AUGUST 2020

12 strategies to survive & thrive through a recession

According to Harvard, McKinsey, Deloitte and Bain & Company

Davidson

> Your business context is and will remain uncertain. But if you get moving now, you can ride the waves of uncertainty instead of being overpowered by them.

MARTIN HIRT, KEVIN LACZKOWSKI, AND MIHIR MYSORE, MCKINSEY

Introduction

While economists have forewarned of an imminent recession after over a decade of sustained global economic growth, nobody could have predicted the circumstances under which this would actualise. The COVID-19 pandemic has sent shockwaves around the world, making the prospect of a precipitous economic downturn more inevitable by the day.

However, the upcoming period will be rife with not only uncertainty, but opportunity. Over the past few weeks, in an effort to help, we have undertaken extensive research into strategies to build a resilient business to survive the recession. Drawing from a collection of case studies, research papers, and expert insights from Harvard, McKinsey, Deloitte, Bain & Company, and other world-leaders, we have sought to identify the 'difference-makers' - strategies that allowed certain companies to not only survive, but flourish after an economic downturn, while their competitors failed to catch up.

Combined with my experience leading our business through three prior recessions, this report compiles these tried and tested tactics to help your company prepare, protect, remain agile, and capitalise on the opportunity to separate yourself from your competitors by using this crisis to your competitive advantage.

Grant Davidson
Managing Director, Davidson Branding

Stay calm, balanced, & future-focused

STRATEGY

1


“...you are dealing with an event—maintaining a forward-thinking mindset is crucial.”

1. Stay calm, balanced, & future-focused

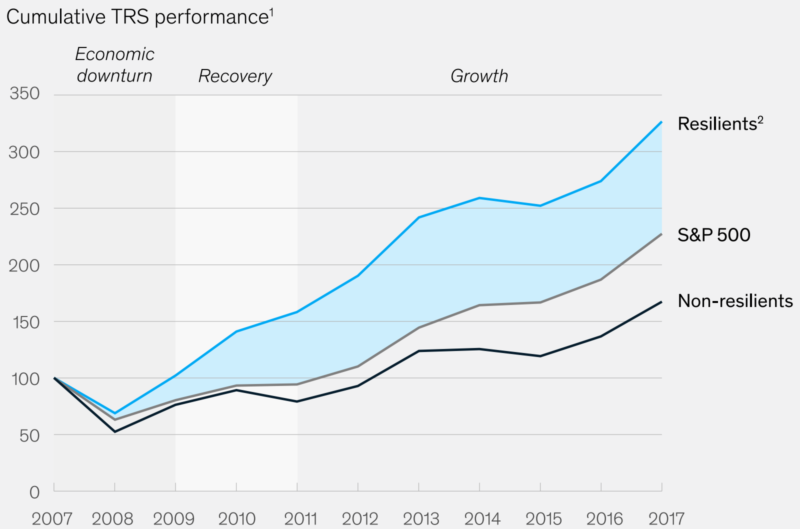
What do you want your company to look like at the end of the recession? How about three years after that?

According to Bain & Company, the answer to these questions should structure your resilience strategy and facilitate all decision-making heading into the economic downturn.

Starting with the end in mind gives you a clearer view of your goals and an optimistic sense of purpose. It helps you to define what areas of your business to focus on and invest in to achieve the desired end state - i.e. customer segments to target, value proposition to hone in on, and areas to digitize. Most importantly, a ‘future-back’ approach allows you to map out a plan of how you will outperform your competitors throughout and after the downturn.

To keep your management team calibrated throughout a period of uncertainty, McKinsey senior partner Sven Smit recommends reminding everyone (and yourself) that you are dealing with an event - and maintaining a forward-thinking mindset is crucial.

Resilient companies did better at the outset of the downturn and after.



[1]TRS = total returns to shareholders; calculated as average of subsectors' median performance within resilient and non-resilient categories; n = 1,140 companies; excludes financial companies and real-estate investment trusts.
[2]Resilient companies defined as top quintile in TRS performance by sector.
Source: S&P Capital IQ; McKinsey analysis

Figure 1. The tangible results of building resilience into your business strategy.

> And yes, you should be at pace, full on, and all that stuff, but don't forget that the actions you take toward the future in the recession are as important as the actions that you take to respond to the unique event that will take place.

SVEN SMIT, SENIOR PARTNER MCKINSEY

Assess your current position

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2. Assess your current position

When it comes to developing a recession strategy, no two companies are alike. In order to capitalise on an economic downturn, you must first conduct a realistic assessment of your company's financial and strategic position.

Each business will have a different starting point that should inform the path they take. For example, if your business is in a strong financial position, but relatively weak market position, this presents an opportunity to focus the business around a defensible core offering, invest to grow this space, and transform costs to fund this future business direction.

Conversely, if you find yourself in a weak financial position yet strong strategic position, then you should urgently focus on cost transformation while simultaneously paring back non-core areas of the business to focus on your key areas of strength.

Companies in a strong financial and market position would be well-advised to invest in product and market share leadership.

Of course, successfully achieving these objectives requires a realistic and considered plan. Management teams should analyse their current position, and map out an offensive strategy aimed at building a stronger business throughout and beyond the recession.

