

in this issue

Strategic Thinking

Thinking about the Economy

Strategic Action

A Plan for the Unexpected

Industry Snapshot

Getting to the Heart of the Matter

Reading List

The Black Swan

By Nassim Nicholas Taleb

Announcements

About Trek



trekking

a newsletter on practical strategic thinking and action
issue #45: expecting the unexpected

editor's message

We all tend to shape our expectations of the future on what happened in the past. This is especially true with the economy. If things are going well, we tend to expect that the pattern will continue in the future.

This month in Strategic Thinking we challenge you to think about what would happen to your business if there is an economic downturn this year, and in Strategic Action we give you some concrete steps to take in case it should happen. Our Industry Snapshot recounts the story of a successful reaction in the last downturn, and the Reading List reviews *The Black Swan*.

strategic thinking

Thinking about the Economy

No one wants to miss out on economic opportunities. It is hard to call the peak in any economic cycle—and we're not trying to do that. But there are a number of troubling trends in the economy right now that tell us it could be a challenging year ahead.

It is often said that the greatest benefit of planning is not the plan itself but, rather, the thought process that goes into it. Thinking about what to do in an economic downturn is this kind of exercise. What would the effects of a recession be on your market? Your customers? Your business? What are your customers planning for the coming year? Should you adjust what you are doing?

While you should not religiously use the past as your guide, you can learn from past recessions, especially if you are in an established industry. Does your industry lead or lag the overall economy? What drives demand? Then ask yourself, what is different today that may change the patterns?

You cannot predict the future but thinking about possible scenarios can help you prepare for the unexpected—the unknown that surely awaits you in the coming year. Read on for ideas on possible actions to take.

-Mary Adams (adams@trekconsulting.com)

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strategic action

A Plan for the Unexpected

By stepping back and looking at the issues raised in Strategic Thinking, you may uncover potential weaknesses that you can address.

The first step may be to sit down with the management team, collect their input on the topics mentioned above and develop your contingency plan in case of an economic downturn. Some of the questions to ask include:

- In a recession, which of your customers or clients would be most vulnerable and how can this affect your relationship?
- What about your key suppliers and/or partners?
- How elastic are your resources? If you lose somebody through attrition, should you replace them with short-term or outsourced labor?
- Have you taken a close look at your cash cycle: inventory, accounts payable and accounts receivable? Can you tighten up there by applying different methods? Tighter inventory and more timely receivables mean more cash, less debt and smaller interest expenses. The opposite is true of payables.

Beyond speaking with your internal team, you might also consider strategic conversations with key customers and vendors about their views on the economy. Your conversations may or may not prompt a change in your plans for this year—but they will definitely prepare you for whatever may come along.

- Michael Oleksak (oleksak@trekconsulting.com)

industry snapshot

Getting to the Heart of the Matter

A great example of reacting to economic changes that we use in our Strategic Thinking course is Joe Tucci's reaction to a sales dip at EMC. Up until 2000, EMC dominated the market for failure-proof storage of huge amounts of data. It had the best technology and 75% of the high-end storage market with its product, Symmetrix which cost \$3MM. It had great operations, organizational processes, and people—including skilled and aggressive salespeople.

In the first quarter of 2001, sales collapsed. Tucci, who had seen the collapse at Wang, did not believe his managers who said it was a one-quarter event—that purchases were just being postponed. Tucci felt it was more than that and wanted to get to the heart of the matter. He started having strategic conversations with his C-level peers, as well as the CEOs and CFOs at his clients. The cumulative answer was that the economic slowdown and excess capacity in telecom were forcing changes at his customers' businesses.



Tucci used these conversations to get quick market feedback and make significant changes throughout his organization.

You can read about this story in significant detail in *Confronting Reality* (<http://www.randomhouse.com/catalog/display.pperl/9781400082889.html>) by Larry Bossidy and Ram Charan.

reading list

The Black Swan

By Nassim Nicholas Taleb

The title of this book alludes to the fact that prior to the discovery of a black swan in Australia in 1697, the definition of a swan included its white color. This image speaks to the fact that we tend to extrapolate from what we see and know to create theories that shape and restrict our thinking. These theories then prevent us from seeing new possibilities as well as new threats.

Taleb's background is in the quantitative financial world, but his ideas can be applied to everything from national defense to innovation. The concept of the Black Swan is that the sheer scale and complexity of today's world means that "black swans" are more and more possible—and more dangerous.

This is a very hard book to follow—he cites freely from a lot of academic works and theories. But his message is powerful. And his answer to the dilemma of the "black swan" is not hard to understand—he tells us to not be afraid to say "I don't know," to avoid generalizations, and to be open to all possibilities.

To read more about this book, visit Taleb's web site (<http://www.foolledbyrandomness.com/>).

announcements

The Institute of Management Consultants New England (IMCNE) has a great program tomorrow on Wednesday, January 9, 2008 @ 11:45 am in Newton at the Regus Riverside Center entitled, "The Business Case for Sustainability: Opportunities for Management Consultants." For more information, visit the IMCNE Events page (http://imcne.org/events/2008/cr_ma_jan07.html).

The next meeting of the Exit Planning Exchange (XPX) will be on January 23, 2008 from 7:15 am - 9:00 am in Wellesley at Babson College, featuring guest speaker Les Charm, who will present, "Will the Owner Really Sell?" For more information, visit the XPX Events page (http://www.exitplanningexchange.com/Cur_Events/will_the_owner_really_sell.pdf).



The next bimonthly dinner meeting of the Institute of Management Consultants New England (IMCNE) will be on January 24, 2008 at 5:00 pm in Waltham at the Hilton Garden Inn with the program, "Pick a Pack of Perfect Panelists: Succeed as an event moderator and deliver a lively program." For more information, visit the IMCNE Events page (<http://imcne.org/events/2008/jan2408.html>).

about trek consulting

Trek Consulting LLC helps companies to face the challenges of growth, building value and dealing with change. Since 1999, we have been a valued partner to business owners and leaders on their arduous journey to business success. We know that we cannot make this journey for our clients, but we can make it easier and more successful. We focus on getting you the best information available, facilitating sound planning and decision-making, making sure you have the right skills and resources to face your challenge, and coaching you through the road-blocks that invariably arise along the way.

Our clients report improved market focus, greater revenues, better margins and increased profits. To learn more about Trek Consulting and how we can help you improve your company's results, visit us on the web at www.trekconsulting.com or call us at 781-729-1008.