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Cover Story

Managing in extraordinary times

New choices for new challenges

By Paul F. Nunes, Caroline Firstbrook and James M. Ellis r

The greatest changes in companies' relative positions within their industries occur in times of economic turbulence, not calm. To benefit from such seismic change, a company must quickly make the right decisions and act on them with conviction—a core characteristic of high-performance businesses.

The economic downturn touched off by the implosion of global credit markets continues to batter companies around the world. But this is no ordinary recession. By almost any measure—stock indexes, commodity prices, consumer confidence, credit risk, foreign exchange rates—what makes this crisis much more challenging for business leaders than any downturn since the 1930s is not just its severity but the volatility and uncertainty that have accompanied it. Anxiety has become global, aggravated by electronically integrated markets and the instantaneous flow of information.

In our research and work with clients around the world, Accenture has seen firsthand the struggles many companies have finding answers in difficult economic times. Across the spectrum of business performance, no company, not even those in the ranks of high performers, is insulated from the effects of the current downturn.

Accenture research is also revealing ways companies can orient themselves in this confusing environment. We know, for example, that high performance is the result of good choices—about where and when to compete, how to be productively distinctive and how to create employee mindsets that drive success.

Companies that have made and acted on astute choices in the past are likely to be better positioned to weather the downturn and to emerge stronger than ever. At the same time, choices that worked under different conditions must be reevaluated, and executives must make new choices that are shaped by unprecedented economic challenges and tailored to specific company needs.

We believe that in the current environment, making the new choices that will lead to high performance will require the simultaneous application of two broad approaches to business management: a more focused and disciplined use of the ordinary levers of managing during a downturn combined with a more urgent pursuit of a particular strategy based on a company's current strengths and weaknesses.

Exploit the ordinary

Every company today is under intense scrutiny—from wary investors, debt holders, potential buyers, nervous boards, impatient regulators, and concerned customers and employees. In these circumstances, management must first demonstrate the ability to run day-to-day operations better than ever. For leaders to manage to maximum effect in a downturn, they must exploit the ordinary levers at hand, maintaining flawless operations despite the need to tighten belts and deal with suppliers in crisis, customers lacking in confidence and ongoing post-merger integration challenges.

Four operational imperatives will be critical to manage throughout the crisis.

Rapid and sustained cost management

For many companies, this will be the most important imperative—but it must be done with a surgeon's dexterity. Costs, assets and investments must be scrutinized rigorously along the entire value chain, from R&D through the supply chain to customer service.

The key is to balance the speed of cost reduction and the delivery of cash to the bottom line with the retention of critical business capabilities and future sources of value. Indiscriminate cutting of costs or jettisoning of assets will leave companies unprepared to rebound during the upturn.

Customer acquisition and retention

Companies always want to keep good customers and sign up new ones. But this imperative takes on even greater meaning during a downturn. Nervous customers may be tempted to stay on the sidelines until the economic outlook improves, which means that prudent, customer-centric investments in marketing, sales and distribution are essential.

Companies should focus on sustaining their customer bases; some may even be able to take share from weaker players in their home markets while building new markets elsewhere in the world. For example, exchange rate fluctuations on the order of 20 percent may provide an opportunity for companies to exploit a new pricing strategy, as advantages over foreign competition are gained overnight.

