

Ten management priorities for today and tomorrow

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Now that the dust of the global financial crisis has begun to settle, many business leaders are wondering what their next steps should be in the lingering atmosphere of uncertainty. With the heavy rounds of cost-cutting finished, "Growth now" is the new mantra. But how can companies position themselves best to achieve growth? We spoke to business leaders and uncovered the ten priorities that managers must follow in order to achieve growth in these unusual times.

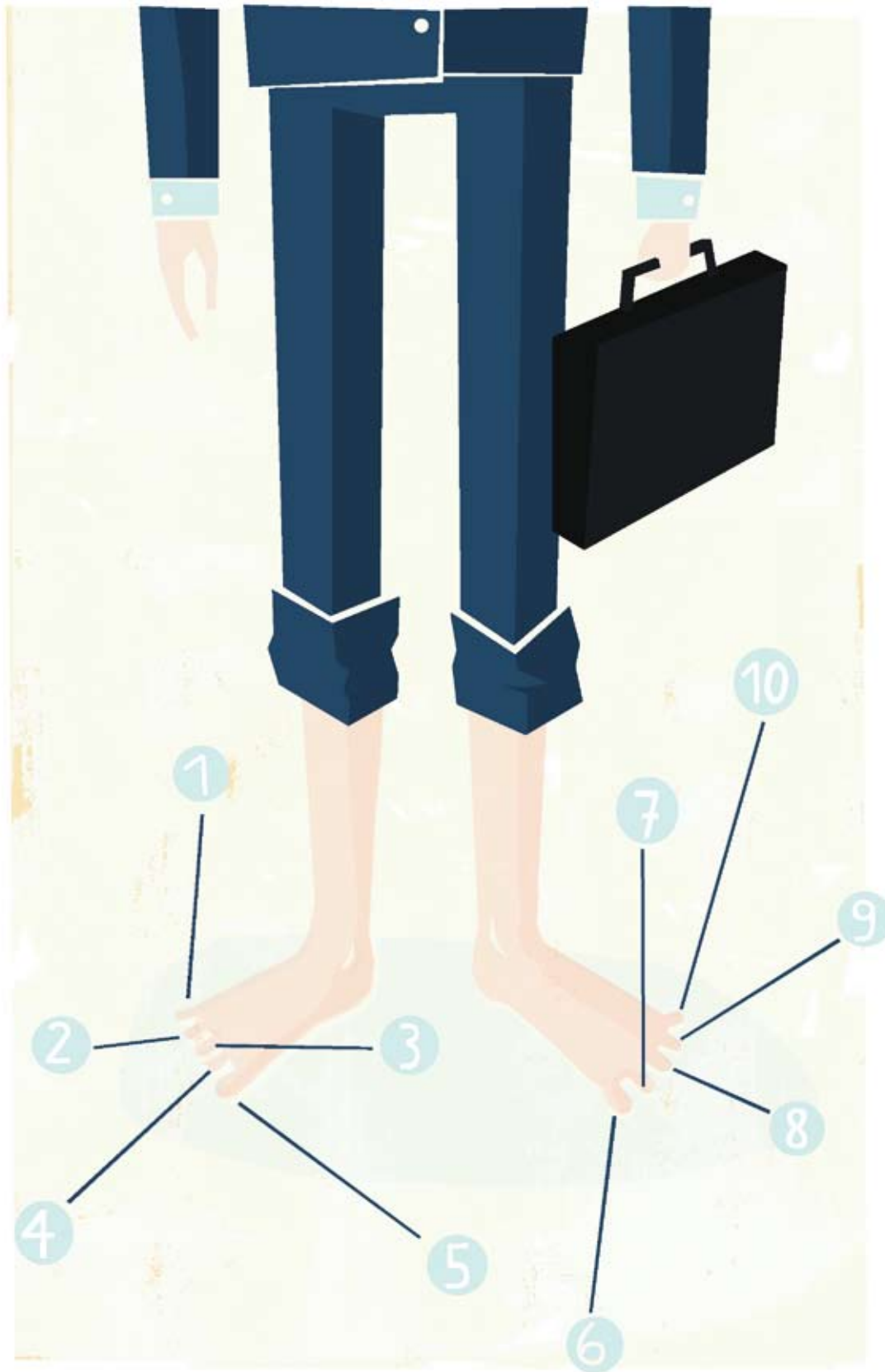
As a result of massive government intervention and the beginning of the restoration of business confidence, the worst of the financial and economic crisis appears to be behind us. While global macro-economic growth may not return to its pre-crisis level for several years to come, now is the time for individual companies to create growth opportunities and position themselves to become tomorrow's winners.

