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A Time for Bold Moves

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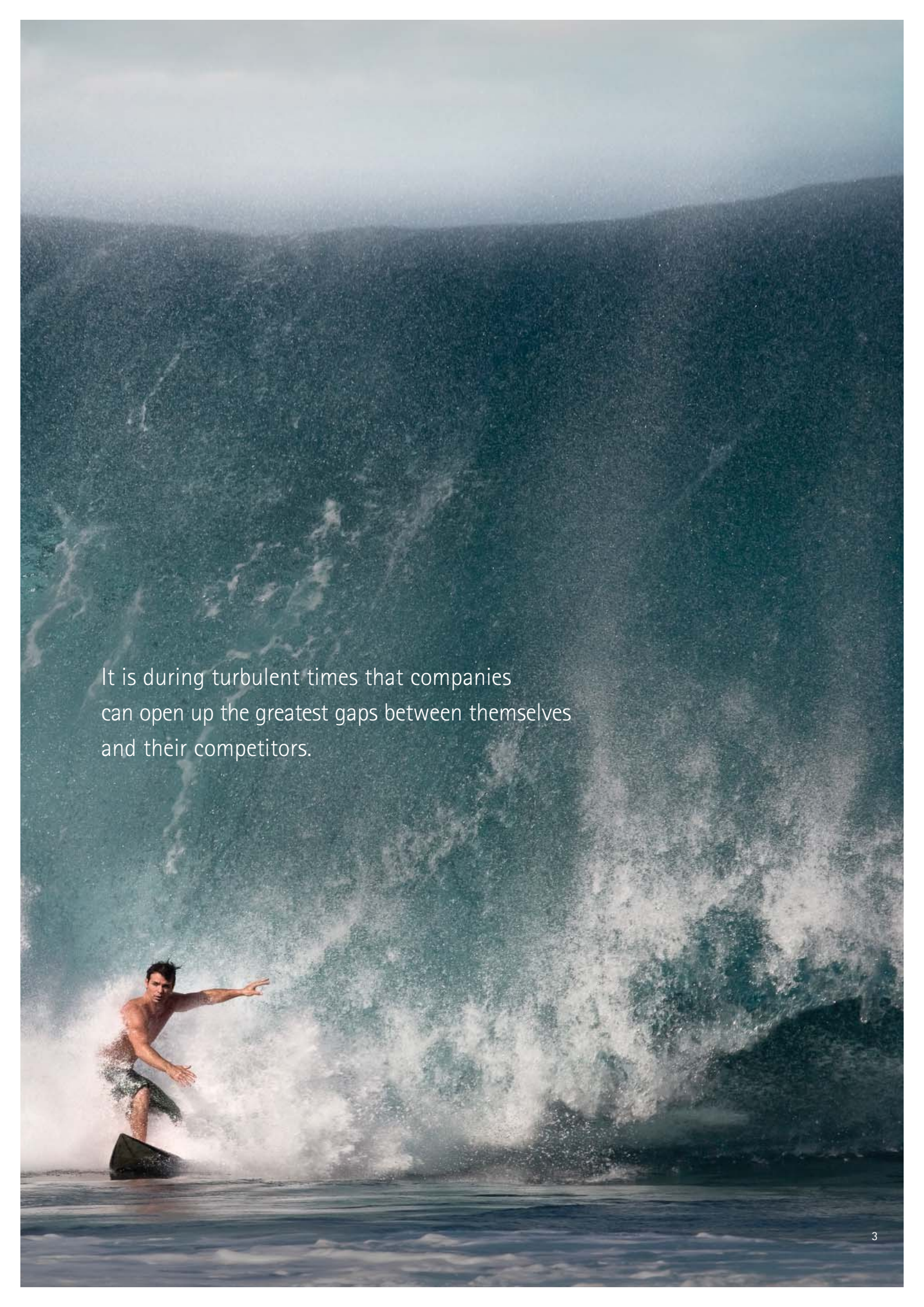
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Introduction



We are now in a time of unprecedented change in the global economy. While the current economic turmoil presents serious threats to many companies, it also creates enormous opportunities. Accenture research has demonstrated that the strategies companies choose to pursue during downturns can dramatically influence their results for the next decade. While a rising tide of economic growth “floats all boats” creating attractive returns for most players, economic downturns rapidly separate the winners from the losers.

