

Facing new realities

As the signs of the beginning of a new business cycle become more obvious, companies will need to adapt to new realities in an almost new era. **Utpal Bhattacharya** explains why companies need to assess and review their internal processes and efficiencies going forward.

A manufacturing company with poor products but a brilliant marketing strategy will do better as a product marketing company, leaving manufacturing to another firm. Knowing one's core strengths is vital for companies to do well, even more so during an economic crisis, when competition for a shrinking market is fierce and customers become more and more discerning, always looking for the best they can buy. These are some of the mantras that you hear from experts who are in the business of fixing problems in companies faced with financial and operational problems, primarily resulting from the global meltdown.

A large number of businesses in the region have been the victims of excesses following the explosive growth the economies saw with the turn of the millennium and until 2008, notes Giles Campbell, founder and partner of Transforme. Campbell and his company work in a niche area of company restructuring, working with owners and management to create better efficiencies and processes, and thus profitability. And what a good time to be doing such work in a region where cash flow has become a major issue for both large and small companies, while processes are not all geared for the new realities of today.

Campbell and his partner Annie Loughran are ready to make the best of this opportunity, as they get increasing requests from banks and private equity firms to help restructure portfolio companies. Both Campbell and Loughran feel confident that the region is witnessing the tail-end of the financial and economic crisis and that it is time to re-build for most companies. This means that most companies are under pressure to build businesses that are sustainable and high quality going forward.

"The challenge in the last economic cycle was to build businesses quickly. The challenge in this economic cycle will be to beat the increasing competition by building businesses that are sustainable and high quality," argues Campbell.

Coming into a new cycle

In the last economic cycle, there was plenty of liquidity and leverage to be had, and companies borrowed heavily. But when the bubble burst, a large number of businesses underwent tremendous financial stress, while some went bankrupt and liquidated. If it were not for the artificial injection of liquidity into the system and a host of non-monetary measures undertaken globally, the world would have headed for disaster.

While economists will tell you that there is still some way to go before the world comes to an even keel, it is already time for companies to plan how they will progress into the next economic cycle and take advantage of growth.

Loughran notes that most companies that will prosper in the next economic cycle will be those that learn to improve themselves as a way of life. A continuous drive for improvement will be the common theme among the winners in the years to come, she adds.

"Competition will have better products and lower prices due to higher efficiencies, so it is imperative for businesses to build a platform for performance that enables them to remain at the head of the game," she says.

Loughran's imperatives for the road ahead for companies include hiring high quality professionals from the top down,



while engendering a culture of innovation and continuous improvement.

"The logic that drove profits during the boom time was 'low cost staff are best'. Ironically, this same logic will be the undoing of companies in this economic cycle. If your company is not there yet, then get some help to put you on that fast track, as the outlook for companies that cannot change is that they will be overcome by those that do," she suggests.

Action in the new cycle

Both Campbell and Loughran see a shake-up and consolidation in the market in the next two years. One good thing to take away from the crisis, however, has been an awareness to stick to what one knows most and not dabble with everything, notes Campbell. He explains that acquisition of non-core businesses during the boom years has resulted in company portfolios that do not create value through synergy. Owners are struggling with these businesses, as they are not in an area of their core competence. They will have to dispose of these non-core businesses and focus on core areas that they understand for success coming out of the meltdown, he maintains.

"Restructuring is about renewal. All companies are facing increased competition and this will only increase. The opportunity and imperative is to start



Giles Campbell



preparing. Only the strong will survive going forward, as all areas need to take their game to the next level, be it in operations, HR, supply chain, finance or IT," says Campbell.

The partners at Transforme, whose work involves transforming or restructuring companies to more efficient performers, say that their experience shows that all companies have nuggets of value creation embedded in them. Often the challenge for turnaround is to find these and configure them into something new that really creates money, while outsourcing those parts that others do better.

Coming out of the meltdown, however, some of those retail brands, born during the boom years, may not survive. Also, brands that have not managed well or are unable to adapt quickly to the new realities will find it difficult to cope with the pressures of competition. It is also expected that across all sectors, private equity funds will be acquiring companies at much reduced valuations, restructuring them for swift and profitable sale, according to Loughran.



Annie Loughran

Challenges

Understandably, while deal flow is expected to increase in the market in the months ahead, buyers will be looking for companies that have proper business processes and documentation, Loughran points out. And this means that those sellers that have their processes, controls

and documentation in place will achieve better value and be more sought after compared to their peers that run their operations ad hoc.

Campbell explains that one of the challenges many companies in the region face comes from inadequate documentation of business processes and controls in the organisation. This is an issue even in family-held companies that are seeing a management change as the older generation retires and passes the baton to the new managers, he says.

"It is one thing to build a business that works efficiently with its existing owner, and it is another thing to sell it without that owner, because the separation of an owner takes away something valuable from a business. We also have had a number of discussions with regards to company owners that want to facilitate the transition from one generation to the next, but have not done proper documentation, thus leaving the new management without a set structure or processes to start working with," Campbell adds.

While Transforme was created exactly for the purpose of offering solutions to bridge various gaps resulting from lack of documentation and legacy processes, one of the challenges that does not have solutions is the inability of the management of some companies in the region to accept the fact they have problems.

"One of the key challenges that we face here in restructuring is with people not wanting to admit that there is a problem. In the UK market, business is business, and if you have a problem, you ask for help," says Loughran.

In the western market, the door is not opened wide, but it is certainly not closed. In this region, however, there is an undercurrent of companies not willing to look for help quickly enough. Companies might eventually look for help, but if they had looked for it six months ago, they could have been in a better position to be helped, Loughran points out.

Loughran reasons that businesses across Europe and the developed west have gone through countless recessions, short changes in the market and fierce competition, and that's why they understand that they cannot survive unless they are absolutely fit and healthy. But in this region, the whole business of asking for help is a delicate process, she adds.

So how does a company like Transforme approach a client in the GCC that is unwilling to accept that its processes are not right? By pointing more to the positive than the negative, says Loughran.

Given the demand for quick solutions to problems in the region, Transforme has created off-the-shelf solutions for meeting restructuring needs. The company is also working with interims that are experts in their respective areas. Help, then, is at hand. It is now for those who have a problem to accept the fact and ask for help so they can move on as a new business cycle begins to churn a new path of growth.