

LEADING THROUGH THE CRISIS

PETER COLMAN presents the latest article in his series on behavioural economics in sales management, this time focusing on the massively increased demands on the executive team as the Covid-19 crisis advances.

Winners from this situation will be leaders who avoided procrastination, made fast, agile commercial decisions and resisted knee-jerk reactions caused by behavioural biases

This isn't the article I'd planned to write – the "leadership" one was later in the schedule – but we have to react to market changes and if not now, then when? This is now my third major crisis, at least during my commercial career. While I remember Black Monday, Black Wednesday and the Asian financial crises (and have, I think, ducked the "midlife" one), it's the experiences from the dot-com bubble early in the new century and the 2008 global financial crisis that really stick with me. I've been both lucky and unlucky and, as uncomfortable as it was during each, I learnt more from those than during the good times either side of them.

Each crisis has played out differently – timings, causes, sectors affected, regions covered etc. –

meaning that the winners and losers change every time. By the time this article is published the lockdown may be easing, but it may be required again. This is not the usual boom-bust crisis. We believe it will be resurgent and, therefore, it presents a much more nuanced and complicated picture compared to previous crises. Some companies are having huge demand spikes (eg. providers of groceries, home gym equipment, videoconferencing etc.), while others are struggling to operate at all (eg. hotels, restaurants, estate agencies etc.). Even for those currently experiencing a short-term lockdown boost, it is no guarantee of protection as we emerge from "hibernation" and restart the business.

My colleagues and I have conducted many commercial excellence programmes during booming, flat and recession environments over our 35 year history. For those executives at the sharp end, with responsibility for directing commercial functions such as sales and marketing, a volatile market, a dynamic that changes week-to-week, and a limited amount of data (at least related to the new situation) makes a perfect storm for decision-making. Here, I focus on commercial leadership through the crisis and how awareness of your behavioural biases can improve the choices you make and the outcomes you get.

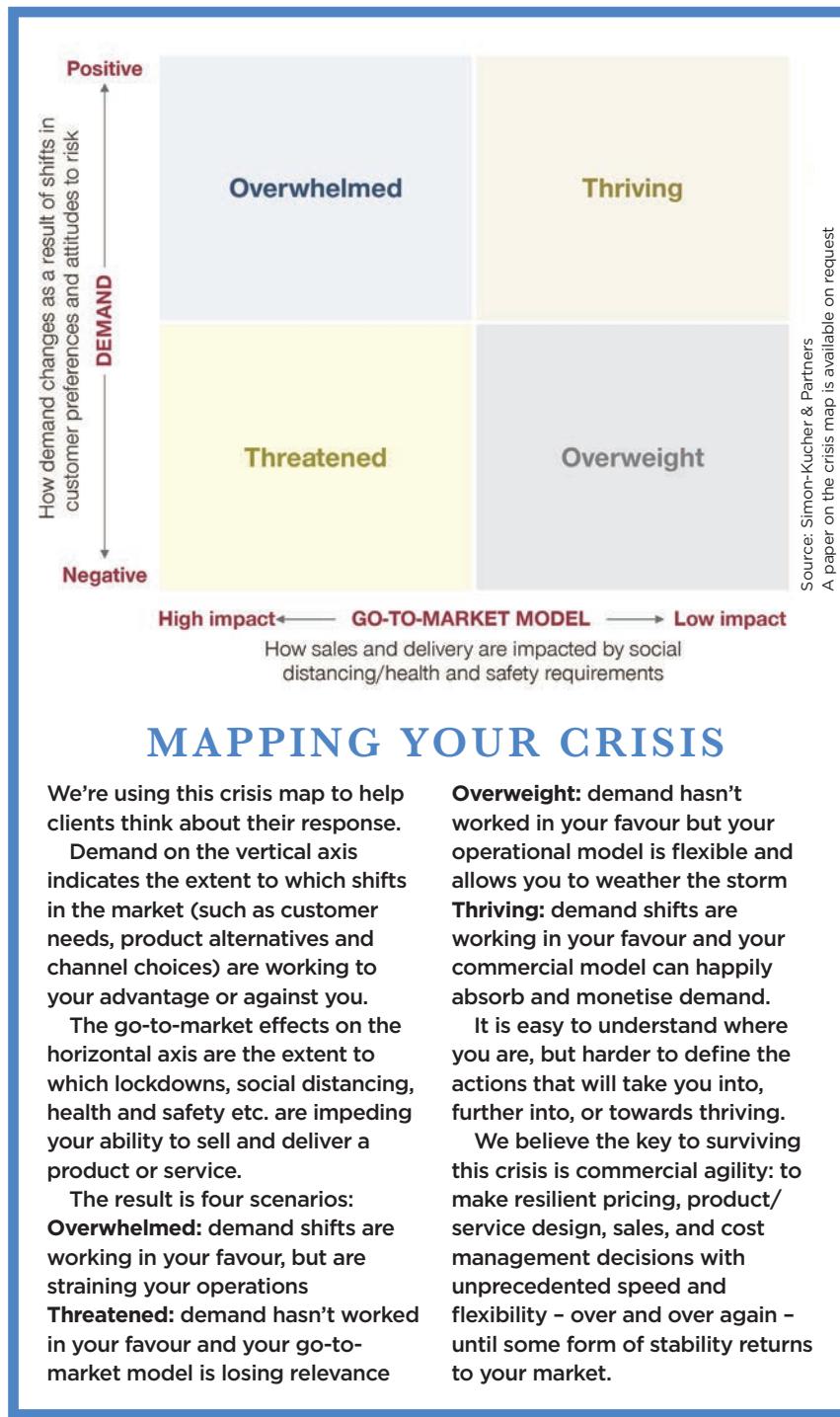
#1 "WE'RE STRONGER THAN OUR COMPETITORS" (OPTIMISM BIAS)

