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OPPORTUNITIES
for ACTION

CONSUMER



■ *Just how much can—or should—be accomplished in the early months of a crisis is debatable. Nevertheless, CEOs should spend this time at the frontline with customers and employees, discussing and refining actions to be implemented over the next year.*

■ *CEOs know they have to get costs under control, but they emphasize that leadership in a recession is not just about cutting costs. It is about readying the organization for the future.*

■ *Make yourself visible: have lunch in the cafeteria instead of in your office. And hug your stars; your best performers may be more insecure than you think.*

■ *Fair or not, leaders of companies (and countries) are scrutinized during their first months in office and during the first months of a crisis. The 100-day—or even a 200-day—formula could be the mantra that will help an organization accept change.*

Leading out of a Downturn

The First 100 Days

A few years ago, we published an article about leadership during a CEO's first 100 days in office.¹ We had in mind the ambitious list of actions Franklin D. Roosevelt undertook during his initial three months as U.S. president. Once again, Roosevelt's first 100 days is in the public's consciousness as Barack Obama assumes the presidency of the United States and the whole world faces the worst financial crisis since the Great Depression.

The gravity of the current economic downturn is pressuring CEOs everywhere to act decisively and immediately. Just how much can—or should—be accomplished in three or even six months is debatable, however. Nevertheless, we remain convinced that a new CEO's first 100 days in office is a vital period in which to communicate strong leadership and a clear agenda. We also believe that it is critical for all CEOs to spend the early months of a crisis at the frontline with customers and employees, discussing and refining a set of actions to be implemented over the next year.

Even leaders who are fortunate enough to head companies that seem to have escaped the worst of the storm—at least for now—should seize the moment and use the crisis to make hard decisions that might have been unthinkable in more placid times. The 100-day—or even a 200-day—formula could be the mantra that will help an organization accept change.

In our Collateral Damage series, The Boston Consulting Group has been exploring the issue of company leadership during the initial months of an economic crisis.² In addition, we've been conducting discussions with more than 50 CEOs—leaders of consumer and retail companies in the United States, Europe, and Asia—to discover what is on their minds as they look out to the year ahead. What do they intend to do differently as a result of the economic down-

1. "Assuming Leadership: The First 100 Days," BCG Perspectives, January 2003.

2. *Collateral Damage, Part 1: What the Crisis in the Credit Markets Means for Everyone Else*, BCG White Paper, October 2008; *Collateral Damage, Part 2: Taking Robust Action in the Face of the Growing Crisis*, BCG White Paper, October 2008; *Collateral Damage, Part 3: Asia, Advantage, and Action*, BCG White Paper, November 2008; and *Collateral Damage, Part 4: Preparing for a Tough Year Ahead: The Outlook, the Crisis in Perspective, and Lessons from the Early Movers*, BCG White Paper, December 2008.

turn? What actions have they moved to the top of their agendas?

All these CEOs acknowledged the need to do what is necessary to get costs under control, of course. But many also took pains to stress their conviction—learned from their own experiences with past downturns—that leadership in a recession is not *just* about cutting costs. It is also about readying the organization for the future. With that in mind, we spotlight here the ten actions cited most often by the CEOs we've been talking to.

Be realistic. Confront the issues directly and talk candidly with your employees about the future.

Everyone reads the paper, watches the news, surfs the Internet, and listens to office gossip. We all realize that the economy is in serious trouble and that businesses are finding themselves in uncharted territory. These are fears and uncertainties we all face, and you need to address them. Be clear about what your company is doing to survive the downturn. And make yourself visible: have lunch in the cafeteria instead of in your office. When there is bad news to deliver, don't mince words. Let people ask questions, and make sure everyone understands what is going to happen. Consider adopting a rule of thumb followed by many organizations: a message must be repeated at least nine times before it is fully understood by its intended audience. No one ever regrets communicating too often.

