

# Living with a global recession

What are the best businesses doing to get through?

Presenter:  
Dean Schultz  
Director, Melbourne

# The Current Economic Environment

# The current economic environment

- Interest rates predicted to be the lowest on record
  - What a difference a year makes
- Financial markets down 40%+
- Unemployment on the rise
- Consumer and business confidence declining
- World wide recession?
  - No respite in sight
- Government bail out packages unprecedented
  - Yet more bad news everyday
- Aussie dollar down significantly, yet stabilising?
- Commodity prices fluctuating, demand uncertain



# What is the impact for Australian Business

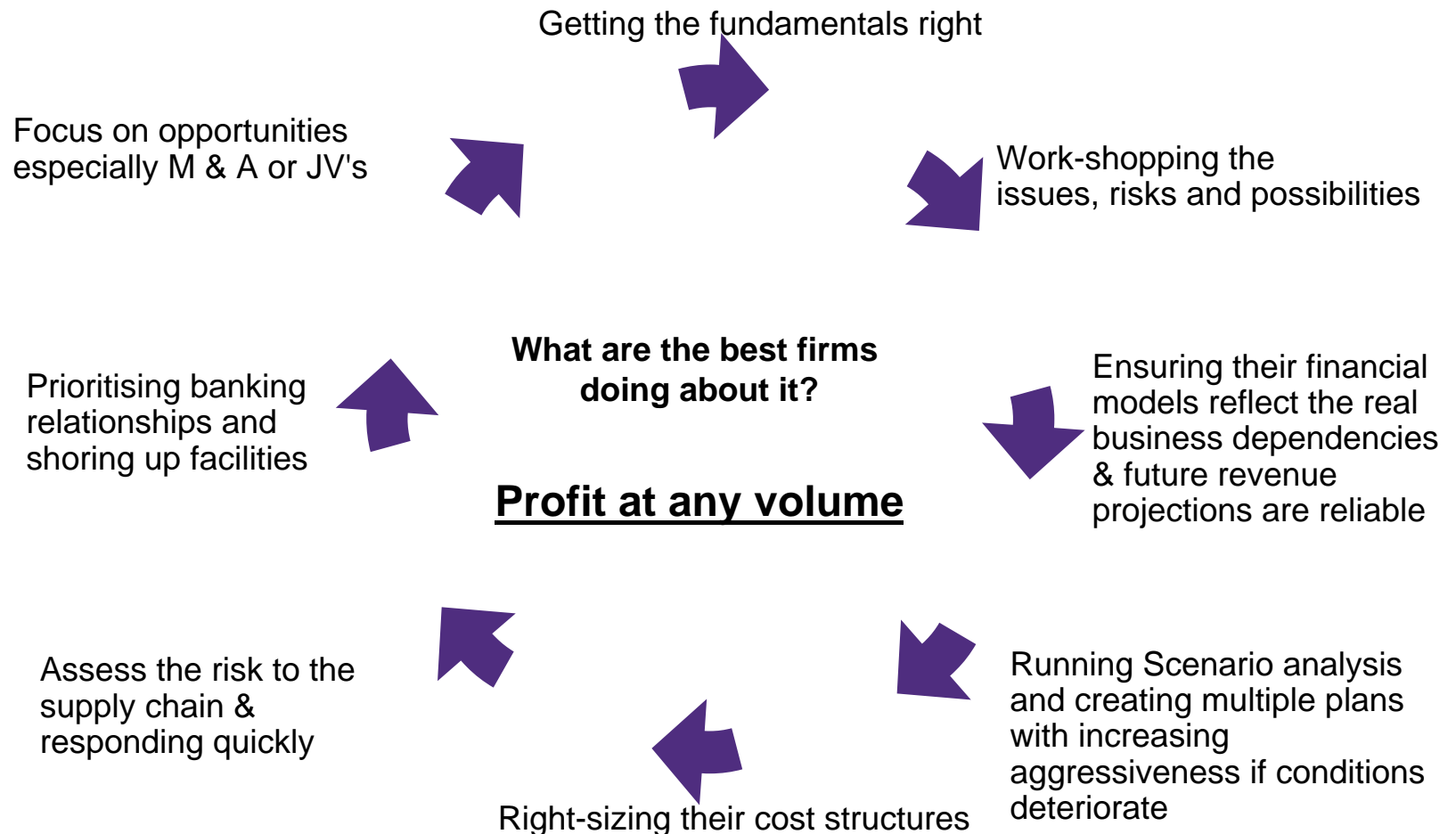
Virtually all businesses are experiencing:	Many are seeing	Quite a few businesses are attempting to cope with:
<p>Uncertainty as to the future</p> <p>Staff insecurity with lower staff turnover</p> <p>Minimal wage rise pressures</p> <p><b>Increased bank margins</b></p> <p>Tightening of all elective expenditure</p> <p>A push for sales &amp; relationships</p> <p>Cash first – growth later</p> <p>Profitability a concern</p>	<p>Modest revenue declines (5 -10%)</p> <p>Diminishing credit availability</p> <p>Difficult global markets</p> <p><b>2% increased bank margins</b></p> <p>Major cost reductions, Cap-ex slashed</p> <p>Increased competitiveness</p> <p>Concerns with debtors</p> <p>Profitability reduced but still OK</p>	<p>15 – 30% revenue declines</p> <p>Unviable players in the supply chain</p> <p>A crisis of trust with bankers</p> <p><b>3 – 4% increased bank margins</b></p> <p>2<sup>nd</sup> &amp; 3<sup>rd</sup> round labour restructures</p> <p>Desperate pricing</p> <p>Debtors collapsing</p> <p>Viability threatened. Stress rising.</p> <p>Confidence in recovery waning</p>

