

How Companies Can Best Survive a Volatile '12

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Ongoing debates between politicians, economists and central bankers as to how to deal with the European sovereign debt and banking crisis continue on a daily basis. It seems that the only thing we can be really sure of is that no one really knows where this will all end up.

In short, either the North will have to bail out the South in some way, or there are likely to be defaults and possible euro-zone exits by one or more countries. Either way, the outlook is not good with the least-worst outcome being to continue to muddle through with significant austerity and, at best, weak growth. This is not a theoretical discussion. Underneath all the noise, some significant things are already happening:

- Banks have been told by regulators to prepare contingency plans for the breakup of the euro zone, and some are at risk from the current instability in European capital markets.
- Stronger and additional rounds of austerity measures are being introduced that will have an impact on both government spending and further change consumer behavior in the

countries affected.

- The likelihood of a downturn is increasing with key indicators such as the Purchasing Managers' Index showing contracting activity.
- Deposits are moving toward safer havens as deposits are reduced and transferred away from countries and banks perceived to be at higher risk.
- Risks of disruption and fraud have all increased in the most affected countries. A very high volume of European companies have the challenge of refinancing their activities in the face of this crisis over the next 12 months, competing with financial institutions and governments for liquidity.

Boards and management teams of companies with customers, operations or critical suppliers in the euro zone should be responding to these events now and preparing for a range of potential outcomes as the situation evolves over the coming months.

The real question is what practical actions can be taken now to protect value?

It is clear that the initial focus for action is rightly treasury and management of cash in the business. But there has been far less attention paid to the current and potential impact of the crisis on customers, operations, supply chains and the back office.

Below are 12 suggestions to help businesses manage a potentially volatile economic environment in 2012:

1. Act to minimize risk and increase balance sheet resilience in the event of a large-scale default and euro-exit scenarios. This includes a wide range of treasury actions, reviewing financing and funding positions, assessing counterparty risk, monitoring the tax impact of any changes and reviewing and amending contractual terms.
2. Change policy and process to enhance the visibility and control of credit exposures by country and customer. Similar steps should be taken with distributors and other partners. Review policies and contractual terms for customers and suppliers when writing new business.
3. Reassess critical suppliers for failure risk and develop appropriate mitigation plans.
4. Amend appropriate controls and authority levels. Increased uncertainty, changes in regulation and periods of austerity are all prime conditions for fraud.
5. Consider what business processes are required to ensure that the management team is able to monitor the situation as it develops, take decisions quickly and communicate effectively and widely.
6. Respond to the changing market and act to protect cash flow and profitability in affected countries. This includes considering routes to market, terms of business with customers and suppliers and changes in pricing and product mix.
7. Review budgets and business plans. The chances are that the business plan and budgets that you drew up months ago no longer reflect the trading reality. Managing performance against these budgets will provide little insight and changes in key performance indicators and review frequency are likely to be required.
8. Prepare response plans now and do not leave the planning until trading has fallen off.
9. Plan for the worst. With the level of uncertainty, business continuity and contingency plans should be revisited or created. This should cover local businesses as well as critical distributors and suppliers. There is little point producing detailed continuity plans if

a critical partner has none. Think now about how the business will be funded under different scenarios and consider solvency issues.

10. Produce triggered response plans. Given the range of possible outcomes it is not practical to create a contingency plan for each one. Companies should create a single contingency plan that thinks through and sets out the response to a range of agreed trigger events.
11. Implement appropriate governance. Decision structures and governance for controlling and monitoring the situation are often overlooked but vital.
12. Remember communication plans. You will want to keep close to customers, suppliers and other stakeholders to understand their plans and to reassure them.

It is likely that post-euro crisis, businesses will be operating in a very different external environment. Thus, current strategies and operating models may not still hold. You may decide that you want to limit operations in a country or indeed exit the country.

Or, conversely, there may be opportunities that you can take advantage of. There may be dramatic changes in the tax environment, and potential moves toward European tax harmonization create competing risks and opportunities.

Understandably, the European crisis is a subject at the top of nearly every company's agenda. Whatever the outcome, it is likely that the consequences will be felt far and wide for many years to come.

Companies are at varying stages in their response to the risks and operational challenges that the euro-zone crisis presents. To maximize value protection, companies should be acting and planning now.

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The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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