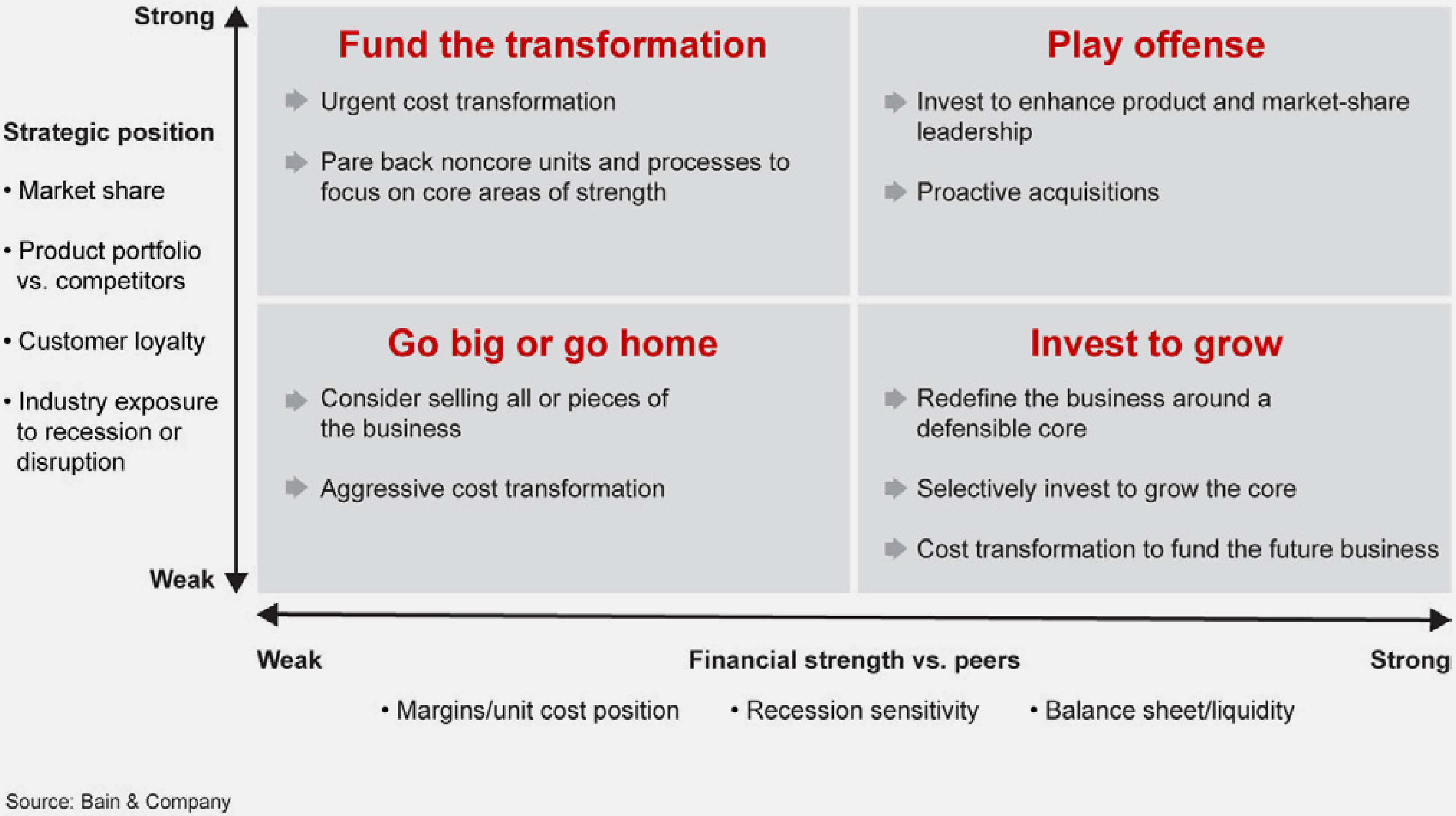

Figure 2. Mapping out your recession plan first requires an assessment of your company's strategic and financial position.

Treat cash as king

STRATEGY

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3.
Treat cash as king

'Cash is king' is the mantra of many of the world's savviest business leaders - and never has it been more appropriate than now.

During a recession, lower sales and less cash are inevitable. Shoring up the financial health of your business in anticipation of trying times is the first, and arguably most important, step you can take towards making sure you come out the other end in good shape. The companies that best survive downturns are those with manageable debt, solid cash and assets, and that maintain strong profitability by spending well within their means.

For all businesses, maintaining cash flow is vital to survival. While this is often challenging, there are a number of factors you can control, such as;

- Taking measures to encourage prompt payment,
- Reviewing suppliers for cheaper options, and
- Renegotiating contracts with lenders and contractors

Businesses that successfully drive strong positive cash flows will be able to absorb the financial hit from the crisis, while others will struggle. Focusing on sustained balance sheet discipline and maintaining a steady cash flow will have you better placed to continue operating within a tough economy - and thrive when conditions improve.

