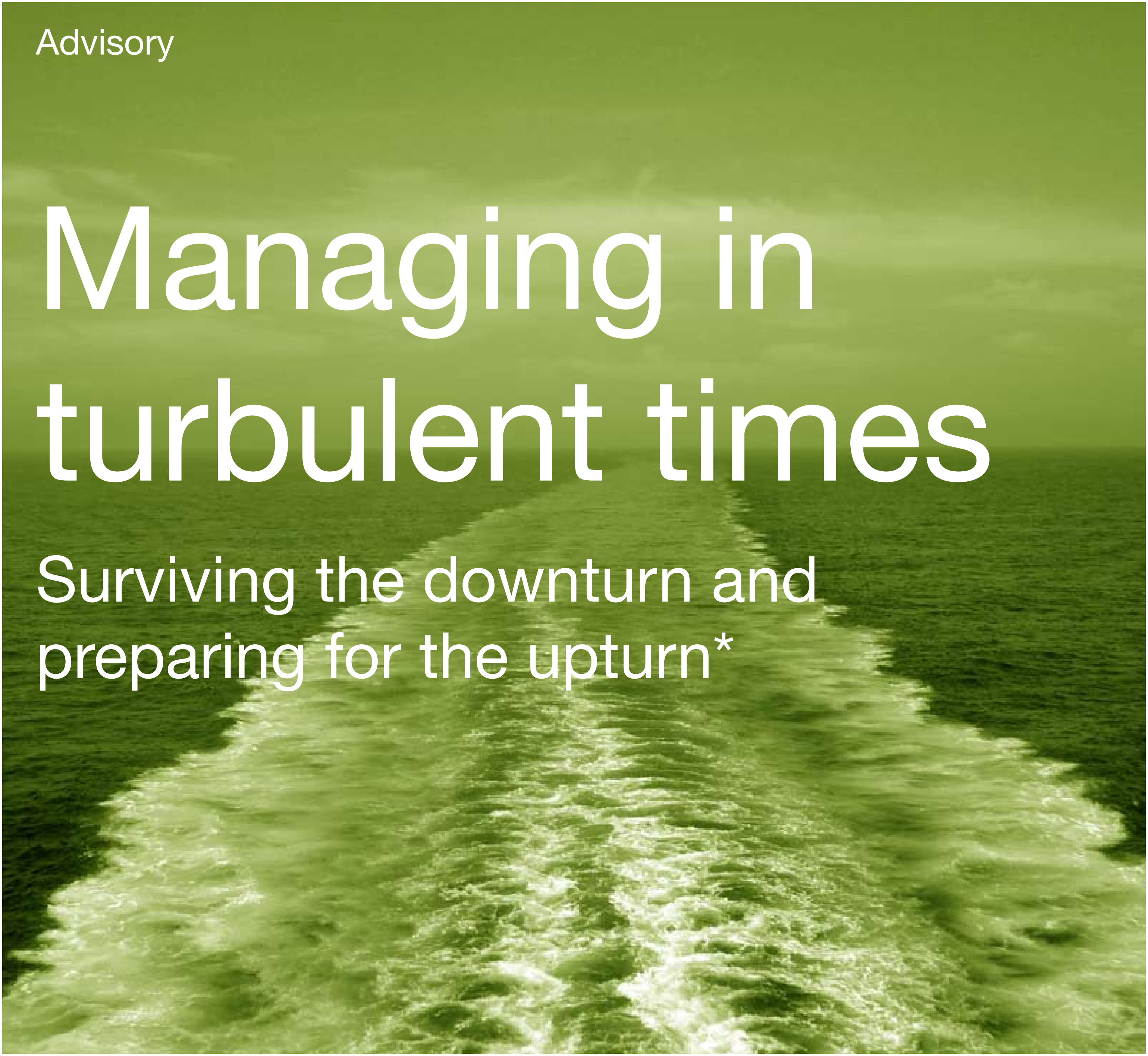


Advisory

Managing in turbulent times

Surviving the downturn and preparing for the upturn*

*connectedthinking

PricewaterhouseCoopers

The impact of the downturn is being felt globally and most companies agree that there are tough times ahead. World economies are decelerating together, with Japan, Europe, US and UK heading for negative growth, and growth forecasts in BRIC territories dropping significantly.

