



The Financial and Economic Crisis: Challenges and Opportunities for Companies

Reflections by B+I Strategy

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Some challenges faced by companies today

The present economic and financial crisis is gravely impacting business volume and causing far-reaching changes in numerous management variables in countless companies. Examples range from credit availability, payment periods and prices, to shrinking client portfolios to name a few.

Given this context, companies who intend to adapt to the new context are faced with the alternative of returning to conventional anti-recession formulae characterized by down-sizing staff, cutbacks in strategic plans, or in training for example, all with the goal of optimizing responsiveness.

Despite possibly requiring some of these measures, companies can also choose an alternative response in quite the opposite direction. The current situation we find ourselves in is one of the most appropriate in terms of boosting business transformation processes. It is actually the ideal time to consolidate projects, prepare for the future, always with a watchful eye to the present of course, and to come up with creative solutions to create value vis-à-vis the economic crisis.

What should a company do given the present circumstances?

The present crisis calls for the deployment of a **two-faceted approach** combining measures to meet the challenge at hand, all the while maintaining the strategic focus of the company.

Thus, management teams need to design their own action plan which combines:

- **Short-term measures aimed at combating the effects of the crisis** With the goal of addressing short-term profits, this combination of measures would be at the heart of the "Anti-crisis Plan" for the company's day-to-day operations. Implementation of this type of plan would assist companies in adequately dealing with this temporary economic juncture.
- **Measures to lay the foundation for long-term growth** The "Future Plan" would be the definition of measures to guarantee the company's future success in a revitalized market.

In light of the new paradigm, a plan of these characteristics should be composed of three particular lines of thinking: which strategic lines of action remain relevant; rethinking those strategic projects to be modified, such as catalysts and priority projects for example; and new initiatives to ensure future success. When the market does bounce back, those companies who are favourably positioned will most certainly be rewarded.

What are the basic actions of those companies who come out strengthened by times of crisis?

- **Cutback on expenses and non-essential investments for business development**

The capacity to distinguish between what diminishes profitability and brings no added value to the business, and those cornerstone elements to the company's long-term projection is fundamental to the process of reviewing expenses.

- **Maintain critical investments in knowledge: innovation, training, internal projects, etc.**

There are relevant examples of companies, who in times of crisis, continued investing in RD&i at the same pace, allowing them to gain significant competitive advantage once the crisis was over.

- **Redefine market limits and take advantage of foreign influences, seeking to identify new sources of value**

Most sources of value are linked to the search for new methods of generating income. Not only does this include expanding the existing client base and discovering new markets, but exploring new ways of relating as well.

Moreover, lessons gleaned from past experience show companies going on to analyze how to benefit from disruptions to the market or to suppliers in terms of profits. This was accomplished by acquiring weak competitors or hiring professionals with backgrounds hitherto unknown in the company.

- **Guarantee leadership during the process of transformation and adaptation**

Assuring that good people with the right disposition lead the company in times of change results in a strong probability of success.

- **Review the organization's overall values and business principles**

The outcome of this current crisis may differ from the last one. Hence, in order to successfully compete in future, companies will be compelled to redirect organizational culture into new ways of thinking and undertake specific action to reinforce individual commitment.

What areas of transformation should companies work on to cope with the crisis and come out strengthened?

Although they may bring difficulties, times of change simultaneously open the door to strategic opportunities and/or market disruptions that companies can take advantage of. In order to mitigate the effects of our present economic and financial situation, at B + I Strategy, we provide support to companies in seizing opportunities and disruptions as they develop. To that end, we have developed a thinking framework, composed of four highly inter-related components of analysis, so that management teams can assess how the crisis could be affecting their companies, and then design appropriate strategic and operational measures to deal with the present situation.

What should be considered in the thinking process?

1. Two-faceted Strategy The specific actions to be developed at a time like this must resolve identified problems in the short-term, while keeping the organization's strategic coherence.

2. Strategic improvement of relationships with clients and other key agents No matter how tempting, taking decisions in disregard for all agents who are in some way connected with the company, be they clients, suppliers or channels, etc., might drastically and negatively affect them, and therefore must be avoided at all costs.

It is requisite to appreciate the nature of each relationship and to identify whether there are distinct groups as per their individual needs. In this manner, the pre-eminent relationships over the long-term could be intensified by appropriately designing differential strategies. In addition, it could be decided to limit, or even to go so far as to end those relationships shown to be detrimental to company profitability and which will not offer any future advantages.

Further to enhancing the bottom line, it is highly probable that through this process we discover underexploited or untapped opportunities which would allow us to determine new lines of business.

Although it is true that this an essential exercise at any point in the economic cycle, it is additionally true that it becomes that much more important in times of crisis.



3. Strengthening the organization's capabilities and seizing opportunities

Times of crisis are opportune for analyzing what elements are not going to be adding value in future, and therefore dispensable, and which are vital and must absolutely be preserved. During this analytical process, it is crucial to avoid the experience of past crises where indiscriminate cost-cutting would often take place. On occasion, this has led to decapitalizing the company for the future, translating into brain drain, drastic cuts in RD&I in strategic projects and other negative effects. The ultimate consequence, of course, are reduced probabilities for a quick rebound and/or the ability to gain competitive ground when the economy does pick up.

