Coplex

Recession Proof Business Innovation.

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Recessions are inevitable, but they don't have to be a death sentence for your business. In fact, they can bring a sense of strength and innovation to the organizations strong enough to weather the storm.

Contents.

Introduction.

A recession is coming. It's no longer a matter of if; we're planning for when. Recessions can be scary, sure. But they also breed innovation, pushing businesses to build grit and rise from the ashes stronger than before. No matter what stage of business you're in, from startups to well-established Fortune 500 companies, this guide is your go-to resource for how to embrace the inevitable and use it to generate success. Now is the time to prepare, set goals, make a plan, and march forward while facing the unknown.

Our expert business leaders have compiled tips and insights to help businesses and founders of any caliber establish an innovation-powered safety net for their company and to protect the livelihood of their employees. Get ready to explore the importance of protecting your budget, focus on solving market needs, branching out into new industry verticals, and utilizing your data to avoid any negative surprises along the way. We believe in fostering and celebrating new ideas to create lasting success, and that new business creation is a crucial avenue for staying afloat during times of economic uncertainty.

To learn something new, it's important to drive innovation and experiment with the ideas your team has. It's the old "if you never try, you'll never know" lesson, but embracing change during times of uncertainty is the key to making your business stronger. We have some tips and tricks on what to avoid and how to learn from past mistakes. For some encouragement, we will be sharing some of the top success stories to prove that there really is a proven method to all the madness. Creating a better future during times of economic stress is possible—and we're going to do it together.

To survive a recession, don't go down with the ship; set a stronger sail. Ready?
Let's dive in.


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Why a Recession is the Best Time to Startup a Business.

The signs were pointing to an economic downturn as early as November 2019. In the tech world, those signals manifest in the form of low investor confidence and VCs tightening the purse strings. While economists say a recession is still at least a year away, there have been some big IPO flops this year. Lyft, Uber, and Slack valuations have all taken big dives since their offerings; and WeWork flamed out so hard that the CEO resigned, the IPO was retracted, and the company's seemingly unlimited cash flow is drying up.

What economists didn't know was that there would be a global health crisis to trigger the economic downturn and recession they weren't expecting until the end of 2020. In the wake of the COVID-19 pandemic, many would-be entrepreneurs put their dream on hold, while startups and established businesses alike scrambled to find ways to deal with the crisis.

This may look like a scary time to start a business, but crisis breeds innovation. Indeed, many businesses have been born in response to the disruption caused by the pandemic, and the resulting economic turmoil. With the kind of conditions they have to contend with, it's no wonder businesses started during a recession are some of the most resilient.

There's something about the challenge of a recession that forces founders to launch lean, cash-savvy, and innovative ventures. While a recession environment can be tough for business overall, for smart founders, it could make a great origin story for a business that's built to last.

So what is it that makes startups launched during a recession so resilient?

THEY'RE PROFIT-DRIVEN.

If there's one thing we can take from the dot-com crash of the late '90s — and the current encore — it's that overvalued, unicorn startups propped up by VC funding are not sustainable. This is where recession startups have the advantage. Without the luxury of being buoyed by unsubstantiated valuations, recession startups have to be profit-driven and financially prudent. In other words, businesses started in a downturn need to establish a business model based not just on generating revenue, but also generating profit.

THEY GROW-LEAN.

Recession startups may eventually experience accelerated growth, but recession often necessitates a more modest pace. Since investors are being more careful with where they put their money, recession-launched ventures must rely on smaller funding, smaller teams, and ultimately slower growth. In many cases, this means growth primarily driven and supported by customer acquisition and loyalty, rather than the pressure to generate shareholder value.

THEY ARE COMPETITIVE DISRUPTERS.

Netflix launched during the dot-com bust in the late '90s as a disruptor of the video rental industry. In 2009 it made a pivot to focus on video streaming, and became one of the biggest disruptors of the TV and cable industries. Today Netflix is a household name, and while the networks have tried to take it down, Netflix is a cheaper, commercial-free alternative for the cord-cutting generation.

