Double helix management

Customers and staff are key components of corporate DNA and must be nurtured to ensure company longevity. **Nitin Pangarkar** and **Debesh Sharma** explain

SINCE mid-2007, the world economy has been through one of the deepest and broadest recessions ever. The recession's impact was severe on all economies – both developed or developed, those well integrated into the world economy through trade linkages such as Singapore or those relatively self-contained and insulated such as India.

And in accordance with the laws of social Darwinism, this recession witnessed many business failures around the world – business bankruptcies in the US grew by 50 per cent between 2008 and 2009.

A "DNA analysis" (so to speak) of principalities the survivors of this economic evolutionary process indicates what companies might do to be resistant to such drastic environmental changes – lessons that are sure to be valuable when the next recession arrives.

On a related note, the Chinese ideogram for crisis is made up of two characters – 危 = ji – see meaning risk and ji, opportunity. Though recessions are crises for most companies, great companies and their leaders have treated these as ji – opportunities to fortify competitive positions and competitive advantages.

Dell and Intel capitalized on the 1991 recession, the former by strengthening its direct-sales model and the demand pull production system and the latter by launching the "Intel Inside" campaign. Gosh! How Singapore Airlines reinforced its leading position during the Asian economic crisis by undertaking a massive (and expensive, costing $500 million) upgrade across all classes.

Robert G Atkinson and Adrian J Slywotzky of Mercer Consulting argue that economic downturns offer a unique opportunity to accelerate the transition towards the next business model and dramatically improve relative strategic position. But surviving a deep recession (and prospering after it is over) requires effectively executing multifaceted strategies, we focus on effective management of the double helix of corporate DNA – the key stakeholders, customers and employees.

**Customers**

It is generally well accepted that profitability of serving different customers may vary widely. Marketing experts propose the 20-80-20 rule which says that 20 per cent of a company's customers generate 80 per cent of profitability, half of which are lost serving the bottom 20 per cent of unprofitable customers.

Accordingly, some consulting firms have found it useful to categorise their customers into four categories – A, B, C and D, with D category customers more likely to be baggage, pay late, ride on the consultant's ideas, and take up disproportionately more time and resources than either their revenue or profit contribution.

While it will always be useful to manage the type of customers you are serving, it may be even more imperative to do so in recessionary times because category D customers would quite obviously stretch already strained resources.

With regard to preferential treatment of the best customers, in the latest recession, Best Buy, a leading US electronics retailer, ranked its customers based on profitability, and only sent materials for special offers and promotions to its best customers.

In fact, recessions may be opportune times for some crystal ball gazing – identifying customers likely to be key survivors and future leaders in their respective industries, and then pampering these customers with special treatment or strengthening your value proposition to these customers.

In addition to profitable customers, loyal customers are an asset to any company regardless of economic conditions, but their value is significantly higher in a recession. While it may be tempting to offer special discounts to entice new customers, companies must make sure that similar offers and treatment are available to loyal customers.

Research has shown that a 5 per cent increase in customer loyalty can lead to 40–90 per cent increases in the lifetime value of a customer across an entire spectrum of industries – from automotive services to advertising.

Companies can also connect better with customers in general through an expression of empathy with their economic pain by offering new multifaceted products with superior or value, and also by revamping segmentation strategy. Payroll processor Paychex, for instance, started offering a tax product for SMBs during the recent recession and Black & Decker launched as many as 33 new products during the last recession.

**Employees**

They constitute the other stakeholders who need to be actively managed during recessions, when management is pressurized to cut costs. For firms, it may be tempting to slash employee salaries since job alternatives and employment opportunities implies lower likelihood of disgruntled employees leaving for greener pastures.

More enlightened companies, such as SIA, however, avoid across the board salary cuts to the extent possible, but push employees for productivity improvements instead. They also make active efforts to identify and retain key people, since costs attributable to employee turnover can be substantial (as much as $100,000 for an entry level manager, according to some estimates).

Though it may be difficult to offer financial rewards in lean times, it might still be possible to offer non-monetary rewards in the form of training and development dollars, and recognition of good performers through non-monetary rewards.

Black & Decker and PSA emphasize increased communications with employees (eg, dialogue sessions at PSA which motivate staff to look beyond the doom and gloom) during recessions. According to Oliver Chan, operations manager at PSA's Brazil terminal, "The belief is that when our people are kept up to date on what it's happening, they will be able to better appreciate business decisions that support our business."

Such companies also focus strongly on organizational development and internal promotions to improve employee morale.

While companies need to set up multiple fronts to survive a deep and broad recession such as the one we have just experienced, this article touched briefly on the "double helix of corporate DNA" – managing customers and employees.

The two factors are clearly intertwined since employee morale can have a significant impact on the customer's perceptions of the company, particularly for service businesses where employees determine the quality of offerings. Similarly, happy and loyal customers might boost employee morale, in addition to the key financial indicators such as returns and profits (and, in turn, profits).

In essence, these serve as good starting blocks towards building a robust strategy that can help companies endure under any circumstances.

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