TELLUSANT QUICK READS

MANAGING THROUGH CORPORATE CRISES

What should large companies do when experiencing a performance crisis? The answers are situational, but we have some general observations.

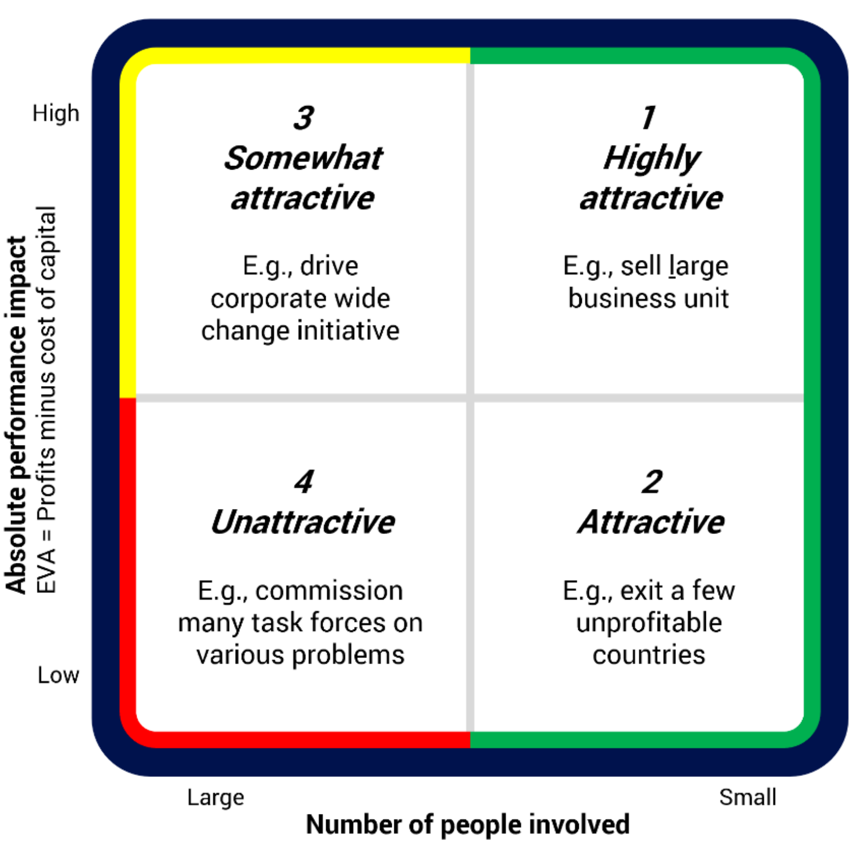
There are the two types of crises:

- *Sudden crisis*: This is when something bad happens and the crisis is obvious. Examples are lost profitability due to a recession or loss of a large customer. Meta's partial loss of the Apple distribution channel is an example.
- *Slow-burn crisis*: A company is gradually losing its competitive position over several years. Because of the slow deterioration it is not always clear that there is a crisis. GE's steady decline since 2000 was not obvious initially.

Our main interest is with slow-burn crises. Sudden crises are so obvious that action is usually taken. How do you identify a slow-burn crisis? We use the rule of thumb: more than 50% share price decline within the last 5 years.

What should a CEO do? This gets to the graph below.

CORPORATE CRISIS RESPONSE MATRIX



Many CEOs start change programs that involve lots of people. This is a terrible starting point.

The key is to take actions that have maximum profit impact and involve as few people as possible since people are averse are change.

1. **Start with large structural actions** that involve few. Sell an entire business. Split up the company. Sell the company to a better owner. And more.

   Examples: The Kraft Heinz Company' sale of its cheese business; GE's split into three companies; Gillette selling itself to P&G.

2. **If large opportunities are exhausted, pursue smaller structural actions** that involve few. Close a few country subsidiaries (and perhaps use distributors). Close a large but old manufacturing site. Outsource an entire process—never in-source because you think it is less expensive (it is not). And more.

   Examples: Target's closing of its Canada business; General Motors' closure of multiple plants over the years; Alphabet Inc.'s outsourcing of support services.

3. **Large corporate-wide change programs are somewhat attractive** because of their potential profit impact. But exhaust #1 and #2 first. Then drive a time-based competition effort. Implement zero-based budgeting. Reorganize. And more.

   Examples: ABB's T50 program; ZBB at Texas Instruments. Procter & Gamble's reorganization in 2018.

4. **Avoid a myriad of smaller change programs**. This is to wrestle with jellyfish and leads nowhere. Honeywell is an example and coined the jellyfish term.

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Structural actions inevitably beat people-oriented actions during crisis. This is in part why M&A investment bankers make more money than management consultants.