

Managing in Uncertain Times: Strategies and Practices for High Performance

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Economic downturns are nothing new. In fact, they are as much a part of the business cycle as are long periods of sustained growth and prosperity. The simple fact is that what goes up must come down, and the economy is hardly immune to this most basic law of nature.

Yet as companies grapple with the current economic situation, many are recognizing that this particular downturn in the business cycle is different from those that preceded it. Indeed, today's business context—characterized by rapidly intensifying globalization that has substantially increased the complexity, risk and uncertainty of doing business—has only served to exacerbate the challenge of managing through a difficult economy. Consequently, companies seeking high performance must make more bold decisions, earlier, and often based on less certain information than they would “normally” contemplate. The combination of thinking through

consequences (in both their upside and downside combinations and permutations), in a competitive decision-making context, is what is different this time. Gaining the benefits of first-mover advantage is paramount, because many open or partially open doors will shut as situations become clearer. On the other hand, early bold decisions also may result in less-than-optimal outcomes.

The more risky course of action, though, is to wait for events to unfold before making a decision even if, paradoxically, that decision is to wait and see. Strategic decisions must be deliberate, and be based on a full evaluation

of all available information and a consideration of all possible outcomes in a highly volatile, highly complex, highly interactive global environment. In this situation, two components are critical: the quality and comprehensiveness of information available to make decisions and the ability to think through the consequences of decision options. Importantly, these prescriptions apply whether or not the situation being confronted represents an opportunity or a threat.

In our research and work with clients around the world, Accenture has seen firsthand the struggles many companies have in identifying the most appropriate responses to unfavorable economic times. We've seen organizations reflexively and indiscriminately reduce headcount to save costs, only to find later they don't have enough of the right people (often including those that have been separated) to meet their commitments. We've seen businesses stray from their core competencies in the hope of finding new revenue opportunities, only to seriously harm their brand and balance sheet because of poor performance. And we've seen companies simply paralyzed by fear, unable to take any actions because they may be the wrong ones and cause the company irreparable damage.

But we've also seen companies that have an uncanny knack for both flourishing in a downturn and positioning themselves to be even stronger when the economy eventually improves. In our previous research, which investigated post-recession financial positions from the 1990-1991 recessions, we found that leading companies practice sound, value-based financial management emphasizing cash flow and strong balance sheets during good times. This strategy provides flexibility and financial muscle during bad times. Armed with a deep knowledge of their value levers, these leading companies position themselves strategically in the good times to take

advantage of the bad ones, not the reverse. The post-recession winners execute differently during the recession: they strengthen existing positions rather than changing course, taking advantage of the flexibility through a continued value-based management focus.¹ In our latest research, we have studied many companies that are taking decisive action today to discern what they do to gird themselves against the long-term negative effects of uncertain times when so many of their peers are struggling.

Our most recent research on the importance of strategic decision making in uncertain times builds on the results of Accenture's High Performance Business research initiative, the ongoing research on the drivers of high-performance businesses. In studying more than 6,000 companies across 36 industry segments, Accenture set out to understand the true nature of high performance. We found that there are three interdependent building blocks of high performance: market focus and position, distinctive capabilities and performance anatomy. As companies execute strategies in the downturn, they need to keep an eye toward long-term high performance and continually balance, align and renew the three building blocks. Market focus and position, which involves the "where and how to compete" aspects of business strategy, is particularly important in managing through a downturn. High-performance businesses have remarkable clarity when it comes to setting strategic direction, and are always found where the action is in the market. Through their market focus and position, high-performance businesses achieve a kind of strategic decision-making capability that enables them to compete in the best markets and maximize growth opportunities, without reaching or scaling beyond their limits. They also are extremely adept at making the right decisions that can enable them to manage, often

simultaneously, across near-, medium- and long-term time horizons. This ability creates their competitive essence through a careful combination of insight and action.

In this paper, we present a general framework for determining short-term state of readiness to take on the economic uncertainty and link this to four principal types of strategic focus a company could pursue to help manage through uncertain times: scale strategies, growth strategies, operating strategies and financing strategies, and the impact of these strategies on shareholder value. We provide numerous examples of companies that exemplify the use of these strategies to gain advantageous competitive positioning—both for now and for when the environment rebounds. And, we explore why performance management capabilities (with their obvious link to enabling effective decision making), talent, change management and leadership hold the keys to effectively executing one's chosen strategy.

Strategic Readiness to Respond to the Downturn

As shown in Figure 1, we devised a framework through which we could assess a company's "strategic readiness" to address the challenges it faces. This framework is based on three principal criteria: economic-profit performance, balance sheet strength and degree of country diversification achieved (percentage of domestic business versus the rest of the world). A company's performance on those three dimensions—combined with the context of the industry in which it operates—determined its strategic readiness status to pursue various alternatives. For instance, a company with a strategic readiness status/classification of one in the electronics/high-tech sector would likely be pursuing growth opportunities. On the other hand, a company with a readiness classification of eight that has major exposure to the residential housing sector would probably be scrambling for cash and looking for ways to reduce costs.

Our research reveals that not all companies are equally well positioned to respond to today's economic downturn. In fact, an analysis of US companies in the S&P 500 has revealed that just one-third are in solid financial condition and able to take advantage of scale and growth opportunities. By applying the strategic readiness framework to the US companies in the S&P 500 (Figure 2), we found only 33.8 percent of the enterprises are in strong financial position and, thus, have a high level of strategic readiness (a one or two classification). Another 31.6 percent have good balance sheets but a less-than-superb recent economic performance. These companies have the capability to acquire, but should get their own house in order before venturing forward. The size of this group is not entirely surprising, but it does suggest that managing for growth will be more difficult for the group,

particularly for the subgroup that does not have a significant nondomestic source of revenues. The particular "at-risk" groups, though, are the companies that do not have significant balance sheet strength, because any interruption to economic profitability will make it harder to respond. Of course, today the fifty-four companies (10.8 percent) that do not have a positive economic profit track record, do not have significant balance sheet strength and are reliant on the domestic US economy (those that are an eight classification), are the most vulnerable in the current economic downturn and the least able to take advantage of opportunities.

