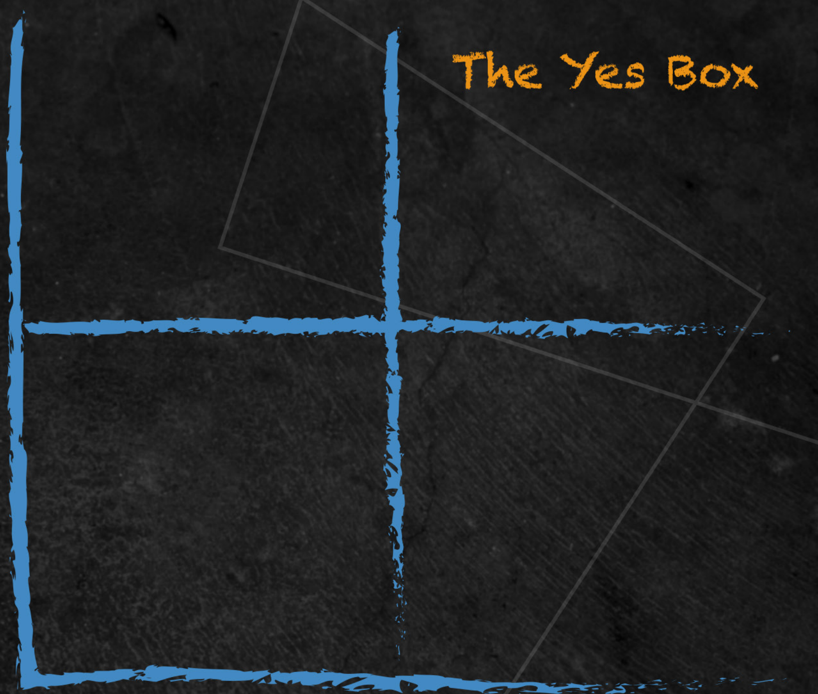
The Yes Box



How Step-Change Thinking is the Key to Growing Sales in a Shrinking Economy

The **Value**Builder System™

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What do Airbnb, MailChimp, Microsoft, and Uber have in common?

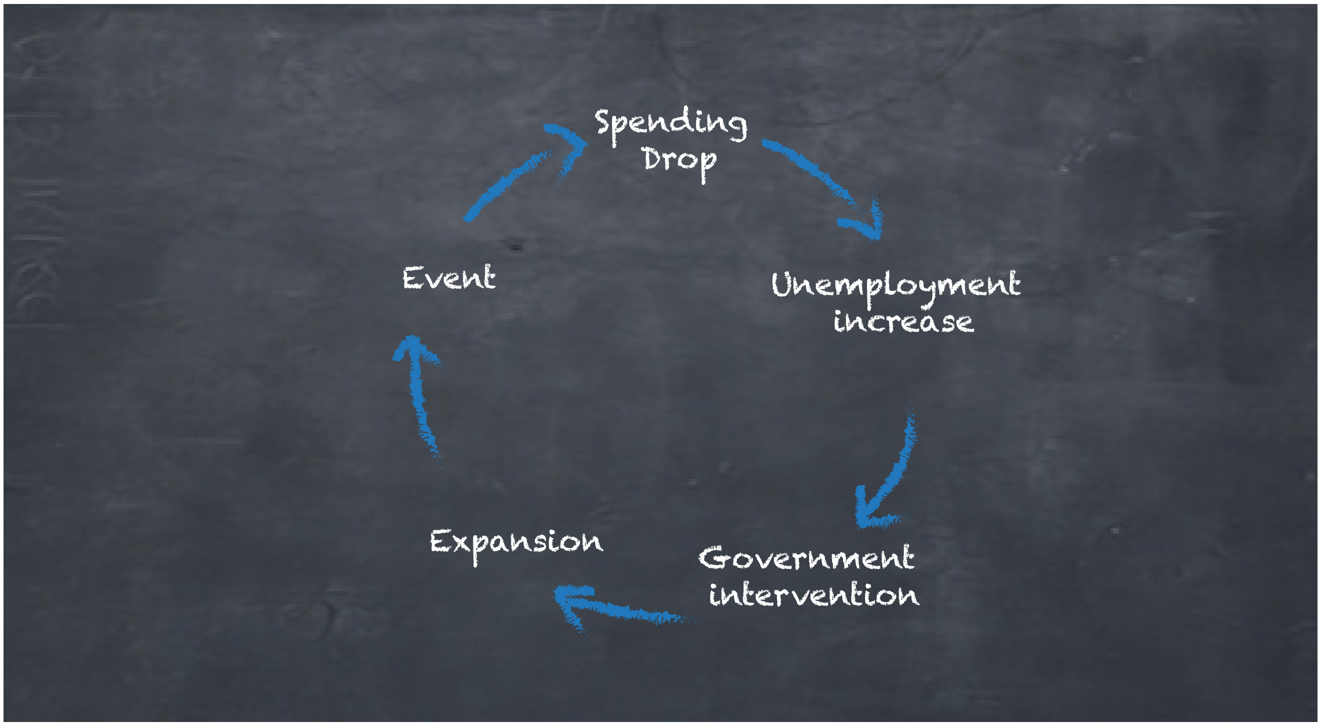
They were all started in an economic downturn.
Recessions can be brutal, but they may also be the spark that catalyzes innovation inside your business. Before we outline how to play offense in uncertain times, let's begin with a summary of where we're at.

