CEO guide to thriving in uncertainty

Eight ways to emerge stronger

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CEO guide to thriving in uncertainty: Eight ways to emerge stronger

How are you managing the continued economic uncertainty? Are you successfully navigating the disruptive trends reshaping industries and sectors? For many C-suite executives, cost control and margin maintenance are top priorities. While prudent, they shouldn't be the sole focus.

History has shown that some companies do more than survive economic uncertainty. They play offense—transforming a downturn from threat to opportunity. They embrace it as a catalyst to drive innovation in how they operate. They infuse new efficiencies into their business. And then they reinvest the savings so they emerge even stronger.

KPMG has extensively studied these high-performing organizations, uncovering valuable insights that can be applied within your own company. In this paper, we will share what we have learned and how you can leverage their successes.

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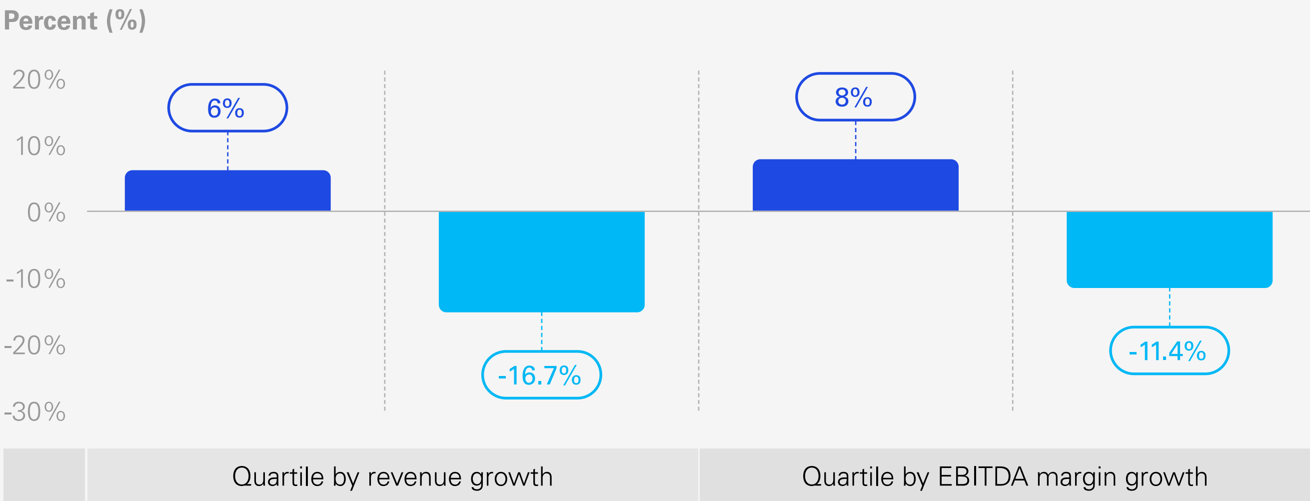
Lessons from history: How top-performing companies managed an economic downturn

Understanding how top-performing companies manage economic downturns is key. In our analysis, we examined nearly 2,000 publicly traded companies to evaluate their performance during the last downturn, specifically focusing on the period from September 2007 to September 2008. We categorized the companies into quartiles based on their EBITDA margin and revenue growth (or losses). We also assessed their performance in terms of total shareholder return through September 2010.

Our findings reveal that companies that continued to grow sales and margins during the recession outperformed the Russell 2000 index by up to 7.9 percent (see Figure 1). Conversely, the poorest-performing companies in terms of revenue and EBITDA underperformed the same index by almost 17 percent on average.

Figure 1. Early movers who grew revenue and improved EBITDA margins won

Total Shareholders Returns (TSR) from october 2007 through October 2010



* 1,957 companies. U.S.-based public companies that 1. had a market cap greater than $500 million as of 9/30/2007, and 2. were still publicly traded as of 9/30/2010. Mutual funds and other investment funds were removed from the population. Grouped quartiles based on revenue and EBITDA margin growth from September 30, 2008. The chart shows only top and bottom quartiles compared against the Russell 2000 index.

