

Small Business Resilience through Recessions

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Recessions are contractions in economic growth that are a part of the regular business cycle. Small businesses are particularly vulnerable during a recession. They tend to have lower cash reserves than larger corporations and are less likely to receive federal support, reducing their ability to wait out hard times. Owners also work closely with their employees, and the possibility of layoffs is a deeply personal worry. Recessions provide an opportunity to focus on your people, products, and processes. Attention to these three areas can help businesses navigate through hard times.

Plan Your Path

It can be easy to lose sight of your core vision, mission, values, and goals during stressful times, but they can help anchor management and staff. If you have a formal business plan, take some time to review and update it. If you do not have a plan, thinking through the questions below will help you develop one. Resources for new business planning efforts are listed at the end of this document.

Vision, Mission, and Values

Start with your vision, mission, and values, which tend to be more static. If you have a plan, consider whether these items have evolved and need to be updated. Most business owners have a vision for how they want to change their corner of the world. An aspirational, future-oriented vision conveys what the business and its clients will achieve.

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The business mission tells employees, clients, and other stakeholders, in broad terms, why your business exists and how your present actions will achieve your vision. What does the business do? Another way to approach your purpose is to consider the value you provide customers that no one else provides.

How have your efforts and sales changed over the past 3 to 5 years? For example, food catering might evolve into event management, or a clothing shop might find its embroidery business outpacing other lines. A broadly defined vision or mission may still be applicable, but those narrowly focused on an industry or delivery mode should be adjusted to reflect the business's new scope.

Small businesses often evolve rapidly to ensure their survival. Ask yourself if you are comfortable with your business's new direction. Do your current efforts help you change the world in a way that matters to you, or did your evolution happen by chance? How do employees feel about the changes? Aligning your passion with your business vision helps reduce burnout and stress. Struggling to keep a business afloat without passion is extremely difficult for the owner as well as family and employees. Even achieving success in an area you are not passionate about can leave you feeling directionless. Keep in mind that it often is not the business's product or service that fulfills the vision—it is the way the business interacts with customers and employees that changes the world. In that case, the product or industry matters less than the people and processes.

Also, think about what values you, your employees, and your customers hold dear. In other words, what are the characteristics that guide you in running your company? A few examples include integrity, innovation, diversity, teamwork, profit, stewardship, and customer service. Discuss with employees whether you are living up to your espoused values and how you can strengthen your commitment to your values. Lived-out values tend to be stable, but it can take time to establish your company's values. If your mission does not have a strong connection to values at this point, it may help to discuss your strengths, weaknesses, opportunities, and threats (SWOT) analysis and then return to values before setting business goals.

SWOT Analysis

As businesses grow, they cultivate new strengths and opportunities and face new weaknesses and threats. Recessions certainly present threats. Opportunities may emerge during the contraction or as the economy emerges from recessions. These opportunities may take time to cultivate. Investing in your business during a recession can improve sales and productivity later. Use slow weeks to retrain employees, research or create new product or service lines, or redesign your website or marketing materials.

A strong understanding of your business's financials is essential to a good SWOT analysis. Is your cash position a strength or weakness? Does debt service or employee compensation threaten your business during the downturn? Revise your sales and profit expectations for the next few quarters. In each of the three SWOT areas, focus on the three P's below.

People. Employees and customers are the heart of a business. What makes your customers special? Conversely, do you serve customers who are vulnerable during the recession? Do your employees excel at technical service or have technical expertise? Is turnover high? Under what conditions might you need to reduce hours or lay off employees? Might there be an opportunity to pick up highly skilled employees laid off by other firms?

Products. Look at your profit and loss statements to examine the product and service lines that are most profitable or growing. How can these areas be strengthened? Can you pare back your offerings to your strongest areas? Focus on maintaining and growing businesses in those areas.

Whether your products and services are considered luxury or essential goods affects your strategy. Luxury goods and services are more likely to be negatively impacted as people cut back on purchases, and sales losses will be steeper. The demand for essential goods is more stable. People still need food, shelter, transportation, utilities, and healthcare. However, consumers may become more price-sensitive and switch purchases between essential spending categories as they cut back on total expenses. Some businesses find opportunities to produce essential goods in place of or along with luxury goods. A recent example is craft liquor distillers producing hand sanitizer.

Processes. Once you have identified key products and services, ask if there are ways to improve production, marketing, and distribution. Identify and seek to reduce production and distribution inefficiencies. If your financials and sales predictions are strong, consider your ability to invest in technology or training to improve productivity. This might include physical production or inventory and shipping management. Given reduced business demand during a recession, customers with a strong cash or credit position often can access reduced prices and faster delivery times for professional products and services. Marketing includes how you position your product in terms of branding, pricing, and advertising. Businesses may be able to reduce prices to move product, but managers should be aware of brand reputation.