Figure 1. Strategic Readiness Screen

Economic Profit Performance has been positive		Financial Condition		Cash Flow is spread		Strategic Readiness Classification
		Balance Sheet is strong				
Criteria	"Yes" Threshold	Criteria	"Yes" Threshold	Criteria	"Yes" Threshold	
Economic Profit/ Invested Capital ¹	>0.0	Excess Cash Availability ²	>0.0%	Non-Domestic Revenue/ Total Revenue	>33.3%	
ROIC	12.5%+	Debt/Capital ³	<30.0%			
ROIC Spread	2.5%+	(Goodwill + Intangibles)/ Total Assets	<10.0%			
		(Goodwill + Intangibles)/ Shareholders' Equity	<20.0%			
Yes		Yes		Yes		1
Yes		Yes		No		2
Yes		No		Yes		3
Yes		No		No		4
No		Yes		Yes		5
No		Yes		No		6
No		No		Yes		7
No		No		No		8

Note: To determine financial condition, estimates were made for the three years 2005, 2006 and 2007, weighted according to the sum-of-years-figures, with the most recent year, 2007, being given the highest weighting. The result was compared to a "yes" performance threshold for the criteria. Where there was more than one criterion for a question (there are three criteria for economic profit performance indicator, four for balance sheet strength indicator and one for cash flow spread indicator, an equal weighting was given to each criterion with a "yes" to establish the yes/no determination for the question. Note that the "yes" thresholds were established for the general purposes of this study and do not reflect industry specific performance considerations. ¹Adjusted. ²Excess cash as a % of revenue measured as $\{(Cash / Revenue) \times 100\} - 2.00\%$. ³Capital as per WACC calculation, i.e., market value of equity + net interest bearing debt obligations.

Figure 2. Strategic Readiness Classification of the S&P 500

Strategic Readiness Classification	Financial Condition			S&P 500 Number of Companies
	Economic Profit Performance has been positive	Balance Sheet is strong	Cash Flow is spread	
1	Yes	Yes	Yes	84
2	Yes	Yes	No	85
3	Yes	No	Yes	48
4	Yes	No	No	31
5	No	Yes	Yes	78
6	No	Yes	No	80
7	No	No	Yes	40
8	No	No	No	54

Total 500

Strategies for Managing through Today's Uncertain Times

Thus, the burning question remains: What should companies—both those “at risk” as well as healthy ones—do to improve their competitive and financial positions in today's uncertain times?

In essence, there are four strategic routes that companies can follow to manage through uncertain times:

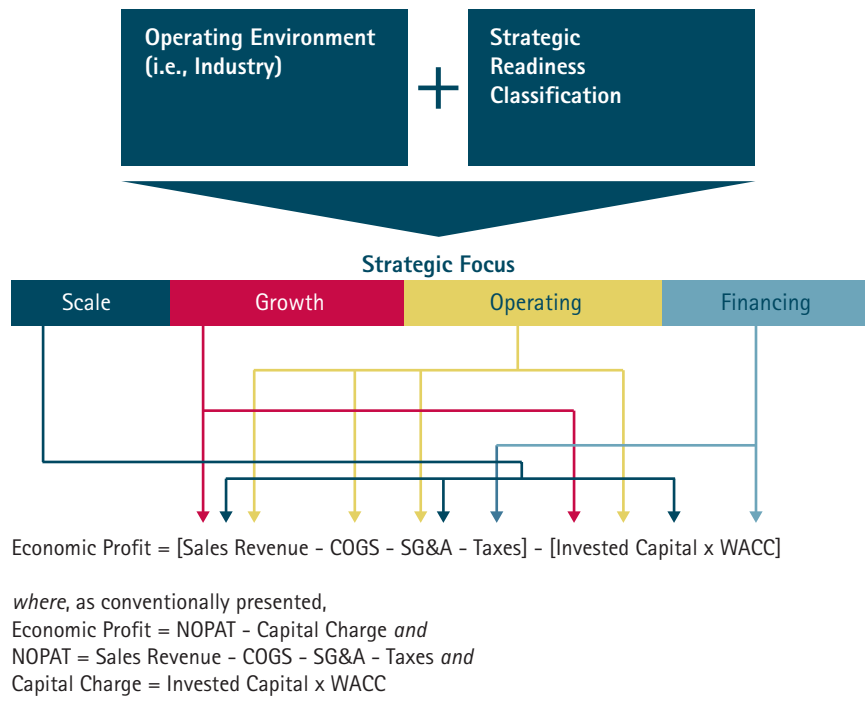
- Growth strategies: expanding either through product or market, or both.
- Scale strategies: reducing operating costs by more effectively leveraging existing infrastructure or competencies.
- Operations strategies: strategically reducing cost and optimizing price.
- Financing strategies: boosting the share price and repairing the balance sheet.

The four strategy routes are convenient categorizations for evaluating and describing the content of the strategic responses companies are making to prevailing uncertainty and the expected shareholder value impact (Figure 3). The model implicitly points the direction to the detailed strategy content that should be observed. For scale strategies, the impact is to be found in sales revenue growth, Sales, General and Administrative (SG&A) synergy and invested capital intensity (assets) effects; for growth strategies, it is in sales revenue and invested capital (assets) effects; for operating strategies, it is in sales revenue, Cost of Goods Sold (COGS), SG&A and invested capital (assets) effects; and for financing strategies, it is in taxes and invested capital (liabilities) effects.

In some respects, the strategic emphases described by this model are constant for corporate strategic decision making, regardless of the operating environment characteristics (boom or recession). The difference today lies in the need for companies to formulate and articulate their strategies in terms of their expected outcomes (what outcomes, how soon delivered and with what degree of associated risk) to make both their situations and their expectations as transparent as possible and to have a propensity for immediate action as circumstances and strategic intent dictate.

