

Leading Through a Downturn

Event Summary

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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 prioritise 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
- Energise leaders to take deliberate actions to leverage cross-BU/function strengths



Downturns generally create major inflection points for risk and opportunity

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



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

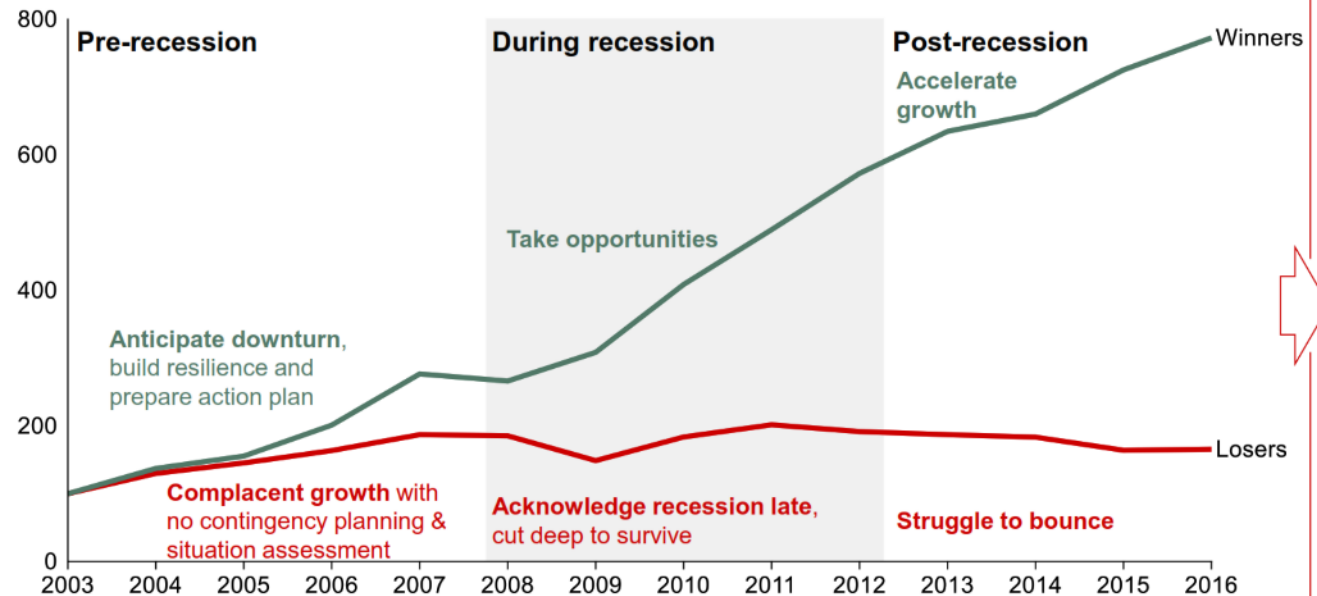


More losers in the downturn than in the stable period (9% vs 4%)



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

Nominal EBIT (indexed 2003 = 100)



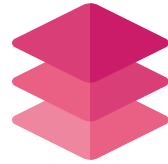
Acting early allows thoughtful consideration of readiness measures and recession opportunities

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.

Leading Through a Downturn: Delivery Options

Option 1

90-minute Keynote



Introduce the
3-pillars, Signals,
and Plays

Option 2

3 to 4-hour Working Session



Keynote followed by
team alignment on
Commander's Intent,
Signals, Plays and
Risk Storming

Option 3

2-week Journey with Inter-Session Go-Do's



Customised Playbook +
Strategic Planning with
Commander's Intent, Signals,
Plays, Risk Storming, Empathy
Mapping, and Leading from the
Future Back Exercises

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 **prioritising 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

Minimise 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

Pillar #1: Get REAL Alignment

We believe that great alignment is achieved with a clear picture of success while fully recognising 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 to make sound choices and tradeoffs in a downturn.

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.

STRATEGY EXECUTION

Manage Uncertainty with Commander's Intent

by Chad Storlis
November 03, 2010

Harvard Business Review

The Playbook Contents

- Start Here
- Looking For the Right Signals
- Using Analytics

1 Revisit Value Proposition	6 Supply Chain & Operations	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	
5 Channel Strategy	10 M&A	Appendix

9 Proprietary & Confidential

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?

We tend to focus on signals that tell a story about the world as we know it, the hardest to measure, even when they pose the greatest threat.

