

## Warning: Economic Recovery Ahead

**Kenneth A. Sawka**

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In June, I wrote about how the coming economic recovery is fraught with the same degree of uncertainty as the early days of the downturn (“Preparing for the Recovery,” Outward Insights, June 2009). Now that the “green shoots” of economic recovery have begun to emerge, it is becoming clear that it is impossible to predict the pace, nature, and characteristics of the recovery. “[J]ust like the onset and the severity of the recession caught many business leaders by surprise,” I noted, “so too will the extent, nature, and pace of the recovery.”

Scenario planning -- a structured way for companies to think about the future -- is a virtual necessity to ensure that companies have the strategic flexibility to prosper amid the uncertainty that surrounds the recovery. But, this flexibility comes not only from the development of nimble strategies and contingency plans. It also requires a sound business early warning system that can provide notice of emerging business conditions that will ultimately define the nature of the recovery.

At the heart of a successful early warning system is a set of indicators -- hypothetical future events that signify the emergence of certain external conditions that carry significance for your organization. Economists rely on indicators all the time -- consumer confidence, durable goods orders, major stock market indices are all leading indicators of future economic conditions. No doubt your business already tracks such indicators.

However, what if these common indicators tell a mixed story? In the current environment, strategists need to go deeper and define additional, qualitative, diagnostic indicators that correspond to their companies’ strategic options. Such indicators may include consumer or societal trends, technology developments, political matters, and the like. Tracking these indicators is usually more challenging, but they can provide important clues as to the nature of the recovery.

For example, a key indicator of long-term consumer thrift may be whether generic products sustain the growth in market share they have experienced over the past year. One way to know whether this might be

happening is if store brands attempt to behave more like national brands by trying to engender consumer loyalty, differentiate, and define a value proposition. One easy and inexpensive way for generic products to do so would be to resurrect “orphan” brands -- product names that are no longer used by manufacturers (remember Brim coffee and Niagara starch?). News that retailers are attempting to buy the rights to use obsolete brands may be an indicator of store-brand market share growth.

Early warning bridges the gap between today’s reality and tomorrow’s by giving executives advance notice of coming changes. Indeed, according to Wharton Business School professor Paul Schoemaker, “Just as the downside surprised many people, the upside might also come as a surprise to people. For businesses, the idea is to not get locked into the current reality, but realize that the system is quite volatile and can quickly turn.” (“Why its Smart to be Optimistic,” Business Week, August 13, 2009. <http://tiny.cc/mjm3P>)

Hopefully, your company has adopted scenario-based strategic planning to develop contingency strategies that will withstand the uncertainty inherent in the recovering economy. Building the scenarios and strategies, however, is only the beginning. To know which contingency plans to deploy and when, you need to incorporate a business early warning process. By integrating early warning with strategy management, organizations can regularly monitor their external environment to determine as early as possible whether market conditions that the scenario analysis indicated carry significance for the company are actually occurring.

Given the uncertainty surrounding the economic recovery, your company’s ability to fully thrive in better times may well depend on the robustness of your early warning capability.

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