Capgemini Consulting

Successful restructuring

Delivering profitability and liquidity in a tough economic climate

During economic downturns, companies face pressure from both sides of the profitability equation. *Revenues* are endangered by shrinking demand, customer price pressure, and aggressive price attacks from competitors, while costs for energy, raw materials and labor are rising. These developments are leaving their mark. Companies face profitability gaps and liquidity shortages, with some facing serious cash problems.

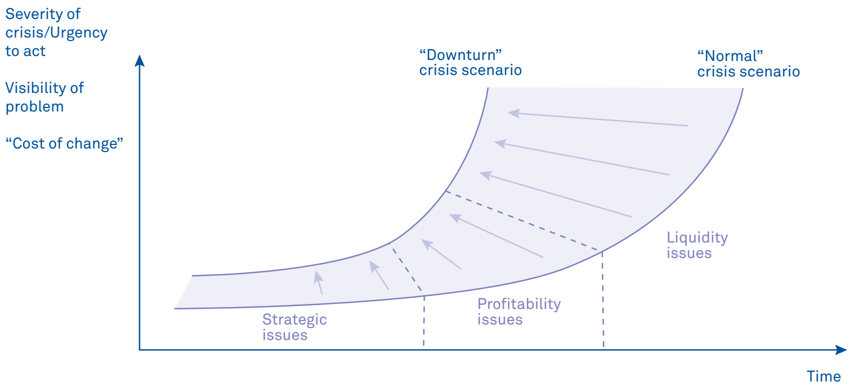

Figure 1: Typical crisis development and impact of economic downturn

The intense pressure to react to these crises is leading to short-termism. Companies are taking rapid actions that lead to quick wins, but which leave endemic issues untouched. As a consequence, these companies might survive the downturn, but they have weakened their position for the market recovery. Instead, companies need to focus on long-term priorities: stabilizing revenues and generating cash; reducing costs and capital spending; and reviewing the sustainable business model and managing risk. To deliver those priorities, our experience has shown that companies need to tackle four dimensions in parallel: secure liquidity, adapt the strategy, adjust the operational model, and re-build the corporate culture (see Figure 2).

Secure liquidity. As finding the necessary funds is becoming increasingly difficult, companies need to focus on strengthening their own financial basis. Options include:

- Optimizing working capital
- Reducing investments
- Refinancing corporate debt
- Selling under-utilized assets e. g. brands, patents
- Cutting costs
- Launching sales initiatives (secure home markets, initiate key accounts).

Often a combination of more than one measure is necessary.

Adapt the strategy. In parallel to securing the financial basis and securing liquidity for further action, it is important to create the conceptual platform for a successful restructuring. It might be necessary

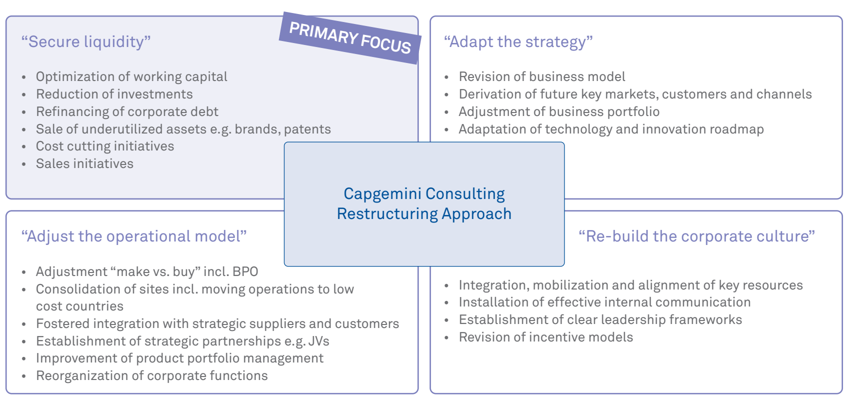

Figure 2: Four areas for sustainable restructuring

to review and re-shape - or at least adjust - the corporate strategy along these dimensions:

- Revising the business model
- Derivation of future key markets, customers, and channels
- Adjusting the business portfolio
- Adapting a technology and innovation roadmap.

Adjust the operational model. After defining the strategic guidelines and principles for the restructuring phase, it is essential to redesign the underlying organizational and operational structures. Redesigning the value chain and adjusting the operational model requires one or more of the following actions:

- Adjusting the "make vs. buy" approach, including outsourcing of operations such as payroll
- Consolidating sites, including moving operations to low-cost countries
- Fostering integration with strategic suppliers and customers
- Establishing strategic partnerships such as joint ventures
- Improving product portfolio management
- Reorganizing corporate functions.

Re-build the corporate culture. Many restructuring projects tend to focus solely on "mechanical" actions, often leaving the management team and staff behind. A restructuring phase represents fundamental change, and it is critical to integrate, train and mobilize people right from the start by the following measures:

- Integrating, mobilizing and aligning key resources
- Installing effective internal communication
- Reviewing the management model/ decision-making process
- Establishing clear leadership frameworks
- Revising incentive models.

The way we do it

No two restructuring projects are alike but they share some similarities. They are all urgent and complex at the beginning and there are often time and budget constraints. We have developed a pragmatic approach that allows companies to set up and run a restructuring initiative within five to eight consecutive weeks (see Figure 3).

The restructuring program starts with an initial "Focus & analysis" phase. Together with the management team, the overall improvement targets for organizational units are defined and improvement drivers discussed. Simulations provide a quantitative estimation of the economic effects. During the second "Solution design" phase, the improved future state is detailed. Measures to improve liquidity are designed and at the same time the corporate strategy will be validated and adjusted if necessary. This may result in a business model refinement.
The second phase results in a detailed restructuring concept, including a full description of all the necessary operative measures, consolidated within a comprehensive implementation plan. This phase will seamlessly move to an ongoing "Implementation" phase, where the defined action packages are rolled out, steered and tracked in real time by a restructuring program office.

Delivering the benefits

Our experience from a number of restructuring projects shows that by applying this proven framework a company can much more effectively secure its competitive position and prepare for the future market uptake. This approach can deliver a solid liquidity platform, revised strategic objectives, a clear focus on the core business, leaner structures and operations, and a re-aligned management team with key people still on board.

2-3 weeks — I. Focus & analysis

- Screen current situation, develop company Fact Book
- Identify key players for restructuring effort
- Develop downturn scenarios
  - For each business unit
  - Covering worst-case assumptions
- Run simulations for the company / each business unit, understanding
  - Key sensitivities
  - Impact on business and financial performance
- Identify and agree priority working areas (e.g. BUs, regions,...)
- Draft overall improvement targets for each business unit / company
- Start immediate improvement measures

3-5 weeks — II. Solution design

- Define key containment levers
  - Cash protection
  - Profitability improvement
    - Top-line protection
    - Cost cutting
- Define mid- and long-term levers
  - Re-design the value chain
  - Re-define the business model
  - (Re-) build the company culture
- Design internal and external communication
- Consolidate restructuring concept
- Define and start measures for key containment levers
- Define and install restructuring project organization

ongoing — III. Implementation

- Define and start measures for mid- and long-term levers
- Develop business plan
- Implement program office, including
  - Defined baseline
  - Targets and breakdown
  - Metrics and reporting structure
  - Key responsibilities
  - Issue resolution
- Start internal and external communication
- Establish high-frequency reviews and decision-making

Figure 3: The Capgemini Consulting Restructuring approach

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