



A Survival Strategy for Extreme Economic Turbulence

March 2020

www.bevingtongroup.com

Business Model Design • Process Improvement • Change Management

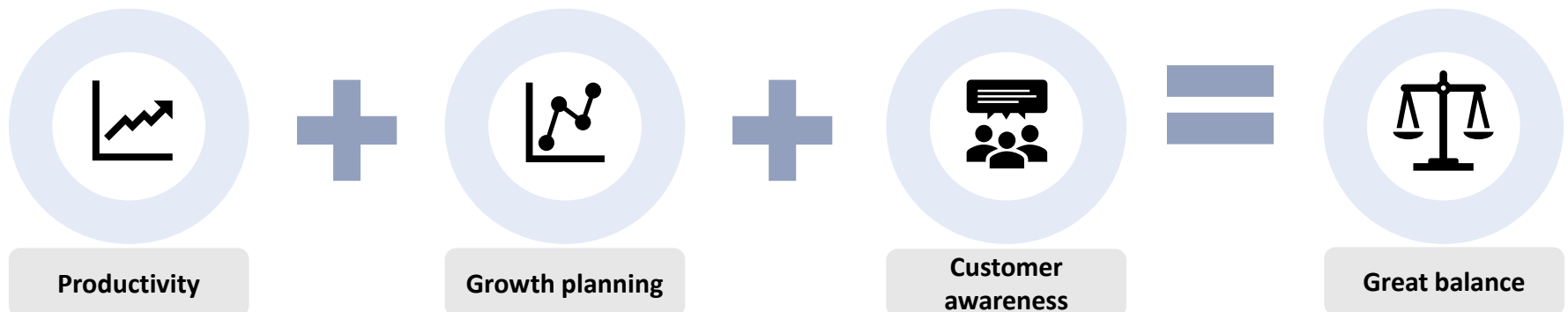
US, Australia and NZ patents apply to XeP3, Canadian patents pending
© Copyright Bevington Group. All rights reserved.

In a period of extreme economic turbulence, how do we lead our organisations through the crisis?

- ❑ Markets are suffering, the world is in a state of high anxiety, supply chains are being disrupted and many companies are already being driven into deep losses
- ❑ In short, we are in a period of ***extreme market turbulence***
- ❑ ***How do we lead our organisations through the crisis?***
- ❑ Fortunately, the world does have plenty of ***experience*** and ***research*** to draw upon
- ❑ This presentation will reference the best of ***contemporary thinking*** and provide ***practical advice*** from the front-line of restructuring

Industry research reveals that adopting a “Balanced Response” should be considered

- ❑ Following the GFC three respected academics (Gulati, Nohria and Wohlgezogen, 2010) conducted invaluable studies on the best ***coping strategies*** during economic turbulence. Further analysis and research have validated the findings, which turn out to be ***very practical***
- ❑ It seems that strategies which only focus on ***cost cutting***, as opposed to ***productivity improvement***, experience ***sub-optimal outcomes*** as the world normalises
- ❑ Furthermore, those that fail to ***invest in growth*** risk being left behind in the recovery
- ❑ The best response is one that combines a ***productivity focus*** (done with a sense of urgency) with ***targeted growth investments***, all whilst keeping an eye on ***changing customer needs***
- ❑ We will call this superior approach the ***“Balanced Response”***



What are the risks of cost cutting too deep and too fast?



This implies taking out people without taking out the work (as would be the case in a productivity project)

Furthermore, reducing staff, without understanding what they do, can increase risks

It is also true that companies can have lower levels of morale in times of massive redundancies.