Top quartile

Bottom quartile

Source(S) : Capital IQ, Bloomberg and KPMG analysis

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Top performers maintained profitability because they had been improving margins before the downturn. For example, they cut sales and general administration (SG&A) costs by a median of up to 1.2 percentage points before the recession took hold. By contrast, among the poorest performers, SG&A costs rose by a median of up to 1.1 percentage points.

Figure 2 shows the breakdown of top- and bottom-quartile companies in our sample. Not surprisingly, given the ravages of the financial crisis, financial services had the highest share of companies in the poorest-performer quartile; it also had the lowest share in the top quartile. Energy and natural resources (ENRC) and healthcare and life sciences (HCLS) had the highest share of top-quartile companies. In a more recent KPMG survey, HCLS and ENRC executives were most likely to expect a downturn that will last more than a year—perhaps an indication that leaders in these companies will again act more proactively and aggressively.[1]

Figure 2. How companies in different industries performed

Quartile by revenue*

Total Shareholder Returns (TSR) Sept. 30, 2007 - Sept. 30, 2010				
By quartile and industries		Median	Average	% of industry
HCLS	Quartile 4	-17.5	-7.4	38%
ENRC	Quartile 4	-1.7	2.3	42%
TMT	Quartile 4	-12.1	-9.7	27%
IM	Quartile 4	-27.9	-19.6	21%
FS	Quartile 4	-11.2	-12.8	13%
C&R	Quartile 4	-5.9	0.9	16%
IM	Quartile 1	-21.5	-29.1	12%
HCLS	Quartile 1	-41.5	-12.5	16%
ENRC	Quartile 1	-19.7	-14.0	10%
TMT	Quartile 1	-32.1	-24.7	21%
C&R	Quartile 1	-26.9	-28.7	30%
FS	Quartile 1	-31.1	-35.4	49%

* Here we quartiled companies by Revenue Growth % from September 30, 2007 - September 30, 2008. Then, we show the Total Shareholders Return (TSR) by quartile and industry.

Quartile by EBITDA†

Total Shareholder Returns (TSR) Sept. 30, 2008 - Sept. 30, 2010				
By quartile and industries		Median	Average	% of industry
HCLS	Quartile 4	-11.0	-6.1	36%
ENRC	Quartile 4	-9.5	-0.7	27%
TMT	Quartile 4	-12.7	-0.5	36%
IM	Quartile 4	-15.9	-13.4	19%
FS	Quartile 4	-1.5	-9.7	22%
C&R	Quartile 4	-14.2	-3.5	11%
IM	Quartile 1	-26.4	-25.1	13%
HCLS	Quartile 1	-35.4	-23.7	20%
ENRC	Quartile 1	-30.6	-19.5	27%
TMT	Quartile 1	-35.6	-22.2	22%
C&R	Quartile 1	-26.7	-26.4	25%
FS	Quartile 1	-21.5	-25.8	47%

† Here we quartiled by EBITDA Margin Growth percentage points from September 30, 2007 - September 30, 2008. Then, we show the Total Shareholders Return (TSR) by quartile and industry.

Perhaps most striking were the differences in growth rates. Companies in the lowest quartile posted 8.7 percent declines in revenue versus 36.5 percent growth for the top quartile. For the poorest performers, this led to a 5 percentage-point decline in gross profit margin, and EBIT margin declines of 3.8 percentage points. Meanwhile, the top quartile delivered 1.1 percentage-point growth in gross profits, as well as 0.9 percentage-point growth in EBIT margin, on average.

[1] Source: July 2022 KPMG Transformation Survey

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What sets the top performers apart

How did the top performers do so well during the last major recession? Quite simply, rather than retrenching, they went on the offensive. They plotted new growth strategies—snapping up new assets and shedding businesses that no longer had sufficient growth potential.

Here are three examples.

Vonage: New strategy, new cost structure

Vonage, a business cloud services provider, took a new strategic direction when Jeff Citron took the helm as CEO in April 2007. In November 2008, he announced, "Our primary focus today is to improve the customer experience to reduce churn. While this will take time, we believe the company has the appropriate plan in place to improve customer satisfaction and build loyalty."

The company told investors it would slash marketing expenses by $110 million and G&A costs by $30 million through layoffs and consolidation of operations. The company's strategic aim was not only cutting costs but acquiring more customers with the highest "lifetime value."

