

# The Executive JOURNAL™



THE CORPORATE L.I.F.E. CENTRE INTERNATIONAL INC.

## Succeeding in the New Economic Environment

A recent study by IBM Institute for Business Value identified the early winners in the current economic environment and then studied each of these companies and the strategies that led to their success.

Many companies without the cash reserves and fundamental strength do not survive such periods. At the same time, history shows that even in periods of tremendous financial turmoil, some companies do come out as winners. Today, many of the early winners are focused on value-oriented customers, entertainment and opportunities in such industries as life sciences, telecommunications and the environment.

What separates the winners from the rest of the pack in times like these? What strategies and characteristics can be emulated and applied today across diverse industries, regions and competitive positions?

According to this study, most of the early winners demonstrated the power of having a strategic vision that can thrive in even the toughest times. Businesses that are performing well - even in these economic straits - are employing three common strategies: focusing on value, exploiting opportunity and acting quickly.

### 1. Focus on value

Winners go beyond marginal cost-cutting and take a strategic approach to doing more with less, based on robust transparent information. They focus on core value drivers for clients and the company, and target value-oriented customers who will stay with them through the downturn. Others are using technology in innovative ways to slash prices by introducing revolutionary new business models.

They have sustainable strategies that emphasize long-term value. Many financial institutions performed well by avoiding high-risk offerings such as sub-prime mortgages, and instead held to low-risk lending principals.

How and where companies cut costs has a long-term effect - far beyond the current downturn. Some of the key elements of this strategy which successful companies need to deploy well in times of uncertainty:

- 1.1 Do more with less**
- Cut costs strategically
  - Conserve working capital
  - Protect cash reserves
  - Increase flexibility, responsiveness

### 1.2 Focus on the core

- Create value for clients
- Reduce non-core costs
- Shift from fixed to variable costs

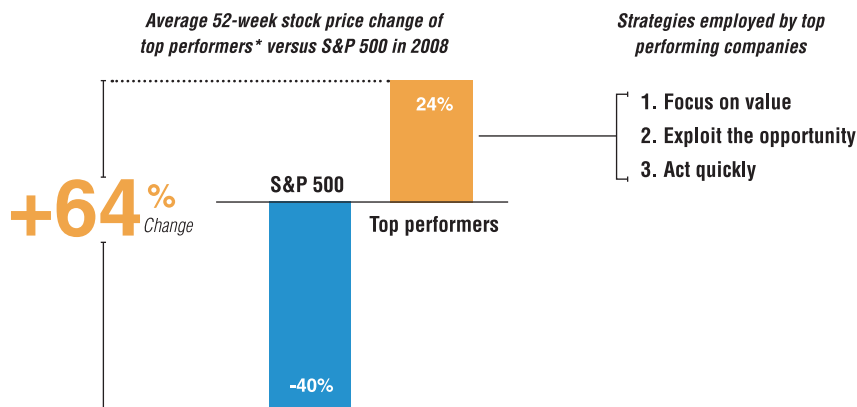
### 1.3 Understand your customers

- Target value-oriented customers
- Reduce complexity

### Some questions which help identify the company's readiness to deploy the above elements of the strategy:

Have you taken urgent steps to protect revenue, conserve cash and reduce costs while developing and implementing a more strategic approach to such issues?

### Firms that outperformed the S&P 500 in 2008 share three common strategic themes.



\* Performance period spanned December 21, 2007 to December 18, 2008. Criteria for top performers (n=61) included those with market capitalization greater than US\$1.4 billion and a 52-week stock price appreciation of more than 5 percent.

Source: IBM analysis of data from Google Finance.

Do you know which businesses, markets, products and customers contribute the most value, growth and profit to your business? Which are not aligned closely to your business strategy and should be cut?

Have you reviewed and prioritized your initiatives so that you can not only survive but also seize the opportunities presented by the new economic environment?

Are you making your costs more flexible? Are you considering new workforce management strategies or innovative business models to achieve this?

Have you reassessed your partnering strategy and relationships? Are you clear about which partners are strategic and which are commodity based?

### 2. Exploit Opportunities

The winners are not satisfied with survival; they seize market share from faltering competitors, build future capabilities for the next wave of growth and even transform their industries through new business models. High-value and low cost acquisitions can play a key role in this.

Another key area of opportunity is growth through innovation, transforming existing industries or introducing new offerings in emerging industries. Early winners in this area spanned life sciences / biotech, electronics, environmental quality and telecommunications.



Some of the key elements of this strategy which successful companies need to deploy well in times of uncertainty:

## 2.1 Capture share

- Disrupt weaker competitors
- Focus on growth markets
- Acquire bargain-priced assets

## 2.2 Build future capabilities

- Protect and acquire critical talent
- Establish corporate infrastructure for growth
- Invest in innovation

## 2.3 Change your industry

- Understand your place in new environment
- Pioneer new industry approaches
- Exploit new revenue models
- Cultivate strategic partnerships

### Some questions which help identify the company's readiness to deploy the above elements of the strategy:

What is your company's competitive context (supply, demand, barriers to entry), and where do you fit?

What new business models are likely to emerge in your industry, and are you working to get there ahead of your competitors?

Are you watching other industries for concepts and business models that could transform your market?

Do you have the right team - especially your top talent? And do they believe in your strategy to survive and succeed?

What capabilities do you need to develop to be ready for the upturn, and do you have a robust plan in place to develop them?

If you had the cash, which companies and assets could you buy to change the game? Or could you be someone else's acquisition target?

**3. Act quickly**, with the agility to respond ahead of, or at least to keep pace with, rapid changes in the new economic environment. The new environment will favor the fast and agile. The urgency of the current situation can actually provide a unique opportunity to overcome organizational inertia and barriers to strategic transformation. Transformation has never been easy, but in this environment it may be more possible than is usually the case.

According to the study, the ability to take requisite actions depends on having superior change management capabilities, strong leadership and robust risk management.

Some of the key elements of this strategy which successful companies need to deploy well in times of uncertainty:

## 3.1 Manage change

- Overcome the "change gap"

## 3.2 Empower leaders

- Establish strong, aligned leadership
- Communicate strategy clearly and often

## 3.3 Manage risk

- Reduce risk and increase transparency

### Some questions which help identify the company's readiness to deploy the above elements of the strategy:

Does your organization have a consistent, tried and accepted method for change management that is applied to every project?

Does your organization invest in building change management skills that can be leveraged across projects?

Are there processes and technologies in place that allow people to become involved in the change, to access accurate information and to provide feedback?

Do your leaders share a common view of the future of the industries in which you operate? Of your own and your competitors' strengths and weaknesses? Do your leaders agree on where your organization needs to go?

Do you understand the risks you currently harbor? Do you know how vulnerable you are to changes in your current operating environment?

How transparent is your current management information? Are you confident you are tracking the variables that give you an accurate picture of the health of your company and the risks facing it?



### From surviving to thriving

Some companies will not survive these uncertain times. For the strong, however, the current period may actually present rare, possibly once-in-a-lifetime opportunities. In order to seize them, companies must first establish financial stability in the short term.

But the winners will also invest for the medium and even long terms. As preconditions for success with this, companies will need to achieve:

- A robust understanding of how the transformation will impact their industries as well as allied industries.
- A keen appreciation of their own core competencies and how these can be leveraged to take advantage of emerging opportunities and profitable innovation.
- Committed and aligned leadership with a clear strategy for creating sustainable competitive advantage so that their enterprise can move as swiftly as current circumstances demand.

Note: This article has been extracted from an in-depth study by the Institute's research team. IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. The study, which is available on the website, is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value.

Source: IBM Institute for Business Value.