



Performance Management in Disruptive Environments

How to Safeguard Against
Future Uncertainty

***Performance Management in Disruptive Environments:
How to Safeguard Against Future Uncertainty***

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During the last several years, the idea that we should always expect the unexpected has taken on entirely new levels of meaning. Even now, it is still challenging to truly grasp all the change we are witnessing in our lifetimes. It is at once exciting but also in many ways disconcerting and navigating a business through these times can be incredibly demanding with little margin for error.

At Horvath, in our 40 years as a firm, we've helped our clients through many difficult times. But even now, like every industry, we ourselves find disruption at every corner and a need to rethink how we serve our clients from start to finish. We are not immune to the many forces at work in today's marketplace, from new ways of working to new ways of thinking about industry, customers, and suppliers. We relish the challenge, however, and are taking it head on by adapting the same focus and discipline we bring to our clients as we think about our own business.

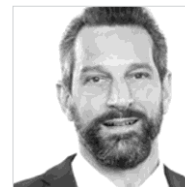
One important element during disruptive times is understanding what works and what doesn't. There is so much complexity today as companies navigate a host of new capabilities from artificial intelligence and robotics to the

cloud, that it is very easy to head down the wrong path and sometimes hard to recover from when that occurs. Enclosed is a collection of case studies that illustrate some examples of how we at Horvath are helping our clients determine the best path forward during disruptive times and how we are helping that stay on track by managing risk and maintaining profitability.

We hope you will find this information interesting and insightful.



Tony Klimas
Partner | President, Horvath USA



René Linsner
Partner | CEO, Horvath USA

Chapter 1



FP&A and Risk Case Study: Setting the Direction and Keeping It On Track

Before the global COVID-19 pandemic, our client was one of many life sciences companies that would soon be called upon to play a role in developing the coronavirus vaccine. This challenge forced accelerated transformation and created several new challenges, including a strong need for more accurate forecasting, risk management, and process optimization. Faced with these challenges, they turned to Horvath for help.

Growth Through Transformation

Our client is large but still operates with agility and speed with a focus on developing individualized treatments for a variety of diseases and a strong drive for innovation and quick decision-making. This focus allowed the company to grow quickly and efficiently as it played a key role in helping bring the COVID-19 vaccine to both the US and Europe.

But the company's transformation was not an easy task, a key reason to engage Horvath, a leading transformation and performance improvement consultancy, as the perfect partner to support their transformation during a challenging time.

As a trusted advisor and strategic partner, we helped our client overcome challenges, ultimately improving the company's overall effectiveness while managing the associated risk.

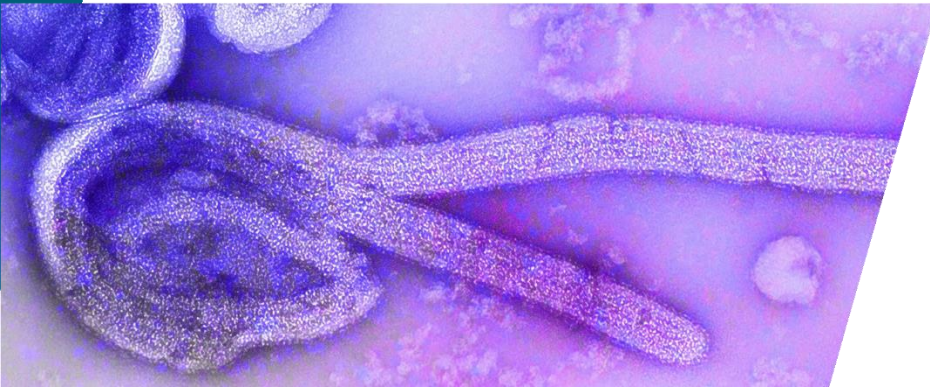
/ What Did We Accomplish?

- Supported improved management decisions
- Elevated quality of information
- Reduced risk exposure
- Enhanced speed-to-market
- Implemented operating efficiencies

Because the process of transformation involves a variety of touchpoints, we employed a set of integrated projects to address multiple areas at the same time, taking a holistic approach to meet these challenges head-on.