Furthermore, if the company has sufficient financial capacity, this is the right time to reinforce company structures by incorporating highly qualified professionals who would be impossible to hire at another time in the economic cycle, which coupled with the acquisition of companies and/or products at a reasonable price, would ameliorate the company's competitive positioning.

The role of leaders is momentous at this time. In order to combat the uncertainty, informed and aware leaders, with enough determination, will need to rise to the fore to steer companies through the present crisis.

4. Optimization of the company's operational management

In times of crisis, more than at any other time, the need to scrutinize how the company's internal operations becomes patent, resulting in proposals for boosting the company's short-term profitability, while continuously stewarding long-term performance.

Further to optimizing production processes, reducing the number of products and services offered by the company can be considered. The benefit is that stock and production costs are minimized while maintaining a mix of products and services to assure company stability for today and tomorrow.

Another alternative for optimizing the day-to-day management ought to be the assessment of what attributes the products and services offered contribute to reduced value for the client as well as increased cost for the producer or service provider.

5. Optimization of the company's financial management

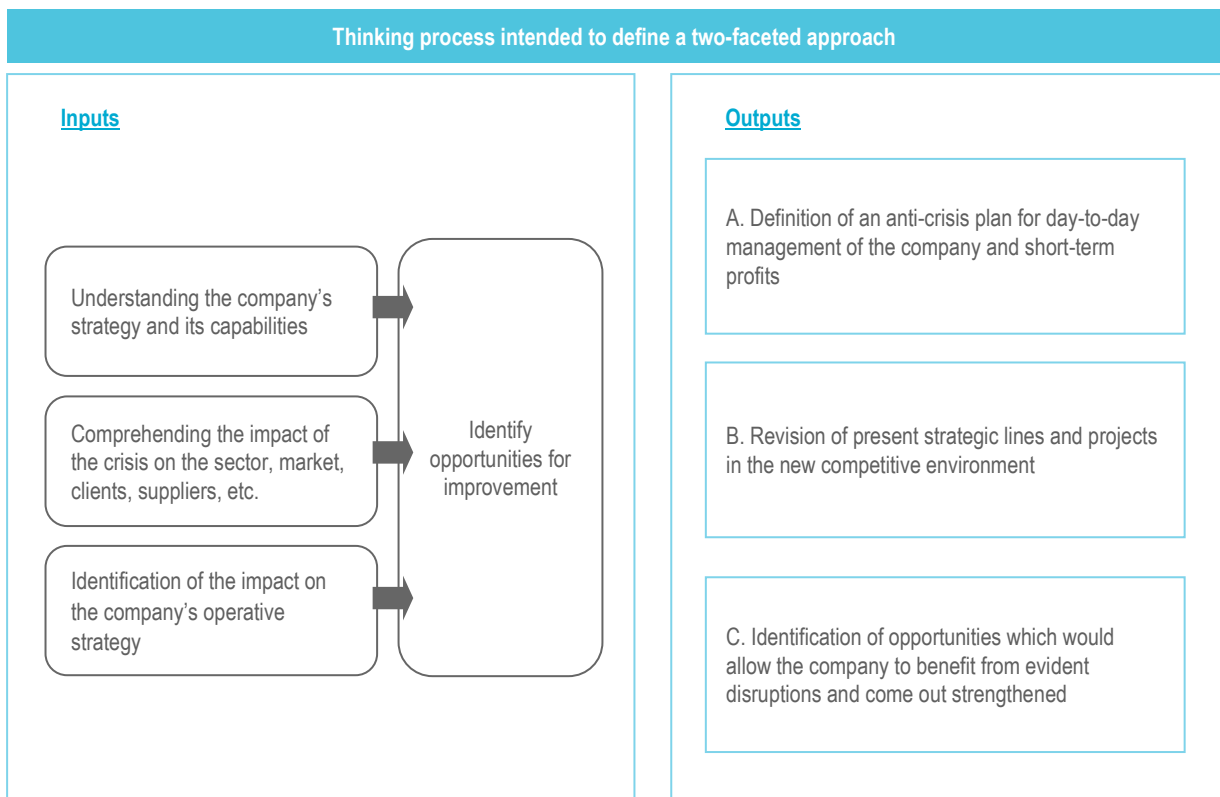
In times of scarce liquidity, not unlike the present, it becomes paramount to seek out alternatives to reduce the financing needs of the company's operation. To that end, the company must explore various avenues at its disposition: reducing the company's long-term operating needs, divesting non-essential assets, increasing company resources, developing other financial formulae and cutting overhead.

How can a thinking process be undertaken to minimize barriers and come out of the crisis stronger?

More than ever, the present crisis demands a two-faceted approach which manages short-term needs whilst staying focused on the strategic issues for the company.

It remains, therefore, fundamental that the management of organizations take the lead and maintain strategic coherence even in the most turbulent of times. This has been a key factor in companies, who not only survived past crises, but came out ever-fortified. Needless to say, this shall once again be pivotal to those intending to lead the changes of the coming years.

The whole team at B + I Strategy wishes to encourage and assist company managers in looking at the current crisis not from outdated recipes from days gone by, but rather from a fresh new perspective. To that end, we wish to share with you a specially formulated methodology so that your management team may define the necessary two-faceted strategy for today and tomorrow.





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