STRATEGIA
Partners

Good news for leaders: the crisis is coming or Growing through crises

By
Jean Berg
Founding Partner, Strategia Partners

Since the 1950s, the global economy has been structurally cyclical, with a crisis every four years. Its volatility is increasing. The ability of companies to withstand crises is diminishing.

However, crises always allow market leaders to grow and gain market share. Traditional approaches are no longer enough. Choices must be made; anticipation, agility and governance must be enhanced.

Four observations

1. Crises are an inevitable and necessary constant for economic growth.

The only certainty is that the crisis will come. Since the end of World War II, the world economy has experienced 18 crises, i.e. one every 4 years, whether it is a structural crises at the end of an industrial cycle (infrastructure, consumer goods, services) or a geographical crises (Japan, Europe, etc.) or a cyclical crises linked to specific events (financial crises, health crises, geopolitical tensions, etc.).

It is therefore necessary to integrate these periods of inevitable slowdown into the strategy of companies and use them to make a difference.

2. Leaders always gain market share in times of crises

The evidence is clear: leaders gain market share and strenghten their leadership position during a crisis. Large companies that are both resilient and create value over time rely on a combination of cash generation and growth.

They rely on solid competitive positions that generate internal cash flows. These "cash cows" allow them to survive through crises. But they do not create value. That comes from the high-growth activities.

It is the decisions made during the crisis that enable for significant growth. During the downturn, all players defend their position in order to stay afloat. At the heart of the growth, all the players give themselves the means to grow (R&D, industrial, commercial...). It is only at the end of the crisis that strategies can be differentiated.

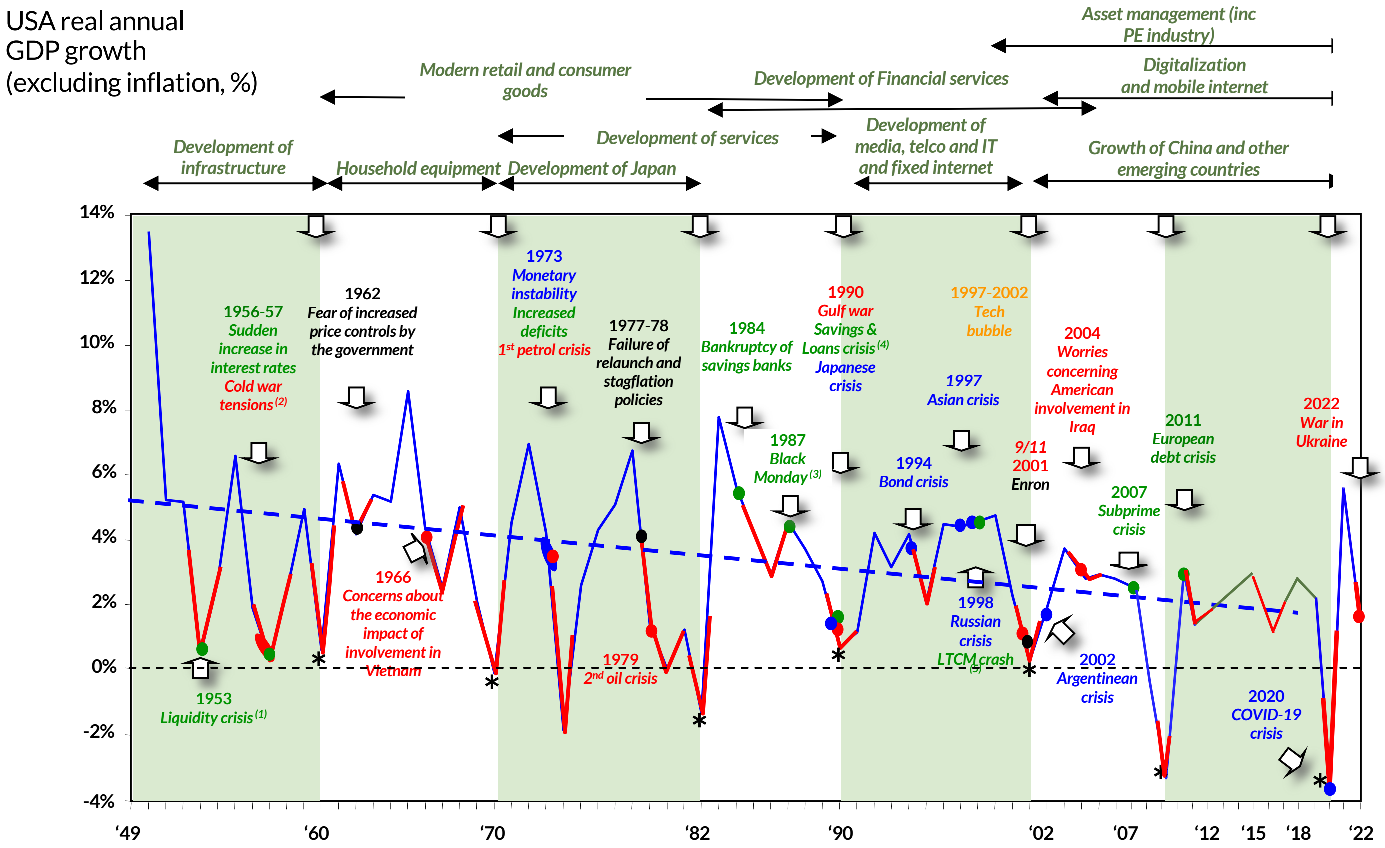
3. The volatility of the economy is increasing and the ability of companies to withstand the crisis is decreasing.

