

A close-up, high-angle photograph of an hourglass. The hourglass is made of clear glass and is filled with dark grey sand. The sand is piled up in the top bulb and is beginning to flow through the narrow neck into the bottom bulb. The lighting is dramatic, highlighting the texture of the sand and the smooth curves of the glass. The background is a plain, light color.

Deloitte.

It's time to make the call

Taking control in turbulent times

Tough calls

In an extraordinary economic environment like the one we face today, many companies are finding that the hardest thing to do is make the first call. That's a mistake. Companies who take control today hold a considerable advantage over those that don't.

That's why we wrote this book. Hoping for the best is not a strategy. You need to be prepared to act definitively to control the situation, before it controls you. As a starting point, we've identified seven questions you need to be able to answer – **now**.

If you devote the time to making the calls you need to get answers to these questions, you'll sleep better tonight. And your company will be better off for it.

1

How's our cash position?



One word matters most in this economic environment: cash. You need to know what your cash position will look like in seven days, 30 days, 90 days, 6 months, 12 months and 24 months. And you need to know it now. Because to remain competitive, or even stay afloat, you'll need to rely on self-funding. There's just not enough cash to go around – and companies that have cash, are the ones running the show.

Where's the best place to find cash in times like these?

Working capital. It's one of the few areas left that can deliver significant cash in a short period of time. But converting idle working capital to cash requires an intensive focus on relationships with your suppliers and customers, and a new view of inventory.

Remember: you're not the only one in a challenging situation.

Which of your key suppliers are unhealthy? Who's doing well? This is a time for tough conversations – and verbal commitments aren't enough. You want to carefully move away from unhealthy suppliers as quickly as possible, considering the outsized impact they can have on your business.

Customers are equally important.

How healthy are they? How much will they be buying from you a month from now? If you're still shipping orders to them on credit, are you confident that they'll be able to pay? Stepping up your customer interactions will strengthen your relationship with the good ones and help identify those that are in trouble. Now is the time to weed out customers with poor payment histories, freeing resources to aggressively pursue your competitors' best customers.

Inventory is another area for freeing up large amounts of cash. Are you holding safety stock for your customers unnecessarily? Are you holding the right SKUs – the ones that are most profitable? Do you have a clear picture of near-term demand? Inventory planning, forecasting sales, matching inventory with revenue generation - these are all areas where more stringent management is required to improve your cash position.

Bottom line

You can't take anything for granted in this environment. If you want to free up working capital, you need to look closely at areas that have been considered safe for years. It will take some hard conversations, and even tougher calls. But in turbulent times, there may be no other way to stabilize your company over the long term.

2 Are we ready in case of an investigation?

When your business takes a sudden turn for the worse, people start asking questions. Customers and suppliers. Directors and employees. Regulators. Everyone will want to know who knew what, and when. Litigation is a strong possibility, and in Canada, class-action lawsuits are on the rise. When it comes to risk, you need to find out what fires are already burning and move quickly to put them out.



Your first step is to get the facts, so you can answer honestly and correctly when asked about the decisions your company made. That means being ready to respond to requests for information from senior management and the board, regulators, or to comply with preservation orders. And to get the facts, you need the underlying data. Often, being able to locate the data is far more complicated and time-consuming than it should be. You need to secure all relevant data – even emails and information that could be walking out the door with departing employees.

You can't assume that you're operating in a risk-free environment. Your business could be facing significant risk exposure without even knowing it. Some of your own executives could be engaging in risky behaviour. It may be time to reevaluate what's considered risky. Are you doing business with people -or regions- that present a risk? Today, every deal deserves closer scrutiny – otherwise, you could end up with a portfolio of worthless assets or be subject to regulatory action. That means knowing where, how and with whom you're conducting business, and making sure due diligence is applied to current and new business partners and executives.

Bottom line

The one thing we know is that change is happening quickly and crises seemingly reveal themselves overnight. If you get caught in a crisis, you need a plan to manage the downside risks and be prepared in case the investigators come knocking. Failure to do so could have extreme consequences for you and your business.

