Fearless Thinkers, Episode 8

"Leading in a downturn: the recession playbook"

with Dan Parisi and Darsh Shrestha

Masami Cookson:	Welcome to Fearless Thinkers, the BTS podcast. My name is Masami Cookson and our host is Rick Cheatham, head of marketing at BTS. Hey Rick, how are you doing today?
Rick Cheatham:	I'm great. Thanks. What have you been up to?
Masami Cookson:	Now is one of those times where I've really dialed down my consumption of news and media. Sometimes there's just a little bit too much bad news out there, and I need to insulate myself a little bit to stay productive in life and work.
Rick Cheatham:	Yeah, I think that's brilliant. I, for a while now, have enjoyed doing a time-to-time media fast myself, and actually that's pretty timely for what our show's about today. We have Dan Parisi and Darshan Shrestha from our Center of Excellence in Strategy Alignment and Business Acumen. And they're talking about the research they've done and the experience they have with clients as they prepare for a downturn.
Masami Cookson:	That's curious. Let's get into it.
Rick Cheatham:	Hi everyone. Thanks for joining us today on today's show, we have Darsh Shrestha. Darsh, what's going on in your world?
Darshan Shrestha:	It's summer. I'm grateful for air conditioning, but then also a time to get out with family.
Rick Cheatham:	Very nice. Yeah, we've been having crazy heat in Texas and on top of that now, we somehow have dust storms coming in from Africa, which is impossible to believe, but making the air quality in Austin crazy. But we also have Dan Parisi. Dan, how's the world of cycling going for you?
Dan Parisi:	Well, you mentioned Austin, Austin and air quality, and the home of Lance Armstrong. I hope he's able to get his cycling in, but no, I've been riding a lot

	and working on cycling fitness is what I'm doing like five or six days a week when I'm not working.
Rick Cheatham:	Very, very cool. And we have you both here today to join us to talk about some of the work you've done, some of the research you've done, and how leading in a downturn or a recession can be different, something that's sure on the top of mind for many as the uncertainty in both the economy and the political landscape continues to shift. I would be just really curious if you could give us kind of the high-level summary of the work you've done.
Darshan Shrestha:	Right now, if we look at the mind of the CEO, we just started some research and looking at this, recession is one of the top things on their minds, but it's the idea that it's potentially a recession, there's not enough confirmation. We were looking at data: 70% of economists believe a recession's likely in 2023, and pretty much 0% agree on what the criteria is to decide on whether that recession has hit and when. By the time recessions are declared, usually it's too late. And so this is really around leading in a crisis, that ambiguity, that volatility, the uncertainty, the whole VUCA idea is at a peak right now.
Dan Parisi:	On the VUCA front, just to call out the acronym — VUCA stands for volatility, uncertainty, complexity, and ambiguity — and boy, if that doesn't explain the current environment. Here we are, staring down inflation that we haven't seen in maybe two generations. We have to go back to the late seventies, early eighties to see this kind of inflation. And now on top of that, we're talking about a stagnation in the economy. So, whether we're in a recession now or it's coming soon, the combination of inflation and stagnation conjures that scary term we heard about an economics class, “stagflation,” and that meets the criteria of VUCA. I guess the work that we're talking about here is how do you navigate, not only navigate a VUCA environment, but try to be as successful as possible in it?
Rick Cheatham:	Great. So, I'm officially on the edge of my seat, because it is so incredibly difficult to see so many good things, so many busy, busy people, new jobs being created, but at the same time, this swell of

	uncertainty. So in the work that you've done, what you see great organizations or great leaders doing?
Dan Parisi:	Yeah, Rick, there, there's been some really interesting research. This comes from Bloomberg on winners and losers when navigating a recession and coming out of a recession, I'll give you some highlights. So in an economic downturn, it brings risks of making mistakes and unique opportunities to take advantage, creating winners and losers. So, companies usually make more dramatic gains and more dramatic losses than during boom times, depending on the type of recession. And downturns of all types are a great time for strategic repositioning if approached right. So if you think about a recession in three acts, there's the pre-recession, during recession, post-recession. So, in the pre-recession, the winning companies anticipate the downturn, they build resilience, they prepare an action plan or a playbook. That happens in the pre-stage. The losers during the pre-stage are complacent. They are complacent about their growth, and they don't have a contingency planning, and they haven't done full situation assessment. During the recession, the winners take opportunities, and during a recession, the losers acknowledge the recession too late, and they end up cutting too deep to survive, which I'll talk a little bit about later. It's a very normal reaction to start cutting. That also has big risks. In post-recession, the winners, because of the prior planning and the readiness, the winners accelerate growth coming out of a recession and the losers struggle to bounce out of it. They don't have any momentum coming out of the recession.
Darshan Shrestha:	And to Dan's point, leading in this volatility, leading through a downturn, leading in a recession, is a very different position to be in for a leader than leading in normal times. And it actually requires a couple of different ways of thinking and mindsets and alignment that's necessary. And so, if I had to boil all of this down, preparation is really important and alignment is key. And when it comes to preparation and alignment, the number one question that I would ask leaders to

