Changing the Game: Recession Survival Strategies

Report on research into the tactics and strategies used by firms to survive and prosper during recessionary periods

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Executive summary

This research project was designed to uncover the traits and characteristics of highly successful globally competitive companies during periods of extreme economic stress. Specifically, the analysis focused on the strategies used to survive and prosper. Thirteen companies,¹ who have been on the Global Fortune 500 list for at least the last three recessions in this study, were selected. The companies studied all increased growth and profitability during the recessions or the following recovery periods because of the choices they made when times were toughest.

The research, primarily consisting of a literature review, analysed and assessed the traits, characteristics, and strategies used by these companies. The results uncovered in the literature review were tested against company studies to determine key findings.

The literature review was supported by interviews with selected business leaders for their insights. The interviews also helped narrow down the list of companies that were included in the study.

Seven key factors seemed to have the greatest impact on firms’ ability to emerge strongly from recessionary periods.

- Focus on the core business - applying resources on the core business, where they are most needed. This creates opportunities to gain market share from competitors who diversify and split focus.

- Process and efficiency - speed and flexibility are very important in executing recession strategies, the faster the better.

- Strategic divestment - shedding non-core operations to improve liquidity and/or focus on the core strategy. Operating non-core business splits much needed focus and resources.

- Contingency planning - not easy to prepare for a downturn but it is never too late. Planning can be formal scenario planning or careful structuring of the business to maximise resiliency.

- Acquisitions and strategic alliances - to strengthen, re-focus, and position the company for increased growth and profitability. Acquisition ‘entry price’ is likely to be lower, and there may be less competition for acquisition targets. Companies also made acquisitions to access new markets, products, technologies, customers and talent at an accelerated pace.

- Increased advertising and marketing - to increase market share and take advantage of greater advertising reach, possibly at more competitive rates.

- Research and development - to create new value in core product/services that can sway recessionary consumers as trading is more competitive. New product

¹ Summary case studies on each company are included in annex one.
These factors underpinning success were common throughout the companies studied. Evidence from this study shows that focusing on these areas will better position businesses to ride out tough economic times.

**Methodology**

This research focused primarily on 13 companies that are established members of the Global Fortune 500 index. They are examples of organisations that have adapted, survived, and prospered during recessionary periods. All of the companies studied achieved dramatic increases in growth and profitability during the period of economic downturn or in the following recovery period. These companies were chosen because they exhibit characteristics and strategies that enabled them to achieve success from difficult economic periods.

Two methods were used to assemble data on these sample companies. A literature review provided historical data on the companies and enabled analysis of previous scholarly work on these companies. University databases as well as other secondary sources were used to compile a picture of the recessionary periods and the past performance of the sample companies.

Following the literature review, several business leaders were interviewed to gain their insights on the primary factors that allowed these companies to emerge successfully from times of economic stress.

In order to narrow the research scope, the following periods of economic stress were examined to determine their effects on the sample companies.

- **The Great Depression (1929-1939):** Stock markets crashed worldwide, and a banking collapse took place in the United States. The recession and following downturn lasted 10 years.

- **The Oil Crisis and resulting recession (1973-1975):** A quadrupling of oil prices by OPEC coupled with high government spending due to the Vietnam War led to stagflation in the United States. The downturn lasted two years.

- **Recession of the early 1980s (1980-1982):** The primary cause of the recession was a contraction in monetary policy by the Federal Reserve in the United States designed to control high inflation.

- **Stock Market Crash (1987) and the recession of the early 1990s:** Stock markets around the world crashed, shedding a huge value in a very short period.

- **Asian Financial Crisis (1997-1998):** Investors deserted emerging Asian share markets, including an overheated Hong Kong stock market. Asian economies began showing signs of recovery after two years.
• **Collapse of the dotcom bubble (2001-2003):** The collapse of the dot-com bubble, the September 11 attacks, and accounting scandals contributed to a contraction in many western economies.

### Seven critical success factors

#### Focus on core business

All companies in this study emphasised the importance of focusing on their core competencies during turbulent economic times. Companies who diversified and split focus away from their core competencies often struggled to manage their unrelated businesses whereas companies that remained focused, or re-focused on their core created opportunities to gain market share more easily from their competitors.

According to a study done by Bain and Co, many companies either ‘hunker down’ or stray outside their core business in a desperate bid for growth. Both of these approaches create openings for companies willing to pursue thoughtful and balanced recession strategies. This emphasises the importance of focus during periods of economic stress. An excellent example of one company that maintained a focus on their core business was Royal Dutch Shell during the Oil Crisis of the early 1970s. While the other oil companies diversified, Shell focused on its retail business investing in service stations with high sales value, and divesting from non performing stations. In this way it increased the reach and profitability of its retail operations and emerged from the crisis the industry leader.

In almost all cases the companies in this study made acquisitions that were closely related to their core business strategy. There was no evidence of acquisitions made to diversify companies into new business areas either to chase short term profits or to hedge risk. These companies made successful acquisitions because they did not overextend themselves into risky purchases and kept their attention on their core strategy and activities. Arrow is slightly different, as they carried more risk during their initial acquisitions due to their more urgent financial position.

