

How to prepare for low-growth & transform the downturn into growth?

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Topics of the day

- 1 Current economy is turbulent and uncertain
- 2 From downturn to growth
- 3 How to take the first step of the journey?

Current economy is turbulent and uncertain

Current economy is turbulent and uncertain

Our macro-economic and sectorial dashboards are showing alarming trends

Economic Indicators

Cross-industry indicators provide an assessment of key underlying factors like manufacturing and purchasing behavior, business sentiment, and the cost of borrowing, that impact companies across sectors

Q2 2019

KEY TAKEAWAYS

- Global business confidence as companies deal with uncertainty surrounding tariffs, Brexit, and a potentially overheating US economy
- Yield curves in most advanced economies are showing signs of flattening that can foreshadow a slowdown or recession
- Rising oil prices signals resilient global demand and economic activity

CONFIDENCE

Composite Leading Indicator



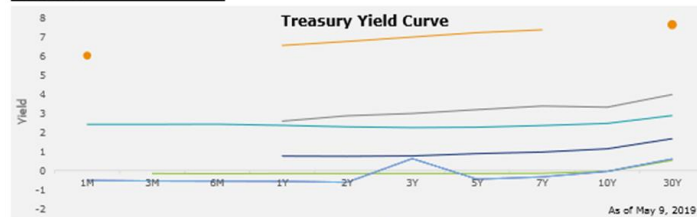
Business Confidence Index (OECD)



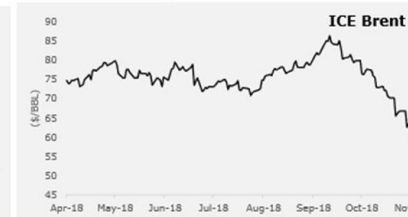
ECONOMIC ACTIVITY



YIELDS



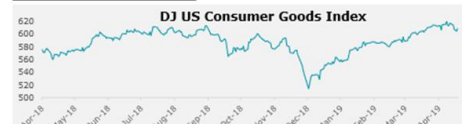
OIL



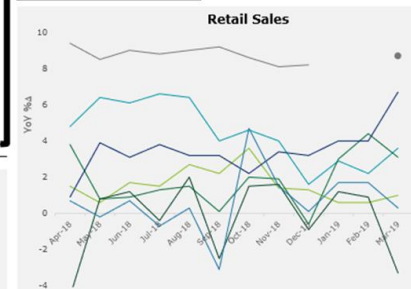
KEY TAKEAWAYS

- Despite a recent trade worries, the consumer goods index has generally seen a reassuring upward trend in 2019 after a sharp drop in December 2018
- Vehicle sales have recently dampened due to rising costs and interest rates
- Airlines face challenges with lower load factor passenger and increasing fuel and labor costs

CONSUMER ACTIVITY



RETAIL ACTIVITY



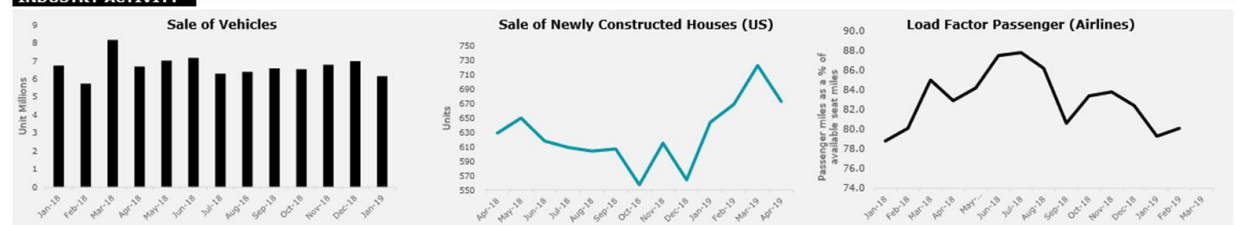
CONSUMER CONFIDENCE

	Consumer Confidence Index ¹	Consumer Credit ²
USA	-2.8 pts	+7.9 pts
China	+1.8 pts	-
Japan	-3.7 pts	-
Germany	-0.4 pts	-
UK	-6.0 pts	-0.8 pts
India	+20.5 pts	-
France	-0.7 pts	-

1. As of May 2019; 2. As of Jan 2019; Additional country data might be available through Deloitte's relationship with Visa

