

Planning for an economic downturn: What organizations do to survive & thrive

April 18, 2019

Webinar starts at noon CT



Marjorie Engle

Senior Vice President

Organizational Development & Family Business

Presented by

Administration

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MARJORIE ENGLE

SENIOR VICE PRESIDENT

ORGANIZATIONAL DEVELOPMENT & FAMILY BUSINESS

Marjorie provides custom, personalized solutions in executive coaching, transition and succession planning, organizational analysis and corporate strategy development. She has extensive experience with family owned, closely held, not-for-profit, governmental and publicly traded organizations throughout the United States.



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A desk setup for business analysis. A tablet in the foreground shows a pie chart with segments labeled 'S', 'M', 'C', 'P', 'E', and 'T'. Behind it, a pair of black-rimmed glasses rests on a document featuring a red and blue area chart. To the right, a black pen with an orange ring lies on a document with a bar chart showing 'AVG SALES' for 'Jan' and 'Feb'. Another document in the background shows a green and blue bar chart. The overall scene is a professional workspace for data analysis.

**What to
watch for**



What to watch for

- Declining sales and/or lower margins
- Pressure on lead times
- Uncertain cash flow
- Lack of credit
- Instability in customers' and suppliers' businesses



Research on recessions



Research on recessions

- **1/3** of companies in top quartile of their industry fell out of their leading position
- Only **10%** returned to the top quartile within five years
- **15%** of today's market leaders advanced to that position during the recession



POLLING QUESTION #1

Please answer for continuing education credit

How are people
feeling?



How are people feeling?

How would you describe people's moods in one word?

- Stress
- Fear

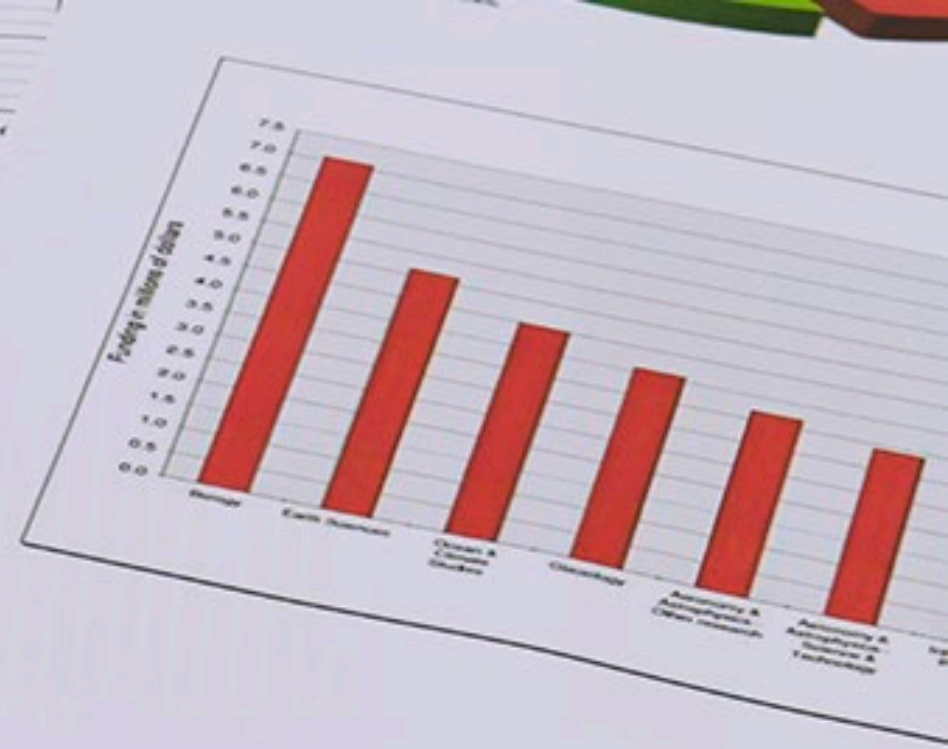


How are people feeling?

Drivers of stress and fear:

1. Loss of a sense of predictability
2. Loss of a sense of control





Evaluating your position

Evaluating financial position

- cash flow
- our cash reserves
- debt
- balance sheet
- sales
- competition



Shifting financial perspective

“I always said March takes care of itself – this year it didn't.”

“Last year to this year doesn't matter anymore – now we are looking at the last three months, comparing with current year projections.”



