Strategies for Business Firms in Declining Markets

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1. INTRODUCTION:

The economic crisis that has engulfed the world since 2007 has become serious by the first quarter of 2009.Many developed countries too are affected severely, namely the US, Germany, the UK and others. Fortunately, India as of now seems to be less affected, yet the winds of global recession are now felt. The Indian economy grew at an annual rate of 7.6% in the quarter ending in September, 2008. As per the projections of the government growth in the fiscal year, 2008-09 could be in the range of 7 to 8 %, which is, lower than 9% in the last year. The government has unveiled a multibillion dollar stimulus on 7th December, 2008 and 2nd January, 2009 respectively. The Reserve Bank of India has cut interest rates aggressively. India Inc has felt the heat of the global meltdown in the third quarter ending in December, 2008 where the income has dropped by a massive 23% points compared to the previous year. Indian manufacturing activity has contracted for the second consecutive month in December, 2008 to its lowest in more than three and half years. India's exports too have declined by 12.1 % in October, 2008 showing a negative trend for the first time in the last five years.

Even if sector wise performance is considered, the automobiles, realty and healthcare are facing a steep decline. Information technology and metals showed a poor performance. Banking sector posted a positive growth in income as well as net profit compared to the last two quarters. The Fast Moving Consumer Goods sector has been

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the most resilient one. Though the incomes and profits dipped, the profit margins have remained intact. The Director of International Labor Organization, Mr. Duncan Campbell recently mentioned that, "The effect of the economic downturn in India and South Asian countries would be less severe as they are less exposed to the US economy and the financial market."

It can be said that, for an individual firm surviving through recessionary market trends is difficult though not impossible. This shall be done if each individual in an organization works towards a common goal with a positive frame of mind. People should not be bogged down by the news of job cuts making headlines. This is especially important since employees have to act and keep making efforts. The recession is marked by decreased consumer spending, which was not the case in the whole of last year recession in 2001. During that period the growth of consumer spending had declined. Compounding the problem further, consumers in some of the markets are more deeply into debts which will in turn put pressure on those financial institutions who have lent money to them. Inaction can therefore, be the most unviable option as a response to uncertainties resulting out of economic crisis. Similarly a haphazard response can generate a sense of panic amongst stakeholders.

2. LITERATURE REVIEW:

As per the editorial report of The Economist, (January 31st, 2009) China and the rest of East Asia the economic growth has stalled. There is a temptation to see the crisis as a plague visited on the region from outside, which its governments are powerless to resist or cure. In fact, their policy errors have played part in the downturn; hence the remedies may be partly in their hands. According to the reports industrial production has slowed down sharply in China, growing by 5.7% till December, 2008 compared with a pace of 18% in late 2007. Thousands of factories have closed down and millions of migrant workers have lost their jobs. Chinese exports are likely to drop further as world demand shrinks.

Another report of The Economist Newspaper Limited, 2008 states an example of France. The country has witnessed an unemployment of 7.9%, which may further escalate to 10% by the year 2010. There is a growing concern about the car industry, which directly employs 7, 00,000 people in France (6,600 out of these in Poissy, a town west of Paris). In this industrial town of Poissy which has grown around the

Peugeot car plant there is a palpable sense of unease. According to the Mayor Mr. Frederik Bernard, “there is a lot of anxiety and stress, even depression particularly among the young. When Peugeot is in difficulty, so is the town.” The company has lain off almost 400 workers who live locally, and their chances of finding out new jobs immediately are slim.

As per Reuters, employers in the US slashed 598,000 jobs in January, 2009, the deepest cut in payrolls in 34 years and the jobless rate shot up to 7.6%, according to a Labor Department report. “The economy is just falling into oblivion and it will get worse”, said Greg Salvaggio, Vice-President for trading at Tempus Consulting in Washington. Colvin G. (2009) quoted Best Buy president Brian Dunn, “In 42 years of retailing, we’ve never seen such difficult times for the consumer.” Colvin G. states (2009) that consumers in the US are not the only ones deleveraging. Companies too are following suit on a massive scale. This means that the business-to-business firms are also suffering.

Back home in India the government has stated that 5.00,000 people have lost jobs during the four-month period ended December, 2008 on account of economic slowdown in textiles, automobile and information technology sectors. India received just $1 billion in foreign direct investment in November,2009 as funds flow has turned to a trickle, making the task of matching last years receipts a challenge. “We are certainly not going to meet the target and will be lucky if it won’t decline further in this fiscal….Even FDI inflows could be weaker in the next fiscal as well,” said Mr. Rajeev Kumar, Director, Indian Council of Research in International Economic Relations.

