



IRI Thought Leader Interview: Digital Alchemy to Create Value and Reduce Risk

This Thought Leader Interview was conducted by Lee Green, VP of Knowledge Creation at the Innovation Research Interchange (IRI), with Shah Karim, CEO of SafeRock, on November 19th, 2020. IRI membership is comprised of governmental organizations, multinational companies, such as Procter & Gamble, General Electric, Lockheed Martin, John Deere, Boeing, NASA, and S.C. Johnson, as well as companies that represent the chemical, industrial, food and consumer sectors. SafeRock is a strategy and analytics firm which delivers big data solutions focused on improving customer engagement and shareholder value.

Executive Summary

To create greater company value, Executive teams have to strengthen culture and leadership, ensure a seamless connectivity across internal teams, customers, and supply chain partners. Management teams must be able to look around the corner and establish clarity on growth plans while keeping both the customer value proposition and the company's financial runway in mind.

Using case studies drawn from Industry, Consumer, and Healthcare, Shah Karim describes how companies can create superior value and improve transparency by ensuring everyone is kept on the same page and can act in parallel. This deceptively simple approach can drive powerful results. Using Big Data, digital systems and analytics, companies can execute with efficiency - and flexibility - while reducing risk.



INTERVIEW TRANSCRIPT

Green: Hello, everyone and thank you for joining us today. I want to give a big thank you to Shah Karim, who will be speaking with us this hour. Shah is the CEO of SafeRock, a company that serves global and regional companies in North America and Europe and has deep experience with digital transformation for consumer, industrial, ecommerce, food, retail, education and energy sectors. Welcome Shah.

ON LEADERSHIP

Green: Let's begin with the topic of leadership. Shah, how do you stay the course and still be understanding as a manager in these difficult times?

Karim: In today's stress-filled environment, it is especially important for leaders in organizations to be understanding and supportive of their teams. They should encourage collaboration between team members, help them to take risks, provide support when they fail, and celebrate when they succeed. Leaders should listen with empathy and say, "I hear you, I understand your challenges." We must also acknowledge that diverse thinking matters, and that leaders are key in terms of the values and experience they bring.

Management has the responsibility to retain jobs and talent, monetize data, and apply these learnings to improve shareholder value. Here are some questions that management should address: What is our stabilization plan? Which are our markets growing? Where are we weak? How do we lay out our financial budgets and operating plans for next year? How can we better manage risk through this pandemic?

“Management wants the opportunity to ‘look around the corner’.”

- First, management wants greater clarity.
- Second, they want to look around the corner.
- Third, they want to win every market.

An example of this type of analysis within the R&D space for future projections and market share is that managers must ensure that capital investments are adequate while also factoring

in shareholder needs. Make sure to evaluate Wall Street trends when answering questions about market expectations for both public and private companies. Furthermore, it is important to evaluate what our action plan is regarding active investors that put pressure on our company.

Outsized opportunities for investors exist in three areas: 1) megatrends such as the meteoric rise of FANG companies (Facebook, Apple, Netflix, Google) that have accelerated in the pandemic - high touch is being replaced by frictionless, and also minimizes risk; 2) misunderstood and unloved companies with cheap debt. These include real estate, certain B2B, industrial, infrastructure, and warehouses; 3) strong companies in strong sectors. Financial sponsors can

consolidate a sector by buying a well-performing player and then acquiring others if and when they encounter hardship. SafeRock can help IRI members to create value in these three areas.

OPERATIONAL AND DIGITAL EXCELLENCE

Green: What do you see as the actual industry challenges for operational and digital particularly with regard to chemical, food and aerospace industries?

Karim: I believe that operational and digital excellence deliver a strong managerial win. Some questions to consider are: How do I go about operational restructuring and cost reduction? Can I understand in greater detail the demand and supply by market? Can I link my supply chain and manufacturing directly? Should I establish a direct line of sight to the customer? Do I spend more on R&D at this time, or less? In this context, I would like to next describe case studies for six different sectors: Healthcare, Brand and Food, Chemicals, Energy (Exploration & Production), Aerospace, and Packaging. I will address work that SafeRock has done across each industry.

“Operational and digital excellence deliver a key win for management.”

EXPLORING SECTOR-SPECIFIC CASE STUDIES

1. HEALTHCARE SECTOR

CHALLENGE: A client company asked for our assistance to get bank refinancing. They explained that COVID was causing havoc in their business.

WHAT WE DID: We gathered Covid infection data for 2,300 counties covering 90% of the US population, and built statistical models to predict business recovery by location.