While state of readiness dictates the appropriate strategies, these strategies are not mutually exclusive. It is highly likely that any primary strategic

Figure 3. From Company Situation to Value-based Outcome



emphasis will inevitably include elements of other generic strategies included under its aegis. The strategic emphases that can be expected are that scale and growth strategies will be pursued by companies that find themselves in an advantageous position in terms of readiness (as defined previously) and are seeking opportunities, while operating and (re)financing strategies will be more critical to companies that are in weaker positions and are threatened (although any company, regardless of standing, should continually monitor its operating strategies to identify areas for improvement). Finally, there will be companies combining scale or growth and operating strategies simultaneously. These last will be companies that are threatened but that are “ready”

and/or have strong market positions and so are able to pass on price increases to customers. The strategic emphasis pursued by companies is a reflection of their strategic intent—what the company is trying to achieve through its decision choices.

In the following sections, we explore these four strategic options in more detail and provide examples of some companies that are taking action based on their state of readiness. While it is too soon to know the outcome of these companies' efforts, our experience tells us they likely will prove to be successful.

Growth Strategies

The focus of growth is on expanding either through product or market or both. We have used the Ansoff² product/market growth matrix to organize the illustrations for this strategic focus. The structure of the matrix is shown in Figure 4.

Market-penetration strategies are focused on gaining market share in existing product/markets. There is no expansion or diversification outside of existing product/markets.

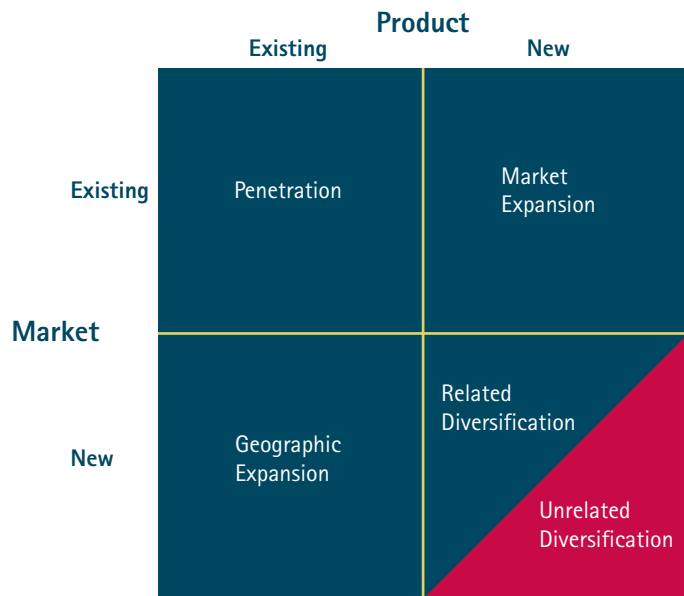
In this context, penetration strategies tend to have one of two focuses: smart targeting or transformational opportunism. Smart targeting has a customer-centric focus and is characterized by behaviors including providing targeted solutions, offers and prices; seeking to optimize the value impact of these solutions, offers and prices for customers and themselves; and actively seeking to attract and

retain the best and discourage the worst customers. Transformational opportunism is different in that its offers are not necessarily built around a concept of customer centricity but rather one of efficiency. Transformational opportunism seeks to optimize existing sales, marketing and service capabilities either through horizontal execution, where the company looks at cross-functional touch-points to find opportunities to eliminate waste and optimize the customer experience, or through benefit capitalization and sustainability where the company reviews its risks and negotiates value-based arrangements and long-term contracts. (See the sidebar, "Staying Close to the Customer: Critical to Growth in Uncertain Times," on page 10 for a more detailed discussion of smart targeting and transformational opportunism.)

Hewlett-Packard and ArcelorMittal are two companies that excel in the use of market-penetration strategies.

Hewlett-Packard (HP) acquired Electronic Data Systems (EDS) for \$13.4 billion to provide HP with the scale tools to compete against IBM in corporate technology services—a services category that includes running computer data centers, melding together software programs and consulting on special projects for business and government clients. The estimated \$550 billion market long has been dominated by IBM, which has about a 10 percent market share. HP has ranked a distant fifth with a three percent market share. Based on its \$16.6 billion in technology services revenue in its last fiscal year and by adding EDS' \$22 billion, HP's technology services division will more than double in size and leapfrog into second place with a seven percent market share.

Figure 4. Ansoff's Product/Market Growth Matrix



The acquisition provides potential cost savings and opportunities for HP to cross-sell products and services to EDS clients. Hewlett-Packard paid 18 times earnings compared to its then-13 times trading P/E, but the sector does offer relatively stable income and high margins that are regarded as maintainable in an economic downturn.

This focus is different from ArcelorMittal, the world's largest steel maker. The downturn is not slowing it down in its pursuit of growth and expansion. It keeps aggressively looking for growth opportunities (green field, brown field, acquisitions), in order to achieve its 200 million tonne steel production target. It is focused on the India and China markets as sources of its growth as well as other fast growing economies, given the expectation for high steel demand there (infrastructure,

residential/nonresidential, consumer goods). And it is not only focused on steel, but their strategy is to acquire mines, to fulfill their goal of being 75 percent self sufficient in mining.

Product focused strategies reflect a deliberate and long-term focus on product or service innovation that has market dominance as its strategic intent. Apple is a good example of a company that can use its strong R&D capabilities to see it through market downturns and business cycles.

Apple's release of the iPhone in June 2007 and its second-generation iPhone release in July 2008 are aimed at establishing a significant market share in the global smart phone market against its two major competitors (Nokia and Research in

Motion). The iPhone's second-generation release came just 12 months after its generation-one release, and after the release of the MacBook Air (January 2008) and iPod model proliferation (Shuffle, Nano, Classic and Touch). The newest iPhone was designed to provide an "on ramp" to the mobile Internet and thereby achieve a targeted volume of 10 million handset sales by the end of 2008.

Geographic expansion strategies are the lifeline of hope for many US companies in the current environment of uncertainty. Big-box retailers such as Wal-Mart and Best Buy have sought to continue their growth outside of their home markets through a variety of mechanisms.

