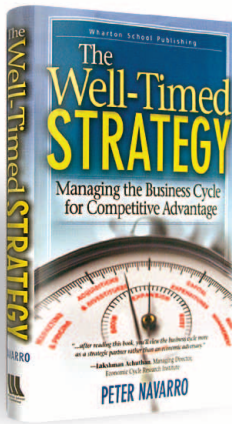


SOUNDVIEW Executive Book Summaries®



By Peter Navarro

Managing the Business Cycle For Competitive Advantage

THE WELL-TIMED STRATEGY

THE SUMMARY IN BRIEF

The business cycle has a profound impact on the fortunes and fate of many businesses large and small — and the employees and investors who depend on them. This summary offers a comprehensive guide to strategical-ly and tactically managing the business cycle.

This summary shows you how to manage not just the business cycle and industry cycles, but also today's unprecedented level of macroeconomic turbulence. It also shows you how to align every facet of business strategy, tactics and operations to reflect changing business conditions — so you can ride with the business cycle — not get run over.

You'll also learn how to tailor your marketing messages and product lines to the business cycle "seasons;" manage production and inventories to anticipate recessions, recoveries and sector rotation; exploit necessary "soft spots" to negotiate better deals; use tactical hedging and long-term contracts to insulate against inflation; prepare for layoffs before a recession; hire earlier in an upswing, when you can "cherry pick" better staff at lower wages; and how to time strategic acquisitions, divestitures and major capital investments.

No matter what markets you serve, this summary can help you increase your profitability — every day, every quarter, every year.

In addition, this summary will show you:

- ✓ *How to profit from the chaos and turbulence of business cycle volatility.*
- ✓ *How to implement strategies and tactics for profiting from every phase of the business cycle.*
- ✓ *How to manage macroeconomic turbulence and geopolitical shocks — from oil price hikes, war and terrorism to drought and disease.*
- ✓ *How to align all your operations to the business cycle: finance, supply chains, production, marketing, HR and more.*
- ✓ *How to put this knowledge to use as an executive, strategist and investor.*

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THE WELL-TIMED STRATEGY

by Peter Navarro

— THE COMPLETE SUMMARY

Introduction

As inexorably as the sun rises and sets, the business cycle moves from a bright and healthy expansion and prosperous peak to a dark and often difficult recessionary trough and then back once again to prosperity. The fortunes of most companies literally ebb and flow, while some companies tumble down the trapdoor of bankruptcy, often never to rise again. So, too, is it that thousands of jobs are created in boom times while thousands more are again lost when things inevitably go bust.

The business cycle has a profound impact on the fortunes and fate of many businesses. It is one of the single most important determinants of corporate profitability and stock price performance.

So, how can the modern executive team strategically and tactically manage through the various recessionary and expansionary phases of the business cycle to gain competitive advantage over rivals?

The hundreds of companies analyzed to answer this compelling question run the gamut from well-known behemoths such as DuPont and Citigroup to much smaller niche players such as Isis and Xilinx. ■

Strategies and Tactics of The Master Cyclist Executive

Timing is everything — in love and war, most certainly. But certainly also in managing the business cycle.

Consider, for example, a “Master Cyclist” CEO such as Johnson & Johnson’s Ralph Larsen, who studiously follows key leading economic indicators, who accurately anticipates an approaching recession, and then implements an appropriately “well-timed strategy.”

In contrast, consider a brilliant but nonetheless “Reactive Cyclist” CEO such as John Chambers of Cisco. Lacking the appropriate “business cycle literacy,” Chambers failed to read numerous signs that the March 2001 recession was on its way — from a doubling of oil prices and a flattening yield curve in 1999 to a collapsing stock market and dramatically rising interest rates in 2000.

Is it any wonder that Cisco got caught flat-footed in the 2001 recession and was eventually forced to write

off more than \$2 billion in excessive inventory — even as the company had to lay off more than 8,000 people? While J&J’s stock price was soaring, Cisco’s came crashing back to Earth.

The Master Cyclist Management Wheel

The Master Cyclist management “wheel” provides an overview of the key functional areas of marketing and pricing, production and inventory control, and human resource management, as well as risk management, the strategic implementation of capital expenditure programs, and the tactical timing of acquisitions and divestitures.