In this way, they concentrated their economic resources rather than becoming distracted by demanding new business activity. In the recession of the late 1980s, Kmart acquired multiple unrelated retail businesses. This sapped much needed resources and attention from Kmart’s core competencies and ultimately undermined their business. Kmart lost customers to their competitor, Wal-Mart, who continued investment in their service infrastructure and gained an estimated 2 to 4 percent in comparable-store sales. Wal-Mart achieved this because it maintained focus on its core business.

Companies used different strategies to focus on their core business and in some cases multiple approaches were needed including:

- acquiring assets related to building the core competencies of the business
- strategic divestments of non-core divisions because managing diverse businesses split the attention and resources of the company
- investing in advertising of their core brands to build value from their primary operations. This helped most companies in the study gain market share during the downturn as their competitors were reducing advertising investments
• boosting research and development to support core products, as well as creating new products to support key business divisions. Successful, new product introductions during recessions were crucial to their recovery

• improving business processes to use resources best in the most value adding parts of the business.

Improved process and efficiency

A common theme among these companies was the process by which they implemented their strategy during recessions. It is logical that process efficiencies will be sought to trim costs from budgets during a recession. Nearly all the companies in this study show that flexibility and fast action were the key to surviving and prospering during recession. Flexibility allowed the business to implement their recession strategies quicker than competitors. In some cases horizontal management structures also directly attributed to the speed with which companies were able to integrate acquired businesses successfully.

Speed and flexibility also allowed businesses to correct wrong turns promptly by abandoning ideas that were not working and turbo charging those that were paying dividends. Right before the Asian financial crisis struck, Toyota was undertaking a series of internal reforms that enabled it to operate more efficiently. Their aim was to position themselves so that they could react quicker and at a much larger scale and they did this by becoming more flexible with their decision making processes. As a result of the crisis, Toyota was able to rapidly implement these changes and this helped to position them for a profitable recovery period. At IBM, then CEO Lou Gerstner believed it was their swift execution of strategies that was the key to their success. Many of the companies studied, improved the efficiency of operations and decision making by empowering lower tier managers throughout their businesses. For example, Coca-Cola gave local managers greater control of their divisions aiming to “think local, act local”. This ensured local relevance and maximised business performance because the decision making was in the hands of those closest to the market.

Rather than programmes that respond specifically to a crisis, some companies design their structures and processes to consistently ensure the maximum flexibility and efficiency. General Electric’s management systems create leaders at every level of the business and these leaders are empowered to respond to difficult environments and build a resilient portfolio of business ventures. This enabled them to ride out recessionary periods with relative ease by increasing attention to areas of their portfolio that were best able to create profitability and growth at any given time. By empowering managers they are able to respond to downturn and implement recession strategies quickly.

Successful businesses also targeted improved efficiency and removed operational slack during recessionary periods. At Cisco they redesigned roles and responsibilities to improve cooperation among functions and reduce duplication of effort. At 3M during the dot-com recession they introduced Six Sigma™ cost cutting techniques, which improved product development by reducing errors and defects. They streamlined the labour required to produce new products, improved value through engineering quality, and reducing manufacturing cycle time. Many experts consider the improved efficiency of 3M, through cost cutting techniques, to be the driving factor for their growth and profitability coming out of the 2001 recession.
Strategic divestment

Most companies in the study divested parts of their business during recessionary periods. At face value these divestments were part of a strategy of cutting costs and/or generating short term liquidity, particularly where less profitable divisions were divested. For the companies in this study, divestment was primarily used to raise cash to service debt and fund further investment. However it is important to note that most divestitures made were of divisions that were not in-line with the company’s long term strategic view, or differed from the company’s core-business. For example, IBM sold some non-strategic divisions despite these divisions being of high value, because they didn’t contribute to the long term vision of the company. Arrow Electronics also sold their side-line businesses in order to generate cash so that they could make new acquisitions which strengthened their core.

Companies also pruned areas of their business that were not so profitable to enable them to execute their strategy. Examples of this are Shell selling their less profitable stations throughout the United States and focusing more on the most profitable ones, and General Electric selling factories and other assets that were less productive but were previously difficult to shut down. Interestingly, most of the job losses attributed to downsizing during these periods occurred when companies were getting rid of long-standing activities that added little business value, divesting from non-strategic divisions and shedding less productive assets that were difficult to dispose of in good times. Managing unrelated businesses often splits much needed resources and focus. By shedding these non-core operations, many of these companies energised their core businesses and better positioned them to pursue growth and profitability.

Contingency planning

Only two of the companies studied actively planned alternative strategies for adverse times well in advance of them occurring. This is important as it demonstrates it is never too late to act, as these companies survived turbulent times despite having no specific plan for the recession. However, in all cases when the downturn hit, the companies quickly assembled a plan and put in place a strategy for dealing with adverse conditions.

While most companies did not plan in advance for crisis, for those that did it was helpful in securing their long run strategic position. The best example of advanced planning for downturn is Royal Dutch Shell, who, in the 1970s, implemented a scenario planning process. One of the first scenarios they planned for was in the event that petrol prices increased by 400 percent, which was exactly what happened a few years later during the Oil Crisis. Planning for such an event, gave Shell time to consider the best strategic approaches and this ultimately led to very astute moves they made that helped them emerge as market leaders. Emerson Electric also has strong planning processes to cope with adverse economic conditions. They develop three versions of their monthly budget forecasts. Plan A is for good economic times, Plan B for bad economic times and Plan C for disastrous economic times. Such planning helps the company correct faults that can be potentially deadly to the business before they come about.