Wal-Mart is entering into its second major international expansion foray. The company is planning to move into the fragmented and fast-growing Russian retailing market via the joint-venture/partnership route. Wal-Mart's proposed strategy in Russia mirrors the approach the company developed in India, where it has signed an agreement with Bharti Enterprises to "jointly explore business opportunities." Each of these market-entry strategies is designed to have Wal-Mart participate in emerging market opportunities where substantial growth rates are anticipated (Russia's economy grew at 7.6 percent in 2007, while India's grew at 9.4 percent).

Best Buy is the largest US consumer electronics retailer with approximately 20 percent market share in consumer electronics (compared with the less than 10 percent share of its next-largest competitor). Best Buy, facing a slowing consumer electronics market in North America and seeking growth in Europe, will pay \$2.1 billion for half of Britain's Carphone Warehouse Group plc's retail business with the objective of entering the European consumer electronics market. Carphone's 2,400 existing stores (Carphone is Europe's biggest independent mobile phone retailer) will continue to operate under its Carphone Warehouse and Phone House brands in its nine European markets; but beginning in 2009, the new 50/50 joint-venture company will roll out larger stores under the Best Buy name. Best Buy has long espoused customer centricity as the centerpiece of its go-to-market strategy as it has sought to build customer loyalty and market share in its North American markets. Its innovative approach to expansion and true understanding of the needs and aspirations of its customers, has created global appeal and is helping them succeed around the world. They continue to pursue international

expansion opportunities—further expansion in China and new presence in Mexico and Turkey.

Related diversification strategies are represented by a simultaneous departure of product and geographic markets from that which previously existed but where there is a logical connection in the diversification to enterprise knowledge and experience.

Novartis's in-progress acquisition of Alcon will give Novartis a notable presence in the ophthalmology market and will reinforce Novartis's aim of diversification across the healthcare sector. However, the strategic rationale stretches beyond gaining a presence in the ophthalmology pharmaceuticals market because Alcon is less likely to face the competitive pressures anticipated to hit the pharmaceutical segment (namely increased generic competition) in the future. Diversification will remain a key corporate strategy for Novartis and among its peers the company has been very proactive in this respect.

Staying Close to the Customer: Critical to Growth in Uncertain Times

Customers are the lifeblood of any business, and they are especially precious during uncertain times. Yet in today's multi-polar world, knowing which existing and prospective customers to target, with what offers and via which channels has become increasingly difficult and complex. As many companies focus on foreign markets—especially emerging ones such as Brazil, Russia, India and China—for growth, they are finding their traditional ways of interacting with customers often do not translate to these new markets, which makes building a strong customer relationship difficult, if not impossible.

Building and maintaining strong customer relationships is a powerful contributor to a company's ability to manage through uncertain times—especially if their chosen strategy is one of growth. And while smart companies always have focused on customer needs, today the customer relationship is a boardroom issue. Because it is increasingly easy and cheap to reproduce a company's product or service, competitive advantage has become more fleeting than ever, and experiences from banking to fast food can feel increasingly similar across competitors. In this environment, the customer relationship is the one thing that can't be commoditized.

How can companies create and maintain a stronger bond with customers—in other words, become more customer-centric—to help get through uncertain times? It begins with "smart targeting"—of customers, solutions and marketing channels. In an uncertain economy, companies should focus on acquiring the best new prospects as well as building share of wallet among existing customers. They also should develop targeted solutions and offers for their best prospects—often by bundling services and products in unique combinations, which can increase perceived value to customers as well as provide greater margins. And, they should use econometric modeling and other sophisticated analytical approaches to determine the optimal allocation of investment across the right mix of media to boost marketing effectiveness while minimizing resource waste.

In addition to smarter targeting, companies can become more customer centric and cost effective by transforming their sales, service and marketing operations to reduce waste and costs and make them more efficient—"transformational opportunism." For instance, lower-cost methods of selling and serving customers—such as online and self-serve channels—can be both attractive to customers as well less expensive for companies. The tremendous uptake of automated check-in (online and kiosks) in the airline industry serves as a great example where cost savings and customer satisfaction go hand-in-hand.

Companies that want to thrive in an uncertain economy also should borrow a page from manufacturing and implement lean processes—examining and reengineering their customer relationship management (CRM) processes to improve output while reducing cycle time and full time employee involvement. And once processes are reengineered, companies can automate them with new enterprise-class software that now exists to infuse sales and marketing best practices, reduce the burden of non-value-added activities, and increase visibility and control. In some cases, it may make sense for a company to take a step further and make more far-reaching changes to their CRM operating model by, for instance, reducing or eliminating redundant functions through the development of centers of excellence or by even outsourcing non-core-competency processes to allow organizations to concentrate internal resources on the most strategic and value-adding activities.

One other area that offers tremendous promise for improving a company's CRM capabilities is eliminating—or at least reducing—the hand-offs between the marketing, sales and service functions, as well as between these functions and other functions. In particular, companies could gain significant value by improving how they manage sales leads (between sales and marketing), manage trade promotion (between marketing, sales and customers), handle purchasing (between marketing and procurement), execute promotions (between marketing, sales and service) and launch new products (among virtually all major functions across the company).



Scale Strategies

Scale strategies are different from growth strategies in that the primary intention of the former is to drive down operating costs through an increase in throughput to an existing infrastructure or to leverage “in-place” competencies. Generally driving down the cost of goods sold (COGS) is a separate issue for companies pursuing scale strategies. It is obvious, too, that many of the scale players are network businesses (telecommunications, airlines, shipping) where management’s focus is to drive more volume through the business because the operating infrastructure is already in place. This has been the case with Verizon Communication’s in-progress acquisition of Alltel. With other scale players, the objective seems to be to leverage global competencies—such as InBev’s acquisition approach to Anheuser–Busch. InBev presented its global brand-management capabilities as the basis for taking America’s largest

beer brand international and helping InBev achieve its ultimate goal of dominating the global beer market from a brand building and marketing spend point of view.