The wheel spans virtually every major activity of the modern corporation. A careful understanding of this wheel will help any business executive team dramatically improve company performance.

Cutting capital expenditures in anticipation of recession is a prudent *defensive* strategy that preserves cash flow at a most opportune time. However, the most proactive of Master Cyclist executive teams also use the countercycling of capital expenditures as a potent *offensive* weapon. This is done by *increasing* capital expenditures during a recession in anticipation of a recovery and renewed and surging demand. In this countercyclical way, Master Cyclists can position their companies to take the market high ground when the recovery begins.

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For additional information on the Master Cyclist management wheel, go to: <http://my.summary.com>

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Strategies and Tactics of The Master Cyclist Executive

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Strategically Timing Acquisitions and Divestitures

From a strategic perspective, there are many compelling reasons why one company acquires another. Still, from a Master Cyclist perspective, it never makes any sense to impulsively make an acquisition if the stock price is too high — no matter how compelling the strategic reason.

The Master Cyclist knows that it is precisely at the trough of a recession that the labor pool is at its deepest and highest quality. To the Master Cyclist, a recession is a great time to “cherry pick” the labor market.

A large inventory overhang can also leave a company with obsolete or out-of-fashion products that then must be dumped at fire-sale prices — even as more nimble competitors swoop in to seize market share.

Business Cycle Seasons

The strategic and tactical implications of Master Cyclist marketing and pricing offer some of the richest insights into building competitive advantage in all of management strategy. For example, as a very young upstart, Dell illustrated that increasing advertising during a recession can be a highly effective way of building a brand and increasing market share. This is because during recessions, ad rates are at their cheapest, and there is far less competition and “noise” in the marketplace.

The business cycle can be very risky business indeed. For example, a company like Good Humor-Breyers always hedges the costs of its most important ingredients — from premium vanilla cultivated in Madagascar to premium-quality New Zealand butterfat for its heart-stopping ice cream brands. The true mark of the Master Cyclist involves not just static strategic hedges to neutralize risk but also more proactive “tactical hedging” to opportunistically leverage such risk.

Beyond simple hedging instruments such as futures and options, the Master Cyclist deploys two other important risk management tools: *business unit diversification* and *geographical diversification*.

Random Shocks and Profitable Opportunities

Master Cyclists are immediately able to parse both the tactical implications of random shocks as well as their longer-term strategic opportunities. Many diverse companies deftly illustrate how to develop new products or re-target old markets in response to the ravages of randomness.

Professor John McCallum — one of the earliest advocates of managing the business cycle for competitive advantage — writes that “knowing when to act” is strategically just as important as “knowing what to do.”

In an increasingly global and fiercely competitive econo-

my, the line between corporate success and failure is now being drawn by the ability — or lack thereof — of the modern executive team to first understand the business cycle in all of its strategic and tactical richness, and then proactively manage that cycle for competitive advantage. ■

Countercycling Your Capital Expenditures

Nothing can get a company into more trouble than ramping up an overleveraged capital-expansion program into the teeth of a recession. Such an overaggressive capital expansion creates large cash flow needs to service an ever-larger debt at a perilous time when revenues can fall dramatically. When top executives confuse their own management skills with the conditions of a “do no wrong” boom, they can easily fall prey to a classic “build the empire syndrome.”

Taking a page right out of J&J’s playbook, DuPont’s highly sophisticated forecasting team pays shareholders big dividends as the company prospers by cutting back on capital expenditures in anticipation of the recession. The Master Cyclist DuPont is one of the few major corporations in America to still have a staff of its own economists.

The Well-Timed Countercyclical Expansion

Intel’s countercyclical culture leads it to dramatically increase its capital expenditures during the recession while rivals are cutting back, and the company rides prosperously into the new economic recovery with new products blazing.

Lowe’s CEO obeys one of the most important Master Cyclist commandments — “Know Thy Sector” — and leaves the Reactive Cyclist Home Depot in the home-improvement dust.

Where the true Master Cyclist goes on the offensive is through the implementation of a well-timed countercyclical expansion to prepare for the next recovery.