Even where companies do not have specific recession planning, often they have succeeded because their regular business planning process is structured to maximise
their resilience and flexibility in tough times. For instance, IBM maintains tight financial discipline by controlling costs and managing cash effectively in order to maintain liquidity levels. Johnson and Johnson and Shell both hold significant cash reserves to insulate them from adverse times. Other companies conduct internal and external environment diagnostics so they are able to react quickly when economic turbulence occurs. Arrow Electronics is another excellent example. They frequently take stock of their financial and strategic position in order to better prepare themselves for turbulent times and enable them to react quickly when it happens.

**Acquisitions and strategic alliances**

Almost all of the companies studied made acquisitions in the periods of economic downturn studied. There are several reasons why acquisition of competing or allied businesses is seen as a good strategy by some companies in a period of economic downturn. The ‘entry price’ is likely to be lower than at other times as businesses are sold under stress or to liquidate assets. This means that companies can purchase targets that may otherwise have been out of their reach. There may also be less competition for acquisition targets because few companies make available the resources to make acquisitions during periods of economic stress. Sometimes businesses become available for acquisition, that have previously been unattainable, as they struggle to deal with a downturn.

The companies in this study made strategic acquisitions for different reasons. IBM acquired in order to quickly build their customer base and obtain new technology that would otherwise have taken significant research and development to create in-house. In contrast, Cisco made an acquisition specifically to bring new talent into their business in the hopes that this would increase innovation. Cisco Systems suggest that their acquisitions were successful primarily because they were so closely related to the company’s core business strategy.

In the case of Proctor and Gamble, they made acquisitions that gave them access to new products and new market segments. This allowed them to expand their reach much more quickly than would have been possible through organic growth. Coca-Cola, Johnson and Johnson and Wal-Mart also made strategic acquisitions during periods of economic downturn for similar reasons.

Arrow Electronics also provides an excellent example of strategic acquisitions as it made audacious but smart purchases during the late 1980s downturn. During this period, Arrow was in serious trouble, having lost between US$10 million and US$20 million each year for three years. It had no operating income and was carrying debt of US$150 million. By making strategic divestments of non-core businesses it created sufficient liquid assets to make further acquisitions. Steve Kaufman, then CEO of Arrow Electronics said “We made our greatest strategic moves during the period of our greatest financial weakness...We acquire in bad times”. In the first year after its 1987 acquisition of a rival company, it registered a modest profit of US$10 million. It was the acquisition in 1991 of the third largest company in the industry, coupled with some minor acquisitions in Europe that enabled it to grow and overtake then industry leaders Avnet Ltd, who were twice the size of Arrow. It was their use of risky but smart acquisitions that enabled Arrow Electronics to emerge from the recession as industry leaders in a strong financial position with sales soon reaching US$4.6 billion.
As well as outright purchase of other businesses or business assets, some companies used strategic alliances to execute their strategy during a recession. In this context a strategic alliance differs from an acquisition, in that it is a formal relationship between two or more parties that retain independent operations. Companies such as Coca-Cola, Toyota Motors and Procter and Gamble were able to use strategic alliances as a tool for increased growth and profitability during the recovery period. In the case of Coca-Cola, it created a strategic alliance with Walt Disney in order to create innovative new drinks for children during the 2001 downturn. These strategic alliances enabled the companies to enter into new markets, get access to new ideas, technology, products and customers much quicker than would have been possible organically.

Increased advertising and marketing

Nearly all the companies studied maintained or even increased advertising and promotion efforts during a downturn. This is an area where many companies seek to cut back on their costs during a downturn. Advertising was used effectively by these companies to help weather downturns and strengthen demand for their core products. Cutting costs is a reasonable reaction to times of economic stress and often advertising spend reduces as it may be viewed as a cost not an investment. However, examples in this research indicate that maintaining or increasing targeted advertising spend during a recessionary period is a good way for companies to gain market share in a highly competitive environment.

According to a study by Profit Impact of Marketing Strategy (PIMS) researchers, companies that increased marketing spending during a recession gained market share three times as fast during the recovery compared to companies who cut advertising spending. Recessionary consumers make careful choices but still need to make purchases to support their lifestyle. While spending may fall in aggregate, and consumers look hard for good deals, companies can use targeted advertising to increase demand for their products if they tap into the mindset of these consumers. Procter and Gamble provide an excellent example of effective marketing techniques during a downturn.