The statistics are a stark reminder: the volatility of the economy is increasing. It has doubled over the past 20 years. Between 1950 and 2000, the average growth of the US

STRATEGIA
Partners

Crises are an unavoidable and useful constant of long-term growth. The world economy experiences a crisis every 4 years

Example of the United States - 21 crises in 73 years (1949-2022)



Source: 2022 figure from IMF forecast; Sources: IMF, BEA, Bloomberg, Shiller, analyses, research and estimates Strategia Partners

- * End of a long economic cycle
- ● Financial crisis due to domestic causes
- ● Financial crisis due to external causes
- ● Domestic tensions
- ● Geopolitical tensions
- ● Speculative bubbles

economy (excluding inflation) was 3.5% per year. The standard deviation was 2.0%. The volatility was of 58%. Since 2000, volatility has been 102%.

There are many reasons for this: interdependencies between zones, optimization and specialization of value chains between geographies, increase in public and private debt and market concentration.

Future crises are likely to be more widespread their rate of spread, to be more differentiated by market and to be even more sensitive to geopolitical tensions. Unltimately, these developments reduce the crisis resilience of companies.

4. Traditional approaches are necessary but no longer sufficient.

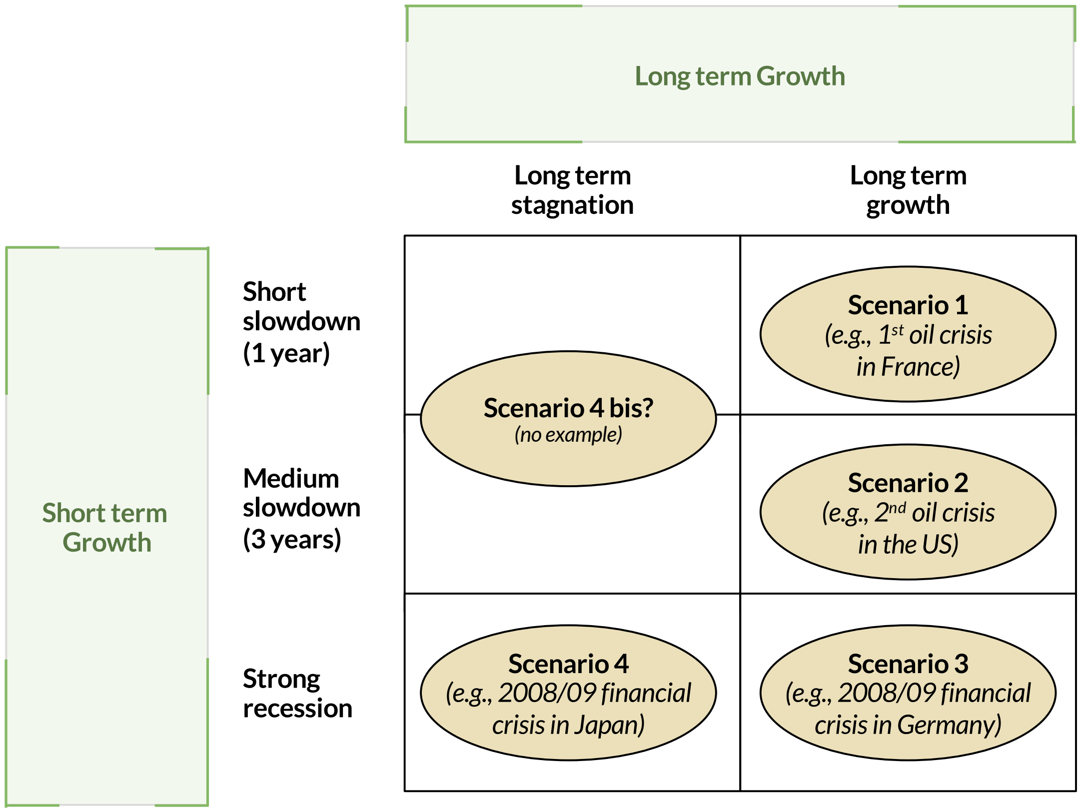
The fundamentals of traditional approaches to crisis resilience are still relevant:

- Focus on high-impact actions that can be implemented quickly (6 to 12 months);
- Segmenting actions between the optimization phase and the preparation phase for recovery;
- Differentiating actions and investments between activities with strong positions and low growth; with weak positions and low growth; in strong growth;
- Reviewing the business portfolio and making decisions on major restructuring and repositioning, divestiture, discontinuation or partnering of low-potential businesses;
- Reducing non-strategic costs and maximizing cash for low-growth and high-growth activities;
- Optimize of gross margin and strategic costs (R&D, sales and marketing, service, quality, etc.), focusing on the most profitable customers, channels, products and geographies;
- Targeted investments in high-growth activities to focus on a few key sources of growth;
- Set the stage for recovery;
- Prioritize time management, speed and timing of high-profile actions over completeness of those actions.

However, these approaches are no longer enough. In times of crisis, time is a critical factor. In a crisis that lasts 12 to 18 months, implementing out the actions in eight months makes it possible to be ready for the recovery in terms of focus and financial means.

It is therefore necessary to go further in their definition and to be faster and more agile in their execution: to understand the crisis factors; to prioritize strategic and short-term actions; to integrate and implement appropriate governance.

Different crisis scenarios with strong differentiation by country are possible (1/2)



1 Short-term slowdown and repositioning on a long-term growth path

- *Short-term demand contraction driven by inflation and monetary policy responses*
- *Quick control of inflation (mostly driven by conjunctural factors)*

2 Long slowdown (W-shape) and repositioning on a long-term growth trajectory

- *Difficulties to control inflation over the next 18 months due to the continuation of conjunctural factors or a stronger impact of structural factors*
- *Combination with a financial crisis (e.g., driven by public debt and budget deficits)*

3 Strong recession and slow long-term growth

- *Massive impact of energy and raw material prices on overall demand*
- *Energy, raw material & labor shortages and contraction in global trade driven by geopolitical tensions leading to a sharp temporary decline in GDP*

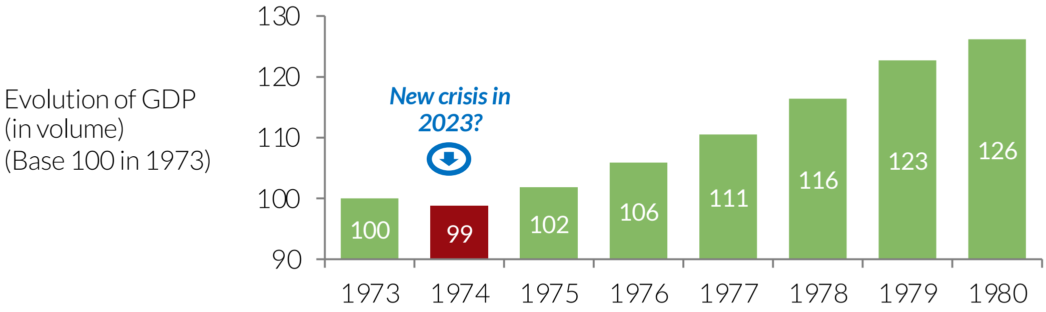
4 Strong recession and long-term stagnation