The following are three key points to remember:

- **The Credit-Crunch Dangers of Overexpanding**

Into a Recession. Top executives whose companies prosper during boom times can easily fall prey to a “build the empire syndrome.”

- **Protecting Cash Flow Through Countercyclical Retrenchment.** Countercyclically cutting capital expenditures in anticipation of a possible recession is a very important defensive strategy employed by the Master Cyclist. It preserves cash flow at a most opportune time.

- **The All-Important Well-Timed Countercyclical Expansion.** A true Master Cyclist also goes on the market-share attack by countercyclically increasing capital expenditures during a recession. In this way, the company is ready with new capacity and new and innovative products when the recovery takes hold. ■

The Credit-Crunch Dangers of Overexpanding Into a Recession

- Labor Ready's CEO "confuses brains with a bull market," overexpands into a recession, and brings down himself and (almost) his company.
- A morally challenged "whiz kid" MBA leads the once lean and mean Gateway to commit business model hari-kari by opting for an ill-advised, and exceedingly ill-timed, retail outlet strategy.
- Calpine's Pinocchio CEO succumbs to a classic "build the empire" syndrome by choosing the worst possible time to try to "repower North America" — and learns how to spell "junk bond."

The Acquisitive Master Cyclist Buys Low and Sells High

The age-old maxim "buy low, sell high!" is as true for a small investor laying down \$500 for 100 shares of stock as it is for a large corporation shelling out \$5 billion for a strategic acquisition. In the euphoric white-hot heat of the late stages of an economic expansion, Reactive Cyclists turn the "buy low, sell high" rule completely on its head.

In such heady times, your executive team must constantly remind itself that any overpriced acquisition will saddle your company with a long-term competitive cost disadvantage. Moreover, if your company takes on a heavy debt at high interest rates to finance a series of overpriced acquisitions — as both Nortel and Exodus did — it might face a major cash flow or bankruptcy problem as soon as a recession and new bear market hit.

One of the most important qualities of the well-timed acquisition strategy is not just the "opportunistic swoop." Rather, it is that antonym of irrational impetuosity: ruthless patience. ■

The Art of 'Cherry Picking' and Other Well-Timed Tactics of the Human Resources Manager

Here are some examples of "cherry picking" the talent pool in anticipation of recovery:

- Progressive Insurance robs not the cradle but rather the college campuses during recessions to sign up and train high-quality college recruits desperate for jobs.
- Isis Pharmaceuticals leverages a sharp downturn in the biotech industry to lock top scientist talent into permanent long-term positions at bargain salaries.
- A "Lone Ranger" Lehman Brothers goes contrarianly against the industry grain to stock up on elite stock broker-

age talent laid off by recession-battered competitors — and positions itself beautifully for the next bull market.

In the deep dark depths of a recession, the last thing that many companies want to do is to hire more people. Not so for the Master Cyclist. The Master Cyclist knows that it is precisely at the trough of a recession that the labor pool will be at its deepest and wage pressures will have subsided. That is a great time to cherry pick this labor market with the goal of staffing the company with the most talented workers at bargain wages.

The Master Cyclist executive team is able to deploy a more highly skilled work force with lower labor costs than its rivals when the new expansion begins.

Protecting Your Work Force During Recessions

Programmable chip wizard Xilinx preserves its highly skilled work force during a recession using creative measures such as sabbatical leaves, tiered pay cuts, and forced vacations. To humanely "right size" the company by the time the recession hits, just stop hiring. Supplement the work force with more temporary hires. Implement an early-retirement program to accelerate the rate of attrition.

Offer employees financial inducements to take education "sabbaticals" or other forms of leave — and thereby cut costs while preserving the employment relationship.

Nucor Steel uses wage and work-hour flexibility, tactical cross-training, and a highly supportive organizational culture to make its "no-layoffs" policy a strong asset rather than a recession liability.