Quite a different perspective on managing in uncertain times, where scale has been important, is a change in strategy by AP Moller-Maersk, the world’s largest container shipping company. Moller-Maersk’s avowed strategy had been based on a) having twice the market share of its nearest competitor on its major trading routes and b) being completely vertically integrated. During the first half of 2008, the company changed its emphasis on its market share objective and more importantly, for its more than 100-year-old history, opened its highly

connected sum-of-parts vertically integrated structure to external pricing competition, where the price receiver is now no longer required to accept the internal transfer price. This change is designed to respond to pressure on operating costs at a time when the economy has cooled.



Operations Strategies

Operations strategies are typically focused on strategic cost optimization (reduction and control) and price. As we have seen in our product/market growth strategy archetypes, company responses in operations vary according to their circumstances.

Companies that focus on strategically addressing their cost structures to meet both short-term performance and long-term growth versus unilateral cost reductions will axiomatically be better positioned for long-term growth. Strategic cost optimization is achieved by focusing on initiatives that drive one of two outcomes. The first possible outcome is operating advantage, where the intent is to rationalize, simplify and automate operational capabilities to deliver improvements that produce rapid economic value. Building operating advantage requires a "quick hit" mentality and is driven by

the urgency to readjust for a slowing economy. Cost-reduction initiatives usually have a varying benefit range, somewhat lower risk and easy to moderately-easy implementation. Examples of initiatives would include procurement spend reductions, strategic headcount reductions, marketing spend optimization, process improvements and smaller-scale system enhancements.

The second possible outcome is structural advantage, where the intent is to determine the optimal structure, business portfolio and physical assets required to focus on the core business strategy, sustained efficiency and long-term growth. Building structural advantage is about restructuring/streamlining and reconfiguring assets and capability differentiators. It usually entails a longer time frame and a healthy "stay-the-course" mentality. Typical initiatives would

have extremely high benefits and value but with a somewhat higher risk profile and moderately-difficult to difficult implementation. Examples of these types of initiatives might include offshoring for lower-cost operations, rationalizing product or customer portfolio, strategic asset acquisitions, system integration or large-scale enhancements, and business segment rationalization.

In many cases, companies pursuing operations strategies focus their attention on the supply chain, which encompasses the majority of an organization's expenses. Optimizing the use of expensive assets such as fleets, warehouses, manufacturing plants and inventory in a downturn often can mean the difference between excelling and simply surviving. See the sidebar, "The Supply Chain Plays a Key Role in Competing Effectively in Uncertain

Smart Pricing in Uncertain Times

Smart pricing in uncertain times means:

- Understanding the changing nature of demand. In any period of economic uncertainty, the factors that matter most to your customers will change. The key questions to ask are: Where in my product portfolio do I have a differentiated advantage? Which products will remain essential to customers throughout the downturn? Which ones will most easily lead to sales of other products? Companies that "manage for recession" will focus on these products and will strategically price around these products.
- Fine-tuning the product mix. Customers' wants and demands change with economic pressures, and business can adjust product mixes in a variety of ways to meet those changing needs.
- Narrowing the customer focus. When the economy slows, some customer segments will be more profitable than others. Pricing exemplars excel at focusing on the high-value customers that will sustain their profitability during the dark days, and then help them make gains in market share after the economy recovers.

- Investing in value beyond price. The pricing masters know that they must become invaluable to their best customers. To avoid being considered commodities, they ensure, as much as they can, that price is not the be-all and end-all when customers are making their decisions.
- Maintaining pricing discipline and confidence. True deal discipline means a salesperson can't go below a certain price range or change service features without special approval, and sales compensation is modified to match industry conditions. Deal discipline also calls for a detailed understanding of all the costs related to the product, both before and after the sale.

With more sound improvements in pricing efficiency, a company can actually use an economic downturn to spur future profitability and market share growth.

Source: Accenture publication, "How to Price Smarter in Uncertain Times"

Times," on page 15 for a discussion of specific supply chain initiatives that companies can employ to manage through today's difficult economic environment.

Another obvious operational response is to reconsider pricing strategies. Pricing power does not automatically weaken along with the economy. In weak economies, smart pricers outperform their nervous rivals by confidently honing their strategic focus and deeply understanding changes in demand. While pricing power may be much diminished in nonessential categories, it can be very robust in others.

Many companies that have been affected by input-price increases and that have been in the position to pass on these increases actually have done so. We have seen several companies in the chemicals, natural resources and technology services industries fall into this category.

There are also examples of companies that have been able to raise prices in a downturn without monopoly or near-monopoly conditions simply by understanding elasticities and pricing power: this past year, a global food manufacturer announced higher-than-expected profits, which resulted from price increases. Growth was strongest in the company's major brands. Although the company provided the rationale of rising food commodity prices, its increases exceeded any incremental costs it faced. Another company, an emergency vehicle manufacturer, raised prices when faced with rising steel prices. While the entire industry was able to raise prices, this company knew where it had leverage so was able to lead the pricing of its competitors. In effect, it was able to improve its margins while keeping its competitive price position. See the above sidebar "Smart Pricing in Uncertain Times" for additional insights.

More common than price increases are operating strategies focused on COGS and SG&A control and/or improving asset utilization (with the latter resulting either in asset shuttering and/or dispositions). The operations-focused actions taken by companies can be evaluated in terms of their position in facing uncertain times, and range from decisions about the long-term prospects of business unit performance to short-term survival.

