THE NEXT RECESSION IS COMING

Why you must act now to protect your business

The Ultimate Guide to Business Sur*thrive*al

WHO SAYS THERE'S A RECESSION ON THE WAY?

Pretty much everyone, as these recent headlines show.

Of course, statistics show that there's a recession every four years on average, and it has been nearly ten years since we experienced the last one – the big one, the Global Financial Collapse. So people are naturally getting nervous and wondering when the next one will hit.

Smart business people plan for these low points and implement strategies for long-term business success – no matter what the economy does.

Have you?

I'm Robin La Pere, no ordinary business consultant. I've been a corporate leader and owned my own businesses, so I understand the impact that recessions can have on businesses and organisations which are unprepared.

The experts say the next recession is on its way, so I've taken the initiative of producing this e-book incorporating everything I've learned over the years about getting businesses ready for economic downturns before it's too late.

Sir John Key: 'Global economic downturn a real threat'

Early Recession Warnings Are Flashing Red Orange

Two recession warning signs are here

We are due a recession in 2020 - and we will lack the tools to fight it

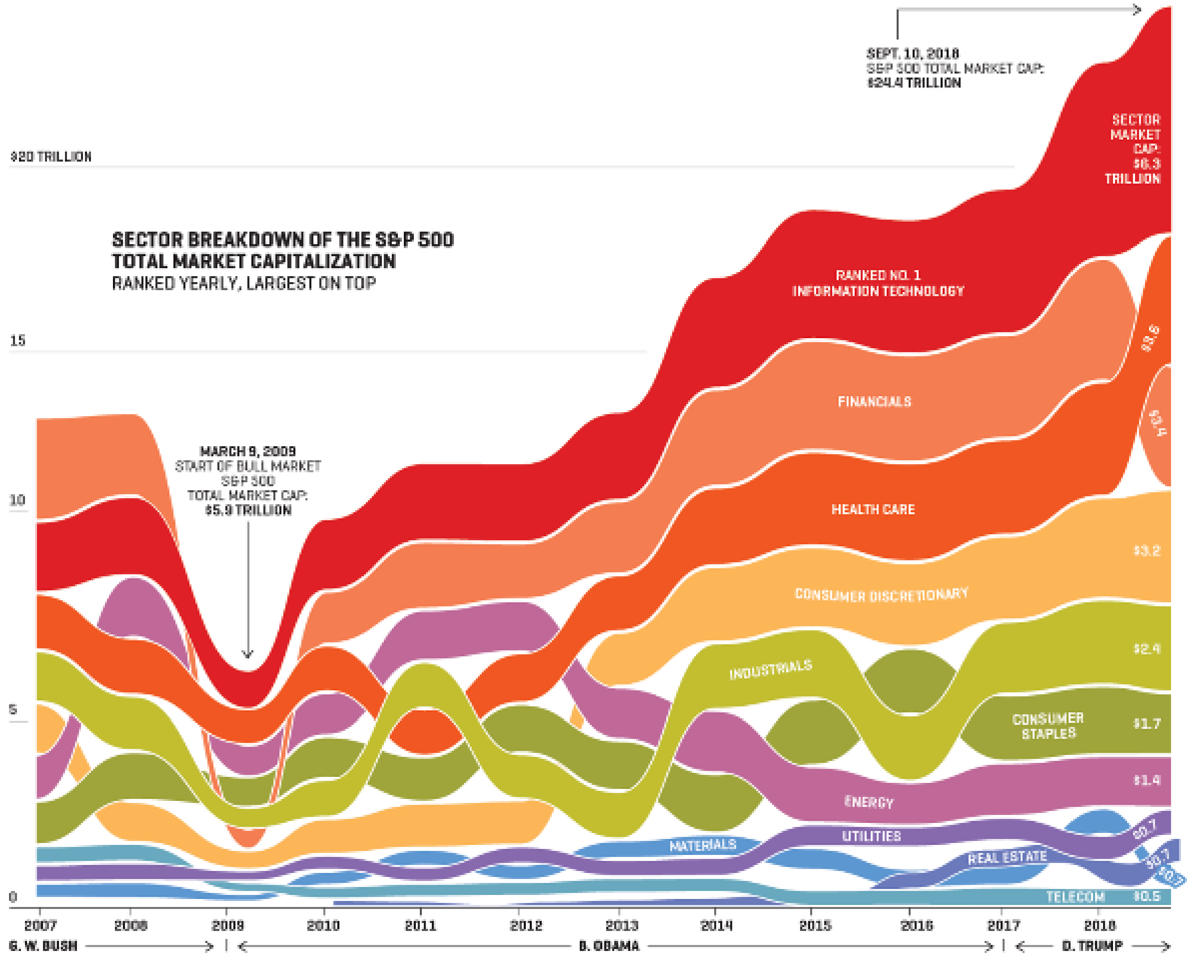
Why America's Sub-4% Unemployment Rate Means A Recession Is Not Far Off

WHAT'S RESPONSIBLE FOR THE CURRENT BULL MARKET?

This data visualisation from *Fortune* magazine shows the explosive growth that the United States stock market has experienced in market capitalisation over the past decade.

Leading the charge has been the technology sector with market capitalisation of US$6.3 trillion, more than the capitalisation of the entire stock market in March 2009. That's also around a quarter of the total market capitalisation of $24.4 trillion today.

Further investigation reveals that most of the market capitalisation growth in the sector has come from just four companies – Facebook, Apple, Alphabet and Microsoft. The combined valuations of these companies has jumped ten times from a little over $300 billion to an incredible $3 trillion in the past decade.



Record bull market turns 10 years old.
Is this the end?

Paul Davidson, USA Today

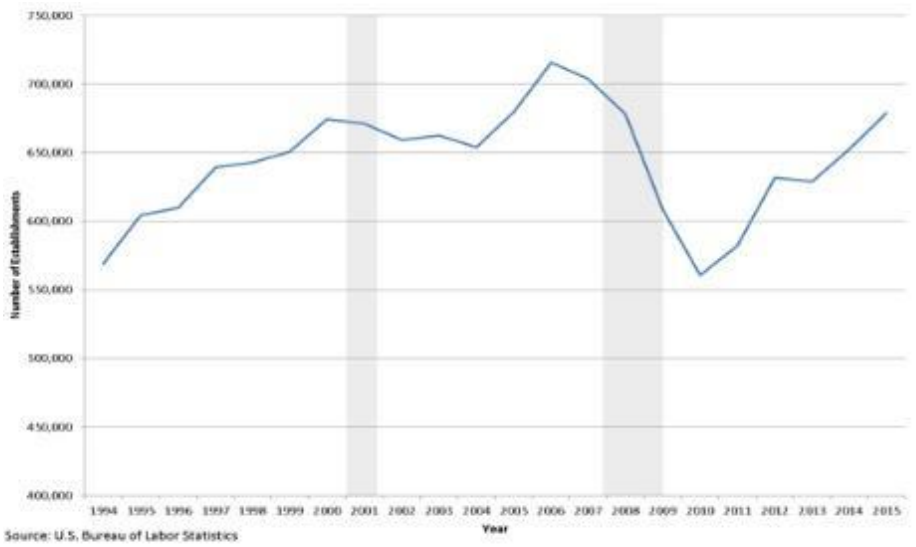
WHAT IMPACT DO RECESSIONS HAVE ON BUSINESSES?

As sales slow and financial pressures come to bear on businesses during recessions (marked in grey on the graph), failures inevitably occur – but it should be noted that many of these failures occur after the recession has ended, not just during it. There are several reasons for this which I will go into later.

When the Great Recession hit its lowest point in 2009, the majority of businesses in the United States had seen their profits slashed by 15%. More than 400,000 businesses failed, including 465 banks and two of the Big 3 car manufacturers.

In the United Kingdom, as in most countries, retail was particularly hard-hit, with one in seven shops falling empty. And in New Zealand, unemployment sprang from 4% to 6.9% in one year (although other countries fared even worse, with the US hitting a 26-year record high of 10.2% and the UK reaching 8.0%.

Number of Enterprises Less Than One Year Old



It's only when the tide goes out that you learn who has been swimming naked.

Warren Buffett

WHEN WILL THE NEXT RECESSION HIT?

In October 2018, I wrote an article entitled *The Next Recession is Coming: Are You Ready?* The next day, the Dow Jones Industrial Average plunged more than 800 points, its worst drop in eight months, beginning a three-month decline that wiped off all the year's previous gains.

It's too late, I thought. The crash is already upon us.

But I was wrong. Starting on Christmas Eve 2018, the stock market made a remarkable recovery, steadily regaining almost all the ground it had lost.

So how will we know when the next recession will strike? The fact is, we won't. Only a handful of pundits predicted the last recession, the Global Financial Crisis, that rivalled only the Great Depression in its magnitude.

I can predict with 100 percent accuracy that the US economy will face another recession, I just can't predict when.

Danny Bachman, Deloitte's US economic forecaster

HOW LONG DO RECESSIONS LAST?

The table at top right shows every recession that has taken place in the United States since the Great Depression in 1929. The table's second column shows the severity of each recession in terms of its impact on GDP.

As the third column shows, recessions in the US tend to be relatively short – just nine months on average – and the growth period between recessions has been growing longer, averaging four years and two months.

