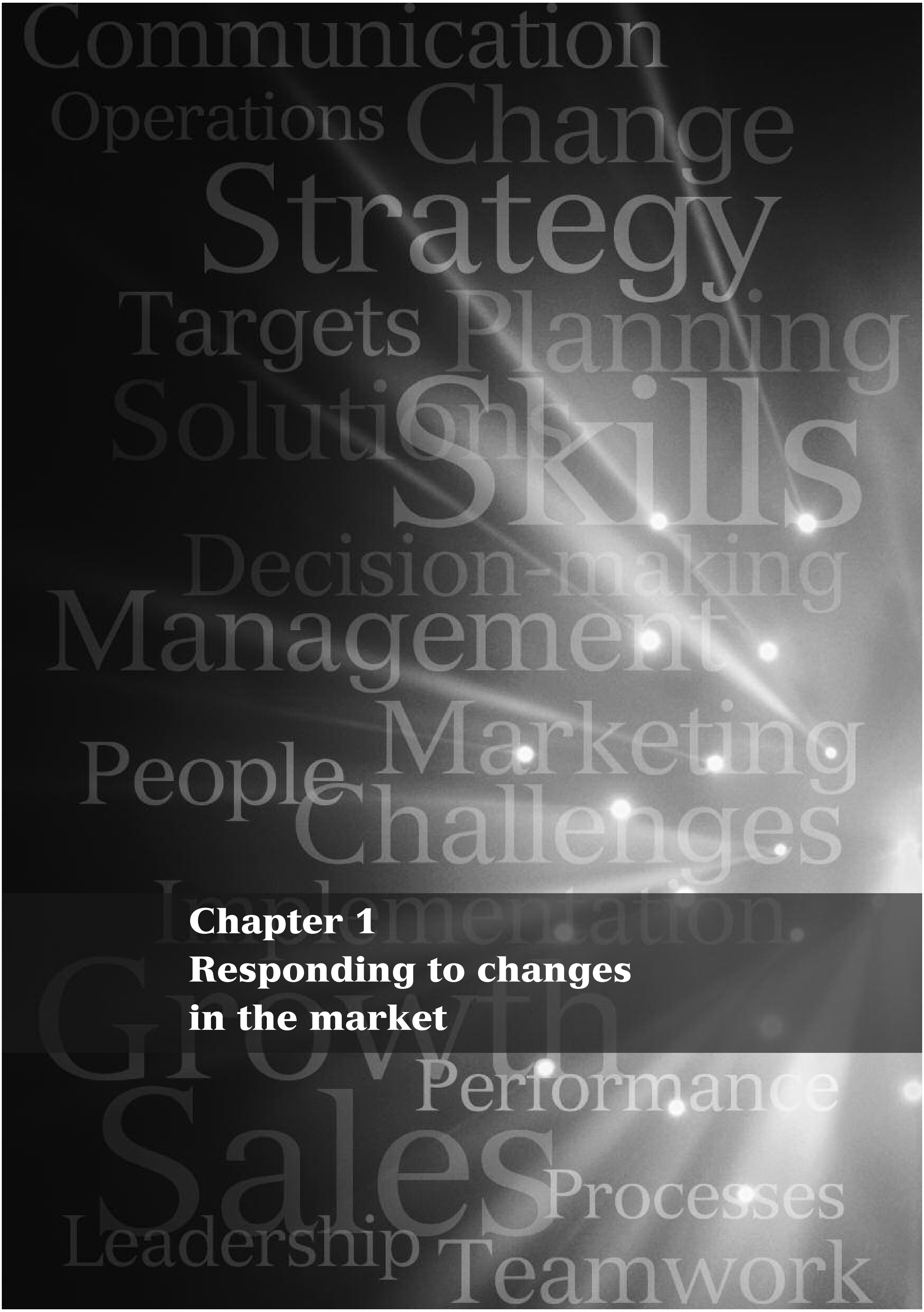

Chapter 1
Responding to changes in the market

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This chapter considers a number of factors which can affect how well business owners respond to change, much of which you can influence. This includes:

- **Identifying economic and market influences.**
- **Adapting a company's sales culture.**

It looks at how external changes to the economic environment and the market can affect a company. It also examines how you can identify changes which you may feel are outside of your control.

The chapter will examine how you can respond to these challenges, partly by developing an appropriate sales culture. Finally it will look at ways in which you see and deal with particular issues. This can then be used to improve your leadership and management skills.