The competitive advantage for Netflix has always been its ability to exploit the weaknesses of older, more established cable companies that resisted the digital revolution. Now the biggest competition for Netflix is Disney, another recession-started business that has found ways to reinvent itself over and over.

Statistically, most businesses started during a recession won't become as successful as Apple or Disney. In fact, many will probably fail, and most will have to be agile if they hope to survive in a recession economy. However, the conditions that make a successful business are the same during the boom and the bust.

No matter how slow the flow of investment capital seems, an economic downturn is the perfect opportunity for smart entrepreneurs to attract investors by starting slow, growing steadily, and establishing sustainable, revenue-generating business models.

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Will You Be Ready When Recession Hits?

There was already concern about a global slowdown before the coronavirus hit—by Februrary numerous companies issued warnings over the Q1 2020 revenue expectations, and the downturn seemed imminent. Later that same month, Goldman Sachs analyst Peter Oppenheimer noted a high risk that investors are underestimating the impact of Covid-19 on earnings, "suggesting that the risks of a correction are high."

This is no surprise to chief financial officers, who have been concerned for some time. According to a December Deloitte survey, 97% of CFOs believe the United States will see an economic downturn before the end of this year. While fewer believed the slowdown would be a full-blown recession—and Oppenheimer stopped short of that as well—it is clear the economic future is uncertain, which makes one thing very clear: Now is the time to prepare.

Company leaders should actively envision the makeup of their companies both during and after a recession — and then implement changes today in order to make that vision a reality. They need to be proactive and safeguard innovation. Here are three ways to do precisely that:

1. DON'T CUT INNOVATION BUDGETS.

Innovation is the lifeblood of an organization. Even during a recession, the output of innovation still directly impacts the financial health and growth of your business for years to come. If you cut your innovation budget during tough times for short-term gains, you'll set yourself up for exponentially bigger problems down the road.

2. INVEST IN SKUNKWORKS PROJECTS.

The best returns can come during economic slowdowns. They force you to get lean and mean, homing in on the things that make you stand out the most. There's a reason so many resilient companies are born during recessions.

A larger organization with a more traditional focus on operational excellence can struggle to shift to a lean, mean mindset, especially if it hasn't prepared beforehand. Long-standing policy, process, procedure and structure can all get in the way. That's where a skunkworks team comes in: experimenting, innovating and getting things done.

Whether you're talking about Bell Labs or Google X, these teams not only future-proof the companies they work for — they often shape the narrative of the future itself. Not even a recession can stop that.

3. STAY CONNECTED TO WHAT THE MARKET WANTS.

Executives and engineers have invaluable knowledge and experience, but that knowledge can also be a curse. Don't get stuck in the illusion that you know everything; your customers and the marketplace potential should dictate your innovation and product direction. Get outside of your office and talk to customers. Most importantly, listen and use those insights. Build, test, learn. Then, rinse and repeat.

Keep in mind that there's a difference between experimentation and strategic innovation, especially in the context of private enterprise. Let your skunkworks teams play, but make sure they always have their sights set on actual product delivery. For instance, Amazon Web Services, which began as a side project, is now one of Amazon's biggest sources of revenue.

Innovation could be the difference between success and bankruptcy during an economic slowdown. It comes from smart, scrappy people who work to start something new and strategic. Show that you have a plan for the future and that innovation is part of it. Even if a recession doesn't happen this year, it's likely on the horizon. Don't wait until it's too late to innovate.

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How to Find Your Grit and Stay Scrappy During a Recession.

There's no denying the COVID-19 pandemic has left an indelible dark mark on the global economy. In the U.S. alone, the economy shrank by nearly 5% in the first quarter of 2020. GDP was 1.2% lower than it was in the fourth quarter of 2019, and more than 30 million Americans have filed for unemployment insurance since the pandemic began.