/ These Efforts Included:

- Risk Analysis & Management
- Financial Analysis
- Communication Strategy
- Process Analysis
- Pricing Optimization



Risk Management Initiative

The first step Horvath took was to introduce a more comprehensive risk management process, an effort already underway in 2019. As the pandemic began, the client's risk management process expanded with the accelerated use of digital technology.

/ How We Did It

- We implemented new risk management software and accompanying processes
- We performed a comprehensive enterprise-wide risk assessment developing deep insights

The implementation of an appropriate software solution allowed our client to adequately identify, track, and assess risks and mitigating measures, ensuring regulatory compliance and giving the company better insights into the impact of risks on operational and strategic decisions.

When the coronavirus pandemic started, our client had an edge and was well prepared. Confronted with a rapidly changing market environment and extraordinary internal growth, the newly implemented tools and procedures proved

To ensure a comprehensive and continued overview of the client's risk situation, in early 2021 we also worked to schedule an additional set of 80+ workshops and data gathering sessions that included C-level participants.

an effective solution, supporting the agile adoption of an entirely new risk approach appropriate to the times. To ensure a comprehensive and continued overview of the client's risk situation, in early 2021 we also worked to schedule an additional set of 80+ workshops and data gathering sessions that included C-level participants.

At the same time, we deployed the Horvath Global Business Radar®, an innovative tool leveraging artificial intelligence, synthesized external data on volatile market conditions, public opinion, and internal risk data all providing insight into potential problems while they were still manageable.

Finance Initiative

As a leader in financial planning & analysis as well as performance management, the second step in our integrated approach was the development of a comprehensive financial transformation roadmap, aligning our risk initiatives with the goal of bringing finance fully into the digital age while preparing for future challenges.

As part of this effort, we worked with our client to set realistic goals and a reliable set of drivers to serve as a foundation for informed management decisions. The new forecasting solutions and analytic capabilities supported better decisions about future investments and the optimal use of resources, even with imperfect and fluid data inputs. As a result, near real-time data from vaccine production was quickly integrated into the planning process, leading to improved accuracy and insight.

Horvath's efforts to support our client helped improve both the production planning process and the overall level of insight for the entire company. With harmonized and integrated data, well-defined drivers and better leverage of existing ERP systems, our client was able to significantly improve data quality and cost transparency—and ultimately the profitability of the company.

A cross-functional team from FP&A, IT, accounting, and production worked together on an agile pilot of the new forecasting processes and was able to quickly achieve a high level of acceptance. By working in an integrated way, we were able to identify additional areas of added value and improve our client's competitiveness.

This effort helped our client establish a company-wide planning process to guide future investments and decisions on a large scale. An additional benefit of our approach was a new intuitive and user-friendly management reporting process that will increase the quality of analysis and decision-making. Beyond this, fully automated management reporting has made every-day-work easier by eliminating manual and error-prone activities. Together with our integrated risk initiative, Horvath helped our client continue to strengthen its position as a leading global player in life sciences.



Chapter 2



End-to-End Processes: Setting a Future Vision That is Fit for Purpose

Many companies have made only minor adjustments to their organizational chart despite dramatic changes in the world around us. The organization remains unchanged despite new capabilities driven by technology. We believe now is the time to introduce end-to-end business thinking that steps away from traditional “silos” and creates new possibilities on how to organize in the 21st century.

The Problem

Robert in Accounting

When Robert receives invoices with no reference to the buyer in his organization or to the person who will “pay the bill,” he must investigate all the relevant information he needs to post the bill in the accounting systems. He feels like a detective solving a mystery, but one that he’d rather not solve again and again. Fortunately, he knows the organization well and he can go to John in Sourcing who always seems to be able to help him solve his mysteries.

John in Sourcing

John prefers maverick buying versus following procedure because he wants to get a few minutes back in his day and he believes cutting a few corners doesn’t really cause any problems. Not considering how this could affect his coworkers or other departments up and down the line, he routinely skips the details, hoping to get done fast and move on to his next deal, which is how he is measured. But John is also not satisfied because he wastes so much time researching suppliers, products, and pricing on his own and it seems like Robert in Accounting is always coming to him with questions. If he were connected to Sarah in procurement, he’d be more efficient, less stressed, and happier.