Evaluating strategic position

- Customer loyalty
- Customers' willingness to pay
- Advantages over competition
- Market share
- Industry leader



Evaluating industry position

- Industry impact
- Supplier impact
- Customer impact



POLLING QUESTION #2

Please answer for continuing education credit

Identifying our core business



“Brutal truths” revealed

- What do customers really value?
- What are they willing to pay for?



“Brutal truths” revealed

- How unique are our products and services?
- Are they invaluable to our customers?



“Brutal truths” revealed

- Which customers are truly core?
- Which products are making money?



“Brutal truths” revealed

- What organizational bottlenecks are getting in the way of effective action?



**Opportunities
to seize**



↑ Opportunities to seize

- Customers have pressing needs and new sources of pain



↑ Opportunities to seize

- Downturn “unfreezes” market positions



↑ Opportunities to seize

- Assets can be acquired relatively cheaply



↑ Opportunities to seize

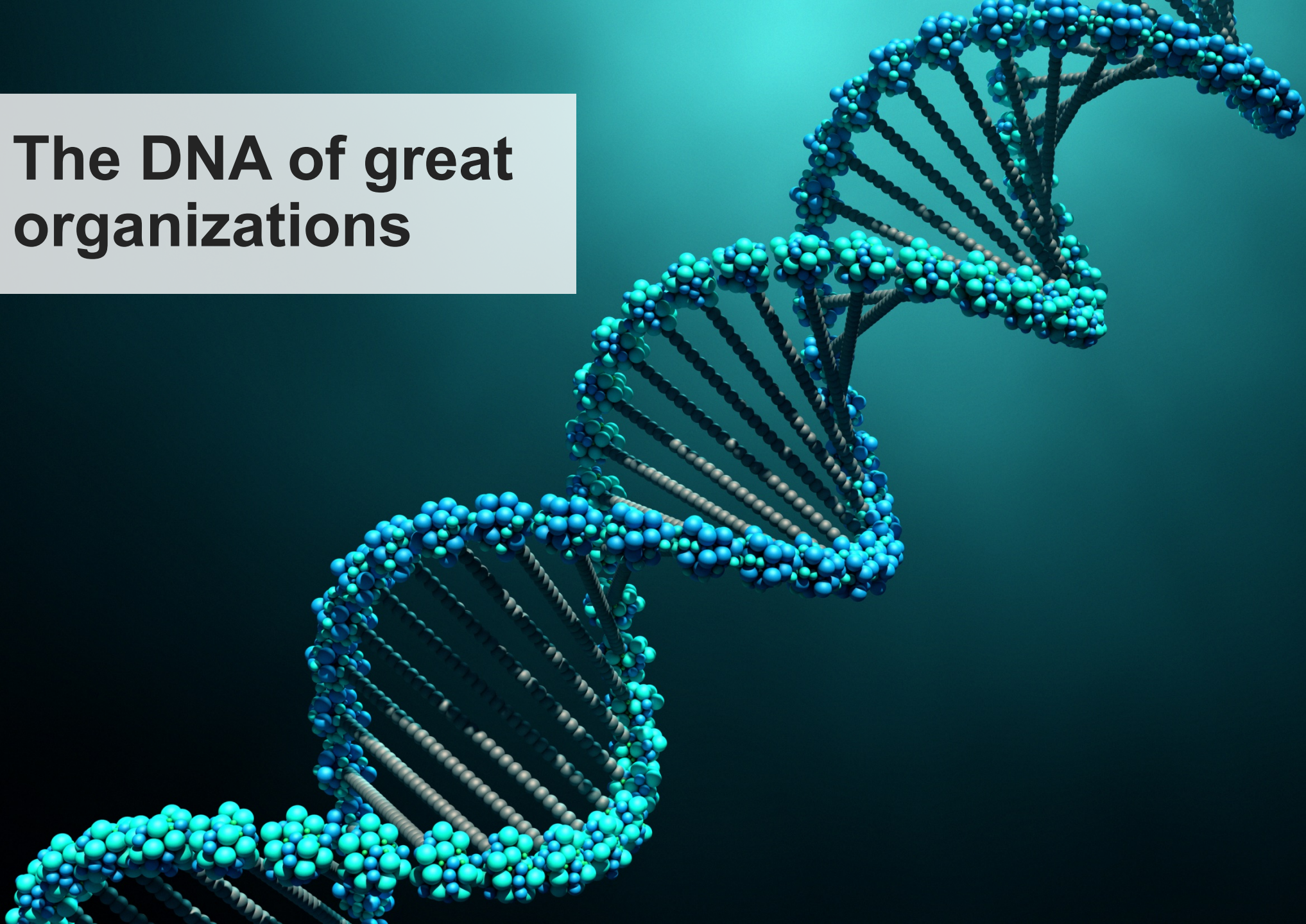
- Environment is favorable for difficult or “impossible” internal changes