Although the US economy has an impact on many other economies, every economy is different and the "boom and bust" cycle in other countries will vary somewhat. For example, the New Zealand economy has experienced only 9 recessions since 1947 compared to the US's 11, but recessions in New Zealand have tended to be deeper and last longer. The exceptions were the post-World War II period where New Zealand, being agriculturally based, became Europe's "food basket" and during the 2008 Global Financial Collapse, when New Zealand began helping to feed the growing demand for dairy and agricultural products from China's burgeoning middle class.

RECESSIONS IN THE US SINCE 1929

Recession	GDP Contraction	Duration	Length to Next Recession
Aug 1929 - Mar 1933	-26.7%	3 Years, 7 Months	4 Years, 2 Months
May 1937 - Jun 1938	-18.2%	1 Year, 1 Month	6 Years, 8 Months
Feb 1945 - Oct 1945	-12.7%	8 Months	3 Years, 1 Month
Nov 1948 - Oct 1949	-1.7%	11 Months	3 Years, 9 Months
Jul 1953 - May 1954	-2.6%	10 Months	3 Years, 3 Months
Aug 1957 - Apr 1958	-3.7%	8 Months	2 Years
Apr 1960 - Feb 1961	-1.6%	10 Months	8 Years, 10 Months
Dec 1969 - Nov 1970	-0.6%	11 Months	3 Years
Nov 1973 - Mar 1975	-3.2%	1 Year, 4 Months	4 Years, 10 Months
Jan 1980 - Jul 1980	-2.2%	6 Months	1 Year
Jul 1981 - Nov 1982	-2.7%	1 Year, 4 months	7 Years, 8 Months
Jul 1990 - Mar 1991	-1.4%	8 Months	10 Years
Mar 2001 - Nov 2001	-0.3%	8 Months	6 Years, 1 Month
Dec 2007 - Jun 2009	-5.1%	1 Year, 6 Months	???
Median Recession	**-2.7%**	**9 Months**	**4 Years, 2 Months**

Source: National Bureau of Economic Research

RECESSIONS IN NEW ZEALAND SINCE 1947

Dates of peaks and troughs by year and quarter		Duration in quarters			
				Cycle	
Peak	Trough	Expansion phase	Contraction phase	Peak to peak	Trough to trough
1947 December	1948 December		4		
1950 December	1952 June	8	6	12	14
1966 December	1967 December	58	4	64	62
1976 June	1978 March	34	7	38	41
1982 June	1983 March	17	3	24	20
1987 December	1988 December	19	4	22	23
1990 December	1991 June	8	2	12	10
1997 June	1998 March	24	3	26	27
2007 December	2009 June	39	6	42	45
Number of cycle phases/cycles		8	9	8	8
Average duration		25.9	4.3	30.0	30.2
Standard deviation		17.1	1.7	17.4	17.7

Note:
Real GDP Classical cycle turning points reflect Bry-Boschan (1971) dating of updated Hall-McDermott (2011) series.

6

Source: Recessions and Recoveries in New Zealand's Post-Second World War Business Cycles, Reserve Bank of New Zealand

WHO THRIVED IN THE LAST RECESSION?

One of the ways of understanding how to survive and thrive in a recession, if you're in business, is to look at the types of businesses which did just that in previous recessions. The key is to understand how your customers – consumers if you're a B2C business and businesses if you're a B2B business – are likely to behave during a recession.

The graph at right shows 8 publicly-listed companies in the United States whose share prices were actually higher at the end of the GFC – which lasted from December 2007 to June 2009 – than they had been at the beginning. Their performance was in stark contrast to the rest of the Standard and Poors Stock Index, which in March 2009 fell to around half of its December 2007 value.

As you can see, Dollar Tree Stores, AutoZone and Panera Bread were the stars during this tough economic time, increasing their share prices by between 38% and 54%.

The question is: Why?

US COMPANIES WHICH CAME OUT AHEAD AFTER THE GFC

I've heard there's going to be a recession. I've decided not to participate.

Walt Disney

WHO THRIVED IN THE LAST RECESSION (AND WHY)?

To find the answer to this question, three Harvard University professors studied the performance of 4,700 public companies during the recessions of 1980, 1990, and 2000. Strikingly, they found that 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." More recent studies by consulting firms Bain and McKinsey reinforced that finding, revealing that 10% of companies saw their earnings climb steadily during the Great Recession.

What made the difference? Preparation, according to the Bain report. "Among the companies that stagnated in the aftermath of the Great Recession, few made contingency plans or thought through alternative scenarios. When the downturn hit, they switched to survival mode, making deep cuts and reacting defensively."

In their Harvard Business Review article "Roaring Out of Recession", Ranjay Gulati, Nitin Nohria and Franz Wohlgezogen found there were four types of responses to a slowdown:

1. **Prevention:** Being more focussed on avoiding losses and minimising risks than their competitors
2. **Promotion:** Investing more on offensive moves than their rivals do
3. **Pragmatic:** Combining defensive and offensive moves
4. **Progressive:** Deploying an optimal combination of defence and offense

As an example of Prevention-focused companies, the writers cited Sony, which went into crisis mode during the GFC. The giant shed 16,000 jobs, slashed capital and R&D expenditure and delayed investment in new factories in an effort to save $2.3 billion.

Since then, Sony has struggled since then to regain momentum, especially against competitors such as Apple and Samsung, as the graph below shows.

SONY STOCK PRICE VERSUS APPLE AND SAMSUNG

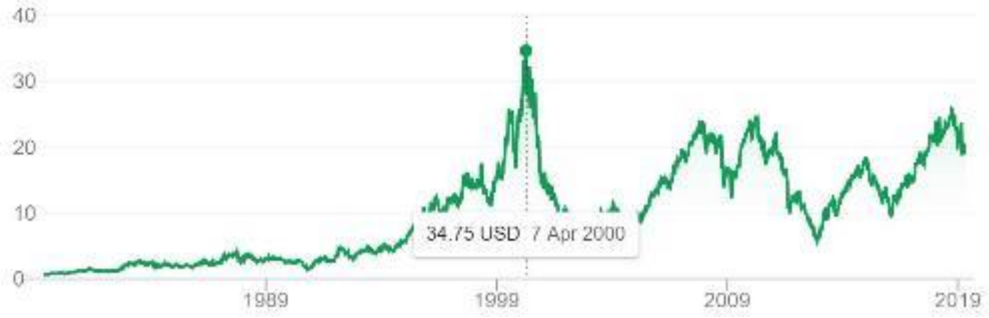
WHO THRIVED IN THE LAST RECESSION (AND WHY)?

A focus solely on cost cutting may not be the right response to a recession, but neither is too much aggression. Carly Fiorina, the then CEO of Hewlett-Packard, found that out during the 2000 recession when she said:

In blackjack, you double down when you have an increasing probability of winning. We're going to double down.

That may be a winning card-playing move but it turned out to be a disastrous business strategy. After ramping up capital and marketing spending and buying Compaq for a hefty $25 billion, Fiorina found she had overstretched HP's management. Despite Compaq's previous dominance in personal computers, HP lost market share to upstart Dell and despite slashing 30,000 jobs, the company fell below rivals Dell and IBM in earnings. HP stock has never again reached the record high it hit in 2000 and Fiorina was pushed out of the company in 2005.

HEWLETT-PACKARD STOCK PRICE



WHAT'S THE BEST COMBINATION OF MOVES?

PREVENTION-FOCUSED MOVES	PROMOTION-FOCUSED MOVES: MARKET DEVELOPMENT	PROMOTION-FOCUSED MOVES: ASSET INVESTMENT	PROMOTION-FOCUSED MOVES: BOTH
EMPLOYEE REDUCTION	GOOD SALES 4.6% EBITDA 6.6%	BAD SALES 3.9% EBITDA 3.3%	WORST SALES 3.3% EBITDA -5.2%
OPERATIONAL EFFICIENCY	GOOD SALES 7.1% EBITDA 4.2%	GOOD SALES 8.4% EBITDA 8.4%	BEST SALES 13.0% EBITDA 12.2%
BOTH	BAD SALES 5.2% EBITDA 2.1%	BAD SALES 5.2% EBITDA -0.5%	GOOD SALES 9.2% EBITDA 4.6%

The companies that come out on top both during and after recessions are those which achieve an *optimal balance*, according to the authors of "Roaring Out of Recession". This was achieved through a combination of defence and offence – but not too much, as the table above shows.

Recession "sur-thrive-al" came down to 9 possible scenarios combining three defensive approaches—reducing the number of employees, improving operational efficiency, or both—with three offensive ones: developing new markets, investing in new assets, or both.

HOW DOLLAR TREE BUCKED THE LAST RECESSION

In New Zealand, we have the Two Dollar Shop – in the United States, they have Dollar Tree. In New Zealand, we have The Warehouse – in the US, they have Walmart. Both were disruptive business models in their day, disrupting traditional retail with permanently discounted consumer products in the case of Walmart and "everything for $1" in the case of Dollar Tree.

In a recession, consumers don't stop buying altogether, but they do start watching what they spend and looking for bargains – and both Walmart and Dollar Tree offer extraordinary value for money. As a result, both retail chains continued to expand during the GFC, taking advantage of better leasing and supplier opportunities and the more cautious approach of their higher-priced competitors. As a result, Dollar Tree was able to add more than 200 new stores per year while increasing its same-store sales.

Interestingly, both Dollar Tree and Walmart continued their strong growth even after 2009, putting their success down to the more economical buying habits that stayed with consumers post-GFC.

