

# Crisis response

Roland  
Berger



# Flying with the black swans

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Operational contribution  
to the way through and  
out of the coronavirus crisis

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April – 2020

# We didn't see it

**We are far from** being sufficiently prepared for financial shocks, climate and energy crises, political upheavals, global migration, technological disruptions, and cultural changes. But the crucial thing is that we see these trains coming toward us. We know that we do not know everything we should know. And we are working on strategies, instruments and roadmaps to close these knowledge gaps. But being an organization with decades of experience in restructuring, we have

learned that there are also things we don't know we don't know: the literal black swans.

The coronavirus pandemic is of this kind. The incredible violence, speed and dynamics with which it hit us left us completely unprepared. In this crisis, unprecedented for post-war society, the inconceivable is constantly becoming conceivable, making any prognosis a pure gamble. So, what can, and must, companies do in this situation? ▶

# coming.

# Dealing with the unknown unknowns: Some fundamental assumptions

There are very few certainties when dealing with the unknown unknowns, the proverbial black swans. These include the fact that sooner or later the pandemic curve will reach its peak and the dynamics will reverse – even though we cannot yet say anything about the timing and impact of the crisis. This course is inherent in the fundamental structures of population biology and in the laws of social systems. The peak of the crisis inevitably marks the turning point. Once the peak is reached, social, political and economic recovery begins.

The second aspect we know is that the crisis hits industries and regions with varying degrees of intensity and at different points on the curve – just as different populations and species are affected differently by

natural disasters. And finally, we know that an existential crisis is always followed by a redistribution of market shares and ecological habitats. There is no continuity in disruption.

Companies therefore must make sure that they get through the hard phase before the peak. But equally, they must be able to ramp up their recovery program quickly and efficiently at the reversal point of the crisis. This requires the protection of critical resources – especially talent and competitive knowledge, strategic partners in the value chain and supply sources, essential production and logistics capacities, and, of course, enough liquidity to remain capable of operating. —

## The way through and out of the coronavirus crisis

**So, what is to be done?** Roland Berger is the recognized market leader in restructuring, performance improvement and recovery – we know what works and how to create impact when failure is not an option. We seamlessly combine this expertise with our many years of tried and tested know-how in operations. We draw on a comprehensive portfolio of measures that, depending on structural and industry-specific characteristics, can help companies deal with the coronavirus crisis and make the right decisions at the right time.

We help companies survive the exponential growth phase of the pandemic and have the necessary resources available when the point of reversal comes.

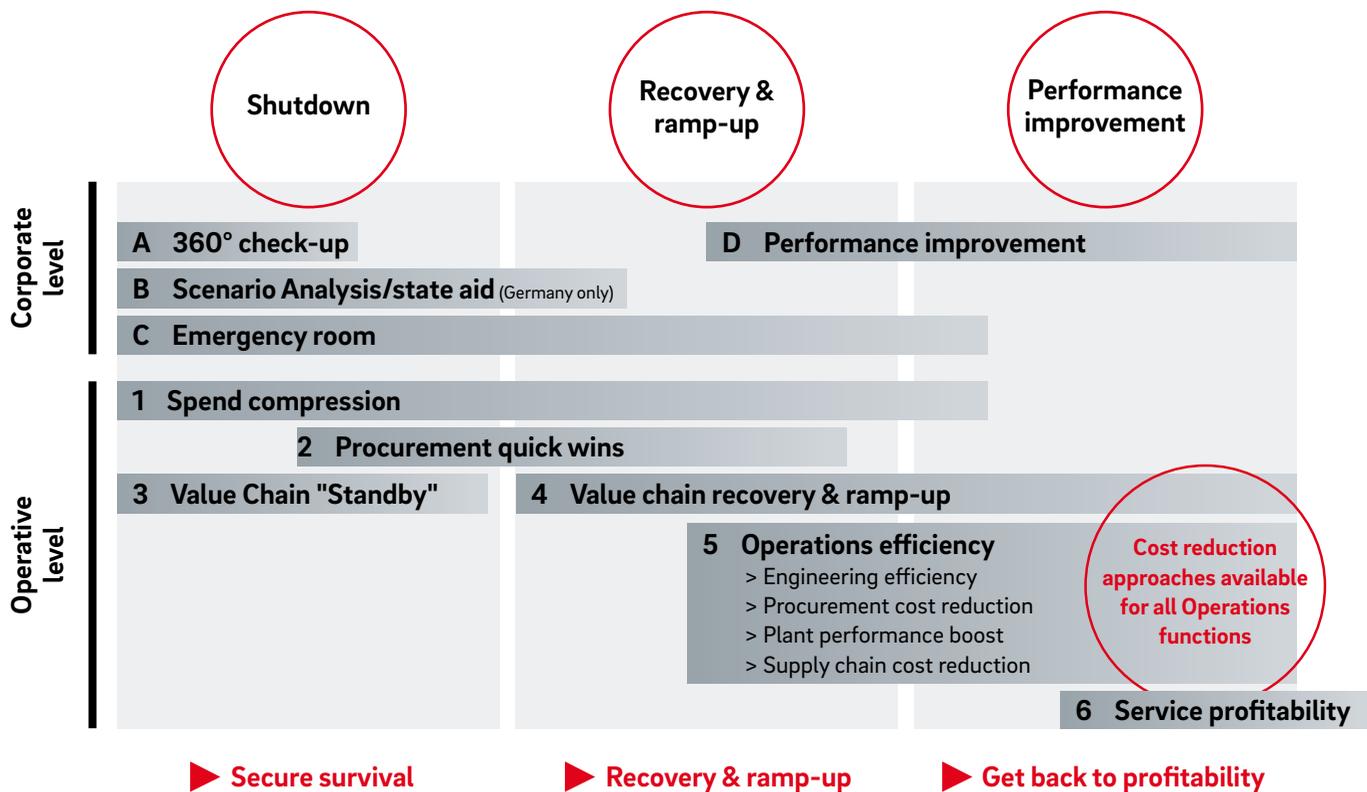
This creates the prerequisites for returning to growth as quickly as possible during the recovery phase, whether this takes the form of a V, a U or an L curve, and for securing strategic competitive advantages.