For example, Nortel Networks' sales growth had stalled in 2007, with revenue falling by 4.1 percent to \$10.9 billion as demand for older equipment peaked. In addition, it had become clear that its two-pronged research efforts on wireless broadband LTE (long-term evolution) technology and the 4G technology, WiMax, was not optimal in achieving time to market for either technology. Both LTE and

WiMax represented game-changing opportunities for Nortel because they require advances in network speed and capacity in which Nortel has capabilities. Accordingly, Nortel announced a shift of its research strategy to wireless broadband LTE technology (with the larger market opportunity) rather than to WiMax. It simultaneously announced a strategic agreement with Alvarion, with that company focusing on the more immediate emerging market for WiMax equipment. The move will enable Nortel to achieve faster time-to-market with WiMax at a lower cost, while accelerating LTE development to meet a demand that is emerging faster than originally predicted. The change will align Nortel with the growing momentum behind LTE, which is backed by many of the world's largest network operators (including AT&T, Verizon Wireless, Vodaphone and China Mobile) while also positioning Nortel to compete more directly with other LTE equipment manufacturers (like Ericsson and Alcatel Lucent). The announcements resulted in the largest share price gain for Nortel in many months.

Procter & Gamble has been looking to grow its health and beauty categories, which have been the focus of recent acquisitions (for example, Frederic Fekkai beauty salons). In this context, the performance of its Folgers coffee brand at two percent to three percent less than Procter & Gamble's internal target was sufficient for them to consider its disposition. J.M. Smucker, the maker of Smucker's jams and Jif peanut butter, will buy Procter & Gamble's Folgers unit for about \$3 billion in stock to become the biggest US producer of coffee. The addition of Folgers will add to the products Smucker brings to retailers, allowing for more marketing options. For its part, Procter & Gamble is said to be looking to sell off its Pringles and Duracell brands for a similar reason.

For companies that are experiencing economic distress, strategic choices are limited and focused on survival. Companies that are in this position currently represent vulnerable and ailing industries, and their suppliers—especially, the airline, transportation, automobile manufacturing and real estate construction industries.

It is no news that the airline industry is in turmoil. The recent volatility and new highs for oil have had huge implications for the industry's economics, as fuel accounts for a major portion of an airline's COGS. The inability of the industry to pass on these costs to its customers (in any meaningful way) has meant drastic changes to addressable operating costs, route management and asset utilization. American Airlines has managed itself aggressively over the past several years, conserving cash, driving down debt and trimming capacity. A measure of its performance is that it is one of the few US airlines that have never sought Chapter 11 protection. Ironically, American Airlines has found itself in a less than ideal position to face a domestic and global downturn, with the least advantageous labor contracts and aircraft fleet composition. American Airlines has moved quickly to address the situation. Operationally, the company announced it would retire 75 aircraft, trim capacity by 12 percent, cut thousands of jobs and in a contentious move, require a payment of \$15.00 for each checked baggage item (a move since followed by many other domestic carriers). To drive revenue and volume, American Airlines announced it would seek to create a marketing alliance with Continental Airlines and British Airways. It has also raised its fares on many routes. In terms of its balance sheet, American Airlines has sold its asset-management business, American Beacon Adviser, and is seeking to sell its commuter carrier, American Eagle. A good example in

this industry of a company taking a more aggressive strategy is Ryan Air. It was pretty well positioned coming into this downturn with €2.2 billion on its balance sheet. It is now cutting frequency on some routes to save costs and is negotiating hard with aircraft suppliers for a possible order of up to 400 planes, mirroring the fleet expansion strategy it took after September 11, 2001.

Facing similar dire circumstances is the global automobile manufacturing industry, for which overall sales have plummeted in the past few years. Automakers' responses understandably have been constrained by the limitations of the manufacturing model that represents the industry. In many respects, the automobile manufacturing industry has less flexibility than even the airline industry. It cannot readjust in the short term. Virtually all manufacturers offered discounts on their slower-selling models during the latter part of the half-year in the hope of closing out the second quarter with some momentum. A significant problem for the automobile manufacturers has been their product mix. US consumers have "turned on a dime" and begun acquiring small, fuel-efficient cars while eschewing the previous top sellers—large pickup trucks and sports-utility vehicles. Accordingly, automakers have reduced production shifts, shuttered plants and shed jobs. Yet, despite these moves, engineering, manufacturing and marketing costs remain high and could force some companies to sell or jettison their weaker brands in the short term, and to consider mergers in the longer term.

The Supply Chain Plays a Key Role in Competing Effectively in Uncertain Times

A focus on optimizing supply chain economics is necessarily a key success factor for many companies in uncertain times. This is especially true with respect to responding to the surge in petroleum-based fuel costs. Any company that imports, exports or manufactures goods is going to see significant shifts in the "balance" of their supply chains. Even companies that just consume indirect or maintenance, repair, organization (MRO) materials are affected, as are retailers and other direct-to-consumer entities, forcing them to confront some of the most basic strategic assumptions of supply chain management and look for ways to optimize key supply chain functions so the company can turn a crisis into an opportunity.

Network management: To date, companies have been focused on managing their networks to minimize the capital invested in plants and warehouses. As fuel costs rise there is always an economic rationale to reconsider having facilities located closer to the customer. There is also a need for a more frequent analysis of the fixed versus working capital tradeoff—gathering inputs, rebalancing priorities, developing scenarios and modeling flow paths regularly.

Sourcing and procurement: For most companies, a net-landed-cost analysis will confirm that high fuel costs have affected their purchase of nearly every major commodity. The core issue is the relationship between cost savings associated with "low-cost-country" sources and the rising expense of moving purchased goods from those sources. As transportation costs increase, supply chain activities that are close to market demand become more attractive and dual sourcing strategies become more viable. On the manufacturing side, manufacturing facilities must produce a greater variety of goods, with each plant capable of serving demand in close proximity.

Transportation: To weather the fuel-cost storm, most companies will need a different transportation paradigm that emphasizes better utilization through fewer shipments over shorter distances, with higher quantities per shipment and fewer empty miles. This shift could signal a retreat from fuel-intensive modes such as road and air, and a movement toward slower but more economical choices such as rail and water. Many companies also could opt to replace private fleets with third-party logistics services providers (3PLs) to keep costs down.

Fulfillment: Every facet of distribution is affected by high fuel prices. For example, most companies should revisit the quantity, scope, design and layout of their distribution centers. Many will conclude that the emerging need is for more and bigger distribution centers, located closer to the markets they serve, thereby offsetting fuel costs with higher inventories, and better break-bulk, cross-docking and block-stack capabilities. Of course, many companies will conclude that, even with high fuel prices, the creation of more, larger and more-proximate distribution centers cannot be justified. For this reason, shared- or outsourced distribution services deserve a closer look.

