

Good Business Run Wisely

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Quote of the Month

“In times of economic distress, clarity of strategy becomes even more important. In an economic downturn, figuring out what part of the industry that you want to serve becomes incredibly important.”

—**Michael Porter**

The Economic Downturn is Good for Good Businesses Run Wisely

In the 1920s the U.S. Forest Service decided that any forest fire would be put out as soon as possible. Their policy was “10 a.m. and 10 acres”—the time by which a fire should be put out and the area in which to confine it. But unlike the dense forests of Eastern North America, the forests of Western North America get little rain and cannot support tightly-spaced trees and dense undergrowth. Naturally, the Western forests had evolved to rely on fire to clear undergrowth and thin weak trees, leaving the natural resources available to the remaining strong trees.

The Forest Service had good intentions with their no-fire policy, wanting to preserve the beautiful forests, but the results were disastrous. For decades the Western forests grew more dense with trees spaced tightly together and a thick layer of undergrowth. Soon there were too many trees competing for scarce resources, and all the trees were weaker for it.

Nature, whether physical or economic, will always prevail. In the dense but weaker Western forests the pine beetle began to thrive attacking weak pine trees, killing them in a couple of years. What is left behind are stands of dead Christmas trees that light easily and burn fiercely. We see the results every summer as the Forest Service battles huge fires. Catastrophic fires that wouldn't have been if the forests were allowed to burn naturally, with small ground-hugging fires.

But there is a happy story here too. Many Western trees reproduce from seeds found in their pine cones. But the pine cones are naturally sealed, and the only way to open them is through fire. The fire, though seemingly harsh, actually opens the pine cones, clears the undergrowth, and plants the seed for tomorrow's forest.



Western forest ravaged by the pine beetle

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This more than just a story about forests. This is what is happening right now in the world economy.

Capitalism works because it is natural. Capitalism forces businesses to compete for limited resources, whether capital, labor, or customers. Survival does not come from luck, nor first-mover advantage, nor long term contracts—the strong businesses that survive do so because they have a strong Competitive Strategy. The few businesses that thrive and survive long term are the ones with great Competitive Strategy.

Once the airlines were hugely profitable, but now the big carriers are all marginal at best. Many weaker companies have gone extinct, and more eventually will. But in their place has come new airlines such as Southwest, Republic, and Ryan Air that are profitable. GM, once a magnificent company, is trading at \$2.00 on the NYSE. The Treasury, like the Forest Service before them, might intervene in the short term, but eventually it will make way for new companies with strength and new strategies.

Many companies can succeed when the economy is growing, capital is flowing, and consumers are spending. The economy has been littered with these marginally-run businesses, using resources inefficiently and diluting the customer base. These marginal businesses will try to weather the storm by following the common advice of “cut spending” and/or “increase your marketing,” but eventually they will go away.

Only the businesses with a strong Competitive Strategy will succeed during down times. A Strategy focused on competitive advantage. And once the undergrowth of marginal businesses is cleared, the sun will return and the surviving businesses will reach successes that previously would have been unattainable.

To ensure that your business is a survivor, review your strategy. A good resource is “[Analyzing Your Company](#)” which explains what a competitive advantage is, and how to know if you have one or need to develop one. That is Good Business Run Wisely. Δ

Michael Porter Speaks About Competitive Strategy and the Economic Downturn

Trends such as innovation, branding, and social media have been in the spotlight over the last decade as companies all have looked for the next great product or tried to differentiate themselves via promotional campaigns. But the economic downturn will demand that companies be positioned in the right markets with the right products priced properly. The economic downturn demands a company have a strong Competitive Strategy.

Michael Porter, the godfather of Competitive Strategy, recently spoke about the changes in competitive dynamics during economic downturns.

In this short video he explains how customers have increased power in the marketplace and will use that power to take value away from industry and allocate it to themselves in the form of savings. Further, he explains how the industry itself will exacerbate this because companies tend to all react similarly.

[Watch the video of Professor Porter](#)

[Review Porter's 5 Forces](#)