



## Peak Performers: Using Business Cycles to Win in Germany, Switzerland and Austria

Many industrial companies prepare poorly for recessions, but a select group have mastered careful planning and implementation, allowing them to maintain profitability in a downturn.

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## Executive summary

Industrial goods markets are cyclical—a fact that some managers have forgotten during the economy’s upward trajectory over the past nine years. Basking in the sun of their recent success, German, Swiss and Austrian companies in particular have become accustomed to a seemingly unstoppable ascent.

However, experience shows that it is only a matter of time before the next recession hits. Does this mean that the ascent will soon shift to an abrupt descent? Probably not, since most economic crises announce their arrival in advance to those who are listening. Yet many companies ignore these warning signs for too long. All too often, executives end up panicking and battening down the hatches as they attempt to steer the company out of dangerous waters.

In Bain & Company’s analysis of the financial crisis of 2008–09 and the following years, the destructive consequences of this behavior were clear. The best-performing companies were those that recognized the coming downturn during the good times and used this head start to gain a lasting advantage over the competition. In fact, over the past 10 years, these pioneers have generated significantly more value in total shareholder return (TSR) than their rivals, which either hesitated for too long or made significant errors when they did act.

High-performing companies in Germany, Switzerland and Austria share several characteristics: a sophisticated early warning system; a clear, forward-looking business plan that can be scaled up depending on the recession’s severity; and operational flexibility during the recession. Four cornerstones of action support this program:

- **Strategic alignment.** Companies with a clearly defined core business will know where cutbacks inflict the least damage and where further investments are essential. The strategic business plan must make allowances for the cyclicity of market segments and, where necessary, create a financial buffer for a recession. Operational actions, such as adapting sales targets and factory operations, must be rooted in this strategic perspective.
- **Rapid recognition.** Companies should continually monitor all relevant market segments for early warning signs. This requires combining internal company data, such as order backlog or capacity utilization, with external assessments by market experts. Firms should track customer and market signals, regularly analyzing them at the decision-maker level. This allows a company to pull the right operational levers quickly in order to maintain profitability, such as ramping up short-term labor in plants.
- **Active adaptation.** Initiatives must be differentiated for each business segment, cost type, level of the value chain, region and so on. By designing initiative packages that can be implemented gradually, a company will be able to preserve a financial buffer and maintain a constant profit margin despite a decline in sales. Initiatives should be prioritized according to their expected duration to implement, ease of implementation and intrinsic value. If there is no choice but to reduce the workforce, for example, a company can first trim temporary staff rather than highly experienced foremen.

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- **Results-oriented change management.** Companies need to be in a position to react resolutely and effectively. It's imperative to have a clear-eyed view of managers' experience and competencies, so that responsibilities for individual actions can be assigned quickly. Furthermore, the authority to implement cost programs needs to be set up clearly along the entire sponsorship spine—from the chief operating officer (COO) to the head of plant, production and equipment (PPE) to the plant manager—so that all have the same understanding of the required operational measures.

The most successful companies, which we call peak performers, do not view a crisis as a threat. To the contrary, they view business cycles as opportunities for gaining a lead over competitors. Careful preparation, the courage to act countercyclically and strong operational implementation competencies are essential to navigate out of the storm.

## Analysis: Winners in the recession remained winners for years after

*Agile companies that actively adjust their costs to declining sales are significantly more successful than competitors that simply wait and see.*

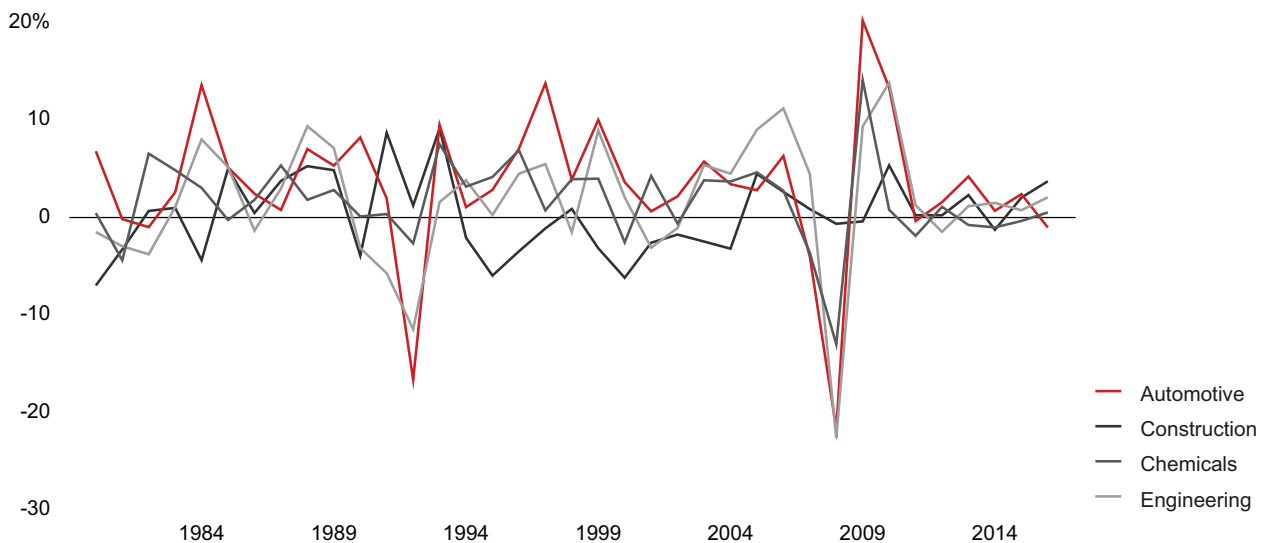
The economy has been surging in terms of orders, exports and employment. But despite all the good news, it's worth remembering that industrial goods markets are cyclical (see Figure 1). Demand is sure to decline eventually.

After moving from peak to peak over the past decade, the majority of managers in Germany, Switzerland and Austria expect an economic cooldown. Half of the managers Bain surveyed anticipate that the potential repercussions of a deceleration will be strong or very strong. At the same time, most consider themselves as well prepared as they were in the last crisis. They are confident of being much better positioned than their international competitors.

However, our analysis of data from 2008–09 and the following years reveals a different picture. Only about one in five companies weathered the crisis well and succeeded in improving their position relative to rivals. Indeed, more than two-thirds became less competitive and fell back.