Planning: Changes in supply chain strategies will inevitably shift the balance between fixed and working capital as well cycle times and inventory holds. Synchronizing a dynamic supply chain through an integrated plan will be critical to unlocking the value in the strategies required to deal with new and dynamic economic balances.

Sustainability: At the same time as increasing global demand for fuel is causing higher prices for fuel and causing prices to rise in all manner of products, it is also increasing the size of the world's carbon footprint. It may therefore be that the new supply chain strategies driven by increasing fuel prices will have a positive effect in reducing the world's carbon footprint and in so doing, benefit the environment.

Source: Accenture publication – Robert Gosier, David Simchi-Levi, Jonathan Wright, and Brooks A. Bentz, "Past the Tipping Point: Record oil prices require new supply chain strategies to enable future high performance," 2008, http://www.accenture.com/Global/Consulting/Supply_Chain_Mgmt/R_and_I/PastPoint.htm

Financing Strategies

Financing strategies ultimately mostly have balance sheet impacts. In managing in uncertain times, a balance sheet focus is driven either by the share price impact made possible by share buy-backs or by the need to repair balance sheet damage caused by asset write-downs. From an income statement perspective, financing strategies are mostly about taxation and minimizing cash taxes paid, including considerations of optimizing the net sale proceeds of asset dispositions.

Share buybacks remain high on the corporate finance strategy agenda, although buybacks have slowed in 2008. Standard & Poor's has estimated share buyback activity will continue at a quarterly pace of more than \$100 billion a quarter for the S&P 500 during 2008, with the first-quarter value of \$113.9 billion representing the tenth straight quarter with buy-back activity

exceeding \$100 billion³—albeit down from the record level of \$172 billion the S&P 500 posted in the third quarter of 2007. Financial services sector companies, in particular, have cut back on share buy-backs, with the sector accounting for 12.3 percent of aggregate repurchases in the first quarter of 2008, less than half of their 28.7 percent share in the first quarter of 2007.

Many of the financial services firms caught with exposures to sub-prime real estate mortgage assets have been scrambling to repair their balance sheets. Bank write-downs and capital raisings are substantial. During the period June 2007 through July 2008, write-downs and capital raisings totaled \$317 billion and \$249 billion, respectively, for the world's fifteen most active institutions. We have witnessed some of the largest of the investment

banks seek significant amounts of funding in the first half of 2008. And of course, the second half of 2008 is even more challenging and volatile for the financial markets with the global credit crisis.

In the beverage sector, Carlsberg, the world's fifth-largest brewer, completed a \$6.31 billion (deeply discounted) rights issue in June 2008 to repay loans used to buy its part of Scottish & Newcastle acquired by Carlsberg & Heineken for \$15.18 billion (thus carving up the UK brewer). The rights issue was Denmark's largest ever. To complete this transaction, the Carlsberg Foundation sold its rights rather than acquire new shares—cutting its stake in Carlsberg Brewery from some 82 percent to 30 percent (although it still has voting control of the company through its Class A shares).

Keys to Effective Strategy Execution

Within the frameworks just discussed, it is clear that the responses to uncertain times are indeed proscribed by a company's strategic readiness. Regardless of the strategies that companies employ, those that have benefited most in the marketplace were companies that not only have taken decisive action earlier, and with less clear information, but more important, have been able to effectively execute their strategies. In Accenture's experience, the ability to execute is arguably the most critical factor in whether a company can achieve high performance in uncertain times. And three critical elements in effective execution are having access to the right information at the right time, having the right people with the right skills in the right roles, and managing the organization's people through the change that inevitably accompanies operating in uncertain times.

Enterprise Performance Management for Uncertain Times

Our previous research¹ showed that during a downturn it is critical for high performers to have the necessary enterprise performance management capabilities for making fact-based decisions at speed at the points in the organization closest to the customer, enabling them to out-execute the competition. In fact, less than 20 percent of companies were able to effectively execute their strategies through an economic downturn. This is even more critical in today's business context—characterized by rapidly intensifying globalization that has substantially increased the complexity, risk and uncertainty of doing business. As stated previously, in this situation, two components are critical: the quality and comprehensiveness of

information available to make decisions and the ability to think through the consequences of decision options.

Strategic Planning: Companies will need to be more sophisticated and nimble in managing their portfolios of businesses—different markets growing at different rates, different political and regulatory environments with different risk profiles, different consumer wants and needs, different and emerging competitors etc. Making capital investment decisions will be significantly more challenging as companies go into new markets and need to deal with different risk profiles, assumptions, key drivers of value etc. The ability to make the optimal trade-offs between investment decisions in a mature market with a predictable return vs. a developing market with a more volatile return will be a key

differentiator to high performance. This will offer the opportunity to companies with sophisticated planning capabilities to drive shareholder value with better management of their balance sheet and assessment of risks between different markets, products and geographies.

Planning and Resource Allocation:

The key to planning and resource allocation will be getting a deep understanding of the different drivers of economics in different markets. Also the use of external information to drive a more dynamic reallocation of resources (capital and people) to execute changing plans will be critical. Executing these processes at speed will also be a key source of competitive advantage and the ability to understand drivers of performance and take actions at a granular localized level will be a differentiator.

Performance Monitoring: The ability to monitor key metrics and drivers (internal and external) and take action close to the customer in the specific market at speed will be a key differentiator. This implies a simple performance monitoring capability that is adaptable and flexible by market as well as a higher level of business acumen of the operators in those markets to interpret the information and make decisions at speed.

Integrated Analytics Support: Due to the increased complexity, speed and diversity of business portfolios in the multi-polar world the ability to leverage the analytic skill base and talent in global/multi-national organizations will be very important. Traditionally companies have organized their analytic support capabilities by function (e.g. Finance, Marketing, HR). We believe that this orientation will need to be changed to a skill-based orientation for analytic capabilities

(e.g. basic financial and business analysis, multi-dimensional causal analytics, sophisticated what-if planning and statistical analysis). The geographic location of this talent will be less of a driver.