Most companies have already implemented important cost-cutting measures and are starting to see the benefits. But, as an earlier Arthur D. Little study showed ("Beyond the Downturn: Waking up in a New World," Prism, Spring 2009), this crisis is not simply a cyclical downturn, but a fundamental questioning of the way businesses are run. That is good news, at least for innovative players who anticipate the right trends and have their strategies in place. They will come out as the winners when the dust from the crisis finally settles.

In order to determine meaningful trends and uncover seams of business opportunities, Arthur D. Little and the European Business School jointly conducted a series of in-depth interviews with business leaders in the period June to August 2009. From these interviews we have distilled ten management priorities for today and tomorrow. None of these individually represent radical disruptions from the past, but together they form a palette to colour your thoughts about how best to position your company in tomorrow's world.

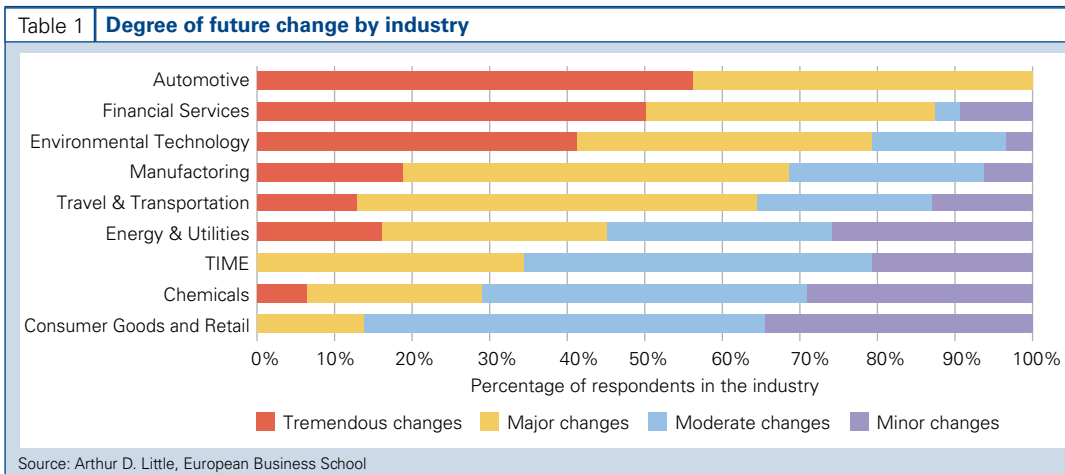
1. Find out which moves by your company in the upcoming consolidation wave will create value

The economic crisis is accelerating the separation of stronger companies from the merely mediocre. The number of mergers and acquisitions will mount. Established industries will consolidate on a global scale, leading to fewer competi-



tors in the long term. The degree of internationalization will increase dramatically across all industries. This change will be most striking in the automotive, financial services and environmental technology industries (see Table 1).

The current buying resistance in the passenger car and



commercial vehicle sectors, as well as the demand for more fuel-efficient vehicles and more value for money, will push financially weak OEMs and subcontractors in the automotive industry to the brink of bankruptcy. This will become clearly visible when the car-scrapping bonus programs end, as has already happened in several major economies. Consequently, we will see vertical consolidation across all supplier tiers, as well as horizontal consolidation among the OEMs.

The financial services industry will experience falling margins, increased cost pressure and a greater need for transparency. The institutions that are unable to re-engineer their business models, regain the trust of their customers or adapt to stricter governmental regulations will fall by the wayside in the upcoming consolidation.

The environmental technologies industry will benefit from the compelling need for sustainability. It will be less heavily dependent upon governmental goodwill as environmental companies and products will play a major role in value creation for most businesses in other industries.

