

# Introduction to Bain & Company

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APRIL 2021



BAIN & COMPANY 

Bain & Company  
**the #1 consulting  
powerhouse**  
in the Nordics



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We are **~500**  
**passionate people**  
operating as one unit  
across four locations

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We work mainly  
with **international  
and multinational  
firms** located in the  
Nordic region

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In April 2020, we  
joined forces with  
**QVARTZ**, combining  
deep local knowledge  
with global expertise

Helsinki  
**50**

Oslo  
**87**

Stockholm  
**123**

Copenhagen  
**231**

# Speakers



## **Andrew Schwedel**

Partner, New York

- Member of Bain's Financial Services and Organization Practices
- Co-Chair of Bain Futures and Macro Trends Group
- Advisor to the World Economic Forum's Insurance and Asset Management Industry Action Group



## **Hernan Saenz**

Partner, Dallas

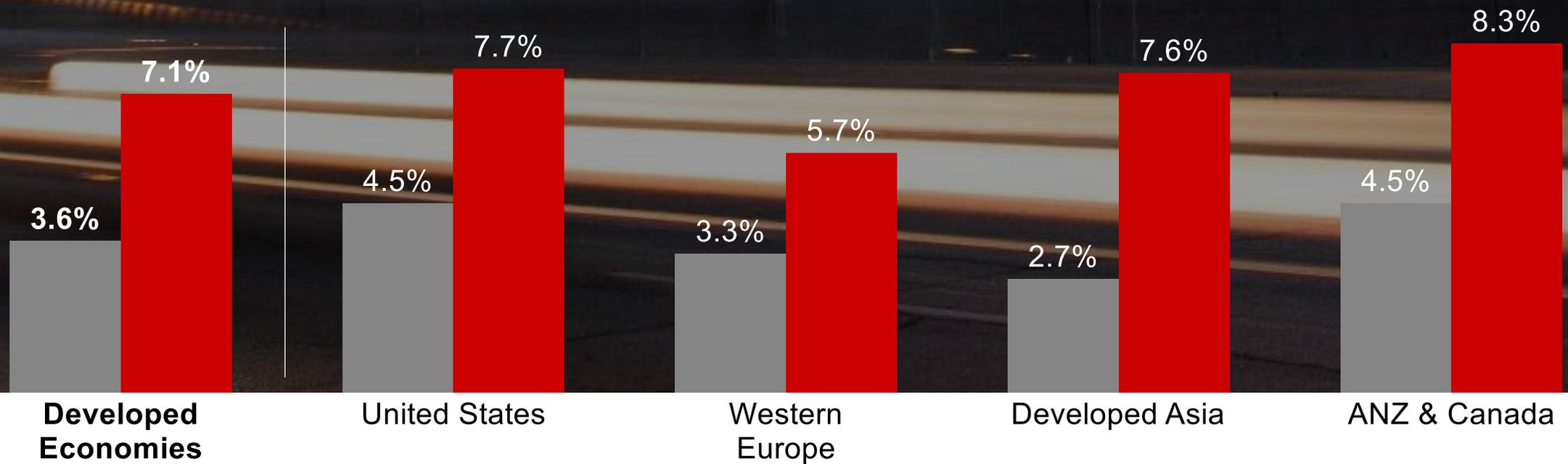
- Global Head of Bain's Performance Improvement practice
- Core Leader in our Strategy, Organization, and Advanced Manufacturing & Services practices
- Leading Bain's work on Supply Chain Resilience and Sustainability with the World Economic Forum's Advanced Manufacturing Platform

# Resilience

Thriving a world of turbulence



## GDP growth vs. Net Income growth



We have been living through a **golden age** for corporate profitability

■ Net Income Growth (1990-2018)  
■ Nominal GDP Growth (1990-2018)

