

## How to navigate your business in the right direction

### Managing in Uncertain Times



Given the current economic environment, companies are asking themselves questions about what to do and not to do. Decisions that were taken not longer than a few months ago are being reconsidered again. Insights that were to the point very recently, all of a sudden are being questioned. The world has changed. It is unlikely that the current crisis is a 'glitch' where 12 or 18 months down the road we will be again where we started. Whole businesses and industries will be transformed, and they will have to be a lot more agile and responsive to market needs than they used to be. This generates uncertainty and anxiousness in boardrooms around the globe, however it also offers a unique opportunity for companies to shape the future and not to fail victim to these uncertain times.

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**The best way to  
predict the future is  
to invent it**

Alan Kay, computer pioneer

The current economic environment is uncertain and highly unpredictable. The crisis originated in the US real estate market, moved over to the global financial markets, and is now affecting the global 'real' economies. Nobody really knows what is going to happen, and when it is going to happen. This unpredictability is clearly demonstrated by various economic indicators and previsions. In this context, it is a reality that companies start being paralyzed by uncertainty and delay important investment decisions. We only have to look at ourselves as a consumer and how we behave today versus just a few months ago, and we notice a clear difference.

What we have also seen demonstrated is the effective 'globalised' economy in which we are all operating. The interdependencies of geographies and sectors have become very visible and next to being primarily driven by economic drivers, also embed an inherent risk. It also means that corporate strategies that do not look beyond the boundaries of an industry sector, and that do not consider the adjacent sectors and ultimately the end consumers are myopic and cannot cope with today's networked world. What is happening to your key suppliers and customers is as important as what your competitors are doing.

Within this context, governments have a clear role to play, and they are stepping up to the plate: they are providing liquidity and trying to restore confidence, and are also providing the 'grease' to keep the economy from coming to a standstill. On top of that, governments are also directing the changes in our economy: they decide how important policies with respect to corporate governance, carbon footprint, ethical sourcing, energy and waste really are. This level of uncertainty presents governments with more flexibility and opportunities to steer the economy in the desired direction. There is also a clear need for stronger governance and regulation in specific sectors in our economy, not the least in the financial services industry, and we can expect a clear step to change in that respect.

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#### Guiding Principles

What you can and should do today, very much depends on your industry, and on your strategic positioning within that industry. You might be sitting on a pile of cash to invest, and your major concerns are around growth and sustaining your business. You might be 'in the middle', where your focus is on cost management and looking very carefully on where to put the money. But you might also be fundamental cash and liquidity issues to keep your company afloat. As such, your perspective on time to value for specific measures, and your risk position varies widely. However, there are a couple of fundamental principles, a couple of 'right things to do' that remain pretty much unchanged, the only thing that changes is the respective priorities with which you need to implement. These guiding principles should be applied across all different functions within the organization.

#### 1. Be granular – Deciding where to play

Granularity means being even more specific about where you play: which market, which products or services, which customers, which businesses and which geographies. It also drives simplification and focus, both internally and externally.

#### 2. Be agile – Building flexibility

Agility means being even more adaptive to change, reviewing your operating models, your go to market periodically. It also means flexible planning, budgeting and forecasting. It means building an organization that can not only cope with uncertainty, but manages uncertainty as a discipline.

#### 3. Be transparent – Building trust and loyalty

Be honest and clear with all stakeholders and business partners, be it customers, shareholders, suppliers, financial institutions or your own people. Transparency creates trust and builds long term loyalty. Difficult or tough decisions are being made or have to be made. People can deal with that, as long as you communicate in a transparent manner about it. Listen to your clients and your people and stay close to them.

#### 4. Innovate – Building the future

Balance the long and the short term. Nobody knows how long this uncertainty will last, but make sure you keep an eye on the future. (We should assume that uncertainty and volatility will be the norm!) You have to reassess and scrutinize your innovation pipeline, but it should not dry up completely. In today's challenges, lay the foundations for future opportunities and growth.

#### 5. Be fast

No matter what decision you want to take, or analyze you want to make, make sure you do it swiftly and with determination. Time is of the essence. Given the speed at which the markets change, taking too much time making up your mind might result in the right decision for a world that does not exist anymore.

These guiding principles are applicable, independently of the area you are considering, be it in sales, manufacturing or human resources.

Let's have a look at some of the key domains where we should focus on in today's uncertain times.

### Strategy: Do your homework

Depending on your business situation, making up your mind with respect to your growth ambitions might be more or less relevant in the short run. However, once you have determined where you want to play, and that is different than where you are playing today, it is very important to implement those decisions swiftly. Today's environment might be the perfect opportunity to finally do that acquisition, or to dispose of a particular business. Before doing so, you have to have your house in order and you need to focus on acquisitions that are either complementary or core to your business, so you can make it rapidly successful. Integration speed is of the essence as the competitive landscape will continue to change quickly. The current environment obviously favors companies that generate a lot of cash, without much debt, that can expand through people, rather than through massive capital expenditures in all kind of infrastructure.

