Checklist for survival

The recession will be worse than most people in the chemical industry have experienced. To survive, CEOs will need to be prepared for the worst

PHOTOLIBRARY

Consultant's corner

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LAST MARCH, I advised CEOs to develop contingency plans to survive a "serious downturn" (see *ICIS Chemical Business*, March 31, 2008). My experience of previous downturns in 1980–1983 and 1990–1992 led me to warn that "if a serious downturn is underway, then time will be of the essence in ensuring business survival."

Since then, my worst fears have been realized. A financial tsunami swept through world financial markets in the autumn. Major banks failed, and had to be nationalized in the US and Europe.

The Dow Jones suffered its largest one year loss to date. It fell more, from its 2007 peak, than in the 12 months following the 1929 collapse.

Every recession is different, and it is important to focus on the key risks that companies now face. It is also critical to remember that there are very few places to hide from the downturn.

Specialty companies, just as much as those producing commodities, are all being affected by the falloff in demand and margins.

What should CEOs do now? The *Financial Times* recently provided some good headline advice, as follows:

Manage your cash. Don't spend unnecessarily.

Keep a strong balance sheet. Have as little debt as possible.

Price your products competitively. Be imaginative in your approach.

Keep faith in the future. Don't abandon all new developments.

I would add to this one key question. "Is your business robust enough to survive an extended period of low volumes and margins, against a background of tight credit markets, and continuing volatility in oil and currency markets?"

I would place this question at the top of the agenda for your next board meeting, and ask your colleagues to come properly prepared to discuss it from their own business and functional perspectives.

I would hazard a guess that you will all be horrified, by the end of the discussion, at the amount of work that lies ahead to ensure your company's survival.

FRESH APPROACH

This is not to suggest that your company has been badly managed in the past. It is just to highlight the completely different approach that is required to survive a major downturn.

We have been fortunate, over the past 16 years, to have suffered only minor "dips" in demand, as in 1997–1998, or 2001–2002. This meant that companies were able to focus on growth, and could set "stretch targets" for their key executives and employees.

But every silver lining has a cloud. This is that today, companies and their senior managements are relatively unprepared for the arrival of a major downturn. Everywhere one looks, there are signs of distress in key chemical markets – whether in housing, automobiles, or even agriculture. Plus, banks are still being forced to deleverage after the "liquidity party" from 2003–2007, and so even good quality borrowers are finding it difficult to access cash.

> "There are very few senior managers still around… who have… experience of… a recession

Yet there are very few senior managers still around, like me, who have hands-on experience of actually managing a business through a major recession. We can see the warning signs, and know what levers to pull. We also know what levers will not work anymore. Younger managers will learn quickly what needs to be done, but they will need help to go up the learning curve as quickly as possible.

CEOs, therefore, have a critical role to perform in today's market conditions. It is up to them to ensure that their board colleagues carefully consider my key question. They must then create a suitable restructuring team to develop and implement the solutions required. They must also take ownership for its work, by ensuring that the task force reports directly to them.

This team must contain all the main functions, so that its proposals can encompass commercial, technical and financial options. It must also be separate from line managers, who will still be responsible for operating the business on a day-to-day basis. Otherwise, its work will be drowned out by a mass of "urgent" issues, and it will not get to grips with those that are truly critical for survival.

It would also be sensible to ensure the team is challenged in its thinking by an informed "outsider." Otherwise, there will be a natural temptation to downplay some of the risks, rather than confronting them and looking for solutions.

In addition, CEOs have to become highly visible around their companies. Employees are understandably shell-shocked at the moment by what has happened.

They are alert to signs of panic or confusion among senior management. And they are personally worried about their own jobs and finances.

CEOs can't wave a magic wand to address these concerns overnight. But it is critical to maintain employee confidence by properly acknowledging their concerns, so that they know you have "heard" them. This will also stand you in good stead, if and when you have bad news to give them about job losses and closures.

Equally, CEOs need to support their chief financial officers by personally maintaining relationships with key bankers and financial advisers. They also need their confidence maintained. Rumors can start very quickly when financial markets are nervous, and it is important that all lines of communication are kept as open as possible.

CEOs also have to develop their own work-life balance.

Downturns tend to be drawn out, and this one could easily last beyond 2010. So they need to prepare for a marathon, not a sprint. Equally, the CEO must lead by example if the management team is to remain fresh and alert for the problems and opportunities that come its way.

Downturns are not much fun. There will be rallies along the way, of course. It is quite possible that we will see one in the next few months, as the recent wave of destocking and fire-sales comes to an end down the value chain.

But it is unlikely that governments will find a "magic bullet" to quickly correct the causes of today's problems.

Resilience is therefore the key issue for 2009. My dictionary defines this as "the act of rebounding, or of springing back." And this truly describes what is going to be required in 2009, after the awful end to 2008 that we have just suffered.

I hope that the above ideas will be helpful to all readers of the magazine, as this process gets underway in their businesses. ■

CHECKLIST FOR SURVIVAL

Each company will develop its own priorities for survival. But an action plan for the restructuring team should probably include the following key issues:

- Ensure the 2009–2011 budget is truly realistic in terms of likely volumes and margins
- Identify sensible options for cost cutting to ensure that the budget will be met
- Closely monitor performance of key customers and suppliers for signs of financial stress
- Increase earnings visibility by routinely hedging key currencies and raw materials
- Accelerate development of new products that can quickly contribute to the bottom line
- Watch the cash position like a hawk – and ensure it is monitored for signs of slippage
- Consider the worst-case scenarios and prepare contingency plans in case they occur

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