



HOW TO MANAGE SUCCESSFULLY IN UNCERTAIN TIMES »»

Most businesses now believe that an economic downturn in the UK is now less a case of 'if', or 'when' but a reality. With a regular swirl of economic and market statistics, media stories and rumours circulating, what clear steps can businesses take to prepare themselves for the uncertain times ahead?

Atos Consulting's team provide insight and guidance on what you and your business leaders need to focus on, across strategy, operations, costs and human capital to enable you to weather a less than benign economic climate.

“For the time being at least, the ‘nice’ decade is behind us. The credit cycle has turned. Commodity prices are rising. We are travelling along a bumpy road as the economy rebalances.”

Mervyn King, Governor of the Bank of England, 14th May 2008

Managing operations and costs

“UK factory gate prices have increased at the highest rate since 1999, whilst new orders have decreased to the lowest level since 1998.”

Based on Chartered Institute of Purchasing and Supply /Markit Purchasing Managers' Index (PMI), June 2008

“Slowest UK growth in seventeen years expected in 2009, as high commodity prices put brakes on economy, GDP growth of only 1.7% predicted in 2008.”

CBI Quarterly Forecast, June 2008

Falling orders, weakening productivity growth and rising inflation puts firms under pressure to protect their profit margins. Lee Timmins who leads our Operational Excellence practice and Mike Zealley, who leads our Procurement Transformation practice, set out their recommendations for business leaders.

Operations and processes

In a downturn the business leaders can make two obvious contributions to protect profit margins:

- > Reduce the cost of operations – within your business and across the supply chain
- > Deliver visibly better service than the competition, thus protecting your share of the fewer orders that will come to market.

What approach will deliver the next level of productivity and service improvement in uncertain times?

What are we advising our clients to do now?

One approach that has stood the test of time and simultaneously delivered both of these objectives, is Lean – the elimination of process inefficiencies and ineffectiveness, combined with continual re-evaluation of process achievement.

What is the case for Lean? The obvious example is Toyota, and closer to home GE, Tesco and Unipart to name a few. More recently the public sector has turned to Lean to help them through year on year budget cuts and performance pressures.

What we are suggesting our clients try to avoid?

The initial response to Lean from many businesses is that “we have tried that already and it didn't work.” Our answer is that the issue is not Lean, but the ability to implement it effectively. The good news is that Lean has been around long enough for us to know how to make it work and why some programmes fail and others succeed.

What can easily be forgotten in challenging times?

- > Lean is not just about tools and techniques; first and foremost Lean is about culture. Culture change on this scale needs real and visible support from the top
- > Lean relies on workforce engagement to see and unlock the gains. Getting the workforce message right is critically important and the message needs to deal with workforce implications in a straightforward way
- > Enterprises must take the ‘whole enterprise system’ view. The biggest gains come from deploying Lean across an entire value stream, not from polishing a single operation.

Purchasing and costs

Your procurement and financial leaders are faced with the challenge of balancing the short-term business needs against the longer term strategies that may already be in progress.

What are we advising our clients to do now?

The short-term focus may have to be on price-down discussions, rebates or deferral of payments. Procurement and financial business leaders will need to work with the organisation to more aggressively target and manage the drivers of demand, slowing down or stopping spend in discretionary areas such as travel, training, and soft investment projects. But these must be seen as short-term benefits at the risk of longer term damage to staff retention, new product innovation, and ultimately customer service.

Add to this the potential impact of reducing volumes vs. contractual commitments and supply plans, and there may also be a need to check on the liquidity of ‘critical’ suppliers, to leverage opportunities on standard products and services.

Procurement and financial business leaders should also be contacting their strategic long-term suppliers and seeking their input into the above activities, actively driving forward joint cost reduction projects on the basis of reduced revenue, but increased profitability. It will be vital that strategic suppliers look and dig deeper into the underlying drivers of joint cost.

What we are suggesting our clients try to avoid?

A 2007 survey of 180 senior procurement leaders by Atos Consulting concluded that over half felt that the constant focus on in-year savings limited their ability to implement more advanced sourcing strategies. In some cases, the impact of this was to deliver 3-5% in one year, at the expense of perhaps 8-12% in the next. A short-term focus can help with the immediate, but is rarely a comfortable companion with longer term strategies. Avoid balance swinging too far in the short-term.

