Grant Thornton

Business planning: navigating the global downturn.

International Business Report 2009

Foreword

The global downturn has dramatically affected privately held businesses (PHBs) around the world. Such businesses, including entrepreneurs, family businesses and non-listed entities are considered the lifeblood of the global economy.

This report examines the strategies that PHBs can use to make 'big decisions' to help survive the economic downturn in the longer term with the aid of good business planning. Innovation, cost cutting and pricing strategies emerge as the three most successful initiatives for boosting profitability. Each strategy is examined with practical advice provided for successful planning in such uncertain times.

Careful business planning has never been as important as it is today. It not only helps businesses articulate their strengths or unique value proposition to the market, but it also enables businesses to protect and stabilise themselves in the short term as well as charting a successful course for the future. PHBs may be tempted to ditch the business plan altogether, but we believe that short term survival and longer term revival go hand in hand.

The Grant Thornton International Business Report (IBR) 2009 provides a unique insight into the views and expectations of over 7,200 PHBs across 36 economies. This year's research shows how PHBs have been hit hard by reduced demand for products and services and the lack of available credit which has resulted in a sharp decline in overall business confidence. The net balance of optimistic versus pessimistic PHBs about their economy over the coming 12 months stood at -16 per cent, a record negative level in the history of the Grant Thornton optimism/pessimism barometer.

Only the most nimble and well managed companies will successfully navigate this global downturn. Those businesses who successfully plan for the medium to long term will be the ones competing as market leaders in the years ahead.

Alex MacBeath
Global leader – privately held business services
Grant Thornton International

A perfect storm

The global financial meltdown has put all businesses under intense pressure, with PHBs no exception. For the first time in seven years, the Grant Thornton International optimism/pessimism barometer slumped to a record negative balance of -16 per cent when PHBs were asked about their views on the economy over the coming 12 months (see figure 1).

However, the barometer also showed startling differences in attitude between the mature and emerging economies. Of the four largest trading nations, businesses in the United States and mainland China, who together contribute over 32 per cent of global GDP[1], scored their optimism at -34 per cent in the United States but +30 per cent in mainland China. Similarly, Japan and India (collectively contributing over 11 per cent of global GDP) scored their optimism at -85 per cent and +83 per cent respectively.

Figure 1: Outlook for the economy over the next 12 months
Percentage balance of businesses indicating optimism against those indicating pessimism

Source: Grant Thornton IBR 2009

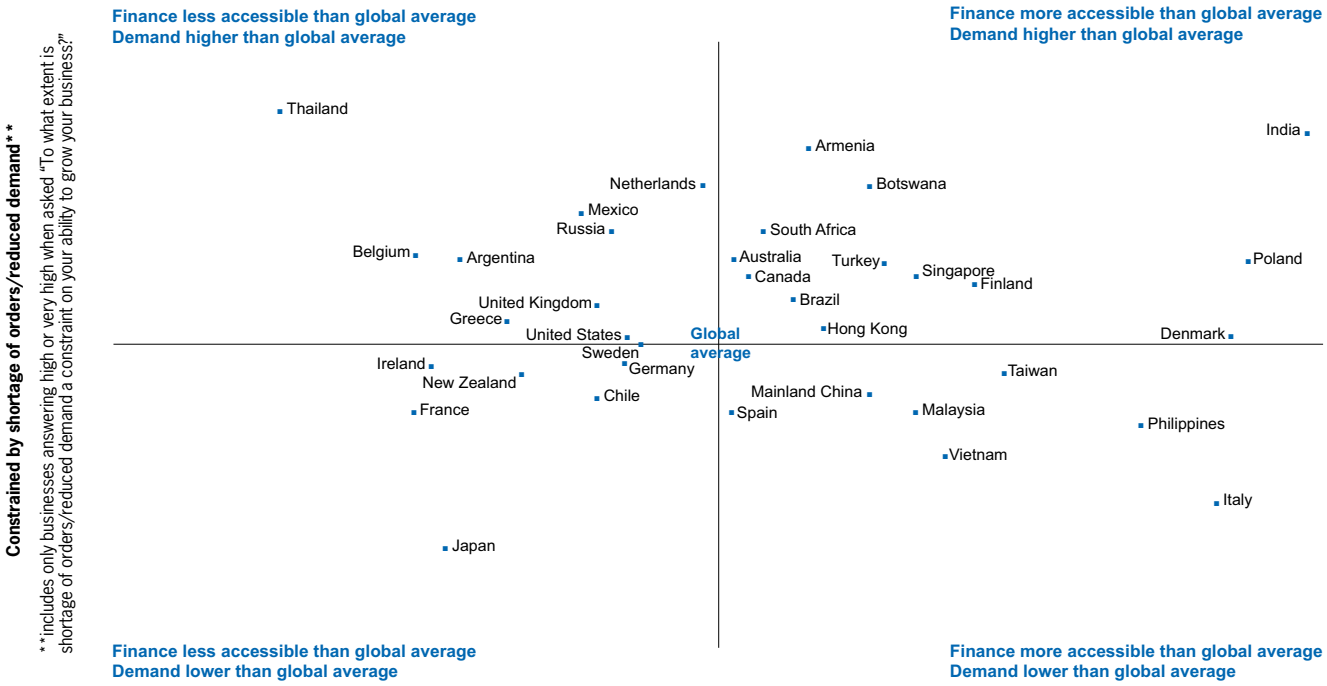
[1]shares of world GDP based on PPP according to IMF World Economic Outlook 2007.

