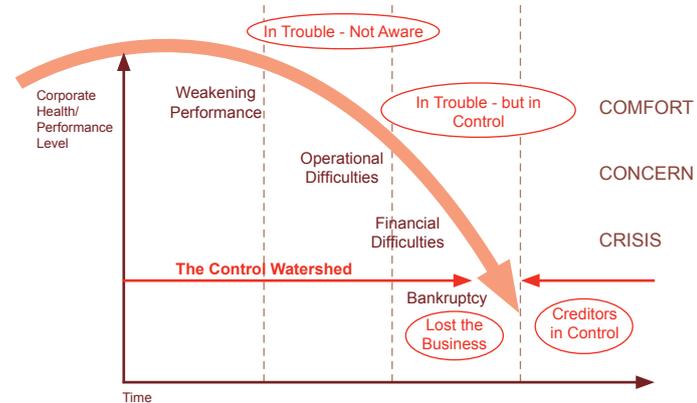


Top 10 points on how to manage the crisis



During uncertain and volatile times it is important to make tough decisions early. Here are our top 10 points to help you focus on key value drivers and risks across your business. The future holds success for those who best position themselves to take advantage of the eventual upturn.

Company life cycle



Short-term	1. Analysis: What is your real situation?	During an economic downturn, your goal posts are moving. It is critically important to work with an exact analysis of your real situation, not with best estimates.
	2. Performance: Act decisively, based on reliable data	Successful players must demonstrate flexibility and agility. Now more than ever, you need high quality, timely management information and appropriate key performance indicators.
	3. Manage your costs, not just lower them	Focus on enhancing operational performance. Focus on savings in targeted and justified areas instead of across the board cuts.
	4. Cash is king	The majority of companies face financial issues during a downturn. In order to manage the crisis successfully, you need to minimise your debt and receivables and maximise your liquidity.
Mid- and long-term	5. Think ahead, the crisis will pass	In the short-term, you managed to stabilise cash and minimise costs. In the long-term, you need to preserve your growth drivers and your ability to compete.
	6. Prepare for potential risks	During an economic downturn, there is mounting pressure to achieve business goals and generate profits. Do not overlook risk management, especially fraud prevention.
	7. Do not forget about tax and legal implications	Tax planning can have a substantial impact on your liquidity and profitability. All of your actions have tax implications and as such can also affect your profitability.
	8. Communicate	Evaluate the likely impact of the downturn on your stakeholders and try to understand their positions and needs.
	9. Where to finance from?	Some financing sources may prove too expensive or may overly restrict your flexibility.
	10. Recognise the value of your people	In times of crisis, regular and clear communication with your employees is key. Identify key talents and develop appropriate incentive programmes for them.
How to do it?	Professional Team	During growth and stable times, businesses typically do not keep specialised crisis management teams. However, in case of a sudden shift, the lack of such competencies and capacity is critical.

1. Analysis: What is your real situation?

During an economic downturn your goal posts are moving. It is critically important to work with an **exact analysis** of the real situation, not with best estimates.

What are your real value drivers and how are they going to be impacted by the downturn? Do you have access to complex information that will allow you to objectively evaluate your strengths and weaknesses, your market position and the volatility of your business to outside impacts (such as input/ material prices, etc.)? What do you have to do to minimise the impact of the crisis? Do you need to focus on key customers, change suppliers, cut back production or adjust your pricing strategy?

When analysing your market position and possible responses, focus particularly on:

- **Business partners** (banks, etc.): Do they have correct information about your situation and your plans?
- **Competitors**: Will they change its product or services portfolio, lower prices or establish strategic partnerships with other suppliers? What strengths do they have? Are you in danger of a hostile takeover?
- **Customers**: will they prefer a cheaper version of the product, buy a smaller volume of the same product or service or will they look for brand new alternatives? Are there differences between different client segments?
- **Suppliers**: Are your contractual terms favourable? Does the market offer any alternatives?

Based on quality data, model a **range of financial, operational and workforce scenarios** that reflect the potential impact of the downturn on your business. Be prepared to adapt them as needed based on market changes and explore your strategic options as you go.

How can we assist you?

We can help you analyse your current situation and possible scenarios, re-evaluate your strategy, financing sources, operational management and human resources management.

4. Cash is king

The majority of companies face financial issues during a downturn. In order to manage the crisis successfully, you need to **minimise your debt and receivables** and maximise your liquidity.

Cash management must be your priority, because otherwise you won't be able to **fulfil your obligations** which would lead to insolvency.

- protect your liquidity and insist that your customers pay in a timely manner
- re-examine your cash-flow, financing sources and expenses
- monitor your performance against financial and non-financial covenants
- keep your inventory stocking levels as low as possible
- utilise factoring opportunities.

Effective **working capital management** can help reduce your dependency on your creditors and lower your financial costs as well as risks of losses related to inventory obsolescence or unenforceable claims. Consider the following strategies:

- stricter credit control and motivating customers to pay on time
- rewarding sales representatives only upon collecting payment, not upon closing the transaction
- paying invoices only on the due date, unless there is a specific incentive to pay early.

