



## The immediate horizon

Bidding farewell to 2009 buzz-words such as 'green shoots', Liam Fennelly warns that full recovery will be a long and difficult task.

Most firms will be glad to see the back of 2009. Most of their directors will be just as glad to bid farewell to that vacuous expression 'green shoots', which they were hearing all year long. Fact is, if the horizon for Irish firms does look brighter now than a year ago, it's not the immediate horizon, but pastures further afield.

Domestic demand will remain weak during 2010: Irish businesses and consumers may start spending, but it will be later in the year, and only if the perceived risk level to the Irish economy, and especially Irish jobs, decreases in the interim. Weak national consumption leaves Irish business with only one option: we will have to export our way out of this economic downturn.

We've long prided ourselves on being the poster boys of the export sector, but the Irish Exporters Association's scorecard on our performance last year is a less-than-rosy one. Total exports of goods and services fell by 1% to €154 billion. Tellingly, indigenous exports of goods shrunk by 9%, with food falling 14% and drink down by more than a fifth. Only pharma and medical bucked the trend.

The strong Euro against Sterling hit our indigenous firms badly in 2009, particularly those in the food and drink sector. In many cases it alone was a sufficiently powerful force to knock otherwise profitable exporters squarely into the red. The extent to which Sterling will strengthen this year is uncertain.

Currency is just one of many variables that make foreign markets daunting for a management team. What products and services should we export? And what business model is necessary? Which geographical markets and industry sectors will be receptive to our firm's products and

services? What about pricing? Where are the risks and how can we mitigate them? And do we even have the financial muscle to successfully enter a foreign market?

During 2010 it is unlikely that Irish firms will compete in international markets on price alone. Furthermore, it is unlikely that any firm entering and penetrating a new geographical market during 2010 will secure positive returns in the short term. Therefore the opportunity to generate new revenues and profits is in product, service and business model innovation to target existing (or near) geographical markets. In a time of high unit labour costs, low demand and capital scarcity, the quality of a firm's leadership and management will be the key determinant of success.

### Innovation

Innovation may be the Holy Grail for the recovery, but how exactly does a firm go about engendering it? We can prescribe a few prerequisites for the innovative organisation:

- 1) Strong senior leadership commitment;
- 2) Development of a strong innovative culture;
- 3) Design of clear and efficient processes for innovation initiative submission, review and approval;
- 4) Available funding for approved projects;
- 5) Actively monitored approved projects and built-in stop/go checkpoints in the implementation process;
- 6) Alignment with talent development and reward structures.

Innovation is a creative, people-centric process. It will not happen in a workforce with low morale. If a firm needs to reduce its

workforce then it must be done promptly, and assurance must be given that there will only be one cut. Coming back to the trough soon afterwards for more will destroy morale. Invest in developing the skills sets of the remaining team, helping to drive productivity, to motivate and to retain key talent.

Of course, to be commercially successful, innovation requires an in-depth understanding of potential new customers' business needs and how to develop the firm's brand and products (and service) value propositions to address these requirements.

### Capital

Implementing innovations necessitate investment at a time when cash has never been as scarce. Firms must leverage leasing arrangements and managed and outsourced service arrangements.

And remember, even if cost leadership is not the lynchpin of an export strategy, regaining international competitiveness is a *sine qua non*. All firms need to work rigorously on their cost base, including pay costs. Currency swings may be an outside influence, but they are often a spur - a necessary spur, even - for exporters to re-examine their operations for potential efficiency gains and to identify new cost-saving opportunities.

Whenever it happens, and whatever form it takes, Irish firms must be ready to exploit the opportunities arising from the economic recovery. If we miss the boat, there will be profound consequences for our deficit and debt profile. Our current national recovery plan estimates (in other words, is premised on) average GDP growth of 4% per annum during the period 2011-2014. During the 1970s and '80s the Irish economy experienced the vicious cycle of ballooning national debt levels and depressed economic activity, resulting in a hardship no one could wish to revisit. Better music and movies were scant consolation!

During 2010 Irish management teams must demonstrate courageous leadership by making the right investments in our people and our capital infrastructure. The opportunity is to harness scarce cash flows to position business for the upturn: invest in the productivity-enhancing skills of employees, invest in product and service innovation to service traditional geographical markets and, finally, leverage outsourcing and managed services to stretch one's costs.

For those serving the domestic market, the rebound may be longer in coming, but the very same fundamentals will apply.

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