GROWTH DURING A DOWNTURN?

3 Strategy Approaches of High-Performing Enterprises

By Joe Guinto
Consider the most recent reports reflecting a lowered optimism from previous numbers:

- The World Economic Situation and Prospects report by the United Nations projects that the global economy will grow at 2.4 percent this year, and 3.2 percent in 2014.
- The World Bank’s most recent forecast calls for global GDP to expand by 2.2 percent in 2013, improving slightly to 3 percent growth in 2014 and 3.3 percent in 2015, mostly in developing countries.
- The International Monetary Fund forecasts that the world economy will grow 3.5 percent this year and 4.1 percent in 2014.

Despite anemic growth in the world’s economy, business leaders are still executing winning strategies during these slow times. Indeed, many businesses have already hit on inventive ways to expand their businesses even during the global slump. Here are three ways they’re doing it.

1. IMPLEMENT CORPORATE CULTURE THAT INVESTS IN PEOPLE

When leaders strive only for results — getting a new product to market in 10 months, for instance — they become directive. And although directives get things done, they’re not a sustainable solution, especially during periods of slow global growth.

The best companies inspire the best performance from their people by creating the conditions where people want to do their best. This requires a mutual commitment between employee and employer. The employer must commit to the employee’s happiness and the employee must, in turn, commit to the employer’s strategic goals.

Zappos is one such company that’s had success doing just that even during the global recession.

The online retailer puts people first; even to the extent that when it announced plans to move to a new headquarters in downtown Las Vegas, it also committed to spending $350 million to upgrade the surrounding neighborhood. The idea: Give employees a better community to work in, and more options for dining and socializing after work. “I want to be in an area where everyone feels like they can hang out all the time and where there’s not a huge distinction between working and playing,” Zappos CEO Tony Hsieh told The New York Times.

That’s just one example of Zappos’ people-first policy. The company’s 20 core values guide every activity at the company and form the heart of the company’s business model and culture.

So how’s that working out for them? In 2007, before the global downturn, Zappos’ revenues were $840 million. In 2010, they were $1.6 billion. Last year the company was acquired by Amazon, which has allowed Zappos to continue to operate as an independent entity. And revenues? $2.2 billion.

HAPPY EMPLOYEES ARE A BRAND EXTENSION

Wegmans, a privately owned grocer in the U.S., is another people-first enterprise that’s expanded substantially during this slowdown. The company now employs 42,000 people.

“Our employees are our No. 1 asset, period,” Kevin Stickles, the company’s vice president for human resources, told The Atlantic magazine this year.

“The first question you ask is: ‘Is this the best thing for the employee?’ That’s a totally different model. We want our employees to extend the brand to our customers. When you think about employees first, the bottom line is better.”

Is it? Well, here are the numbers. Wegmans’ revenues before the downturn were $3.8 billion. Today it’s $6.2 billion company.

INNOVATION FOR A BETTER FUTURE

Of course, it’s easier to stick to your people-first corporate culture when revenues are going up. But what about when they aren’t? That’s the situation a lot of leaders find themselves in today. Nucor, a U.S. steelmaker with operations in 11 different countries around the globe, is among them.

Nucor’s culture calls for paying for performance. Two-thirds of employees’ pay is in bonuses tied to daily production. That means pay per day can fluctuate anywhere from...
$12.50 to $24 an hour for some line workers, depending on how much steel comes off the production lines at their particular workplace.

In a slowdown, of course, that means employees are at risk of major pay cuts. But Nucor’s policy requires that executives must take pay reductions before line workers when sales fall companywide. Then again, there aren’t that many executives at Nucor. The company operates with an excessively flat management structure — just five layers of management to oversee nearly 12,000 employees worldwide.

As Nucor puts it, “Teammates — not managers — drive our success. We promote the importance of equality for everyone. And when times get tight, we believe in “pain sharing,” where top management takes a pay cut before anyone else.”

So how’s the pain being shared right now? It’s not. Nucor executives say almost no employees have left the company because of the global slowdown. Why? As just-departed CEO Jim DiMicco told the Charlotte Business Journal, it’s because the company is continually investing in productivity and technology, even when business isn’t robust.

“Employees benefit from how well they do in good times,” DiMicco says. “And they are improving the operations so they can do even better when the good times come back. We’ve got them doing constructive things. But we’re also spending money at our plants to put in new technologies and improved technologies and get our plants ready for when things do get better.”