**Figure 1:** The industrial goods sector regularly experiences economic fluctuations

**Percentage change in real gross output, companies in Germany, Switzerland and Austria**



Source: S&P Capital IQ

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Focusing on industrial goods companies in Germany, Switzerland and Austria during and after the crisis, we found that successfully managing business cycles does not mean merely surviving. It is vital to gain a sustainable lead over competitors, and operational measures play a key role in that regard. Our study indicates that a company that fares better than its rivals in an economic downturn will also generate more value in the long term, as measured by market capitalization gains and dividend payments.

In recessions, market conditions often change substantially. Companies need to review and adjust their priorities based on the new situation. Those that respond better and faster than competitors can gain market share during the crisis and take better advantage of the subsequent market recovery.

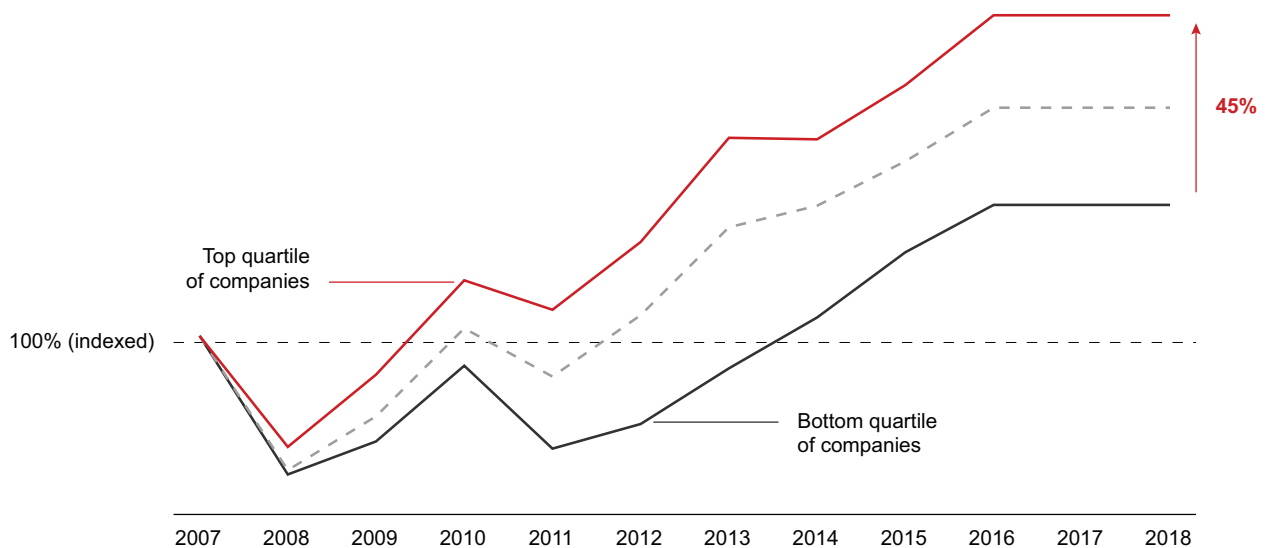
### Agility during the downturn ensured sustainable, long-term success

Reviewing each company’s reaction to the crisis, we found that some managed to cut costs quickly and thereby offset their sales declines. This cost-agile group also fared above average over the long run. Within 10 years, these peak performers generated a TSR approximately 45% higher than that of companies that initially remained passive in the face of the crisis-related steep decline in sales (see Figure 2).

“Throughout the crisis, we addressed issues that used to be considered taboo,” the CFO of a machinery manufacturer told us. “This has also strengthened our competitiveness in the long term. For example,

**Figure 2:** Companies that were cost-agile during the recession were more successful in the long term

Total shareholder return, industrial goods companies in Germany, Switzerland and Austria



Sources: S&P Capital IQ; Bain analysis

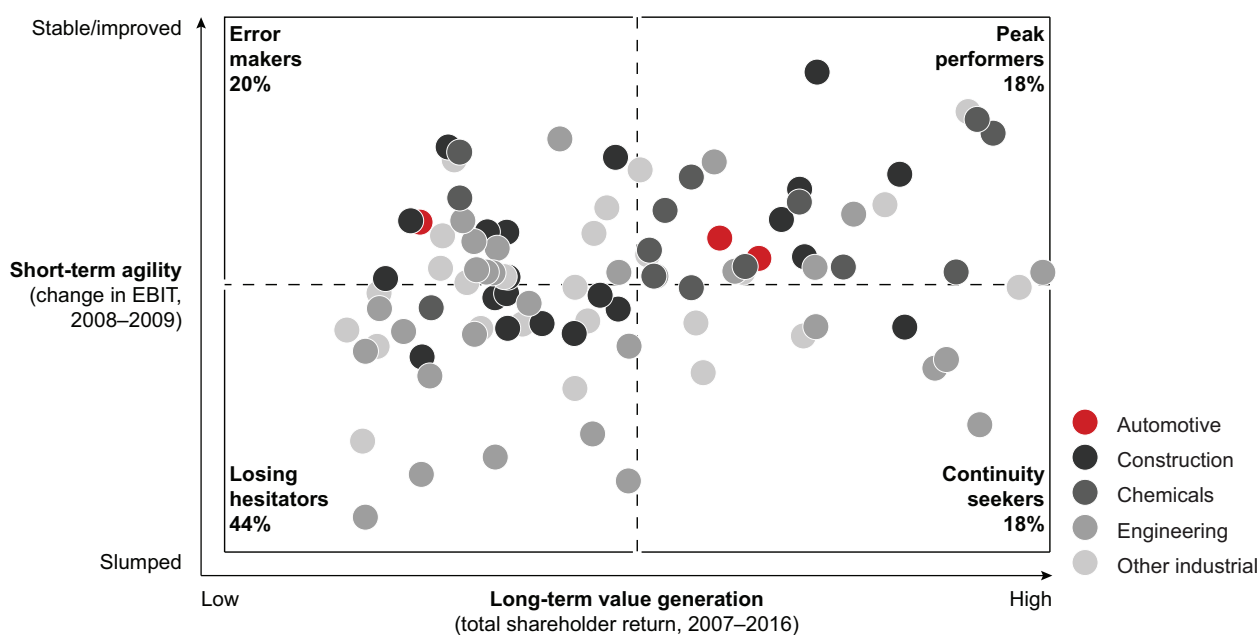


we've clearly defined, based on clarifying our strategy, which plants have priority for us and are worthy of protection, and which we can dispose of."

