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Disrupting the bear, a podcast by Deloitte

Episode 5 - transcript

Episode 5: What’s next?

Bryan Borzykowski

Welcome to Disrupting the bear, I’m Bryan Borzykowski. If you’ve been listening to our podcast, you know why the economy may be slowing down, why you need to continue pushing forward, how to expand during uncertain times, and how to run a more efficient business. Our last episode is about what’s come next. How could you continue expanding during the good times? What should you do to stay ahead of your competition as they ramp up their investment? Craig Alexander, Deloitte’s Chief Economist, and Elyse Allan, the retired President and CEO of GE Canada, are here to help us understand how companies can continue expanding when the global economy accelerates. Thank you both for being here.

Craig Alexander

Thanks, it's a pleasure.

Elyse Allan

Thank you.

B.B.

Craig, first question to you: What does the economic cycle look like after a slowdown ends?

C.A.

A lot depends on what the slowdown or recession looks like. A mild recession is typically something like two quarters. A moderate would be around four quarters, and a severe would be around six quarters. I think that's one of the key points to stress to businesses, that recessions pass. Over a period of two to six quarters, the weakness will abate and the economy will start to recover again. What the recovery or the acceleration looks like often is determined by what the duration of the recession looked like. When you have a very deep recession, when the economy comes back, it tends to come roaring back because you've built up so much economic slack and the unemployment rate is very, very high, whereas when you have a mild recession, when the economy comes back, it can come back relatively slowly. There's also a question about the imbalances that are out there in terms of determining the shape of the recession. In Canada, I'm worried about household debt. In the United States, I'm worried about sub-investments, great corporate debt. In Europe, I'm actually worried about both business and government debt. I think that ultimately, the economic cycle will be affected by what sort of unwinding of those imbalances that we see.

B.B.

Elyse, when you're coming out of a slowdown, what kind of growth do you see happening with business?

E.A.

I think certainly, those that really focused on managing their costs and really focusing on operating efficiency and driving a good, strong cost base for their product or service, are certainly in a much better position to weather the transition coming out of a recession. As Craig has spoken about, there are different types of recessions and some where you come roaring out and some are slower. If you have a good operating efficiency, that just gives you flexibility to then focus on growth. You're in a much stronger position. When you look at growth, there's a couple of ways to think about it. One, first of all, is how you are investing. How do you focus and prioritize where you want to make investments? We certainly know that technology, digitization, the industrial Internet, all these areas are key to having a competitive advantage, so you hope that you have kept some of that investment going during the recession so that you're able to accelerate and reap the benefits of that investment. The other area to expand growth would be on talent, looking at taking advantage of, perhaps, competitors that didn't manage their situation well and are slow to come out. You've got a stronger balance sheet, you've got a stronger income statement, so you're able to attract great leadership and terrific talent.

B.B.

I wonder, is it important to continue that investment, as competitors start investing post-slowdown?

E.A.

Absolutely. One of the things I learned in GE is that we always used to talk about is that whenever we stopped investing, perhaps in a product line or just slowed down, we always regretted it. It was always a lesson learned. We would miss in the consumer businesses; we would miss a design cycle, because all of a sudden, because you stopped in a certain period of time, for one reason or another, that caught up with you years ahead or months ahead when all of a sudden, your competitors who kept investing had that product line ready to go, had that new invention or innovation, and you weren’t ready. I think the challenge in a recession is, because you’re trying to manage your balance sheet, so coming out of it to pick the right spots. And I think that’s the real combination of art and science: making sure you understand your market well enough and what’s going to be moving, where you will get the most advantage in terms of keeping investment. Is it on the technology side? Is it on plant and equipment to keep managing your operating costs and your operating efficiency? Is it on the people side? Is it on new product development? Because typically you can’t do it all, so you have to be fairly strategic about it, but then you should absolutely work it and work it well so you have that competitive advantage and you accelerate it coming out of the recession.

C.A.