Proctor and Gamble has always increased advertising spending whenever the economy is turbulent. During the Great Depression, while competitors were cutting their advertising budgets, Procter and Gamble actually increased spending. They turned to the radio to advertise their products. In spite of the fact that shareholders were demanding they cut back on advertising, then CEO Deupree knew that people were still buying essential household products. They created innovative radio programming that did not focus specifically on their household cleaning products but instead gained the attention of their key purchasing demographic – housewives. They sponsored radio serials which were broadcast in weekday daytime slots when mostly housewives would be available to listen. The shows were aimed at and consumed by a predominantly female audience. As a result the daily “soap opera” was created and became known by this title because these dramatic shows were sponsored by Proctor and Gamble’s cleaning products including its key brand of Ivory™ soap. It used powerful marketing techniques of product placement and tailoring products specifically to a demographic. The campaign was so successful that Proctor and Gamble doubled its advertising budget every two years during the depression, and by 1939 were sponsoring 21 radio programmes. They continue to maintain their philosophy of advertising during difficult economic times. CEO A.G. Lafely once stated “When times are tough, we build share”. They seem to do this largely through vigorous promotion.
Coca-Cola also knew the importance of advertising during a downturn and especially the importance of the image associated with their products. During the severe stresses of the Great Depression, their advertisements depicted a pleasant and inexpensive escape from reality. They have since maintained an aggressive stance on advertising during a downturn and have released a number of successful campaigns right in the midst of economic crisis. Another good example is Coca-Cola’s “I’d like to buy the world a coke” campaign of the 1970s which gained iconic status.

Shell also used successful marketing strategies during the oil crisis in order to gain share from their competitors. They used smart manipulation of consumer concerns with taglines such as “keep your tyres pumped at the correct pressure and you could gain extra miles for the same tank of fuel”. The company was able to build brand loyalty by demonstrating that it understood the concerns of its cost-conscious consumers.

There are other reasons why these companies may have been particularly successful at using targeted advertising in a downturn. In the first instance, advertising agencies are highly motivated to secure accounts and may offer competitive pricing during these periods. Also, consumers that are reducing their discretionary spending may be more likely to stay at home and watch television (or in the case of the depression go to the movie serials or listen to the radio) rather than go out for entertainment. This makes advertising media more attractive as market size of different media can increase during the downturn. In this way companies that increased advertising spend such as Proctor and Gamble, Coca-Cola and Shell were able to increase market share by getting an increased “share of mind” of the consumer.

The importance of advertising spend is supported by evidence that companies who slash marketing spending by 50 percent take three to four years to return to their pre-recession sales levels. Research also indicates that these companies must spend far more than they saved in order to recover lost market share caused by their decreased presence during the downturn.

**Research and development**

Nearly all of the companies studied increased research and development (R&D) spending during recessionary periods. They used R&D to meet the increasingly diverse needs of their recessionary customers who seek greater value from their spending. Most companies also tried to increase their speed to market with new products to gain advantage over their competition. They did this by prioritising development of the most promising products that met the immediate needs of their customers.

3M was a particular stand out in terms of strategic R&D. In each of the last four recessions that occurred in the United States 3M focused its R&D efforts on increasing the speed at which products reach the market, prioritising R&D investment, and halting projects that were not proving viable sooner. During the 1980s recession they introduced the ‘Genesis programme’, focused on encouraging technological entrepreneurship and new product development. In the 1990s, 3M senior management found they were not producing products fast enough. They sent researchers to work more closely with their marketing teams to transfer technology into commercial products. They also introduced the ‘Pacing Plus programme’, which singled out the most promising new products in order to streamline development. During the dot-com bubble recession they introduced ‘3M Acceleration’, aimed at faster and more effective commercialisation by prioritising R&D investment and cutting not so promising projects earlier in the R&D process.
Studies have shown that when companies spend more on R&D during a recession they will see greater increase in terms of profitability and growth in the recovery. Businesses must be ready with the next wave of innovative technology before consumer demand picks up. Companies that reduce R&D spending may have the desirable effect of improving short-term cash flow, but they increase the likelihood of permanent damage to competitive advantage and market share. Increased R&D spending can also create products that meet the increasingly diverse needs of customers and help firms identify and focus on the innovative products that provide the most value. An example of this is Proctor and Gamble, who sent researchers 'into the field' to understand consumer needs.

Many of the companies studied also released new products during periods of turbulence, some of which are the most successful products offered by these companies. Both Procter and Gamble and 3M have released some of their most successful products during a recession. During the Great Depression, 3M launched their first Scotch Tape™ product, and during the early 1980s recession they released Post-it Notes™. Similarly, during the dot-com recession, Proctor and Gamble released their Swiffer™ and Crest™ products, each now earn over a billion dollars in annual revenue for the company.

A new product launch may actually have greater impact during a recession than at other times. A product that is unique or demonstrably better than others should be able to command a higher price, even among price conscious shoppers. Competitors who are running scared may be late in countering a new product with their 'me-too' offerings. As noted above, companies may also be able to use targeted advertising strategies to gain greater impact from a product launch during a downturn.

**Conclusion**

Recessions are notorious for breaking companies. But the companies in this study show that recessions also provide opportunities to reinvigorate a company. No one study can adequately determine all the factors of timing, history or circumstance that means that Company A succeeds and Company B fails. However, this study has uncovered several strategies that were used by the companies to position them for strong growth and profitability during the recession or the following recovery period.

Critical success factors for these successful companies include:

- Focus on core business, strengthening it where possible and re-focusing on core strategic goals where necessary to put resources where they are most needed. A recession can also provide an opportunity to shed non-core operations which split focus and resources.

- Companies should not be afraid to spend, but must do so wisely. During a recession may be the best time to acquire assets or other companies. This can strengthen and refocus the company to position for increased growth and profitability when the recovery period comes. The key is to acquire companies that strengthen the core competencies of the business and are aligned with the corporate strategy.