Re-examine your contracts with banks and other creditors – are they beneficial to you considering the current market conditions? Closely monitor your economic performance and your financial liabilities and regularly and openly communicate with your stakeholders – unexpected surprises are the worst.

2. Performance: Act decisively, based on reliable data

Successful players demonstrate flexibility and agility. Now more than ever, you need to have access to high **quality, timely management information** and appropriate **key performance indicators** (KPIs).

History shows us that businesses that succeeded during downturns were those that acted decisively, managed to mobilise their internal resources and took advantage of current uncertainties, weaknesses or the slow reactions of their competitors:

- During times of crisis, you need strong leaders – are your key posts staffed appropriately?
- Is your work productivity at maximum? What are your internal reserves and how can you utilise them?
- What are your internal options for increasing margins?

Maximise the benefits of your spending. To enhance performance, select a limited number of clear and transparent key performance indicators (KPIs) that are relevant for the current situation and support cash generation – do not rely on indicators that were appropriate during growth times.

How can we assist you?

We will help you focus on key business values and achieve maximum performance. We will focus on sources of quick growth as well as long-term benefits and will help you to not only withstand the current downturn, but be ready for growth as soon as market conditions improve.

3. Manage your costs, not just lower them

Focus on enhancing **operational performance**. Focus on savings in targeted and justified areas instead of across the board cuts.

The fastest way to savings are strict **caps on new hiring and limiting expenditures**, which do not directly support your business or its development and their elimination will not jeopardise your main operations.

Profitability analysis needs to reflect both direct and indirect costs of each product or service. It will help you decide which activities may be terminated or deferred, how to set your new prices, business terms, etc.

- Which **products, customers and distribution channels** create or destroy value? Do not try to save on profitable products and clients – ensure their loyalty. It is however pointless to invest in products and services that produce only marginal profits.
- Evaluate your **cost structure** and benefits arising from different types of expenditures. Savings can be achieved by improving the purchasing and production processes and eliminating inefficiencies.
- Focus on your employees and support **their cost consciousness**.
- Don't forget your **working capital** as its proper management can lead to big savings.

How can we assist you?

We will help you evaluate the efficiency of individual product and customer expenditures, improve the efficiency of your spending and bring you an objective overview of your saving measures. We will provide you with an expert view of the short- and long-term impacts of different saving measures.



How can we assist you?

We can help you improve your working capital management, re-examine your supply chains, set your priorities and support cash generation of your business.

5. Think long-term, the crisis will pass

In the short-term, you have managed to stabilise cash and minimise costs. In the long-term, you need to preserve your **growth drivers** and your **ability to compete**.

Economic recession gives you the opportunity to improve the long-term efficiency of your business. When you eliminate non-essential costs, you have the opportunity to set up your cost system in a way that will be efficient in the long-term.

Long-term cost reduction is based on the fastest possible returns. A larger proportion of variable and a smaller proportion of fixed costs will improve your resistance during an economic recession. A change of your business model, including re-evaluation of your target markets, of your product and services portfolio, possibilities of outsourcing or centralisation, transformation of your information systems or remuneration policy all demand a careful analysis, sufficient amount of time and stakeholder support. Do not forget the advantages of tax optimisation.

Have an eye for the **future**; think beyond the next quarter.

- Do not stop innovating and investing in areas that will feed your future growth.
- Do not forget to build your brand.
- Downturn periods create interesting opportunities for lucrative mergers and acquisitions with high return potential. In order to be successful, these transactions require financial backing, flexible decision-making as well as specific skills and expertise in the area of forced property sell-off.



How can we assist you?

We will provide you with an objective review of your situation and offer you a sustainable business and operations model. We will evaluate the efficiency of potential outsourcing, information systems and remuneration policy. We will help you monitor and carry out financially advantageous mergers or acquisitions that will support your future growth. We will analyse the expected development in your field so that you are ready for the future strategic growth of your business.

6. Prepare for potential risks

During an economic downturn, there is mounting pressure to reach business targets and generate profits. Do not overlook risk management, especially **fraud prevention**.

- Investing into proactive measures costs less than losses arising from fraud.
- Your employees must be able to resist risks such as corruption (e.g. in order to reach business targets), manipulating financial results or producing false documents in order to obtain financing.
- If fraud occurs, consider the impact on employee morale and your reaction to it, as well as on recovering the damages (such as through anti-fraud insurance or through criminal or civil proceedings).
- Make sure that departing employees do not breach your trade secrets and that upon their departure you will have access to all relevant information regarding their work.

How can we assist you?

We perform an analysis of probable risks, help you implement preventative measures and design a reaction plan in case of a crisis.

9. Where to finance from?

Some financing sources may prove **unnecessarily expensive** or may overly restrict your flexibility.

While currently it appears that it is almost impossible to refinance business loans, companies that are able to generate cash and can demonstrate a good plan for future growth can take advantage of a number of options – not only with banks, but also through **alternative financing** such as financing with own capital or leasing.

