

Rethink Your Strategy: An Urgent Memo to the CEO
by Paul Branstad, Bill Jackson, and Shumeet Banerji

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How corporate leaders can move aggressively to seize new opportunities.

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As of October 2008, your job has changed. You need to readjust your mind-set for a future that looks very different than it did just a few months ago.

These are extraordinary times to be in business. It is human nature to wait and hope that your company will emerge relatively unscathed from the downturn. But waiting is not an option. Nor is hoping. Instead, you must look objectively at your business and decide: Can you survive? Then swiftly and decisively pursue the course of action determined by the answer.

The weaker players should be scared. If your company is positioned poorly right now, it is time to face the facts. You are probably going to the wall — or, at best, your business will be much reduced. The most precious thing you have is time — and you may not have much. Figure out how to best position your assets and your people to give every piece of your company its best chance to succeed, even if under different ownership. But for everyone else — all those whose companies aren't up against the wall — the meltdown could prove to be a blessing in disguise. Your first objective is to become as strong as possible, as fast as possible, with these five main lines of action.

- **Focus on your future.** Reexamine your portfolio

of businesses and shed the marginal ones. Forget about your also-ran, me-too offerings: Stay focused on your best businesses, your best products, your best customers, and your most distinctive capabilities. Spare extra cash for the products and services in which you have a competitive advantage through your capabilities: your technology, your cost position, your design and manufacturing capabilities, and your ability to reach and serve customers effectively.

- **Prepare to weather the storm.** Consumer demand is not coming back to superheated levels anytime soon, and pressure on prices and margins will only increase. So as soon as possible, you will need to generate as much investment capital as possible from within your company. Maximize the cash proceeds from reconcentrating your portfolio. Triage your R&D and capital expenditures, focusing them on core businesses. Secure whatever preexisting low-rate debt you may have. Minimize operating working capital. Set aggressive targets for all of the above — and get the cash.

- **Anticipate the future industry structure.** This downturn is a once-in-a-century opportunity to redefine your competitive position. If there are five main players in your industry today, should there be three tomorrow? What role should you play in the consoli-

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dation? Can and should you push a competitor to the brink? Alternatively, should you sell your business even though you may be a strong player? You need to create an industry road map and then decide where your position lies in the terrain.

- **Resolve your game plan:** Don't think of R&D, new product development, and capital expenditures as fixed costs. They are investments — places to set priorities. Don't delay: By the time your new products are ready, and your new facilities are in place, they will be sources of competitive advantage. You also need to put an M&A strategy into place now. The market valuations of stronger companies will start to rise as investors recognize that quality is on sale. When this happens, the companies with the necessary financial resources will acquire the attractive, complementary pieces of their marginal rivals. Given today's discounted valuations, these investments may offer higher returns than internal projects.

- **Prepare to take intelligent risks.** Although the conventional wisdom predicts deflation, we could see another cycle of demand-triggered, speculation-driven price spirals begin this year as the recovery takes hold. Protect yourself by making fixed-price claims on capacity you know to be reliable, while watching for the signals that should cause you to hedge your exposure. Also be ready to recapitalize your debt. It is easy to imagine a bridge period during which long-term credit will be available at relatively low fixed rates. Should that happen, move fast to secure as much long-term debt as you can imagine needing for the foreseeable future.

The current economy will not get better immediately. We are in for more rough seas. But we are also entering a period during which the value of being able

to act strategically and decisively for the long term will increase enormously. Preparing for this moment of opportunity is of paramount importance for your businesses' position for years to come. +

Resource

Paul Branstad, Bill Jackson, and Shumeet Banerji, "Rethink Your Strategy: An Urgent Memo to the CEO," Booz & Company white paper, December 2008: The paper on which this article is based provides a more in-depth view of how the job of the CEO, senior executives, and line executives will change. www.booz.com/global/home/what_we_think/reports_and_white_papers/article/43229221

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