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

People

People make up a large portion of our expense budget. A recession might force the organization to consider our overall people strategy.

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

...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.



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

Don't forget to run your business

Use the FCF Tree to remember

Remember to take a balanced view

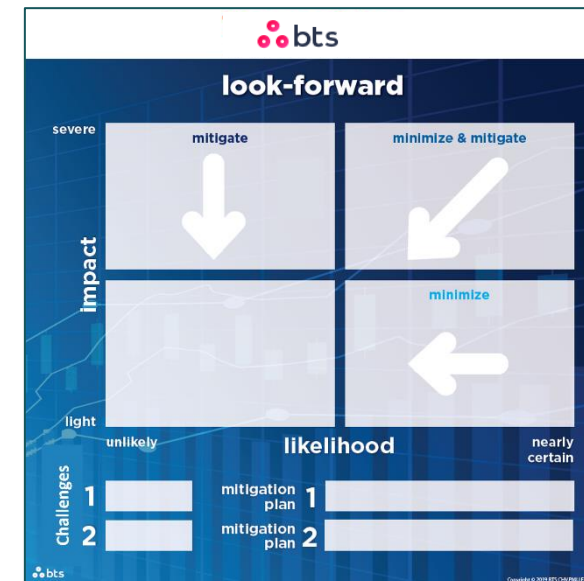
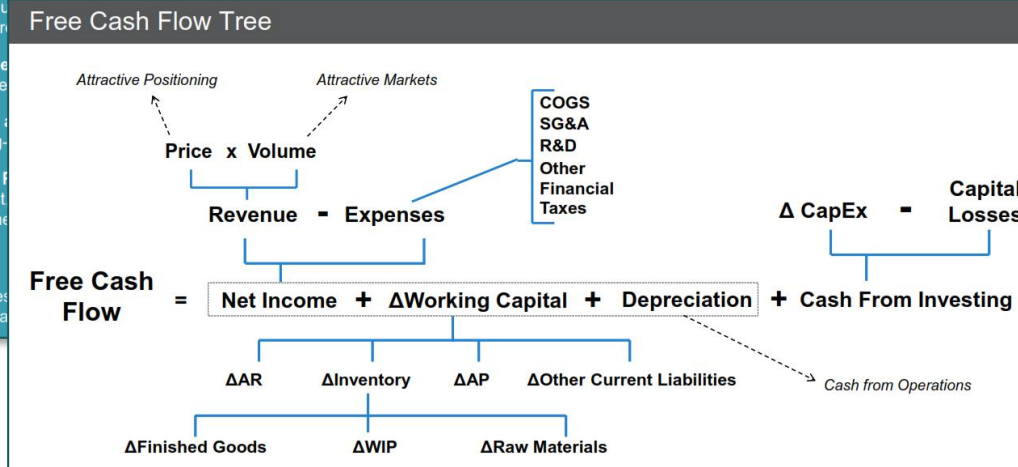
We are here to maximize long-term

There are many ways to drive value

Increase revenue, reduce cost elements that drive FCF. Some others

Quantify the benefits

Plays that may take large investments for marginal gain while smaller plays





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, minimising 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.

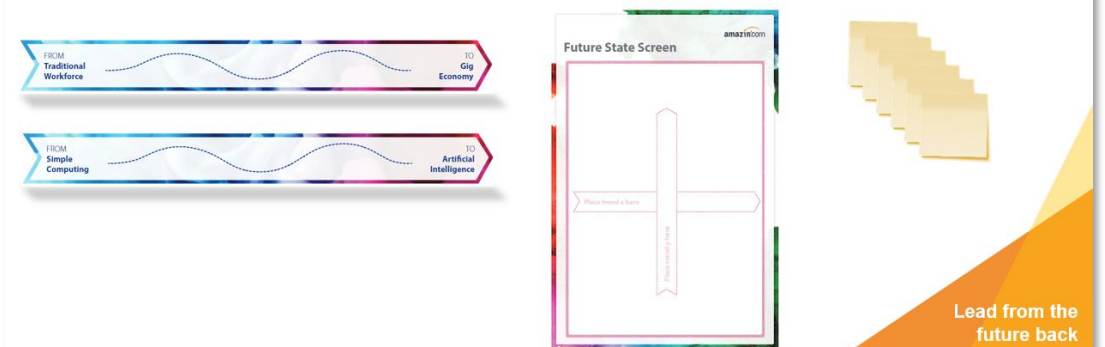


Future Storming

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



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 Ws) of how a mission will be executed.

