



# Winning in Turbulence

## Results brief

A series from Bain & Company offering practical tools to survive and move up in the downturn

### Cash is Not Only King, It's Strategic

by Darrell Rigby and David Sweig

"Cash is king" takes on new meaning in a downturn. Analyzing its flows can provide direction and competitive advantage as rivals struggle with liquidity.

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### Preserving the G&A That Really Fuels Revenue

by Hernan Saenz and Darrell Rigby

In a recession, general and administrative (G&A) functions are often targets for indiscriminate cuts. They should be lean, but also muscular to effectively support the revenue-producers on the front lines.

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### The Power of Managing Complexity

by Mark Gottfredson and Darrell Rigby

In good times, untamed complexity hinders growth; when the economy turns down, complexity stalls the business. Survival can depend on quickly determining which products are making money, what customers really value, and which organizational bottlenecks are getting in the way of effective action.

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## **Cash is Not Only King, It's Strategic**

by Darrell Rigby and David Sweig

*[Click here](#) to read the full article on Harvard Business Publishing's website.*

Until recently, most senior executives regarded managing cash flow and liquidity as tactical functions, a mundane set of activities left to administrative managers. No more. As the global financial crisis has choked off credit, cash management has become strategic. Companies with weak operating cash flows are finding it more difficult to secure outside funding, just when flows are harder than ever to generate.

The resulting cash pinch can threaten the largest global players. General Motors and Chrysler would have succumbed without government help. Circuit City wasn't so lucky. Conversely, companies that aggressively manage cash and liquidity—and use the perspective and the data that come with it to gain forward visibility—have opportunities to prosper in turbulence.

Wal-Mart, for instance, is aggressively managing resources to take advantage of others' weakness. The company has cut capital expenditures, halted a stock buyback program and trimmed inventories. It has shifted cash from opening new stores to remodeling existing ones. That has allowed Wal-Mart to keep cutting prices.

A critical first step in such cash-flow discipline is adopting a 13-week tool that shows what's flowing into and out of each business segment on a weekly and monthly basis. The idea is to capture real-time information on flows and compare them with budgeted amounts. Persistent variances signal fast-emerging problems in product lines, customer channels and vendor relations problems that can be addressed before it is too late.

## Model and manage cash flow to guide the business

13-week cash-flow tool builds a short-term view of how cash flows through the business	It also provides a foundation for long-term downside scenarios that trigger action
<ul style="list-style-type: none"> <li>• Gives cash position on a weekly basis</li> <li>• Tracks cash inflows and outflows directly through bottom-up construction (unlike indirect method used on Statement of Cash Flow)</li> <li>• Provides the ability to report actual vs. budget variances each week</li> <li>• Permits situation-specific forecasting, including closing stores, selling lines of business and reducing headcount</li> </ul>	<ul style="list-style-type: none"> <li>• Reveals how much cash is necessary to preserve and protect the business under different conditions</li> <li>• Identifies choke points and opportunities to improve processes</li> <li>• Highlights differences in efficiency between product lines, customer channels and vendor relationships</li> <li>• Provides a powerful understanding of which rivals are vulnerable, which customers are strongest and which vendors might not survive</li> </ul>

Many senior executives have also begun to model downside scenarios informed by cash flow and liquidity measures. These can accurately show how much cash they need to protect the business under different conditions. Turned outward, they can also provide powerful insights into which rivals are vulnerable, which customers are strongest and which vendors might not survive.

The value of this approach builds with time. Consider how one auto-rental company used this process in the last economic downturn. Contractually obligated to take billions of dollars worth of cars from automakers, it developed a detailed understanding of the working capital implications for each class of car rented out in every conceivable situation.

Right away, the data showed that management had several available levers to pull to save cash and shore up operations if business conditions worsened. One of them involved the company's preferred customer desk, an amenity allowing top customers to pick any car for a set price. From a marketing standpoint, the desk was a big win. But from a cash flow perspective, it was a nightmare.

Yet, by understanding the behavior of their most lucrative business customers—and knowing

the cash cycle of each class of automobile—managers could offer top choices only at the most important locations. The scenario anticipated that some customers would leave, but it also freed up \$200 million to \$300 million to invest elsewhere.

**[Click here to read the full article](#), which shows how other leading global companies are “following the cash” in similar ways, and honing their downturn strategies.**

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## **Preserving the G&A that Really Fuels Revenue**

**by Hernan Saenz and Darrell Rigby**

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When cost reduction becomes an urgent priority, one of the first places executives look for savings is general and administrative (G&A) expenses—the cost centers that provide support and back-office functions such as finance, information technology and human resources.

The natural temptation is to get it over quickly with across-the-board cuts. There's no doubt that this will eliminate some unnecessary expense—and in a hurry. But it often destroys value in the process. Indeed, managers can unwittingly eliminate activities essential to driving sales and profits.

There's a better approach. It's almost as quick as slashing away, and in our experience it produces cost savings that are sustainable, typically in the range of 10 to 30 percent. It also improves the productivity and effectiveness of support functions, which in turn helps boost the performance of a company's front line—a powerful advantage in a downturn.