A Recession in 2023?

Most economists believe the world will experience a global recession in 2023.

While the "R word" can be scary, most downturns follow a predictable path, and if you understand them, you can spot opportunities. Recessions are usually triggered by an unusual event that causes a widespread slowdown in consumer and/or business spending. Companies react by laying off workers, and unemployment rises. Governments then step in to artificially restart the economy by lowering interest rates and/or government spending, and a new era of expansion begins. »

Recessions are a Normal Part of the Business Cycle

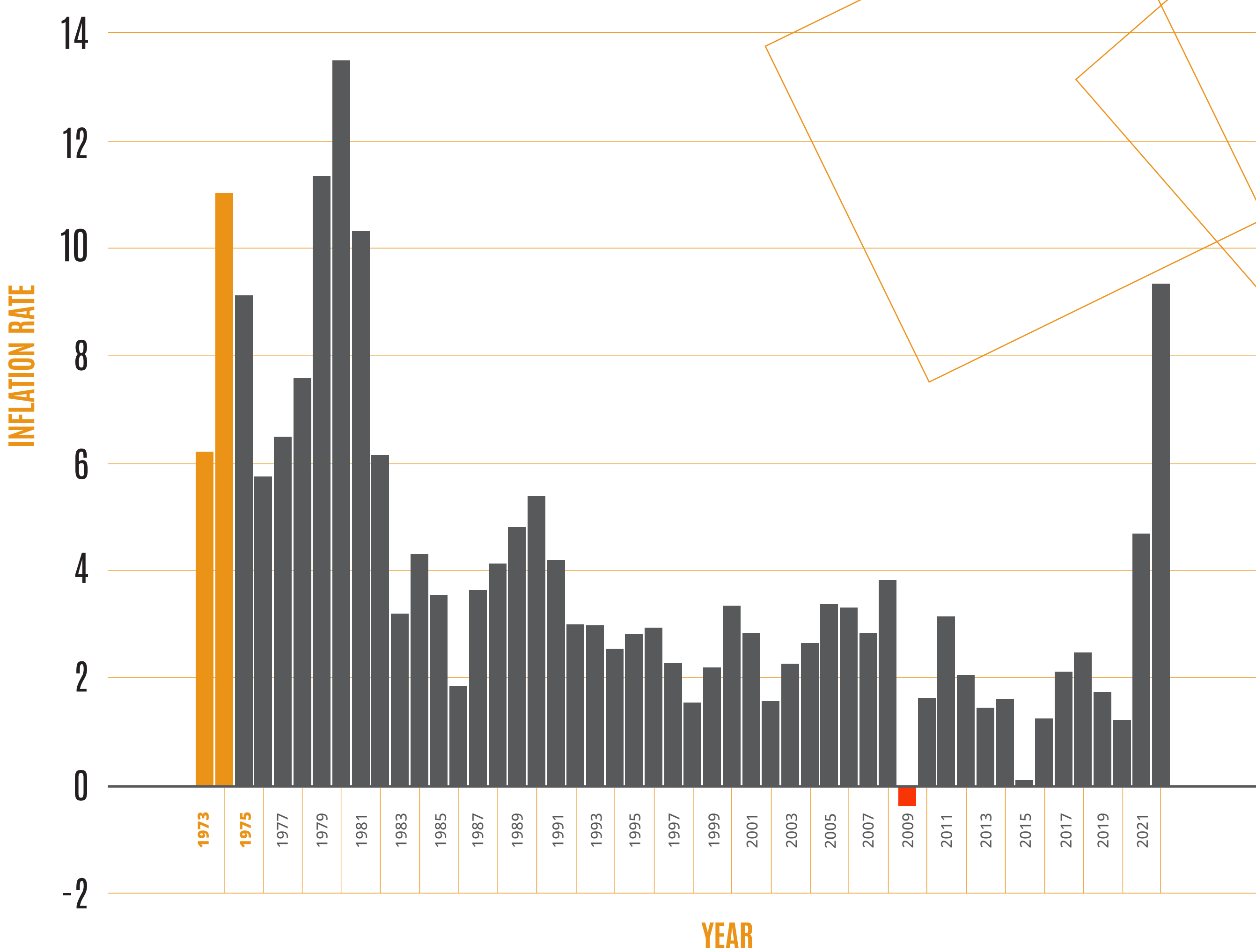


1973-1975 Recession	1980 Recession	1981-1982 Recession	Early 1990s Recession	Early 2000s Recession	GREAT Recession	COVID-19 Recession
Nov 1973 to Mar 1975	Jan 1980 to Jul 1980	Jul 1981 to Nov 1982	Jul 1990 to Mar 1991	Mar 2001 to Nov 2001	Dec 2007 to Jun 2009	Feb 2020 to Apr 2020

With the combination of high inflation and low growth, many economists compare our current situation to that of the early 1970s in the United States, so it might be helpful to remember how that movie ended.

In 1973 the United States supplied the Israeli army with military equipment to fight the Yom Kippur War. The Arab members of Organization of Petroleum Exporting Countries (OPEC) retaliated with an embargo on selling oil to the United States.

Gas prices in the U.S. skyrocketed, and the economy entered a period of “stagflation,” which is defined as an era of slow, negative, or nonexistent growth coupled with rising prices. Inflation jumped from 6.22% in 1973 to an average of 11.04% in 1974 and 9.13% in 1975 respectively. »



When the recession in the United States began in 1973, the unemployment rate was 4.9%. It rose to 7.2% in 1974 and peaked in May of 1975 at 9.2%.

Not surprisingly, the Federal Reserve stepped in and lowered interest rates from 12% in 1974 to just 6% in the fall of 1975. The loosened money supply ushered in a new era of expansion beginning in the second half of 1975.

Are we going to experience something similar in 2023? Given the strength of the current job market, there are bound to be differences, but the chance of a recession following the general contours of past recessions seems like a reasonable assumption.

How can you best position your company to navigate a future downturn? You've already heard predictable advice like "preserve cash" and "prepare for the worst."

These are all good defensive strategies. »