- Maintaining or increasing advertising has proven to have many advantages and will often lead to increased market share as competitors who cut back lose ‘share of
mind’. Cuts to advertising should only be made if it is absolutely necessary to the survival of the company.

- Maintaining or increasing spending on R&D has also proven to be advantageous as it can create new value in core products/services that can sway recessionary consumers as trading is more competitive. New products can have a greater impact when released during a downturn. Cutting costs in these areas may produce desirable short term results but may increase the likelihood of permanent damage to competitive advantage and market share growth in the long term.

- For companies that do not plan in advance for economic turmoil, it is never too late to start. Early analysis and the use of scenario planning can dramatically improve results and speed recovery.

- Improving the efficiency and process of operations will help execute the recession strategy and may also free up cash flow. Furthermore, if the strategy is not working, having speed and flexibility built into the management and operational structure allows for mistakes to be corrected quickly.

While a decline in the economy increases risks for companies, it can also provide opportunities to increase competitive advantage, profitability and growth. The strategies and approaches identified in this research are sound business practice for good times or bad. However, evidence from this study shows that focusing on these areas will better position businesses to ride out tough economic times. The strategies identified have been used by some of the largest and most profitable companies in the world and should be considered by companies when dealing with a recession.
3M Corporation was founded in 1902 and has evolved into a diversified global technology company with leading positions in a broad range of product markets. They have subsidiaries and divisions in over 60 countries and are headquartered in St. Paul, Minnesota in the United States.

The main factors critical to 3M’s continued success during economic downturns have been their commitment to research and development, and their ability to improve operational efficiency. They also exhibited a strong commitment to retaining talent in their business even when layoffs were required.

In the last three major recessions in the United States (1981, 1991, and 2001) 3M Corporation created initiatives that drastically improved their operational efficiency. In 1981 they introduced the ‘Genesis programme’ which encouraged technological entrepreneurship and new product development. At the beginning of the 1990s, 3M concluded that their struggling growth and profitability was because they were not producing new products fast enough. In response they introduced the 'Pacing Plus' initiative which singled out the most promising new products and made sure they were receiving full funding. During the last recession 3M introduced the ‘3M Acceleration’ initiative which involved expending more product development funds on the most promising ideas, dropping weaker ideas earlier in the process, and in this way getting the best products to market much faster. They also implemented a cost cutting strategy that reduced the amount of labour involved in production, reduced manufacturing cycle time and improved engineering quality.

3M have also released some of their most successful products during economic downturn, and were able to do so because of their efficient operations and their strong research and development capability. Examples of this are Scotch Tape™ during the Great Depression and Post-It Notes™ during the early 1980s recession.

The company has also used acquisitions as a successful strategic tool during downturns to enter into new markets and gain new customers quicker than they would have organically. 3M's most expensive acquisition, of Corning Precision Lens Ltd for US$850 million, was made near the end of the dot-com recession and helped produce promising financial results as soon as 2002.

3M’s acquisitions helped strengthen their core activities at the same time that they divested their non-core business activities. Throughout their company life, 3M Corporation has maintained a long-term strategy and foregone short-term results for continued growth and profitability over the long term. This focus on the core strategy was evident in their decision to stay in China during the Asian financial crisis, despite pressure from Wall Street to abandon the market. They decided to weather the storm in Asia and stick to their strategy of expansion in the region to secure a strong position for the recovery.
The company also has strong ties to employees and tries to avoid layoffs during a downturn. In this way they retain key talent to support their recovery. Where some divisions or businesses may be shut down they make every effort to relocate employees to other divisions to retain their skills.
Arrow Electronics, founded in 1935, is the leading manufacturer and distributor of products and services to the global electronics industry. Arrow has 202 sales locations and 23 distribution centres in 40 countries and territories. The company also derives core revenue from supporting other original equipment manufacturers (OEM) with design services, materials planning, inventory management, programming and assembly services, and a comprehensive suite of online supply chain tools. This helps their OEM partners to create the most competitive products on the market.

Arrow Electronics provides an exceptional example of how strategic acquisitions can be successful during turbulent times. During the late 1980s downturn, Arrow was in serious trouble, having lost between US$10 million and US$20 million each year for three years. They had no operating income and were carrying debt of up to US$150 million. By making strategic divestments of non-core businesses they created sufficient liquid assets to make further acquisitions. In the first year after its 1987 acquisition of a rival company, they registered a modest profit of US$10 million. It was the acquisition in 1991 of the third largest company in the industry, coupled with a number of minor acquisitions in Europe that enabled them to grow and overtake then industry leaders Avnet Ltd, who were twice the size of Arrow.

The CEO at the time, Steve Kaufman, stated “we made our greatest strategic moves during the period of greatest financial weakness”. It was their use of strategic acquisitions that enabled them to emerge from the recession as industry leaders with sales soon reaching US$4.6 billion.

Arrow has used strategic acquisitions to access new markets, customers and technology. The company considers acquisitions to be critical to their strong global position and is part of their recession proofing strategy. Arrow has also focused on improved efficiency during downturns. This has enabled them to react quickly to the changing difficult environments and correct wrong turns promptly.
Cisco Systems Inc, founded in 1984, is the world's leading supplier of computer networking products, systems and services. The company's product line includes routers, switches, remote access devices, protocol translators, internet services devices, and networking and network management software, all of which link together geographically dispersed local area networks (LANs), wide area networks (WANs), and the internet itself.

