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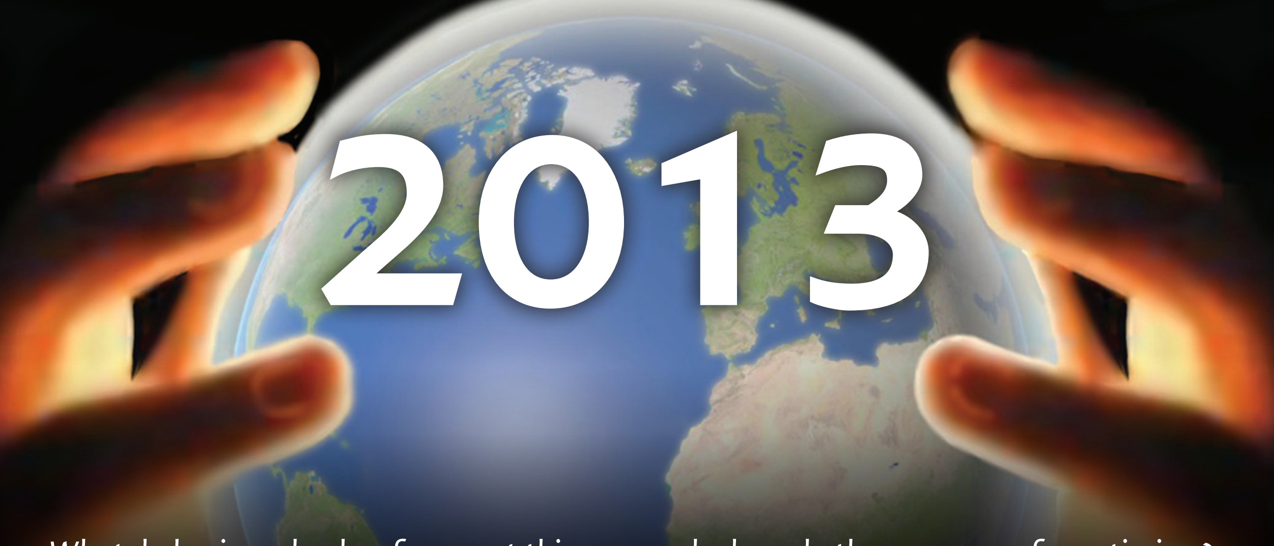
# Opportunities and Threats in 2013



*What do business leaders fear most this year and where do they see cause for optimism?* **Criticaleye** *assesses the potential risks and rewards for businesses in 2013*

According to **Steve Culp**, Managing Director for Risk Management at Accenture, many international companies are factoring in the volatility caused by the euro crisis, the threat of the US 'fiscal cliff', the slowdown in China and widespread regulatory reform. "We are seeing progressive, growth orientated organisations changing their mindset around alliances, key partners and how they operate, rather than believing they need to own everything. That's not to be confused with an outsourcing model, but different relationships are evolving where companies work in a more collaborative manner."

While their current focus may be increasing efficiency and reducing supplier and trade partner risks, for example, **Steve** warns that, as companies become more international and look to new markets, they need to think more carefully about how the key leadership team is deployed. "The number of platforms and customers, suppliers, and the geographic distribution of products are all significantly greater, but the one thing that has remained a lot more static is leadership. If you look at the headquarters of a UK company now and compare it to five years ago, sixty to seventy per cent of them are still roughly the same.

"Many businesses have no material plan to shift the leadership team elsewhere, even though they're clearly fighting new battles in places where they don't have a long-term presence, and are using new tools in new markets."

Criticaleye spoke to a number of its Members from around the globe to examine how they are dealing with this volatility and what their expectations are for 2013.

**Mark Castle**, Deputy COO for Construction at Mace, is positive about pent-up demand being released in the UK as the government looks to push funding into more schools, roads and other infrastructure. "As we look to grow our business in a recovering market, there will inevitably be some inflationary pressures as we exit the recession and raw material increases are passed on through the supply chain," he says.

"I think the pipeline of opportunity remains strong and encouraging as we see opportunities for growth both here and overseas. But the difficulty remains that margins are under pressure and recruiting good people to support our growth plans continues to be our daily challenge."

