

Excellence through the Downturn

Repositioning the Company in the Competitive Landscape



It goes without saying that the global economic downturn is severely impacting businesses in ways not seen since the period immediately post World War II. Fortunately this downturn follows a rather long period of great business prosperity so many businesses have reasonable cash reserves with which to weather the storm. With this reserve in place the conventional reaction of many business leaders to this situation is to “hunker down” and try to protect their position by cutting costs and stopping investments until they see an upturn in the economy.

More progressive companies however are seeing this environment as a period of tremendous opportunity to create value by strengthening their positions and emerging from the downturn in a new and competitively advantaged position. They are applying innovative thinking and approaches to reduce extraneous costs and re-investing a portion of the savings in a selected number of promising initiatives with a high-likelihood of future returns.

The primary challenge facing all management teams is their lack of knowledge and experience to guide this process in a disciplined and systematic way, thereby managing the inherent risks. Clearly, nothing about the current downturn is certain but this: failure to proactively manage a way through it is nothing short of an abdication of duty by senior executives. If that be the case, then why not pursue longer term strategic advantage as part of the effort?

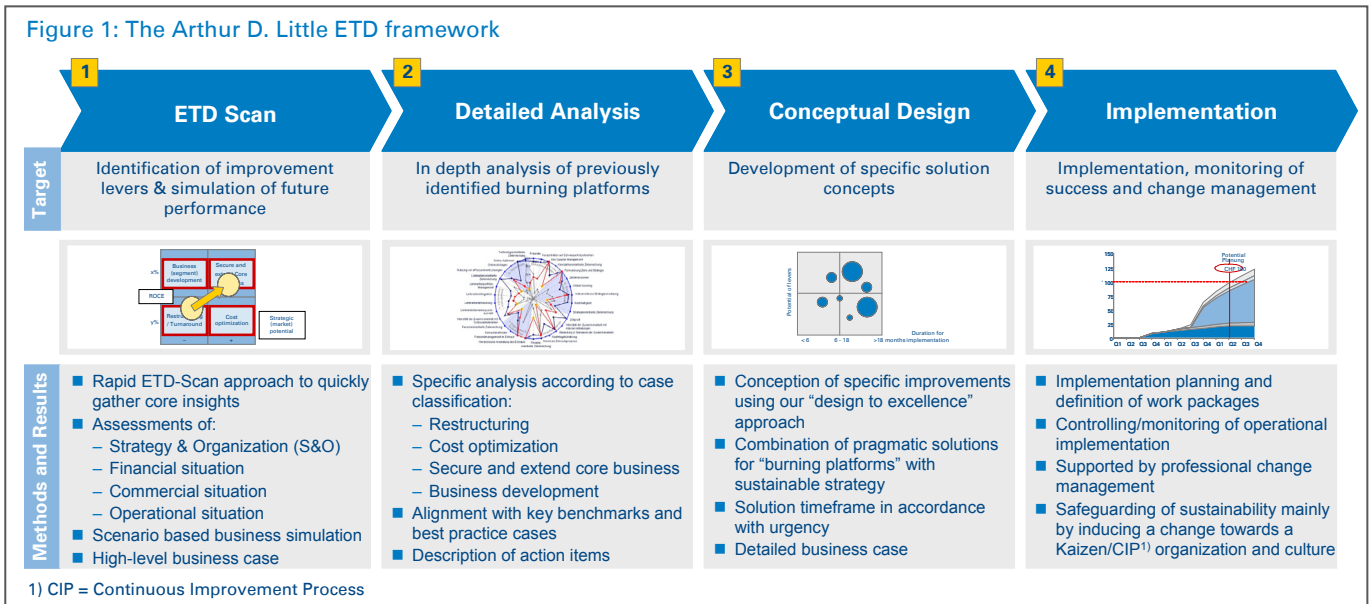
There is inherent power and insight in any paradox and reacting proactively is no exception. The tendency of many companies is to view their businesses as a boat adrift in the currents of the macro-economic ocean and unable to exert much control over their course. Our work has shown however that not only they can prepare themselves to minimize the negative impact of market forces on their businesses, they can seize opportunities that their competition is not positioned to seize or does not have the audacity to undertake.

1. How to proceed and achieve Performance Excellence through the Downturn (ETD)

The ETD framework addresses company's specific needs in a downturn: It provides security on the future proceedings due to the rapid, none the less thorough analysis, business simulation and identification of counter measures (see figure 1 overleaf).