**1.6x**

Volatility of the  
profit pool

**3x**

Bankruptcy  
rate

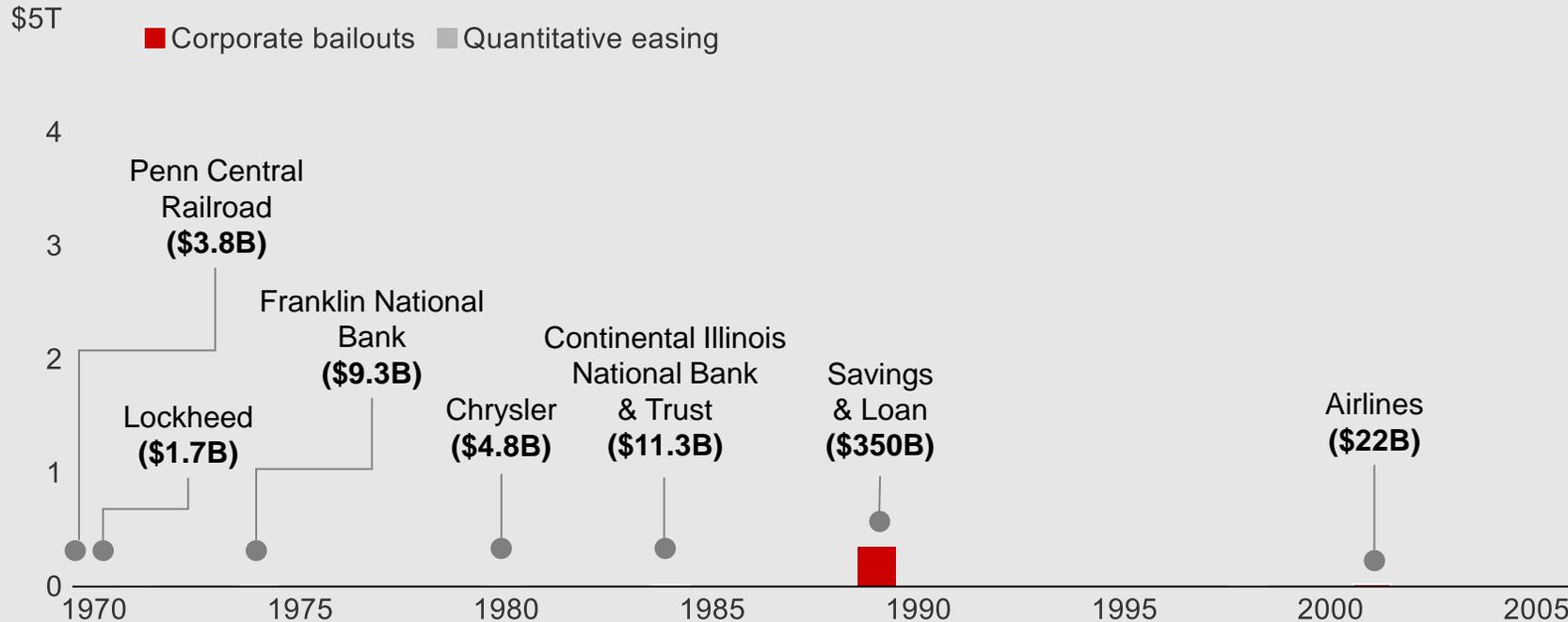
**6x**

Share of  
'zombie' firms

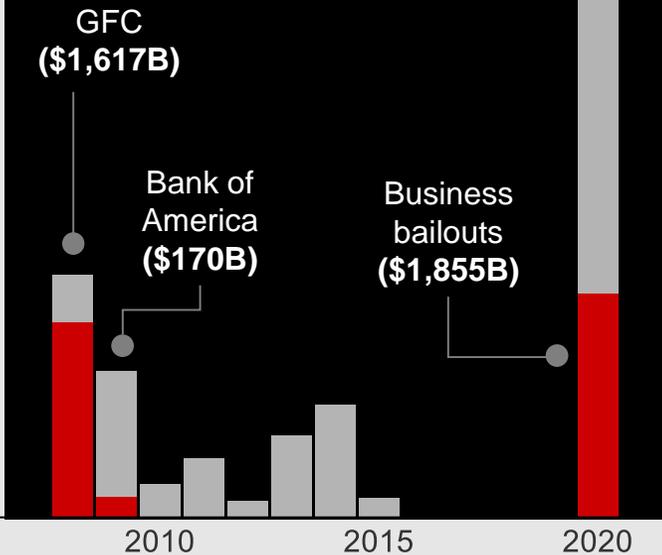
Yet growing profits  
have coincided with a  
**ratcheting up of risk**