- Commander's Intent describes how business leaders envision their markets at the conclusion of a strategy cycle. **It shows what success looks like**
- Commander's Intent **fully recognises the chaos, lack of a complete information picture, changes in competitive landscape, 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 organisation's goals and objectives, empowering them to execute *how*.

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

What Makes a Good Signal



- Start with Data that you can **trust** and **verify**
- **Stay open-minded** to the possibility of needing additional data and analytics to make better sense of the signal
- Use '**5 Whys**' to move up the chain of **leading indicators**
- Ask: "Can I rely on these signals for BOTH **going in** and **coming out** of a downturn?"
- Have a **bias for action/decision**; consider how you will move from... Data > Knowledge > Insight > Action/Decision

Example signals...

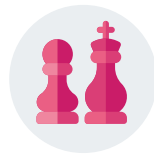
Suppliers: Inventory levels of critical components for your suppliers increasing, suppliers offering discounts to offload inventory, easier/harder to source materials

Specific Consumer or Customer Confidence: Indicators of customer willingness to make investments in their own growth and, in turn, meeting their customer needs

Employee sentiment: How your employees are feeling about their work, what they are hearing from customers in the field, their ability to rise up and deliver

My expert neighbour, uncle/aunt, friend: You may need to dig deeper to gain insights and do some analytics, but recession is a great time to welcome insights from any source that you can

What Makes a Good Play



Strategic actions you will take to lead through the downturn...

Triggered by signals

It's ok for plays to 'cease, accelerate or redirect' business as usual initiatives

Be specific

Make the plays actionable so that it may be easily understood and delegated

Prioritise

Be clear on which plays are more pivotal than others; which require *flawless execution* versus others that can tolerate some margin of error

Sequence

Not all plays need to be enacted at once. Be clear on which ones come first

Don't obsess too much over the HOW

Plays are strategic and, by their nature, may involve initiative, improvisation, and adaptation

Example plays...