END RESULT: The client successfully gained bank refinancing, planned reopening, conserved cash by efficiently allocating dollars, and had more effective management meetings.

Sidebar

Three areas with outsized opportunities for investors are:

- Megatrends – ride the wave of growth
- Misunderstood companies - find and improve these
- Strong companies in strong sectors – own these

In addition, societal health is improving through advances in AI, predictive health care analytics, connected devices (IoT) linked to cloud computing and Big Data. Examples of applications are continuous dosing for diabetes, precision medicine for EKG and blood pressure, personalized medicine driven by genetic analysis, pooled data lakes that serve up correct patient data anywhere at any time, all done with secure patient data and resulting in a healthier society.

2. FOOD AND BRAND SECTOR

CHALLENGE: A national food brand was suffering from severe product stock-outs and asked us to help solve the business challenge.

WHAT WE DID: Supported company management strengthen their baseline which was weak and then improved the forecast.

END RESULT: Armed with smarter baselines, the result was more accurate ROI, reduced inventory, higher sales of +19.6% and reduced marketing costs of -12.4%. This notched up a great win for the management team!

Additionally, analytics can dynamically predict customer behavior and drive incremental spend; improve messaging, versioning, and promotions; optimize marketing and trade fund support. The KPIs are to maximize incremental ROI and deliver outsized returns to shareholders.

3. CHEMICALS SECTOR

CHALLENGE: Management was whipsawed by the mismatch between supply and demand cycles. The challenge was how to better predict and match supply with demand.

WHAT WE DID: We tackled the forecast model via three separate demand analyses: for short term, medium term, and long term, applying different tools to each part.

END RESULT: This enabled different parts of the organization to align and solve the challenge. The overall output was improved capital allocation.

Besides this, chemicals can deliver benefits for precision agriculture and geo-spatial cloud-farming that guide tractors, using sensors that precisely measure plant growth and then dispense exact amounts of pesticide and plant nutrients to optimize farm performance.



4. E&P SECTOR

CHALLENGE: An energy company wanted to improve its budget allocations. They weren't making fact-based decisions backed up by data; instead they were making decisions based on emotion, and whoever had the loudest voice in the room would win.

WHAT WE DID: We understood that management wanted to improve shareholder value and apply more fact-based decisions. We tackled this using dynamic big data models. We developed 12,000 unique mathematical models, one for each well. This led to more efficient production forecasts and more accurate ROI.

END RESULT: Our new dynamic model was 76% more accurate than Wall Street analysts. Management discussions were more focused and successful.

5. AEROSPACE SECTOR

CHALLENGE: Aerospace is a complex area where thousands of items have to meet cost, durability and weight parameters. There's dependence on sole-source suppliers, long lead times, financial challenges for new programs, and problems of collaborating across complex supply chains.

WHAT WE DID: We focused on strengthening communications and making the organization more agile. We designed a new system to improve internal and supplier workflows, establish a 'single source of truth', ensure 'just in time data entry' linking all suppliers, and get everyone on the same page.

END RESULT: The result that is possible is to easily repurpose components, combining compliance with speed to market. Applying this across Horizon 2 and Horizon 3 drives down costs, leading to successful product variations for new markets.

6. PACKAGING SECTOR

Packaging is a sector with incredible potential. We have here the opportunity of a lifetime to increase food safety, using cans and packaging together to work hand-in-hand across industries and geographies to improve societal

health. There is global wastage of up to 40% of food along the supply chain, and we face a global imperative to do better. With the ESG lens that investors and mutual funds are applying globally, we have the opportunity for IRI and its members to serve humanity.

**“We have the opportunity
of a lifetime to increase
food safety and improve
societal health.”**

HOW TO CREATE VALUE AND REDUCE RISK

Green: So just bearing all this in mind, what are the end results and value propositions that IRI members should be seeking? Do you have any tips or tricks?

Karim: I'll separate out my recommendations into two groups that are financial runway related and customer related. I am happy to discuss this with IRI members afterwards. The objective is to make the organization nimble and agile, and reduce time to market. In terms of financial

“Conserve cash, increase sales and EBIT, reduce risk and uncertainty.”

runway, there is a need to conserve cash, increase sales and EBIT, plus reduce risk and uncertainty. This is a tangible goal, but keep in mind that execution is difficult.

