

PREDICTIVE RESTRUCTURING

WHY THE CRISIS MODE
HAS TO BECOME PART OF
THE DAILY BUSINESS



STAUFEN.

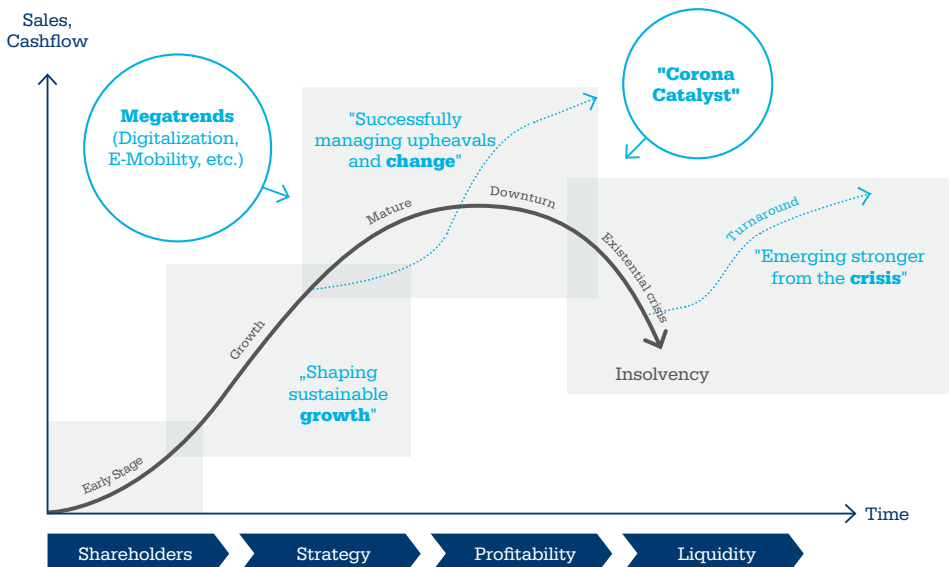
CONTENTS

1	Change or Crisis?	5
2	The Corona Catalyst	8
3	Predictive Restructuring – Looking Ahead	12
4	The Path to Predictive Restructuring	14
	4.1 Classic top-down approaches as the initial situation	14
	4.2 Combining restructuring with leadership and change approaches	16
	4.3 Lean management as the basis for adaptability and top performance	18
5	Conclusion: A change of attitude is what's needed	20

1. CHANGE OR CRISIS?

Looking back from today's perspective, the banking crisis of 2008 / 2009 was harmless. What's more: After that crisis, the only way for the German economy was up. Yet, towards the end of the boom phase, we were already seeing an increase in crisis symptoms. The huge emerging trends digitalization, e-mobility and sustainability were setting the stage in many market segments for impending upheaval – a risk cocktail was being whipped up.

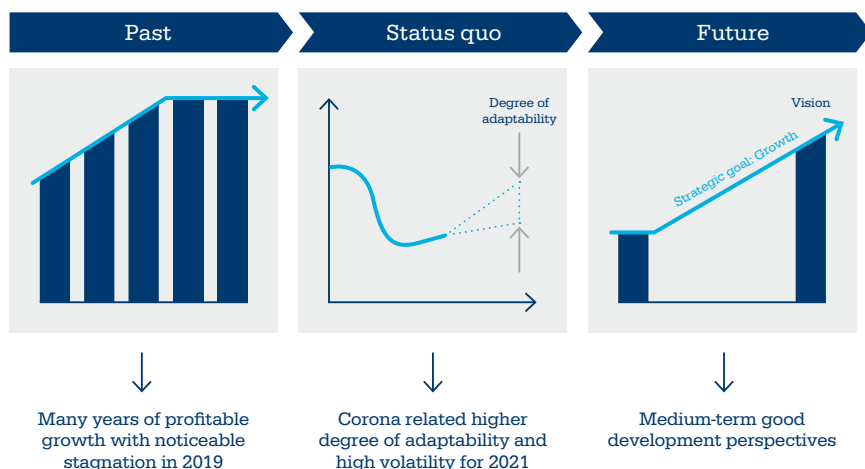
GROWING TENSION IN THE CORPORATE LIFECYCLE



This is where Predictive Restructuring begins. The integrative approach has two goals: First, companies secure existing success with it in an increasingly dynamic environment. Secondly, they realize the transformation to new business models and structures.

