Augmenti Consulting

MANAGE A THRIVING ALL-WEATHER BUSINESS

Navigate turbulence with confidence.

Introduction

The primary responsibility of a Chief Executive Officer is to steer the company in the direction that will produce the outcomes agreed upon by the board. This occurs in an increasingly volatile, unpredictable, complex, and ambiguous (VUCA) environment.

How can you navigate with confidence while ensuring that turbulence is tracked and dealt with effectively, with no waste of resources? The flip side of this coin is figuring out how to use these disruptions to your advantage to strengthen your market share and boost your bottom line.

Identify the Sources of Turbulence

The first step is to map the major forces influencing your business.

Consider an example from the chemical industry, where companies are in the business of transforming molecules to meet consumers' demands. Depending on a company's position in the value chain, the dynamics of competition vary substantially. Figure 1 presents clear distinctions between upstream and downstream players.

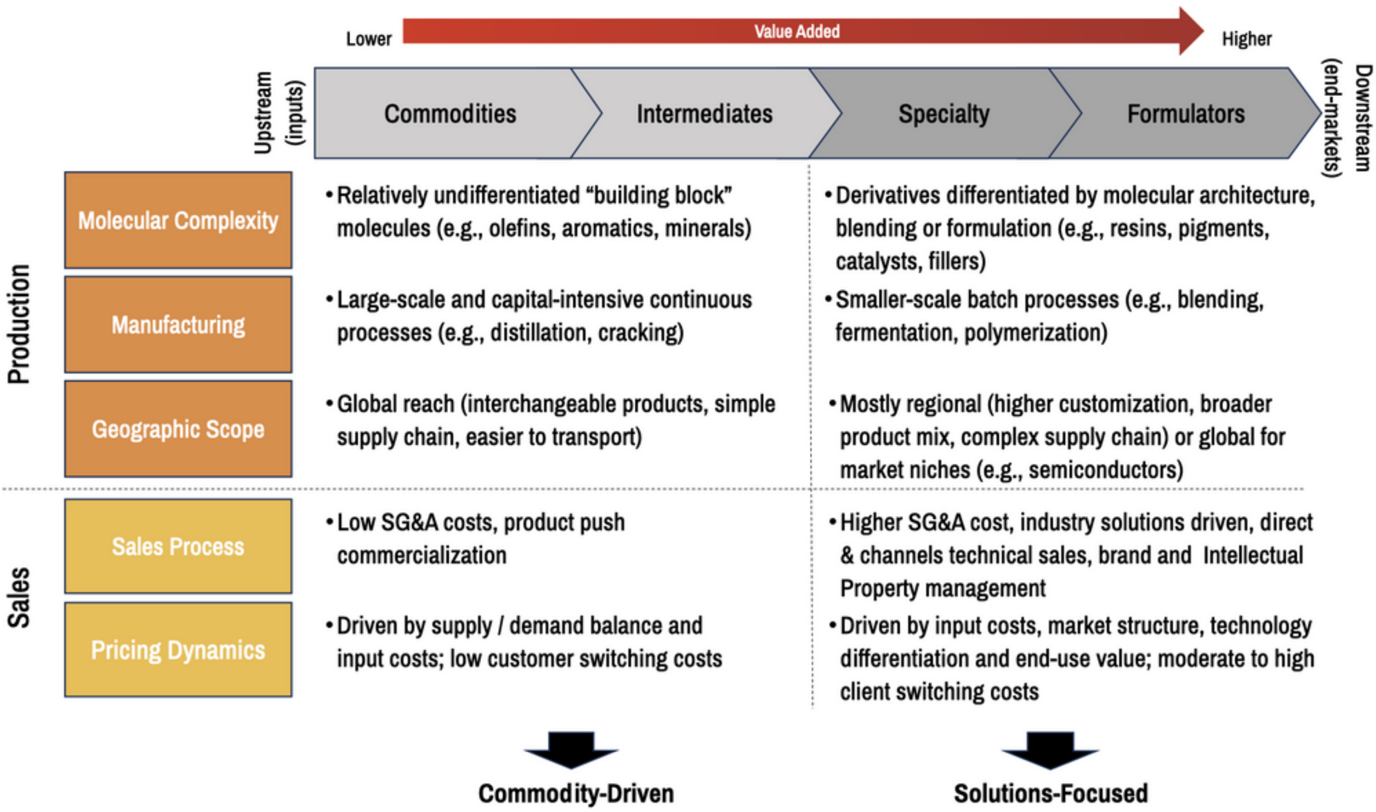


Figure 1 - Dynamics along the value chain for chemicals.