The Wrong Approach

Some owners assume that in addition to preserving cash, the best way to outwit a recession is to lower prices to ensure they are the cheapest provider in their category. Lowering your prices can be tempting. As the recession digs in, consumers reach a tipping point and look for cheaper alternatives.

The longer a downturn lasts, the stingier customers get. In the early days, consumers may tighten their belts while anticipating a reduction of cash flow, but unemployment usually lags the economy overall. Companies must experience lower demand, realize they have excess staff, and then go through the arduous process of deciding who to cut and how. It all takes time, which is why the unemployment rate is a lagging indicator of a recession.

However, lowering your prices triggers a downward spiral of thinning gross margins, leaving you little room to invest in differentiating your business from its competitors. As competition heats up, margins get thinner. A business with little differentiation and tight margins is of little value to an acquirer. You may win the battle for short-term sales, but you will lose the war.

Step-Change Thinking

How to Avoid the Race to the Bottom

What if you don't want to compete in a price war to the bottom or cower in the corner until things improve? What if you want to capitalize on challenging economic times?

This requires an entirely new way of approaching your industry that we'll call "Step-Change Thinking."

To understand Step-Change Thinking, let's first look at the opposite: incrementalism.

In a world of continuous improvement, most products and services are positioned as *incrementally* better than their competitors. Direct rivals duke it out by making small changes to their offerings, giving one a slight lead for a few months before the other can match it. Baby steps.

By contrast, a step-change improvement is something entirely different.

A step-change is when you take a large step forward all at once. Rather than small tweaks, you make a significant improvement over your existing competitors.

To illustrate the concept of a step-change improvement, let's go back to the early 2000s. In those days, if you were a well-paid executive catching a flight in the morning, you likely would have scheduled a car service to pick you up at an appointed time. Two or three times the price of a taxi, these services were expensive and cumbersome to schedule but worth it because drivers almost always showed up on time in a clean car and with a smile.

