Monitor Deloitte.

October 2019

Business in Volatile Times

Recession or not: Are you ready to thrive?

Thomas Croisier, Olivier Perrin, Alexandre Kuzmanovic and Jean-Michel Pinto

"The longer you can look back, the farther you can look forward"

Winston Churchill, 1944.

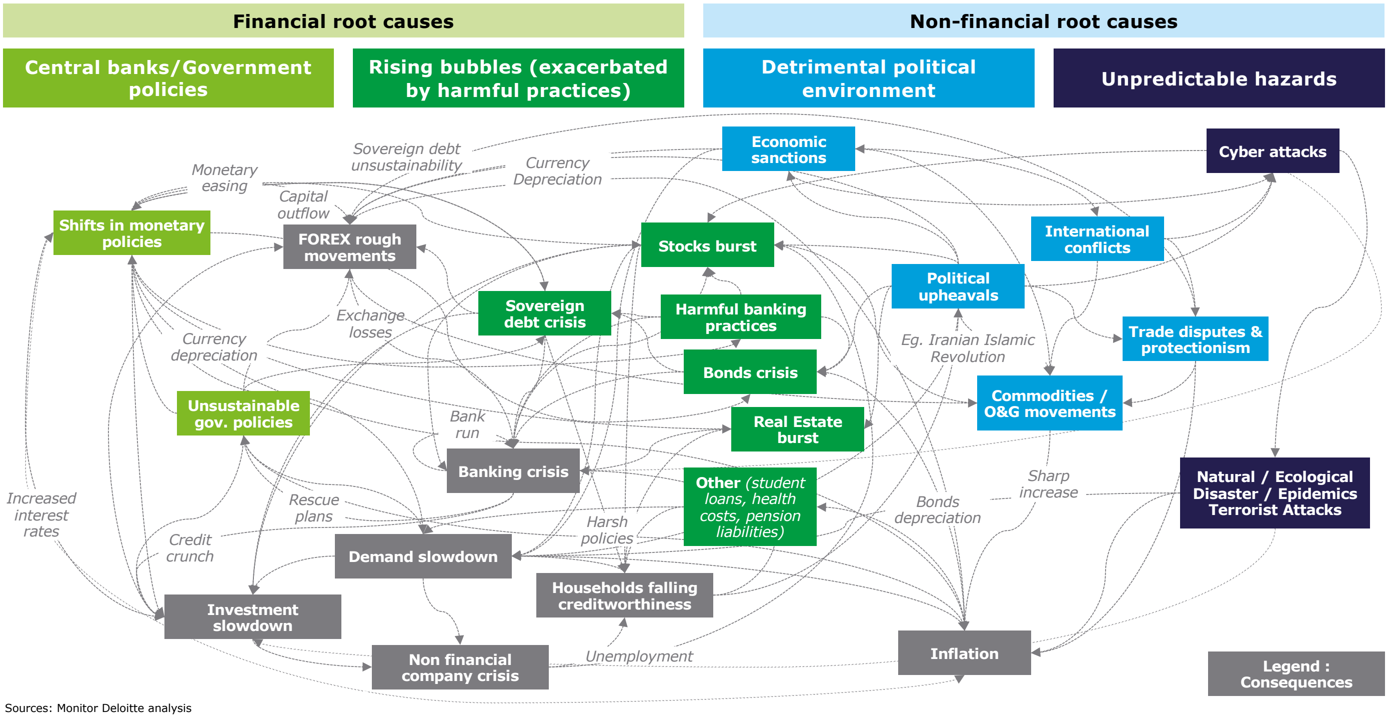
The next recession may not look like the last one but looking at all major economic crises over the last five decades and at what economists said about them, as Monitor Deloitte did, may bring some valuable insights:

- **Four types of root causes explain most, if not all, crises:** unsustainable central bank and economic policies, political turmoil, rising bubbles exacerbated by harmful practices, and unpredictable hazards such as epidemics or natural disasters[1].
- **One element makes severe recessions different from minor slowdowns:** Several potential fires, ready to ignite at the same time, are triggered by one (figure 1).

Figure 1

Root causes of systemic crises

The strong interconnections between the different causes explain most systemic crises.



Sources: Monitor Deloitte analysis

"Darkening Skies"

World Bank, 2019.

