

Ernst & Young: Economic crisis taught businesses crucial lessons

Kyiv Post, February 11, 2010

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Aggressive cost-cutting turned out to be a losing strategy for companies in crisis, a recent study showed.

It's been a year and a half since the beginning of the global financial crisis – enough time to make the first conclusions. Companies across the globe used a plethora of survival strategies, with varying results. In this Kyiv Post interview, Alexei Kredisov, managing partner in Ukraine for Ernst & Young, one of the Big Four auditing and consulting companies, highlighted some key factors that helped companies to successfully deal with the crisis.

KP: At the beginning of 2010, what are expectations among businesses in terms of opportunities they will have this year? Do they feel the economy is recovering?

AK: A comprehensive survey of senior executives at nearly 900 major companies worldwide done by Ernst & Young reveals a very different business environment compared to 12 months ago. About 34 percent of companies are now feeling quite optimistic about their future and have expansion plans in contrast to 19 percent at the beginning of 2009. Companies are still planning for further cost reductions and improvements, but the quantity of such companies is significantly less than at the beginning of 2009.

However, it is too early to say that we are out of the crisis. The corporate world, for the most part, is still nervous about recovery and considers surviving 2010 to be the next challenge.

KP: Is there any difference in expectations between Ukrainian companies and the rest of the world?

AK: We observe the same trend in Ukraine as everywhere else. The consistency of survey results indicates that Ukrainian businesses feel very similar to how their counterparts feel elsewhere. It proves that the Ukrainian economy is very integrated, much more than most of Commonwealth of Independent States countries, which had significant delay in feeling the crisis, or were hit less by the recession.

KP: What are the main lessons of the crisis?

AK: In our survey, we separated companies into two big groups to identify the 'winners' and 'losers.' Companies that achieved five percent or more increase of EBITDA (earnings before interest, taxes, depreciation and amortization) were referred to as 'good performers.' Companies which demonstrated a worse result were called 'poor performers.' Then, we tried to identify how 'winners' and 'losers' responded to particular challenges, what they did during the crisis. We observed that companies that won as a result of the crisis were doing certain things that companies that lost were not doing.

We can draw certain lessons from these observations. For example, who do you believe was aggressively reducing fixed costs of their business more? The expected answer would be the 'winners,' but it is not true. Losers were more aggressive in cutting their fixed costs, which is office rent, machinery or human resources, for some companies. This is one of the lessons.

KP: Why did those who aggressively cut costs lose?

AK: When you are in a crisis, it is natural to shift focus to reductions, cutting fixed costs, salaries, employees and marketing. You cut. But you don't win by cutting. You win by going out to markets, and sometimes by continuing investments, by hiring new people, by thinking of new products. Companies that focused on cutting were the losers. Don't get me wrong, winners were also focused on reducing expenditures, but for them it was secondary.

KP: What other initiatives made a difference for companies during the turbulent times?

AK: More companies in the 'good performers' group of our survey explored new ways to improve staff productivity and workforce mobility as an alternative to reducing headcount. Such companies also sought

alternative distribution channels and exploited new technologies to accelerate growth, pioneered innovative entry strategies. They also sought strategic hires to fill skill gaps speedily, and at an acceptable cost.

KP: Where did Ernst & Young itself land, among the 'winners' or 'losers' of the crisis?

AK: Based on the market information we gathered, Ernst & Young outperformed its competitors on a global basis. Revenues went down, but they went down for the whole industry. While the global company declared a 0.2 percent reduction, E&Y in Ukraine showed a 5 percent increase of revenues [up to \$40 million].

We are a smaller and leaner organization now. It is easier to navigate a small boat rather than a big ship. We were faster in Ukraine to offer anti-crisis services tailored to the Ukrainian market. I believe we took advantage of this size and leanness of our organization. The key for us was going beyond audit into tax and legal advisory, management consulting and expanding our client base. We retained the majority of our key people and the staff did not lose their motivation.

KP: Does your research indicate that the economy and your business in particular have reached the bottom?

AK: I have just returned from the Davos forum where, among other things, this issue was raised and debated. There is no uniform view on this. I believe we have passed the worst. There may be a second wave of the crisis which may be prolonged but will be not as bad as the first wave of the crisis was. We might have a W-effect, but the second curve will be not as low as the first.

In the last couple of months some industries and economic indicators have been improving quite significantly. However, businessmen are concerned that this might turn out to be a very short-term aftereffect of significant funding and stimulus programs launched by governments. They are quite concerned that money will go away and global finances will not start functioning as expected. There is a small possibility that the auditors' fees will return to the pre-crisis level this year, however this possibility is not very high, it is not likely to happen. My expectations are that business won't skyrocket. It will develop well but over a longer period of time.

Interview was taken by Oksana Faryna