

# APPENDIX

## The recession and what to do about it

This book is not a survival guide to the recession. It is intended to summarise as succinctly as possible the learning we have developed as to what creates a successful business and the learning and experience we have had in working with hundreds of wonderful businesses all over the world. This information applies just as much in a time of boom or bust – although the priorities, balance and timing will change depending on the external environment.

At the time of writing the world economy is emerging, tentatively, from the worst economic crisis of our lifetimes. This is a great time to be in business – a time of boundless opportunity to those with an efficient business with some cash on the balance sheet, a strong culture, a clear product and position and a powerful grasp of IP.

With this in mind this section will act as a summary of how the information and knowledge in this book can be focussed to thrive in a recession and in the recovery phase.

## THE FIVE MISTAKES OF A RECESSION

“The opportunity is now - at the bottom of the cycle.”

Darren Shirlaw

Recessionary times normally ‘surprise’ most business people. It is almost like the recession sneaks up on them and creates the surprise. Very few businesses in the world have themselves financially and strategically set for a recession before it arrives.

There are then five common mistakes made by business people when they implement the consequent change in strategy and adjustments to the business to cope with the economic environment.

### **MISTAKE NO.1: TIMING**

There are four stages to every economic cycle;

- Down – as the market heads south into a bear market
- Drag – as the market bounces off the bottom but drags out in a flat period
- Release – the market spikes downward initially and then releases into a new period of growth
- Up – the market moves into the new bull market

More commonly than not, business owners are implementing strategies *behind* these cycles instead of getting in front of them. The opportunity rests with being able to see when these cycles come into play in an economy and investing in our businesses accordingly.

### **MISTAKE NO.2: RISK PROFILE**

Risk Profile is a measure of how willing an owner/management team is to taking business risks. What typically happens is the owner/manager reduces their risk profile through a recession. This puts them into the spiral of “sell low, buy high” – and creates the mismatch of timing mentioned above.

Measuring a business’s risk profile and adjusting tactics accordingly is what enables a business to grow quickly when coming out of recession – the “buy low, sell high strategy.”

### **MISTAKE NO.3: WIND/UNWIND**

When a business is in growth mode we describe this as “winding up” – think of a bicycle winding up to gain speed. When a recession hits businesses start to “unwind” – think of slowing that bike down; you have to put the brakes on.

When the market turns most owner-managers still have their foot on the brake, operating their businesses in the “unwind” modality. And with a low risk profile, they are reluctant to take their foot off the brake until there is lots of proof that we are genuinely out of recession.

The problem is by the time there is plenty of proof that we are out of recession and it is safe to invest again; then the opportunity is gone as the market will have already picked up 30% to 50% growth in the initial stages of the new cycle.

### **MISTAKE NO.4: MACRO/MICRO**

During boom times business managers tend to focus on the bigger strategic plays available to them; mergers, acquisitions, new markets, new branches/outlets etc – it is what we call macro strategies. What is forgotten during these times is micro – all the detail that keeps a business lean and efficient. You can hide these mistakes during a boom period as the growth will hide them. So during boom times micro is the blind spot in a business.

The opposite is true during recessionary periods. Owners tend to get dragged back into all the detail of the business and become very micro focused. This means that the alignment of

the detail to the macro strategies and visions is often overlooked. Businesses come out of the recession in one piece but not aligned with the growth strategies. They then waste 12 months plus aligning the business to grow – but the market is already growing – they miss the boat!

#### **MISTAKE NO.5: INDUSTRY CYCLE**

And the last mistake is often linked to cycles within industries. Owners tend to get caught up in the conversations of “doom and gloom” across the market and fail to watch the economic cycles within their own industries. Not all industries move with the same timing as the overall economy.

Watching these cycles is critical to achieving timing of individual business strategies. And the five common mistakes? It's easy to see when you are looking for them; easy to miss if you forget about them.

## THE FIVE GROWTH OPPORTUNITIES OF A RECESSION

“Recessionary times present huge opportunities for businesses to thrive. While many businesses are hurting through a downturn, it presents those that are structured well with massive growth opportunities.”

**Darren Shirlaw**

Recessions are times of enormous opportunity for the fleet of foot. More innovation occurs in a recession than in a boom. Many of the leading brands and products we know today were born in a recession.

For your business there are five key organic growth opportunities you can focus upon during a downturn.

### **OPPORTUNITY NO.1: PRODUCT INNOVATION**

Businesses that innovate their product during a downturn always do well during the next boom. Always.

The easiest time to reposition a business is actually during a downturn. The hardest time to reposition is at the height of a boom. The question to ask yourself is “am I still selling the same product, in the same way and with the same pricing structure as two years ago?” If so, then you are still selling a boom product in a bear market.

The key to this strategy is to know how to innovate product and packaging, know when to introduce the 'recession product' and when to dump the 'recession product' in favour of the innovated growth product. Broadly speaking in the good times your focus is on Product *extension* and in bad times it is on Product (and packaging) *innovation*.

#### **OPPORTUNITY NO.2: CHANNELS TO MARKET**

If a business does not have enough revenue coming through during a recession then it is clear that whatever channels to market the business was using pre-recession were either not a) well enough established or b) the correct ones to see the business through all parts of a cycle. The business needs to innovate its channel strategy.

If it takes a business too long to establish new channels to market in the next growth cycle then they can miss a large chunk of uplift readily available

If your business innovates its product then it is clear that you may well use different channels to market to sell its product post a recession than prior to the recession.

All this means that in good times you need to focus on a Channel *extension* strategy and in bad times on Channel *development* strategy

#### **OPPORTUNITY NO.3: FUNCTIONAL STRUCTURE**

And what can stop a business owner/manager from finding the time to develop product and find those new channels to market? Answer: it's our old friend the functional structure of their business. Often dragged back into the content and operations of business during a recession the CEO or owner finds it difficult to find the space to undertake growth initiatives.

