Bristol Partners Inc.

Prioritizing Business Challenges

A Quick Self-Diagnosis

Given intense the intense competitive pressure, high uncertainty and rapid change in today's environment, there is no shortage of initiatives that a firm can undertake. How should you prioritize them? Since the likelihood of being taken over or going bankrupt is related to total shareholder returns, that is a good place to start looking for the answer to this question.

In any given period, the total return earned by a company's shareholders is a function of the dividend they receive (plus proceeds from any share repurchases), plus the change in the share price. In turn, this change in price is a function of investors' average expectations for four variables: (1) Changes in other investors' expected behavior (e.g., will they keep buying?); (2) Changes in the rate at which the firm's dividends (or, more broadly, cash flow potentially available to shareholders) will grow in the future; (3) changes in the level of systematic risk in the economy (e.g., in real interest rates and the equity market risk premium); and (4) changes in the level of company specific risk (i.e., any additional risk premium or discount required to hold the company's shares relative to the overall equity market).

Since (1) is driven by psychological forces largely outside the company's control, and (2) is common to all companies, the controllable sources of shareholder returns lie in changes in the firm's expected growth rate and/or its specific risks. Given this, at any point in time a company will face one of four challenges:

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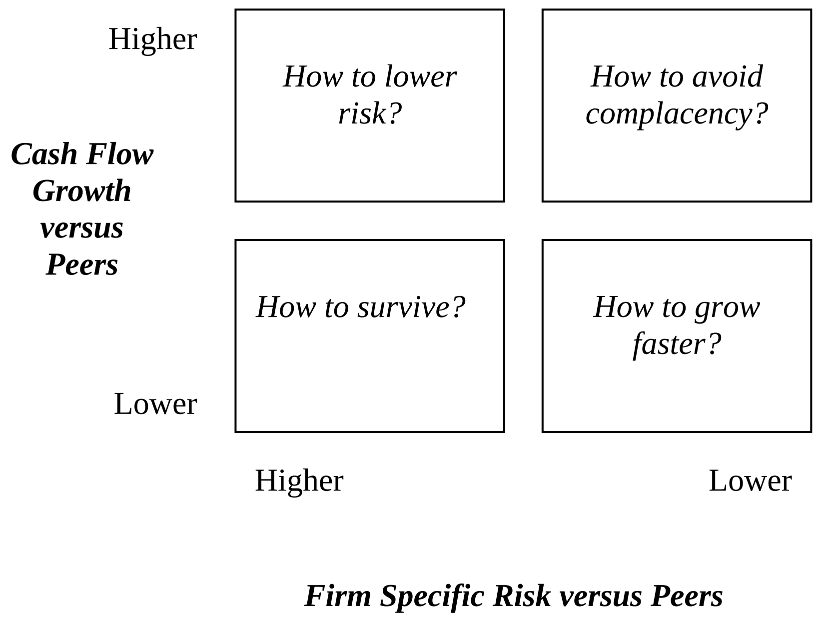

How to Survive?

When trying to survive, the key first step is to make sure an organization is getting the basics right. Only when this is accomplished can you think about how to grow. The critical first step is maximizing cash flow. Accelerating receivables and stretching payables are often the first steps to take, and are often followed by asset sales, secured financing, and sometimes bankruptcy reorganization. As part of these cash flow efforts, a turnaround team must quickly develop an understanding of the key operating sources and uses of cash, and their importance to the firm's competitive strategy. This often includes quick reviews of product, customer, and plant or division profitability, as well as current investment projects. Once cash flow is stabilized, the next step is to understand the company's distinctive capabilities, customer relationships and key assets, and their potential value in the evolving competitive environment. Simultaneously, the value of the company to potential acquirers may also be assessed. This process should produce a decision to either sell the company or to pursue a new growth strategy. If the latter path is chosen, then a clear milestone-based implementation plan will also be needed, as well as a thorough review of the alignment of organizational processes, structure, staffing, information systems, metrics, objectives, and incentives.

How to Lower Firm Specific Risk?

