



Recommended short term actions in times of economic downturn

Munich, March 2020

Purpose of this document

Firstly, Corona COVID-19 is a crisis of epic dimensions. Monitoring, containing and mitigating the effects of the corona virus are top priorities for everyone. Timely and decisive actions by health authorities, regulatory and supervisory authorities can help contain the virus outbreak and offset the impact of the pandemic.

Medical doctors, nurses and health professionals are doing everything to support us. So are sectors of everyday life like food-retail or connected logistics to support us with everything that we need daily.

This paper is aimed to support business leaders and clients of h&z to mitigate business risks and prepare for the economic downturn that we are facing. It is aimed to ensure business continuity, free up cash, reduce external spend and manage supply chain risk.

Recession already seems to be here – even though nobody really wants to call it a “recession”

Status-Quo

Overview of current headlines

KONJUNKTUREINBRUCH

Die Rezession ist unausweichlich – die Frage ist, wie schlimm sie wird

Unternehmen sehnen sich nach seriösen Einschätzungen zur Corona-Rezession. Doch Ökonomen rätseln, was sie in diesem Frühjahr prognostizieren sollen.

Downturn, disrupted

Business and the next recession

When economies change, so do recessions. What will the next one look like?

BUSINESS

Do Recessions Always Follow Major Stock Market Downturns? Usually

Since World War II, there have been 12 bear markets and 12 recessions, but not every bear market has preceded a downturn in the economy.

Free exchange

Economies can rebound quickly from massive GDP slumps—but not always

History suggests full recovery takes, on average, about five years

READER CENTER

'Nothing Like Normal': Covering an Infected Global Economy

A Times reporter who follows the Federal Reserve discusses the coronavirus's impact on the world's finances.

By Emily Palmer

conomy Infected | March 17, 2020.

gins to Sap Growth as Europe's

ro growth in late 2019, and the prospects for a 20 are dimming.

"Corona hat jetzt schon gravierende wirtschaftliche Konsequenzen"

Die Corona-Epidemie schränkt die Globalisierung ein, sagt der Ökonom Gabriel Felbermayr. Ein Gespräch über das Ende des China-Hypes und was Deutschland jetzt tun kann

In den Führungsetagen der deutschen Wirtschaft geht die Angst um

Konjunktur | Deutschland | Coronavirus

Deutschlands Industrie betroffen: Wo das Coronavirus bereits für Liefereschwierigkeiten sorgt

Eine Ölkrise der anderen Art

SZ • Wirtschaft • Konjunktur

... unternehmen, weil zum Beispiel die Fluggesellschaften ihren Betrieb dramatisch einschränken, braucht die Weltwirtschaft ...

Hard landing

Coronavirus is grounding the world's airlines

The aviation industry may not fully recover from the effects of the pandemic

„Mutter aller Rezessionen“: BIP? Vergesst das BIP!

