

Leading through a downturn

The Recession Playbook

Presented by:



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Welcome

Where are you joining us from today?



Let us know
in the chat!

Leading Through a Downturn

Objectives of the overall experience:

- Align leaders around the right signals and analytics to monitor their business unit/function and take proactive steps.
- Help prioritize and sequence different 'plays' which can be subsequently supported by company executives.
- Identify how to mitigate or manage risk by taking a hard look at their value chain, market dynamics, competitors, and customers to shift focus to higher priority opportunities.
- Energize leaders to take deliberate actions to leverage cross-BU/function strengths.

Today: Introduce the 3 Foundational Pillars to successfully lead through a downturn

Downturns generally create major inflection points for risk and opportunity



Downturns **bring risks of making mistakes** and unique **opportunities to take advantage**, creating winners and losers



More winners in the downturn than in the stable period (19% vs. 13%)



Companies usually make more **dramatic gains and losses** than during boom times, depending on shape of recession



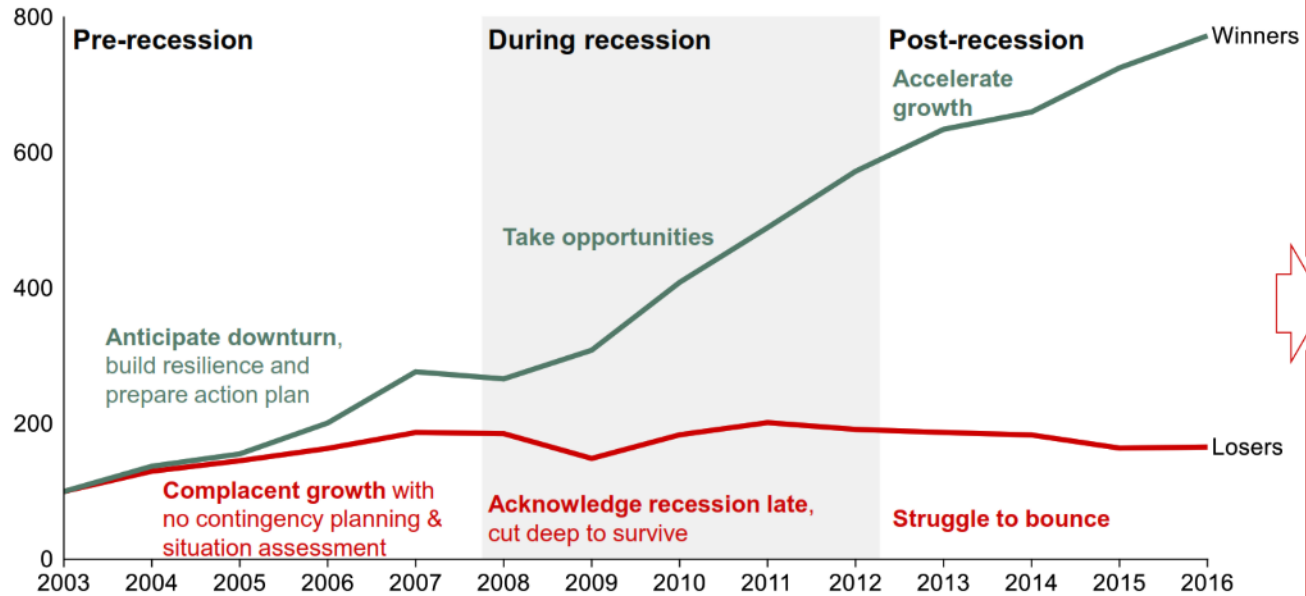
More losers in the downturn than in the stable period (9% vs 4%)



Downturns of all types are a great **time for strategic repositioning**, if approached right

Successful companies can accelerate growth and enter a virtuous cycle in a downturn

Nominal EBIT (indexed 2003 = 100)



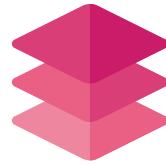
Acting early allows thoughtful consideration of readiness measures and recession opportunities

Note: Winners / losers analysis based on operating margin % within each FTSE industry sector; companies were allocated into quartiles (1st – bottom to 4th – top). Winners are companies that moved from 1st to 3rd / 4th quartile between beginning and end of period; similarly, losers moved from 4th quartile to 1st / 2nd. Includes UK FTSE 350 listed companies with annual revenue >£500M
Source: Bloomberg

What we have learned so far...