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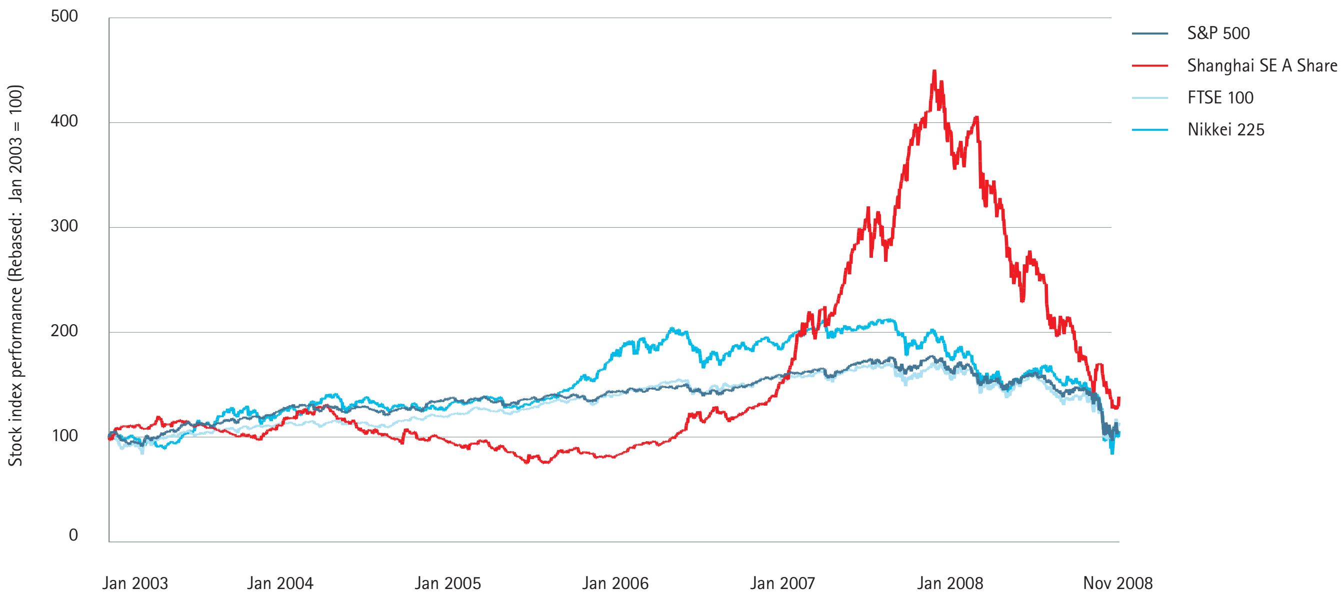
Contraction

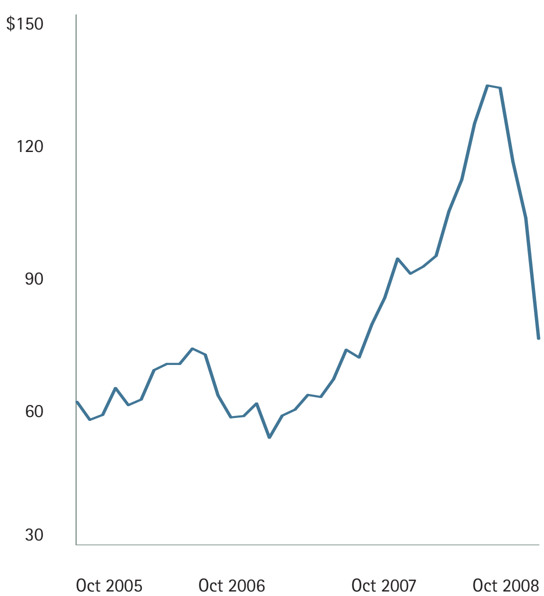
Major global stock indices



Source: Accenture analysis

Volatility

Crude oil price (West Texas Intermediate), $ per barrel



Source: International Monetary Fund, Commodity Price Index

Uncertainty

Consumer confidence in the United States

* Each year's data is for the month of December; 2008 data is for October
Source: The Conference Board

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Operational excellence
This imperative takes on added importance in companies that are truly global. When all aspects of an organization—manufacturing, customer service, sales, distribution, management, marketing, innovation—are spread throughout the world, operational excellence depends on the development and management of an effective global operating model to take all these activities into account. Companies should determine what their model is, where it is weak, and how it can be manipulated to ensure operational excellence.

Effective M&A
While a focus on mergers and acquisitions may seem counterintuitive during an economic crisis, it's actually even more important during tough times, when bargains suddenly become available.

But handle these opportunistic acquisitions with care: Cheap, troubled companies are likely to come freighted with demoralized employees, processes in disarray and balance sheets in tatters—all of which make integration particularly challenging. And thorny problems such as balance sheet integration, customer alignment, supply chain optimization and shared services must still be resolved deftly; this includes mergers already in progress. In addition, the foundation for cultural alignment, especially in the context of cross-border acquisitions, must be laid carefully.

These imperatives require great focus and discipline on the part of management teams. No company can fail to attend to them and expect to make it through the current crisis and emerge equipped to take advantage of the upturn.

Companies should push through improvements that might have met with strong resistance in better times.

Manage the extraordinary

As leaders deal with the day-to-day operational challenges companies face during any downturn, they are also obliged to move quickly to manage the extraordinary. They must in real time confront the challenges and threats unique to this crisis—and they must do so at speeds that may initially feel uncomfortable or even impossible to reach and sustain. Companies that have not invested in organizational agility and quick decision making—creating effective top management teams and change processes—will find the tasks necessary for managing the extraordinary particularly daunting.