Unlike other more common downturn programs the ETD program should not only focus on fixing current cost issues. We believe that short-sightedness in downturn programs runs a high risk of damaging or even strangling the business in the long run. Therefore the executive should strive to go beyond simple “stop the bleeding” approaches and define innovative, strategic and preventive actions which will leverage the indisputably existing chances of the downturn.

Figure 1: The Arthur D. Little ETD framework



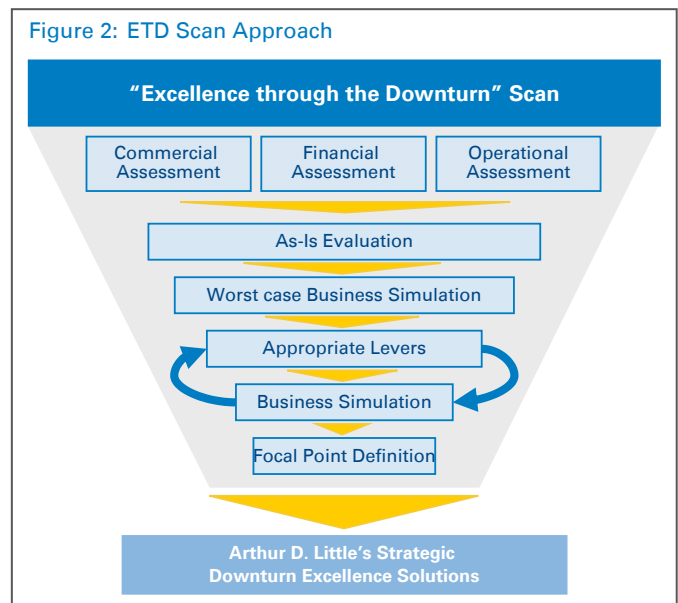
The ETD Scan

The foundation of our proven approach is an initial **Excellence through the Downturn Scan (ETD Scan)**, which stands at the beginning of each Excellence through the Downturn transformation. The ETD Scan creates transparency by identifying current and potential future weaknesses within the enterprise and market in a very short time. Furthermore it will be supported by a powerful simulation tool to identify improvement lever impacts on the business and hence identifies those areas for improvement from which the business will benefit most.

Depending on the size and complexity of the enterprise the ETD Scan will run in a rapid implementation mode over a time period of one to four weeks during which Arthur D. Little assesses the commercial, financial and operational situation and strengths and weaknesses of the company (see figure 2).

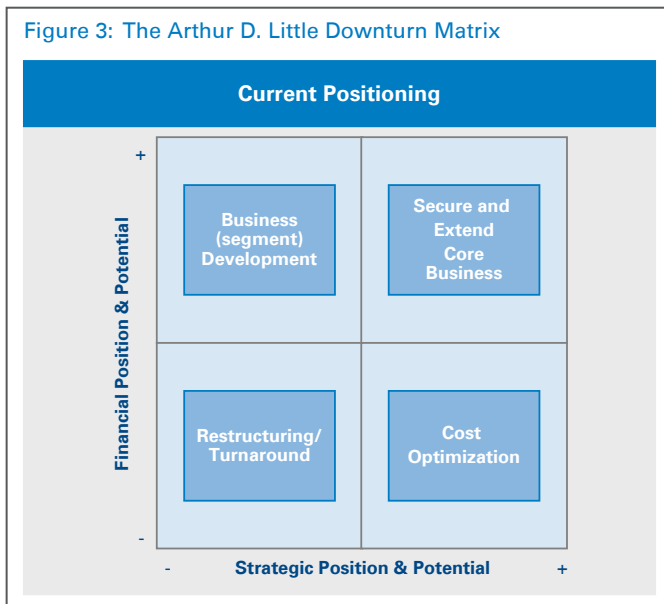
- The **Commercial Assessment**: The market focused commercial assessment evaluates relevant top line factors like market size/growth, competitors, customers and the product portfolio which results in an evaluation of the market potential for the company
- The **Financial Assessment**: Current and past financial statements (balance sheets, P&L, cash flow) are reviewed to assess key financial indicators and their development over time in a financial modelling tool, which are consolidated in two financial dimensions: profitability and liquidity
- The **Operational Assessment**: Cost drivers and key success factors are evaluated within the enterprise like core competencies, operational strategy and setup, manufacturing, purchasing and supply chain performance

Figure 2: ETD Scan Approach



This assessment enables the executives to quantitatively evaluate and benchmark the current state with the intent to subsequently assign a position in Arthur D. Little's downturn matrix. The matrix consists of two axes; the financial situation and the strategic potential (see figure 3). While traditional concepts focus on the current strategic positioning we also evaluate the strategic potential, i.e. how well is a company prepared for future market developments and how fast can a company be transformed if required.