Preparation is paramount – nearly 70% of the economists surveyed believe that the NBER will make this call at some point in 2023



Alignment is key – even the best laid plans won't get executed if everyone is not on board. Great alignment comes after healthy debate and inclusion



Focus on making sound business decisions – all the fundamentals of running a good business hold steadfast even in a downturn



Recession amplifies VUCA – preparation and decision making practice is key to navigating a Volatile, Uncertain, Complex and Ambiguous environment



Leaders own driving the right mindset – leading in a downturn requires greater empathy, resilience, and reassurance in addition to greater communication, inclusiveness and transparency



Leadership is contextual – what is best for one business unit may be very different than another. No one recession play applies universally to all businesses or business units

Commander's Intent

Commander's Intent is the **description and definition of what a successful mission will look like**. Military planning begins with the Mission Statement that describes the **who, what, when, where, and why** (the 5 W's) of how a mission will be executed.

- Commander's Intent describes how the Commander (read: business leader) envisions the battlefield at the conclusion of the mission. **It shows what success looks like.**
- Commander's Intent **fully recognizes the chaos, lack of a complete information picture, changes in enemy situation, and other relevant factors** that may make a plan either completely or partially obsolete when it is executed.
- Commander's Intent **empowers initiative, improvisation, and adaptation** by providing guidance of what a successful conclusion looks like. Commander's Intent is vital in chaotic, demanding, and dynamic environments.
- But not **HOW...**



Commander's Intent: aligning the key players and team members on the *who, what, when, where, and why* of your organization's goals and objectives, empowering them to execute *how*.

<https://hbr.org/2010/11/dont-play-golf-in-a-football-g>

Navigating through a shock: 3 Foundational Pillars



#1 Get REAL Alignment

Align on **signals** to monitor as you navigate through the downturn

Align on **3-4 key plays** you will make when you notice the signals

Align on **prioritizing and sequencing** plays to mitigate and downturn



#2 Take a Good Hard Look at Your Entire Value Chain

Identify your **vulnerabilities** and quantify your exposure

Stress test multiple scenarios and consider multiple options

Minimize and mitigate the biggest risks first



#3 Get Even More Customer Obsessed

Gain insights on shifting customer priorities early and often

Monitor trends driving the future and implications of their intersections to your business

A close-up shot of a hand holding a black starting pistol, with the runners in the background blurred. The scene is set on a blue athletic track under bright, natural light.

*Ask Your Team – “How do you know **when** it’s time to make the decision/play?”*

Pillar #1: Get REAL Alignment

We believe that great alignment is achieved with a clear picture of success while fully recognizing the chaos, lack of a complete information picture, changes in competition, and other relevant factors that may make a plan either completely or partially obsolete when it is executed. Alignment is to empower subordinates and guide their initiative and improvisation as they adapt the plan to the changed environment. It empowers initiative, improvisation, and adaptation by providing guidance of what a successful outcome looks like. Alignment is vital in chaotic, demanding, and dynamic environments.

$$E = A \times M \times C$$

Execution = Alignment x Mindset x Capability

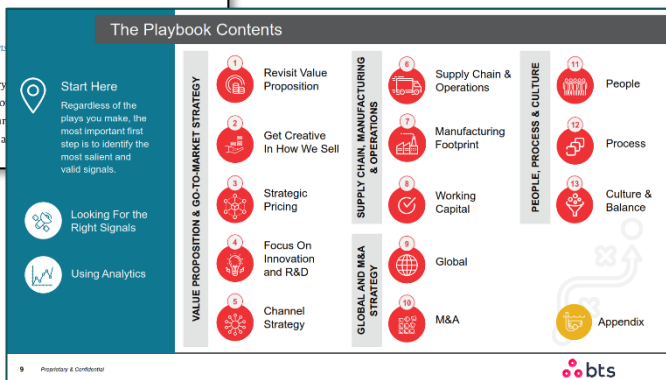
80% of leaders in leadership positions today were not in leadership roles during the last recession. That means leaders need to build the capability (knowledge and skills) to make sound choices and tradeoffs in a downturn.

