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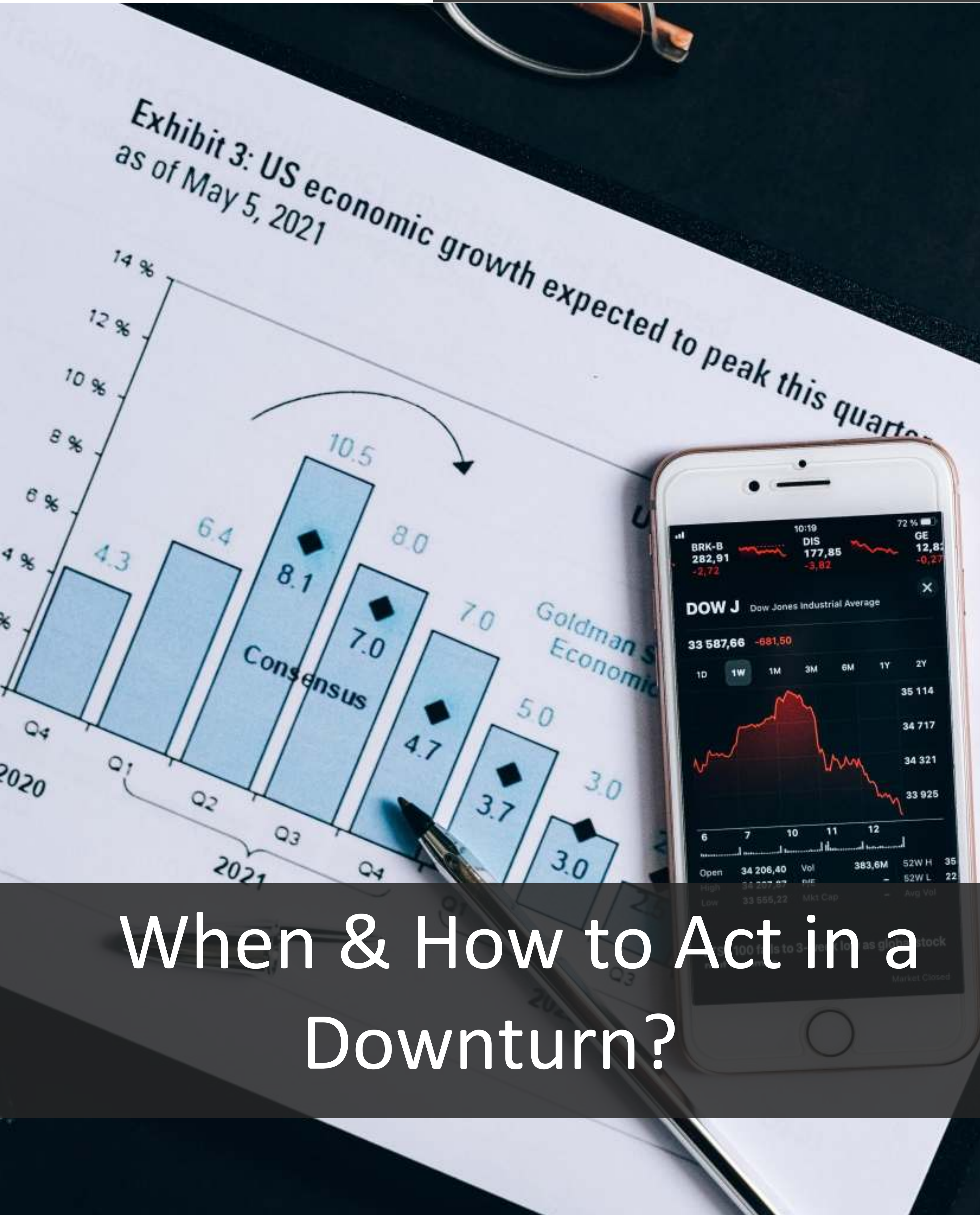
Accelerating Business Growth



When & How to Act in a Downturn?

1. SIGNS OF MARKET DOWNTURNS: WHEN TO ACT?

Market downturns are a normal repeatable economic cycle impacting almost any business. While some businesses are more resistant to economic downturns, such as low-price retail and healthcare, most businesses will need to adopt strategies to ensure they can weather the storm. Taking the appropriate actions at the proper time can play a significant role in determining the future positioning of a company during and after the market downturn.

Market downturns come in all colours and shapes, and the characteristics of the market downturn will define how a company acts. The simple way of determining the downturn is by answering questions along five dimensions:

1. Is the downturn primarily due to an event, or is the primary reason due to micro or macro-economic conditions?
2. Is there more than 1 condition creating the downturn?
3. Is it restricted to one city, country, or region, or is it global?
4. Is the period of downturn likely to be less than 1 year, longer than 3 years, or somewhere in-between?
5. Is the impact on your business likely to be low, medium, high or severe?

Although many of the answers to these questions can only be answered with a level of subjectivity, we believe that any business will be better equipped with a structured approach to dealing with a downturn without a playbook of some sort.

2. BUSINESS DOWNTURN CALCULATOR™

We created a rating system to help any business properly evaluate the downturn and take appropriate action. The rating system outlined has a point system for each item measured. The higher the points allocated, the more impact it has on the business. The maximum score that can be reached is 20.