What can easily be forgotten in challenging times?

Procurement and financial business leaders now have an unprecedented opportunity to influence senior management and begin cost transformation programmes that would have been ignored in more affluent times (particularly evident in the financial services sector over the last 6-12 months). Cost transformation programmes based upon specification, standardisation and simplification become more compelling.

Managing your workforce

“Over one in four people feel less secure in their jobs, according to the latest survey from Lloyds TSB.”

Consumer Barometer Survey, Lloyds TSB Corporate Markets, June 2008

Current economic changes will impact your workforce, so this needs to be proactively managed to ensure you retain them. Alison Plant, who leads our Change Management and HR practice, sets out her recommendations on how to manage today, whilst positioning for tomorrow.

What are we advising our clients to do now?

To proactively prepare for the downturn, and subsequent upturn. This is achieved by building flexibility and scalability into the workforce plan. It involves re-skilling your existing workforce, focusing on value for money in the back office and on customer retention for the front office roles. Presently, we are implementing robust performance management processes for our clients that enable business leaders to make accurate and informed decisions on both releasing staff and identifying key performers, should the need arise.

What we are suggesting our clients try to avoid?

Increased scrutiny around operational expenditure and costs is a key remedy in uncertain times, but any cost reduction decisions need to be aligned to business strategy and not by achieving a blanket percentage cut across the organisation. A cost reduction exercise represents an opportunity to shake out poor performance, but you must ensure staff who look after the profitable customers or growing product lines are protected.

What can easily be forgotten in challenging times?

The morale implications of any downturn are harder to predict and harder to address. Succeeding in difficult times is even more about effective leadership. All leaders are seen as role models embodying the organisational response to the situation.

Leaders may need practical support and guidance as to how to be that role model to deal with what may be for many a new and unfamiliar business environment. In addition they may need coaching support around the ‘emotional labour’ required in making and implementing personally difficult decisions. This should not be underestimated.

Conclusion

Current uncertainties are unsettling, but now is an excellent time for focusing on improving processes, managing your costs and suppliers more effectively. Potentially significant change will come/happen to your workforce. To succeed it is important to manage not just for the short-term, but plan to exploit the inevitable upturn. Exploit, rather than shelter from the downturn and decide whether your enterprise will bask or bake in the face of the coming (economic) climate change.

Next steps

For further information please email ukconsulting@atosorigin.com, call 020 7830 4444, or visit our website at www.atosconsulting.co.uk

Staying on the growth trail

“It may still be summer, but there is a feeling of chill in the economic air. The British economy is going through a difficult and painful adjustment.”

Mervyn King, Governor of Bank of England, August 2008

When the future seems uncertain, it can be tempting to just ‘batten down the hatches’ and try to ‘ride out the storm’. But Richard Morris, who leads our Transformation practice, and Andy Lees, Managing Partner, Private Sector, argue the case for a bullish, rather than bearish Board agenda for growth.

What are we advising our clients to do now?

The downturn provides exactly the right environment to strategically redefine where the organisation currently is, where it needs to be and how it will bridge the gap. Look at investing in counter cyclical areas and in products/services which have more consistent demand and less price elasticity.

Prepare for possible different futures, including landing on either side of an acquisition. Now is the time to look for the underpriced asset, as long as it is aligned to your long-term business strategy. However, financing an acquisition in the throes of a credit crunch, makes cash king again. The CFO has an important role to play in conserving cash; ensure you are billing everything you can, check payment terms, dispose of non-strategic assets, look at different ways of funding capital expenditure and retire expensive debt. The key here is to take a holistic view of the two primary cash cycles: Order to Receipt and Purchase to Pay.

What we are suggesting our clients try to avoid?

Do not cut back on business development or product development budgets. Keep your products/services current and creative. Too often companies cut back on the new products or services that represent the future of their businesses. Once the up cycle arrives they find they cannot catch up with the market’s expectations and demands.

What can easily be forgotten in challenging times?

Ensure that you are providing your customers the highest level of customer service in order to protect prices and present new reasons for clients to remain loyal. Remember your customers will also be going through difficult times. They too will be having to make tough decisions and reviewing where to spend their limited funds.

About Atos Origin

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