Many companies are understandably focused on responding to the particular challenges of the current environment, with tactical cost reduction, capacity adjustments and cash flow preservation high on the agenda. These responses are necessary and sensible insofar as they guarantee future survival. However, companies who focus exclusively on survival are missing the big picture. It is during turbulent times that companies can open up the greatest gaps between themselves and their competitors. Rapid changes in the external market, combined with inward looking, reactive competitors, add up to big opportunities to create durable competitive advantage for companies with the vision and courage to pursue them.

A full-page photograph of a surfer riding a large, powerful wave. The surfer is in the lower-left corner, leaning forward with arms outstretched. The wave is a massive wall of dark blue-green water crashing down, with white foam and spray. The sky is a pale, overcast blue. The overall mood is one of intense action and natural power.

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and their competitors.

Bold moves

Past economic downturns provide several good examples of how companies have used bold moves to transform their competitive position:

Ryanair: Investing to grow

In the aftermath of the September 2001 terrorist attacks in the US, demand for air travel dropped suddenly and precipitously. For the majority of airlines, cost cutting and capacity reduction dominated the agenda. Ryanair was a notable exception, using this opportunity to expand its fleet, open up new routes throughout Europe, and win customers away from the competition. The combination of low fares and new destinations appealed to customers, allowing Ryanair to fill its aircraft while most competitors were struggling with low load factors. In January 2002, while most competitors were busy mothballing aircraft, Ryanair placed an order for 100 Boeing 737-800 jets with options for another

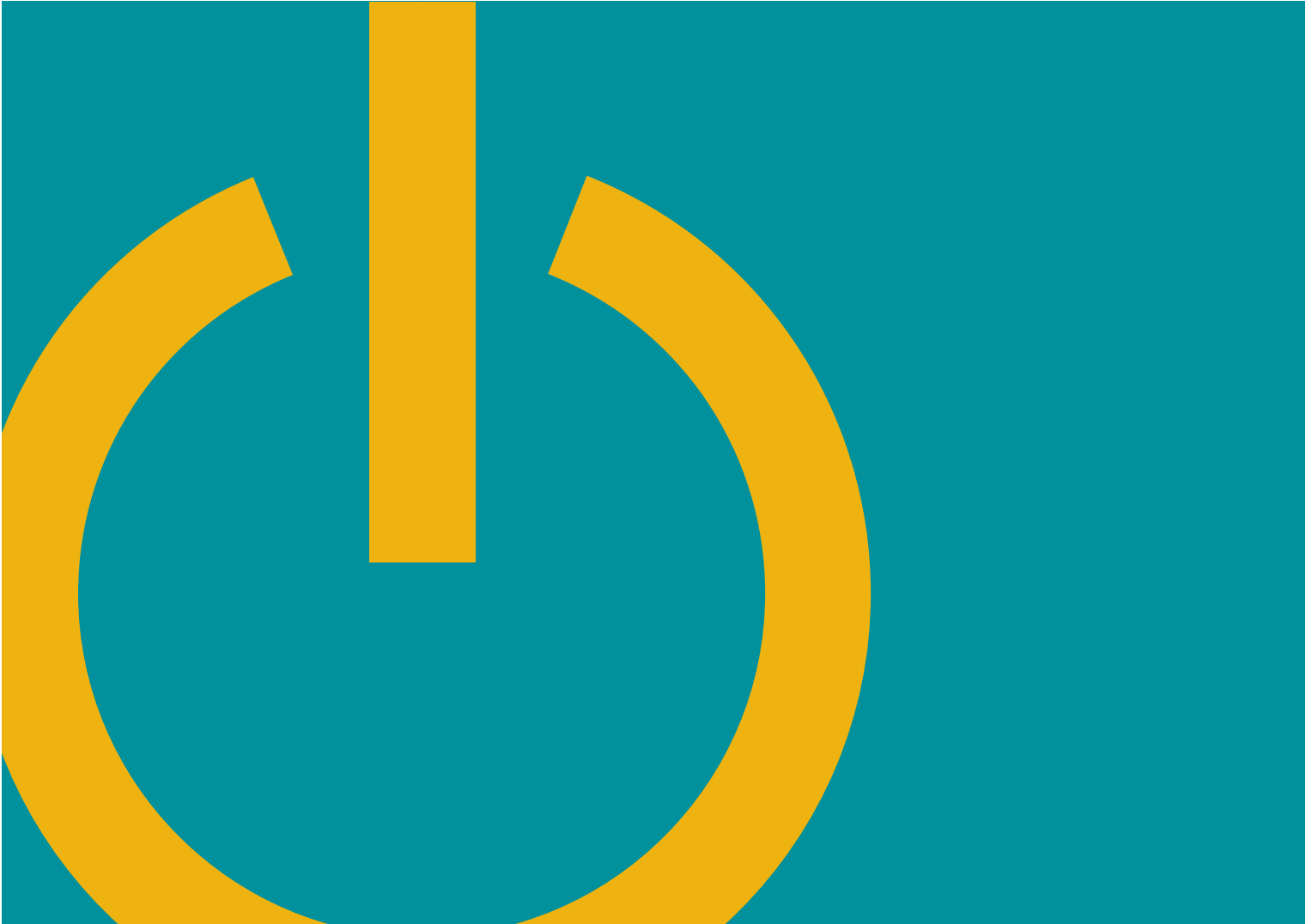
50. In a buyer's market the company negotiated substantial discounts from the aircraft manufacturer, which have helped to fund a strategy of continuous, aggressive growth for the past 6 years.