POLLING QUESTION #3

Please answer for continuing education credit

The DNA of great organizations

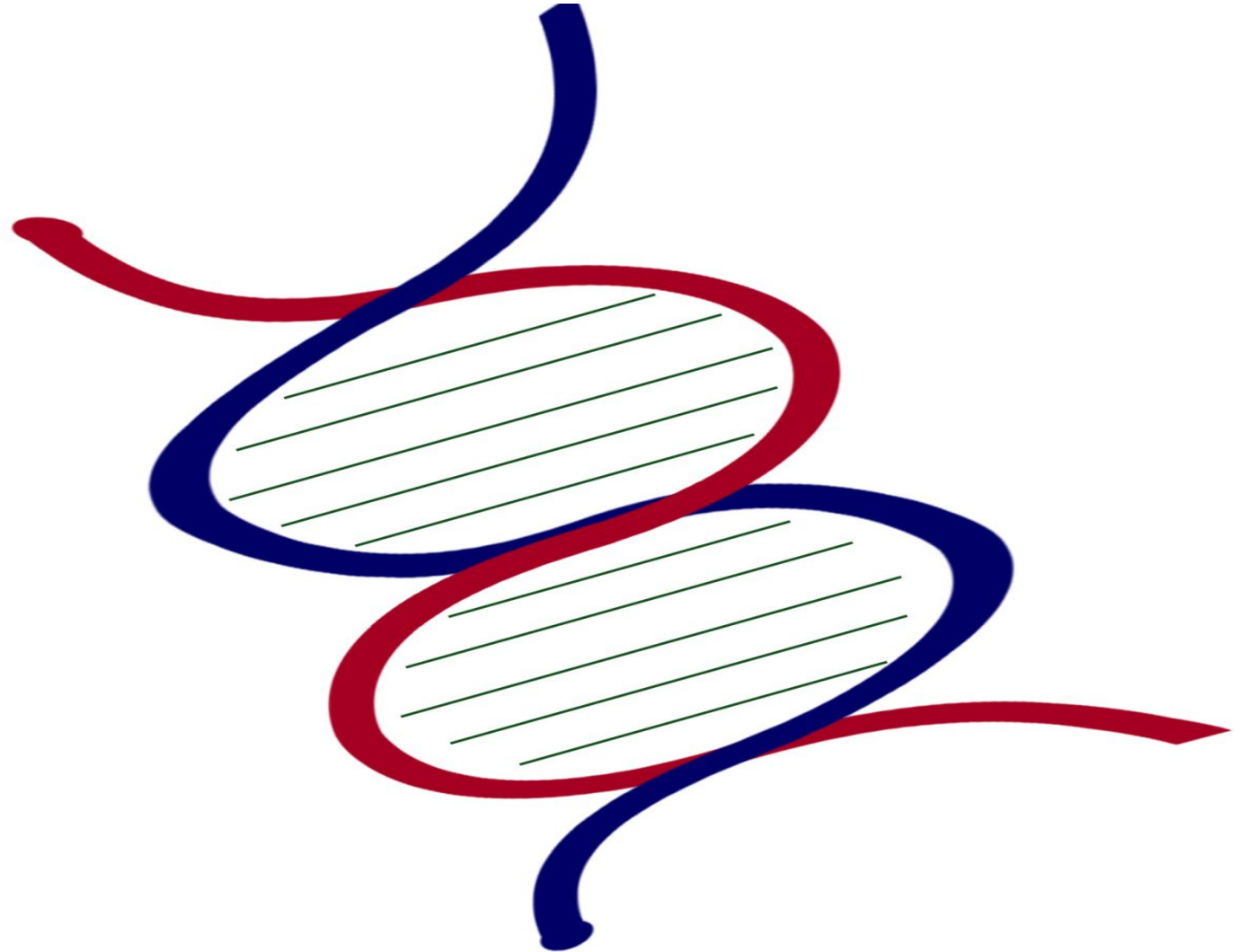


The DNA of great organizations

Strategy

Execution

People



The DNA of great organizations

Strategy:

Works as a **roadmap** and **filter**

What is the **core** that we have to protect?