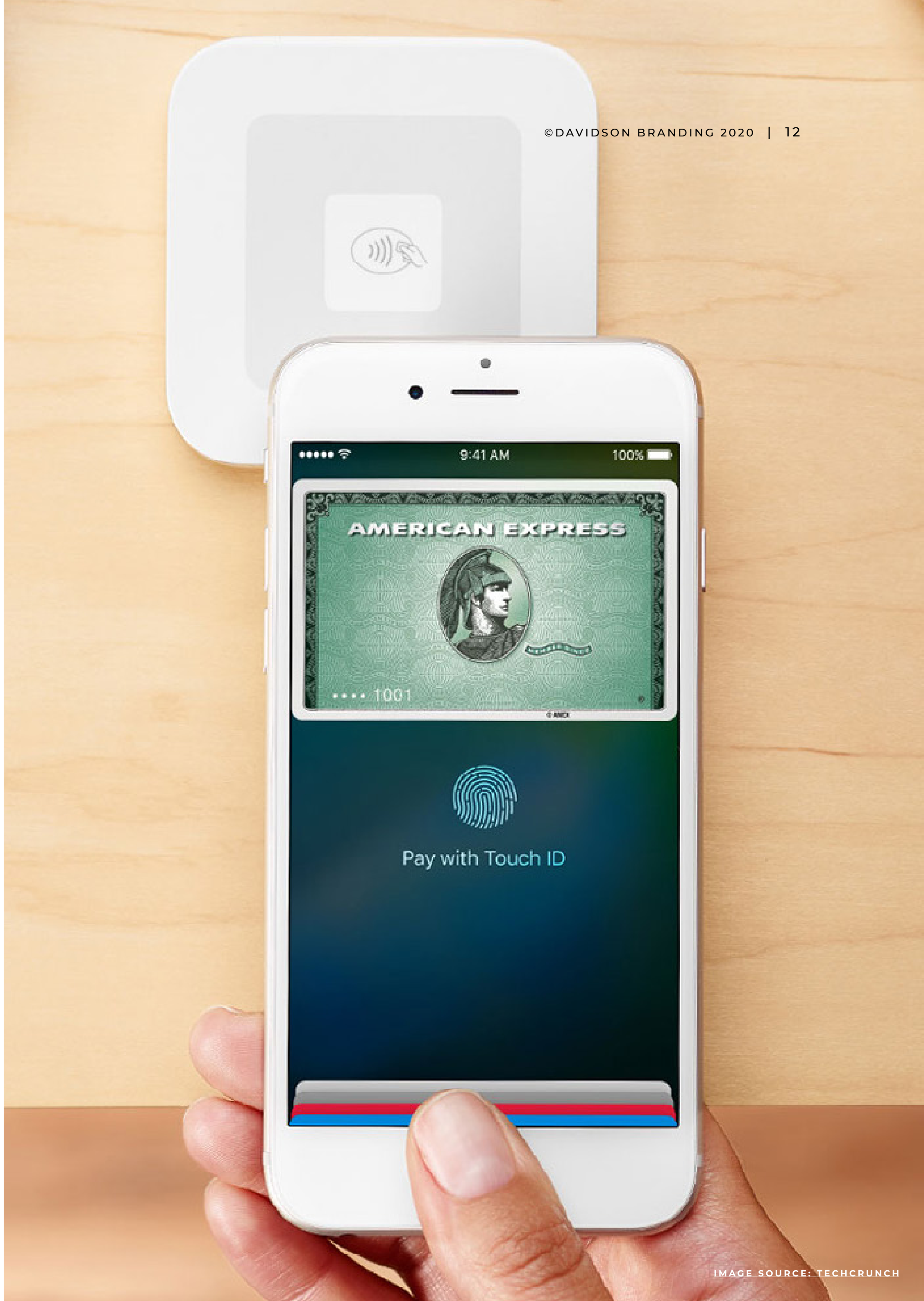

IMAGE SOURCE: TECHCRUNCH

Practice prudent pruning over aggressive cost-cutting

4

4.
Practice prudent pruning over aggressive cost-cutting

A proactive and critical review of all operational costs should be at the core of your company's resilience strategy, however, successful companies don't engage in extreme cost-cutting—they carefully consider ways to restructure without compromising their offering, keeping the 'muscle' behind their operation as strong as ever.

Bain & Company's study of over 3,900 companies during and after the global financial crisis revealed that 'losing' companies acted under the 'misconception that extreme cost-cutting would be enough to survive the storm'. They hurt themselves by trying to 'slash and burn their way to the other side', taking desperate measures to save money such as cutting research and development, ruling out acquisitions, scaling back on marketing and sales, and laying off vital talent.

IMAGE SOURCE: TRACTORS INFO

Alternatively, John Deere offers a strong case study on effective cost management during an economic downturn. Bain & Company documented their strategic management of working capital, which allowed them to **'increase cash flow and build resilience against demand volatility'**. This included:

- Working with dealers on reducing receivables
- Reducing work-in-progress inventory levels by improving production processes
- Capitalising on cheap capital to lock in long-term financing
- Realigning their capex strategy to focus on higher-return investments

As a result, the company saw a

40% increase on return on invested capital during the recession

up from negative 5% prior

Overall, work hard on getting fixed costs down, and conduct a bottom-up justification of all other costs to identify and address unnecessary expenses so that you can focus your spending essential activities that demonstrably improves the business.

