

This **Insight** is 835 Words.

Reading time: <4 minutes.

Value: Priceless

## Sunshine on a Rainy Day

Amidst the incessant downpour of depressing news the past few weeks, General Mills' earnings were a bit of blue sky. The latest issue of *Fortune* highlighted the food company's success in Mina Kime's article about managing margins: "Innovation and marketing drive sales, and General Mills' revenues rose 14% last quarter after it heavily promoted new products such as Fiber One yogurt. But the money for such aggressive initiatives, says [CEO Ken ] Powell, comes from margin management."

### Our Take

Pop quiz! Question 1: At one point Ford outsold Chevrolet 10-1. When did Chevy overtake its rival to become the #1 automaker? Question 2: C.W. Post used to be the cereal king. When did Kellogg take the throne?

Extra credit question: Why did Chevrolet and Kellogg surpass their larger competitors?

Answers: (Score your results at your desk – we are on the honor system.) Chevrolet and Kellogg both surged past lagging competitors in the early 1930s – during the Great Depression! Given the current economic outlook, this should make you sit up and take notice. The General Mills example cited in *Fortune* shows that it is just as possible to thrive in the face of today's economic monsoon.

What about you? Are you just trying to "hunker down" and survive the current crisis or are you setting yourself up to thrash the competition? This **Insight** quickly covers the steps to writing your own success story during the present economic meltdown and how to pay for it.

Historical analysis reveals our Pop Quiz's extra credit answer: the reason Kellogg, Chevrolet, and many other companies blossomed while their rivals were wilting is **they invested in marketing and innovation**. At a time when most companies were freezing spending, cutting R & D, and thereby reducing their share of customers' minds, smart companies increased their investments in these areas. When the Depression ended, the same smart companies leveraged their enhanced equity to continue

growing faster than competitors.

Keep in mind that during a recession or depression, innovation still sells. During the 1930s the high growth industries included movies, radios, and electrical products because these were all new, high-value offerings. Businesses and consumers do buy during a depression, just more judiciously; therefore, the need to offer better value (through **innovation**) and to communicate that value (through **marketing**) is intensified.

How, though, do you pay for marketing when reaching into the corporate purse may cost you a few fingers? Not by cutting people. A recent study demonstrated that by the time a company realizes the economic benefit from staff reductions, the need for downsizing has usually passed and the slimmer workforce has become a competitive disadvantage. [Call me for a more in-depth discussion on why staff reductions can make a company “fragile” and at greater risk of financial disaster.]

Here are three approaches which are proven to generate incremental dollars even if you have already completed numerous, successful cost-cutting projects:

1. **Relentlessly prioritize using Net Preference as your yardstick.**  
To find money for marketing, the corporate belt needs to be tightened elsewhere. But how do you choose where to cut when the future is so uncertain and all projects have strong justification? You rely on the most important and stable determinants of success: drivers of customers’ choices; i.e. Net Preference. We have seen the application of this metric turn up millions of dollars by shining the harsh light of marketplace reality on “great” projects which would not have significantly affected long-term results. [Go to <http://ascendantconsulting.com/resources/NetPreferenceBooklet.pdf> to download a whitepaper on developing and applying Net Preference.]
2. **Reduce your resource requirements by identifying bottlenecks.**  
Every company, including yours, has process bottlenecks which are determining the minimum resources required to produce current results. Find the bottlenecks and you can devise ways to reduce costs without sacrificing productivity. Granted, this is easier said than done; however, there are straightforward methods which typically identify a few million dollars in resource savings within a few days. (Yes, a few days.)
3. **Renegotiate your purchasing contracts using a sophisticated options approach.** First, I can assure you that your purchasing group is not going to like this idea because it implies they are not already doing the best possible job. Also, they have never heard of this approach. Using options theory to negotiate better terms is a

