

BusinessPlus+ Newsletter

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Action Plan for Operating in a Difficult & Uncertain Environment

So we now have the perfect storm in which to operate a business - in the context of the following factors (and others too):

- *Rising Interest rates*
- *Inflation at high levels*
- *Significant ongoing and forecast energy and fuel price rises*
- *Skilled Labour shortages continuing for a while yet until targeted immigration is implemented*
- *Ongoing Supply Chain delays and freight cost increases*
- *Continuing global geo-political instability and war*
- *A changed Federal Government and the uncertainties that brings for business & taxes*



What can business owners and leaders do to protect their businesses in light of the above factors and future uncertainties that are as yet unknown?

There is no New “Normal”

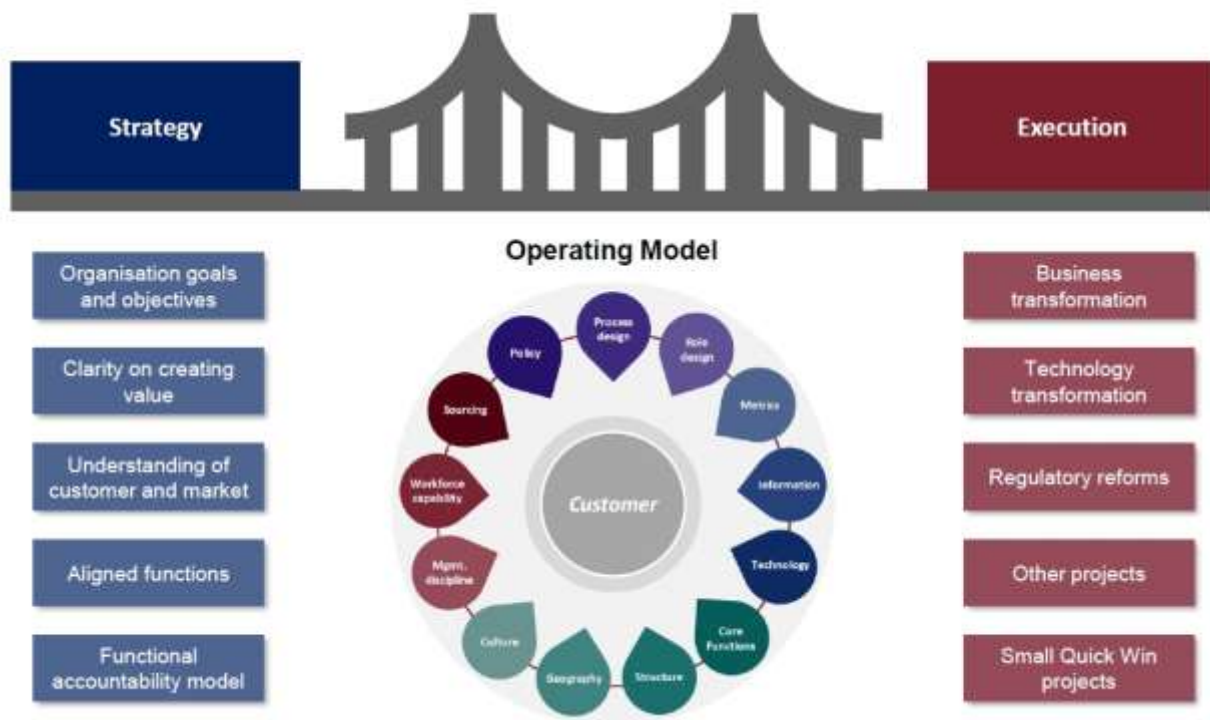
Business should anticipate continuing turbulence and volatility for the foreseeable future and fortify their positions by:

Prediction: Adopt scenario planning and risk management strategies in anticipation of the known impacts and also for possible unforeseen events – “Black Swan” eventualities. So, understand how different inflation/disruption scenarios impact the cost structure and gross margins of products/services you deliver to customers. Good scenario planning requires imagination and a suspension of disbelief of what is really happening today. You need to strive for credible but not necessarily accurate scenarios. You need to focus on what matters most for your particular business and fundamentally the customers of the business, when developing the scenarios;

Resilience Measures: These are required to shore up the business that provides the capacity to absorb the shocks as they arise; and

Adaptability: Flexibility to quickly course correct as the operating environment changes and evolves.