2. Seek opportunities in government's growing role as a stakeholder

As a consequence of the stimulus packages put in place recently, many governments have gained tremendous corporate influence as shareholders and stakeholders. Their influence as shareholders will recede in the long run, once businesses stabilize and government money is no longer needed, although some Middle Eastern and Asian governments operating through sovereign wealth funds may be an exception to this trend.

However, government's influence as a stakeholder is likely to increase for two reasons. First, increasing globalization continues to have unequal impact on societies around the world. To rectify this, governments will use their influence to make a direct link between a business's license to operate and its commitments to social sustainability. Second, to prevent the uncontrolled exploitation of natural resources in the medium to long term, governments will use their influence to make it an economic necessity for companies to act in a sustainable way.

In order to capitalize on increasing governmental influence, companies need to focus on innovative solutions that address the challenges raised by sustainability. The so-called Triple P (people, planet, profit) accounting concept is truly becoming a source of opportunities.

3. Counter-balance SWFs' financial power with innovation prowess

Massive economic growth and the rise of oil prices in recent years have equipped a number of countries in the Middle East and elsewhere (China/Hong Kong, Singapore, Norway, Russia) with considerable financial assets, often managed through sovereign wealth funds (SWFs). According to DB Research, SWF assets under management amounted to more than US\$3 trillion in early 2009. While the financial crisis has led to some revenue erosion and a decline of the book value of their investment portfolio, the long-term prospects for SWFs on the whole are positive. In fact, the crisis should enable SWFs to invest in companies around the globe at an unprecedented level.

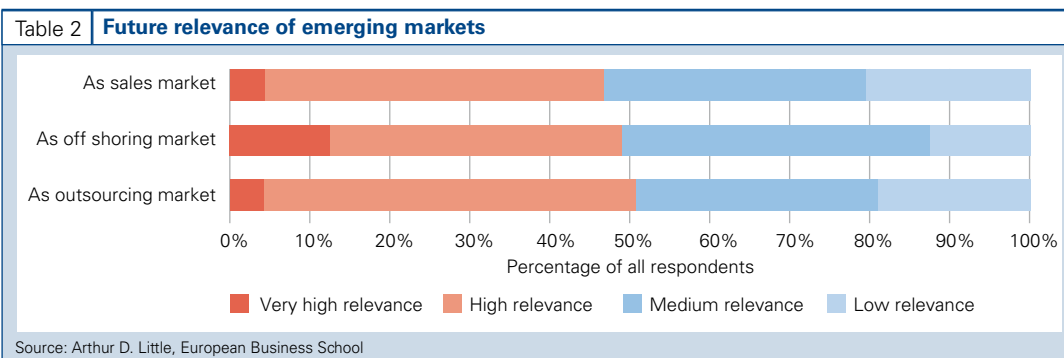
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As a result, the ownership structure of many Western companies will change. The SWFs and the countries they represent will not remain satisfied with the role of silent partner. They are likely to influence strategic business decisions actively – not always without self-interest. For example, there is a fear that they may seek to transfer know-how to their home countries. Should this happen, the margins of inattentive high-tech companies may shrink, and the wealth of know-how-intensive countries would be put at risk.

To counter these risks to business without resorting to protectionist-like measures, companies will have to expand and retain talent and invest heavily in innovation. Today's technology leaders must innovate even faster, better and more efficiently than they have done in the past.

4. Diversify and localize your presence in emerging markets

The economic crisis has restrained global trade and foreign investment flows in 2008 and 2009, and there have been some knee-jerk reactions of short-term protectionism. But globalization will resume its upward path. Emerging markets will be even more appealing to business leaders than in the past, as they offer opportunities for growing sales and optimizing operations. One in two business leaders we spoke to expects a strong or very strong increase in the degree of internationalization (see Table 2).



However, there will be some marked differences compared with the past. First, simple exporting of brands from the home country will diminish as firms adapt their marketing mix to local needs. Second, globalization will extend geographically into less familiar and potentially higher-risk markets. As the potential of major urban areas in the BRIC countries becomes saturated, more far-flung regions within these countries will gain importance. In addition, opportunities will abound outside the BRIC and the N11 countries that adventurous firms have already begun to exploit. (N11 refers to the "Next Eleven": Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam).

