

# Managing in a downturn



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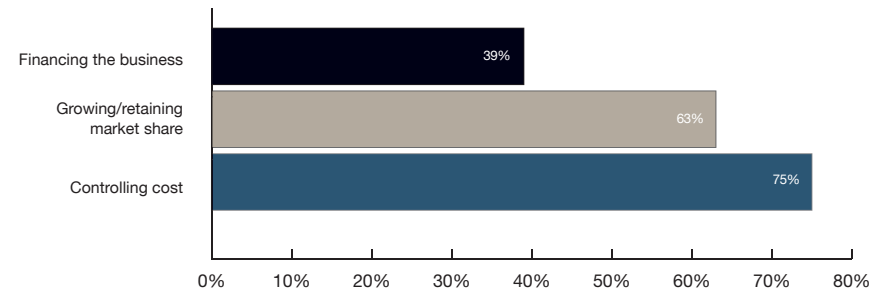
The current very difficult market conditions are threatening the financial stability of many companies. As the impact of the global financial crisis ripples through the wider economy, our 2009 CEO Pulse confirms that many of those surveyed are rising to the challenges. With no time for complacency, many businesses are taking the decisive actions which are essential to respond to the significant challenges facing them. In doing so, their focus is to withstand the short term difficulties that are facing virtually every business and, where necessary, to define a new business model to ensure their future sustainability.

## Controlling cost is single greatest challenge

The survey suggests that businesses recognise the need to improve competitiveness by eliminating cost. This reflects the significant growth which the Irish economy and its component businesses have experienced in recent years. The focus during this period was on putting capacity in place to meet demand. In many cases this was done without a focus on efficiency and with a consequent significant increase in operating costs.

As Figure 3.0 shows, an overwhelming majority (75%) of Irish CEOs confirmed that controlling costs will be their single most important challenge in the year ahead. This was closely followed by growing or retaining market share (63%) and securing availability of finance for the business (39%).

**Figure 3.0 Top 3 key challenges in 2009**  
(% of respondents)

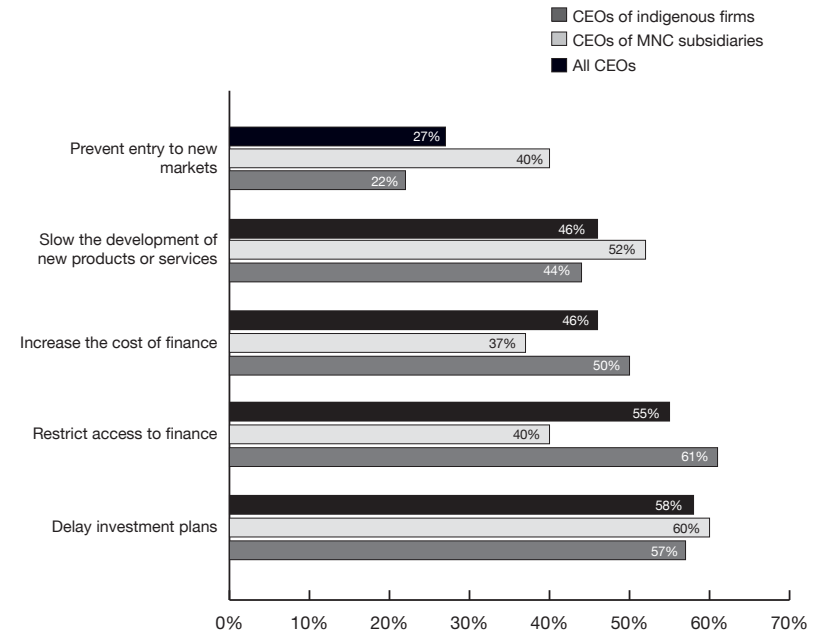




As noted in Figure 3.1, the survey also confirms that the turmoil in the capital markets will have a very significant impact on Irish businesses in the year ahead. For example, over half (58%) of Irish CEOs said that it will delay investment plans while a similar proportion said it will restrict access to finance (55%). Furthermore, just under half (46%) of survey respondents confirmed that they expect an increase in the cost of finance while a similar proportion said it will slow the development of new products or services.

