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by Asaf Farashuddin

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Upturn Thinking in a Downturn Year

Why it's important not to lose sight of long-term goals during a recession.

by Asaf Farashuddin

The collapse of the telecommunications market in the early 2000s was difficult for Lucent Technologies, the communications systems supplier that had been spun off from AT&T in 1996. In 2001, telephone service providers — a major customer group for Lucent — reduced their capital expenditures by 29 percent. To deal with this decline, Lucent's CEO, Henry Schacht, commenced a major restructuring program. Total head count was reduced from 106,000 to about 62,000 through restructuring, attrition, voluntary retirements, outsourcing, and the sale of businesses. Then in January 2002, Patricia Russo was named CEO, with a mandate for restoring the business to profitability. Most of the attention paid to Lucent, by insiders and outsiders, was still focused on the short term.

But not all of the attention. Within a few months of taking the position, Russo launched an initiative to identify new growth areas for Lucent. The objective was to start new businesses before the recovery was complete. These new businesses would make use of Lucent's core capabilities and provide a revenue and income stream that would be more stable and could grow even when the telecom hardware business was in decline.

The growth team conducted a short and intense study, drawing on an outside firm for help. This resulted in a proposal later in 2002 to create a new services business. Eventually named Lucent Worldwide Services (LWS), it was aimed at a diverse customer base and insulated from the business cycles of telecom infrastructure equipment. For the subsequent merger of Lucent Technologies with Alcatel, Lucent's services business was one of the compelling strategic rationales.

Nearly all industrial corporations are subject to business cycles. Lucent's story shows how important it can be to think about the next upturn even during a downturn.

At first, this seems counterintuitive; after all, in the midst of sales declines and the buildup of unplanned inventory and capacity, corporate leaders naturally turn to austerity measures and restructuring efforts to reduce capacity and control expenses. And these reflexive actions should be applauded. They have been responsible for the relatively shallow recessions of the past few years.

However, a mere recovery from crisis is not enough to deliver sustainable success. During World War II, for example, the famines of 1944 led some military planners to look ahead to the war's end and how they would help Europe rebuild its shattered farms and infrastructure — an effort that became the Marshall Plan. Similarly, the long-term success of companies may be determined not just by how well they handle a downturn, but also by their foresight in preparing for the upturn.

The upturn SWAT team that Lucent applied to cre-

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ate LWS is one successful technique for this. Another is a combined long-term and short-term planning process, which has been used effectively by Cummins Inc., the manufacturer of power generators and diesel engines for trucks, buses, and construction equipment. Cummins, based in Columbus, Ind., operates in a market that is accustomed to recurring business cycles. For example, truck owners tend to "pre-buy" their fleets just before stricter emissions regulations take effect, and the entire industry (engine makers, truck manufacturers, and truck operators) has become adept at flexing production capacity to match the expected heavy sales volumes.

At Cummins, this cyclical market had created a culture in which, as one executive put it, "We are really good at doing crisis." In 2001, after the September 11 terrorist attacks, and in the subsequent slowdown of the U.S. economy, the company decided to handle the crisis a little differently. The downturn was severe: Cummins suffered a net loss of US$2.66 per share and a revenue decline of nearly $1 billion from the previous year. The company's sales to the core heavy-duty truck segment fell by nearly 50 percent from their 1999 levels.

Cummins responded with a set of near- and long-term planning initiatives. It entered into supply agreements with key customers that were designed to moderate volume swings in future cycles. In addition, CEO Tim Solso put in place a set of strategic principles that focused the company on its core business and competencies, with the aim of minimizing the impact of future downturns. In 2005, the company further expanded its long-term planning by designing a strategy process that married best practices from all of its business units, and balanced the requirements for midterm cycle planning with prospecting for long-term growth opportunities.

This planning process has served the company well. In 2007, for example, Cummins faced the threat of another downturn due to another tightening of diesel emissions standards in the United States and the resulting impact on the market for trucks. Despite this challenge, the company was on track in December to report record revenues and earnings for the year, and the stock price was near an all-time high. Cummins is coming out of a difficult market in a position of strength, with numerous joint ventures in emerging countries, such as China and India, and new businesses in natural gas engines, marine engines, and alternative fuel technologies.

Some companies have managed downturns by building long-term thinking into their restructuring processes. A good example is Visteon, a manufacturer of vehicle components. Facing a North American automotive market in which sales are approaching 15-year lows, Visteon is streamlining operations; at least 30 production facilities will be fixed, sold, or closed before too long. But in the midst of this deep restructuring, the strategic planning process continues to focus Visteon's business units on growth opportunities as well. This process requires each business unit to forecast the size and growth of its underlying market, to identify differentiated products, and to make focused investments in key technologies.

At the corporate level, Visteon evaluates long-term economic and demographic "mega-trends" that will shape the transportation industry in the future, including consumer concerns about climate change. Accordingly, Visteon's climate product group has begun to emphasize development of alternative refrigerants that reduce greenhouse gas emissions. Another megatrend is that traffic accidents are on their way to becoming the second-leading cause of preventable death; Visteon's electronics product group is developing driver information systems that improve awareness while minimizing distraction. Finally, the growth of the automotive industry in Asia has led to a strategic initiative aimed at effectively building business with the new automakers of that continent.

In these ways and others, while completing its turnaround, Visteon can maintain at least a partial focus on the longer-term prospects beyond the immediate crisis. If it does not plan for the nearly inevitable upturn in the automobile industry, Visteon will not realize the full benefit from the sweat and tears of its restructuring.

All industrial corporations face downturns and periods of retrenchment. Successful strategists promote upturn thinking even during the deepest downturns. Techniques such as crafting an upturn SWAT team, implementing long-term strategic planning, and requiring upturn thinking during restructuring help companies develop their own Marshall Plan to stay one step ahead of competitors when better times return. +

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