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Winners and Losers: Why Some Companies Thrive in Economic Uncertainty While Others Fail

The Specific Combination of Offensive and Defensive Tactics That May Help Your Company Survive the Coming Recession

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On March 19th, 2020, the US economy [officially entered a recession](#) driven by the rapid spread of the novel coronavirus, COVID-19, according to representatives from Bank of America.

Though the economy has long been due for a recession, the suddenness of its descent and the stalling nature of social isolation measures currently in place is already driving layoffs, lost revenue, and lost productivity. These effects have been more pronounced in certain industries, including travel, hospitality, tourism, food and beverage, and energy, though even unrelated fields are feeling the pain of decreased spending and lower consumer confidence.

How long this recession lasts, how severe it becomes, or how individual industries or businesses will be affected remains to be seen. But in any period of marked economic change, there are winners and losers.

The Global Financial Crisis of 2008, for example, [claimed 170,000 small businesses between 2008-2010](#). General Electric, IBM, General Motors, and Microsoft, on the other hand, all got their start during periods of recession.

The steps you take now will affect how your company performs not only during the challenging years that may be ahead of us, but also during the future recovery. Will you be poised to take advantage of future economic upswings? Or will the choices you make now leave your company without the critical capacity needed to capitalize on future demand, whenever it occurs?

WHY COMPANIES FAIL IN RECESSIONS

A lack of demand driven by diminished budgets is one obvious potential driver of corporate demise. But this scenario alone doesn't represent the breadth of causative factors that can cause companies to fail in a recession.

To better understand the complex interactions between these various factors, researchers Ranjay Gulati, Nitin Nohria and Franz Wohlgezogen set out to understand how companies were affected by the 1980 crisis (which lasted from 1980 to 1982), the 1990 slowdown (1990 to 1991), and the 2000 bust (2000 to 2002).

The team - whose results were published in the March 2010 issue of the [Harvard Business Review](#) - analyzed 4,700 public companies, looking at the recession years themselves, as well as the three years before them and the three years after. In doing so, the team categorized the approach taken by each company as either "offensive" or "defensive."

Offensive companies, according to the researchers, were those that used a recession, "as a pretext to push change through, get closer to customers who may be ignored by competitors, make strategic investments that have long-term payoffs, and act opportunistically to acquire talent, assets, or businesses that become available during the downturn."

Three of the most common offensive tactics they observed included identifying and developing new markets, investing in the creation or purchase of new assets, and both.

Defensive companies, on the other hand, included those that, “quickly implemented policies that would reduce operating costs, shrink discretionary expenditures, eliminate frills, rationalize business portfolios, lower head count, and preserve cash. They also postponed making fresh investments in R&D, developing new businesses, or buying assets such as plants and machinery.”

The three most common defensive moves were reducing headcount, identifying opportunities to improve operational efficiency, and both.

Taking these two approaches together, the team identified four potential responses available to companies for mitigating the impact of a recession:



Prevention-focused

Prevention-focused companies operated in a primarily defensive way, focusing more on avoiding losses and minimizing downside risks than their competitors.



Promotion-focused

Promotion-focused companies invested more into offensive moves intended to generate upside benefits than their competitors.



Pragmatic

Pragmatic companies took a balanced approach that combined defensive and offensive moves, though not necessarily in the most effective ways.



Progressive

Progressive companies included those that managed to deploy the optimal combination of defense and offense tactics.

HOW PROGRESSIVE COMPANIES THRIVE IN RECESSIONS

Generally speaking, the companies that focused primarily on either prevention or promotion tended to fare worse than those that incorporated both offensive and defensive strategies. But what's interesting to note about the Harvard team's findings was that balancing the two didn't always produce the most successful outcomes during a recession - which is why the four categories they identified included a distinction between pragmatic and progressive responses.

The difference between the two comes down to the specific offensive and defensive tactics employed by companies. Take the three most common offensive and defensive moves listed above. When put together in different combinations, this creates nine possible sets of tactics that can be deployed in a recession. Companies that deployed the most successful combinations - which were classified as progressive, rather than pragmatic - shared the following common characteristics:

- They laid people off, but they relied less on this approach than their competitors, and they laid off fewer people when they did.
- They re-examined their business models to find operational inefficiencies that could be eliminated.
- They developed new markets and invested in assets when they were able to do so at depressed prices.
- They continued to invest in R&D and marketing, often using resources freed up from the inefficiencies they identified.
- They made investment decisions based on the close customer relationships they were able to maintain.

The HBR authors give the example of Target as a brand that exemplified a progressive response. Although Target invested significant effort into reducing costs and minimizing supply chain inefficiencies during the 2000 recession, the company also increased marketing and sales expenditures by 20% and its capex by 50%.

Along with other strategic choices, the researchers note that, "These moves helped the company grow sales by 40% and profits by 50% over the course of the recession. Its profit margin increased from 9% in the three years before the recession to 10% after it."



Results of progressive response by Target Corp.

In contrast, TJX Companies, which operates discount chains T.J. Maxx and Marshalls, went all-in on offensive plays. The company added 300 stores to its portfolio during the 2000 recession, taking advantage of real estate availability resulting from the departure of several of its competitors. However, because it took few defensive steps to adapt its business model to the existing situation, the company's bottom-line growth was down 9% three years after the recession ended.

HOW YOUR COMPANY CAN SUSTAIN INNOVATION IN A PROGRESSIVE WAY

Based on the work of the Harvard research team described above, it's clear that companies that continue to innovate during a downturn tend to come out better than those that forgo investment into ongoing development. But when demand is down and sales are falling, how can companies allocate potentially diminished resources in a sustainable way?