Now let's look at the current environment using the simple cause categories that we've just described. Among other things:

- **European Central Bank /Federal Reserve interest rates** may not remain low forever, without even entering into the debate of the long-term side effects of the low interest rate and quantitative easing policies of the recent years.
- **Political turmoil is almost everywhere**, from the escalating tensions in the Middle East (imagine for a moment the potential impact of a blockade of the Strait of Hormuz) to the increasing risk of a "Hard Brexit" while **trade disputes and protectionism are mounting**, particularly between the United States of America and the People's Republic of China.
- **Private debt and real estate prices** have increased sharply both in China and in OECD countries (especially in France).
- **2017 (350B$) and 2018 (160B$) losses due to natural catastrophes** were significantly above the last 30-year average (140B$)[2].

We do not pretend here to predict what the next downturn may look like and when it may happen; indeed, most economists refuse to take this risk. However, using the phrase "Darkening Skies", as the World Bank did in January of this year[3], might be appropriate.

By failing to prepare, you are preparing to fail

Given that we know that a recession – or at least a downturn – is likely, the question is how companies should prepare. Deloitte's 2019 Global Cost Survey[4] (1,200 senior company executives surveyed globally) gives some insight on what companies plan to do: 71% of them plan to launch cost reduction programs within the next two years (figure 2).

Is it the right thing to do? There is no simple answer to this question, but we have five recommendations whether you are planning to launch a cost saving program or not

1. **Think about multiple futures**. Several scenarios have a reasonably high probability of materialising, which is nothing to worry (too much) about. Planning is not about getting rid of uncertainties but about dealing with them. Precisely define these scenarios, characterise the threats and the opportunities they represent for your business and quantify their potential impacts.

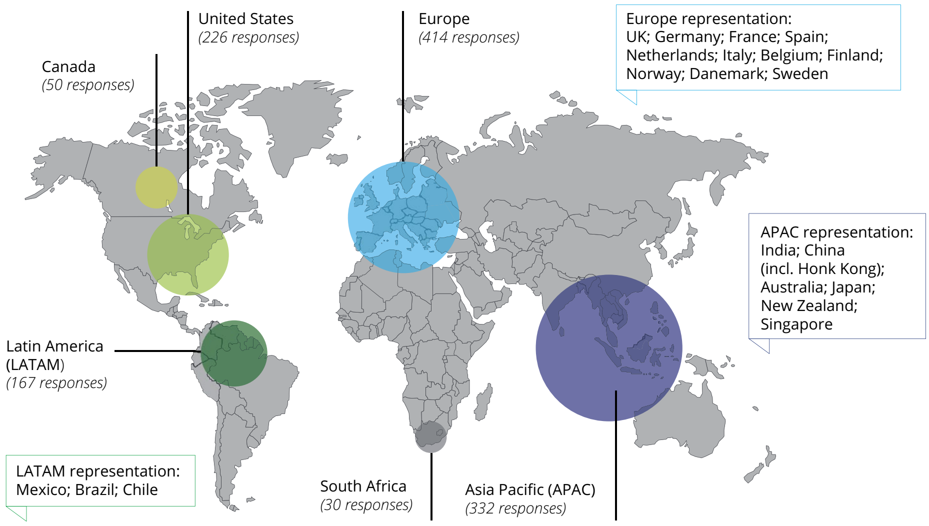
2. **Get a clear view of the journey**. There is nothing more harmful than a blind blanket approach when speaking about cost reduction. Now that you have a clear view of the potential threats and the opportunities, it's time to establish the path you will take from the starting point of making a business model assessment – where you stand in terms of cost competitiveness (but not only), what should be changed and what should be preserved at (almost) any cost – to the point of arrival, which is the end state that you envision. To rephrase Seneca's famous maxim, in a downturn there will be even more adverse wind for the sailor who doesn't know where to go.

Figure 2

Preparing for a downturn

Faced with these uncertainties, most companies across the globe are planning to launch cost reduction programs.

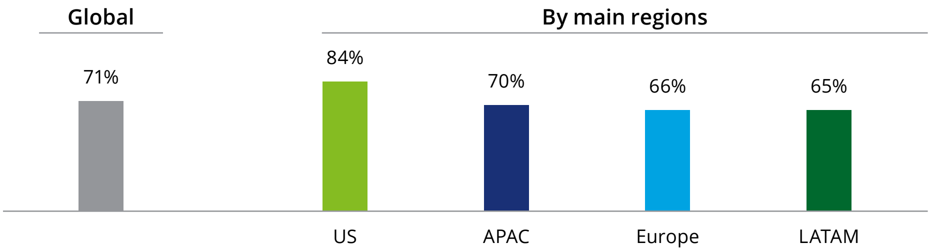
2019 Deloitte Global Cost Survey...

