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PIMS®: Successful strategies for recession & recovery

The findings are clear; businesses that face a recession head on by analysing the likely consumer behaviour that accompanies a slowdown, and then devising strategies to counter this behaviour, will emerge the winners.

One of the good things about having a long-standing "evidence based" approach is that PIMS is rich, uniquely so, in time series data. This allows us to draw on the lessons learned from previous recessions occurring over the past 30-years. Today, in the midst of yet another major slowdown in the economy we revisit our findings to share some of the insights.

"To boldly go"; is the clear message for business strategies to aid success through a recession. For strong businesses, bold strategies are the way to continue thriving, and for weak businesses, they are the route to survival. Research based on the PIMS Strategy Database of more than 4200 real businesses captured over 4+ years, points to very clear strategies for securing the future both during and after a recession; in other words how to maintain profitability through the bad times and achieve superior sustainable growth during recovery.

PIMS has investigated all areas of a business to establish where investment pays off during a recession and where it does not. PIMS' evidence distinguishes between 'Good costs', 'Bad costs', and 'It depends' costs. 'Good costs' are those, which should be increased and intensified during recession. 'Bad costs' are those, which, of course, need to be pruned hard in recession. 'It depends' costs are those where the right actions are dependent on the strategic position of an individual business at the time recession begins.

Bold strategies are required for recession		
Good costs in recession	**Bad costs in recession**	**Depends on strategic strength**
› Marketing › Quality and value for money › R&D and new products	› Fixed capital › Working capital › Manufacturing › General and admin	› Retaining spare capacity › Price aggression › Outsourcing

Successful strategies

The most pointed of the findings on Good Costs during recession is the importance of marketing. The natural reaction of many businesses experiencing a downturn in their revenue is to cut costs in areas like advertising and promotion. Our findings prove that they should do exactly the opposite if they are to ride out the recession and thrive thereafter.

PIMS has found that businesses which increased marketing spend were not significantly less profitable during recession. However, their profits increased dramatically faster once recovery started, far more than 'cutters' of marketing. Furthermore, 'spenders' gained market share three times as fast as 'cutters' once recovery began (see Figure 1). These findings were similar for data pre and post 2000.

Upping marketing in the recession helps profit recovery and share gain - and recently without hurting profits even during the bad time