What “**barnacles**” should we eliminate or not pursue?



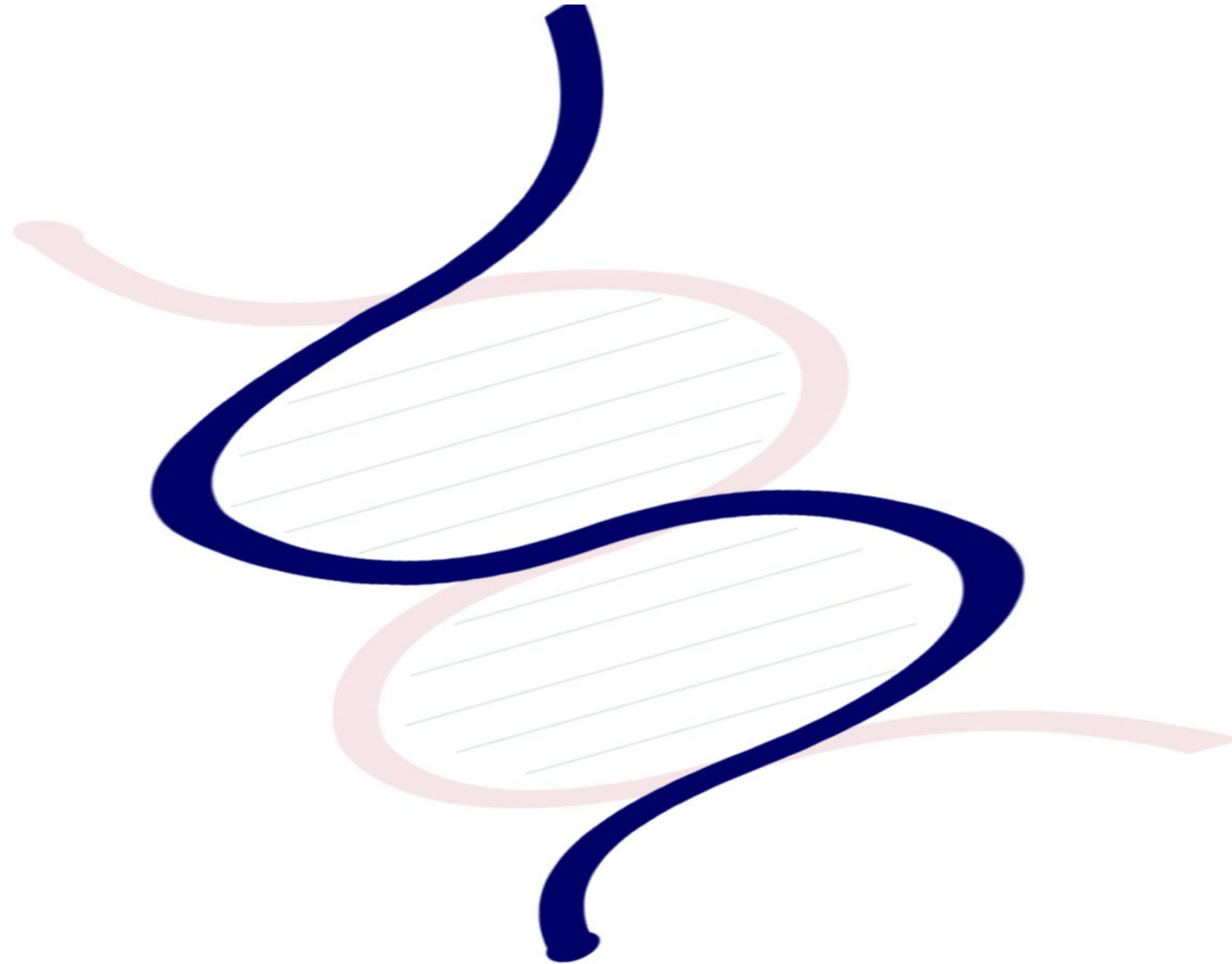
The DNA of great organizations

Execution:

How can we affect **top-line revenue**?

How can we maximize **gross profit** dollars?

How can we reduce or control **expenses**?