Talent

Effectively executing strategy eventually comes down to people: a strategy is only as good as the workforce that is charged with making it happen. However, the task of finding and managing talent has become more complex, turbulent and contradictory than ever before. Once-familiar talent pools are drying up as new ones are rapidly opening. These talent trends are creating great challenges for managers and leaders of organizations large and small. In fact, companies today must cope with a world of change and contrast. Talent is globally abundant but scarce locally—a situation that is exacerbated by the fact that there are fewer young people in the workforce and many experienced workers are heading rapidly toward retirement. In many areas of the world, rising demand for new skills is aggravated by demographic pressures and educational shortcomings. There are more diverse and remote or even virtual workforces with different attitudes to work across the generations, as well as a steady change in the nature of work with more and more people working in the fuzzy world of information. These scenarios, in turn, are requiring companies to devise new methods of working and new relationships between users and suppliers of talent. See the sidebar, "Talent Initiatives for Uncertain Times," on page 19 for further insights.

Change Management and Leadership

For most companies, managing through uncertain times requires openness to, and capacity to operate effectively in, an environment of constant change. By definition, uncertain times involve a high degree of instability. So regardless of the strategies employed, companies that are adaptable and can execute change quickly—in other words, have "change management" as an actual competency in the business—are much more likely to achieve high performance in today's global economy. Of course, one of the factors influencing how well a company manages change is leadership. The companies most effective at managing in uncertain times are those with leaders who can set a strong course for the company, inspire the workforce and keep employees focused on business objectives during periods of turmoil and instability.

Talent Initiatives for Uncertain Times

Some of the talent-related initiatives companies can employ to help manage through uncertain times are the following:

- Employing recessionary recruiting by hiring from competitors that are shedding talent during a downturn. Such is the case at Day and Zimmerman, a Philadelphia-based provider of skilled-trades workers to the power industry, which proactively targets those coming off assignment with the military.
- Keeping key talent during a downturn by maintaining regular, proactive contact with employees and providing feedback on performance and career development. International Paper speaks to high performers through one-on-one discussions that are a mandate at the company. Every quarter, managers at every level in the company are required to sit down with salaried employees and talk about their careers and development at the firm.
- Avoiding extreme responses such as salary and hiring freezes or mass layoffs and, instead, adopt performance-oriented reward programs and reduce headcount through natural attrition.
- Promoting an engaging culture to maintain a strong relationship between employees and immediate supervisors, which is a top driver of employee engagement. Holding leadership accountable can be a very powerful motivator to encourage supervisors to pay attention to employee engagement.
- Avoiding gutting the training budget and, instead, only eliminate training that truly is not required.
- More effectively managing risk by shifting from long-term talent forecasts to short-term simulations.



Conclusion

While the focus of this paper has been on short-term action to deal with the current economic downturn, the objective for companies is to make the right choices across economic cycles. As part of Accenture's ongoing High Performance Business research initiative, we have explicitly analyzed the performance of companies during and following key economic inflection points. We have found that many companies wait too long to attempt transformation. High-performance businesses, by contrast, change before they must, knowing that the best way to transform is from a position of strength. Hence, high performers are able to "change ahead of the curve" and differentiate themselves significantly from their competitors. High-performance businesses proactively and continuously transform their operations in a manner which enables them to strategically exploit the opportunities of a downturn while others manage it tactically, often with a

pure focus on cost containment. Often, past choices determine a company's state of readiness for the current economic downturn and corresponding opportunities and threats.

The fundamental issue for companies today is judging the length, depth and pervasiveness of the world's current economic travails. Every company today is forced to make judgments on these three aspects of their immediate and longer-term economic futures. The consequence of these judgments is revealed by the actions that companies are taking in relation to their interpretation of the economic realities that confront them. The questions for companies are about what to do, when, for what intended outcome in a situation where it is highly uncertain whether things could get significantly better or significantly worse, more slowly or more quickly, and where possibilities that are on the table today may or may not be there tomorrow,

or the day after. The considerations of decision making in uncertain times for companies have not been as profound for some decades.

Once a determination has been made, however, the suite of strategic actions that are appropriate will quickly fall into place. Then the truly hard work begins: executing against those strategies as effectively as possible. Without the right information for managing a company's performance, as well as the right people in place given the right direction and guided by committed, inspiring leadership, the most elegantly crafted and well-thought-out strategies will go nowhere. And for companies facing pressure to grow even in uncertain times, the ability to effectively execute strategy will strongly influence whether an enterprise eventually succumbs to the vagaries of the market or, instead, achieves competitive differentiation, market leadership and ultimately, high performance.

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Footnotes

¹Jane Linder, Brian McCarthy, "When Good Management Shows: Creating Value in an Uncertain Economy," http://www.accenture.com/Global/Research_and_Insights/By_Subject/Finance_Mgmt/Enterprise_Performance_Mgmt/WhenEconomy.htm

²Ansoff, H. Igor, 1988, *Corporate Strategy*, revised edition, Penguin Books.

³The largest share buybacks for the first quarter of 2008 were by Exxon Mobile (\$9.465 bn.), AT&T (\$4.071 bn.), Hewlett-Packard (\$2.845 bn.), Procter & Gamble (\$2.554 bn.) and Intel Corporation (\$2.501 bn.). These buybacks were all part of continuing buyback programs for these companies.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With more than 186,000 people serving clients in over 120 countries, the company generated net revenues of US\$23.39 billion for the fiscal year ended Aug. 31, 2008. Its home page is www.accenture.com.

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We have the breadth of experience, global resources, superior assets and deep knowledge and insights to help the CFO create new forms of value. Our extensive research, insight and innovation, global reach and delivery experience have made us a worldwide leader, serving thousands of clients every year, including many of the Fortune 500 companies across virtually all industries.

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