



ALWAYS A WINNER

Finding Your Competitive Advantage
in an Up and Down Economy



PETER NAVARRO

Author of *The Coming China Wars*



Additional Praise For *Always A Winner*

“Wouldn’t it be great if we could accurately anticipate, understand, and proactively deal with economic challenges all the time? *Always a Winner* shows us how to do just that. Combining real-life corporate examples with easy-to-grasp economic theory, Peter Navarro provides you with all of the strategies, tactics and forecasting tools your organization needs to profitably manage through the ups and downs of the business cycle.”

—*Ed Fuller, President & Managing Director*
International Lodging, Marriott International

“This compelling book offers strategies for coping with the business cycle from a keen observer and insightful commentator. Read it now in the midst of a recession, and read it again when the economy is several years into another expansion. That’s when business needs to prepare for the next downturn.”

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Director, UCLA Anderson Forecast

“*Always a Winner* is required reading for every entrepreneur, money manager, and independent investor hoping to outperform the market and retire one day.”

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Founder of StockTrak.com and WallStreetSurvivor.com

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move forward. Always a Winner will help your organization not just survive, but thrive, in today's turbulent economic environment."

—*Teruo Asada*

President and CEO, Marubeni Corporation

"Many businesspeople such as myself have learned the hard way that managing the business cycle for competitive advantage in today's fast-changing, globally-integrated economy is not only a must for survival but also the only sustainable strategy. In this very timely book, Professor Navarro clearly shows your executive team how to do just that – and always come out a winner!"

—*Dr. Shankar Basu*

Chairman & CEO, Toyota Material Handling, U.S.A., Inc.

Always A Winner!

Always A Winner!

**FINDING YOUR COMPETITIVE ADVANTAGE
IN AN UP-AND-DOWN ECONOMY**

Peter Navarro



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John Wiley & Sons, Inc.

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Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data

Navarro, Peter.

Always a winner! : finding your competitive advantage in an up and down economy/Peter Navarro.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-470-49720-3 (cloth : acid-free paper)

1. Business cycles. 2. Industrial management. 3. Gross domestic product. 4. Recessions. 5. Success in business. I. Title.

HB3711.N38 2009

658.4'012—dc22

2009013303

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

*To every business executive who got caught by
surprise by the 2007 to 2009 crash—and who
wants to make sure it never happens again*

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About the Author

Peter Navarro received his PhD in economics from Harvard University in 1986. Since 1988, he has been a professor at the Merage School of Business, University of California-Irvine.

Professor Navarro is a widely sought after and gifted public speaker. His unique and internationally recognized expertise lies in his big-picture application of a highly sophisticated but easily accessible macroeconomic analysis of the business environment and financial markets for investors and corporate managers.

Professor Navarro's books include the bestselling investment book *If It's Raining in Brazil*, *Buy Starbucks* and the pathbreaking management book, *The Well-Timed Strategy*. His most recent book is the bestselling *The Coming China Wars*, which takes a provocative look at the range of economic, political, and military conflicts likely to arise with the emergence of China as a superpower.

Professor Navarro is a regular CNBC contributor and has been featured on *60 Minutes*. He has appeared frequently on Bloomberg TV and radio, CNN, NPR, the BBC, and the *CBS Evening News*. His articles have been published in a wide range of publications, from the *Chicago Tribune*, *Los Angeles Times*, *New York Times*, *San Francisco Chronicle*, *Wall Street Journal* and *Washington Post* to *BusinessWeek*, the *Harvard Business Review*, the *MIT Sloan Management Review*, and the *Journal of Business*.

Professor Navarro is also an award-winning teacher and has recorded numerous audio lecture courses in the Modern Scholar series for Recorded Books. Sample titles include: *Big Picture Investing*; *Big Picture MBA*; and *Principles of Economics: Business, Banking, Finance, and Your Life*.

Each week, Professor Navarro publishes his "Well-Timed Strategy" newsletter on his Web site at www.peternavarro.com. This free newsletter provides timely economic and financial market analysis for both business executives and investors.

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While Professor Navarro is an avid Dodgers baseball fan, his wife Leslie roots for the Angels. Opposites apparently do attract.

Other Books by Peter Navarro

The Coming China Wars: Where They Will Be Fought, How They Can Be Won (2008)

The Well-Timed Strategy: Managing the Business Cycle for Competitive Advantage (2006)

What the Best MBAs Know: How to Apply the Greatest Ideas Taught in the Best Business Schools (2005)

When the Market Moves, Will You Be Ready?: How to Profit From Major Market Events (2004)

If It's Raining in Brazil, Buy Starbucks: The Investor's Guide to Profiting From News and Other Market-Moving Events (2001)

The Policy Game: How Special Interests and Ideologues Are Stealing America (1984)

The Dimming of America: The Real Costs of Electric Utility Regulatory Failure (1984)

Preface

Most companies make a lot of money during economic expansions—and lose a lot of money during recessions. That is the way it has always been. That is the way it need not always be.