Reduced demand and the lack of available credit emerged as two reasons for the bleak mood although both remain relatively resilient in some markets. Figure 2 examines accessibility of finance and the lack of demand in each economy compared to the global average and identifies four distinct quadrants.

The quadrants on the left include many economies where banking sector problems are particularly serious, requiring government bail-outs in several cases - notably the United Kingdom, United States, Germany and Ireland. The malfunctioning banking systems in these countries are clearly constraining access to finance. Economies in the bottom left quadrant are, in addition, experiencing greater reduced demand than the global average.

In the economies in the right hand quadrants, access to finance is less constrained; banks are generally less exposed to toxic assets than those on the left hand side, regulation was better (eg Spain) or policies during the global boom were less aggressive (eg mainland China, India, Hong Kong, Singapore and Australia). Indeed, PHBs in the top right quadrant are generally still quite buoyant with India, Poland, Brazil and Australia hoping to weather the storm better than others. While some economies have since been affected by the global crisis, this group did not predict a serious decline in orders when the survey was conducted, and many are still relatively resilient. Economies in the bottom right quadrant are experiencing reduced demand, but with finance still relatively accessible.

Figure 2: Accessibilty of finance and levels of demand compared to global average



Source: Grant Thornton IBR 2009

A clear strategy to weather the storm

Tough trading conditions demand a clear strategy, combined with focused and relentless management to implement it. "There is no better time than now to take a hard look at your businesses and make changes in the short and medium term strategy, wherever required. Organisations, processes and supply chains that have become bloated with inefficiencies that were ignored whilst profits continued to come in, will now have to be made more productive, more efficient and fundamentally more lean." advises Monish Chatrath from Grant Thornton India. While actions are needed to protect the business in the short term, a new economic environment will eventually emerge and well managed businesses with clear strategies will prosper in the long term.

Figure 3: Most successful initiative put in place to increase business profitability - globally

Percentage of businesses

Source: Grant Thornton IBR 2009

Innovation

When asked what initiatives had been most successful in boosting profitability, product innovation was regarded as the most successful with one fifth of businesses citing it. The figures were highest in Italy (39 per cent), almost double the global average of 20 per cent, followed by mainland China and the Netherlands, both at 32 per cent.

During the downturn innovation budgets are perhaps the first to be cut. However, based on these figures, businesses may consider less radical cuts to innovation budgets to safeguard future competitiveness and to position themselves strategically to capitalise from the future upturn. "Innovation in the current climate is about making processes more efficient. A lot of companies are trying to work smarter as they plan ahead," says Frank Ponsioen from Grant Thornton Netherlands.

This view is supported by Monish Chatrath who explains, "Innovation can deliver competitive advantage while driving future success. It comes in many forms, for example an organisation's optimum operational structure can position the business well to face future challenges. While the current economic climate may not lend itself to heavy investment in research and development or technological advances, many Indian businesses are seeing this as a good time to innovate their cost optimisation and management."

Innovating your way out of the recession

- seek opportunities in economic dislocation
- ring fence resources for innovation
- tailor products and services to current market conditions
- be open to ideas
- carefully manage your risks
- consider collaboration with customers and suppliers to develop new ideas
- examine innovative processes and business models, as well as products to improve efficiency.

"Innovation in the current climate is about making processes more efficient. A lot of companies are trying to work smarter."

Frank Ponsioen
Grant Thornton, Netherlands

"Leave no stone unturned, and review every commitment. Some costs will be difficult to flex in the short term, but others may offer scope for savings. Take tough decisions now before you are compelled to do so."