HOW STARBUCKS MADE A SPLASH EVEN IN A SLUMP

Starbucks' first response to the onset of the GFC was typical of most corporates – they slashed more than 12,000 jobs and closed down stores when they found that many people were no longer willing to pay US$4 for a latte during a recession.

But the really smart move that the coffee products retailer made was to continue to innovate, offering a wider choice of food and drinks (including lower-priced options), a customer rewards programme, free Wi-Fi and clever merchandising.

Starbucks' success in the United States comes down to its having created what it calls "a third place" – a gathering and refuelling place between work and home. Starbucks realised that even in a recession, that basic need doesn't change, so they took steps to enhance the customer experience. A smart move that further cemented their position in American society.

Managing and navigating through a financial crisis is no fun at all.

Howard Schultz, Founder of Starbucks

HOW FORD DROVE ON WHEN ITS COMPETITORS STALLED

Ford could have gone the same way as its two rivals, General Motors and Chrysler, when US vehicle sales bottomed out in 2007 and 2008. The difference, though, was that the company had already prepared itself for the worst, selling and leasing back most of its factories and other property before the GFC.

The proceeds of the sales gave Ford an emergency fund large enough to tide it by. The company also had sufficient funds to produce a new line of cars and light trucks that were both fuel-efficient and well-designed. As a result, Ford was able for the first time to sell more vehicles in 2008 than its biggest rival, GM, and was the only one of the US's "Big Three" to avoid having to be bailed out by the Government during the GFC.

The lesson for all of us from Ford's experience is to prepare for downturns by freeing up capital before they happen, and then to utilise innovation to take advantage of your competitors' weaknesses and increase your market share.

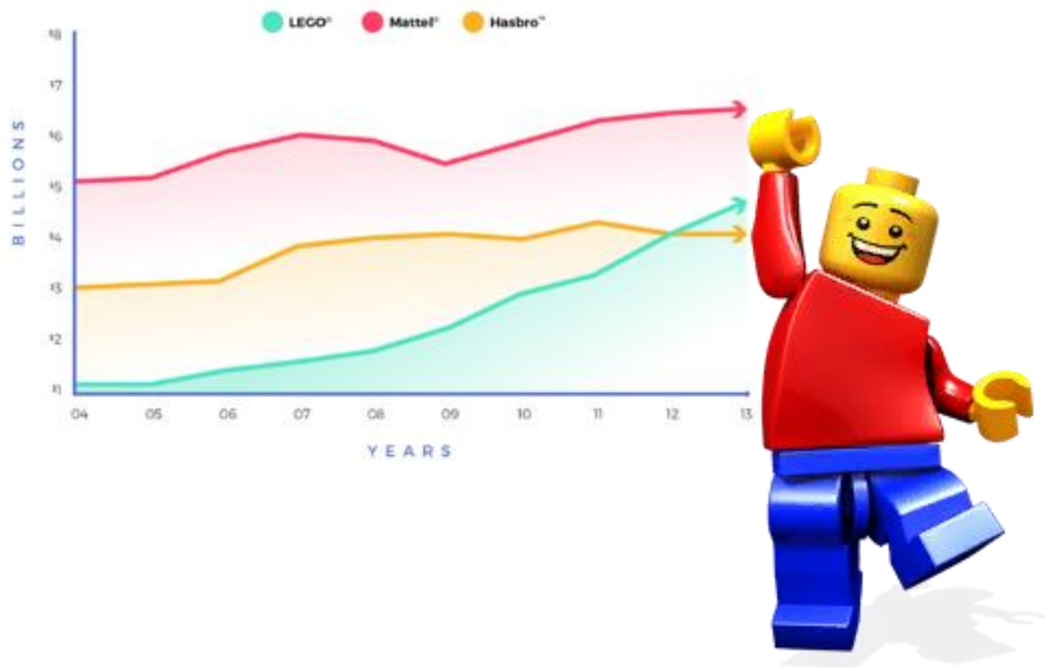
WHY RECESSION WASN'T A STUMBLING BLOCK FOR LEGO

Although the toy industry is generally thought of as a recession-resistant industry, that wasn't the case during the Great Recession. But while most toy manufacturers were hit hard during the slower-than-expected 2008 holiday season, Lego's profits jumped by a third.

The reason? The Danish company recognised what parents really want during hard times—toys that last. Based on this insight, they modified their marketing messages to promote the durability of their colourful toy blocks.

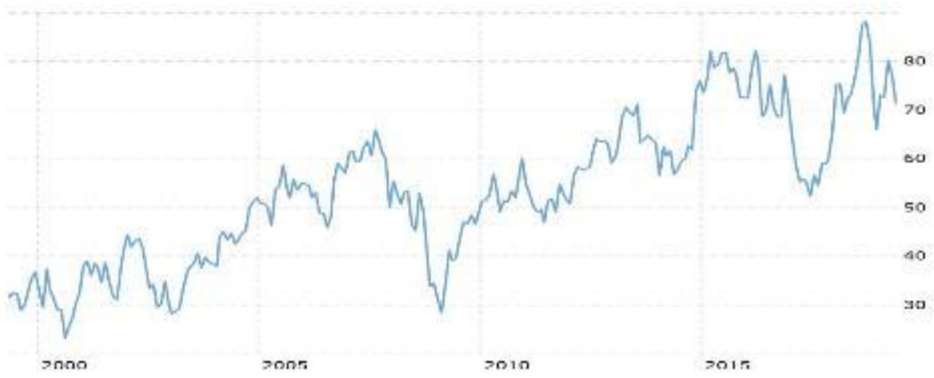
A further outcome of this strategy was the growth in popularity of Lego even after the recession, when the company leveraged its durability position to boost its market share even further—eventually eclipsing toy giant Hasbro in 2012, as the graph shows.

LEGO SALES BEFORE AND AFTER THE GFC



HITTING TARGET BY ALTERING THE BUSINESS MODEL

TARGET



The eighth-largest retailer in the United States, Target Corporation is a general merchandise retailer. During the 2000 recession, the company made some smart choices such as increasing its marketing and sales spending, partnering with Amazon to sell its products rather than setting up its own e-commerce platform, and teaming up with well-known designers such as Michael Graves, Philippe Starck, and Todd Oldham to cement its reputation for cheap chic, thereby differentiating its products.

At the same time, Target worked to reduce costs, improve productivity and enhance supply chain efficiencies. These moves helped the company grow sales by 40% and profits by 50% over the course of the recession.

Unfortunately, the company lost its way after the 2008 recession, lagging behind rivals such as Walmart and Costco as Target fell behind in e-commerce, suffered a massive security breach of customer credit card data and failed to establish itself in Canada.

Currently the company is back on track thanks to a healthy consumer spending environment and the efforts of CEO Brian Cornell, who joined Target in 2014 and has said: “We will continue to lead the industry by adapting, innovating and delivering more for our guests and shareholders.”

WHO ELSE BEAT THE RECESSION?

The US equivalent of New Zealand's Repco or Super Cheap, Auto Zone raced away in the recession because owners began looking after their current vehicles rather than upgrading.

You wouldn't think that toys and games would do well in a recession but Hasbro proved otherwise with double-digit growth. The reason? Parents still buy toys for their kids and adults need games to divert them from the reality of life.

In hard times, people need financial advice and tax services more than ever, which is why accountants and financial advisors continue to do well.

We don't have Panera Bread in New Zealand but in the US, the chain boomed in the early 2000s as a new and more convenient and affordable café revolution took hold – fast casual.

IS THERE ANY SUCH THING AS A "RECESSION-PROOF" BUSINESS?

Some economists are saying that the GFC rewrote the rules about recessions and that there's no longer such a thing as a recession-proof business. But as the previous case studies have shown, some businesses not only rode out the GFC, but set themselves up to benefit from it. These business types included:

- Debt collection agencies
- Accountants and tax advisors
- Auto repair services and accessories providers
- Contractors and virtual assistants
- Healthcare providers
- Bargain or discount stores
- Candy, cosmetics and contraceptives
- Repossessions and removals
- Information technology

WHAT ARE THE WARNING SIGNS OF A RECESSION?

1. The word on the street

The earliest warning signs you will see are in your own business and amongst your peers. Are you having a tough quarter or year? Or are people you know having a tough year? Is business confidence down?

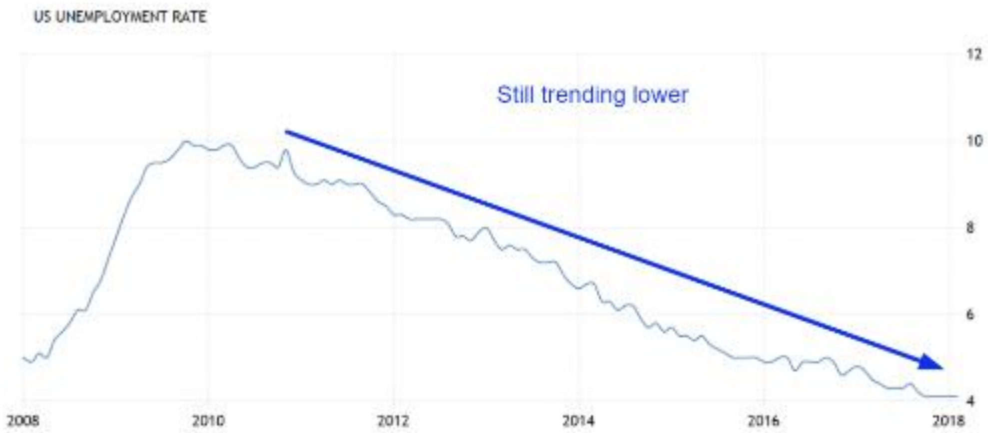
Our view:

Business confidence in New Zealand has been low since the last election, primarily because the Labour-led coalition gained power even though none of the coalition partners had anywhere near a majority in parliament. Predictions of a coming recession by economists and the former New Zealand Prime Minister, Sir John Key, haven't done anything to restore confidence.