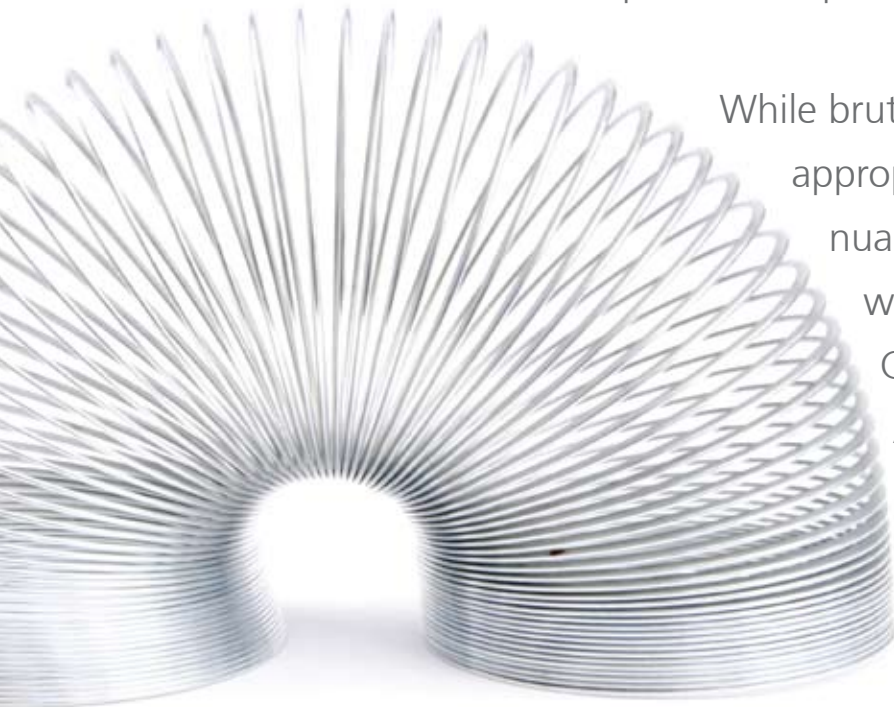
Some important ways you can take control now to reduce your risk exposure:

- Create a financial crisis risk team charged with assessing current risks and investigating prior risky activity
- Develop a crisis response plan
- Preserve and secure all paper and electronic data, in a format and location that is easy to access if the need arises
- Identify all critical systems, models and other data most vulnerable to abuse
- Generate a comprehensive list of ways that your financial statements or other financial information could be falsified, or ways in which you could be defrauded. Take steps to shield the company from financial fraud
- Develop a complete and accurate inventory of your company's most important intellectual property and its value
- Evaluate existing security and ethics programs with an eye to identifying critical gaps
- Identify where lawsuits are likely to come from

3 Can we get some financial breathing room?

It's easy to clam up when your back's to the wall. Companies looking for financial flexibility to reduce volatility during tough times like these tend to rely on the old standbys – across-the-board cost reduction mandates are a prime example.

While brute-force measures may seem appropriate in this environment, a more nuanced, holistic view of your situation will deliver the results you need today. Get beyond the platitudes. Get real. And get back on your feet.



Most companies still aren't moving fast enough on cost reduction. One place to start is to identify a handful of the most pressing issues and develop internal campaigns around them. Shrinkage, for instance, is a real cost that directly affects the bottom line – and it doesn't negatively affect staff morale.

At the same time, there's always more fat to trim. What projects do you have underway right now that can be cancelled or delayed with minimal impact on operations?

What about those long-fuse sales opportunities? In many cases, if you don't close that big deal now, it may never happen. Consider leaving extra margin on the table to close a long-term contract and secure the cash you need for continued economic uncertainty. The same goes for any large receivables.

Bottom line

In the end, this is all about strategic financial flexibility. Try not to commit to anything you don't need to, and free up as much cash as possible.

Ten steps to breathe easy and achieve financial flexibility in turbulent times

1. Know the terms: What's the long-term cost-reduction imperative?
2. Make sure you have executive support
3. Don't break the business
4. Focus on customer retention and employee motivation
5. Establish rigorous project management mechanisms to drive execution and follow-up
6. Hold management accountable for results
7. Mitigate key risks and develop contingency plans for vital elements
8. Communicate, communicate, communicate to minimize uncertainty and anxiety
9. Regularly describe the process, share key milestones and inspire confidence
10. Don't underestimate the importance of change management

4 Should we call the bank?

Yes. Some executives behave like turtles when things get tense. They pull back into their shells and hunker down for the duration. In today's turbulent environment, unless you have all the cash you'll need for the foreseeable future, that's a formula for disaster.



