Why Some Thrive and Others Bite the Dust

During times of economic downturn, why do some companies cease to exist while others remain successful?

By Stan Pohmer

> Those who know how to manage their businesses financially and operationally, know what's important to their customers, and focus on exceeding and meeting their expectations will survive and thrive.

This economic downturn — I use the term "downturn" because the economic pundits are now saying that the "real recession" might not hit until fourth quarter of this year or first quarter of 2009 — is wreaking havoc on consumer spending and retail sales. With rising inflation and fewer discretionary dollars, consumers are making some hard decisions on how they spend, where they spend and why they spend.

There have been many recent announcements of Chapter 11 (reorganization) and Chapter 7 (liquidation) bankruptcies in the news, as well as numerous "warnings" of sales and earnings declines for the future in the media. Bennigan's and Steak & Ale restaurants shut their doors overnight. Steve & Barry's, a fast-growing, popular and successful apparel retailer that started out on college campuses and then added celebrity-endorsed lines, filed for Chapter 11 and is on the block for $168 million, even though they have more than $1 billion in assets. Whole Foods, the poster-child retailer of organic and natural foods, just announced sales and earnings shortfalls. Mervyn's, the mid-tier department store chain, filed Chapter 11 protection. And as I drive through communities throughout America, I see empty storefronts in strip malls and freestanding locations. Yet, despite these financial horror stories, there are companies that continue to not only survive but also thrive in these same economic times. This got me to thinking about why some companies cease to exist, while others do well.

In certain cases, the demise of companies can be traced back to financial and operational mismanagement: Some companies were already poorly leveraged financially even when the economy was strong, and the current economic pressures were just the straw that broke the camel's back. In others, the companies waited too long to react to the slower sales rates and didn't make the necessary adjustment to their expenses and inventories, and they got behind the cash flow curve. And, with the turmoil in the banking industry, lenders are no longer willing to provide operating capital to companies that aren't performing well, have no viable business plan or model, and don't have a chance of quick recovery — forcing the companies into bankruptcy.

Meeting Customer Expectations

The more I thought about this, there's a more fundamental reason why some companies continue to be successful and some bite the dust. Some of these failing companies simply had no reason to be in business; they had no competitive advantage or resonant point of differentiation to drive sales. And at the end of the day, retail is all about satisfying the needs, wants and desires of customers, giving them a reason to come through your front doors in the first place and then come back to buy again. Do this with consistency and you survive, fail to do this and you're history.

In June 2006, I wrote an article "Two Out Of Five Ain't Bad" in *Lawn & Garden Retailer* (go to www.lgrmag.com/Pohmer-On-Two-Out-of-Five-Ain't-Bad-article7233 to view the complete article) that discussed the subject of meeting customer expectations…and the message there is even more relevant in today's economic environment!

There are essentially five key expectations consumers say are important to them when considering where to spend their hard-earned and shrinking dollars:

Price: "Honest" is more important than "lowest."

Product: Good is good enough.

Service: Get back to basics.

Access: Make it easy for me.

Experience: Skip the entertainment; just respect me.

It's impossible for any retailer to excel in all five of these categories; if you try to do so, you'll end up spreading yourself too thin and not achieve any of them, leaving you as mediocre, at best. However, the research demonstrated that, if you focus on exceeding customer expectations in just two of these five areas — and simply meet customer expectations in the other three — you will differentiate yourself from your competition and develop loyalty with your customers. The trick is to understand your strengths as a company, know who your customers are and what drives their purchase decisions, and understand your competition and what their compelling business proposition is. Then determine your company's direction and key focuses.

In *The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market*, authors Michael Treacy and Fred Wiersema conclude that there are three market disciplines for any company to pursue: product leadership, operational excellence and customer intimacy. And the company must be great at one of them to succeed. If a company isn't great at one of these disciplines and at least good in the other two, then it is relying on customers' "foot memory" to sustain sales, meaning that there isn't any loyalty or compelling competitive advantage to make the company stand out and become the preferred venue.

Recognize What's Important

The Alix Partners Consumer Sentiment Index (discussed in the June 2006 article) and the Treacy/Wiersema book essentially support the premise that the successful company needs to understand what's important to its customers in the context of the economic environment and their retail playing field, and then identify the areas they want to excel in. Once identified, all of the company's resources — advertising and promotion, employee interaction, store design/ambiance, product assortment, merchandising and display, and anything else that touches customers — must be marshaled consistently to deliver their core value messages.

Realize, too, that this has to be an ongoing process, and companies need to constantly re-evaluate and reinvent themselves as the world in which they operate changes, whether it's new consumer spending challenges and buying behaviors, new competition, economic pressures or lifestyle trends. Most of the companies cited earlier failed to make the changes needed to maintain relevance with their customers or differentiate themselves from their competition. Steak & Ale and Bennigan's were no longer perceived as different from the other casual restaurants in an already saturated marketplace as consumers cut back on their out-of-home eating spending. Mervyn's was stuck in the middle between the discounter and the high-end department store with no differentiating identity, and Whole Foods didn't maintain a leadership differentiation as their competitors started playing on their previously exclusive organics niche turf — and then they didn't come up with a new product leadership position in response to this new competition.

Retailing has never been easy, and in today's environment, it's tougher than ever. But those who know how to manage their businesses financially and operationally, know what's important to their customers, and focus on exceeding and meeting their expectations will survive and thrive. It's all in how you choose to play the game… GPN

Stan Pohmer is president of Pohmer Consulting Group in Minnetonka, Minn. He can be reached at spohmer@pohmerconsulting.com or (952) 545-7943.

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