It's looking like we'll experience a sharp contraction of the market in the second quarter of 2020, with GDP projected to decline another 12%, the unemployment rate to average about 14%, and interest rates on three-month Treasury bills and 10-year Treasury notes expected to average 0.1% and 0.6%, respectively.

This might seem like a gloomy outlook, but there is still room for optimism in the startup scene. I've long believed there's something about the challenge of a recession that forces startup founders to launch lean, cash-savvy, and innovative ventures. Now, it's time to put that belief to work.

A SHOT IN THE ARM FOR INNOVATION?

What is it about recessions that encourages some startup founders to thrive? When startups are forced to make cuts, they rely on their scrappy and creative roots to stay afloat, finding ways to run on less funding while adapting to a rocky supply chain. Without these adjustments, they could become part of the two-thirds of startups are likely to run out of money within six months.

Car rental startup Zoomcar, for example, is using this time to get creative with its service model. The company has shifted from its standard B2C model to one that is B2B, and it's collaborating with essential emergency providers like food technology, logistics, and healthcare companies — as well as government services.

Companies born during recessions tend to end up being the most resilient. These businesses are infused with a spirit of grit, which enables them to expand and thrive long after recessions have passed. When companies find ways to become more cash-efficient during tough times, those lessons keep them going as they build momentum and find success. It says something that more than half of Fortune 500 companies were created during a recession or a bear market.

How can your company fortify its innovation efforts during economic downturns? Here are three steps to help you draw on your startup's scrappiness and grit to make it to the other side of these challenging times:

1. PROTECT YOUR INNOVATION BUDGET AT ALL COSTS.

Innovation is the lifeblood of your organization. It might seem tempting to cut your innovation budget now, but you're going to pay the price tenfold down the road if you do. It's vital for the health of your business that you keep a clear vision of the future and let that vision drive you — not just the current state of your finances.

Instead, perhaps you can boost business by finding ways to digitize your physical product or to mediate your service with technology. The answers are right in front of you, but you have to look for them.

2. PUT RESOURCES BEHIND SKUNKWORKS PROJECTS.

If you feel like your back is against a wall, let those feelings motivate you to get lean and scrappy. Before, you may have relied on policies, procedures, and structure. Now, it's a great time to take a skunkworks approach like the Google X lab, which Google (NASDAQ: GOOGL) used to come up with ideas like its self-driving car and space elevators.

Picture a large operation where workers do most things by the book, but there's a group of people in the corner of the lab going rogue and cobbling things together to provide something new. That should be you.

3. DON'T LOSE SIGHT OF WHAT THE MARKET WANTS.

Too often, innovation labs become innovation theaters. They recruit engineers rather than product developers, pour money in, and see little output. Prototypes are great, but then they're isolated from the market.

No product can be valuable if it's not developed in conjunction with the market and customers. Even Amazon Web Services (NASDAQ: AMZN) struggles with this, which has caused it to miss analysts' revenue expectations. By keeping a finger on the pulse of the market and your customers, you'll find creative ways to shift your business to keep customers happy and your business afloat.

This economic downturn will undoubtedly make or break startups. Companies that use these trying times as an opportunity to innovate, run on lower cash flow, and pivot their operations to meet changing market needs are the ones that will survive. With grit, resilience, and a scrappy attitude, you can keep your business steady and strengthen it for the future — as long as you view this "new normal" as an opportunity rather than a setback.

Hard-Won Lessons About The Need For Corporate Innovation.

The economy is moving in unprecedented and unpredictable ways. U.S. GDP was down 4.8% in Q2 2020 compared the year before, its first drop since 2014. At the same time, April was the S&P 500's best month since 1987.

When the landscape of commerce shifts daily, innovation is no longer just a handy skill for getting ahead — it's a way to survive. Yet, the response is almost always the opposite. During a crisis, the natural inclination for most leaders is to tighten their belts and dismiss innovation as a distraction.