Figure 3: The Arthur D. Little Downturn Matrix



Depending on the company's particular position in the matrix, the rigor and general focus of the required program will be determined:

Restructuring/Turnaround: Typically requires "immediate actions to stop the bleeding" followed by "strategically readjusting the business". Levers focus on top and bottom line improvement.

Cost Optimization: Characterized by a solid strategic setup yet struggling with temporary cost pressure. Levers focus on bottom line improvement.

Business (segment) Development: Weak outlook due to mature or dying market, though company is still in a robust state and setup. Levers focus on strategic realignment and top line improvement.

Secure and Extend Core Business: Company seems to have weathered the downturn comparably well but is not in a safe harbour yet. Levers focus on top and bottom line.

The Excellence Business Simulation

While the three assessments provide a valuable insight in the current situation, the Excellence Business Simulation also strives to anticipate future developments to enable the client to proactively prepare for storms to come. At this stage it is yet to be analyzed which of the possible levers will be most effective for each company in the end. Therefore the ETD Business Simulation needs to simulate the business development. A "worst case" scenario should assume that the downturn prevails slightly longer than currently anticipated and simulate how this would impact the business, while an "excellence scenario" will examine what were to be expected if the ETD Solution would be implemented instead.

Detailed Analysis

Depending on the companies positioning in Arthur D. Little's Transformation Matrix, the ETD Scan may be followed by a detailed analysis to validate previously identified levers further.

Conceptual Design and Implementation of the Excellence Solution:

While the ETD Scan produces valuable insights into the company's business situation and validates the most efficient improvement levers, it can only indicate how to solve the issues. Therefore Arthur D. Little provides a toolbox of proven solution modules to address each improvement lever. The various modules are combinable without restrictions resulting in an ideal Excellence Solution package solving the particular issues. The modules comprise approaches that have been successfully implemented at leading organizations around the globe. All of them look back on impressive successes like: Ambition Driven Strategy, Innovation Excellence, Purchasing Performance Excellence, Unwritten Rules of the Game, Value Driven Corporate Center Redesign or Emerging Business Models to name just a few.

None the less the conceptual design of the solution should include new and innovative levers to ensure differentiation from competition. Here the executives should utilize their best and most creative employees and Arthur D. Little's industry and functional experts. Depending on the industry and positioning, potential creative solutions could include such strategies as:

- Acquisition of the weakened competition, thus gaining capacity at reduced cost and preparing for the Bull period following the downturn
- "Asset deal" acquisitions with the intent to gain market share and fill up the companies existing capacities can be considered. Acquiring new business volume and contracts, however the employees of the target are not integrated
- Initiation of a "Sell to friends" program, i.e. asking ALL employees to actively seek new sales potential within their peer groups and letting them participate through a bonus system in the sales they generate
- Hiring the best industry experts from the competitors. This should be easy in times of reduced working times and pay, no raises and eliminated bonuses
- Introduction of a risk & benefit sharing model for all employees i.e. reduced working hours and pay. At the same introduction of a bonus system which lets employees participate in any savings they identify and implement
- In-Sourcing of activities to utilize the company's resources. The downturn will increase the motivation of the companies employees to increase efficiency and effectiveness, thus shifting the make-or-buy decision to "make"

- Increasing the integration of strategic suppliers, i.e. the low utilization of the suppliers enables them to spend more time and focus on joint supply chain projects
- Refinancing – especially in the downturn banks are looking for safe and good investment propositions, i.e. for companies that have a good risk rating this might be the right time to refinance debt and WCAP revolvers
- One could use the downturn as an umbrella to get rid of all the dead bodies in the companies cellar, i.e. thoroughly evaluation of all intangible and tangible assets and write off if overvalued, increased provisions and contingencies for risks that have been undervalued so far, etc.

2. Conclusions and Lessons Learned

The current global economic downturn has created significant downward pressure on businesses. At the same time, it has enabled unprecedented opportunities for businesses to improve their competitive positions. It is critical that companies not focus solely on survival but also plan to leverage the bright spots of opportunity that exist in such market conditions. The old adage of “Only the strong survive” is incomplete as will be proven at the end of this downturn. Post the recovery it will be rewritten to say; “The strong will survive but the smart will prosper”.

Arthur D. Little’s Performance Excellence in the downturn framework offers a proven set of methodologies to uncover opportunities and go beyond simply offsetting the potentially negative effects of the financial crisis. It is obvious that ETD Scan and simulation of future outcomes have enormous potential to make the power and insight of the paradox “reacting proactively” a reality.

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Arthur D. Little

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