Recession Preparedness: 5 No-Regrets Moves

By Charles Searight and Kevin Kennedy

Effective leaders continually look ahead to seek out the first signs of market changes that will impact customer behavior and sales performance. Of course, no one has a crystal ball that can predict with certainty the ups and downs of their home market – let alone increasingly interconnected global markets – but there are usually signs that foretell either a downturn in isolated markets or a broader recession. When those signs begin to appear, business leaders start wrestling with hard issues such as:

- What steps must we take to prepare our company to perform as well as possible through tough times that could last for a year or more?
- What if the downturn doesn't arrive as predicted – can we avoid taking premature actions that will hurt performance?
- Is there a balanced, "just right" approach that will help us prepare for the worst without mortgaging the present?

These are critical questions with very high stakes. In March 2010, following the Great Recession, *Harvard Business Review* published the results of an extensive study of performance during past recessions. The study revealed some sobering statistics[1]:

- 17% of companies didn't survive the recession
- 80% of the survivors failed to regain pre-recession growth rates for sales and profits within three years of the recession's end
- Only 9% of companies flourished after a recession – outperforming rivals in their industry by at least 10% in terms of sales and profit growth

If smart business leaders are continually looking ahead for signs of a forthcoming recession in order to position themselves well for it, why aren't more companies emerging strongly from the tough times? More importantly, how can leaders increase their odds of becoming one of the 9% that flourishes post-recession?

Traditional Actions

To answer those questions, let's first look at the most common response to an anticipated downturn: across-the-board budget cuts. Leaders typically start here, asking their teams to "do more with less" while hoping revenue does not suffer too much. The usual recipe for recession survival, familiar to us all, includes actions such as freezing headcount, reducing expenses

1 "Roaring out of the Recession," HBR, March 2010

(e.g., travel, conferences, etc.), postponing training and deferring systems enhancements, and protecting "cash cows" while stretching out new product development cycles. Typical actions on the revenue side include loosening lead qualification criteria, sales performance standards, and pricing discipline.

While prudent cost management is certainly healthy, these typical broad-brush actions can disrupt revenue generation just when it is needed most, making the recovery slower than it would be otherwise. Cutting costs reduces sales capacity as reductions in force and hiring freezes take hold. It reduces customer contact as travel is discouraged, leading to lower win rates and less market insight. As discipline is relaxed and training is deferred, sales skills and systems begin to atrophy, leading to many negative side effects including drops in sales productivity and margin as sellers pursue poorly qualified, unprofitable deals. Finally, as development budgets are pared, product lines often become stale and undifferentiated, further compounding the challenges of the sales organization.

If the downturn doesn't materialize or is less severe than anticipated, taking some of these traditional actions can do serious damage to a company in the near term.

5 Keys to Prospering

We believe there is a better way to prepare. In our experience, a balanced approach which focuses on "no regrets" improvements to both sales cost structures and sales effectiveness will greatly increase the odds of a company effectively enduring the downturn and flourishing when it comes to an end.

Instead of focusing primarily on reducing costs while trying to avoid impacting revenue, a balanced approach means focusing primarily on maximizing revenue while still reducing costs. It may sound like a subtle distinction, but this approach significantly changes the leadership mindset and drives decisions that are healthy for a company even if the downturn never happens. Since revenue for a company and its competitors presumably will be in decline during a downturn, a leader's focus should be on improving relative market position through better planning and better sales execution.

When you look at an impending downturn as a potential opportunity rather than solely as an ordeal to be endured, your objectives shift to ones with powerful long-term benefits, such as increasing market share, permanently ratcheting up sales effectiveness, and emerging from the recession in a stronger competitive position – running on all cylinders while competitors are still ramping back up.

In order to execute this balanced approach and prepare a company to successfully navigate a potential recession, there are five areas on which leaders must focus. While these five areas are especially important to address ahead of a potential downturn, they also represent good hygiene in any market. If markets stay strong and the downturn never comes, leadership attention to these five critical areas will tune up the revenue engine to deliver even better results.

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1. **Assess changing buyer values.** Speak directly with current customers, prospects, and others in the marketplace to understand how buyer values are likely to change in the event of a recession and also to better understand changing competitor positioning (see page 4). This type of conversation is above and beyond those typically conducted as part of customer satisfaction surveys or during product development cycles. During these conversations, ask about likely changes to the customer's product portfolios, to their decision processes, to channel preferences, to needs for supplemental services, to appetite for OpEx vs. CapEx models, and other similar issues. These conversations will help define needed changes to your sales model as well as changes to messaging and positioning of your product portfolio. Based upon the insights gained, you should update your customer segmentation models and the relative prioritization assigned to each segment.

2. **Sharpen focus on sales execution.** When confronted with a downturn, the most important objective in most industries is to take care of existing customers. With a shrinking pie, competitors will be pulling out all the stops to try to steal market share (i.e., your customers). Retention of your "A" and "B" customers is especially important and you should be driving increased share of wallet discussions with each of them using the "give to get" mindset mentioned on page 4. Deal qualification criteria must be tightened to focus resources on profitable deals that will make a difference. To maximize your win rate, increase support for channel partners and salespeople driving these deals. Also, since competitors will likely be cutting travel expenses and proposal support costs, make a conscious effort to maintain customer face time and improve proposal quality and responsiveness. These factors often become important differentiators in tight markets. Finally, in order to keep sight of strategic objectives that will help position the company in the future, some tactical SPIFFs or other incentives may be appropriate.