Balance your finances

STRATEGY

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5. Balance your finances

In a Deloitte survey of over 1,000 CFOs, many prioritised stabilising their finances in anticipation of an economic downturn. These respondents focused on reducing debt, deleveraging, and overall consolidating their position as their resilience strategy.

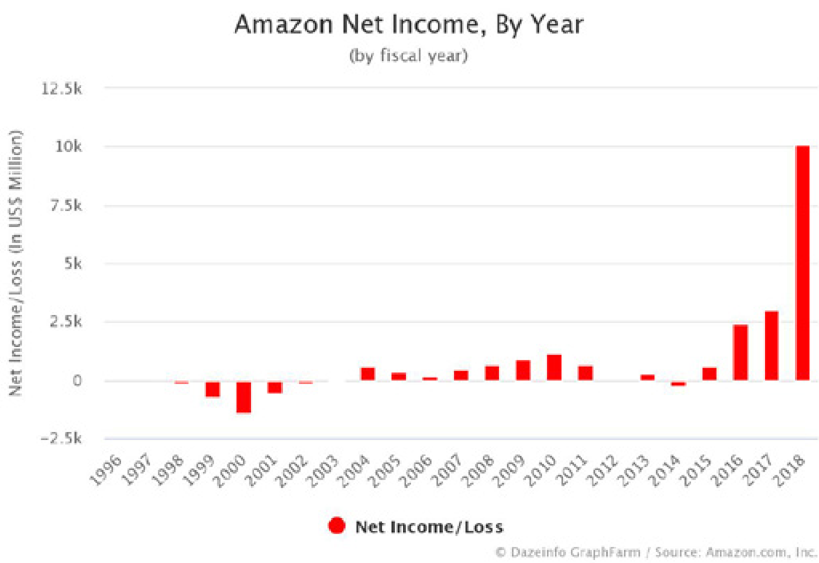
Furthermore, a McKinsey research study on the performance of various companies post-GFC revealed that a common theme amongst winners was an organisational focus on balance sheet management. They tightly managed cash and worked capital to create a 'buffer' that opened up opportunities and gave them the capacity to invest. Many companies also took the initiative to explore new ownership models or divest non-core assets in order to invest further in the core business. Practical actions you can take to improve your financial health include:

- Reorganising debt (pay it down, push it out, or refinance it)
- Classifying and actively managing other liabilities
- Reviewing investment plans to reduce investment in non-essential assets
- Increasing investment in technology and distribution assets

IMAGE SOURCE: WAYNE ELSEY

One month before the dot-com bubble burst in the year 2000, then online book-retailer Amazon.com sold 672 million USD in convertible shares.

Without this move, they wouldn't be where they are today—consolidating their financial position by shedding assets allowed them to mitigate the effects of the oncoming economic downturn, offering a valuable case study in the value of **preparation** and **deleveraging**. Companies that deleveraged their balance sheet early enough found themselves with more opportunities to take on new investments and more financial security during the crisis.



Look beyond layoffs

STRATEGY

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6. Look beyond layoffs

Unfortunately, layoffs and redundancies are terms that have inevitably become synonymous with recessions. This doesn't have to be the case. A Harvard Business Review study indicated that companies that relied less on layoffs and more on pruning operational costs to reduce overheads emerged from the GFC in much stronger shape than their competitors.

IMAGE SOURCE: THE ARCHITECT'S NEWSPAPER

IMAGE SOURCE: MY STARTUP WORLD

IMAGE SOURCE: FORTUNE MEDIA

Layoffs harm not only employees but companies too. This is true for a number of reasons. Firstly, costs associated with redundancies and pay outs – instantly hit cash reserves. Secondly, hiring and training new employees, when the economy returns, presents a significant cost that businesses should avoid, particularly following a recession. Thirdly, it would be unwise to disregard the social implications of laying off a large number of employees to cut costs - while this may have been an option a couple of decades ago, companies today have a responsibility to their employees. The social consequences of such a move may prove even more costly in the long term.

Finally, layoffs can severely damage company morale. In a time when everyone should be united under a common goal, companies can ill afford any moves that may negatively impact productivity or alienate their employees. As a leader, being sensitive to the wellbeing of your people will be more important than ever. Loyalty through trying times pays off, driving desirable business outcomes and improving brand image.

According to Harvard Business Review, if you need to cut labour costs, focus on improving productivity. Analyse your operations and employee roles to identify opportunities to simplify processes or re-train and re-skill employees to meet the demands of your new situation. Most importantly, demonstrating leadership and investing in your people will go a long way towards carrying the business to its future goals.

HBR also encourages companies to consider hour reductions, furloughs, or performance pay as alternatives to lay-offs.

They use American technology and manufacturing company, Honeywell, as an example. Following the stock market crash in 2000, they laid off nearly 20% of their workforce and struggled to recover. When the global financial crisis arrived in 2008, they took a different approach, furloughing employees for between one and five weeks with unpaid or partially compensated leaves. This action saved an estimated 20,000 jobs and allowed them to emerge from the recession in much stronger shape (despite the downturn being more severe), with better sales, net income, and cash flow.

Streamline & fine-tune

STRATEGY

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7. Streamline & fine-tune

Bain & Company studied discount-retailer Costco's strategic approach to simplifying processes and saving money.

