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STRATEGIES TO Recession Proof Your Staffing Company

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This document contains excerpts from a variety of expert articles outlining strategies and tactics to help companies prepare for and respond to economic downturns.

Some of these articles were just published and others were written at the end of the Great Recession. While these articles were not created specifically for the staffing industry, they contain excellent advice to help your company manage the challenges we are currently facing.

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How to Survive a Recession and Thrive Afterward

by Walter Frick, Harvard Business Review

In their 2010 HBR article "Roaring Out of Recession," Ranjay Gulati, Nitin Nohria, and Franz Wohlgezogen found that during the recessions of 1980, 1990, and 2000, 17% of the 4,700 public companies they studied fared particularly badly: They went bankrupt, went private, or were acquired. But just as striking, 9% of the companies didn't simply recover in the three years after a recession—they flourished, outperforming competitors by at least 10% in sales and profits growth

The difference maker was preparation. Many of the companies that merely limp through a recession are slower to recover and never really catch up.

So, how should a company prepare in advance of a recession?

1. Deleverage Before a Downturn

Rule one: don't run out of money! Because a recession usually brings lower sales and, therefore, less cash to fund operations, surviving a downturn requires deft financial management.

Companies with high levels of debt are especially vulnerable during a recession. The more debt you have, the more cash you need to make your interest and principal payment. When a recession hits and less cash is coming in the door, "it puts you at risk of defaulting." To keep up with payments, companies with more debt are forced to cut costs more aggressively, often through layoffs. These deep cuts can impair their productivity and ability to fund new investments. Leverage effectively limits companies' options, forcing their hand and leaving them little room to act opportunistically.

When it comes to deleveraging, it helps to start early. That means reducing debt levels before it's clear the economy is in recession.

2. Focus on Decision Making

A company's performance during and after a recession depends not just on the decisions it makes but also on who makes them. The need to make tough decisions may favor centralized firms because they have a better picture of the organization as a whole and their incentives are typically more closely aligned with company performance. On the other hand, decentralized firms may be better positioned to weather macro shocks "because the value of local information increases."

Why does decentralization help? Because decentralized firms delegated decision making further down the hierarchy, they are better able to adapt to changing conditions. Decentralization matches decisions with expertise. The uncertainty of a recession necessitates experimentation, which requires that decisions be made throughout the organization. Even if companies decide not to decentralize, they can try to do a better job of gathering input from employees at all levels when making key decisions. Recessions offer opportunities for change.

3. Look Beyond Layoffs

Some layoffs are inevitable in a downturn; during the Great Recession, 2.1 million Americans were laid off in 2009 alone. However, the companies that emerged from the crisis in the strongest shape relied less on layoffs to cut costs and leaned more on operational improvements. That's because layoffs aren't just harmful to workers; they're costly for companies, too. Hiring and training are expensive. Layoffs can also hurt morale and dampen productivity.

Fortunately, layoffs aren't the only way to cut labor costs. Companies should consider hour reductions, furloughs, and performance pay. One appealing thing about both furloughs and short-time work is that, as with layoffs, companies have discretion over which workers are affected. By contrast, across-the-board pay cuts or hiring freezes that fail to consider employee productivity can backfire, damaging morale and driving away the most productive employees. Performance pay—compensation based on some measure of productivity or business outcome—is another way to control labor costs without hurting productivity.

4. Invest in Technology

It's tempting to think of a recession as a time to batten down the hatches and play it safe. However, downturns actually appear to encourage the adoption of new technologies. Technology can make your business more transparent, more flexible, and more efficient. Improved analytics can help management better understand the business, how the recession is affecting it, and where there's potential for operational improvements.

The second reason is that digital technology can help cut costs. Companies should prioritize "self-funding" transformation projects that pay off quickly, such as automating tasks or adopting data-driven decision making.

The third reason is that IT investments make companies more agile and, therefore, better able to handle the uncertainty and rapid change that come with a recession. Companies that have already made an investment in digital technology, analytics, and agile business practices may be better able to understand the threat they face and respond more quickly.

Recessions can create wide and long-standing performance gaps between companies. Companies that neglect digital transformation may find that the next recession makes those gaps insurmountable.

Roaring Out of Recession

by Ranjay Gulati, Nitin Nohria and Franz Wohlgezogen, Harvard Business Review

Through the 1980, 1990 and 2000 recessions, 17% of the companies in our study didn't survive. And even the survivors were painfully slow to recover with 80% failing to regain their prerecession growth rates for sales and profits three years after a recession. Yet, a small number of companies—approximately 9% of our sample—flourished, doing better than they had and outperforming rivals in their industry by at least 10% in terms of sales and profits growth.