Monish Chatrath
Grant Thornton, India

Cost cutting

In good times, costs can escalate with little challenge. Tougher conditions require focused cost management measures within the business plan. At 18 per cent of PHBs globally, cutting costs is close behind product innovation as a strategy to boost profitability. Taiwan (28 per cent) followed by Spain (26 per cent) lead the way. Another 15 per cent globally cite productivity reviews and outsourcing - two more initiatives closely related to cost reduction.

The difficulty for many businesses is to identify which costs to cut without compromising their strengths - this will be a key challenge for the next year to 18 months. Monish Chatrath notes, "The Indian economy has been booming in recent years, but now businesses are strategically examining their whole cost structure. They're taking a step back to consider how to re-engineer themselves internally to be effective in both the short and long term.

"Once the initial cuts are made, it's important that the management doesn't take their eye off the ball. It's easy to reduce costs by targeting 'big ticket' items, what's more difficult is the ongoing management of costs within a business strategy. Traditional cost-cutting measures may well achieve savings in the short term. However, these can leak away over time, reducing the organisation's ability to capitalise on the future upturn," says Chatrath.

27 per cent of PHBs also expect to cut costs by reducing their workforce in the coming year, while 24 per cent anticipate that pay levels will stay the same or decrease. Frank Ponsioen from Grant Thornton Netherlands notes, "If a business needs to cut staffing levels they need to communicate clearly, be transparent and move quickly. They should identify, manage and retain their top talent using incentives and personal development plans. However, they should be cautious not to unecessarily cut talent, this may prove to be a false economy when you consider the costs of recruitment and the loss of productivity and expertise."

Streamlining your business for the future

- examine fixed costs, renegotiate lease terms and review future equipment utilisation
- review variable costs, ensure your supply chain is offering you the best value possible
- consider longer term supplier contracts to secure discounts and insulate against future price increases
- reduce waste and consumption and implement longer term cost saving incentives
- re-evaluate your exposure to tax and consider methods to reduce your future exposure
- if redundancies are necessary, move quickly, communicate well and act with integrity
- motivate the remaining staff with incentives aligned to key objectives.

Pricing strategy

Pricing strategy was cited by 13 per cent of PHBs globally as being their most successful profitable initiative. Amongst individual countries, Mexico (42 per cent) came far above the rest of the world followed by India, Poland and Singapore (all at 23 per cent).

"Intense competition from low-cost production centres, a lowering of trade barriers and greater integration of economies into the world market have changed the whole business environment," declares Hector Perez from Grant Thornton Mexico. "Businesses in Mexico are now facing global, not just regional or local, competition. As a result, firms are under pressure to offer lower prices to customers which in turn requires a greater focus on increasing efficiency and reducing costs."

Developing a longer term pricing strategy

- consider pricing in the context of your product portfolio and future market position
- develop lower priced versions of popular products to offer alternatives to existing cash strapped customers and to tempt other price conscious customers from competitors
- segment the market to identify future opportunities to protect revenue from customers with the ability to pay the full listed price
- consider offering discounts on long term orders to protect future revenues.

How long is long term?

Almost half of all PHBs have a formal plan covering 1-3 years (see figure 4). The highest proportion is in Denmark (64 per cent) followed by New Zealand and the United Kingdom (both 60 per cent). But formal planning has less than a one year horizon in 21 per cent of businesses globally. Short term plans covering less than one year are especially common in Latin America, with Mexico at 73 per cent, Argentina at 71 per cent and Chile at 43 per cent. Brazil at 30 per cent is also well above the global average. Only four per cent of businesses either do not have a formal plan, or are unsure whether or not they have one.

Hector Perez from Grant Thornton Mexico explains, "Latin American business plans are shorter term as a result of the political and economic instability which has affected the region for many years. Now businesses in other regions are shortening their planning time horizon to seek flexibility as the economic downturn continues.

"In this unprecedented and challenging marketplace, PHBs may be tempted to ditch the business plan altogether. But we believe that short term survival and longer term revival go hand in hand. When you are only thinking about the short term, you may lose the vision of what's going to happen in the future. You need a balance to enable you to react to issues affecting the business today as well as being able to focus on what's going to happen in the longer term," warns Mr Perez.