STRATEGY EXECUTION
Manage Uncertainty with Commander's Intent
by Chad Storlie
November 03, 2010

Harvard Business Review

This post is part of an HBR Spotlight examining leadership lessons.

How does your team respond when a plan changes? Does every... confusion, a lack of meaningful activity, or people standing around... Planning is difficult whether in business or the military. Military... element to help a plan maintain relevancy and applicability in a... environment.



Recession Playbook

We have found that the collective wisdom of your most senior leaders, especially those who have navigated recessions in the past, paired with some external research, can be a sufficient source of plays for protecting and growing revenue, reducing costs and improving asset efficiency.

Looking For The Right Signals

Before a downturn hits, companies that are attune to market and customer changes can spot weakness earlier than their competitors, and are better positioned to take action to prepare the business for impending change in market climate.

Signals to consider and discuss with your teams

- Is there increased price sensitivity from customers?
- Are customers not hiring or reducing headcount?
- Are customers pushing out payments?
- Is procurement teams from customers taking longer to process contracts or taking longer to approve orders?
- Is your revenue run rate flattening or decreasing?
- Are customer funding sources (e.g., academic, government, VC) drying up?
- Are customers asking for value options?
- Is our consumables business seeing price pressure while volumes stay steady? Is there an overall weakness in our consumables business?
- Are you seeing a strong discrepancy between historical instruments vs. consumables orders?
- Are smaller deals staying small and are we struggling to land large deals?
- Are we witnessing increased layoffs in our clients or in our competitors?
- Are we weak...
- Are we...
- Is the...
- Is sp...
- Are t...
- Are t...
- Are t...

We tend to focus on signals that tell a story about the world as we would like hardest to measure, even when they pose the greatest threat. Ask yourself!

...The Playbook IS a resource to start to harvesting ideas with your team, get alignment, and cue up decisions based on agreed upon signals.

...The Playbook IS NOT a pre-set menu of options for a leader to deploy when he/she determine a downturn is imminent or occurring.

Potential Plays...

- Implement a hiring freeze and evaluate if the organization is appropriately staffed
- Look for ways to use short-term furloughs to reduce costs but retain employees, skillsets, as well as loyalty and moral
- Preserve employee morale, productivity and loyalty by focusing on operational efficiency over headcount reductions
- Consider temp staff and contractors prior to recession for more operational flexibility
- Accelerate offshoring to lower cost regions
- Focus on talent development; look to expand roles and give employees opportunities for growth and new experiences
- Wrap your arms around your top talent. Keep them engaged, provide coaching, and give them broader scope to accelerate their development
- Lure top talent away from your competitors who may be in trouble. Develop a list to watch and work with HR to attract them
- Look for ways to future proof the organization by hiring talent and skills we will need in the future (data science, digital marketing)
- Reconsider organizational pyramids to reduce the number of people who do not add value in making or executing decisions

Trade-offs to consider...

- Temp staff could be costly in the short-term and the skills developed are not retained
- Hiring after a recession could be harder than anticipated and you might miss the opportunity to scale up
- By avoiding headcount reduction, we avoid future rehiring costs and retain institutional knowledge
- Freezing hiring may erode capability, hurting the value you provide to customers
- Caution - Avoid overloading top talent with extra work needed to lead through a downturn. These are the people your competitors want
- Don't paralyze organization by overanalyzing, business still needs to run - where are your most important/critical roles? If the division is stuck in analysis paralysis on expense reports, headcount, etc., speed and morale suffer
- Communicate constantly to ease anxiety on the team. New processes, change, and even new analyses on the business should be clearly communicated





Pillar #2: Take a Good Hard Look at Your Entire Value Chain

Sound business and financial acumen still counts. This is nothing new. You still need to grow top line, manage costs, invest wisely, deploy cash judiciously, keep a close eye on your working capital. In a downturn, your vulnerabilities get exacerbated and any mistake will be amplified because TAM is shrinking and competition is increasing. Value chain means you look at all the components: Customers > Market Trends > Suppliers > R&D > Manufacturing and Production > Sales & Marketing > Distribution > Service & Support all together.