Within this context, companies will need to factor another phenomenon into their future global aspirations. Globalization has exported the financial crisis to developing countries that have come to depend on the success of the G20 major economies. As a consequence, G20 governments are concerned about the impact of the "crisis export" on the economic performance and stability of these countries. They reason that the financial crisis has revealed weaknesses at the core of globalization, and they will expect companies to extend their corporate social responsibility to developing countries.

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5. Organize for an effective response to ever-more discerning customers

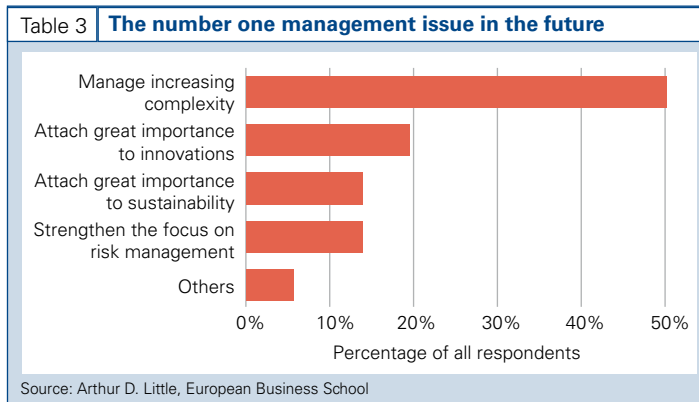
The supply-oriented view of business that dominated managerial thinking in the past is giving way to a demand-oriented one, in which customers call the shots. This trend is not new, but the crisis is accelerating it. As choice is expanding and customers become more discerning, the first duty of businesses is to make every valuable prospect and customer count. Three in four business leaders we spoke to still see a moderate or strong increase in the importance of customers in the future.

As a result, businesses will have to adapt their organizational structures, processes and routines for even greater customer focus. They will have to better align the various departments and different channels through which they reach out to and interact with their customers.

6. Prepare for increasing managerial complexity in response to demands for networking and transparency

Managerial complexity has grown throughout the 20th century, not in least due to globalization and the increased use of technology. For one in two of the business leaders we spoke to, dealing with increasing complexity will remain the number one managerial issue of the future (see Table 3).

The reason is that the crisis has demonstrated the limits of managerial structures focused – and dependent – on individual decision-makers. We will see less hierarchical and more networked companies in the future. More people will be involved in decision-making. Information about what transpires within the company will be shared across hierarchical levels. In an effort to regain and retain trust, both internal and external transparency and solid risk management will be of great importance. All these checks and balances will make managing more complex.



7. Integrate the social and environmental dimensions of sustainability in everyday decision-making

When asked about “sustainability,” many managers today still refer primarily to sustaining their company’s economic success, i.e. the third element of the so-called Triple P (people, planet, profit). In the future, managers will also integrate the social and environmental dimension of sustainability in their everyday decision-making processes. There

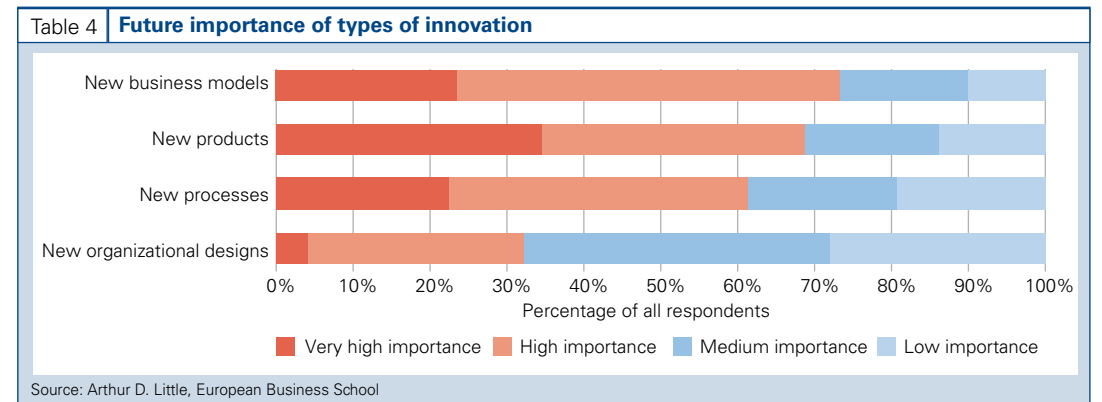
are three drivers for this holistic approach: growing awareness of finite resource availability and rising costs; increasing government influence and public policy; and stronger demands for accountability from society and customers.

