

Small Business Resilience through Recession

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Recessions are contractions in economic growth that are a part of the regular business cycle. Small businesses experience recessions deeply. They often have less cash reserve, 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 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 during tough times. If you have a formal business plan, take some time to review it and update it. If you don't have a pre-existing 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. Ideally, they convey that future-oriented vision in writing to employees and customers. What does the business do? How have your effort and sales changed over the past three to five 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 may still be applicable. Visions narrowly focused toward 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 "just happen"? How do employees feel about the changes? Aligning your passion to your business vision helps reduce burnout and stress. Struggling to keep a business afloat without passion is extremely difficult on the owner, as well as family and employees. Even achieving success in an area you aren't passionate about can leave you feeling directionless. Keep in mind, often it's not the business's product or service that fulfills the vision; it's the way the business interacts with customers employees that changes the world. In that case, the product or industry matters less than the people and processes.

The business mission tells employees, clients, and other stakeholders, in broad terms, why your business exists. The mission describes how your present actions will achieve your vision. Another way to approach your purchase is to ask what value you provide customers that no one else provides. Has what you do changed over the past few years?

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 you don't have a strong commitment to values at this point, it may help to discuss your 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/service lines, or redesign your website or marketing materials.

Update or conduct a SWOT analysis. A good SWOT analysis is impossible without a good understanding of your business's financials. Is your cash position a strength or weakness? Do 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 3 P's below.

People. Employees and customers are the heart of a business. What makes your customers special, or conversely do you serve customers who are vulnerable during the recession? Do your employees excel at technical service or 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 and/or growing. How can those areas be strengthened? Can you pare back your offerings to your strongest areas and 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. 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've 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 and/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 given reduced business demand during a recession. Marketing includes how you position your product in the market 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 or social media. Staff may

have time to focus on content and design, and professional designers will also be looking for new accounts. The recession is also an opportunity to build relationships with existing and potential customers. Visit with customers in person and on the phone 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 those 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 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 and friends, including employees, who may also grieve changes.

Communication

Communicate with stakeholders, including employees, funders, and clients. It is critical to communicate with employees. Employees are aware of business dynamics. Bad news probably won't surprise them, but understanding the situation will help them serve your business better. Including employees in decisions will also engage employees in problem solving and support buy-in. Information will help employees make personal decisions based on accurate information about their job security. Communicating with bankers and other financial stakeholders will help them know that you are aware of your financial situation and working actively to improve your position, which will improve their confidence. It will also give them an opportunity to provide professional feedback on business decisions. Clients don't 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 as well as in the overall business trajectory. This documentation helps in obtaining financing and in planning for the next downturn and, importantly, for 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 (including your financials), your business can emerge from the recession stronger and be 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. 2017. Translating Data or Survey Results into SMART Goals, EAG-047, Texas A&M AgriLife Extension Service, The Texas A&M University System, College Station, Texas, September. <https://agriflifeextension.tamu.edu/library/community-development-parks-recreation-tourism/translating-data-or-survey-results-into-smart-goals/>

Carpenter, Craig Wesley. Business Retention and Expansion, EAG-046, Texas A&M AgriLife Extension Service, The Texas A&M University System, College Station, September.

Texas, <https://agriflifeextension.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>