# We have **privatized rewards while nationalizing risks** – expect greater demands for corporate resilience

## US bailouts (2020 USD)

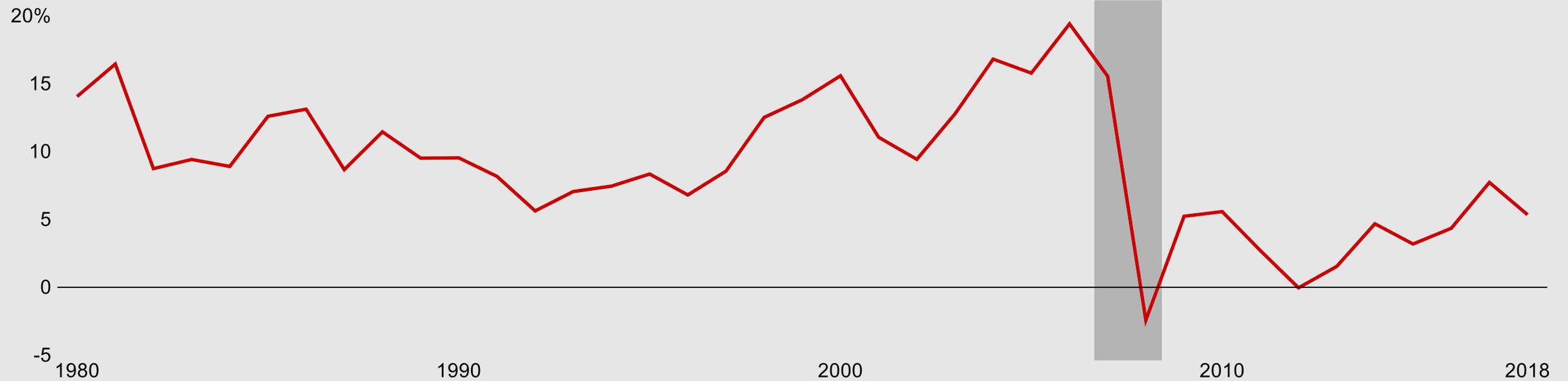


**Total government bailouts since 2008 equal to ~20% of total corporate profits (~50% including QE)**



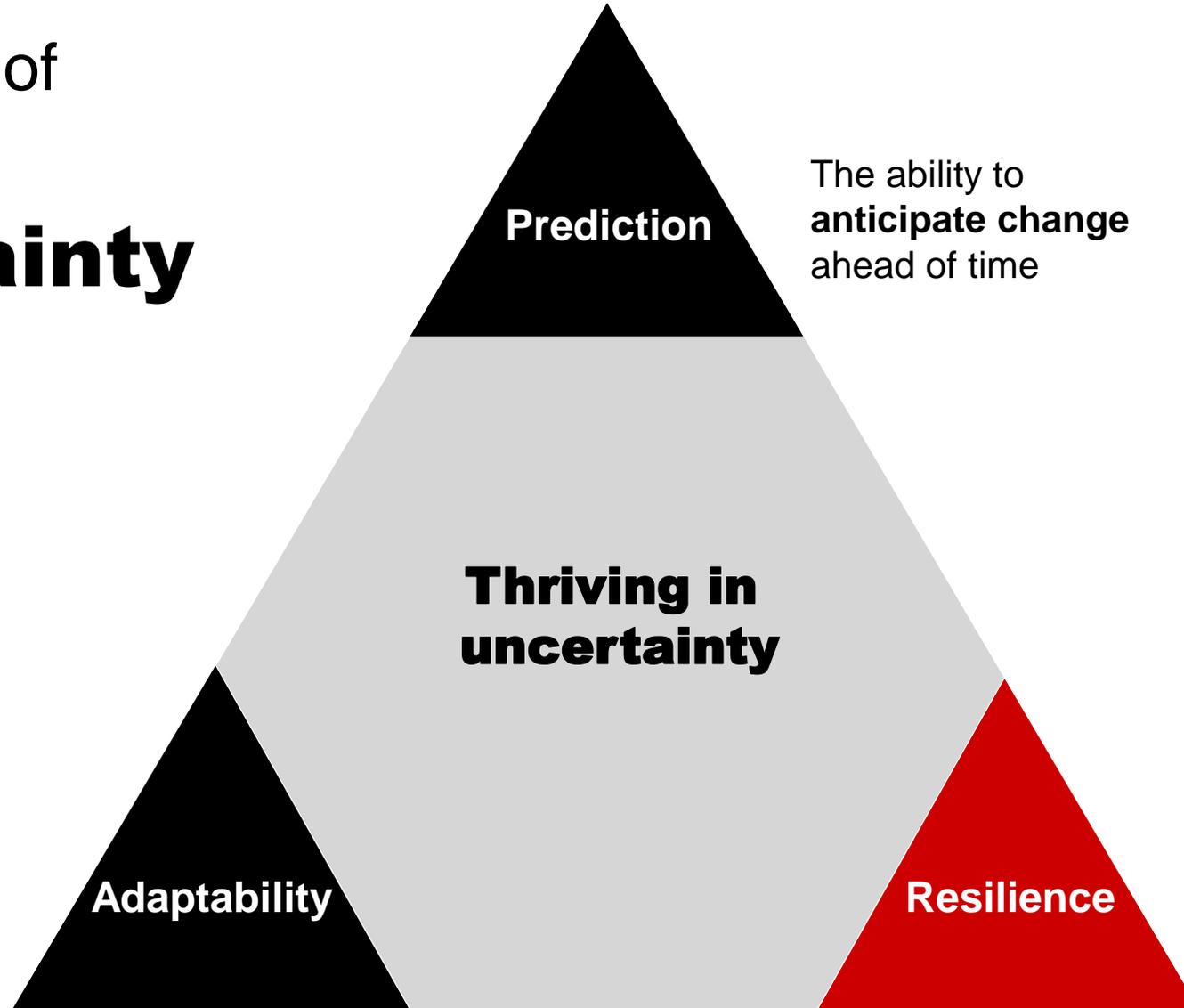
# A cautionary tale...