It worked.

While spending less on marketing, the company gained subscribers through the downturn. Revenue grew by 5.2 percent between October 2007 and October 2009—even as other companies, on average, saw declines of 0.1 percent of revenue in those two years.

Edwards Lifesciences: Optimizing the product portfolio through M&A

Edwards, a medical technology company, carefully positioned its product offerings as the economy tightened, becoming more competitive. In December 2007, it acquired the CardioVations product line from Ethicon—an acquisition that strengthened Edwards' position in heart valve replacement. It also sold its LifeStent product line to fund new investments in its core competencies of heart valves and critical care. In May 2008, it announced extending the company's leadership in valve replacement and repair. Revenue growth from October 2007 to October 2008 was 16.1 percent, and 24.6 percent over the two years through October 2009. That outpaced the HCLS sector median by 0.4 percent over the one-year period and 8.2 percent over the two-year period.

LKQ Corp.: Using the recession to build margins

In early 2007, LKQ, a provider of alternative aftermarket, specialty salvage, and recycled auto parts, anticipated declines in demand. That July, it agreed to merge with KeyStone Automotive. The alliance significantly improved LKQ's competitive advantages by adding complementary aftermarket product offerings. The merged companies made sharp reductions in corporate overhead costs and increased sales.

EBIT margins remained steady at 10.5 percent in the next 12 months beginning in October 2008. They rose to 11.5 percent over the next two years, while margins for its main competitors declined over the same periods.

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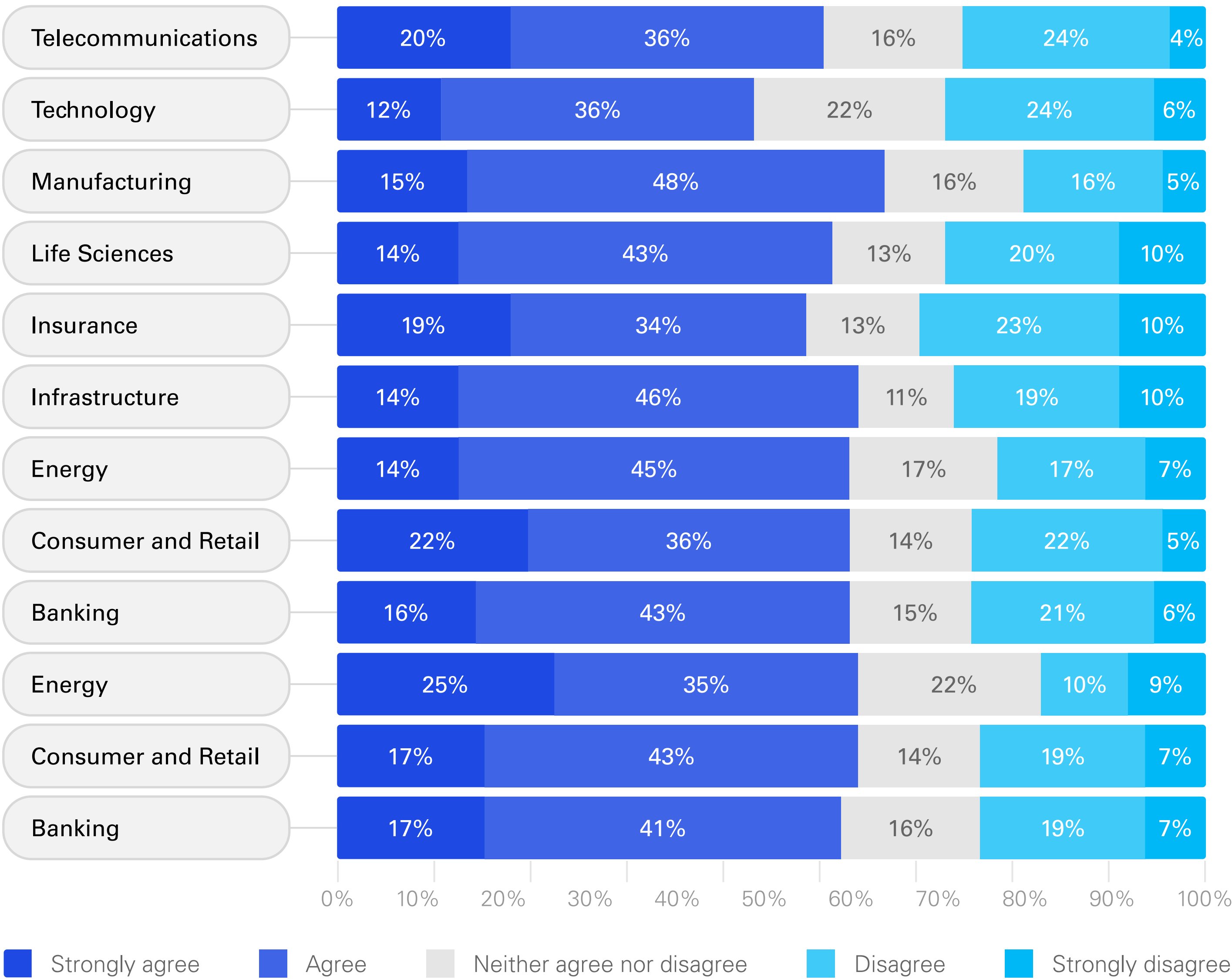
What companies are doing to get ahead now