Just who were the post-recession winners?

According to our research, companies that master the delicate balance between cutting costs to survive today and investing to grow tomorrow do well after a recession. Within this group, a subset that deploys a specific combination of defensive and offensive moves has the highest probability—37%—of breaking away from the pack. These companies reduce costs selectively by focusing on operational efficiency, even as they invest in spending on marketing, R&D, and new assets.

Lesson 1: Don't Be Too Defensive

Confronted by a recession, many CEOs swing into crisis mode, quickly implementing policies to reduce operating costs, shrink discretionary expenditures, eliminate frills, rationalize business portfolios, lower head count, and preserve cash. They postpone fresh investments in R&D, developing new businesses, or buying assets such as plants and machinery. As a rule, prevention-focused leaders cut back on almost every item of cost and investment and reduce expenditures significantly more than their competitors.

A focus solely on cost cutting causes organizations to aim low and keep both innovation and cost cutting incremental. Instead of learning to operate more efficiently, companies try to do more of the same with less resulting in lower quality and customer satisfaction.

Few prevention-focused corporations do well after a recession, achieving half the post-recession growth and one-tenth the profitability of top performers.

Lesson 2: Don't Be Too Aggressive

Some business leaders pursue opportunity even in the face of adversity. They use a recession as a pretext to drive change, get closer to customers, make strategic investments, and act opportunistically to acquire talent, assets, or businesses that become available.

Organizations that focus purely on promotion develop a culture of optimism that leads them to deny reality. They ignore early warning signs, such as customers' budget cuts, and believe that as long as they innovate, their sales and profits will continue to rise. Promotion-focused organizations are often blindsided by poor financial results.

Post-recession, promotion-focused companies' (that survive) sales and earnings rise twice as fast as their risk averse peers, but only 60% of the sales growth and one-fifth the profitability increase of the top performers.

The Elusive Balance

The companies most likely to outperform their competitors after a recession recognize that cost cutting is necessary to survive, investment is equally essential to spur growth, and they must manage both at the same time to emerge as a post-recession leader.

Companies typically combine three defensive approaches—reducing headcount, improving operational efficiency, or both—with three offensive ones: developing new markets, investing in new assets, or both. This yields nine possible combinations, some of which are more effective than others.

The most successful companies are progressive – they cut costs mainly by improving operational efficiency, and their offensive moves are comprehensive. They develop new business opportunities by making significantly greater investments in R&D and marketing, and they invest in assets such as plants and machinery.

Operational Efficiency

Companies that rely solely on cutting the workforce have only an 11% probability of achieving breakaway performance after a downturn. In contrast, companies that respond to a slowdown by reexamining every aspect of their business models—from how they have configured supply chains to how they are organized and structured—reduce their operating costs on a permanent basis. When demand returns, costs will stay low, allowing their profits to grow faster than those of competitors.

During recessions, progressive companies develop new markets and invest to enlarge their assets. They take advantage of depressed prices to buy property, plants, and equipment. This helps them both during the recession and afterward, when they can respond faster than rivals to a rise in demand.

These companies also judiciously increase spending on R&D and marketing, which may produce only modest benefits during the recession, but adds substantially to sales and profits afterward. The resources freed up by improving operational efficiency finance much of this expenditure.

Getting It Right

Few progressive business leaders have a master plan when they enter a recession. They encourage their organizations to discover what works and combine those findings in a portfolio of initiatives that improve efficiency along with market and asset development. This agility doesn't just combat a downturn; it can lay the foundation for continued success once the downturn ends.

How to Market in a Downturn

by John Quelch and Katherine E. Jocz, Harvard Business Review

During recessions, consumers set stricter priorities and reduce their spending. As sales start to drop, businesses cut costs, reduce prices, and postpone new investments. Marketing expenditures in areas from communications to research are often slashed across the board—but such indiscriminate cost cutting is a mistake.

Although it's wise to contain costs, failing to support brands or examine core customers' changing needs can jeopardize performance over the long term. Companies that put customer needs under the microscope, take a scalpel rather than a cleaver to the marketing budget, and nimbly adjust strategies, tactics, and product offerings in response to shifting demand are more likely to flourish both during and after a recession.

Understanding Recession Psychology

In periods of prosperity, marketers may forget that rising sales aren't caused by clever advertising and appealing products alone. Purchases depend on consumers' having disposable income, feeling confident about their future, trusting in business and the economy, and embracing lifestyles and values that encourage consumption.

In a recession, traditional market segmentation (by age, income or interest) may be less relevant than a psychological segmentation that considers consumers' emotional reactions to the economy.

