Every Which Way But Prepared –

The Need for Recession Planning

By Stephen C. Finch

The 1930s humorist Will Rogers was reported to say, when asked about economists and their predictions, "Lay all of the economists side-by-side, and they will point in different directions." Unfortunately, Will was correct. Prognosticating economists seldom accurately predict the direction the economy is moving. When a downturn occurs, the unprepared manager tries every way possible to limit the negative affect on the business. The issue is, when (not if) a recession occurs, is your business prepared to thrive?

As business managers, accurately anticipating the timing of a downturn frequently means the difference between two or three years struggling for survival and a manageable slow down.

Savvy business managers employ two planning tools to anticipate and successfully maintain sustained growth—a strategic plan and a downturn contingency plan. Let's take a look at each.

Strategic Plan

While not limited to anticipating and planning for downturns, a strategic plan is a future-looking road map for sustained profits and growth. The three to five year strategic plan answers the question, "Regardless of what the future holds, what should I be doing today to position my business to *thrive*?"

Strategic planning is a five-step process. The value of the plan lies as much in going through the process as it does in determining long term objectives—the "results" of the planning process.

Initially, the company must develop statements of mission, values, and purpose. These statements provide an important focus to the manager for keeping the business on track.

Secondly, the business manager looks at what is happening in the political and legal arenas that may affect the business. What are the important social and demographic trends? Does the aging of the baby boomers affect your business? What is happening economically? What seems to be the economy's direction or trend?

The third step, analyzing your marketplace, is essential. This includes understanding your company's capabilities to market and sell, competitors' strengths and weaknesses, and the wants and needs of your customers. What are your company's internal strengths and weaknesses? How strong are your competitors and how do they compete against you? What customer needs are actually being met? Finally, how best should you position the company to become and/or remain a strong competitor?

It is always good advice to "know yourself." The same is true for your business. In the fourth step, the business manager must know the capabilities of the business operations. This includes management skill level, financial strength, and how good its relations are with creditors, suppliers, customers, and employees.

In review, the four data gathering steps are: (1) determining mission, values, and purpose; (2) identifying impacts on the marketplace by legal, political, social, demographic, and economic conditions; (3) analyzing the competitive environment of the marketplace; and (4) assessing the business's internal capabilities.

The fifth step in the strategic planning process is developing long-term goals that are supported by the data and analysis. These long-term goals become action steps for business success in the future.

The strategic plan provides the path for sustained growth and profits, and insight to anticipate changes in your business environment and marketplace.

Downturn Contingency Plan

A downturn contingency plan provides answers to the questions, "What circumstances signal a downturn in my business's marketplace?" and "What should I do when the marketplace begins a decline?" If a downturn is evident from the strategic planning process, then this plan gives you direction as the long-term goals address the upcoming three to five years. But what if the signals for a downturn are not currently present, then what do you do?

If this happens, an understanding of the marketplace and its history will yield downturn signals. Typical signals are: rising interest rates, increasing unemployment, strong dollar, and overvalued stock market. Each industry has its own characteristic signals and these signals are frequently sensitive to local or regional economic conditions.

Unfortunately, most business managers wait until the downturn is clearly evident. By that time, it is frequently too late to implement the best defensive choices. Successfully redirecting the business in response to a downturn is easier, with more options, the earlier the redirection begins. A downturn contingency plan is truly a plan to be ready "on the shelf, available at a moments notice" to guide the business manager. Therefore, planning today, planning before actual downturn pressures hit your business, allows for well thought out, pre-determined actions.

Summary

Businesses who successfully navigate a downturn seldom do so by being lucky. Managers who plan know ahead of the downturn what defensive actions to take. They take these actions early, leading their competitors, and are positioned to take advantage of market opportunities. The real question is, "Are you a leader or a follower?" The followers will try every which way—the leaders will be prepared.

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