WHAT ARE THE WARNING SIGNS OF A RECESSION?

2. Declining employment growth

Nervous employers stop taking on employees and a decline in employment opportunities and increase in the unemployment rate are indicators of a possible coming recession.



Our view:

Unemployment in both New Zealand and the United States are at record lows for the decade, inspiring many pundits to wonder whether they have hit their limit and are poised to rise. However, at the time of writing, jobs continue to be created in the US and New Zealand, creating another problem – employers having difficulty in finding workers.

WHAT ARE THE WARNING SIGNS OF A RECESSION?

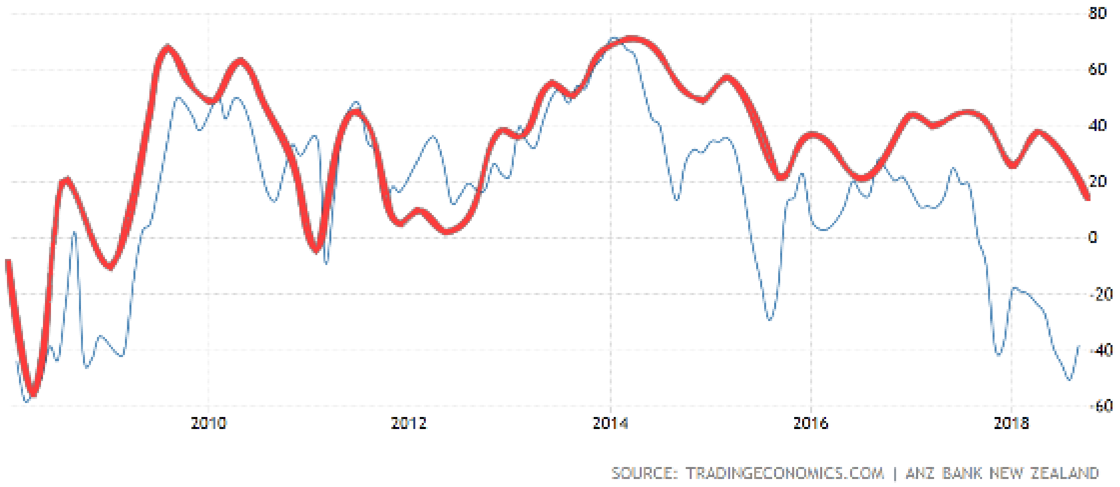
3. Consumer and business confidence

The level of consumer confidence determines the willingness of consumers to spend, borrow and save. A fall in levels of consumer confidence is often an indicator of an economic downturn but a fall in business confidence is not necessarily an indicator.

Our view:

Business confidence in New Zealand declined sharply with the formation of the Labour-led coalition government toward the end of 2017. Consumer confidence has remained reasonably high but it remains to be seen whether the recent dip will continue to trend downwards.

CONSUMER AND BUSINESS CONFIDENCE IN NZ 2008 - 2018



Key:

Red line = Consumer Confidence

Blue line = Business Confidence

WHAT ARE THE WARNING SIGNS OF A RECESSION?

4. An inverted yield curve

A classic indicator of recessions, a favourite of economists, is what is called an “inverted yield curve”.

This occurs when the interest rates on long-term US Treasury Bills dip below the rates for short-term Bills, which are normally lower.

As you can see from the graph below, the last time this happened was in 2007, just before the GFC. Now it’s happening again.

Of course, not all ‘experts’ agree that an inverted yield curve always results in a recession, even though, historically, it has.

“We have two reasons for the current inverted yield curve: the central banks irrationally raising short-term interest rates and investors expect a recession because of the extended boom period,” says Ramy Taraboulsi, a Chartered Financial Analyst and CEO of VeritableSoft Innovations Inc.

“The two reasons are not enough to lead to a recession, and other structural changes in the economy are pointing to a boom rather than a recession.”

Source: Bloomberg

WHAT ARE THE WARNING SIGNS OF A RECESSION?

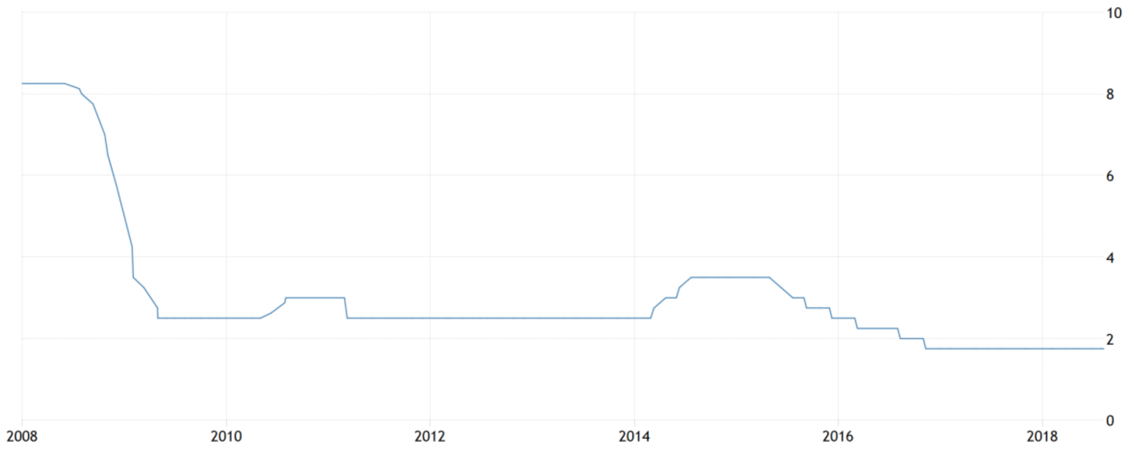
5. The official cash rate

The Reserve Bank of New Zealand left its official cash rate unchanged at record low of 1.75 percent on 26 September 2018, saying that economic projections were little changed since the last meeting, as while GDP growth in the second quarter was stronger than anticipated, downside risks to the growth outlook remain. Also, policymakers underscored that rates will remain at this level through 2019 and into 2020 and that the next move could be up or down. The central bank last moved the key rate in November of 2016.

Our view:

While the Reserve Bank of New Zealand has signalled that interest rates are likely to remain where they are at least until 2020, the United States Federal Reserve has sent a completely different message – that they intend to progressively raise rates. Just that message has been enough to send US stock markets into a tailspin.

RESERVE BANK OF NEW ZEALAND OFFICIAL CASH RATE



SOURCE: TRADINGECONOMICS.COM | RESERVE BANK OF NEW ZEALAND

WHAT ARE THE WARNING SIGNS OF A RECESSION?

6. Geopolitical tensions

Economists tend to look to historical financial triggers as the causes of recessions, but equally global tensions such as the US-China trade war and Brexit could be triggers. New Zealand's strong trade relationships with Asia, and in particular the swing in the balance of trade toward New Zealand after the China-NZ Free Trade Agreement was signed in 2008, cushioned the full effects of the GFC on New Zealand. But what will happen to New Zealand, though, if its second-biggest trading partner falters?

Our view:

China's stock markets have seen steady decline since the "trade war" between it and the United States erupted, but the question is: Can either country afford an all-out war?

WHAT ARE THE STEPS YOU CAN TAKE NOW TO PROTECT YOUR BUSINESS?

STEP 1:
TAKE A GOOD HARD LOOK AT YOUR BUSINESS NOW, BEFORE IT'S TOO LATE

Often we're so tied up in the day-to-day affairs of our business that we forget the importance of working on our business and not just in it. When was the last time you looked at your company from a strategic point of view?

Do you have a Board of Directors or an Advisory Board to help you? If not, I can help you set one up or provide you with objective, independent mentoring and support that takes the place of a Board.

CAN YOU PREPARE FOR A RECESSION?