Think of your customers as falling into four groups:

The slam-on-the-brakes segment that reduces all types of spending by eliminating, postponing, decreasing, or substituting purchases.

Pained-but-patient consumers tend to be resilient and optimistic about the long term but less confident about the near term, so they also economize in all areas, though less aggressively.

Comfortably well-off consumers feel secure about their ability to ride out current and future bumps in the economy and consume at near-prerecession levels, though now they tend to be a little more selective (and less conspicuous) about their purchases.

The live-for-today segment carries on as usual and for the most part remains unconcerned about savings. The consumers in this group respond to the recession mainly by extending their timetables for making major purchases.

Regardless of which group consumers belong to, they prioritize consumption by sorting products and services into four categories:

- Essentials are necessary for survival or perceived as central to well-being.
- Treats are indulgences whose immediate purchase is considered justifiable.
- Postponables are needed or desired items whose purchase can be reasonably put off.
- Expendables are perceived as unnecessary or unjustifiable.

Throughout a downturn, all consumers except those in the live-for-today segment typically reevaluate their consumption priorities, and as priorities change, consumers may altogether eliminate purchases in certain categories. And because most consumers become more price sensitive and less brand loyal during recessions, they can be expected to seek out favorite products and brands at reduced prices or settle for less-preferred alternatives.

Consumer Segments' Changing Behavior

KEY
- STABLE MARKET: Slight or no change in opportunities for companies
- MIXED MARKET: Slight or no change for stronger competitors; a reduction for others
- DECLINING MARKET: Substantial reduction in opportunities for companies

RISK OF SALES DOWNTURN (LOW → HIGH)

BEHAVIOR CHANGE (HIGH → LOW)	ESSENTIALS	TREATS	POSTPONABLES	EXPENDABLES
Slam-on-the-Brakes	Will seek lower-cost product and brand substitutes such as private labels	Will deeply reduce or eliminate treats or seek lower-cost substitutes	Will put off all durable purchases unless forced to make emergency replacements; will delay repairs and personal services, such as dental cleanings	Will eliminate purchases in this category
Pained-but-Patient	Will seek out favorite brands at lower prices but settle for cheaper, less-preferred alternatives; will stock up on good deals	Will cut back somewhat on frequency and quantity and emphasize value	Will delay major purchases, repair rather than replace, seek value and low ownership costs rather than extra features, and negotiate at point of sale	Will deeply curtail expendables
Comfortably Well-Off	Will continue to buy favorite brands at prerecession levels	Will be more selective in purchasing luxuries	Will seek better quality for the price; will negotiate harder at point of sale	Rarely regards any purchase as unjustifiable but may reduce the most conspicuous consumption in this category
Live-for-Today	Will continue to buy favorite brands at prerecession levels	Will continue to buy favorite brands at prerecession levels	May buy if there is a great deal; otherwise may postpone	Is reluctant to regard any customary purchase as unjustifiable; may not want to expand consumption to new types of purchases

Managing Marketing Investments

During recessions it's more important than ever to remember that loyal customers are the primary, enduring source of cash flow and organic growth. Marketing isn't optional—it's essential to bringing in revenues from these key customers and others.

In managing their marketing expenses businesses must take care to distinguish between the necessary and the wasteful. Building and maintaining strong brands—ones that customers recognize and trust—remains one of the best ways to reduce business risk.

Assess opportunities.

Begin by performing triage on your brands and products or services. Determine which have poor survival prospects, which may suffer declining sales but can be stabilized, and which are likely to flourish during the recession and afterward.

Your strategic opportunities will strongly depend on which of the four segments your core customers belong to and how they categorize your products or services. For example, prospects are reasonably good for value-brand essentials sold to slam-on-the-brakes consumers. Value brands can also effectively reach out to pained-but-patient consumers who previously bought higher-end brands. Value brands have opportunities with postponable products, as well.

Allocate for the long term.

When sales start to decline, companies shouldn't panic and alter a brand's fundamental proposition or positioning. Marketers that drift away from their established base may attract some new customers in the near term but find themselves in a weaker position when the recession ends.

The best course is to stabilize the brand. Even cash-poor firms would be wise to commit a substantial portion of their marketing resources to reinforcing the core brand proposition. Reminding consumers of how the brand matters can add to the cushion provided by previous investments in building the brand and customer satisfaction.

Where opportunities are stable, firms should push their advantage. In past downturns, companies that were able to increase share of voice by maintaining or increasing their advertising spending captured market share from weaker rivals. What's more, they did it at lower cost than when times were good. On average, increases in marketing spending during a recession have boosted financial performance throughout the year following the recession.

Balance the communications budget.

