



# **Powering Through the Recession**

*How to grow profits and lead your markets through the coronavirus economic crisis*

**Stuart Cross**

*May 2020*

The Tour de France is rarely won on the downhill sections when all the riders can pretty much travel at the same speed. Most commonly, the Tour is won and lost on the toughest climbs. In 2008, for instance, Carlos Sastre's victory was sealed on the notorious 13km, 1-in-10 climb up to Alpe d'Huez. As Sastre said of his two-minute victory over his rivals, "I suffered a lot on the way to the summit, but I had to take the risk of attacking."

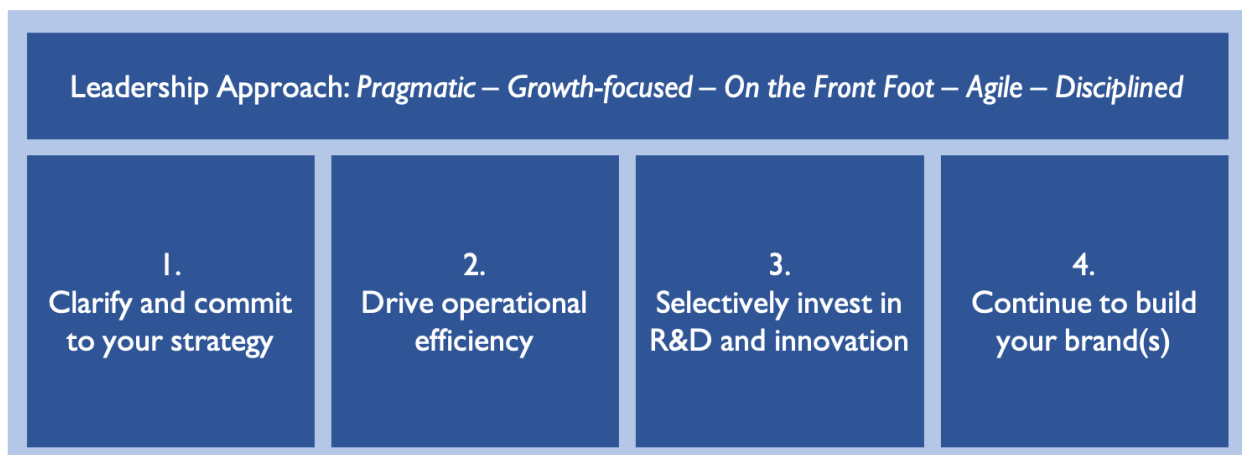
We are currently in the foothills of a global recession, but the road is going to get far steeper and far tougher very soon. As the initial shock of the coronavirus pandemic passes, the question facing all business leaders is whether you're content to simply survive the recession and do your best to stay in the pack, or whether you're willing to take some

judicious risks to develop, fund and pursue strategies to grow and win.

But what are these strategies? What are the lessons from previous recessions that can help you and your business to power through the recession and win in the post-Covid world?

I have reviewed several pieces of research that critically analysed corporate performance during and after previous downturns – including papers from McKinsey<sup>1</sup>, Bain<sup>2</sup> and Harvard Business School<sup>3</sup> – and have identified four behaviours that separate the winners from the losers (up to 17% of large companies fail to survive a major recession!). These behaviours, set out in Figure 1, are underpinned by a distinctive leadership mindset and approach.

**Figure 1: How to win in a recession**



<sup>1</sup> *Bubbles Pop, Downturns Stop* – Hirt, Laczkowski and Mysore, McKinsey Quarterly, May 2019

<sup>2</sup> *Beyond the downturn: Recession strategies to take the lead* – Holland and Katzin, Bain & Company

<sup>3</sup> *Roaring Out of Recession* – Gulati, Nohria and Wholgezogen, Harvard Business Review, March 2010

## Lead to win

Navigating your business through recession is a balancing act. The research suggests that five attitudes and mindsets can help executives take better decisions and actions that give your business a far better chance of accelerating growth in and beyond the downturn.

- **Pragmatic.** Successful leaders display pragmatism. They neither go all-out for growth nor simply cut costs and hope for the best. They understand that compromises and trade-offs will need to be made and are focused on the art of the possible.
- **Growth-focused.** Within the balancing act, the most successful businesses – and leaders – are focused on growth. Not growth at any cost, but growth focused on high potential opportunities and balanced by selective cost reduction and operational improvements.
- **On the front foot.** The research suggests that companies that have already made the operational productivity improvements ahead of a downturn do best both during and beyond it. Following closely in their footsteps are those leaders that act quickly and proactively through the crisis, both to release cash and to invest for growth.
- **Agile.** In a downturn, it is more important than ever to change tack as circumstances dictate. As Jeff Bezos once commented about his approach to leading Amazon: *“We’re fixed on the vision, but flexible on the journey.”*
- **Disciplined.** The companies that succeeded in past crises were led by executives that maintained financial and operational discipline, following up on commitments, ensuring that investments delivered effectively and making certain that the business wasn’t living beyond its means.