Most big cities had a handful of these town car services, and they competed by making small, incremental changes to their business model. One might provide a fresh copy of the local newspaper to differentiate themselves. A competitor would get wind of what their rival was offering, and they would provide a newspaper and a bottle of water for their passengers. This competitive environment incrementally pushed the industry forward in small, virtually imperceptible steps.

Then along came Uber in 2009 with a step-change improvement.

Uber enabled busy executives to hail a town car instantly using their mobile application. (This was years before introducing UberX and its broader selection of vehicles and food delivery services.)

The in-car experience was similar to a town car service, but Uber's offering was a step-change improvement on a number of dimensions:

- Since your credit card was pre-loaded into the app, there was no need to fumble with money or provide payment at the end of a journey.
- Your phone's mapping feature allowed you to see your car as it approached your location, reducing your anxiety about a late arrival.
- There was no need to book the car in advance, so you could save the hassle of the call and be flexible on your departure time.

It all combined into a step-change improvement in the experience of getting to the airport.

And the cost?

A little less than scheduling a town car. It was a step-change better value proposition than anything in the market. Today, Uber's market capitalization is measured in the tens of billions of dollars despite starting their business in the depths of the Great Recession.

Demanding More for Their Money

A recession means businesses and consumers demand more for their money. You can meet that demand by lowering your prices—and that will keep your customers buying for a while—but lowering your prices will slash your margins and undermine the value of your business in the long run.

To play offense, you need to make the case that your product or service is comparably priced to the alternative but a step-change better in terms of value.

While Uber provides an example of a technological upgrade, making your product or service appear like a step-change improvement to a business customer often requires you to show how you will save your business customers money on the people they employ.

A B2B Step-Change Improvement

What are the substitutes your business customers have for buying your product or service today?

Most of us think of alternatives as direct competitors, but as you evaluate your competitors, consider both the hard and soft costs of doing business with your competitors. Often the costliest part of doing business with your competitors is the people your prospect needs to employ to use their solution.

For an example of a step-change improvement that relied on having a customer calculate both the hard and soft costs of how they were doing business, let's look at U.K.-based GoProposal, which was started by James Ashford in 2016.

Ashford noticed accountants were spending a lot of time writing custom proposals for prospective customers. He knew accountants were well paid and was dumbfounded by the number of billable hours they wasted on writing proposals—many of which were never accepted.

Ashford conceived of a software application that would allow an accountant to sit shoulder to shoulder with their prospect and discuss the services their client needed. The accountant could then build their proposal for a client in front of the client's eyes as the prospect picked from the accountant's menu of services. Once the prospective client was happy with their choices, the prospect could sign off on the proposal in the meeting.

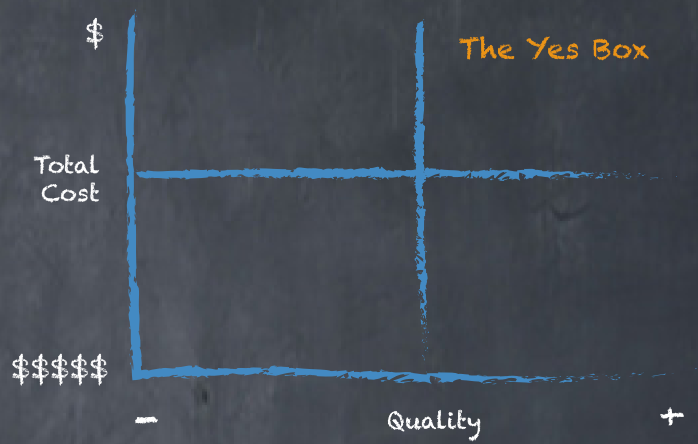
Ashford reasoned that his new software would eliminate many hours of back-and-forth as accountants gathered a prospect's needs and wrote a custom proposal for each. If an average partner worked 2,000 hours and earned £200,000 a year, their time was worth around £100 an hour to the accounting firm. Ashford reasoned the firm would say yes to a software that saved hours of billable time for a fraction of the cost.

GoProposal was a success and accelerated its growth in 2020 as the economic shock of the COVID-19 pandemic hit the U.K. The worse the economy got, the better GoProposal did.

Ashford hit more than £1.5 million in annual turnover when GoProposal was acquired by Sage for an eight-figure sum.

In a recession, consumers look to save time and money, while businesses have a wider range of reactions. During a downturn, businesses look for ways to reduce employee headcount, save expenses, save on the costs of servicing customers, etc.

