By Dr. Thomas Wunder and Dr. Michael Mueller, Horváth & Partners, Atlanta

Navigating through the Downturn & how to end up amongst the Winners

Navigator study of Horváth & Partners reveals insights on how to prepare for the economic upturn

> "This is the time to calibrate your go-to-market strategy."
>
> Matthias Schoenberg, CEO
> Continental Tire North America, Inc.

On a sunny afternoon on the first of May, 80 German and American executives from throughout the Southeastern United States gathered at the Wild Dunes Resort near Charleston, SC. The purpose of this meeting was not to celebrate the German Labor Day which traditionally happens on this date, but rather to discuss the readiness of U.S.-based corporations and subsidiaries for the economic upturn. This summit was part of the Annual General Meeting of the German American Chamber of Commerce of the Southern U.S. (GACC South), one of the largest and most active bi-national German business chambers in the world. Among the participants were Siemens, Continental, the German carmakers BMW, Mercedes and Porsche as well as major U.S. corporations such as Georgia Power.

The meeting, titled "Navigating through the downturn... And how to end up amongst the winners," emphasized the future. It was based on the first results of a recent benchmarking study of almost 400 companies conducted and presented by the international management consultancy Horváth & Partners. Of particular interest at the summit in Charleston were results of over 100 U.S.-based American and German companies that participated in the Navigator study. The following sections highlight key results regarding the impact and duration of the crisis as well as corresponding measures for how to prepare for the upturn.

Burden on Sales Divisions

Most of the study's U.S.-based participants have been facing decreasing order income, revenue, liquidity, and cost in 2008 and up to this date in 2009. Almost every second enterprise saw its orders on hand declining by over 25% in the last months. "Especially small sales units in the U.S. market suffered hard hits in their incoming orders and top line figures," stated Dr. Michael Mueller of Horváth & Partners' Atlanta office. The impact of the crisis on financial figures of companies with average revenues below $25 million was much more significant than its impact on most of the larger players. This trend will slow down slightly towards the end of 2009 according to the general assumption. However, almost 60% of the U.S.-based companies participating in the study expect revenues to decline by at least 10% for this year.

Optimistic Executives

Another result of the "Navigator" survey is that, on average, executives assessed the situation of their company much more positively than their competitors' situations. This is an insight not only in the U.S. but also in Europe. "Many corporations underestimate the crisis and its impact on their own business," says Jens Ekopf of Horváth & Partners in Frankfurt, who led the Navigator study in Europe. 85% of the participating European companies expect declining revenues in their industries this year, but only two thirds of respondents predict the same for their own company. 40% do not consider their companies to be in a crisis at all. In the U.S., this discrepancy is even higher: more than half of the participating executives do not perceive their enterprise as being in a crisis situation, though they predict their companies to experience a significant decline in incoming orders until the end of the year.

Tough Times Don't Last

The majority of respondents - 80% to be exact - predict that the economic crisis within their industries will last for less than two years. Smaller companies generally provide a more positive picture of the future. 40% of them assume recovery by the beginning of next year. The responses of almost 100 companies with annual revenues above $1.3 billion imply a longer duration of challenges. Almost every third company expects the crisis period to last from two to five years. Considering the financial figures, smaller companies seem to have been hit much harder but will experience an upturn much earlier than the bigger players.

Industry Forecasts Differ

There is no question that the recent months have been difficult

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ABOUT THE COMPANY

- Founded 1981 in Stuttgart (Germany) with presence in the USA since 2002
- Deliver in North America jointly with US affiliate North Highland (750 consultants in 18 US offices)
- Subject matter experts in Business Performance Management with core competencies in:
  - Strategic Management and Innovation
  - Process Management and Organization
  - Finance and Management Control
- Ensure execution: design, realize and anchor

EXPERTISE IN BUSINESS PERFORMANCE MANAGEMENT

TOP 5 CONSULTANTS FROM A CUSTOMER PERSPECTIVE

Hidden Champion CONTROLLING

Source: Survey among 249 top managers by Prof. Dr. D. Fink (Institute of Applied Management Research, Germany); Max. = 500 (outstanding expertise); consulting filed "Controlling"; published in: Capital 06/2009

Dr. Thomas Wunder, President
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HORVÁTH & PARTNERS
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The crisis offers a unique opportunity to outpace competition

Interview with Dr. Thomas Wunder

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GAT: What have companies already done to deal with the current crisis?