In the good old days, all you had to do was pick up the phone and someone would lend you money. Not now. These days lenders are extremely cautious – and few are taking on new customer relationships. That means you need a solid working relationship with your current bank.

It's especially true if your debt is coming due in the near term. You're likely to face higher rates and more restrictive loan covenants, and in some cases, you could face rejection.

Bottom line

Bankers like leaders with steady hands. They want you to communicate proactively – and often. In fact, it might not be a bad idea to pick up the phone right now and set up a meeting.

What can you do to make your company more credit-worthy and improve your negotiating position?

Talk to your banker – about these five things:

1. **The basics.** Explain how you're taking control. Make sure you've cut discretionary costs for real, not just for show. Wring every unnecessary dollar of cost out of your operations. And then prove it.
2. **Customers.** Make sure your banker knows you're doing the work of getting closer to your best customers and that you understand their creditworthiness.
3. **Cash.** Give your banker a clear picture of your cash situation today, as well as for the next 12 and 24 months.
4. **Contingency plans.** As you develop scenarios, share them with your bankers. If you know it, they should know it too.
5. **Growth.** This downturn will end. Make sure your banker knows where you see the longer-term future – and what you're doing to prepare for it. Take advantage of upcoming growth opportunities.

5

Are our valuations defensible?

Ah, 2007 – the days of liquidity, low volatility, stable interest rate spreads. They're long gone now, with no signs of returning anytime soon. Without widely accepted methods of determining value that relied on market-based benchmarks ("mark-to-market"), it's time to go back to the basics to determine fair value. This is not a time to hope for the best – you need a defensible methodology for determining fair value.

Fair value has been making headlines for some time now. What is less obvious is the degree to which your fair value determinations need to be defensible. Nobody knows what level of scrutiny fair value analyses will be given in the future.

Sometime soon, you may have to sign financial statements claiming the value of your company's assets. Before you put pen to paper, you need to have a defensible methodology for determining that value. You must be able to defend your valuations – to your own board, and maybe even to the regulators.

Bottom line

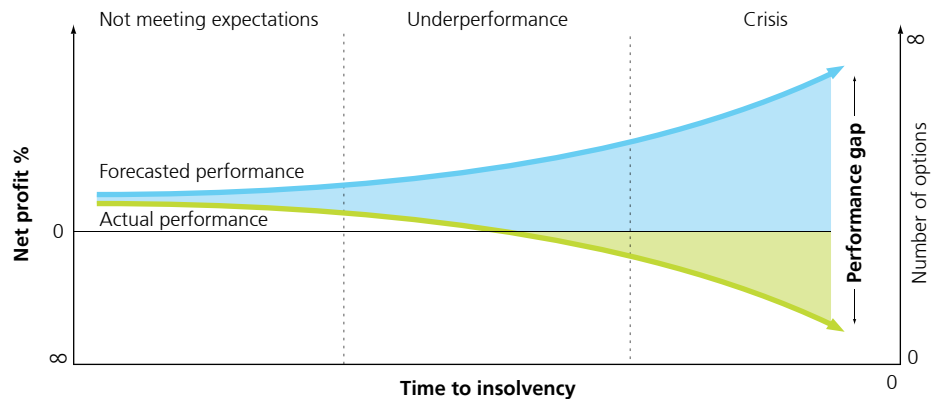
Even with a methodology in place, get used to uncertainty. Your fair value determinations will be built on the best information available – and good information is hard to come by in today's fluctuating markets - information changes daily. It's not a question of whether your determinations will be wrong – it's by how much. Everyone's in the same boat. Your job is to be able to defend your decisions.



6 Do we need a turnaround?

Things are bad, but they're not that bad. Right? Well, who knows? In this economy, good companies can turn into bad ones overnight. Recognizing when it's time for an intervention – and acting on that insight – can be the critical factor in determining your company's success or failure in volatile times.