Strategic acquisitions are Cisco's main recessionary strategy. They have used these acquisitions to bring in talent and innovation, and to access new markets and technologies. They acquire new businesses faster than any of their rivals and believe they are successful in incorporating these new businesses within the company because the acquired assets contribute to execution of their core business strategy. Cisco has also used strategic alliances to achieve similar results, such as their distribution agreement with Microsoft Corporation.

Cisco also attributes their success during downturns to an efficient management structure. They empower employees at all levels with the authority to make strategic decisions. They have frequently redesigned roles and responsibilities to improve cooperation among functions and reduce duplication of effort. This has enabled them to react quickly to the economic environment and implement effective recession strategies.

Cisco also uses diagnostic tools to prepare them for inevitable downturn. Information on all systems is provided on a daily basis. This provides real time information on the companies' strategic and financial health and helps with quick, effective decision making.

Preserving employee loyalty is another important factor for Cisco during recessions. Where layoffs occur due to restructuring, Cisco has attempted to find alternative positions for their employees, sent employees on educational sabbaticals or provided jobs at non-profit organisations for a lower salary.

Cisco have used increased R&D and marketing efforts during downturns to secure long-term strategic growth and profitability.
The Coca-Cola Company, founded in 1886, is one of the most successful consumer products companies in history. They understand well their corporate value proposition and have a simple, focused and effective strategy. They have been able to maintain returns to shareholders during some of the most recessionary periods in the United States.

Coca-Cola is an excellent example of how strategic investment in advertising and promotion during a recession can maintain and even build market share. Their commitment to retaining their place in the customers mind has been reinforced through their successful product marketing during every recession since the Great Depression. The “cola wars” with Pepsi in the midst of the 1980s recession is another excellent example of this.

During the Great Depression their advertisements depicted a pleasant and inexpensive escape from reality. If you were to look at a Coca-Cola advertisement from the time, you would find no evidence that there were troubling economic times. The “I'd like to buy the world a coke” campaign during the recession of the 1970s is another iconic example that remains in the memories of anyone growing up during that period.

The success of their advertising strategy was in part due to their focus on their flagship product Coca-Cola. Although the Coca-Cola company has long held a suite of other brands, they have invested heavily to maintain their core product’s market share despite turbulent economic times. Coca-Cola has also successfully used acquisitions and strategic alliances to speed access to new brands and new markets. During the dot-com recession they partnered with Walt Disney Corporation to create new products in particular a range of innovative drinks for children.

The company has also improved efficiency and productivity during downturn periods. Their ‘think local, act local’ management style has been credited with keeping them flexible and responsive during recent downturns, and this led to their successful market position during recovery periods. Putting local leaders in charge of decision making for their local businesses they ensured relevance and maximised business performance because the decision making was in the hands of those closest to the market.
Emerson Electric Co, founded in 1890, is a diversified global manufacturing and technology company. They offer a wide range of products and services in the areas of process management, climate technology, network power and storage solutions, professional tools, motor technologies, and industrial automation. Recognised widely for their engineering capabilities and management excellence, Emerson has more than 140,000 employees and approximately 265 manufacturing locations worldwide.

Emerson has a wide range of strategic tools they use to survive and prosper during recession and recovery. They have used selective acquisitions during downturns to strengthen their core business. They maintain a focus on their strengths, and have invested aggressively in their core areas during recessions. They create a culture that is quick to react, flexible, and easy to change when responding to difficult economic environments.

Emerson is one of the companies studied that produced evidence of strategic recession planning prior to downturn. Each month they develop worst case scenarios of what can go wrong. They produce three alternative budgets each month, Plan A for good economic conditions, Plan B for bad economic conditions and Plan C for disastrous economic conditions. Such planning helps the company identify and correct faults that can be potentially deadly to the business before they come about. It also enables them to react quickly to protect sales and profits when conditions begin deteriorating.

Emerson have also shown long-term strategic planning has helped ensure dominance in different markets. During the Asian financial crisis they increased investment in a major air-conditioning plant in Thailand despite it struggling. To keep the plant open they ramped up production and began shipping parts to Europe and the United States despite short-term losses. But by staying in the region they were able to position their division for a strong recovery and increased market share in the region.
General Electric (GE), founded in 1878, is, and has always been, a multi-faceted company. Over the past 125 years, GE has evolved to seize new opportunities created by changes in technology and the economy. Today, GE is building new platforms in industries and markets with above-GDP growth that provide opportunities to apply GE technology and management expertise to accelerate that growth.

GE sees their management processes and techniques as a key factor in their continued success during economic downturns. They create leaders at every level of the business and this helps them remain flexible and react quickly to turbulence and implement their strategies.

During the Great Depression, GE set up GE Credit Corporation so families could continue to purchase GE’s appliances on credit. This was the basis for GE Money, now one of GE’s largest businesses. This was the first venture of its kind, and is a model that is used throughout the world by many corporations. During other the downturns, GE also acquired companies to strengthen their core businesses.
IBM, founded in 1889, lead in the creation, development and manufacture of the information technology industry's most advanced computer systems, software, networking systems, storage devices and microelectronics. They translate these advanced technologies into value for their customers through their professional solutions and services businesses worldwide.