Q2 2019

INDUSTRY ACTIVITY

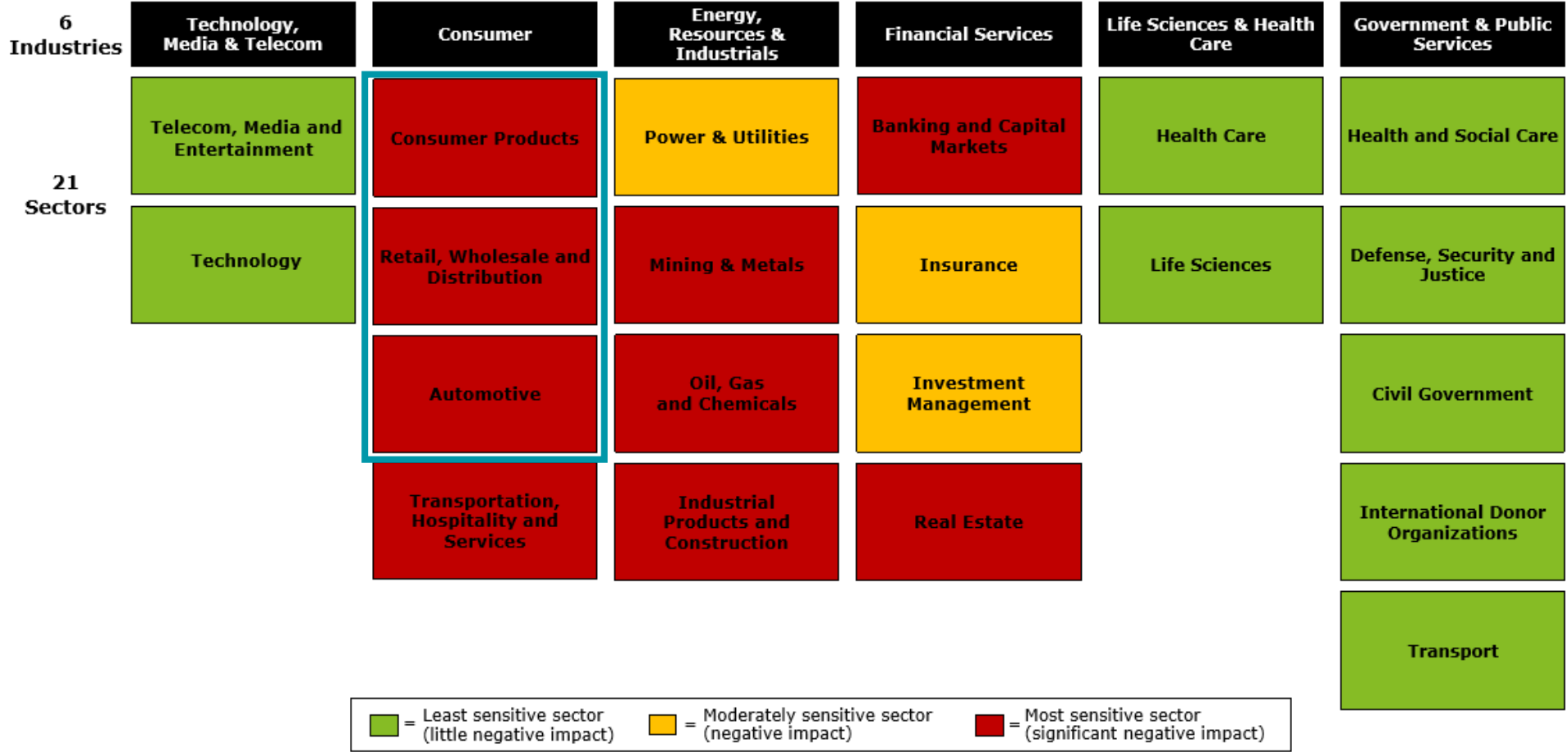


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Sources: OECD, Bloomberg, Reserve Bank of India, Bureau of Transportation Statistics, Bloomberg Intelligence Unit, FRED

Current economy is turbulent and uncertain

Consumer industry will probably be the most impacted sector

Assessment of sectors sensitivity to an economic downturn



Current economy is turbulent and uncertain

Voice of the market does not reassure neither

Headwinds in economic indicators:

- US: yield spread is most inverted since 2007; 2Q GDP downward revision
- German industrial output is falling sharply
- British real GDP fell in the second quarter
- China producer prices falling

Deloitte's most recent CFO surveys:

- 97% of North American CFOs in the Deloitte CFO Survey expect a US downturn in the next two years
- 63% of CFOs across Europe rate the overall level of external financial and economic uncertainty as high (most do not see a recession as imminent)
- Outlook remains negative among CFOs in AP due to concerns over the Chinese economic slowdown

Per our CFO Program:

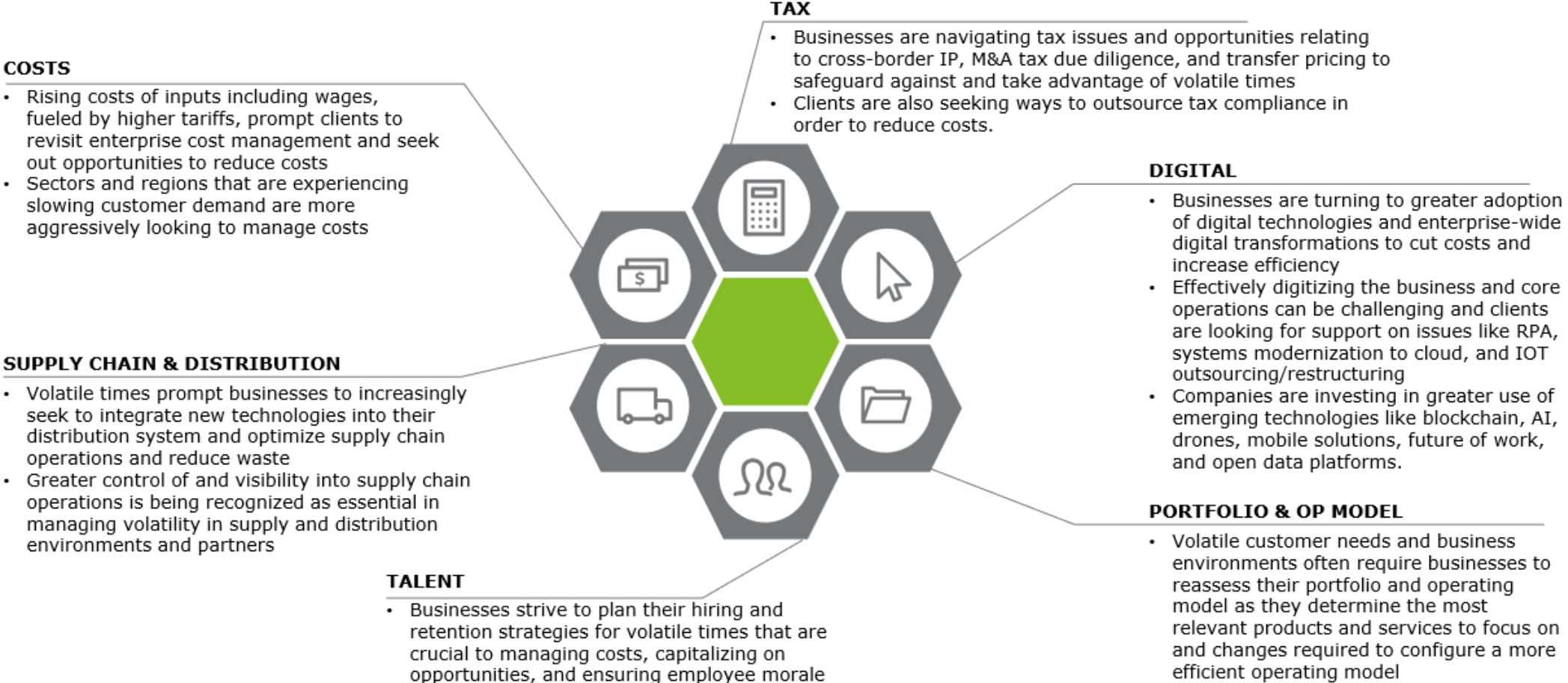
- Boards pressing management on downturn plans
- Downturn scenarios are likely to be part of 2020 budgeting process

Majority of senior executives have never led an enterprise through a downturn

Current economy is turbulent and uncertain

In consequence, we are seeing a lot of our clients preparing their plan







Based on conversations with GSLs and GSSs, there are six overarching “heart of business” issues our clients will face in preparing for and managing through volatile times



From downturn to growth?