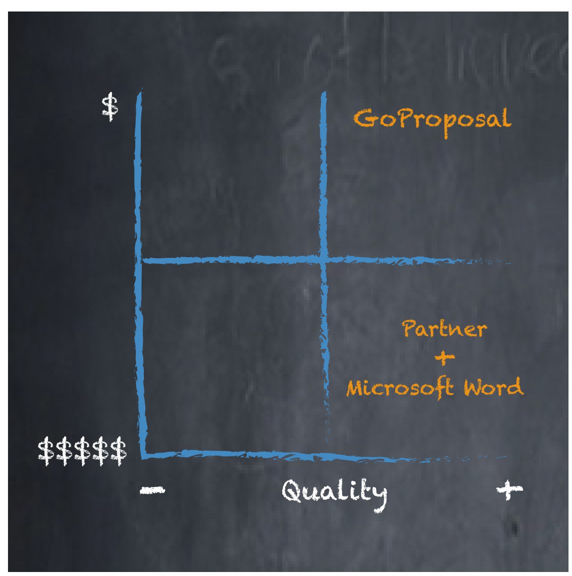
The Yes Box



To visualize what a step-change improvement looks like, plot your offering in a two-by-two matrix. As you'll see in the illustration above, the Y axis measures the total cost of a solution from high to low. This includes the hard and soft costs (i.e., the cost of employing the people that use it) of a solution.

The X axis measures the overall quality of the solution from bad to good. To move a customer to say yes to buying your product or service in a recession, aim to position it in the Yes Box at the top right corner.

In the case of GoProposal, the alternative to using GoProposal was spending hours using Microsoft Word to create a similar-quality proposal. The costs were much higher because of how much partner time was required to write and present a custom pitch. GoProposal offered a similar-quality alternative at a fraction of the total cost, making it an easy sale during a time when accountants were looking to make more with less.



When the email marketing company Mailchimp started during the 2001 recession, the only way a small business could send a mass email was through a giant piece of software designed for large enterprise customers.

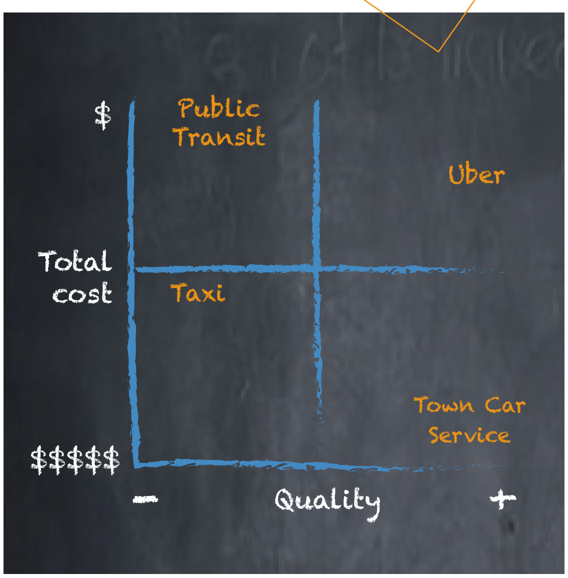
Even worse, a small business wanting to leverage email as a means of marketing their business needed to employ a manager who understood how to use the expensive software available at the time.

Mailchimp was started with a vision to allow business owners with no specific training in email marketing to design and deploy their own campaigns.

Mailchimp quickly found its way into the Yes Box of an army of small business owners that were looking for a quality email solution without the cost of hiring a person to run it.

In September 2021, Intuit (NASDAQ: INTU) announced its offer to acquire Mailchimp for a stunning $12 billion.

Sticky Expectations



Let's revisit our example of Uber's launch in 2009 to understand how they positioned themselves in the Yes Box. The alternatives for getting to the airport at the time included taking a taxi, public transit, a town car, or an Uber. Note that when the recession hit, customers didn't immediately gravitate to the cheapest option. In fact, Uber's launch offering was around 1.5 times more expensive than a taxi and a little less than a town car. Customers still wanted a quality experience but needed it at a lower price.

Customers enter a recession with the heightened expectations associated with an expanding economy. They have come to enjoy—even expect—high quality, so the idea of compromising on a solution in the early stages of a recession feels like an unacceptable step down.

As a recession grinds on and cash becomes even harder to come by, their willingness to accept an inferior solution to save money may increase. However, in the early days of a recession, customers will be looking for alternatives that give them a similar experience as they have come to enjoy in the good times at a lower overall price when combining both the hard and soft costs of completing the job they are hiring your product to do.

