PREPARING FOR RECOVERY

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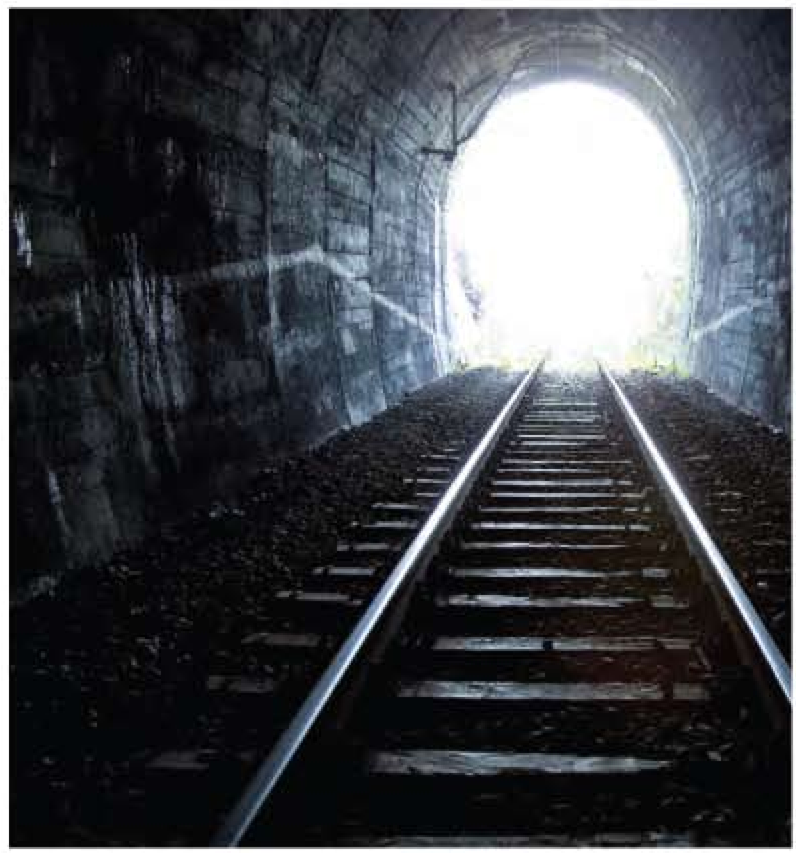
The recession is over – but it doesn't feel like it to anyone except economists. When I see a guy fall into a ten-foot hole, I say he's in recession. When he hits bottom, picks himself up, and takes one step upward, I say that he's out of recession and in recovery. The truth is that he's nine feet down a ten-foot hole. That's exactly where the American economy is today.

The strengths leading to the recovery include consumers having money in their pockets, thanks to having raised their savings rate in 2009. Businesses need to re-stock their inventory, which will help manufacturers. Exporters have already enjoyed a sales increase, and the outlook for our Asian trading partners is strong. Government policy, especially monetary policy, has been very stimulative over the past year. Monetary policy acts with a substantial time lag, so it sometimes appears not to be working, but eventually it comes through. Another positive is simply the end of a negative: homebuilding can't fall any further.

Limiting growth next year is a likely shift in the taste of consumers toward value-priced goods, though no one is sure yet of the magnitude of the shift. Tight credit will limit spending by some households and businesses. Further dampening spending is uncertainty regarding government policy. The interplay of our strengths and weaknesses will result in moderate growth, well below the rate at which we usually recover from recessions. However, even moderate growth will be a lot better than what we've had the past two years.

The forecast of a recovery is not unusual among us economic forecasters. Whether one agrees with the timing and magnitude of current projections, it's hard to argue with the fact that we always recover from recessions. So the business question becomes: what are you going to do about it? Manufacturers' representatives can help their customers and their vendors – as well as themselves – by understanding the changes to the business climate caused by the swing in the economy.



Back in the boom, business leaders faced problems that are mostly forgotten now, including tight labor markets, rising fuel costs, and global competition. Today, most companies are still wrestling with tight cash flow. The key to thriving in the economic recovery is recognizing the new challenges before they hit – and taking action today to better prepare for tomorrow.

Many American salespeople, both corporate and independent, are discouraged. It's hard to go through a grueling recession and then call on all your prospects with enthusiasm – at least if you're human. During the boom, business was good enough that many sales organizations neglected to organize their information system to identify missed prospects. A potential customer may be ignored in gloomy mood. However, when the economy turns around, buyers will remember the last sales rep to call. A salesman who waits until business is improving to dial up his effort will find that competitors already earned the first round of sales, and that the second round is harder to get.

The recovery will bring new challenges to corporate leaders, but advance planning can help. First, improving sales can be stressful to a company's balance sheet. If new orders require cash outlays for raw materials and new employees, but customers won't be paying their bills for 60 days, how is the company going to afford growth?

Manufacturers' representatives can expect more vigorous negotiations over terms. A well-managed company will run cash flow projections, then talk to their banker, and if they find that they won't have enough credit to fund all of their working capital needs, they may have to limit the orders that they accept. In a tight-cash environment, what better way to limit orders than to tighten terms?

Smart business leaders cut inventories early in the recession. The smart ones are now rebuilding their inventories to serve their core markets. I met with a distributor of fasteners whose industry was hammered by weakness in manufacturing and construction. He had gained market share, however, by having inventory that his competitors did not dare carry. I recently found that my favorite tire store was out of the snow tires I wanted. Not only did they lose one sale, but this loyal customer learned that a competitor offers great service at a reasonable price. That's like encouraging your girlfriend to date other guys – not the basis for a strong relationship.

Vendor performance problems will likely trouble a number of businesses. In addition to working capital challenges, businesses may find that they have laid off workers with critical skills. Deferred maintenance may limit production capacity as well. Caterpillar is a great example of corporate strategy as the economy turns up. Cat executives met with all of the corporation's major vendors to assess readiness to ramp up production, covering both financial and operational issues. A manufacturers' rep whose credibility is his most valuable asset should not be promising deliveries that may not show up.

Many businesses that cut staff in the recession will be re-hiring. That's great news, but it will bring some new problems to companies. Finding the right people is hard to do in a hurry; it's not too soon to try to identify good candidates, even if the company is not ready to actually hire. Training needs may be greater than usual. Manufacturers' reps may hear about quality problems that are not due to the merchandise, but due to inexperienced workers. Integrating new employees into a workforce dominated by recession survivors will be also be challenging. Preparing for these issues early will ease the transition to recovery.

Consumers are a mystery right now, and every business that sells to consumers, or is in the consumer supply chain, should monitor sales activity very closely. Common belief is that this recession will change our attitudes forever. My own research on the aftermath of the Great Depression does not support that view, but it's really anyone's guess just how much attitudes change. So companies should monitor consumer spending, and not just the totals. It is critical to understand whether buyers are staying with economy products they shifted to in the recession, or returning to moderate price and quality, or even moving up-market into luxury goods. Sales by price point will be critical to monitor.

The recovery will indeed come in 2010. Some businesses will be well enough prepared that they also gain market share. Others, though, will be caught by surprise. They'll be the ones saying "What recovery?" at the end of the year.

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