And the results? Even though revenues have fallen from $23 billion to $19 billion since 2008, the company remains profitable and has not laid off a single worker. Not one.

2. GROW WHERE THE CUSTOMERS ARE

Leaders are always on the hunt for growth, whether it be in an individual employee’s performance or in their business as a whole. During times of slow economic growth, it’s more important than ever to find the pockets where business is expanding and maximize growth there.

For instance, companies headquartered in Europe that are experiencing declining domestic markets should think twice before they contract their business around the world. Don’t lay off workers in China, for instance, if there’s growth in Asia. Invest more there.

It’s what French food products multinational Danone is doing. Last year, the company cracked €20 billion in revenue (€20.9 billion, or $26.7 billion) for the first time. A significant part of that growth came from emerging, non-European markets. In 2012, the company saw 51 percent of revenues from these non-European countries. For 2013, Danone is shooting for worldwide sales growth of at least 5 percent, and to keep cash flow steady at about €20 billion.

Danone is not alone. Wynn Resorts is another example. When the property and travel market tanked in Las Vegas after the financial sector collapsed in 2007, Wynn pumped more money into growing its operations in Macau, China. It then used that money to
WYNN’S REVENUES HAVE INCREASED FROM $909 MILLION TO NEARLY $1.4 BILLION.
support its Las Vegas operations and more aggressively market them to high-end consumers. The result: Revenues are now up in both places. Over the past three years, Wynn’s revenues have increased from $909 million to nearly $1.4 billion.

Subway restaurants are another example. The company now has 33,749 restaurants worldwide — more than McDonald’s 32,737. And much of its growth has been overseas. The sandwich giant now has operations in 95 countries.

But for Subway, it’s not just a matter of opening businesses in cities and countries where they weren’t operating before. It’s a matter of looking for unusual locations to do business within every city and country where it’s already based.

Consider this: In just the past couple years, Subway has opened shops on 330 college campuses worldwide. It also has a sandwich shop inside an appliance store in Brazil, on a riverboat in Germany, and in a car showroom in California.

As Subway CEO Fred DeLuca has put it, “There’s value in tapping into the mass market and being a business that thinks of and sells to everyone.”

To be sure, not every global enterprise is able to meet its customers on those kinds of terms. So, maybe it pays to look at Apple, instead. The iEverything giant has added 1.1 million jobs since the global slowdown, most of which were outside the U.S. Why? Because that’s where the bulk of Apple’s revenue growth has been. Apple met the customers where they were.

You probably know how that’s paying off for Apple. But how about Subway? Well, its revenues have grown from $15.2 billion to $17 billion over the past two years.

3. PUMP UP PRODUCTIVITY

During rocky economic times, workers tend to focus on every negative — on the things that aren’t working. So leaders need to show them what is working, to trumpet every victory, even small ones. Revenues are down, but market share is up? Successful companies celebrate that.

Profits are off, but productivity is up? Effective leaders keep pushing for more gains. And there are plenty of effective leaders doing just that today.

After digging into corporate financial reports and other numbers, The Wall Street Journal found that some of the biggest firms on Standard & Poor’s 500-stock index are besting their 2007 performance levels for sales, profits, and employment.

That gain, The Journal says, is in large part due to increases in efficiency and productivity. For example, companies in 2007 generated $378,000 in revenue for every employee on their payrolls. By 2012, they were generating $420,000 per employee.

That didn’t happen by accident. Not at Ford Motor Company, anyway. Ford was on the brink of bankruptcy after the global financial crisis hit in 2007. Yet it was the only one of Detroit’s Big Three carmakers that avoided Chapter 11. Ford’s strategy: Instead of making massive cutbacks, it invested heavily in innovation, hoping to improve its product line and boost employee productivity. That worked. With an entire new fleet of cars and light trucks, Ford is selling 200,000 more cars per year than it did in 2007.

A COMMITMENT TO IMPROVEMENT

Another example: Actavis, formerly known as Watson Pharmaceuticals, did contract, closing several North American manufacturing facilities during the economic downturn, laying off people and moving some operations to India to be closer to its Asian customers.

However, it then made major investments in the plants it kept in North America. As a result, productivity skyrocketed. The Wall Street Journal reported that before the company made its commitment to productivity improvements, an Actavis factory in Florida needed 866 workers to make 1 billion pills.

After a review of the production process and investments in new technologies, the plant was able to produce 1.2 billion pills with 937 workers. And, the bottom line? Actavis’ revenues have shot up from 2011 to 2012 by 29 percent, reaching $5.91 billion.