We already see this in scientific fields, where, despite remarkable cooperation and innovation regarding the virus, efforts to fight Covid-19 are overtaking all other work. The same is true in the automotive industry, where budgets for advanced research are expected to drop by 17% this year.

In reality, a crisis merely reveals the barriers that already exist in an organization. When things are going well, inertia keeps businesses from prioritizing innovation. Consequently, organizational structures aren't set up for the rapid changes that come during a time of upheaval — and that's a missed opportunity.

CRISIS INNOVATION 101.

A crisis is an ideal time for businesses to reinvent themselves. The coronavirus is likely to create significant long-range challenges, and companies that can defy and redefine the status quo are most likely to survive.

Here are four ways to prioritize innovation during a time of crisis:

1. ASSESS IMMEDIATE AND LONG-TERM IMPACT.

As you plan a response to a major event such as Covid-19, it's important to balance your evaluation of its short- and long-term effects.

How will sharp drops in consumer spending and supply chain upheavals affect your business? What will the long-range psychological effects on consumer behavior mean for your business in the years ahead? Think about your customers, your sales and marketing capabilities, and even your core value proposition.

2. ACCELERATE INNOVATION WITH AUTONOMOUS UNITS.

When business survival hinges on your ability to innovate, it has to be a central priority. Merely including innovation projects within existing business units is not sufficient.

Rather than trying to work from all parts of your organization, consider ways to centralize your efforts to innovate faster. Consider your resources and evaluate the mindset, skill set and tool set of the leadership to determine how to best support the team to drive innovation. Ensure your organization can measure the results quickly.

3. USE YOUR DATA.

During a crisis of this scale, we barely know what's coming tomorrow, much less next month. That said, use everything at your disposal to see clearly and navigate the storm.

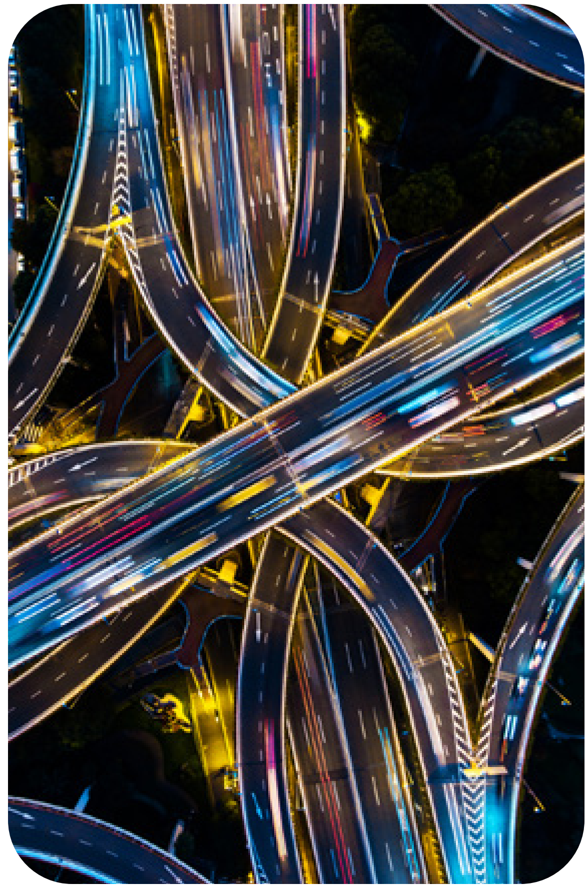
Your teams should always be evaluating data — both external market data and internal KPIs. Harness the insights from this data to plan how your business will adjust. If you're not using data, you're flying blind.

4. THINK DIGITALLY.

With so many limits on in-person commerce, digital adaptation is more important than ever. This can't be done ad hoc by reacting to changes and patching together digital capabilities in response. Companies must create digital transformation proactively and from within.

