

Rx FOR FALLING CORPORATE PROFITS

"Corporate Profits Fell 43% in 1st Quarter" proclaimed the 15 May 2001, Wall Street Journal headline. The article went on to say that: "The nation's (1700) largest corporations posted one of the worst profit performances in at least 10 years in the first quarter, suggesting companies may further cut spending to stem the tide ... technology has made companies more reliant than ever on volume to keep unit costs down. As volume has slowed, unit costs have risen and eroded profitability."

Once again the squeeze is on and many companies are looking at massive cost cutting as the means to scramble back to profitability in an uncertain economy. The problem with this classic approach is that it sends the clear message to your brightest and best talent that no matter how well they perform, today there is no job security. Not only does such a move have a serious impact on morale, but with most of the country still in a very tight labor market, what happens if the economy improves later this year or early in 2002. It will be next to impossible to replace laid-off workers and worse yet, your current work force, especially those brightest and best, may well decide that it is time to move on to greener and possibly more secure pastures before the next downturn hits. Is there a better approach than cutting off your nose today and spite your face tomorrow? Absolutely!

The way for any organization to beat this cycle, especially in an economy that may well in this decade experience several see-saw periods of growth and contraction, is to adopt synergistic innovation as its model for continuous expansion despite short term economic declines. Most corporate leaders know that productivity increases provide the best way to increase profits quickly without increasing prices. What is less well understood is that continuous innovation is the most effective means to improving productivity over the long term. Internally generated innovation in products, services, processes and methods provides an endless series of new opportunities to make rapid productivity increases for both the organization and its customers an on-going reality.

Innovation channels the creativity of the organization's greatest asset, its people and puts it to work in practical ways that are "real world market" driven and directed. Far too often we immediately look outside of our

organization for "new solutions", when instead we should rather be looking within, especially in times of economic downturn. New ventures and other outside opportunities, while potentially profitable for the long term future, typically take a significant period of time and frequently much additional capital to bring them to the point of being substantial profit contributors. Meanwhile opportunities often abound internally to enhance our market offerings, streamline our operations and save money through creative approaches and best of all, these capabilities exist today within the minds and hearts of our present employees. If we will endeavor to unlock these potent assets rather than choose the typical knee-jerk reactions of cost cutting and down-sizing as our first response, we will find our people willing and capable to respond in frequently unimagined ways to grow our productivity and profitability. Later, when the economy rebounds, we will not need to replace down-sized workers and will find we have built a deeper allegiance and sense of ownership within our people.

Once we have initiated a culture of innovation, then it is the primary responsibility of the leadership to ensure synergistic outcomes. The power of synergy, although simple in concept, is the most overlooked responsibility of today's senior executive corporate leaders. Large organizations are like campfires that periodically burn down until mainly embers remain. The initial fuel is mostly spent and therefore the first reaction is that we need new fuel, new resources, new investment, acquisitions, etc. to build the fire back up. Yet when out camping and the fire burns down, the first thing we do is stoke the existing fire and mound up the glowing embers. Almost immediately the flame erupts again without adding new fuel.

All we needed to do to go from dying embers to a raging campfire was to integrate the existing embers so that rather than each burning alone, they burned synergistically, combining their individual heat. So too, the careful integration of all of our products, services, processes and methodologies, in short, everything the organization is and does to achieve the greatest bang for the buck is no more than the organizational form of stoking the fire. Unlike adding new wood to the fire, the synergistic result of stoking is virtually immediate and without the need to invest capital in additional resources. Synergy is the ultimate multiplier, as it opens the door to exponential results again and again!



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