As the world continues to navigate the effects of high inflation rates, supply chain disruptions, and geopolitical uncertainty, no one knows for sure what form a downturn will take. Interestingly, in the most recent KPMG Global CEO Outlook, a significant proportion of executives agreed that any potential recession will be mild and short (see Figure 3). That type of downturn will reward companies that invest in growth strategies, capabilities, or innovation more than companies that focus on slashing costs, hording cash, and hunkering down.

Figure 3. Business leaders agree that "the anticipated recession will be mild and short"



Source: KPMG Global CEO Outlook, 2022

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As of July 2022, large companies were acting to cut costs and offer less expensive products (see Figure 4).[2] While the level of preparation varied across industries, most respondents said they were already moving to protect the bottom line by passing costs to customers. About half of respondents across sectors said they were using online tools to measure changes in customer buying behavior and brand sentiment to determine how much they can raise prices without damaging their standing with consumers or limiting sales.

[2] Need same July 2022 survey source info here

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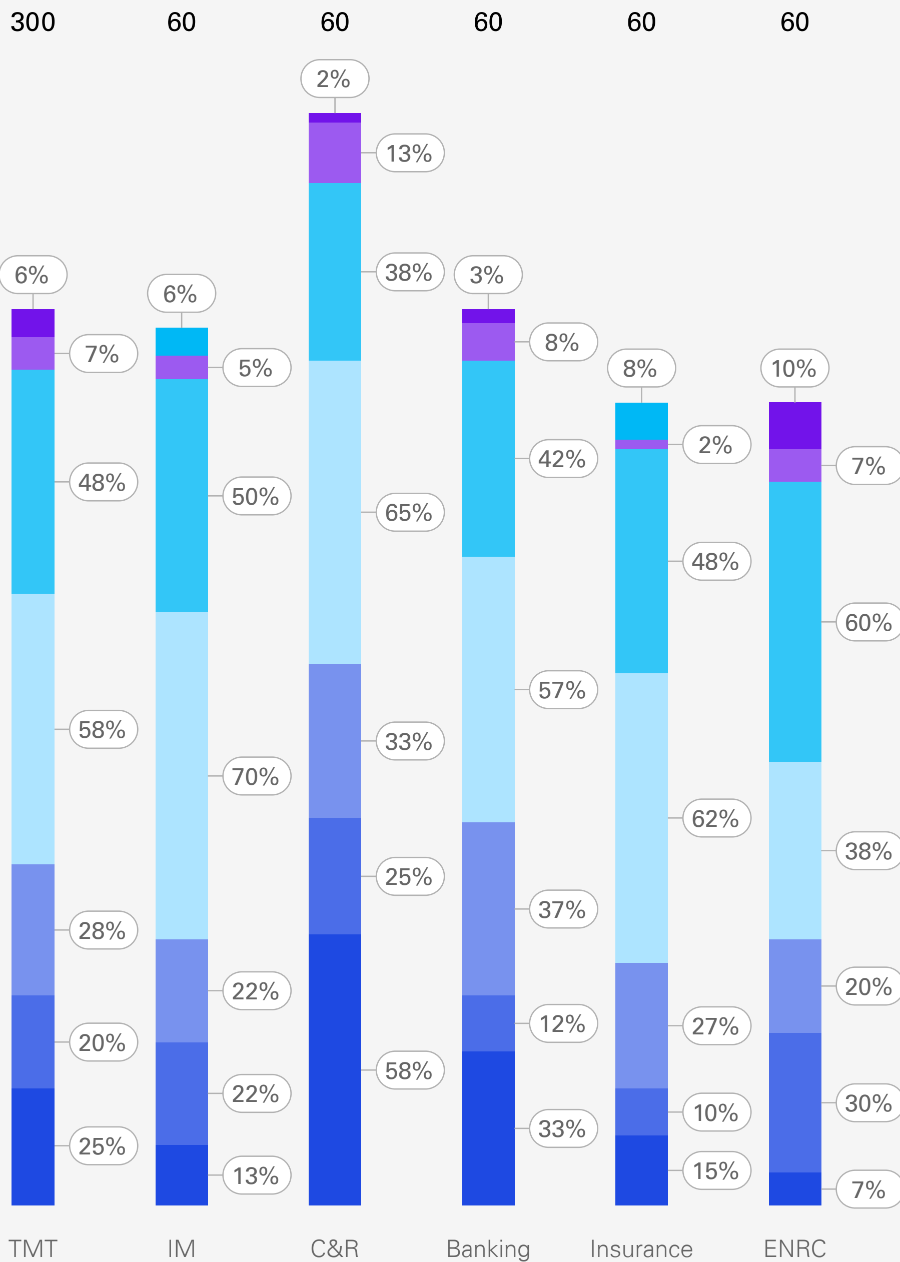
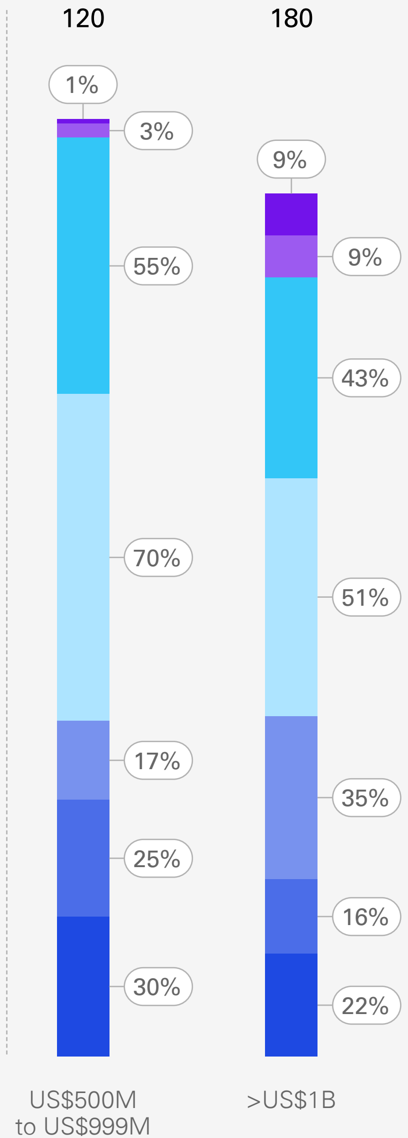
Figure 4. Most large companies are already acting to cut costs and offer less expensive products



By revenue

55% Respondents said they were prepared to cut workforce and labour hours

58% Respondents said they would promote lower-cost products



- We would reduce the number of products (SKUs) available
- We would operate in fewer markets
- We would modify our existing products (e.g., reduced functionality or features, etc.)
- We would develop new products at lower price points
- We would reduce our number of employees (reduction in workforce)
- We would reduce the number of working hours of employees
- Our business model will not change materially, and we will manage the impact of inflation in other words

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Outside the energy sector, most executives we surveyed foresee developing new products at lower prices as a short-term response to a downturn. Sixty percent of those in the consumer and retail sectors say they're inclined to reduce the number of SKUs.

