

## Recessions Bring Pain – but also Opportunity to Gain Important Competitive Advantage in Supply Chain Performance

### NASCAR Yellow Flag Makes Good Analogy, Dr. Langley Says; Lessons from 1990-91

#### SCDigest Editorial Staff

The recession has been painful for most companies, and caused many of them to “hunker down” in terms of spending for sure and in many cases strategic execution as well.

Optimistically, some observers see quite a few rays of light in the economic landscape. Just recently, for example, the respected Economic Cycle Research Institute said its array of leading indices show that the US economy is on the cusp of a strong recovery.

Perhaps more importantly, other experts are now saying that how companies have approached this long downturn, and the actions they take as recovery begins, can have an important and long lasting impact on their overall competitiveness and success moving forward.

**Dr. Jim Tompkins** of Tompkins Associates, for example, has been studying the economy for the last six months or more, and firmly believes recovery is on the way, phased in timing by different industry sectors. He is adamant that many companies must be thinking about “comeback planning” right now to make the supply chain moves needed to capture market share and manage costs as demand recovers – which he believes will happen more rapidly than many observers predict.

On a similar note, **Dr. John Langley** of Georgia Tech says he believes NASCAR racing provides a good analogy for what is likely to happen.

“The recession is like the yellow flag that comes out on the track when there has been an accident,” he says. “What happens next? Everyone gets all bunched up. But the key is what happens when the

**While most companies have needed to hunker down during this deep recession, there are smart and not so smart ways of doing it – and big stakes for those who plan right for recovery.**

---

green flag is waved – which we can think of as economic recovery.”

He says that the green flag coming out is often the point where the ultimate race is won or lost – which cars can pull away from the pack and can the lead? It may be much the same with business and the economic green flag.

#### **Accenture Research Says Recessions Separate Winners and Losers**

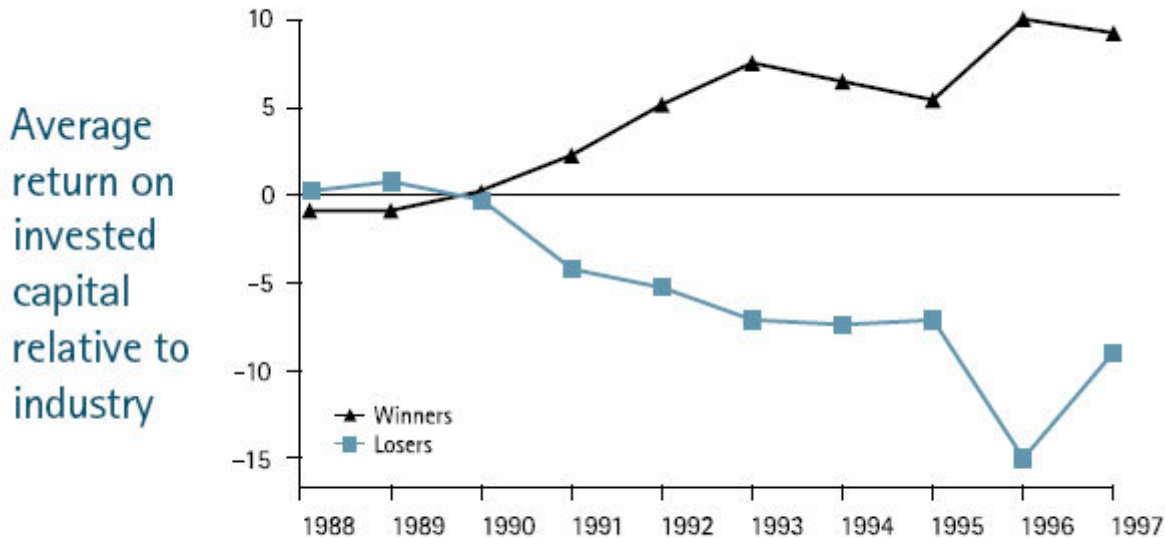
That view is very much supported by research on what happens after recessionary periods.

The research was initially first performed following the rough 1990-91 recession, but dusted off more recently by the company to remind executives of the ultimate stakes.

As seen in the figure below, Accenture found that in terms of one critical corporate financial metric, return on invested capital (ROIC), recessions tend to divide companies on to “winner” and “loser” tracks that maintain themselves for many years

**Recessions Bring Pain – but also Opportunity to Gain Important Competitive Advantage in Supply Chain Performance (Con't)**

Figure 1. Winners pull away from losers after a recession



Source: Accenture

Companies with the highest return on invested capital for the three-year period following the recession tended to maintain their lead despite other factors in the market.

after the recession ends.

“This correlation shows that companies that pull away from the competition during a downturn have lasting advantages, not just a fragile edge,” the report notes.

What attributes and actions characterized these winning companies? Accenture notes the following, most of which, while focused at a more general business level, have direct supply chain implications or parallels. Winning companies:

**Set priorities based on detailed knowledge of how the company creates value:** Winning companies did not just cut costs— they cut the right costs. They diverted resources to activities that actually created value. These companies did not just make across the board, indiscriminant cuts that impacted service and how the company created and delivered value to themselves and their customers. That takes detailed

knowledge and analysis of what really matters in terms of value creating and competitive advantage.

**Leveraged information systems:** The winners had better IT going into the recession, and used that or acquired new capabilities to better model the new conditions and make adjustments as the economy improved. Just as important, they actually *used* this intelligence to make better decisions than the losers.

**Collaborated with customers to improve value propositions:** The winners of the last recession reached out to customers to better understand their challenges. Gathering this information allowed the companies to create new products and services that were uniquely suited to the pressures customers were facing during the downturn.

**Priced for profitability:** Winners worked themselves into an advantaged cost position during good times, and then used their pricing flexibility to pick up market share in a downturn. Interestingly, winning companies walked

## **Recessions Bring Pain – but also Opportunity to Gain Important Competitive Advantage in Supply Chain Performance (Con't)**

away from bad business during the downturn – while losers did not.

The bottom line: while most companies have needed to hunker down during this deep recession, there are smart and not so smart ways of doing it – and big stakes for those who plan right for recovery.

---