Every company that adopts a no-layoffs policy implicitly acknowledges a fundamental economic trade-off between the cost savings from work force reductions during recessions and the often greater costs of rehiring and retraining during expansions. A second reason is that companies often bundle the promise of "no layoffs" with higher wages and benefits to become "employers of choice." Finally, no layoffs help keep employee morale high, with morale being an important intangible asset that helps boost productivity. ■

'Macromanaging' Your Production, Inventory, And Supply Chain

Reactive Cyclist executive teams are prone to at least two types of errors when it comes to managing their production and inventory levels over the course of the business cycle. The first is that a company's executive team might fail to build either an internal or external forecasting capability. The second, and perhaps even less-forgivable sin, is that some companies actually have the relevant forecasting information in-house to make the right decisions. But the

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‘Macromanaging’ Your Production, Inventory, and Supply Chain

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company chooses to ignore that information.

Micromanaging and Macromanaging Inventory

Walgreens’ *micromanagement* demons dance supply chain management circles around CVS. The superior inventory *macromanagers* of trucking giant Paccar leave lumbering rival Navistar in the recessionary dust. The sharp contrast between two drug retailing behemoths — CVS and Walgreens — and two trucking giants — Paccar and Navistar — provides an interesting illustration of the subtle but critical difference between *micromanaging* versus *macromanaging* one’s inventory turnover ratio over the course of the business cycle.

A standard piece of supply chain micromanagement advice is to “keep your inventory turnover ratio as high as possible.” The equally standard prescription to achieve this high turnover ratio involves applying a variety of micromanagement tools *independent* of the business cycle — from warehouse operations consolidations and improving supply chain relations to applying computer simulation models and the latest scanning technologies.

It is arguably as important from a Master Cyclist perspective to *macromanage* your inventory turnover ratio. This means tactically *increasing* the ratio by cutting production and trimming inventories when your forecasting models or economic indicators signal possible recession.

The ideal turnover ratio should move in a wave-like pattern over the course of the business cycle, rising as a recession approaches and falling as the promise of a new expansion looms.

Build-to-Order and Production-to-Order Strategies

As the examples of Dell and KB Home show, the beauty of such *build-to-order* and *production-to-order* systems from a Master Cyclist perspective is that they obviate the need for holding large inventories and thereby help insulate a company from business cycle fluctuations.

Using its pioneering build-to-order system, Dell has been able to reduce the days of inventory it holds on hand to an average of four days! The result is an inventory turnover ratio that is absolutely off the charts — more than 100 as compared to less than 30 for rivals such as Gateway and Hewlett-Packard! Dell’s build-to-order system has also proven to be a very powerful weapon to seize market share from rivals whenever the economy has softened or plunged into recession.

When the worst recession since the Great Depression hit the housing market back in July 1990, KB Home was caught totally by surprise with a mountain of inventory on its hands and few buyers in what had just months earlier been a red-hot housing market. KB Home dodged the

bankruptcy bullet that hit many of its developer competitors, and the company’s top management learned from its traumatic business cycle experience and quickly began to prepare for what they viewed as the inevitable recessionary “next time.” As housing market analyst William Walter observed, “Today, KB Home chooses to build in a particular area only after it has conducted extensive market surveys and statistical studies of the region.” ■

Master Cyclist Marketing Through the Business Cycle Seasons

The Master Cyclist marketer is adept at tactically changing both the marketing messages and product mix to fit the customer’s changing “moods” across the business cycle seasons. Some companies have been able to build their brands through countercyclical advertising.

Others have failed to use this tactic. For example, Kmart’s “Mac the Knife” CEO slashed advertising during a recession and helped drive the company straight into Chapter 11 bankruptcy — with a little push from Wal-Mart.

During recessionary times, the cost of advertising is much lower and a relatively better value. There is also less clutter and “noise” in the market when your rivals have gone to the advertising sidelines.

Cycling the Product Mix and Advertising Messages

The most sophisticated Master Cyclist marketer understands the enormous tactical advantages of changing both the *product mix* and *marketing messages* through the business cycle seasons. The simple truth behind such tactical cycling of the mix and messages is that many consumers respond more to product value than style during recessionary times.

For example, El Pollo Loco’s value proposition of cheaper dark-meat specials for dark recessionary times allows this not so “Crazy Chicken” to boost revenues and profit margins. Also, YUM!’s Pizza Hut chain hawks its large-dish delights as a low-cost-per-slice “family meal.”