With the Corona crisis and the current uncertain situation, companies are faced with yet another challenge: Short-term, they need to make enormous adjustments in (cost) structures, while at the same time, medium term, they have to find a way to prevent any larger losses with respect to the investments made and the competencies-built up. Moreover, they require significant financial power.

TYPICAL ENVIRONMENT FOR CORONA @ PREDICTIVE RESTRUCTURING



Because liquidity achieves two things: It expands a company's capability to remain flexible in its market activities, while allowing it to take advantage of strategic opportunities. If a company does not have liquidity, economically speaking, it cannot take action.

- The goal during good times is to optimize capital returns and create sufficient funds for further growth in revenue (markets, innovations, competencies).
- In times of crisis, the perspective changes – liquidity takes priority over returns. Worst case, companies must maintain their liquidity at the expense of returns.

The Corona crisis has forced many companies to deal with this golden rule head on. The motto that fits perfectly here is: "EBIT (earnings before interest and taxes) is Silver – Cash is Gold".

The tension caused by the conflicting priorities "Maintaining what is successful", "adapting that to the present" and "affecting future viability" presents a company's management team with especially challenging demands. Because the ability to successfully manage the various corporate phases is one of the most inherent responsibilities facing the top management.

2. THE CORONA CATALYST

Dialog between experts:

RES

Restructuring (Andreas Sticher) and

CM

Change-Management (Dr. Dirk Bayas-Linke)

What are the (utilization) scenarios companies are planning with and, from Staufen's point of view, what are the realistic perspectives?

RES

In the recent past, technology-oriented companies invested significant amount in expanding their internal competencies. In addition, they are integrated in complex supply chains, such as in mechanical engineering or in the automotive supply industry. In these multi-layer supply chain networks, the effects of Corona are just now really coming to the surface, making the delivery bottlenecks more and more noticeable throughout.

Across all sectors, many companies are preparing themselves for a very volatile top line, which in 2021 as well will in part be significantly below the figures of previous years. Yet, to date, most companies are not sharing any clear information, neither internally nor with the public. No one wants to publish incorrect numbers that would need to be revised later. Especially among the staff, this causes increased of uncertainty. Employees ask themselves, what the future looks like, especially beyond short-time work.

CM Management will have to position themselves, because employees and customers alike need clear orientation in uncertain times and during complex situations. For this reason, executive management should come out of hiding – fully knowing that they may indeed have to "adjust" and "pivot" if the context changes.

Many industries were struck by the events unprepared, which will lead to numerous restructurings. So, are many actually healthy companies now facing radical changes?

RES Long before Corona, given the mega-trends such as digitalization or e-mobility, we dealt in-depth with major upheavals. For this purpose, we illuminated various approaches from several angles and then we coalesced them into our "Predictive Restructuring" approach.

Because, many established companies, despite their actual high level of profitability, are faced with one challenge: In this increasingly dynamic environment, how can they safeguard their current success? How do they manage the change to new business models and structures?

The "Corona catalyst" confronts these companies now even more drastically with questions like: How will the designed structures be flexibly adapted even with a significantly reduced top line, without having to simply accept major cuts and losses?

In addition many executives were primarily focused on growth in the past given the good economy. This is why oftentimes we simply cannot find enough competence and experience in restructuring and crisis management.

CM Change is already in full swing. Companies, teams and managements are now forced to find answers. By definition, changes come with a level of ambiguity and uncertainty, and sometimes they only act as an intermediate step. This is why many associate them with doubt, caution and ambivalence. What is important is to allow these emotions to unfold – to recognize them and to not suppress them. The challenge: Actively shape these complex processes and not simply react.

So, how do we now deal with the experiences that were made during the lockdown?

