

Implement viewpoints

STRATEGY & GROWTH

WINNING IN A DOWNTURN REQUIRES A DUAL STRATEGY

Choose your strategic response to the downturn

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Most companies are exposed to the economic downturn to some degree. History shows that a downturn is bound to change the structure and competitive landscape of many industries. Even in less exposed industries, some companies will get out of the downturn strengthened while others are weakened.

In this viewpoint, we share our view on how to choose the appropriate response to the downturn. This is based on the experiences we have made in supporting leaders and companies in dealing with the present downturn situation.

Dual strategic response – pursuing strategic opportunities while fighting for survival

In the present economic turmoil many leaders face a situation where they need to deal with quite extensive problems, while at the same time having to be able to spot and exploit offensive opportunities. Some parts

of the business (business areas, subsidiaries, products, projects, etc.) are under severe pressure while other parts are introduced to new opportunities due to the external changes. The role of the leader is to choose the right strategic response for the different parts.

In some parts of the business, the right response is to “invest to win” and gain clear competitive advantages. In other parts, the wisest action is to “kill complexity” (often dramatically) to improve performance, and in the most exposed parts of the business the best response is “reduce to survive”. Leadership in this context is a delicate task of executing a dual strategy – pursuing strategic opportunities with one hand, while cutting back and reducing people, projects, customers, products, etc. with the other.

As illustrated in table

1, the strategic response does not only have implications for the change strategy itself, but also for the change management process. Several pieces of good advice about what to do with the business and finances, and what strategy to follow have been given. We suggest that the same care and commitment should be shown in relation to how to lead the company through the downturn. Most companies have experienced good strategies that were never implemented – therefore: pay special attention to your change management.

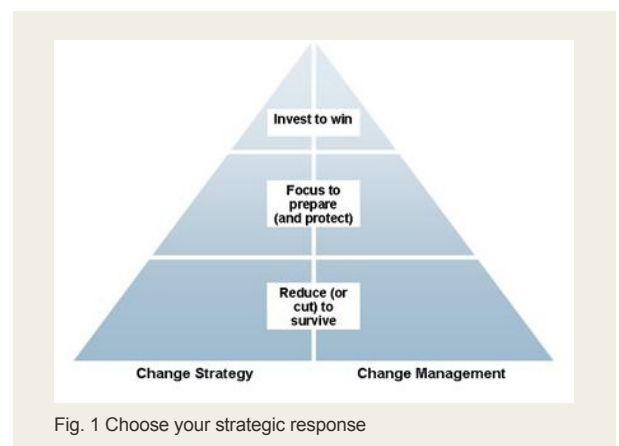


Fig. 1 Choose your strategic response

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A common point of departure will guide your strategic response

Depending on the situation and the individual perceptions we often tend to focus more on the “problem side” than the “opportunity side” of a downturn – especially if a company is in an industry exposed to the downturn. In order to balance the two sides, a strong starting point is to the establishment of a downturn SWOT (see separate Implement Viewpoint on “Downturn SWOT”) Enrich this picture with a downturn fact pack containing:

- An outlook based on facts
- Performance and development in relation to competitors
- Constraints and action room: ownership, legally, financially, requirements etc.
- Risk exposure and profile
- Cost structure and variability
- Major investments and commitments on the way
- Skills in the senior management team (and other key persons) to deal with crises and downturn management

Sharing the point of departure provides an overview, forces a forward thinking and injects a feeling of “being in the same boat – fighting against the same enemy”. During the communication with the organisation it will act as the baseline. Establish

Strategy	Rationale and idea	Sample actions	Special leadership challenges
Invest to win	<ul style="list-style-type: none"> • Vertical integration to optimise along value chain and be in control of customer behaviour 	<ul style="list-style-type: none"> • M&A • Partnership investments • Innovate to win 	<ul style="list-style-type: none"> • Balancing speed and precision/ diligence in M&A • Isolating resources to proactive work • Defining milestones • Building trust
Focus to prepare	<ul style="list-style-type: none"> • Kill complexity • Only investments related to core business • Cash flow optimisations 	<ul style="list-style-type: none"> • ABC analyses of profitability towards customer, projects, and products • Upstream value Chain simplification and cost optimisation 	<ul style="list-style-type: none"> • Identification of critical knowledge and resources • Team building and use of cross-functional expertise to meet speed of short-term improvements
Reduce to survive	<ul style="list-style-type: none"> • Fixed cost focus • Downsizing all long-term developments • Alliance to prime business partners • Financial engineering 	<ul style="list-style-type: none"> • Mergers or divestment • Meticulous contingency plan with clear milestones • Cost cutting • Price increases • Supplier and customer negotiations 	<ul style="list-style-type: none"> • Freeing up leadership resources • Balancing resources invested in reducing vs. growing the business • Isolating operational business processes • Cost per transaction focus • Communication and motivation

Table 1: Strategic responses

this “current state”-view together with maximum involvement and maximum team spirit. The need for a “winning together”-attitude and feeling in the management has never been greater.

Choosing response – rationale, actions, and challenges

Choose your strategic response based on the common point of departure, table 2 illustrates rationale, sample actions and leadership challenges related to each response.

Two important notes: Firstly, the right response is not an absolute! A business area may be severely exposed

to the downturn, but stand strong compared to its competitors. In that case, the right response may be to invest to build, even if other parts of the company are less exposed.

Secondly, in figure 1 we have depicted the strategic responses as a pyramid in order to illustrate how a business area (and the company as a whole) can “climb the pyramid” i.e. once a strategic response has been chosen, the ambition of the management should be to advance to the next level of the pyramid for subsequent responses. In that way you get to take full advantage of the downturn.

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Strategic response and the operational implications

It is crucial to keep in mind that strategic responses to the downturn have different implications to different departments and operational disciplines. Working with operational management we have learned that a close connection between the corporate and the functional/operational strategy is instrumental to succeed.

Hence, it is critical for the management board to agree on both corporate and functional implications of the different strategic responses. This is why a close cooperation in the management board is important. After all turmoil is a time to stand even closer together rather than each man working for himself (see separate Implement Viewpoint on "Downturn: Your story defines your destiny – tell it right").

In a number of separate Implement viewpoints, we describe strategic responses and implications from the perspective of different functional and operational disciplines.

Our ambition is to help our network in these tough times, and we hope that this Implement viewpoint has given you one or two ideas for your journey. If you need further inspiration or detailed inspiration on some or more of the concepts described, please contact one of the consultants below. We provide information, connections to industry peers facing the same challenges, a toolbox for handling specifics, an inspirational meeting on the subject etc.