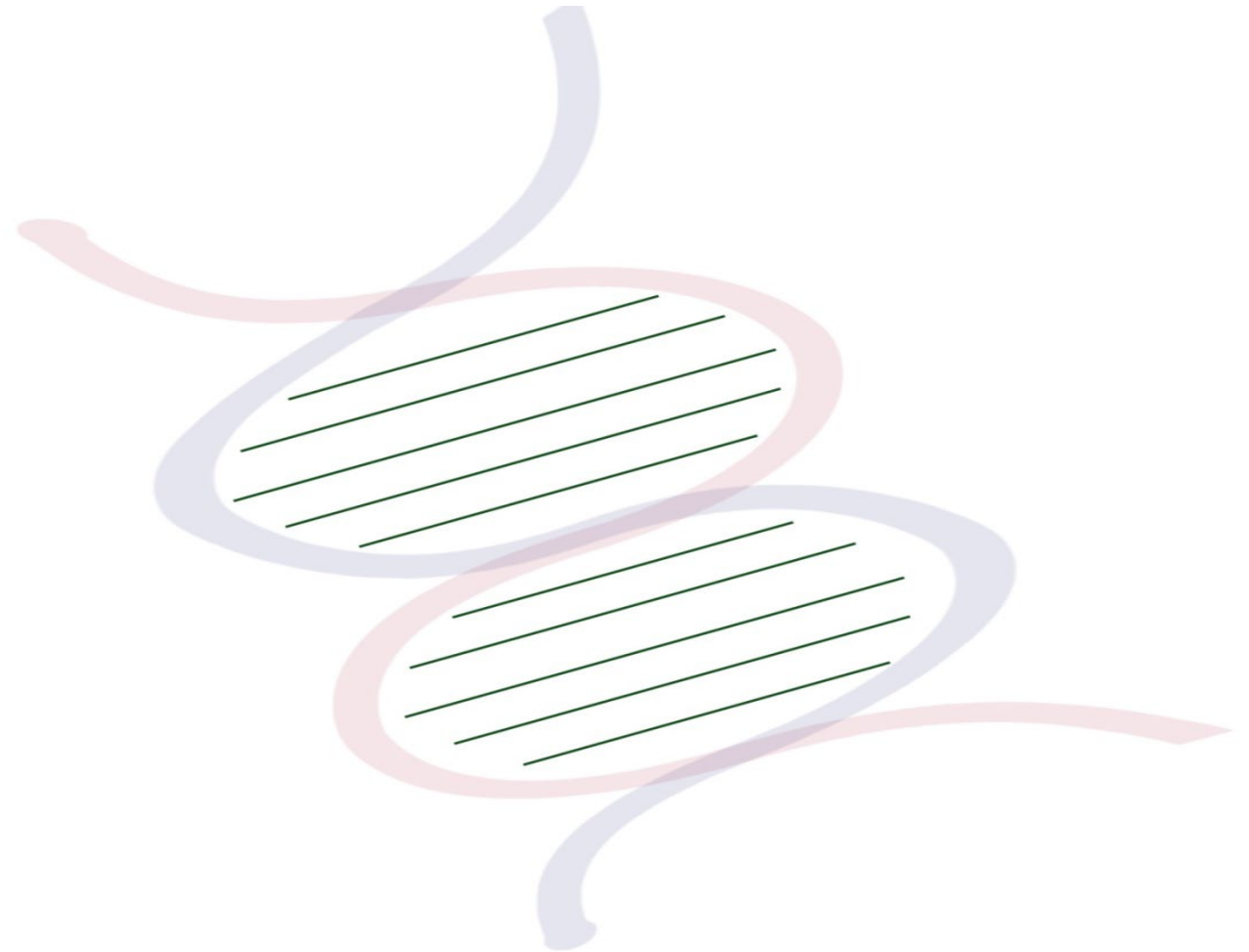


The DNA of great organizations

People:

Reduce **fear and stress**
unpredictability and sense of
loss of control

Communicate what we are
FOR





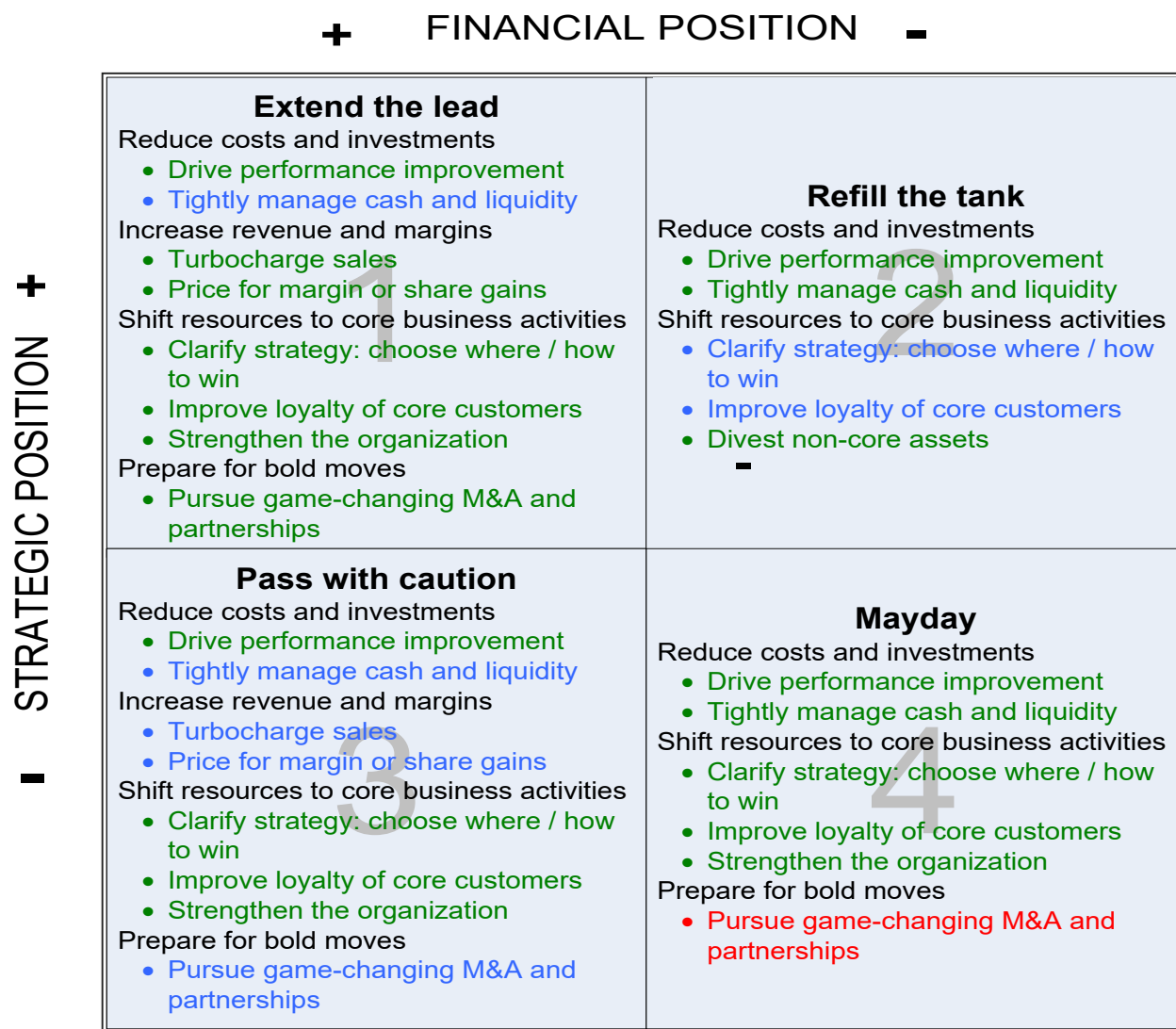
Where are you?



Industry **more or less**
sensitive to economic
downturn

Adapted from Winning in Turbulence: Pull the Right Levers for Your Situation by Darrell Rigby

Industry more sensitive to economic downturn



Key:
 Green: Most critical
 Blue: Secondary priorities
 Red: Combine with winners

Adapted from *Winning in Turbulence: Pull the Right Levers for Your Situation* by Darrell Rigby