Supply and demand mismatches, as well as the cost-effectiveness of their inputs like raw materials and energy, have a significant effect on the profitability of commodity-driven enterprises.

In contrast, for solution-focused players, profit margins are influenced primarily by the stability of market cycles (which is influenced by economic growth, supply chain disruptions, or shifting regulatory frameworks), as well as the rate of innovation, driven by technology, new materials, and the commoditization of offerings.

We mapped out in a ring diagram all the forces influencing the industry. At the center are the forces that the chemical players may directly affect, while at the periphery are the more indirect, systemic influences on the industry. Figure 2 illustrates 26 sources of influence on the chemical sector, organized by color.

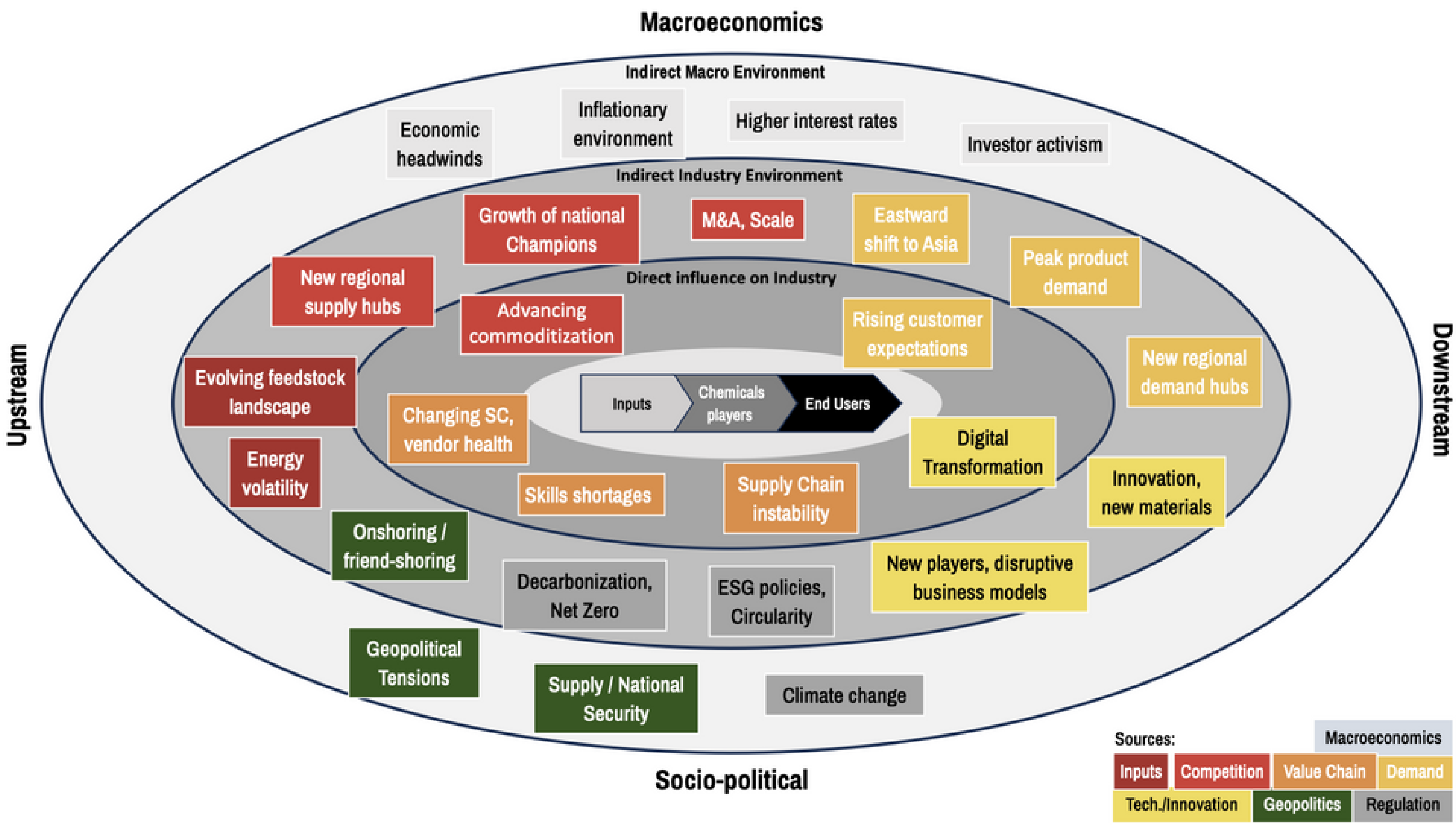


Figure 2 – Forces impacting the chemical industry.

From the perspective of management, the forces outlined above have distinct levels of:

- Duration (short vs. mid- to long-term).
- Specificity (broad industry-wide impact vs. affecting particular market segments).
- Management actionability (such as supply chain disruptions that can be swiftly rerouted as opposed to national security policies that necessitate the relocation of entire supply chains)

Active risk management and contingency plans are two ways to manage these forces. Let's look into them one by one.

Active Risk Management

Active risk management is a best practice for dealing with issues that can be resolved relatively quickly. This is true for forces that are within the control of management and have a short-term impact, such as energy costs and supply chain instability.

In some industries, such as makers of basic chemicals and food ingredients, proactive price management is a crucial matter that can wipe out profits. Experienced traders use CTRM (Commodity Trading Risk Management) software to safeguard themselves from unexpected price volatility in crude oil or agricultural commodities.

A best practice for firms with long supply chains is to employ SCRM (Supply Chain Risk Management) software, which assists teams in proactively monitoring, identifying, assessing, and mitigating supply chain risk. In this case, a multidisciplinary team responds to difficulties as they arise, such as weather disruptions affecting client deliveries or the urgent need to replace a supplier who is missing crucial raw materials or inputs.

The key here is to be proactive and avoid firefighting, which drains energy and saps morale. The hiring of a chief risk officer, who establishes risk strategy and policies and oversees interdisciplinary, decentralized response teams, is one of the best practices. Daily execution is often carried out by multidisciplinary teams decentralized inside business units, functions, or centers of excellence.