- This can lead to poorer customer experiences as service standards drop or mistakes happen

- This is a problem in a world where risk management has become so much more important, and in which regulators are making sure we understand that fact

- If people are more concerned about keeping their jobs than responding creatively to the crisis, then you can be worse off than your (more prudent) competitors
- If you want loyalty from staff in the good times, it helps to show them that you are not going to drop them in the bad times

What early actions will be necessary – remember that there is a difference between cost reduction and productivity



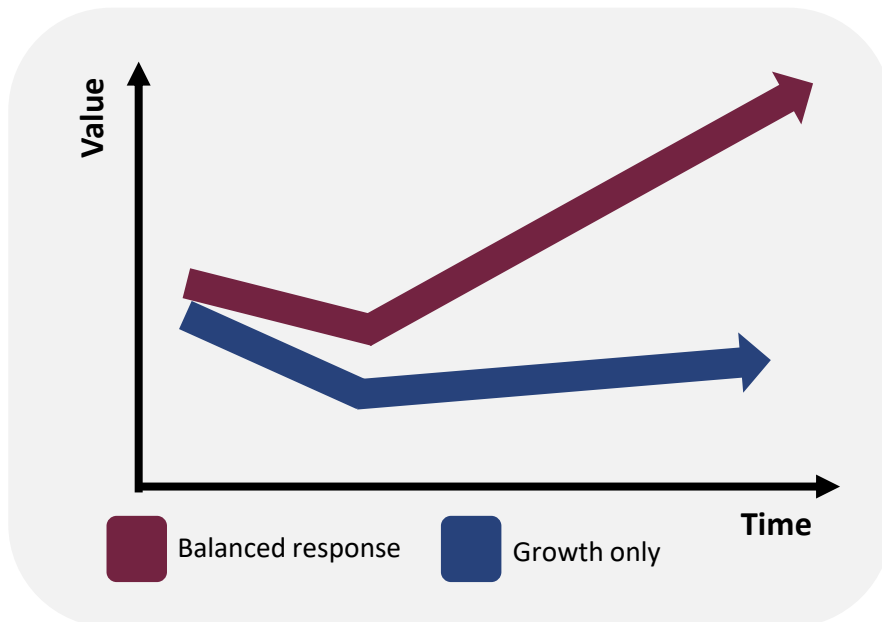
- Productivity reduces costs but also increases margins in a way that is **sustainable** when **growth returns**
- Productivity may actually **lift service levels**



- Cost reductions can get you through in the **short term**, but cost reductions may **damage service standards and morale**, and **impact recovery**

The research also found that organisations which only chased growth investments (i.e. they ignored productivity) also did poorly

- ❑ While they may have slowed the decay of the revenue line, their higher cost-to-income ratios eventually put them at a disadvantage to those who pursued a Balanced Response
- ❑ Furthermore, whilst they benefited from buying assets at reduced prices to support growth, many of them did not deeply examine the changes in customer needs (e.g. customers in leaner times might be more interested in “value” than in product “bells and whistles”)
- ❑ In effect they became overly focused on the growth story *at the expense of the customer story*



“Balanced response” strategy fared better on EBITA increase than “Growth only” strategy

Customers' needs will change – we need to keep an eye on them



Get a Mortgage

Cathy Billings - First Time Home Buyer

“Buying a home for the first time is a bit overwhelming.”