"Early in the financial crisis, Costco streamlined stores, limiting the number of product variations in each category, especially branded products, in order to get bigger wholesale purchase discounts. It now sells about 3,700 stock-keeping units (SKUs), compared with 60,000 SKUs for competitors on average. Along with reducing SKUs, Costco revised its category mix, shifting from hard goods to more consumer staples.

The discounter also set about fine-tuning its supply chain to reduce storage costs. It centralized prescription fill centers, cutting those costs by half. And it relied more on cross-docking centers, to reduce shipment time to under 24 hours, which in turn cut inventory costs."

Smart streamlining moves like these will help steady the ship, and position you to achieve growth in revenues and earnings through and beyond the recession—just as Costco did.

IMAGE SOURCE: NH ARCHITECTURE

> Early in the financial crisis, Costco streamlined stores, limiting the number of product variations in each category, especially branded products, in order to get bigger wholesale purchase discounts.

BAIN & COMPANY

IMAGE SOURCE: THE GUARDIAN

Focus on customer retention (but don't forget about acquisition)

8

8. Focus on customer retention
(but don't forget about acquisition)

Keep your core customers happy

During a recession, leaders may be prone to panicking and stretching their business in an attempt to acquire new customers. Alternatively, your best bet is strengthening relationships with existing customers. Consider the cost-to-benefit ratio of acquiring new customers compared to retaining existing ones.

Improving your customer retention by just	5%
can increase your profits by	25–95%

(Source: Frederick Reichheld of Bain & Company)

Contact your most valuable customers to offer them reassurance and loyalty benefits if possible – this will go a long way towards consolidating brand loyalty. Automation has made it easier than ever to keep your existing clients happy, and this is something you can focus on now and carry through in the long-term to build business resilience.

Know your customer

This is not to rule out attempts at customer acquisition. To maintain cash flow, many companies would be wise to ratchet up their marketing efforts. However, this must be accompanied by a laser focus and comprehensive knowledge of who your core customer is, as well as how and where to acquire them – to avoid wastage and squandering precious budget on a lack of results.

Focus on core competencies

9

9. Focus on core competencies

Perfect your core product

Bain & Company undertook a study of what differentiates recession winners from losers, and found that poor performance could often be attributed to following 'dead ends'. During the last recession, lagging companies had a tendency to panic and venture outside of their core business, chasing investments in the hottest trends and services before they burnt out altogether.

There is a time and place for diversification - but in a time where efficiency and 'fat-trimming' is key, taking the opportunity to perfect your core product and focus on what you know is profitable is the best move towards recession-proofing your business. Incorporating new products and services is not effective diversification. It will burn time and money in an era where both are scarce, and potentially compromise your core business, hence damaging your customer relationships and reputation.

During a period of economic downturn, leverage technology and an increased focus on cost-effectiveness to hone and perfect your core service, and keep your core customers happy in the process.

Be a 'must-have'

10

10. Be a 'must-have'

Of course, you won't be the only one executing cost-cutting plans. Throughout recessions, all individuals and companies must 'tighten their belts' to survive.

Any product or service that is considered non-essential or a 'luxury' is vulnerable to being cut from their budgets. Make sure that this is not an option for your customers by providing the perfect product-market fit that solves a burning challenge.

If you offer a “must-have” product or service, the recession is far less likely to impact your business. Consider this advice from Sabri Suby, founder of Australia’s fastest-growing digital agency, King Kong:

“You’re either selling candy, vitamins or painkillers.

Candy – a nice-to-have that people enjoy but doesn’t solve a burning problem.

Vitamins – They generally have a positive impact over time, but they’re not “urgently needed”.

Even though they might be good for you...

If you don’t take any vitamins this week, this month or even this year, you may not notice any real downside.

Pain-killers – offer an immediate solution to a critically important and pressing problem, that needs to be alleviated pronto!

I.e. Feel pain → take a painkiller.

And it’s in times like these that you don’t want to position your offer as anything other than a painkiller.

Think about it this way, if you’re feeling crippling physical pain, you tend to focus on finding a painkiller solution.

Immediately.

You’re not going to waste much time doing a lot of research or price shopping.

You just want a solution to your urgent problem.

And as the economy contracts...

The opportunity lies is in converting your vitamin offer into a painkilling solution.”