During recessions, cash-strapped marketing departments are under pressure to do more with less and demonstrate high returns on investment. Typically, the share of the advertising budget devoted to broadcast media shrinks, whereas the share that goes toward efforts with more-measurable results, such as direct marketing campaigns and online ads, grows.

During downturns, marketers must balance efforts to pare costs and shore up short-term sales against investments in long-term brand health. Streamlining product portfolios, improving affordability, and bolstering trust are three effective ways of meeting these goals.

Streamline product portfolios.

When faced with declining demand, marketers should clean up product lines to reduce complexity. Overly broad product lines soak up marketing costs and tie up resources and working capital in slow-moving inventory. However, streamlining the product portfolio does not mean shutting down the innovation pipeline. Innovative improvements to core products will grab attention and motivate purchases, particularly of expendable goods and services.

Tailoring Your Tactics

	ESSENTIALS	TREATS	POSTPONABLES	EXPENDABLES
Slam-on-the-Brakes	▪ Emphasize price; hit wallet-friendly retail price points ▪ Offer smaller pack sizes for less money ▪ Expand retailer private labels ▪ Promote low-cost value products ▪ Introduce fighter brand	▪ Shrink sizes ▪ Hold prices down ▪ Advertise as a "you deserve it" small indulgence	▪ Offer layaway plans ▪ Provide low-cost financing ▪ Promote exceptional deals ▪ Challenge penny-wise, pound-foolish behavior (such as dangerously postponing tire replacement)	▪ Offer do-it-yourself alternatives to doing without ▪ Continue awareness advertising (for instance, for future vacations)
Pained-but-Patient	▪ Offer a lower-priced option ▪ Hit retail price points ▪ Promote bonus packs to encourage stockpiling ▪ Emphasize dependability of branded product or service	▪ Reward loyal consumers, even if they consume less (for example, offer frequent-patron points) ▪ Advertise products as morale raisers ▪ Advertise products as affordable alternatives to more expensive luxuries	▪ Offer simpler models, lower prices ▪ Promote lower-operation-cost models ▪ Promote repair services	▪ Continue awareness advertising ▪ Invest in core product improvements that will accelerate customers' reentry into the market
Comfortably Well-Off	▪ Continue awareness advertising	▪ Emphasize outstanding quality ▪ Advertise as a product you deserve because you are successful	▪ Promote savings from buying now ▪ Advise customers they're "missing out" by postponing	▪ Enable discreet purchasing that avoids the appearance of flaunting in front of less wealthy people ▪ Advertise benefits of impressing wealthy friends
Live-for-Today	▪ Continue awareness advertising ▪ Remind consumers, "You can't live without it"	▪ Offer convenient automatic credit card billing ▪ Promote as opportunity to seize the moment	▪ Offer monthly payment plans ▪ Promote quality-of-life benefits of buying now	▪ Offer exciting new products and promote as "must have" ▪ Advertise as products you can aspire to buy when your income grows

Improve affordability.

Slam-on-the-brakes and pained-but-patient customers in particular will be shopping around for the best deals. All businesses will increasingly compete on price.

In tough times, discounts that require little effort from consumers are more effective than delayed-value promotions. Many marketers will need to increase the frequency and depth of temporary price promotions. At the same time, they must carefully monitor consumers' perceptions of "normal" price levels: Excessive promotions lead consumers to revise their expectations about prices downward and can threaten profitability in the recovery period because people will resist the steep increases as prices return to "normal." Extreme price deals can also lead to costly price wars.

While premium-brand market leaders shouldn't move their brands down-market, they can introduce a "fighter brand," a lower-priced version of the premium offering sold under a different name and backed by minimal advertising.

In addition to offering temporary price promotions or list-price changes, companies can improve affordability by reducing the thresholds for quantity discounts, extending credit to their customers, or having deferred payment plans. Reducing item or serving sizes, and then pricing them accordingly, is another effective tactic. For service businesses, lowering consumers' up-front adoption costs and reducing penalty charges can help attract cost-conscious and cash-poor consumers.

Bolster trust.

Worried consumers—even in the comfortably well-off and live-for-today segments—see familiar, trusted brands and products as a safe and comforting choice in trying times. Reassuring messages that reinforce an emotional connection with the brand and demonstrate empathy (for example, by conveying a sense that "we're going to get through this together") are vital.

Empathetic messages must be backed up by actions demonstrating that the company is on the customer's side. If sales are declining, the last thing to do is take the problem out on customers by reducing quality while raising prices. Educate consumers on how to shop smart and save money. Loyalty programs should reward not just big-time spenders but also people who purchase small amounts frequently.

Positioning for Recovery

Companies that focus their attention on consumer needs and core brands will be strongly positioned for sunnier post-recession days. However, companies must understand how people's behavior may change following the recession, and they must be able to offer products and communicate messages aligned with the needs of new consumer segments.

