Achieving radical and sustainable improvement in top line performance

Avoiding the Business Death Spiral

February, 2014

With the winter Olympics underway in Sochi with stunning death defying events such as ski jumping, snowboarding, and luge to name a few, I have always been drawn to pairs figure skating and the death spiral routine, when the man swings his partner in a circle while acting as a pivot. The idea is to have the woman skate perilously horizontal to the ground without flattening out and breaking her neck in the fall.

The Situation

The death spiral term has also been used in business to describe an organization under stress. The decline of an organization is a process that usually takes several years and results from a number of actions, decisions, and behaviors that contribute to its demise. The decline actually begins when times are good and continues for many years until it becomes obvious the organization is in trouble. And when the decline becomes apparent, the leaders often shift into crisis mode and implement drastic actions to improve the situation that, although well intentioned, actually result in speeding up the rate of decline. Hence, what is referred to as a business death spiral, leading to the organization's demise at an ever-increasing rate. Declining profits, shrinking market share, and mass layoffs, the most obvious signs of demise.

The origins of the weakening of an organization's immune system typically begin with a scenario similar to one we hear repeatedly, whether public or private.

"How are we going to make the quarter?" asks the CEO. And then subordinate leadership refrains on what is intended to be a motivating side line booster cheer. "Now the one thing I want you all to remember, it's all about superb execution, (and implied is, "if you can't execute, you will be executed"). You better close those "must win" deal(s) or else. We have made commitments to our Board and the (Wall) street, and we will achieve these commitments. Are we clear?"

While there may be a few short term tactics you can pull out of your bag of tricks, the typical knee jerk reaction to the "make the quarter or else" situation is to do the following:

1. The fear of losing business or not winning a deal often motivates companies to discount their products and services. If you keep giving more money away via over-discounting, you're only focusing on short-term growth and not thinking about the big picture. Dropping the price and offering a deep discount hoping to make it back on future volume is a fool's errand.
2. Which results in a drop in sales.
3. Leading to a loss of profitability.
4. Which leads to reducing or eliminating expenses that don't lead to immediate or measurable results such as product or service development cuts, cuts in expenditures for the training and development of people, pressuring suppliers for reductions in purchased products and services and longer payment terms.
5. And when these cuts don't achieve the desired results, we cut into "muscle," implementing layoffs (especially in the sales force) with the attendant decline in employee morale, which shows up in productivity and dealings with customers.
6. Remaining employees are not able to keep up with customer demands, leading to decreased customer satisfaction and further decreases in sales.

With the death spiral in full swing, the only way to realistically stop the processes is to embrace a "bold" move which will fundamentally change the philosophy of the organization based a fundamental enthusiasm for improvement.

What to do next?

While short-term thinking (tactical execution) without a context may provide some gratification that we are keeping the organization busy doing things during a time of crises, the challenge is always to be sure we are doing the "right" things. In other words, you need to agree on a strategy first, followed by tactics. A strategy is a long-term approach to achieving a big goal. It spans over a longer period of time and describes an approach to achieve that goal. It's often complex and multi-layered. A strategy allows you to set priorities and focus your resources.

Tactics are smaller, short-term actions to deliver on the strategy. Tactics need to be evaluated and adjusted constantly based on what is learned along the way. But a strategy needs time and typically stays in place for a longer time unless the goal or other macro variables change.

Solving the problem requires guts and discipline and a willingness to step back and answer the 6 questions of strategy first:

Q1: Who will we sell to?

Q2: What will we sell?

Q3: Why will they buy?

Q4: Why will they buy from us?

Q5. What are the channels/partners?

Q6: What are the critical capabilities to implement?

The answers to these questions will require a hard look at the current environment not just today, but for the next 2 years at least.

Some people are focused on doing. Strategy to them looks nebulous and intangible. It doesn't contain specific tasks. But random tactics without a strategy leads to short-term actions with unpredictable and non scalable long-term results. It's like driving a car around without knowing how to reach your destination. And everybody on your team is driving their cars around in all directions hoping to eventually get there.

Avoid the ***Business Death Spiral***. Every tactic needs to deliver on a strategy.

Remember: ***"Strategy without tactics is the longest path to victory. Tactics without strategy is the noise before defeat."   ....Sun Tzu***

Quick Links
About KappaEast
Why KappaEast
What Keeps You Awake
Services
Resources
Clients
Newsletters
Contact KappaEast

Try Quota Maker for Free!