

# Identifying opportunities for growth in a slowing economy

Slowdown. Downturn. Recession. Experts may not agree on the terminology, but the outlook for the U.S. economy is turbulent at best. All industries go through periods of expansion and contraction, but with a broader U.S. economic slowdown on the horizon, we can expect a simultaneous slowdown across industries and sectors. Executives today can learn from the past and deploy new tools to maintain market share, grow, and prosper during a downturn.

Through the first quarter of 2008, the lower than expected revenue for FormFactor was due in part to the deterioration of the DRAM market. Depressed memory device prices are causing customers to delay test capacity expansions and technology transitions, and to take additional actions to reduce costs, all of which impact FormFactor's business. In this period, you revised your revenue guidance and announced a global cost reduction plan. As part of the same plan you will reduce your global workforce by 12% (after a 14% reduction in Q4). Operating efficiency is a pillar in the short term strategy.

Bookings for the third quarter are below plan. With new foreign competitors who now compete with you in the probe card market, the ability to successfully differentiate yourself from these players is more critical than ever. Your customers have viable alternatives. You have said that you feel less connected with your customers than ever before. What are you thinking about with respect to engaging your most important clients and trying to grow revenue?

What are you doing to better align your service and sales capabilities? How are you addressing quality in the delivery of your product and service execution to raise your game?

Whether a slowdown is real or perceived, executives are under tremendous pressure from investors, shareholders, and employees to perform. While a "recession" may only last two quarters, the long term impact of unplanned or impulsive reactions to cut spending and preserve revenue can have a crippling impact for years to come.

Companies that survive recession without adequate planning for recovery may find themselves abandoned by customers frustrated with inadequate service and poor product quality; facing a burnt-out and unmotivated workforce; unable to successfully market attractive product offerings at a competitive price; or pursue an acquisition target – at a significant discount.

The initial – and natural – reaction to a downturn is to cut near-term costs and drive operational efficiencies. Historically, companies that flourish during recession focus on strategic cost control while continuing to invest in service capabilities, increasing the customer experience, product innovation, and marketing.

Unfortunately, in many instances, these areas are also the largest cost centers and are the first to be cut. When faced with an imperative to make quick decisions to manage near-term corporate financials, executives often lack critical information on where and how much to cut. With little more than a list of programs and headcount, and each functional and business unit executive competing for dollars, decisions reach a stalemate and cuts are spread evenly to move ahead.

Often, financial pressures and internal politics result in quick, broad-based expense cutting, in part because it takes too long to reach a consensus on the right focus areas and where the organization can drive some near-term top line growth. This approach can cripple an organization by continuing to invest in programs that are no longer strategic or a distraction from core businesses that will drive recovery, and may result in a loss of high talent individuals that are assigned to programs deemed below the budget line.

Through focusing on what matters most to customers and placing investment dollars in categories that resonate across business cycles, executives are well positioned to steer their companies through the rocky waters of an economic downturn and into recovery. Several of our lessons learned are common sense in hindsight, yet are not always top of mind in the heat of battle.

**Focus on service.** Companies need to find ways to move to a hyper-service organization and culture. Regardless of whether you sell services or use services to support your existing product portfolio, customers need more nurturing to continue buying and not migrate to lower priced competitors. Responsiveness is the critical element of customer service. When combined with the right commitment and leadership, responsiveness can quickly improve, which will pay off in top line growth.

Why does service matter? Competition and globalization have changed the game. Services and products are more commoditized than ever. Quality issues and problems with service delivery can exact a severe and negative toll on brand image. In times of economic downturn, service and part sales are often more robust than the main business. Enhancing service capabilities can result in profitable revenue growth.

**Be loyal to your customer base and they will be loyal to you.** Customers have a choice. As budgets shrink, they are increasingly selective of the services and products they buy. Studies show that consumer purchases are highly influenced by recommendations from friends and family – word of a bad experience spreads fast, particularly through social networking tools. Let customers know how much you appreciate their business by maintaining investment in support levels.

Above all do no harm – revisit policies and processes that may be perceived as restrictive or overly complex, for example requiring customers to go through several “handoffs” before issue resolution. Offering rebates or two-for-one offers may be standard operating procedure, yet they offer an opportunity to provide messaging that will build positive brand associations. Extending payment terms or offering a wider selection of payment options allows customers to select the service that they want to pay for, rather than turning customers away with all or nothing limits.

**Adapt the product portfolio.** Feature-rich products that are attractive during boom times may become “unnecessary,” “overblown,” and “too complicated” during a downturn. Provide products for different segments and innovate where necessary. Don’t guess what customers want...ask them. Simple tools to listen to the voice of the customer can be executed in three-four weeks and will provide invaluable information to help drive decision making. Innovation may be as simple as a differentiated service contract offering pay-per-visit rather than an annual fee, or more complex such as stripping down a product to basic elements with an opportunity to add features later – for example the basic PC introduced by Dell. Consumer spend almost never goes away. Customers will look for “mini-luxury goods” to indulge in when larger ticket items are outside of their spending range - in a recessionary period, lipstick sales surge.