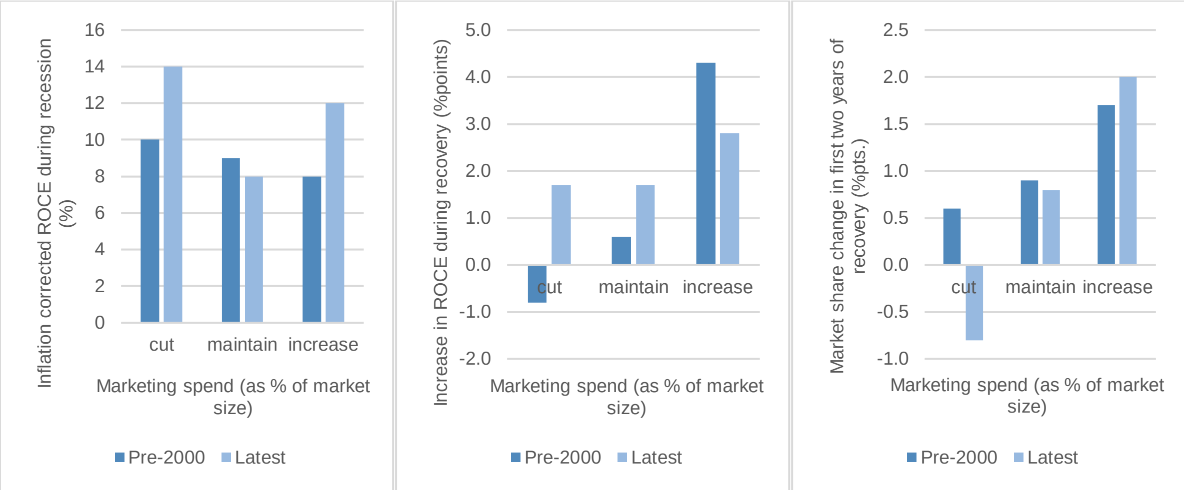

Figure 1: Marketing Spend, ROCE and Growth during Recession and Recovery

For marketing spend to be effective, of course, it needs to be based on a sound customer proposition. Those businesses which, in their customers eyes, provide better value for money than their competitors, are both more profitable during recession and grow faster once recovery starts. Improving, in your customers eyes, the quality of your offering relative to competitors during recession, also pays off in better profits and growth.

R&D spend in past recessions (pre 2000 data), both in absolute terms and relative to competition, has been seen to pay off handsomely. In earlier PIMS data, successful new product introductions during recession are seen to be strongly beneficial during recovery in profitability and growth (see Figure 2). Latest data also supports the conclusion that new product developments have a strongly beneficial effect on ROCE during the downturn, but provides rather less support post-downturn. Competitor response to new product development appears to have become swifter over recent years, resulting today in in only short-term benefits to the first mover.

That said, there is little or no observed adverse effect on ROCE during the downturn caused by increased Research & Development spend (see Figure 3). Furthermore, cutting R&D expenditure appears on balance the least successful approach. Overall, therefore, the effect on market share post-downturn of increased R&D spend remains very positive.

The positive effect of new products seems to now act quicker - having a positive effect on profits even during the recession - but less lasting share gain effect

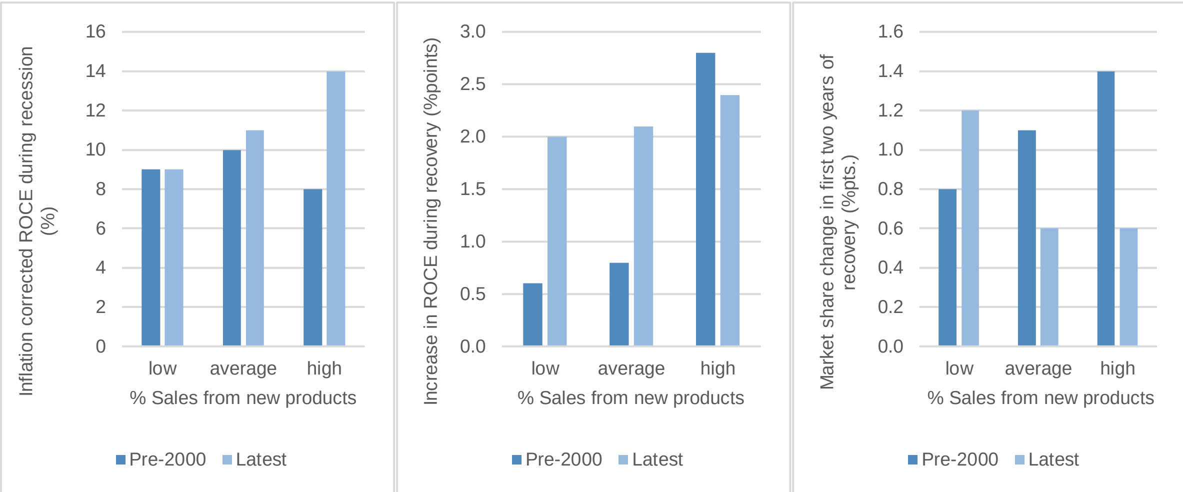

Figure 2: Recession and New Products

Product development spend strongly helps share gain but the effect on profit recovery is muted