Findings of the 12th Annual Global CEO Survey* conducted by PricewaterhouseCoopers also reveal that CEO's are most concerned about the immediate survival of their companies and predict a slow, gradual recovery over the next three years. They also plan to cut costs and delay investments, with 70% of them saying their growth plans will be affected by the crisis.

There is no indication that the situation will improve soon, and there is no quick fix.

*PwC's 12th Annual Global CEO Survey was released on 27th January, 2009 and covered 1124 CEO responses across 50 countries along with in-depth interviews of 21 CEO's across 5 continents

What is the impact of the downturn on your organisation?

- Are you facing huge profitability pressures?
- Do you see a significant reduction in sales as a result of shrinking demand?
- Do you find yourself burdened by an unmanageable and inflexible cost structure?
- Are you overleveraged and/or experiencing poor liquidity?
- Are you facing payment/delivery defaults in your third party dealings?
- Are you finding it difficult to maintain and manage your business relationships?
- Are you finding it difficult to motivate your best employees?

And are you adequately building for the upturn, as and when it happens?

Are your actions to survive the business turbulence caused by this downturn proving effective?

Do you know how your decisions are changing the organisation's competitive position – now and for the future?

Key to managing in turbulence

The key to managing a downturn is the EFFECTIVENESS of actions, which can be hampered at times by a lack of factual understanding of the ground-level business situation and associated variables.

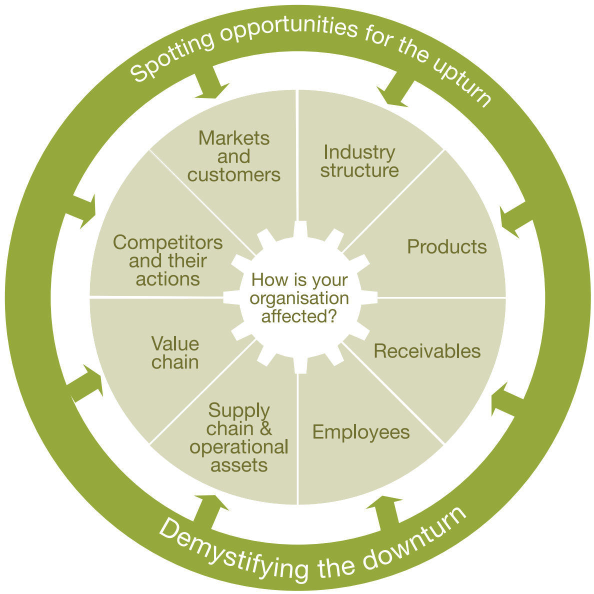
Lessons learnt from past recessions

- Effective handling of the impact of a downturn can significantly alter an organization's pecking order during a recovery
- Twice as many companies make the leap from the 4th to 1st quartile during a recession than in economic calm
- Successful companies took actions not taken by others wherein they maintained lower leverage on their balance sheets, controlled operating costs well, diversified their product offerings and business geographies and divested non-core businesses
- Gains made during recessions tend to endure
- Good times mask the hard truths of company performance - tough times reveal true strengths and weaknesses
- The number of opportunities to make deals or take advantage of weaker players increases during a downturn

It is essential for you to understand your organisation's actual situation on the ground, and what the key drivers of performance have been, and will be, across your business portfolio.

Ensuring appropriate management mechanisms for tracking, technology and processes is critical, as is revising your metrics for tracking business performance.

Understanding how the business is being impacted by the downturn is crucial. Information gaps can lead to sub optimal actions which may have a negative impact on an organisation's health. Such an understanding can help you effectively manage the current crisis better as well as help you prepare for the future upturn.



Priorities in a downturn

We have identified 10 fundamental priorities that organisations need to focus on in a downturn.

1 Take a closer look

The goal posts are moving. Understand the true picture,
not what you would like to believe. Get to the bottom of what is driving your business; what you do and why. Understand how the business is being impacted by the downturn.