European Banking Return on Equity



Resilience is a  
critical element of  
**thriving  
in uncertainty**

The flexibility to **course  
correct** as the external  
environment evolves



# We see **Five Great Myths** emerging around resilience

- 1** Resilience means no volatility
- 2** It's all about the balance sheet
- 3** Past resilience guarantees future resilience
- 4** Resilience should be handled by the risk function
- 5** Resilience can be achieved without difficult trade-offs



While it is tempting to focus on volatility, the **real emphasis should be on risk**

## Volatility

The degree to which a certain outcome fluctuates upwards and downwards over time

Predictable and (generally) harmless



## Risk

Exposure to the possibility of an unfavorable change in trajectory

Unpredictable and damaging to value



## Strategic

Scale  
Portfolio concentration  
Cross-correlations  
Industry dynamics

## Financial

Leverage  
Liquidity  
Insurance coverage  
Hedges

## Operational

Operating leverage  
Supplier concentration  
Operating buffers

## Technological

Availability  
Workload mobility  
Cybersecurity

## Organizational

Employee engagement  
Crisis preparedness  
Personal resilience

Resilience is  
**multi-dimensional**

# Resilience is about **more than the balance sheet**



Inelastic demand

Dispersed production

Profitable core

Asset-lite business model

Crisis-readiness

Investment in loyalty



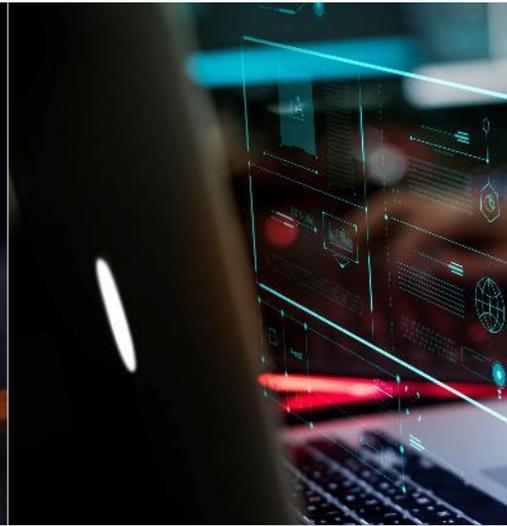
Geopolitical  
tensions



Social  
polarization



Financial  
instability



Technological  
vulnerability



Climate  
change

Firms must be ready to confront  
**a rapidly accelerating  
range of shocks**

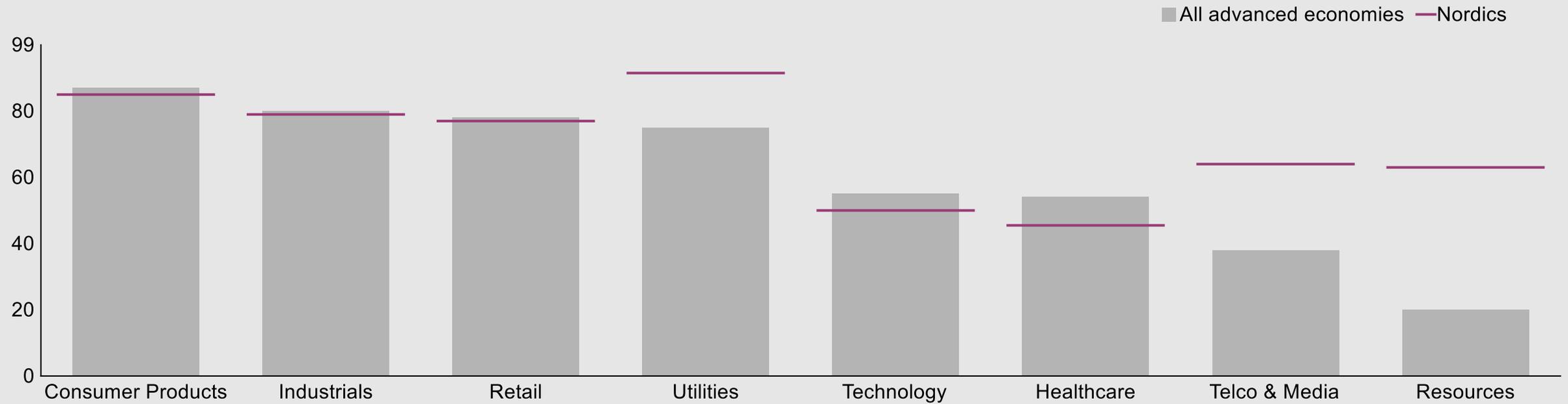


# Handelsbanken



# We have developed the **Bain Resilience Index** to enable a fact-based dialogue on relative resilience

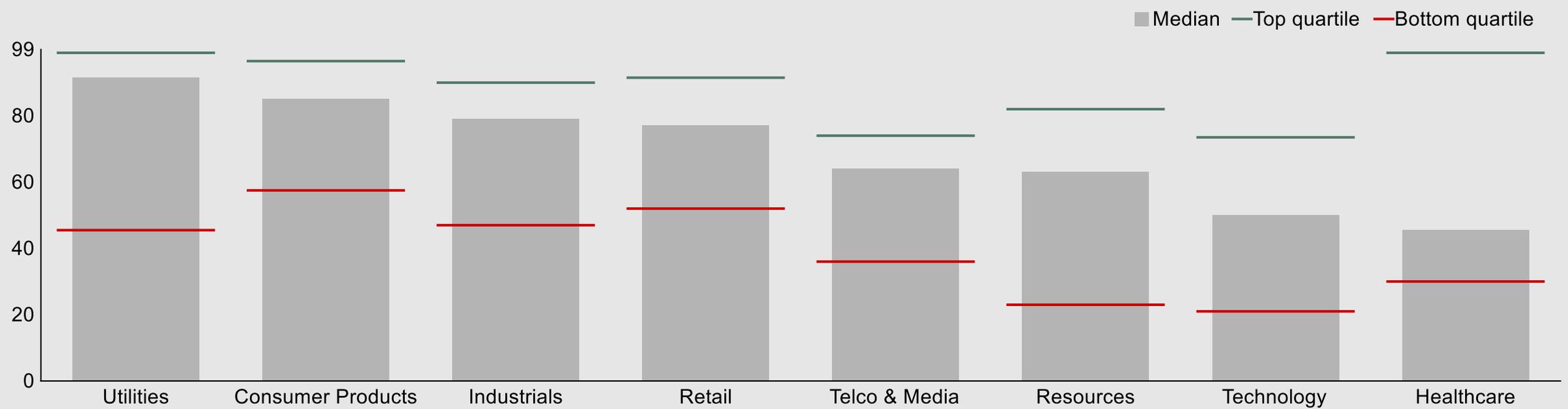
Bain Resilience Index industry benchmarks (non-financial companies, 2019)



Note: Bain Resilience Index calculated based on the statistical relationship between share price performance during a crisis and key variables including scale, growth, margin, leverage, liquidity, capital intensity, and geographic and product concentration  
Source: Refinitiv; Bain analysis

# We see **significant variance** in resilience levels amongst Nordic companies

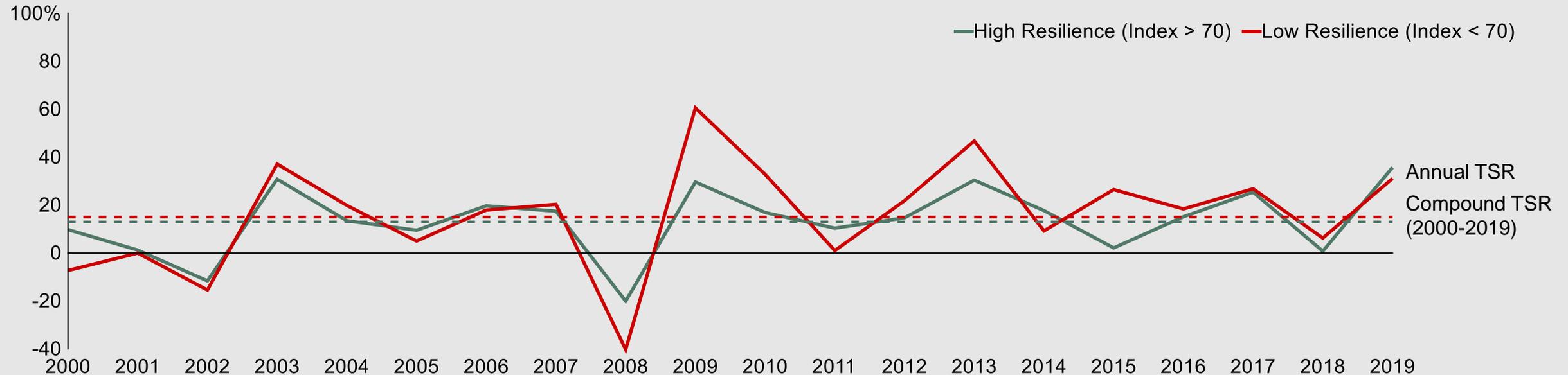
Bain Resilience Index industry benchmarks (Nordic non-financial companies, 2019)



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Source: Refinitiv; Bain analysis