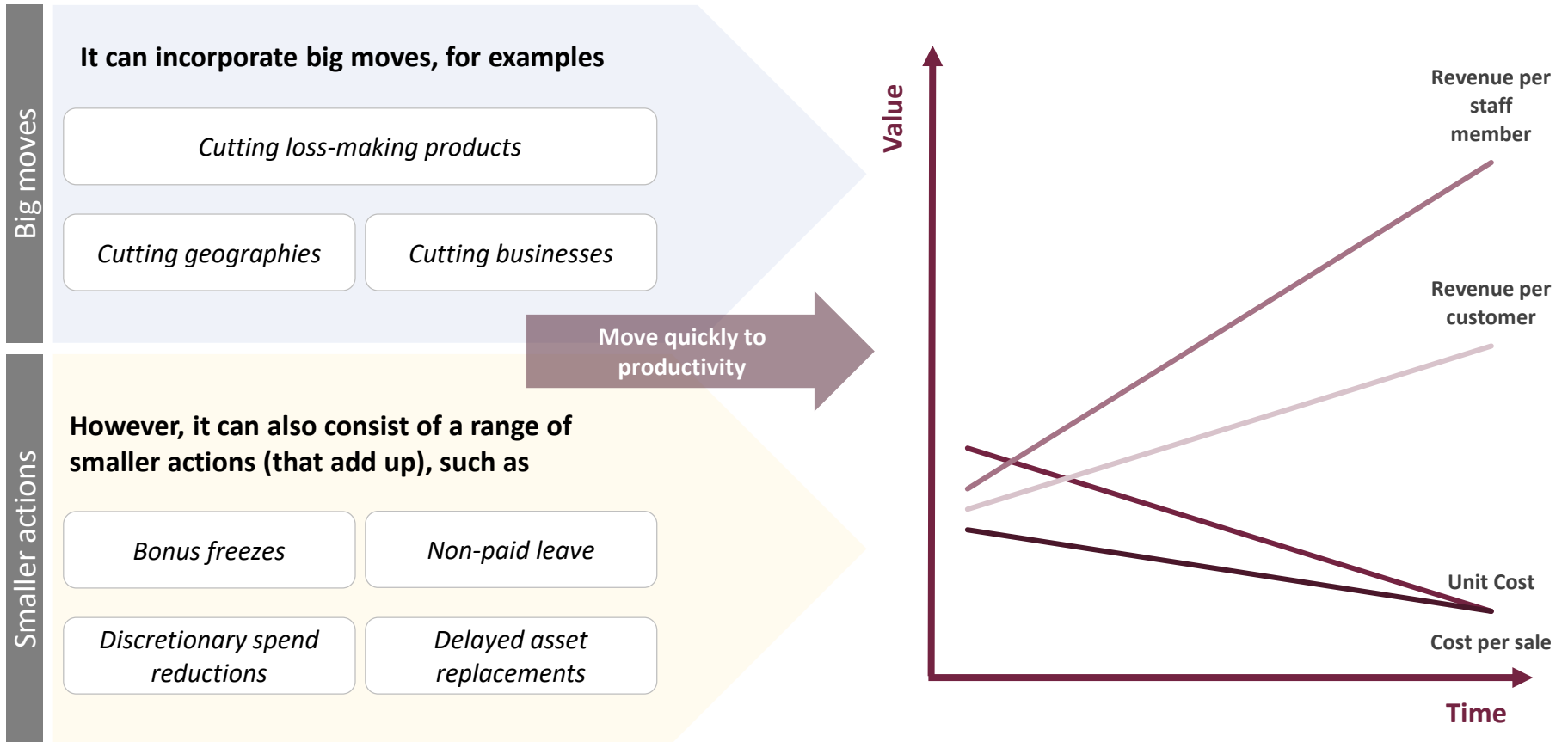
Phases	Research and Learn			View Rates and Loan Options		Get Prequalified	Apply For A Mortgage	
Actions	Search for help learning about the mortgage and home buying process. Get answers to questions like: How much home can I afford? Is my down payment enough? What are points?	Watch a video on how the home buying and mortgage process works Calculate how much home I can afford.		Ask Friends for mortgage lender recommendations on Facebook. Review pros and cons of loan options. Talk to a Loan expert on the phone.	Review rates for different loan options. Lookup the definition for PMI. Get a loan estimate.	Create an online account and apply for pre-qualification. Go home shopping and make an offer.	Sign in to the website, fill out the mortgage application. Upload Documents and read disclosures. Sign Documents and pay for appraisal. Check mortgage approval status.	
Channels								
Thinking & Feeling	So excited!!! Worried and nervous. How much home can I afford?	These calculators not helpful. I hate doing math in my head! Frustrated		Should I get a fixed or adjustable rate mortgage? Confused That payment is great!	Thrilled	Impatient When do I get my prequalification? Happy I found my new home!	Why do I have to enter the same info over and over? Irritated There are too many websites and passwords Relieved	
Experience Ratings	Positive	Negative	Mixed	Positive	Positive	Negative	Mixed	
	Watch Mortgage Video	Use Calculators	Find Answers	Call Loan Officer	Compare Rates	Get Estimate	Get Prequalified	Apply for Mortgage
Opportunities	Walk the buyer through the process with simple steps. Keep the videos, they are popular with millennials. Put the most popular calculators front and center.	Redesign the calculators to be simple, and don't make people guess what to enter or do math themselves. Add links to most useful articles.		Add reviews from real customers. Provide clear next steps.	Save data from calculators and prefill loan estimate, or prequalify app. Include the benefits of getting a mortgage with your bank.	Make sure getting prequalified is a prominent call to action. Set expectations about the time and information required to get preapproved.	Use single sign in, prefill info from the customers account if they are already a customer.	