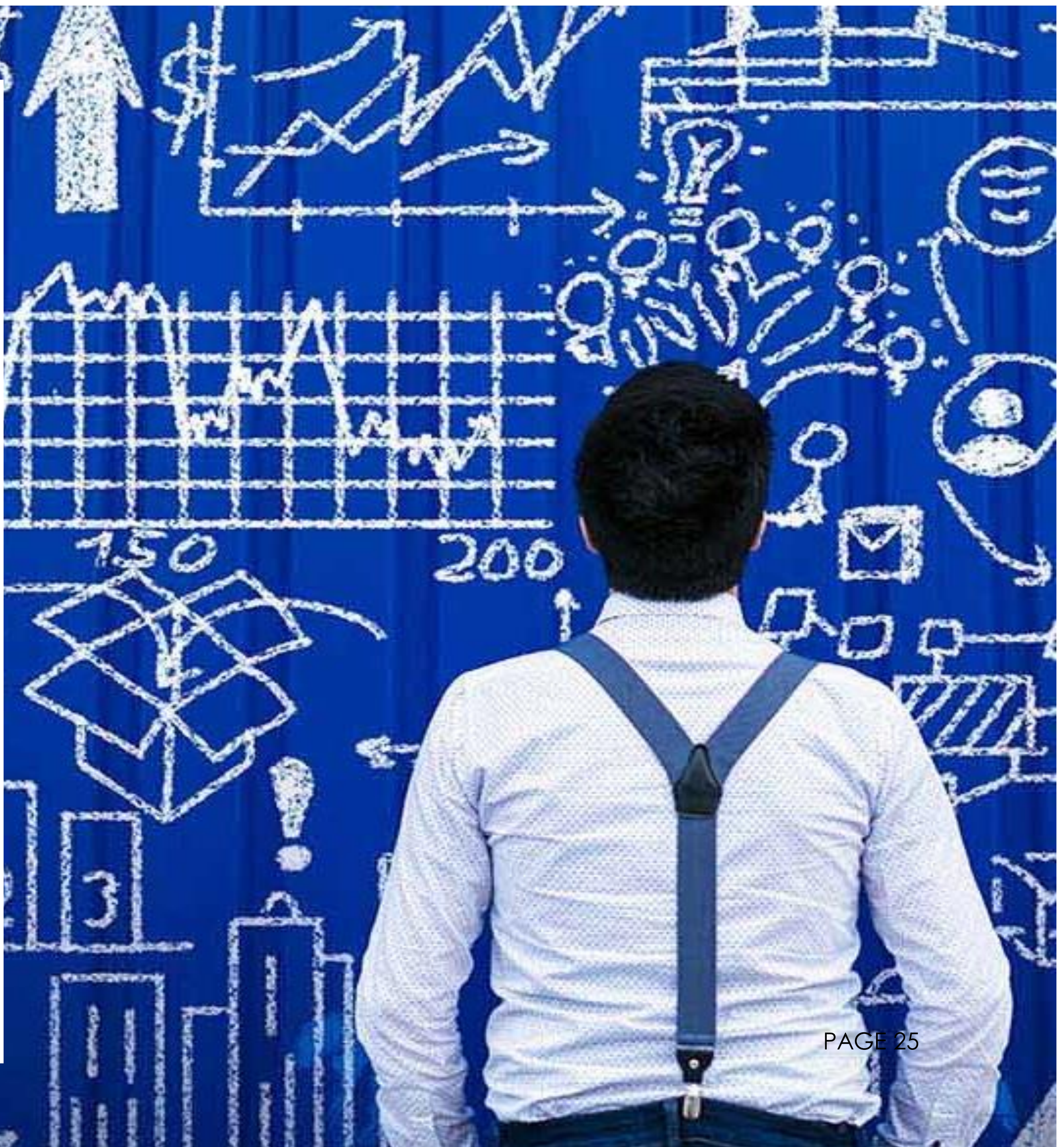
The four most expensive words in the English language are, 'This time it's different.'

Sir John Templeton

American-born British investor, banker, fund manager and philanthropist Sir John Templeton was named "arguably the greatest global stock picker of the century" by *Money* magazine. What he was saying in the quote above is that everyone will tell you that you can't possibly prepare your business for a recession because every recession has different causes, but everyone is wrong.

The difference maker was preparation.

You may have noted this from the findings of the Bain report on page 8. Among the companies that stagnated in the aftermath of the Great Recession, "few made contingency plans or thought through alternative scenarios," it said. "When the downturn hit, they switched to survival mode, making deep cuts and reacting defensively."



WHY FAILING TO PLAN IS PLANNING TO FAIL

Research about previous recessions shows that a brand's ability to successfully navigate an economic downturn will depend on the work that has been done leading up to it.

Recession is opportunity in wolf's clothing.

Robin Sharma, *The Monk Who Sold His Ferrari*

A sound recession business strategy must be more than a fast response when the economy turns. Owners and managers must plan ahead and prepare their businesses to put them in a stronger position. They must also be prepared for the opportunities as well as the hardships that invariably emerge from a recession.

Very few companies do this, and that's why so many are put through the wringer when a recession arrives.

Deloitte

Your recession playbook should focus on the following critical factors for success.

STEP 2: GET YOUR CUSTOMER VALUE PROPOSITION RIGHT

Your CVP is what really matters to your customers – the value they feel they gain when they purchase your products or services. During an economic downturn, customers tend to reassess the value they're receiving from what they buy and drop anything they feel isn't adding enough value.

So now's the time to re-evaluate your products or services and think about ways to add even more value for your customers. What makes your customers choose you over all the other options out there?

Talk to me about my free Product/Service CVP Evaluation Report and the many ways I can help you make your CVP even more compelling.

WHY WE USE THE BUSINESS MODEL CANVAS

Poor business models are the No. 1 cause of business failure.

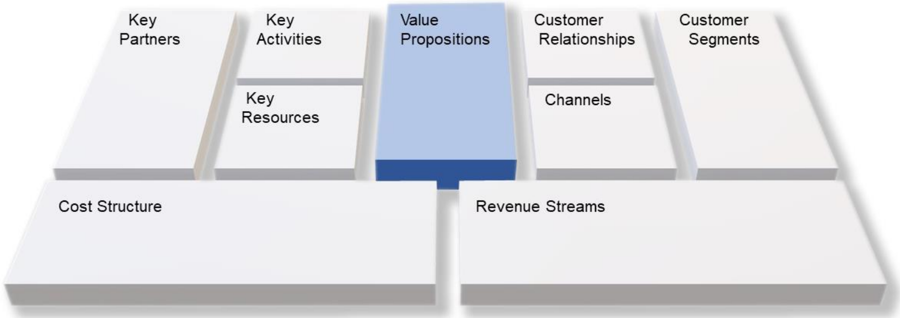
A business model describes how your company creates, delivers and captures value, both for its customers and itself. For this reason, the Value Proposition is at the heart of the business model, as the Business Model Canvas at right shows.

The Business Model Canvas proposed by strategists Alexander Osterwalder and Yves Pigneurat is a surprisingly simple but powerful tool for systematically understanding, designing and implementing new business models—or analysing and revitalising old ones.

The Business Model Canvas shows how each of the key elements of business strategy work together in a cohesive, integrated way. All on one page.

Making the BMC an ideal tool for adapting your business model to a changing economy and the changing needs of your customers.

THE BUSINESS MODEL CANVAS



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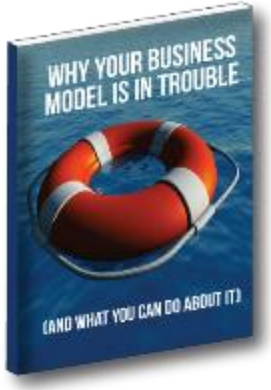
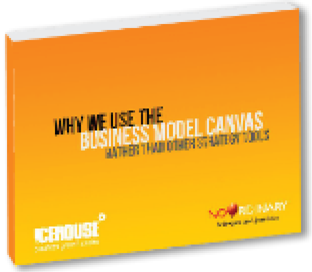




STEP 3: DON'T JUST MEASURE. MANAGE.

There's an old saying, attributed to management guru Peter Drucker, that "you can't manage what you can't measure". But there's another term: "Paralysis by analysis." Meaning that measurement is not an end in itself and is actually a complete waste of time if

1. you're not measuring the right things, the things that are important and make a difference in your business, and
2. you're not using measurements to actively manage and make a difference in your business.

Do you know what the key performance indicators – the "right things" - are in your business? Do you monitor them and use them to manage your business in an agile and effective way?

YOUR KPI'S ARE WRONG

How do you eat an elephant? One bite at a time.

Key Performance Indicators are the most important measurements towards a goal. If your goal is to eat an elephant, taking one bite at a time is the logical way to achieve that goal. But determining your KPIs isn't always that simple.

Take the case of a client of mine who runs a franchise renting out cabins for use as extra space in people's backyards. The business's primary goal is to increase revenue, since profitability in that business has been shown to be proportionately tied to revenue. For the first few years, the number of cabins purchased by franchisees was the main driver of that goal. But as time went on and the franchise came close to achieving market saturation, cabin occupancy became the most important KPI because that was now the greatest contributor to revenue growth.

The question is – do your KPIs measure what's really important to achieving your goals? Do they matter and make an actual difference?

KPIs must address the unique challenges and opportunities of your business.

