

Hanging on in difficult times

By now, it's common knowledge that we are in very difficult times globally (unless one has been under the proverbial "tempurung" for the past six months). The Malaysian economy has likewise been hit, albeit we may be one of the "better off" economies.

But all is not lost. Malaysia has the good fortune of:

1. Having relative economic diversification; and
2. Having entered the downturn in a relatively strong position, particularly with regard to the strength of the financial system.

These factors provide Malaysian companies with a window of opportunity to improve operations and to grow leaders.

For those fortunate enough to start with a strong position, the opportunity is to take decisive action to overtake their competitors. Conversely, for companies in a weaker position, the opportunity is to take immediate steps to ensure their survival in case of an extended downturn.

In either case, companies should take advantage of the very pressing needs of the current environment to grow their future leaders — managing a downturn is an excellent training ground for future leaders.

Business as usual will not work — a deep understanding of how the company creates value is needed.

High-performing companies have a deep understanding of how their business creates value. They also know that in a downturn, conducting "business as usual" while hoping that the problem goes away is not an acceptable strategy. Instead, they leverage their understanding of business value to identify ways to "eat" (survive) in the short term, by leveraging their core strengths to meet immediate operational challenges. At the strategic level they identify ways to "thrive long term", positioning themselves to rebound quickly when the economy recovers.

'Eat' short term

Even under normal business conditions, efficiently managing operations is a business necessity. This is even more so during difficult times. Accenture believes that most companies will have to critically focus on the following operational imperatives throughout these difficult times:

1. Rapid and sustained cost management;
2. Customer retention and acquisition;
3. Operational excellence; and
4. Effective mergers and acquisitions (M&As), for some.

Rapid and sustained cost management

For many companies, particularly cash-strapped ones, managing costs will be the most critical imperative. However, it must be done with great care to avoid damaging the business. Many companies have made the mistake of indiscriminately cutting costs in downturns — and thus hobbled themselves when better times returned.

Customer retention and acquisition

Every company wants to acquire and retain good customers. This is even more essential in a downturn. The best per-

forming companies stay particularly close to their customers during a downturn. This may require prudent investments in marketing, sales and distribution.

High performing companies should note that there is a particular opportunity to gain market share during a downturn. Weak companies are more likely to fail or be marginalised in a downturn, thus providing stronger ones with a prime opportunity to gain market share by focusing on their customers.

Operational excellence

Operational excellence is particularly important for large, complex companies, especially those who operate on a cross-border basis. It requires the development and management of an effective operating model which takes into account the different aspects of an organisation, for example, manufacturing, customer service and sales. Hopefully, most companies already have a deep understanding of their model. Those who do not should, as a matter of great urgency, determine what their model is, where it is weak, and how it can be manipulated to ensure operational excellence.

Effective M&As

For the fortunate cash-rich companies among us, M&As may appear attractive during a downturn — everything is cheaper. But M&As must be managed with care. The fact that most M&As fail to create value is now well-known. Effective M&A requires that problematic issues of customer alignment, supply chain optimisation and other post-merger integration issues be deftly resolved. This can be particularly challenging if the acquiree is in a weakened position. Demoralised employees, disorganised processes and ruined balance sheets are common for troubled companies. In any case, effectively undertaking M&A requires the skill of a brain surgeon.

Thrive long term

Naturally, companies do not exist only for the short term. Even in difficult times, companies are obliged to act to ensure that they "thrive long term". They must, in real time, confront challenges which are unique to the downturn, which they may have no experience with — and they must do so at speeds which may feel uncomfortable or even impossible.

Depending on their specific situation, a company may have to choose one of three major strategies:

1. Survival;
2. Repositioning; and
3. Growth.

Each of these major strategies has associated tactics. Everyone knows them. They are simple, but not easy. The trick to managing these tactics is that they have to be done simultaneously with day-to-day operations, and in a way

which does not signal distress to either the market or employees.

Survival

Companies in survival mode need to focus on ensuring survival until better times return. In such cases, rapid action to secure cash flow may be necessary, for instance by renegotiating debt, reducing dividend payments and selling non-core assets. Selling core assets, however, is a much more dangerous proposition, which should be a last resort.

"Survival" companies should also have an eagle eye on cutting costs. At the symbolic level, executive perks should be immediately reined in. This will save money and send the right signal to the entire company. Increasing the efficiency of purchasing and debt collection can help generate quick cash. More broadly, tools such as Lean Six Sigma can be a great help in identifying cost-reduction opportunities.

A very good example of a Malaysian "survival" success story is MAS, where current management had clearly succeeded in turning around a company which was in deep trouble.

A silver lining for companies in survival mode is that stakeholders expect change — so companies can use this opportunity to push through business improvements that might have met with resistance in better times.

Repositioning

Companies which are in the fortunate position of having a strong balance sheet and healthy revenues can use the downturn as an opportunity to strengthen their position.

They should start by asking:

- Where is the future growth coming from? Organic? Acquisition?
- How should we be organised?
- What critical capabilities do we need for success? What are our gaps, and our options for filling them?
- Which activities can be shared across the business?
- What do we need to do in-house versus what should we ask partners to do?
- What and how should we innovate to serve our customers better?

Companies which are able to ask these questions and answer them with hard facts will be in a strong position. They will have the opportunity to reposition themselves to create opportunities from the downturn.

Growth

The very strongest companies will be able to use the downturn to grow. Some will acquire, others will expand internationally and yet others will add customers and strengthen their brands.

For organic growth, long-term business trends have involved eroding customer loyalty and declining product advantage (particularly in the B2C arena). This will be exacerbated as customers become increasingly price-sensitive. Hence, companies will need to focus even more on their customers to maintain organic growth.

For inorganic growth, conversely, companies need to carefully consider the benefits of scale, access and reach in their particular circumstances, as well as their appetite to integrate an acquisition. For those with the appetite and capacity, the successful acquisition of troubled companies or the purchase of liquidated assets offers a chance to leapfrog the competition.

Conclusion

Today's business uncertainty and anxiety are unlikely to recede quickly — thus decisions will appear risky. However, it is even more risky to not take decisions. Regardless of the company's current position, management must continue to take positive decisions in order to steer their companies through the current difficult times.

There is one more benefit to acting decisively that is of tremendous value but perhaps not readily apparent. Malaysian companies which act decisively to eat short term while thriving long term will also be taking actions which will naturally identify the next generation of leaders.

A downturn is a crucible, a transformative experience that makes leaders more able, confident, humble and self-aware. Many Malaysian companies recognise the need to develop a strong roster of leaders. Forward-thinking companies should use this time to test their rising stars. **E**

This is the first of a series of articles from Accenture on 'Managing in Extraordinary Times'. Kelvin Tan is senior manager with the management consulting practice at Accenture in Malaysia. For more information, please contact Kelvin.kay.jin.tan@accenture.com or visit www.accenture.com