Retargeting the Customer and Market

Movements in the business cycle, and the related stock market and interest rate cycles, can often trigger the need to retarget one’s customers or one’s market.

For example, Singapore Airlines retargeted its market toward first-class and full-fare customers flying transcontinental routes to smooth out the effects of business cycle volatility while boosting profit margins. Also, the Nature Conservancy’s transformational retargeting of its donor base in the wake of the 2000 stock market collapse significantly boosted its donations — and showed us that Master Cycling is for nonprofit organizations, too. ■

Pricing the Cycle and Managing Credit and Accounts Receivable

Price elasticity measures how sensitive buyers are to changes in price. Price elasticities can vary significantly across the business cycle: They are not fixed. *Raising prices in the face of “price-elastic” product demand will decrease — not increase — profits!* This is because when demand is elastic, an increase in revenues from a price hike is more than offset by a fall in the number of goods actually sold.

The Master Cyclist marketing team recognizes this key economic principle as well as the often subtle shifts in price elasticities over the business cycle. That’s why it typically raises prices in good expansionary times to boost revenues and cuts prices in bad recessionary times to protect or build market share.

To the Master Cyclist, the timely management of credit and receivables most resembles metaphorically that of an “accordion.” That is, the Master Cyclist loosens credit and allows receivables to build in anticipation of an expansion. However, credit is quickly tightened, and the collection of receivables is accelerated in anticipation of a recession.

The Master Cyclist Risk Management Wheel

There are three major components of the Master Cyclist “risk management wheel.” These are:

1. The hedging of general business cycle risk. This is typically accomplished by using tools such as business unit and geographical diversification. Other tools include natural business hedges, outsourcing and offshoring.

2. Hedging — and often opportunistically leveraging — the more specific risks associated with movements in commodity and oil prices, interest rates and exchange rates. This is usually done using various “financial derivatives” such as options and futures.

3. A wide variety of so-called *exogenous shocks*. Such random external shocks to the economy range from war and terrorism and drought and disease to earthquakes and tsunamis. The onset of such shocks often creates opportunities for the Master Cyclist executive team to develop new products or markets. ■

For additional information on how Goodyear snatched defeat from the jaws of victory, go to: <http://my.summary.com>

Proactive Profiting From Oil Price Spikes, Interest Rate Hikes, and Exchange Rate Risks

One of the biggest challenges many companies face is hedging the costs of raw materials. In the examples of both Good Humor-Breyers and Southwest Airlines, we

see two companies using highly sophisticated forecasting tools as the prelude to employing their hedging strategies and tactics.

Whereas Good Humor-Breyers opts for a complete *strategic* hedge for its key ice cream ingredients, Southwest Airlines illustrates a more nimble *tactical* opportunism. That is, although virtually all airlines maintain a partial hedge against fuel price increases, Southwest has tactically increased its hedging at key intervals when its macroeconomic forecasting models suggested an approaching oil price spike. This kind of proactive and tactical opportunism is the true mark of a Master Cyclist.

Consider that just a 1 cent change in the price of butterfat can move Good Humor-Breyers’ profits by half a million dollars. That’s why the company’s annual shopping hunt for its all-important cheap butterfat is conducted with all the precision of a Space Shuttle launch and all the zeal of a missionary.

Southwest Airlines offers an example of a hard-nosed Master Cyclist that relies heavily on macroeconomic forecasting to manage all phases of its business. The company’s own internal model incorporates not only various aspects of global supply and demand, monetary aggregates and exchange rates, but also assessments of geopolitical risk.

One of the least understood — but often most important — risks that companies face in an increasingly global economy is that of “exchange rate risk.” This kind of risk can wear many faces — two of which are “translation risk” and “transactions risk.”

If your company is based in the United States but sells many of its products in Europe, if the euro weakens, your net profits from foreign operations will go down because to “repatriate” those profits from Europe, you have to exchange the weaker euro for a stronger dollar. This is a translation risk.

The fluctuations in currency value that take place between the signing of an overseas contract and the delivery of a product can create a transactions risk. ■

When You Can’t Beat the Business Cycle, Hedge Its Risks!

Master Cyclist strategists often seek to hedge at least some of the business cycle risk. The tools most useful in this task range from *business unit diversification* and *geographical diversification* to the *outsourcing* and *offshoring* of different elements of the manufacturing and supply chain.