Embrace technology

11

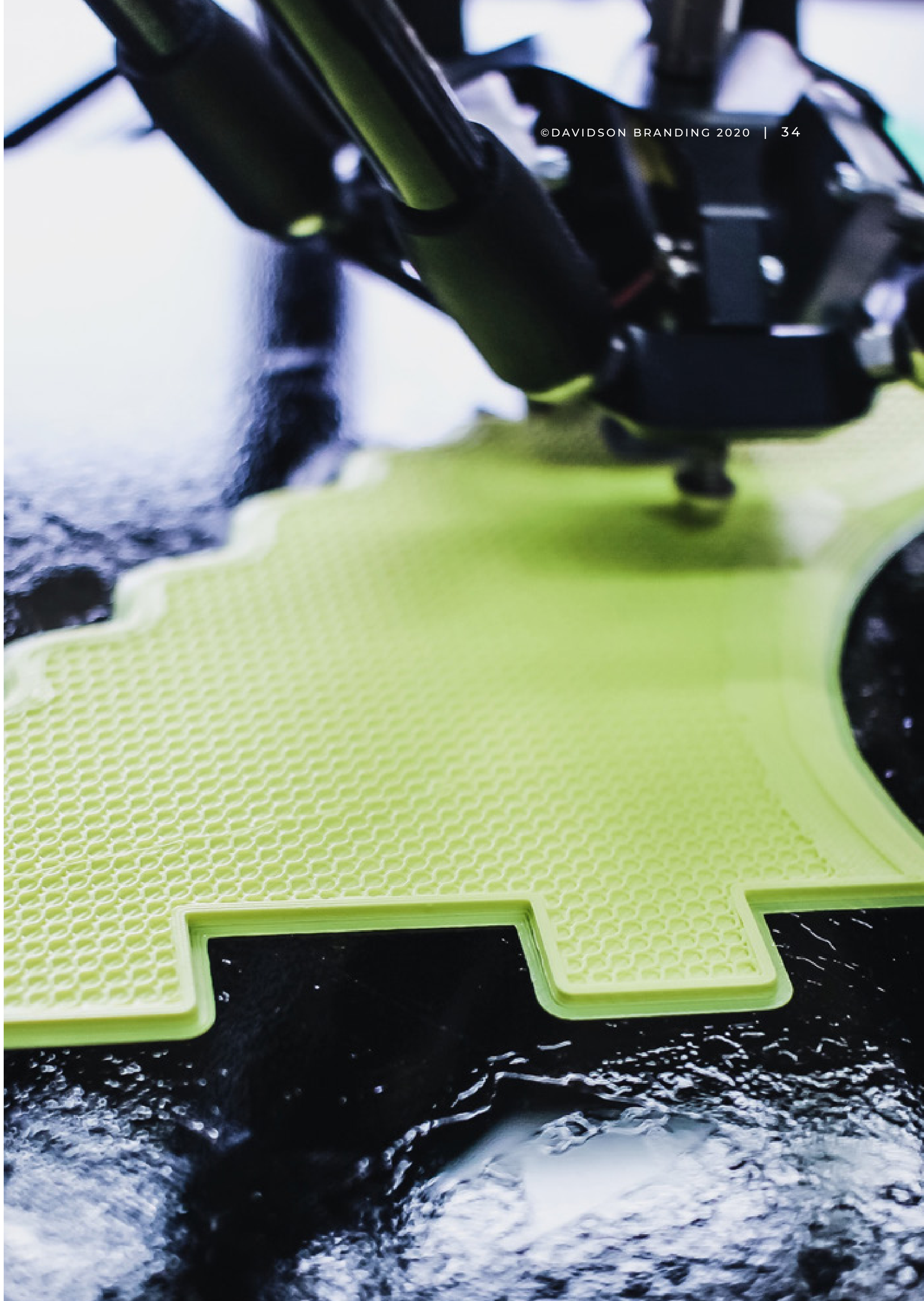
11. Embrace technology

Many companies go back into their shell during a recession, entering preservation mode.

A 2018 study by Brad Hershbein (of the Upjohn Institute for Employment Research) and Lisa B. Kahn (of the University of Rochester) suggests that doing the opposite will lay the foundations for a sustained competitive advantage. According to this study, economic downturn can actually encourage the adoption of new technologies. Harvard Business Review and economists recommend that companies take advantage of lower opportunity costs to allocate budget to IT initiatives. While this may seem counterintuitive during a period where money is tight, it can be extremely beneficial in a number of ways:

1. Technology makes your business more agile and adaptable to change. Katy George, a senior partner at McKinsey, proposes that “the first reason to prioritize digital transformation ahead of or during a downturn is that improved analytics can help management better understand the business, how the recession is affecting it, and where there’s potential for operational improvements.”

2. Technology has the capacity to cut costs by making your business more efficient. George recommends undertaking ‘self-funding’ projects like automating operational processes or employing data-driven decision-making. These have a quick pay-off and can improve your resilience.



McKinsey senior partner, Sven Smit, best summarised the practicality of adopting new technologies during an economic recession:

"On the upside, I would say this is a place to continue to invest. The future will include digital. The future will include the online. The differentiating move is to up it in the downturn."

The acceleration of digital adoption has created a gap in capabilities between leaders and laggards - a gap that will widen during an economic downturn. McKinsey split these groups into 'digital haves' and 'digital have-nots', stating that:

"The digital haves will connect better with loyal customers; provide a frictionless, private customer experience; serve them at a lower cost; absorb price hits; and avoid expensive IT upgrades at a vulnerable time. Digital have-nots, on the other hand, may feel a need to retrench, making catch-up elusive, even when economic conditions improve."

Having the foresight to determine which critical processes should be digitized to drive value or improve efficiency is vital to gaining a competitive advantage - and maintaining it when the recession is over.

Get on the offensive early

STRATEGY

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“Don’t let a good crisis go to waste.”

