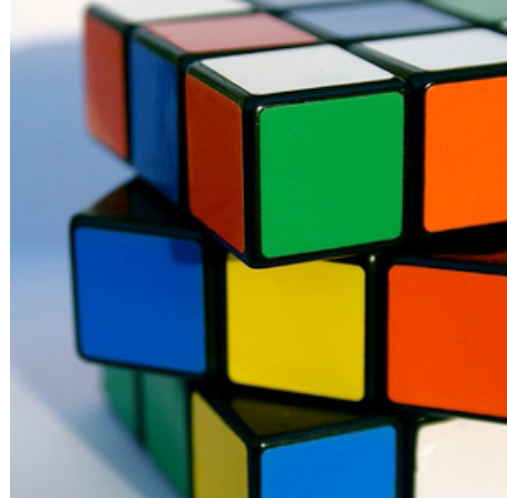


Preparing for the Worst in a Recession

BY J. ESTEBAN CONTRERAS, CONSULTANT, AMDOCS

It is now obvious that most of us underestimated the depth and duration of the current recession. Just a year ago, few considered the possibility of a completely derailed financial system and the evaporation of trillions of dollars. The lack of consumer confidence has impacted the global economy severely and companies across sectors are struggling badly. The high number of bankruptcy filings among public companies and the high rate of unemployment are only a few of the scary figures that we are dealing with. Perhaps the best lesson we've learned is that complete security is an illusion but such uncertainty should not keep us from strategic action.



Policy makers, lenders, corporate boards, and CEOs have all been accused of being greedy and ineffective, but pointing fingers is quite useless at this point. Perhaps we are victims who were dragged into this crazy economic mess or maybe we just had it coming for forgetting about the huge amounts of risk that were involved. Either way, we are now all in it together. While some industries and companies have been more surprised than others, no one remains immune and preparing for whatever the future may hold is absolutely essential.

(RE)PLANNING TO MANAGE NEW RISKS

Today's rapidly changing landscape demands that we face challenges faster and more effectively. Plans made before the slowdown may now be irrelevant. You must now recognize the new risks that were birthed from the crisis and approach them with a coherent scenario planning strategy. Such a strategy cannot allow for impulsiveness, but it can be somewhat flexible and definitely multi-faceted by considering extreme-case scenarios that are relevant to your industry and strategic position. Anticipating current and potential risks should be conducted first at the top, then trickle down to relevant departments and teams, if not the entire organization. Allowing planning participation at all levels will not only minimize the impact of challenges, but also encourage everyone to be resilient. We all need to learn to assess the possibility of a full spectrum of scenarios, from consolidation of competitors to the rise of unexpected start-ups, and create several actionable plans to bounce back from any adversity.

Employing flexible planning is a form of risk management that helps define roles and expectations, and facilitates collaboration. Once scenarios are modeled and understood, the various elements of the equation can be plugged-in to consider the outcome that something like a deep reduction in sales or a huge increase in costs can do to profitability, investments, inventories, billable utilization, business processes, cost management, pricing strategies, and the product mix. Consistently trying to make sense of the complexity of what is and what could be at both ends of the spectrum will enable better decisions and prepare managers to respond. The downturn may have caught many by surprise and this reinforces the idea that you must always be prepared for the worst.

RECESSION NOW MAY BE THE MOTHER OF INVENTION

Avoid the mindset of mere survival: there *will* be ways to capitalize on the crisis. Anticipating the worst and making the right decisions at the right time can ultimately lead to:

- Divesting from non-core/unprofitable areas, such as Google with its radio and print ad programs;
- Staying on track with customer service, as Amazon and Zappos are doing;
- Acquiring target companies, such as AT&T's acquisition of Wayport;
- Investing in new products, such as Apple's first-generation iPod in 2001 (another very tough year);
- Maintaining advertising levels, such as Coca-Cola's marketing during the Olympics;
- Expanding to new territories, such as Virgin's plans to start Virgin Russia; and
- Improving current product features, such as recent moves into social networking by Verizon FiOS and Hulu.

Perhaps some companies will be able to advance in ways we can't yet imagine. Remember, American Airlines transformed its industry by starting the AAdvantage frequent flyer program in the midst of deep competition and a tough economy in 1981.

An example of a company that seems to be making good decisions and preparing for the future is HP. Even though HP has not been as focused on innovation as it once did, CEO Mark Hurd has created an atmosphere that fosters operational efficiency, cost management, and financial strength. Doing this consistently throughout his tenure has positioned the company better for the slowdown, driving the acquisition of EDS and generating higher revenues than IBM in 2008. As entire industries relied vastly on layoffs for cost-cutting, HP was able to resort to the less painful measure of across-the-board pay cuts. HP is far from immune, but its actions have been carefully considered and remain on-strategy, despite the current economic situation.

Certainly, the length and depth of the recession have made clear the fact that business leaders must stay ever-alert and gear their people to understand the bigger picture. That means tackling the problems of today while zealously watching out for the risks that tomorrow may bring.

ABOUT THE AUTHOR



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