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Episode 4 - transcript

Episode 4: How to get your house in order

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Slowdowns are good for at least one thing: they force company to reassess their own operations. Businesses might start paying more attention to their expenses, many introduce new productivity boosting technologies, and they make better use of their staff and more. However, becoming more efficient while still focusing on expansion isn't easy. Cutting back can stifle growth. I'm Bryan Borzykowski and this is Disrupting the bear.

On our fourth episode, we look at how companies can look inward, while continuing to expand. Joining me is Candice Faktor, Managing Partner at Faktory Ventures, and a Coveo board member, and Matt Harris, Managing Partner of Deloitte Private. Thank you both for being here.

Matt Harris

Great to be here, Bryan.

Candice Faktor

Thanks for having us.

B.B.

Matt, first question to you: During an economic slowdown, what do companies tend to do internally? How do they get their house in order while still focusing on growth?

M.H.

It's a real opportunity to re-evaluate the business and in some cases, to even reinvent the business. The key to a prime is to start the planning early, to have a plan before the downturn hits, so that as soon as market changes are experienced, you're ready to jump right in. Some of the things that we've seen in previous downturns is companies focusing on financial changes such as focusing on cash, removing the discretionary spending, delaying capital expenditures, and perhaps maximizing working capital efficiency. We've seen market changes; many companies use a downturn as an opportunity to move into different markets. And then strategic changes: investments in technology, diversification of the business, and in some cases, the formation of strategic alliances.

B.B.

Candice, you've worked with lots of companies over the years as an advisor, board member, all sorts of things. What have you seen with the companies that you've worked with when things get rough? What are they doing to their own companies to maintain th at edge and continue growing?

C.F.

So I think what I’ve seen, both in terms of advising but also operating companies, in terms of downturns, is a lot of polarization. There are companies who, as Matt points out, are really caught off-guard. And those companies usually have issues;they’re over-levered, therefore they can’t be strategic in a time of a downturn. And then there’s other companies that are really thoughtful and have actually prepared themselves to take true advantage of an economic downturn, both in terms of their market position, picking up talent that otherwise would never have been available but in a downturn they are available, of really thinking about how they can use technology to really transform their business and make their business more efficient, but also drive more revenue growth. A big part of it is how resilient the organization is and how adaptive the organization is to a downturn. So, the ones that are very strategic, they have capital at their disposal and they have a mindset that they’re going to actually lead in a downturn, and obviously they fare a lot better than ones that did not prepare.

B.B.

Matt, you mentioned costs and discretionary spending. I think when people think of a slowdown, they think, “We’ve got to cut costs. We’ve got to lay people off.” That’s shrinking the business, which I think is not what we’re talking about, because we want people to continue growing. So how do you maintain those costs or maybe cut costs, but without causing the business to get smaller and less productive?

M.H.

It’s important that a spend analysis is conducted before there is any cost-cutting. Look, cost-cutting and being prudent about your spending during a downturn is important. It just makes sense for the business. But it’s important to go in and analyze the spending, understand the underlying nature of the spending, variable vs. fixed. Are they one-time charges? Are they recurring charges? The assessment should be focused on cutting the fat, not the muscle. That gets right to your question, Bryan. It’s really important that the company has the scale and agility to continue the business, and even position itself for growth during the downturn.

B.B.

I would think that in the good times, companies get excited and they start overspending. They're not thinking about costs. So there are areas they can cut because maybe it's gotten a bit out of control in the boom times.

M.H.

That's what I refer to as cutting the fat. Those are the expenditures that creep into a business over time when you don't have to be as prudent with your business. It's important to get those out as you enter a downturn.

B.B.

What are some of those costs? To both of you, where have you seen companies overspend where they can cut back and it won't hurt the business?

M.H.

Let me throw a couple out there. Aircraft is one. So I'm a restructuring professional and typically, when I see a large private business get into trouble, there's an aircraft involved. So that's one that can be cut out. A lot of companies concentrate on travel and meal expenses during downturns because outside of a downturn, it's a lot easier to be lax on those policies.

B.B.

So you're saying I should cut out my airplane. I've got to get rid of that?

M.H.

Well, you don't have to get rid of it. You can come and see me.

B.B.

Candice, on the innovation side, there's cutting costs, but there's also boosting productivity. How do companies do that? What have you seen in terms of adopting technology or ways to increase productivity during a downturn so you can stay growing without overspending?

C.F.

I think a downturn is actually a really, really great time to rethink the long-term strategy of a business because you're actually not focused on just meeting demand. You're now really looking at your business and the economics of your business and saying, "Where are we vulnerable?" or "Where are our competitors vulnerable?" and taking advantage of the market in ways that, when things are flush, you just don't often see. What that requires, though, is a very different mindset around leadership so that you don't have a survival or a scarce mindset; you have a mindset of leadership and growth, looking for opportunities to drive both efficiencies using technology. We are still in the early innings of digital transformation and in a lot of companies, there's now a lot of tremendous resistance to change. And I think In downturns, people become in some ways less resistant because there's necessity to change. You're going to see a lot more technologies driving efficiency and a lot more excitement for adopting those technologies. I think you also, in a downturn, are able to take advantage of market opportunities that may not have existed before because entrepreneurs had capital to continue growing their business. For example, in 2008, we would buy some great companies that had found product market fit, but did not have the capital to scale.