The ideas below offer five potential strategies for maintaining a progressive response to current economic conditions:

Focus on Your Fundamentals

In some ways, there's no "rocket science" to staying afloat during a recession. There are just common sense fundamentals that may need to be approached in a slightly different way:

- **Cash flow remains king.** Matching your inflows to your outflows may require more drastic steps during a recession. But you can't bury your head in the sand and hope for the best. Know what's coming in, when, and what options you have at your disposal - such as personal credit cards, small business loans, or even disaster relief loans, if you qualify - if it doesn't come in as expected.
- **Customer relationships become even more important.** Don't risk your cash flow by frustrating your current customers - chances are, your competitors are already offering them incentives to switch to their services. Check in as often as is appropriate to make sure their needs are being met and that they're satisfied with their relationship with you.

- **Marketing can't be avoided.** It may be tempting to turn off marketing and advertising campaigns to free up capital, but unless you can prove that they're underperforming, do everything you can to keep them on. In challenging markets, you need to stay visible in order to remain top-of-mind. Eliminating promotions interrupts your ability to connect successfully with the new customers that can keep your company going.

Take these steps, and not only will you be as prepared as possible to ride out this and future recessions, but you may even be able to pick off some of your competitors' customers in the process.



Identify Operational Inefficiencies in Your Tech Stack and Development Processes

Seeking out inefficiencies represents a great opportunity to free up resources during a recession, as well as to strengthen your company's position for a future recovery. Your tech stack is one of the first places you should look.

Many companies will enter this recession with bloated, "homegrown" tech stacks made up of multiple, break-prone integrations - especially those whose rapid growth in the past has driven compromises made in favor of speed over scalability. A recession represents a great opportunity to streamline systems in order to minimize expenditures that currently go towards putting out fires in order to keep the system running.

This might also be a good time to consider transitioning - all or in part - to an Agile development approach over waterfall.

Though many of the companies we talk to say they'd like to adopt Agile processes, changing the status quo can seem insurmountable. However, it's important to note that waterfall is particularly poorly suited to difficult economic conditions, when companies must be able to be nimble and pivot quickly in response to customer demands.

That makes a recession an ideal time to explore incorporating Agile development into your existing workflows and processes, whether you do so for a single project or as part of a much larger initiative.

Find Opportunities to Quickly Leverage Existing Products or Services to Serve New Markets

Though your core business should remain your focus, if you're able to sell your existing products or services into new markets with minimal rework, now is the time to do so.

As an example, at Simpat, we had the privilege of working with a company whose technology supported lodging logistics at oil and gas fields. Although work is drying up quickly in that industry at the moment, the team was able to pivot so that their existing technology could provide a similar service to the healthcare staffing solutions - companies whose demand is expected to grow rapidly as providers may need to be redistributed across the country to support COVID-19 hotspots that flare up.



Seek Out Partners that Can Support Your Business Priorities in a Cost-Effective Way

A recession is a great time to re-evaluate whether or not your existing partners are delivering all of the benefits you expect for your spend with them (see [a few common warning signs that indicate service delivery failures here](#)).

This is especially true now, given that vendors may be able to offer more flexible terms or flexible contracting approaches during a recession in order to establish new relationships.

Develop New Strategies for Prioritizing Feature Requests

The simple fact of a recession is that what was a priority for your company two months ago may no longer be a priority today. But that doesn't mean you should drop everything that's currently on your list.

Instead, surviving in a recession requires that you develop a clear understanding of which potential new features will produce the greatest business impact relative to their costs, as well as which features or developments will be needed to thrive in your space when recovery happens.

For instance, if you'll be going after a new market as part of your recession-survival plan, it's important that you not just project out what it'll take to be competitive there now, but also where you predict incumbent leaders will be heading in the next few years. It makes little sense to go after a new customer base if lagging development will put you at risk of losing them in short order.

Finally, make sure your vendors can keep up with your changing priorities. Having a team on your side that can smoothly ramp up or down - and that has the necessary domain knowledge of your industry, company, and systems - makes it possible to get something out the door quickly in order to sustain existing customer relationships and build new ones in the future.

PREPARING FOR SUCCESS IN CHALLENGING TIMES

None of the suggestions above are intended to diminish how challenging the next few months or years may be. Spending cuts, lost customers, and other negative effects may be inevitable, no matter what you do.

But regardless, your approach can't be based around what you're cutting. Instead, it has to come down to spending the resources you do have in the smartest way possible. It's only by doing so that you'll be able to get the greatest value out of what you are able to spend.

Remember, recessions can feel scary, but they don't last forever. Although what's worked in past recessions may not directly translate to the unprecedented situation we're currently in, adopting the kind of progressive mindset defined here will make your company stronger in any market - now and years into the future.



ABOUT SIMPAT

Simpat is an Austin, Texas-based custom software consulting company with a state-of-the-art software delivery center in Monterrey, Mexico made up by a team of innovative software professionals who thrive on solving our clients' most complex challenges and mission-critical goals. Through our high level experience and strategic vision, we create successful, simple and manageable software experiences.

Given the challenging situation many of our clients currently find themselves in, we're pioneering **flexible contracting approaches** for custom software that allow our clients to spread their investment over longer periods to free up critical cash flow while maintaining development velocity and flexibility.

To learn more about Simpat's nearshore software development, implementation, resources and consulting solutions, reach out to:

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