Identifying economic and market influences

There are two important external issues an SME sales operation will face. These are changes that can occur in the economy and the market you operate in.

By examining these areas you will be able to identify opportunities and threats, which can then be used as part of your planning processes. If these areas are assessed correctly and then acted upon, you will be in a better position to deal with them.

Economic changes

Business performance is affected by the economy. This is why it is important to factor changes in economic trends into your sales plans and targets. Economists have shown that the performance of an economy tends to work through a cycle.

Before explaining how you can use this information to help you improve performance, it can be a useful reminder to describe three familiar economic trends:

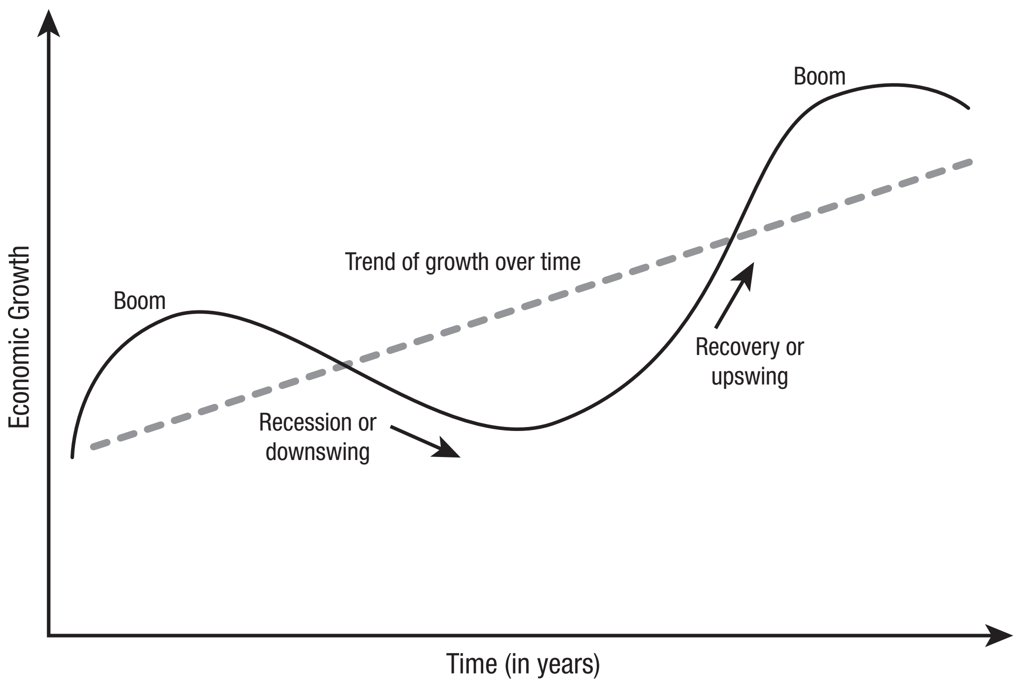
1. **Boom** – If an economy grows quickly, a boom can follow with high levels of sales and investment by companies, consumers and the government. A boom can lead to prosperity but also over-confidence in the business community and too much borrowing, which in turn can lead to an economic downturn.
2. **Downturn –** In an economic downturn, incomes and output start to fall. Rising costs of labour (and materials) increases the costs of products and services. This will eat into profits, putting smaller companies under pressure. It can cause downsizing and restructuring in order to adapt to the new conditions.

3. **Recovery and upturn** – As the economy recovers from a downturn, a company's revenues are more likely to increase, leading to growth. Consumers generally start to spend more as they are more confident in the security of their employment.

It is essential that your sales plans and targets accurately reflect the stage that the current economic cycle is in and the likely direction the economy is heading in. However, this can sometimes be hard to predict, as we have seen, economic events can affect companies in terms of supply and demand and bank lending.

A typical business cycle can be shown graphically, see the diagram below. It was first identified in the nineteenth century by Dunoyer and it compares economic growth over time in relation to boom, downturn, recovery and upturn.

ECONOMIC CYCLE



(Dunoyer)

How does this cycle affect my company?

It is clear that this economic cycle can have a major influence on the performance of a small or medium-sized company (i.e. SMEs). As an economy moves from one stage of the cycle to another there are changes in trading conditions. However, not all companies are equally affected and not all are pro-active in looking at different ways to improve their sales performance.

