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Meet the MasterMinds: Peter Navarro on Mining the Business Cycle for Competitive Advantage

[Peter Navarro](#) is the author of the bestselling investment book, [If It's Raining in Brazil, Buy Starbucks](#), and [The Well-Timed Strategy: Managing the Business Cycle for Competitive Advantage](#). He is also a business professor at the University of California-Irvine and an expert on the “big picture” application of understandable macroeconomics.

Navarro says that executives are missing out on the opportunity to create competitive advantage by mastering the business cycle. We asked Navarro why so many savvy consultants and other business people ignore the business cycle in the strategic planning process.

MCNews: What's missing from the strategic and operational planning process for most businesses?

Navarro: Typically, companies are missing three things: sophisticated “business cycle literacy” among the top management team; the lack of a facilitative organizational structure; and the absence of a supportive organizational culture.

Business cycle literacy includes paying attention to, and understanding, the constant swirl of economic events and translating that information into strategic and tactical actions. In the book, I point out Ralph Larsen of J&J as one of the poster boys for business cycle literacy versus John Chambers of Cisco and others who demonstrate the consequences of illiteracy.

Organizationally, many companies are structured in such a way as to make it difficult for forecasting information to flow freely up and down the chain of command and, equally problematic, across functional areas. In some cases, middle managers may see an economic problem brewing, for example, a recession, but can't get the message through to the top.

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A severe problem with just that drove Conexant into penny stock land. In other cases, a company's marketing or production team might be really good at managing the team's functional area through economic shocks, but its skills and knowledge don't translate across functions.

As for organizational culture, at least some companies—Nucor and Paccar offer stellar models—rely on a business cycle sensitive organizational culture to complement their strategies.

MCNews: Given its importance for business performance, why does consideration of the business cycle seem like such an afterthought in the business planning process?

Navarro: There are many reasons for so few “master business cyclists.” A lot of senior managers “grew up” during the booming 1990s when the economic cycle really wasn’t all that important, and so they never learned how to manage it.

Too many senior managers also tend to focus too closely on their “knitting”: They pay far more attention to micro issues pertaining directly to their business and industry than the real game, which is how the broader macro environment is shaping their business prospects.

Then, too, many managers are victims of the “MBA mindset.” The problem here is that most business schools teach from a “functional silo” perspective and deliver each subject—marketing, operations, HR, and so on—as a self-contained unit. In contrast, managing the business cycle is very much a multidisciplinary and integrative task.

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In a recession, for instance, the best “Master Cyclists” will counter-cyclically increase advertising both to increase brand awareness *and* help trim inventories for the operations management folks, even as other areas of the corporation are increasing capital expenditures to position for the next expansion.

A final problem—which is quite problematic indeed— is that there is an element of *aptitude* involved in business cycle management. This means that even if a CEO understands the importance of the economy, it doesn’t follow that he or she will be smart enough to implement strategy. An apt analogy is that we can’t all be concert pianists or professional athletes no matter how committed we might be to the goal.

MCNews: You coined the term “Master Cyclist” for the business executive who knows how to manage a business through boom, bust, and back to boom. What separates a Master Cyclist from others?

Navarro: The best Master Cyclists—people like Ralph Larsen at J&J, Richard Ziman at Arden Realty, Angelo Mozilo at Countrywide Financial, and Chad Holliday at DuPont—exhibit a highly sophisticated degree of business cycle literacy.

They have built and run organizations that are strategically and tactically business cycle sensitive, and they are quite willing to engage in countercyclical and often contrarian behavior in anticipation of economic turbulence.

MCNews: What have Master Cyclists learned over the years that the rest of us haven’t?

Navarro: Let me provide you with a set of quotes from three of the best Master Cyclists in the US executive corps that capture the essence of Master Cyclist management.

- “We shift our product line with cyclical movements—particularly leveraging different cycles in different countries and moving between the public and private sectors.” - Ray Holdsworth, CEO, AECOM
- “What you try to do when you manage this type of company is broaden the franchise at the bottom of the (economic) cycle so that the snap out of the cycle can be positive.” and

"Terex's product and geographic diversity has helped us deliver better results overall and partially offset the soft global mining business." - Ronald DeFeo, CEO, Terex Corporation

- "Nucor has a long-standing tradition of emerging from cyclical downturns stronger than before entering them. We intend to take advantage of the economic downturn to gain market share, penetrate new markets, and emphasize cost reductions." - Daniel DiMicco, Chairman, Nucor Steel

What Master Cyclists know is that well-timed strategies, which coincide with changes in the business cycle, are essential to achieving strong financial performance in good times—and bad.

MCNews: As you look at today's business cycle, what do you see now, and what trend or two would you advise businesses to consider as part of their strategic planning process?

Navarro: We are on the cusp of potentially terribly turbulent economic times. We rode out a collapse of the tech bubble on the wheels of a housing bubble, with those wheels now coming off the main economic chassis.

The yield curve has inverted, signaling a recession or slowdown. Inflation is building. Both the budget and trade deficits are beyond out of control because of profligate fiscal and monetary policies. Once volatile oil price shocks have now become a dangerously persistent feature of the global economy, and there are a variety of exogenous shocks, any one of which may be problematic, from war and terrorism to pandemics.

So watch carefully for signs of recession, or worse, stagflation, which is simultaneous recession *and* inflation. And be prepared for any exogenous shock.

MCNews: When economic trends spell trouble for a business, investors and others exert tremendous pressure to control costs such as advertising, marketing, and labor. What advice would you give an executive for handling that cost-cutting mentality?

Navarro: The easy answer is: "Stick to your countercyclical and contrarian guns." The more subtle answer is that the business cycle sensitive corporation will be far less vulnerable to any "tremendous pressure" precisely because they have managed the business cycle well and will, therefore, be in a much better cash flow position.

MCNews: If you could give consultants one piece of advice about helping their clients tame the roller coaster of the business cycle, what would it be?

Navarro: The big question I ask every strategy consultant I meet is this: Why don't consulting firms pay more attention to managing the business cycle? Not only is this an essential element of strategy, it also presents consulting firms with one of the most lucrative opportunities on the cutting edge of strategic management.

MCNews: Thanks for your time.

Find out more about Peter Navarro at www.peternavarro.com.