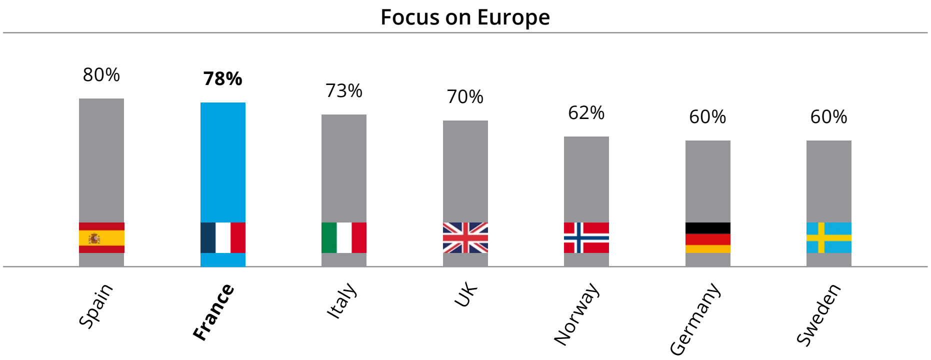


- More than 1,200 senior executives surveyed
- Across all global regions
- And all major industries (Consumer & Industrial Products, Energy and Resources, Life Sciences & Health Care, Technology, Media & Telecommunications, Financial Services, Public Sector)

... found that cost reduction is the Top 1 priority of companies **(and particularly in France)**

How likely are you to undertake a cost improvement initiative within the next 24 months?



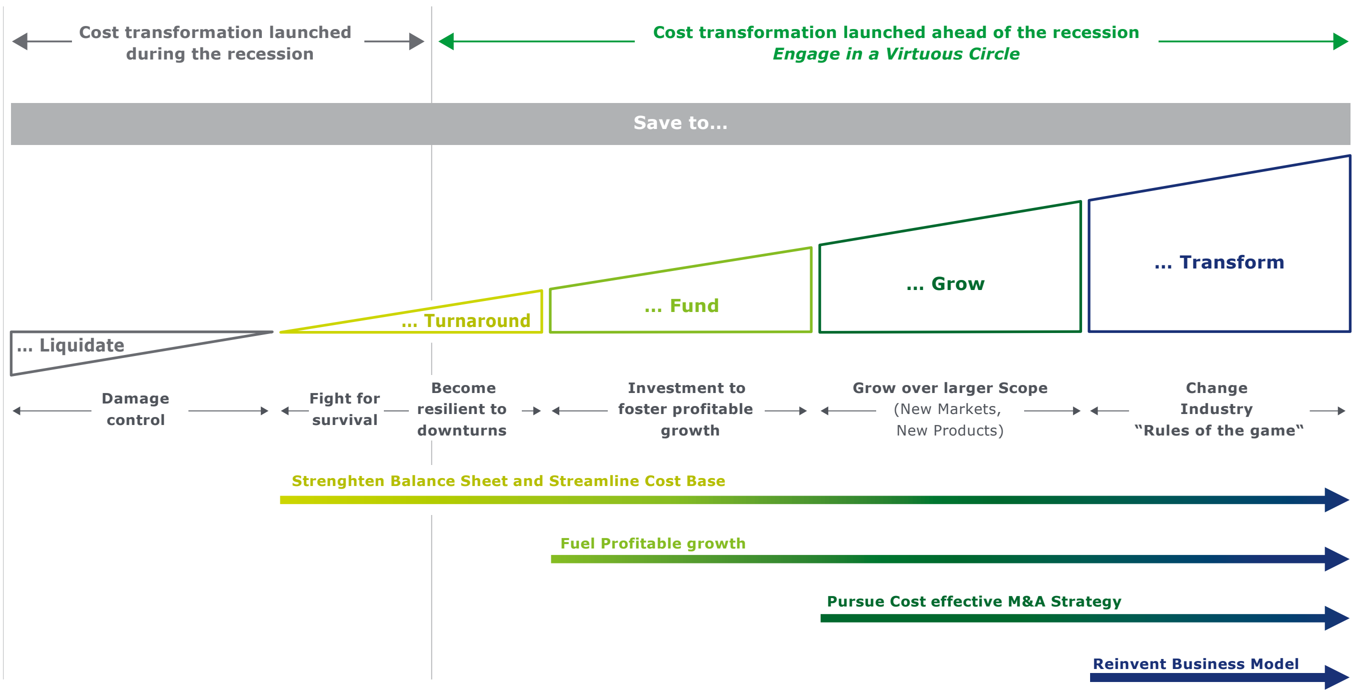


3. **Act as soon as possible**. Preparing for a downturn in advance, rather than reacting during a difficult time, will allow you to maintain or reinforce your competitive advantages (figure 3). While the specifics and details are important, they should not be a roadblock to management working efficiently to make decisions about how to thrive even in a downturn. Make your organization directionally right – quickly – rather than precisely right but too late.