Uniqlo: Responding to changing customer attitudes

During the economic downturn in Japan in the early 1990s Japanese consumer attitudes changed. One consequence of this was increased conservatism towards spending on clothing and other consumables. However, many consumers were also reluctant to downgrade on quality, having become accustomed to high quality goods. Uniqlo responded to this new combination of needs with the introduction of fleeces, sweaters and polo shirts at the quality of mid-high end brands, but at a cost of less than \$20 per item. This offering proved very successful and fuelled high growth for the retail chain throughout the 1990s.

Vale: Industry consolidation through M&A

In 1998 the global market for iron ore was experiencing sluggish demand and declining prices. Three players, Vale, Rio Tinto and BHP accounted for approximately 50 percent of the market, with the remainder being fragmented between a number of smaller suppliers. While pricing was typically determined by longer term contracts, the smaller players were increasingly selling on the spot market, which was depressing contract prices across the industry. Vale embarked on an acquisition campaign, and over the next couple of years was able to pick up several companies at very attractive prices. It chose carefully: the companies that it bought were all near existing Vale operations, with good logistics and serving a common market. As a result Vale was able to quickly extract synergies, while simultaneously growing its share and giving it increased influence with



the largest steel producers. Partly as a result of this well thought through acquisition strategy, Vale's market capitalization increased from \$8Bn in 1999 to a peak of \$180Bn in 2008, before declining with the collapse in commodity prices to its current level of ~\$80Bn.

Apple iPod: Genuine innovation

During the weeks that followed the 9/11 terrorist attack on the World Trade Center, Apple launched its revolutionary new product: the iPod. Priced at \$399, over 50 percent more expensive than its nearest competitor in terms of functionality, critics were sceptical about its likely success, particularly given the prevailing mood of gloom that followed the September 2001 attacks. However, as history has demonstrated, the genuinely innovative capabilities of the iPod made it a huge and enduring success with consumers.

Key amongst these were three breakthroughs: ease of use, ultra-portability, and the iPod's ability to sync automatically with iTunes. By creating functionality that had never existed before, the iPod both invented and dominated the market for portable digital media. Arguably, the timing of the launch may have actually helped. Against a backdrop of gloom and pessimism, consumers proved ready to embrace something that was genuinely new and different.

Wal-Mart: A focused and consistent strategy

Wal-Mart, the US retail chain, provides an excellent example of the benefits of a focused and consistent strategy, in which it has continued to invest through all economic weather. As described at their October 28, 2008 Analyst Meeting, there are three key components to Wal-Mart's strategy. The first, Portfolio Optimization drives

decisions about capital allocation around the world, ensuring that Wal-Mart is maximizing shareholder value while balancing investment appropriately between mature and emerging markets. The second strategy, Global Leverage, ensures that Wal-Mart gets maximum benefit from its global scale, through shared activities in areas such as global sourcing, and through communicating best practices to all parts of the organisation. The third strategy, Winning in Every Market, challenges local management to achieve or be on a clear path to being a significant player in terms of market share in every market in which they compete. Although the company faces very different consumer needs and competitive environments in each of its markets, relentless focus on these three elements has helped to deliver success both in emerging markets such as China, India, Mexico and Brazil, as well as in mature markets from the US to the UK and Japan.