WHY THEY'RE WRONG

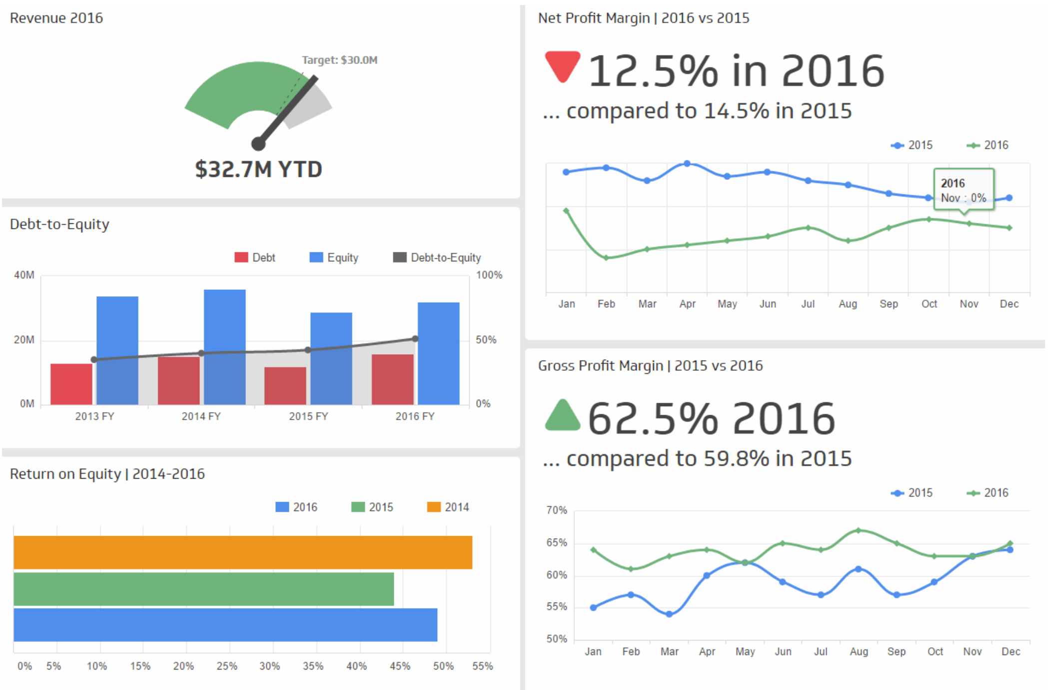
One reason why things go wrong with KPIs is that they sometimes turn from a measure into a target.

The difference is subtle but critical. If your personal goal is to be healthy, your KPIs may be to measure your blood pressure, cholesterol and body mass index. These are all measures of healthiness but no single one of them represents good health by itself.

Attaining your goal depends on a combination of measurable KPIs which improve over time.

Some of the biggest mistakes which businesses make in setting their KPIs are:

1. Not linking them to your strategy
2. Not linking your strategy to your Customer Value Proposition
3. Not involving your team in determining what your KPIs should be
4. Making KPIs into goals by hardwiring them into employee incentives and therefore making them a counter-productive target which employees must hit to achieve their bonuses
5. Just measuring the easy stuff rather than the metrics which matter



HOW TO MAKE THE RIGHT DECISIONS IN A DOWNTURN

A company's performance during and after a recession depends not just on the decisions it makes but also on who makes them.

Turbulence, Firm Decentralization and Growth in Bad Times, 2017

The natural instinct of business owners is to "hoard the decision-making", the authors of this study found, for fear that line managers would try to protect their positions and teams instead of making tough decisions. That was generally a mistake.

"Decentralization [delegating control] was associated with relatively better performance for firms or establishments facing the toughest environment during the crisis," the researchers said. The reason? Companies which gave local managers more autonomy were closer to the market and better able to adapt to changing conditions.

Other studies have found that bringing in outside consultants who are able to see the bigger picture and provide a fresh, objective review of companies' needs can make a positive difference during downturns.

Recessions offer opportunities for change.

Turbulence, Firm Decentralization and Growth in Bad Times, 2017

STEP 4:
KICK OUT THE CONSTRAINTS

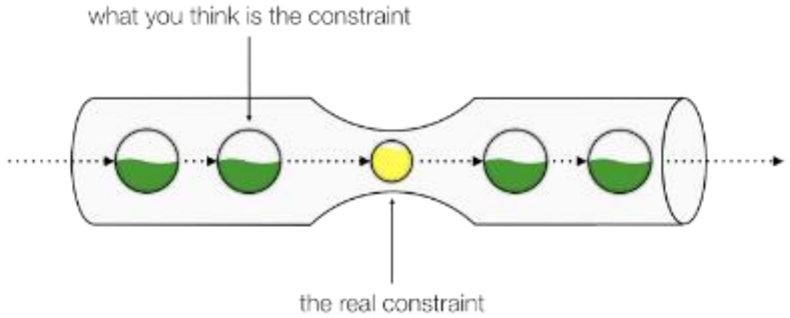
Just as important as discovering and doing the “right thing” is getting rid of the “wrong things”. These are the problems or constraints in your business that hold you back and prevent you from fully achieving your goals. They could be bottlenecks in your manufacturing process, staffing issues, project risk – the list goes on and on.

What’s the biggest constraint I’ve found in most businesses? You, the business owner or manager, and the constraints in your thinking about your business.

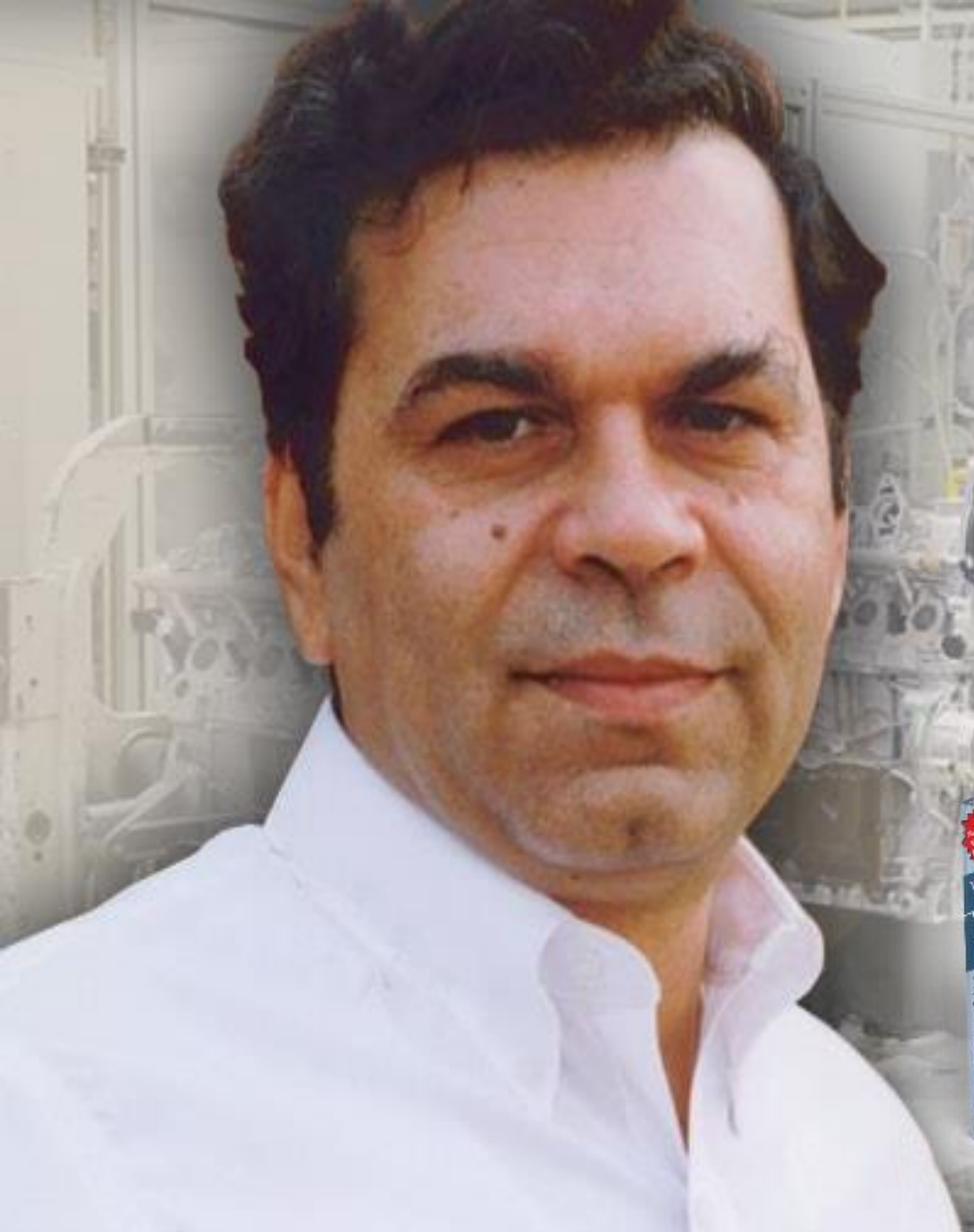
Just saying.

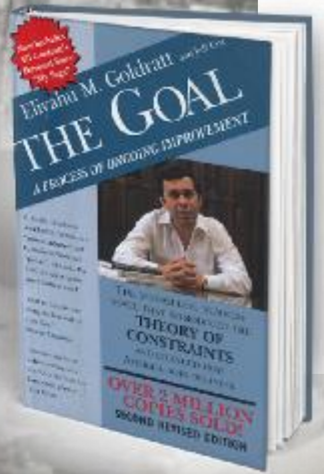
THE THEORY OF CONSTRAINTS

There may be other constraints, of course. And these may not be as obvious as you think they may be.



The gentleman on the left, Eliyahu M Goldratt, wrote what is simultaneously one of the best non-fiction books and one of the worst fiction books of all time. Called *The Goal*, the book is an allegory introducing Goldratt's Theory of Constraints which holds that in any process there is likely to be inefficiency caused by a bottleneck constraining the process's full output.





The Theory of Constraints helps you identify the real bottlenecks in your business and then to make more productive use of them to streamline the whole process of delivering your products or services to your customers – much like the effect you get when you remove a blockage or kink in a hose.

STEP 5: FIRE NON-PERFORMING CUSTOMERS

Turn business away? Never! But what about those customers who take up a lot of your people's time for very little return? Wouldn't that time be better spent working with more profitable customers and building your base of higher performers?

