
Strategically Managing Your Company through Uncertain Times

Positioning your company to capitalize on opportunity and mitigate risk



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EXECUTIVE SUMMARY

Most of us are afraid of what we don't know. It is the uncertainty that keeps managers up at night wondering what to do and hesitant to make decisions involving change.

These days, it's obvious that the economy is in rough shape. Media headlines may have us all feeling that the sky is falling and that the economy is circling the drain. That may or may not be true, but it's clear that we're facing challenging times. What is not so clear, however, is how long the weak economy will last and who will remain standing when it's all said and done. When times are uncertain, there is great opportunity as well as risk for your business. The question is how to position your company to capitalize on opportunity and mitigate the risk.

Optimistic companies who understand the context of this recession keep moving forward by gaining perspective from many expert sources, and ultimately have a plan for success that will exit this down market much stronger and well prepared for the post-recession growth cycle.

PAY ATTENTION TO HISTORY

It's important to remember that throughout semiconductor industry history, the economy has regularly cycled through recessions. Many economists will remind us that economic down times are necessary to allow for the next expansion cycle.

History has taught us that companies who take decisive action in troubling times recover much stronger, and are better positioned for the post-recession growth cycle. Interestingly, recent recessionary cycles have created major changes in the way the electronics and semiconductor industries do business. In the 1980s, integrated circuit manufacturers started outsourcing back-end assembly and testing to save costs – which gave rise to the Asian assembly and test subcontractor giants. The 1990s recession brought about the migration to fabless manufacturing, which was accelerated even more through the 2000-2001 recession, ultimately creating the wafer foundry megafabs of today.

Companies have a choice when faced with uncertain times. They can see the glass as half full and rise to the occasion, or they can see the glass as half empty and flounder. Optimistic companies will look at markets for opportunities to try something different.

The time to be looking at your business very carefully is when everyone else is saying that times are uncertain and there is no clear path. Pay particular attention to emerging trends in the market and determine what you can do to take advantage of the timing and stay ahead of the competition. This requires management vision and an entrepreneurial approach. Business schools teach vision, strategy and tactics as a mantra. We all seem to understand the need for vision, but the strategy and tactics are often stalled in uncertain times due to decision paralysis.

KEEP MOVING FORWARD

To avoid decision paralysis, a company large or small needs to get out of its own way. Sacred cows (we've always done it that way) and other bureaucratic road blocks preclude any real change from taking place. Sometimes this means setting up an entirely new division or company in order to have the freedom to innovate. You may need to look at outsourcing not as a threat, but as a way to better use scarce resources. Or, an acquisition or divestiture may be needed to obtain needed technology or provide needed funding for new ventures.

Opportunistic companies are successful because they adopt the critical entrepreneurial characteristics required to transform the company and position the business for future growth. These include providing the authority to access resources while people from across the company that can be brought together to solve the problem as they define it. The new team needs to be given a clear vision, but still empowered with the freedom

necessary to take risks. It is almost impossible to make fundamental changes to an organization without the support and force of the board of directors and senior management. The worst thing a manager can do is say, “go make the change” and not give the group the power to make it happen.

Assemble a team of entrepreneurial-minded people with the vision required to bootstrap and grow a new venture. Look at your technology portfolio. You may have some old or new technology idea that is available, and with market changes or a new approach could be a big success and transform the overall business.

GET PERSPECTIVE

External tools and resources are often critical to successful transformations. It can be very difficult to shift thinking from inward to outward when your team is comprised of insiders. Bringing in a consultant or hiring talent from a competitor can introduce a new level of objectivity to the team when evaluating potential new products. Consultants or established industry experts provide deep knowledge and expertise, and help the team understand the industry market trends looking out over the next 3-5 years. They can help management look beyond existing products and help identify potential new products or market segments to take advantage of current and future trends. They can make sure you are shooting “ahead of the duck” rather than miss the opportunity or after making a large investment.

A consultant or hired expert can also be invaluable when determining the best structure of the company as it transforms – for example, whether to build, buy or outsource key components of the vision and strategy.

HAVE A PLAN

Often, an acquisition strategy can help a company enter new markets or buy needed technology much faster than developing it from the ground up. But this may lead to extra costs and compromise if you can’t buy exactly what you need. Companies may elect to sell off underperforming or non-strategic assets to raise the necessary capital to fund the business transformation. But in this uncertain market, will you be able to maximize the sales price, or are there other financing options?

Some companies are turning to outsourcing as a way to lower costs, speed production and gain access to new markets. This can be a big challenge, too, as it can be difficult to calculate the true total cost of outsourcing. Some companies that jumped on the outsourcing bandwagon after 2000 are rethinking the decision. You have to factor quality, control, lead time, IP protection and other cultural issues into the overall cost equation. A good objective expert can be worth their weight in gold by helping management sort through all these issues.

In addition, it may be important to have help navigating the new regulatory environment brought on by the financial crisis and the new administration. You need to be informed of any changes that need to be factored into the overall strategic analysis.

You can set a clear vision, assemble the best possible team and time the market perfectly, and still run into trouble. The “fire and forget” business mentality can doom even the best ideas to ultimate failure. When something moves the market or changes the landscape, even the most successful business can fall flat on its face. Market forces change constantly and it’s important to continuously monitor, make course corrections and transform again if necessary to stay on top of things. It becomes a continuous cycle.

SUMMARY

Successfully navigating uncertain times requires doing things differently. Like most change in life, it starts with recognizing there is a problem. Sales are down, costs are up, the competition is eating your lunch, and your technology is not keeping up with customer demands. The list is endless. Next, assemble an entrepreneurial team and gather the required resources, including external experts who know your market. Set a clear vision from the top and empower them to get the job done and take the necessary risks to innovate. And then set up the organizational structure to allow them to succeed. Above all, remember to monitor the strategy, market and results so you can react to trends before the efforts are wasted.

ESG Navigators is a highly experienced, cross-functional consulting team specializing in growth, turnaround, realignment, strategic transactions, and exit strategies for middle market companies in the electronics, semiconductor and other technology sectors.