



Winning During and Post Recessionary Times

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grail research
a division of Integreon

Winning During and Post Recessionary Times

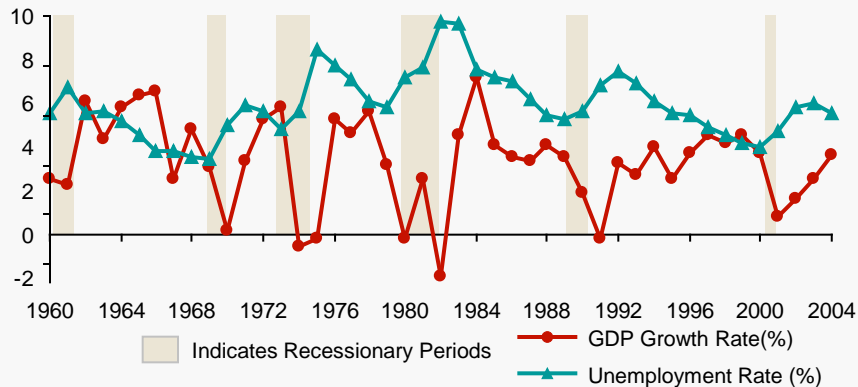
Framing the Study



➔ In the midst of tumultuous economic times, companies need to make difficult decisions

➔ **Are there particular choices that make some firms succeed, while others around them fail?** This question framed our study

U.S. GDP Growth and Unemployment Rates, (1960–2004)¹



- Our methodology compared the performance of 11 unique pairs of companies from 8 different industries across 7 recessions in a period spanning 40 years
- We selected a number of economic indicators for comparison and then analyzed the strategies of these companies to determine the principles they followed during the recession that contributed to their post-recession success

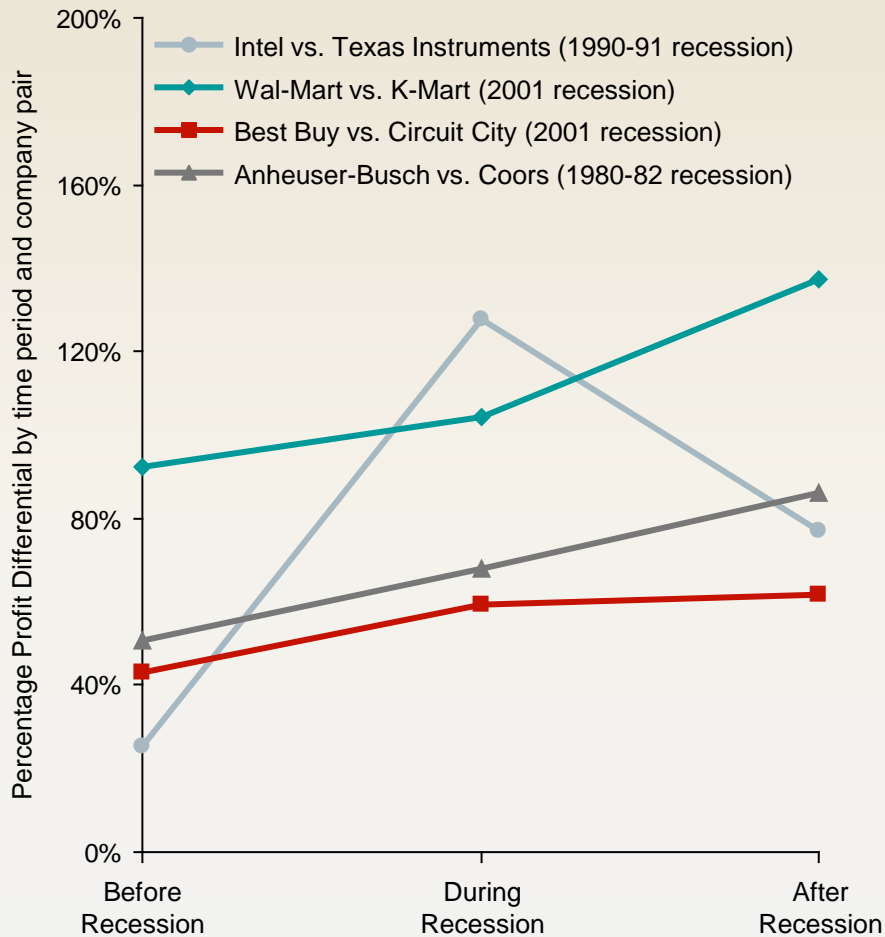
This document highlights the key principles identified through the study and provides case studies to demonstrate the impact the companies' decisions had on performance