- *Entry into a new period of stagnation driven by a fragmentation of the world, long-term contraction in global trade and the constitution of economic blocks (Europe, USA, Asia & Russia)…*
- *… or by a massive change in public policy to fight climate change*

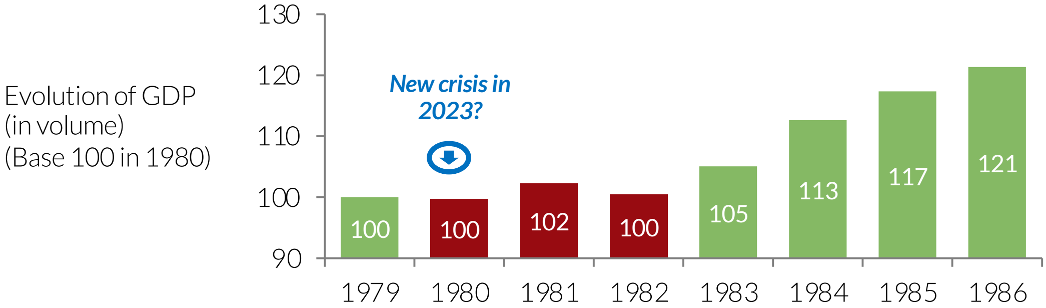
STRATEGIA
Partners

Different crisis scenarios with strong differentiation by country are possible (2/2)

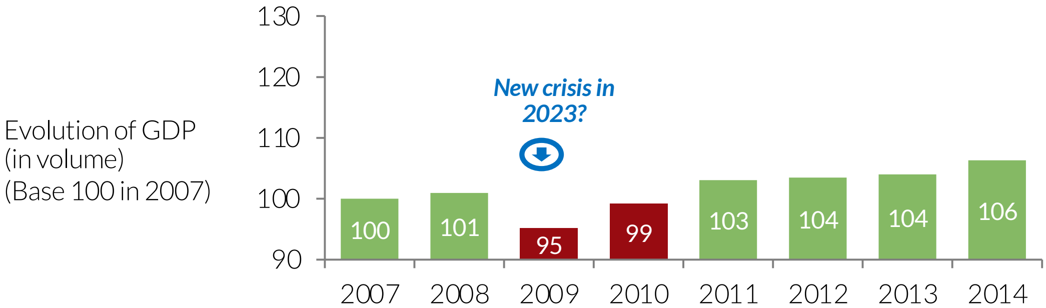
Scenario 1 – First oil crisis in 1974 in France



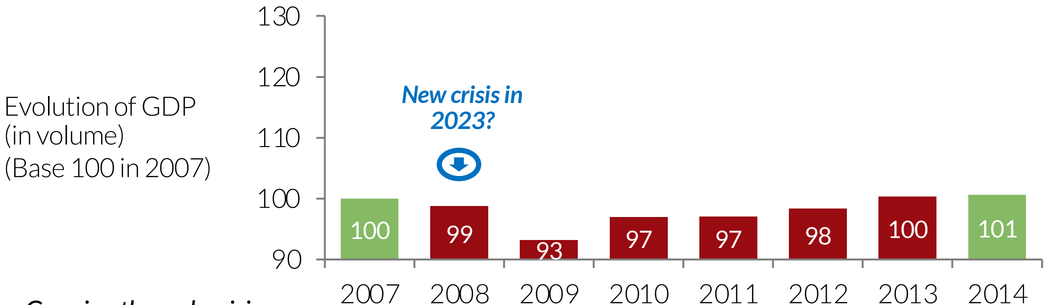
Scenario 2 – Second oil crisis in 1980 in the USA



Scenario 3 – Financial crisis of 2009 in Germany



Scenario 4 – Financial crisis of 2008/2009 in Japan



Growing through crisis 5

STRATEGIA
Partners

Strategia Partners
Crisis Management 5-Step Methodology

1 Definition of Crisis Scenarios (2 to 3 scenarios)

- Crisis factors & macroeconomic scenarios <u>by market</u>
  - Crisis factors (conjunctural vs. structural)
  - Expected duration of the crisis and magnitude
  - Differentiation by market
  - Evolution of market risks (protectionist movements, social tensions…)