If ever we needed a strong sense of optimism it is now. Whether you're a *Star Wars* movie-buff (Yoda) or a petrol head (Henry Ford) we come back to the self-fulfilling phrase, "If you don't believe you can, you won't." As leaders, we need to demonstrate that we have confidence in the strength of our company, our people and our offering to the market. We



« have to motivate and energise both our middle management and our frontline sales teams, while ensuring they are safe. Many of them will have been working for up to 10 years and still not experienced any crisis. If it is uncomfortable for us, what is it like for them?

A temporarily remote workforce requires a



frequent cadence of communication to ensure that an internal rumour mill doesn't fill any vacuum. Town hall sessions, knowledge sharing on successful sales outcomes (even if smaller or less frequent) and videoconference social events all help to boost spirits and maintain cultural continuity.

We need to make sure that we balance optimism with realism too. With the furlough arrangements, we have had some temporary protection. When we emerge fully from lockdown though, if demand is or remains sharply down, those difficult restructuring discussions regarding the salesforce (and other functions) may need to happen to safeguard the company. Decisions will need to be taken regarding what headcount and cost base the anticipated revenue profile can support to protect some level of profitability.

In a previous company, during an earlier crisis, I saw over-optimism (bias) play out badly. The first round of job cuts was mainly for underperformers and, while saddened by it, it was broadly understood by the teams. However, the executives backed themselves into a corner through misguided messaging, as they hoped and communicated a “promise of a one-time only action”. As the market further deteriorated, that phrase came back to haunt them. The next round of cuts was deeper and unfortunately had to take out some stronger performers too, breaking the promise and the bond of trust, which severely damaged morale.

#2 “IS THERE ANOTHER WAY OF LOOKING AT THIS?” (GROUPTHINK)

One area we've been recommending to our clients is setting up a commercial crisis response team. Its remit is to work across functions with daily meetings to keep them aligned and focused on issue detection, opportunity identification, and regular communication to the workforce and management.

While the role selection for that team is important, so too are the personalities within it. This is neither the time nor the place to pick a team of “yes” men and women. Your best chance of avoiding the dangers of groupthink, where poor decisions are taken due to lack of critical thinking, is to have a team with diverse backgrounds and encourage debate and opposing opinions. Easier said than done, but as the management thinker Peter Drucker said, “The greatest danger in times of turbulence is not the turbulence – it is to act with yesterday's logic.”