Winning During and Post Recessionary Times

Executive Summary



Profit Differential Through Recession



1990-91 recession



Intel adapted to the growing market for multimedia and internet, and focused only on developing microprocessors, exiting other low-margin businesses. Texas Instruments held to their diversified product portfolio and post-recession, suffered notable losses in some businesses such as defense electronics



2001 recession



Wal-Mart continued to reach out to customers with offers and promotions, increasing sales and market share, and leading to higher profits post-recession. K-mart cut marketing spending during the recession, resulting in a precipitous drop in sales. Unable to recover, the company was forced to file for bankruptcy post-recession



2001 recession



Best Buy continued to focus on customer experience and reduced costs in other non-customer facing areas. Circuit City cut customer facing expenses by laying off a large number of experienced store employees. This contributed to the company's eventual liquidation



1980-82 recession



Anheuser-Busch established vertically integrated subsidiaries and focused on procurement strategy to reduce material costs and maintain profitability. Having invested substantially to fully-integrate the value chain, Coors' profitability declined when the company was not able to adapt its cost structure to account for declining sales

Note: The graph depicts the delta between profits of company pairs – before, during, and after a specific recessionary period; the values are calculated as the difference between the profits of the two firms, and expressed as a percentage of the successful company's profits in each period

Source: Bloomberg; Grail Research analysis

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Where to Focus – Concentrate on Core Products and Markets



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Adhered to diverse product portfolio



- Texas Instruments' (TI) diverse product portfolio was **spread across commodity chips, defense systems, and other businesses**
- During the 1990-91 recession, TI maintained its diverse product range, despite a slowdown in chip orders and a growing slump in military orders
- ➔ Not until profits declined to USD 63 MM in 1996, did TI sell the non-core units and announce a focus on semiconductors and DSPs (digital signal processors)



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Focused on the core product market

- In the early 1990's, Intel exited from low-margin businesses and began to focus primarily on micro-processors
- During the recession, **Intel maintained focus on developing more powerful microprocessors** and supported this focus by investing more than USD 500MM in the "Intel Inside" campaign between 1990 and 1993
- ➔ In 1992, Intel became the world's largest supplier of semiconductors and also one of the most recognizable brands

Action Steps

1

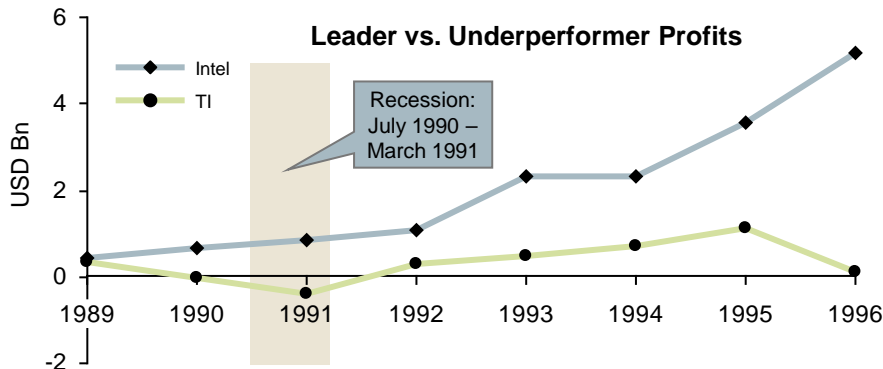
Concentrate on previously successful products/brands – these are most likely to survive the downturn

2

Continue to invest in product innovation in this core area

3

Consider small experiments in adjacent areas to leverage existing core capabilities



