

## Listen Up. Biz Leaders: It's Time to Rethink Everything

We're not living in ordinary economic times. Every company needs to determine if its strategy requires an overhaul or just thoughtful tweaks. Here's how to start. Remember when Motorola (MMI) ruled the mobile phone business worldwide? And then Nokia (NOK) did? And then BlackBerry (RIMM) did? And now none of them do? As Fortune headlined a recent BlackBerry article, "What the Hell Happened?" We all ask the same question about Kodak, monarch of the global photo industry for a century, now bankrupt, while Instagram, a photo-sharing service with a dozen employees, is sold to Facebook (FB) for \$1 billion. And while we're at it, what happened to Hewlett-Packard (HPQ)? To Yahoo (YHOO)?

We're not living in ordinary economic times. The convulsions of the past five years have left many business people asking the most fundamental questions about their companies: Will our strategy work in this environment? What must we change, and what must we not change? Do we need a new business model? Reconsidering strategy can turn into a miasma that consumes endless time and yields nothing. Yet the process is manageable. One way to think through your strategy in today's uncertain environment is to answer three basic questions.

### 1. What is our core?

A finding that's consistent across cycles is that the best performing companies keep investing in their core no matter how bad things get. Look at what Dupont (DD) did during the Great Depression. Even as profits plunged, the company resolved to keep funding chemical research — its core — no matter what. Among the results: nylon, neoprene, and other products that brought Dupont billions of dollars over the following decades.

In good times, companies often wander into businesses for which they command no special capability. Then, when a downturn hits, those non-core businesses blow up and have to be axed. Pioneer bailed out of the grindingly competitive flat-screen TV business in the recent recession. Home Depot (HD) shut down its Expo chain of home design centers.

Google (GOOG) closed non-core businesses that sold advertising on radio stations and in newspapers.

Excellent companies are certain of their core. Early on in the recession, Brad Smith, CEO of software firm Intuit (INTU), said, “We’re not going to cut innovation. This company for 25 years has been fueled by new product innovation. We’re protecting the innovation pipeline so we come out of this strong.” He would cut elsewhere if necessary, but in the realm of personal and small business finance software, he’s up against mammoth competitors, including Microsoft (MSFT). He cannot afford to fall even a fraction of a generation behind. Are you sure of your company’s core? If not, you’ve got to do some corporate soul-searching.

## **2. How is today’s unprecedented environment changing our customers and their behavior?**

We’re all familiar with the Depression generation’s ultra-cautious attitudes toward investing and jobs. Millions of people were shaped for life by the experience of a historic downturn, and similar effects are happening today. In response, as one example among many, several financial firms market “ultra-safe” investment vehicles (often with considerable fees attached). Rattled investors are willing to pay more for safety than they have been in a long time.

Other effects of bad times are more surprising. In developed economies, physical health tends to improve during a downturn, possibly because people eat healthier food, drink less, possibly smoke less, and drive less. In the previous two recessions, consumers spent less on entertainment, broadly defined, though conventional wisdom holds that people spend more on entertainment to cheer themselves up when times are tough. The category of spending that increased most (among those studied by McKinsey, which compiled this information) was education — surprising, since it’s a discretionary purchase that yields its benefits years into the future. Many people apparently figured they might as well improve their employability at a time when they can’t get a job. As the most recent downturn began to take hold, applications to U.S. business schools rose markedly. How is today’s environment changing your customers? The effects may be counterintuitive, and you should discover and address them quickly.

## **3. Is our industry being deeply restructured, and if so, how will it affect us?**

Extreme economic conditions tend to accelerate trends that were already underway. Newspapers have been in decline for years, yet most papers hung on until the most recent recession, which finally pushed many over the edge. The secular decline of the three Detroit automakers was observable for at least 20 years before the recession forced a crisis that changed them dramatically. Those industries will never be the same.

Yet in other industries, even an economic trauma as bad as this one may just throw production temporarily off its long-term trend line. For chipmakers like Qualcomm (QCOM) and Intel (INTC), as an example, growth has lurched through peaks and valleys but over time has followed a reliably rising line. A few years of below-trend growth will most likely be followed by a catch-up period of above-average growth.

Is your industry feeling an earthquake or only a thunderclap? Either answer is plausible today. You'd just better be sure you've got the right answer. Not every company needs to change its strategy, even in these tumultuous times. But every company needs to determine if its strategy requires an overhaul or just thoughtful tweaks. Asking these three questions is a great way to start, and the sooner the better.

(900 words)