After most recessions have ended, consumers' attitudes and behaviors return to "normal" within a year or two. Following more extreme downturns, though, consumers' heightened sense of economic vulnerability can persist for a decade or longer.

Final Lessons

1. The discipline around marketing strategy and research developed during the recession—and the ability to respond nimbly to changes in demand—will continue to serve marketers when the economy recovers.

2. Marketers should prepare now for a possible long-term shift in consumers' values and attitudes. The shock of the downturn and attitudes toward the causes that drove it can accelerate preexisting trends toward reduced materialism, commitment to sustainability, higher expectations of corporate social responsibility, and resentment of cynical marketing that treats people as soulless and mechanical consumers.

3. Increasingly, customers will demand that businesses act in their and society's best interests and will factor company practices into their brand choices. During and after the recession, it would be foolhardy for marketers to ignore those changing expectations. While businesses are putting customers under a microscope, their customers are, in turn, examining them more closely than ever.

Beyond the Downturn: Recession Strategies to Take the Lead

The next crop of leaders are acting now to restructure costs and go on offense.

By Tom Holland and Jeff Katzin, Bain & Company

It's overdue. Predicting the onset of a recession is difficult, for corporate leaders the exact timing and duration of a recession matters less than being ready to seize the moment early. Getting ahead of the curve avoids the painful alternative—being forced to react hastily in a crisis. Bain & Company research shows that well-prepared companies emerged as winners by reining in costs while simultaneously reinvesting in growth.

The next downturn will figure as just one element roiling the global economy. Several structural changes will combine to sound the starting gun to a new business cycle, including:

The end of nontech business. An array of evolving technologies will substantially alter customer behavior and demand in many sectors, disrupting both volume and price. At the same time, new technologies are ramping up efficiencies in areas such as supply chain and manufacturing. Automation technologies, in particular, will accelerate to help companies address the dwindling supply of labor as more baby boomers move into retirement and labor force growth slows.

The end of low interest rates. Interest rates still hover near a six-decade low. Even if central bankers hold rates low during a downturn to help stimulate their economies, we expect to see rates eventually rise. A higher cost of capital will put pressure on capital spending, so if companies want to invest in technology, growth opportunities or acquisitions, the time is now.

Downturns upend the playing field

These long-term trends will harden the divide between winners and losers, favoring those who act before the downturn. Headed into the global financial crisis a decade ago, a group of almost 3,900 companies worldwide that we ran through Bain's Sustained Value Creators analysis posted double-digit earnings growth, on average, from 2003 to 2007. As soon as the storm hit, performance diverged sharply: The winners grew at a 17% compound annual growth rate (CAGR) during the downturn, compared with 0% among the losers. What's more, the winners locked in gains to grow at an average 13% CAGR in the years after the downturn, while the losers stalled at 1%.

The losing companies tended to follow a few recession dead ends. Some tried to slash and burn their way to the other side, under the misconception that extreme cost-cutting would be enough to survive the storm. They cut R&D across the board, scaled back on sales and marketing activities, laid off valuable talent and ruled out acquisitions.

Other lagging companies strayed outside their core business, investing in the latest hot sectors and tools, praying for a winner. Still others tolerated poor results during the downturn, waiting to see what would happen, and then finally took action—too late because they bought the wrong asset or fell behind in product innovation.

How winning companies behave differently

Bain research reveals several key moves by companies that outperformed peers in four areas: early cost restructuring, plus some combination of balance sheet discipline, aggressive commercial growth plays and proactive M&A. It's instructive to review each in more detail.

Restructure costs before the downturn, without cutting muscle

All companies must manage costs in a recession. Some accomplish this by ratcheting down spending on lower-value processes and reducing the volume and complexity of work. They view cost management as a way to refuel the growth engine for the next stage in the business cycle.

Digital technologies will provide new ways to move faster and simplify their businesses with both step-change and continuous improvements. Tools like robotic process automation and augmented reality can automate business processes, replace low-value labor and reduce travel expenses. The winners will deploy new technologies coupled with cost management tools, such as supply chain reinvention, complexity reduction and zero-based budgeting, to change the game on cost.

Put the financial house in order

Recessions can wreak havoc on balance sheets. The winners manage the balance sheet as strategically as the P&L. They tightly manage cash, working capital and capex, all to create "fuel" to invest through the cycle. Many companies also divested noncore assets to further invest in the core business.

No surprise, focus matters even more in a recession. In our experience, fewer than 15% of CFOs from companies in North America and Europe have regular visibility into the balance sheet of any individual unit or area below a division. When management teams focus disproportionately on the P&L, they are more prone to make ill-timed capital investments, retain unnecessary or unproductive fixed assets, or hold more working capital than necessary.