2 Likely Impact of each scenario on the Company Industry

- Likely impact on the Company Industry
  - Market dynamics
  - Competitive dynamics and potential reactions from competitors
  - Opportunities & risks

3 Main issues & strategic priorities for each scenario

- Definition & segmentation of strategic issues by scenario
  - Strategic issues, financial issues, operational issues
- Implications for the Company in the short and medium-term
  - Portfolio management, focus of investments, cost reduction, value / cost optimization, preparation of the end of the crisis…
- Weaknesses and risk factors in current business model
  - Production, purchasing, supply, competencies…

4 Fundamentals actions valid in each scenario & Strategic actions adapted to each scenario

- Definition of fundamentals valid in each scenario…
  - Source of resilience
- … and strategic adjustments for each scenarios
  - Depending on the risk / return expectations of the shareholder

5 Action Plan & governance

- Definition of mid-term action plans for the fundamentals and the key strategic adaptations
  - Must-Win Battles, financial impact, operational implications
  - Responsibilities, timing and milestones
- Definition of the implementation process to deploy the initiatives in Company heartbeat

What is the approach to create an inflection during the crisis?

The approach to take advantage of the opportunities offered by the crisis should be structured around 8 elements:

1. Characterization of the crisis factors and definition of two or three macroeconomic scenarios differentiated by market;
2. Impact of these scenarios on the market dynamics, economic dynamics and the competitive dynamics of the company's various businesses;
3. Definition and segmentation of strategic issues by macroeconomic scenario;
4. Identification of the weaknesses and risk factors of the company's various business models;
5. Implications in terms of medium-term strategy and short-term action levers;
6. Definition of the fundamentals to be implemented regardless of the scenario and definition of the strategic adjustments to be implemented according to the scenarios;
7. Definition of an action plan integrating the fundamentals and the strategic adjustments;
8. Definition of crisis management and management of actions according to the evolution of the crisis towards one or other of the scenarios.

This approach requires a higher level of preparation and alignment than in the past. It is proactive, and not simply reactive.

It leads to a strong redefinition of priorities as opposed to optimized "business as usual".

It therefore requires strong leadership, trade-offs and control powers from the head of the group, as opposed to the simple decentralized management of operations, entity by entity.

What to conclude?

The crisis is coming.

Only its starting point, its duration and its magnitude are uncertain. The volatility of companies is increasing.

Time is accelerating. Agility and speed of reaction must be increased.

A new approach is needed. This requires a better understanding of the factors of the crisis, differentiation by market and by activity, a definition of the fundamentals and strategies for adaptation, a strong vision and tight management control, and appropriate governance.

This is what will make the difference in growth when the crisis is over.

STRATEGIA
Partners

Leaders always gain significant market share through crises

KEY TAKEAWAYS

- Growth is the only way to create value in the long term. A company that does not grow by more than 7.5% per year (i.e., a doubling of revenue every 10 years) loses its attractiveness and independence in the long term.
- Crises are an inevitable and useful constant of long-term growth. The world economy experiences a crisis every 4 years. Its volatility is increasing.
- It is through decisions made during crises that leaders gain market share and make a difference.
- Several crisis scenarios are possible with strong differentiation by country.
- Predicting the crisis scenario by country is impossible, but preparing for different scenarios is necessary.
- It is necessary to go beyond the traditional approaches of crisis response by anticipating the factors of the crisis, focusing its actions, differentiating the stakes, increasing agility and implementing an adapted governance.

Strategia Partners

Strategia Partners *is an international strategy consulting firm based in Europe (Paris & Zurich), the United States (New York & Seattle) and China (Shanghai). It assists Boards, CEOs, Executive Committees of major European and North American groups in their growth strategy. His approach integrates 3 perspectives: strategic and financial performance, environmental performance and human performance.*

Contact : jean.berg@strategiapartners.com

Paris | Zurich | Shanghai | New York | Seattle

STRATEGIA Partners

Strategy Consulting for Sustainable Growth

Strategy. Impact. Growth.

For Corporates

For Private Equity

Portfolio Strategy | Business Acceleration Strategy | Operational Strategy | Due Diligence