

EXPERT INTERVIEW

Scenario Planning: the Path to a 'New Normal'

The Corona virus outbreak has taken a firm hold of the process industry. Companies are being forced to take immediate action to tackle the problem, despite not knowing how long it will last and what effect it will ultimately have on business. So what is the right strategy for firms in these difficult and uncertain times? Dieter Körner, COO of T.A. Cook, believes that scenario planning is the best way for businesses to navigate their way through this crisis and come out stronger at the other end. Here, he discusses the current pandemic and outlines possible solutions for now and the future.

INTERVIEW JENS ROSPEK

Mr. Körner, the Corona virus crisis has hit the entire economy hard. Apart from the obvious economic consequences, what are your clients dealing with at present?

Simply put: nothing is the same as it was before. Our partners, for one, have a host of fundamental economic questions to address. I have just read the latest forecast by economic experts, who expect a three to five percent slump in 2020, depending on the scenario. No company knows for how long the emergency strategies and measures taken will work. And even less so, when and how quickly production should be resumed in order to be ready to restart again once the crisis is over.

What is currently happening in the plants? What are the main challenges the asset intensive industry faces right now?

That depends on a range of influencing factors, which vary by industry and company. The key issue is the disrupted supply chains. Many of our customers can't plan with any certainty when, for how long or in what quantities the required resources can be delivered. Conversely, they don't know how demand is developing because it is fluctuating so much at the moment. As a result, companies are constantly having to determine and plan their requirements from scratch. None of our clients have ever faced these kind of challenges before, certainly not of this magnitude. In addition, there are parallel developments unrelated to the Corona virus crisis. For example, the falling price of oil. While this can clearly benefit companies whose production is based on oil for the refinery industry itself, it means they face the double whammy of the virus and falling prices.

So the bottom line is that companies cannot reliably plan production, which also makes it difficult to co-ordinate all related processes?

Exactly. In sectors that continuously operate and produce goods, the problems outlined earlier around resources, supply chain and demand may turn out to be a little less severe. There, plant utilization and, therefore production, are shut down in a

controlled way. In batch processes, where batch sizes are produced - for example in parts of the chemical industry - our partners are forced to rely on daily updated production planning. In other words, task forces have been established that check demand every day and take the appropriate countermeasures. These planning cycles are considerably shorter and more complex than previous planning horizons. The direction in which the virus is spreading is another challenge, especially for companies that operate globally.

Move Tactically and Coordinate Strategically

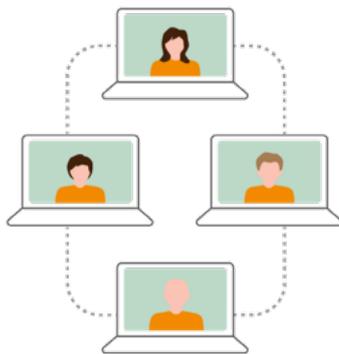
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Why?

We can observe two global circulation patterns for the virus; the east to west movement, i.e. from China via Europe towards the USA, and a north to south movement. This adds to the uncertainty for businesses, making the already complex planning process even more difficult. That means it's hard for our partners, who have multiple locations worldwide, to pursue a sensible consistent strategy if the virus decreases in one region but increases elsewhere at the same time.

So far we have mainly discussed process issues. The human factor is another key challenge for companies. How is this playing out?

It's really interesting to see how companies have been addressing the problem. Take shift work, for example. Obviously, first of all, personnel will be reduced in order to minimize health risks and, at the same time, ensure that the company is operating as economically as possible. To ensure a smooth continuity of workflow and processes, the handover between shifts is handled virtually, so that the staff don't have to meet in person, thus reducing the risk of spreading infection. That means companies are now taking - often digital - measures that wouldn't have been an option only a few months ago, or at most a realistic scenario in the long-term. Here is where T.A. Cook's expertise comes in. We support clients by helping to implement these complex measures. The planning happens at desktops far away from the plants; a new approach that has worked well so far.



Examples like this bring us to the all-important question: What can and should companies be doing to best manage the crisis and minimize losses?

Of course, the health of their employees is clearly the top priority for all companies. That is why together with our partners we are implementing remote and digital project working practices. The most important measure they need to take – cost analysis - is already in full swing at most companies we work with. As well as current expenses, this applies, above all, to future spends. Different segments are affected and that raises a host of key questions. For example: What happens with a planned shutdown? Does it have to be as extensive as initially estimated, or can you scale it down? Can you

reschedule the shutdown? How is market demand developing? Do your service providers have the necessary capacity to cope? What do your security measures and restrictions look like? These are all vital questions that need to be addressed immediately, particularly because not all asset intensive companies are currently experiencing a decline in production. Some even continue to produce almost at full capacity. Therefore businesses have to think about multiple scenarios.

So cost cuts are necessary - but ultimately only make sense if they also bring long-term benefits?