Play offense by reinvesting selectively for commercial growth

Coming out of the last recession, the strongest companies went on offense early, while many of their peers focused on survival and waited for the cycle to clear. Successful growth companies used a few common tactics to boost commercial growth.

They invested substantially in R&D instead of dialing back. They pointed sales teams to top priorities among accounts and prospects, as determined by the account's all-in profitability and potential lifetime value. They realigned distribution by rebalancing the mix of current and new locations, or next-generation formats. They also maintained marketing while competitors cut back. And they focused on improving the customer experience, making it more simple and personalized through investments in digital capabilities.

Looking ahead, new digital tools and channels will offer more cost-effective and customer-focused opportunities to capitalize on the next recession and pursue growth. One example: the shift in marketing mix from traditional media toward digital channels enabling more personalized customer

outreach. Next-generation data analytics enables companies to set pricing at different levels and move quickly to adapt, based on how different customer segments value a company's products or services.

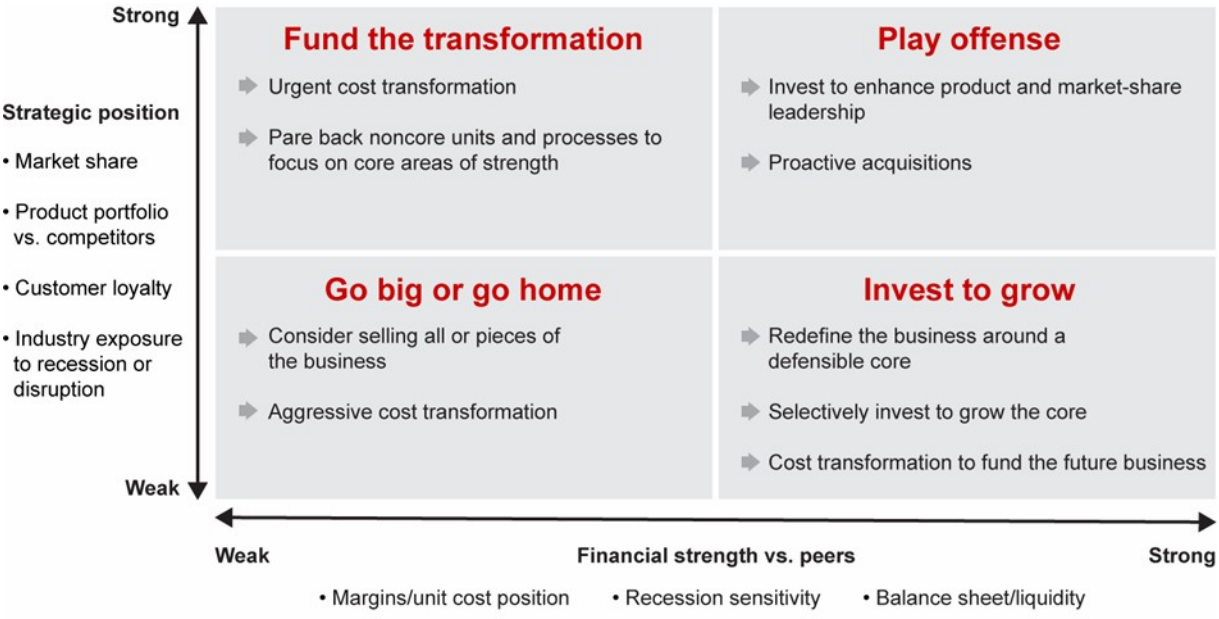
Pursue a proactive M&A pipeline

For the well-positioned, the last recession presented a window to use M&A to reshape the portfolio of businesses. Acquirers bought new product lines, customer segments or capabilities at lower prices. Others exited businesses that didn't fit strategically in the company's future, after identifying legacy assets that no longer figured in the emerging business model.

On the tail of the current economic cycle, scope deals have accelerated dramatically over the past three years and now represent 51% of all strategic deals. That trend will likely continue or even accelerate in a downturn, as companies use acquisitions to secure businesses that add capabilities to do old things in new ways.

Practical steps to take now

Every company enters a recession from a different starting point, so the right plan hinges first on knowing where the company stands in both its strategic and financial positions. Although specific actions will vary by industry, all companies sort into one of four basic positions that will determine the shape of the cost program and additional strategies to pursue.



