

# EXPERT OPINION

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CONSULTING > SOLUTIONS > OUTSOURCING

## WHERE TO INVEST IN A DOWNTURN »»

As the recession begins to bite and global economic growth slows the realisation is dawning on even the most optimistic organisations that we really are in for a long hard haul. As banks constrain lending to rebuild their balance sheets and reduce their risks, companies are struggling to fund their operating expenses. As a consequence, most companies are taking action to focus on cash, reducing discretionary spend, managing customer credit and suppliers carefully and reducing capital expenditure programmes.

For all companies the constant drive for growth through development of new products and markets and acquisition of new businesses brings additional inherent complexity. In good times, companies tolerate this, because the focus is on the top line and high costs are masked by good profits. Successful companies however, maintain a focus on cost leadership whatever the wider economic conditions. This not only secures their leadership position, it delivers market leading returns and sustains them through tough times as well.

Good companies therefore remain essentially in good shape and are continuing to maintain and even improve their businesses, taking the opportunity to drive up efficiency with a greater sense of urgency than before.

But those exposed by high debts or uncompetitive business models will find the going more difficult as reducing demand exposes unsustainable costs.

All companies will therefore be looking to make significant improvements in cash flow and operating margins with varying degrees of emphasis on the level and timescales for benefits realisation. Since all companies have a variety of improvement projects ongoing at any time, the essential questions will be focused on the following: are we doing the right projects, will they deliver the benefits we need and how do we focus our limited resources to best effect?

*“These are exceptional and difficult times. The financial crisis is affecting every family and business in the country and poses enormous challenges to policy makers around the world.”*

**Mervyn King, Governor of the Bank of England**

# Alignment of strategy and operations

Identifying and securing business performance improvement requires a clear alignment of the business's short-term consolidation or survival strategy with the operating model delivering the core business processes to ensure cash is generated efficiently and vulnerabilities are mitigated.

## Alignment

Sustainable business performance improvement requires an absolute focus on activity that will enhance revenue, improve margins and optimise assets both physical and intellectual. Cash flow improvement should be an integral part of the actions taken across these areas, by reducing cycle time in particular but also by managing risks across the supply chain from suppliers through to cash collection.

Identifying and securing this improvement requires a clear alignment of the business's short-term consolidation or survival strategy with the operating model delivering the core business processes to ensure cash is generated efficiently and vulnerabilities are mitigated. Significant cost is driven by the enabling and governing processes in any organisation so these must be constantly challenged. In times of stress, business leaders particularly need robust and timely business performance information to guide the often difficult decisions they have to make. Business Intelligence and IT systems must therefore be fully effective to underpin the decision making process.

The final component is the essential element of the people in any organisation, through whom any improvement must be achieved and sustained. Maintaining their commitment at a time when costs, and therefore headcount, must be reduced is a challenge that requires significant management energy and time that should not be underestimated.