For **Bruce Cox**, Managing Director of Rio Tinto Diamonds, the growing middle class within China and India is hugely encouraging. "We now have got hundreds of millions of new consumers who are moving out of poverty to having discretionary and disposable incomes that they didn't have before," he comments.

Balancing this upside, however, is the sense that growth in Asia is slowing down and that the economic recovery overall is going to be a long, drawn out process, which partly explains Rio Tinto's decision to cut an estimated $5 billion of costs over the next two years. Although the main cuts will be in specific geographies, the repercussions will be felt across the entire organisation.

"All of the large organisations are going through this incredible cost reduction, with Rio Tinto being no different," says **Bruce**. "The cuts will be in many forms, such as reducing our staff or making it harder on suppliers and pushing down prices, which means they have to cut costs as well."

**Rob Atkinson**, Chief Executive of Adshel, the Australian subsidiary of outdoor advertising company Clear Channel, admits that while revenues have grown in the last financial year, there's no room for complacency. It's why he's keen to rein in overheads in 2013. "Insourcing our operations to ensure all our posting of advertisements, cleaning, glazing, electric work and maintenance are under the remit of our own employees will have significant cost saving benefits as well as ensuring we'll control our own destiny," he comments.

## DOING MORE WITH LESS

**Bryan Marcus**, Regional Director of the South America Region for Volkswagen Financial Services AG, sees a tougher proposition for the next 12 months when compared with the last. "In those markets where we experienced growth in 2012, we have an opportunity to maintain momentum by reinforcing our alliances with partners and customers," he explains. "We can also take advantage of our larger customer portfolio and, through innovative offers, increase customer loyalty and further grow our market share.

"But with slower than expected growth in developing markets, and a range of economic challenges in the US and Europe, I am adjusting my priorities in 2013. My focus will be on finding short-term operational synergies and tactical reductions in our cost base. These savings will ensure I can deliver projected profitability, without reducing planned investments in infrastructure projects and HR renovations activities."

At telecoms concern Alcatel-Lucent, UK CEO **Lucy Dimes** observes that there are plenty of opportunities given the communications revolution underway. "We're in a bizarre scenario where the demand for internet-based services, capacity and infrastructure of the internet just keeps increasing. But customers who are buying that infrastructure have become more focused and short-term in many respects, with regard to what they spend their money on and how much they spend."

There will be growth as the company leverages its innovation and patents portfolio, seizes on the disruption that occurs as 4G usurps 3G, but that cannot disguise the need to adapt to a harsher economic environment. "We're downsizing and reorganising because, in order to realise the reductions in people, we need a more focused organisation," says **Lucy**. "That's difficult as the sheer logistics of doing all that work and continuing to meet your customers and operate as normal in the marketplace is challenging, as you're trying to do the same with fewer people."

## *Different relationships are evolving where companies work in a more collaborative manner*

In this environment, smaller companies are definitely at an advantage given their innate agility and adaptability. **Paul Brennan**, who has held numerous non-executive director and CEO roles and is currently Chairman of the private-equity backed cloud concern OnApp, comments: "The opportunities for 2013 in the sectors I work in depend on companies being nimble and having a good value proposition. If they do, they'll be able to drive significant revenue through the internet, as opposed to the more costly route to market through the bricks and mortar channel and having capital tied up to produce goods before they're actually sold.

"One of the great advantages of being a software company is that invariably if you've got the capital to do the R&D and establish your software solution, and you have an online market environment, then you're not suffering the same degree of difficulty of requiring cash to drive your business. I think the bricks and mortar guys will find it more difficult."

An international perspective is also essential. **Matthew Parker**, CEO of talent management software company Lumesse, says: "Today, eighty-five per cent of our business comes out of Europe. Of that, half comes out of the UK and Germany. My view is that if business in the US could double in size, and my business in Europe could grow by ten per cent, then I would get more money out of the latter but the point about North America is that once it's doubled in size, it has a much bigger impact when we double it again."

The company has 650 employees and operates in 18 countries. For **Matthew**, who predicts growth of between 15 to 30 per cent next year, it's absolutely vital to stay focused as the business grows. "We cannot be all things to all people," he says, observing that within the business it's important to ensure everyone is aligned on strategy and the best people are being invested in. "We have regular sessions with our management teams where we go through the organisation, and we're small enough to still be able to do that."

