

What We Are Learning From the Financial Crisis

By Marc Emmer

The near collapse of the U.S. financial system and the giant sucking sound that followed in Washington should be a wakeup call for business owners. The events of the last several weeks have fostered a national debate on the shocking lack of foresight on the part of our economy's most strategic thinkers. The strategists at IndyMac, Countrywide, Bear Sterns, Lehman Bros. and Washington Mutual certainly must have considered what they would have done in a liquidity crisis, but evidently did not take the threat very seriously.

Whether you are a multi-national or small company there are lessons to be learned in these volatile times. Every company should make the necessary investments to consider scenarios that could affect their future and position in such a way as to capitalize on the market opportunities that may be presented.

In today's socio-economic climate, volatility should be assumed and planned for. Within the last decade alone we have faced 9/11, the tech bubble, two wars, Enron, SOX, Katrina, the tsunami, nuclear threats, etc. Volatility has become the norm. The Hart-Rudman Commission scenario plan "anticipated terrorists destroying the World Trade Center by crashing airliners into it." In his book *Inevitable Surprises*, the scenario planner for the exercise said: "These forces are what scenario planners call predetermined elements, forces that we can anticipate with certainty, because we already see their early stages in the world today. They are also going to surprise us because while the basic events are virtually predetermined, the timing, results and consequences are not." If it is possible to predict such a significant event as 9/11, surely the banking industry could have planned better rather than to create the environment that is leading to a bailout by the American people.

Scenario planning is a subset of strategic planning and never in the course of our economy has planning been more important. Here are some tips for leveraging planning to protect your business from volatility, and achieve sustainable business results:

Create a strategy focused organization that anticipates rapid change:

Make strategy part of your corporate DNA. Create an expectation that your leadership will behave as strategic thinkers, lead innovative strategic initiatives, and drive continuous improvement. Dedicate one management meeting per month to review your results versus your strategic plan and focus on strategic initiatives that drive growth and profitability. Promote diversity of thought in your leadership team and through the use of outside advisors. At Amazon, the senior leadership dedicates a four hour meeting per week to discuss strategy (working on the business not in the business).

Do scenario planning to open a window into the future:

Consider the social, technological, economic, ecological and political trends that could create a tipping point within your business. Many companies are internally focused. For example, record executives earlier this decade were focused on selling CD's at discounters such as Best Buy, and did not consider external factors such as the shift from dial-up to broadband and acceptance of the Internet (technological factor), our burgeoning individualism (social) which has led to My Space, Facebook and Linked In and governments

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limiting restrictions on the Internet (political). These factors combined to create the opportunity for an industry outsider (who had insight into these trends) who offered iTunes, a disruptive service innovation that changed the face of the industry.

Dedicate the time necessary for planning:

In considering the resources companies should apply to planning, there is always one primary consideration: time. The great Stephen Covey points out that if you created a pie that illustrated the amount of time you have to manage, part of it is spent planning, and part of it is spent reacting. The greater the proportion of planning, the smaller the pie. In other words, planning nets a reduction in labor and energy. If you run a company with 50 employees, wouldn't it be worth spending 2-3 days per year, or roughly 1% of your work day planning what you will do with the other 99%?

Align metrics to strategy:

KPI's should include leading indicators that predict future profitability, operational metrics that align staff to the strategy and external indicators that track key inputs such as materials cost. There is an inherent danger in being reliant on financial metrics. By the time your financials are published, it is like the 12th inning of a baseball game; the game is over and you can not affect the outcome.

Invite stakeholders including employees, customers, and vendors in the planning process:

Engaging customers through a Customer Advisory Board provides an excellent opportunity to gain feedback that will drive innovation. At the very least, a broad spectrum of customers should be surveyed regularly. Front line staff who interface most often with the customers understand their pain points and where products and services can be improved. During Jack Welch's tenure at GE, his "break out" town hall meetings with front line staff were legendary for creating customer centric solutions.

Base strategy on verifiable data:

While scenarios within the strategic plan may be based partially on projections, be fascinated by what you don't know, and dig deep into industry research and internal data such as customer segmentation and profitability analysis to create a strategic plan that is based on facts.

Compete against non-competition: At the time Cirque du Soleil entered the market, only the bottom of the pricing grid had been addressed in the marketplace. A Cirque du Soleil ticket in Las Vegas commands a price as high as \$250. Look for white spaces where you can dominate a niche. Concentrate on your core competency in markets where you can earn market share before expanding into new ones where you have a lesser chance of achieving market leadership.

Marc Emmer is President of Optimize Inc. (www.optimizeinc.net), a Valencia, CA based management consultant firm. Marc is an accomplished author and speaker and is sought after by CEO's as an expert on strategy, profit improvement, and performance management. Marc can be reached at 661.310.2212 or at marc@optimizeinc.net.