B.B.

Are there some examples that maybe companies listening to this could think about? What kind of technology should we be thinking about that we haven't had the opportunity to deploy? Are there specific examples around that?

C.F.

Obviously, one of the bigger technologies that has become much more relevant in a recession is machine learning and artificial intelligence. This is in all parts of the organization. How can you… I'll give you an example. You can use machine learning to create a better, more relevant experience or a personalized experience that actually is better than what a human could do in terms of your commerce sites, for example. Coveo, a company that I work with, but many other companies too, are using machine learning to make sure that you're getting the most relevant result. That's a great example. Also, you're using it to actually make decisions that humans used to make and were less effective or most costly to make, or take over jobs that humans used to do, which is a tricky subject today, but we are going to see a lot more focus on how we use technology to make things more efficient, how we bring more things into the cloud, how we digitize things that were paper-based, how we're going to make them much more scalable and accessible using technology. And I think we're also going to see new business models like the sharing economy and how we reimagine how we use assets and think about assets. Recessions and downturns or slowdowns are times when we rethink business models and technology is an enabler of that.

B.B.

Both of you were talking about planning ahead for this. It feels like a lot of businesses don't do that. How do you plan ahead when things are going great and you have to start thinking about things maybe going not-so-great?

M.H.

Companies should really be evaluating their business from a number of perspectives. Let me run through a bunch of those. From a revenue and margin perspective, we're finding companies that are allocating more time and resources into understanding their customers or maybe their skews of inventory in an effort to drive towards customers and skews that provide the most value for the company. From a cost reduction perspective, management teams are often taking a zero-budgeting costing approach in order to ensure that the costs that do remain in the business are absolutely required. From an operating model perspective, companies may be looking at alternative ways of doing business. Maybe it's outsourcing versus keeping activities in-house; maybe it's sharing capital expenditure on innovation with suppliers or a number of areas that companies are looking at. From a technology perspective, companies should be investigating opportunities to replace repeatable tasks with robotic process automation and artificial intelligence. And then from a process perspective, companies should be streamlining their processes towards standardization. So there are a number of different ways a company should be looking at itself inwardly.

B.B.

And they should be thinking about all this stuff before they need to act on it.

M.H.

Yeah. Look, shareholders expect management to be planning for the business. We know from our economists that there's been a slowdown in global manufacturing. Some believe that will have an impact on our economy at some point in the future. Now is the time for companies to plan and to be prepared for that situation if it comes.

B.B.

Candice, from your perspective, what do shareholders—and we're not necessarily talking about stock investors, but private companies and their investors. What do they want to see companies do when times get uncertain?

C.F.

I think there's really three areas that shareholders are looking at. One is they want to make sure that this company is going to survive. That really comes down to how much cash this company has and how much risk there is that they literally aren't going to be able to survive. I think we're seeing a lot of that today already. The idea that we can have these mythical stories of tech firms who are burning lots of cash right now, it's not really holding up in the public markets, so we're seeing that. So one is just survival. The second is very much scenario-planning. I think we have to be thinking about a whole variety of risks and how companies are preparing for those risks. So those risks, for me, are technology risks, they’re economy risks, they’re society risks, and even planet and climate risks are a really big issue. Shareholders are starting to think about this. And then I think shareholders are looking at growth. Who is in the best position based on this to outpace the market and actually take advantage of all the people who have not prepared for those risks? It’s sort of a three-pronged approach as a shareholder.

B.B.

Everyone’s nervous in a downturn and it might be an opportunity to shift people into different positions that could be stronger, to try and push that growth. How do you do that?

C.K.

You know, as somebody who has lived through two slowdowns—in 2000, it was my first job actually and I worked in a strategy consulting firm. The slowdowns were not managed very well. One day I walked into my office and 70% of the roles had been cut and I was one of the lucky few that hadn’t, but we were terrified and anxious and worried that we’d be cut the next day. I really understood then that the way in which you manage change really, really matters. Fast forward to 2008, I was in a leadership position running a corporate innovation and venture arm. Even though there were departmental changes, we were really, really focused on showing our company that we were being strategic. We were thinking about the long term. We were being agile and opportunistic as it relates to this time period. Because we had confidence in our agility and in our leadership position, our employees were really motivated and engaged to actually look for opportunities versus being fearful of being let go.

M.H.

To me, respect for your employees is the key to effective reorganization. As a restructuring professional, I’ve led many companies through reorganizations, many of which have resulted in a sale of the company’s assets or shares. The way you get employee buy-in through the process is to give them respect and dignity. It’s amazing how people will bring their entire self to the job regardless of the likely outcome on their own position if they're treated with respect. Communication is important. It has to happen early in the process, it has to be clear, there's anxiety in any reorganization and to the extent that this can be alleviated with communication, that's very important. Communication with other stakeholders is important too—customers and suppliers, regulatory authorities, the board, unions—but that's secondary to the employees. It's got to be clear and upfront to the employees.

B.B.

Join us for our next and final episode on how the companies who have followed our advice continue thriving after the slowdown ends. I'm Bryan Borzykowski and you're listening to Disrupting the bear.

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