manager-magazin.de - Politik - 18.03.2020

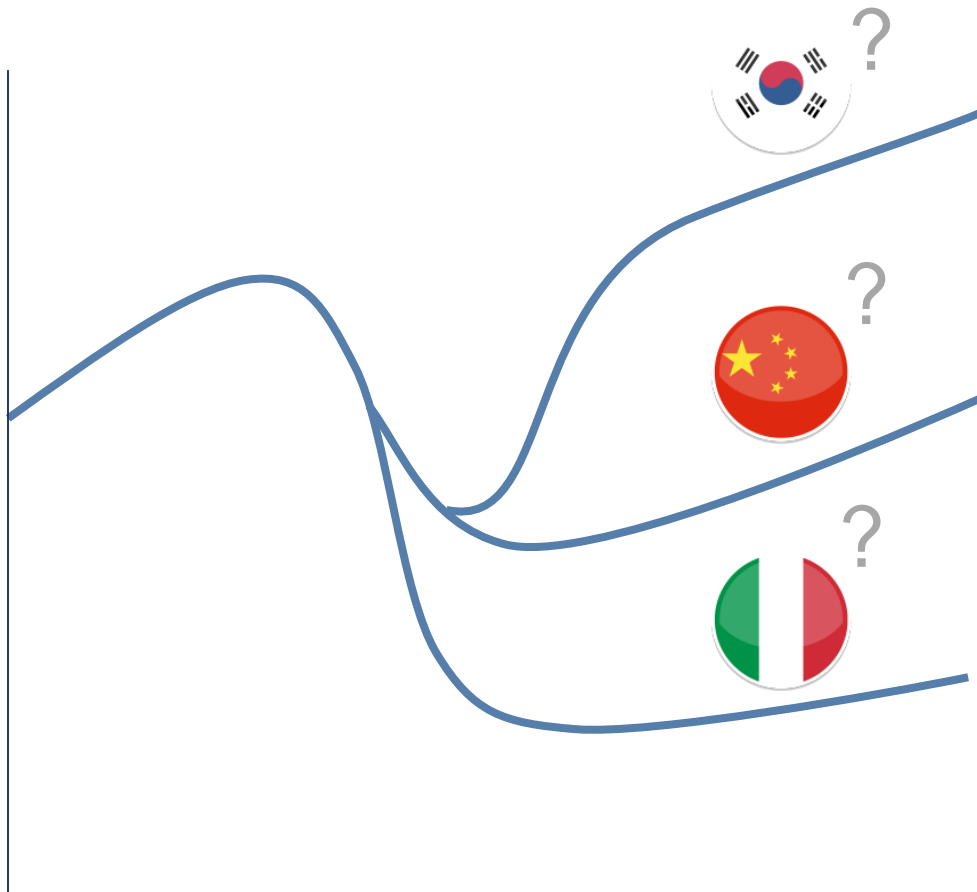
Was macht diesen Wirtschaftseinbruch so besonders? Worauf muss die Politik sich konzentrieren? Lesen Sie unser regelmäßiges Makroökonomie-Update zur Krise.

Key take-aways

- We are on the way into a recession - but have not yet arrived!
- Several indicators speak for themselves: Dramatic stock market development, oil price war, COVID-19, trade war, etc.
- COVID-19 may distort the current picture clearly negatively, but it represents a major uncertainty, whose further influence is difficult to assess

Different scenarios need to be considered when looking into the future

Three Scenarios on how it may continue