In terms of customers and operations, it is valuable to repurpose existing products and technology and approved IP across Horizon 1, Horizon 2 and Horizon 3 to enter new and adjacent markets. Establishing a clear line of sight to customers; is imperative while

improving forecasting accuracy, supply chain resilience, and eliminating out-of-stock situations.

OPPORTUNITY: SUPPLY & DEMAND, MONETIZING DATA

Green: Let's move on to discuss opportunities. How does supply and demand factor into this?

Karim: In terms of opportunities, there are four key concepts that be prioritized by all customer-centric companies. These concepts are 1) improving supply and demand forecasts, 2) monetizing data, 3) making customer-centered decisions, and 4) focusing on the financial runway.

We have worked with a private equity client to push and deliver their financial ROI within a year. The goal of SafeRock is to deliver extreme value and reduce risk on a continuous basis without a breach in quality. We must maximize the project timetable and make sure that efficiency and strong results prevail over potential failures.

Green: Another huge opportunity space is in data. Can you speak to that?

Karim: I know data monetizing is a buzzword which I use as well. We need to make data driven decisions, part of which might include monetizing data. We can also use data to improve our ecosystem, and improve internal decision making. It is imperative to assess data monetization concepts within process improvement models while always factoring in the customer point of view. But be alert to the limits of the current financial runway, which must be front and center in today's discussions.

IMPROVING COMPANY VALUE

Green: Let's look at improving company value. What recommendations do you have for our strategy there?

Karim: There is no set formula for this. You have to form a team that brings together creative, financial, operational and organizational experience. Dig deep, carefully but fearlessly.

“Leadership and Culture provide the framework for success.”

Sometimes simple steps allow us to deliver outsized value and reduce risk. In a recent project for a \$5 billion corporate restructuring, we understood that basic concepts such as a thorough evaluation of the organizational business model, product line, existing consumer base, and supply chain could provide tremendous value in the actual restructuring. Baseline metrics helped to truly understand the business's core competencies, which informed each process step. This led to clarity on the realistic options at hand for management.

ON DIGITAL TRANSFORMATION

As a first step to digital transformation, we recommend that a company undertake a small pilot to measure ROI for a specific area. Capture a 'before' and 'after' snapshot to document the business case and financial returns around digital transformation. Present these findings to company management and a steering committee. Prepare to act quickly as companies are evolving and incorporating more digitalization on a daily basis.

SafeRock is a strategy and analytics firm. We provide Big Data solutions focused on improving customer engagement and shareholder value and technology that we can also invest in partnerships. Here are a couple of examples of our work.

Executive Questions

These questions can keep management up at night:

- What is my stabilization plan?
- Where do I grow markets?
- Where am I weak?
- How do I lay out my financial budget and operating plan for next year?
- How can I better manage risk, especially in this pandemic?

SAFEROCK'S EXPERIENCE

As an example of our strategic engagement, we recently advised a national public company that had an activist investor on board and worked with the management team on going private. The final result was an \$8.3 billion transaction at a 39% premium to initial market cap. As a second example, we supported a private equity firm to create a shared services system for its portfolio companies covering the US, 12 countries in Europe, as well as suppliers in Asia. This connected workflow reduced costs, shortened time to market, and improved agility. A third example is a consumer electronics firm, one of the top five players globally, that was transformed itself to a B2B company. SafeRock analyzed new markets, including cloud analytics, payment systems, and enterprise systems. We analyzed 50+ companies for the \$2.2 billion in dry powder that the company had allocated for strategic acquisitions.

SUMMARY

There is no silver bullet. We help management teams by sharing the rock face of reality. We gather facts, provide different points of view and ensure diversity in thinking because it matters.

“There is no
‘silver bullet’ for
our problems.”

I started with the importance of leadership. The role that our leaders play in fostering an inclusive, productive, and supportive culture is critical for company success. As Peter Drucker said, “Culture eats strategy for breakfast.” While we talked today about strategy and analytics, it is clear that culture sits on top of all this. Leadership and culture come first. This

provides the framework of success for companies.

IRI member companies have many interesting challenges that SafeRock can help assess, tackle, and improve. Please reach out to us directly if you would like to explore your challenges further.

Please contact Lee Green green@iriweb.org or Shah Karim shah@saferock.com

Executive Questions

Operational and digital excellence deliver key wins for management:

- How do I reduce costs while improving operations?
- Can I improve my demand and supply forecasts, by micro-market?
- What methods and KPIs do I use to optimize supply chain and manufacturing?
- What do I need to establish a direct line of sight to the customer?
- Should I spend more on R&D at this time, or less?