Industry **less** sensitive to economic downturn

+ FINANCIAL POSITION -

STRATEGIC POSITION +

Full Speed Ahead Reduce costs and investments <ul style="list-style-type: none">• Drive performance improvement Increase revenue and margins <ul style="list-style-type: none">• Turbocharge sales• Price for margin or share gains Shift resources to core business activities <ul style="list-style-type: none">• Clarify strategy: choose where and how to win• Improve loyalty of core customers• Strengthen the organization Prepare for bold moves <ul style="list-style-type: none">• Pursue game-changing M&A and partnerships	Lighten the load Reduce costs and investments <ul style="list-style-type: none">• Drive performance improvement• Tightly manage cash and liquidity Increase revenue and margins <ul style="list-style-type: none">• Turbocharge sales• Price for margin or share gains Shift resources to core business activities <ul style="list-style-type: none">• Clarify strategy: choose where and how to win• Improve loyalty of core customers• Strengthen the organization• Divest non-core assets
Overtake the timid Reduce costs and investments <ul style="list-style-type: none">• Drive performance improvement Increase revenue and margins <ul style="list-style-type: none">• Turbocharge sales• Price for margin or share gains Shift resources to core business activities <ul style="list-style-type: none">• Clarify strategy: choose where and how to win• Improve loyalty of core customers• Strengthen the organization Prepare for bold moves <ul style="list-style-type: none">• Pursue game-changing M&A and partnerships	Refocus and retool Reduce costs and investments <ul style="list-style-type: none">• Drive performance improvement• Tightly manage cash and liquidity Increase revenue and margins <ul style="list-style-type: none">• Turbocharge sales Shift resources to core business activities <ul style="list-style-type: none">• Clarify strategy: choose where and how to win• Divest non-core assets Prepare for bold moves <ul style="list-style-type: none">• Pursue game-changing M&A and partnerships

Key:

Green: Most critical

Blue: Secondary priorities

Red: Combine with winners

Adapted from *Winning in Turbulence: Pull the Right Levers for Your Situation* by Darrell Rigby

POLLING QUESTION #4

Please answer for continuing education credit

Principles for managing profit





Principles for managing profit

- You can't sell your way out of the crisis

"You have to think dramatically different"





Principles for managing profit

- Indiscriminate, mechanical cost-cutting may hurt more than help





Principles for managing profit

- Focus on innovating your business model (product offering / customer mix / cost structure)





Principles for managing profit

- Focus on ensuring sales are targeted in the right areas





Principles for managing profit

- Focus on boosting productivity and operational efficiencies





Principles for managing profit

- Focus on decreasing expenses

**“You can’t make
changes too soon.
You can make them
too late.”**



Sample financial scenarios

	SCENARIO 1			SCENARIO 2			SCENARIO 3			SCENARIO 4		
	Base Model			Sales decrease 25%			Improve margins - regain 5% of lost sales			Economy picks up - margins maintained		
Sales	\$	13,000,000		\$	9,750,000		\$	10,400,000		\$	13,000,000	
Cost of sales	\$	(11,000,000)	85%	\$	(8,775,000)	90%	\$	(8,528,000)	82%	\$	(10,660,000)	82%
Gross income from sales	\$	2,000,000	15%	\$	975,000	10%	\$	1,872,000	18%	\$	2,340,000	18%
Operating expense	\$	(1,000,000)	8%	\$	(900,000)	9%	\$	(850,000)	8%	\$	(1,000,000)	8%
Income from operations	\$	1,000,000	8%	\$	75,000	1%	\$	1,022,000	10%	\$	1,340,000	10%
Other income & expenses	\$	(500,000)		\$	(500,000)		\$	(500,000)		\$	(500,000)	
Income before taxes	\$	500,000	4%	\$	(425,000)	-4%	\$	522,000	5%	\$	840,000	6%
										SCENARIO 5		
										To generate same income by sales alone		
										Sales	\$	17,420,000
										Cost of sales	\$	(14,807,000) 85%
										Gross income from sales	\$	2,613,000 15%
										Operating expense	\$	(1,273,000) 7%
										Income from operations	\$	1,340,000 8%
										Other income & expenses	\$	(500,000)
										Income before taxes	\$	840,000

* Hypothetical financial scenarios for illustration purposes only

Actions taken to reduce workforce

- Eliminate temp workers
- Reduce overtime
- Furloughs
- Reduction in force

“Cut down so you can look up.”



POLLING QUESTION #5

Please answer for continuing education credit

**What companies
have tried**





What companies have tried

- Increased communication with employees
 - Ask employees for cost-savings ideas

“We give employees the facts.”