Viewed through the two lenses of cost agility and value generation, our analysis revealed four groups of companies (see Figure 3):

- **Peak performers.** These companies combined margin-stabilizing cost reductions with a steady focus on strategic growth in areas they had singled out for investment. This strengthened the companies in the long term and resulted in above-average value generation.
- **Continuity seekers.** Companies in this group failed to cut costs and therefore incurred a significant drop in EBIT margins. Nonetheless, they managed to generate above-average value in the long term.
- **Error makers.** These companies reacted to the crisis by cutting costs, thus stabilizing their EBIT margins. However, they created below-average TSR over the long term due to suboptimal decisions and cost-cutting measures applied in the wrong places.
- **Losing hesitators.** For companies in this largest group, EBIT margins declined significantly in response to ineffective or slow cost management during the crisis. They also failed to generate above-average TSR in the long term.

**Figure 3:** Cost-agile companies are more likely to be among the winners



Sources: S&P Capital IQ; Bain analysis

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Some 36% of the companies surveyed applied harsh measures to counter the downturn following the financial crisis. Half of these companies, the peak performers, generated above-average value over the long term. However, among the 62% of the less cost-agile companies, fewer than one-third—the continuity seekers—managed to report above-average value generation.

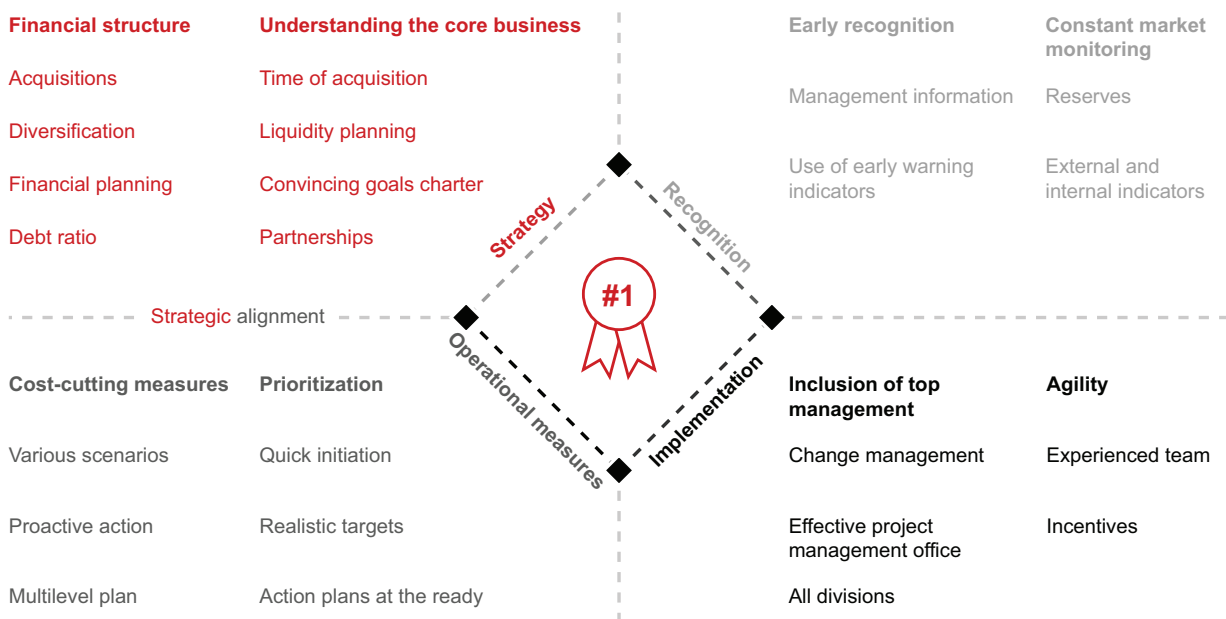
In each of the sectors we reviewed (automotive, construction, chemicals and engineering), the crisis-agile companies were more successful on average. All industrial goods companies have the potential to respond more efficiently to a crisis, with the greatest gap found among machinery manufacturing companies.

### Clear strategic orientation—a key to better TSR and cost agility

Bain took a closer look at the companies that mastered the downturn and subsequently generated above-average value. Our analysis and feedback from this group revealed many similarities in how companies handled the aftermath of the financial crisis (see Figure 4).

Notwithstanding individual factors and exceptional situations, a detailed comparison of the peak performers and the losing companies found a clear pattern for success. For example, at many of the companies that emerged from the crisis in a strong position, strategic alignment was the most important factor in their performance. These companies did not cut costs across the board but rather by considering their strategic core areas. This allowed them to push ahead with critical projects as scheduled.

**Figure 4:** Peak performers share some key success factors



Source: Bain & Company

In recessions, market conditions often change substantially. Companies need to review and adjust their priorities based on the new situation. Those that respond better and faster than competitors can gain market share during the crisis and take better advantage of the subsequent market recovery.

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The most successful companies in operational terms were those that had prepared efficiency enhancement programs in advance, or already were optimizing costs. They could bypass a new planning and preparation phase, quickly adjusting their cost positions to the new conditions. “In our cyclical business areas, we have significantly reduced our own level of vertical integration,” said the CFO of a construction machinery manufacturer. “This means that we pass on margin to our suppliers, but we’ve become much more flexible as a result.”

Another frequently cited success factor: cutting only what was absolutely necessary. Companies that avoided slashing excessively could better motivate their teams. They were able to complete their cost-cutting programs on time and prepare for the next economic upswing.

Other contributing factors were the ability to recognize the emerging crisis early on and to conduct a clearheaded assessment of the situation. Peak performers told us that they had already reacted when the recession hit; meanwhile, others took a “wait and see” approach before eventually reacting in panic. Peak performers focused quickly on adjusting costs to declining sales expectations. Many respondents also stressed the importance of reconciling their financing instruments with the debt ratio in stable times. And successful companies used the downturn as an opportunity to realize acquisitions or other growth measures.

Equally important was understanding the extent to which a company’s various departments would implement the planned efficiency-enhancing programs. Some companies strengthened certain departments with the required expertise in cost optimization. Others attributed their success in the crisis to established routines and cost-optimization abilities.

A final factor was a company’s ability to break down implementation of the crisis program into manageable steps. Successful companies also developed detailed communications plans and solicited employee involvement to convey the urgency of their programs.

“It was clear that mastering this crisis would prove a monumental task,” said the COO of a diversified equipment manufacturer. “We therefore set up an effective program with a project office and the right decision bodies that included top management, so that implementation decisions could be made quickly. This ensured that the potential for improvement did not become stuck in middle management.”

## Implementation: How companies can use a downturn to their advantage

*By analyzing the strategies of peak performers, we developed an action plan that any industrial goods and services company can use to win during and after a recession.*

Success in recessions depends largely on whether and to what degree a company has prepared, and whether it consistently implements the proposed initiatives. How can companies use this insight to break out of the economic turmoil and scale the peak of success?