3. **Rebalance the coverage model.** Take a fresh look at how your sales resources are deployed and channels are configured in order to align with a new set of buyer values. Now is a great time to reassess the performance of each sales territory and channel against targets – resources will be limited and should be allocated to where they will have the greatest top-line impact. Rising stars can be given more responsibility. As part of this process, your company's current compensation cost of sales (CCOS) should be reviewed with your CFO to understand the impact of sales headcount and compensation on company profitability targets. This will help set a framework in advance for assessing tough resource decisions during the downturn. There is a natural tendency during strong markets for the number of overlay positions to expand beyond what is truly needed to support front-line salespeople – a zero-based reassessment of overlay headcount will often provide sales compensation headroom without compromising overall sales effectiveness. Finally, the demographics of the buyers themselves (younger, tech-savvy) and procurement practices (less face-to-face) are evolving and there may be an opportunity to significantly reduce direct selling costs by selectively using a "virtual account executive" approach. This is an excellent time to explore the concept and potentially launch a pilot.

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How Buyer Behavior Changes in a Downturn – And What to Do About It

Buyers behave differently as they begin to perceive the impact of the recession in their markets. Just as a savvy investor rebalances his or her portfolio in anticipation of a recession, customers will rebalance their portfolio of products and suppliers. This rebalancing can include:

- Adjusting the product mix as "sweet spots" change
- Prioritizing "must haves" over "nice to haves"
- Renegotiating contracts and challenging pricing assumptions
- Reassessing supplier relationships and reducing supplier populations

These changes in buying behaviors result from fundamental shifts in buyer values during a downturn, such as:

- Permanently ratcheting down cost structure
- Reducing capital expense
- Maximizing the productivity of increasingly scarce headcount
- Minimizing risk

This significant change in buyer values demands a corresponding change in a seller's sales approach and mindset in order to stay connected with buyers. For example, increased pricing pressure is expected on new business, but smart customers will also focus on negotiating permanent reductions to recurring charges (e.g., cloud software fees or maintenance charges) as customers work to ratchet down their cost structure. An unprepared seller can seriously damage future revenue streams. This is especially relevant to the increasing number of businesses to whom recurring revenue is critical.

Competitors can also impact buying decisions as they change behavior during a recession. For example, big companies often have the scale and flexibility to cross-subsidize strategic products. Or new competitors will enter the market with breakthrough capabilities or breakthrough economics that disrupt pre-recession buying patterns.

Once these changed behaviors are set in motion, there is no turning back. Sales organizations must adjust or they will simply flounder.

The key to differentiating from competitors and connecting with increasingly scarce and selective buyers is changing the way your company sells to align with the way customers now want to buy. Some of the broad changes in sales approach we typically recommend to clients include the following:

- Train the sales team to defend against price pressure with a "give to get" mindset – for example, "you give us 10% more share of your spend and we will give you an X% discount on new business."
- Adjust the product mix to emphasize offerings with greater near-term impact for customers
- Adjust delivery and payment models to OpEx rather than CapEx spend where possible
- Look to add new value through services or other complementary offerings
- Modify sales models and approach in ways that will provide lasting, structural benefit beyond the recovery and into the future

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4. **Tighten sales management discipline.** Like the coverage model, sales management discipline tends to loosen during strong markets when teams are hitting their numbers. It should be reinvigorated when preparing for a recession. First, action should be taken on poor performers. If they were not performing in strong markets, they will be negative contributors during a downturn, consuming scarce management bandwidth and resources. In addition, the span of control can typically be tightened up a notch to provide some additional sales compensation headroom (or help hit the CCOS target) without exceeding prudent management bandwidth limitations, especially in conjunction with a rebalanced coverage model and elimination of poor performers. Focus should be increased on sales time allocation and deal qualification by "shortening the leash" on sales oversight. Agility and responsiveness are critical during a recession and there is no cushion for non-productive sales time or time wasted chasing bad deals. Enforcing CRM usage and selectively applying IT to automate repetitive processes, simplify data capture, and streamline structured decisions (e.g., deal desk) will expand management bandwidth, improve visibility, and lower costs. Finally, review sales compensation plans for the opportunity to more directly tie compensation to increased sales through higher leverage (% variable of the total target compensation) in more of a "pay for performance" model that helps reduce fixed compensation costs at the same time.

5. **Resync the product portfolio with buyer values.** As buyer values will be changing in a downturn or recession, it is essential to tune the portfolio of products so that salespeople are selling what customers want to buy. Sounds easy, but it often means painful decisions that require careful analysis and deployment to avoid long-term impact to your brand and product road map – a major reason why this needs to be done before the recession sets in. Non-strategic, low-margin products should be pruned, pricing models and value propositions should be reassessed, and sales tools should be developed that crystallize the near-term customer benefits. In some industries it may be possible to change pricing and delivery models to an OpEx model which helps customers conserve scarce capital. A portfolio management approach where development priorities are reassessed on a regular basis, combined with agile launch practices, will help optimize spending and keep companies aligned with evolving buyer values. Finally, this may be a great opportunity to consider introducing new products in strategic areas to gain traction during the recession while competitors limit their new product investment. "Soft" introductions can help fine-tune product characteristics and de-bug processes, giving you a running start to the recovery with innovative products that are ready to meet buyers' pent-up appetites.

Taking a balanced view of an impending recession as both an opportunity to permanently ratchet up sales productivity while at the same time growing market share will provide a glide path of strong relative performance through the recession. While your competitors are

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reacting to the recession in more traditional ways, you have a great opportunity to proactively realign your sales model and resources with changing buyer values. This approach can enable your company to gain market share and emerge from the recession operating at full speed with high sales productivity, ready to accelerate top-line growth as markets recover.

It takes time to properly plan for and implement actions in the five critical areas above, so leaders must begin planning well in advance if they want their companies to be counted among the 9% that flourish through a recession. Those who don't currently have an action plan and don't soon start the process of building one are very likely to find themselves part of the 80% who struggle to recover or never make it back.

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