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Is Downturn a Matter of Concern?

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Abstract: *Experience shows that downturns are unavoidable cyclic business phenomena. The current crisis has cast its dark shadow across the globe heralding an atmosphere of dark. The overall impact as felt by almost all business organizations world over includes capital market, share price, production, credit crunch and restricted fund flow even to sustain the day-to-day business operations. Organizationally the structures, systems, processes, budgets, projects, supply chains and others take a severe beating. From the customer's perspectives the debt to disposable income ratio goes on the incline and the Personal Saving Rate on the decline while reluctance for new investments and volatile expectations rule the market. In the employee dimension, mounting anxiety and apprehension as well as slipping morale and motivation directly affect productivity and key talent is ripe for plucking by the competitors.*

Edwards Deming has said it wisely – "Learning is not compulsory but neither is survival."

Upturns, expansion, peaks, downturns, recessions and troughs are all integral parts of any normal economic activity, called the classical "Growth Cycle."

Literally a downturn means "a worsening of business or economic activity". Recession is defined as a significantly prolonged period of deadline in the business activities viz. of total output, income, employment and trade, market by widespread conditions in many sectors of the economy.

A downturn is just transition. Recession's hits industry in many ways, such as a slump in volumes reduced capital turnover ratio, under utilization of resources, spiraling fixed costs and increased unemployment.

The common agenda for action revolve around cutting costs and/ or consolidation of facilities, better working capital management, curtailed capital expenditure right sizing of manpower ad assets, import substitution, value engg., controlling inventions, ancillarization, and minimizing manufacturing costs.

A much closer to everyday life indicator is the fall in property prices over the last few years and also the no. of discount sales one witness all the year round instead of during the traditional festive session.

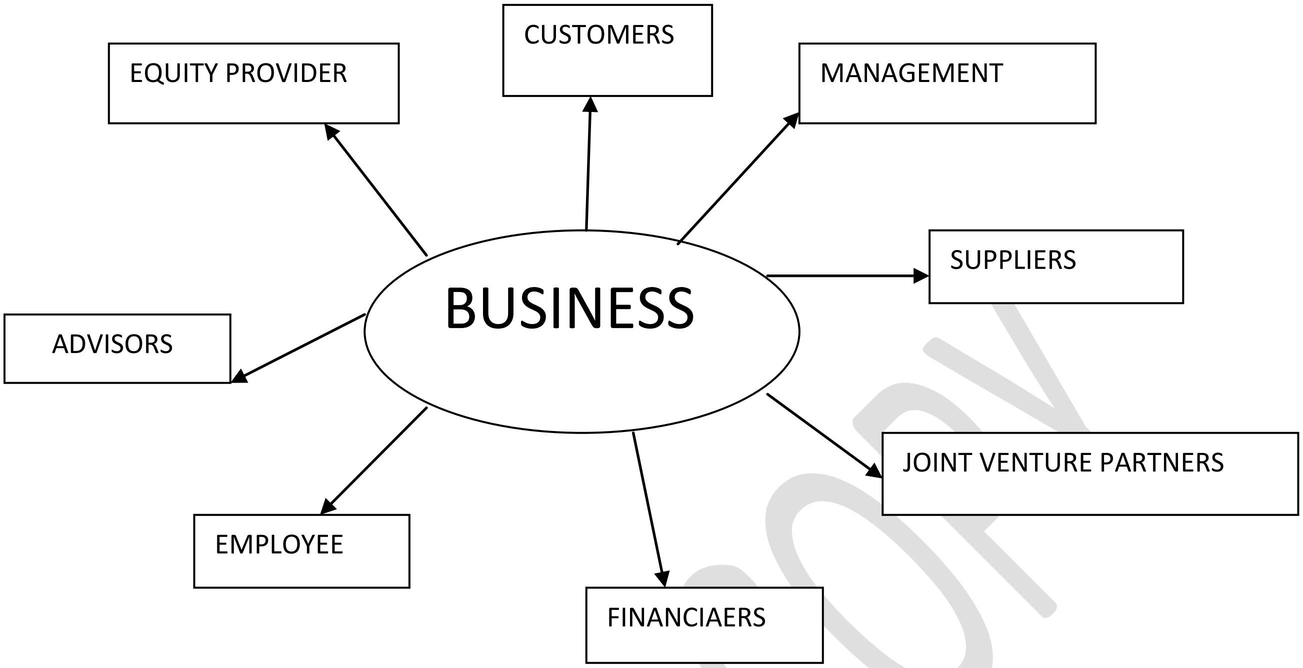
Industrial slowdown is widespread covering all broad sectors such as manufacturing, electricity and mining and all end use based groups such as capital goods, and consumer goods both durable and non durables. The slowdown in industrial growth may be due to a number of structural and cyclical factors.

