

Under siege

In a downturn, is protecting yourself enough?

Faced with threats to their survival, companies around the world seem to be doing everything they can to stabilize their operations. But what does that really mean? Should you retreat to the castle and wall yourself in? Or should you fight to protect the outskirts of your kingdom?

Recent downturns have been relatively mild and posed only limited threats to a company's extended enterprise of suppliers and service providers. Sure, businesses had to tighten their belts, but they didn't really worry about whether their critical business partners would make it to the other side. However, this downturn is different in magnitude and global scope, and poses a very real threat to your extended enterprise. What should you do? Here's the debate:



Protect yourself

"You need to conserve cash and protect yourself from risk, even if it means leaving your suppliers and service providers twisting in the wind."

Point	Counterpoint
You need the cash.	If you think cash is tight for you, just imagine what it's like for some of your suppliers and service providers — especially the smaller ones. If you squeeze them too hard, they might have to scale back operations or cut corners. This could lead to business disruption and quality problems. And if a critical business partner goes under, your entire operation could come to a grinding halt. Weighing the implications of your choices is key.
Shareholders expect you to protect your company's assets and viability.	Shareholders expect you to protect your business viability, not just your assets. That's why share prices are normally higher than book value. Your top priority is to protect the total health of the business. You can't do that without considering your integrated network of relationships. The health of your suppliers and business partners is critical to your company's long-term viability.
In a crisis, it's <i>"every man for himself."</i>	Not necessarily. In some cases, the only way to get out of a really tough jam is by working together. That's especially true now that many companies have outsourced a lot of business activities. For an extended enterprise, external suppliers and service providers can be just as important as internal functions and business units. Also, do you really want to be the kind of company that abandons its business partners in their time of need?

Protect your extended enterprise

“You should do everything you can to help your suppliers and service providers make it through the downturn in one piece.”

Point	Counterpoint
Your extended enterprise is at risk	That might be true for some of your suppliers and service providers; however, others are in relatively good shape. In fact, some may be bigger and healthier than you are. The downturn may offer an opportunity to exploit the increased supply of interested providers and secure better pricing.
Your suppliers and service providers are critical to your business.	Some are, some aren't. Instead of implementing an across-the-board policy, look at your entire extended enterprise and individual relationships to determine the real risks and priorities. If an at-risk company is truly a critical supplier or customer, you may need to cut them some slack. But if the company is a commodity supplier or service provider, it might be better to let them go and shop your business elsewhere.

My take

David Brainer

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Focusing exclusively on your own company might have made sense in the days of vertical integration when many businesses were largely self-contained. But not anymore. Most of today's businesses are highly dependent on an extended network of suppliers and service providers. If parts of this “ecosystem” fail, so may your overall business.

What if a lack of working capital drives a key supplier into bankruptcy, or cripples its operations, causing late deliveries and quality problems? What if a critical service provider goes belly up? These kinds of external risks can have disastrous effects on your company and create significant costs for the enterprise. And the risks aren't just theoretical. A recent article in *The Wall Street Journal* described a snowblower manufacturer that was being cut-off at the peak of the season by a long-time engine supplier. No engines, no blowers. Suddenly the level of integration and dependence comes into stark focus.

In times like these, it pays to take a broad view. Stabilize your core business by tightening up operations and letting key employees know their jobs are safe. But don't forget about the risks at the boundaries of your extended enterprise. Understand your current situation, evaluate risks, and lay out your options. Have a back-up plan and be ready to take aggressive action to protect what matters. And most importantly, stay close to your business partners and communicate often.

If you're in a business where suppliers and service providers are plentiful and easy to replace, don't waste time worrying about them. But if you are like most companies and have key business partners that are getting squeezed from all sides, you might need to help them by easing their payment terms or providing short-term financing. In extreme cases, you might even need to acquire a business in order to avoid a massive operational disruption. That's exactly what happened to a U.S. automaker recently when some of its key suppliers were on the verge of bankruptcy.

Protect yourself or your extended enterprise? The truth is you need to do both — and you need to start now.

A view from the media sector

Sam Balaji

Principal, Media & Entertainment

In the media industry, we see this as a great opportunity for companies to take a hard look at their core competencies and business focus. Although most companies are concentrating on internal performance improvement, many also have a tremendous need to shore up their ecosystem. For example, some companies in the videogame sector are very dependent on big box retailers — some of which are teetering on the brink as consumer spending plummets. Videogame companies also rely heavily on sub-contractors for critical components such as game controllers, and on third-party logistics providers to handle distribution. Unexpected disruptions — particularly during the critical holiday period — could have a disastrous effect on revenue, earnings, and business viability.

A view from the automotive sector

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The economic crisis has created unprecedented challenges for auto manufacturers, suppliers, and dealers. Sales in the United States have fallen precipitously, and the rest of the world is following close behind. Recovery to past levels is expected to take at least four years. During this time, it's likely that a significant number of companies will not survive intact. Some will be acquired by stronger competitors. Others will fail as the industry dramatically streamlines its production capacity and supply chain. During this turmoil, managing your network of business relationships will be critical to managing your business risk and even long-term continuity.

The good news is that many survivors will emerge stronger, with larger market share, better products, more efficient operations, higher profits, and improved competitiveness. The strongest will have a balanced global product portfolio, and many will capitalize on the rush to more fuel efficient vehicles and cost-effective technologies, such as hybrid and electric drivetrains, lightweight materials, direct injection gasoline engines, and dual-clutch transmissions. Despite the challenging market, now is the time for carefully targeted R&D investments and strategic partnerships with other industry leaders to position the business for the future. Although companies will need to conserve cash and reduce capacity over the next 12 to 18 months, innovation and market position will be the keys to success when the economy turns around. Playing with the right team of suppliers and business partners will pay dividends.

For more information, please visit: www.deloitte.com/us/debates/undersiege.

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