Consequently, companies will invest a larger portion of short-term profits into initiatives leading to long-term success. Innovation management will be geared towards efficient sustainable solutions. As the 2009 OECD report “Green Growth : Overcoming the Crisis and Beyond” shows, there is no better time to act than today, as many governments are using the economic crisis as an opportunity to invest in a “green recovery.”

8. Tap the potential of customer-led, open innovation

Innovation is an evergreen success factor and management priority. For the business leaders we spoke to, three specific aspects of innovation will stand out.

First, business model innovation will be the most important type of innovation in the future (see Table 4). Old system boundaries will lose validity, making disruptive business models necessary. Successful business models will stimulate the internal dissemination of the best ideas and drive the overall process from idea generation to market launch. Second, customer groups will be fragmenting and customers will be more discerning. As a consequence, product innovation will be more customer-led and geared toward stronger product and service differentiation.



Third, innovation will be more open, as companies look for ways to initiate innovation programs with smaller scope and lower upfront investments. The goal is to establish an open platform that synthesizes ideas from trusted internal collaborators with appropriately vetted suggestions from previously untapped external sources. Successful innovators will be able to efficiently and cost-effectively collect, collate and apply ideas drawn from the outside.

9. Cope with the complexity resulting from greater product and service variety

According to three quarters of the business leaders we spoke to, existing customer groups will fragment into even more distinct sub-groups, in existing, new and emerging markets. Companies' customer bases will become more international, compounding the need for greater product and service variety.

One increasingly important way to cope with fragmentation and variety across all customer touch-points is to provide "service as a product," i.e. offer premium service as an add-on to a basic offering. But the main challenge will be to satisfy the variety of customer needs without being swamped by the concomitant complexity. Companies will have to challenge their existing strategy and determine the optimum product or service portfolio for every market. They will need to perfect their approaches for mass-customization and production-on-demand.

10. Regain customers' trust through individualized communication

Retaining existing customers and enhancing revenue streams from relationships with them will gain importance relative to acquiring new customers. Regaining customer trust drives this shift. In order to establish lasting, trust-based customer relationships, companies will pay growing attention to a number of customer interaction aspects.

First, they will acquire more meaningful customer insights and use these to provide customers with sufficient and individualized product and service information. Second, companies will use the complete array of communication

tools and media available to them (including chat, mobile self-service applications, remote services for B2C) to communicate with customers in a more direct, less mediated and far more individualized fashion. They will seek to bind customers by establishing points of interaction at all stages of the customer lifecycle.

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Insights for the executive

Although a double-dip recession cannot be excluded and slow global macro-economic growth is expected for the coming years, the worst of the financial and economic crisis appears to be behind us. Now is the time for executives to create growth opportunities and position their companies as tomorrow's winners. On the basis of a series of recent conversations we have had with business leaders, we have distilled four guidelines to support you in that quest:

- Prepare for increasing managerial complexity, as you need to satisfy the growing demands for **transparency** from your stakeholders worldwide. Put in place sufficient human capital to cope with an avalanche of diverse requirements.
- Fully integrate the social and environmental dimensions of **sustainability** in your everyday decision-making processes. Early movers will benefit from the business opportunities they create.
- Embrace customer-led open **innovation** to cope with fragmenting customer groups, more discerning customers and increasing R&D investment risks. And don't ignore the innovation opportunities triggered by growing government regulation.
- Organize for more **individualization** of demand and for growing business complexity. Customer requirements increasingly vary between and within market segments, and customers expect companies to interact with them in a more sophisticated way.

Even though we don't know when the dust from the crisis will finally settle, the most promising opportunities are being born now.

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