Sarah in Procurement

Sarah is the company’s strategic buyer and has already negotiated a series of framework contracts with preferred vendors. She is very proud of her accomplishments and has been recognized frequently for exceeding her metrics. Sarah doesn’t understand, however, why Robert in Accounting is always emailing her about invoices for products or vendors not on his list. She has no idea who John is or what he does but she helps him even though she feels like she is wasting time.

While this simple scenario is somewhat “tongue in cheek”, these things happen every day in many different companies, perhaps even your company. When departments and people don’t communicate with each other, don’t follow processes, and continue to operate in silos, the result is not only lost productivity, but ultimately an impact to the bottom line as people spend their time on unproductive activities. This doesn’t make Bob, John, or Sarah bad people, but rather people caught up in the inertia of a

large company where things have always been done a certain way that creates an environment where every person is focused mainly on their own task, meeting their own KPIs, and doing the things they think are required to perform well. But these silos with individual focus are often detrimental to the overall health of the company.


The Solution

/ In the Digital Age, Many Companies Are Still Doing End-to-End (E2E) All Wrong

Many people—from the C-suite to the front-line worker—only think of the “core” pieces of the business when considering E2E, perhaps because historically business is viewed in terms of core competencies and more recently, end-to-end process flows. These processes may include procure-to-pay, order-to-cash, record-to-report, and hire-to-retain. While this view has a purpose, it’s not enough in this day of ecosystems and connected organizations. It’s the

equivalent of studying one piece of a puzzle without realizing several pieces are missing and the picture will never come together.

True E2E process models must take a more holistic approach linking overall strategic objectives to core activities in the context of how administrative tasks and enabling technology can be aligned to support the big picture. All these elements comprise the internal value chain and must therefore be integrated into the larger E2E processes of the company.



True E2E process models must take a more holistic approach linking overall strategic objectives to core activities...

The Solution (Continued)

/ How To Do E2E Right

To truly address your company's needs, it's necessary to develop a company-specific model that aligns strategic objectives to the range of products and services and then examines the end-to-end processes that support these objectives. All of this comes down to articulating strategy in the form of metrics or drivers and then using that information to formulate an operating model that is unique to your business and at a minimum addresses the following elements:

The Execution Layer:

- Business Process Value Chains
- Governance
- KPIs and Metrics

The Foundational Layer:

- Data
- Talent/People
- Technology

These elements are brought together by an organizational construct that ties together the details of where things are located and how reporting relationships are defined and, ultimately, ties the supporting foundational elements to the execution capability

At Horvath, we help our clients develop an integrated program that will not only lead to a future state operational model that is truly end-to-end but will also provide an approach to change management designed to address challenges around mindset, culture, and communications with the goal of winning over employees and introducing them to the idea that personal growth can come from embracing change.



Chapter 3



Maintaining Profitability & Growth When Cost Cutting Isn't Enough: Pricing Strategy

Pricing strategy is tricky even in normal times, but during inflationary times, it can be critical and, in some cases, the difference between staying in business and going bankrupt. While it may seem intuitive, many companies don't realize that pricing strategy can have an outsized impact on the bottom line.

Between the pandemic, the changing geopolitical situation, and significant inflationary pressures, smart companies are spending the time to ensure they are highly effective when it comes to pricing their products and services.

Effect of Disruption on Raw Materials

The coronavirus and recent geopolitical events have created a severe imbalance in the supply and demand of raw materials, greatly impacting many industries in different ways. While manufacturers had to scale down production and inventories due to shortages, other companies in the middle of the value-chain were squeezed by decreased supplies and an inability to pass through cost increases to the end customer. In other cases, inflationary pressure created the opportunity to raise prices with less customer pushback, a factor that only some companies are taking advantage of.

Regardless of the impact, pricing has suddenly become a hot topic as companies in many different industries are asking themselves whether they have an overall pricing strategy in place, the ability to operationalize that strategy, and the tools to execute. These are important questions that can make a significant difference during these times of disruption.