**Stop the bleeding through cost compression and quick wins**

In exceptional situations, rapid tactical action is crucial. The extreme dynamics of the Covid-19 crisis, in which supply shocks and demand shocks are ▶

## Roland Berger can support with different approaches along the crisis cycle



Source: Roland Berger

combined with massive psychological and political effects, make it necessary to stop non-essential expenditures quickly and radically and to consistently exploit the possible one-off effects. To meet this challenge, procurement must shift the focus and give top priority to short-term measures – while balancing out the need to safeguard the supply base.

The Roland Berger Spend Compression approach will "stop the bleeding" through the application of our holistic savings formula: Needs x Specs x Quantity x Price = Maximized savings. It is an ad hoc program that, through a bundle of concentrated and aggressive measures, allows indirect costs, project costs and CAPEX to be reduced by 15% to 30% within a very short time, depending on the industry, and has an immediate P&L impact. We use a mechanism based on eight central drivers to achieve a sustainable reduction in external spend over a period of 3–9 months. All effective ▶

**"The extreme dynamics of the Covid-19 crisis, where supply and demand shocks coincide with massive psychological and political effects, make it necessary to stop non-essential expenditure quickly and to consistently exploit possible one-off effects."**

savings result in immediate budget cuts to safeguard the P&L and cash effects – quickly and sustainably. Like any acute measure, cost compression cannot be set for the long term. It demands a high level of concentration and an exceptional mode of action from stakeholders, procurement and finance. However, it is essential to provide the oxygen that a company needs to stay viable under extreme conditions. Properly executed, cost compression also has positive long-term effects on the organization’s spending discipline and spending intelligence.