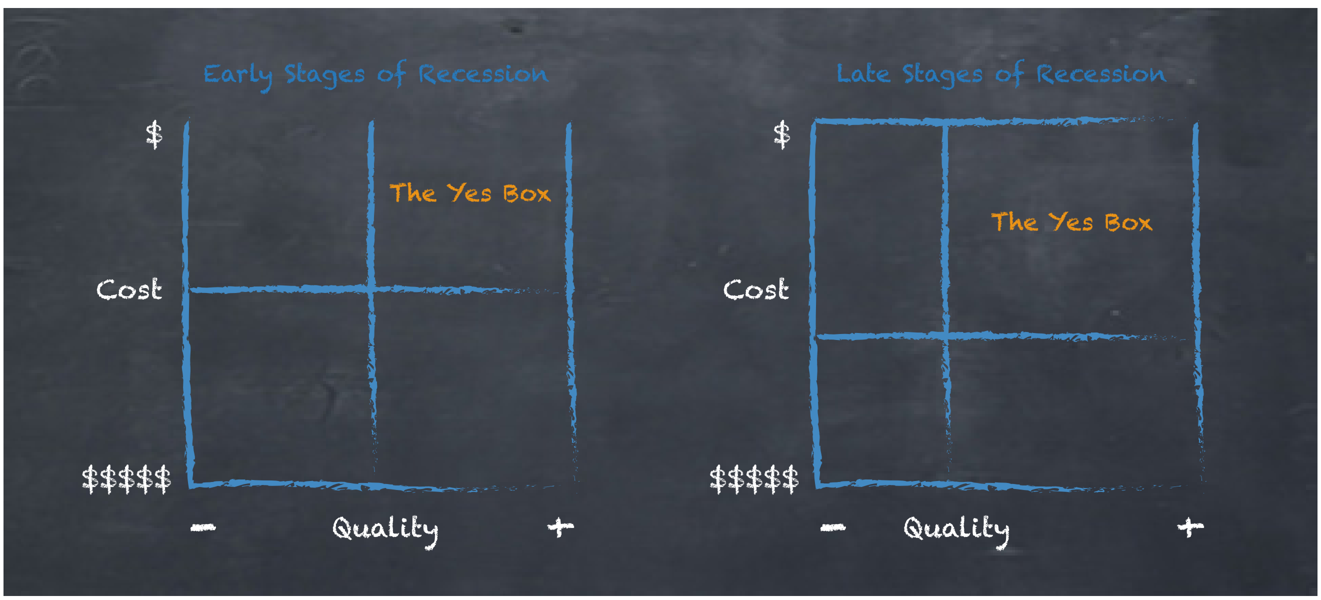
Inertia Disrupted

Isn't delivering a quality product at a lower price timely advice in any economy? Of course, but the difference in a recession is that your customer's inertia for doing things the way they have always done them gets disrupted.

If you've ever taken your hands off the handlebars of your bike while traveling at a decent clip, you know all about inertia. It's the force that keeps you going in a straight line despite cross currents pushing you off course. The slower you go, the less inertia you have and the more likely you are to fall.

A recession disrupts your customer's inertia. Conveniences they rationalized in good times get scrutinized. Purchases that were made out of loyalty or sheer laziness are reevaluated.

In good times, customers may stick with a supplier out of allegiance or ease because cash is less of a concern. However, as consumers start thinking about saving money and businesses start laying off people, your customer's bar for reevaluating suppliers goes down. Said another way, as the economy worsens, the Yes Box gets bigger.



A recession can be both a threat and an opportunity. Prospects are more likely to consider new ways of doing things, and at the same time, your existing customers are more likely to consider their options. Once a customer makes a change in a recession, it can be hard to win them back in the good times. Hotels never recovered the market share Airbnb won during the Great Recession, and we didn't go back to using town car services in the boom years after the financial crisis eased.

Therefore, it's important to show both legacy customers and prospects why you should be in their Yes Box.

Conclusion

A recession can be challenging to navigate, but a difficult economy can also present opportunities. Some of the most successful companies we know and love—from Airbnb to Uber and Mailchimp—were all started during a recession. While it can be tempting just to lower your prices to maintain sales, becoming the low-cost provider in your industry is a race to the bottom nobody wins. Instead of playing defense, the most valuable companies go on the offensive during a recession through step-change thinking. They target their customer's Yes Box by providing a better overall product at a lower total cost at a time when their prospects are looking around for alternatives.