From "what's happening?" to crisis mode in 60 seconds or less



Plan on decreased demand for your products for the near future. And consider that at the same time, you'll have less access to the capital you've been relying on. Together, these two factors create tremendous pressure for even the best-run businesses. Are you ready for this scenario? Are you already in the thick of it?

You already know where to make adjustments in case of an emergency. Strategy. Operations. Finance. But do you know exactly what to adjust and by how much? Can you do it quickly? Too often, companies aren't able to move fast enough, even if they know exactly what needs to be done.

Bottom line

Nobody wants to say it out loud, but a turnaround could be the only answer to stay afloat – if not now, then soon. You need a decision-making framework to help you determine when it's time to admit you're in need of a turnaround. Take control, now.

Take control. Ask these questions to help you determine if there is a real possibility that a turnaround could be necessary.

- What are our real short-term requirements? How and where should we focus our immediate efforts?
- What medium and long-term implications could arise by stabilizing the business in the short term?
- How quickly can larger scale change (such as new products or concepts) be implemented if required?
- How cooperative (or uncooperative) can we expect customers and suppliers to be?
- How will competitors and other stakeholders react to a restructuring initiative? How will competing interests impact company efforts?

7 What can we sell? What can we buy?



Selling

It's already crossed your mind: you may need to get rid of some assets quickly just to stay afloat, with credit availability screeching to a halt and continuing market volatility. If so, you'll need to move fast – which means you'll need to do all the things you'd normally do during a sale, but with a stepped-up sense of urgency.

Divestiture typically lasts six to nine months. But in this fluctuating economic climate, a deal is less likely to close the longer it takes and the more complicated it gets. Buyers are looking for value – the longer it takes to strike a deal, the more pressure builds on you to make sure the business retains its value. That takes resources and management attention that you would rather apply elsewhere. The faster you move, the easier it is to leave some value behind for the buyer so that you can close the deal. How fast? Think 60 to 120 days.

During that time you'll need to stay in close contact with your most important stakeholders. Capital providers and suppliers are probably most important - you can't let things get worse as you negotiate a sale. You will also need to keep your board in the loop - stay in constant contact as you look at options like bridge loans and quick asset sales.

Bottom line

Selling may not be a choice for you – it may be a requirement. Make sure you stay abreast of your financial situation at least weekly. What will your cash flow needs be in three months? Six? Nine? A real-time, no-nonsense understanding of your upcoming needs should guide your decision-making at a time like this.

Buying

If you're lucky enough to have cash on hand and have extra liquidity, you're probably already looking for bargains. Maybe you feel that you've got some well-deserved breathing room, and can take the time you want to find the right deal.

If that's the case, it's time for a reality check. These are extraordinary times, and they demand a different approach. You need to move with the utmost speed. You don't have the time to plan and execute like you might have only a few months ago – yet you still need a deep understanding of your target. It means being proactive, innovative and opportunistic.

First, the obvious. Get your finances in position to make a deal. How are you using capital today? Where could you improve? Look for opportunities to raise capital efficiently. Stay close to your bank so that when you need them, they're ready to move. And remember, any transaction you make should not weaken your investment rating or access to debt and equity.

Reconsider what you're willing to accept in terms of due diligence, starting with the understanding that you can't give it the attention you would under normal circumstances. Forget about getting the standard reps and warranties. You're going to take on greater risk, period. Understand there may be little real value in traditional deal protection. When you're buying assets at distressed prices, that's just part of the equation.

Bottom line

Take nothing for granted – you may be a takeover target yourself. Stay on defence – because in the event of a takeover, you need to make sure your shareholders and other stakeholders realize the greatest value possible. If you have the means, take this opportunity to add to your portfolio. Just don't get lulled into thinking you have the leisure of time, or that the risk of the deal can be covered by a lower price.

Make the call



At a time like this, you should have a lot more than seven questions that need answers. To help you take control of your business, start with the questions in this book.

The fact is, such volatile times demand constant reassessment, because the landscape changes so quickly. What made sense last week may be unthinkable this week. Nothing – nothing – can be taken for granted.

If you'd like some help thinking through the answers to any of these questions, or if you have a few that didn't make our shortlist, feel free to make one more call. We'd love to hear from you.

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