Some companies, for example the producers or retailers of essential items such as basic foodstuffs, may notice little change in demand for their products over time. This is because the items they sell are ones which consumers feel the need to purchase even when incomes are falling.

Demand for these products is not as sensitive to changes in income. But for other products and services, prices can be more sensitive to changes in income levels, and they will react more sharply to the stages of the economic cycle.

Similarly, in an economic downturn, online resellers might find that more customers use their services. This could be because they are lower in price than many high street retailers, as their overheads are lower.

All of these factors help to explain why it is important to understand the current position of the economy and the effect it can have on your company.

Economic indicators

By selecting the main economic indicators that can affect trading conditions, business owners can make a useful first step in trying to anticipate future conditions in their marketplace. Indicators could include:

- Interest and exchange rates.

- The level of inflation.
- Unemployment.
- The rise in overall bankruptcies.
- The number of new business start-ups and closures.
- Bank lending and government borrowing figures.
- The strength of the UK and world economy.

It is the change in these external indicators that present clues as to the future performance of the economy. By regularly assessing this type of information in a structured manner, you may be able to assess what strategies to take to create opportunities for your company. The following exercise gives you some practical steps to follow:

EXERCISE

	Economic Indicators
1.	Look at each economic indicator in turn and gather information which accurately reflects the current position.
2.	Compare this to the position 2 – 3 years ago.
3.	From current economic forecasts, think about the likely future position of the national, European and world economy and then consider how these conditions will affect you.

Market changes

Changes will also be taking place in the market you operate in. If companies do not adapt, they risk missing revenue opportunities or incurring diminishing returns from their sales and marketing efforts. If a response to the external environment is left too long, valuable sales opportunities can also be missed.

PRACTICAL POINTER

Companies who can adapt quickly to changes in their marketplace will have more chance of gaining a competitive advantage.

Adapting to change is often a key determinant of continued success. A good example of this in recent years has been the introduction of new technology. The Internet continues to have a major impact on how consumers and companies buy and sell products.

One of the key decisions for many SME's today is to decide what needs to be sold directly and what proportion could be sold online. Some companies who sell online might need to think about the balance between the revenue generated from this method compared to that produced by a direct sales team.

Johnson (1992) designed a useful three-stage model (which he called *Strategic Drift*), which can be adapted to help companies with this type of decision. It can be used to examine the market and to compare your current position to a likely future position. Johnson's model works in the following way:

STAGE ONE

This is where small, incremental changes that might go unnoticed take place in a market. No initial actions are taken. If sales revenues start to be affected, more rigorous managerial controls will be needed to address this. For example, managers may focus more on targeting and sales activity. This might solve some sales issues but much will also depend on the trend in the current market as well as how well the company is currently performing.

STAGE TWO

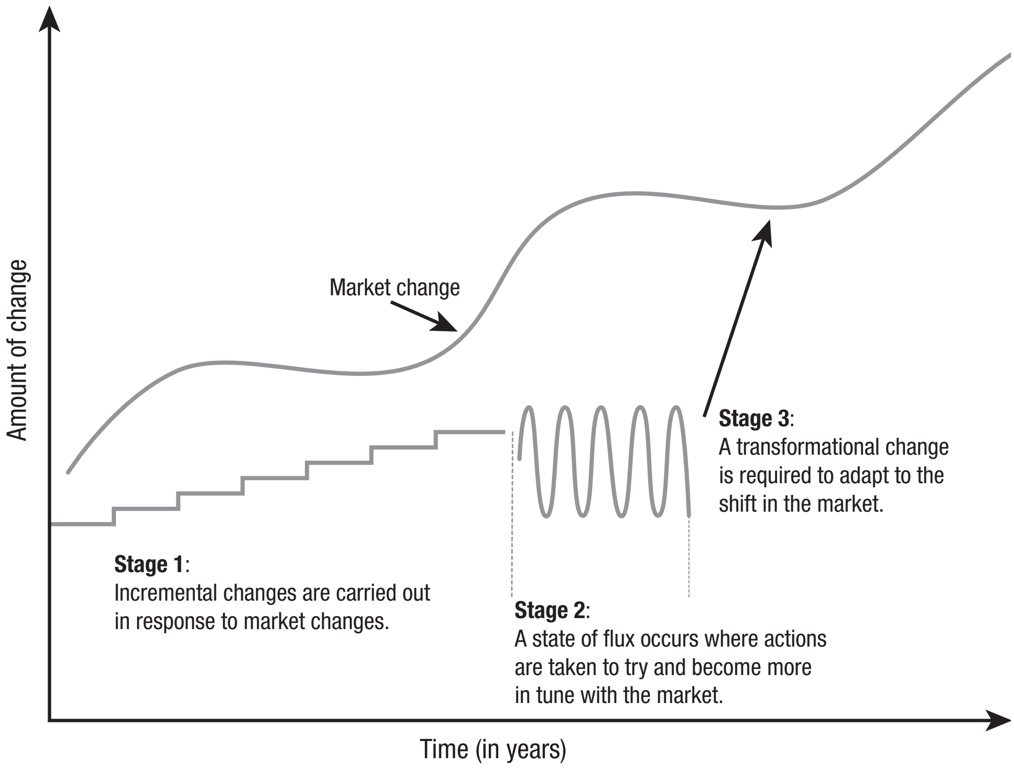
If a change in the market continues to take place, it will often lead to a traumatic period for business owners. There may be alterations of personnel, both at a senior management level and within a sales team, as companies attempt to recover from poor sales or lost revenue. Different strategies might be tried to 'fix' the problem as morale may decline if nothing is done.

