



Following New Paths – Manage Your Complexity and Win: in the Past, Present, and Future

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The word “crisis” is most likely the buzz word of the year and at the same time receiving the most negative press. Rightly so. The media currently portrays the economic situation in a way that leaves the impression that there is no future. But, as we, at Schuh & Company, like to remind you: this is not the end either. Why should it be? Just because another bubble burst? Yes, right now a large wave of insolvencies and also an increase in unemployment is experienced, but this does not mean it is time to bury one’s head in the sand. Solutions are now as important as ever. Solutions that help us be successful in the future. We are proposing approaches that in our opinion are both important and forward looking.

Given the current economic state the principle “Cash is King” is ever more important. But not only fast measures are needed, also sustainable ones. You should never forget the interdependencies of all your actions. For that reason cybernetics and systemic thinking are rather popular right now. We have always advocated these ideas. Today it is obvious, that we were right much sooner than anyone would have liked. We recommend a holistic five point program for your company:

- 1. Product:** Clean up and rid yourself of liabilities. Now or never!
- 2. Process:** Finally reduce waste and critically question old habits!
- 3. Production:** Scale proportionately and adapt the right way. Use consequence and speed!

4. Innovation: Get ready for tomorrow and then hit the ground running!

5. Personnel: Identify partners and together prepare for the future!

1. Product: Clean Up and Rid Yourself of Liabilities. Now or Never!

The time has come to critically assess your product portfolio. During a boom it is less important to address questions such as: “What really sells?” or “Where can new potential and markets be uncovered?”, because everything is supposedly working well. Identify and remove products that hold back your progress today and ensure your survival tomorrow.

▪ **Radically reduce inventory and sell off dead stock.**

A large amount of inventory is unnecessarily tied-up capital that is needed in other business areas now.

▪ **Stay sovereign when pricing.** The focus now is not on turnover but revenue. Often a price reduction is more harmful than a decrease in sales quantity. GM granted enormous discounts in comparison to Toyota in recent years and was never able to recover from it. In the end, the customers were so accustomed to the discounts that a GM car could no longer be sold at market price.

▪ **Streamline your product range.** Which of your products really sell and are profitable? Take a look at Porsche in the beginning of the 90s, for example. The company experienced a drastic decrease in profits, even though the product range was larger than ever. Porsche's success story only was written after the company dared to take a radical departure from the past.

▪ **Identify gaps in your product and service range and close them quickly.** Does the competition offer any services that the consumer favors? If so, you should react quickly! Your whole range of goods, including priced and free-of-charge services, should be reevaluated.

▪ **Bundle your services and packages.** Your customers will get the feeling of getting a good deal, while you increase sales at the same time. It's a win-win situation for both sides.

▪ **Offer survival packages for your customers.** Keep in mind that not only your company suffers from the struggling economy, but your customers are as well. To keep your customers loyal, think about your sales strategy. Are there any "smaller solutions", smarter financing options, ...?

▪ **View the aftermarket as an opportunity for growth.** If your customers already own your products, use it as a chance to further increase this trust and offer complementary support service.

▪ **Identify new applications and markets for your products and technologies.** General Electric recognized early on that emerging markets offer enormous potential. GE expects above average growth in these countries for the years to come. Thus, GE adapted its product and service portfolio to increase the im-



portance of its transportation, energy, water treatment and purification, and health care offerings. All of these are products and services that will continue to be popular in emerging markets.

2. Process: Finally Reduce Waste and Critically Question Old Habits!

When considering a starting point for evaluation, honestly consider these questions: What do your processes really look like? Where do you see possibilities for improvements? Where can you economize? And what is not absolutely necessary? This assessment will help you drastically increase your speed. You should discourage excuses and accelerate your production, logistics, and administrative processes.

▪ **Develop a value stream orientation.** In this case we simply mean: learning to see. This principle needs to be applied across all departments. Also the administration should be required to display transparency and come out of hiding.

▪ **Accelerate the commercial launch of products.** The longer you wait to introduce a new product or service, the greater the time for your competition get established in the market.

- **Question interfaces and support organizations.**

Slow and inflexible processes are often the result of outdated structures. Question your interfaces, investigate your hierarchies, create more transparency, and clarify responsibilities at every level. An accepted and lived process model can work wonders.

