

Crisis Management - Major Devaluation in Developing Countries

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Insights to help you prepare and sustain your business during a business interruption.

SynFiny Advisors has developed a series of Crisis Management Insights to help you strengthen and grow your business after having faced a major business interruption. Our objective is to provide a framework that allows any business (no matter how big or small) to maintain focus while dealing with the multitude of distractions that take you away from your core business. Our advisors' share their seasoned experiences and "been there, done that" practical advice to not only survive but thrive in a crisis situation.

This Insight will address the key actions to take and important considerations during major economic turmoil and devaluation in a developing market. Developing markets are increasingly important for all international businesses, however, they do present high level of risk and uncertainty that business needs to plan for.



Discussion

In most emerging markets, major economic crisis is something that needs to be expected and anticipated. Following are 5 general guidelines for business to survive such turmoil and minimize negative impact to the business.

1. Be Agile - A major currency devaluation can be sharp and unexpected, and lead to significant economic contraction short and mid-term. It is important to acknowledge the new reality quickly and adjust your plans and targets accordingly rather than stick to the plans made for a pre-crisis reality. To minimize exposure, businesses need to be agile and internally align on key points of a currency crisis management plan. These points can include:

- Acceptable levels of credit terms to customers and when those should be reduced/withdrawn.
- Pricing principles including rate of devaluation that will trigger the move to cash-only sales or stop shipments.

- Working capital targets/cash flow protection measures.
- Policy regarding local salaries and headcount reduction.

2. Prioritize - Non-crisis business factors should not be a main concern during the abnormal period of the crisis. During the period of high volatility normal business priorities, e.g. market share, will likely play second fiddle. Asset protection might become the critical consideration when the market is in meltdown. Whilst crisis can often be an opportunity to build market share, new investment is best considered after the market behavior has returned to a reasonable level of normality

3. Plan for the Worst - Full market stability is unlikely to resume immediately following the return of currency stability. It is important to monitor the situation closely and not assume/plan for a fast recovery. Crisis will create long term ripples in economy, which will be further affected by government policies and restrictions, financial stability of customers and the banking system. It often takes more than 6 months for the full implications to feed through.

4. Do Not Rush, Wait It Out - Currencies that are going through a major correction are likely to overshoot their new equilibrium level – and will bounce back somewhat. There is a risk of taking up-pricing too much too quickly that would be difficult to reverse. During the periods of very rapid currency devaluation, halting shipments is a lower risk option than trying to keep up with devaluation through pricing. Shipments in the period of very high volatility can create exposure for your business and your customers, complicate implementation of further price changes and undermine your credibility.

5. Support Your Partners – The crisis is a true test of a strength of a business relationship. People tend to remember how others treated them in such circumstances for much longer than the crisis lasts. Talk to your key long-term partners, both customers and suppliers and decide where you are prepared to run risks and give extra support.

Key Takeaways

Major devaluation in a developing country requires organized and structured approach – by addressing the key risk areas with agility, planning for worst-case scenarios and prioritizing management can minimize exposure and create a basis for faster recovery.

Conclusion

SynFiny Advisors exists to bring talented “been there, done that” experience to bear on solving client problems. Each engagement results in measurable, pragmatic and actionable recommendations. We assist in developing Business Process Transformation scenarios to survive changing economic conditions and minimize disruption to your organization and business partners. Our approach is very simple, we Define, Design and Transform. And in doing so, transform your business from ‘existing’ to ‘exceeding’.

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