Make sure however that your analysis reflects today's reality, not yesterday's. The business cases that supported your investments decisions will have to be updated, to say the least. That does not mean they do not hold anymore. To the contrary, some of your projects that did not pass the test lately, might be your stars now.

Reprioritize geographies, review customer segments and in a B-2-B environment, it might even mean to review individual customer's businesses. Rethinking your business model might be necessary: the basis of competition might have shifted between functionality, convenience and price. Given the uncertainty, scenario planning should be core to your strategic planning process. Next to the typical market scenario's, they also need to include funding arrangements, contingency planning and currency fluctuations.

If you want to have a perspective on how things will evolve, just look at yourself and the people around you as consumers. How do you behave? In a lot of cases, people do not necessarily stop doing what they are doing, but they are 'trading down'. People do not stop going to restaurants, but they go to cheaper places more, or they spend less in the more expensive ones. What does such a trend mean for you as a business? Think through the value chain: what does that mean for your customer's customers, and will have a better understanding of what might happen to you.

### Customers: Get out there.

This is the time to really listen to the 'voice of your customers'. Get out there, stay close, listen, they have changed dramatically. Process what they tell you, make sure it's captured and –if decided so- acted upon. Forget all you think you know about their needs and what they valued. There is a tremendous need for granularity: General segmentations don't work, look at the detail and do the analysis. Focus on the profit and growth pools and make sure you build and maintain a broad, diversified customer base.

Carefully review the typically long-list of products or services you take to market. Also review that list with the customers in mind: if he has changed, his need for your product or service probably has as well. Be willing to 'kill your babies'.

It is a unique opportunity to build long-time partnerships. Find solutions together, you are in this together. Be flexible, honest and transparent. Don't forget, if one of your critical customers is at risk, so are you. You should also consider to be more open for alternative commercial deals, different ways of doing business such as profit sharing. If your customer has a cash issue, and together you work something out that works for both of you, you've build a tremendous loyal customer.

This is by the way the time to be close and work in partnerships with all your stakeholders, also your suppliers and banks. Be open with them and share your issues and they will share theirs. It is the time where you can foster true partnerships for the future. Flexibility today will pay off in future. Do not forget, if one of your critical suppliers is at risk, so are you.

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### **Costs: Manage don't just Cut**

Cost improvement has become a standard operating practice for many companies. According to a Deloitte study, more than two-thirds have maintained an ongoing focus on cost improvement—even during the recent economic boom. This is good news, particularly because conventional wisdom we've heard suggests that businesses only pay attention to cost reduction when times are tough. The bad news is the approach these large companies are taking to cost improvement may not be sufficient to see them through the uncertain times ahead.

In a downturn, we believe that many companies will need to take advantage of all the cost levers at their disposal. That means adopting a transformational approach to cost reduction that focuses greater attention on strategic, structural improvements such as streamlining the company's infrastructure, creating a scalable cost structure, and redesigning the business model. These types of improvements can position a company to achieve double-digit cost savings that are both larger and more sustainable than incremental reductions.

### ***A comprehensive approach to cost reduction.***

A comprehensive approach to cost management is valuable no matter what the overall economy is doing; however, it is particularly important when times are tough. In a downturn, companies generally need cost savings that are both larger and more sustainable than those which typically result from an incremental approach to cost cutting. That said, the right strategy varies from company to company. Businesses in a turnaround or crisis situation often have no choice but to immediately reduce their costs using every available cost lever. On the other hand, healthy companies may have the luxury to pick and choose their opportunities, using the downturn to gain a long-term strategic advantage over the competition.

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Although every company has different cost reduction needs, here are five practical, time-tested, and cost-cutting tips that likely apply to most companies during a downturn

### **1. Start with the obvious.**

For many companies, the most immediate cost savings will come from streamlining the General and Administrative (G&A) functions and aggressively tackling external spend (the materials and services a company buys). Improvements in these areas can deliver substantial savings with little or no downside. Also, since these functions don't have a direct impact on customers or day-to-day operations, it is easier to make changes without disrupting the business or putting customer relationships at risk.

### **2. Take an enterprise view.**

During a downturn, companies must find cost reduction opportunities that cut across organizational silos. An enterprise-wide analysis of actionable spend (i.e., costs that are within the company's control over the next 12 months) can help uncover new opportunities. This enterprise view can be quite an eye-opener, since most managers and executives only have visibility to a narrow set of costs related to their day-to-day responsibilities. Seeing everything rolled up together can help a company put its existing cost-reduction initiatives into perspective, and help decision-makers understand the broader opportunity. It can also provide guidance and input on where the company should focus its efforts.

