The new (recovery) playbook

Jeff Immelt, Andrea Jung, and other CEOs are ditching the waiting game and writing their own rules for a rebound.

By Ram Charan, contributor
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(Fortune Magazine) -- Last October, GE CEO Jeff Immelt decided he had had enough. For months, GE managers had been dutifully preparing reports for him explaining declines in their businesses in excruciating detail. He laid down the law.

"I don't need that to be part of your presentation," he told them. "I already know the market's slow." As Immelt puts it, "The presentations had to go from 'The market's slow' to 'There's an 80-locomotive order in Egypt -- let's go get it.'"

In that one stroke, he put an end to the agonizing game so many leaders in corporate America have been playing since the recession began: the waiting game. *If we can just hold on,* they are still telling themselves, *one of these days things will finally get back to "normal."*

But Immelt and the other top CEOs I work with have come to a radically different conclusion. Forget about waiting for normal to return: This is the new normal. "The going-in assumption is that this is a new world order," says Avon CEO Andrea Jung. "We need to run the business as if that's the case."

What does that mean, exactly? It means grappling with unemployment in the U.S. that is at a 26-year high of 9.4%. It means adjusting to the reality that financing corporate debt is roughly three times more expensive than it was in 2005 and that financial institutions are less willing to extend credit, given the toxic waste and insufficient equity capital on their balance sheets. And it means growing your business when global GDP is expected to shrink this year for the first time since World War II.

"Normal," in other words, isn't quite like anything we've seen in our lifetime. But too often companies become so caught up in trying to survive that they neglect long-term strategy altogether. They forget that stabilizing your balance sheet is necessary not in order to stand still, but in order to gain ground.

Nalco, a $4.2 billion water-processing company, entered 2009 significantly overleveraged, with $1 billion in debt coming due over the following two years. But a major restructuring strengthened the company's cash flow and Moody's upgraded its debt in May, enabling it to refinance at lower rates. Suddenly it had more flexibility than it had had before the crisis began!

When I hear CEOs say that they don't have the money to be aggressive, I know that they aren't looking deeply enough for ways to free up cash. They aren't thinking creatively enough about their options in this changing world.

You have to sharpen your focus on the core business, making the company leaner and more fit for the attack. Refinance ahead of others. Build maneuverability to pick up acquisitions at bargain prices. Identify new opportunities for growth that are adjacent to your newly defined core business. It may mean extracting resources and people from some areas and redeploying them; it may mean forming partnerships you hadn't previously considered.

Nalco (NLC), GE (GE, Fortune 500), Avon (AVP, Fortune 500), and Waste Management (WM) -- each of which I explore in detail below -- are vastly different corporations with vastly different approaches to the current environment, but they have one thing in common: They aren't using a difficult environment as an excuse.

Examining their strategies can help you think about where your business is now, and where you want it to be when the economy recovers. Like Immelt, you already know the market's slow. The question is, What are you going to do about it?

Narrow your focus

It was called the Big Bang meeting.

Earlier this year CEO Erik Fyrwald called 50 of his top executives to a Hilton conference room near Nalco's Naperville, Ill., headquarters. Fyrwald, who'd been at the helm of the water-treatment and environmental-services provider for a little more than a year, saw that conditions were continuing to deteriorate and knew he had to act fast.

"Everybody was concerned about the economy, and we were very upfront that our company is not immune," says Fyrwald. The choice was either to "stick our head in the sand or go on offense."

The top executives traveled from as far away as Shanghai and Calcutta and represented sales, manufacturing, and R&D. The CEO greeted the troops and installed them in a large conference room. His instructions: "I told them not to come out until they had decided on 25% of our products to cut," he says.

When the group emerged three days later, they had blown up hundreds of products. Older water-purification systems? Gone. Antiquated anticorrosion products? Sacked. At first blush this may sound like your standard corporate response -- cutting, after all, is generally a manager's tool of first resort. But there's a fine distinction between jettisoning just enough to stay afloat and throwing enough overboard that the ship is able to maneuver.

Fyrwald was, in the meantime, making other, smaller changes as well, including calling on employees to submit money-saving ideas. To his surprise, 1,500 suggestions came flooding in during the first quarter.

An employee in the Philippines, for example, suggested that the company change the way it generated receipts so that Nalco could apply for that country's 12% VAT rebate on every major purchase. A British plant employee proposed a sample-container recycling procedure that reduced the number of containers purchased. It was implemented around the globe and will save Nalco more than $1 million a year.