# Firms with higher risk **marginally outperform** across the cycle (so long as they stay afloat)

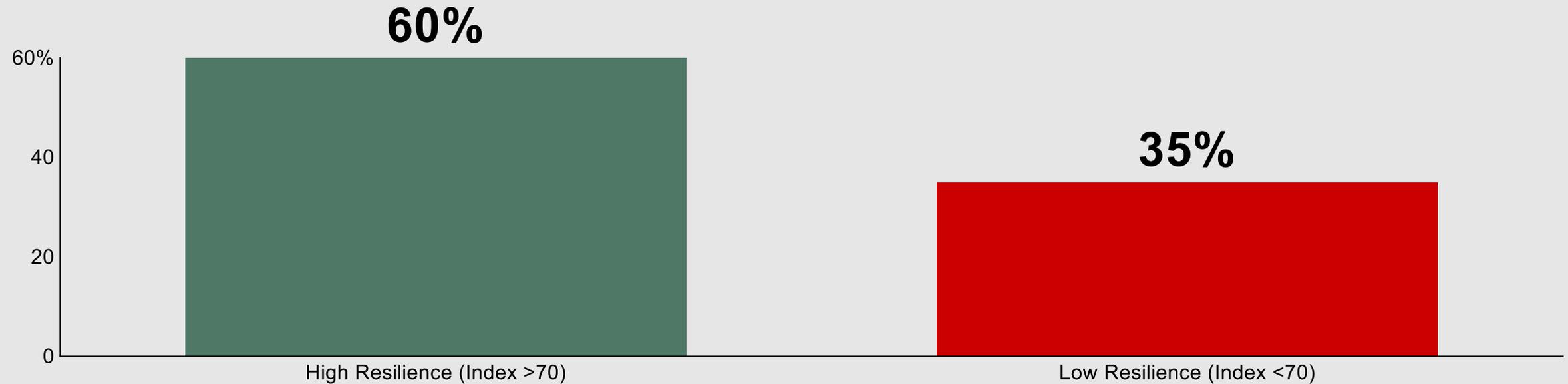
Total Shareholder Returns (US non-financial companies)



Note: Weighted by market capitalization; Excludes outliers; Excludes firms with <\$1B revenue  
Source: Refinitiv, Bain analysis

# ... But more resilient firms have nearly double the survival rate

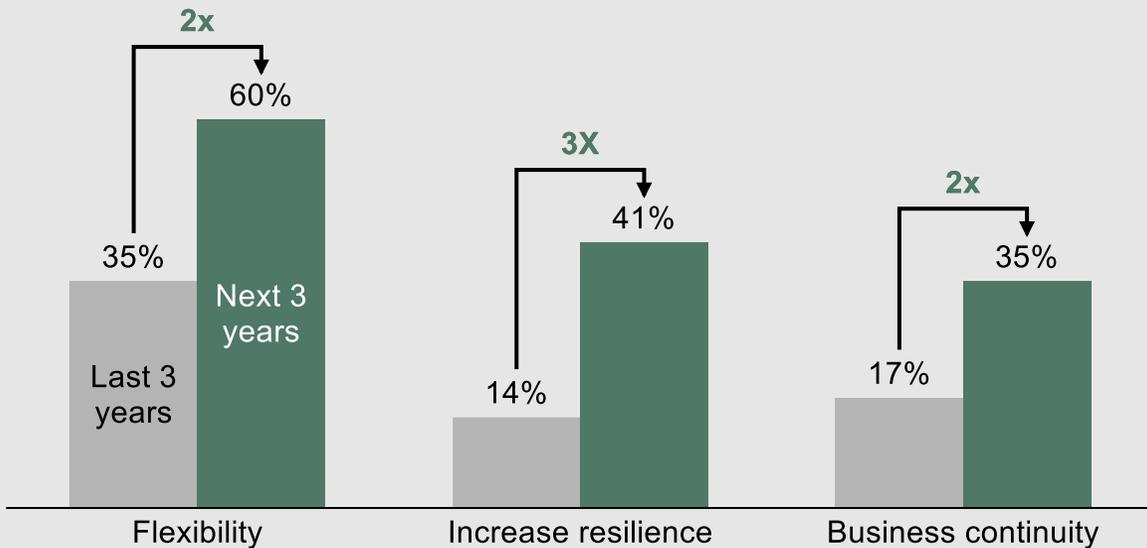
Survival rate for US nonfinancial companies, 2000-2019