How You Create Value

It's important to look at your entire value chain together with your leaders and how you create shareholder value. Look closely at your revenue versus margin contribution, volume versus value of your customer segments, your full cost structure, and all their interdependencies.

Risk Storming

The human brain is better at anticipating risks and challenges than successes – so we use that. In groups, leaders brainstorm risks, consolidate like risks and 'grade' them in terms of likelihood and impact. Finally, leaders identify the biggest risks and start thinking of ways to manage and mitigate them.

How to spark ideas using the Free Cash Flow (FCF) Tree

Focus on the bigger picture

All decisions need to drive value. FCF is most correlated to share price.

Don't forget to run your business

Use the FCF Tree to remember the key drivers.

Remember to take a balanced view

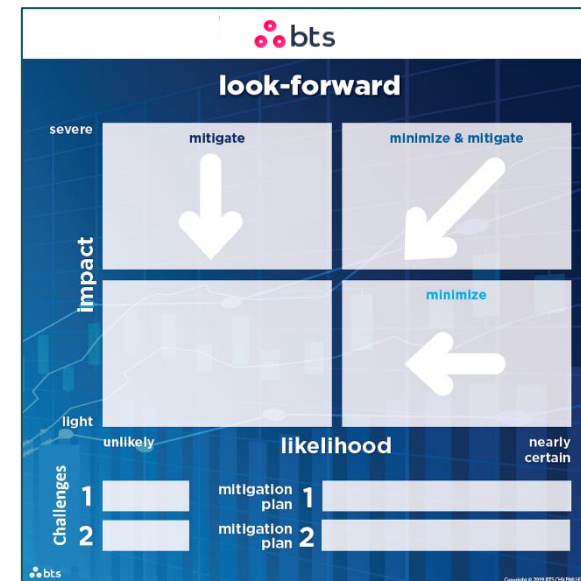
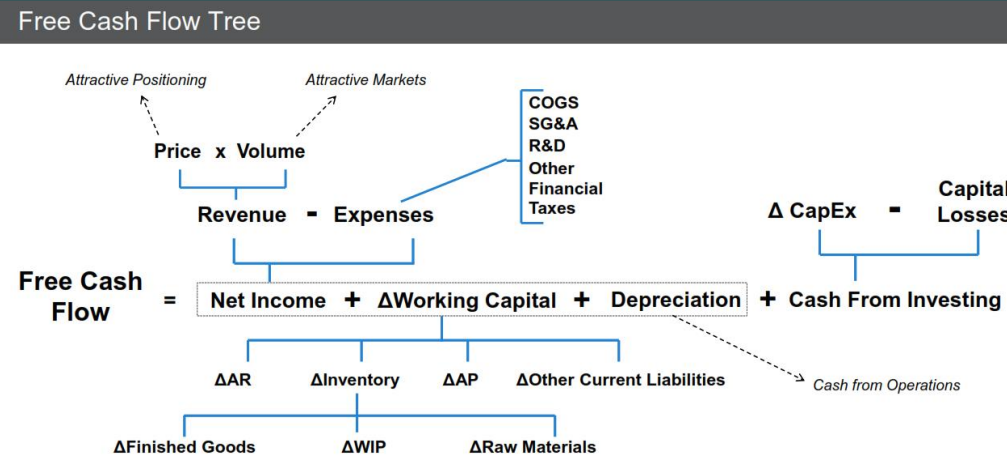
We are here to maximize long-term value.

There are many ways to drive value

Increase revenue, reduce costs, improve working capital, and other elements that drive FCF. Some are more important than others.

Quantify the benefits

Plays that may take large investments to achieve a marginal gain while smaller plays may have a larger impact.





Pillar #3: Get Even More Customer Obsessed

A simplistic way of looking at a recession is just thinking of it as a shift in the voice of your customers. They don't simply stop buying products and services – they may have other priorities like preserving cash, innovating for a different future, delighting and retaining a unique set of their customers, shifting their own products and services, minimizing risk, etc. Recession is also not universal – a slowdown in one segment may be overshadowing potential growth opportunities in another.

Insights From The Field

If you want to know what those shifts are for your customers, you need to get closer to them. Increase frequency of getting their input, involving them in your decisions even more, getting insights from the field where your people are interacting with your customers daily.

