

## In 2010, Businesses Fail to Plan Tough, Defensive Actions

From the American Management Association's January 2010 LEADER'S EDGE newsletter:

Too few companies have taken or plan to take the long-term, defensive measures necessary to survive and thrive in the wake of the Great Recession.

Although businesses around the world are entering 2010 with an appropriately sober view of the business climate, only 28% say that reducing labor costs is a priority for 2010, only 26% have made managing cash flow a priority, only 16% say that balance sheets and debt restructuring are a priority, and only 13% have put existing noncore businesses on the list of priorities.

These findings are drawn from a Boston Consulting Group (BCG) survey of 434 executives at companies with more than \$1 billion in annual revenues in seven countries. The survey was fielded in conjunction with the forthcoming book *Accelerating Out of the Great Recession: Winning in a Slow-Growth Economy* by BCG senior partners David Rhodes and Daniel Stelter.

'The slow-growth world that we're in, and should expect to be in for some time, fundamentally changes the nature of competition. Life is going to be harder,' said Rhodes. 'From now on, every day should be treated as if it were a World Series game—because there will be no more regular season games. What will distinguish long-term winners from also-rans is the resolve to fundamentally rethink and rework business models and, at the same time, be courageous enough to invest in the future of the business.'

Observed Stelter, 'According to our survey, leaders recognize the need both to be defensive and to attack. But when it comes to action, they are poised to attack and invest but seem only to be playing around the edges of cost-cutting. We're concerned that they're skirting true, long-term defensive actions.'

The vast majority of executives see significant changes in the economic order:

- 69% believe there will be negative attitudes toward Western capitalism
- 68% project lower profit levels
- 64% believe growth will be more difficult
- 71% anticipate an increase in labor protection
- 81% anticipate an increase in regulation
- 87% see increased consumer price sensitivity

In the face of these trends, executives have taken, or intend to take, short-term defensive actions. Between 50 and 70% of surveyed executives have made the easier, more obvious moves such as increasing their focus on key customers; reducing administrative and travel spending; renegotiating supplier contracts; and reducing inventory levels, marketing budgets, and wages. But far fewer have made, or plan to make, more wrenching, longer-term moves. Only 44% plan selective exits from product lines, only 39% plan selective exits from customer segments, and only 43% have taken or plan to take actions that involve divesting businesses and exiting sales channels.