



ACTING AND THRIVING IN THE FINANCIAL CRISIS

The events of the last two weeks on Wall Street have been sobering. Fear, and not vision, now reigns in most markets. We try to be realistic optimists about business. However, if you read the Global Market Report in the Wall Street Journal (October 1, 2008), you will quickly see that most financial markets around the globe lost 25-30% of their value in the last quarter. A repatriation of U.S. investment dollars had kept our domestic stock market buoyed up.

Fear, coupled with ill-conceived actions by governments, financial institutions, and industry could easily trigger a global recession which could last another two years. In this critical moment, how you chose to act and respond will have far reaching impacts for you and your organization.

There have been a number of relatively recent financial crises: the Latin American Debt Crisis of 1982, the Savings & Loan Crisis of the 1980's – early 1990's, The Asian Financial Crisis of the 1990's, and the Nordic Bubble of the 1990's, that in retrospect, provide significant lessons learned you can take advantage of.

How to Respond

We have met with a number of our clients to map out a plan to respond to this crisis. We would like to share some of our advice (and use some examples from the space missions to illustrate):

1. Evaluate:

Change creates Enormous Opportunities for those with Insight.

This is not the time to hunker down and wait it out, but first to examine strategic direction, core strengths, and who in your team and who in your alliance network are best suited to lead. Not responding quickly will put tremendous pressure on you later. And when pressure is greatest is when most mistakes are made.

Most companies will immediately begin to cut costs. Many companies will order X% cost cuts across the board. Cut things that will hurt you less down the road – they are more easily brought back when you really need them. Spend the time to do a Total Cost of Ownership Analysis on key purchases to be sure you don't damage revenues or warranty costs; keeping customers satisfied is vital.

We urge you to make surgical cuts, not bludgeon your company – protect the core of your skills, knowledge, and organizational components you will need to seize opportunities. There are many opportunities in a crisis, if you look for them. But opportunities need to be aligned with a strategy.

Example: To put a man on the moon and return him successfully, we had to mobilize the resources and knowledge of many people, meld them into goal directed high performing teams, and make good decisions. In that environment – just like this one - poor planning would have led to disaster.

2. Mandate:

Crisis demands Action and Change, but Change itself is neither a Strategy nor a Plan.

Action without a guiding strategy is usually worse than no action at all. Strategic Planning is most needed when there are significant changes in your environment – not when things are running smoothly! Strategic planning sessions with key members of your organization and alliances, not just the top executive team, is important here. Develop your new strategy with the input and insight of those who will have to manage the new strategy.

Ask tough questions: What are your key strategic drivers? For your customers, suppliers, competitors? Looking ahead, what changes do you see, and what opportunities are being revealed? Are your alliances focused on the future? Most likely you will want some short-term gains. Talk

outside your organization – to key customers and suppliers to understand how your strategy fits with their needs, pressures, and demands. Aligning value delivery in the value chain is especially important in preserving or gaining competitive advantage and finding opportunities.

Carefully examine your Strategic Portfolio with Customers, Suppliers, Alliance Partners, and Outsourcers to determine what array of external relationships will deliver the most impactful value proposition. Be sure to consider what your competitors will most likely be doing. Are there any honorable competitors with whom you should be collaborating?

3. Collaborate:
Those that most quickly Adapt to Change are the Most Cooperative.

Surviving is a minimalist strategy. *Thriving is the real objective.* Any study of Darwin shows us that adaptation to change is best suited for those who can use collective wisdom. Translation: Teamwork and Alliances are essential to weathering this storm and seeing and taking advantage of this opportunity.

It's not a matter of more alliances, but better alliances. Fix those alliances that need repair, eliminate those that don't provide value. Put executive attention on those that have significant impacts on top and bottom line and give unique competitive advantage. Be sure to measure and reward collaboration.

Example: We would not have been successful going to the moon without key alliances between government, industry, and academic institutions.

4. Innovate:
Responding to New Threats and Opportunities requires Rapid Multi-Dimensional Innovation.

Linked to your strategic planning should be a rethinking of your innovation plan. Times of crisis are the best times to innovate because people are ready to shift their thinking and habits.

There are six different types of innovation to consider: technical inventions, system solutions, process improvement, product improvements and integrations, new business models, and market extensions. Often it's the latter five that can produce the short-term advantages you will be seeking. Looking at all six types means that your own organization is a rich source of innovation. Often, however, you will need alliances with other companies to combine innovations into something marketable.

Example: The space program created thousands of innovations that spun out into the marketplace. There is no part of our everyday lives that does not use these innovations in some form or another.

5. Re-Negotiate:
Realignments Internally will require Realignments Externally.

Your relationship with your suppliers and your customers are some of the most important elements of your business. Customers represent 100% of your revenues. Suppliers often represent 50% or more of your costs. This is not the time to renegotiate by playing tough-guy. Focus negotiations on how to innovate together to reduce total cost of ownership, gain market share, and eliminate non-value add.

Trust is a powerful competitive advantage in these times. When your customers and your suppliers trust you, not only is the relationship on a more solid ground, but more importantly the cost of the relationship is reduced and the potential for innovation is increased dramatically.

6. Educate and Communicate:
Alert, Thoughtful, and Skilled People are the Greatest Resource.

Your organization will only be as good as your people. Great strategies and plans must be coupled with great execution up and down your organization – and the right people with skills to execute.

Spend the time making sure all the effort put into thriving during this crisis is not wasted by people don't know what to do and how to do it. Ultimately people, not plans, win.



Example: We did not send untrained astronauts into space, and when unforeseen problems popped up, they knew what to do. The complex design of the systems required to support them were not created and executed by untrained or unskilled workers, but by highly trained and skilled professionals working towards a common goal.

How The Warren Company Can Help:

We have developed deep expertise and collaborative processes in key areas that can assist you in these crucial times:

- **Strategy**
- **Alliance Formation**
- **Alliance Diagnostics**
- **Collaborative Innovation**
- **Synergistic Negotiations**
- **Repositioning Alliances**
- **Trust Building Systems**
- **Championing Innovation**
- **Strategic Portfolio Management**
- **Value Networks**
- **Alliance Management Systems**

Good Luck in your endeavors. Please give us a call if we can assist.

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