Start with creating a more seamless internal digital experience. As you adapt, your team will learn to think digitally all the time. This will open the door to new ideas for digital business models that you can use to expand into adjacent markets or launch new products and services.

In the face of a once-in-a-century crisis, it's tempting to try to duck and hide until the chaos ends. But the businesses that respond creatively will make it through to the other side — and shape the new economy ahead.



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A Crisis is a Terrible Thing to Waste.

In times of great crisis — like the one we're in now — it's easy for business leaders to fall into short-term thinking. But a crisis is a terrible thing to waste.

Economically speaking, what's happening now is likely going to match or exceed the repercussions of the global financial crisis a decade ago, so it makes sense to think about what needs to be saved and conserved to get through the next year intact. However, a conservative approach isn't necessarily what enterprises need right now. Companies that retreat to the safe and predictable instead of pursuing the bold or unusual are trying to do the smart thing, but they could hurt themselves in the long run by holding off on innovation.

Organizations that maintain a steadfast and enthusiastic embrace of innovation will come out of this recession leaps and bounds ahead of those that don't. Innovation can be uncomfortable for enterprise organizations — especially in uncertain times — but now is the time to harness its power. Act now, when many others are paralyzed.

Even in good times, innovating is often easier said than done. Several factors work against it in large companies: The structure, sheer size, and the culture of hierarchy can make it difficult to encourage risk-taking and forward-thinking. At best, these factors can slow innovation; at worst, they can stop it altogether.

That said, how do you lead a major company through a crisis like this and still foster innovation when it feels like the ship could sink at any moment? The answer isn't necessarily to change the structure of your company. Instead, encourage the creation of spinouts and partnerships with startups.

HOW SPINOUTS BOOST INNOVATION.

The core concerns of most large enterprises are operational excellence and process optimization. As such, the majority of employees focus on running the day-to-day business. These people are, in many ways, the lifeblood of a company.

Unfortunately, this structure also means that new ideas attempting to rise to the surface often get caught in the gears of the well-oiled machine that is big business. Your employees likely have no shortage of great ideas, but those concepts have nowhere to go without the mechanisms to turn them into reality.

However, implementing a program for creating spinouts enables corporations to take ideas and give them the space and structure they need to grow. As corporate-sponsored startups, spinouts can focus on innovation and experimentation that will benefit the enterprise as a whole. Their smaller size also means this can happen on a significantly faster timeline.

HOW TO LEVERAGE TECH SPINOUTS AND SPUR INNOVATION.

The core concerns of most large enterprises are operational excellence and process optimization. As such, the majority of employees focus on running the day-to-day business. These people are, in many ways, the lifeblood of a company.

1. PROMOTE A CULTURE OF INNOVATION.

The well-defined policies that hold a large company together can create friction and hinder the ability for spinouts to flourish. Experimentation is often discouraged in corporations because of the high risk of failure. However, experimentation is precisely what a spinout needs to innovate.

Encouraging innovation doesn't require throwing away all of the rules, but it does require a shift in how you think about product development. Make sure there's a clear distinction between the metrics for spinouts versus those set for the company as a whole. More importantly, celebrate experimentation and innovation efforts to ensure your employees see that the company is doing more than just business as usual.

2. FUND AN INNOVATION PROGRAM.

During a recession, companies will not only need to find new avenues to secure revenue, but they also will need to find ways to operate efficiently on a smaller scale. A recession offers an opportunity for startups and lean businesses to shine, so it's important to create programs that will help you compete.

You might try funding a skunkworks team that is free to experiment and invent. Better yet, launch a new venture program for sourcing and turning the best ideas within your organization into a portfolio of corporate spinouts.