**Typically not heavily international trade focused**

**Typically export focused & Manufacturers**

**What are you doing in response?**  
**We recommend "profit at any volume"**

# What are the best firms doing about it?



# The Importance of the Fundamentals – what are the best businesses doing?

# Fundamentals – Action Plan

## How can a client be best prepared when the future is unknown?

The **best prepared** companies are adopting a similar process:

- 1) They run **risk analysis workshops** with external contribution to highlight their exposure points (sales, customer & supplier survival, covenant breach etc)
- 2) They **model** a cascading series of (worsening) **scenarios** (eg sales drop 10% or 30%; or client collapse; or suppliers price increase 20% etc)
- 3) They revisit every aspect of their business and adjust accordingly for plan A, they then analyse responses to stay profitable on Plan B & C
- 4) They **implement** Plan B and C when early warning sign KPI's (inquiries, orders, sales trends etc) are triggered

**To be able to do this most companies need to revisit their business fundamentals**

# The Fundamentals

Tighten every aspect of the business,  
become leaner and more flexible

# The Fundamentals: Tighten every aspect of the business, become leaner and more flexible

- Profitability is critical, restructure to achieve positive EBITs no matter how tough the job; Avoid "breakeven is OK" thinking. Target "Profit at any volume"
- Cash is king
- Debtors
  - Get invoices out quicker and chase quicker. Change historical practices
  - Credit worthiness checks are vital. Better tough now than lost later
  - Reconsider trading terms – Romalpa, penalty clauses, liens, IP retention
- Crunch cap-ex – but don't go overboard!
- Drive over-spends down or recover from customers where possible.
- Cut waste
  - Don't accept poor quality to be bought in from suppliers
  - Find the reasons for mistakes and eliminate it at a process level

# The Fundamentals: Tighten every aspect of the business, become leaner and more flexible (cont)

- Cut inventory
  - Look at lean programs – or make yours leaner
- Manage all projects tighter
- Get transport and distribution costs down with lower fuel and ship & airfreight charges
- Reducing accommodation costs– renegotiate with landlords (it is happening)
- Cut discretionary spending, travel & accommodation, corporate services should all be tightened and monitored – or (



# Rightsizing the Cost Structure & driving a variable cost outcome

# Rightsizing the Cost Structure: People

- Deal with the last 5%/10%/15% of poor hires during labour shortage times
- Performance management – don't pay redundancy unnecessarily
- Aim to create leaner, more **flexible** organisation structures. Complexity creates waste
- Alternative labour cost reductions – reduced hours, job sharing, extended leave
  - May be the opportunity of a lifetime to create a flexible workforce
  - Unions are desperate to keep jobs so don't be frightened of them
  - Will be big change to this type of response in the coming months
  - Reduced hours = cost reductions without redundancy! Sounds a better deal