Source: Bain & Company

Taking advantage of a downturn starts with a realistic assessment of a company's strategic and financial starting positions

To raise the odds of success, management teams can map out a series of offensive moves that aim to create a stronger business through the downturn and beyond:

1. **Start with the end in mind.** What do you want the company to look like at the end of the downturn and three years after? A future-back approach that defines the desired end state helps you know exactly where to invest—the customer segments to target, the value proposition and the digital technologies supporting the business. A clear plan lays out specifically how the business will outperform competitors through and beyond the downturn.

2. **Stress test the P&L and balance sheet.** Model the 2019–2022 P&L, cash flow and balance sheet through turbulent scenarios, including negative market growth, lower prices and higher unit economics, for your company and against your competitors.

3. **Identify M&A targets early.** Map out a proactive M&A plan that includes add-on acquisitions, divesting noncore assets, and potentially big moves with large-scale peers. That way, you can pull the trigger when the time is right, as opposed to reacting—and missing the opportunity.

4. **Manage costs, now.** A smart cost program starts early and focuses on sustained changes, instead of cutting muscle or trimming across the board.

The magnitude and shape of a cost transformation will vary depending on your starting position, but the approach should keep out costs while you put the pedal to the metal coming out of the curve.

How to Recession-Proof Your Business: 7 Tips to Thrive in an Economic Downturn

Signature Analytics

Economists are predicting that the next recession may hit within the next 18 months and that the U.S. isn't ready for the onset. This is a serious problem, because an economic recession can wreak havoc on business owners – if not destroy it altogether.

What is an Economic Recession?

An economic recession is defined as two consecutive quarters of negative economic growth. It is usually accompanied by a significant drop in the stock market, increased unemployment, and a slump in the housing market. Causal factors for a recession include:

- High interest rates
- Inflation
- Reduced wages
- Reduced consumer confidence

If you want your business to survive the next economic downturn, you need to make it recession-proof.

Tips to Recession-Proof Your Business

1. Financially Prepare for a Downturn Before it Happens

Don't wait for the first signs of a recession before you start to do something about it. By then, it may be much too late. If you don't have a strategic financial plan, it's time to get started.

Your strategic plan will help you understand how financially sound your company is today, so you can start saving to weather the next storm.

If you already have an updated financial plan, it's time to start building a cash reserve. This may be the most important step you take. Start saving money in a bank account. Consider building enough reserve cash to cover at least six months' worth of business expenses.

2. Strengthen Your Customer Relationships

Your customer base is your greatest source of income. You can't afford to lose them, especially during a recession, so make them your number one priority. Now is the time to make sure that your customer service is the best it can possibly be. This will give you a greater chance of retaining your current customers and attracting new ones, even during a recession.

Show your customers they're a priority by adapting your products and services to better suit their needs, as well as offering them incentive programs. During a recession, it's more important than ever to keep your customers loyal by providing excellent after-sales service.

3. Master What Your Company Does Best

When you're preparing for a recession, don't stray away from your strengths and start something new. Diversifying your business is not necessarily a bad thing, even if your company is small. But adding on products or services just to try something new isn't a good way to protect yourself from an economic downturn. Focus on what your company does best and do it even better. This will ensure that you will have a stable foundation when the economy shifts.

4. Beat Out the Competition

Not every company within your industry is going to ride out a recession. Make sure your company is the one that does. You can do this by researching the competition and analyzing how they are outperforming you.

Implement stronger strategies into your business and hone them until they become second nature. Go beyond expectations and offer products or services that they don't have on hand.

5. Don't Let Marketing Fall Through the Cracks

It's always good to review your marketing practices from time to time. If you're expecting an economic downturn, it's even more critical. Most companies will cut back on their marketing, creating an opportunity for you to gain more brand awareness and stand out from the competition.

Brainstorm with your team for new ideas to boost sales and maximize how you use your marketing dollars for the future. Identify your competitive advantage and develop a unique selling proposition to push your company's unique qualities.

6. Don't Get Comfortable

Owners should constantly be checking their company to ensure that all processes are optimized. Just because you've been operating the same way for years doesn't mean it's the right way to do it now. If you're not already, explore more modern technologies and look for efficiencies. Streamlining your business with technology will reduce your expenditure and maximize your profits.

7. Maintain Good Credit

Good credit is crucial because down the road you may need to take out a loan to keep your business afloat. An unstable economy means it's more difficult than ever to borrow money, so business loans – particularly for small companies – become incredibly hard to acquire.

If you maintain good personal and business credit, you stand a much better chance of being able to take out a loan when you need it most, which could mean all the difference in getting through a recession.

Letter from Sequoia Capital

Dear Founders & CEOs,

Coronavirus is the black swan of 2020. Some of you (and some of us) have already been personally impacted by the virus. We know the stress you are under and are here to help. With lives at risk, we hope that conditions improve as quickly as possible. In the interim, we should brace ourselves for turbulence and have a prepared mindset for the scenarios that may play out.