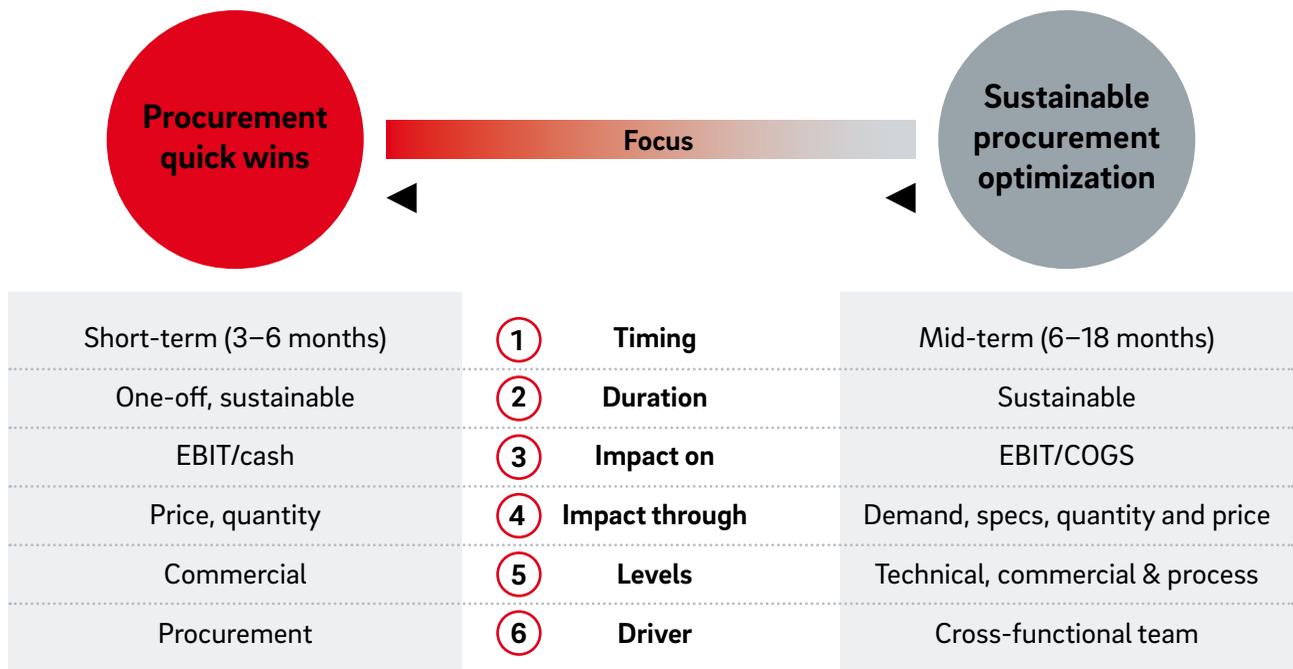
In addition to compressing indirect expenditures, it is necessary to exploit the possible one-off effects across all direct and indirect cost areas – the "quick win programs" in procurement. Depending on the industry and company structure, savings of 3% to 6% at category level can be generated within just 12 weeks. But quick win programs are more of an art than a science.

There is no easy set of actions that can be easily applied via a "haircut" or "simple prioritization." Roland Berger’s unique approach to realizing quick wins is on the one hand based on applying the classic levers of price and quantity. On the other hand, we combine a holistic set of classic and highly innovative savings levers, extensive industry knowledge, risk management tactics and AI-empowered digital tools with a systematic and differentiated approach to their application. We call this "smart segmentation." This enables us to achieve savings beyond "the usual 1% to 3%" and exploit all hidden cost-reduction potential residing in the organization.

However, the decisive factor here is balance. In several industries (e.g. automotive), suppliers have been in a worrying state of health not just since the beginning of the Covid-19 pandemic. Under such conditions, the undifferentiated enforcement of one-off discounts, ▶