## Operating Model

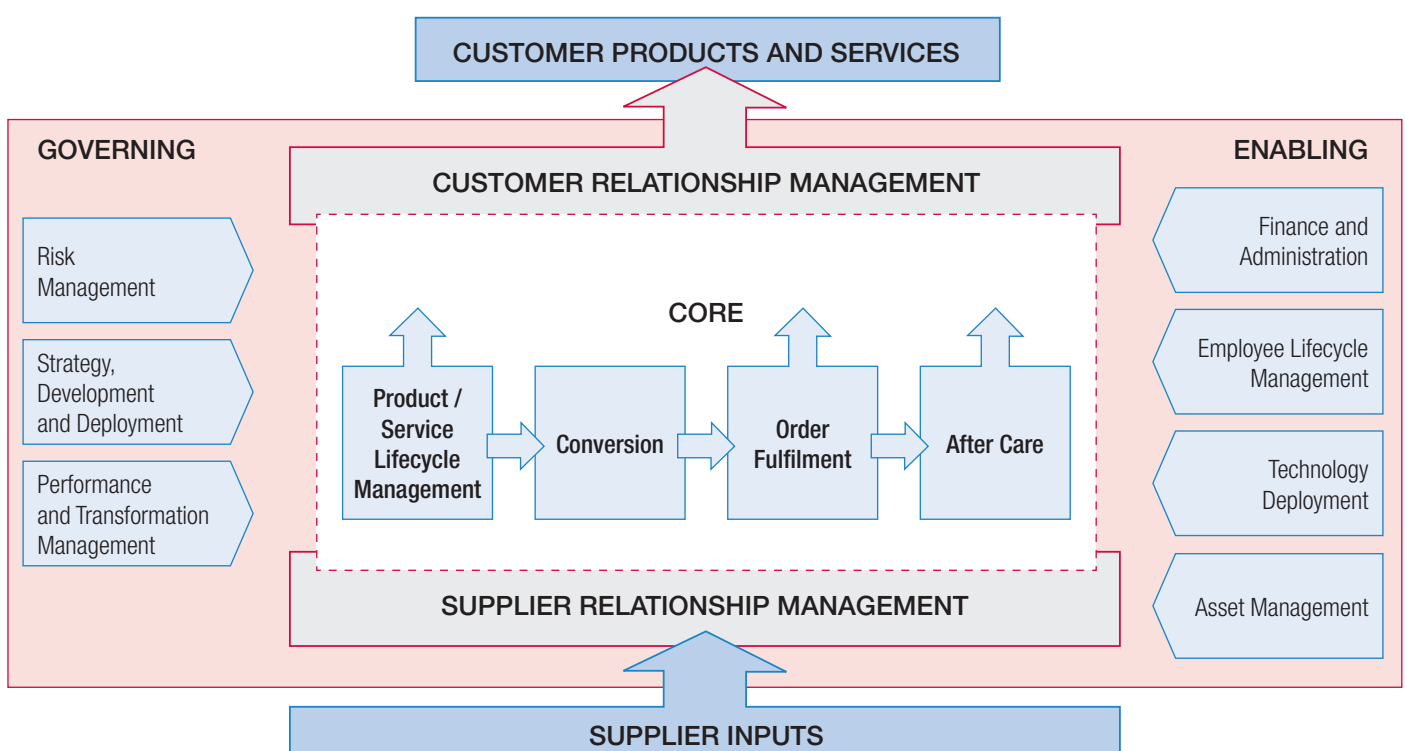
Cost and profit are determined by the business operating model and associated processes as illustrated below. These processes drive performance across the profit and loss account and balance sheet and a range of levers are available that impact on these and cashflow as illustrated in the tables on the opposite page.

In many cases businesses do not systematically assess the possible impact of these levers and select the most suitable mix to meet their consolidation or survival strategies. We recommend five steps businesses should take to drive business performance improvement in a downturn:

1. Define short-term strategic business performance targets and review all existing improvement activity. Stop any activity that does not have a clear measurable profit, cost or cashflow impact.
2. Rapidly assess potential impact of all benefit levers across the business operating model
3. Rank and prioritise appropriate levers to create a plan of short and medium-term activity that will sustain business performance
4. Communicate plans to the business and focus all improvement resources on delivering that activity
5. Underpin delivery of the plans with a robust governance structure owned by the business leadership team to maintain focus and commitment.

## Realisation

Delivery of a set of integrated plans requires rigour, skilled project management and flexibility to alter course as circumstances change – as they will – while keeping a clear focus on the required business outcomes.



## Typical benefit levers of core processes

PROCESS	LEVER	BENEFIT
Customer Relationship Management	<ul style="list-style-type: none"> <li>&gt; Rationalise customer portfolio</li> <li>&gt; Increase pricing and reduce rebates</li> <li>&gt; Focus on high profit accounts</li> <li>&gt; Revise payment terms</li> <li>&gt; Drive volume through most profitable channels</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Increased margin</li> <li>&gt; Improved cashflow</li> </ul>
Demand Management	<ul style="list-style-type: none"> <li>&gt; Target new sectors and regions</li> <li>&gt; Optimise capacity</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Increased revenue</li> </ul>
Conversion	<ul style="list-style-type: none"> <li>&gt; Improve operational efficiency</li> <li>&gt; Substitute high cost materials</li> <li>&gt; Optimise logistics</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduced cost</li> </ul>
Order Fulfilment	<ul style="list-style-type: none"> <li>&gt; Optimise inventory</li> <li>&gt; Improve service levels</li> <li>&gt; Increase order to cash efficiency</li> <li>&gt; Increase demand visibility</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduced cost</li> <li>&gt; Improved cashflow</li> </ul>
Supplier Management	<ul style="list-style-type: none"> <li>&gt; Improve supplier relations</li> <li>&gt; Extend payment terms</li> <li>&gt; Control indirect spend</li> <li>&gt; Improve purchase to pay efficiency</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduced cost</li> <li>&gt; Improved cashflow</li> </ul>
After Care	<ul style="list-style-type: none"> <li>&gt; Focus on high value customers</li> <li>&gt; Optimise logistics</li> <li>&gt; Improve service processes</li> <li>&gt; Optimise inventory</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Increased margin</li> </ul>
Product/Service Lifecycle Management	<ul style="list-style-type: none"> <li>&gt; Optimise project portfolio</li> <li>&gt; Rationalise product portfolio</li> <li>&gt; Design out cost</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Increased margin</li> <li>&gt; Reduced cost</li> </ul>