They will need to set up a differentiated early warning system, develop a countercyclical business plan based on a gradually scalable recession plan and refine their operational flexibility. This program is based on four cornerstones of action:

- **Strategic alignment: Creating a strategic perspective.** No matter how severe or long the next recession is, most companies will have to make some cuts. Only companies with a clearly defined core business will know where their cuts will inflict the least damage and where they must make further investments. In effect, they draw up a priority list specifying where to make the main cuts and where to spare cuts under any circumstance. The strategic business plan must accommodate the cyclical nature of market segments, creating a financial buffer for a recessionary phase where necessary. And the operational plan must align with the company's capacity and experience with cost-optimization measures. The head of strategy for a specialized machinery maker told us, "We just completed a strategy project that helped us differentiate more clearly between business segments and define our core business. This enabled us to adjust costs in the right places and made us more independent of our business's cycles."

A firm that has synchronized operational improvement plans with its strategy in advance will react more quickly than competitors, not only in adjusting cost positions to declining sales but also in earmarking organic or acquisition-related growth options. A short list of potential takeover candidates provides an advantage in this regard.

- **Rapid recognition: Developing an early warning system for business cycles.** Companies need to monitor all relevant market segments continuously. This requires combining internal data, such as order backlog, capacity utilization and price pressure, with external market assessments and customer signals at the decision-maker level. As soon as predefined thresholds that herald a slowdown are reached, the resilience program automatically kicks in at a predefined level, which can adjust to the expected intensity and duration of the cooldown (through, say, capacity adjustments in plants). This eliminates lengthy debates about whether to wait and see how things develop, allowing the company to act quickly.

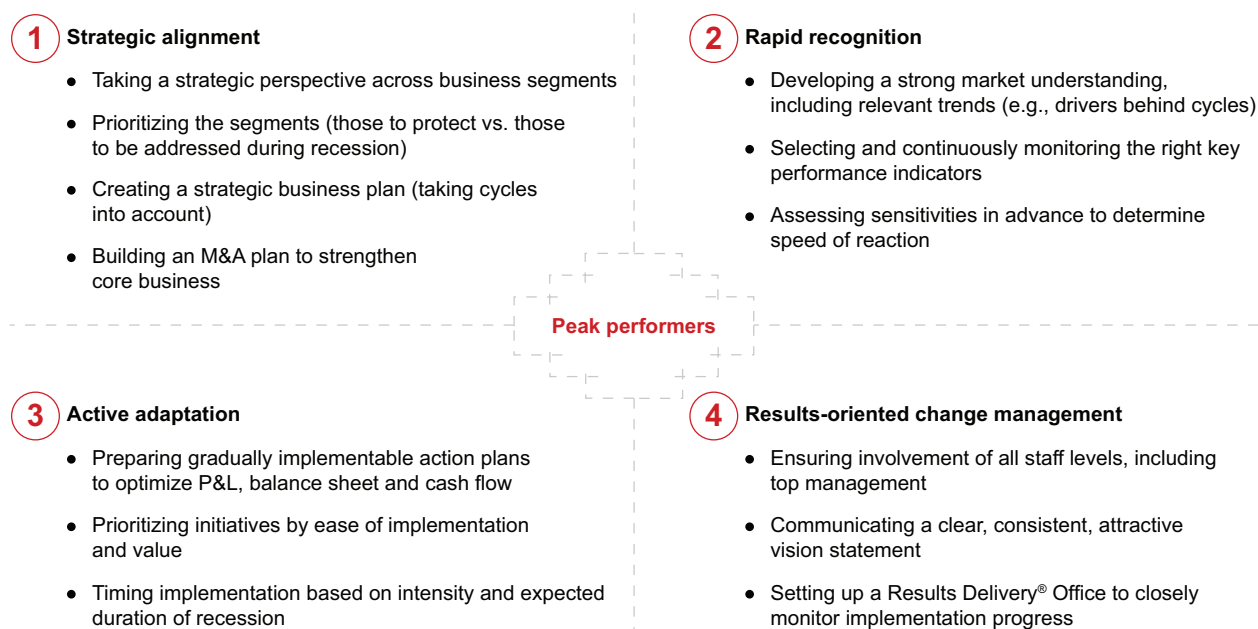
- **Active adaptation: Planning scalable initiative packages.** Gradual levels of response to recessionary phases should be planned in advance, enabling companies to optimize the P&L, balance sheet and cash flow. They should prioritize initiatives according to the expected duration of the recession, ease of implementation and intrinsic value, starting with the fastest, simplest and most promising steps. The first level could include measures such as inventory cutbacks, strengthening liquidity reserves, introducing a recruitment freeze and postponing investments of secondary strategic importance. The next level could be to carry out efficiency improvements, undertake staff reductions and, where appropriate, divest noncore segments of the business. The speed at which a company takes measures will depend on the intensity and duration of the recession. But to avoid strategic errors, each measure needs to be adapted to the particular business segment in question.
- **Results-oriented change management: Strengthening internal implementation competencies.** Preparing for implementation should begin long before a company spots signals of an imminent recession. This includes alerting employees throughout the organization, so that everyone understands when and why the company is moving to reduce costs. The plan should also designate which officers will be responsible for delivering results, who the project managers will be and who will run the project office, known as the Results Delivery<sup>®</sup> Office. Other important tasks during the planning phase include identifying people with experience in implementing cost-reduction programs, and determining a realistic level of savings. Where necessary, staff should undertake further training in efficiency enhancement. The plan should also highlight the opportunities that an emergency scenario can offer, alongside a vision statement setting out the long-term growth opportunities.

In practice, these four areas of action are closely linked. For example, the severity of the recession determines the degree to which measures must be adapted, while the multilevel action plan and vision must closely align with the strategy. By creating and building on these four cornerstones, any company can systematically evolve into a peak performer that takes the right actions at the right time (see Figure 5). Leading companies will use recessions to strengthen their competitive standing and achieve above-average growth. As the CEO of a measurement technology firm told us, “In our case, it was a healthy mixture of sound strategy, customer proximity and market awareness. That made it easier for us to pull out the right options and then quickly put everything into action.”

Let’s explore each of the cornerstones in detail.

## **Cornerstone No. 1: Strategic alignment (deciding where to save and where to invest)**

A recession presents a great opportunity for companies to strengthen their competitive position and value. However, it’s also a time in which companies can suffer great damage, especially those that, in the face of plummeting sales and operating losses, resort to extreme measures without considering the consequences.