Exactly. Due to the current crisis, we are looking at certain decisions differently. A shutdown that was previously planned and classified as a requirement can suddenly become less important, or even harmful. Despite all its adverse effects, the crisis also offers an opportunity to improve your business in both the short and long-term. That includes cost factors, maintenance services, PM measures and management processes. When evaluating each aspect, you might find that a reduction or elimination in a certain area not only saves costs now, but also offers a competitive advantage moving forward. At the same time, there is the possibility to re-examine planned future investments, which should, for example, contribute to greater capacity or overall equipment effectiveness (OEE). It's also realistic to assume that the crisis will have a decisive effect on future demand. In this respect, ramp-down measures, for example, shutting down costs, capacities and services, make sense at present.

Nevertheless, companies cannot discard all their strategies and processes just to save costs - whether in the short or long-term, can they?

That is exactly why so many of our partners are making efforts in parallel to the measures just described – and I personally find that very entrepreneurial - to maintain established structures. The supply chain also plays a major role here. The current situation is disruptive. In many places, the established network is no longer working. For many companies, this raises the question of how to optimize their sourcing strategies - right up to a complete re-organization. Recent experiences with some of our partners show that the frequency of communication with customers and service providers has actually increased both quantitatively and qualitatively. They are also trying to identify all of their requirements at an early stage and to meet other's needs. Overall, one could say that in the current ramp-down phase their network has significantly expanded and intensified.

So the management of many companies is already doing a lot to tackle the problem. In which areas, however, do you still see potential?

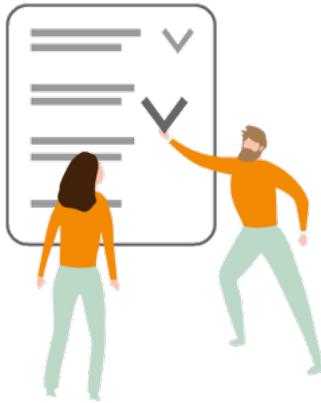
In my opinion, many companies could and should expand their integrated strategic planning. Looking at the crisis from an economic psychological point of view, one of the most common mistakes is that companies don't have a plan. Of course, this isn't an easy task given the fast pace at which everything is changing on a daily, hourly or even minute-by-minute basis. Nevertheless, without an effective strategy, decision-makers will often act hastily and end up taking the wrong steps. The biggest challenge is that Plan A no longer exists. You have to think and plan using a range of different scenarios. For example, develop several strategies in parallel and support them with concrete options for action and alternatives. Then you have to navigate between the possible scenarios by using a strategy that adapts to the current dynamics.

That sounds very complex. Why do you think the effort is worth it?

Despite the many unknowns, one thing is certain: The world won't be the same after Covid-19. I like to refer to it as the 'new normal'. No scientist or expert knows what this

new normal will look like, not even economically. This is where scenario planning comes into play, so that you are prepared for the post-crisis period and the ramp-up phase. Each scenario should determine the duration and effect of the measures as precisely as possible. You need to ask: How long will it take for the market to recover? How quickly will demand rise again? When can I run my systems at full load again? What is the competition doing? Where can I expect restrictions due to Covid-19? All of these questions should be included in the individual scenarios. This will enable you to design each scenario in as much detail as possible, with recommendations for action. Many companies still have some catching up to do in this respect and are in need of further support.

In your opinion, what does it take to implement such scenario planning as efficiently as possible?



In asset management, it's paramount to know which capacities will be used in the future and by how much. Investments must also be made as precisely as possible. That means at plant level you need to ask: Which plants do you drive with which OEE numbers? Which systems do you need to establish, which availabilities? Both factors require large investments; for capital expenditure, downtime or for maintenance measures. This is where we help to support our partners. Suitable structures must also be created to support all these measures. You need to ask yourself: How many employees do you need? Are there new forms of work you can use to optimize processes? Which shift models make sense? We are always working closely with our partners on this type of structural planning. Because we operate internationally, we know the best practices, requirements and developments that we can bring to the transformation. Particularly in uncertain times like now, you can achieve greater stability by using this tried and tested methodology.

In order to release such capacities sustainably, further change processes will be necessary. As a company, how do I ensure that I consistently continue to drive these forward?

A key indicator here is 'dedicated resources'. While there were change processes in place before COVID-19, often these were rather static. For example, work was done strictly according to a plan. But given the current dynamic situation, in which the strategy of today may already be out of date or become obsolete tomorrow, you need to have a strong team that deals exclusively with the strategy planning described. The first adopters have already established such SWAT and transformation teams. Here, we support our partners by accompanying these teams, jointly defining sets of measures and providing technical input - from planning to implementation, and consistent follow-up. This enables us to optimize directly and to tackle the operational problems that our industry is struggling with on a daily basis. For example, the loss of employees and the far-reaching restrictions currently faced. It's especially important in asset performance management, where we not only take on the role as driver in project management, but also that of expert.

Is it realistic to manage the current crisis as effectively as possible at the same time as preparing for a future that is so difficult to predict?

Trends and demands have to be addressed even faster than before. As a result, the need for information and communication is constantly increasing. Accordingly, what is currently being learned can be integrated directly into your planning process. As we

have seen, online work can work very well and solid networks can also survive critical phases. It's important to continue to drive these positive outcomes. If the technological development is consistently continued at the same time, for example, the networking of manufacturing machines in one system, you will be better prepared as a company for future crises. That's because you can react more flexibly to sudden changes. In this respect, today's crisis management and scenario transformation can be more effectively combined.



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