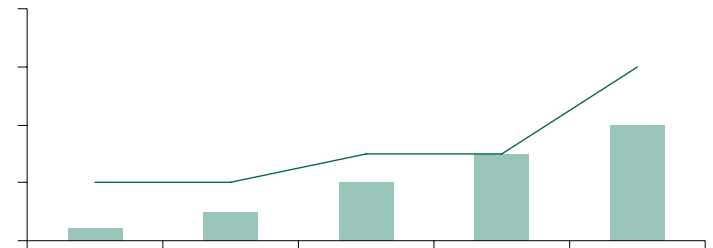
# Rightsizing the Cost Structure – non labour areas

- Operations
  - Better processes are needed for less to do more
  - Eliminating silos and creating multi-skilled workforces
  - Planning is key – engage your management team
- Technology is an opportunity
  - Use technology to improve processes
  - Use the web for online marketing to maintain a lower cost presence
- Consider in-sourcing work that has been outsourced through human resource constraints
- Consider outsourcing to simplify the business and capitalise on market pressure and scale

Convert crisis and uncertainty to  
opportunity and strength

# Convert crisis and uncertainty to opportunity and strength - Achieving EBIT growth

- Acquisitions
  - Distressed acquisitions
  - Scale acquisitions
  - Strategic acquisitions
- Organic growth
  - Rethinking sales and distributions structure
  - Value for money marketing
  - Use of the Web – efficient, effective and transparent
- "Less is more" only profitable projects unless they are exceptionally strategic
- Massive increase in sales activity
  - Work out how to achieve it & drive it!
- Government Assistance
  - Work your Export Advisor
  - Look for suitable funding
  - Hot issues – Environment, Innovation



Banks!

# Banks

- A risk management workshop can help:
  - Address **what if** we can't get supply or banks won't renew because they can't?
  - There are new risks now that we haven't had before e.g. customers LC's not being accepted
- Don't underestimate how hard the tightening debt markets has hit your bank
  - Tighter lending criteria means rationing of funds. **Banks will weed out poor quality businesses or get great returns from them.** Banks are becoming brutal for their lowly valued customers
  - Get facilities with headroom in place when you can, not when you need it!
  - ALL banks are currently controlled by Credit and Debt Recovery departments - your Lending/Relationship banker has been downgraded!
  - Establishing more than one banking relationship is a smart move, even at a small scale



# Banks

- Allow three times as much time to renegotiate - don't underestimate it
- Is your bank going to be there to renew, especially international banks?
- Margins are being driven up at every chance. Covenant breaches are triggers, as are establishing new lines & changing security.