I found when I first started my consulting business that the first contracts I felt grateful to get soon became constraints on gaining clients whose business I could really add value to. Dumping those contracts felt like a risk, but doing it enabled me to take the business to the next level sooner than I expected.

Do you sometimes take on customers or projects just for cashflow reasons? Do you have high-maintenance, low-value customers who are a drain on your resources? Talk to me about a better way to optimise your customer management and bring in more high-value clients.

IDENTIFY YOUR BEST CUSTOMERS

Do you know who your best customers are? How do you even define 'best'?

I just read an article that claimed that "Ultimately, your best customers are going to be the most loyal." That may be true but it is not the full story. What if your most loyal customers only buy from you because you're the cheapest and would turn to your competitors if you tried raising prices?

Identifying your best customers isn't easy simply because their historic buying patterns are only part of the story. Other factors include revenue, profitability, engagement, service cost and potential for growth. But once you have identified your best customers, you can begin to understand what you are doing right for them. By that, I mean clarifying your Customer Value Proposition

When you have identified your best customers, you can begin to explore what you are doing right for them – that is, your Customer Value Proposition (see Step 2) – and to develop a game plan for protecting and building on the value that has enabled you to be indispensable to them. You'll also need to be ready, in the event of an economic downturn, to shift resources and possibly even alter your CVP (without dropping your prices or cutting costs) to retain these customers.

STEP 6: GET FLEXIBLE

It's human nature when crisis strikes to stay where you are, to cling to what you've got, to freeze.

Remember those videos of holidaymakers just standing on the beach in Thailand, transfixed by the sight of the oncoming wall of water just before the tsunami struck? What about the passengers in the Titanic who remained in their cabins rather than race for the lifeboats?

Hope is not a strategy in business. Or anywhere.

If what you've got isn't working especially well now, clinging to it in a recession isn't going to work at all. Now's the time to make improvements, innovate and get ready to pivot completely if necessary.

And even if your business is working well, this isn't the time for complacency. Your market may change, so you will need to be ready to adapt. Think about worst-case scenarios and start planning for them.

The key to a strong recession business strategy is to monitor the economic climate and pivot at just the right time without losing momentum.

Buckley Barlow, serial entrepreneur and founder of InTheKnow

ADAPTING BY BEING AGILE

The underlying message is that recessions are a high-pressure exercise in change management, and to navigate one successfully, a company needs to be flexible and ready to adjust.

How to Survive a Recession and Thrive Afterward, Walter Frick, Harvard Business Review

History provides some lessons, but nobody can fully predict how their business will be affected by the next recession. So while it's essential to prepare for the next recession and plan for the worst, it's equally important to be ready to adapt to suit the situation you find yourself in.

The question is – what's the best way to get ready to adapt? One answer that firms such as John Deere, Saab and here in New Zealand, BNZ, ANZ and Spark have turned to is Agile methodology.

Agile's emergence as a huge global movement extending beyond software is driven by the discovery that the only way for organizations to cope with today's turbulent customer-driven marketplace is to become Agile.

What Is Agile? Steve Denning, Forbes Magazine

What is Agile? And could you apply it in your business?

Agile methodology was developed originally as a new and better way of bringing software to the market. Its benefits and applications are perhaps best understood by considering the questions implicit in The Agile Manifesto from 2001:

- What if we could create workplaces that collaboratively drew on all the talents of those doing the work?
- What if those talents were focused on delivering extraordinary value to customers?
- What if we valued responding to change over following a plan?

Like to be more Agile in your business? Talk to me about developing Agile principles and practices for your team.

STEP 7: THINK LEAN BUT NOT MEAN

Is the best way to prepare yourself for a recession to shed costs?

Yes, it can be. But it can also hurt your business.

Lean business isn't about saving money by doing nothing or worse, cutting the heart out of your business. Lean business is a way of thinking. It's about taking a hard look at your business and figuring out the most cost-effective ways to deliver value to your customers.

Like Agile thinking, Lean thinking is about creating value, but rather than Agile's focus on adapting to change, Lean focuses on eliminating waste. Waste is something you don't want in your business at any time, of course, but that is particularly so during a recession.

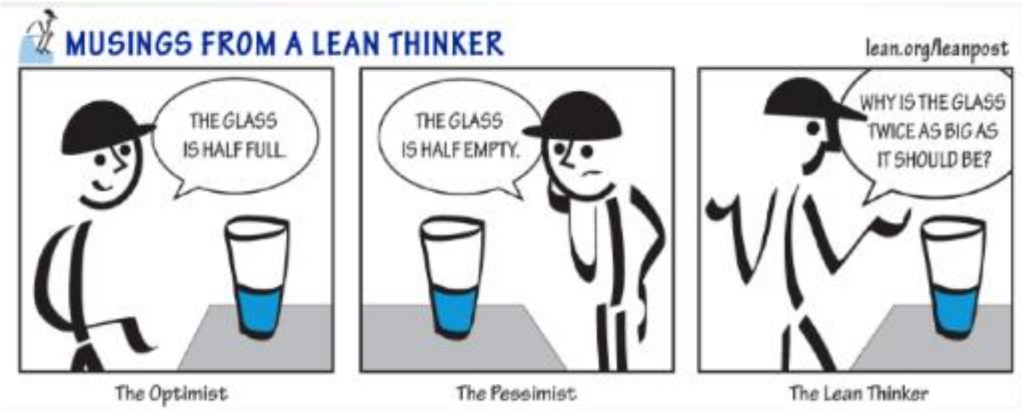
But isn't shedding cost the same as eliminating waste?

Not necessarily. The term "eliminating waste" means eliminating only that cost that creates little or no value – unnecessary cost, in other words.

If your company has substantial debt, you may think that the best way to shed cost would be to reduce debt. And it's true that studies show that companies which weren't highly leveraged fared better during the GFC than those with heavy debt. Yes, you could sell plant and equipment and lease instead. After all, it worked for Ford during the GFC, didn't it? Or you could restructure your debt. One of the positives of a recession – yes, they do exist – is that interest rates tend to drop. But let's face it, interest rates are already pretty low.

So maybe the only way you could reduce debt is by using working capital – but what will that do to your ability to keep your company afloat when revenue slumps?

What about letting people go? For most companies, people are their great strategic asset. Of course, you could cut costs by outsourcing or automating some of their functions, research suggests that those companies which retained most of their people or even saw the downturn as an opportunity to take on the best people and increase their R&D capabilities and service standards tended to fare better.



WHAT TO INVEST IN BEFORE A DOWNTURN

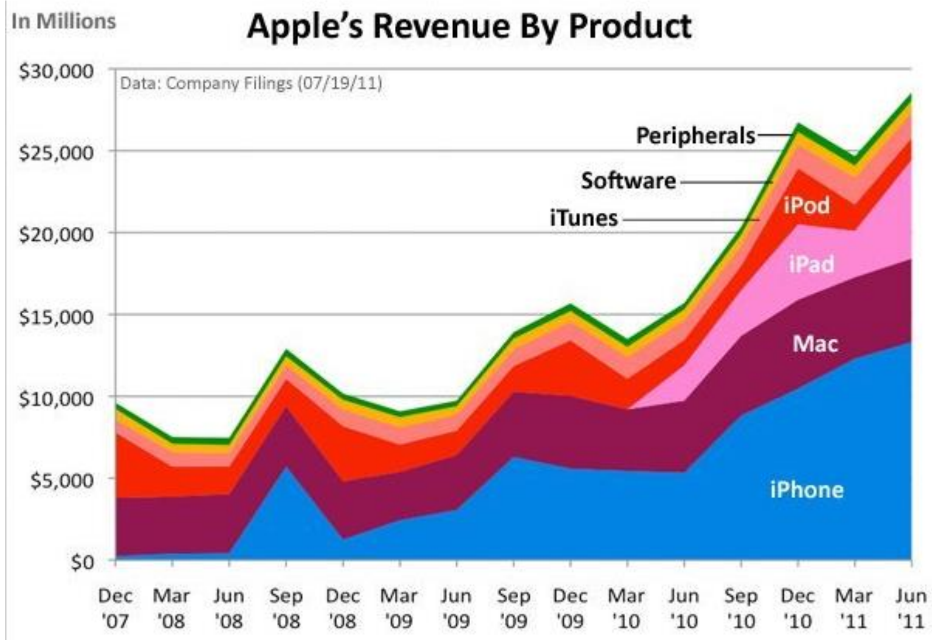
It may seem counter-intuitive to make investments when a recession is expected, but investments which enable you to create greater value at lower cost can be the wisest investments of all.

Some experts will advise you to cut back on research and development and focus on the core business during a recession. But some companies during the GFC invested more heavily in R&D to improve their competitive advantage and position themselves more strongly for the aftermath.

In 2008, the late Steve Jobs told Fortune magazine that Apple had decided to increase their R&D budget during the previous recession. “And that’s exactly what we did. And it worked. And that’s exactly what we’ll do this time.”

And as you can see from the graph at right, it worked again. Apple’s revenues not only rose during 2008 and 2009, but the company used the recession to become even stronger relative to the competition and set a course for the astounding growth it has achieved over the past 10 years, becoming the world’s first trillion-dollar company in terms of market capitalisation.

One of Apple’s strengths, in addition to innovation, has been its ability to control its costs without diminishing value.



