

Succeeding in the new economic environment

Focus on value, opportunity, speed

The final months of 2008 unleashed sudden and sweeping economic change in the global economy. Amid debates over how long and broad this period of change will be, one thing is clear – a major transformation is underway and “business as usual” responses are not likely to succeed. Based on our experience, our previous studies, an analysis of early winners of this period, as well as longer-term winners from historical economic transformations, we provide guidelines for business leaders to focus more than ever on value, to exploit opportunities presented by the current situation and to act on both quickly.

Growing economic uncertainty and its widening impact create an urgent need for action. But what separates the winners from the rest of the pack in times like these? What strategies can be emulated and applied across diverse industries, regions and competitive positions?

To help answer these questions, we identified early winners in the current period, beginning with the 61 large US-listed companies whose stock appreciated by at least 5 percent in 2008, at a time when the S&P declined by 37 percent.¹ Demonstrating the power of strategy over industry trends, these companies span diverse sectors, with 31 percent in services, 22 percent in financial services, 12 percent in health care and 12 percent in basic materials, followed by energy, capital goods, utilities and transportation. Moreover, those who won in 2008, won big, with their stock appreciating by an average of 24 percent, well above our 5 percent hurdle.

We then studied each of these companies and the strategies that led to their success. From this, we identified patterns in their strategies that allowed these companies not just to survive the economic transformation but to thrive in it. We then

looked beyond this group of standouts to companies that performed well in Europe and Asia in 2008, and we found similar patterns (see Figure summarizing findings).

Overall, the early winners:

Focus on value. Winners go beyond marginal cost-cutting and take a strategic approach to doing more with less, based on robust transparent information. They focus on core value drivers for clients and the company, and target value-oriented customers that will stay with them through the downturn. Others are using technology in innovative ways to slash prices by introducing revolutionary new business models.

To thrive, not just survive, companies need to take action on three fronts.

1. Focus on value	2. Exploit opportunities	3. Act with speed
<p>Do more with less</p> <ul style="list-style-type: none"> • Cut costs strategically • Conserve working capital • Protect cash reserves • Increase flexibility, responsiveness <p>Focus on the core</p> <ul style="list-style-type: none"> • Create value for clients • Reduce non-core costs • Shift from fixed to variable costs <p>Understand your customers</p> <ul style="list-style-type: none"> • Target value-oriented customers • Reduce complexity 	<p>Capture share</p> <ul style="list-style-type: none"> • Disrupt weaker competitors • Focus on growth markets • Acquire bargain-priced assets <p>Build future capabilities</p> <ul style="list-style-type: none"> • Protect and acquire critical talent • Establish corporate infrastructure for growth • Invest in innovation <p>Change your industry</p> <ul style="list-style-type: none"> • Understand your place in new environment • Pioneer new industry approaches • Exploit new revenue models • Cultivate strategic partnerships 	<p>Manage change</p> <ul style="list-style-type: none"> • Overcome the “change gap” <p>Empower leaders</p> <ul style="list-style-type: none"> • Establish strong, aligned leadership • Communicate strategy clearly and often <p>Manage risk</p> <ul style="list-style-type: none"> • Reduce risk and increase transparency



Exploit opportunities. Not satisfied with survival, the winners seize market share from faltering competitors, build future capabilities for the next wave of growth and even transform their industries through new business models. High-value and low-cost acquisitions can play a key role in this.

Act quickly. Now is the time for action to gain first-mover advantage and avoid more drastic steps later. Still, it remains vital to ensure transparent management information and then use this to help align and empower leadership and the broader team, identify and manage risk robustly and tackle change systematically.

From surviving to thriving

The current period may actually present rare, possibly once-in-a-lifetime opportunities. To seize them, companies must first establish financial stability in the short term. But the winners will also invest for the medium and even long terms. As preconditions for success with this, companies will need to achieve:

- A robust understanding of how the transformation will impact their industries as well as allied industries
- A keen appreciation of their own core competencies and how these can be leveraged to take advantage of emerging opportunities and profitable innovation
- Committed and aligned leadership with a clear strategy for creating sustainable competitive advantage so that their enterprise can move as swiftly as current circumstances demand.

Even, perhaps especially, in times like these, winners do emerge. Based on patterns in the strategies winning companies are using, we advise business leaders to: focus more sharply than ever on value, exploit opportunities presented by the current situation and act quickly to capitalize on these opportunities.

To obtain a full version of this paper, please email iibv@us.ibm.com

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Reference

1 Our US analysis focused on: public companies listed on AMEX, Nasdaq and the New York Stock Exchange that had market capitalization greater than US\$1.4 billion and saw their stock appreciate by 5 percent or more in 2008 at a time when the S&P 500 Index declined by 37 percent. The S&P performance data was accessed from: <https://advisors.vanguard.com/VGApp/iip/site/advisor/investments/benchmarks/performanceSP?File=SPPerfReturns&bench=SP>

How can IBM help?

- **Strategic Profit Improvement** focuses on structurally optimizing working capital, assets and human capital, as well as cost cutting
- **Strategic Pricing** provides a comprehensive methodology to determine and set optimal prices, and improve profitability
- **Information Strategy and Business Analytics** provide the information and insights to understand and act on the real drivers of value
- **IT Performance Management** helps ensure that IT resources are tuned to maximize efficiency and effectiveness
- **Business Model Innovation** leverages new business models to reposition and unlock global opportunities
- **Better Change** is a structured approach providing strategic leadership for successful change driven by value realization
- **M&A Solutions** support all steps of an acquisition or divestiture, from strategy development to successful execution

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