Interestingly, CEOs of Irish indigenous companies expect the impact will be more severe where access to finance and the cost of finance are concerned compared to their MNC counterparts. However, CEOs of MNC subsidiaries expect the delay in investment plans and the slowdown in the development of new products, services or markets will have a greater impact on their businesses compared to their indigenous counterparts.

**Figure 3.1 Impact of turmoil in capital markets in the year ahead**  
(% of respondents)

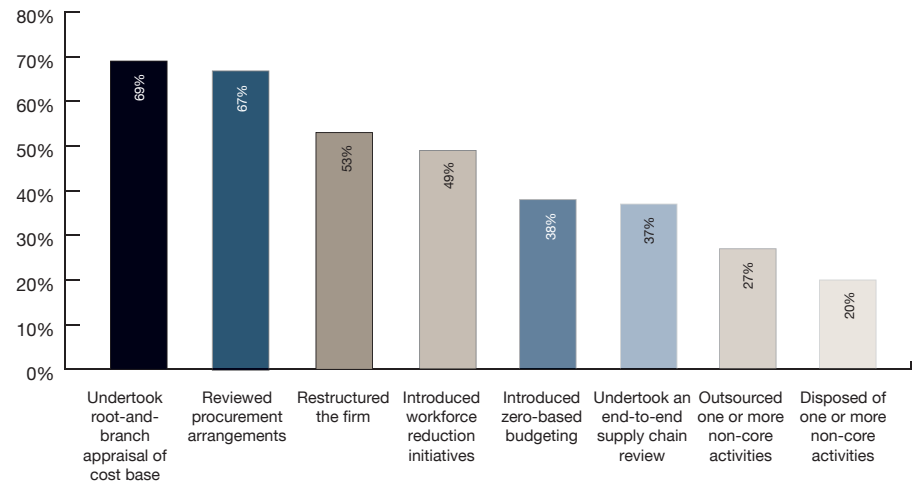




### Decisive action continues

The 2009 CEO Pulse Survey demonstrates that Irish businesses started to take decisive action in 2008 to manage the impact of the tough trading conditions and that plans are in place to do more (see Figures 3.2 and 3.3). With costs being a prime focus, almost three quarters (69%) of responding CEOs said that they undertook root-and-branch cost appraisals. And closely aligned to the cost agenda, over a third of Irish business leaders said that they had reviewed the supply chain and introduced zero-based budgeting. Over two-thirds (67%) said that they reviewed their procurement arrangements while over half (53%) indicated that they had already restructured their organisations. Just under half (49%) said that they introduced workforce reduction initiatives.

Figure 3.2 Actions taken over the last 12 months (% of respondents)