IBM largely attributes their success during turbulent economic times to their process, in particular their quick and flexible execution of their strategy. They understand well and maintain a focus on their core competencies and long term strategy throughout downturn periods.

They have divested highly valuable divisions because they were not in-line with the core focus and long term strategy of the company. They have used acquisitions successfully, mainly to acquire new customers, enter into new markets and gain new technology which they would have otherwise had to develop organically, at a much slower rate.

IBM has consistently managed costs well, ensuring they have enough reserves to maintain flexibility during downturns. They also know the importance of using pricing as a strategic competitive weapon during recessions. In particular, during the dot-com recession they began under-cutting competitors who held outrageous price umbrellas over their products and in doing so gained a large market share.

IBM also markets their products and services heavily during recessions, and has increased advertising budgets during downturns ever since the Great Depression, when they hired large numbers of salesmen to push their new products. This strategy continues to pay off in growth and profitability during recovery.
Johnson and Johnson, founded in 1886, has more than 250 subsidiaries and divisions located in 57 countries. Their family of companies is organised into several business segments including: Consumer Health Care, Medical Devices and Diagnostics, and Pharmaceuticals.

Johnson and Johnson have benefited from increased advertising and R&D spending during recession periods, with the main focus being on their core, most profitable products. An example was during the recession of the early 1990s, when they introduced their ‘Signature of Quality’ program focussing on customer satisfaction, cost efficiency and the speed at which new products are brought to the market. The most notable increase in growth attributed to advertising was during the 1970s recession. They increased advertising while their competitors were cutting back and gained market share as a result.

Johnson and Johnson have also successfully used strategic acquisition during recessionary periods. Their main driver was to enter into new markets faster than through organic growth. For instance, they acquired contact lens company Frontier during the recession of the early 1980s. These acquired companies have further strengthened their core business and have been done in the service of their long term strategy.

Johnson and Johnson have also maximised their resiliency to turbulent economic periods through their cash flow management policy. They keep significant cash reserves to insulate them from adverse times and this has helped them ride out several recessionary periods.
Procter and Gamble, founded in 1837, produce and distribute a wide range of products and services around the world. Since the 1882 launch of Ivory™ soap (their first mass marketed product), Procter and Gamble have produced some of the best known household product brands such as Tide™, Pampers™ and Bounty™ products. The company also has strong business to business divisions producing chemicals, food ingredients and pharmaceuticals.

Procter and Gamble are a very focused company. Each division has a clear strategy and well articulated core business. They have maintained this focus during tough economic times and have managed to strengthen their core business through a variety of strategies. They have acquired new divisions and businesses to build technology, talent and market share for their core brands and have divested from non-strategic divisions that did not align with the company’s long term strategy.

They have also used strategic alliances effectively to extend into new markets and product segments during economic crises. As a technology led company, Procter and Gamble have recognised the need to increase spending on research and development during recessionary periods. During each of the last four recessions studied, the company doubled its research and development spending.

Procter and Gamble are also famous for their commitment to advertising during recessionary periods. The best example of this comes from their sponsorship of radio serials or “soap operas” during the Great Depression. They created innovative radio programming that did not focus specifically on their household cleaning products but instead gained the attention of their key purchasing demographic – housewives. They sponsored radio serials which were broadcast in weekday daytime slots when mostly housewives would be available to listen. The shows were aimed at and consumed by a predominantly female audience. As a result the daily “soap opera” was created and became known by this title because these dramatic shows were sponsored by Proctor and Gamble’s cleaning products including their key brand of Ivory™ soap.

They also effectively used product placement and tailored their products specifically to their key market segment. The campaign was so successful that Proctor and Gamble doubled their advertising budget every two years during the depression, and by 1939 were sponsoring 21 radio programmes. They continue to maintain their philosophy of advertising during difficult economic times. CEO A.G. Lafely once stated “When times are tough, we build share.”

The company has a strong commitment to fostering strategic leadership at all levels of their business and in 2008 was recognised by Chief Executive Magazine as the “2nd Best Company for Leaders” in the United States. They are able to maintain financial discipline, control costs and manage cash flow efficiently during good economic periods making them particularly resilient when turbulent economic periods occur.

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2 #3399517 ‘Marketing During a Recession: To Spend or Not to Spend’
Royal Dutch Shell, founded in 1907, is a global group of energy and petrochemicals companies, with 104,000 employees in more than 110 countries.

Shell has most noticeably achieved success during recessionary periods through use of scenario planning. In the 1970s this strategy helped them to consolidate and ride out the Oil Crisis. One of the first scenarios they planned for was in the event that petrol prices increased by 400 percent, which was exactly what happened during the Oil Crisis of 1974. Planning for such an event gave Shell time to consider the strategic approaches that helped them emerge as market leaders.

Shell has also used advertising as an effective tool to help succeed during recessions. They had a marketing strategy for the oil crisis that helped them gain market share from their competitors. They used smart manipulation of consumer concerns with taglines such as “keep your tyres pumped at the correct pressure and you could gain extra miles for the same tank of fuel”. The company was able to build brand loyalty by demonstrating that it understood the concerns of its cost-conscious consumers. Their advertising budgets have consistently seen increases during downturns.