Based on an assessment of their company's current situation (see sidebar, page 5), management teams must choose from among three core strategies, each with associated tactics. What is extraordinary about these strategies is not the tactics themselves but how they must be managed simultaneously alongside everyday operational goals and challenges.

The chosen strategy needs to be a priority for management, but not so much so that it risks overwhelming the business. The strategy cannot be allowed to cause significant interruptions in the current business that would signal distress (or greater distress than already observed by the market), and it must not be allowed to demoralize employees—even members of the top management team might be affected. Employee morale is critical to coming through

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Where do you stand? The high-performance business analysis

Knowing what to do in a downturn requires a careful assessment of your current situation. That rigorous analysis then allows high-performance businesses to plan for and accurately assess the effectiveness of the strategies they choose.

How well positioned a company is to respond effectively to the downturn is a function of three things: its relative performance as measured over recent business cycles and management eras, its own unique circumstances, and overarching global conditions.

To assess past performance, Accenture's unique formula for measuring high performance, which rests on a comparison to industry peers over time, provides a clear picture.

From our extensive research over the past six years, we know that high performance (defined as the enduring or sustained out-performance of peers) is not just a question of rising share price. Our formula for judging high performance examines company performance across a range of characteristics that are more indicative of true competitive strength: strong profitability balanced with strong revenue growth and positioning for the future, all delivered consistently and over time.

Not all high performers will be well positioned, however. Some high performers will find themselves cash poor, for example, perhaps because of recent strategic acquisitions. Likewise, some low performers may be pleasantly surprised to find themselves with the cash they need to act, even if their good fortune is the result of an inability to identify promising investment opportunities when the economy was strong.

Once a company has established its relative competitive stance, it should determine where it stands today in terms of financial health and stability.

Accenture research following previous recessions found that leading companies practice sound, value-based financial management, emphasizing cash flow and strong balance sheets during good times. This approach provides flexibility and financial muscle during bad times. While there is no perfect formula for downturn readiness, some elements are clearly important: cash position, balance sheet strength and the diversity of cash flows.

The key questions to ask about cash reserves are, "Do we have sufficient cash to see us through the crisis?" and "Do we have enough to make long-term investments attractive at this moment?" For its balance sheet, a company must ask, "Is our balance sheet sufficiently strong that we can credibly take an aggressive stance in the market rather than a defensive position?" And in a broader context, it must ask, "How susceptible is our current position to additional volatility and degradation of global economic conditions?" The answers to those questions will help companies understand their options.

The third element companies will need to consider to determine their current competitive stance is changes in the global context.

The shift to a multi-polar world—one characterized by multiple centers of economic power and business activity—creates new challenges and opportunities distinct from those experienced in a national or regional downturn. For example, sovereign wealth funds and national governments become significant bargain-shopping investors as well as sources of bailout funds. Also, large companies in a multi-polar world are almost always part of a dense web of networks, so it's important to assess not only your own strengths and risks but also those of your partners, customers and suppliers. Their fate can substantially influence yours. We recommend a formal, 360-degree risk review, with a focus on worst-case scenarios.

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a crisis in a stronger position, and management confidence and decisiveness in the face of challenges bolsters employee confidence.

1. Survival

The management team of a company in survival mode should focus primarily on short-term actions to ensure that it continues to operate as an independent entity until better times return.

In cases where survival is at stake, rapid action to secure cash flow and minimize exposure to risk can make the difference. Avenues to pursue include:

Reducing debt
Companies facing current or potential shortages in cash flow should make renegotiating debt terms a priority. To preserve cash, it may also be necessary to reduce or cancel dividend payments. Divestiture of non-core assets is another way to raise cash. Although asset sales are not an appealing prospect in the current environment, the reality is that prices could go much lower. Divestiture of core assets, however, is a much more dangerous proposition and one that should be considered only as a last resort.

Cutting costs
Another way to improve cash flow is by reducing costs. Executive perks should be immediately reined in, which will not only save money but will also send an important signal to the rest of the company. Greater efficiency in purchasing and debt collection can also help reduce costs. The costs associated with IT networks should also be carefully scrutinized. Tools such as Lean Six Sigma can be extremely effective in identifying opportunities to reduce costs associated with business processes.