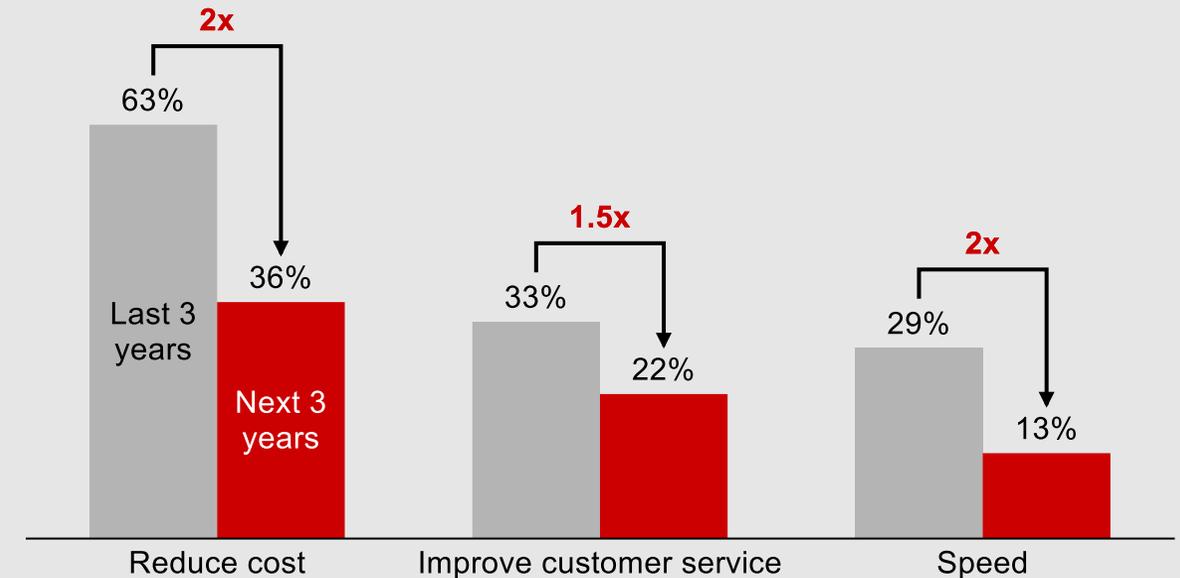
Note: Survival rate based on nonfinancial companies listed in 2000 and still listed in 2019; Excludes firms with <\$1B revenue  
Source: Refinitiv, Bain analysis

# The year 2020 has led to a rebalancing of **operations strategies** and a doubling-down on flexibility and resilience

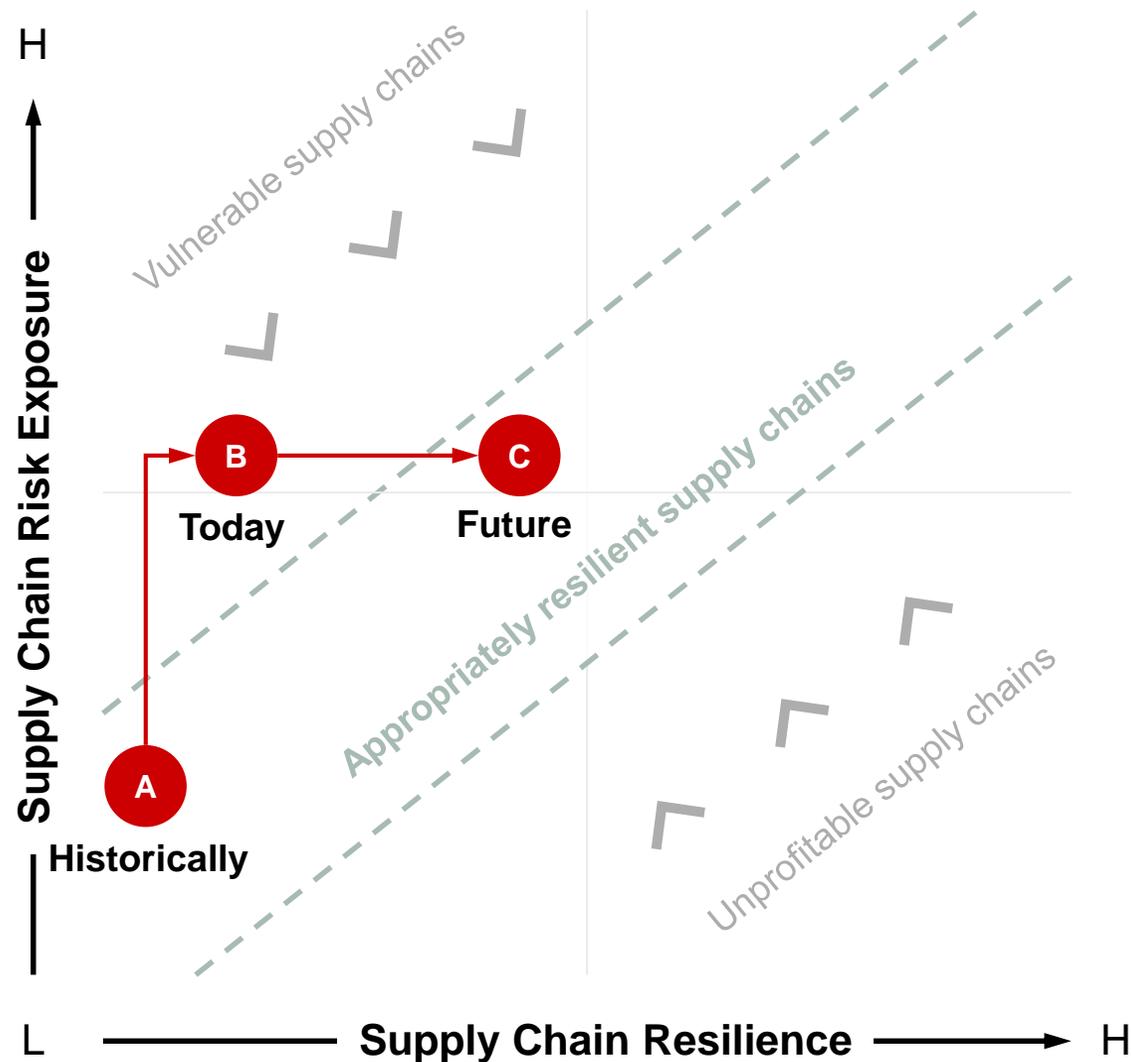
More focus on building flexibility, resilience and thereby continuity