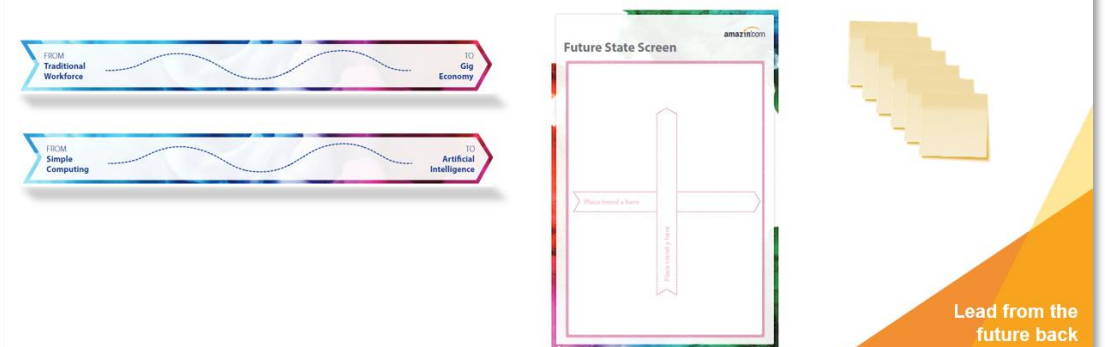


Future Storming

We help your leaders “see around corners” by doing a *Leading from the Future Back* exercise. Identify the biggest trends shaping your space, explore intersections of those trends and explore ways you may exploit those intersections so that you come out of recession positioned for stronger growth than competition.

Lead from the future back

- 1 Explore assumptions about the future
- 2 Consider possible future states
- 3 Identify which future states could matter

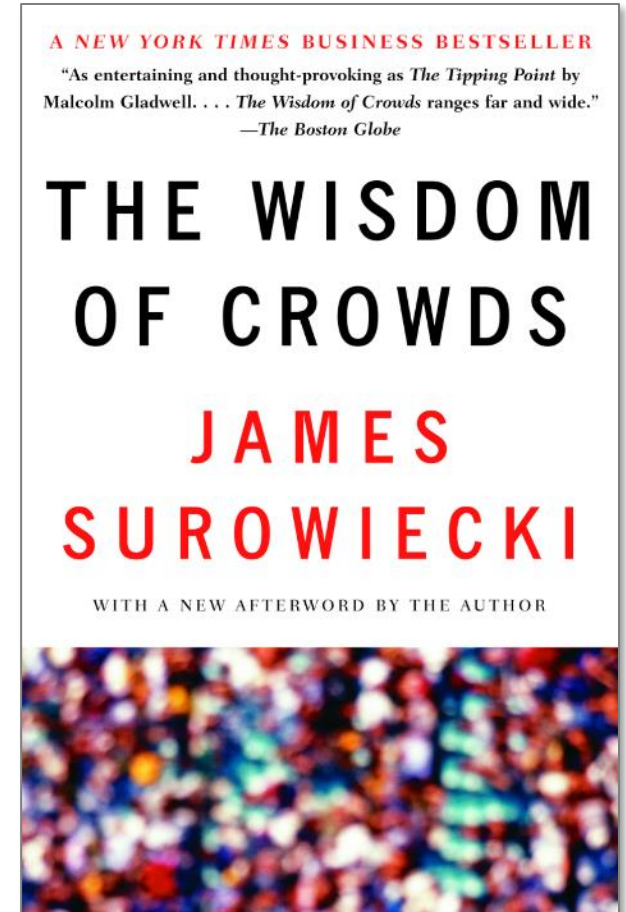


The Wisdom of Crowds

Five elements required to form a wise crowd

Not all crowds (groups) are wise. Consider, for example, mobs or crazed investors in a stock market bubble. According to Surowiecki, these key criteria separate wise crowds from irrational ones:

Criteria	Description
Diversity of opinion	Each person should have private information even if it's just an eccentric interpretation of the known facts.
Independence	People's opinions aren't determined by the opinions of those around them.
Decentralization	People are able to specialize and draw on local knowledge.
Aggregation	Some mechanism exists for turning private judgements into a collective decision.
Trust	Each person trusts the collective group to be fair.