STAGE THREE

A company recognises the severity of the market changes and realises that they will need to make a dramatic strategic shift to increase revenues, profits and market share. This can be challenging even if it is successful, especially if lost revenues are not recovered or sales growth is slow.

These stages can be illustrated in a way that can help business owners review their position relative to the sales targets. The following diagram, Johnson's risk of *Strategic Drift*, compares the amount of change over time during the three stages.

RISK OF STRATEGIC DRIFT



(Johnson 1992)

You need to be aware of the risk of drifting away from your current position in the market you compete in. Once this has been established you can examine where you are relative to the ideal position.

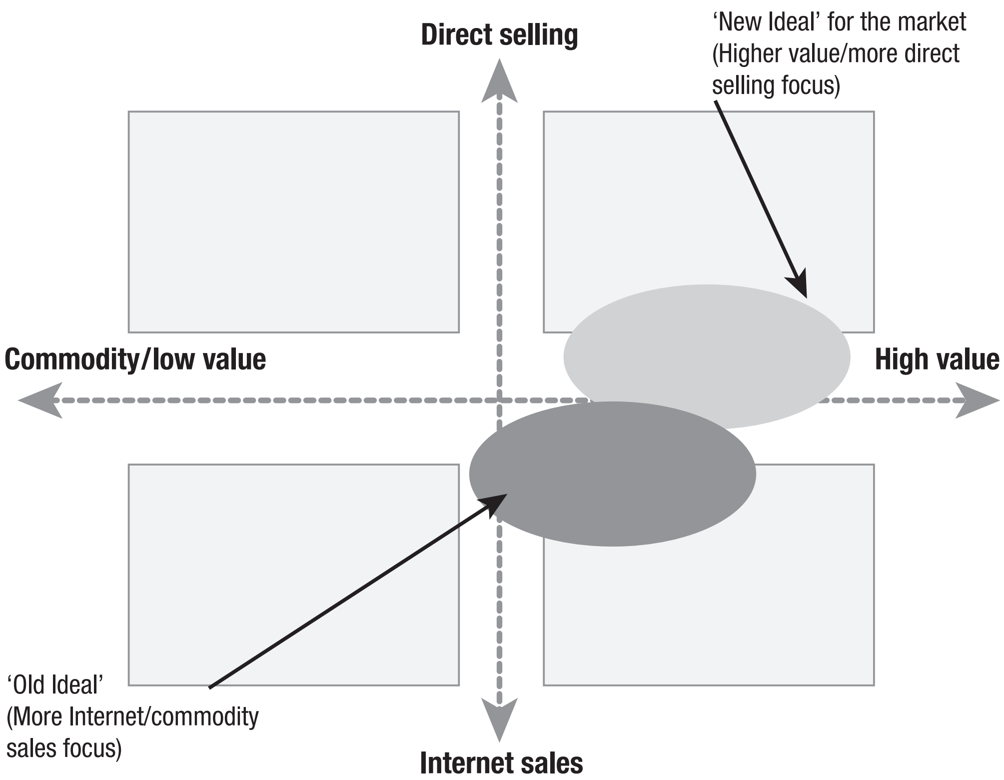
Moving on from this; identifying your ideal position can be even more challenging. Using an adaptation of *Mercer's Position Map (*1996) you will be able to compare your current position relative to your ideal perceived position. It is then possible to identify what changes you might need to make in order to increase revenue and profit margins.

