John Lynch, CEO of the textile specialist Lynka, has transferred the theses of the economist, Professor Ranjay Gulati (Harvard Business School), to the promotional products industry.

A GUIDE FOR THE PROMOTIONAL PRODUCTS INDUSTRY

EMERGING STRONGER FROM A CRISIS

Again and again, companies succeed in using crises in their favour. For instance, in the past 23 years, about 10 per cent of companies emerged from a recession as winners. Together with John Lynch, the CEO of Lynka, we looked for success factors and have defined seven principles which can be useful not only in a credit crunch.

The hypotheses of John Lynch are mainly based on the deliberations of Prof. Ranjay Gulati of Harvard Business School, who has explored the question of how businesses deal with a crisis situation. He found out that during the past 23 years, about 11 per cent of businesses have emerged from a recession stronger. They record higher sales figures, a greater market share and rising profits. Of course there was the flipside, where 23 per cent of the companies filed for bankruptcy, 20 per cent changed their owners or were bought out and where 48 per cent came out of the crisis weaker. But what is the difference between the "winners" and the "losers" of a crisis? For a survey, Prof. Gulati analysed the financial data of several thousand companies for a survey before and after a recession. The result shows: businesses which mastered the crisis successfully had developed a different perspective of the matter in due time.

The so-called "breakaway companies" had regarded the turbulent times as an opportunity. They had realised that random cost reduction could even worsen their situation. Because, if the cutbacks affect the services that their customers appreciate, they will go somewhere else. The first step which the companies had taken was to carry out a thorough customer analysis. There, they examined which benefit the customers value most in the product or the service offered. During the recession, they offered their customers exactly that service.

In a crisis, companies should focus on their core competences.

The outcome was: cutbacks in a budget must never affect the key services of the business. Based on Prof. Gulati's theses and a current article by David Rhodes and Daniel Stelter in the Harvard Business Review ("Seize Advantage in a Downturn") Lynch summarises their conclusions in the following points:

DEFEND TOP LINE GROWTH

In any downturn, the first thing you feel is the loss of sales. Assuming your prior cost structure was aligned with your level of sales, it's the drop in sales that causes the problems in the first place. So above all, you need to vigorously defend your top line, ideally without lowering prices too much. Specifically, you should:

Do an intensive analysis of your customer base. Who are your top clients? Which industries? Decide where you are most exposed and where you have biggest opportunities. Use this as an exercise to identify branches that might hold up during the downturn.

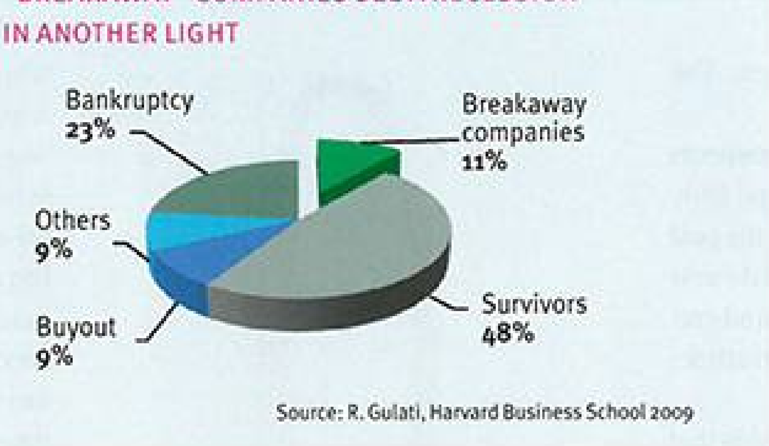
Revitalize customer retention initiatives. Knowing who your best customers are, now make sure your sales team is taking care of them. Find out what they want from you, and give them more of it.

Realign sales force incentives to generate short term revenues. Forget about the annual sales contest – you need sales now.

Reallocate marketing spending towards immediate revenue generation. If you are not sure that the program will stimulate sales now, cut it.

Know your customer needs. How important is the speed of service, how important is quality? Is price more important now than before? You must know the answer to these questions.

"BREAKAWAY" COMPANIES SEE A RECESSION IN ANOTHER LIGHT



Source: R. Gulati, Harvard Business School 2009

According to the principal thesis of Prof. Gulati, companies can utilize times of crisis for their entrepreneurial success by changing their perspective.