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Pricing Strategies to Survive Volatility

To effectively manage pricing in times of disruption and volatility, Horvath recommends four activities:

1. Closely monitor cost and price development along the entire value chain to plan reasonable, targeted, and systematic price adjustments in a timely manner.
2. Differentiate increases and selectively pass them on to customers. Consider market segment, distribution channel, or product groups and look for ways to implement dynamic pricing models including electronic pricing for brick-and-mortar retail and algorithmic pricing online.
3. Communicate early and transparently to your customers. Explain the reasons for the increase and keep it positive.
4. Monitor for immediate effects on revenue to quickly change course in case of negative customer reaction. Don't rely on ad-hoc spreadsheets but instead look for ways to industrialize your data management and reporting, taking full advantage of the latest cloud-based tools.

Employing these strategies in a consistent manner over time and continually refining them as new capabilities become available means you'll be better prepared and able to respond more quickly when the next disruption comes.

/ Communicating Pricing Changes

Unfortunately, these events often require that price increases be passed on to customers. While each of the four pricing activities noted is critical, the process of communicating these increases properly deserves extra attention. Poor implementation or lack of a thoughtful communication strategy could lead to negative customer opinion and reaction.

How We Can Help Empower and Support Your Sales Team:

- Horvath can design and set up your processes and all tools necessary to manage these situations.
- We can bring unique knowledge and insight into leveraging the latest cloud-based tools and algorithms.
- We can set up the required reports in SAP, Oracle, BI tool, or other system.
- We will train your staff on how to respond and communicate with customers and effectively manage change.
- And, if a full consulting solution isn't right for your organization, we can coach in your specific areas of need.

Closing



About Our Founder

Horvath, the management consulting firm, wouldn't be what it is today without its founder, Dr. Péter Horváth, the visionary.

Starting a consultancy firm at age 44 might seem a stretch for someone who already had a successful career as an engineer, published textbook author, and a full-time professorship at the University of Stuttgart, but it was Peter's idea to always look for a better answer and to share those answers with others that led him to focus on consulting later in life. His textbook, *Controlling* (Vahlen, 1979), one of the seminal works on this topic still in print today in multiple languages, led him and some of his students to take their expertise and knowledge and apply it to real-world projects.

He overcame the many challenges of creating a value proposition around his ideas and then translating an academic textbook into practical consulting services valued by clients. He also worked hard to find the right people to join his new firm. And today, many of those early employees play a key role in leading the firm and continuing the legacy that Peter Horváth built.

Conclusion



Some Final Thoughts

Our solutions are not prescriptive. Each organization has its own set of challenges and goals. What works for one may not work for another. However, most any leader or entrepreneur can benefit from a few important principles:

- Deal with the future intensively and systematically (future-thinking).
- Always remain open to listening and learning.
- Focus on the opportunities, not the problems.
- New ideas are great, but they are only useful once they have been put into practice (10% innovation, 90% perspiration).
- Think “we,” never “I.” The classic “there’s no I in team” approach.
- Remember that we are in the early days of the digital age, so expect false starts and learn from every mistake.

And of course, know when to seek support from a trusted partner like Horvath Management Consulting.

About Horváth

Horvath is an international, independent management consultancy firm with over 1,000 employees in locations in Germany, Austria, Switzerland, Hungary, Romania, Italy, the USA, Saudi Arabia, and the United Arab Emirates. We represent in-depth knowledge across different industries and top-level subject matter expertise in all company functions—with a focus on performance management and transformation. We carry out projects for our international customers around the world. In this context, we provide precise knowledge of, and consider, the local conditions thanks to the cooperation with our partners of “Cordence Worldwide”, a global network of truly connected consultancy firms with the ability to think and deliver together.

Our specialists support companies and top executives with extensive competence in business models, organizational structures, processes, and systems to successfully align their organizations for the future. We combine passion and effective implementation to turn change into success across whole companies, in individual business areas or in functions such as sales, operations, procurement, controlling & finance, HR, and IT. Horvath stands for project results which create sustainable benefits and value. That is why our consultants accompany their customers from the business management concept and anchoring in processes and systems through to change management and training of managers and employees.

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