Common themes

These stories illustrate several common themes:

Focus on customers

Many of these strategies involve identifying and adapting to changing or poorly served customer needs. In the case of Uniqlo this involved repositioning an existing brand, while for Apple it meant creating fundamentally new functionality not yet seen in the market. For Wal-Mart this means a relentless focus on understanding the unique local needs of customers and tailoring product mix and local service standards to meet them, while leveraging its global footprint to deliver on the brand promise of value for money.

Going against the flow

Taking advantage of competitor inaction has several benefits. Acquiring assets cheaply in a down market helped Vale achieve dominant scale, and Ryanair achieve an unassailable cost position compared to incumbent airlines. Continuing to invest and build its international presence has helped Wal-Mart to increase market share in periods of economic slowdown. In hindsight, Apple's determination to press ahead with the launch of the iPod despite challenging market circumstances now seems like genius. Arguably the appeal of this truly unique and innovative product was magnified by the prevailing gloom, making it the must-have purchase of the Christmas 2001 season.

Understanding and managing the drivers of cost

Wal-Mart's global scale gives it a number of advantages that allow it to deliver its services at the lowest possible cost. Global procurement, shared best practices, and access to low cost capital are a few examples of how Wal-Mart has achieved this. Wal-Mart's particular take on sustainability is another good example of their approach to cost management: "One description of sustainability is removing waste from your network. And a simple example of how sustainability and low cost work together, we've reduced our food packaging requirements by 25 percent over the last two years. And that saved the company £13M", says Andy Bond, Wal-Mart International President and CEO, ASDA, Wal-Mart Stores Inc. Analyst Meeting Day, October 28, 2008.



Choosing your response

Survival must be the first priority. In today's highly interdependent economy, risks can come from many quarters, and companies need to take a holistic view, looking up, down and across the value chain, to understand the potential impact of the downturn not only on their own business, but also on partners, competitors, suppliers and customers. Creative, "out of the box" thinking is vital in spotting both opportunities and threats—for example the failure of a key competitor may create an opening into your market for a new entrant with fundamentally different capabilities and goals.

Once survival is reasonably assured, the next question becomes—how can you turn the current circumstances to your advantage? The following are a few questions that companies should be asking themselves as they design their response to the downturn:

1. How can we use this window of opportunity to fundamentally restructure and streamline the cost base?

Companies typically accumulate non-value adding cost over time as a result of increased organisational complexity, duplicated resources, and outdated processes that are no longer fit for purpose. This is particularly true now, following a long period of strong economic growth, during which companies have tended to focus more on expanding revenues and less on managing costs. A period of economic downturn creates an ideal opportunity for a critical review of costs, as there is a high expectation of change among internal and external stakeholders.

However, indiscriminate cutting of costs creates serious risks of undermining future capabilities. Instead companies should focus on three key areas:

Operating model design

Strengthening presence in high growth markets, shifting activities to lower cost geographies, exploiting information technology to deliver a tailored customer experience at low cost, eliminating duplication and implementing an organisation design that is optimally tailored to the future business model of the company.

Process excellence

Reducing complexity, eliminating non-value adding activities, streamlining key processes such as innovation, and implementing performance management systems that improve visibility and transparency of costs.



Functional excellence

Exploiting scale in global functions, improving tax efficiency, incorporating best practices, optimizing supply chain around future requirements.

2. How can we strengthen the loyalty and profitability of our existing customer base while growing our share of the most profitable customers?

Across many industries customer needs are changing rapidly as a consequence of the downturn, resulting in declining revenues for some players, and improved results for others. For example, in the U.S., McDonald's is reporting strong sales growth, while Starbucks results are sharply down. Understanding and anticipating these changing customer needs through adjusting product mix,

service levels and pricing can make the difference between winning and losing share in a shrinking market. There are also opportunities to strengthen brand image and build loyalty through explicitly acknowledging customers' difficulties—for example through extending payment periods or being flexible about existing commitments. For players with relatively small market shares such a strategy has the double benefit of enhancing image while making it prohibitively expensive for dominant competitors to follow.

Differentiating between the needs of distinct customer segments is equally important. Customers vary enormously in overall profitability and it is important to focus scarce investment funds on serving those customers you are most anxious to attract and retain. Although the pie may be shrinking the opportunity to win a higher share of the most

profitable customers can result in improved near term results, while establishing the foundation for rapid growth as the economy improves.

Innovation is likely to be given a lower priority during periods of downturn—creating a big opportunity for genuinely innovative products to capture a higher share of mind. This is particularly true if the innovation in question is aligned with the prevailing mood of the time. Innovation need not just be product focused—new forms of customer service or pricing, or opportunities to leverage new technologies in ways that engage customers differently are all forms of innovation that can boost market share during difficult times.