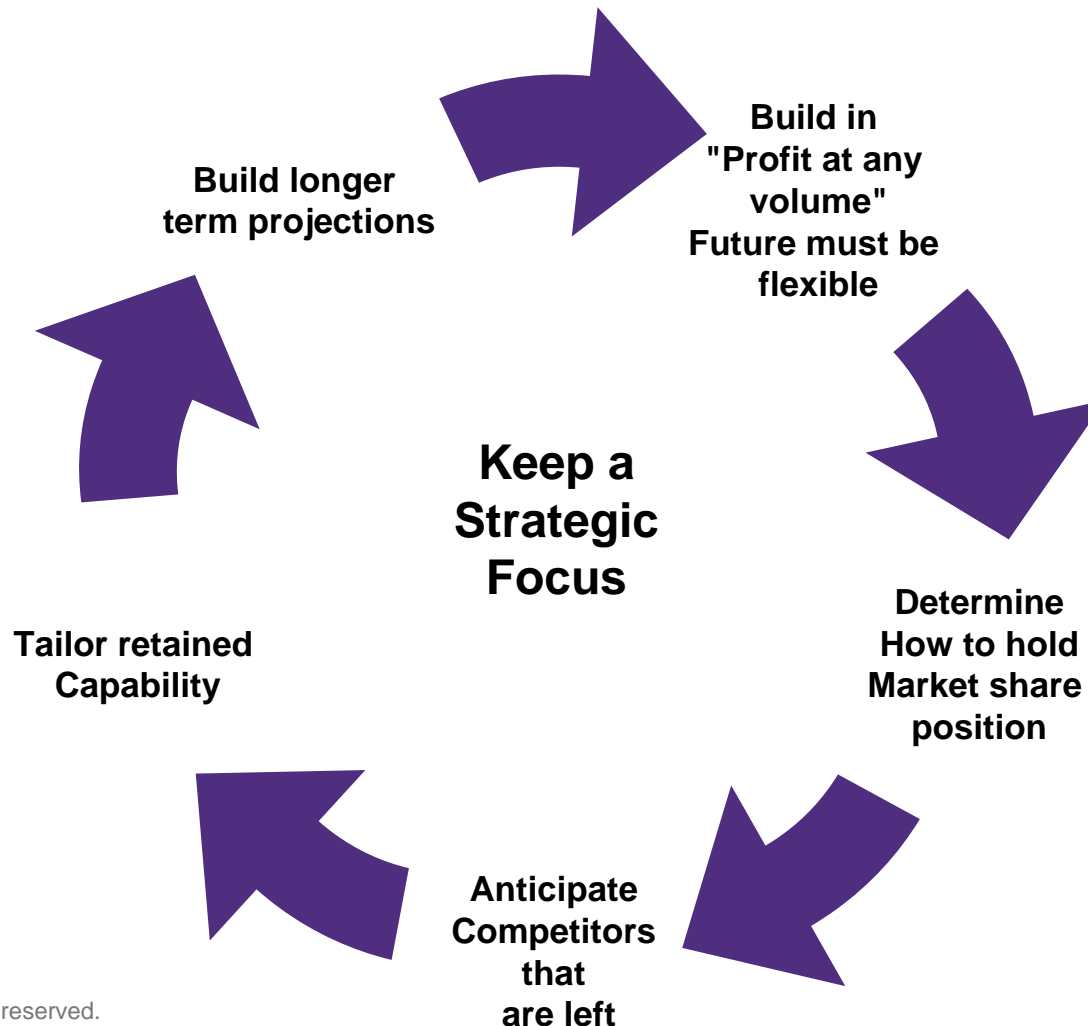
**Has your bank changed it's attitude?**

**What Margins are you paying – and how many banks are you dealing with?**

**Is it time to fix rates – or partially fix?**

The world will turn  
Keep the longer term in focus

# Getting out of short term thinking – Work out what the company should look like at the end of the cycle



# The Grant Thornton Client Approach?

# And now?

## How Grant Thornton can assist

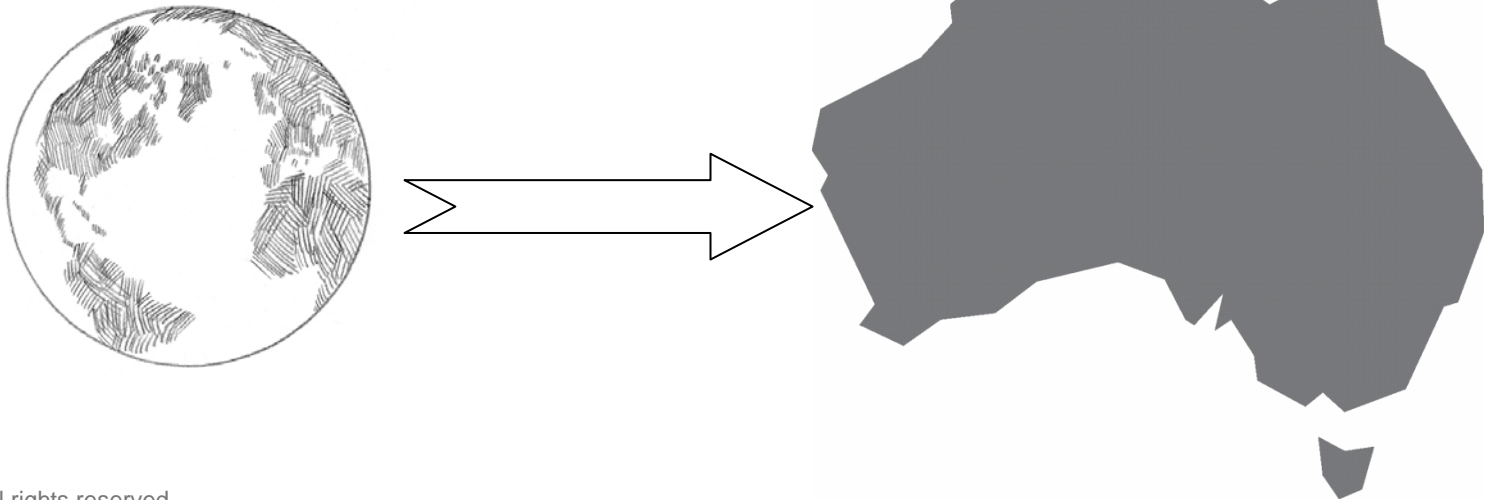
- **understands** business owners' issues
- can work with you on the **fundamentals** and understand the business model
- Assist in re-forecasting budgets
- help you develop an action **plan** – now and in the future
- can undertake a **Health Check** on business and highlight critical issues
- provide an **independent** sounding board for day to day business concerns
- work with you long term to build a **sustainable business**