**Know your customers and focus on profitable and growth segments.** During a recession some segments will contract more than others. Understand your customers, the products they buy, and how the economic stability of each segment will be impacted. Continue to focus up-sell on segments with more stable discretionary income, and down-sell segments with more volatility.

**Invest in services and products that will help pull you out of the recession.** You should plan for recovery in parallel with planning for a downturn and avoid the temptation and sense of urgency to use management focus and energy exclusively on a two to three quarter survival plan. Keep longer term goals front and center. Dedicate a team to recovery planning in conjunction with cost cutting and operational streamlining, to ensure that short term plans align with core long term strategies that deliver a coherent message to the

market. Identify off-cycle regions or segments for growth, and stay committed – remaining in a market during a difficult time builds loyalty that can be capitalized on in recovery. For example, a leading pharmaceutical company maintained a presence in Russia during the turbulent 1990s, providing a discounted product that families could afford. When Russia rebounded, the company was able to achieve a price premium and maintain market share, driving sustained revenue growth.

**Rally your organization around flawless execution.**

Streamline and update business processes with a customer-in view. Design to minimize the amount of random customer touch points and handoffs, and ensure that front office functions are goaled on customer satisfaction. Pulse test and troubleshoot customer facing functions through scenario planning and service drills. Carefully consider outsourcing and off shoring customer facing functions. The cost of repairing damaged relationships or poorly executed transitions will be far greater than near term savings. Customers that have their problems addressed on first contact – either through a web based resolution process or live service - are far more likely to remain loyal, and may even be willing to pay for premium service.

**Build a market sensing organization.** Centralize market research and customer intelligence. Minimize fragmented and home-grown intelligence units that operate in isolation with a narrow focus on a single product or market. Maintain a consistent view of customer segmentation and customer spend. Listen routinely to the voice of your customers through satisfaction surveys, focus groups, and ongoing customer panels, and incorporate feedback in product and offering development. Widely communicate results to rally the workforce around improving satisfaction ratings.

**Use your workforce as an ally.** A downturn doesn't eliminate your workforce's hunger for professional development and personal growth. Search for innovative ways to develop and incent your workforce. Find a one time, perspective-altering change in the way things are done that could dramatically move the mindset of your organization and drive a whole new set of profit-reaping behavior. Pay your sales force for keeping customers, not just getting them. Build into your sales team's goals the focus on important customers long after the sale is made. Re-align resources to benefit revenue growth programs. Use internal data resources (IT, finance). Turn specialists into advisors – what can they do to help?

**Strategically acquire.** While conventional wisdom may be that companies can't afford the risk to operations or balance sheet dilution from acquiring during times of stress, companies that acquire wisely are able to expand product portfolios and strengthen market position through

acquiring competitors, alliance partners, or complementary businesses. The key is focusing on your core businesses, divesting underperforming assets and maintaining first mover advantage to take advantage of depressed valuations. The best defense is offense. With continued declines in the US dollar, the American market is increasingly attractive to foreign investors.

**Plan ahead.** Companies that build scenario planning, such as business continuity and achieving growth into core business strategies, are the first to recover. They are often able to turn a slowdown into a market opportunity while competitors struggle. The need for, and benefit of clear, documented, strategic priorities linked to operations will never be more visible than when financial decisions need to be made without the luxury of a planning cycle. To prepare for a business climate change, it is critical to maintain an enterprise focus on simple core strategies and competencies. Programs and projects should be prioritized around core focus areas, with a balanced portfolio of near, medium and long term investment. When it is time to cut, cut at the bottom of the list – not equally across the portfolio. Times of strain provide a platform to gracefully disinvest or challenge sacred cows with limited upside potential, and the rigor and discipline of planning for the worst will drive operational efficiencies in the best of times.

**Summary:**

In a weakening economy there are opportunities to not just survive but flourish. Developing world class service capabilities and enhancing the customer experience are critical elements for success. With the right commitment and leadership, companies can grow market share and profitable revenue in a slow economy.

**Key questions:**

- *How is customer experience a market differentiator? How important is it in attracting and maintaining customers?*
- *Is the customer front and center in planning and operational and organizational design?*
- *Are your customer base and product portfolios diversified to weather a down turn?*
- *Which segments are your most profitable?*
- *How do you motivate your service provider workforce to up their game?*
- *How do you reignite your people's passion for growth?*
- *How will you minimize workforce layoffs and associated ill-will?*
- *Do you know where to cut and where to invest if you were asked to do so in the next month? The next quarter?*
- *Are your short, medium, and long-term strategies clearly documented and understood across the enterprise?*