3. BE OPEN TO LEARNING SOMETHING NEW.

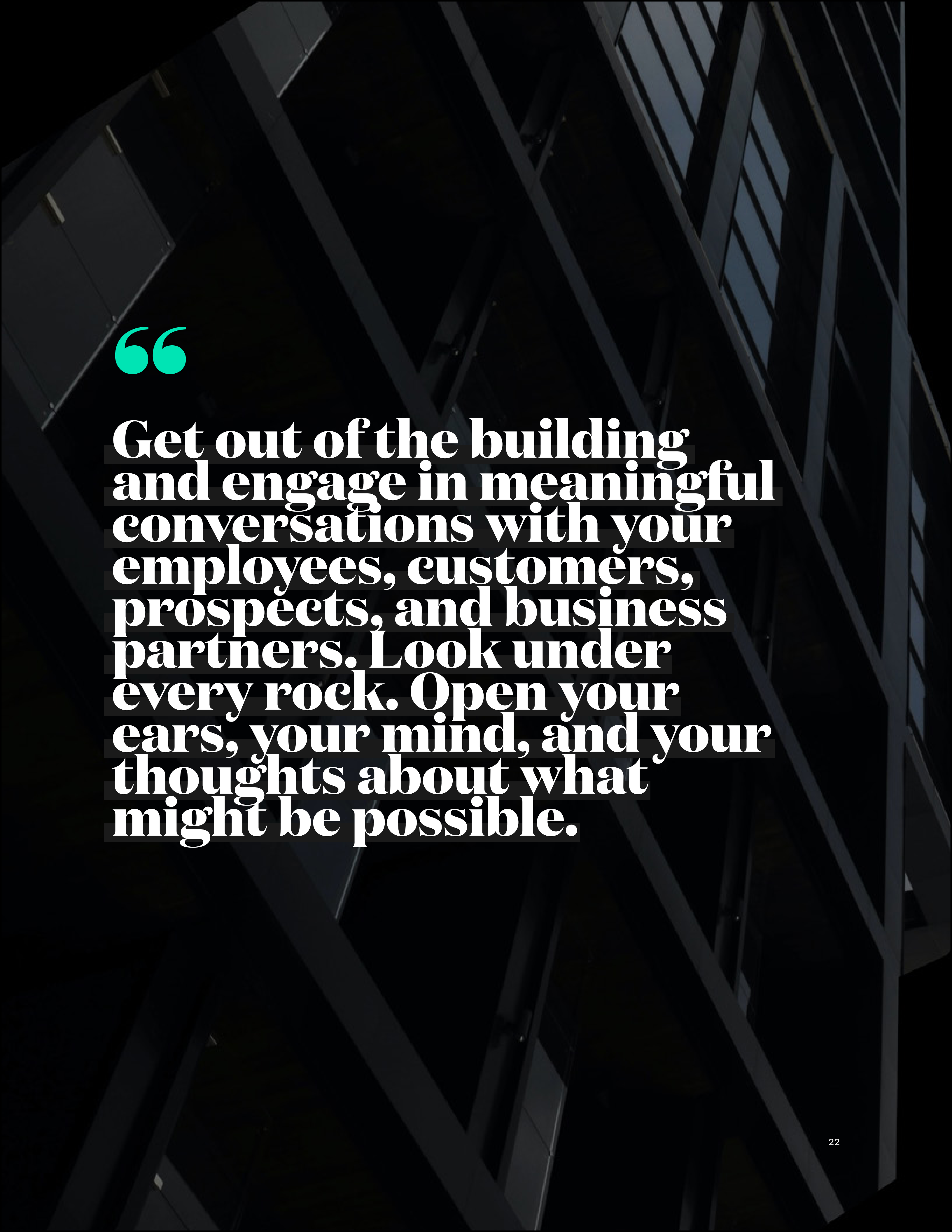
This might sound like obvious advice, but it's remarkably easy to become stuck in your ways — especially when you're running a successful corporation. Don't just listen to other executives; pay attention to what your employees and customers are trying to tell you.

Get out of the building and engage in meaningful conversations with your employees, customers, prospects, and business partners. Look under every rock. Open your ears, your mind, and your thoughts about what might be possible.

