A Double Whammy Hammering Your Strategy

If the U.S. continues down a recessionary path for second half of 2023, manufacturers must prepare for a double whammy: ***uneven market demand*** that will last for an ***unknown duration***. For producers this is a big shift in thinking about their go-to-market strategies as supply issues—not demand concerns—have dominated the conversation for several years.

Uneven market demand

Richard Branch, chief economist at Dodge Construction Network, said in a recent interview, "…this has the potential to be the most split market I've ever seen. Split not just in verticals but split in terms of geography and areas where you're seeing strong demographic growth." He is projecting a fairly flat construction market in 2023, where growth sectors offset declining ones. But few markets are actually expected to be flat.

In the new residential segment, large, well-capitalized players are already taking market share from smaller builders. These companies can afford to use financial incentives like rate buydowns and prices reductions to stabilize their new home sales volume. They have also tailored their operations to allow ramping up of starts in communities where buyer demand is still reasonably strong. Smaller regional builders aren't in a financial position to use these marketing tools and likely will struggle to get financing for new projects.

Further clouding the demand picture are existing homeowners, who are locked into low-rate mortgages. These consumers are more likely to invest in upgrades rather than move to new homes. This fuels growth in the remodel segment but constrains the inventory of existing homes for sale.

Unknown duration

Compounding this challenge is uncertainty related to the shape and length of a recession. How deep will the decline be…and for how long? Recent housing trend data shows conflicting signals about consumer behavior. Could a recession be more like 2008 (deep) or the early 1970's (long)? Or will the picture of 2023 and beyond look very different?

On the macro economy front, there are a lot of troubling signs. Regional financial institutions are still teetering. Uncertainty about how/when the U.S. government debt ceiling issue will be resolved is fueling anxiety among businesses and consumers. Category leading companies continue to announce sizable workforce reductions. All these factors suggest a guarded outlook for spending.

To lessen the impact of a one two punch, companies need to figure out what strategy refinements will ensure the best possible chance of achieving their goals. Our view is that manufacturers need to be much more selective about where they apply their resources. From prioritizing target customer segments and geographic markets to emphasizing specific product lines and programs, companies must focus their strategies tightly against the portion of the market available to them now.

“Recession Proof” Your Business

Lynn Cullotta Consulting recommends that manufacturers address three priority items.

1. Take a surgical approach to investing resources.

You cannot broadly invest like you have in a growth market. Your team must identify the parts of the market that warrant resource allocation, and work through difficult decisions related to shifting market investment, by using a data-based view to assess customer and channel segment opportunities and risks:

- Sector/type of customer (new vs. remodel; builder vs. contractor vs. homeowner)
- Size of company (large national vs. regional vs. custom builder)
- Geographic market (region; large vs. small metro)
- Products (premium vs. value-oriented price points)

2. Decrease sales/marketing costs without reducing effectiveness.

During periods of heady revenue growth, organizations pay less attention to sales and marketing expenses than they should. In a tightening market, companies need to identify the activities and programs that could be eliminated or reduced without impacting effectiveness.

It is also important to recognize that customer expectations may shift during periods of market stress. You should audit how you are spending the sales/marketing budget to identify which can be scaled back (i.e., activities that are not highly valued by customers today) and which customer priorities require greater investment of your resources.

3. Support channel partners but make them earn their compensation.

Suppliers respond differently to economic challenges facing their channel partners. A supplier who proactively addresses a channel partner’s concerns will foster confidence in the business relationship, which may open new opportunities down the road.

Like customers, as uncertainty builds for channel partners, they are likely to change business practices to weather any downturn. The supplier who recognizes these challenges and attunes the channel program to them is likely to experience both short and long term gains in the channel. We suggest you revisit your channel program in light of the changing environment. Modifying program components and implementing firm (but reasonable) performance expectations allows a supplier to support their preferred channel partners during challenging times while managing costs and maintaining a stable network.

Evolving a go-to-market strategy for these market conditions is hard. Answers need to be generated quickly. Our firm is an experienced resource and would be happy to help you and your team. Reach Carl Cullotta at 224-239-2525 or cpc@lynncullotta.com.

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