#3 “WE'LL BE BACK TO NORMAL IN 6 MONTHS' TIME” (HINDSIGHT BIAS)

Hindsight bias is the tendency of people to overestimate their ability to predict an outcome. Sure, lots of people will have an opinion, but how

will we know? Any historical trends we had for sales are rear-mirror views and the amount of useful data we have to work with will be pretty limited.

By thinking through the key uncertainties in ways the crisis could evolve for your company, you can create a range of potential scenarios, rather than trying to “back the right horse”. A classic case of this was work by Shell that helped it during the oil shock of 1973. By developing a revenue and cost model and corresponding action plan against each of the most important scenarios (note, not just the most likely one), you will be prepared to react whichever scenario materialises.

#4 “I SPEND ALL DAY FIGHTING INTERNAL FIRES” (PRESENT BIAS)

Present bias is the tendency to give more attention to the here and now. During a crisis, the demands of constant firefighting on a commercial executive regarding their own company and sales team (back-to-back Zoom calls anyone?) swamp their time. Priority is needed to safeguard time for important market-facing activities, including engaging with customers, distribution partners and marketing allies such as the trade press and other media.

This is the time when you need to be speaking to the executives at your key accounts to ease concerns about the

impact on your business and explain the steps you’re taking to ensure the continuity of supply for your offering, be that products/services/software etc. It’s also a great chance to show that you are being proactive and want to understand what you can do to help them. For example, if supply does become constrained, will it be a “first come first served” approach or will their status as a key account be rewarded by preferential treatment?

#5 “IT’S THE LESSER OF TWO EVILS” (LOSS AVERSION)

Everyone hates losses but some losses are worse than others. In the last crisis we saw many companies panic and attempt to defend volume (units) by reducing prices. The drop in demand was not caused by pricing, however, so even with lower prices, volumes still fell. The impact of both created a huge dent in profitability and in some cases started an all-out price war.

Later on, when recovery began to take hold, many of the surviving companies found that they struggled to return to pre-crisis price levels. With the benefit of hindsight, they would have done better to protect profitability by holding their nerve on prices and accepting that volume drops were inevitable.

“If customers expect to buy differently, then we should expect to have to sell differently”

CASE STUDY: LESSONS FROM A PRICE WAR

The following case played out over two continents. The company in question was a market leader in specialist materials. Its North American market was attacked by a cheaper new entrant with a 25% lower price. The market leader lowered its price by 20% to combat this, but then found that the new entrant moved again to maintain the 25% gap between them. The market leader had reduced

prices by 20% and also lost 25% of its market share.

The new entrant then attacked the market leader’s European market, again with a 25% lower price. Having learnt its lesson, this time the market leader maintained its price level. While this resulted in a 28% reduction in market share, from a profitability point of view it was a much better outcome than it had achieved in North America.

#6 “NEVER WASTE A CRISIS” (AMBIGUITY EFFECT)

At this tough time, let’s have a positive case to finish on. While few organisations would choose a crisis, the market shake-up will mean that, for many,

unique sales or growth opportunities will present themselves at some point. For example, in past downturns our clients have:

- Won key accounts from failing competitors
- Introduced stripped down

offers (fighting brands) to acquire new customers

- Seen exceptional merger and acquisition targets appear, which had not existed before
- Created growth in new sectors.

Don’t fall prey to the ambiguity effect and lose out on those opportunities because you freeze. You will have to accept many uncertainties, but a particular chance may never appear again and there will be a short time window in which to seize it.

SUMMARY

I hope these examples help you steer through these challenging times. I won’t predict how long it will be until the recovery. What I do predict though, is that if you don’t have a plan and strategy for surviving and making money during Covid-19, you may not get to see what after Covid-19 looks like. Your markets will look very different by then, not just in terms of what customers buy, but also how they will buy, ie. their buying behaviour and attitude to risk. If customers expect to buy differently, then we should expect to have to sell differently.

Use this time to strengthen trust and goodwill with both customers and employees. And when opportunities appear, as my US colleagues would say, remember to play offence as well as defence.



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