Make it clear that you want to hear from people in the skunkworks and in spinouts about the direction they see your company taking. This gives you valuable insight and proves that these innovative teams are more than just flights of fancy — they're crucial to the success of your core business.

Finding ways to innovate has always been crucial to lasting success in business. Now more than ever, however, it's necessary to find new ways to navigate this unprecedented situation.

By enabling tech spinouts to develop and thrive, you can follow in the footsteps of major businesses like General Motors Co. and increase the rate of innovation within your company. With the right approach, you won't just make it through to the other side — you'll be better equipped for whatever comes next.



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4 Success Stories That Prove Recession Can Make Your Business Stronger.

There's no good way to say it: Recessions can be hell on businesses. Economic growth takes a hit, and unemployment figures skyrocket.

The current economic downturn, specifically, could last a long time. This scenario is particularly likely if it takes a while to develop a vaccine and restore consumer confidence. Wall Street had originally hoped for a V-shaped economic recovery (i.e., a rapid rebound) from the COVID-19 pandemic, but central bankers have predicted a more rocky road that includes plenty of fits and starts. There's even concern about a potential W-shaped recovery — a quick rebound followed by a second, severe decline.

This might paint a dismal picture for the future of business, but there's hope for companies that can stay agile and creative. Some of the biggest success stories have emerged during previous recessionary cycles. When startups are backed into a corner, their scrappy roots and grit come out. It's not a coincidence that companies born during recessions tend to be the most resilient.

Here are a few of the most notable recession-born businesses and the lessons they can teach us:

MAILCHIMP.

The Story: Before the Great Recession, Mailchimp had focused on securing annual retainers from large corporate clients. It added a freemium business in 2008, when the recession forced it to pivot its business model. Mailchimp's user base more than quintupled that year, from 85,000 users to 450,000.

The Lesson: Don't be afraid to pivot. It could end up being the catalyst for your entire business.

WARBY PARKER.

The Story: The founders of Warby Parker saw a customer pain point (difficulty finding affordable, fashionable glasses online) and matched it with timing (customers being more frugal during the Great Recession). They went on to grow Warby Parker into a thriving direct-to-consumer retail and e-commerce leader.

The Lesson: They say "timing is everything" for a reason. Consider customer pain points, the economy, and market needs to find your angle.

MICROSOFT.

The Story: Microsoft also launched in tough economic times — it incubated during the recession and oil crisis of the mid-1970s. The company wisely provided services for a booming product: personal computers. By 1981, founder Bill Gates had already expanded the company and partnered with IBM to run his products on IBM personal computers.

The Lesson: If you can make your product essential to another trending product, you can ride the wave of success together.

SQUARE.

The Story: Jack Dorsey (who also co-founded Twitter) founded Square in 2009 with Jim McKelvey. At first, the company's only product was a plastic card reader that could be inserted into the port of a phone to enable merchants to accept credit cards. Now, the company has expanded into other ventures — including a cash app — and is valued at $26 billion.

The Lesson: It's OK to start small.

In tough economic times, innovation isn't just a way to get ahead — it's the only way to survive. Just as these companies were able to marshal their resources to overcome the challenges of an economic downturn, so can your startup. In some ways, it might end up being the best time to launch.

Let's Innovate Together.

Coplex is a Corporate Startup Studio that helps SMBs and corporate enterprises secure their future through innovation. We understand that innovation might be the last thing on your mind during these uncertain times. We want to help you make it a priority, so your business can survive and thrive no matter the economic conditions.

At Coplex, innovation and digital transformation are in our DNA. We've honed our methodology by helping more than 300 companies disrupt their industries, and turned the art of innovation into repeatable science. Are you ready to turn your best ideas into new business models that solve the problems of the future?

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GET STARTED TODAY

Sources.

Why a Recession is the Best Time to Startup a Business.

Will You Be Ready When Recession Hits?

How to Find Your Grit and Stay Scrappy During a Recession.

A Crisis is a Terrible Thing to Waste.

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