In the short term, the obvious way to meet this challenge is to change the company's capital structure. However, a longer-term solution usually goes well beyond this, and requires a deeper analysis of the sources of cash flow volatility. These usually are rooted in both cost and revenue factors. In some cases, financial transactions can reduce volatility (e.g., through better use of derivatives or changing the currency in which debt is raised). In other cases, the solution involves operating changes. Using six sigma techniques to increase process reliability is an example of one approach, as are taking steps to raise customer switching costs, reduce high fixed costs, and enter long-term contracts and alliance relationships. An organization can also reduce its specific risks by improving its relative ability to anticipate and adapt to changes in its competitive environment. In this regard, organizational design is critical, and must strike a balance between increasing efficiency and reducing process variability, while simultaneously encouraging low cost exploration of new strategy options.

How to Increase Cash Flow Growth?

There is no shortage of options that a company can analyze when it seeks to increase its relative cash flow growth. However, it is critical to draw a distinction between those that are easy to copy, and those that potentially provide a more durable source of competitive advantage. For almost two decades, most companies have focused enormous efforts on improving process efficiency through organizational changes and technology investments. While these initiatives have undoubtedly increased firm cash flow, because they have been undertaken by most competitors they often provide little in the way of relative benefit. Instead, a high standard of efficiency has become the de facto hurdle that companies must clear to remain in business today.

The new battleground for relative cash flow growth has shifted back to effectiveness, particularly in those areas that do not involve routine work that can easily be codified into a set of rules or algorithms. Examples of these areas include sales, innovation, people leadership and managing alliance relationships. The following is a list of possible initiatives that can generate differentiated cash flow growth, and which all have their roots in enhanced organizational effectiveness:

1. Re-examine your pricing policies. For example, it may be possible to raise prices for selected customer segments or sub-segments. Alternatively, use of dynamic pricing (yield management) technology may also raise revenue.

2. Remove obstacles that prevent non-users and users of substitutes from using your industry's offerings.

3. Provide different functionality ("what does your offering do for me?") that satisfies an important need or needs that potential customers either have today, or you expect them to have in the future.

4. Deliver superior performance on one or more under-satisfied customer needs ("how well does your offering do that?").

5. Make your offering more convenient in a way that is important to your target customers (e.g., simpler, more integrated, easier to find).

6. Develop a stronger relationship with your customers, to increase retention and/or usage. This includes not only branding, but also enhanced use of technology to satisfy customers' physical, intellectual, and emotional needs.

7. Deliver acceptable performance on one or more over-satisfied customer needs at a cheaper price.

8. Improve the effectiveness of your sales process and/or channel strategy.

9. Expand your served market, to reach new customers who have high priority needs that correspond to some or all of your strongest points of differentiation.

Note that mergers and acquisitions are not a separate option on this list. In our view, M+A is a means of implementing one or more of these options, rather than an end in itself.

From an organizational perspective, a key challenge is communicating your firm's strategy in a manner that ensures coordination of critical actions, while still leaving room for innovation and fast adaptation by leaders closest to changes in your competitive environment. Another challenge is ensuring these leaders have the tools they need to efficiently identify and explore new growth options, and that your organization as a whole has an effective process for managing a portfolio of innovations at different stages of maturity (e.g., ensuring that increased resource investment is clearly linked to reductions in uncertainty about the likely value of an innovation).

How to Avoid Complacency?

In many ways, this is the most difficult challenge for a firm to overcome, because there is usually no enthusiasm for doing so. However, the continuous turnover in the ranks of the world's largest companies suggests that it is critical. There are a number of different ways to approach this challenge. One is to estimate the natural limits to your current growth model -- e.g., the maximum size of currently served markets, your firm's maximum share within them, or the natural evolution of customer needs and competitor offerings – and ask what comes next. Another approach is to play the role of a management team at a smaller competitor, and ask how they could successfully compete against your company. Yet another approach is to identify the most uncertain assumptions that underlie your firm's current strategy, and examine what happens if something other than the assumed outcome occurs (we prefer to use what we call the "most dangerous scenario"). All of these projects reduce complacency, and force people to address the question "what then?"

They also help to clarify the potential ramifications of critical decisions facing your firm. These typically involve significant resources, are hard to reverse, and are ones upon which many other decisions depend. In some cases, it may be better to wait before making such decisions; in others to hedge or take other steps to limit the potential risk if outcomes differ from current assumptions.

Organizational design and leadership also have an important role to play in avoiding complacency. Adaptability is maximized in systems where internal complexity equals external complexity. Practically, this means that the extent of interrelationships between internal business units should match the extent of the company's relationships with outside parties. Second, a company can gain dynamic advantage by maintaining a degree of complexity that is slightly lower than its competitors; this will enable it to adapt more quickly to change. Finally, an organization's leaders can explicitly raise the internal level of "adaptive tension" and thereby help even very successful companies avoid complacency; Jack Welch's "number one or two or out" dictum is perhaps the best known example of this.