Other companies that have succeeded by following this principle



In the 1970's recession, Best Foods continued to focus on its core business of processed foods while competitors unsuccessfully attempted to diversify into non-food businesses



In the 1990's recession, Kimberly-Clark continued to focus on the disposable diaper market by launching Huggies Pull-Ups®

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Where to Spend – Invest in Marketing Communications



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Slashed marketing budget



- To counter falling profits during the 2001 recession, K-Mart slashed its marketing budget and discontinued advertising circulars. **The resulting drop in sales far outweighed savings from marketing budget cuts**

→ The continuing decline in sales after the recession led to financial instability, and the company filed for bankruptcy in January 2002

LEADER

Invested in marketing communications



- Walmart continued to focus on building a low-price image through the 2001 recession with its 'Everyday Low Prices' campaign. Between March and December 2001, the company **increased marketing expenditure by 18.4% as compared to the previous year**. During this period, market share grew by 8.2%

→ The company has continued domestic and international expansion, and became the world's largest corporation (in terms of revenue) in 2003

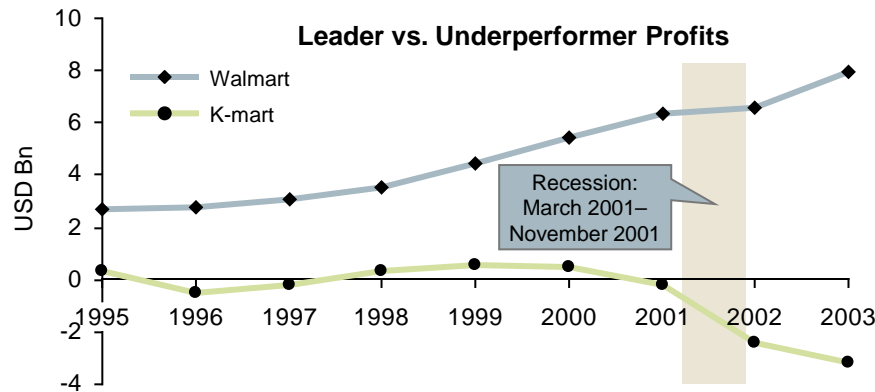
Action Steps

1

Increase or maintain communication levels with customers

2

Use multiple channels to reach customers



Other companies that have succeeded by following this principle



In the 1990's recession Intel launched an aggressive ad campaign to promote its 386 processor. The campaign drove an immediate increase in sales



During the 1980's recession, Kimberly-Clark aggressively marketed its Huggies brand of diapers and had secured 21% of the market by 1983



In the 1980's recession Anheuser Busch invested heavily in marketing Budweiser. The "This Bud's for You" campaign drove an increase in sales and market share

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Where to Save – Reduce Cost on Non-Customer Facing Activities



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Reduced costs by trimming customer facing expenses



- Circuit City was the leading electronics retail chain until the late 1990s
- During the 2001 recession, Circuit City closed **30 repair centers and laid off 3,900 of its more experienced, commissioned sales staff**, and replaced them with 2,100 new associates on hourly pay
- The company continued to de-emphasize customer experience after the recession, again laying off experienced employees in 2003 and in 2007

→ The company was liquidated in 2009



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Cut IT, headcount, healthcare and construction costs

- By the late 1990s, Best Buy was the leading consumer electronics retailer
 - During the 2001 recession Best Buy continued its customer-centric strategy, introducing 'high-touch' areas within stores. The company also cut costs but in non-customer facing areas such as IT, administrative headcount and new store construction
- Best Buy has emerged as a strong brand and continues to launch customer-centric initiatives