Shell is another company that benefits from holding cash reserves for adverse times. They have also improved process and efficiency of operations to remain flexible and be able to react quickly when implementing strategies.
Hinode Motors produced their first “A1” prototype car in 1935 and this led to the founding of the Toyota Motor Corporation 1937. Today they are one of the world leading automobile manufacturers. The company has multiple divisions and allied businesses around the world and has been critical in establishing one of the most prosperous “keiretsu” in Japan. Keiretsu emerged after World War II and are a uniquely Japanese form of companies with interlocking business relationships and shareholdings. They act more like a family of businesses that all work towards the success of the group. These allied businesses and divisions supply parts and equipment and extend Toyota’s market reach. They have survived and prospered through numerous recessions.

During the Asian financial crisis Toyota accelerated a series of internal reforms that were underway before the markets came under pressure. In this way they improved efficiency, become more flexible and were able to implement strategies quicker and on a larger scale than their competitors.

Toyota maintains resiliency in tough times by maintaining a crisis mentality even through the good times. In this way their production processes and business management is always optimised and is able to respond to external pressures when economic environments shift. Toyota was a key proponent of the “kaizen” philosophy of continuous improvement (also known as lean manufacturing). These strategies of maintaining a crisis mentality and running a lean business position them strongly to weather downturns and have enabled increased growth and profitability during recovery periods.

Toyota have also increased R&D spending during recession periods, aiming to meet the diverse needs of their customers and add value to their core products.

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3 Keiretsu replaced the pre-War vertical monopolies of family owned zaibatsu.
Wal-Mart Stores, Inc. (1962) is the largest retailer in the world, and the largest corporation in the world. The retail giant dwarfs its nearest competition, generating three times the revenues of the industry's number second largest.

In the United States alone, Wal-Mart has more than 1.2 million employees, making it the nation's largest non-governmental employer. United States operations include 1,478 Wal-Mart discount stores; 1,471 Wal-Mart Super Centres (combined discount outlets and grocery stores); 538 Sam's Clubs (the number two United States warehouse membership club chain); and 64 Wal-Mart Neighbourhood Markets (smaller food and drug outlets also offering a selection of general merchandise).

Wal-Mart calls recessions “Wal-Mart Time” because they see it as an opportunity to gain market share over competitors who because of their smaller scale or poorer management strategies may not be able to sustain their markets.

They increase advertising spend and heavily promote their discounts and low prices to cash conscious consumers with taglines such as “Save Money, Live Better”. Their scale, ownership of key parts of their value chain, and tight management of suppliers, mean that they can outspend their competitors while maintaining the lowest prices.

Wal-Mart has made acquisitions a useful recession strategy as it enables them to speed up their entry in new markets and access new customers. They charge in to markets vacated by high-end discount chains to rapidly establish a foothold. This was evident during the recession of the 1990s. This positioned them for their highest recorded period of growth ever.
Xerox Corporation, founded 1906, built their reputation on their production of high-end business machines, particularly photocopiers. Xerox markets itself as The Document Company, and in addition to its flagship copiers Xerox also makes production publishers, electronic printers, fax machines, scanners, networks, software, and supplies. The company is also a market leader in the area of document outsourcing services. Xerox markets its products in more than 130 countries.

Xerox has had periods of severe crisis in the past but they have also used recessionary periods to reposition the company and refocus their core business. They have been able to achieve strong growth and profitability during recovery periods. During the last two recessions the company divested from non-core operations which had split their resources and focus. This also enabled them to improve their liquidity and retire some of their debt burden.

During the dot-com recession they deployed Six Sigma™ management which helped improve operational efficiency. They increased their speed of execution and decisiveness which helped them weather the recession and better positioned them for a strong recovery. Xerox has also invested carefully in research and development during recessions. One of their mottos is “innovate or die” and this helps to drive product development and position their core brands for strong growth.
ANNEX TWO: Research participants

John A. Fletcher
John Fletcher has extensive experience in the energy industry and has held senior positions in Royal Dutch Shell in New Zealand and overseas. He is a former Managing Director of Shell New Zealand Ltd and was previously a director of the New Zealand Refining Company and Fulton Hogan. He is currently a director of Solid Energy New Zealand Limited and TechTonics Group Limited. John has a B.Sc and DBA from Canterbury University, and a PMD from the Harvard Business School.

John Clarke
John Clarke has been President of Consumer Healthcare for GlaxoSmithKline since January 2006. He is a member of the Corporate Executive Team. John was previously the President of the GSK Consumer Healthcare Futures Group. John joined Beecham in 1976 and progressed through a number of marketing and General Manager roles. John received a triple-major Bachelor of Commerce degree from Otago University, New Zealand.

Nick Watkins
Nick Watkins is currently a director of White Cloud Capital. He has previously worked as Managing Director of Lehman Brothers in the United Kingdom.

Rob Cameron
Rob Cameron is a partner of Cameron Partners, an investment banking firm. With more than 20 years experience, he is recognised as one of New Zealand's most experienced and skilled investment bankers. He has a BCA in Economics with First Class Honours from Victoria University and an MPA (Finance and Economics) from Harvard University.

Frank Olsson
Frank has held senior corporate banking roles in New Zealand, Australia, England, Singapore, and Tokyo. He has also served as Treasurer of the city of Stockholm, Sweden. He is a law and business graduate from the University of Stockholm.