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Leading Through Uncertain Times

When times are uncertain, whether contrast, Swissair, which incurred no

Focusing the whole company on these goals is more important than ever. Planning with line management is critical to ensure that expectations are clear, to increase buy-in, and to encourage departments to contribute to building cash reserves. Customers and vendors will also be seeking ways to build cash reserves by lengthening or shortening their payment cycles. Executives must be sure to communicate with vendors and customers to confirm that everyone understands the credit terms. Tightening credit terms for at-risk customers may also be necessary.

Making informed decisions about where and how to make cuts will require an investment in short- and long-term efficiency projects. It's important to reevaluate business processes regularly. Now is the time to redouble that effort and trim the least productive activities. USAirways has been cutting back service at hub airports and on routes where profitability is lowest. The airline, which was already in trouble before September 11, is fighting for its survival through a combination of smart analysis and decisive action.

Conserve Capital

Corporate executives need to set priorities for all capital and study alternatives closely. They need to assess each capital project and set realistic projections for likelihood and timing of demand. This is an absolutely vital time to match expense dollars and capital dollar budgets. Capital projects supporting growth initiatives should be adjusted to match any expense reductions in those initiatives' budgets and vice versa.

Many companies do not have strong enough balance sheets to enable them to secure significant equity or debt capital, especially in times of crisis. The Chinese word for crisis is comprised of two characters: the first, danger; the second, opportunity. Bankruptcies among the ill prepared will present rich opportunities for those with the cash,

the strategic and operational plans, and the guts to act decisively.

Develop a Contingency Plan

Comprehensive contingency planning involves designing a head-to-toe assessment of business risks and developing a plan to conserve generally and to spend resources judiciously on the most critical and vulnerable areas.

Contingency planning prepares companies for a range of unforeseen disruptions, whatever their source and whatever their magnitude. Many companies have reflected that the type of

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planning they did for Y2K contingencies is similar to the type of planning they should be doing in the wake of the September 11 attacks. Indeed, these threats are of comparable magnitude and require a similar amount of planning.

In these times, companies should immediately examine four areas: sourcing, insurance, international exposure, and competitive impact. In parallel, they should develop a more comprehensive contingency plan covering all major business areas and update that plan at least quarterly.

Sourcing. In almost all catastrophes, transportation is disrupted. During the OPEC oil shocks in the 1970s, rapid price escalation acted much like a catastrophe in disrupting transportation. In such situations, companies must quickly reconfigure their logistics routes and increase their inventories as a buffer. They must identify alternative delivery mechanisms for production inputs and outputs, as well as alternative sourcing providers.

Insurance. Many insurance and reinsurance companies are hit hard by major disasters. After major events, businesses should expect a sharp increase in premiums. Beyond the price increase, businesses should review the fine print of their policies

(and any recent and proposed addenda) to be sure policies provide the coverages needed to offset a catastrophic event.

International Exposure. Initiatives also must address a company's exposure throughout the world, not simply in the U.S. With regard to the current War on Terrorism, the impact in the U.S. is likely to be most significant in the oil sector because of the U.S. dependence on foreign oil. And the possibility that future attacks against U.S. interests may take place abroad, perhaps in Europe, for example, should

be of immediate concern for companies with multinational operations.

Competitive Impact. Companies should analyze what impact the catastrophes have on the competitive landscape. How will a natural disaster affect a competitor's nearby manufacturing or distribution facility? Or how will the disaster affect demand in that region? Regarding terrorist activity, how will increased security at borders affect the supply chain? How will the new tone of the marketplace be reflected in marketing campaigns, product positioning, etc.?

While significant natural catastrophes and the events of September 11 leave us shocked and numbed, executives have a responsibility to their companies, shareholders, and employees. Life must go on. For executives, that means a disciplined return to a simple set of economic principles, and an aggressive commitment to contingency planning. To succeed, business leaders must remember that investing in the planning, analysis, and preparation process is as important as the implementation. ♦

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