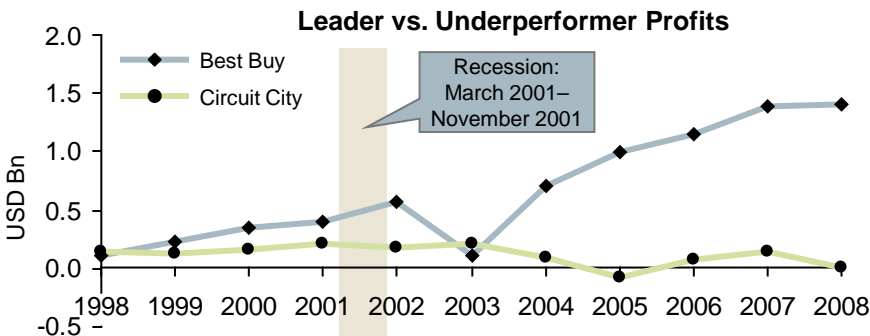
Action Steps

1

Reduce costs by decreasing spend on administration and overhead and not on areas that impact customer experience

2

Maintain high standards of service and product quality



Other companies that have succeeded by following this principle



In the 1990's recession, Anheuser Busch focused cost reduction efforts around vertical integration, brewery modernization and employee-suggested productivity improvements



In the 1980's recession, Pfizer chose to control marketing costs for new drugs by signing co-promotion agreements with other pharmaceutical companies.

Source: Circuit City company history, Funding Universe; Wharton School of the University of Pennsylvania; CNN Money.com; Best Buy company history, Funding Universe; Bloomberg; Grail Research analysis

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Where to be Flexible – Maintain/Increase Value Chain Flexibility



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Maintained Rigid Vertical Integration

Coors

- During the 1980s, the Coors Brewing Company invested a significant amount of capital to acquire and integrate upstream and downstream activities, resulting in a fully-integrated value chain
 - When sales declined, the high fixed costs associated with the integrated value chain made it difficult for the company to react
- Coors rigid vertical integration strategy reduced profitability

Anheuser-Busch

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Used Flexible Vertical Integration

- To control costs, Anheuser-Busch established vertically integrated subsidiaries for can manufacturing and raw material production
 - The company also focused on procurement strategy as a means to reduce costs
- Anheuser Busch was able to reduce costs and maintain flexibility through a loose value chain, enabling them to offer the best prices and maintain a competitive edge

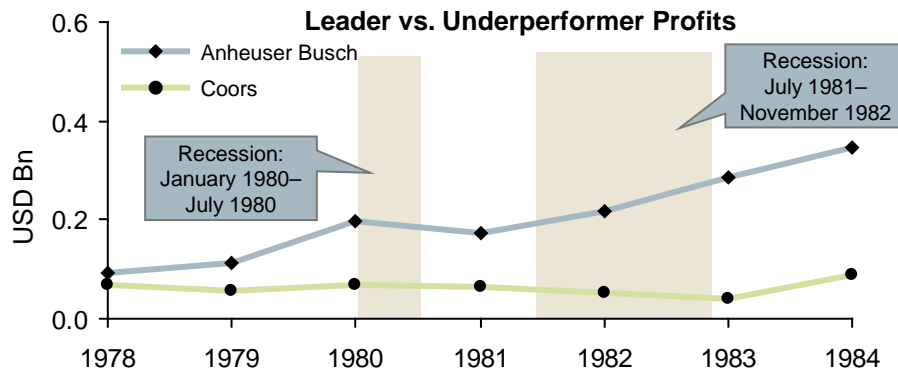
Action Steps

1

Maintain flexibility through outsourcing and contracting to enable adjustment to fluctuations in market demand

2

Reduce risk by maintaining a loosely coupled value chain



Other companies that have succeeded by following this principle



During the 1990's recession, Intel increased flexibility in its supply chain by shifting from a sole source strategy to a dual source strategy for critical components

Source: Harvard Business School; Haas School of Business, University of California Berkeley; Adolph Coors company history, Funding Universe; MIT Sloan School of Management; Anheuser Busch company history, Funding Universe; Bloomberg; Grail Research analysis

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Key Principles

Empirical analysis indicates that these four principles are the hallmark of firms that have grown during recessions

Principles of Winning Firms



Where to Focus?



Focus on Core Products and Markets

Where to Spend?



Invest in Marketing Communications

Where to Save?



Reduce Non-Customer Facing Costs

Where to be Flexible?



Maintain/Increase Value Chain Flexibility



For More Information Contact:

→ **Grail Research**
(info@grailresearch.com)

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