Scenario 1: Quick rebound

- Asia recovers in Q2/2020
- Economy in Asia is soon back to normal
- Europe recovers later due to delayed virus spread
- Recovery in Europe lasts longer due to prolonged shut-down
- However financial systems and government support package are working and supporting the economy
- **Short dip impacting GDP in 2020 with recovery in Q4/2020**

Scenario 2: Slow recovery

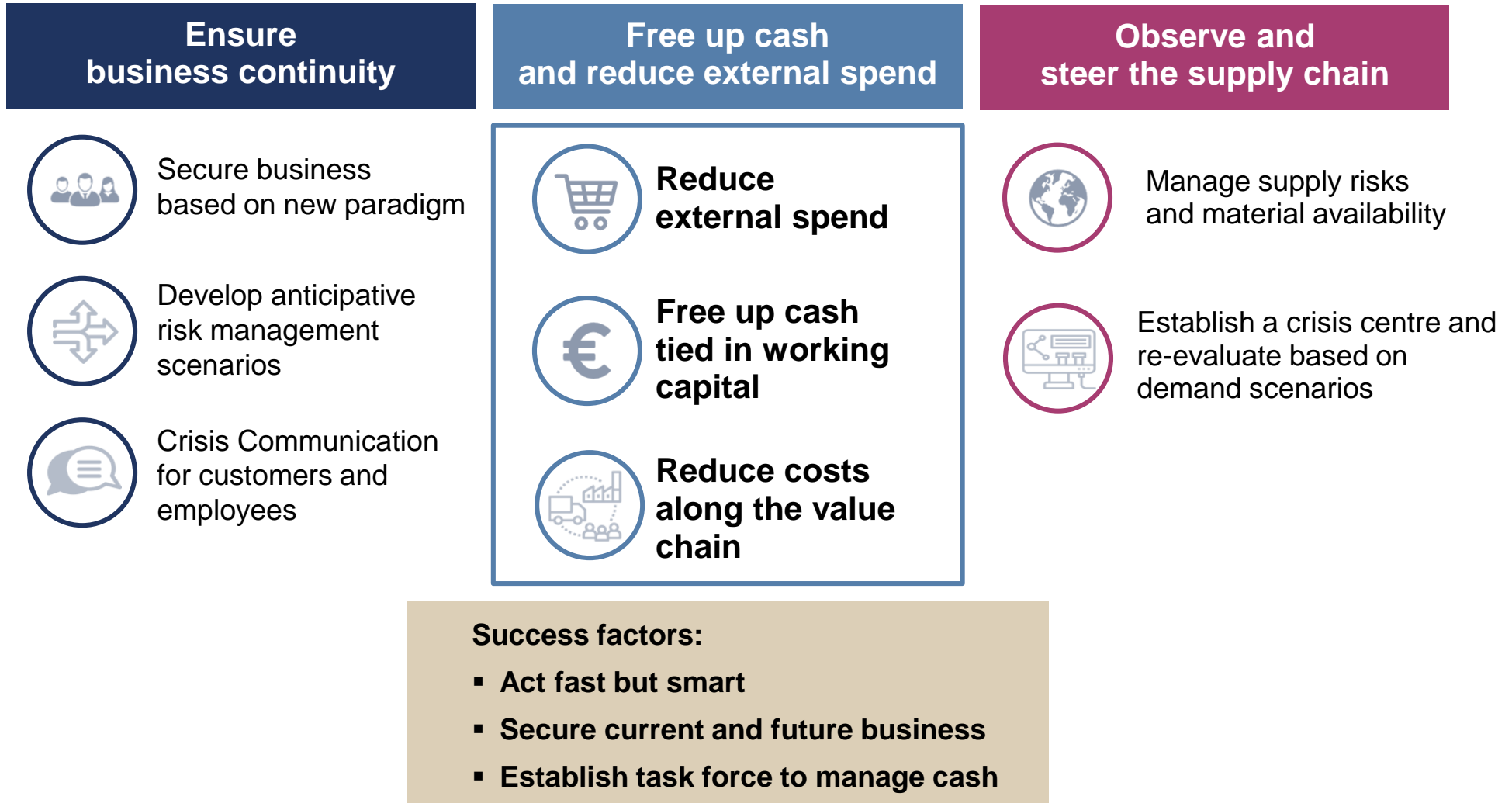
- China/Asia recovery is slow
- Supply chains are affected
- Supplier insolvency is critical
- Consumer spending decreases affecting also B2B business
- Global GDP declines
- **Recession in US, Europe and reduced growth in China in 2020**