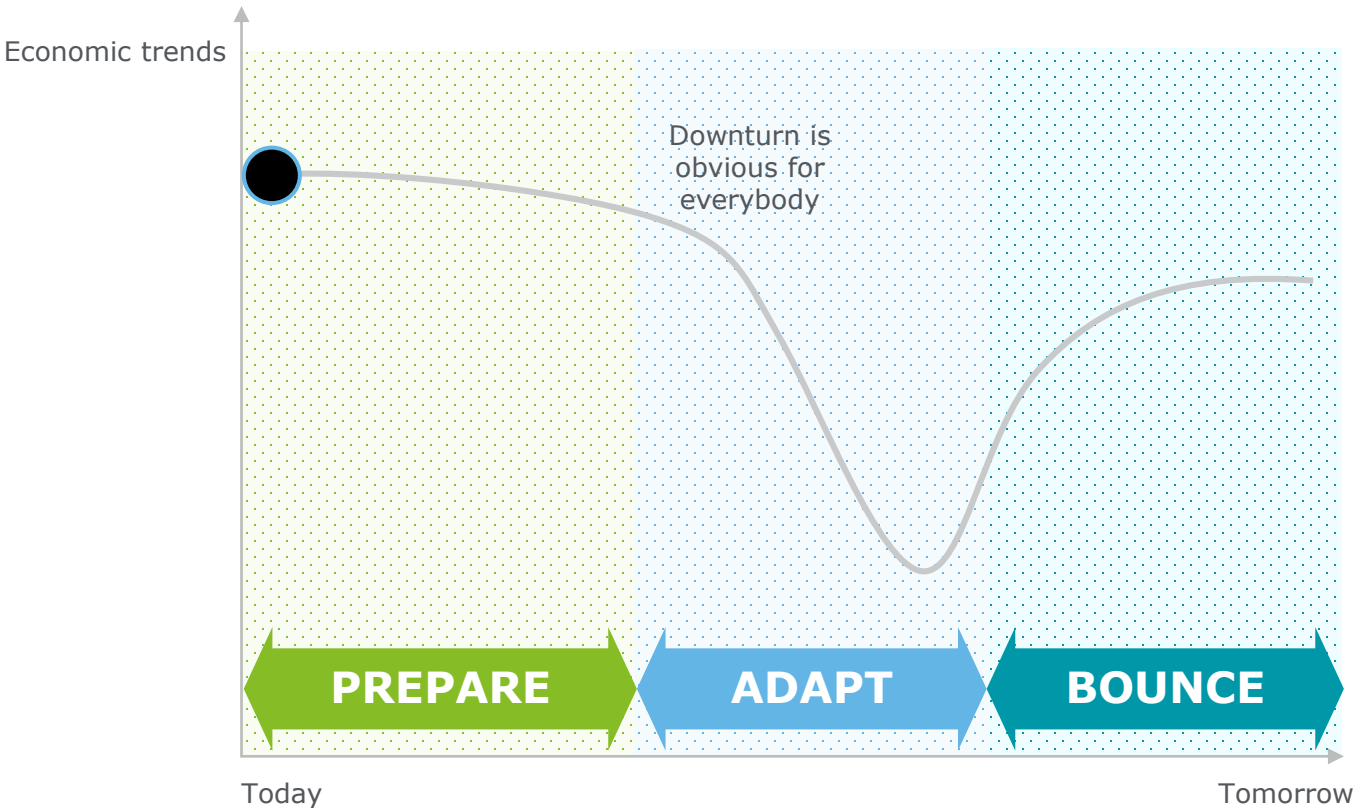
From downturn to growth

Typical needs to be addressed amidst volatility

Client Needs	Description
 Set the Foundation	<i>Create a resilient and agile organization that is prepared for volatile times</i>
 Defend and Drive Revenue	<i>Identify opportunities to improve top line growth</i>
 Reduce and Manage Costs	<i>Increase margin and operating profit to counteract impacts to revenue</i>
 Optimize Assets, Liabilities, and Liquidity	<i>Curate the portfolio of assets; strengthen the balance sheet; manage for cash</i>
 Accelerate Digital	<i>Use technology and data to enable growth, decrease costs, and evolve as an insights-driven organization</i>
 Manage Expectations	<i>Align and fulfill stakeholder expectations, and proactively address risks created by volatile conditions</i>

From downturn to growth

Start now to Prepare, be ready to Adapt when the downturn will touch you and drive the crisis to Bounce



Prepare

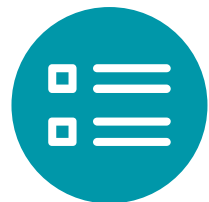
First key word is "flexibility"



Monitor macro-economic reporting



Create and monitor operational KPI's and indicators



Build up several scenarios foreseeing different plausible crisis intensity :
which level of stress is your organization able to support?

Prepare

First key word is "flexibility"



PEOPLE

what is the level of flexibility in the most exposed areas of the organization (fixed-term contract, temp workers, subcontracting,...), how to give more flexibility where needed, how to organize this flexibility from now, what key competences will you need, who meets the expectations or not, who are the key people you will have to retain, how to ensure loyalty of key people and reassure them,...



PROCUREMENT

review your ongoing contracts durations and terms & conditions to ensure flexibility, loyalty/reliability of suppliers (are they measured and under control), strengthen intensity and quality of your relationship with your key suppliers,...



WAREHOUSE / STOCK

tighten your flows if still possible to keep stocks at the lower level, ensure an S&OP process as reliable as possible (use advanced analytics and predictive analytics to sharpen estimations), hunt all non rotating items in stock, identify options to make square meters used flexible (challenge footprint, review rental contracts on duration, prepare options to dispose or rent out space,...),...

Prepare

First key word is "flexibility"



FLEET

perform a fleet contract review, challenge your buy or rent policy, try to avoid sparing too much on maintenance, put your "total cost of ownership" under control, challenge subcontractors/partners contracts,...



IT / IS / DIGITAL TECHNOLOGY

be clear on how you will be able to keep the pace of the digital evolution, challenge cost of your IT/IS infrastructure, anticipate growth of cost, analyze "on premises" Vs "cloud based" setup, how to keep IT/IS/DT skills,...



SG&A

challenge your fixed costs, identify saving potentials, identify levels at which capacity has to decrease if activity is lower, identify possible sub-contracting opportunities,...



GOVERNANCE

how my organization and governance has to be adapted, which roles & responsibilities would be impacted, be prepared to identify who will lead crisis management if needed, raise awareness and train management to face crisis,...

Prepare

First key word is “flexibility”



Anticipate how you will be able to operate, **be as flexible as possible**, taking into account your strategy