In addition, companies should reexamine their labor-cost options to find an appropriate mix of offshoring, nearshoring (establishing operations in nearby foreign countries), inshoring (using shared services) and homeshoring (using telecommuters). One advantage of a downturn is that employees expect change, so companies should use this opportunity to push through improvements that might have met with strong resistance in better times.

Renegotiating pension obligations
As equity markets sag, pension crises are not far off. With liabilities likely to rise by 50 percent to 60 percent for some companies, there is an urgent need to protect against future downside risk. Companies may need to take an aggressive stand on defined-benefit pensions by, say, closing plans to new entrants. Lower company contributions and higher retirement ages may also be necessary. Engaging with pension trustees is critical; it is far better to begin these conversations early, before a crisis is under way.

2. Repositioning

Managers in companies that are in the fortunate position of having a strong balance sheet and healthy, if reduced, revenues should be looking at ways to use the downturn to strengthen their competitive position. Examples of repositioning strategies include:

Embracing a global operating model
An effective global operating model is critical in these difficult times. Cost reductions, while important, can be taken too far, crippling the capabilities and flexibility needed to respond to improving market circumstances. To minimize the risk of such outcomes, leadership should begin to lay the foundation for a new operating model by asking these questions.

Companies that fail to establish their positions in emerging economies now will find it much more difficult to break in at a later point.

- Where is future growth coming from? What role will acquisitions play, and where are we likely to make them?
- How should the company be organized—by product, geography, process?
- What critical capabilities will be needed for success? Where do we have gaps, and what are our options for filling them?
- Which activities can be shared across the business?
- What do we need to do in-house? What do we need to source from partners?

A clear vision of the desired future operating model should then be used as a blueprint for evaluating potential sources of cost reduction.

Harnessing the power of a global economy

With economies and financial systems in the West under stress, the importance of properly balancing business operations and risks across the multiple poles of the global economy has never been clearer. To tap into new sources of demand, create efficiencies and manage risk, companies must pursue success on the five business battlegrounds of the multi-polar world—customers, capital, resources, talent and innovation.

For example, they should focus on reaching consumers in emerging markets, where the slowdown is likely to be less pronounced. Sovereign wealth funds continue to offer large alternative sources of capital. And companies should seek out lower-cost sourcing opportunities, particularly as the price of labor and raw materials rises in Asia and Latin America.

Investing in innovation

Companies that outperform their competition continue to invest in refreshing their products and services even during a downturn. Whether a company serves consumers or other businesses, it makes sense to invest now to understand how purchasing patterns are changing and what needs are emerging. Moving early to anticipate and serve new needs can help to establish strong customer loyalty and a sound base for future growth. This is also the ideal time to streamline the innovation process—ensuring that it begins with gaining the highest-quality customer insight, eliminating waste and increasing the focus on return on investment.

Upgrading human capital

Significant layoffs may be necessary for companies in survival mode. But for those in a better position, a downturn presents an opportunity to upgrade human capital and tailor it more closely to the needs of a future operating model. Companies should map that model's required skills against their current skills in order to identify gaps, as well as overstaffed areas. Although recruiting must be handled sensitively when jobs are also being cut, companies with the resources to invest in new skills and capabilities now will be better positioned for the upturn.

Going green

Despite extreme pressure to cut costs, companies shouldn't abandon green goals. Those that remain focused on sustainability will become more efficient, reduce their exposure to volatile commodity prices, be prepared for stricter environmental regulation, enhance their reputations as good corporate citizens, and take the lead in the fast-growing markets for green products and services.

Green supply chains, green information technology, innovative energy- and resource-efficiency concepts such as smart buildings, and new programs designed to measure suppliers on sustainability metrics are all examples of ways in which an emphasis on sustainability can help reposition a company for improved future performance.

3. Growth

The strongest companies and management teams will use the downturn to grow. Some will build market share through mergers, acquisitions and international expansion. Others will focus on adding customers and strengthening their brands.

Inorganic growth

The underlying trends that have been driving consolidation in many industries have not gone away. In fact, they have been accelerated by the crisis, particularly in the financial sector. The benefits of scale, broader geographic reach and access to scarce resources will continue to make large acquisitions an attractive source of future growth.

In this downturn, acquisitions are no longer just about finding synergies. Instead, companies may identify unique opportunities to acquire bargains created by dramatic share price declines, exchange rate advantages or unusual business turmoil in a particular industry. For those with both courage and money, the acquisition of troubled companies or the purchase of assets out of liquidation offers the chance to leapfrog the competition.