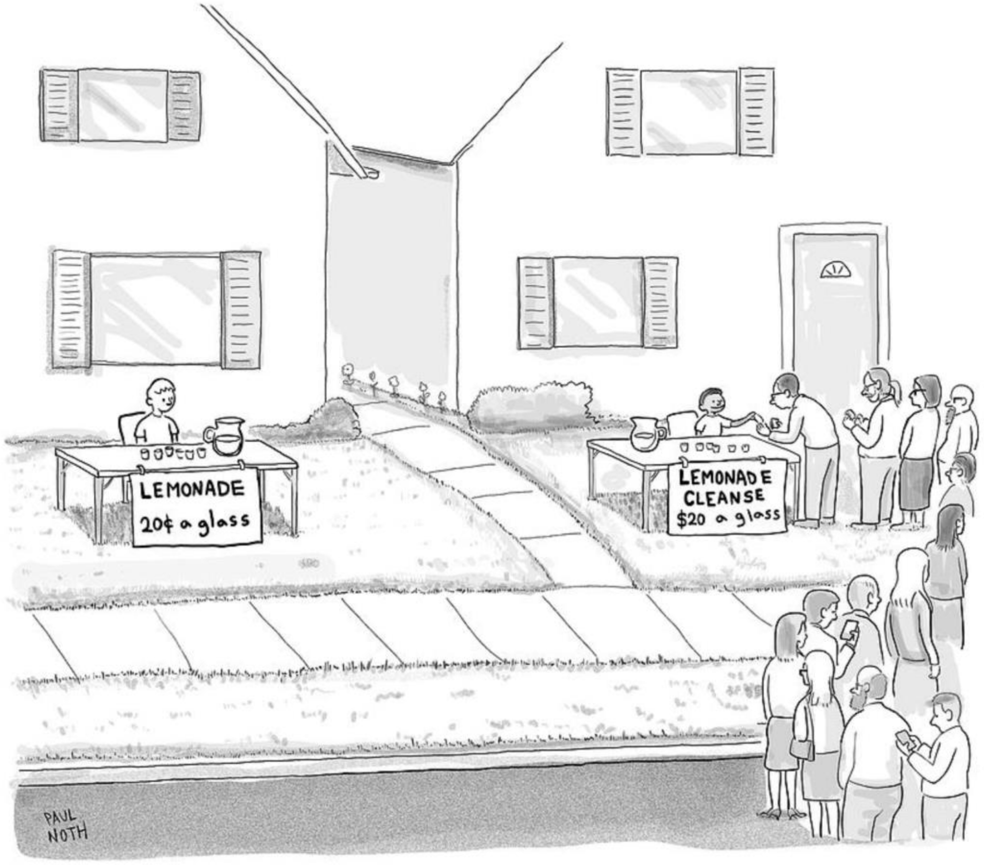
STEP 8: DON'T STOP MARKETING, JUST BE SMARTER

The natural inclination when times get tough is to cut, cut, cut.

But a study by consulting firm McKinsey of companies which emerged healthiest out of the GFC revealed that one of the keys to these companies' success was consistent marketing.

Having said that, a lot of marketing expenditure goes to waste. I should know, I have an MBA in marketing and spent many years in senior marketing roles. Recently, I have been spending more time figuring out how to market smarter – that is, get better results without spending more money.

Unfortunately there are a plethora of marketing 'gurus' out there who claim to have found the secret formula for effective marketing. That's pure snake oil – true marketing is about genuinely solving people's problems, not preying on their vulnerabilities.



STEP 9: BUILD YOUR RESERVES

It's an unfortunate fact that many businesses do go out of business during a recession and it is almost always for one reason…

They run out of money.

Now's the time to consider increasing your line of credit and establish new credit facilities even if you don't need them now. You may later.

But if your business is already highly geared, or like billionaire Warren Buffet you want to sleep at night, consider OPM – other people's money. Some companies turn to licensing or franchising when times are tough. Starbucks did this very effectively during the GFC, becoming one of the only chains to achieve growth during that troubled time.

You may also want to consider securing a cash injection by taking on a partner or selling a share of your company. Amazon may be the largest e-commerce company in the world today, but that wouldn't be so if Jeff Bezos hadn't sold $672 million in convertible bonds to shore up the company's financial position just one month before the 2000 recession.

STEP 10: MAINTAIN A FUN WORK ENVIRONMENT

Richard Branson is a billionaire who appears to understand that fun can have a positive return on investment in business. Happy employees equal happy customers, and at no time is having happy customers more important than during a recession. Building a supportive, secure and optimistic team culture when everything else is gloom and doom will give your business a competitive advantage.

Pay cuts or hiring freezes that fail to consider employee productivity can backfire, damaging morale and driving away the most productive employees.

How to Survive a Recession and Thrive Afterward, Walter Frick, Harvard Business Review

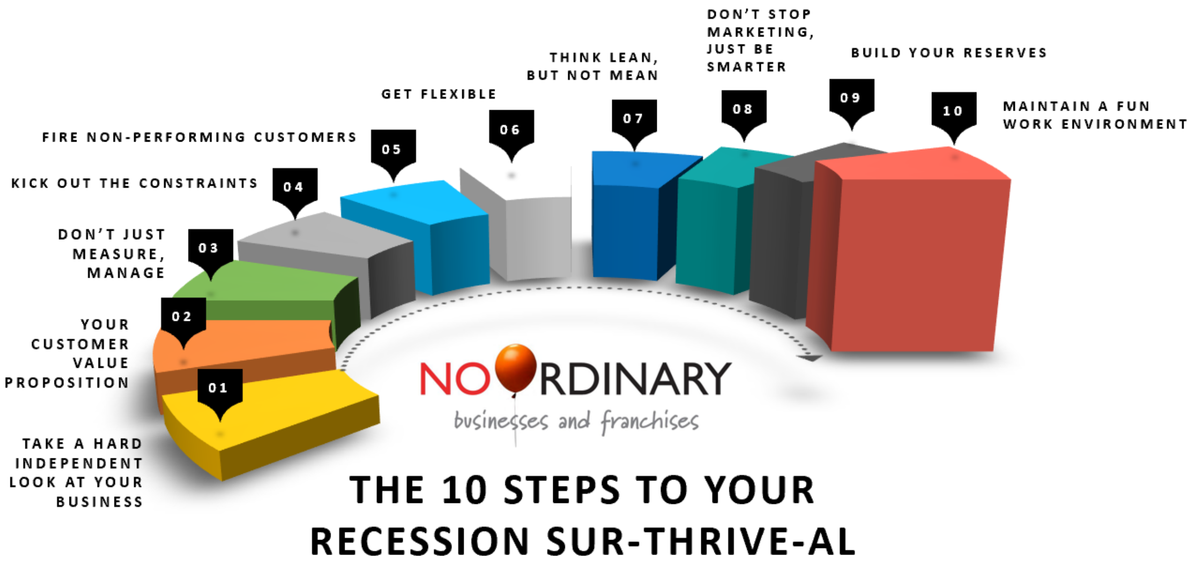
Some layoffs are inevitable in a downturn; during the Great Recession, 2.1 million Americans were laid off in 2009 alone. However, the companies that emerged from the crisis in the strongest shape relied less on layoffs to cut costs and leaned more on operational improvements, as Ranjay Gulati and his colleagues found in their study of public companies.

Finally, remember that recessions generally only last a year or two, and it's never too early to start planning for the upcycle that inevitably follows.

HOW THE PROGRAMME WORKS

The best way to prepare for the next recession is to prepare as far in advance as you can. Of course, we don't know when the next recession will strike. So the best solution is to get started on the 10 Steps To Your Business Sur-thrive-al right now.

And to accelerate the process by getting independent outside help.



You may prefer to manage the 10 Steps internally, using your company's own resources. But there are compelling reasons for choosing an outside resource like me – among them, the ability to take an objective look at your business through fresh eyes and apply the benefits of knowledge and experience.

You may also prefer to use your own external consultants or advisors to manage the 10 Steps. But again, I would question their objectivity and also, if they are accountants, lawyers or other specialists, whether they would be capable of taking the 'big picture' approach necessary to prepare every aspect of your business for a downturn.

I am not an accountant or a lawyer but as I mentioned earlier, I have more than 25 years' experience in business. I have been through three recessions and have learned – sometimes the hard way – about resilience and what it takes to endure in good times and bad.

Combining my real-world experience and research, I have developed and refined the unique No Ordinary Recession Sur-thrive-al Programme specifically for small-to-medium sized businesses.

I would welcome the opportunity to talk with you and gain an understanding of your business during a complimentary Initial Consultation, whether in person, over the phone or by Skype.

DON'T WAIT UNTIL IT'S TOO LATE.

BOOK YOUR FREE INITIAL CONSULTATION NOW.

Some say we're already in recession but the affects aren't yet being fully felt. Others say that the downturn won't hit until next year. Either way, it may not be too late to prepare for the worst – provided you act now.

At your free Initial Business Sur-thrive-al Consultation, I'll ask you questions in order to gain a better understanding of your business and its needs, and I'll explain in more detail how my Business Sur-thrive-al Programme can provide you with a detailed risk analysis followed by my accelerated 10-Step Business Survival Programme – all for a fraction of what it may cost you by doing nothing.

Contact me at robin@noordinary.co.nz or use the contact form on my website www.noordinary.co.nz/futureproof/recession-proof-business.

NO ORDINARY

businesses and franchises