It starts with upending standard thinking about G&A. We call this “inverting the pyramid.” The usual organizational pyramid shows front-line managers and employees—the people engaged in the primary profit-making activities of the business, whether it's serving customers or producing semiconductors—at the base. Support functions are in the middle, with senior management on top. Rotating the pyramid emphasizes the importance of those who actually provide the products and services that customers value. Everything is balanced on their performance.

This perspective sharpens management's focus on honing support services. Questions become: Which of HR's many roles help put talented, well-trained people in a company's critical positions? Which of IT's activities solve problems that are getting in the way of delivering value to the customer?

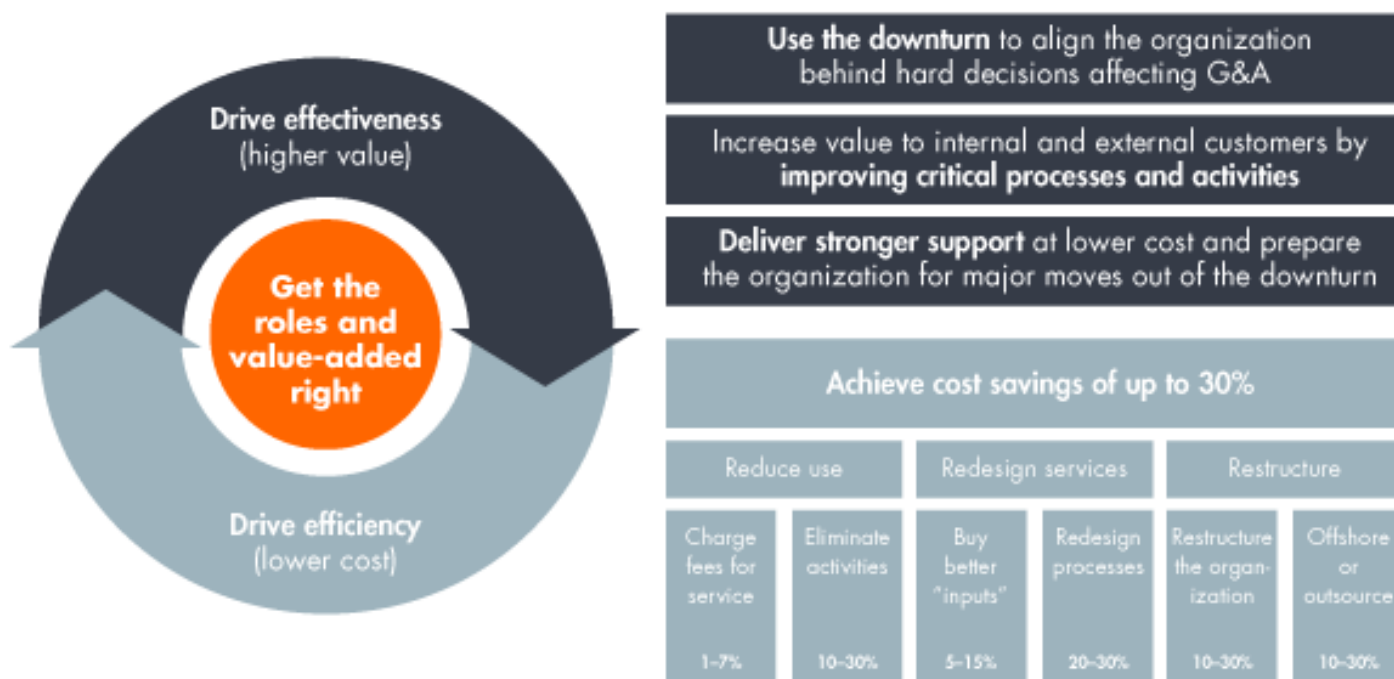
We've discovered three main ways that leading companies maximize front-line services while eliminating unnecessary G&A expense: reduce, redesign and restructure.

**To Reduce**, companies clarify what support functions are expected to deliver and eliminate nonessential activities. Some companies use internal pricing mechanisms to see which services front line managers really want, based on what they're willing to pay for.

**Redesign** requires companies to scrutinize the processes that deliver support services. They can streamline some—often by automating certain steps—and purchase better or lower-cost inputs for others.

**Restructuring** usually involves consolidation or outsourcing. The goal is to ensure that support services are located and organized in such a way that they can perform most effectively at lowest cost.

## Streamline G&A: The potential to save up to 30% in costs



One company that employed these “three Rs” was Kyobo Life, a Korean financial services company. Kyobo discovered that its typical branch sales agents spent 60 percent of their time on support—a back-office function—and only 40 percent on selling. Kyobo actually invested in more G&A infrastructure—in this case a call center—which energized its salesforce.

For more details about how Kyobo and other global companies have balanced G&A efficiency and effectiveness, [click here to read the full article](#).

