

HIGH PERFORMANCE



Savvy Firms Can Find Opportunities In the Current Economic Crisis

By Catherine Bolgar

THE CURRENT economic crisis is changing the business landscape. Many companies won't survive, and others will be forced to reinvent themselves. Some, however, will take advantage of unique opportunities to significantly outperform their competitors.

Signs are clear that 2009 is a "transformation year," says Mark Spelman, global head of strategy at Accenture, the global management consulting, technology services and outsourcing company. "New rules are being set in the financial sector, manufacturing — such as we are seeing in the auto industry — and also for the environment — for example, in how we manage carbon. This year will be about not just how companies navigate through the short-term economic challenges, but also about how they prepare themselves for the longer-term opportunities this environment is creating."

In its continuing High Performance Business research, Accenture has examined how these sector leaders have weathered previous crises. Drawing lessons from those experiences, Accenture found that companies need to do two things simultaneously: First, exploit the ordinary — e.g., use to the fullest the available management levers — and, second, manage the extraordinary — e.g., successfully confront the strategic challenges presented by the economic environment.

Exploiting the ordinary means performing the day-to-day functions of business flawlessly — despite budget cuts, increased regulation and myriad other concerns on leaders' minds. Many companies simply will batten the hatches to try to keep the ship afloat during the storm, but that won't position them for future success. According to Accenture, successful businesses maintain a diligent focus on four fundamentals — disciplined cost management, efforts to shore up the customer base, a hawk-like focus on operational excellence, and the ability to identify and execute merger and acquisition opportunities quickly. "In previous downturns, organizations that have focused on these four areas have not only done well in the short term, they have also created a platform for future success," says Mark Foster, group chief executive for management consulting and integrated markets for Accenture.

Managing the extraordinary means recognizing and acting on the strategic opportunities created by the crisis. Not all businesses will be able to respond in the same way, however. "In today's economic environment, the critical

issue is cash," Accenture's Mr. Spelman says. "Those who have it have options, including the ability to make acquisitions. For those who don't have cash, the short-term imperative is to find creative ways to get it, and to improve cash flow."

Ironically, high-performance businesses are not necessarily cash-rich right now. They may have used cash to snap up acquisitions in the past few years, for example, while a company whose executives lacked vision and sat on their hands during the boom might well have more cash on hand.

Companies that do have cash need to "explore all their options so that they can be ready to act, because among the risks in a downturn is paralysis or an overemphasis on cost reduction to the exclusion of other needs," says Mr. Spelman.

J. Michael Pearson, for example, has been refocusing Valeant Pharmaceuticals International since he took over as CEO in February 2008. Even before the downturn hit, the Aliso Viejo, Calif., company had a plan to concentrate on neurology and dermatology, and much of its cost-cutting has been to reduce a bloated global infrastructure, says Laurie W. Little, vice president of investor relations at Valeant.

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To manage costs and refocus the business, Valeant divested some operations, particularly in Europe. "We were stretched thin trying to be a global company and we couldn't support it," Ms. Little says. The company had some luck — the divestitures came just as the dollar was near its weakest, making the sales worth more in dollar terms for Valeant, and building its war chest for future moves. The sale of European operations alone — last August to Meda AB of Solna, Sweden — raised \$425 million.

Last September, the company acquired Coria Laboratories, a Fort Worth, Texas, maker of dermatology products, for \$95 million. In November it bought Dermatech, based in Bella Vista, Australia, another dermatology company, for A\$19 million (\$11.6 million). And at the end of last year, it finalized a \$285 million purchase of Dow Pharmaceutical Sciences Inc., based in Petaluma, Calif., also a dermatology business.

"The perfect acquisition for us is one that has currently marketed products, or an outstanding R&D pipeline," Ms. Little says. "Now we're looking at neurology — acquisitions or licensing."

Valeant's customers are both the

health-care providers in its core areas, who want a broad product portfolio, and their patients, who are looking for safe and effective treatments.

"The acquisitions in the U.S. and Australia will broaden our exposure to the marketplace," Ms. Little says. Sales from Coria's product line will replace revenues from a patented product that is now a generic drug, while results from the Dow Pharmaceutical Sciences acquisition will be seen over the longer term.

By refocusing on dermatology and neurology, Valeant has carved out a unique competitive position for itself. The dermatology industry isn't already crowded with big pharmaceutical players, so Valeant has room to grow.

In the neurology business, Valeant has forged strategic partnerships to share the costs of developing new products and gaining regulatory approval, and to access larger-company resources such as global marketing. "The previous [leadership] team had tried to be more of a global company, but we didn't have the revenues or product base to support what's necessary with regulatory requirements and oversight," Ms. Little says. Through a series of shrewd acquisitions and strategic

partnerships, Valeant took advantage of the downturn's opportunities and is now better positioned to excel when the market rebounds.

The moves a company can make are limited by its circumstances, of course. Businesses that are fighting for survival won't be able to follow Valeant's example. Instead, they should focus on reducing debt by renegotiating loan terms, reducing or canceling dividends, selling off noncore assets, and cutting costs.

Organizations with stronger balance sheets may be able to reposition themselves, adopting a global operating model that will help them compete more effectively in new geographic markets, for example, or hiring top talent that may suddenly have become available as the result of turmoil at so many companies.

Companies in strong financial positions can certainly find bargains in today's market. "The strategic investor has more opportunities now," says Mr. Spelman of Accenture. "When there was heavy investment in the market from private equity, assets were being bid up. Now there is less competition and stock market valuations are off significantly, making

deals less expensive."

At the same time, acquirers should look carefully before they leap. "Most of the businesses being shopped around are losing money, so you have to ask yourself, 'what would I do differently?'" says Richard Millman, president of Millman Lumber Co. of St. Louis, Mo. "Is it losing money because of the bad market or because it's a bad business?"

Millman Lumber shows how companies with the means can leapfrog their market positions right now. It saw some success in this arena two years ago when Weyerhaeuser Co., a forest-products company based in Federal Way, Wash., decided to unload 10 distribution businesses. Millman offered to buy two of the distributors. "We didn't pay a big premium and we got good interest rates," Mr. Millman says.

"If you have capital and a good balance sheet [today], you can borrow money as cheaply as I've ever seen," he says. And companies are often seeking just book value, excluding things like goodwill from the price. "It's a good time to buy a business," he adds.

Millman is looking for other sites to acquire, as long as they are in the company's geographic and business profile. As a family-run company, Millman has certain advantages. It can make decisions quickly, Mr. Millman says, and it doesn't have to answer to shareholders impatient for quarterly results.

"You have to keep the long term in mind. Nobody knows when things are going to turn around," Mr. Millman says. "But you look at your cash flow and figure for [the] worst and hope for the best. If you're not leveraged to the hilt, you'll probably come out all right. Carrying costs aren't that high anymore."

Accenture's Mr. Spelman agrees. "Winners from the downturn are the companies that make judicious investments to prepare for the upturn. The key is to generate options for the business and to get the timing right. In looking at acquisitions, companies should be looking at quality and synergies rather than just absolute price."

Today's market conditions are rife with peril but also with opportunity. In the past, the greatest changes in companies' relative positions have occurred during times of economic turbulence. "The real trick in a difficult economic environment," Mr. Spelman says, "is to keep an eye on the short term — cost and cash — and at the same time on the medium term so one positions the business to outperform peers as the green shoots of recovery start to emerge."

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