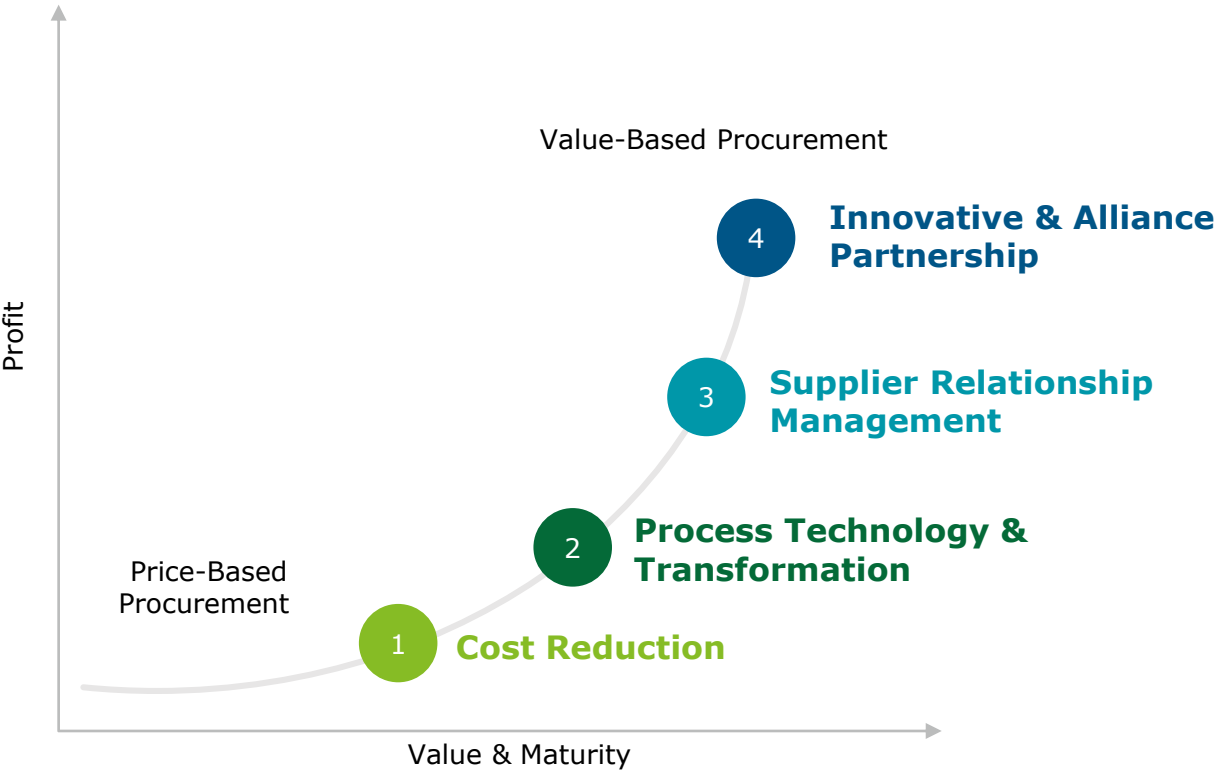
Write down your plan and playbooks



Keep them “alive” with regular reviews and stress-tests to be ready to apply them

Prepare

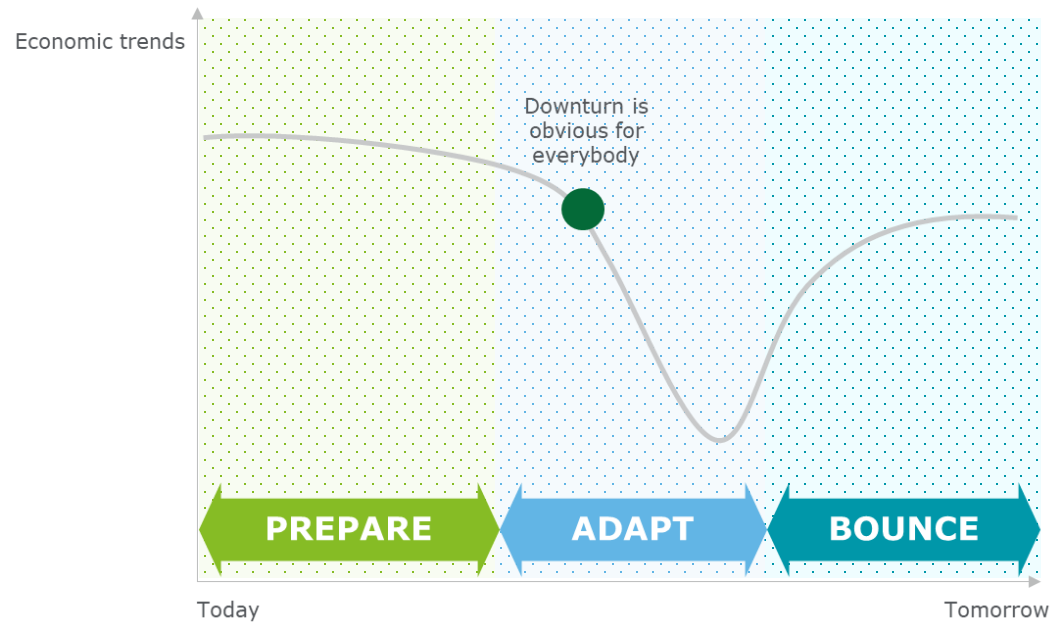
Second key word is "integrability"



- The most advanced and mature client / supplier relationship appears when suppliers are integrated in the innovation process of their clients through alliance partnership (early design to cost, advanced technical innovation)
- The more integrated you will be with your clients / suppliers, the highest the value created will be