WHY A DOWNTURN

In today's volatile and complex business environment, any company is subject to risk factors. It does not matter what the sector is, the range of risks remains similar. The major issues may be of-

Globalization,
Lack of Non Core Competency,
Government policies,
Technology boom,
Business portfolio,
Funding,
Global supply chain,
Outsourcing,
Border tensions.

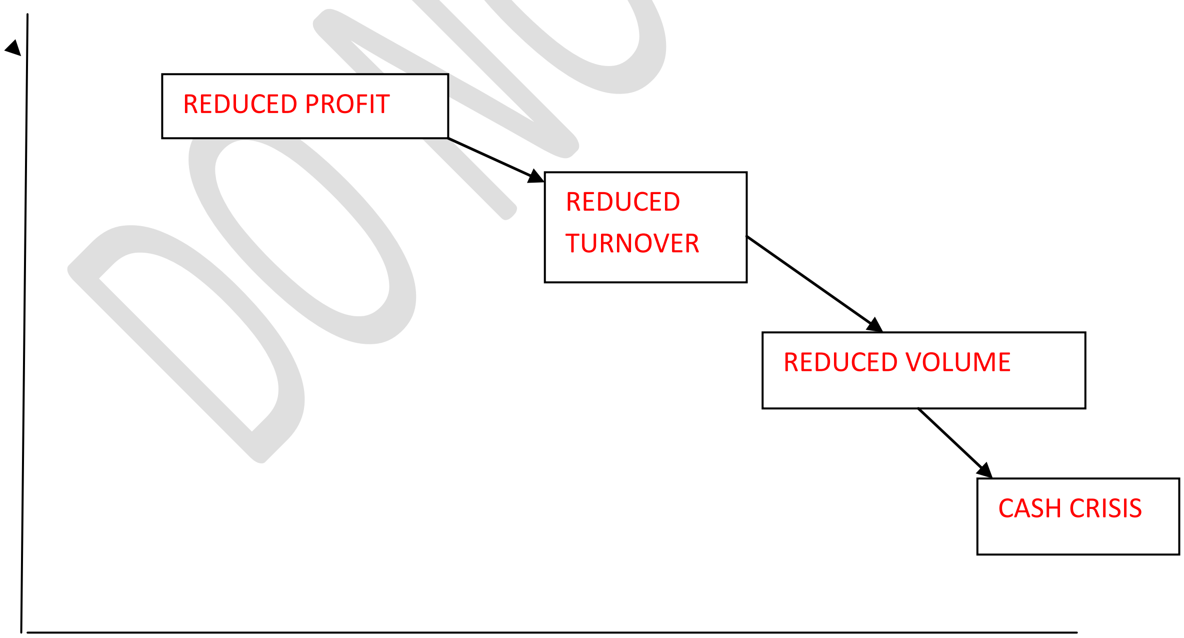
For corporate the complexities may be even greater because it is complicated by the prospect of multiple stakeholders to co-ordinate, each having their own agenda. It is true that all of these complexities create pressure on the organization.



