinforces this idea.

“Get rid of things that have outlived their usefulness. Turbulent times demand that resources go to the high potential areas. If a company is still too cluttered with product SKU’s that proliferated unnoticed, declining lines of business, meaningless rules, reports, or the like, do the housecleaning fast. Even those who don’t like it will understand.”

3. Re-Tool. Hopefully the re-thinking and re-focusing of your business will allow you to affirm that you are doing a lot of things right and just need to make a few adjustments. Recognize that change is not limited to products (the tooling analogy) or staff. Be prepared to make changes to your business plan, your marketing and product development strategy, your sales programs, and your internal support functions and infrastructure. Growth results include enhanced or stabilized revenue and margins, stronger functional capabilities, and increased market share and mind share.

Investing for Now and the Future

“Investment” relates to more than money. What else do you have to invest? What can you invest in? Think of it this way. Investment of sorts is already happening. Many companies have already invested in planning (re-think, re-focus) that leads to streamlining, cost cutting, and other efficiencies to maintain and even improve margins. Here are seven recommended investments that you can make, often involving less cash expense than you might expect.

1. Invest In People. Identify your top producers and provide the leadership and security that will allow you to keep them for the long term. In any economy, getting rid of the wrong people not only saves money but also sends a positive message to the right people. One company laid off ten workers and hired three new ones that could get everything done.

“We were able to use the savings in other areas, while at the same time morale went up—a big win.”

2. Invest In Integrated Business Systems. Remember the “chain is only as strong as the weakest link” axiom? Here’s where it really applies. Make sure that there is balanced strength in all departments and that all team members (including

outsourced) know both their roles and the company's direction and plans. Kate Sweetman writing in *Fast Company* says:

“Strategic traction comes when employees at all levels of the company not only understand where the company is going, but they are excited by it, remember it, and know what to do to make it happen in their day-to-day decisions.”

3. Invest In Market Intelligence. The current economy has forced everyone to look at the external business environment more than ever. Now is a good time to build on that awareness and set up a focused market intelligence system that looks at all aspects of the business environment. Your market intelligence function is your radar on the outside world. You need to track and monitor what is going on around you in terms of not only the economy, but competitors, suppliers, channels of distribution, changes in vertical venue markets, technology, legal and regulatory issues, and social, cultural, and political issues and trends that make a critical difference to your company.
4. Invest In Scenario Planning. Scenario planning is the art and science of making your long-term strategy agile and flexible. Its roots are in military strategy, where exploration of multiple options saves lives as well as time and money. If you use Excel to do “what if” analysis, you are already launched. Today's market is the catalyst for developing trigger points and contingency plans (“scenarios”) so you can move quickly as conditions change for better or worse.
5. Invest In Customers. Regardless of your business (manufacturer, dealer, consultant, etc.), your customers are the ones that pay you and keep you in business. It's no surprise that your customers' lives and businesses are changing too. Now is the time to listen to them (via voice of the customer studies, surveys, interviews, focus groups) and to heed their wishes. If you can provide products and programs targeted to your customers' changing needs, it will help make them more successful and less fearful. They will appreciate your support and respond with both loyalty and purchases. Harvard's R.M. Kanter adds:

“Concentrate on helping your users, clients, or customers succeed. Always good advice, but now we have to really mean it. Obviously, companies dependent on their revenue-paying customers cannot afford to stand by while those customers decline.”

6. Invest In Product Development. Many manufacturers think of product development in terms of engineering and manufacturing. While those are essential elements, what about costing, applications, and the “customer experience?” What if your product is a service vs. goods? Think of the entire product as a whole, including packaging and all service aspects. Being “easy to do business with” is more important than ever among your customers. They make purchase decisions based on many factors beyond product performance and price. Be sure that your product management team understands this early enough in the development process to make a difference.

7. Invest In Promotion. It is uncommon sense to promote more heavily during a recession. The companies that promote consistently win sales and market share and build relationships with new generations of customers. Ironically, it does not always work that way. Today many of your competitors pull back, creating opportunity for you. Now is the time to invest creativity, time, and a little money in promotion. It is your chance to rise above the din and grab attention. For example, we are noticing an increase in face-to-face, in-person communication and selling. This stands out compared to those competitors who cut back on travel or only advertise via e-mail. Also remember that promotional programs and expenses need to be tracked for ROI accountability. UCLA Anderson's Dominique Hanssens writes:

*“The answer is to demonstrate return on investment on the marketing spending so that you don't become a cost center where your budget is a percent of revenue, but rather a profit center where the allocations are seen as positive returns—**especially in light of recent findings that the impact of marketing can be stronger during recessions than during good years.**”*

Note: The sequence of #1—7 above is also important. As you respond to the current market, resist the temptation to cut people, products, or programs just for the sake of efficiency or quick cost savings.

Uncommon Sense

Summing up, Stiernberg Consulting urges you to apply the following “uncommon sense.”

1. Now is the time for change, innovation, and investment. They are essential to your future.
2. Take the counterintuitive approach. Be careful, but seize the opportunity to be bold in the current market climate.
3. Beware of media stereotypes. Pay attention to the news, but filter what the ad-based purveyors portray as the “real story.”
4. Re-think, re-focus, and re-tool. In that order. Take time to plan before making changes.
5. Invest now and reap the rewards. Some of the investments described above cost little or no money. All of them can pay off in a big way.

How will you fare in the months and years ahead? Practice uncommon sense in these uncommon times.

Questions about this white paper? Call +1 818-784-8618

About This Series

Stiernberg Consulting monitors market conditions, talks with industry stakeholders, and identifies trends and issues on a continuous basis. Our White Paper Series brings the results of these efforts to the industry. Topics range from market dynamics to best practices. All white papers are offered free of charge.

About Stiernberg Consulting

Founded in 1993, Stiernberg Consulting provides business development services in three primary areas: Planning, Market Intelligence, and M&A advisory work. We offer targeted programs and services geared to business growth and the development of results-oriented action plans. We serve the converging entertainment technology, music products, and electronic systems industry worldwide. Please visit www.stiernberg.com for complete details.