Figure 4: Length of time formal planning process accounts for - globally

Percentage of businesses

Source: Grant Thornton IBR 2009

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Hector Perez
Grant Thornton, Mexico

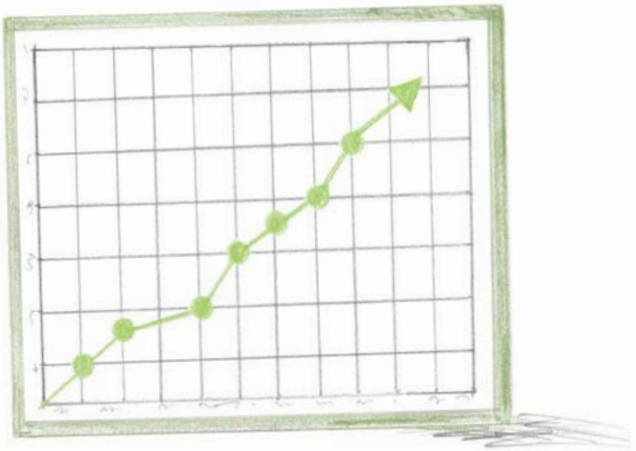
Failing to plan can mean planning to fail

Effective business planning knits together short term tactical activities and longer term strategy. It has never been so critical.

Companies need to test their assumptions, revisit the strategy, but they should not need to change the whole business model overnight. If the strategy is a good one, they need to hold their nerve, manage effectively and keep going. Indeed, taking a fresh look at the business can bring dividends by providing a better understanding of your capabilities and core strengths as well as a clearer view of the best opportunities. "This often brings about greater clarity and focus, which in the past may have been somewhat diffused due to the focus on pursuit of growth opportunities." says Monish Chatrath, reflecting on his recent experience with Indian businesses.

Your strategic planning should be flexible and practical. "Business plans should be adapted and updated over time. They should test both optimistic and pessimistic scenarios," says Hector Perez.

Ambitious and well-funded companies continue to see the value of strategic acquisitions and are picking up bargains to achieve their strategic objectives and growth targets. An increasing number of PHB's with access to funding see huge opportunities for expansion in the current climate. 37 per cent of firms in the IBR survey expect to grow through acquisition in the next three years. More companies are planning cross border deals and international mergers and acquisitions remain on the agenda as a key strategic tool to drive growth. "You have to be alert, other competitors may be failing, so taking over a poorly performing business could be a good option to achieve your plans more cost effectively," says Frank Ponsioen.



Some markets offer particularly attractive opportunities in the current climate. Monish Chatrath makes the case for investment in India saying that, "There is now a great opportunity for companies outside India to come and invest. At a time when economies are either contracting or showing growth rates below 1 per cent, where else can they seek significantly higher growth rates of 5 per cent and above?"

Avoid trying to do too much at once - focus on a few simple priorities. "Don't take on too many initiatives at the same time. Prioritisation is essential," advises Frank Ponsioen. "This is an area that companies often struggle with, and where an independent, external sounding board can be extremely valuable."

"It's important not to panic," adds Hector Perez. "Businesses that are well structured and well managed, and do the right things quickly and decisively, will see opportunity in uncertainty. Sensible and well balanced plans made now could leave you well placed to ride the upturn. If you play a long game, you will have a better chance of reaping long term rewards."

Planning ahead

- stress test your plan by trying out different scenarios to assess the potential impact of changing market conditions on your business
- analyse worst case scenarios by modelling potential impacts on profit and loss, balance sheets and cash flows
- develop contingency plans to enable flexibility if circumstances change
- examine competitors strengths and think carefully about how to exploit weaknesses
- communicate the plan and tie-in employee remuneration and incentives to successfully achieve objectives.

About IBR

The Grant Thornton International Business Report (IBR), formerly known as the International Business Owners Survey (IBOS), provides insight into the views and expectations of over 7,200 privately held businesses (PHBs) across 36 economies. This unique survey draws upon 17 years of trend data for most European participants and seven years for many non-European economies. The research was conducted by Experian Business Strategies.

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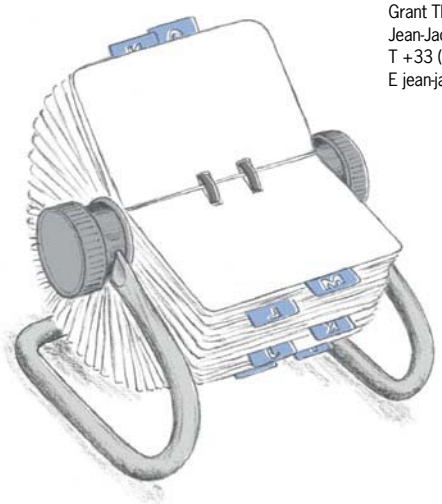

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