

## Where Do We Go From Here?

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As we celebrate the summer holidays, let's take a minute to reflect where we are in the economy today and how it impacts our businesses. Late last year I wrote a paper on the "Critical Strategies" we need to incorporate to survive the downturn. So if you are still in business congratulations! You have survived. The question now is: Where do we go from here?

Depending on whom you hear or read we can assume the following:

1. The experts have no idea of how and when the economy will improve.
2. The economy of the future will be different than the one we have been experiencing the last thirty or so years.

So is it time to panic? No on the contrary it is time to carve out our niche. In order to do so we must understand how the economy of the future will operate. We won't debate the experts. However, the following is a summary of emerging trends that will impact the new economy regardless if you are a large business or an entrepreneur. These trends are based on articles and interviews of several business leaders.

### **1. We can't throw money at problems anymore**

Whether the economic crises of last year occurred or not, one thing is for sure: A growing global economy will put pressure on future credit. Emerging economies will be vying for capital with the developed economies.

We Americans have always been good at solving problems. However, we often do not solve problems economically. We tend to tackle the symptoms instead of the root causes. Think of our Health Care System. How often does a physician prescribe a series of tests and procedures to treat a symptom only to find out all of the tests are all negative only to repeat more tests. The same can be seen in industry and government as well. I know some of you will say this makes sense for the government. However, trust me I have seen businesses be just as wasteful and ineffective as the public sector. We are starting to see Washington incorporate phrases such as "Deficit Neutral" and "Pay as you go" used to describe future legislation. Even if they appear to be slogans they do generate awareness that the piggy bank is no longer full.

Those businesses that can manage tight liquidity will have a competitive advantage. Ford is an example of one company who has succeeded so far in the current economic environment.

Businesses must be more diligent in understanding the ROI of new projects and products in this environment. This will require creative ways to finance these programs in the future.

### **2. The new Business Model**

In a tight economy cash is king. So adding headcount even if the sales forecasts are correct can be an added drain to a company's short term cash flow. Remember our first observation above! Secondly, a business should evaluate if the skills and resources needed in hiring additional people can be outsourced.



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The new business model will consist of an organization that employs only those critical core competencies. In other words, a business cannot afford to have personnel that are not integral to the design, manufacturing, selling and support of their products. Those businesses who can build collaborative arrangements with other businesses to support the non critical functions will be lean and adaptable.

### **3. A more sophisticated Customer**

Customers are in the driver's seat. Not only are they saving more and spending less; they continue to be discriminating in their purchases. Look for more 'hard' bargaining between consumers and retailers even for small commodity products. Creativity in bundling products and services along with flexible and creative terms and conditions can become a competitive advantage.

### **4. The need for continuous innovation**

One of the concepts we discuss in our Entrepreneur's Flight School workshop is the need for businesses to offer a suite of products and services. This is true for even well established companies as well. If the economy moves from a consumer based to a hybrid of infrastructure improvements, consumer and exports; then a company will need to adapt and offer innovation that serves all three markets. Innovation will not only have to focus on the "Wow" factor but also on the Utility. In other words, products that have a lot of neat gadgets and features but offer little utility to the end user will be hard to sustain. Even consumers will be more demanding moving forward.

Likewise, innovation in the delivery, servicing and support of products and services will differentiate companies moving forward.

### **5. Self Financing**

Let's go back to our first observation: "We can't throw money at problems anymore". Businesses that can be creative in generating revenue streams will be able to grow and gain market share. Remember the Hyundai promotion earlier this year? The promotion was if you lost your job, you could return your car to Hyundai. Hyundai was the only auto manufacturer that gained sales in January 2009 while the market dropped 30%. This was a clever way to generate interest by combining an effective marketing strategy along with creative terms and conditions.

In the past few months we have worked with several clients to be creative in generating new revenue streams to ensure they have the cash flow to navigate this economy.

### **6. The reality of long term pricing pressures on commodities**

As we said earlier, a growing global economy will put pressure on commodity pricing just like it will for credit. So businesses that become efficient in the use of raw materials and energy consumption will also have an economic advantage over the competition.

This also plays into the concept of global sourcing. Logistics cost will play a larger roll in the future business model. As energy cost increase the economics of producing products locally for local markets should become more attractive. So businesses should be reviewing their sourcing strategy. In other words, strategic decisions in regards to design materials, manufacturing processes and distribution need to be based on the economics of the future and not those of today.

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#### **7. Exports will be key for long term survival**

Jeff Immelt the CEO of GE recently said we (the United States) need to export more goods and services if we are to maintain our lifestyle long term. That not only applies to large multinational businesses but small businesses as well. Exports will not increase if we unless we put more effort into innovation and manufacturing. The economic models that drove much US manufacturing offshore these lasts twenty or so years are for the most part not valid any longer.

This provides a tremendous opportunity for start ups to collaborate with established manufacturers to launch new products and businesses.

#### **8. The Public/Private Partnership**

The Public/Private partnership is often associated with big ticketed items such as infrastructure improvements for business developments. However, this partnership is starting to work its way down to the entrepreneur and small business level. Increases in SBIR (Small Business Innovation Research) grants provide valuable cash to entrepreneurs and small businesses. In addition, emphasis on green technologies, health care innovation and education will provide small businesses with the ability to collaborate which might have been difficult in a pure market driven economy.

We have tried to lay out what trends are emerging that will impact business strategy long term. It is safe to say, the free wheeling loose spending over consumption that got us into our current situation is a thing of the past for at least the foreseeable future. So understanding the trends we highlighted above should provide some food for thought as you proceed with your strategic initiatives.

We have created a Facebook page for Mountain Global. This paper will be posted on it along with the transcripts of interviews and articles which were used to generate this paper. We would encourage you to join the discussion to share your thoughts and insight on this subject.

Until next time,

*Bob*

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