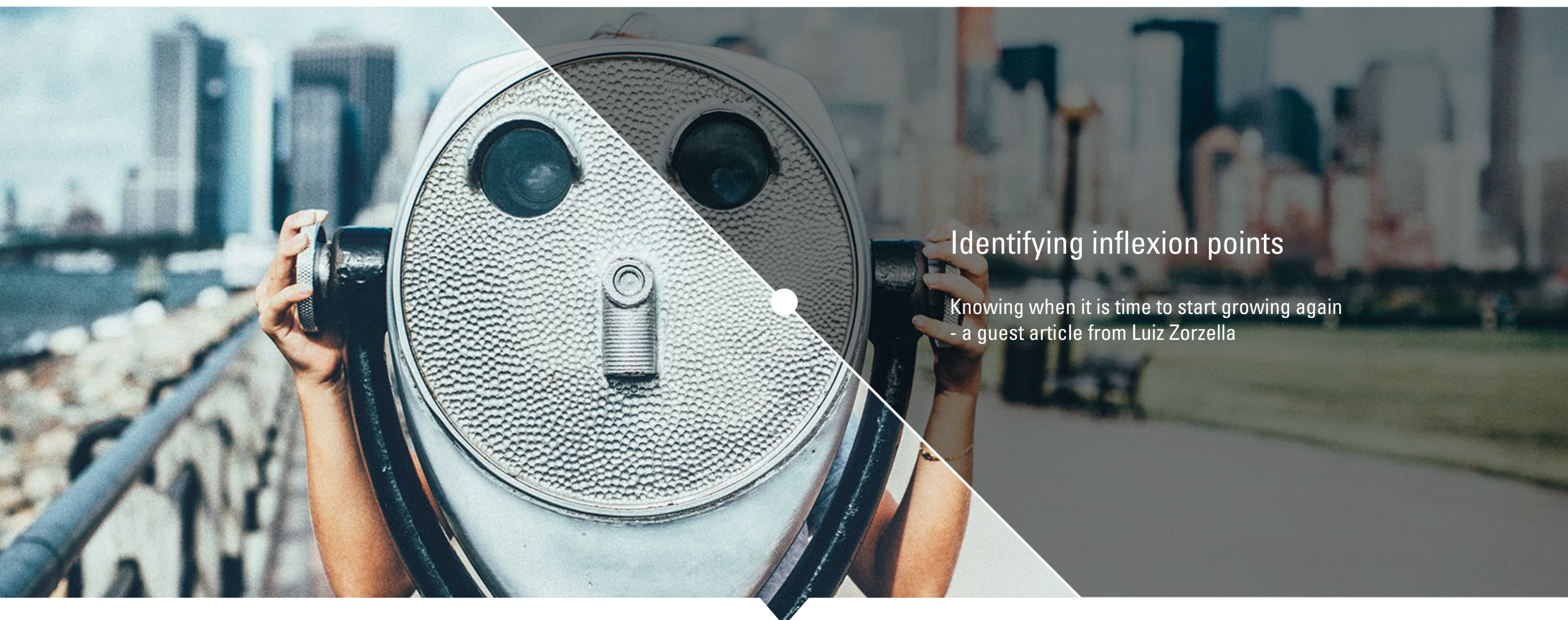
human resourcefulness
globally delivered
a:connect



In my last article, I discussed how business leaders should manage inflexion points – those moments when a company reverts from focusing on margin preservation and starts growing again.

During the first months of an inflexion point, before the market trend reversal is confirmed or a growth strategy shows results, it can be hard for leadership to feel confident and commit wholeheartedly to growth.

To make committing even more difficult, big bets based on the expectation of a market recovery that turns out to be just a temporary boost can destroy a lot of value and undermine the organization's confidence in all the leadership's decisions.

However, there is a substantial reward at stake for companies smart enough to make the right move at the right time. Market inflexion points are prolific in creating new opportunities and there is plenty of anecdotal evidence that smart movers can capture substantial market share during these inflexion points.

Therefore, a critical question is: how can companies recognize these inflexion moments? How can they be certain before everyone else that the tides are indeed turning, that their markets are really rallying, and that they made the right decision to refocus on growth? This article describes how companies can better recognize market-driven inflexion points and use this knowledge to their advantage.

IDENTIFYING MARKET-DRIVEN INFLEXION POINTS GOES BEYOND READING MARKET REPORTS

Most companies track sales and buy reports with detailed historical data on their markets and forecasts. These are typically used in their yearly planning and, sometimes, while preparing business case proposals before major decisions. Companies get value from this approach as it uses market facts to anchor future expectations, which, in turn, anchor strategic decisions.

However, this approach is not foolproof. Some of its limitations include:

- **Your competitors are doing the same:** Most companies rely on the same sources of data and intelligence to identify emerging opportunities and use the same forecasts to define their views. Thus, not only do they tend to move at the same pace as their competitors and miss inflexion point opportunities, they also tend to look at the opportunities the same way and reach similar conclusions.

- **Opportunities do not wait for you:** There is significant lag in normal processes. First, market conditions need to change enough to trigger a review of expectations. Then, these changes need to be measured, results need to be compiled and published, and this information needs to be used in planning processes – which are typically yearly. Plus, approvals for recommendations based on changes of expectation tend to take longer.

- **Most public forecasts do not show how numbers change:** Good reports include discussions of which factors are driving demand as well as which changes are significantly impacting them. However, this often serves more to provide reassurances to the reader than creating clarity on 'how things work under the hood'.

DEVELOPING A CUSTOMIZED APPROACH TO IDENTIFYING INFLEXION POINTS

Below are five complementary groups of actions companies should implement to better predict, recognize and deal with market insight, especially regarding inflexion points:

1. **Build proprietary knowledge:** When most companies rely on the same sources, they often reach confidence in their decisions through peer validation ("I am confident because others are doing the same") instead of diligent insight ("I am confident because I did my homework"). While public intelligence is important, developing proprietary knowledge in a few strategic areas can yield great results and, most importantly, produce insights before your competitors.

2. **Tailor planning to your needs:** Likewise, developing more responsive processes, which can deal with information in a way that makes sense for your company, can yield significant results. Using this approach, one technology client developed a way to look at its markets based on their underlying platforms. This required changes to the company's planning processes, as they could no longer simply plug in numbers from public reports.

3. **Track trending fundamentals:** Fundamental drivers are the hard factors that translate into supply and demand. These drivers trend on different frequencies; for example, in consumer goods, discretionary spending changes with the economy but demographics follow long-term trends. Besides, tracking fundamentals allows companies to identify false inflexions. Tracking buildups of supply–demand imbalances, for instance, helps avoid mistaking temporary movements for long-term trends.

4. **Rely on quantitative tools:** Statistical analysis of historical data can be used to determine the likelihood that new market data represents a trend reversal versus an expected variation of a current trend; for example, a financial services client used this approach for each of its product categories – revealing that a 1% reversal in a low-volatility market was more significant than a 5% change in a high-volatility one.

5. **Improve your forecasting:** Finally, forecasting, like any other business process, can be improved. It is important to map the implications of different assumptions and variables and adopt different approaches to improve these over time. In one example, an industrial client realized that forecast errors only mattered for high-cost, perishable goods. Focusing efforts on improving planning for that subset of products had a very positive impact on the company.

There is no doubt that smart movers can profit tremendously during market inflexion points. By building proprietary knowledge, tailoring processes to the needs of your company, analyzing fundamentals, using quantitative tools and applying strategic continuous improvement to planning processes, companies can capture these opportunities and invest in growth with confidence.

visit our website www.a-connect.com

find us at