With costs under control, and its debt upgraded, Nalco's stock, which peaked above $30 in October 2007, then sank to $8, has rebounded to $18.

In shrinking the company, Nalco took out about 4% of its 11,000 workers around the globe but avoided one all-too-common mistake: mandating equal cuts across the board. "Some people have to give, and some get," explains Fyrwald.

A contingent of employees who were working at a deteriorating paper segment in Europe, for example, was picked up and moved to Eastern Europe to work on pollution control. In China, Nalco installed a new government-affairs office to help get through red tape and strategize about winning state-owned-enterprise business there. Says Fyrwald: "We've continued to add people in China, India, Brazil -- the places we thought would rebound sooner."

Strategic cutting, in other words, wasn't the end. It was the means for positioning the company to grow.

Accelerate innovation

"If you don't do the crisis play, you don't get a chance to do the reset play," says GE's Immelt. "But if you only do the crisis play, your investors are not going to like you when the crisis ends."

For GE the crisis play involved selling a $3 billion stake to Warren Buffett in October, cutting the dividend 68% in February to save $9 billion a year, and in early August agreeing to pay a $50 million penalty to settle SEC allegations of fraudulent accounting (the company did not admit or deny wrongdoing). Following the settlement announcement, the stock was trading near $15 -- a far cry from its peak of $60 in 2000 but more than double the worst levels.

The reset play means placing bets -- carefully. "Our own hypothesis is that we're going to get through the recovery into a slower-growth world," says Immelt, who expects that once the worst is past, GDP growth in the developed world will have slowed by about a point.

So for GE the questions are, "How do we launch more technologies faster and accelerate our R&D efforts so that by 2011, or whenever the economy recovers, we're going to be better positioned than our competition?"

One answer: "The government's moved in next door, and they're not leaving," explains Immelt. "In a unique way you've got a window where, not just in the U.S. but globally, stimulus money allows you to do more things faster."

To that end Immelt ticks off a list of GE projects that are benefiting from stimulus money: sodium battery technology in New York State; electric locomotive and high-speed-rail technology in the U.S.; electronic medical records in states like Kentucky and Pennsylvania -- the list goes on.

In Miami, for example, this spring GE, along with Cisco (CSCO, Fortune 500), Silver Spring Networks, and Florida Power & Light, announced a two-year rollout of the country's largest "smart grid" to power 2.6 million homes and businesses. By equipping homes with GE monitoring devices, FPL will be able to more efficiently transmit power where it's needed, and customers will be able to track their own power usage and make easy fixes (for example, running the dishwasher at night) to save energy. Roughly a third of the project's $600 million cost could be covered with stimulus money. "The more you do, the more you can do," says Immelt. "Because we stuck our neck out, we've got 15 or 20 other cities around the world who say, 'Let us in.' "

The key, says Immelt, is not to be so cowed by the crisis that you neglect to make long-term bets. "We've got a view of the world map that says, Okay, in 2012, 2013, what regions count? China and India are obvious, but you know we're big believers in the Middle East, Africa -- all the resource-rich regions. So we're going long in all those regions," he says.

There's a psychological switch that's turned too, when a leader talks about the big picture. "This is quite strange," says Immelt, but "the innovation comes easier. People don't want to feel frozen. People don't want to be afraid.

One antidote to fear is if they see you're taking a swing."

Aggressively leverage what you can control

"Here's a nice surprise in this economy," a satin-voiced narrator purrs. "Possibilities." The camera pans to a chipper fortysomething woman named Daryn, her reddish hair perfectly coiffed. "I can't get fired. I can't get laid off," she says. "It's my business."

The TV spot is a recruiting ad for Avon. It delivers a pitch that is increasingly elusive in today's work world: that you have more power than you think you do.

The ad neatly mirrors CEO Andrea Jung's corporate strategy. She says simply, "We believe in controlling what we can control."

Last year when panicked consumers began to curtail spending, Jung decided to take advantage of the economy rather than put herself at the mercy of it. Avon set off on what Jung calls "the biggest recruiting drive in our history." During the second half of 2008, Jung doubled the company's online ads for new recruits, and at the end of April the company ran its first 30-minute paid advertisement, hosted by Deborah Norville, which featured Avon reps talking about the wonders of self-sufficiency through sales.