As per Parashar S., Dhavan H, and Anaanthakrishnan G. (2009) hundreds of Indians employed in the Gulf have to return home as the global recession hits the region. According to the Indian embassy in the UAE 20,000 people have returned to India from that country alone since November, 2008. Similar exodus of people returning may be witnessed from other countries too in the coming months.

3. OBJECTIVES AND METHODOLOGY:

In view of the above discussion the following objectives were formulated:

1. To identify the symptoms of recession

2. To understand the effects of recession
3. To discuss ways to tackle the downtrend through marketing strategies
4. Identification of a collective approach to deal with the crisis as a society

3.1. METHDOLOGY:

Secondary source of data mainly comprising of newspapers, journals, books and websites was studied to draw conclusions. Care was taken to ensure that, latest information was collected from the available sources. Based on the same generalizations are made as to how companies can strategize to face the economic crisis.

4. DISCUSSION:

Symptoms of recession:
Recession may be due to a few or many of the aspects mentioned below:

1. Falling demand for different products and services
2. Piling up of unsold produce at manufacturers, distributors and retailers end
3. Decline in production, revenues and profit
4. Expectations of consumers related to price reduction start increasing
5. Payments are not forthcoming for the supplied products on time
6. Consumers are not ready to stock products
7. Consumers expect fast supplies with prompt service
8. Orders given by customers are kept on an indefinite hold

Trends that may set recession:

- Excess production of various products which has no demand

- Markets getting saturated as a result of low purchasing power
- Globalization and international trading ties have linked countries economically to a certain extent. So it is possible that major downturn in foreign countries affects other nations too.
- Due to extensive media coverage of recession consumer confidence erodes further and buying decisions are made more cautiously.
- Even sectors within a particular country are interrelated. Impact on thrust sectors later is seen replicating in other sectors too.
- Business cycles have a role to play at times. After prosperity stage, a time of saturation does follow. In all types of businesses a year-on-year growth on a continuous basis is not possible.
- Corporate and government sector may not be able to promote innovation in products and processes. The focus all along may be on volume growth which, may lead to a materialistic attitude of markets.
- Other contributing factors may be exceptionally high salary levels for certain sectors, financial institutions giving credit to individuals with out ensuring repayment capabilities, aggressive advertising and promotion where consumers are trapped into buying. The cycle continues for a while and recessionary trends become visible in the market.

Possible effects of recession:

Many direct and indirect effects of recession are seen and felt on the economy of a nation, employees, entrepreneurs and the society at large as mentioned below.

1. Low purchasing power resulting into low demand for products reduces the demand for raw material and supplies. Entrepreneurs are able to lower their variable costs however the fixed costs may remain constant resulting in profit decline.
2. Businesses having a low sustaining ability in turbulent times start incurring losses and may face a financial crisis.

3. Customers may want speedy delivery so firms may be tempted to invest in inventories.
4. People may loose jobs and some may be forced to take a pay cut.
5. Investor confidence and consumer confidence takes a dent
6. Companies will have to look out for ways to cut costs and exit from unattractive markets and products.
7. Effects are also seen on the stock markets and currency stability.

Ways to tackle the downtrend:

Depending on the sector in which a business enterprise operates, following evaluation and assessment can be made for sustenance and survival:

Analyze position of the business in the changed situation-
The firm should assess the industry and the economic indicators in which it is operating. Similarly it has to be found out whether the impact on the firm is mild, moderate or severe. An effort has to be made to find out the possible duration for which the crisis may continue and how long will the firm be able to sustain itself. Also an assessment of competing firms can be made to identify the weaker areas if any.

Reset priorities of business-
The firm can have a relook at the business goals with an objective to find out the best course of action to maximize performance with an added emphasis on cost cutting wherever possible. Financial fundamentals in the area of working capital, cash flow, share prices and customer credit should be worked upon closely.

Focus on resource utilization-
At each employee level, and department level unnecessary expenses should be minimized. This is with regards to un-finished inventories, finished stocks, and resources like power, water, machinery and other consumables.

Invest in core activities-

Companies can keep on investing in areas which are known to be their core competencies. These may be in knowledge, technology, services, experience, expertise, innovation. Best companies do not think about cutting down on training and development expenses.