Fundamentally, improving organisational adaptation means improving your “Operating Model” – the link between business strategy and execution



Business Coping Strategies

- ❑ Following the GFC three respected academics (Gulati, Nohria and Wohlgezogen, 2010) conducted invaluable studies on the best ***coping strategies*** during economic turbulence. Further analysis and research have validated the findings, which turn out to be ***very practical***
- ❑ It seems that strategies which only focus on ***cost cutting***, as opposed to ***productivity improvement***, experience ***sub-optimal outcomes*** as the world normalises
- ❑ Furthermore, those that fail to ***invest in growth*** risk being left behind in the recovery
- ❑ The best response is one that combines a ***productivity focus*** (done with a sense of urgency) with ***targeted growth investments***, all whilst keeping an eye on ***changing customer needs***



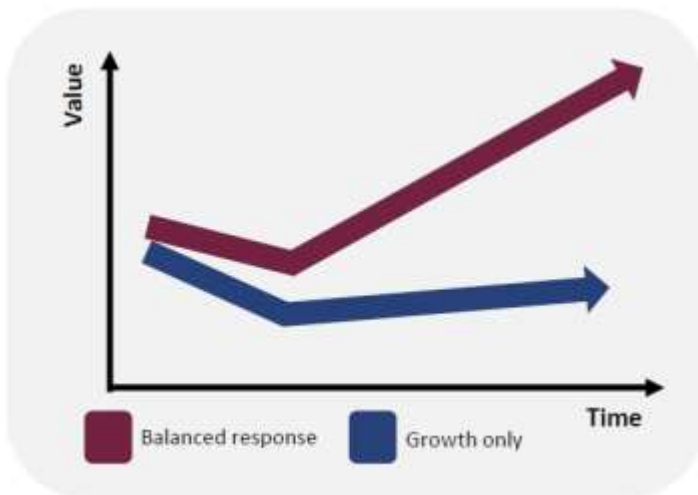
What early actions will be necessary – remember that there is a difference between cost reduction and productivity



- Productivity reduces costs but also increases margins in a way that is *sustainable* when *growth returns*
- Productivity may actually *lift service levels*



- Cost reductions can get you through in the *short term*, but cost reductions may *damage service standards and morale*, and *impact recovery*