2 Act decisively

With increased uncertainty and volatility it is important to take tough decisions early. Focus relentlessly on the key drivers of value and the key risks across the business. Don't sit back and wait; the winners will be those who position themselves to take advantage of the upturn.

3 Remember "cash is king"

Ensure your finances and working capital are in good order; protect your liquidity; re-examine your treasury, financing, funding and pension exposures. Monitor your performance against financial and non financial covenants. Adopt a hands on approach to cash management.

4 Focus on what really matters

Evaluate which products, customers and channels create or destroy value. Revisit your existing investment programmes - what initiatives you stop or defer?

5 Manage your cost base

Focus on enhancing operational performance; go for targeted rather than across the board cuts; extract better value; reduce unnecessary complexity; look at whether your business model needs to change.

6 Reliable management information is key

Now more than ever you need the right management information; clearly defined KPIs are essential. Decision making needs to be based upon facts and the speed of decision making needs to improve.

7 Plan for different scenarios

Winners demonstrate agility and flexibility; model a range of financial, operational and workforce scenarios that reflect the impact of the downturn on your business, adapt quickly and explore your strategic options.

8 Recognise the value of your people

Regular and clear communication with employees is key to their engagement. Identify key talent and develop appropriate incentives for them – retaining and motivating the best people is critical to your future.

9 Take your stakeholders with you

Evaluate the likely impact of the downturn on your stakeholders; make sure you understand their agendas. Perception is often reality so maintaining regular and open dialogue is essential.

10 Take advantage of the opportunities

Don't stop innovating or investing in those areas of growth you will need for the future. Don't forget your brand. Have an eye for the future; think beyond next quarter.

Our Approach

An integrated programme reinforcing current actions while simultaneously preparing an organisation for the future upturn, is critical

Phase 1	Phase 2	Phase 3
Analysis Downturn Diagnostics	Design Scenario Planning	Implementation Dynamic Sense and Response

Organisations typically respond through a series of disconnected, and sometimes, ad-hoc point initiatives which often fail to deliver benefits expected from such actions. This approach may work in the immediate term. However, a scientific step-wise methodology as outlined by PwC can help our clients achieve measurable results in a sustainable manner.

Phase 1

Analysis
Downturn Diagnostics

The first priority is to take a closer look at the business

Some key questions you must ask yourself in Phase I to prepare adequately for Phase II

- Have you revisited your business objectives, plans and business portfolios?
- What are your customers telling you that they value and are prepared to pay for? What would they be willing to sacrifice?
- Why are your customers switching to other providers? Is it simply trading down or do others represent better value for money?
- For each of your businesses/products/clients: How much performance is driven by the market? And how much by your competitiveness?
- What are your competitors doing or planning to do? What did they do during the last downturn? Who gained and who lost as a result?
- Do you have a good understanding of how future scenarios could potentially impact your business?
- What support can you get from your business partner network (suppliers/logistics service providers etc) to counter the current downturn?
- Is your information technology spend aligned with your actions? Are you measuring the right things and is your IT infrastructure enabled to track these?

Review business variables/performance parameters

- Business portfolio
- Customers and markets
- Product portfolio
- Competition
- Manufacturing
- Distribution
- Business partners (suppliers, logistics service providers, channels etc)
- People assets
- Information technology
- Financial health
- Revenue streams
- Value/cost structure
- Operating cycle
- Asset productivity
- Customer service

Phase 2
Design
Scenario Planning

Having understood the impact of the downturn, the next important step is to identify actions for the immediate term and strategic choices for the future

These actions/choices need to be developed for alternative business scenarios under different future economic conditions. Investing time in planning for different scenarios is not a luxury. Given the volatility of the economic environment, it is a necessity.