**Figure 5:** A solid action plan is built on four cornerstones

Source: Bain &amp; Company

An effective recession plan requires a keen understanding of the company's core strategic areas, including defining key competencies, having a clear strategy with a pertinent business model and identifying promising growth areas on the edge of the core. To that end, companies should continuously review three components:

- Defining the **core business** begins with a clear idea of the company's relative competitive position in various markets and business segments, and its ability to win during a recession. Firms with a relatively small market share can get squeezed during difficult times, whereas market leaders can endure and take share. Executives should set recession priorities by evaluating the company's segments, its leadership position and its core business. Core areas should be shielded from harsh cost-cutting measures or even strengthened through investment. The peripheral areas, on the other hand, must either generate a certain amount of income or be eliminated. It's also worth examining whether to reduce noncritical production capacities and instead purchase them from suppliers. A sound understanding of these options makes it possible to define the "when," "how much" and "where" action levels.
- The strategic **business plan** defines the financial framework for preliminary preparations. In economically difficult phases, sales and profits decline and business risks increase. Many cost-cutting programs also require investment initially, and the business plan must set a realistic time

frame for the initiatives. The company thus needs higher liquidity reserves and must manage its debt-equity ratio accordingly. This is particularly relevant if companies aspire to make acquisitions during the downturn.

- An **acquisitions short list** defines suitable takeover candidates. In recessions, acquisitions that would not otherwise be viable often become possible. Also, acquisition prices can drop significantly, so preparing a short list is essential. For one thing, any company acting countercyclically will be swimming against the tide, and may find it difficult to convince lenders and investors of the opportunities for acquisition. To make successful acquisitions during these times, the company must have done its homework and possess valid data on the acquisition target, with a well-formed business plan based on the data. The plan must also make allowance for the relevant recessionary phase, as well as the best way to approach the target's current owners.

“Even before the crisis,” said the COO of a plastics supplier, “we had already given specific consideration to our strategic growth areas and, most importantly, we knew the areas in which we wanted to achieve long-term growth through acquisitions. We had already identified potential companies before the crisis. All we had to do was spring into action once the crisis started.”

Savvy timing of acquisitions can also improve a company's position. The M&A manager of an automotive supplier noted, “Our competitors made overly expensive acquisitions before the crisis. By the time they were hit by the crisis, they were financially constrained. We, on the other hand, focused on acquisitions shortly after the crisis. This made it difficult for our competitors to recover lost ground when the crisis was over, and it also gave us much greater financial flexibility.”

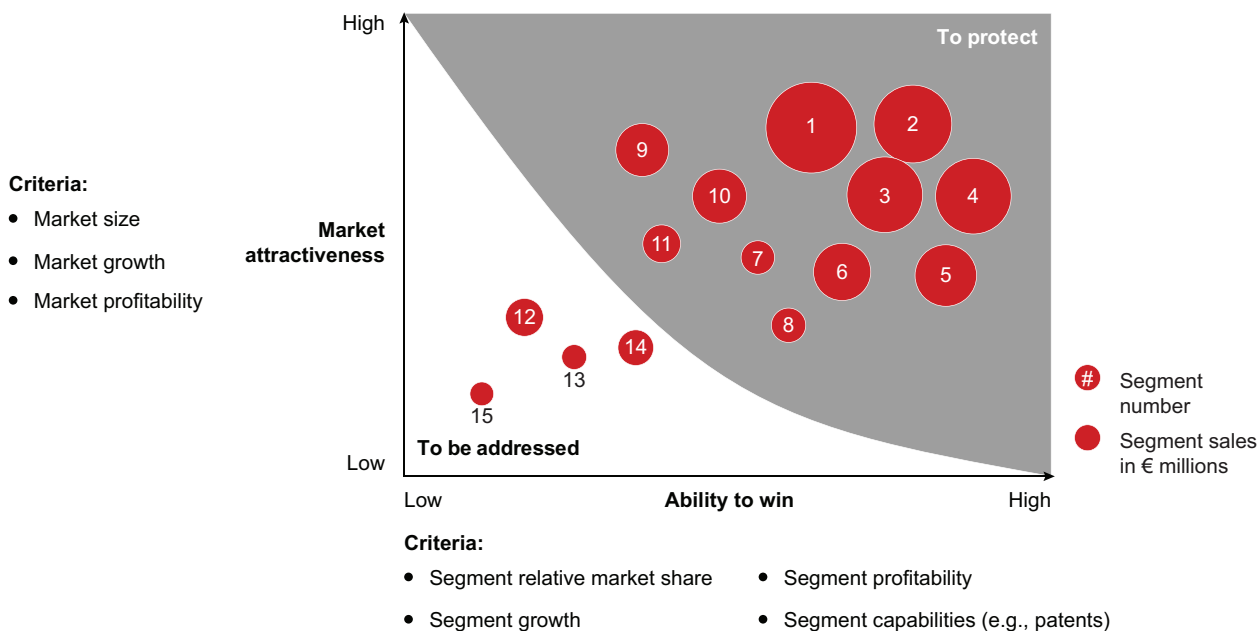
### **Avoidable errors: Where companies go wrong**

- **Failing to develop a differentiated view of the business.** Unless it has clearly defined its relevant market segments, a company will struggle to understand its core business and identify noncritical business areas.
- **Taking an overly narrow, short-term perspective on growth.** If corporate planning lacks a cyclical component, the company's financial buffer may be too small when recession hits. Due to a shortage of liquidity, the company quickly finds itself under pressure to act, and even overreact. Many companies fail to look far enough into the future, preventing them from developing concrete, long-term growth plans.
- **Lacking courage to make acquisitions in a difficult economic phase.** Recessions naturally cause a drop in confidence, making executives less inclined to invest in time for the next upswing.

### **Cornerstone No. 2: Rapid recognition (understanding when and how to act)**

Many industrial goods companies monitor their market conditions on a continuous basis. They conduct short- and medium-term analyses of order backlog, production capacities, the competitive environment and customer behavior. If they include various submarkets in the analyses, they build

**Figure 6:** A strategic perspective defines the areas that need to be protected



Source: Bain & Company

an overall picture that can be used to estimate the intensity and timing of a possible downturn. To avoid a biased perspective, executives constantly need to compare a company’s own market perception with key performance indicators (KPIs) from within the business sectors, as well as external assessments (see Figure 6).