One combination has the greatest likelihood of producing post-recession winners:

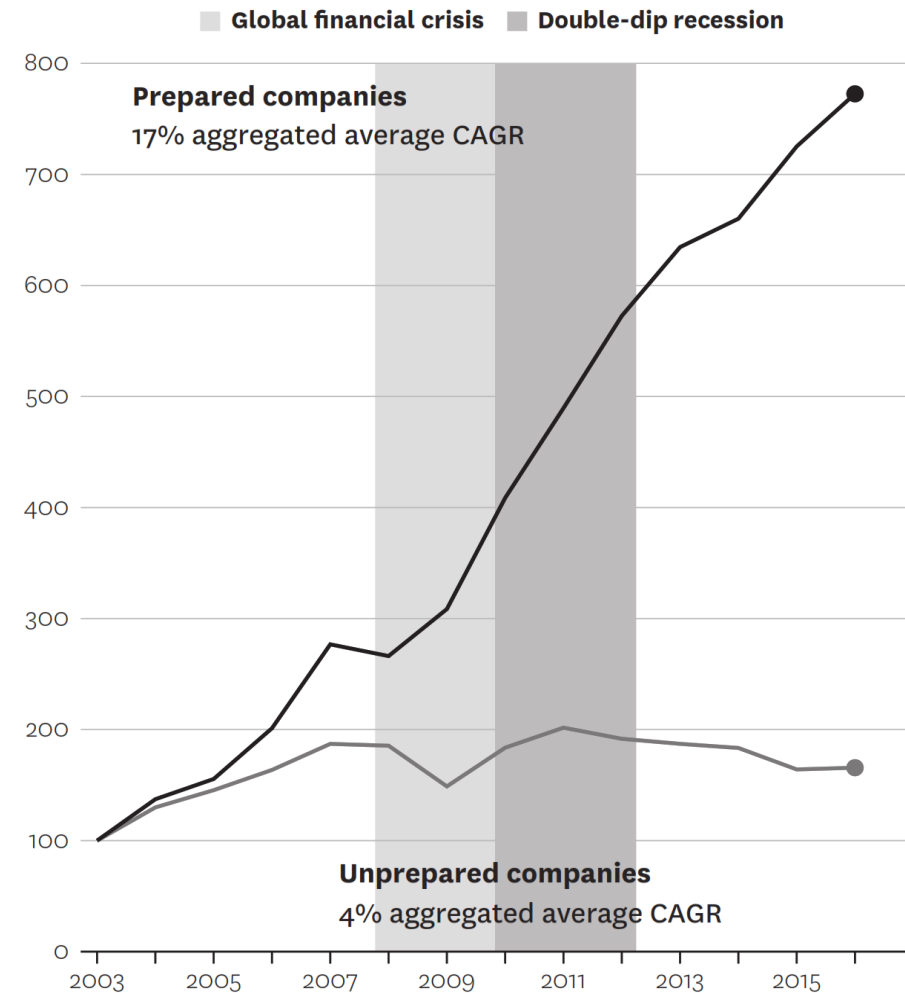
the one pursued by progressive enterprises.

These companies' defensive moves are selective. They cut costs mainly by improving operational efficiency rather than by slashing the number of employees relative to peers. **However, their offensive moves are comprehensive.** They develop new business opportunities by making significantly greater investments than their rivals do in R&D and marketing, and they invest in assets such as plants and machinery.

Their post-recession growth in sales and earnings is the best among the groups in our study.

- HBR: "Roaring out of Recession"

Aggregated average EBIT indexed to 2003






Source: Bain analysis of Capital IQ data. Includes 388 prepared companies and 3,113 unprepared companies worldwide.
















