

Under the Buzz

Commentary on Business Strategy for Executives in Systems & Software Companies

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Under the Buzz is an email "viewsletter" authored by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps executive teams in systems and software companies to deal with difficult strategic and operational challenges. This journal, now completing its ninth year, is published periodically and delivered free to subscribers via email on an opt-in basis. It is also posted on TCG Advisors' website, <http://www.tcg-advisors.com/Library/utb/utb.htm>, where back issues are also available.

Please note: The article below is a slightly modified version of one that appeared recently in *Board Bulletin*, a sister publication addressed to CEOs, company board members, and their advisors. The topic seems to us to be relevant to a broader readership.

So ... What Now?

Turning the current downturn into an opportunity

*"If you can keep your head when all about you
Are losing theirs and blaming it on you...
If you can meet with Triumph and Disaster
And treat those two impostors just the same...?"*

"If" - Rudyard Kipling

"Be fearful when others are greedy, and greedy when others are fearful."

Warren Buffett's stated investment philosophy

"In other environments, IT is viewed as an enabler of the business strategy, and in the case of an economic slowdown you can use IT to gain a huge competitive advantage. ... What Cisco is going to do is grow our expenses regardless of what the economy does and in IT that means growing by 10 percent."

John Chambers, Cisco CEO - Speaking at Gartner Symposium, 10.14.08

It may well be that your management team and other colleagues are still experiencing one or other of the five stages of grief (per the Kübler-Ross model) regarding the ongoing financial implosion around the globe. No doubt, it has had a shocking impact on the marketplace, on your company's performance, and perhaps even on your own investment portfolio. If so, I hope you are able to make your way through Denial, Anger, Bargaining, and Depression to the final stage, Acceptance. This will help you and your colleagues to focus once again on the levers that allow you to exert direct influence over the company's future.

Among the most important contributions that executives can make during this bewildering time is to keep a firm hand on the tiller and avoid knee-jerk reactions that you might come to regret, such as focusing exclusively on hunkering down, reducing costs, and waiting out the storm. These are the times when, to echo Warren Buffett's famous saying, sound – even contrarian – thinking can guide you to a strategy that differentiates your company from its closest competitors, while most of them are still taking refuge in the bunker.

True, your company's quarterly results and market valuation have probably taken a pounding in recent weeks, but of course it's not news by now that this is caused almost entirely by a sudden global economic downturn. Even the best blue-chip tech companies (including Apple, Adobe, Autodesk, Cisco, IBM, Intel, Oracle, SAP, and Sony) have seen their stocks decline anywhere from

30%-50% or more as the indexes have melted down in recent weeks. Not surprisingly, many mid-sized and smaller players have lost as much as 70%, or even more, in their valuations, as panicked investors take the famed "light to quality."

But rather than taking it "personally," which in reality can take longer than you would think, it makes more sense for managers to disregard the factors over which they have no control – the economy, equities as an asset class, the performance of your industry or sector – and focus instead on the ones that management, possibly with the board's prompting, can and should control. These include the product categories that you (decide to) play in or to exit, as well as the company's business and market strategy, and its operational execution.

In order to get control of what's controllable, here is a threefold approach that my colleagues and I recommend as we work with clients through the current headwinds:

1. **Be both pragmatic and contrarian:** Look at the entire problem as an opportunity rather than just as immediate danger (to echo the famous Chinese saying about crisis consisting of fifty percent danger, fifty percent opportunity). As quoted at the top of this article, Cisco CEO John Chambers affirmed at the Gartner Symposium that Cisco would use the crisis as an opportunity to keep investing in strategic areas such as IT. It's worth recalling that Cisco entered the last downturn with a market valuation equal to its four closest competitors and exited the downturn with a market cap equivalent to its *nine* closest competitors. In a nutshell, look past the current crisis toward the future upturn, and adopt a contrarian strategy that your competitors are unlikely or unwilling to emulate.
2. **Identify opportunities to gain competitive separation from your closest competitors:** Get ready to double-down on important new differentiating initiatives. In fact, your first freed-up dollars should go to these initiatives (see item 3 for how to free up funds). Most companies, when faced with a crisis like today's, abruptly stop funding – or gradually starve – their key differentiating initiatives, instead of going full steam ahead. In order to gain the courage to stick with these initiatives, try to make sure that at least one of them, perhaps a campaign to take share from a debilitated competitor, has a short-term payoff. That way, you may find it easier to stick with a more far-reaching initiative that pays off over a longer period. Apple was another notable contrarian during the 2001 tech recession, taking the opportunity at the time to double-down its investment in what became the iPod phenomenon, which Sony, Samsung, Nokia, and many others are still breathlessly pursuing with their various MP3 players and online music stores.
3. **Be relentless in optimizing all other activities and processes:** In order to find funds for your core activities, we suggest that you identify the business activities and processes that, no matter how critical to your total revenue plan, are table stakes in today's marketplace or, at best, no longer generate premium pricing and margins. Optimize these business-as-usual operations *aggressively* in order to be able to fund your key initiatives. Now is the best time for you to make real progress against your closest competitors. While most of them will be taking a meat cleaver to cut costs across the board and may not be willing to be "creative," you should assess carefully how to reduce costs *selectively*. Even more importantly, if you estimate that you need to reduce costs by 10%, why not go further and optimize, reduce, and/or offload them by, say, 15% or even 20%. That way, you are likely to find sufficient "coins in the couch" to reinvest a portion of the coins to make your new differentiating initiatives pay off faster.

Once you have taken these measures to reallocate resources, you can focus on adjusting your marketing and sales approaches to fit with the times, in order to grow – or protect – revenues profitably. Since most customers' capex and opex budgets may have vaporized in the past couple of months, we think it is highly advisable to develop a coordinated marketing and sales strategy aimed at *creating* budgets during the downturn.

For this purpose, we recommend a twin strategy called *Referrals*-based marketing and *Provocation*-based selling. But this is a topic for another day. In the meantime, we hope that you are able to help your board colleagues, and the CEO and management team, to assess opportunities within the current crisis to drive for market leadership, apply the appropriate remedies, and enable the organization to come out fighting.

Under the Buzz offers commentary on business and management issues facing technology companies. The goal is to provide provocative insights into the latest events and thinking shaping this continually evolving sector. *Under the Buzz* also provides commentary on strategies for building sustainable competitive differentiation and maximizing market valuation.

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