Undertake a realistic SWOT analysis-

Each unit, department and section should be put under the scanner to identify hidden inefficiencies. Weaker areas should be worked upon relentlessly. Attractive opportunities should be pursued upon.

Be completely agile as an enterprise-

Organizations should make special efforts to have agility in their operations, various business interests, and various strategies to be pursued. The processes should be such that they may respond quickly to the changes in the environment.

Rethink on outsourcing-

It makes sense for organizations to reexamine their outsourcing practices which work well in growth markets. Outsourcing may prove to be expensive in the changed market situation. Certain social pressures may also impact the decisions taken by the firms. For example in the US pressure is mounting on the government to lay off jobs of foreign nationals in event of job cuts before the nationals face the axe. Increased partnering with fewer but better value adding suppliers can be considered.

Attract the right talent and reexamine compensation plan-

Ultimately companies will require the best of the talent to come out of the crisis so; new talent may be hired as per the requirement. However, certain compensation plans and incentive schemes should be scrutinized to see the probability of rationalization. People should be encouraged and empowered to produce more ideas and take more initiative. Core teams of key executives may be formed to manage the organization's response to recession.

Consider going green-

One school of thought is that, only economic stimulus given to the nations across the world is not sufficient in this time of crisis. But what is required is the need to develop a new economic model which is sustainable for the planet and our future on it. This could be seen as an opportunity by firms to develop new green technologies through their products and services.

Marketing strategies that can be pursued by firms in downtrend:

1. Be more creative in solving customers' problems-
   Companies should make an effort to understand their customers –both in industrial as well as consumer products markets. This in other words means adding value from the point of view of customers.

2. Rely on customer relationship programs-
   Customer relationship programs can be taken up with a new vigor. More attractive financial returns could be planned out for high priced products. Focus on retention of high value customers.

3. Product mix decisions-
   The firm may take a close look at the product line and their contribution to revenues. Further it may consider line pruning with products that are not selling any longer. Low priced variations of certain products depending on consumer requirement may be offered.

4. Pricing decisions-
   Certain innovations in pricing decisions may be implemented which will add value to the customers. This can be done by selling a smaller unit, unbundling various products which otherwise sold together, subscription are pricing-where a customer purchases a product use rather than the product and other such examples.

5. Marketing expenditure analysis-
   Cash generation at a rapid pace may be essential at times. The marketing expenditure should be kept under check by making strategic changes in sales force utilization and incentives. Credit given to intermediaries should also be scrutinized.

6. Accurate and timely information-

Latest information on current market status and trends should be made available to the executives so decisions can be taken for implementation of various plans.

7. Brand building exercises-
   Some form of brand building and image enhancement programs should be undertaken by organizations which may come handy when markets recover. The challenge for Indian companies is also to differentiate in the current situation to present a uniform national identity along-side internal diversity.

8. Innovation strategy-
   Individual product life cycles may shorten during the recession. Firms may, in such a situation need to pursue product innovation and try to regain lost position. Innovation may be in form of product modification or improvement

9. Leadership strategy-
   Leader firms in an industry can play a significant role in declining markets. They may in some situations force the weak firms to exit and thereby increase its sales.

10. Niche strategy-
    Firms pursuing this strategy may focus only on the most attractive niches where greatest prospects of stability are seen.

11. Harvest strategy-
    By harvesting, a firm maximizes its cash flows from existing assets, while avoiding further investments. It seeks to boost margins wherever possible through raising prices and cutting costs by rationalizing the number of models, number of channels, and number of customers.

12. Divest strategy-
    If the future looks bleak, the strategy for some firms may be to divest the business in the early stages of a decline so that, it may find suitable buyers.

5. CONCLUSIONS:

In these times of downturn Indian companies, government and the citizens together should join hands to see us through. According to Prof. Vijay Govindarajan, Tuck School, Dartmouth, USA the current recession is the time for India to prepare for expansion and emerge stronger. He predicts the customer base shifting from the rich to the poor and suggests that, the ratio in which firms should invest into plans for core business, related business and future business should be as-70:20:10.

Some of the ways suggested in this paper may be followed by organizations effectively as a way of doing business rather than as a part of crisis management. Time and other unutilized resources can be put to better use through by catching up with uncompleted tasks and to increase capabilities and developing new skill sets amongst people. Entrepreneurs should realize this and see employees as their assets and hence should not be doing away with them. Indian culture teaches us to live united as a family in difficult times and share food and resources amongst ourselves. After all when the recession ends, the roads level off and a firm can emerge a stronger player once again.

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