Less focus on reducing cost, improving customer service and speed



By identifying key risk factors and investing in resiliency measures, companies can develop appropriately resilient operations



### A higher risk world...

- A** Historically companies may have felt they had the **appropriate level** of risk exposure and resiliency
- B** However, through a combination of choices made and external factors, supply chain **risk exposure is increasing**
  - While companies may have made **stable investments** to increase resiliency, they may not be sufficient
  - This is pushing once adequate supply chains into **vulnerable territory**
- C** **Proactive investment** in appropriate levers is required to optimize supply chain resilience

To do this effectively this, companies must strike the right balance between risk and resilience

/ NOT EXHAUSTIVE

## Risk exposure

- Nature of industry type
- Length of supply chain
- Number of supply chain partners
- Network nodes and locations
- Dependencies
- Degree and timeliness of data/visibility
- Exposure to trade risks
- Sustainability risks
- Number of technology interfaces with external partners
- Nature of product sensitivity
- Manufacturing complexity
- Stability of supply base
- Stability of customer base
- Stability of labor pools

## Resilience

- Supplier dependency/alternatives
- Fulfillment options
- Manufacturing/assembly nodes
- Real-time visibility, including n-tier suppliers
- Ability to ingest and synthesize large amounts of data
- AI/Predictive capabilities
- Pre-programmed responses
- Adaptable, agile network structures
- Plug & Play technology
- Capacity and inventory buffer
- Security
- Collaboration capabilities
- Flexible workforce configurations

**Need to consider return on investment of resilience levers in order to maximize resilience at the lowest cost**

# How to **get started**

**01**

## **Assess exposures**

Major vulnerabilities  
Benchmarks vs peers  
Stress-test modelling

**02**

## **Agree risk appetite**

Risk appetite  
Key tolerances  
Explicit trade-offs

**03**

## **Set your game plan**

Investment priorities  
Low hanging fruit  
Investor engagement

# Eight categories of operations risk

Assessing each category's potential impact on the client's business will require a robust analytical approach

## Risk categories

- 1 Product:** Product lifecycle, aftermarket components, etc.
- 2 Supply base:** Sole vs multi-sourced, n-tier layers and transparency, supplier financials, etc.
- 3 Manufacturing:** Global footprint, utilization / capacity, quality performance, etc.
- 4 Distribution:** DC footprint / locations, company owned vs 3<sup>rd</sup> party, transportation capacity, etc.
- 5 Customer base:** Customer concentration, financial solvency, country of origin preference, etc.
- 6 Data & systems:** Data/cyber security, systems integration
- 7 Cybersecurity:** Data/cyber security, systems integration
- 8 External risks:** Geopolitical, catastrophe, market risks, financial risks

## Type of impact

### Revenue

Delays, losses, market share erosion



### Cash

Inventory buffers, pre-builds, end of life buys



### Cost

Cost escalation due to materials, overhead, labor, or transportation



### Customer

Service level, customer satisfaction, alignment of features / VOC



## Magnitude of impact



**Catastrophic**

More than 2 quarters of sustained impact on business



**Significant**

1-2 quarters of impact on business



**Absorbable**

Less than one quarter of impact on business

Size of impact evaluated along with estimated likelihood for each identified risk



Earnings miss

Liquidity crunch

Rating downgrade

Covenant breach

Earnings loss

Hostile takeover

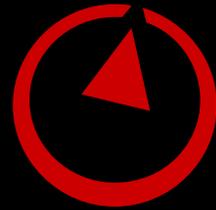
Insolvency

Bankruptcy

# Defining your **resiliency ambition**

# Defining your priorities and setting your roadmap for change

Strategic	Financial	Operational	Technological	Organizational
<input type="checkbox"/> Diversity customer base	<input type="checkbox"/> Revise debt structure	<input type="checkbox"/> Reduce fixed cost exposures	<input type="checkbox"/> Invest in multi-cloud agility	<input type="checkbox"/> Develop crisis playbooks
<input type="checkbox"/> Broaden geographic scope	<input type="checkbox"/> Expand hedging	<input type="checkbox"/> Diversify critical component supply	<input type="checkbox"/> Accelerate cybersecurity	<input type="checkbox"/> Invest in employee engagement
<input type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...



**Thank you**