Rethinking strategy before the crisis

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In December 1998, Brazilians were ready to enjoy their Christmas holidays, in addition, in line with the southern hemisphere summer. At that time nobody in Brazil doubted that sooner or later the government would change its monetary policy so far was that of “mini-devaluations” controlled by the government. But trade balance, import operations fall in by the Asian crisis, capital flight and fiscal deficit were pressing on government accounts, which urgently needed to take some steps to improve their exports and curb the output of U.S. dollars in the country.

On January 13, 1999 the government decided to devalue the Real slightly, and the 15th left him fluctuate freely, closing that month at 2.12 reais per U.S. dollar. For those import companies with products from China and Europe those were terrible news. Almost overnight their products were approximately 60% more expensive.

As we have commented in the article “A short recipe to deal a crisis,” that’s when flexible teams, adaptables and imaginatives, leads the way through the crisis with the least possible impact. Those drastic changes could cause a major collapse for an big international organization which used to work with multi-year plans with the strategy set months in advance and a value added product that requires a period of several months of supply. But the holiday period had allowed us a little leeway to redefine the whole strategy of the company and adapt to the new situation.

The decisions taken were:

1. Safely assume a fall in consumption and therefore revenue for the company. In other words: we had had to cut forecasts of production and sales for that year. But that, at the same time, helped to came more realistic with the market.
2. Be adapted to market demand. The manifest coming inflation would generate that consumers were selective with their purchases.Therefore the product mix was modified giving place to product with less cost and price. Searching for products related to the consumers new interests, having a more balanced mix between those entertainment products and practical ones.
3. Generate cash by taking advantage of products that were already in stores. This would also test different price and promotion strategies with very low costs.
4. Be more aggressive in the promotion policy in which both referred to as promotional prices on communication.
5. Renegotiate with international creditors new terms of payment of the debt that was put in U.S. dollars
6. And of course, review relations with business partners: business conditions in the sales channel and communication costs.

That was a slowdown period, were also with investment and growth plans, and we had took other financial measures. But the measures mentioned above, most of them about pricing, helped overcome the crisis and a year later the company was again ready to resume the plans a year before he had to postpone.