## PUSH THE BOUNDARIES

For **Linda Grant**, MD of A&N Media's Free Division, the consumer media company whose titles include the Metro newspaper, steering a multichannel brand and making the right choices about where and how to spend your time is a growing pressure point. But it's also a challenge that she relishes in the year ahead.

"We're heading into a positive growth market," says **Linda**. "The explosion in popularity of smartphones, tablets and the app revolution has fuelled a more than doubling in mobile advertising to £500 million this year – just four years after the sector struggled to attract £25 million. The opportunity that both mobile and digital offer is exciting."

Indeed there are plenty of good stories out there. **Darryl Eales**, CEO of mid-market private-equity firm LDC, which supports businesses with equity of between £2 million and £100 million, says: "My general view is that although the market is challenging, many companies are more than holding their own although they are reticent to shout it out... The key drivers of growth continue to be seeking new markets, especially internationally, and exploiting competitor distress through judicious acquisitions.

"Pressure points will mainly be the same [next year]. Price and margin pressure are ever present which forces management to be more innovative, driving optimisation of services and value add to customers. A number of companies are also experiencing difficulty in collecting from debtors and so a relentless focus on customer quality and the ability to pay is crucial."

Within PE itself, **Darryl** observes that more management teams are looking to de-risk by taking an element of cash out of their business. "This could presage an increasing number of secondary and tertiary buyouts where the incumbent PE house rolls through, at least in part, with management," he says.

As for public companies, they are very much at the mercy of the economic recovery. **Paul Staples**, Head of Corporate Finance at BNP Paribas, comments: "We anticipate that the IPO market in London will remain quite challenging, certainly during the first half of next year. We are focusing on developing a constructive dialogue with leading institutional investors, specifically to ensure we focus on bringing high quality growth companies to the market with a compelling investment thesis. However, we expect the eurozone dynamic will continue to represent a difficult backdrop – investor sentiment and confidence remains bruised."

It comes back to the ramifications of the sovereign debt crisis and its escalation – businesses need to know they have enough in reserve should the economic situation takes a drastic turn for the worse. **Paul** says: "Our barometer reading for business confidence is delicately balanced as we head into 2013. Economic data from the US, Europe and China points to a softening in aggregate demand, suggesting there may well be a short-term downward pressure on international trade activity. There appears to be quite limited forward visibility on sustainable growth trajectories within most major economies, providing a challenging backdrop for next year."

**Mark Phillips**, Head of Development, Supply and Service for GlaxoSmithKline, comments: "Despite the doom and gloom, there are clear signs that companies can be successful. A well-run business should continue to do well and the businesses that are struggling are likely to have more systemic issues, so there is a risk that market conditions can be used as an excuse. There are opportunities, not only in existing markets – provided the product and service offering are good – but also in newly developed and emerging markets too. Companies that have or are positioning themselves for these markets should do well."

## *Price and margin pressure forces management to be innovative*

As the 'tough times' of the financial crisis continue, it's now reached a point where leaders accept this environment is actually business as usual. Perhaps the real difficulty they'll face next year, particularly in organisations where there is significant change and cost reduction, is retaining key staff and keeping people motivated.

At Rio Tinto Diamonds, for instance, aside from a cost-reduction programme, there is the added uncertainty caused by it being publicly known that the division is up for sale. For **Bruce**, it is important to ensure everyone is engaged so people don't become demotivated. "I think we have to explain the longer term vision, why it's appropriate and what it sets us up for," he explains. "We are in a robust industry which is underpinned by the millions of consumers that do spend their money and have disposable income. We are doing a lot of work around culture and operating principles and trying to communicate vigorously."

Although different pressures apply in her business, **Lucy** advocates a similar approach: "The one thing I would say that has been important is that you need to speak adult-to-adult and not try to pull the wool over people's eyes. That's when you get engagement. If you try and speak adult-to-child, that's when you get compliance."

There are difficult decisions to be made and some real areas of growth to capitalise on. What's for certain is that leaders need to embrace change and not just batten down the hatches, hoping for a miracle recovery in fortunes. Rather, it's a case of being brave and of making it happen.



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**Featuring Commentary From:**


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