I think there’s also the flipside which, the way you teed it up, is you’ve been investing through the recession and now you’re on the other side: can you slow down? The flipside is businesses that have been managing their balance sheet and have been delaying investment. If they adopt a position that says, “Well, the recession will end and then the risks will all disappear. I’ll just wait until all the risks are gone before I invest.” Over the last ten years, we’ve never not been in a risk-filled economic environment. If you think back, we went through a very painful recession in 08-09. The economy stopped contracting in mid-2009, but even when the economy started to grow again, it still felt like there was a lot of risks out there. By the end of 2010, statistically the economy had recovered the ground it had lost, but we were now seeing a fiscal crisis unfolding in Europe and people thought that there was a chance that as Greece defaulted on its debt and people worried about Portugal and Ireland and Spain and Italy, that ultimately the fiscal crisis in Europe could cause the global economy to stumble again. So we were perpetually in a risk-filled environment. I think one of the key recommendations that we had in the very first session that we talked about – what you should do in a recession – was to keep thinking about making strategic investments.

B.B.

We have talked a lot about finding opportunities during a slowdown. When growth is accelerating, are there more opportunities? Are those opportunities different than when there's a slowdown, or do people just think they're not there?

E.A.

I think there are always opportunities there, but I do think they change, and they change because the market is dynamic. But I think, coming out, one area to look at is strategic opportunities with partners. So for example, if you've managed the situation well in terms of your balance sheet and your cash flow and you're watching your competitors, there may be some competitors who haven't done well, and it's a great time to perhaps strike up new strategic partnerships, new alignments, or also to invest in adjacencies that you've been watching, that you've been assessing, and now you find that the opportunity is actually sitting there and you can invest into that adjacent market. It's always been there. But because of the nature of the market dynamics or how people weather through the recession, you might now have an opportunity to actually accelerate your investment and go into an area that you've watched but weren't able to before.

C.A.

It's also important to keep in mind that not all industries feel the economic cycle simultaneously. There are certain sectors that lead in the economic cycles: manufacturing, the commodity industries, they tend to go into downturns first. They also tend to turn fastest when the recovery starts. Services tend to be more insulated; they don't fall as far, but when the recovery comes, they don't grow as quickly. Then there's sectors that lag in the economic cycle. A good example of that might be for example the healthcare sector, where even in the recession, people are still going to be requiring healthcare, you're still going to have demand for your services. But when you get to the other side of the recession, governments that have now provided a lot of stimulus to help get the economy going often then need to deal with deficits, and all of a sudden you see a drop in funding in social areas like health or education. So in point of fact, when the recovery starts, it could be very good for, say, the manufacturing sector from a cyclical point of view, but it actually could be signaling more challenging times for, say, education and healthcare because of how they feel the economic cycle.

E.A.

To Craig's point, it becomes really important to actually understand your positioning and your markets and which customer markets you might want to be going after first or not, and your pricing strategy, because you might want to suddenly ramp up price because you feel like you're coming out of something but in fact, depending on your customer base, they may really not be in a position to afford a quick move on price yet. Understand which of the segments that you're serving and where they sit in the cycle. But it also means you can play into those that are going to move faster. You can be cautious and allocate accordingly in terms of your priorities and your investments.

B.B.

Any last piece of advice for businesses about how to maintain that growth as things turn for the better? Elyse?

E.A.

I would just stay the course and continue to accelerate and continue to focus on strong technology underpinning to whatever market you're serving and whatever business you're in, and making sure that your talent is always top talent. Take advantage of the cyclicality to upgrade your talent as the opportunities arise.

C.A.

I think my core message would be, just as you can't let the risks paralyze you when the economy weakens, you also can't lose sight and momentum when you get to the other side and the economy is doing better. Ultimately, businesses are going to always be facing a rapidly changing economic environment. They're going to have to stay nimble and they're going to have to make the core investments necessary for prosperity. If they lose sight of the prize, they will lose the race.

B.B.

Craig Alexander, Deloitte's Chief Economist, and Elyse Allan, the retired President and CEO of GE Canada, thank you both for being here.

C.A.

Thanks very much.

E.A.

Thank you, my pleasure.

B.B.

And that does it for our podcast. Remember: economies and markets rise and fall but what goes down usually comes back up. If you can stay focused and continue investing, your business will thrive no matter what uncertainties lies ahead. I'm Bryan Borzykowski. Thank you for listening and keep Disrupting the bear.

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