Source: Benko, K. (2020). How to Use Journey Maps to Design Digital Experiences. Retrieved from: <https://www.tandemseven.com/experience-design/how-to-use-journey-maps-to-design-digital-experiences/>

So, if a Balanced Response is the right way to go, how do we go about executing on the challenge? Well, there are really four components to this strategy



Rapid cost reduction is the first step for many companies, and it is often necessary



All of this is fine, but what you really need is productivity



1. Rapid tactical cost reduction of redundant activity or obvious waste

There are rational short-term options which can (and should) be addressed in the early stage of the crisis

Immediate Tactical

- ✓ Target based reduction (e.g. budgets)
- ✓ Temporary closure
- ✓ Discretionary spend reduction
- ✓ Cash flow management actions (e.g. supplier terms)
- ✓ Service level adjustments
- ✓ Aggressive inventory management
- ✓ Software licensing adjustments

Direct staff cost reductions

- ✓ Temporary pay cut / move to part-time staff
- ✓ Leave without pay
- ✓ Bonus suspension
- ✓ Furlough / Standing down staff (but only as required by cash flow demands, e.g. airlines)
- ✓ Contractor / Staff mix
- ✓ Emergency redundancies
- ✓ Recruitment freezes

Soon Tactical

- ✓ Procurement reviews and renegotiation (rate and volume)
- ✓ Channel switching (e.g. customer acquisition)
- ✓ EBA re-negotiation (for cost and productivity)
- ✓ Contract re-negotiation
- ✓ Product rationalisation
- ✓ Geographic consolidation
- ✓ Rapid restructuring (business consolidation and delayering)
- ✓ Operational efficiencies for utilisation and realisation
- ✓ Asset ownership models
- ✓ Asset utilisation (and urgent consolidation)
- ✓ Waste reduction

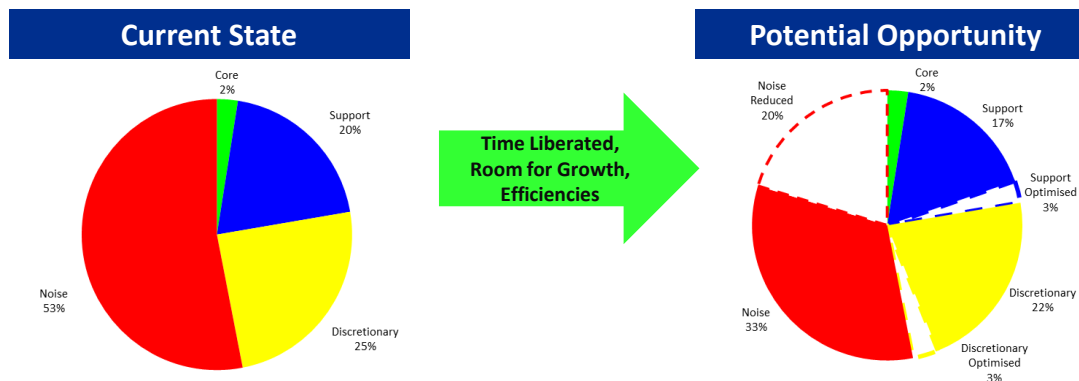


1. Rapid tactical cost reduction of redundant activity or obvious waste

But moving quickly on rapid productivity change shifts the dial on the sustainable cost-to-income ratio

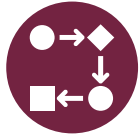
- ❑ It includes actions that reduce waste and improve asset utilisation. It is often associated with disciplines such as lean and process reengineering
- ❑ The major trap here is that many leaders buy-in to the hypothesis that we need large capital spends to improve productivity. Certainly, *capex can help, but there is usually a lot that can be done without capex*

When we examine processes, we often find that 50% of the waste (which can be around 20% of the people costs) can be addressed without major technology change



2. Moving on productivity opportunities with a sense of urgency

Productivity itself can be thought about at four different levels



Process changes can have dramatic impact even without big technology investment, e.g. consolidation of roles to remove handoffs, root cause elimination of waste drivers, and tactical automation.



