

# Managing effectively in a downturn

The impact of the financial crisis is becoming visible. It is still uncertain how deep the crisis will be or how long it will remain a reality. However, a shortage of cash and a drop in business activity is visible across many markets and spreading across the value chains of many industries. Steel production, the automotive industry, and real estate are just examples of sectors which are being heavily impacted. Almost every business will be influenced. The key question is whether you will benefit from this turbulence or lose out. That depends on how well you are prepared.

Often, the secret of survival will be getting the simple things right, rather than making major radical changes to every aspect of your operations. Many practical steps can be taken to minimize the effect of the downturn and to position a business to emerge strongly when economic conditions improve. PwC can assist your company and help you to be prepared, especially in the following areas:

**Assess your needs!** (1 - No need for improvement, 5 - Need for improvement)

## Strategic review - Know your stars

- Establish product, customer and segment profitability with a thorough analysis to ensure that all direct and indirect costs are considered
  - Review the product portfolio in terms of sensitivity and stress testing
  - Engage in client segmentation to focus on the best performers
  - Identify projects with the highest return on investments as priorities
  - Identify and build up KPI structure
- Your need: 1 2 3 4 5

## Cost-cutting analyses - Reduce costs

- Fundamentally reappraise the business model in all aspects
  - Review the cost structure – both fixed and variable
  - Establish what is bought, from whom, how and for how much
  - Analyse current procurement procedures
  - Analyse possibilities for cost reduction through outsourcing or subcontracting manufacturing, centralizing or outsourcing support functions, and redesigning remuneration policies
- Your need: 1 2 3 4 5

## Working capital - Free up cash

- Identify major factors driving working capital (such as the poor financial condition of a specific client group or poor inventory management) and identify opportunities for reduction
  - Review cash collection procedures
  - Identify minimal inventory levels and deficiencies in inventory management
  - Negotiate better terms with suppliers
- Your need: 1 2 3 4 5

## Financing needs - Using leverage successfully

- Review and analyse the conditions of financing agreements
  - Identify potential risks of banks questioning whether the conditions of financing agreements (such as covenants and reporting deadlines) are being met
  - Based on cash flow modelling, assess the potential to obtain further financing without exceeding covenant conditions in current financing agreements
- Your need: 1 2 3 4 5

## Modelling/projections - Know what's ahead

- Assess the consequences of changes in the current environment and embed this experience in your current modelling scenarios
  - Subject your assessment of the impact of the downturn on your business to stress testing and scenario planning
- Your need: 1 2 3 4 5

## Non-core assets - Focus on value-adding activities

- Review the company's assets to identify those which are not part of the core business, those not supporting the company strategy, or which are duplicated (such as real estate or social facilities)
  - Identify assets which may be appropriate for sale and lease-back transactions (such as office buildings or distribution centres)
  - Evaluate such assets and prepare a feasibility study for the disposal of non-core assets and businesses
- Your need: 1 2 3 4 5



## Strategic M&A activity - Identify the right deal

- Identify suitable targets and support you throughout the acquisition process
  - Provide buy-side lead advisory to help you negotiate the most favourable conditions
  - Perform in-depth valuation analyses to ensure you only pay for real value
  - Provide due diligence on potential acquisitions to help you avoid surprises and clarify the business performance of the target
  - Execute post-merger integration to help you achieve the greatest synergy from a merger
- Your need: ① ② ③ ④ ⑤

## Human resources - Manage your people

- Analyse and benchmark your Human Capital assets in relation to ROI
  - Consolidate the impact of collective agreements
  - Redesign the remuneration policy to create motivation incentives, especially in a changing environment
  - Increase cost consciousness
  - Manage key talents to retain key human capital
  - Analyse the use of HR outsourcing or personnel leasing as possible cost cutting methods
  - Redesign your shifts in order to ensure lower costs
- Your need: ① ② ③ ④ ⑤

## Divestment - Right time to sell

- Provide sell-side lead advisory to minimize the burden of a sale process while maximizing your sales proceeds
  - Analyse which businesses or parts of businesses should be sold and which should be kept
- Your need: ① ② ③ ④ ⑤

## Tax reductions - Efficient tax planning

- Assistance with, as well as implementation and project management of tax-efficient internal restructuring, such as the disposal of non-core assets, unbundling, mergers, or demergers
  - Tax optimization of a group structure and cross-border transactions
  - Sell-side and buy-side tax due diligence
  - Tax-efficient remuneration strategies
  - Improve the cash flow position by identifying potential reductions or deferrals of tax payments
  - Identify internal tax deficiencies
  - Analyse the transfer-pricing position, risks and needs
  - Assist in obtaining additional funds from the EU or local governments
- Your need: ① ② ③ ④ ⑤



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