Create a detailed cash-flow statement. To survive a downturn, you must work with your CFO to forecast cash flow over the coming months. This is an important action because businesses will generate considerably less cash, especially if the depth and length of the economic downturn are greater than originally estimated. There will also be less credit available: tighter credit markets and higher qualifying standards will limit liquidity. Furthermore, companies' varying capabilities to generate free cash flow might significantly change market dynamics, such as competitors' relative strengths and ability to seize opportunities. Interestingly, most managers are not used to managing for cash. Their focus over the past decade has been all about what to do with excess cash, not how to forecast and manage all elements of the balance sheet. Enforcing and providing incentives for this discipline, therefore, will be critical to survival.

Help your employees navigate the uncertainties of the economy by presenting a vision for the next year and beyond, not just for the next three months. Times may be tough, but that doesn't mean you should abandon your aspirations. Organizations need long-

term goals and even rallying cries. One CEO remarked that he was aiming for "one euro of growth in 2009." The phrase has caught on inside his organization and become a mantra of optimism.

Hug your stars. Your best performers may be more insecure than you think. Don't spend so much of your time focusing on work force reduction that you neglect the core group of people who drive your company's success. Those stalwarts deserve and need personal attention. Letting them know how much you value their performance will not only improve productivity in the current crisis, it will also ensure their loyalty when the economy rebounds.

Use the downturn as an opportunity to initiate changes that would be tough to sell in a better economic environment. In good times, many CEOs don't like to rock the boat. But a downturn offers a rare chance to fix such lingering problems as underperforming employees, inefficient processes, or expensive, over-the-top sales meetings. In this environment, employees rarely question major changes, especially changes that don't directly affect head count. So take an inventory of poor practices that have established themselves while no one was looking, and start working down the list.

Pressure-test your operating plans. Assume that profits could fall lower than ever. It is absolutely critical to have a realistic business case for a downside scenario—one that projects business dropping to at least the seventy-fifth percentile of historic performance—so that appropriate actions can be taken ahead of time, if possible. But bear in mind that we are in an unprecedented economic situation. Most empirical ranges from past downturns—and the models that were built around them—are largely invalid. So too are the traditional ways of thinking about year-to-year objectives and targets. Business cases for downside scenarios should be recast on the basis of new, forward-looking information. Many CEOs are working on them now.

Prepare a "Plan B." Consider the worst-case scenario, and devise a contingency plan: "What are we going to do if X happens?" Make sure everyone understands the steps you will take if your worst-case scenario is about to be realized. There are several good reasons to do this. It will help you act quicker; it will force you to think through next steps before the crisis is upon you; and it will raise the questions that need to be answered to ensure that business units are ready to run Plans B, C, or D—if the worst happens.

Continue to support your best customers. Understand that partnerships that are strengthened during this period will lead to even more fruitful relationships in the future. The next months will be challenging: longer times for receivables, more disputes, more requests for support. When it comes to your best customers, we encourage you to treat them as you would in good times. Odds are that other vendors may lose their focus or ability to serve them well. To forge stronger bonds, have your senior people meet with your customers' senior people. Find out how your customers feel about your current performance, business trajectories, and any indirect competition that may be out there. Filling a void left by your competition and strengthening customer relationships will increase the likelihood of your future success.

Be on the lookout for unique opportunities to benefit from the economic climate. Every crisis produces winners as well as losers. Positioning your company for immediate (and midterm) moves that will change industry dynamics is critically important. Areas of opportunity may include exploiting industry consolidation, enticing the competition's poorly served customers, or locking up struggling vendors with long-term deals.

Protect—and even enhance—your company's culture. Just as a person's character is often revealed in a crisis, we believe that a company's true culture becomes much more visible to others in a downturn. The actions you take—and, just as important, how you take them—will be associated with your company's culture through the next generation. If you must release employees, do

it respectfully. And be aware that everyone will remember how you let people go: both the employees who had to leave as well as those who stayed.

Whether it's fair or not, leaders of companies (and countries) are closely scrutinized during their first 100 days in office—especially in times of crisis. A well-planned approach to leading out of the downturn can help galvanize an organization and set the tone for years to come. It can also help incumbent leaders as they enter a year that promises much turbulence.

We will be continuing our discussions with company leaders over the next several months. If you have comments to add, or if you'd like to discuss some of the recommendations we have made here, we'd like to hear from you.

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