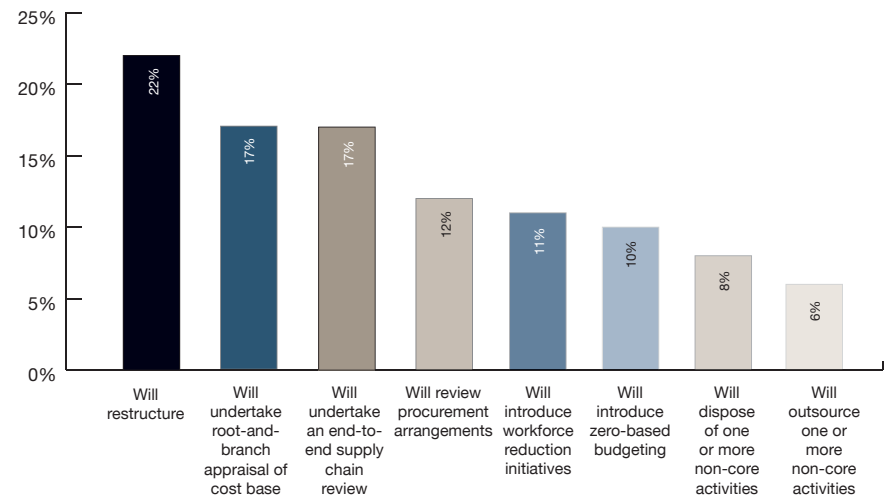




The survey confirms that CEOs plan to continue with this decisive action into 2009. For example, (see Figure 3.3) a further 22% will restructure their organisations while a further 11% will look at workforce reduction initiatives. Key in all of these actions, whether started in 2008 or 2009, is effective implementation of the structural and other changes identified as a result of the initial reviews undertaken. Careful planning and project management are required to ensure that the necessary actions do not impact adversely on the business, as to do so would simply compound the existing problems.

When we look at 2008 and 2009 on a combined basis we see some interesting results. For example, by the end of 2009 an overwhelming majority (86%) of Irish CEOs will have undertaken extensive cost appraisals in their organisations; 79% will have reviewed procurement arrangements; three quarters (75%) will have restructured their businesses and 60% will have undertaken workforce reduction initiatives. Thus, by the end of this year our survey suggests we will see substantially reformed business models across all industry sectors.

**Figure 3.3 Planned actions over the next 12 months (% of respondents)**





## Seizing the opportunities

There are several actions that companies can take to effectively manage the downturn and these include managing their funding positions by disposing of non-core businesses. Nearly a third (28%) of CEOs said that they had either engaged in, or planned in 2009 to commence, asset disposal processes. This demonstrates that for businesses which have funding available and which are prepared to pursue acquisitions there will be plenty of opportunities in the marketplace.

## Managing through the storm

PwC has identified six fundamental priorities that will help keep businesses on track in these difficult times and to leave them well placed to succeed when the environment improves. These priorities are outlined below.

### i ) Understand drivers of profitability

Goal posts have been moving and markets, regardless of the sector, may have changed significantly in a very short space of time. Each business needs to understand the key contributors to its profitability and consider how key customers, suppliers, competitors, products and markets will be impacted by the downturn. Once this assessment has

been performed it should inform a re-assessment of strategy which will then drive the future direction of the business.

### ii ) Focus on cash

Given the global funding constraints the focus for every business has to be on generating cash – whether by safeguarding existing assets, reducing costs or disposing of assets - to ensure that potential funding issues are minimised.

### iii ) Address structural issues and change management

Businesses should also bear in mind that despite the current turmoil, this could well be a good time to address structural issues within a business, or to execute the strategic changes that may have been under consideration for a long time - and do so on favourable terms.

### iv ) Mind key talent

Talent is another critical factor in any economic downturn. In their efforts to reduce costs, companies need to be careful not to impair the long term fabric of the business. It is essential to manage and motivate key people who are essential to customer relationships, job know-how and intellectual capital as well as being prepared to recruit key talent when it becomes available.



#### **v ) Embed systems to support effective and timely decision-making**

Now more than ever management teams need effective and flexible management information and budgetary systems; decision making needs to be speedy and to be based upon facts. Clearly defined performance measures should be communicated and targeted, perhaps by using short term financial incentives.

#### **vi ) Seek-out new customers and markets**

Finally and difficult as it may be right now, organisations also need to look at ways of growing their revenues, developing new products and markets – an area that our survey identifies as a key challenge. At the heart of this is staying close to customers and, indeed, finding new customers. To survive in the long term companies need to be innovative and focus not only on costs and cash. There remains a need to develop new products and to continually challenge their customer proposition.

### **Conclusion**

The downturn presents many challenges but also real opportunities for change and fresh thinking. How companies respond will determine their future. As a nation, remaining competitive and realigning our cost base is hugely important for Ireland to continue to attract foreign direct investment. Our survey suggests that this is top-of-mind with Ireland's business leaders who are clearly taking steps to ensure the cost agenda is being tackled head-on. Businesses face a hard grind, not just this year, but stretching into 2010. Faced with this tough outlook, it is vital that companies take action to control their own destiny and our survey suggests that Irish businesses are doing just that.