Adapt

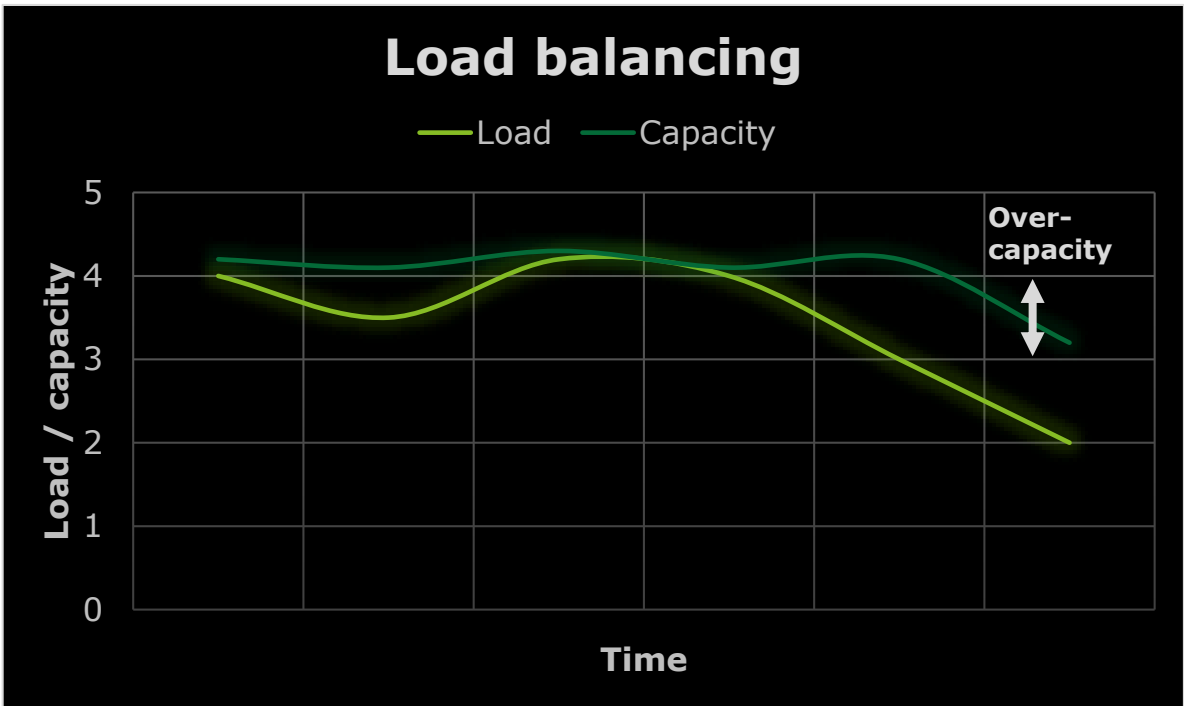
Be ready and apply the plan quickly... be agile



- Monitor your KPI's and reporting to identify when the downturn impacts you
- Do not over-react (fact based) but apply the plan, follow the playbooks
- Key success factors :
 - Fast decision making process
 - Strong leadership
 - Good communication with stakeholders
 - Support change management
 - Take care of your team

Adapt

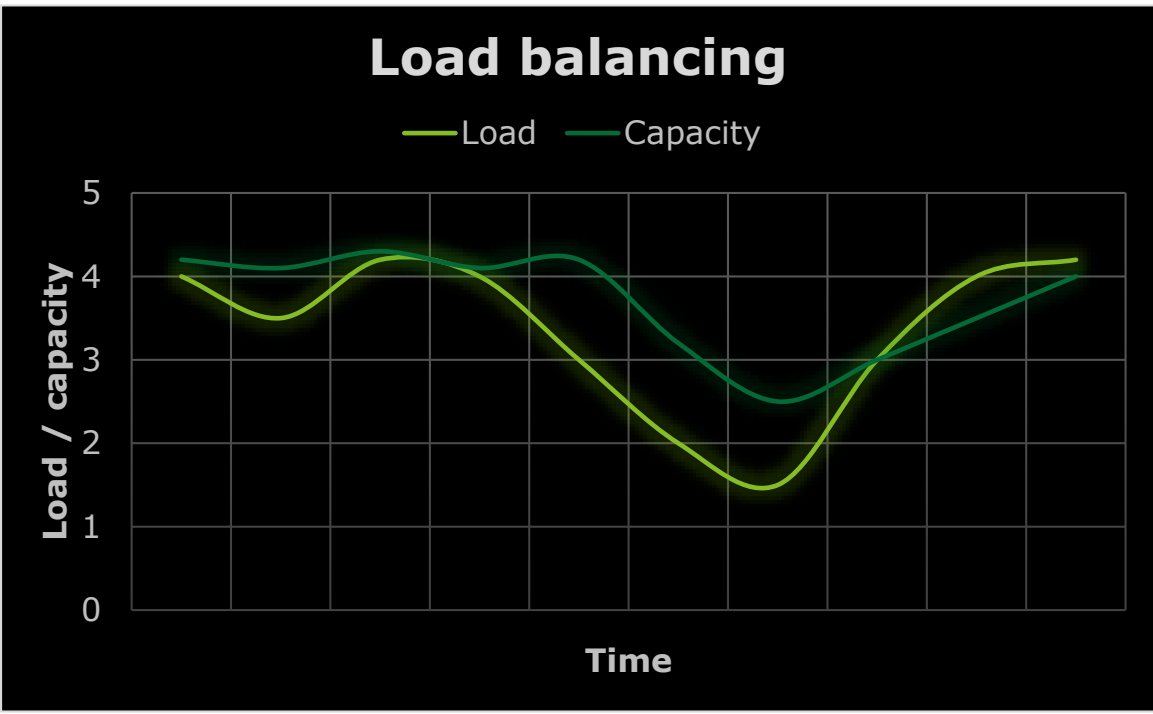
Leverage over-capacity to create value by innovation



- You will probably not succeed in making your capacity stick to the load (demand)
- Over-capacity is gold nugget to gain competitive edge during the downturn : do not loose it!
- Leverage over-capacity by feeding teams with added value activities and projects : innovation on products / services / processes (focus on digital transformation)
- You will have to save resources to invest in innovation, if not possible, struggle as much as possible to get budget
- You will keep your team committed and motivated and reassure your main stakeholders
- Vision of the future from the leadership is key, raising its back is not a strategy

Bounce

Overcome the crisis with a competitive edge



“Companies that reinvested more during the recession achieved higher growth rates”
Deloitte Insights

“After 11/9, airlines able to retain staff were able to recover successfully”
Deloitte Insights

Deloitte.
Insights

Gain a First-mover advantage after the crisis by leveraging on your agility and innovations developed during the downturn

How to take the first step of the journey?