Scenario 3: Recession lasting into 2021

- Recovery will last into 2021
- Economy slows down considerably
- Reduced consumer spending due to long shut downs
- Layoffs and bankruptcies across multiple sectors and regions
- Financial system remains in tact due to learnings from 2009, however FED and EZB measures are not
- **Global impact and recession lasting into 2021**

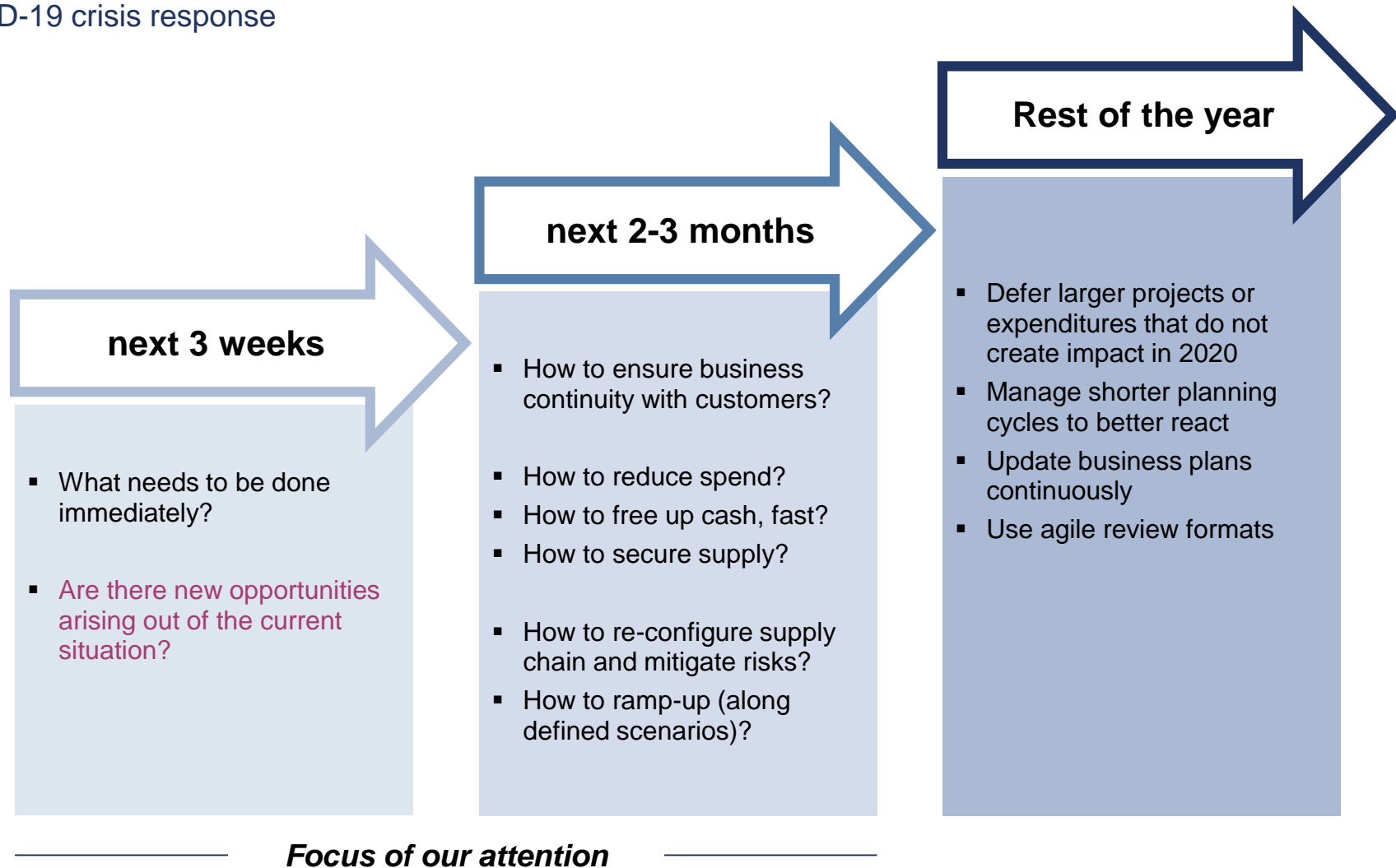
Three action areas are vital to survive the economic downturn

COVID-19 crisis response



Senior Leaders are already acting and acting fast. A structured view on the coming weeks and months is required

COVID-19 crisis response



Turning off external spend and taking benefit of the current situation to re-negotiate

What to do next: External Spend



Next
3 weeks

- Stop all non-business critical spends (e.g. marketing).
- All non production related POs need to be approved by Board
- Implement radical demand management actions
- All CAPEX Purchase Orders on hold
- Secure supply – connect personally to strategic suppliers and establish view on supply chains risks
- Set-up “Procurement Power Room” – daily reporting of supply situation from all business-critical suppliers
- Categorize supply-critical suppliers in distressed / non-distressed and agree on burden sharing or support actions

Next
2-3
months

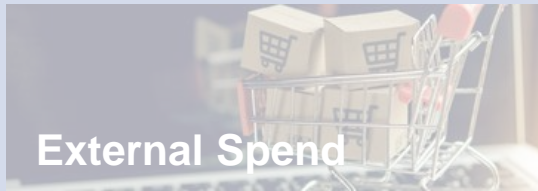
- Prepare negotiations and supplier days to reduce current prices (e.g. online negotiations as quick alternative)
- Define negotiation levers and objectives for main suppliers, e.g. partnership, payment terms
- Prepare for mass-negotiations or email information to request optimized payment terms or price reductions
- Launch fast scouting of 2nd sources for materials in single source situations
- Evaluate alternative sourcing options – further reduce risk
- Joint cost reduction & partnership workshops with strategic suppliers

How can h&z support

- Provide overview of possible (drastic) demand management measures and support in implementation
- Negotiation support for major suppliers
- Moderation of supplier workshops
- Supplier day preparation and execution
- Introduction of partnership- and collaboration models with suppliers
- Set up a Procurement Power Room
- Global supplier scouting based on h&z database

A re-configuration of the supply chain is required, to reduce cost and satisfy customer demand in times of recession

What to do next: my Value Chain



Next
3 weeks

- Stop goods inflow and manage according to demand
- Reduce call off quantities from suppliers
- “Smart stop” of production to stock (MTS)
- Align inventory parameters to new situation (based on h&z SAP Plug-in)
- Launch scenario planning to understand implications of prolonged shutdown
- Establish supply chain task force to ensure material availability with daily stand-up meetings

