



Managing the Short-Term while Reinforcing the Long-term

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Companies continue to have the capacity not only to react, but to also maintain manoeuvring room in order to shape the future of their organizations, and to a greater or lesser degree, that of their respective sectors.

Over the last few months, we have been witness to a rapid decline of both our national and international economy, with the accompanying drop in demand and in production, an increase in unemployment, problems of access to credit and payment collection, to name a few problems. Although we are beginning to understand the root of this financial and economic crisis, along with the initial effects, we still cannot predict the intensity and length of this recession, which will depend upon how the various economic players will react to the sizeable bailouts and incentives many governments have been granting.

After digesting the flood of bad news and pessimistic forecasts, management teams from every company are considering their options in terms of what action to take. Of absolute priority is to define plans and measures which would allow them to navigate the complicated scenario of the coming months, while still tending to financial needs and optimizing business operations.

Besides seeking a positive short-term response, many managers are going a step further and are actually asking not only how this crisis is going to affect their strategic projects, and whether somehow there is opportunity to be found in a bad situation. Also on their minds is how this new and unfamiliar playing field, as it undoubtedly will be after this juncture, will affect not only their particular sector, but how it may give their company greater presence in the market. In short, managers are wondering how their company will both survive and come out ever stronger in the process.

In keeping with this vision, it has been observed that “anorexic” strategies, indiscriminate cost-cutting undertaken in past crises by some organizations have, in fact, often turned out to be damaging to long-term competitiveness to the companies who employed this practice, delaying recovery or even forcing heavy reinvestment to regain capacities destroyed during a recession.

Under scrutiny is not whether adjustments ought to be effected to certain areas that may have unnecessarily “grown fat” in times of economic bonanza, or even of having to simplify aspects of management that might have become excessively complex during an expansion. Rather what is being brought into question is the suitability of eliminating and cutting back without clear criteria, ultimately destroying the capacity to generate value over the long-term, and eroding strategic coherence within the organization.



Modelling the future

Companies wishing not only to survive but to prosper in the uncertain environment we currently find ourselves in must, from our point of view, consider action along the following lines:

Produce a dual and flexible action plan. Not knowing the breadth and depth of this crisis makes it crucial to anticipate possible scenarios of activity and profitability. Quite to the contrary of producing a rigid and inflexible action plan, what needs to be drawn up is a Road Map, replete with possible alternatives, open to examination, revision, and if need be, redrawn as often as necessary. “Anti-crisis” action plans must have a balance between actions to combat the effects of the crisis in the short-term with an eye to the strategic focus for the company and ensuring lines of action and strategic projects keep in step with the changes in the economic environment.

In short, it is now more important than ever to hold periodic thinking sessions within the organization with the goal of modifying action plans as information is updated. It is equally important that short-term initiatives taken in the functional areas of the company or in the various business units maintain strategic coherency, so as not to undermine key capacities, capitalizing on strategic opportunities and disruptions that might arise.

Focus on the core and what is critical in the review process of expenses and investments. Fundamental to the process of analysis of operations is the ability to identify the specific elements that impede company profitability, those which do not add value, from those that will prove key to the long-term performance.

This is the vision that must preside over the work of reviewing certain processes, either for optimization or outsourcing, and the possible reappraisal of the product and service portfolio, allowing for stock reduction or streamlining of certain production processes, and services, resulting in a reassessment of the attributes offered to clients. The end result of simplifying those of less value is that those that might impact client satisfaction more are boosted, without incurring excessive extra cost.

Focus on company’s financial management. Pressure on liquidity, as a result of reduced sales and income, is increasing due to the root of this crisis, to be found in the financial system. It is therefore paramount to explore original financing alternatives. In order to do so companies can:

- 1) cut back on fundamental operational requirements of the company;
- 2) divest in non-essential assets;
- 3) augment company resources;
- 4) cut back on overhead expenses;
- 5) share investments.



Identify new sources of value that increase company earnings. While it is true and common that the immediate knee-jerk reaction to a crisis situation is to cut costs, it is equally true that it is more advantageous for a company to attend to the profit equation, in essence, exploring fresh and unfamiliar ways to increase revenue. It is without a doubt a challenging exercise, requiring acknowledgement that the crisis could produce disruptions in purchasing, operations and/or structuring in a sector that might turn into opportunities for those who know how to seize the moment.

One route to guaranteeing revenue is strategic improvement of client relationships. Firstly, it is vital to comprehend the nature of each and every relationship, as well as whether there are identifiably distinct groups according to their individual needs. With a properly designed differential strategic response, critical relationships to the company for the long-term may be strengthened. In the process, underexploited opportunities may be discovered in the course of this exercise, leading to the development of novel lines of business for our company.

Experience has shown that anorexic strategies undertaken in past crises proved to be damaging to the company's long-term competitiveness

The same logic applied to clients is equally applicable to other players in the company value system, with suppliers, channels, among others. Opportunities can be identified in the process of obtaining a deeper understanding of each individual player and by designing differential strategic responses.

Notwithstanding, companies need to continue their search for fresh strategic movements, working toward preventing a total shutdown of strategic projects as a result of problems encountered during the crisis and while waiting for times of growth. Past crises have taught us how those companies who came out fortified had kept an attitude of selection of opportune strategic actions by:

- 1) exploring unmet needs of clients, or unattended clients;
- 2) redesigning their offer of value in a more innovative fashion;
- 3) applying their capacities to other sectors;
- 4) redesigning;
- 5) expanding into other more stable markets, etc.

Likewise, the crisis is a good moment to benefit from disruptions, strengthening the company by hiring highly qualified professionals, who at another time in the economic cycle would be impossible to retain. Another benefit could be the acquisition of businesses and/or assets at a good price by an analysis of opportunities, allowing the company to improve its competitive edge.

Maintain critical investments in knowledge. Frequently in recessions cost cutting and investments linked to knowledge, such as brain drains, drastic cuts in RD&i or in training, has, on occasion, decapitalized the company for the future. There are,



however, relevant examples of companies who, despite difficult times, kept up the effort in RD&I, which allowed them to gain significant competitive advantage once the crisis had ended.

Think about a change in management values and practices. Prior to the crisis, there was already a considerable debate over the necessity of revising some management values and practices and adapting them to an economy based on knowledge. In this new and uncharted economy, people's contributions, knowledge, creativity and experience are vital, including networks, rather than individual and separate entities. The current crisis must accelerate this reflection and catalyze the process of transformation of some management practices, simultaneously generating previously undeveloped methods of differentiation for the company and meaning for the employees.

Clearly, developing all these elements requires strong leadership, who far from "succumbing" to panic, keeps a cool head and unquestioningly upholds criteria, remaining rigorous in the face of uncertainty.

As a final thought, it is essential to emphasize that although the present crisis shall certainly bring with it serious hardships, it shall also afford numerous opportunities for those who know how to take advantage of them. It is probable that many sectors will end up remodelling themselves, and what will determine the ultimate outcome will be both the attitude and the manner in which management teams handle the crisis.