Leading Through a Downturn

Your Recession Playbook



The Playbook Contents

-  **Start Here**
Regardless of the plays you make, the most important first step is to identify the most salient and valid signals.
-  **Looking For the Right Signals**
-  **Using Analytics**

VALUE PROPOSITION & GO-TO-MARKET STRATEGY	 1	Revisit Value Proposition	SUPPLY CHAIN, MANUFACTURING & OPERATIONS	 6	Supply Chain & Operations	PEOPLE, PROCESS, CULTURE & LEADERSHIP	 11	People
	 2	Get Creative In How We Sell		 7	Manufacturing Footprint		 12	Process
	 3	Strategic Pricing		 8	Working Capital		 13	Culture & Balance
	 4	Focus On Innovation and R&D		 9	Global		 14	Leadership
	 5	Channel Strategy		 10	M&A		 Appendix	

Talent Plays (Example)

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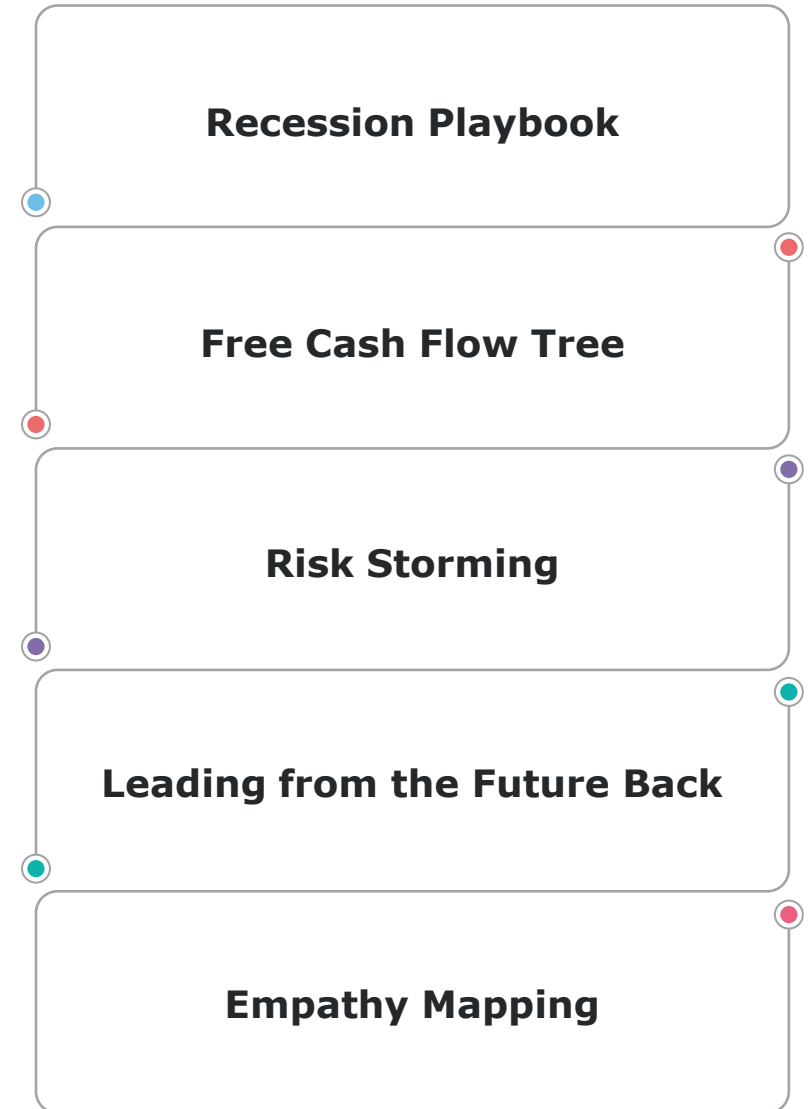
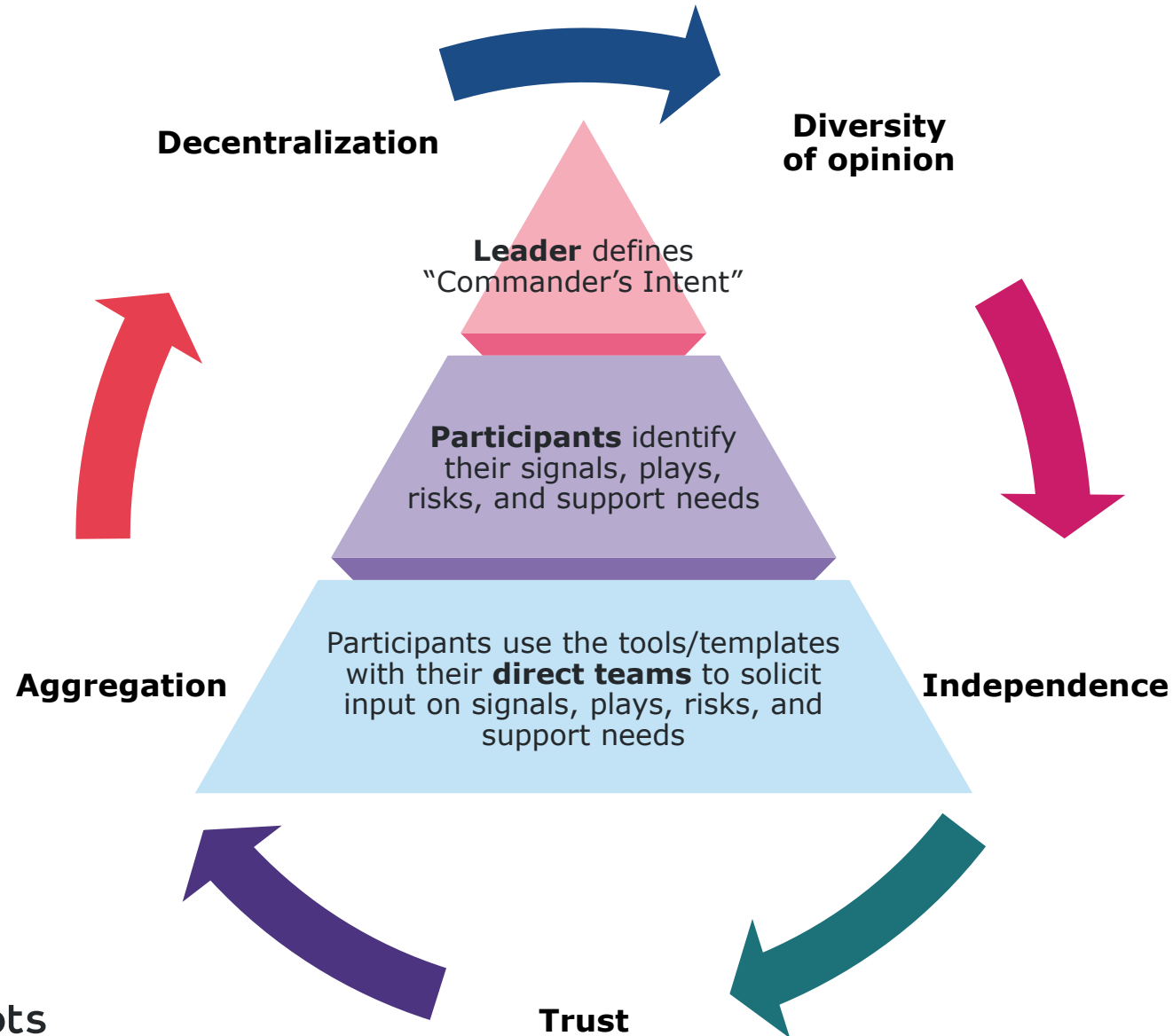
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Leading out of the Recession – Virtual Journey Overview

Two Webinars Followed by Inter-session Go-Dos



Getting Aligned and Leveraging “The Wisdom of Crowds”



Thank you.

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Appendix

Additional Links

Leadership:

[Commander's Intent](#)

[The Wisdom of Crowds](#)

Risk Management - [The Psychology of Risk](#)

Risk Management – [Eye of the Beholder: Understanding the Psychology of Risk Perception to Improve Risk Management](#)

Improve your Business Acumen: [Marketplace.org](#) and [Marketplace Podcast](#)
[Planet Money](#), Planet Money [Podcast](#) and The Indicator [Podcast](#)

Recession:

Bain & Company: Beyond the Downturn: [Recession Strategies to Take the Lead](#)

Bain & Company: [Preparation Is Key to Winning in a Recession](#)

HBR: [How to Survive a Recession and Thrive Afterward](#)

Tools and Insights:

[Bain & Company Insights](#)

[Deloitte Insights](#)

[Deloitte Enterprise Value Map](#)

Inflation:

Chief Executive: [Leading Through Inflation: A Playbook By Ram Charan](#)