RES The lesson from the Corona crisis is that companies have to think and act holistically and in scenarios. From the top-down perspective there continues to be a clear orientation towards corporate and economic targets. At the same time, ensuring that the (cost) structures remain consistently flexible is also important. This allows companies to arm themselves against unpredictable circumstances in 2021, giving them a high degree of adaptability. Digitalization and Lean Management can be used to help them tremendously.

Moreover, during the Corona crisis, many companies have learned to maintain core business processes in operation with minimum resources. The challenge now is to take up these findings and lock them into the structures and processes long-term.

CM The leadership and corporate cultures must encourage an adaptable mindset. The future will require leaders, who are able to qualify people for new demands and can inspire them to embrace change. They need to be able to explain why change is necessary and build confidence so that the fear of uncertain times is reduced and clear goals and action steps can be developed.

Crucial during this process is an iterative approach in short cycles and based on various scenarios. This flexibility must not be interpreted as weak leadership, but instead as a quality characteristic in dynamic environments and markets. Management sets goals, but it also adjusts them if the world starts turning in a different direction. And this is not something that can be done by a single individual alone. What is needed is a robust and powerful team that is fully aware of its own limits. This is the lesson learned from recent events.

So, does everything just need to be flexible and agile in the future?

RES Leading for too long based "on sight" alone will increase the risk of never reaching the goal. So, in the future, we must continue to have business plans, strategic goals and visions that are resilient and future-proof. Because strategy and planning define the framework for operational decisions, thus providing orientation. Especially in situations that are more dynamic and complex, entrepreneurial thinking and acting are the mainstay that stabilize and organization as a whole.

CM The goal is to successfully create a long-term transformation process. The crucial success factor here is the ability to interlink the classic top-down restructuring the leadership excellence and change concepts. Adaptability is more important than ever before. Internally, managers must be willing to continuously readjust themselves, remake themselves and remain consistent. Furthermore, they should not make the mistake of holding on to old thought patterns: Flexibility does not equate with weak leadership, but, to the contrary, is responsible leadership.

3. PREDICTIVE RESTRUCTURING LOOKING FOR- WARD

For many companies, the Corona crisis has been the catalyst for making necessary changes, because the next industrial revolution is already in full swing. Close to 90 percent of German industrial companies are expecting major changes for the upcoming decade, and because of it, there is a high degree of uncertainty in every second company.

And with good reason, as the "Change Readiness Index" (CRI) by Staufien reveals. The regular survey conducted among executives of German companies clearly shows: Very few companies have what it takes to redefine themselves. Complicating matters even more, most managers overestimate the ability of their companies to make changes. Reality is lagging far behind self-perception.

All companies have to be prepared for greater pressure to be innovative – even if they feel that their business model is future-proof. The digital transformation is reshuffling the cards in every industrial sector. Innovation cycles are becoming shorter and shorter, competitors with a digital background are grasping to reach markets they felt were assured, and even on an international level, buyers

are becoming competitors. A successful response requires a great degree of innovative strength and adaptability. However, these characteristics require leadership and corporate structures that promote the ability and willingness to change on all levels.

EVALUATING ADAPTABILITY

on a scale from 0 = "not at all" to 100 = "completely"

STRUCTURES



PROCESSES



LEADERSHIP



EMPLOYEES AND QUALIFICATIONS



4. THE PATH TO PREDICTIVE RESTRUCTURING

4.1 CLASSIC TOP-DOWN APPROACHES AS STARTING POINT

To begin with what needs to be done is to "face reality". This can be done as a quick check with the goal of creating full transparency. For this purpose, the perception from this inside and from the outside are combined and the assumptions for the next steps in business planning are reviewed with respect to plausibility.

To achieve this, corporate management needs to recognize where the greatest potential for risk, and also for opportunities, can be found and how they interact. This can be used as a basis to realistically simulate future scenarios of how business will develop and to illustrate the wide range of volatility and level of adaptability.

Target Costing is applied to focusing on the market in this manner, serving as an instrument of corporate management. On the one hand, it serves to improve the cost situation and on the other hand, it has an impact on how employees perceive costs.

The starting point is the required cashflow for operations. The idea is to derive the target costs from it and to answer the core question "How much structure can I afford?".

