

Celerant clients, former clients & friends of the business share their expertise and experience.

‘What’s top of the agenda for today?’

Celerant Consulting Americas asked a group of Senior Executives to share their insights into the Top 3 Challenges facing CEOs today.

During the boom years, capital rich companies invested heavily and were open to taking risks. With a cooler economy, organisations are finding that the returns they’d hoped for simply aren’t there.

At the same time, CEOs everywhere are looking for new products to bring to market. So what factors, trends and pressures do they face?

1 Balancing risk, innovation & quality
Innovation and investment are vital for success. How hard do you think this is in the current climate?

JIM-Life Sciences: In our industry, innovation has always been the key to new products, but last year, pharma invested \$4bn in R&D, and the FDA approved only 21 products. Companies are spending more money, but they’re not getting products in the market. And many of the products that are getting out there are not the innovative blockbusters they’re searching for.

WAYNE-Manufacturing: Manufacturing has a slightly different challenge. It’s always led the pack in efficiency and cost cutting, but now there’s a real concern over losing quality because of the complexity of global supply chains. The total value of the supply chain is not what we thought it was. We’re not getting bang for our buck if you take the whole picture into account. Over the past 15 years, everybody’s been chasing cheap labour. Well, it turns out that in our current economy, and with the way the world’s going right now, chasing cheap labour is a very expensive proposition.

You have to manage quality, delivery, design changes. Every CEO that I’ve talked with over the past month had that on their list of things they’re looking at very hard.

STEVE-Energy: The energy sector’s investment challenge is about the maturation of the industry. With oil production, all of the easiest fields have already been found. Exploration is getting riskier and oil fields are yielding less than they used to. The threshold for making a field economical is higher, costs have gone up, and this means risks - political, environmental, technical, and cost - are increasing. If you look at the investment that’s been made by the industry in general and the returns that are coming out of exploration, it’s getting tougher and tougher to find new accumulations, particularly of big fields.

What’s been happening over the last decade has been a further deterioration in the performance of rank exploration. The probability of success on prospects is less today than it was 20 years ago. The frontiers of the late ‘80s and early ‘90s were deepwater and international. The international opportunities haven’t always panned out quite the way every-one anticipated, primarily due to a growing nationalism in the host countries and a reluctance from international oil companies to come in and take part in developing and taking a share of the resources. You can always find volumes, but they have to be economical to be developed.

2 Innovating through acquisition
Where are CEOs today putting their money to get the revenues they need? Are they innovating through acquisition?

STEVE-Energy: They are in our industry. The opportunity is shifting to a new way of getting the product altogether. We’ve had new technology that has come along and opened up reserve opportunities from existing accumulations that we knew were there, but we couldn’t really economically access in the past. A good example of that are the hydrocarbons coming from shale formations. If there’s a toehold that companies can secure through buying an independent

company that already has the acreage, then they will do that. It’s not that they’re looking for the expertise of the people that come with those companies; it’s that they’re looking for their access to acreage.

Shell has done three acquisitions in the last several years, and recently, Exxon acquired XTO, a \$30bn acquisition of an independent company that had a lot of interest in tide gas, shale gas, and other unconventional onshore gas.

JIM-Life Sciences: You have to be careful though, M&A is not a magic bullet. Most pharma companies took it way too slow, didn’t get enough cost synergies, and usually disappointed Wall Street. What’s being left on the table is the opportunity to improve efficiency in manufacturing. By picking up more and more companies across the globe, we’re stretching the supply chain out and adding more complexity.

I think companies are going to have to get better at M&A and try to make it happen quicker, more efficiently, and truly understand what they’re getting into. Most of the time they focus on cutting people or programmes. But getting manufacturing and operation streamlined, that needs to be improved.

3 Managing & developing talent
This continues to be a problem across all sectors. What more can CEOs do?

DAVE-Service 2: Top talent wants to be around other top talent. CEOs are realising they can’t ignore talent management because as the economy warms, your best people are tempted to leave, and when you are trying to make big changes quickly, you need those people who are able to think strategically. You need you’re A-team. And not only do you need them to stay, but you need them to step up. Executives are screaming for leadership, management and corporate maturity training.

FRANK-CPG/FMCG: When you make acquisitions, you need to get the people who have just been acquired to recognise that they have a bigger, brighter future. You also need to get your own people to see that there are an awful lot of

things that the acquired company did well that we need to bring into our culture. You have to have leadership at the very top and within the organisation that understands that there is value on both sides of that M&A activity. At the same time, you need to move quickly to drive the economic and marketplace advantages out of that M&A, because they don’t have forever.

WAYNE-Manufacturing: Companies that have developed a great culture over the years are losing that culture, and they’re very concerned about it. The manufacturing industry in particular is losing people that have been around a long time and helped develop and grow the respective culture of their companies. CEOs have got to get back to where the people they are bringing in really feel that there’s a strong company bond.

The group has extensive experience of these issues across a wide range of sectors:

ENERGY: STEVE
MANUFACTURING: WAYNE
LIFE SCIENCES: JIM
CPG/FMCG: FRANK
CHEMICALS: PEGGY
SERVICES: DAVE

PEGGY-Chemicals: People are arguably a company’s most valuable assets and without taking a careful and strategic approach to talent management and development, CEOs risk not only losing good people, but also hampering innovation and quality outcomes as well as hurting the company’s brand, reputation, and culture.

Conclusion
Innovating new products, acquiring companies and building a team for the future isn’t easy. With the world changing so quickly, CEOs are worried that what they’re going to do this year, may be undone next year. They’ve got to recognise that someone needs to be focused on each major issue, particularly the culture issue. It needs to be something that is actively, aggressively worked in order to get it fixed. And in a lot of cases right now, the question is, are they doing the right things and are they doing them quick enough, and are they doing it in such a way that they’re going to stick? ■