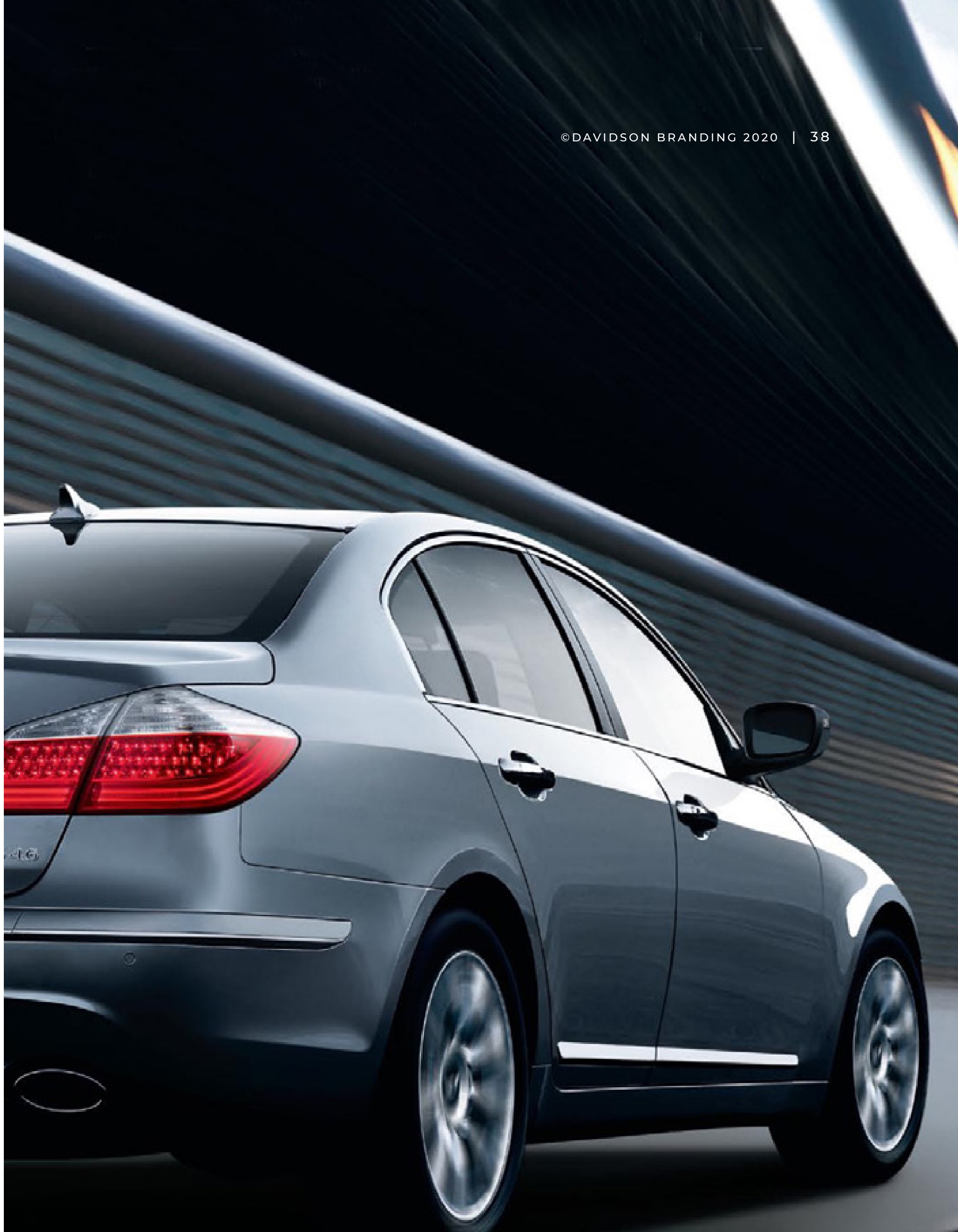
12. Get on the offensive early

You may have heard the saying “don’t let a good crisis go to waste”. Though it sounds paradoxical, it speaks to how economic volatility can open up a window to position yourself at a competitive advantage. Sven Smit of McKinsey recommends you seize this opportunity;

> “If some other player moves a little oddly in reaction, that’s a time for you to snatch assets, snatch people, and take a proactive stance, which is that a crisis is truly an opportunity.”

Analysing the research by McKinsey, Harvard, and Bain & Company revealed two common threads between companies that thrived during and after the last recession.

1. They all exhibited an unwavering focus on the future.
2. They came out of the recession on the offensive.



DURING THE GREAT RECESSION IN 2009, HYUNDAI, “AN AUTOMAKER NOT HISTORICALLY KNOWN FOR FEARLESS MARKETING, BEGAN IN EARNEST A FRONTAL ASSAULT ON A RECESSION...” ALONG WITH ITS ASSURANCE PROGRAM, IT “ALSO TOOK AN UPMARKET ROUTE, WITH ITS VERY SUCCESSFUL EFFORTS TO PUSH THE GENESIS, ITS ENTRY INTO THE PREMIUM-CAR MARKET, THAT WAS ALSO PUSHED DURING THE SUPER BOWL AS WELL AS DURING THE GAME’S FEMALE-SKEWING EQUIVALENT, THE ACADEMY AWARDS, WHERE THE CARMAKER BOUGHT AN EYE-POPPING NINE SPOTS.”—AD AGE