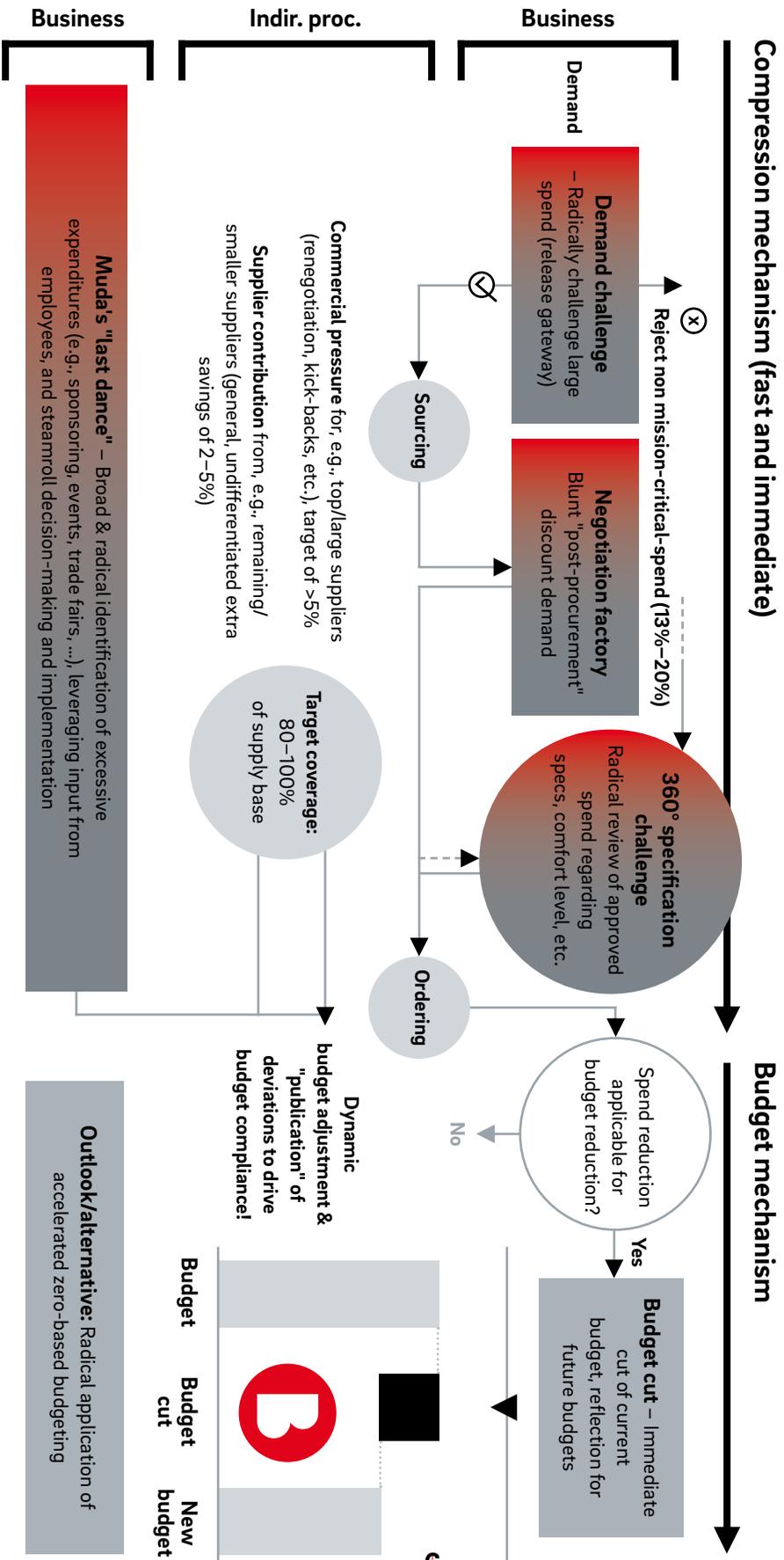
Source: Roland Berger

## Procurement needs to shift its focus to short-term savings



# Spend compression leads to 15-30% immediate P&L effects through the consistent leveraging of demand, specs, quantity and price

Crisis response



# With SMART segmentation, quick win programs can generate up to 6% short-term savings



## Procurement quick win archetypes – Overview

	"Haircut"	Simple prioritization	SMART segmentation
	> Blunt reduction of prices across all suppliers	> Simple ABC classification to derive strategy – too simple to account for specifics (direct material automotive); neglecting commodity strategy implications	> Segmentation by commodity and supplier to derive basic strategies – basis to account for company specifics and leverage full potential in commodity
> Savings			
> Sustainability			
> Risk			
> Basis for growth			

Source: Roland Berger

organized without enough transparency and partnership, can drag suppliers into the abyss – and the value networks along with them. The price of one-off savings would be the destruction of the prerequisites for sustainable, flexible and rapid recovery. The turning point of the crisis should always be kept in mind. Today it is about survival. But the horizon is not just the end of the pandemic, but also the recovery phase and the recommencement of competition and growth.