How to take the first step of the journey?

There is no one size fits all approach, you need to tailor it based on your own reality







Deloitte has designed a Downturn Planning Lab to initiate the process

OBJECTIVE: Survive and thrive amidst an economic downturn by co-designing and executing a comprehensive volatility strategy with your executive team

WHAT COMPANY EXECUTIVES NEED...

CxOs have expressed six major categories of needs while planning for or responding to a downturn.

SIX MAJOR COMPANY NEEDS

Client Needs	Description
 Set the Foundation	Create a resilient and agile organization that is prepared for volatile times
 Defend and Drive Revenue	Identify opportunities to improve top line growth
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WHAT DELOITTE OFFERS...

Host a **Downturn Planning Lab** for the executive team and key Deloitte Subject Matter Advisors

DOWNTURN PLANNING LAB

Example Outcomes:



Recognizing a Downturn: Identify early warning signs and weak signals for a downturn and explore current economic conditions for relevant markets



Identifying Market Disruptors: Understand the impacts of market disruptors (e.g., Future of Mobility) and explore ways that the impacts could change during a downturn



Engaging in Planning Exercises: Engage in downturn planning simulations (e.g., scenario planning, competitive war games) and create contingency/response plans and playbooks



Stress-Testing Strategy / Accelerating Innovation: Review company strategy and brainstorm ways to innovate and maintain core mission during a downturn



Diving into Key Levers: Engage in deep dive of levers for specific company needs to increase revenue, decrease costs, optimize assets, accelerate digital etc.



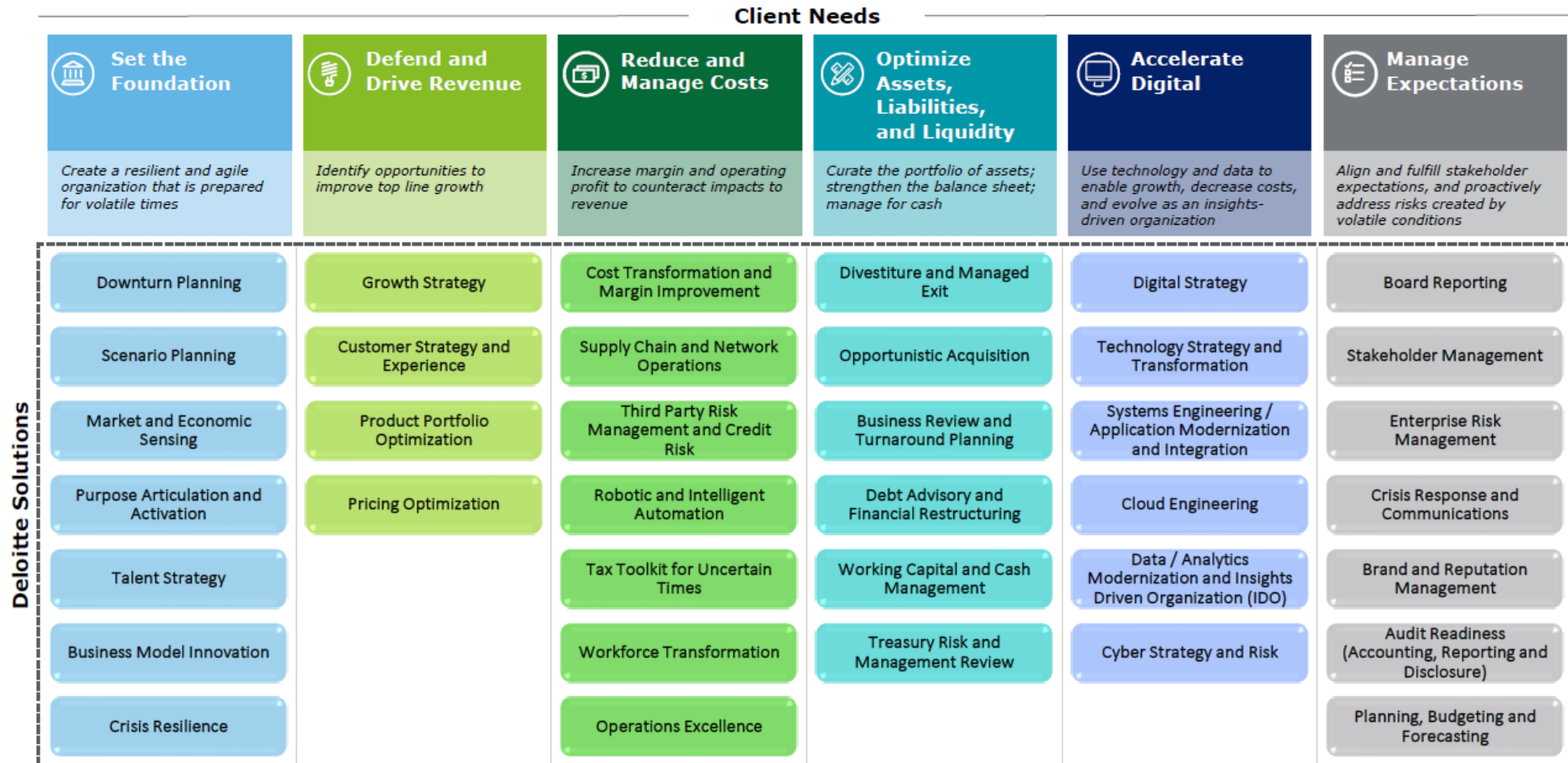
Leading through Volatility: Support executive leadership team in setting up effective team structures, profiles, and governance for downturn response