Analyse available options and consider which form of financing is suitable for your company, including tax and other implications. Finance providers need a **reliable assessment of your economic situation** and your outlook, e.g. by a reputable auditor.

The fastest money, is the money that you don't spend. First of all, you should always look at possible **internal financing sources**.

How can we assist you?

We will perform an analysis of your situation and suggest suitable financing sources. We will verify your economic situation – an independent statement by a reputable auditor will improve your chances of obtaining financing from banks and other institutions.

7. Don't forget about tax and legal implications

Tax planning can have a substantial impact on your liquidity and profitability. All of your actions have tax implications and as such also impact on your profitability.

- Tax planning is important at all times, but even more so now, when companies look for cost savings and stress cash flow management.
- Savings can not only be achieved in the area of corporate income tax, but also in personal income tax, social and health insurance. A number of savings options can also be found in the area of VAT.
- In tax planning, it is important to focus not only on the tax obligations of individual companies within a group, but on optimising the total tax obligation of the whole group. Particular attention needs to be paid when some companies within a group are creating losses, while others show tax obligations.

How can we assist you?

We will help you find ways to minimise your tax burden and/or to defer your tax obligation. With our knowledge and experience, we are ready to help you manage the impact of all direct and indirect taxes on your business.

8. Communicate

Evaluate the likely impact of the downturn on your stakeholders and try to understand **their positions and needs**. A person's **perception of a situation** is often more important than the situation itself, so it is crucial that you regularly and openly communicate with them. Stakeholders are primarily:

- owners
- employees
- customers
- authorities
- creditors
- suppliers
- media
- lawyers

Loyalty of your key customers and employees can be substantially affected by the way you communicate with them. Inaccurate, incomplete or untimely information can have a major impact on their position and may jeopardise your viability. Particularly in times when finances are tight and their loyalty cannot be rewarded that way, the key to your success is good communication, quick feedback and an open approach.

How can we assist you?

We will help you identify key groups and ensure good communication with them. An independent third-party view will provide your communications with added trustworthiness.

10. Recognise the value of your people

In times of crisis, regular and clear communication with your employees is key. Identify **key talents** and develop appropriate incentive programmes for them. Downturn periods are challenging for keeping employees motivated and keeping their productivity up. First of all, you need to identify key people that will be critical to your future success and ensure that you can retain them during the crisis period.

- Do they know that they are **important to you** and what their role is?
- Can you utilise their capabilities **in a different way** than in the past?
- Do your **performance and reward programmes** support your current needs?
- Do your employees **understand** the new measures?

While you may need to restrict your new hiring, don't forget that right now it may be easier and cheaper to find **qualified employees** which will drive your future growth. Lay-offs and job elimination are two but not the sole options on how to deal with the effects of an economic downturn. Consider all the alternatives of employee relations as allowed by law. Also consider all the tax and legal **implications** of lowering your staffing levels.

How can we assist you?

We will help you identify key people, ensure appropriate communication and set up a good remuneration and performance management system. Law firm of Ambruz and Dark associated with PricewaterhouseCoopers can help you with your legal affairs related to employment.



How to do it?

During growth and stable times businesses typically do not keep specialised crisis management teams. However, in case of a sudden shift, the lack of such competencies and capacity is critical.

How can we assist you?

- We can provide you with knowledge and experience in project management, dealing with the broadest array of crisis situations, performing detailed analysis and ensuring maximum efficiency at minimum costs.
- We are ready to take full responsibility for the success of projects and reaching set targets. We are used to working as an integrated part of our clients' teams. We can cooperate with you on a short-term basis on a specific project or on a long-term basis, working towards long-term goals.
- Apart from project management and related advisory services, we also offer an on-going support and help to company management and its team in carrying out necessary projects on their own.

Collaboration with us will benefit you more than it will cost. Depending on the type of project, we will set either a fixed hourly price, a project price or a combination of both. Another effective option is a success fee based on the level of success of a project or reaching a set result.

Ask us if you need information, support or services in the following areas:

- tax optimisation and planning
- strategic and operations planning
- cost-structure management and cost reduction
- working capital management
- cash flow management
- operations management
- risk management and fraud prevention
- improving the financial function (financial restructuring)
- Processes optimisation
- bankruptcy (insolvency) proceedings
- obtaining financing
- valuation
- due diligence
- legal aspects
- independent assessment of an economic situation/ company performance

Contact our Experts

Petr Smutný

Director, Performance Improvement Department
petr.smutny@cz.pwc.com, +420 251 151 215

David Borkovec

Director, Tax and Legal Department
david.borkovec@cz.pwc.com, +420 251 152 561

Kateřina Halásek Dosedělová

Manager, Transaction Department
katerina.halasek-dosedelova@cz.pwc.com, +420 251 151 293

Katarína Smrčková

Senior Manager, Human Resources Management Department
katarina.smrcekova@cz.pwc.com, +420 251 151 632

www.pwc.com/cz