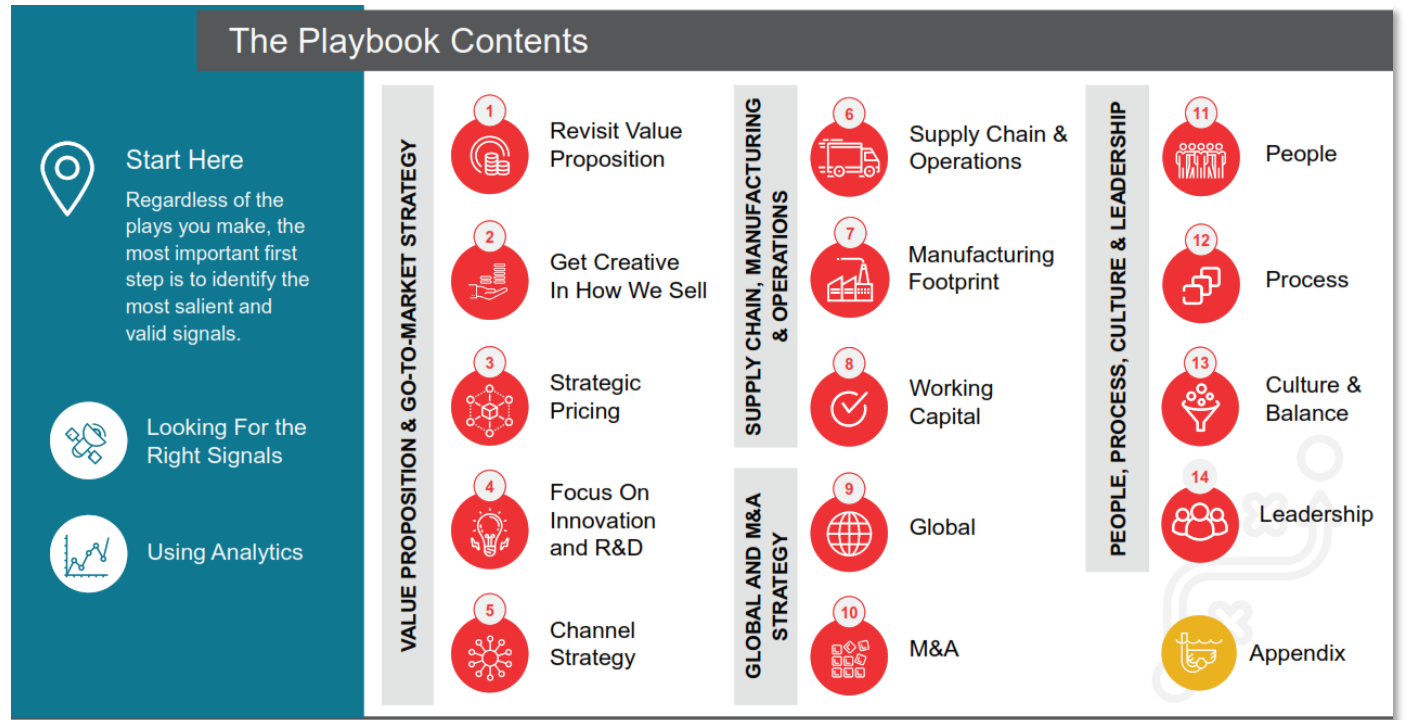
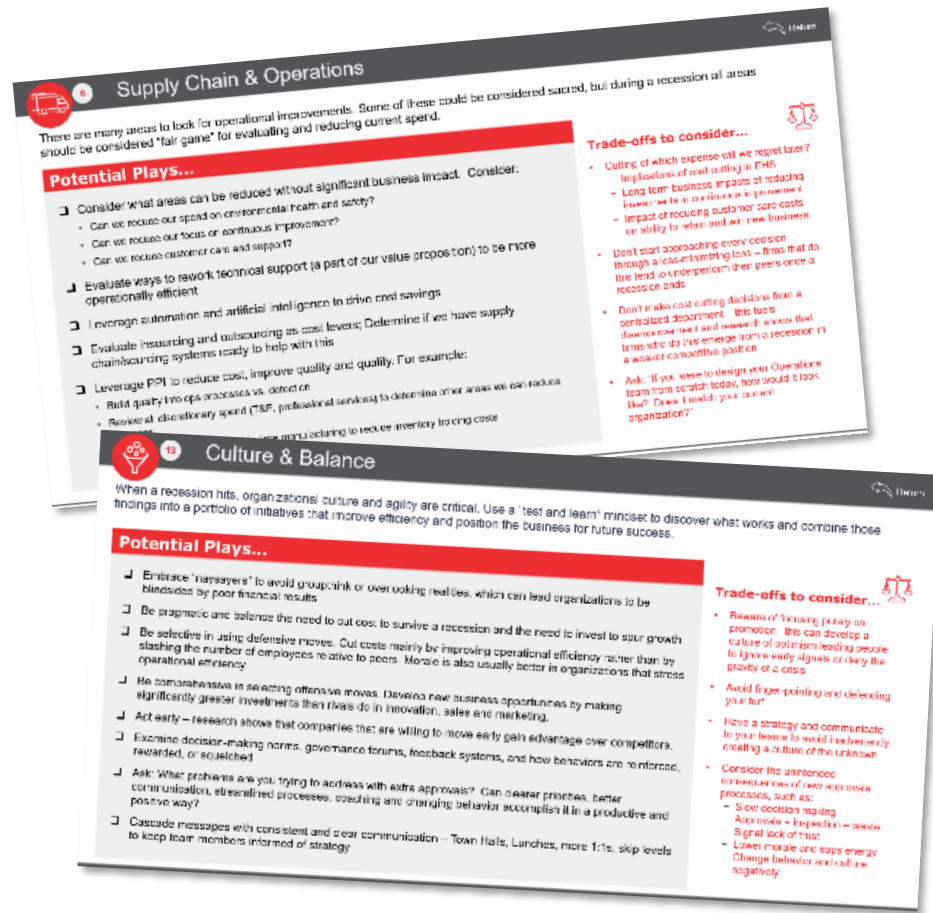
Strategic pricing: Where possible, sell wider bundles of products and services to ensure tighter customer integration and a broader overall customer stickiness

Go-to-market: Look for ways to better geographically disperse inventory to offer clients with tight budgets the ability to get smaller orders faster

M&A: The acquisition of talent in areas we need to build out (one example – using M&A to acquire a company with a strong China inside sales team)

Leading Through a Downturn

Example Recession Playbook



To discuss further...

**Please reach out to your
BTS Account Manager**

or

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Thank you.

Strategy made

personal