Even if a company recognizes a downturn, its severity may remain unclear at first. Is it just a small dip in demand or the beginning of deeper economic turmoil? The head of strategy for a machinery manufacturer in the oil and gas sector put it this way: “We’re able to ensure transparency in the future development of many of our business areas. We’re aware of our order volume, and understand the capex cycle in relation to the oil price. But it’s always difficult to convert the signals into actual capacity-reducing measures. There’s always an element of hope, right to the end.”

KPIs must therefore be translated into multilevel warning indicators that reflect the seriousness of the situation and trigger the right actions. However, the early warning period and the severity of the downturn are not the only relevant factors for determining the timing and the degree of the response. Another factor is the company’s own financial resilience, which depends on how tightly the financial corset has been tied and how liquid the reserves are.

Here are the warning indicators and corresponding actions:



### Level 1

- **Early warning indicators:** Markets early in the cycle often will signal the onset of a recessionary phase, as inventories increase and the business climate indices point down. Customers and suppliers continue along the lines of “business as usual.”
- **Actions:** Recruitment freeze, selective budget cuts, investments in peripheral areas shelved for the time being.

### Level 2

- **Early warning indicators:** First signs of market weakness noted. There is a slight decline in sales, increase in price pressure and decline in profitability. Companies may recognize a reluctance on the part of customers to make purchases; suppliers experience overcapacity and delivery times shrink.
- **Actions:** First wave of cost-cutting measures. As part of procurement programs, savings can be achieved in the weakened supplier market; in addition, first cash optimization programs enable inventories and orders to be managed more tightly.

### Level 3

- **Early warning indicators:** Market downturn, strong decline in sales, high price pressure. Huge decline in profitability as structural costs remain high.
- **Actions:** Second level of cost-cutting measures. Make cuts to structural costs and then tap into areas such as personnel measures (including short-time work), cuts in production structures (footprint optimization, product and assortment optimization), make-or-buy decisions (outsourcing) and elimination of noncore activities.

### Level 4

- **Early warning indicators:** Severe recession, major decline in sales. Previous measures have failed to achieve a satisfactory margin. A company that has planned well in advance would never reach this point.
- **Actions:** Sole focus on liquidity, harsh restructuring measures. Cuts made across the board now eat away at the company’s heart. All this could have been avoided.

In addition to differentiated action plans, gradual implementation allows a company to adjust the intensity of its initiatives—sometimes acting more cautiously, sometimes more forcefully. This creates still more scalability options. Measures that might not be accepted or enforceable in normal times can work during recessions. Nevertheless, even in a recession, executives must have a sense for the right level of intensity, to avoid overreactions and ensure the active support of employees.

### Avoidable errors: Where companies go wrong

- **Analyzing business cycles too infrequently, using the wrong KPIs.** Some companies examine the business situation only once a quarter instead of once a month. They don't recognize developments in time and respond too late.
- **Relying on a handful of experts to analyze recessionary indicators, without sufficient decision-maker involvement.** Even if they detect the economic deterioration at an early stage, the experts may fail to convince top management, so no corresponding actions are taken.
- **Vacillating and then overreacting.** Top management often enters a state of inertia at the beginning of a downturn, taking action only when there is a sudden cause for concern—for example, if liquidity has become scarce. And then the reactions are mostly excessive.

### Cornerstone No. 3: Active adaptation (knowing which measures to carry out and where)

A company aiming to use the recession as an opportunity to grow does not have to start mobilizing all of its resources at the start of a downturn. Rather, it should already have a sequenced plan at the ready, complete with initiatives for operational adjustment. It also knows how these measures can be scaled up, depending on the severity and expected duration of the recession.

Well-prepared companies can immediately launch initiatives to boost operational performance once the turmoil begins; they can also adapt these measures to their current situation, making optimal use of available improvement levers for the P&L, balance sheet and cash flow. The improvement levers comprise cost-cutting measures as well as financial optimization. Basically, the more difficult the times, the easier it is to push through difficult measures. In fact, economic turmoil may be the best time to optimize competitiveness in the long term.

Companies should adapt their liquidity buffers to the anticipated recession in advance. For industrial goods companies, cost reductions usually can be found in procurement and production. Other areas include distribution, service, overhead and IT, as well as product costs and complexity reduction. Cash and capital optimization methods, such as controlling working capital expenditures, enable companies to improve liquidity (see Figure 7).

As companies design initiatives, they should take care to protect strategically important core areas against permanent damage, so as not to jeopardize long-term growth. They should also consider each initiative's savings potential. Then they can define the specific activities, responsibilities and milestones for implementing the initiatives.

Programs to enhance operational performance can be developed systematically on the basis of cost-reduction measures, cash and capital optimization, and sales increases. Executives must understand how the costs break down and how to address different cost types in order to define the right

**Figure 7:** Industrial goods companies can use a variety of measures to boost operational performance

**Sales optimization**

- Improve distribution
- Optimize prices

**P&L**

Sales	Cost of materials
	Cost of production
	Operating costs
	Annual net profit

**Cost-cutting**

- Reduce procurement costs
- Optimize production
- Optimize distribution
- Optimize after-sales service
- Reduce overhead costs
- Optimize IT
- Reduce product complexity
- Reduce product costs