IMAGE SOURCE: UNIQUE CARS AND PARTS

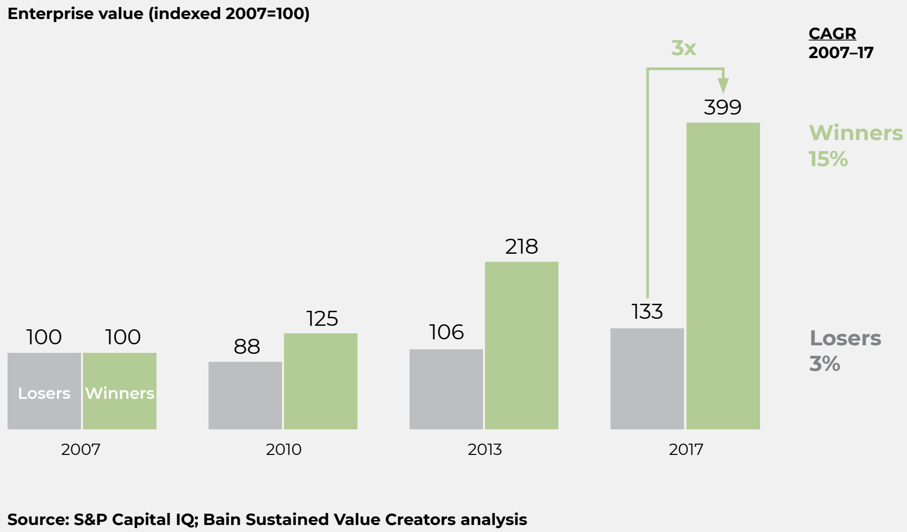


Figure 3. Using crisis as an opportunity: winners vs. losers of the GFC and their growth in enterprise value.

Leaving the recession in 'attack mode' while your peers focus on survival and wait for the cycle to clear is a sure-fire way to gain a competitive advantage. While others withdraw into their shells, take the opportunity to drive all activities that will maintain and grow revenue. Bain & Company found that successful companies used a few common tactics to drive commercial growth:

1. Invest in R&D instead of dialling it back.
2. Appoint sales teams to top priorities among prospects and existing accounts.
3. Realign distribution by rebalancing the mix of current and new locations.
4. Maintain marketing (with a focus on scalability) while competitors made cuts.
5. Leverage digital to improve and personalise the customer experience.

Today, the advancement in digital tools has created more opportunities to aggressively pursue growth. Developments in analytics, diverse marketing channels, and an increased capacity for customer personalisation and outreach should be leveraged to capitalise on the recession while your competition is still reeling. Whether it be evolving your marketing mix towards digital channels with high-velocity message testing or using next-generation data analytics to set pricing at different levels and remain flexible to the demand of different customer segments, it is vital that you seize this opportunity to widen the gap between you and your peers.

“Leaving the recession in ‘attack mode’ while your peers focus on survival and wait for the cycle to clear is a sure-fire way to gain a competitive advantage.”

In summary

Successfully navigating your business through a recession requires careful strategic planning. Companies that plan with the end in mind and adopt a 'future-back' approach to planning will emerge from the downturn ready to capitalise.

Protect cash by stimulating cash flow, restructuring costs, and streamlining operations.Don't resort to desperate slashing of essential operations, R&D, or marketing - historically, this has been a losing strategy that compromises your future success. Instead, continue to invest in technology and remain open to its potential to cut costs, reach customers, and provide an advantage over your competitors.

Demonstrating a commitment to your employees by cutting labour costs without making layoffs will not only build loyalty, but allow your company to emerge from the downturn in stronger shape. Moreover, a comprehensive company-wide understanding of your unique value proposition and target customer is essential during a period in which streamlining operations to focus on your core competencies is the best strategy.

As a leader, maintaining a future-focused approach is vital in preparing your business to capitalise on the instability of your competitors and take offensive action as the downturn resides. Harvard Business Review describes recessions as 'a high pressure exercise in change management' - and for your company to emerge as one of the 'winners', you must exhibit foresight, flexibility, and a readiness to adjust.

- [ ] 1. Stay calm, balanced, and future-focused
- [ ] 2. Assess your current position
- [ ] 3. Treat cash as king
- [ ] 4. Practice prudent pruning over aggressive cost-cutting
- [ ] 5. Balance your finances
- [ ] 6. Look beyond layoffs
- [ ] 7. Streamline and fine-tune
- [ ] 8. Focus on customer retention
- [ ] 9. Focus on core competencies
- [ ] 10. Be a 'must-have'
- [ ] 11. Embrace technology
- [ ] 12. Get on the offensive early

Need help?

This report is a compilation of resilience strategies from world-leading companies designed to help you not only weather the storm, but also to build a competitive advantage and put the pedal to the metal coming out of the downturn.

For further insight into how best to prepare your business, book a complementary 30-minute Strategy Call with myself, Grant Davidson.

As the Managing Director of Davidson Branding for almost 30 years, I hold invaluable experience and expertise in competitive strategy and business leadership. I have:

- Successfully built a resilient business that has grown through three recessions
- Studied Competitive Advantage, Digital Strategy and 'How to Lead a Business Through its Lifecycle' at Harvard Business School
- Mentored 100 businesses for the Victorian Government
- Developed winning competitive strategies with many world-leading brands

Our Strategy Call will achieve the following outcomes:

1. Quickly identify vulnerabilities

2. List and prioritise urgent strategies to build resilience

3. Identify opportunities to gain market share

4. Develop an action plan

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