EFFECT OF THE DOWNTURN:

Failure to take the right action, once warning signs have been observed can lead to adverse effects.

SUCCESS



It starts with the fall in the profit margin. This leads to fall in turnover, with a subsequent reduction in volume. In the end, it is likely to be the lack of cash that kill the business. Such companies move to the panic Zone the company detects it on time it may acquire / learn new skills and move to the stretch zone, from where it can build confidence and turnaround to reach the comfort zone.

OPPORTUNITIES EMERGING IN THE DOWNTURN:

Challenges are the essence of business. A successful business is not one that prospers only during boom time; nor is it one that has no fear of the unknown, but it is such a company that has the ability to manage fear without getting paralyzed; it is one that overcomes challenges and convert them into opportunities when the going gets tough. Business leader can exploit industry downturns to harness their unique opportunities for upward mobility.

At the same time, when companies are grouping with downturn, many opportunities surface. Perceived opportunities emerging in the downturn as identified as-

1. **Strategic partnership-** Strategic partnership are arrangement between firms forming a co-operative alliance. Parts of their business are linked by mutual commitment of resources for achievement of common objective. Partnership is much beneficial in difficult times to absorb risk by partners.
2. **Strategic hiring of talented professionals-** Many companies, to cut costs during recession, adopt the policy of downsizing. A vast number of talented professionals are, thus available for recruitment, managers can take advantageof this favourable situation by hiring these professionals by suitably interviewing them and testing their knowledge / skills/ competency levels.
3. **Acquiring & retaining the most profitable customers-** Most companies know that all customers are not created equal, but how unequal they are may come as surprise. In the downturn our best customer typically provide an even greater share of profits, when our worst customers typically becomes value destroyers. So while cutting out the

weakest market segments, companies can benefit by redesigning value propositions to better serve the most profitable customers.

Downturn can be used to expand relationships, tighten control, and reinforce company status as the customer's first choice. Therefore companies swear to connect to customers.

4. **M & A-** M & A, thus help a company to survive and grow in a recession due to the better economies of scale, and the benefits of sharing productive resources. Also, during a downturn the valuation of weak companies is low, allowing stronger companies to take them over and thereby further their position in the market.

   Most of the counties are dominated by government–owned or government linked companies, which are considered lethargic and bureaucratic compared to their counterparts. M& A could bring a transformation which can allow a change in the mindset to help improve their competitiveness.

5. **Acquiring fixed assets**- Excess capacity and the need for improving the cash flow prompts a lot of companies to sell fixed assets during the downturn. Such assets are also up for sale during auctions conducted while liquidating companies. They could range from machinery to surplus land and buildings. Companies with prudent fund management can exploit these opportunities to make good pickings at low prices.

   Other business opportunities also exist during a downturn. But all opportunity shrinks quickly in the downturn and only the best in terms of cost and differentiation manage to sail through the crisis period.

6. **Building efficient organization-**The stronger your business is, the less likely it is to be affected by risks - if they do eventuate - or unforeseen events. Strengthening the business doesn't just involve financial management but it also includes strategies to retain and broaden your market share, business affordability, keep morale high amongst your staff and improve business practices. Business must look for opportunities to network and form alliances; this will help minimize the exposure to risks.

Conclusion-

One thing that is certain is that the downturn is not permanent and eventually the night will lead to morning and morning to night in due course of time. Resting on your strengths or resources during a downturn and allowing yourself to stay in the market could be disastrous. During the recession, pace might be slow but interest may be kept high if time and opportunity are invested in right place, thereby improving the readiness of the company to take rapid strides, rather than quantum leaps into the future. We must remember that, in the storm only survives, have a vision as well as flexibility.

During economic downturns, healthy companies consolidate their strength to achieve competitive edge through various turnover strategies which include innovation, technological up gradation, pool of human assets, restructuring of cost base and adopting better operating models.

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