Across sectors, five out of six respondents say they're investing more in technology to boost efficiency, cut labor costs, harness data, serve customers better, and so on. To protect the bottom line, three out of four say they will consider paring payrolls. More than half intend to shift the geographic locations of workforces, renegotiate real estate estates, and/or refinance debt.

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Eight ways to preserve margins and reinvest for the future

Consider these ways of preparing your business to not just survive a downturn but also emerge stronger.

01 Build dynamic scenarios for strategic responses.

During periods of uncertainty, scenario planning enables proactive decision-making before the full impact of change becomes evident. This grants a crucial advantage over competitors who either delay action or rely on assumptions. By mapping a range of scenarios and identifying the most probable outcomes, you gain the confidence and agility to act swiftly.

02 Use M&A for offense and defense

A downturn can be an excellent time to rebalance a portfolio of businesses. Most complex corporate portfolios have businesses that are no longer core or that lack sustainable differentiation. These outliers, and the value destruction they cause, become more painfully obvious in a downturn. Take a hard, data-driven view of all the businesses in your portfolio to identify those with a negative value trajectory. Offloading non-core businesses frees up liquidity so you can buy "good for you" assets at good prices. What's more, without the distraction of non-core businesses, your leadership team can focus on the businesses in the portfolio with the greatest potential.

03 Pre-emptively attack costs

Early and aggressive cost management and an unrelenting focus on liquidity are still the most important actions management can take to increase operational resilience. Consider benchmarking your organization and rethinking structures using a "greenfield" methodology. Create a lean organizational structure to fit current business needs. Assess all operational processes for improvement. Evaluate every income statement line item and aggressively eliminate waste at every level. Above all, ensure all plans are tracked, and each action has dedicated ownership.

04 Finetune commercial strategy.

In a downturn, you need to strike a delicate balance between preserving profits and maintaining (or growing) your customer base. You can lean into difficult times to get closer to key customers—and helping them today will pay dividends tomorrow. DO: Stay on top of customer success programs. Use data and advanced analytics to identify your best customers, better understand their immediate needs, and meet them where they are. Nurture an awareness of other services and product features that may drive greater value. DON'T: Act hastily to reduce your price. Strong market performers will likely use this time to get ahead and lock in favorable terms. Accelerate sales of lower-priced items and raise prices on supply-constrained items. Develop robust discounting guidelines based on customer and deal characteristics and manage channel discounting.

05 Use the data you have

In a downturn, data analytics are key to determining the best moves that can deliver the points of margin to stay profitable when revenue growth slows. Humans think they know what drives costs in the operations. By using machine learning techniques, you can find the true—often hidden—drivers of cost. Use digital twins to simulate and optimize supply chains, for example. Using data analytics, companies can also model the net costs of cost-saving moves. For instance, banks might

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identify branch operations as the biggest cost-saving opportunity. But which branches should close? Where would a branch closure result in unacceptable customer losses? The answers lie in the data that banks already have. Similarly, companies invest in labor-saving technology. Do you know which tasks to automate first to get the biggest payoff? Don't guess; analyze existing data as long events and audit trails. The good news? Most companies have the data on hand—and may even have the tools.

