Driving Success in Turbulent Economic Times

Most of the CEOs we have spoken with in recent months see themselves and their companies navigating turbulent economic times.

Many in financial services are moving quickly to manage fallout from the credit crunch. Retail, consumer-goods, automotive, and industrial-goods companies are facing curtailed consumer spending. Technology and telecommunications companies are challenged by ongoing technological revolutions and rapidly shifting consumer choices. Health care companies are dealing with a shortage of new drugs, radical changes in regulatory and payer environments, looming reforms, and skeptical investors.

Even basic materials and energy companies—in some ways seeing the best of times—are feeling enormous pressure to deploy their assets better, solidify their market positions, and manage wide swings in commodity prices.

In working with CEOs, we hear two recurring questions:

- In the face of turbulence, how can my company deliver near-term profit growth and ensure strong economic returns?
- How can I take advantage of turbulence to win?

The challenge is both to drive near-term returns and to leverage the turbulence in order to set a winning long-term course.

Experience shows that there is significantly more near-term economic potential in these times than commonly perceived.

Turbulent times need not evoke only defensive responses: many long-term winning positions have been seized during economic turbulence.

Companies can uncover and realize the potential opportunities of these times by acting on four key imperatives.

Four Guiding Principles for Navigating Turbulent Times

This is management at its most challenging. Of course there are no simple rules, but our experience—and that of the 40 or
so line managers who have been our closest colleagues and friends for the last two decades—suggests that there are four key imperatives that companies should follow.

◊ **Uncover the opportunities—now.** Engage in an immediate and fundamental rethinking of your key business levers. The most important levers for turbulent times vary by industry and company, but applying a subset of the levers described below always has a powerful effect.

◊ **Ensure that the team—and culture—will drive rapid action.** Operate in 6-, 12-, and 18-week increments, not in cycles of 18 to 36 months.

◊ **Aggressively communicate and leverage changes with key constituents.** Actively engage investors, the board of directors, the overall organization, and the community.

◊ **Boldly redeploy the savings and value created.** Identify key opportunities for the future and bet on them selectively yet boldly. This is often the time when winning bets are made.

**Uncover the Opportunities—Now**

To be sure, every business is different. In our experience, however, companies that use turbulent times as the trigger for a rapid-fire, fundamental reexamination of some or all of the following key business levers *always* get dramatic results.

**Asset Rationalization.** At most of the companies we know, one-third of the assets drives nearly all shareholder returns, another third may contribute marginally, and the final third contributes nothing or, more typically, destroys value.

There are understandable reasons why companies are in this spot. But taking a hard look at how assets are used—be they business units, market positions, product lines, or physical property—and at the impact they have often yields major insights or a call to action. Turbulent times create a compelling motivation to take that look.

**Delaying.** The typical *Fortune* 500 company has 10 to 14 staff layers, with many managers overseeing fewer than five direct reports. The most effective organizations have no more than 7 layers and a much broader span of control.

Many companies take 12 to 18 months to restructure. But during that long period, an organization often becomes preoccupied and paralyzed—not a recipe for swift action. With the right leadership and approach, however, delaying can be done in 4 to 6 months, creating in short order a 15 to 30 percent leaner, more agile organization with a management team and structure ready to seize opportunities as they arise.

Turbulent times can provide the imperative and opportunity to confront organizations that aren’t as lean and effective as they could be.

**Procurement and the Supply Chain.** Many CEOs find it hard to believe that taking yet another look at key operational areas, such as procurement and the supply chain, can yield much benefit. After all, don’t most big companies already have large purchasing or supply-chain staffs, including experts trained by industry leaders such as GE? Many have already taken out a lot of direct and indirect costs—how much more could be left?

Our experience is that there is usually a lot left. One chief operating officer we are close to asked, “If there’s still much there to cut, shouldn’t we all be fired?” Eight months later, after his organization had cut more than $105 million in indirect costs and $275 million in direct costs and had aggressively redeployed those savings, his view was different.

Turbulent times created an urgent, focused, cross-organizational commitment to reexamining procurement options—a commitment that had never existed before. This COO’s experience is more typical than not. Successful companies leverage challenging times to drive a fundamental reexamination of key operations, taking advantage of the rare organizationwide appetite for change.

**Nonreflex Pricing.** In tough economies, many companies default to simply lowering prices, often drastically. Rarely is that the right answer.