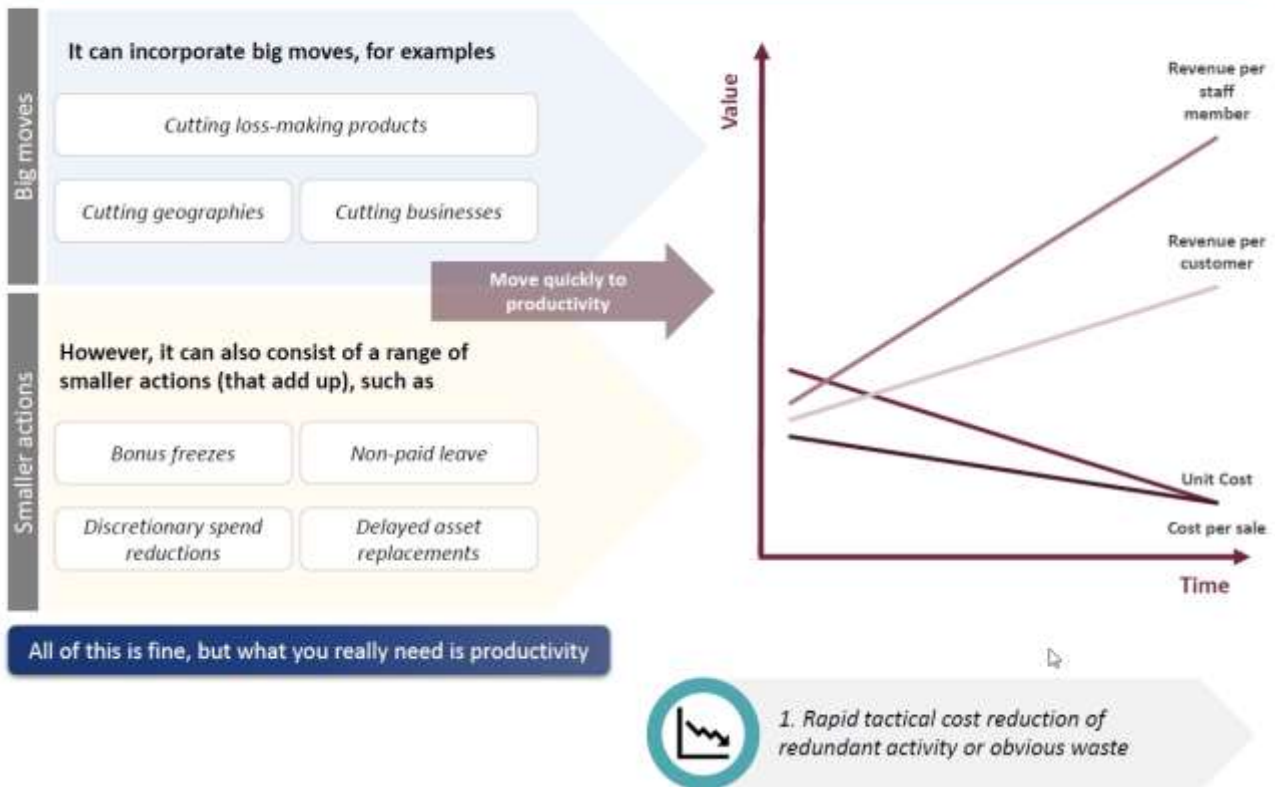
“Balanced response” strategy fared better on EBITA increase than “Growth only” strategy

** EBITA = Earnings before Interest Tax & Amortisation

So, if a Balanced Response is the right way to go, how do we go about executing on the challenge? Well, there are really four components to this strategy



Rapid cost reduction is the first step for many companies, and it is often necessary



Transform your Business Costs Focus

You need to review your business costs and develop a clear “cost agenda”, making deliberate choices – with a focus on supporting both process improvements and your businesses distinctive operating capabilities, that your customers value.

So, while cost-cutting may be necessary, it will likely not be enough if approached on a piecemeal basis. Even worse, done the wrong way, it can harm chances of survival. Business leaders also have to pivot value propositions, figure out new ways to grow and find new sources of revenue to find their place in the future. **This involves cutting costs in a way that doesn't harm the business, while redirecting costs to the drivers of growth — capabilities that differentiate a company from their competitors and attract good customers.**

Have you aligned your resources with what drives your company's success?

Make rigorous trade-offs for where you invest — away from what's just “nice to have” and toward what truly drives your success.

- Do you invest enough to fuel your distinctive capabilities?
- Has your company stopped spending on lower-value initiatives and businesses not coherent with your strategy?
- Is your budgeting process well aligned with the strategic planning process?