The output is that the business needs a "recession functional structure" – a lot of businesses fail to adapt their structures through the cycle and end up simply retrenching staff against cost budgets.

This means that in good times you need to undertake a *micro* functionality review and in bad terms a *macro* functionality review

#### **OPPORTUNITY NO.4: CAPABILITY**

We come out of recession with a fresh new innovated product range, sold into new channels to market; the business needs different levels of infrastructure. It also needs *different skills levels* post the downturn.

The fast moving businesses coming out of recession focuses on building the capability of its team.

#### **OPPORTUNITY NO.5: SUCCESSION PLANNING**

Many businesses forget staffing succession during downturns. It is almost as if staff are safe during the downturn so no there's need to worry about them; they will stay loyal out of sheer fear of not getting another job. The problem is that staff, post recessions, then leave. This creates a recruitment problem for businesses. And so while other businesses are starting to grow during the upturn, some businesses spend most of their time re-staffing and spending those valuable investment dollars on recruitment costs.

In bad times it's even more important to focus on staff development, culture and those "extras" that needn't cost the business very much but keep staff loyal when you need their talents to grow into the recovery.

## SUMMARY: THE FIVE WAYS TO PREPARE FOR THE RECOVERY

### 1. Understand Market Cycles

Markets move in waves, with peaks and troughs. There is only one guarantee; that the state we are in now - whether boom times or bust - won't last forever. Yet recessionary times normally "surprise" most business people.

In the previous section I said that there were four stages in the cycle:

- Down - the economy heads south into a bear market
- Drag - the market bounces off the bottom but drags out in a flat period
- Release - the market spikes downward initially and then releases into a new period of growth
- Up - the market moves into the new bull market.

Understanding the four stages of each economic cycle is the first step to helping you take advantage of the upswing - helping you 'Catch the First Wave'.

Many business owners implement strategies behind these cycles - reacting, instead of getting in front of them. It's like a surfer who paddles too late - there's little he or she can do to catch that wave. The opportunity is in seeing how these cycles affect your business and investing accordingly.

### 2. Timing is Everything

While investing in the markets is instantaneous, investing in business is anything but. After a CEO or business owner decides to expand, such as by adding staff, opening new offices or markets, or investing in new products, these take time (typically nine to eighteen months) to produce a return on that investment.

During a recession, most CEOs and business owners will wait until they have seen the signs of economic recovery before they start to invest in their businesses again. They wait until the markets recover about 30 percent and then reinvest.

Compound the slow start with a lag time between investing in the business and when it starts to pay off, and by the time the growth shows up in the business we may be more than halfway through the next bull run of economic prosperity.

Timing trips up many businesses because, as we've already discussed, owners become more cautious about risk during a recession, and reign in spending and strategic investment. By reducing their risk profiles during a recession, business owners effectively position their businesses to stay behind the curve, missing the first wave of growth.

### **3.Change Course Nimbly**

When a business is in growth mode, we describe this as "winding up". When a recession hits, businesses start to "unwind". When the market turns upwards, most owners and CEOs are still operating their businesses with the unwind mentality. With a low risk profile, they are reluctant to let go until there is lots of proof that we are genuinely out of a recession.

The problem is: by the time there is plenty of proof that we are out of the recession and it is safe to invest again, the opportunity is gone as the market will have already picked up 30 percent to 50 percent growth in the initial stages of the new cycle. The opportunity is now - at the bottom of the cycle.

### **4. See Past the Blind Spots**

During boom times, business managers tend to focus on the bigger strategic plays available to them; mergers, acquisitions, new markets, new branches or facilities - the macro strategies. What is forgotten during these times is micro - all of the details that keep the business lean and efficient. Growth during this period will hide these micro mistakes, so during boom times micro is the blind spot in business.

The opposite is true during recessionary periods. Owners tend to get dragged into the details of the business and become very micro-focused. This means the macro strategies and business vision are often overlooked.

Businesses may come out of the recession in one piece, but misaligned or lacking a long-term growth strategy. They then waste twelve months or more aligning the business to grow

- but the market is already growing - and they fail to catch the first wave.

### **5. Work with the Energy**

Recessions are made up of more than profit and loss, pounds and pence, facts and figures. The energy and emotions of the market also influence market dynamics. First, there is fear that drives momentum downward into a recession - without fear, recessions would never happen.

Next, there is the energy of “withhold” as everyone hangs on to everything they have in fear of scarcity. That scarcity results in little energy (which shows up in the form of money) in the system - greatly reduced consumer spending, orders for goods from manufacturers, and capital available for reinvestment.

On the positive side, businesses are forced to re-evaluate, realign their resources and re-jig their product lines. This creates a streamlining effect, increasing efficiency of product and production. Many businesses that make a few changes in this phase find that the tweak creates a substantial, long-term shift in the productivity in their companies.

The recession is nothing more than a cleansing period - it gets rid of the unproductive processes, businesses and people, a bit like a detox.

This provides a strong foundation for new growth, an opportunity for new energy to enter the system, and the perfect time to be ready to ‘Catch the First Wave’.

---

# Thank you

We'd love to listen to you.

How to get in touch:

Shirlaws (UK) Ltd,  
New Broad Street House,  
35 New Broad Street, London, EC2M 1NH

[infouk@shirlawscoaching.com](mailto:infouk@shirlawscoaching.com)



VISIT US AT [www.shirlawscoaching.com](http://www.shirlawscoaching.com)

ISBN: 978-0-9566930-3-7

---

**Shirlaws**  
Love business