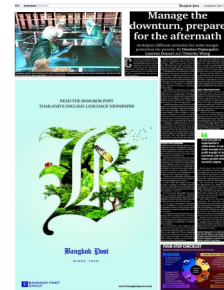


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Manage the downturn, prepare for the aftermath

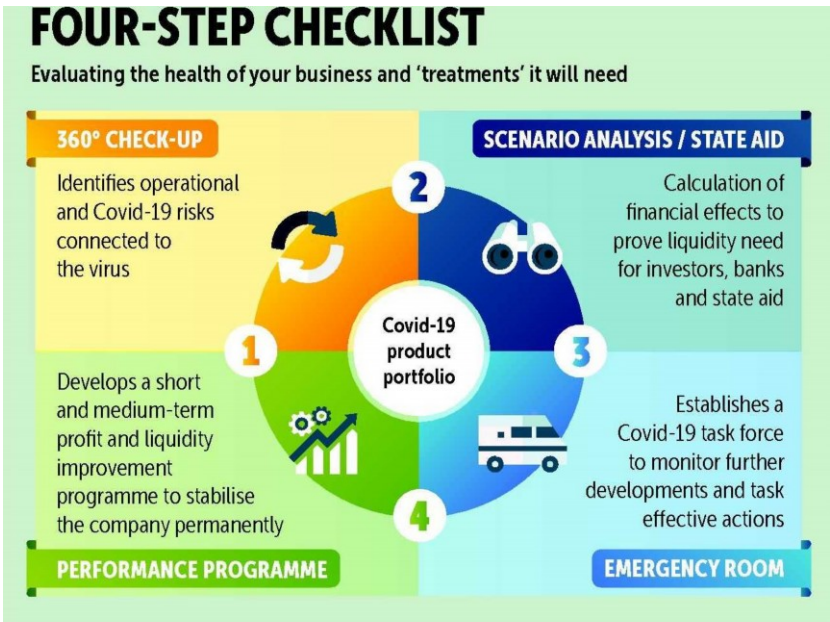
Anticipate different scenarios but make margin protection the priority. By **Damien Dujacquier, Laurent Doucet and Timothy Wong**



Employees practise social distancing at Sansiri headquarters. Attempting to weather the Covid-19 downturn requires the right tools to become an agile organisation. VARUTH HIRUNYATHEB

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Covid-19 is an unprecedented crisis that is bound to have lasting implications on many aspects of our lives. Fundamentally, it has pressured individuals, corporations and government institutions to reconsider their baseline assumptions and governance principles.



Source: Roland Berger

BKPgraphics

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Many experts now concede the pandemic is a magnitude above other 21st century "black swan events" such as the 2008 financial crisis and Sars. At extreme times like this, strong leadership and sensible thinking are essential.

With global travel and supply chains disrupted, plants have been forced to shut down. Logistics bottlenecks and closures have drastically reduced supplies of consumer and industrial goods. Self-imposed quarantines alongside a decline in consumer confidence have curtailed consumer spending and lending.

All in all, the combination of supply shock, demand shock and credit crunch will lead to a considerable reduction of investment capital and consumable wealth. According to calculations by Roland Berger, global GDP could take a hit of up to 3.2 percentage points.

Organisations now need to deal with short-term operational issues to ensure business continuity, while also playing their part through corporate social responsibility (CSR) initiatives. They need to anticipate a scenario in which revenues are constrained and learn to cope through cost rationalisation, with a focus on the essentials before all else.

Building a realistic path to recovery through cost containment is an unglamorous but necessary concept. Leaders need to remember that survival is possible even in downturns, but it requires agility in dealing with margin protection. The rule applies not just to businesses, but also to government institutions and individual households.

PROTECTING MARGINS

Simply put, practically any business can adapt and survive through this unprecedented situation. While the structure and foothold of a business will evolve from what it was prior to the outbreak, the business itself will last.

Instead, more than at any other time in this century, the long-term success of companies is predicated on their ability to build agility, resilience and efficiency. Rational cost reduction is a high-stakes and high-reward activity, especially in periods of extreme volatility, uncertainty, complexity and ambiguity such as what we are experiencing now.

This four-step checklist will help you focus in your pursuit of a lean organisation and margin preservation:

1. Start with a 360-degree check-up of your company's standing: Identify and document all known and unknown operational and organisational risks pertaining to Covid-19.

2. Assess your risk profile and prepare a scenario analysis: Calculate your financial standing, especially your liquidity, for discussions with investors, banks and state aid administrators.

3. Set up an emergency response room: Establish a Covid-19 task force to monitor further developments that unfold and to prepare immediate effective actions.

4. Design a purposeful performance improvement programme: Develop both short- and medium-term improvement programmes targeted at revenue, cost, margins and liquidity to stabilise the company.

We expect the crisis triggered by Covid-19 to last for 12 to 18 months, given that treatments and vaccines take time to get approved. Hence, ongoing performance improvement may be necessary to get through several quarters. This exercise requires you to study all aspects of your organisation.

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The steps prescribed are not unconventional. Enterprising leaders know that cost scales inversely with profit. Once you get an organisation's costs down, it can retain enough of a profit margin to fuel economic, job and salary growth when recovery begins.

When in doubt, think of the businesses that have survived or were built during economic downturns. They resist the temptation to react only as news develops, and instead proactively build a logical plan to protect margins and the lifeblood of the business.

AGILE ORGANISATIONS

Today more than ever, the most agile companies have the most abundant options to deal with unexpected events. An agile organisation is what you should work toward becoming to get through this period. With an appropriate level of corporate agility and efficiency, yields and margins will be protected, ensuring your company's success in getting through this period.

A variety of cost management initiatives you can consider include: improving procurement costs, adjusting or deferring capital expenditure projects, redesigning processes, rebalancing in-house and bought field services, renegotiating real estate lease agreements, and pushing back portions of cash flow to the second half of 2020.

Once you get an organisation's costs down, it can retain enough of a profit margin to fuel economic, job and salary growth when recovery begins.

Shake away any stereotype that cost containment means a blind and sweeping exercise across the organisation. Instead, anticipate scenarios and focus only on the necessary measures to protect the organisation, its employees and prepare for the aftermath.

The pandemic has highlighted the importance of a nimble and agile organisation during turbulent times. Agile organisations are more resistant to life-or-death economic downturns than others. Being only reactive to the present economic cycle is a misstep that can hurt your business.

The reality is we are entering the unknown. All companies are facing shortfalls in revenue and do not know how much and how long the impact will last. Attempting to weather the Covid-19 downturn without the right tools is therefore an incredibly tough challenge. The best strategy is to manage the crisis with informed and calculated decisions.

Identify and prioritise from a long list of measures. Pay special attention to margin-oriented actions for a start. Remember that knowledge and sensibility are the best tools to deal with any ongoing uncertainty.

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