While companies will continue to find attractive opportunities to acquire assets in the beleaguered Western markets, they should also look further afield. In many industries, organizations will find important sources of future growth in the rapidly growing emerging economies of the B6 (Brazil, Russia, India, China, South Korea and Mexico). Companies that fail to establish their positions now will find it much more difficult to break in at a later point.

Organic growth

Looking outside isn't the only way to grow during this period of volatility and uncertainty. Companies in a position of relative strength can win the intensifying battle to acquire and retain customers, even as slower economic growth and more expensive credit reduces consumption across the world's major economies.

Given long-term trends of eroding loyalty and declining product advantage, an enhanced focus on customer-centricity is necessary to maintain top-line growth. To place the customer at the center of the business model, companies must do more than pursue traditional marketing and customer relationship management. They need to incorporate the customer's perspectives, values and actions across their own businesses, in terms of both strategy and operations.

New technologies, including customer analytics, and new processes that involve customers in the design of products tailored to their needs, even across a range of countries and cultures, will be key. A critical look at brand strategy is also important in an environment where consumers' real incomes are increasingly stretched by slower wage growth and higher prices.

For further reading . . .

Unless otherwise noted, the following articles have all appeared in previous issues of *Outlook* journal and are available online and as PDFs at www.accenture.com/Outlook

High-Performance Business

"Going the distance," by Tim Breene and Paul F. Nunes (September 2006)

Multi-Polar World

"Brave new world," by Paul F. Nunes and Mark Purdy (May 2008)

"Achieving High Performance in a Multi-Polar World" (Accenture 2009)

"A passage to India," by Armen Ovanessoff and Anish Gupta (January 2009)

Finance & Performance Management

"Managing in Uncertain Times: Strategies and Practices for High Performance," by James Ellis, Brian McCarthy and Roland Burgman (Accenture 2008)

Leadership

"Turning experience into leadership," by Robert J. Thomas (January 2008)

"Is this any way to make a decision?" by Robert J. Thomas, Rob Cross and Yaarit Silverstone (January 2009)

Information Technology

"The business case for a greener IT agenda," by Stephen Nunn, Dale R. Hersch and Rockwell C. Bonecutter (May 2008)

Mergers & Acquisitions

"Cross-border M&A: Handle with care," by Caroline Firstbrook (September 2008)

"The new face of global M&A," by Arthur Bert, Kristin Ficery and Kinsley Sykes (January 2009)

Innovation

"How to capture the essence of innovation," by David Smith and Craig Mindrum (January 2008)

"How to get the most from your best ideas," by Adi Alon and Daniel D. Chow (September 2008)

"Target practice," by Daniel D. Chow and Mark Fera (January 2009)

For business leaders, today's uncertainty and anxiety are unlikely to recede in the near term. A sure way to ensure continued pain, however, is through inaction. Studies show the greatest changes in companies' relative position within their industries occur in times of economic turbulence, not calm. As a result, simply weathering the storm is not enough. Regardless of a company's current position, management must take positive action—now.

As change accelerates in the business environment, a company's ability to make the right decisions quickly and to act on them with conviction must increase accordingly. Essential to this ability is a top management team that is tightly knit, highly communicative, and skilled at making rapid, collective commitments to action. In this constantly evolving environment, companies that rely for decisions on a CEO who in effect owns the decision-making process will probably not be able to swiftly get the shared commitments at the top necessary for responding successfully to change.

These trying times provide one more opportunity for alert companies: They can also help them find their next generation of leaders. The downturn can serve as a crucible, a transformational experience that makes current and future leaders more able, confident, humble and self-aware. By that logic, forward-thinking companies should use this time to test their rising stars.

In the poem "If," Rudyard Kipling famously wrote about the need to "keep your head when all about you are losing theirs." In today's business world, such words have never been more relevant.

About the authors

Paul F. Nunes is an executive research fellow at Accenture's Institute for High Performance in Boston, where he directs studies of business and marketing strategy. His work has appeared regularly in *Harvard Business Review*—including recently "Can Knockoffs Knockout Your Business?" (October 2008) and "The Tourism Time Bomb" (April 2008)—and in numerous other publications. He is also the coauthor of *Mass Affluence: Seven New Rules of Marketing to Today's Consumers* (Harvard Business School Press, 2004). In addition, Mr. Nunes is the senior contributing editor for *Outlook.*

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