In addition, companies must make use of the lessons learned from the Corona crisis: keep the core processes up and running with a minimum configuration.

The highest premise is to ensure that the company does not fall back into pre-Corona status. Firstly, companies should consistently adopt approaches to track the conversion from fixed costs to variable costs. Secondly, they should make use of efficiency potential and thirdly, re-view the depth of value creation in view of tied up capital.

Companies must find the ideal operating points. Which then form the basis for a sustainable and viable future-proof concept.

4.2 COMBINING RESTRUCTURING WITH LEADERSHIP AND CHANGE APPROACHES

Continuous improvement and change processes are crucial for achieving sustainable results.

The leadership and corporate culture play an important role in this: They must encourage adaptability. Because only a learning organization has an internal early-warning system that can anticipate change. It is less susceptible to disruptions and can manage crises with a forward-looking plan.

Special situations require special measures. Even the leadership team must be critically reviewed with regard to its future viability: Increasingly, other new leadership qualities are required.

There is a demand for leaders who can qualify people for new requirements and who can also inspire them to be enthusiastic about the changes. To achieve this, management needs to be able to explain why change is necessary and build confidence. This allows them to transform the fear of an uncertain future into clear goals and action steps.

A new understanding of leadership is required for this. In structures that are strongly hierarchy-based, employees are kept on a short leash to ensure they perform well. This limits their initiative

and willingness to change. In organizations such as this, any change process will not succeed.

The good news: The overwhelming majority of German industrial companies are committed to a management style that involves their employees. More than three quarters of companies claim that they are increasingly working with flat hierarchies. Many companies believe that their own organization is learning and is prepared for continuous improvements.

APPROACH

1. Orientation Quick-Check

Quantifying Corona scenarios and defining a clear target image behind them

2. Target Costing

How much structure can I afford?

3. Becoming variable and flexible

Establishing a minimum configuration of the core competencies

4. "Growing Without Growing"

Identify operational potential and redesign resource requirements

5. Agile Organization

Quickly adapting to changing market requirements

6. Change Management and Leadership Excellence

The leadership performance and corporate culture must encourage the ability to change in all areas

Adaptability

Orientation and coherency

Future viability

Buy-in and intervention

4.3 LEAN MANAGEMENT AS BASIS FOR ADAPTABILITY AND TOP PERFORMANCE

We use our combined top-down / bottom-up approach to identify opportunities for operational improvement. The method evaluates the levers for optimization on a quantitative level, weighs them and views them in relationship to their sensitivity and in various scenarios. The results are an action program as the basis for a successful implementation.

This approach is designed towards value creation excellence and Best Practice instead of pure "cost cutting". This allows us to achieve rapid results, while at the same time establishing a mentality and work ethic based on Lean principles – always following core processes and the value stream. We create a sustainable improvement in performance, the companies become more robust, flexible and competitive.

The positive influence of Lean Management on a company's adaptability is clearly shown in the "Change Readiness Index". Companies that are already adaptable today are more likely to frequently organize their value creation processes according to Lean Management principles. If the Lean philosophy is also implemented in the indirect areas or even throughout the entire company, then companies significantly gain even more agile and flexible capabilities ("Lean Enterprise").

Prof. Daniel T. Jones, co-author of the standard Lean work "The Machine That Changed The World" and founder of the Lean Enterprise Academy, explains it this way:

"While traditional management approaches use standardization to exert control over their employees, Lean Management shows the staff the path to generating improvements under personal responsibility. And, where people themselves are the drivers behind optimizing their own work, they not only become capable of solving the problems of today. They are also able to better face the problems of tomorrow."

5. CONCLUSION: A CHANGE IN MENTALITY IS NEEDED

In the future, companies will need to rethink restructuring on multiple levels and in a broader scope. In the first step, they must correctly categorize the Corona catalyst. If medium-term the business situation is noticeably impaired, small selective countermeasures will be of no help. Instead, a comprehensive change is required.