3. How can we capture a higher share of value vs. upstream and downstream partners?

In many industries channel intermediaries have retained strong control over the interface with end consumers, restricting visibility of customer information and preferences and playing suppliers off against one other in order to obtain the best possible terms. Now, with many retailers in disarray and fundamental shifts taking place in consumer buying behaviour, the opportunity may exist for some manufacturers to explore new channels to market that give them more direct access to customers and an opportunity to capture a higher share of wallet. Using the internet to sell direct to customers is one such example.

Looking upstream, volatility in equity, commodity and currency markets may create opportunities for acquisitions or other transactions that secure favourable access to scarce resources. In industries as diverse as engineering, natural resources and food ingredients, exclusive access to unique assets, products or capabilities can enhance differentiation or deliver cost advantages that competitors can't hope to match. Conversely, failure to work with unique suppliers to ensure their survival might result in significant future replacement costs. Upstream acquisitions might therefore be equally important from a defensive perspective.

Human capital strategy provides another opportunity to outmanoeuvre the competition. Whether it is in sourcing the best people, or providing the development, structure and rewards that ensure you get the best out of your people, abundant evidence demonstrates that this is a rich vein of opportunity for building competitive advantage.

4. How can we take advantage of favourable market conditions to scale the business, acquire new capabilities, and enter new markets through acquisitions?

Acquisitions are one of the most effective strategies for creating shareholder value in a downturn. In contrast, during an upturn, divestments create greater shareholder value, due to over-inflated prices paid by acquirers.

While observers dispute whether the market has reached its lowest point, there is no question that acquisitions are now possible at prices far below the level they reached during the 2006/2007 M&A boom. In many industries the logic for acquisitions remains unchanged: scale advantages, the opportunity to serve global customers through establishing global presence, entry into attractive, higher growth markets, and acquisition of unique resources or capabilities continue to be valid and sensible reasons for M&A. Competition for attractive deals is lower, and with many companies looking to strengthen their balance sheets, many assets which might not have come onto the market in boom times are now for sale. Companies in a strong cash position or with access to reasonably priced financing should be looking to take advantage of the market conditions to achieve broader strategic goals.

While Western companies consider how to enter emerging markets most effectively, many emerging market multinationals are planning their own entry into the developed markets of the West, using acquisitions to build a foothold. Insurer China Life was recently reported to be preparing for overseas acquisitions, and it is certain that there are other players keen to take advantage of low prices to expand their reach into the profitable markets of the West. This creates a new threat to established players, who may shortly find themselves competing against new entrants with a very different set of goals and capabilities from their traditional rivals.