Contingency Plans

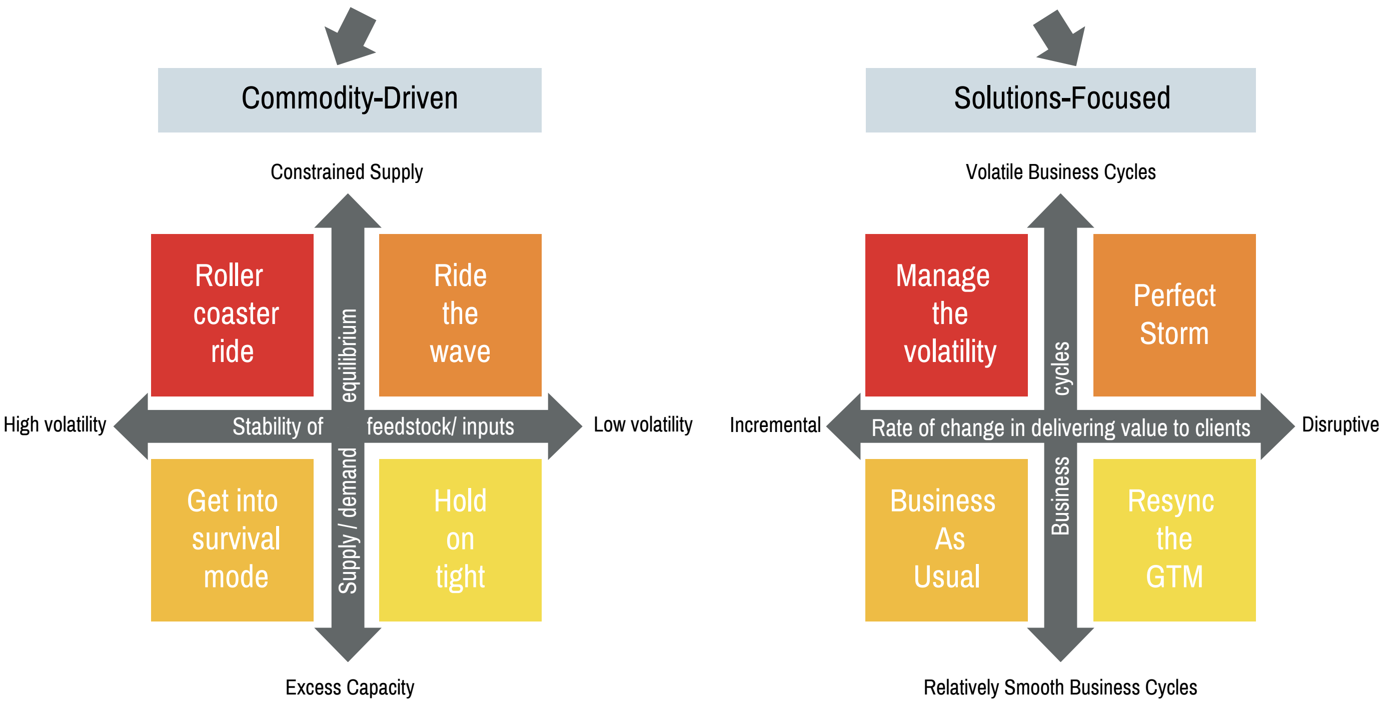
Contingency plans, which supplement the company's strategy, are the optimal response to forces with a medium- to long-term duration, a broad industry impact, and no direct individual ability to act by any industry participant.

A winning strategy should be effective in all circumstances, as opposed to being brilliant in one but ineffective in others. Successful businesses embrace disruption rather than fighting it by focusing on the few essential uncertainties that matter, which are codified during scenario planning sessions.

Scenario planning begins with no-regret moves, or actions a business must take regardless of the scenario. Then, it is essential to identify trigger points or signs that indicate when a scenario occurs so that you can quickly react with pre-defined contingency plans.

Depending on your position in the industry's value chain, the critical uncertainties differ, resulting in distinct possible scenarios. The scenarios illustrated in Figure 3 are pertinent to the chemical industry.

“Which market environments will I have to potentially manage in the next 2-3 years?”



Note: GTM – Go To Market

Figure 3 – Examples of Scenarios

The execution of contingency plans does not necessarily imply a shift in the overall strategy. It is more likely to influence changes in capital expenditures, R&D, and M&A funding. It also stimulates conversations and promotes organizational learning, which guides the company's shift in direction.

Navigate Turbulence with Confidence

Our experience indicates that the following principles are helpful in having a successful journey:

Don’t overanalyze.
You can’t and don’t want to predict everything. Define the right level of granularity and focus on the few uncertainties that matter.

Allocate responsibilities.
Ensure clear accountability to avoid confusion, costly firefighting, and missed opportunities. Create a control tower and coordinate multidisciplinary, decentralized response teams.

Keep an eye on the upside.
Volatility also has a bright side. Build options to profit from uncertainty, preferably with capped downsides and unlimited upsides. Encourage out-of-the-box thinking and experimentation.

Be paranoic.
Maintain a permanent sense of urgency, monitoring all relevant channels. Beware of organizational biases that blind management to unexpected events and emerging opportunities.

Conclusion

Navigating turbulent times shouldn’t be overly complex. Keep it simple. Finally, people overlook that volatility is also a source of opportunities. Be receptive to them as they manifest themselves during the journey.

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Augmenti Consulting is focused on providing advice to boards and C-level executives on the practical steps they need to take to produce tangible bottom-line impacts. Our purpose is to assist you in reaching your full potential and accelerating your growth. More on us at **www.augmenti-consulting.com**