FOCUS ON WINNING NEW CLIENTS

New customer acquisition is the most important tool you need today. If some sub segment of your existing clients order less this year (think Automotive, Banking and Construction Industries for example) than your sales will go down. That is, unless you replace those sales with new sales. The way to do that is:

Reactivate current and former prospects and clients. Go for the low hanging fruit. Someone who ordered from you in the past is much easier to win than a complete new contact. Go through past records and create a hit list – then come up with an attractive offer to win them back.

Target better. Identify clients of yours that are still ordering strong, and look for other businesses in the same field. Go after companies in industries which aren't so hard hit.

Offer them something your competitor doesn't have.

PRODUCT AND PRICING STRATEGY

Changing times require changing product and price strategies. If your client still wants to do his promotion of 2,000 T-shirts, but his budget is reduced, then you need a lower priced version of your existing offer. And you may need a different brand or a new supplier. There are 2 other things you should do:

Identify low cost suppliers. If you can find a better deal, you just might be able to win that new business without lowering your profit margins.

Identify products for which customers are still willing to pay full price.

Unbundle services and create a la carte pricing. If clients don't care about having their shirts individually packed, for instance, then charge for that separately.

CUT COSTS, INCREASE EFFICIENCIES

This one seems obvious but not always so easy to execute. Someone once said "never miss an opportunity to take advantage of a crisis."

Just remember, blindly cutting costs – without careful consideration – can be dangerous. Make sure any cuts you make do not reduce critical service levels for your most important customers.

Cut long-standing activities that add little business value. Every company has dead wood – now is the time to cut it.

Analyze suppliers and procurement practices. In general it's a great time to re-evaluate your supply chain. Are you working with your current suppliers for the right reasons, or is it because of the "we've always worked with the guys across town" syndrome?

Re-examine the economics of outsourcing and offshoring. Accounting, production, telemarketing – consider it all.

Revive earlier efficiency initiatives too controversial to implement in good times.

Consolidate or centralize key functions.

MANAGE YOUR CASH POSITION VERY CAREFULLY

If your business depends on bank finance, you should be prepared. EU banks are very tight on credit today and are likely to remain so throughout 2009. Credit for small and medium companies will be difficult to come by. So it's more important than ever to carefully manage your cash flow.

Calculate your planned cash inflows and outflows. If you don't have one, develop a monthly cash flow report. Know your position at all times.

Delay capital investment programs. Wait a year for that new computer or phone system. Consider outsourcing.

Shed unproductive assets including invent-ories – generate cash.

Divest noncore activities or businesses. If it's not making you money today, get rid of it, or at least put it into hibernation.

In crises it may be important for the survival of companies to verify the solvency of their customers.

MANAGE WORKING CAPITAL WITH AN IRON FIST

Related to the above, managing your working capital is critical. For it's not a lack of profits that kill companies but a lack of cash. To strengthen your own balance sheet, concentrate on your working capital including: cash, accounts receivables, accounts payables, and inventories.

Reduce receivables by actively managing customer credit. If you don't have someone working the phones for payment, then consider hiring one or outsourcing this activity.

Speed up your production cycle. By processing orders faster, not only do you have a happier client, you have money in the bank faster.

Reduce inventories. Whatever it is you happen to keep in stock – products, inks, or office supplies, make sure that someone in your company is looking that over carefully and eliminating overstocks.

TIGHTLY MANAGE CUSTOMER CREDIT

The head of one of Europe's largest apparel brands recently told me "John, I am not worried so much about losing sales, but I am terrified of defaulting customers."

Offer financing only to credit-worthy or strategic customers. Signing a big order feels great, but if the client doesn't pay, it can kill you.

Be diligent in collecting advances from customers. That reduces your losses in case of default.

Consider credit insurance at least for your larger orders. If a credit insurer won't insure a company, there's usually a good reason for it. <

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LYNKA, supplier of all kinds of clothing and promotional textiles, was founded in 1992. The company mainly made a name for itself as a result of its efficiency in inserting advertising messages with the help of screen printing and embroidery. According to their own information, Lynka has one of the most advanced plants in the European decorations sector.