Next
2-3
months

- Realize short term working capital levers (finished goods, raw materials)
- Continue to validate inventory parameters aligned to new situation
- Review and reduce supply chain cost (short term levers)
- Review logistics transport capacities and consider early booking of capacity
- Review distribution network and assess using free capacity externally
- Adjust supply chain configuration to produce in areas outside shut-down
- Establish continuous scenario planning and link to shortened S&OP cycles and consider scenario alternatives (bi-weekly or weekly meetings)
- Establish daily inventory control with immediate corrective actions
- Launch portfolio clean up and take out margin killers (in line with Sales)

How can h&z support

- Working capital lever review (virtual format)
- Inventory parameter adjustment with SAP Plug-in (3 day turnaround)
- Supply chain cost analyser
- Working capital optimization toolbox and lever set
- Supply chain planning scenario tool
- Network design tools and Network revue toolbox
- Demand Analytics with fast adjustment of patterns

Sales focus needs to shift to be focused and target driven

What to do next: Customers



External Spend



my Value Chain



Customers

Next
3 weeks

- Actively secure business through smart levers (from pull to push)
- Review deferring payments for key customers or via re-financing / factoring (to keep business running)
- Speed up Accounts Receivables proposing one-time bonus or kick backs
- Sell off existing stock proposing one-time bonus or kick backs
- Switch sales management efforts from direct interactions to online portals
- Focus sales care efforts on „cash cow“ customers
- Reduce „hunting“ efforts to emphasise „farming“ efforts
- Ensure precise control of sales activities
- Develop anticipative risk management scenarios

Next
2-3
months

- Adapt sales approach based on customer segments
- Adapt “way of selling” from meetings to virtual
- Focus sales resources / activities on „lead conversion“
- Focus sales resources on „low effort/high reward“ customers (A-customers)
- „Shape the path“: allow no other activities than clearly committed targets
- „Sharpen the saw“: focus sales people activities on focal priorities
- Design special incentives for „sustainable business deals“
- Verify business planning assumptions/model
- Re-evaluate quantitative target budgeting
- Declare special incentive / Bonus for „quick revenues“

How can h&z support

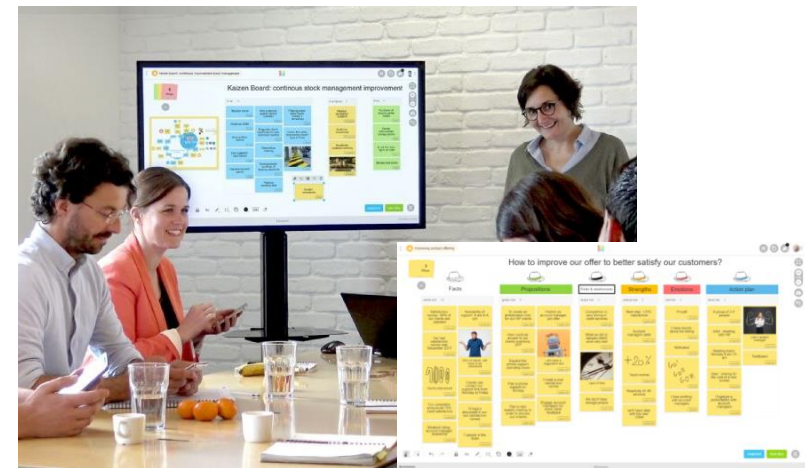
- Support sales argumentation for quick “lead conversion”
- Develop “pragmatic” customer portfolios for focused sales activities
- Support priority setting for sales activities
- Design customer kick back schemes for late payers
- Design special sales bonus schemes
- Ensure/control implementation of committed/focused sales actions
- Create online sales solutions for customer interactions
- Redimension sales forecasts / budgets and business plans

In times of Corona, circumstances are changing fast – we adapt our way of working with the same pace and work with our clients fully virtual and effective

Proven methods and concept for virtual working



- Due to Corona we are right now working with **all our clients in virtual teams**
- **And it works very well!**
- We work with **state of the art collaboration tools**, e.g. MS Sharepoint, MS Teams, Skype for Business, Trello, Jira, Klaxoon, Alfresco
- We are used to agile working formats and virtual work – **1/3 of our consultants are certified Scrum Masters**



Summary and next steps



You focus on daily business

We focus on the near term future and business stability



We are ready to support you to navigate through the current crisis



Senior Experts with true Hands-on mentality are ready to start



We can be compensated based on savings generated

Details to be discussed



Please contact us to discuss


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