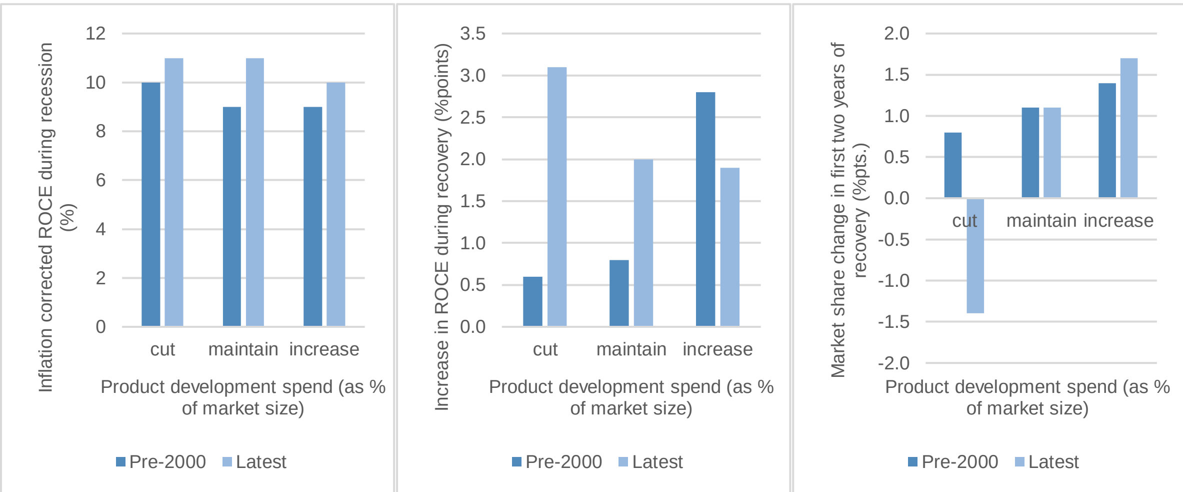

Figure 3: Recession and Product Development

Bad costs

Investing in new fixed assets during recession, supposedly to improve cost competitiveness and productivity, does not usually bring positive benefits. If anything, the opposite is the case. This is because the supposed benefits of new assets tend to get "competed away" in the form of lower prices and profit margins in an attempt to fill capacity. Other 'Bad costs' are high working capital, high manufacturing costs and high administrative overheads.

Understanding when it depends

There are certain strategies that do not always contribute only positively or negatively to business performance. This is because their impact depends on the strategic position of the business in hand. These strategies include output capacity and outsourcing.

Cutting output capacity during recession (and, thus, people and costs) may seem a very appropriate strategy. For market leaders, however, the PIMS evidence suggests that cutting capacity holds back profit and share improvement during recovery.

Then we have the issue of outsourcing. This is a rapidly increasing trend, partly to allow businesses to concentrate on their core competencies and partly to realise supposed cost savings and efficiencies. So, what better time to outsource more of your services than in a recession? The PIMS evidence suggests, 'it depends' on your market position and whether your priority for recovery is profit or share improvement.

Beware the panacea!

The PIMS evidence outlined provides a guide for which strategies should prove successful during recession for many businesses much of the time. They are not a panacea for all businesses in all circumstances. Indeed, for some, opposite “rules” seem to apply. For example, we evaluated one type of business where a successful strategy in recession was to cut back on product launches and to increase investment in overheads to improve the quality of interaction with customers and suppliers.

In recession, the best way to ensure that you adopt the right strategies for your business is to determine which strategies have proved successful for businesses analogous to your own.

The evidence discussed here is drawn from sampling the real business experiences of those in the PIMS Strategy Database, which have all experienced recession and recovery. A market in “recession” is defined as one that experiences two years decline in volume followed by two years of growth. Importantly, this definition necessarily excludes markets that are in terminal decline. Also, note that we are identifying here total markets that experienced decline and recovery in volume demand. That does not necessarily mean that the sales volume of a single, successful business fell — only that the total market demand for its type of products/services declined and then grew again.

The current COVID-19 recession is different from previous downturns both qualitatively and quantitatively; for some businesses it is so extreme that any policy beyond immediate maximum cash retention is foolhardy. However where recovery is likely after two years this research does give some pause for contrarian thought going forwards

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