Manage downturn Plan "No Regret Actions" and "Quick Wins"	**Business Variables**	**Build for upturn** Envision future state and identify strategic choices
Downsize unprofitable businesses.	Business Portfolio	Exit some businesses and grow/acquire core businesses.
Renegotiate/exit unprofitable customers. Have selective responses to certain markets.	Customers/Markets	Invest to drive leadership position in select markets.
Discontinue and liquidate marginal products to stop bleeding.	Products	Focus on new product development. Invest in key products.
Offer discounts to liquidate inventory, capture market share.	Price/Margins	Exploit dominant position through optimum margins.
Rationalise capacities. Stall new projects to maintain liquidity.	Capacities/Projects	Be ready to enhance capacities in-house/third party.
Scrutinize and cut spends. Streamline processes.	Spends/Processes	Plan spend levels in different growth scenarios.
Right-size the workforce and protect the high performers.	People	Identify and target resources with desired competencies.
Renegotiate with partners and strengthen relationships.	Partners/Vendors	Explore new business models with partners.
Restructure to maintain liquidity.	Capital Structure	Restructure to optimise cost of capital.

Phase 3

Implementation Dynamic Sense and Response

To derive maximum benefits, organisations need to continuously sense the changing economic environment and respond rapidly with implementation of an appropriate plan from Phase II.

Managing through turbulent times is about being flexible and anticipating and reacting quickly to changing circumstances. This helps mitigate risks, and positions companies to seize any opportunities which arise.

The figure below shows some illustrative scenarios and possible responses to them.

Illustrative Scenarios	Downturn worsens	Situation stays the same	Upturn is in Sight
Short term view (0 – 6 months)	Scenario I: Need to implement immediate cost reduction initiatives. Primary concern is to be able to meet liquidity requirements and ensure effective measure tracking. Survival would be the primary concern of the organisation.	Scenario 2: Demands measures to review business objectives and plans. Possibly, organisation should avoid any expansionary initiatives and implement measures to contract spread towards a more specific target market.	Scenario 3: Allows luxury to traverse the downturn with minimal invasive actions, and the opportunity to try and sell products via promotional activities, to allow production facilities to be fully operational and ready to take advantage of the upturn.
Longer term view (6-18 months)	Scenario 4: Opportunity to focus on costs in a detailed way by looking at a strategic review of spend across the organisation's functions. Non-core asset disposal, customer profiling and competitor analysis would be key factors for survival.	Scenario 5: Situation would demand a review of customers, markets and operational inefficiencies across the functional value chain with a view to eliminate wastage across the board and evolve into a leaner and more cost efficient firm.	Scenario 6: Organisation should focus on managing key assets through the downturn and developing its competitive position. This scenario presents chances to look at capturing marked-down assets and market share from competitors.

About PwC Advisory Services

Our advisory team helps clients to execute their business strategy. We advise and implement , both locally and globally, and make change stick.

We address clients' issues through world class deals and consulting services based on trusted relationships, deep industry knowledge and professional experience.

Deal Services

Focuses across the deal continuum from strategy through execution to post-deal integration to capture the maximum value from mergers, acquisitions and divestitures.

Consulting Services

Focuses on improving processes and eliminating risks to manage costs better, grow revenue through enhanced customer engagement, and help clients anticipate, create and manage necessary changes to stay competitive and excel in their businesses.

- Business Recovery and Restructuring
- Corporate Finance
- Delivering Deal Value
- Financial Due Diligence
- Finance and Accounting
- Governance, Risk and Compliance
- Investigations
- Operations
- People and Change
- Revenue Growth
- Shared Services and Outsourcing
- Strategy
- Sustainability
- Technology
- Valuation and Economics

We also offer industry-focused solutions to address specific issues in various industries such as Banking and Financial Services, Consumer & Industrial Products, Telecom and Media, Energy, Utilities and Mining, Infrastructure and Government.

About PricewaterhouseCoopers

PricewaterhouseCoopers Pvt. Ltd. (www.pwc.com/india) provides industry - focused tax and advisory services to build public trust and enhance value for its clients and their stakeholders. PwC professionals work collaboratively using connected thinking to develop fresh perspectives and practical advice.

Complementing our depth of industry expertise and breadth of skills is our sound knowledge of the local business environment in India. PricewaterhouseCoopers is committed to working with our clients to deliver the solutions that help them take on the challenges of the ever-changing business environment.

PwC has offices in Ahmedabad, Bangalore, Bhubaneshwar, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune.

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