



The upside of recession

Instead of cutting back and cowering, why not see it as an opportunity?

COMMENTARY

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Pop quiz, hot shot: What do MTV, Trader Joe's, and the iPod have in common? Yes, of course, they're all now ubiquitous and make our lives much more agreeable.

But to us, the most interesting thing about all three is that these great brands were born during recessions. (Trader Joe's: 1958; MTV: 1981; iPod: 2001, if you are scoring at home.)

And therein lies a point everyone seems to be forgetting in the midst of the current economic slowdown. If handled correctly, a downturn can be a good thing for your company. It can give you the opportunity — and the funds — to innovate and get a substantial leg up on the competition. But only if handled correctly.

It is never going to happen if your company — or your department — goes into the recession saying, "We have to tighten our proverbial belts; let's cut spending 22.73% across the board." People are going to be demoralized. And even worse, that is what most firms are doing, and you are never going to gain a competitive edge doing the same thing as everyone else.

A catalyst for innovation

Cutting across the board is the coward's way of dealing with a downturn. It assures that no one is going to yell — how could anyone possibly object to sharing the pain equally — and it gives the timid a built-in excuse to fail. ("Gee, I know no one liked our new product, but they slashed our budget 22.73% right before launch, so, it wasn't my fault.")

But suppose you use the recession not as an excuse or a reason for hiding under your desk but rather as a catalyst for innovation? Instead of cutting everything by 22.73%, why not see the downturn as a chance to whack 90% (or the whole darn thing) out of stuff that isn't working well?

Cutting off funding to your laggards would free up a lot of money to back the one, or possibly two, big ideas you have been working on, ideas that have a chance to become breakthrough brands. If you want to be less aggressive, you could place more resources behind the existing ideas/programs/products that are already working well.

A two-pronged approach

Two key assumptions are necessary to make this possible: First, you should already have in a place a solid strategy, one that has identified your company's competitive advantage, so you know where to place your relatively big bets. If you don't have a sound strategy, you are at a huge disadvantage. And two, it assumes you have the intestinal fortitude to react to the recession in a way that is not like everyone else.

If you are the chief executive officer, you can make this gutsy call on your own — assuming, of course, you get the board to go along. The rest of us probably need to take a two-pronged approach.

First, when the word comes down from on high that you need to belt-tighten, go through the usual drill. Explain you probably can fly everyone in for a meeting three times a year instead of four, and why you can get by with 12 people in the department as opposed to 13.

Increase advertising while others cut back

But then go to your boss, and say, "Instead of dealing with the need to cut like everyone else, why don't we use these hard times as an opportunity," and then outline how you plan to create an MTV, a Trader Joe's, or an iPod of your own, complete with an aggressive launch timeline to ensure it is firmly established in the marketplace when the recession ends.

As Harvard Business School professor John A. Quelch noted recently, "It is well documented that brands that increase advertising during a recession, when competitors are cutting back, can improve market share, and return on investment at lower cost than during good economic times."

Time to attack

You can also point out that what you are advocating will leave your company perfectly positioned once the recession ends. While your competition is withdrawing, you will be charging ahead, taking market share. Maybe neither argument will carry the day. But if it does nothing else, this kind of innovative thinking gives the boss another reason to keep you around, no small thing when the phrase "reducing headcount" is in the air.

Recessions by definition are temporary. Great companies and great executives don't abandon their growth strategies in light of temporary setbacks. They attack aggressively, while everyone else is pulling back.

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