The *Position Map* can also help to show if your market is moving towards a commodity-type sale or not. It compares the following elements, for example:

1. Whether a product or service might better be sold on the Internet or through an indirect sales channel.
2. Whether the product or service is seen as a commodity or higher value sale.

The following diagram illustrates a company's current market position compared to where it would like to be. The existing position shown as the 'old ideal' has a focus on the Internet (i.e. technology based selling) and is commodity based (i.e. lower cost). In this example, it will be replaced with a new ideal position of direct selling and higher value focus.

POSITION MAP



(Mercer 1996)

This shift will represent a new challenge because of the change in sales focus. It might result in adapting your sales strategy in order to gain new market share to achieve growth. There are some practical steps that you can use to compare your existing and ideal positions in order to create your own *Position Map*. As an example, work through the following exercise:

EXERCISE

	Marketing Changes **Creating your own *Position Map***
1.	Pick two key areas intended for market changes. For example, the axis in the *Position Map* above has been chosen to reflect the impact of new technology.
2.	Think about how you sell your products and services in relation to different issues you may be facing.
3.	Plot the current position which you feel your company occupies.
4.	Identify the ideal future position you would like to occupy.
5.	Look at what strategy and actions need to be taken to move towards your 'ideal' market position.

By regularly examining the needs of your customers (which can change over time), you can ensure that their requirements are understood. You can undertake market research to adapt to changes in your market. This will help you to develop your own sales and marketing strategy. This is covered in more detail in Chapter 2, *Creating a sales and marketing strategy*.

Scenario Planning

Another practical way of looking at how you can adapt to change by using good business development techniques is through a process called *Scenario Planning*. This has been used successfully for a number of years. During the 1970s, Wack and Newland developed ways to help managers change how they see different business situations.

Scenario planning allows you to have an objective approach to changes in market conditions by considering areas which can sometimes be neglected. It will help you understand what your company's future could look like from a different viewpoint. To help with this, consider following these practical steps:

EXERCISE

	Scenario Planning
1.	Brainstorm with colleagues what you consider to be the most important economic and market issues you face.
2.	Select five issues which you think are the most important and gather relevant information on each.
3.	Prioritise these issues by giving them a score between 1 and 5 (a score of 1 being a low priority; and a score of 5 being a high priority).
4.	Score each issue on the likelihood of it occurring (i.e. a score of 1 being very unlikely; and a score of 5 being very likely), and then multiply this by the priority score.
5.	Look at what actions are required to address this.

The issues that you uncover from this activity can be rated on their potential impact and the likelihood of them happening. Once you have identified the issues which have the biggest impact they can be illustrated as follows:

Scenario Planning

Issue One	Increase in revenue due to improving economic conditions
Priority of the issue	1 2 3 4 5
Likelihood of it occurring	1 2 3 4 5
Priority multiplied by likelihood	**4 X 5 = 20**

Note. The score from the above activity means that this issue is an important one (as it is 20 out of a possible maximum of 25). This could have a high likelihood of occurring if economic conditions stay as they are for a period of time. This will improve the quality of your sales strategy and help you to plan more effectively.

PRACTICAL POINTER

You can reduce some aspects of uncertainty in your long-term planning by constructing different scenarios to explore possible outcomes and consequences.

In order to respond to changes in the economy and in your market, you need to think about situations and their effect on your company. By taking time to review this, you are better placed to anticipate changes and to respond to them more quickly than your competitors. You will then need to provide plans to enable your sales operation to respond to the challenges involved.

Adapting a company's sales culture

You are unlikely to be able to control changes in market conditions, but you can decide how to respond to them. This can be influenced by looking at the type of sales culture your company has. There are important areas within your control, including:

- The working environment and your company's values.
- Your sales culture and the unspoken Psychological Contract (Robinson and Rousseau, 1994), which exists between an employer and employee.
- Being solution-focused when adapting to change.

All three areas are important to consider if business opportunities are to be maximised.

The working environment

Motivational benefits can be obtained by a sales team if they feel they can use their initiative and develop as individuals. Working in an environment which supports trust allows employees to pull together even if there are differences in character and experiences.

A dilemma for many business owners is whether to manage a sales team directly or to delegate this to a dedicated sales