- **Analyze your process drivers.** Process and complexity drivers control your cost structures. Many of them may prove to be unnecessary. This should be the starting point of your analysis. Examples to consider are: The amount of accounting processes in finance and bookkeeping, the amount of booked travel changed on short notice, the amount of suppliers with the same focus, the amount of dated and unused part numbers, the amount of unnecessary and inconclusive work sessions, etc. You probably can come up with some examples from within your organization right away.

- **Define your competitive position.** Focus on the basics, because you will only be able to succeed if you have a clear competitive strategy.

3. Production: Scale Proportionately and Adapt the Right Way. Use Consequence and Speed!

Examine your production with a healthy amount of realism and not just an attitude of wishful thinking. What really is your core competency and what is going to withstand the challenges of the future?

- **Reduce your capacities and identify your potential to streamline.** It is easy to forget that typically you can get away with less. The utilized capacity in most industries was already below 100% prior to the recession. You can generate additional liquidity through the sale of unnecessary assets.
- **Reassess your value adding structures and declutter your supply chain.** The question of “make or buy” has a very different meaning today than it did a couple of years ago. Utilize your capacities better; including those of your suppliers.
- **Scrutinize all of your investments.** Of course cash is king now, but that does not mean you should deprive yourself of a future. This is a favorable environment for healthy companies to strengthen themselves through targeted acquisitions. Now is the time that you can seek out the real bargains.

4. Innovation: Get Ready for Tomorrow and Then Hit the Ground Running!

Struggling companies often get caught up and miss innovative trends. You should avoid this at all costs. Check your positioning and decide what to concentrate on.

- **Develop a focused innovation push.** Without innovation you will not be able to create a future. But pay attention: It has to be a focused approach. Nobody can do everything on his own. Additionally, innovation management will send a positive signal to your employees. As a result you will create the much needed trust amongst your staff. Be sure to involve all of your employees in the process and openly request their contribution.

- **Consistently continue strategic innovation.** In the best case scenario you may be able to afford a temporary deferral, but you cannot abandon strategic innovation altogether. Companies that do not cut their R&D budget during times of economic contraction, often emerge as the winners shortly afterwards. Example: Apple Inc. During the last recession in 2001 Apple acted in contrast to general practice and increased its R&D spending. As a result, the Apple iTunes Software was released in 2003 and the following year the iPod Mini and iPod Photo were launched. Therefore, Apple now holds a market share of more than 70% of the MP3 market in the US.

- **Accelerate your innovation processes.** When under pressure, many things can be done faster. Now is the best time to demonstrate it.
- **Market pull and technology push is still the right attitude.** Surveys to gauge customer needs and understand the market are not enough; markets also want to be created. Paired together, innovation and technology

“Today’s problems cannot be solved with yesterday’s methods. The world is complex and thus needs Complexity Management.”

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management are the correct means to create those markets. Anyone caught off guard in current times was sound asleep.

5. Personnel: Identify Partners and Together Prepare for the Future!

Do you remember? This crisis will also end. Then it will be important to possess the right personnel with which your company can thrive again. If you are able to create loyalty amongst your employees now, it will go a long way.

- **Earn the Commitment of dedicated and capable employees.** Invest in advanced training and create new growth opportunities for them. Your company's success is increasingly dependent upon your employees' knowledge. This knowledge is a competence that is difficult for your competition to imitate. Should one of your key employees leave the company, a large gap is created that is hard and expensive to close.
- **Keep your eyes open for new talent.** Now that other companies are shutting down or laying off employees, you should start your search for new talent. Given the demographic trends, especially the mass-retirement of the baby boomer generation, the large pool of qualified job seekers should be seen as a rare opportunity.
- **Dismiss low performers.** No one looks forward to this task, but most likely you should have done this a long time ago.
- **Communicate openly, honestly and timely.** Let the professionals handle your communication. Engineers, economists, and lawyers are not always the best at it.

Conclusion

As Confucius once said, "The real fault is to have faults and not to amend them."

In case of additional questions regarding our suggested approaches, we would be happy to discuss them with you.

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