



SURVIVING (AND THRIVING!) IN TOUGH TIMES

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Taking Action

Here are some ways you can reduce your risks and increase your chances of success:

1. Clarify your key drivers of value, and identify how these are affected or changed by current economic conditions.
2. Know exactly how and where your company makes its money. Being aware of the wider profit pool associated with your market will alert you to opportunities that relate to your core business.
3. Ensure that you have a strategy in place and, more importantly, that you have explored the internal and external business environment thoroughly, with attention to risks and opportunities. Scenario planning would be helpful.
4. Check that the various layers of your business have detailed plans for implementing the strategy.
5. Craft a communications plan that will guide both internal and external communications, most importantly aligning and maximising the value of the human capital available to the business.

Belt tightening or strangulation?

If inaction is a risky response when the economy turns sour, then the *wrong actions* are without doubt even riskier! Executives don't deliberately set out to shoot themselves in the foot by doing the wrong thing. So what causes these damaging errors of judgement?

From our research and what we've noticed with many UGM clients, it seems that a common, even knee jerk, response to any whiff of 'recession' in the air is to secure some urgent financial gains by stripping out layers of the business, reducing head count and initiating strict cost cutting measures. Sound like good moves? The trouble is you need to know how, why and what adds value if you're going to engage in belt tightening, not strangulation!

The two vignettes below illustrate how ill-conceived cost cutting can damage the core. When this is compounded by poor implementation, weak communications and a lack of focus on the company's human capital assets, then you pretty much have all the ingredients in place for a disastrous downward spiral. Evidence from previous recessions proves that industries are reshaped in tough times, with some businesses emerging as leaders and others disappearing altogether. As one wit put it, "In times like these, the strong get stronger and the weak get eaten."

So that begs the question: what does it take to be 'strong'? This month, we focus on that question and offer you a simple way of assessing how you're going so far, together with a roadmap to guide you to success, despite the downturn.

But first – do these case studies ring a bell with you?

Case Study 1

Carol, an executive coaching client of ours in a large global business (we'll call it Helpcom) rang to vent her frustration about what was going on in her company. She had secured a key new client and a national contract, worth \$15 million over the next three years. Carol had appointed Jim, one of her direct reports, as client relationship manager and asked him to deal with this new client directly and personally. She chose Jim because of his specific expertise and track record. The only trouble was Jim worked out of the company's Canberra office, while the client was located in Sydney. But a blanket ban on all travel at Jim's level meant that three months into the new contract Carol had been unable to secure a return airfare from Canberra to Sydney for Jim to connect in person with the new client -- as the client demanded. Result: a disaffected client who had already begun to search for ways to get out of the contract.

Case Study 2

A second story concerns a client of ours in Queensland who described the interesting (but perhaps unorthodox) way they had just acquired a

significant new hire. It emerged that Bill, their newly appointed Sales Manager, had come knocking on their door for a job as a result of getting fed up with the randomness of the cost cutting regimen he had been forced to swallow at his previous company (a rival firm). The following story unfolded. It seemed Jim had been informed that he had to meet a new, higher sales target by securing new work emerging in Cairns. But all expenses at his level had been cut, as were incentives and bonuses. For two months, Bill drove in his own vehicle, paying for his own petrol, on a Sunday, from Brisbane to Cairns to fight for the work there. Finally, Bill decided 'enough's enough'. He resigned and approached a rival company (our client) where he was hired at once. Thus Bill's original company lost the new business in Cairns as well as a high performing and committed sales manager.

Tough times are unforgiving of errors

What's fascinating about these two real-life stories is that the companies concerned 'shot themselves in the foot'. They went after the laudable goal of 'frugality in tough times', but ended up undermining their critical sources of business value. Their ill-conceived attempts at reducing risk made the business more vulnerable. Ironic!

Just about any senior manager can appear to be competent when the economy is booming. The work flows in, cheap capital is easy to secure and growth assured. As one of our clients put it, "Even the proverbial drover's dog was able to succeed before the bubble burst!" Management mistakes are erased (or at least masked for a while) by growth. But tough times are essentially unforgiving, separating the imposters from those who really know what they're doing. Right now, sound decision-making will swiftly separate the sheep from the goats in any management group.

Five key questions to help solve your problems and minimise your risk

At UGM, we use a range of questions to help our clients structure their thinking during problem-solving and decision-making sessions with us. We've included 5 questions that would have avoided, or at least minimised, the risks identified in the two case studies.

1. What are your key drivers of value?

Over and over, we're seeing that it's those clients with a thorough knowledge of the exact levers that drive value in their business who are set to weather this period and, indeed, capitalise on the opportunities it presents.

Are you able to list the four to seven key drivers of value in your business? For example, in our case study, client relationships were of critical importance in creating Helpcom's value. The renewal of

contracts, in particular, often hinges on the quality of the client-supplier relationship. The blanket travel ban simplified the cost-cutting regime but risked damaging long-term profitability.