Business Unit Diversification

While a myopic Hewlett-Packard sank deeper into the computer hardware cyclical muck, IBM daringly

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When You Can't Beat the Business Cycle, Hedge Its Risks!

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escaped by diversifying into services, Web hosting, and strategic outsourcing.

The contrasting examples of Hewlett-Packard and IBM show how two technology giants both sought at one critical juncture to strategically diversify to avoid the extreme cyclicality of the computer hardware industry. The abject failure of HP to successfully execute its diversification strategy both led to its fall from shareholder grace *and* gave a huge, albeit unintended, boost to IBM's diversification efforts.

Companies engage in business unit diversification for many reasons other than to hedge business cycle risk — from achieving greater economies of scale and scope to capturing the synergies that result from sharing markets, distribution systems, or processes.

However, business unit diversification can also be used to construct natural business hedges to achieve more stable earnings over the course of the business cycle.

Two business units are naturally hedged if their activities are *negatively correlated* over the business cycle.

Geographical Diversification

By diversifying into new foreign markets, companies can achieve greater economies of scale. They can also deploy their core managerial and production skills across a broader range of opportunities. It is also true that one of the primary benefits of geographical diversification is to significantly reduce business cycle risk.

For example, using a mastery of the intricacies of exchange rates learned from an earlier peso crisis, the Mexican cement magnate CEMEX tactically advanced its geographical diversification strategy during the Asian currency meltdown.

The effectiveness of geographical diversification as a hedge is rooted in the fact that business cycles and political conditions of various countries are not perfectly correlated. Because the business cycles of *developing* coun-

tries such as China or Brazil tend to be less correlated with the business cycles of *developed* countries such as Canada or France, “multinational companies” view developing nations as excellent risk-hedging destinations.

Outsourcing and Offshoring Risk

Outsourcing refers to work done for one company by another or work done by people other than the company's full-time employees. Such outsourcing can be done domestically within a company's own country or, alternatively, the outsourcing can move “offshore” to other countries.

Although outsourcing and offshoring might help to reduce the business cycle risk of maintaining a work force to provide an element of a company's business, these strategies are not without their own risks.

For example, it might not always be wise to outsource a “mission-critical” subassembly or procedure to an outside group. This is particularly true if the procedure or subassembly has been offshored to a country where there might be political or economic instability. ■

Surviving — and Prospering From — Economic Shocks

A new kind of dangerous mountain warfare in Afghanistan and an ugly form of close urban combat in Iraq create lucrative opportunities for companies such as General Atomics to sell its high-altitude spy drones, Flir to move its infrared goggles, and Ceradyne to hawk its ceramic body armor.

Terrorism sparks a boom in products as diverse as bomb-detection equipment and biometric identification, and companies such as InVision and Viisage prosper while a bird flu sweeping across Asia sets off a vaccine-development sweepstakes to the benefit of large companies such as MedImmune and small speculative ventures such as China's Sinovac.

Unfortunately, in the chaos that often ensues after a random shock, many executive teams are caught flat-footed. Master Cyclist executive teams are, however, immediately able to parse both the tactical implications of a random shock as well as their possible longer-term strategic opportunities.

Random Shocks

Macroeconomic shocks range from war, terrorism, and oil price spikes to drought and disease.

Although macroeconomic shocks are, by definition, random, their after-effects are often quite logical and therefore possible to exploit with well-timed strategies and tactics.

Master Cyclist executive teams can quickly hedge prices, switch markets, strategically expand the product

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Hedging the Many Faces of Exchange Rate Risk

The captains of industry at Royal Caribbean find calm economic seas in both war and peacetime by buying euro-priced cruise ships with fully hedged dollars.

Procter & Gamble's “dumb and dumber” gamble against the (Bankers Trust) “house” offers a painful lesson in why most companies should limit their use of financial derivatives to risk hedging instead of engaging in highly leveraged gambling.

Surviving — and Prospering From — Economic Shocks

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line, change the marketing message, or hedge particular risks in response to random shocks.