What companies have tried

- Increased communication with management, boards





What companies have tried

- Reorganization and consolidation of positions



What companies have tried

- Not filling open positions



What companies have tried

- Reducing inventory





What companies have tried

- Negotiating pricing with vendors



What companies have tried

- Deferring major purchases





What companies have tried

- Closing stores / branches / locations



What companies have tried

- Outsourcing





What companies have tried

- Bringing in outsourced work





What companies have tried

- Deferring travel (when not sales-related)



**Reductions in
pay & benefits**

**EMPLOYEE
BENEFITS**

Reductions in pay and benefits

- Companies have reduced or discontinued 401(k) matching for employees



Reductions in pay and benefits

- Wage freezes
- Salary cuts



Reductions in pay and benefits

- Bonuses not awarded



Reductions in pay and benefits

- Reduction in health insurance benefits; increases in employee cost



Reductions in pay and benefits

- Reduction in employee activities
 - company picnics
 - holiday parties
 - paid lunch meetings





What wasn't cut or
compromised

DO
WHAT IS
RIGHT,
NOT
WHAT IS
EASY

What wasn't cut or compromised

- Customer service and focus

“When you risk money, you can get it back. You can’t get your reputation back.”



What wasn't cut or compromised

- Doing things the right way



What wasn't cut or compromised

- Ethics



What wasn't cut or compromised

- Quality



What wasn't cut or compromised

- Core business



What wasn't cut or compromised

- Pursuing new markets / customers



What wasn't cut or compromised

- Investments in equipment (to improve efficiencies)



What wasn't cut or compromised

- Health insurance package



What wasn't cut or compromised

- New product development



What wasn't cut or compromised

- Training (sales and cross-functional)

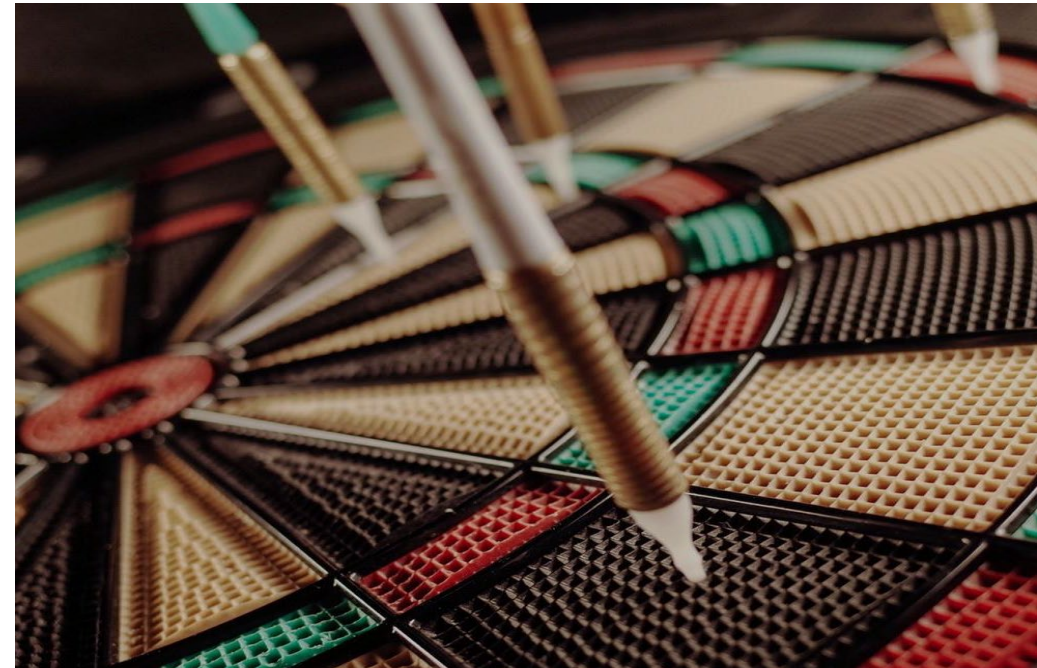




**What goals should
we pursue?**

What goals should we pursue?

- Top line revenue
- Operating costs
- Indirect expenses



Action items



Action items

- What low hanging fruit can we pick?
- What secondary actions can we plan?



Action items

- Immediate actions
 - Next 90 days?
 - Next 6 months?
 - Next 12 months?



Sample agenda

- Identify core business
- Brainstorm organizational goals
- Identify and prioritize action items
- Agree upon next steps
- Shape message to the company



Message to the company





Message to the company

- Who do we need to communicate with?
- What is the message that we need to convey?

**“When you think you
have done enough,
you haven’t.”**



Thank you for attending



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