My job in this book is to show you how to be “always a winner” over the course of the entire business cycle—not just when economic times are good. To do this, I am going to arm you with all the strategies, tactics, and forecasting tools you will need to profitably manage your organization throughout the business cycle seasons—from the best of times to the worst of times.

The importance of learning to strategically manage the business cycle for competitive advantage was underscored some years ago by my chance encounter with Dwight Decker, a gentleman who at one point was one of the highest-flying tech executives in Orange County, California.

At the time of this encounter—at an Orange County meeting on homeland security—Decker was the CEO of Conexant, a semiconductor company spun off in 1999 from the defense company Rockwell. Within a year of that spin-off, Conexant’s sales had rocketed up to more than \$2 billion and its stock price had increased by more than sixfold.

Conexant’s success was, however, ever so fleeting. Despite ample warning signs, Decker and his executive team failed to see the March 2001 recession and collapse of the tech bubble coming. When the company got caught with more than \$1 billion of inventory write-downs and special charges, its stock price made a dizzying descent from almost \$100 per share down to less than two bucks.

When I bumped into Decker at the homeland security meeting, I couldn’t help but ask him how his company had failed to forecast the 2001 recession that had been its undoing. I then went on to provide a long list of leading economic indicators that had clearly signaled that recession.

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Decker's reply absolutely floored me. He said: "We don't really pay any attention to that economic stuff. Our job is to make great new stuff and if we do that, the rest will take care of itself."

Unfortunately for both Conexant shareholders who lost billions of dollars and the thousands of Conexant employees who lost their jobs, no more naive words have ever been spoken. The message that Decker clearly failed to understand is that over the often-exhilarating ups and treacherous downs of the business cycle, economic ignorance will always eventually triumph over engineering brilliance.

**A BIG-PICTURE VIEW OF
THE ALWAYS A WINNER
ORGANIZATION**

CHAPTER 1

Why Recessions Are More Dangerous than Any 10 Competitors

When a recession hits, the best surprise is no surprise.

—Ron Vara

A recession can do far more damage to your organization than any 10 competitors. That's a lesson I both regularly teach to my executive MBA students and preach to corporate audiences. Without question, it is one of the most important lessons that business executives around the world have all-too-painfully learned in the wake and carnage of the crash of 2007 to 2009.

Contrary to a popular view before that historic crash, the business cycle is not dead. Nor has this highly volatile and often destructive cycle even been tamed. This is a lesson sharply underscored by the culpability of America's own Federal Reserve and central banks around the world in helping to trigger the crash of 2007 to 2009 by first creating, and then perpetuating, a bubble global economy.

Because recessions can do far more damage to your organization than your competitors and because recessions will continue

4 Why Recessions Are More Dangerous than Any 10 Competitors

to be as inevitable as death and taxes, the 2007–2009 crash should serve as every business executive’s epiphany about the need to recession-proof one’s organization. The purpose of this book is to help you learn how to do just that.

The goal of this book is not, however, simply to teach you a valuable set of recession-proofing skills. More broadly, this book will also show you how to strategically manage your organization over the entire course of the business cycle—from the depths of a recessionary trough to the boom times of a robust economic expansion and back again. By learning to strategically manage the business cycle, your organization will be able to create a powerful competitive and sustainable advantage over your rivals and thereby find the grail sought by every executive team in the world: superior financial performance. In this way, you will be “always a winner.”

CHAPTER

2

What Good to Great and Always a Winner Organizations Have in Common

Any organization can substantially improve its stature and performance, perhaps even become great, if it consciously applies the framework of ideas we've uncovered.

—Jim Collins, *Good to Great*

In 2001, just as the first recession in a decade was dawning on America, Jim Collins published a book called *Good to Great* that would go on to sell more than 4 million copies. The premise of Collins's book is exactly the same as the premise of this book: Companies that adopt a particular set of strategic business practices, that exhibit leadership reflective of those practices, and that build a supportive organizational structure and culture will enjoy superior financial performance.

In *Good to Great*, organizations such as Abbott Laboratories, Gillette, Nucor Steel, and Walgreens all shared in common “Level 5” leaders—self-effacing individuals with intense professional will who always put their company first. These organizations