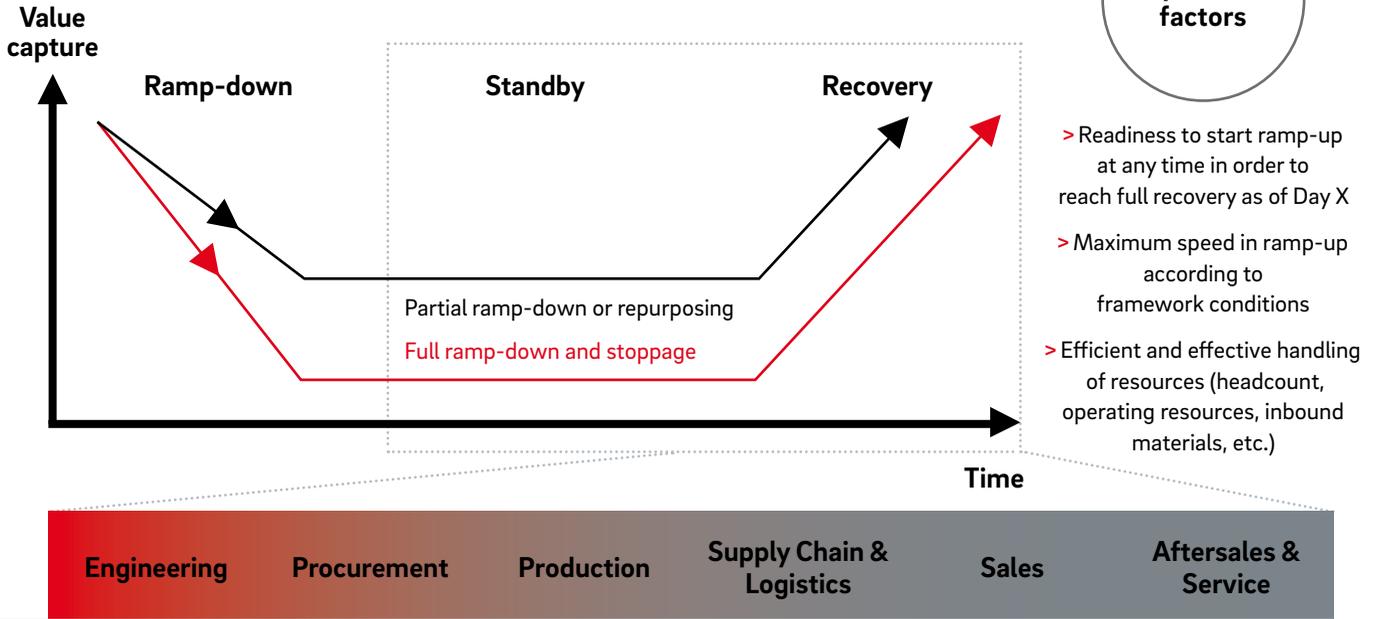
the vital functions and survival of strategic suppliers. To achieve this, it is crucial to obtain full transparency of the suppliers' situation as quickly as possible, to identify the most serious risks, to design a sustainable plan for the standby mode and to initiate support measures where urgent action is required. This involves classic instruments such as loans, guarantees or the optimization of payment terms. In the current situation, however, these approaches quickly reach their limits. This is because the financial resources and cash flow of OEMs are also under massive pressure.

Currently, several public-support initiatives (e.g. state guarantees and support programs) are being set up at transnational, national and regional levels. It can be assumed that more and more companies will make use of this support. The dynamics associated with this will most likely lead to overload in processing and considerable waiting times, with the result that timely, efficient and effective application may well be critical for survival. Our Operations experts are working hand in hand with our Restructuring and Performance Transformation team. As such, Roland Berger supports companies not only with restructuring and ▶

## Decelerate and secure the value chain through standby mode

The extensive shutdown of global production requires a synchronized and extremely well-orchestrated deceleration of value chains. Companies are faced with the demanding task of resolutely reducing costs without irretrievably disrupting the supply networks. It is therefore essential to put the supply chains into a standby mode and to ensure

# Ending the hibernation and preparing the value chain for Day X full recovery



Source: Roland Berger

corporate finance approaches, but also with best practices in procurement, production and supply chain management. This is in our corporate DNA, and this unique blend can help companies ensure the survival of their operations and supply networks in the crisis.

management, service, R&D or production. We combine sustainable cost-oriented measures such as procurement and supply chain cost reduction to ensure the liquidity needed for recovery. And we rely on our expertise as a leading global performance expert to ensure the high intensity and effectiveness of the ramp-up through comprehensive efficiency programs in the areas of operations efficiency, engineering efficiency and plant performance boost.

## Value chain recovery: Return to growth

From the Operations management perspective, the approaches described above mark out the way to guide the companies and their value-added networks through the most severe crisis in post-war history. However, these measures only make sense if companies will be able to return to the growth path in a timely and effective manner as the momentum of the pandemic wanes and the global economy begins to recover.

Roland Berger's global operations team will continue to support companies with effective levers during this crucial recovery phase, linking them with activities in other functions within supply chain

**Ahead of us lies a hard and rocky road. We don't know its twists and turns. Nor do we know how long this journey back will take. We do not know what world we will find when we return. Let us walk that road together. And let us make a shared pledge: we'll be back.**

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