4. **Make your organization more flexible.** A crisis is by definition a period of instability. The central role of digital transformation and technology, the impact of trade disputes on globalized supply chains or the growing importance of environmental concerns may make the next slowdown different but will absolutely bring new kinds of disruption. While it is critical to have a clearly defined strategy, it is also vital to be able to adapt it quickly to a changing environment. Bringing flexibility not only to your organization and processes but also to the culture of your company should be a fundamental pillar of your battle plan.

5. **Do not believe consultants** when they tell you that they have an off-the-shelf plan ready for you. Crises act as catalysts strengthening the competitive edge of the best-in-class players and deepening troubles for poorly performing ones. To be among the best in class, you do not need the plan your competitor implemented six months or one year ago; you need a plan tailored to your company's specific business model and current context. Such a plan will help you differentiate from the competition, thus come out of the recession stronger. Never forget that dealing with the recession is not about swimming faster than the crocodile, it is about swimming faster than your direct competitors that will eventually be eaten up by the reptile.

Figure 3
Save to...
Only cost saving programs launched ahead of the downturn can strengthen/build competitive advantages.



Endnotes

1. Monitor Deloitte based its conclusion on the analysis of more than 34 recessions and downturn episodes over the last 50 years and more than 50 economics publications.
2. Munich Re, Natural Catastrophe Review, January 2019. ***www.munichre.com***
3. World Bank, Global Economic Prospects - Darkening Skies, January 2019. ***www.worldbank.org***
4. Deloitte, 2019 Global Cost Survey, April 2019. ***www2.deloitte.com/html***

   Deloitte, 2019 European Cost Survey, September 2019. ***www2.deloitte.com/pdf***

Acknowledgments

The authors would like to thank **Anna Jumentier** and **Kamil Mokrane** of Monitor Deloitte for their research and dedication to bringing this article to life. The authors would also like to recognize **Hélène Chaplain**, **Véronique Hillen**, **Jessica Weddle**, **Guillaume Picq** and **Adil Alaoui** of Monitor Deloitte for their contributions.

About the authors

Thomas Croisier
Thomas is a managing partner of Monitor Deloitte. He has 20 years of consulting experience. He advises clients, especially in the Lifesciences and Consumer Goods sector, on their corporate strategy, growth strategy, scenario planning approach, business development activities and due diligence. He is based in Paris, France.

Olivier Perrin
Olivier is a senior partner in the Energy, Resources and Industrials Practice of Monitor Deloitte. He has 20 years of consulting experience focused on strategic and operational issues in the Oil, Gas, Chemicals and Industrials space covering strategy, portfolio management and business transformation/turnaround. He is based in Paris, France.

Alexandre Kuzmanovic
Alexandre is a director in the Energy, Resources and Industrials Practice of Monitor Deloitte. He has 12 years of experience in consulting focused on solving complex strategic and operational issues in the industrial sector. Alexandre has worked on large-scale transformation projects with a range of prominent clients. He is based in Paris, France.

Jean-Michel Pinto
Jean-Michel is a director in the Energy, Resources and Industrials Practice of Monitor Deloitte. He has 10 years of consulting experience focused on supporting clients in redefining their business models, identifying new growth avenues and implementing transformation in capital goods industries. He is based in Paris, France.

Contact us

Thomas Croisier
Managing Partner - France
Monitor Deloitte
tcroisier@deloitte.fr
+33 1 58 37 92 87

Olivier Perrin
Senior Partner
Monitor Deloitte
operrin@deloitte.fr
+33 1 58 37 04 73

Alexandre Kuzmanovic
Director
Monitor Deloitte
akuzmanovic@deloitte.fr
+33 1 55 61 60 46

Jean-Michel Pinto
Director
Monitor Deloitte
jepinto@deloitte.fr
+33 1 55 61 59 24

Part of a series on Thriving In Volatile Times (TIVT) / Downturn Planning

Monitor Deloitte
6, place de la Pyramide – 92908 Paris-La Défense Cedex
Tél. : 33 (0)1 40 88 28 00