War, Terrorism, and Mother Nature

War and terrorism give rise to the need for new products — from bomb detection equipment to ceramic armor. A drought in Australia can reduce beef exports and thereby raise U.S. chicken prices. Rain in Brazil leads to lower coffee bean prices and higher profit margins for coffee retailers. Business executives must regularly engage in this kind of “big-picture” thinking when parsing Mother Nature’s economic implications.

Demographic shifts represent some of the most powerful forces that shape the business environment. The Master Cyclist knows how to skillfully ride these demographic waves.

Most exogenous shocks are negative. However, in some cases, a company or industry can use its lobbying prowess to proactively create a positive “regulatory shock” that opens new markets, streamlines the regulatory process, or results in lower costs. ■

The Master Cyclist’s Favorite Forecasting Tools

Managing the business cycle for competitive advantage means, first and foremost, learning how to forecast the business cycle in an accurate and timely manner. In this task, the Master Cyclist relies on these three sets of tools:

1. **A select group of leading economic indicators.** These include the “yield curve,” stock and oil prices, the Index of Leading Indicators, and the even more useful “ECRI dashboard” of growth and inflation indicators.
2. **A variety of more complex forecasting models.**
3. **The daily following of the monthly macroeconomic calendar of economic reports.** Such reports are issued by government agencies and private institutions around the world on topics ranging from consumption, production and trade to growth, inflation and productivity.

Which leading economic indicators really lead? The (almost) infallible yield curve stands tall atop the pyramid of Master Cyclist leading indicators.

The stock market plays Sundance Kid to the yield curve’s Butch Cassidy as a valuable co-leading indicator.

Although both prove useful, the ECRI’s economic dashboard decidedly trumps the Index of Leading Indicators on both accuracy and timeliness.

Like a bad moon rising, higher oil prices almost always mean recessionary troubles are on the way.

The Master Cyclist closely follows a number of such indicators, each of which has been proven, in the crucible of repeated historical experience, to be very useful — if not infallible.

Economic Indicators

The yield curve is a very powerful forecasting tool because it embodies the collective wisdom of bond market investors speculating on the future direction of the economy. Yield curve inversions signal recessions. Steep curves signal expansions.

The stock market’s predictive power derives largely from the fact that stock prices reflect investor expectations about a future stream of earnings. Stock prices must fall as expectations of a recession and lower earnings rise, and vice versa.

The ECRI economic dashboard has two gauges: a Weekly Leading Index and a Future Inflation Gauge. This dashboard has proven to be a more powerful and timely tool than the Index of Leading Indicators and many forecasting models.

One of the most efficient ways for you to process the available forecasting data is to subscribe to the Blue Chip Consensus Survey, which has performed better than any individual forecaster.

Following the Macroeconomic Calendar

By diligently following the macroeconomic calendar, your Master Cyclist team can effectively become your own forecaster. By watching how the stock, bond and currency markets react to each piece of economic news, you can build both financial market literacy and a savvy business cycle “sixth sense” about where the economy might be heading.

Although most stock prices rise in a bull market and fall in a bear market, over different phases of the “stock market cycle,” certain industry sectors tend to “outperform” others. Cultivating an awareness of these patterns of sector rotation has great strategic and tactical value for you as a Master Cyclist. ■



If you liked *The Well-Timed Strategy*, you’ll also like:

1. ***Competitive Strategy* by Michael Porter.** Porter provides the techniques and tools that managers need to successfully conduct industry and competitor analysis.
2. ***Heads Up* by Kenneth G. McGee.** McGee describes how managers can break the pervasive pattern of surprises that are often followed by desperate responses.
3. ***World Out of Balance* by Paul A. Laudicina.** Laudicina provides a practical framework for making sense of changes in the external environment and offers straightforward scenarios of how the future global business environment might evolve.
4. ***The Agenda* by Michael Hammer.** The author presents nine core principles critical to contemporary corporate success. Among Hammer’s agenda items: “managing without structure” and “creating order where chaos reigns.”
5. ***Making Strategy Work* by Lawrence G. Hrebiniak.** The author describes how managers and executives can lead effective execution and change within their organizations.

For additional information on Gateway’s disastrous expansion into retail outlet stores, go to: <http://my.summary.com>