WUNDER: First and foremost, companies have been focusing on measures to ensure short-term profitability and liquidity. This covers overall cost saving programs as well as an improved working capital management through optimizing the supply chain, order-to-cash and purchase-to-pay processes. Second, I am surprised by how many companies have already started to re-design management control processes. They increase transparency of their current situation and enhance decision support by means of rolling forecasting, risk management or improved management reporting to get ad-hoc information quickly and flexibly. This is typically combined with an adjusted planning process and a sharpened and sometimes more rigorous managerial control process.

GAT: What are measures to get ready for the economic upturn?

WUNDER: I see three areas: First, some companies in industries such as the automotive sector or financial institutions need structural changes to align the organization and processes with the evolving new reality of their respective industries. Now is the time for optimizing these capacities. Second, refining the business model and innovation portfolio right now, is a huge chance to be better prepared for an economic upturn than competitors who are still recovering from the impact of the crisis. For many companies the crisis offers a unique opportunity to outpace competition. Third, I see sales force effectiveness and customer relationship initiatives critical for retaining key customers and building relationships with new ones. If you do not call your customer now, you can be sure that somebody else will. I also see Marketing as crucial: nobody wants to do business with the 'losers' of the crisis.

GAT: What are the critical success factors to end up amongst the winners?

WUNDER: First of all, dealing with a crisis and applying corresponding measures for its different phases is nothing new for most of the companies. Looking at the magnitude and duration of the current situation, however, there is definitely little room for cruising in the comfort zone. Therefore, I would say "excellence in execution" is a key success factor. This means aligning the organization around [new] strategic priorities quickly and focusing management attention and resources thoroughly on the highest value activities. In my experience, combining US pragmatism and optimism with a "pinch" of German rigor and conservatism can be very powerful to make this happen.

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for the majority of companies across all industries. Regarding the future financial performance, however, the survey presents a more optimistic picture. Analyzing the economic situation of specific industry sectors based on the individual predictions of almost 400 European and U.S. executives, three different industry clusters evolved. First, companies in the chemicals, oil, and pharmaceuticals sectors as well as those in the automotive, transportation, and industrial goods industries are likely to face further declining revenue figures in 2009. Second, many companies in the building and construction, financial, and professional services industries have hit bottom and will experience more or less stabilizing revenues in 2009. Third, "Navigator" participants from industries such as IT-services, media, telecommunication, consumer goods, retail, and utilities presume to experience an upturn regarding their sales figures for this year already.

> "Analysis and reporting are highly relevant today."
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> Harry Volande, Executive VP & CFO
> Siemens Energy & Automation, Inc.

Sales and Distribution Needs

In the "Navigator" study, executives were asked to evaluate the importance and implementation of concrete actions. The top three actions of U.S.-based participants are to provide information about the current situation to employees, reduce accounts receivable, and adjust planning assumptions and forecasts. "These actions were carried out in small companies as well as large enterprises in almost every industry independent of their location," says Dr. Michael Mueller. Actions with the highest discrepancy between importance and current implementation are in the area of optimizing sales and distribution, such as strengthening the sales force, optimizing sales processes, or calibrating the incentive systems for sales people. Although ranked as highly important, only little more than half of the participating U.S.-based companies have initiated such measures.