All of you have been inundated by suggestions for precautions to take around COVID-19 to protect the health and welfare of you, your employees, and your families. Like many, we have studied the available information and would be happy to share our point of view — please let us know if that is of interest. This note is about something else: ensuring the health of your business while dealing with potential business consequences of the spreading effects of the virus.

Unfortunately, because of Sequoia's presence in many regions around the world, we are gaining first-hand knowledge of coronavirus' effects on global business. As with all crises, there are some businesses that stand to benefit. However, many companies in frontline countries are facing challenges as a result of the virus outbreak, including:

- **Drop in business activity.** Some companies have seen their growth rates drop sharply between December and February. Several companies that were on track are now at risk of missing their Q1–2020 plans as the effects of the virus ripple wider.

- **Supply chain disruptions.** The unprecedented lockdown in China is directly impacting global supply chains. Hardware, direct-to-consumer, and retailing companies may need to find alternative suppliers. Pure software companies are less exposed to supply chain disruptions, but remain at risk due to cascading economic effects.

- **Curtailment of travel and canceled meetings.** Many companies have banned all "non-essential" travel and some have banned all international travel. While travel companies are directly impacted, all companies that depend on in-person meetings to conduct sales, business development, or partnership discussions are being affected.

It will take considerable time — perhaps several quarters — before we can be confident that the virus has been contained. It will take even longer for the global economy to recover its footing. Some of you may experience softening demand; some of you may face supply challenges. While The Fed and other central banks can cut interest rates, monetary policy may prove a blunt tool in alleviating the economic ramifications of a global health crisis.

We suggest you question every assumption about your business, including:

1. **Cash runway.** Do you really have as much runway as you think? Could you withstand a few poor quarters if the economy sputters? Have you made contingency plans? Where could you trim expenses without fundamentally hurting the business? Ask these questions now to avoid potentially painful future consequences.

2. **Fundraising.** Private financings could soften significantly, as happened in 2001 and 2009. What would you do if fundraising on attractive terms proves difficult in 2020 and 2021? Could you turn a challenging situation into an opportunity to set yourself up for enduring success? Many of the most iconic companies were forged and shaped during difficult times. We partnered with Cisco shortly after Black Monday in 1987. Google and PayPal soldiered through the aftermath of the dot-com bust. More recently, Airbnb, Square, and Stripe were founded in the midst of the Global Financial Crisis. Constraints focus the mind and provide fertile ground for creativity.
3. **Sales forecasts.** Even if you don't see any direct or immediate exposure for your company, anticipate that your customers may revise their spending habits. Deals that seemed certain may not close. The key is to not be caught flat-footed.
4. **Marketing.** With softening sales, you might find that your customer lifetime values have declined, in turn suggesting the need to rein in customer acquisition spending to maintain consistent returns on marketing spending. With greater economic and fundraising uncertainty, you might even want to consider raising the bar on ROI for marketing spend.
5. **Headcount.** Given all of the above stress points on your finances, this might be a time to evaluate critically whether you can do more with less and raise productivity.
6. **Capital spending.** Until you have charted a course to financial independence, examine whether your capital spending plans are sensible in a more uncertain environment. Perhaps there is no reason to change plans and, for all you know, changing circumstances may even present opportunities to accelerate. But these are decisions that should be deliberate.

Having weathered every business downturn for nearly fifty years, we've learned an important lesson — nobody ever regrets making fast and decisive adjustments to changing circumstances. In downturns, revenue and cash levels always fall faster than expenses. In some ways, business mirrors biology. As Darwin surmised, those who survive "are not the strongest or the most intelligent, but the most adaptable to change."

A distinctive feature of enduring companies is the way their leaders react to moments like these. Your employees are all aware of COVID-19 and are wondering how you will react and what it means for them. False optimism can easily lead you astray and prevent you from making contingency plans or taking bold action. Avoid this trap by being clinically realistic and acting decisively as circumstances change. Demonstrate the leadership your team needs during this stressful time.

Here is some perspective from our partner Alfred Lin, who lived through another black swan moment as an operating executive:

"I was serving as the COO/CFO of Zappos when I was summoned to Sequoia's office for the infamous R.I.P. Good Times presentation in 2008, prior to the financial crisis. We didn't know then, just like we don't know now, how long or how sharp or shallow of a downturn we will face. What I can confirm is that the presentation made our team and our business stronger. Zappos emerged from the financial crisis ready to seize on opportunities after our competitors had been battered and bruised."

Stay healthy, keep your company healthy, and put a dent in the world.

Best,
Team Sequoia