

17 Ways To Grow Profits in an Economic Downturn

By Daniel Lock

Adapt to the new reality

Nothing fails like success. What was working two years ago, probably will not now. The new reality is that we are entering a new economic time full of turbulence and un-certainty.

"If I can assign names as well as pictures to objects, the right assignment of them we may call truth, and the wrong assignment of them falsehood."
~ [Socrates](#)

How can we be sure about making the 'right' assignment? We are influenced by the world and news media around us daily. How do we make sense of the new world in which we find ourselves? How do we create the certainty we need to make business decisions, make profits and grow our business?

Agitation of Accepting Change

Uncommon times call for uncommon wisdom. The reason why I am so passionate about strategy and leadership is that the immensity of the uncertainty calls for great strength. Leaders will now get a hearing and strategies can be revamped because there is impetus to change.

The first step in a business embarking on a new strategy is accepting that things are not as they should. This is the agitation. Ideally we would be the ones that decided when and how to change, but often it is external circumstances that inspire us to correct our course or change tact.

Defining the problem and the future implications is done to help management teams see that a new strategy is necessary. In the late 1980's when Lee Iacocca took the helm of Chrysler, there was strategic imperative.

He made strong tactical and strategic decisions, such as providing longer-term warranties and selling the profitable tank division, declaring "we are a car manufacturer not a defence contractor."

But if Chrysler had not been on the verge of bankruptcy, would they have had the inspiration of the burning bridge behind them to make the necessary changes?

Set the Strategic Focus.

Leaders need to understand that recession means change, and change is good. The first step is to establish 'strategic focus', that is action with direction. Just like a bike, the front wheel sets the direction while the rear wheel provides the force.

Develop a growth mindset.

Those who concentrate on growth over the long term will not only survive, but thrive.

This week the IMF has lowered its global forecasts and *The Australian* ran the headline "the worst year since the great depression." Is it any wonder executives are delaying investment. In December *The McKinsey Quarterly* looked at the characteristics of companies that came out of the Great Depression as leaders. Companies like DuPont invented and commercialised Neoprene and Nylon, and Radio Corporation of America (RCA) was able to become a leader in its field.

Further household names such Hewlett-Packard and Polaroid began as start-ups during the same time.

Create a lean organisation

Shed the fat accumulated during good times. Recognise also that business is counter intuitive, and that it is during good times we must run 'lean', save, and use the cash generated to expand during down turns. This is a strategy utilised by Warren Buffett, the Zen master of business.

Manage Assets.

After freeing up cash flow by reducing costs, look at increasing the productivity of assets.

A local example is using rented houses awaiting approvals as international student accommodation - increasing the yield and productivity of the assets.

Below are tips and tactics you can use to integrate into your strategy to increase profits.

Develop a growth focused mindset

Develop strategies that will actually increase profit and cash flow. For example:

6. Unbundle products and services.

This allows for a lower price point, less delivery complexity making it easier to deliver value to clients. The remaining un-bundled sales can be sold further down the track over all for a higher fee.

7. Develop lower spec discount ranges.

A report in *The Age* commented that in December Woolworths sold an enormous amount of 'home brand' underwear, which has higher margins.

8. Innovate for long-term customer advantage.

Remember this too shall pass, invest now for when the recovery inevitably occurs. In the last recession, Apple heavily invested in revamping its strategy, operating system, and came out with the i-Pod.

Create a Lean Organisation

9. Manage the Value Chain.

Toyota is the single most cited example when illustrating this point because they do it so well. This concept is also very mis-understood. What it means is we don't live in a closed loop. By embracing our suppliers in a meaningful relationship, sharing knowledge and building partnerships a more stable and lower cost base is achieved.

Similarly bring your customers in also. The boom in social networking mediums such as MySpace and Facebook has made this more accessible than ever, and the tools have never been simpler to use. Amazon has done this by allowing customers to leave reviews, and IKEA transfer the assembly to the client, creating a sense of ownership and a unique market position.

10. Reduce bureaucracy

Needless procedures and policies create a weight of complexity, cost, and unresponsiveness. Finance, accounting, IT, are all meant to support the strategy, not be subordinated to them. Decision making at the front line with customers builds loyalty and reduces double handling that policies cause.

How many forms must be completed? How many signatures are required? How many exceptions are there?

11. Radically reduce head office.

Warren Buffet has 217,000 employees, his head office has 17. Process improvement applies to administration as well as number crunching.

12. Get creative with pay structures.

Perhaps shifting to a more entrepreneurial culture where sales people are rewarded more through commission than a fixed wage.

13. Take advantage of newly available talent.

Look for process skills rather than content. Great people with great management skills may have been let go. These skills will easily be transferable and bring in some fresh eyes on how you look at your business.

Make the most of your assets as well as managing down costs.

14. Share unproductive assets.

Airlines share routes and maintenance facilities, cart companies share a manufacturing line. Look to similar businesses who are direct competitors for synergies.

15. Outsource rather than invest in new capital

While outsourcing might cost more over the lifetime of the asset, the immediate cash flow benefit may be better used elsewhere.

16. Drive down inventory.

Move to just in time models, look for the 80/20 relationships and keep minimal stock on board. Even Amazon has slow moving books which will take a few weeks to deliver, but the most popular are always immediate.

And the final tactic.

17. Set up a strategy for yourself.

All of this adds up to a life, not a work/life, hopefully a life well lived. Everything affects everything else. Get healthy, get organised personally and it will rub off professionally.

As the Australian Cricket Team captain, Ricky Ponting, says: “The better person I become, the better cricketer I become.”