**Balance sheet**

Debitors	Creditors
Inventories	Liabilities
Fixed assets	Shareholders' equity

**Cash and capital optimization**

- Reduce current assets
- Optimize capital expenditures

**Cash flow**

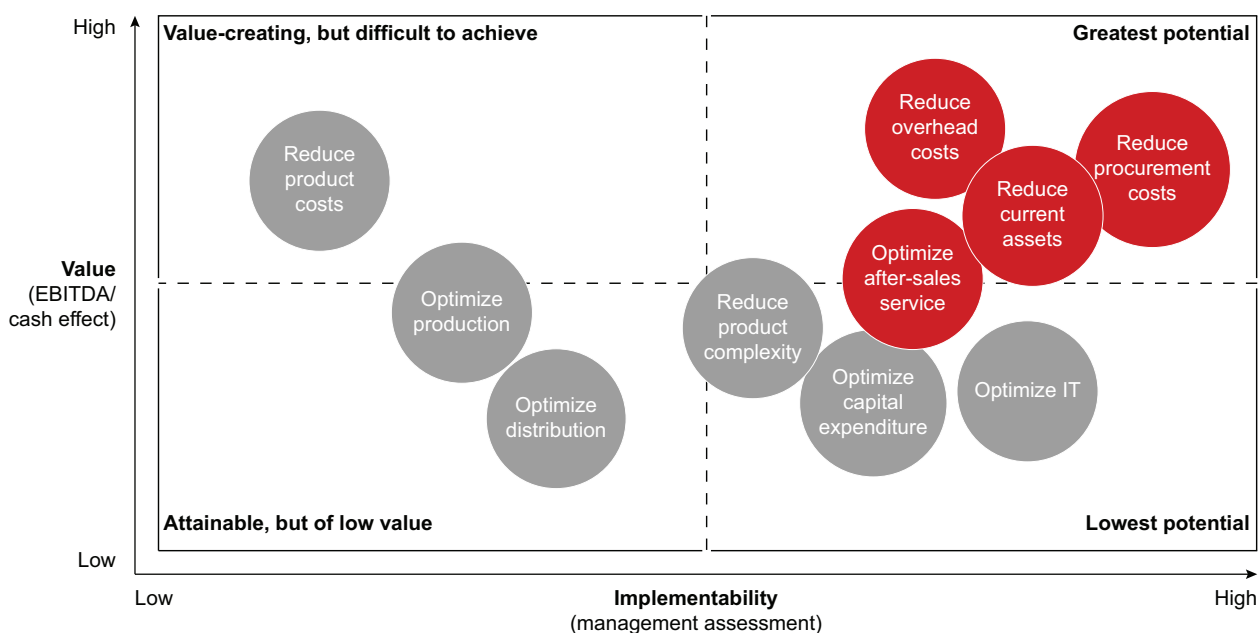
	Annual net income
+	Depreciation and amortization
-/+	Changes in current assets
-	Investments
-/+	Cash flow financing
	Net cash flow

Source: Bain & Company

improvement levers. At the beginning of a recession, companies focus on cutting costs quickly, which means prioritizing initiatives that deliver results quickly but often are less structural in nature.

Planning should include any efficiency enhancement initiatives already underway. Typically, we see companies achieve the best short-term results by accelerating and strengthening such measures, since they have already proved practical and familiar to employees. Planning the implementation of various initiatives must also be accompanied by reality checks, intended to gauge the experience levels of project managers and teams (see Figure 8). Ideally, the responsible people should have experience implementing similar initiatives. Experienced project and subproject managers, as well as people with project responsibility, are usually well positioned to implement actions steadily, successfully and within the specified time frame. Not all line managers are prepared to do this.

Once the measures are designed, they must be translated into a realistic schedule and implementation plan. By timing the measures appropriately, the company can begin reaping the benefits from an early stage—but executives should not strain the organization’s capacities. Timing must be sufficiently flexible to adapt to company and market developments during the downturn. Furthermore, the measures must be formulated clearly and consistently, to minimize conflicts and contradictions between employees or departments. With the plans in hand once the downturn occurs, the company can focus on careful implementation in line with market development and its own circumstances. “Our industry is so cyclical that we can reduce our costs by 15% in three months,” the CEO of a semiconductor firm told us. “All we need to do is open the drawer, pull out the plans and we’re ready for action.”

**Figure 8:** Improvement measures differ in terms of value and feasibility

Source: Bain &amp; Company

If executives wait to think about crisis management until after the recession starts, they will be too slow off the mark. Ideally, the initiatives will be widely understood ahead of time, contain measurable goals and be practicable for the relevant business units.

### Avoidable errors: Where companies go wrong

- **Sitting out the crisis.** There might be cases in which doing nothing is the right response. However, many companies do not have a backup plan from the start, which is risky since passivity does not work well most of the time.
- **Waiting for the recession to begin.** If companies don't plan ahead, it can take months for them to develop initiatives, resulting in lost time and money.
- **Implementing unplanned cost-cutting measures with no strategic business goal.** Such measures often destroy more than they achieve, with the company losing market share by the start of the next upswing, at the very latest.
- **Prioritizing measures poorly.** This creates additional costs because the goals that could be achieved quickly and help to finance the longer-term measures fall by the wayside.

## Cornerstone No. 4: Results-oriented change management (mastering the implementation)

Ideally, a company begins to make the necessary adjustments as soon as signs of recession appear—even (and especially) in the face of adverse circumstances. Of course, what sounds straightforward is often difficult to achieve because of initial doubts about whether a recession has actually begun. For this reason, the department responsible for notifying others about early warning signals must have a clear channel to decision makers. It's important to have action plans prepared in advance so that senior executives do not have to deliberate and delay implementation.

At a plant construction company, the chief risk officer told us, “We constantly review our business segments for possible economic risks. We’ve developed a gradual plan that we implement depending on the phase and severity of the crisis. This also gave us flexibility during the crisis to realize the next measures on a weekly basis, especially in difficult phases and depending on order backlog.”

To convince the entire organization of the need for an efficiency program, a vision statement must take into account the interests of employees and management. It should communicate how the company intends to weather the gathering storm and what advantages will result from the program in the medium to long term. Clear guidelines should also be drawn up, which can be reviewed and amended as the crisis progresses.

Equally important is the credibility of the various initiatives—notably, the extent to which they are realistic, relevant for achieving the envisioned improvements, and attractive to all those working on or affected by the implementation.

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Management staff should be personally involved to ensure that the hoped-for results actually materialize. Another proven tactic is to win over employees at all levels as advocates for the planned initiatives ahead of a downturn. Employees and stakeholders who buy into the importance of the measures will advocate for the company during the crisis, both internally and externally, helping avoid lost time and productivity.

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A sponsorship spine is a cascade of personal conversations, starting at top management and extending to all employees. Each conversation takes place between an employee and his or her direct supervisor, who takes on the sponsor role. With roles and responsibilities defined at each level, the sponsor can explain priorities and discuss the upcoming changes.

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To facilitate implementation, a separate project office, or Results Delivery Office, should be run by committed project managers who are responsible for the initiatives. The Results Delivery Office ensures that the initiatives are implemented as planned, and it provides technical and functional support to the line departments. The office can give teams freedom of scope to implement the actions, which helps the teams take ownership for results.

