



Sustaining the Enterprise

Staying strong in a challenging economy

Now is the time to refocus and rebalance

In a challenging economic environment, companies should actively reassess their business. Forward-thinking executives can use a tight economy as an opportunity to make adjustments that can position their organization for future growth. By making appropriate financial and operational changes now, you can not only maintain the cash flow your company needs to weather the current economic storm but, more importantly, lay the foundation for renewed growth and greater competitive advantage when the economy rebounds.

Stay ahead of the game

When the economy is strong, many companies can grow even if they don't operate at top efficiency or focus tightly on their most profitable activities. But when the economy turns downward, companies that continue to operate as they did in more bountiful times can quickly run into trouble. For companies with underperforming or troubled assets, a challenging economy can create a surprisingly rapid slide toward financial strain.

The good news is that we believe early preparation can help companies ride out the stresses of a downturn and emerge at the other end prepared for improved growth. In fact, a proactive approach can enable companies to grow even through tough economic times.

Six critical strategies

We've identified six critical strategies that companies should consider to help improve their business and effectively navigate the current economic environment:

1. Simplify the business model
2. Grow smart
3. Lean out operations
4. Shift fixed costs to variable costs
5. Proactively manage talent
6. Bolster planning disciplines

1. Simplify the business model

Simplicity can facilitate management's focus on growth and cash flow. Companies should focus on business lines and products that contribute to positive cash flow and consider divesting those that either burn cash or dilute earnings. It's important to challenge the true contribution of each business unit and to selectively invest in activities that produce high returns. Companies may also wish to explore ways to simplify processes and cut SG&A costs to increase the operating unit gross margin potential.

2. Grow smart

Smart growth can be facilitated by keeping a laser-like focus on customers and business units that can contribute to positive cash flow. A company should consider divesting or reducing its investment in business units and customer segments that cannot deliver immediate and sustainable cash flow, allowing it to reallocate precious assets to higher-value activities that can fuel growth. Among its remaining customers and business units, a company should fine-tune pricing, focus on less price-elastic products and services, innovate to differentiate the customer experience, and identify growth opportunities in segments or markets that offer counter-cyclical demand (or currency fluctuations).

3. Lean out operations

One way to drive sustainable cash flow in the near term is to lean out operations. Potential opportunities include:

- Improving manufacturing and supply chain networks
- Leveraging scale across business units to improve service delivery of back-office functions
- Reducing material costs through sourcing strategies
- Reducing asset intensity through strategic alliances and joint ventures
- Compressing the cash conversion cycle
- Reducing effective tax rates by incorporating tax planning into the improvement processes and securing abatements and incentives

4. Shift fixed costs to variable costs

To help strengthen the balance sheet, a company can reemphasize high-value assets by shifting fixed costs to variable costs in areas that are not core to its simplified business model. Strategies include:

- Exploring tolling and outsourcing for non-core activities
- Replacing full-time employees with contract labor in functions with highly variable loading
- Increasing the variable pay component in compensation models
- Overhauling the shared service model to reduce internal demand for business services

5. Proactively manage talent

Whatever the economic cycle, there's no substitute for talented employees. Therefore, it's critical for a company to identify top talent and retain those people through a downturn. This can often involve accelerating the departure of underperforming employees and rebalancing the mix of monetary and non-monetary incentives for those who remain.

6. Bolster planning disciplines

Lastly, companies should seek to develop early warning systems and contingency plans with a focus on long-term competitive advantage. Maintaining the ability to act when opportunity arises – which it often does in challenging times – can help a company achieve long-term growth and other strategic goals. To be prepared to seize opportunities, companies should rebalance their capital investment priorities; tighten the alignment among strategy, operating plans, and management rewards; and improve balance sheet flexibility by de-leveraging and identifying alternate funding mechanisms.

Don't wait for a crisis

Allowing companies to reach late-stage distress can have dire consequences. Executives should not overlook tell-tale signs that the enterprise is heading for trouble. These include, but are not limited to:

- Deteriorating customer relationships and shrinking market share
- Declining working capital
- Fully extended credit lines
- Difficulty making debt payments
- Lack of cushion in debt covenants
- Unanticipated cash tax outlays

To emerge from late-stage distress, management should act decisively and focus on critical issues early. Once a company is in this stage, averting a formal restructuring can be difficult and will likely require protracted negotiations with numerous interested parties. Survival can depend on understanding the business' long-term viability and quickly charting a path to recovery.

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In tough economic times, flexibility is a must. While different organizations experience different issues in a challenging economic environment, companies that act rapidly to focus and streamline their organizations can set the stage for long-term growth. Through decisive and organized change, companies can rapidly position themselves to take advantage of competitors' challenges and reap rewards as the economy rebounds. Don't wait for the crisis to hit. Make the right moves now!

Our strengths

As one of the world's largest professional services firms, Deloitte is well qualified to help you in your efforts to capitalize on opportunity in changing times. The combined experience of our Financial Advisory Services, Consulting, Tax, and Audit and Enterprise Risk Services professionals allows us to bring deep strategic, financial, and operational experience to help you deal with your company's challenges. Our targeted services can help you in your efforts to effectively execute change and continue to excel by refocusing your business to gain flexibility and value.

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