Governance and decision-making changes can speed up your organisation and reduce costs



Restructuring can support an efficient and customer centric operating model, e.g. structure your model based on value streams



Keep investing in efficient infrastructure



2. Moving on productivity opportunities with a sense of urgency

Finding and executing on growth opportunities is also an important part of the response (but probably not right now!)

- ❑ This requires taking the **time to think**. Great companies responded to the GFC by stepping back and seriously **examining their strategy and business model** (or the way you are organised to make money)
- ❑ In the US, **Target** did this brilliantly – while improving productivity it also focused on online sales and lifted its investment in “chic value” products. Consequently they **came out of the downturn stronger than when they went in**

STRATEGY

The ‘where to play’ and ‘how to win’ to maximise long-term value

ENTERPRISE / BUSINESS MODEL

The way an organisation creates, delivers and captures value

CUSTOMER SERVICE MODEL

Defines how an organisation creates well designed experiences and provides a holistic service to customers

The combination of roles, skills, structures, processes, assets and technologies that allow any organisation to deliver on its service or product promises

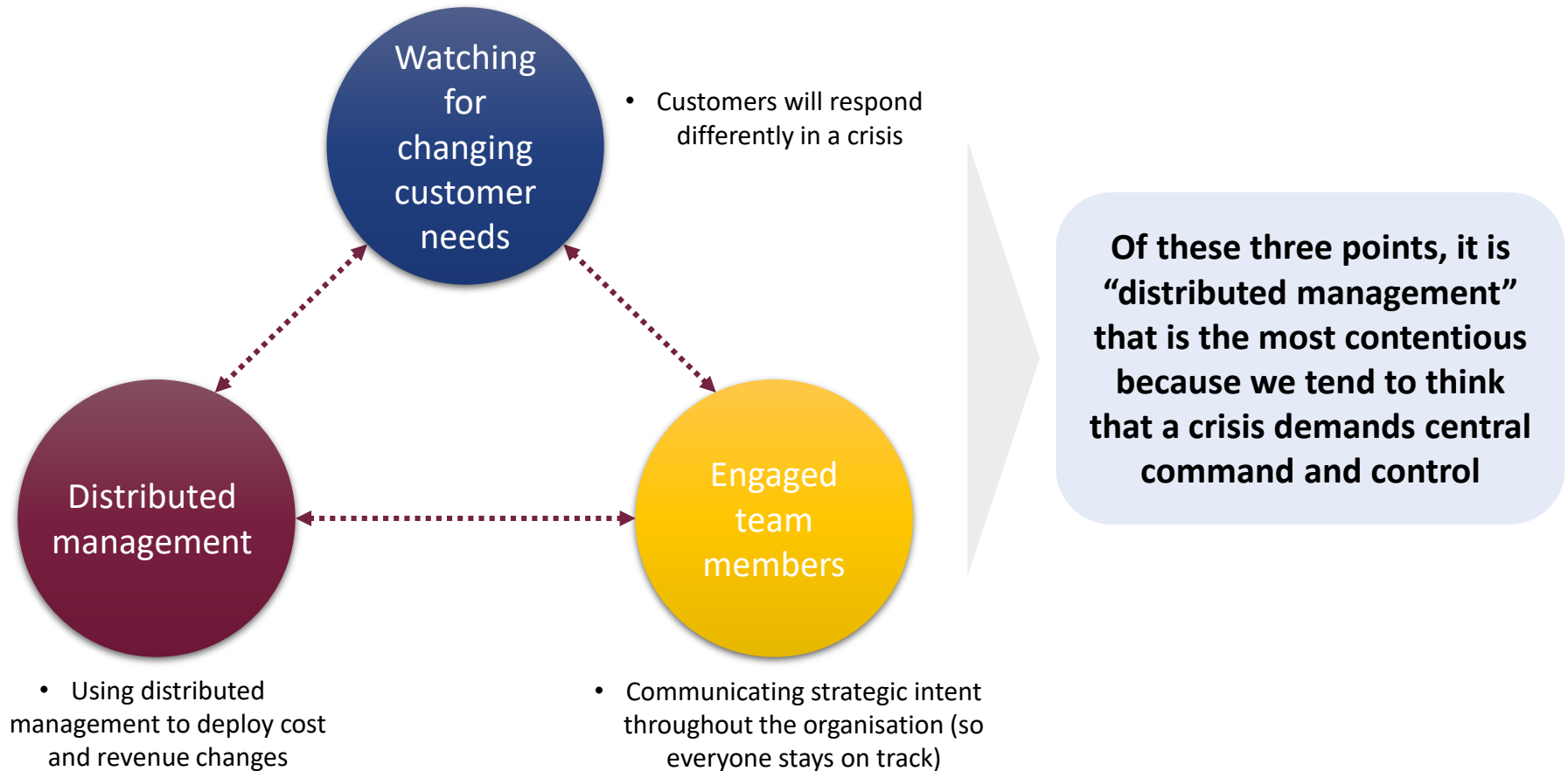
OPERATING MODEL

Manage and optimise customer experience



3. Finding growth opportunities in existing and new markets

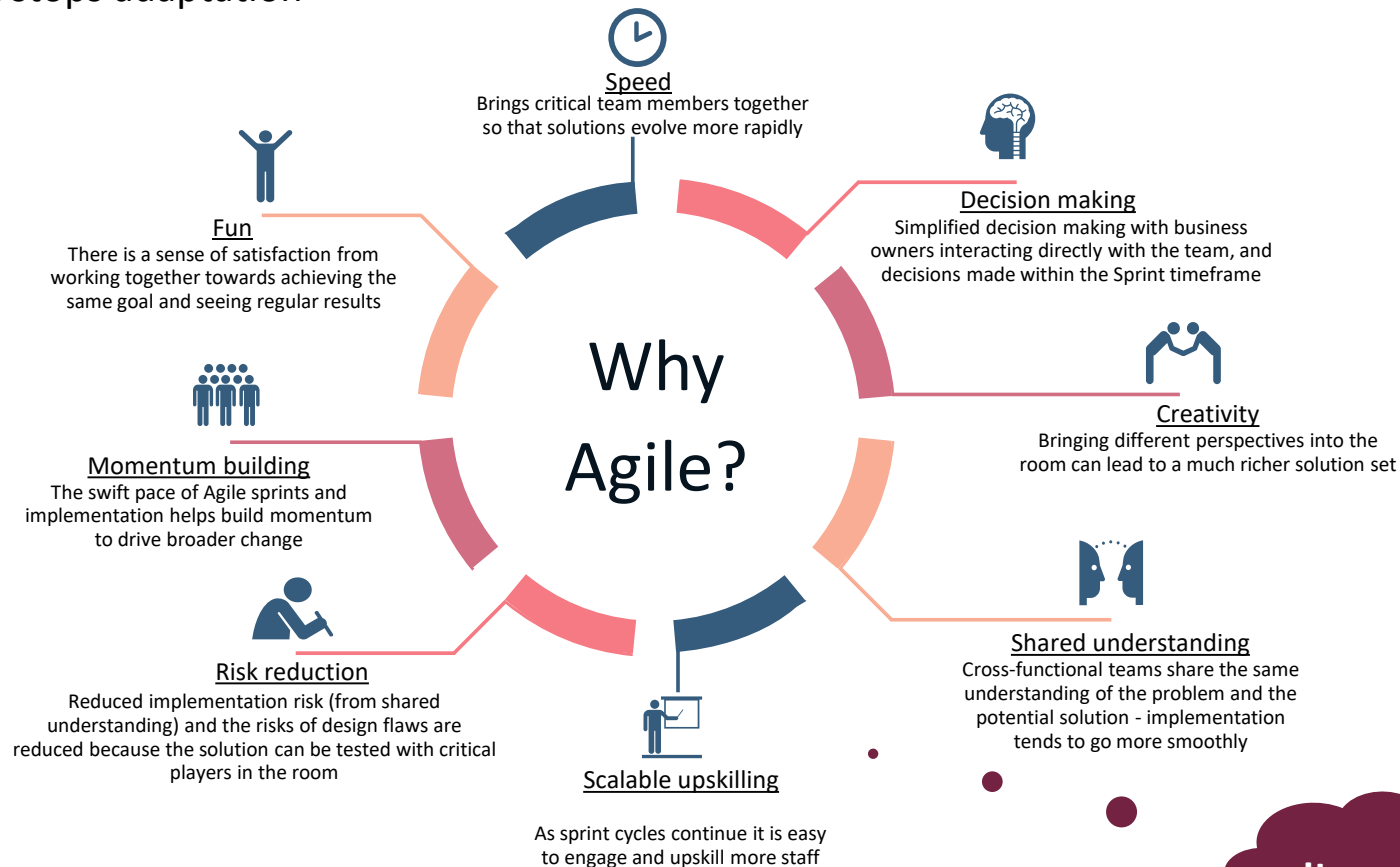
Delivering on all this potential change requires three disciplines