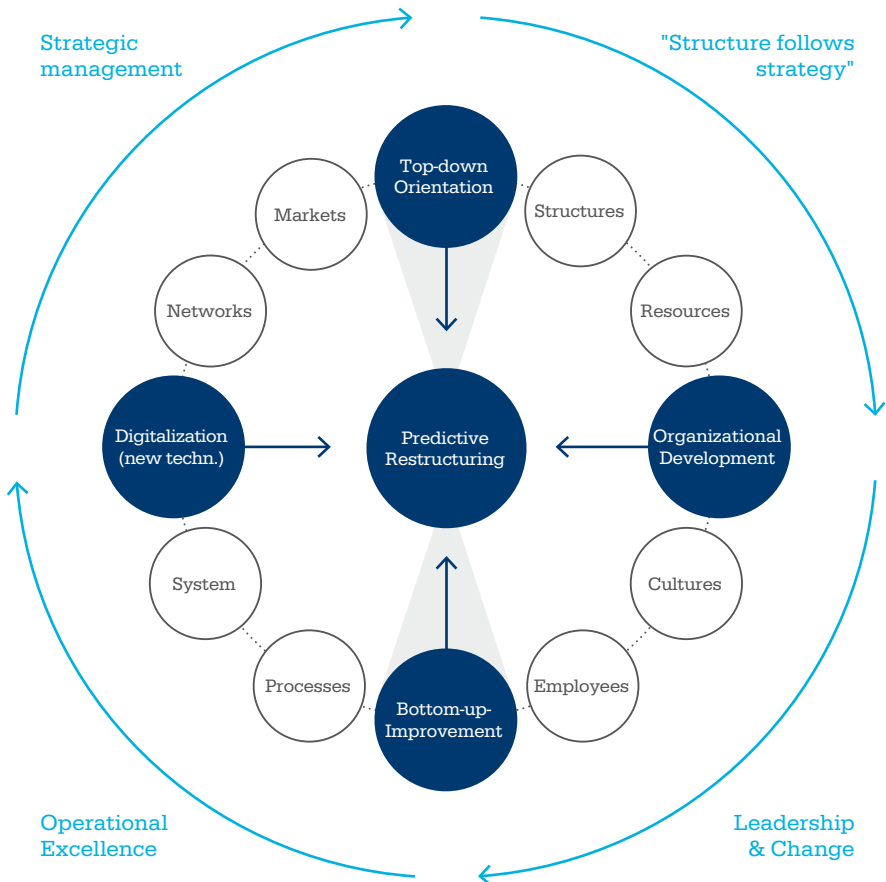
A successful change requires a positive target image for times when Corona is behind us. An increasingly dynamic environment and an increasingly rapid technological advancement changes the way business is done. Innovative business models are critical success factors here.

Transformation processes can only be successful if classic approaches are combined with Change Management, an agile organization and leadership excellence.

The central challenge for companies: Uniting the complexity of topics into an integrated concept for (re-)focusing and future orientation and finding a viable funding approach for it.

WE CALL THIS PREDICTIVE RESTRUCTURING.

INTEGRATIVE APPROACH



STUDIES AND WHITEPAPER

All studies and whitepapers from
Staufen AG can also be found online at
www.staufen.ag/studies



INSIDE EVERY COMPANY THERE IS AN EVEN BETTER ONE

With this conviction, Staufen AG has been advising and qualifying companies and employees around the world for more than 25 years.

FIGURES. DATA. FACTS.

320
Employees

160
Projects p. a.

17
Languages

7.000
Seminar
participants
per year

> 90
BestPractice Partner

CONTACT PERSON



Andreas Sticher
Partner
a.sticher@staufen.ag
☎ +49 7024 8056 0

CONTACT PERSON FOR MEDIA



Sebastian Junge
Marketing Manager
s.junge@staufen.ag
☎ +49 7024 8056 149

PUBLISHER

STAUFEN.AG
Consulting. Academy.
Investment
Blumenstraße 5
D-73257 Köngen, Germany
☎ +49 7024 8056 0
www.staufen.ag
contact@staufen.ag

STAUFEN.

INSIDE EVERY COMPANY
THERE IS AN EVEN BETTER ONE.