

Business strategies for the downturn

Money Talk By Caroline Firstbrook Head of Strategy, Accenture BBC (Jan 2009)

Times of change create opportunities as well as threats.

For some companies, the current economic environment will challenge their very survival. While for others the downturn offers the chance to extend their lead over the competition. "High performing" companies will be looking at ways to strengthen their position and emerge from the downturn stronger and better-placed to win.

Take stock

In today's highly networked economy it is not enough to understand what the effect of the downturn will be on demand for your own products and services.

It is equally important to understand what is happening to your partners, customers and suppliers.

A 360 degree assessment of risk provides the starting point for designing your strategy.

So, choose your response.

Survival strategies

Reduce and restructure debt.

Many companies have been encouraged to take on high levels of debt, and now need to pay this down.

To preserve cash companies will choose to reduce or cancel dividend payments.

Selling non-core assets is also an option.

Although asset sales are not an appealing prospect in the current environment, the reality is that prices could go much lower.

As one pundit said "Don't panic! But if you do panic, panic early."

Tactical cost reduction will include eliminating discretionary spending, renegotiating purchasing contracts, and reducing exposure to poor payers.

With equity markets heading downwards, pension fund shortfalls are likely to emerge.

Companies may need to review policies on defined benefit schemes, retirement ages and levels of company contribution.

Repositioning strategies

Streamline and simplify. People are expecting change, and companies should use this opportunity to adjust their business model.

Eliminating duplication, moving activities to the most economically advantageous location,

exploiting economies of scale, and upgrading their performance management systems.

Invest in innovation. Whether a company serves

consumers or other businesses, it makes sense to invest now in understanding how purchasing patterns are likely to change and what new needs are emerging.

Moving early to anticipate and service these needs can help to establish strong customer loyalty and a sound base for future growth.

Go shopping

For those in the fortunate position to have excess cash or access to financing, a downturn offers an opportunity to pick up new assets or capabilities at attractive prices.

Although there are arguments for waiting until asset values fall further, the best assets are likely to come onto the market early.

Upgrade your human capital. The reality for all Western markets is that there is a growing shortage of critical talent.

While other companies are laying off staff, this is a unique opportunity to access skills and reshape your workforce to the needs of your future business model.

Go green. Moving to more sustainable business practices offers the opportunity simultaneously to reduce costs, manage risk and increase appeal to a growing base of socially and environmentally concerned customers.

Growth strategies

The underlying trends that have been driving consolidation across a range of industries have not gone away.

The benefits of scale, broader geographic reach, and access to scarce resources will continue to make large acquisitions an attractive source of future growth.

Access to debt with which to fund such deals will create an ongoing problem for private equity firms and companies with weaker balance sheets, reducing the competition for attractive assets.

The largest and most financially secure companies are likely to use this downturn to consolidate their position through substantial acquisitions at attractive prices.

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