---

<sup>4</sup> [Succeeding beyond the coronavirus pandemic: How to plan and act fast now to reshape your business to](#)

## Clarify and commit to your strategy

The pandemic has generated huge uncertainty for every business, and the recession will only serve to magnify the challenges ahead. Yet, that is no reason to avoid setting a clear strategy. On the contrary, the companies most likely to succeed through and beyond the crisis set and commit to a clear and specific growth strategy. In many cases, the strategy was an iteration of the strategy that existed before the crisis, but reshaped to identify the biggest priority initiatives. I have written elsewhere about the five steps you need to take to reset your strategy<sup>4</sup>, but the critical step is to ensure that you pursue only a small number of priorities and do not spread your business energies too widely.

The study by Gulati, Nohria and Wholgezogen found that in previous recessions, those companies that had reshaped their strategy to balance operational improvements with selective investment in their brands and market-related activities had a far better chance of outperforming their peers than companies that had either failed to shift their strategy at all or had, at best, focused on cost reductions and defensive moves. Similarly, the Bain research suggested that starting with the end in mind and taking a future-back approach significantly raised the odds of success.

## Drive operational efficiency

Reducing costs and protecting both profit margins and balance sheet pressures, is an essential pre-requisite of recession-proof growth. Yet, shifting into crisis mode and focusing on lowering head counts and reducing the cost of every budget item does little to help you win. McKinsey’s study of the 2008 recession found that the best-performing and most resilient companies focused primarily on operational effectiveness and reducing the costs of goods sold. Similarly, Gulati, Nohria and Wholgezogen discovered that improving operational efficiency, rather than aggressively reducing

[the new realities and new opportunities](#), Stuart Cross, April 2020

costs, was the most productive way to succeed through and beyond a downturn.

The key is that operational efficiency moves not only help companies deliver better returns during the crisis, but also turbo-charge profits in the recovery. Fundamentally reviewing operations from every angle and making the necessary investments to improve efficiency and productivity create permanent gains. As demand grows, costs stay low and margins grow. Cutting costs, on the other hand, can help short-term results, but when better times return costs will simply increase again, inhibiting profit growth.

### **Selectively invest in R&D and innovation**

Just as a single-minded focus on cost-cutting does not guarantee survival or success through a recession, neither does an excessive focus on growth. Instead, the companies that thrive are those that make selective investments in R&D, innovation and new products and services. Gulati, Nohria and Wholgezogen found that these 'progressive' companies that pursued a balanced and nuanced approach had the best chance of outperforming their rivals.

So, which initiatives should you select? The answer lies in understanding how your customers' needs will change and what competitive advantages you can exploit. For example, I have just worked with one client to help them reshape their product development pipeline in light of the pandemic and upcoming recession. While the team decided to stop or defer three major projects, two other projects were accelerated and three new initiatives added to the list. Similarly, Bain found that investing in R&D and proactively

pursuing high-value M&A opportunities enabled 'winning' companies to drive both short term growth and improve their longer-term strategic position.

### **Continue to build your brands**

As with product development, successful companies also continued to judiciously invest in demand-driving activities. Maintaining marketing investment and focusing sales teams on top priority customers is essential to accelerating growth through and beyond any recession. One consequence of the pandemic is a significant shift to online shopping and activity. As a result, it is essential that you use the recession as an opportunity to accelerate your digital marketing strategy.

That said, as other companies reduce their marketing spend, you might also find that traditional broadcast marketing offers better value-for-money than before the pandemic. In the 2008 recession, for instance, one of my clients, a heavy user of TV advertising, was able to add 20% to their advertising reach while reducing their spend by over 10%.

### **Moving forward**

Back in 2008, as business leaders were struggling to get to grips with the last global recession, Carlos Sastre climbed out of his saddle, cranked through the gears and rode through the pain to the summit of Alpe d'Huez and ultimate victory in Paris. As you head into your own 1-in-10 climb, these balanced but critical approaches can help you better serve customers, protect profits and build an organisation with the capabilities to not only survive the downturn but create one that is able to power through the recession.

**To find out more, please contact Stuart at:**

Morgan Cross Consulting Limited  
PO Box 9210  
Newark-on-Trent  
NG24 9EG

☎ +44 (0)1636 526111

✉ [stuart@morgancross.co.uk](mailto:stuart@morgancross.co.uk)

