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Poor Performance: Bad Economy or Bad Business?

Don't let a weak economy obscure your vision.

by Ray W. Swanson

Background. Recessions definitely cause problems, but a weak economy can also provide air cover for business issues that would exist anyway. If your business has a revenue problem, how can you sort the causative factors out?

The Issue. Let's start by identifying the business issue – assume it's a lack of sales, meaning the business has product on the shelf but customers aren't buying. Don't worry as to whether the company is a new venture seeking to generate traction, or an existing business that's underperforming. Right now, this doesn't matter.

The Solution. Recognize that the potential reasons customers aren't buying stems from one or both of these two areas; the company has an issue that is impeding the sale or the customer has an issue that's preventing them from buying. We know the weak economy has impacted the customer, so focus on the company side. Break the company issues into two categories: Product and Execution. Product includes everything related the customer's use of the product, like reliability, for example. Execution refers to the company's ability to make, sell and support the product. Collectively, these two areas cover just about everything across the relationship between your business and the customer, leading up to and after the sale.

To determine if there are issues on the company side, then we have to remove the impact of the weak economy from the equation since it's clouding the view of the experience between the company and the customer. Here is a real-world example of how we helped one company to do this.

Real-World Example and Results. A medical device company had a highly innovative product that had been recently launched. Sales weren't materializing, and while the company knew the economy was a major factor from conversations with customers who had experienced severe budget cutbacks, management was concerned they might have also missed the mark in understanding the basic value proposition, or something was wrong with execution. Assessing the causative factors was particularly complex as the company was innovating across multiple fronts at the same time: Pioneering a brand new product and market category with no clear cut standards or competition to help identify true customer acceptance criteria; developing basic infrastructure across all fronts, including customer service and support; while building an organization derived from a highly skilled, but young and inexperienced management team.

Our first objective was to assess actual product performance. We wanted to know whether (i) the product was performing to spec and therefore doing what it was supposed to do, and if so, (ii) was this performance acceptable, from the customer's viewpoint, to warrant adoption. It was clear that the company had reached the limits of its ability to obtain useful information from concept discussions with potential customers – what was needed was feedback from real world experience in a buy-type environment. We decided to remove the economy as an obstacle to real-world

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customer usage by creating a no-strings-attached evaluation and usage agreement with customers. (Customers had responded to the economic downturn by instituting stricter controls on any agreements that contained commitment-to-buy clauses.) This allowed the company to quickly install systems at several customer sites. After observing the installation process and initial usage by the customers we were able to discern several factors that were limiting acceptance of the product. We further conducted in depth interviews with a number of high potential prospects to revalidate product acceptance criteria on more detailed and practical level, as we now had a body of real-world usage experience to work from. We also collected substantial feedback from the early adopters of the product, i.e. those customers who had participated in early trials and were the first to buy, and found they had accepted the product knowing there were gaps in performance, had assumed fixes were on the way, and were thus using the product in a limited fashion. Ultimately, we uncovered several key issues that the company was able to fix quickly, but at least one required a more significant retooling effort.

The next step was to evaluate sales execution ability. Interviews were conducted with the sales team, to review sales strategy and messaging. Simultaneously, the company conducted an audit of the sales funnel which included follow up with multiple prospects. The sales funnel was already populated with a large number of accounts, so the assessment was designed to validate the quality of the accounts with respect to their position in the funnel. While this process led to the conclusion that the sales process was intact and well managed, a key learning emerged that sales messaging needed to be modified to accommodate handling the existing limitations of the product. By incorporating this information in the sales messaging, the company was able to more effectively manage customer expectations throughout the sales process which lead to improved results.

Conclusions. In a weak economy, resist the temptation to lay full blame on the environment if your sales are lagging. Revalidate your customer value proposition and product performance by continuing to get the product in an observable usage state with the customer. Find ways to engage with customers independent of placing pressure on people already dealing with severe budget cuts and their own personal fears of job loss. Create the environment to enable brutally honest feedback on the real world performance and acceptance criteria for your product. If the data indicates that performance is not meeting customer expectations, or customers won't take the product on loan (to get free value) then there may be a more fundamental issue with the product offering. Don't exclude the possibility of an execution problem, however, resist the temptation to latch on to this as the primary issue until you have performed adequate diligence to revalidate the value proposition. Customer requirements can and do change over time and from competition.

As a further step, take time out to re-evaluate your pro forma financial and business assumptions with renewed analytical rigor. This is an important internal analysis to assess the impact of any changes that you identify from your customer due diligence. Model sales volumes at various levels. Update pricing assumptions. Revalidate your assumptions on the cost drivers – product, expenses, and especially support and

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service costs. Run the P&L and Cash Flow numbers under a range of scenarios to assess liquidity requirements and value creation through cash flow. Healthy numbers signify that the business could return to a positive trend once the economy improves and sales pick up.

Many businesses have been hit hard, and have made adjustments to their operations as a reaction to the weak economy. There is a common mantra that is repeated that "we just need to ride out this year." Now is the time to thoroughly validate the underlying tenets of your customer value proposition, execution performance and long term business model. Eventually buying behavior always returns to positive, and you want to capitalize on that moment when it does come.

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