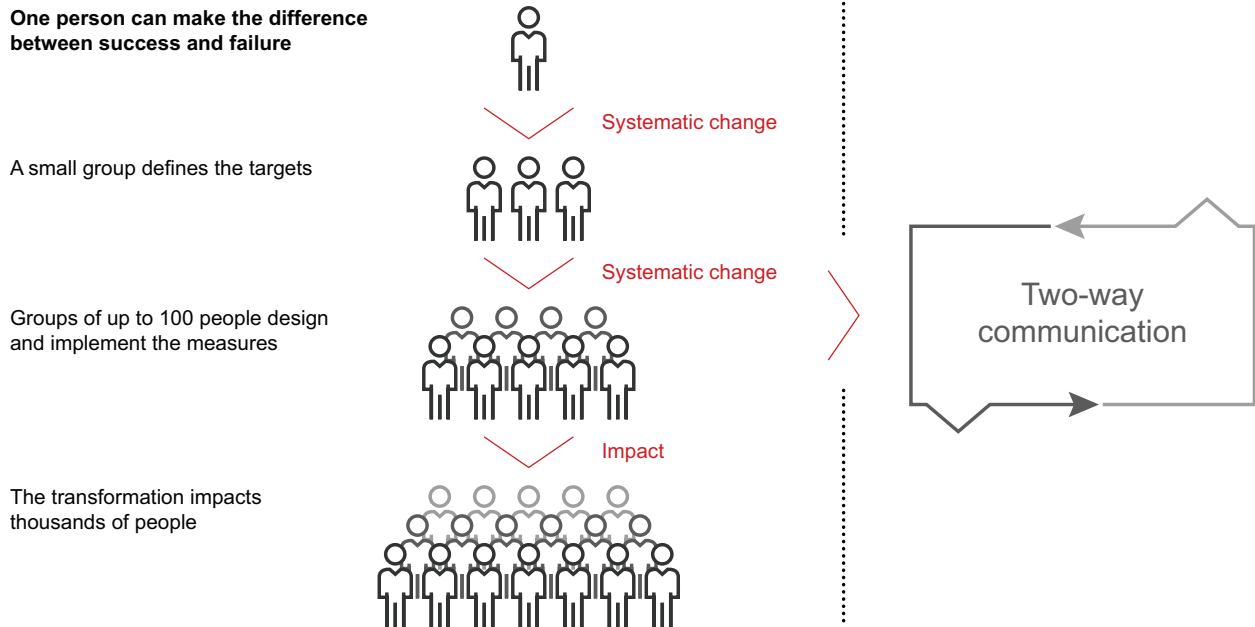
In parallel with implementing initiatives, the Results Delivery Office continually evaluates the results of the action plans. It monitors increases in costs and how the recession is developing, and it continuously adjusts the level of escalation. If sales expectations or requirements start heading up or down, or if the anticipated impact of initiatives is more or less intense, the office can make adjustments to keep the measures on target.

Another crucial task for the Results Delivery Office is internal lobbying and, when needed, applying pressure on initiative owners. Painful adjustments to counter an economic downturn often bring delaying tactics from certain managers and departments, who claim to know what is best for the company and its customers. Just one executive can block an efficiency enhancement package, causing implementation of the entire program to grind to a halt. Hence, both the measures themselves and the Results Delivery Office require the unconditional support of top management. There must never be any reason to hesitate in implementing the initiative packages.

Anyone working on a cost-cutting program may find the experience daunting, and reassurance, encouragement and motivation remain essential. Effective communication must occur at the individual level, not just the formal corporate level.

Here, the concept of a sponsorship spine has proven valuable. A sponsorship spine is a cascade of personal conversations, starting at top management and extending to all employees (see Figure 9). Each conversation takes place between an employee and his or her direct supervisor, who takes on the sponsor role. With roles and responsibilities defined at each level, the sponsor can explain priorities and discuss the upcoming changes.

**Figure 9:** A sponsorship spine involves all levels of the organization



Source: Bain & Company

Communication flows both top to bottom and bottom to top. That’s how fears and concerns, implementation ideas and practical experience can bubble up to top management and help optimize the resilience program. Still, a sponsorship spine must be monitored to detect and repair broken links in the information chain.

Managers will be constantly challenged to maintain quality and speed as they implement the crisis measures. They will want to “ride the wave”—that is, to actively use the downturn rather than getting washed away by it. A well-implemented crisis program releases funds to finance opportunities for growth. It guarantees the company’s ability to act and creates a framework for investments in the company’s future positioning, to make good use of the crisis. With this in mind, an overarching goal should be to accomplish all actions within one or two quarters.

Finally, initiatives that enhance operational performance must be implemented as quickly as possible so that the entire resilience program can be promptly concluded. Only then, when the necessary initiatives have been implemented, and the desired and agreed-upon cost reductions achieved, can the company return to normal tasks of serving the market.

**Avoidable errors: Where companies go wrong**

- **Failing to get the management team on board.** If the management team is not fully on board or has delegated crisis measures, the employees involved in implementation can be easily blocked

by resisters in the organization. Teams responsible for implementing the measures cannot harness cross-functional and interdivisional resources with the necessary vigor. Without the support of top management, the objectives of the overall program are quickly undermined and goals missed.

- **Not giving employees a goals charter.** Without a clear vision, employees do not see why they should make the effort to reorganize their work. Project management teams implementing the measures also often lack incentives in such cases.
- **Not assigning clear responsibilities.** If no one feels responsible for carrying out the initiatives, they may yield no result.
- **Leaving results subject to debate.** When the Results Delivery Office fails to rigorously monitor the success of the initiatives, it usually results in failed action plans, with programs only partially implemented.



## Preparation pays off

Given the cyclical nature of the industrial goods and services industry, preparing well for the next economic downturn makes sense. Indeed, a carefully planned cycle resilience program will not only help a company through difficult times but also put it on course for more sustainable value generation in the long term.

On the one hand, this preparation ensures that the strategic homework—defining the company core and searching for growth opportunities—will happen routinely. On the other hand, it enables the company to identify potential operational improvements. Some of these will be hard cuts that should be made only as a last resort. However, there will always be room for improvement in regular operations, which can benefit a company even without a downturn, helping to maintain and optimize its competitive position.

Bain's analysis reveals a clear correlation between short-term crisis agility and long-term value generation. Good preparation makes a company more agile and flexible. What was true in the last financial crisis should apply to future recessions as well. Most industrial goods companies have prepared for a downturn in some dimensions. The path to comprehensive preparation therefore may be shorter than it appears at first glance.

## About this report

Our analysis of industrial goods companies during 2008 and 2009 measured success in such a way that the results gauge only the relative development of companies since 2007, irrespective of their absolute market strength. The analysis focused on industrial goods companies listed in Germany (DAX, MDAX, SDAX, TecDAX), Switzerland (SMI, SMIM, SPI) and Austria (ATX) and between 2007 and 2017. Utilities, financial investors and companies from the semiconductor industry were not included in the analysis.

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Bain's experts support companies across industries in developing and implementing customized cycle resilience programs. In one- or two-day workshops, we cover the most effective ways to become more cyclically resilient. In addition, our experienced specialists help guide companies in strategic planning and operational efficiency enhancement in all segments of the industrial goods sector.



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