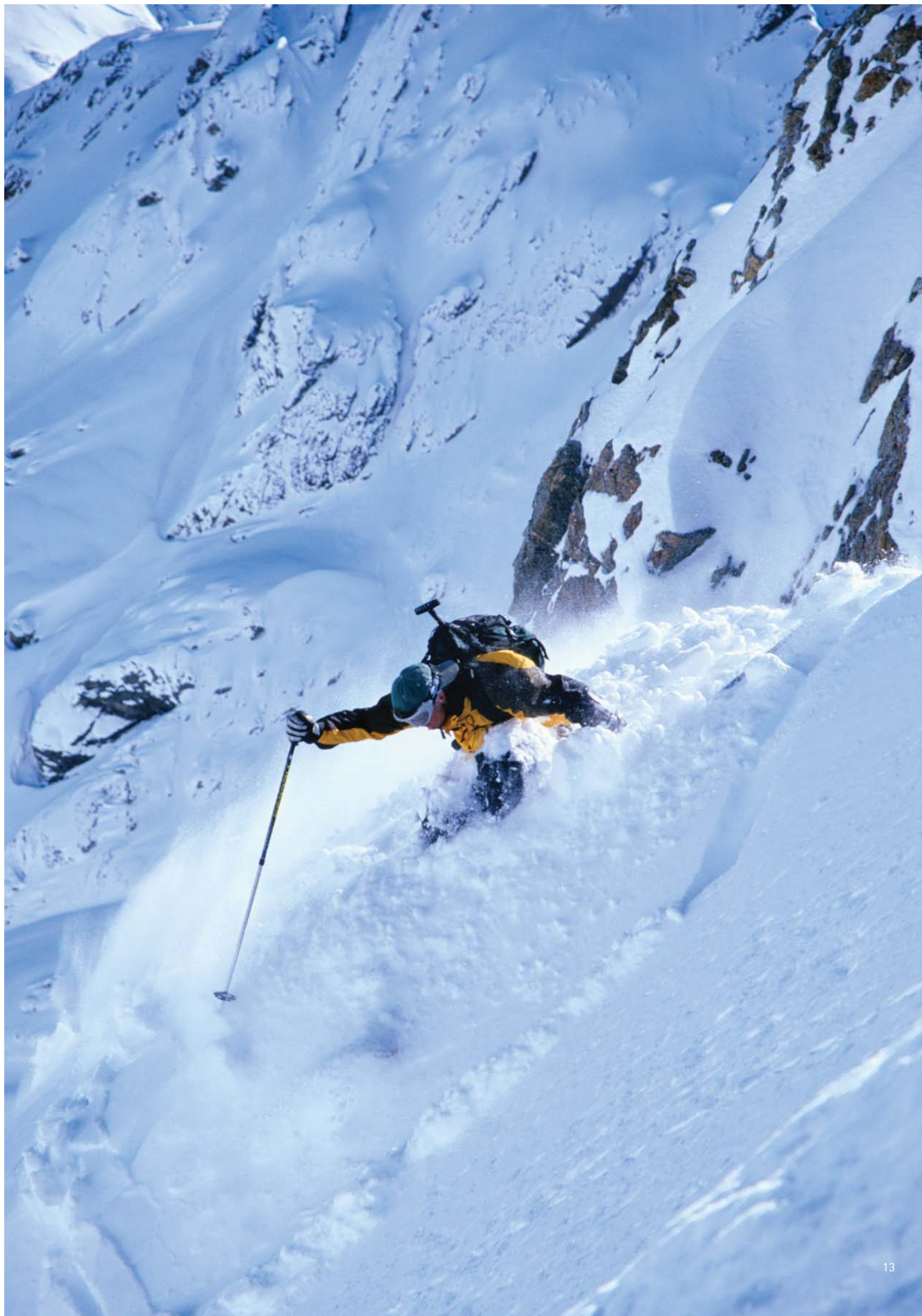
What's stopping you?

Change is difficult. Many companies, particularly those with a history of high performance, have developed an array of mechanisms whose combined effect is to ensure that they do not deviate from the successful strategies of the past. Well established routines, such as the annual budgeting process, provide a framework in which managers carry out familiar activities according to a pre-arranged schedule. Internal "mythologies" emphasize the importance of tradition, often reinforcing outdated methods and approaches that may no longer be ideally suited to current requirements. Against this background, responding nimbly to rapidly changing circumstances is very challenging—even when individuals can see the need to do so. The result is that many companies are frozen—lacking precedent for action and unable to orchestrate

a timely response and therefore in danger not only of missing opportunities, but of themselves losing share to faster moving competitors.

Overcoming internal barriers to change requires strong leadership and engagement of all levels of the organisation—both in designing the response to the strategy and executing against it with conviction. Management may understandably be more focused on their own survival than on what is best for the company, making it more difficult to build momentum around a new plan. New structures and processes can help—for example appointing an executive team with the responsibility and authority to design and deliver the response can help to break up the silos and create momentum for change.

Speed is of the essence—at the same time that you are considering your response, your existing competitors and potential entrants to your market are calculating how to take share away from you. As Jack Welch, former Chairman of GE, famously said: "When the pace of external change exceeds the pace of internal change the end is in sight".




Conclusion

The current turmoil in the global economy will unquestionably result in dramatic changes in the competitive landscape. Some companies will not survive, while others will use this unprecedented opportunity to dramatically shift their competitive position. New market entry, global consolidation of industries, new business models, radically altered cost structures, and major shifts in the balance of power within industry value chains are all examples of the

kind of moves that we can expect to see. Companies whose survival is reasonably assured should be examining these opportunities now, to determine which best fit their particular circumstances. Strong leadership will be needed, but those companies who successfully take advantage of these opportunities are likely to emerge as the dominant high-performance businesses in their industries for the decade that follows.



A photograph of a person's leg and foot in a black wetsuit hanging from a red sail. The sail is suspended over a body of water, and the person's leg is visible on the left side of the frame. The background shows a calm sea and a distant horizon under a bright sky. The foreground is a dark, pebbly beach.

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