### **3. Protect strategic investments.**

An "enterprise view" should not be confused with across-the-board cost-cutting. In their zeal to reduce costs, many companies make the mistake of slashing investment in areas that are critical to the long-term strategy of the business—such as R&D, marketing, and advertising. Deep cuts in these types of areas can hinder a company's ability to capitalize on the recovery and should be avoided if possible. Instead, companies should strive to make thoughtful spend decisions in these areas while seeking higher returns on these critical investments.

### **4. Balance short- and long-term improvements.**

In a downturn, companies are often in such a hurry to cut costs that they end up overlooking some of their biggest improvement opportunities. A tiered approach provides a better mix of short-term savings and long-term structural improvement. Tier 1 typically includes incremental, short-term opportunities such as decreasing discretionary spending, and improving span of control. Tier 2 consists of medium-term opportunities such as process improvement, shared services, opportunities such as reengineering or outsourcing of core business processes, changing the company's business model, restructuring the global supply chain, and large scale technology investments. With proper planning, Tier 1 savings can provide some or all of the funding for the more significant structural improvements in Tier 2 and Tier 3. Also, in a turnaround or crisis situation it is often possible to accelerate Tier 2 and Tier 3 activities because people feel a greater sense of urgency and understand the need for rapid change.

### **5. Choose the right business model.**

In some cases, the only way for a company to achieve the necessary costs savings is to move toward a more centralized, integrated business model, rather than allowing individual businesses to operate independently. According to our research, companies with integrated business models have significantly lower SG&A costs due increased standardization and economies of scale. Of course, an integrated business model is not right for every company. Increased integration often makes sense for mature and low-growth companies; however, fast-growth companies may feel it is more important to give their business units autonomy in order to promote innovation and market responsiveness.

### **Cash and Working Capital: Do it the Sustainable Way**

Managing your working capital can have an immediate positive impact on your cash-positions without jeopardizing your current businesses. When managing your working capital one should go beyond the traditional DSO (days sales outstanding) and DPO (days payables outstanding) benchmarks. Actively managing amongst others potential revenue leakage, double payments, discounts and rebates should be key elements in your day to day working capital management. Information on these key elements is often hidden in your company data. The use of technology can therefore enable your cash generation.

All those measures however, although important and with a quick short-term return, should not be looked upon as one-off tricks-of-the-trade that are important today, but can be forgotten as soon as things get better. Like with cost management, cash management needs to be a discipline in every professionally-run organization. As such, install processes and procedures that make your measures stick. Fixing leakage also means avoiding them to happen again in future, not just a band aid. Supplier agreement should be re-assessed. And inventory flows should be reassessed. Actively managing your working capital will therefore free up cash in the short term, but will also be the basis for a continuous improvement process that will strengthen your organization in the long run.

### **People: Raising the bar and building trust through transparency**

Be transparent, communicate, how you treat them now, will matter big time later. You should take the right measures swiftly if need be, but you have to be 'Intolerant for mediocrity'. It is an opportunity to implement the right measures, where you have been thinking about for a long time, people will understand and so will the social partners. Now more than ever, it is key to play the quality game, by raising the bar in the business areas that really matter to you – where you will differentiate in the future.

Your best talent will look at how you behave now, and decide based on that to stay or to go. Be clear with them, let them know you consider them as talent and they are not at risk, so they do not start looking for alternatives now.

Make sure your performance management system is flexible enough to deal with the changed environment: reward entrepreneurship, loyalty and stamina. Build a more accountable workforce operating successfully in a more agile organization.



### Innovation: Think disruptive

When business is suffering, typically investments in product and service innovations are scrutinized. Like with most decisions, granularity is needed, and a considerate review of these innovations that will generate tomorrow's revenues and profits is absolutely key. Don't be afraid to 'kill some of your babies', but also be creative about new products and services. Today's environment is the right one for thoughtful considerations about the right model to go to market, to source and produce your products and services. When 'nothing is certain', people are more willing to change and to think differently. People understand that 'doing things the way they used to do them' will not guarantee success.

We expect a series of 'disruptive innovations' in the months and years to come. Disruptive innovation (Cfr. Christensen and Raynor) is about 'less for less' and about serving the low-end or new-customers and markets. Given the uncertain economic situation, the 'low-end' markets will grow considerably. People and companies will spend their money more cautiously and will be happy to have a bit less for a lot less money. On the other hand, for businesses today these types of innovations -where one has to be patient for growth, but impatient for profit- are the natural ones to turn to. They do not demand a huge upfront investment, they are not very costly to fund, they maybe uncertain about their long-term business cases- but are the engines for future growth.

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## In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment

Charles Darwin

### Conclusion

In today's uncertain times, there are a couple of guiding principles that can help you in making the right choices, whilst restoring trust and confidence. Be open to reconsider the business in which you operate and your existing plans. Be transparent, both internally and externally, flexible but determined. Do not forget the longer term perspective, and realize that uncertainty is here to stay, so you can build an agile organization that embraces this uncertainty, rather than shying away from it.

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