The Business Downturn Calculator™ can be used by following these steps:

1. When a downturn occurs, whether in your business or due to a larger macroeconomic event such as rising inflation, gather as much empirical evidence to understand the nature of the downturn.

2. Attempt to answer the five key questions. No one has a crystal ball to determine things like the duration of the downturn. However, sufficient historical data can be used as a guide. For example, the average duration of a recession is 11 months.[1]
3. Examine your business and identify whether the impact is likely to be low, severe or something in-between during the downturn. It will be different for every business. For example, when COVID hit, the impact was heaviest for any business that required direct customer contact.
4. Depending on the score you have given for your business, apply the strategies outlined in the matrix created for actions to take. These actions are outlined in more detail in the next section.

The Business Downturn Calculator™ is outlined below:

Type of condition	Rating	Number of conditions	Rating	Area	Rating	Period	Rating	Impact	Rating
Micro Economic	1	1	1	City	1	<1	1	Low	1
Macro Economic	2	2	2	Country	2	1	2	Medium	2
Event	3	3	3	Region	3	2	3	High	3
		>3	4	Global	4	3	4	Severe	4
						>3	5		

An example of a calculation is illustrated below:

Downturn	Type of Condition	Number of conditions	Area	Period	Impact	**Total**
Global Financial Crisis (GFC) –(2008)	3	3	3	4	4	17
COVID-19 (2019)	3	3	3	4	3	16
Recession (2022)	2	2	3	2	2	11

In the above example, the GFC scored the highest using our modelling because it was a key event that triggered multiple other economic conditions that severely impacted global markets. Some business owners would score the GFC period differently since they may have evaluated the impact as less severe on their business. A restauranteur, as an illustration, would probably score the COVID 19 downturn higher than the GFC. We included the current 2022 recession in the illustration since this is an event unfolding at the time of the writing of this paper and a worthwhile one to compare against other recent downturns.

[1] https://www.investopedia.com/articles/economics/08/past-recessions.asp

The end score you arrive at for your business will determine the types of actions your should take. We have created a matrix to help business owners quickly assess the actions they should take. The matrix table below illustrates this:

Category	Score	Timeframe to Act	Type of Actions
1	5 to 6	Within 3 months	Minor tactical changes
2	7 to 10	Within 2 months	Address: cashflow, levels, revenue and pricing
3	11 to 15	Within 1 month	Category 2 plus headcount and cost base reduction and revenue generation initiatives
4	16 to 20	Within 3 weeks	Category 3 plus business pivot

The way to apply this in a practical way is illustrated in the example of a business that scores a category 3 to the downturn it faces. In this example, the business should take the following actions:

- Within 1 month, the business should undertake the following:
  a) Gain a better understanding of the downturn and the impact on the business
  b) Examine its cash flow, revenues and pricing of its products and services. The analysis should be comprised of various scenarios, including any reduced profitability due to price reductions.
  c) Based on the analysis undertaken in step B the company needs to identify any headcount and cost base reductions to take effect immediately
  d) Revenue generation initiatives need to be planned and actioned

Alternatively, a business that only scores a 4 using our calculator can afford to take less invasive actions. The tactical changes that a category 1-affected business might make include changing the amount of marketing they do, making their products and services more attractive on pricing and reducing unnecessary expenses. The key is to make changes specific to your business and how the type of downturn impacts it.

A category 4-impacted business will require to completely re-examine its business model and look at ways it may pivot to remain viable. During the COVID pandemic, we saw numerous instances of businesses pivoting to survive. For example, restaurants shifted to home delivery-only models and creative ways to recreate fine-dining experiences at home. The important factor, in our view, is to act quickly without delay. Every day that goes by without action can compound the problem faced by the business.

3.IT'S ALL ABOUT CASHFLOW

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Cashflow rules supreme in any market downturn. The strategies undertaken in a downturn aim to ensure the economic survivability of the business. A business should not be put into a situation where it has to seek bank loans or new investments to maintain an existing operation. Not only could this erode shareholder value, but raising capital or obtaining loans during a downturn is generally more challenging.

A company facing a category 2 or higher impact situation should immediately work towards implementing strategies that preserve capital to ensure the company can remain a going concern during the period of the downturn. As outlined, no one knows future events and how long a downturn may last. We can certainly plan based on any historical indicators, but ideally, the plans created have multiple triggers built-in. For example, a company may want to work out their cash flow based on one set of scenarios within a defined period. After the defined period, the company should review and trigger another set of actions should the variances not deliver the desired cashflow outcomes.

Cash flow is best addressed not only from a cost-reduction perspective but also from a revenue generation viewpoint. The dual approach ensures the business does not compound the problem by eradicating revenue-generating resources during a downturn. Revenue generation during a downturn often looks very different from how a business operates. Creativity in ideas becomes of paramount importance, especially if you have a limited budget to work with.

There are a plethora of other considerations that are outside of the domain of this paper. Some key areas to consider include organizational structure, reporting lines, staffing models, external vendors, and supply chain.

About the Author

CEO and Founder Joe Tawfik has actively helped start-ups all over the world achieve sustainable and accelerated growth over the past 25 years. With a team of specialists, the firm advises companies on achieving breakthrough growth.

Kinetic Consulting Services is a boutique business growth consultancy providing private and public sector clients with the full suite of consulting services to accelerate growth, build brand value, and achieve market differentiation. Kinetic has offices in Dubai and Sydney Australia.

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