

A large, stylized blue chevron graphic pointing to the right, with the text "High performance. Delivered." centered within it.

High performance. Delivered.

Aftershock: Part 1: Business Transformation and New Business Models—New Realities for Success

Podcast Transcript

The Accenture High Performance Business Podcast Series

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Host: The Accenture High Performance Business Podcast Series.

Global business reality has been fundamentally and permanently altered. Where others see challenge, high-performance companies see opportunities for business transformation and are adopting new business models.

Hello, I'm Paul Bushet. In this podcast, the first of two dealing with business transformation and new business models, Accenture identifies three key areas for achieving high performance—focusing on the customer, competitive dynamics and prospects for growth.

The Customer Is King

Narrator: First, let's examine the customer. Customer values and buying

behavior have changed, often dramatically, across most industries. These changes create opportunities around responding to new needs and winning market share away from the competition.

Examples abound of the newfound popularity of thrift, including non-cash bartering clubs, the return of do-it-yourself and the widespread

phenomenon of trading down. Conspicuous consumption is no longer fashionable, as signaled by growing anxiety in the luxury goods sector.

This fascination with thrift will likely persist for three to five years for several reasons, which include debt reconciliation, retirement, higher taxes and lower bonuses.

With less to spend, buyers will choose more judiciously. They will increasingly look for products and services closely tailored to their needs. High-performance businesses invest in more sophisticated approaches to customer segmentation and develop genuinely differentiated offerings.

Continued tight credit for companies of all types may also lead to an increased interest in new ownership models, replacing outright ownership with, say, "pay-per-use" models.

For example, more airlines are using performance-based logistics, based on the "power by the hour" approach to aircraft engine ownership pioneered by Rolls-Royce. This approach promises a fixed cost for engine flight hours over the life of the contract. Governments in the United States and the United Kingdom contract for military aircraft and other equipment on an availability basis, leaving manufacturers responsible for supplying spares and other services on demand.

All countries and regions are not created equal when it comes to the impact or aftermath of the recession. Developed Western economies are likely to experience slower growth over a longer period. Meanwhile, the continued growth of the middle class in India, Brazil, South Africa, China and other developing economies will provide an important source of new demand for multinational companies.

The New Competitive Landscape

Now let's look at a second focus area for achieving high performance: The competitive landscape. Entire industries are undergoing wrenching and perhaps

lasting change. Who will the new competitors be? How will the rules of the game change?

Bankruptcies and financial distress have changed the faces of many industries. In some cases, this change will result in diminished capacity, potentially improving returns for those companies that remain in the market. Meanwhile, attractively priced acquisition opportunities will likely draw new investors into Western markets.

China's Sichuan Tengzhong Heavy Industrial Machinery Co., for example, has tentatively agreed to purchase GM's Hummer brand of large sport utility vehicles and pickup trucks. The Industrial and Commercial Bank of China is slated to buy a 70 percent stake in a Canadian subsidiary of The Bank of East Asia, giving it a valuable foothold in the Canadian market.

Accelerated consolidation is widely expected in many industries, including construction, energy, banking and retail. Companies are seeking partners to survive, and depressed asset prices make deals more attractive for the strongest companies. This consolidation, too, will change the game, allowing the largest companies to pursue scale-based cost savings and offer consumer benefits that smaller players cannot hope to match.

Increased regulation will be part of the new reality. Governments seek a more active role in managing key industries such as banking, housing, manufacturing and health care. The end result will add costs and constraints on companies. On the plus side, the continued movement toward harmonization of global regulatory standards should help reduce costs for global players.

Exchange rate fluctuations will continue as governments seek to fund economic bailouts. Prices of a wide range of commodities, as well as services such as shipping and transportation, will yo-yo as the market seeks a stable balance between supply and demand.

Investors will remain skittish, even as

economies emerge from the downturn. This attitude will exacerbate higher volatility, resulting in faster and more extreme reactions to changes in key economic indicators.

Prospects for Growth

Finally, let's look at another area high-performance businesses are especially concerned with today: Their prospects for growth. The heady days of ready cash and loose credit seem distant memories. How will companies sustain their ability to invest in growth and choose where and how to grow? Organizations may need to consider different capital structures. They may need to find new means to fund innovations, new capacity, enhanced capabilities, geographic expansions or acquisitions. Executives must also revisit their plans and prospects for organic growth and adjust these to fit with the new customer reality.

Beyond these fundamental questions, executives will need to reassess their portfolios of products and services, asking whether they still make sense in light of changing customer needs and competitive dynamics. This scrutiny may reveal gaps that must be filled, or opportunities to divest businesses that are either not contributing to the company's core strategic thrust or failing to meet minimum performance requirements.

The ability to invest in growth and the choices of where and how to grow will help widen the gap between winners and losers. Winners will continue to invest in R&D through the downturn. They will have capital available to take advantage of M&A opportunities at fire-sale prices. They will respond to changing customer needs with innovative new offers. They will establish early, strong positions in emerging markets. These investments will create disproportionate advantages for these companies, propelling them to stronger performance coming out of the downturn.

To raise cash and pay down debt, some companies will have to sell assets, creating opportunities for more

financially secure players. The overall level of M&A activity should pick up in late 2009 and accelerate in 2010 as company valuations stabilize and financially secure competitors move to take advantage of low asset values.

A number of noteworthy deals along these lines emerged in 2009. In January, Pfizer announced plans to acquire Wyeth for \$68 billion. In June, Fiat acquired key Chrysler assets in a deal brokered by the US government.

As a result of these and other changes, the average amount of leverage for all companies will drop, while favorable emerging-market growth rates will continue to attract investments away from slower-growing developed economies.

Conclusion

Host: During the next few years, opportunities for game-changing strategies will grow more pronounced. Companies with a firm grasp of their customers, their competitive landscape and their growth prospects have the best chance of achieving high performance and leaving their competitors behind.

This concludes the first half of our Accenture podcast on Business Transformation and New Business Models. In the second half, "New Management Strategies," we look at how managers can configure their businesses and lead their people to take maximum advantage of the new business reality.

We thank you for listening, and hope you found these insights worthwhile and stimulating. For more information about Accenture's research and experience helping businesses achieve high performance, visit our High Performance Business Podcast Series.