COMMENTARY

STRATEGY TEAMS:

Delivering Value in the Downturn

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Marakon
Management Consulting at Charles River Associates

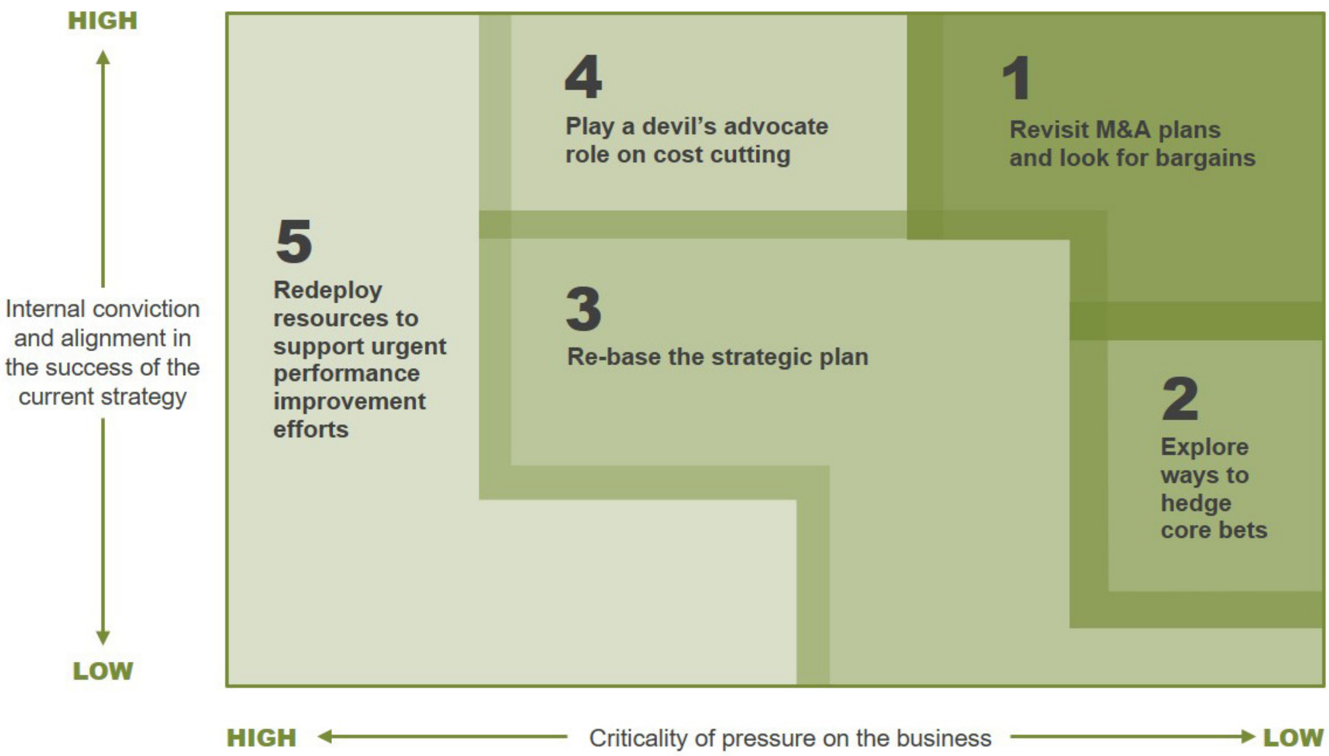
It has been over a year since the World Health Organization officially declared that COVID-19 was pandemic. While vaccination is providing a route out of the health crisis, the economic crisis is only beginning to emerge, with many economies experiencing, or dealing with the aftermath of, deep recessions.

So far, the response of corporations has followed a familiar playbook: drastic cost cutting, organisational restructuring, reining in of capital spend, and squeezing of the supply chain. Companies in sectors severely disrupted by mandatory social distancing have had to resort to creative strategic pivots at pace; notable examples include the dating platform Match.com (which quickly shifted to video chat services to enable “distanced dating”) and Disney (which is now releasing movies via its own streaming platform).

In the weaker market environment, management teams (understandably) have become focused on operational efficiency and delivery; their appetite for big-picture thinking is limited. Therefore, for strategy teams, who traditionally are the custodians of “jam tomorrow,” making valued contributions to the business during this period of uncertainty is a challenge. Continuing routine activities may not be appropriate, and new initiatives may be warranted given the opportunities and threats emerging from the volatile market. Our view is that strategy teams should consider two things in deciding where to focus their efforts:

- How critical is the commercial pressure on business given the current environment?
- What is the level of internal conviction and alignment on the current strategy being successful when the downturn ends?

The image below shows our recommendations regarding the types of activities strategy teams can prioritise (reflecting the considerations above) to make valued contributions to business during a recessionary environment.