When compared with the number of net jobs lost during this recession, Avon's hiring stats are particularly striking.

In the U.S. during the first quarter, some two million net jobs were lost. Avon added about 200,000 new representatives, or 10% of total jobs lost. In Britain, 126,000 jobs were lost in the first quarter; Avon added 50,000 new representatives. In Mexico, 200,000 jobs were lost; Avon added 248,000 new representatives. (Because Avon doesn't pay for traditional benefits and salespeople work on commission, it is very inexpensive for the company to staff up.)

"Our research is confirming that a lot of these new reps are people who have lost their jobs in the current recession," says Jung.

Jung reports that the newest crop of recruits -- many of whom work part-time -- have a slightly better than average financial profile and higher order sizes. And because they are largely what Avon calls "E-Reps," meaning they sell to their own contacts online using Avon-supplied e-mail blasts, they aren't necessarily cannibalizing existing sales.

Avon's stock, which bottomed at $15 in March, is up nearly 70% over the past five months. Jung would no doubt like to see a return to an environment where women have unlimited cosmetics budgets, but she's not counting on that happening anytime soon. "Whether the Dow goes back to 14,000," she says, "we have to make sure our customer stays loyal."

Obsessively search for the right growth

Last summer David Steiner, CEO of Waste Management, was in the midst of a huge hostile bid for the third-largest player in the industry, a company called Republic Services (RSG). A big acquisition of the right assets was the perfect way to expand the company's reach and market position. But when the economy started to crack, Steiner's plans changed.

"We called the deal off," he says. "We knew that taking on an $8 billion company and the associated debt was not the right thing to do in that environment."

With a mega-acquisition off the table, a strategic repositioning was the only other option. "How," he asked his troops, "can we take advantage to come out of this as a stronger company?"

He and his team began with a seemingly simple analysis of Waste Management's business. He explains that the collection portion of Waste Management's business, which makes up more than half its total revenue, could be divided into three categories:

(1) the residential business (your local trash pickup), which is recession-proof;

(2) the commercial business (your office or place of business's trash pickup), which is recession-resistant because companies that stay in business still need to have their waste taken away; and

(3) the roll-off business, or the temporary boxes at construction sites, which is completely dependent on the economy.

Going forward, Steiner had three criteria for where he would place new bets: The business had to be recession-proof or recession-resistant and have high growth and good returns.

Prior to this exercise, Waste Management had always considered recycling one of its most promising growth areas. But that business is extremely cyclical and sensitive to volatile commodity prices, so it was nixed from the list. One area in particular did fit the bill: an area called waste to energy, where, as the name implies, trash is combusted to generate electricity.

After it fell out of favor in the late '80s, there hadn't been a new waste-to-energy power plant built in the U.S. in a decade. But Steiner saw early signs of growth. There are currently six plants that are in various stages of requests for proposal in the U.S. -- and of those, Waste Management has been selected as the preferred vendor to build a plant in Frederick County, Md., and is short-listed for at least one other project.

Outside the U.S., however, is where the real action is. In Europe and China, regulation is mandating growth. Says Steiner: "The EU has basically put taxes on landfills such that 70% to 90% of waste will be diverted out of landfills." In Britain, Waste Management has bid on six plants and has so far made it to the final four bidders on four of them.

In China, meanwhile, Steiner says, the central government has mandated that 70% of waste will go into waste to energy. Waste Management is angling to enter that market via a joint venture, and just bought a 40% stake in the environmental subsidiary of a company called Shanghai Chengtou. With an estimated 300 plants to build in China over the next 10 years or so, "we think we will have plenty of opportunity," says Steiner.

These aren't instant-gratification investments, and Waste Management's stock, while up 28% since its March lows, has been volatile. But by placing these bets now, Steiner is thinking beyond a crisis mindset, which is exactly the point.

No matter what business you are in, no matter what you've done till now, there is still time to change your attitude from that of fighting for survival to seeking opportunities for growth. Face the tough decisions, but don't let cutbacks stop you from seeing the windows of opportunity that are suddenly open. Think creatively. Act aggressively. We can't predict with certainty when the broader economy will recover. But your company's recovery can begin whenever you're ready.

Ram Charan's latest books are "Leadership in the Era of Economic Uncertainty" and "Owning Up: The 14 Questions Every Board Member Needs to Ask." He advises dozens of Fortune 500 companies, including Nalco, GE, and Avon.

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