Understanding your drivers of value will certainly help you distinguish between muscle and fat when you're doing the cutting! Does your list of key value drivers correspond with how your colleagues see the business? How would your list compare with one drawn up by colleagues in different parts of your business?

2. Where and how do you make your money?

In a buoyant economy a shotgun approach to resourcing is usually affordable and effective enough. But in tough times, efficiency is critical. Scarce and costly resources need to be deployed with precision. To make every shot count, you need to know exactly which targets will deliver the greatest value.

Bill's former employers no doubt came to recognise his value, and the folly of their unwillingness to support his initiative, when they examined the next quarter's sales figures. Although Bill didn't generate the largest order book, the business he did win proved to be the most profitable by far. Our experience at UGM is that business leaders can think they know where their value is generated but, on closer scrutiny, they're often surprised to discover they don't!

So, just where and how does your business make its money, and how is this being affected by changed economic circumstances?

3. What is your strategy?

We agree with recent commentary that for most businesses complex, long-term strategic plans are about as useful as short-lived fads.

But the single page SWOT analysis, gathering dust in the drawer, won't cut it either! The strategy process needn't engage vast resources for an extended period of time, but it should deliver a strategy that has deeply and creatively considered the firm's internal and external environment. Basic scenario planning, for varying market conditions, is also valuable when there are so many unknowns. The strategy should be readily adaptable to continuously changing circumstances. Market turbulence will present great opportunity for some businesses that are able to adapt to the new rules that come into play.

Jim's trip to Canberra ought to have been tested by whether it was 'on' or 'off' strategy. Cash flow and cost containment are certainly critical success factors in lean times, but they shouldn't detract from general investor preference: build value – don't just cut costs to mask deeper problems.

4. What are your detailed plans for strategy implementation?

If Bill's visits to Cairns had shown up in detailed plans that prioritised developing the lucrative Cairns market, his trip would never have been in doubt. The Human Capital Strategy implementation plans would also have listed Bill as a key resource, critical to core business and expensive to replace. But the problem was none of those implementation plans were ever developed in any level of detail.

Without clarity and detail, the only reason human and financial capital align with strategy is good luck. Benefitting from a bit of luck is one thing but having luck as a key driver of value in your business is another. And relying completely on luck should be unthinkable!

Perhaps that's why some give their implementation process so little thought. Research shows that having a detailed plan for strategy execution is just as important as having a strategy in the first instance.

Do you have those plans in place at your level? Do those plans exist for *all* areas of your business?

5. What does your communication strategy look like?

While some businesses, such as energy companies and airlines, are financial capital intensive, the human capital value in many modern businesses far outweighs the investment in plant, machines and tools. 'People costs' can range from between 40% to 60% of the total cost of doing business. Virtually all businesses rely on their human capital to realise the value of all capital investments.

In a nutshell, businesses create their value through their people. So it's surprising how few organisations communicate their strategies to their people, with even fewer still developing communication strategies to support them. Yet, if the strategy is not communicated widely within the business, it is unlikely to realise its value, and statistically will probably end up on the scrapheap of wasted resources and missed opportunities. Research tells us that, on average, 35% of value is left on the table. In the current economic climate, can we afford to leave *any* value on the table?

How is the strategy and implementation plan communicated to your people? Does your business have a formal communications strategy, with its own set of metrics, timeline, planned reviews and capability analysis? □

How likely are you to succeed? Take the test below to find out.

This test focuses on a number of key areas which impact on the probability of business success and failure. If you are unable to answer any one of the questions satisfactorily, and you'll have a good sense of that, there is increased risk of diminished success. You should also be concerned (and take action!) if your answer differs from those of key colleagues, as your business is exposed to the risk of wastage through non-aligned and possibly competing efforts and messages through the business. Every ounce of energy spent on internal conflict is an ounce less energy available to direct towards achieving targets.

Key Question	Your Answer	Key Colleagues	Commentary
What are your four to seven key drivers of value?			Are you readily able to list these drivers? How does your list compare with those of senior colleagues? How many in the business would list these same drivers?
Where and how do you make your money? (focus here is on \$s profit rather than revenues)			Businesses often place a higher emphasis on revenues than on profits. But high revenues may not equate to profitability. Are you focusing scarce resources on the right things?
What is your strategy?			Are you able to clearly and succinctly outline your strategy? How far down the line does that go? If people don't know about it, how can they make critical choices that align their actions with a common strategy?
Are there detailed plans for strategy implementation for all levels?			The proof of the pudding really is in the eating! No matter how good your strategy is, it only delivers value when it's implemented! Does everyone have clear plans for strategy implementation?
What does your communication strategy look like?			How will you be communicating with stakeholders? Do you have an overall communications strategy and a plan for implementing it?