Each lab would be **tailored to the unique needs and requests of the organization**

How to take the first step of the journey?

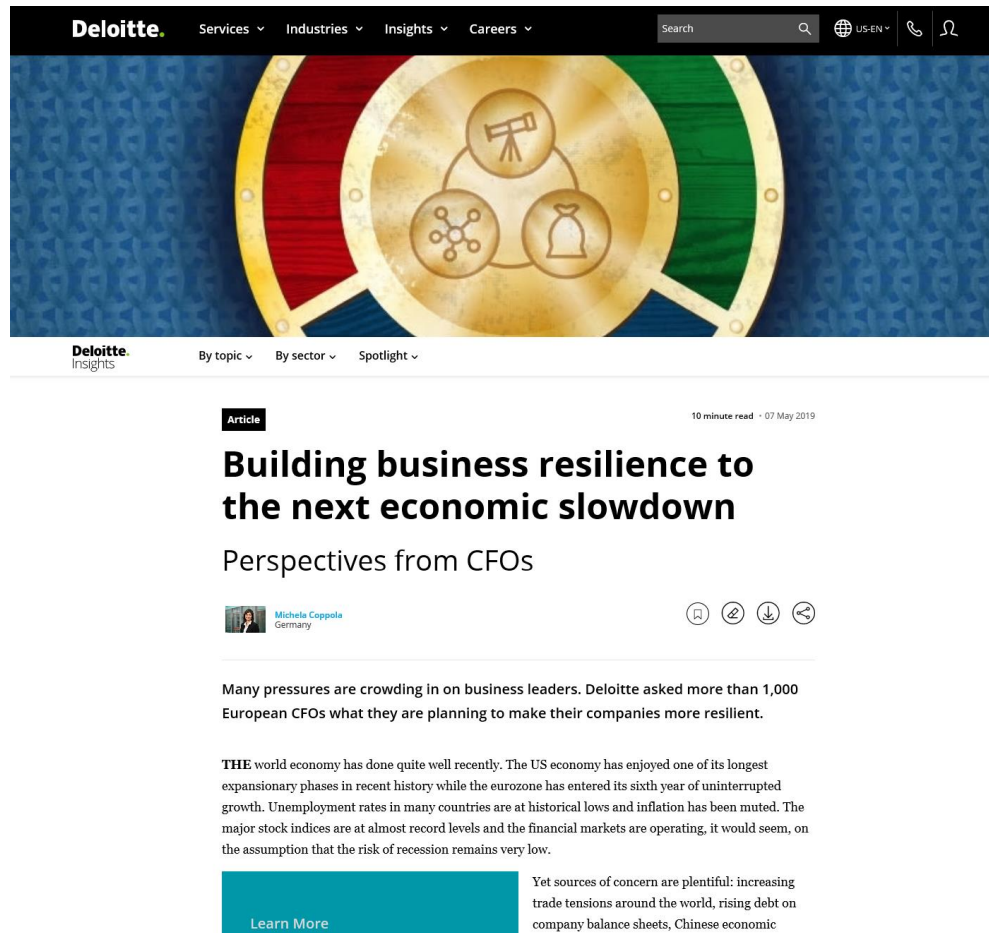
There is no one size fits all approach, you need to tailor it based on your own reality

Deloitte has also structured a panel of solutions to adress main priorities



How to take the first step of the journey?

Find more insights from Deloitte on our websites



The screenshot shows the top navigation bar of the Deloitte Insights website. The main header features a large graphic of a golden wheel with three segments (red, green, and blue) and a central hub containing icons for a telescope, a network, and a bag of money. Below the header, the article title is 'Building business resilience to the next economic slowdown' with a subtitle 'Perspectives from CFOs'. The author is Michela Coppola, Germany. The article text begins with 'Many pressures are crowding in on business leaders. Deloitte asked more than 1,000 European CFOs what they are planning to make their companies more resilient.' and 'THE world economy has done quite well recently. The US economy has enjoyed one of its longest expansionary phases in recent history while the eurozone has entered its sixth year of uninterrupted growth. Unemployment rates in many countries are at historical lows and inflation has been muted. The major stock indices are at almost record levels and the financial markets are operating, it would seem, on the assumption that the risk of recession remains very low.' A 'Learn More' button is visible at the bottom of the article preview.



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