## Typical benefit levers of governing and enabling processes

PROCESS	LEVER	BENEFIT
Risk Management	<ul style="list-style-type: none"> <li>&gt; Strengthen risk management processes</li> <li>&gt; Focus on business continuity</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduced risk</li> </ul>
Strategy Development and Deployment	<ul style="list-style-type: none"> <li>&gt; Improve integrated business planning</li> <li>&gt; Rationalise project portfolio</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduced cost</li> </ul>
Performance and Transformation Management	<ul style="list-style-type: none"> <li>&gt; Improve performance visibility</li> <li>&gt; Increase programme Management capability</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduced cost</li> </ul>
Finance and Administration	<ul style="list-style-type: none"> <li>&gt; Improve process efficiency</li> <li>&gt; Reduce outstanding debt</li> <li>&gt; Improve credit risk management</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduced cost</li> <li>&gt; Improved cashflow</li> </ul>
Employee Lifecycle Management	<ul style="list-style-type: none"> <li>&gt; Improve organisational effectiveness</li> <li>&gt; Improve process efficiency</li> <li>&gt; Improve outsourced services</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduced cost</li> </ul>
Technology Deployment	<ul style="list-style-type: none"> <li>&gt; Rationalise applications</li> <li>&gt; Improve infrastructure utilisation</li> <li>&gt; Improve outsourced services</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduced cost</li> </ul>
Asset Management	<ul style="list-style-type: none"> <li>&gt; Rationalise facilities and asset base</li> <li>&gt; Improve asset utilisation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduced cost</li> </ul>

Many companies have found it easier to drive through improvement plans where they have an existing methodology or clear processes for this. The positive experience of many manufacturing companies with Lean programmes, for example, has encouraged them to apply this to non-manufacturing areas of their business to good effect, identifying wasteful activities in support functions to improve internal and external service levels and reduce cost at the same time.

Benefits and project progress tracking are essential if momentum and focus are not to be lost and this should be integral to any robust programme management process. Senior sponsorship and sustained and visible leadership are critical to success but never more so than when the changes begin to impact vested interests, priorities need to be called and skilled resources become stretched.

Leaders have many competing priorities, particularly in a climate such as this, but once an improvement programme has the energy and commitment of the employees invested in it, even a modest amount of time from senior management can have a remarkable impact on the eventual scale of the delivered benefits.

In conclusion, while the outlook is undoubtedly tough, many companies will emerge stronger and more capable from the recession, ready to take advantage of new opportunities and the upturn. Those that do will have identified those high priority projects that support their strategy and delivered them with an absolute focus on the required business outcomes.

### How do I get more information

For further information please e-mail [ukconsulting@atosorigin.com](mailto:ukconsulting@atosorigin.com), call 020 7830 1944 or visit our website at [www.atosconsulting.co.uk](http://www.atosconsulting.co.uk)

## About Atos Origin

Atos Origin is an international information technology services company. Its business is turning client vision into results through the application of consulting, systems integration and managed operations. The company's annual revenues are EUR 5.8 billion and it employs over 50,000 people in 40 countries. Atos Origin is the Worldwide Information Technology Partner for the Olympic Games and has a client base of international blue-chip companies across all sectors. Atos Origin is quoted on the Paris Eurolist Market and trades as Atos Origin, Atos Worldline and Atos Consulting™.