Our experience is that more aggressive approaches reflecting competitive realities and the true value of products to customers can create a rich combination of significant price reductions and selective major price increases. This combination, in turn, can result in radically improved earnings.

For more than half of our clients, an urgent reexamination of pricing is an essential element of their response to turbulent times.
Driving Success in Turbulent Economic Times

Mergers and Acquisitions. Most companies consider mergers and acquisitions to be a strategy in good times, when they are flush with cash. In truth, deals that take place during periods of below-average economic growth have a higher likelihood of success and typically generate considerably more shareholder value—not surprising when you consider that during turbulent times there usually is much less competition from private equity and other strategic buyers.

Companies that find room in their income statement and balance sheet for acquisitions in lean times have an unmatched opportunity to buy weaker competitors, consolidate markets, and gain share by accretion.

Investments in Core Customers. For most companies, 10 percent of customers account for at least 60 percent—and sometimes as much as 100 percent—of profits. It is critical to ensure that long-term relationships are not jeopardized by short-term reflex actions. Instead, identifying core customers and aggressively investing in them (and potential core customers) can significantly increase market share and profitability in turbulent times.

Ensure that the Team—and Culture—Will Drive Rapid Action

Many companies know how to fundamentally rethink their business. But few have experience turning this thinking into action in a compressed time frame. One key step is to establish new norms for action, demanding definition and execution of projects in 6-, 12-, and 18-week intervals, as opposed to 18 to 36 months.

Sometimes these new norms can be established simply by engaging senior leadership around the key challenges and opportunities associated with economic turbulence. But in some companies—especially larger ones—fundamental cultural change may be required. Even here, though, significant change can occur in a matter of months, not years. What’s needed is top leadership that is willing to address both “soft side” issues, such as beliefs and behavioral norms, and “hard side” issues, such as whom to hire, promote, fire, or designate as heroes, as well as what projects to fund or stop, how leaders should spend their time, what to place on the agenda of key meetings, and which metrics to track.

Aggressively Communicate and Leverage Changes with Key Constituents

Turbulent times generate particular questions, emotions, doubts, and fears among stakeholders. Insecurity builds as things once seen as solid and dependable, such as housing prices, the banking system, and the dollar, suddenly seem vulnerable. This insecurity can threaten stakeholders’ commitment and alignment, which are needed to support the bold actions described above.

Turbulent times require significantly heightened corporate attention to and communication with constituents. CEOs must elicit critical stakeholder concerns and be seen as responsive to them. At the same time, the CEO and leadership team need to communicate confidence about the path forward.

Superior communication skills are not typically cited as a key lever to establish strategic advantage. However, in turbulent times, a focus on communicating can yield an organization and stakeholders that are aligned with the company’s action plans.

This alignment might appear to be a fuzzy benefit, but it can produce real, tangible value—a higher stock price, for example, allowing for acquisitions that might not otherwise be available.

Boldly Redeploy the Savings and Value Created

Many companies commit themselves to cutting costs in turbulent times. Fewer companies activate the pricing, asset rationalization, and other levers described above. Fewer still are bold enough to take the money freed up by these measures and redeploy it confidently.

Yet it is during turbulent times that many of the best opportunities can be found. As noted earlier, companies can build significant market value and fundamental new positions through acquisitions and through investments in core customers.

Similarly, if a company can identify those organic market-building activities that offer real opportunity—whether in developing new markets, new products, new advertising, or new sales organizations—and is willing to invest boldly, it will establish a position that will be unassailable when slower-moving competitors react months or years later.
This is not the time for leisurely looks at the future. Rather, our experience is that companies that find important bets for the future and invest deeply in them will set themselves up for years of strength.

The future is not predestined. Bold actions by strong management teams will define both near-term performance and long-term trajectory. Actions taken during the turbulent times that we face today will define the winners (and losers) of tomorrow and for years to come. In short, companies that learn how to take advantage of the “tide in the affairs of men” will find their fortune.

Steve Gunby
Ron Nicol

Steve Gunby is a senior partner and managing director in the Washington office of The Boston Consulting Group. Ron Nicol is a senior partner and managing director in the firm’s Dallas office.

You may contact the authors by e-mail at:
gunby.steven@bcg.com
nicol.ron@bcg.com

To receive future publications in electronic form about this topic or others, please visit our subscription Web site at www.bcg.com/subscribe.

© The Boston Consulting Group, Inc. 2008. All rights reserved. #441 6/08