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Let's look at each of these activities in more detail:

1. REVISIT M&A PLANS AND LOOK FOR BARGAINS

Strategy teams that adhere to the best-practice approach of programmatic M&A will have a point of view on strategic acquisitions that will help accelerate the delivery of the corporate strategy. In a weaker economic environment, opportunities to acquire strategic targets at attractive valuations often arise, so it's worthwhile for strategy teams to spend time re-examining the M&A rationale and refreshing target screens if the company is in a robust financial position. An extreme example of playing the long game is Shell's $53bn acquisition of BG Group in the aftermath of the last global financial crisis, which accelerated Shell's portfolio shift from oil to gas. Some of Shell's staff had been looking at BG Group as an acquisition target for so long that they had retired before Shell finally decided the time was right to proceed with the transaction in 2015.

2. EXPLORE WAYS TO HEDGE CORE BETS

A company that is not necessarily under immediate pressure in the downturn but nevertheless faces structural strategic challenges is a common quandary for strategy teams. On one hand there is an impetus for change, but on the other, management may be reluctant to overhaul the strategy and disrupt business units that are delivering reliable cash flow in challenging times. Missing opportunities to innovate and build new sources of competitive advantage is a risk, and recessions tend to catalyse entrepreneurship and creation of disruptive business models.

By way of example, FedEx, CNN, and Uber were all established during recessions and became major forces of disruptive competition for incumbents in their respective industries. Other examples include WhatsApp, Instagram, and Pinterest, which were all launched during or shortly after the 2008 financial crisis. CEOs and strategy teams have the right to be paranoid during downturns, but rather than lose sleep, they can assuage their concerns by critically reviewing their own and competitors' business models and challenging themselves to find the next source of industry disruption and make selective and limited investments to ensure that the business is positioned for success when the market recovers.

3. RE-BASE THE STRATEGIC PLAN

For businesses facing a combination of near-term performance challenges in a recession and longer-term strategic uncertainty, re-basing the strategy may be worthwhile. This does not mean switching the Excel model to a downside scenario; rather, it means fundamentally re-examining the market and competitive trends that may have been accelerated (or delayed) due to the recession and where the value creation potential will migrate to. For example, the disintermediation of retailers by FMCG companies in favour of D2C models has been catalysed by the pandemic, and big brands such as Nike are rapidly scaling back their physical retail presence and distribution and heavily incentivising consumers to join their e-commerce platforms (expect more "please download our app!" messages in your inbox).

4. PLAY A DEVIL'S ADVOCATE ROLE WHEN IT COMES TO COST CUTTING

The imperative to cut costs during a downturn often drives businesses to eliminate capabilities and resources that are not immediately contributing to the bottom line but are critical to the future success of the business. Strategy teams have an important role to play in representing the corporation's interests and being the custodian of capabilities that will enable realisation of the strategy. Consequently, they are best placed to challenge restructuring and cost-cutting decisions by ensuring that the trade-offs and longer-term implications are fully understood. The challenge for strategy teams is finding the authority and intervention mechanism to play this role effectively, and it is likely that management sponsorship will be needed to provide the necessary mandate.

5. REDEPLOY RESOURCES TO SUPPORT URGENT PERFORMANCE IMPROVEMENT EFFORTS

If the business is under major pressure, resources from internal strategy might be better used to support critical performance improvement initiatives. Strategy teams can benefit from getting experience working inside the business to understand on-the-ground practicalities and challenges and their implications for strategy implementation. The main caveat here is that sufficient resources should be retained in the strategy team to ensure that the ball isn't dropped when it comes to core enterprise management processes (e.g., business planning, investment reviews).

The pressures exerted on businesses during recessions tend to shift management focus towards short-term operational priorities. Although this is justified to a certain extent, entirely neglecting strategic considerations can result in businesses being in a more vulnerable position or unable to capitalise on valuable opportunities when the economy recovers. Rather than being side-lined by operational directives, strategy teams can find ways to make valuable contributions to the business, but doing so requires taking a creative and deliberate approach to deciding what activities to pursue and how to prioritise resourcing against them.

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ABOUT MARAKON

Marakon is a strategy and organizational advisory firm with the experience and track record of helping CEOs and their leadership teams deliver sustainable profitable growth. We get hired when our client's ambitions are high, the path to get there is not clear (or taking too long) and lasting capabilities are as important as immediate impact.

We help clients achieve their ambitions for sustainable profitable growth through:

- Stronger strategies and advantaged execution based on:
  a. A better understanding of what drives client economics and value
  b. Insight into changing industry dynamics and the context in which clients need to succeed
- A stronger management framework to generate better ideas and link decisions and actions to value
- A stronger organization with a more focused top management agenda and well-aligned resources
- A more confident and effective leadership team that's focused, decisive, and strategic

We have a joint team delivery approach where client ownership and engagement is paramount. Partners are highly engaged in the work product and supported by strong analytical and industry relevant capability. We work as advisers and catalysts in close, trust-based relationships with top management teams.

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