Cost cutting vs. strategic cost transformation

Wrong way

Treats costs separately from strategy

Is driven by external pressure

Focuses on cost cutting

Shares the pain equally

Barely moves the needle

Follows industry benchmarks blindly

Leads to costs creeping back over time

Leaves you weaker

Right way

Treats spending as an investment and allocates costs in service to your company's strategy

Is driven by an internal culture of continuous improvement

Focuses on capability building and performance improvement

Reinvests in a few priority growth areas and cuts aggressively elsewhere

Transforms the whole organization

Is tailored to the specific needs of your organization

Creates a more sustainable cost base

Makes you stronger

But moving quickly on rapid productivity change shifts the dial on the sustainable cost-to-income ratio

- ❑ It includes actions that reduce waste and improve asset utilisation. It is often associated with disciplines such as lean and process reengineering
- ❑ The major trap here is that many leaders buy-in to the hypothesis that we need large capital spends to improve productivity. Certainly, *capex can help, but there is usually a lot that can be done without capex*



2. Moving on productivity opportunities with a sense of urgency

Productivity itself can be thought about at four different levels



Process changes can have dramatic impact even without big technology investment, e.g. consolidation of roles to remove handoffs, root cause elimination of waste drivers, and tactical automation.



Governance and decision-making changes can speed up your organisation and reduce costs



Restructuring can support an efficient and customer centric operating model, e.g. structure your model based on value streams



Keep investing in efficient infrastructure

Finding and executing on growth opportunities is also an important part of the response (but probably not right now!)

- ❑ This requires taking the **time to think**. Great companies responded to the GFC by stepping back and seriously **examining their strategy and business model** (or the way you are organised to make money)



3. Finding growth opportunities in existing and new markets

STRATEGY

The 'where to play' and 'how to win' to maximise long-term value

ENTERPRISE / BUSINESS MODEL

The way an organisation creates, delivers and captures value

CUSTOMER SERVICE MODEL

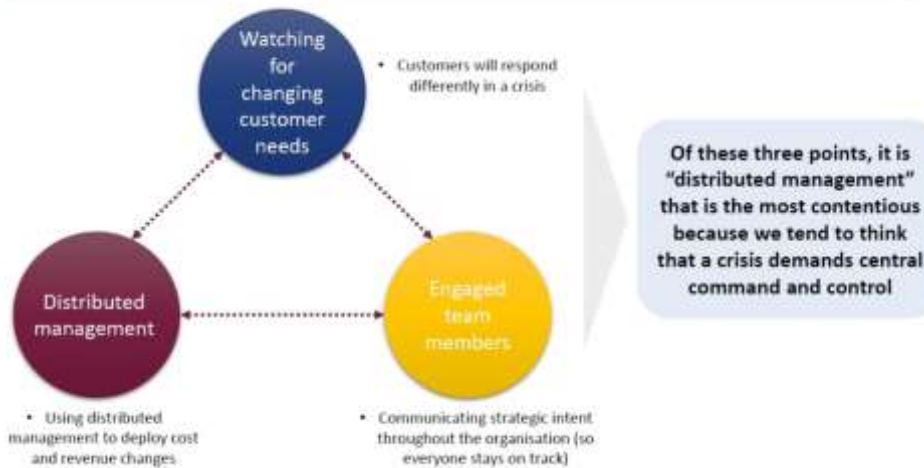
Defines how an organisation creates well designed experiences and provides a holistic service to customers

The combination of roles, skills, structures, processes, assets and technologies that allow any organisation to deliver on its service or product promises

OPERATING MODEL

Manage and optimise customer experience

Delivering on all this potential change requires three disciplines



4. Prioritising growth and productivity opportunities in ways that don't lose sight of changing customer needs

So, the key elements of a Balanced Response are:



Early cost action YES, but move quickly to a productivity stance



Consider the four different levels of productivity



Keep an eye on changing customer needs (and they will change)



Design the growth model you want soon (because this might mean business model changes – including what you sell, how you sell it, to whom and with what differentiation)

The rise of 'Barbell' thinking (Taleb)



Barbell thinking presumes that in a rapidly changing world, organisations with options for different models will be those that survive. Those organisations that don't have the right balance and focus too much on today's business are those that go into accelerated decline when the environment changes rapidly.

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