How Can Bristol Partners Help?

Bristol Partners Inc. is a management consulting firm that was founded in 1994 by people with substantial previous experience in industry, consulting (at the MAC Group) and investment banking around the world. We advise clients on critical strategic, organizational, and financial issues, and provide them with strong project leadership skills. Having been line managers ourselves, we place great emphasis on delivering highly practical, cost effective consulting projects that help our clients substantially increase the value of their firms over a three to five year period. For this same reason, we work with only one company per industry, and usually tie a portion of our compensation to our client's medium-term results. We also subcontract staff to temporarily fill line management roles as needed to help clients implement our recommendations. As shown in the following table, we help clients to resolve all four of the challenges they can face:

Business Challenge	Bristol Partners' Offering
How to Survive?	We have worked with boards and management teams to design and execute successful turnaround plans.

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Business Challenge	Bristol Partners' Offering
How to Lower Firm Specific Risk?	Through our "Red Team Training", "Building Adaptive Organizations" offerings, we help companies to substantially improve their ability to anticipate and react to change, and reduce risk by gaining dynamic competitive advantage over time.
How to Increase Cash Flow Growth?	In addition to classical market and customer studies, we use our "Growth Logics" approach to help companies innovate more effectively, to identify and exploit profitable new growth opportunities.
How to Avoid Complacency?	Through our "Red Team Training" and "Strategy Workshops" offerings, we help teams to confront uncertainty and prepare for its implications.

Bristol Partners also offers two innovative one-day training courses that quickly strengthen organization's capabilities in two critical areas.

Making High Stakes Decisions Under Pressure

To succeed in today's fast changing competitive environment, many companies have flattened their organization structures and given more decision authority to front-line leaders. These leaders now face the challenge of making good decisions in the face of time pressure, uncertainty, and information overload. Unfortunately, repeated experience has shown that classical decision theory is in many cases poorly suited to this task. Bristol Partners' one day decision training course quickly provides leaders' with the advanced decision making skills they need to cope with the new challenges they face.

We start with the decision cycle and situation awareness concepts widely used by military and intelligence agencies. We then look at the differences between expert and novice decision makers, and how they generate and evaluate different hypotheses and course of action. This naturally leads into how to manage information overload and choose between competing hypotheses. We then move on to cognitive biases and challenges in team decision making and how to overcome them. We finish with a practical exercise in making decisions under pressure.

Effective Strategy in a Fast Changing World

In today's complex, fast-changing competitive environment, the limitations of many traditional approaches to business strategy have become painfully apparent. Yet the need for effective strategy has, if anything, become more important, since a purely reactive approach to change inevitably leads to organizational chaos and failure. Bristol Partners' one day strategy training course reviews the strengths and weaknesses of traditional techniques, and introduces leaders to new approaches that can deliver better results in today's challenging environment.

We begin with a brief review of the nature of today's competitive environment, and the definition of "strategy." We then discuss the insights produced by the three major strategy schools (positioning, resource-based, and evolutionary), including the underlying economic theories upon which they are based. After comparing these insights to the needs of practicing managers, we introduce a new approach to strategy that uses complex adaptive systems theory and cognitive psychology to generate new competitive insights. This leads into a discussion of how, in today's fast-changing environment, the traditional distinction between "strategy" and "organization" is often artificial, as both are critical to successful anticipation, adaptation, and learning. We conclude with practical exercise focused on developing strategic insights under time pressure.

All of Bristol Partners' work with clients is grounded in our approach to business strategy. To briefly summarize our view, in a fast changing, highly uncertain world, we see strategy as a portfolio of initiatives (action learning experiments), guided by an organization's theories of how its competitive environment will evolve, how it will create value, and how it will implement and adapt its plans. To put it differently, strategy is a series of purposeful and adaptive actions that utilize your capabilities to achieve an intent given your perception of an evolving situation. Our approach is grounded not only in economics, but also in complex adaptive systems theory and cognitive psychology. Please contact us for our whitepaper on corporate strategy in a highly uncertain world.

If you would like to further discuss any of the concepts and approaches we have described in this brief overview, and how we can help you solve your critical business problems, please contact us at either busdev@bristolpartners.com, or on (USA) 401-453-4380.