# About Grant Thornton

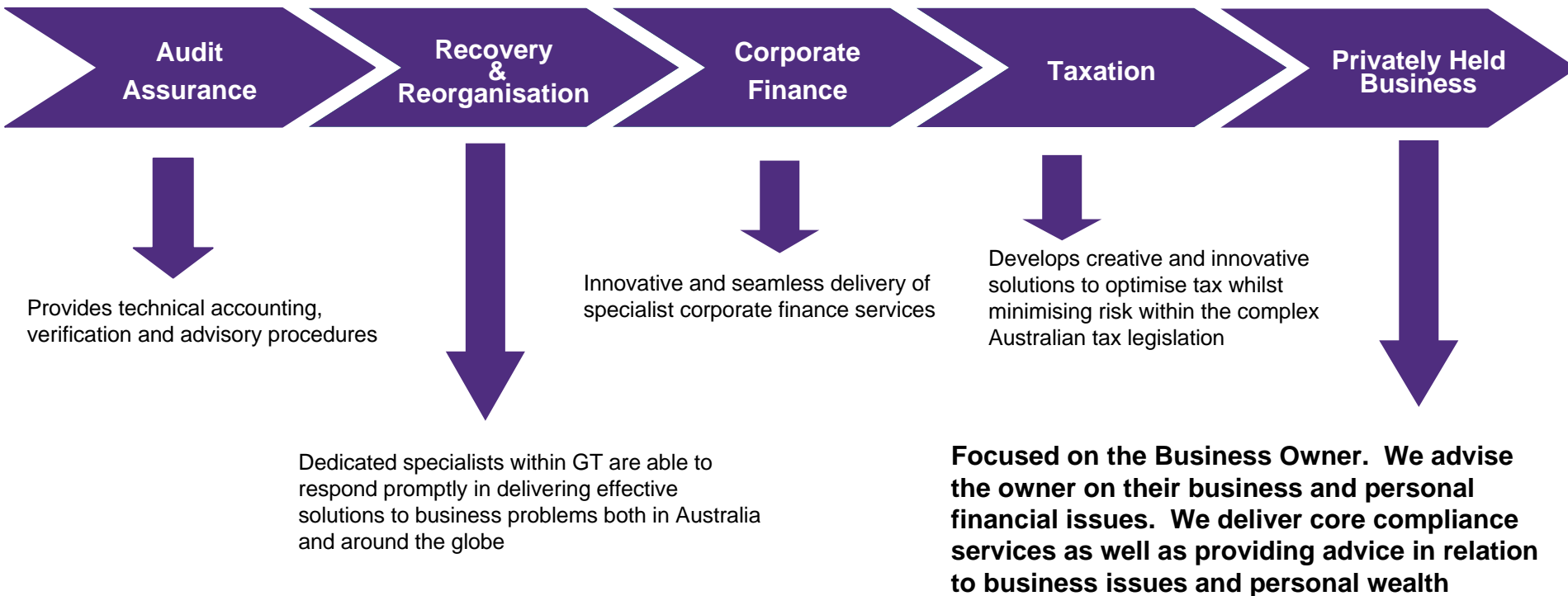
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# Grant Thornton

- Grant Thornton is part of an international network operating in 113 countries
- Grant Thornton Australia is a national firm and has offices located in Sydney, Melbourne, Brisbane, Perth and Adelaide
- Nationally, Grant Thornton Australia has over 100 directors and more than 800 professional staff



# Grant Thornton Australia



# Questions?

Contact: Dean Schultz 03 86636000  
[dschultz@grantthorntonvic.com.au](mailto:dschultz@grantthorntonvic.com.au)