06 Improve cash and liquidity

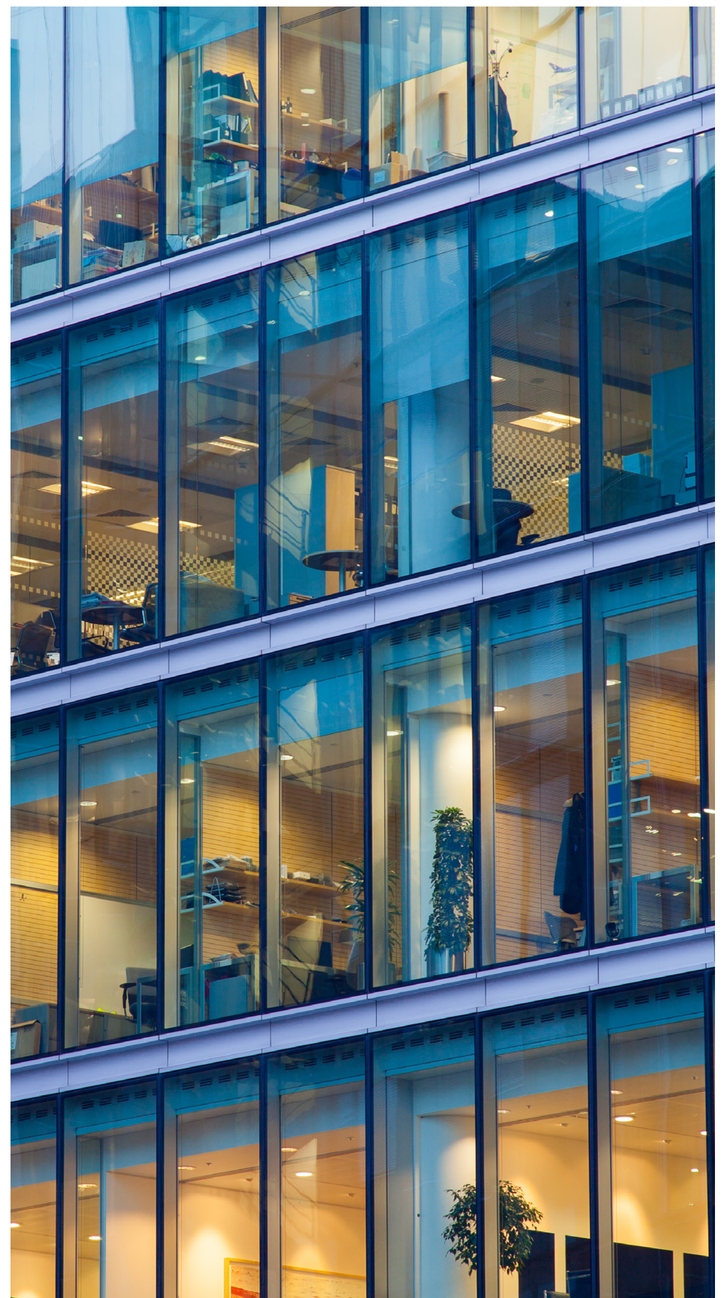
Optimize working capital and develop robust forecast and variance analysis capabilities (13-week rolling cash flow forecast and 12-month cash flow forecast). Monitor working capital performance and cash metrics with improved reporting to support cash and liquidity forecasting. De-risk accounts receivable by reviewing past-due balances and getting caught up before market risk impacts receivables. Revisit demand plans built into inventory purchase commitments and open purchase orders. Then analyze and sell/consumer slow-moving inventory before reduced demand renders it obsolete. Improve accounts payable by renegotiating payment terms with vendors. Defer or minimize discretionary spend and optimize pay-cycle frequencies.

07 Restructure debt

Interest rate increases, inventory expansion, AR collection slowdowns, and slowing demand all contribute to potential challenges related to lender covenants and leverage ratios. Credit markets have already tightened, and scrutiny from lenders and bond holders has increased. Even so, waiting to refinance in a stressed/distressed state is challenging and expensive. To assess your position, build covenant testing models. Then communicate with extreme transparency and urgency to your lenders, and work with capital advisors to ensure adequate liquidity through a downturn.

08 Hold onto talent.

The simple—and reactive—approach to human capital in a downturn is to look only at cost-out opportunities. Companies that successfully navigate a downturn recognize that they need talent with the right capabilities in the right roles to executive defensive and offensive initiatives. Quickly assess your organizational structures to ensure alignment with the evolving commercial, operational, and financial operating models. Focus cost-cutting on moves that create ongoing improvement: adjusting management spans and layers, standardizing or automating tasks, and broadening responsibilities in leadership roles to unlock value. Finally, use the downturn to invest in your human capital. Search out the in-house talent who can step up into hard-to-fill roles. And when business is slow, use that time for talent training and development.



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How KPMG can help

In good times and bad, we help clients address their greatest challenges and pursue the most profitable opportunities. KPMG advises leading organizations on strategy, transactions, and performance transformations. Our people have deep knowledge of corporate functions—HR, technology, finance, supply chain, ESG, etc.—as well as decades of industry experience. They rely on data-driven techniques to help clients quickly solve problems and uncover new sources of value.

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