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Episode 2 - transcript

Episode 2: Keep your foot on the gas

(Bryan Borzykowski- BB)
If there is one thing you shouldn’t do during a slowdown, it’s panic. Of course, many companies do get nervous and hold back in times of uncertainty.

But studies show that businesses that forge ahead end up in a better place after the economy accelerates again. One study from Bain found that M&A transactions done before and after downturns generate almost triple the excess returns than acquisitions made during boom years. Still, it can be hard to keep your foot on the gas.

Welcome to Disrupting the Bear. I am Bryan Borzykowski. In our second episode, we look at why companies should continue pushing forward and how making smart decisions during a slowdown can result in booming business later on.

With me are two of the country’s top business minds: John Ruffolo, Co-Founder and Vice Chair of the Council of Canadian Innovators, and Founder and former CEO of OMERS Ventures; and Mark Jamrozinski, Managing

Partner of Deloitte's financial advisory practice. Thank you both for being here.

(John Ruffolo - JR)
Thank you very much.

(Mark Jamrozinski - MJ)
Thank you. Great to be here.

(BB)
I want to talk a bit about why companies should continue investing and considering growth in times of uncertainty when they might be feeling like they should hold back and not invest. John?

(JR)
Well, the riskiest thing that you can do in a time when everything's changing around you is stay still and stay the same. Having said that, you must change and adapt. In a time of uncertainty, one of the greatest areas of opportunity is the growth side of the equation. In fact, in many cases, the greatest companies actually advance tremendously in times of discombobulation and fear when everyone else was starting to stand back.

(BB)
Why is that? What do you see happening during a downturn or a slowdown? What do you see happening in that kind of discombobulation? Where are those opportunities to step in?

(JR)
Well, let me give you an example of what happens in an era or a timeframe of excess capital. We're seeing it right now, we're seeing it live with what's happening with WeWork, for example, because in an era of plentiful capital, people weren't paying attention to their unit economics. The old adage is, "Even though you're selling something at negative margin, volume will make up for it." This whole growth-at-all-costs mantra starts to take hold. You're now seeing the opposite side of this: in times of uncertainty, when you think capital and excess might go away, there's far more paying-attention-to-the-bottom-line unit economics and product market fit. It actually causes you to be far more disciplined. In fact, perhaps you should not be trying 20 different options of the same product, but actually picking the one or two things and doubling down and going hard on it.

(MJ)
What you have to think about is, as we go towards a cycle change and as we see more challenging economic conditions, there's something different this time. There's a lot of disruption in the marketplace this time compared to, let's say, 10 years ago. That means there's a lot of complexity, there's a lot of risk, and your competitors are going to be pent up looking at that and frozen, if you will, like deer in headlights. It's an opportunity to seize the moment. As John says, focus is key, but also think about the disruptive opportunity that exists right now in the marketplace, because it gets back to core economics, as John says. Where can we excel? Where can we disrupt?

Where can we differentiate? And again, focus on the customer at the end of the day. Customer focus wins every time in these conditions.

(BB)
So Mark, is it about just continuing the growth that you've already set out for yourself? Or are you doing something new when you see the economy slowing down?

(MJ)
I would say it's about agility, landing on a strategy and understanding how your organization will differentiate itself, how it will embrace the disruption that's happening around you, and what it is that your organization is going to do to leverage the unique assets to go after. But there is a call for agility as well, and perhaps velocity, because you have to be able to pivot as you see the change around you, to seize the moment when your competitor does take the foot off the gas. I do think there is some carpe diem sort of philosophy that you have in these moments of change. Being agile enough to react is key.

(JR)
Yeah, I completely agree. There is one thing though that I hope people don't take away. This is not growth at all costs. That's the big difference. This is thoughtful growth, manageable growth. I've seen too many situations where people just reinvest in so much excess growth that they all should start creating a churn problem with their customers as well, and you can't do that; you end up with a leaky boat. You really have to figure out what the capacity of the organization to grow is. In many cases, Silicon Valley is tough – if you're not going at a 100% growth rate, you're nothing. Well, a lot of the greatest sustainable companies are growing at a 30-40% growth rate because they realize that at that growth rate, that's how much the employees can bear, can absorb, can manage the churn; and you're not losing people as well. Over the long haul, you're actually creating this long-term sustainable organization.

(BB)
This all sounds great, but emotions are a very powerful thing. John, you've run businesses. How do you fight through what I think is a natural tendency to say, "I'm scared. I shouldn't do anything crazy right now"?

(JR)
Well I think if you're not scared, you're not pushing the risk meter enough. I am always terrified of what I'm going to do. What I do is try to eliminate all of the dumb risk around an optionality, and then you go and you go in hard and you don't regret when you're going in hard. But also, I don't overcommit until I have eliminated that optionality. For example, today a lot of it is being triggered by the U.S. and their going back to isolationism, back to pre-World War II days. What does that start to say? Maybe we've been looking at global markets like China and other countries in Asia. It might just mean that you might have to revert back to focusing on the United States, as an example, in certain of your markets. It's counterintuitive, what we've been thinking about over the last couple of decades. But we're entering an area of deglobalization, so you have to start to wonder, "What does that really mean?"

(MJ)
Fear is a normal emotion. As John says, everyone has it. The true test is being able to look past the fear and say, “How do I take advantage of the moment? How’s my organization coming out on top of this?” I think we need to keep perspective as to what management can use to help alleviate or be a life preserver to some of the fear that’s out there. That comes back to focus strategy and perseverance.

(BB)
People listening in to this say, “Okay. I’m going to keep investing, keep growing.” What is the outcome of continuing to invest during a slowdown? Are they that much more ahead? Do they grow a lot more after? What do you see as the result of this?

(JR)
The old adage is, “Necessity is the mother of invention.” You’ll look time and time again. Who are the great companies right now, today? Google, Facebook. They all came past 2002. Massive correction. How did they do that? They had to focus in on their customers. They focused in on how to get profitable economics. I actually cannot wait to get back to things that make sense: understanding the value of a dollar, understanding that there isn’t that endless, cheap capital. That is really the market dislocation: things not making sense. As an investor, and I know this sounds very counterintuitive, I am looking forward to the second half of 2020. That’s when I believe we’re going to see who has no clothes. As an investor, I am going to be pounding capital at that time, because I now know that folks will be far more disciplined.

(MJ)
You know, when I look back in time, the best M&A that was done, John, was done in these cycle turns because you can go out, you can find value, you can acquire assets. The whole theme of disruptive M&A – if I’m an organization facing challenges in my traditional organization and its traditional business, I’m looking at those innovative, disruptive businesses out there in the marketplace, looking for that technology, looking for those teams of talented individuals that will help my organization get through this next cycle, address the disruption that’s out there in the marketplace, and come out on top on the other side. I’m going to do that by spending and buying in the right places and taking advantage. And there’s no better time to buy than in a down market.

(BB)
Thank you, we’ll leave it there. Hopefully, John, you’ll find some investments over the next year or two to get into. John, Mark, thank you so much for being here.

(JR)
Thank you.

(MJ)
Thank you.

(BB)
Our next episode looks at how companies can expand and what global markets are open for business. I am Bryan Borzykowski and this is Disrupting the Bear. Thanks for listening.

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