Integrated Actions Required

Additional actions suggested to maneuver through the downturn and to prepare for the upturn were elaborated upon at

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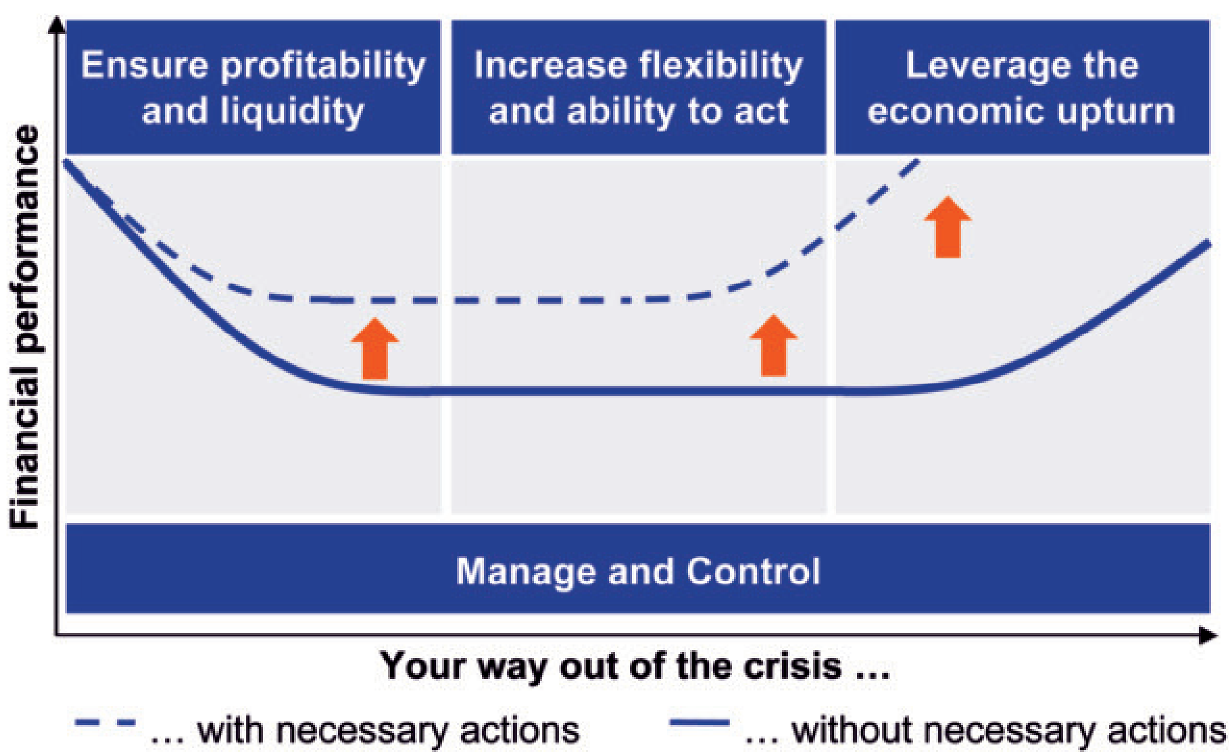

the conference in Charleston. It was discussed that although these actions relate to the typical phases of a crisis lifecycle, they require an integrated approach. It is crucial to simultaneously manage initiatives that deal with the effects of the downturn and initiatives that prepare for the upturn. This could mean securing liquidity and profitability, consolidating the business through restructuring, and driving growth oriented strategies and innovation processes at the same time. Prerequisite for this is the availability of relevant information through the corresponding managerial control systems (see graph).

No Size Fits All

Another insight gained was that "no size fits all." Effective measures to end up among the winners seem to depend highly on the company size, industry and type. On one hand, many sales divisions are currently dealing with issues of customer perception and retention or with inadequate sales management processes. On the other hand, production units are more concerned about how to improve productivity or adjust their production capacity in the short and long term. Also, changes regarding the global network of production sites are prevalent for many companies. Keeping these different needs in mind, there was one sentiment expressed at the meeting everyone could relate to: mourning the present means missing the future. GAT