Consider how your team can build customer relations. This may be a good time to invest in a stronger online presence through a business website and social media. Staff may have time to focus on content and design, and profes-

sional designers may be offering discounts due to lower demand. The recession is also an opportunity to build relationships with existing and potential customers. Visit with customers with the goal of understanding and responding to their changing needs. Strive to be your customers' biggest ally.

It can be difficult to do a self-SWOT analysis. Your perception of some factors may differ from those of your employees or customers. Ask your employees, trusted friends or clients, your banker, or someone from your Chamber of Commerce or Economic Development Corporation for feedback—all of these people want your business to thrive.

Business Goals

Your business goals flow from your vision, mission, values, and SWOT analysis. Review your existing goals and your progress toward these goals. Some goals may need to stay on hold during a recession, but other goals may be ripe for action. What goals present the strongest evidence of success during the downturn and as the economy emerges from a recession? What goals emerge from your opportunities? Set action plans around those goals to maximize potential. Remember that goals need to be concrete, measurable, and supported by an action plan with detailed steps and accountability.

It is possible that, after analyzing your business and consulting with financial institutions and business advisors, you realize that selling or closing your business is the best option. Setting goals for your closure can make that transition easier and communicate stability to clients and employees. Outline your timeline and action plan and communicate that information to stakeholders. If possible, support employees in finding new work and customers in identifying new suppliers. While this may be painful at times, it will solidify your integrity with your stakeholders and make them eager to join you in future ventures. In these scenarios, be sure to think about your personal values and vision. Moving on from a closely held venture is difficult, but your business does not define who you are. Reach out to family, friends,

and professionals to maintain your mental health and identify your next opportunities. Be sure to spend time doing things you enjoy and positive time with family, friends, and employees, who may also grieve changes.

Communication

Communicate with stakeholders, including employees, funders, and clients. It is critical to communicate with employees, as they also are aware of business dynamics. Bad news probably will not surprise them, but understanding the situation will help them serve your business better. Including employees in decisions or explaining the rationale behind decisions will also engage employees in problem solving and support buy-in. Communication will help employees make personal decisions based on accurate information about their job security. Communicating with bankers and other financial stakeholders will help them understand that you are aware of your financial situation and working actively to improve your position, which will improve their confidence. It will also allow them to provide professional feedback on business decisions. Clients do not need to know all the details, but communicate shifts in products, services, and strategies, so they know what to expect and understand that your actions are strategic.

Financing

Your financials are crucial in informing your SWOT analysis and decision making. Watch your numbers closely, communicate with customers about their expectations, and adjust projections accordingly. If possible, use cash reserves to continue operations while reducing expenses as appropriate. Funding regular operations with debt increases financial risk. However, interest rates tend to drop during recessions to encourage borrowing and economic activity. Talk with your lender about the costs of borrowing to fund strategic initiatives. Federal, state, and local programs may exist to provide grants or, more often, low-interest loans to small businesses. Your lender and local Small Business Development Center can help you identify programs that may fit your business.

Be sure to document changes your business faces throughout the recession and in your business trajectory. This documentation helps in obtaining financing, planning for the next downturn, and managing the overall growth of your business into the future.

Conclusion

Recessions are difficult to navigate, especially for small businesses. However, small businesses are also nimble and can adapt to changing circumstances. With careful planning and attention to your people, products, and processes, your business can emerge from a recession stronger and poised for future growth.

Resources

- Business Planning, AgriLife Extension
<https://agecoext.tamu.edu/programs/community-programs/rural-communities/rural-business-enterprise-planning/>
- Carpenter, Craig Wesley, and Rebekka Dudensing. EAG-047: *Translating Data or Survey Results into SMART Goals*. College Station, TX: Texas A&M AgriLife Extension Service, 2017.
<https://agrilifeextension.tamu.edu/library/community-development-parks-recreation-tourism/translating-data-or-survey-results-into-smart-goals/>
- Carpenter, Craig Wesley. EAG-046: *Business Retention and Expansion*. College Station, TX: Texas A&M AgriLife Extension Service, 2017.
<https://agrilifeextension.tamu.edu/library/agricultural-business/business-retention-and-expansion/>
- Purdue University Business Planning Resources
<https://ag.purdue.edu/agecon/fambiz/Pages/business-planning.aspx>
- Conducting a SWOT Analysis, Penn State Extension
<https://extension.psu.edu/conducting-a-swot-analysis>

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