4. *Prioritising growth and productivity opportunities in ways that don't lose sight of changing customer needs*

However, recent research has made it clear that Agile teams solving specific cost problems can give you a much better result*

- ❑ CEOs need to resist the temptation to control everything – or risk becoming the “bottleneck” that stops adaptation



It worked!

* Source: Rigby, Henderson and D'Avino, 2018, "How Agile Teams Can Help in a Turnaround", Harvard Business Review

So, the key elements of a Balanced Response are:



Early cost action YES, but move quickly to a productivity stance



Consider the four different levels of productivity



Keep an eye on changing customer needs (and they will change)



Design the growth model you want soon (because this might mean business model changes – including what you sell, how you sell it, to whom and with what differentiation)

References

1. Gulati, Nohria and Wohlgezogen, 2010, “Roaring Out of Recession”, Harvard Business Review
2. Rigby, Henderson and D’Avino, 2018, “How Agile Teams Can Help in a Turnaround”, Harvard Business Review

Contact details and disclaimer

Contact points for any questions or clarification of the content of this report can be directed to:

Report authors			Other enquiries can be directed to		
Roger Perry	+61 3 9663 5522	roger.perry@bevingtongroup.com	Bevington Group Office	+61 3 9663 5522	admin@bevingtongroup.com
Jan Kautsky	+61 419 432 404	jan.kautsky@bevingtongroup.com			

Bevington Group is a specialist consultancy providing the following services:

BUSINESS OPERATING MODEL DESIGN



- 1. Operating Model Design**
 - Create an aspirational view of how the enterprise will deliver against future expectations
- 2. Restructuring and Role Design**
 - Create structures and roles that sustainably deliver value

PROCESS IMPROVEMENT



- 3. Strategic Lean Process Improvement**
 - Concurrently transform end-to-end processes, structures, roles and systems
 - Design radical changes aligned to customer outcomes and business strategy
- 4. Tactical Lean Process Improvement**
 - Deliver incremental lean process improvement
 - Use and teach a proven, client-centric, process improvement methodology

CHANGE MANAGEMENT



- 5. Agile Deployment**
 - Deploy process changes rapidly to address top priority issues
 - Deploy technology solutions with Agile methods
- 6. Change Management**
 - Utilise and teach a structured approach to understanding the impacts of change and transitioning organisations to the future state
- 7. Connect Program**
 - Connect clients to each other
 - Understand and compare solutions from other industries
 - Inspire through knowledge transfer and networking events

Disclaimer:

This report has been prepared in good faith on the basis of information provided by client staff and other sources of information available at the date of publication without any independent verification. It is the responsibility of the client management to ensure that their staff provide accurate information and that management are not aware of any issues that may impact the usefulness of the data for its intended purpose. Bevington Consulting Pty Ltd does not guarantee or warrant the accuracy, reliability, completeness or currency of the information in this report. Readers are responsible for their interpretation and actions based on the content of this publication. Bevington Consulting will not be liable for any loss, damage, cost or expense incurred or arising by reason of any person or organisation using or relying on information in this report for purposes other than its intended purpose.