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## The Power of Managing Complexity

by Mark Gottfredson and Darrell Rigby

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Downturns reveal a company's weaknesses. An organization that seemed nimble and focused during a period of expansion may be sluggish and ineffectual when demand drops off. Survival can depend on quickly determining which products are making money, what customers really value, and which organizational bottlenecks are getting in the way of effective action.

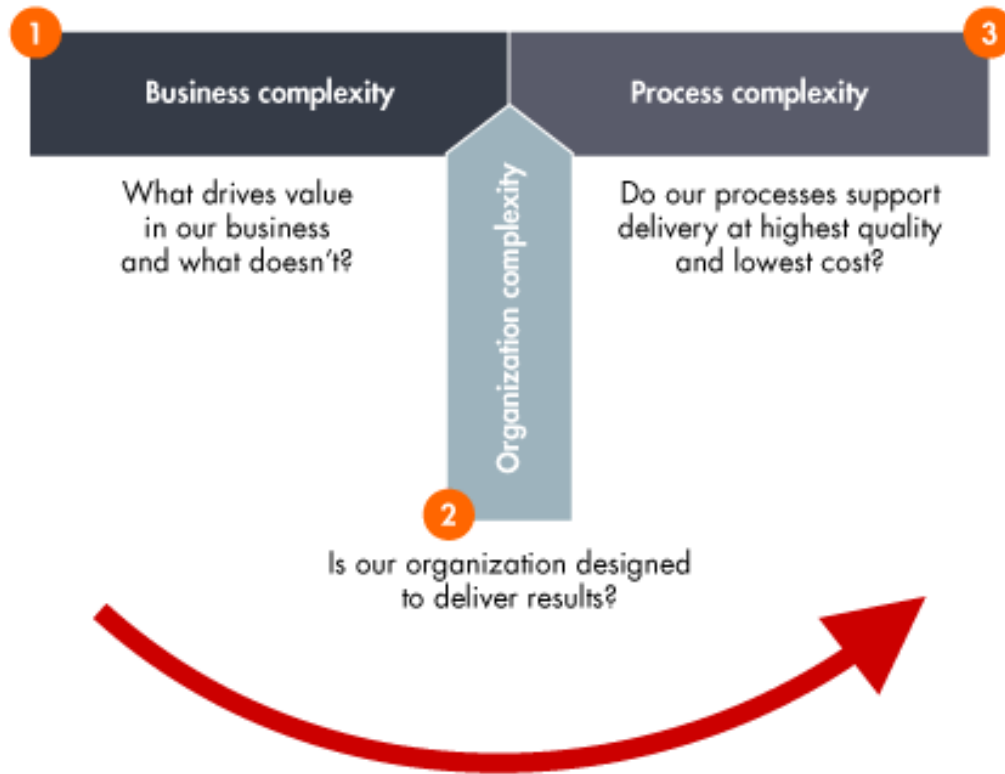
One major cause for this sluggishness, in our experience, is complexity—product complexity, organizational complexity and process complexity. The costs of complexity are usually hidden, so executives often don't grasp the magnitude of the problem—until a downturn hits and the business feels dangerously close to stalling out.

The challenge with managing complexity is that some complexity is necessary and advantageous, even in a downturn. For example, country or regional business units are closer to the ground than headquarters and are more likely to know what customers want. It takes a complex organization to provide enough local autonomy so products or services can be tailored to those customers while still taking advantage of global scale. But that kind of complexity can be vital to sustain sales through a recession.

A similar challenge arises when companies struggle to balance complexity and innovation. Adding new products, services, features and options creates complexity of all sorts. But companies become leaders by offering customers new choices, and in a downturn innovation may be a company's salvation. The key is not to eliminate complexity but to balance its benefits with its costs.

A useful way of analyzing the level of complexity in your company—and separating complexity that's beneficial from complexity that hurts the business—is to begin from a base of zero. Imagine, for example, that your company produced just one product or service with no variations, sort of like Henry Ford's classic Model T. A manufacturer with only one product would still need a supply chain, a factory, a distribution network, and a sales-and-marketing function. But it could greatly simplify its IT systems, its distribution and sales efforts, and its forecasting. One plant manager with whom we discussed this exercise was bringing in 15 planes' worth of parts almost every day to meet the next day's production schedule. In a Model T environment, he noted, "All those costs would disappear instantaneously."

## Managing complexity: A zero-based approach in the right sequence delivers sustainable results



The point of the exercise, of course, isn't to go back to the days of the Model T, but to determine your zero-complexity costs, and then assess the costs of adding variety back in. Often the cost curve has a "knee"—a step change triggered by adding one more model or level of variety—and you can determine whether moving beyond the knee is worth the additional expense. You can also assess the benefits of innovation, and determine the focal point where a given innovation overshoots what most customers want and are willing to pay for.

The key task—more essential than ever in a downturn—is to manage these balance points, keeping costs low while maintaining the level of variety and innovation that customers value. Similar kinds of analyses can diagnose organizational and process complexity.

To see how other global companies are taking practical steps to manage complexity, [click here to read the full article](#).

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