say, because if you start an exercise and you say, oh, looks like there's a downturn coming, what should we do? Everyone's going to come up with great ideas. However, if you ask them, when should we make the play? When should we do the act of whether it's on talent, whether it's on supply chain, whether it's on anything, then suddenly there's silence, because nobody can actually determine when to actually make the move.

And the tricky part is if you do it too early, then you've just might have wasted some very important things. You might have cut people too fast. You might have started cutting costs and renegotiating contracts. You might have gone out there and pulled back on investments that you would've made otherwise. If you do it too late, then, well, it's too late. And so, really, the magical question is not what we do, but when should we do it, and that boils down to signals and place.

Rick Cheatham: Interesting. So if I'm really hearing you right, what your experience has shown is that leaders that take the time to not only plan contingency actions, but create signals that — "Hey, this is the best time. If the data is showing us X, it's time to move on contingency Y. But if the data's not showing us that yet, then we don't do it yet — is that, am I understanding you correctly? Or am I taking it further?

Darshan Shrestha: Absolutely. You're absolutely right, Rick. And in theory, it sounds so easy to do, but there are a couple of snags that leaders get aligned around. The fundamental fact is, most likely 100% of those goals that you had, planning for a steady state or business as normal, is not going to be achievable. So, what are the trade offs that we are willing to give up?

And the really good sort of commander's intents or those mandates that the leaders solicit ideas and input on, are things like, okay, we will protect our people and we're not going to lay anyone off, or, it might be something around we are going to protect our market share. We might take a hit on price. There might be a natural decline in volume, but our share in the market is going to remain constant.

So they'll give very specific guidance around what

	they want to be for. And then also what they're against. A lot of times the leaders are making mistakes of saying, we're looking at data that we have readily available today. And you're looking at traditional metrics, and this is the time to start looking at non-traditional signals. It's really doing the sort of "Five Whys" and going deep into saying, if, fewer RFPs for my products and what we're competing for — ss there something that I can go even deeper to find out even earlier before those potential RFPs are starting to decline?
Rick Cheatham:	Gosh, Darsh, that's really, really interesting to me because I think becoming clear on, as you put it, that commander's intent, so that everyone knows that these are the things that are the most important to us, automatically, I would assume, rallies people around those types of goals. But the more interesting thing to me, from the signal perspective, is I think so many organizations make the mistake of using data as a rearview mirror to tell them why things were the way that they are. And what I'm really hearing you talk about today is using data as our windshield to help us see forward, move faster, anticipate the next big turn. And I think that that's a mistake that most people make because they're kind of assuming today's circumstances are going to last throughout our current strategic plan, when in the world we live in today, nothing could be further from the truth.
Darshan Shrestha:	And the last piece, this is really around the plays. And we've even gone in with organizations where we build out a recession playbook. And the essence of the playbook is trying to capture what leaders have done successfully that have navigated previous recessions and capture them into one resource where it doesn't serve as sort of a guide that says, oh, these are the things we need to do, but really on the spirit of standing on the shoulders of giants. Like, what can we learn from the past that can help us and guide us towards new plays and new moves we can make? And what we've learned is that you don't do too many things. We advocate for about three to four key plays or key decisions, and fewer is better. And at that point, it's all about prioritizing and sequencing those plays, because you can't do everything at the same time.

Dan Parisi:	You know, Darsh talked about the playbook and making plays, and I'd like to give, once again, turning to some research, give you some advice here that might be helpful. In an HBR article called "Roaring out of Recession," they highlighted a couple of really key things. They looked at what they called prepared companies versus unprepared companies, and prepared companies came out of recession with a 17% average revenue CAGR, and unprepared companies came out with a 4% average revenue CAGR, CAGR being Compounded Annual Growth rate in Revenue. So that's a big difference. And the research showed that the companies that had the best outcomes were very thoughtful about mixing defensive moves with offensive moves. So, everyone understands intuitively "defensive," right? I mean, it's a stereotype that in a tough environment companies cut costs. Well, I had an executive once share a metaphor, a colorful metaphor, as Darsh mentioned, around the risk of being too "cut-oriented." So he said to me, he said, look, there's always fat to cut. You can cut through fat and that's good. But if you're not careful, you'll eventually cut through fat and cut into muscle. And if you keep cutting, you'll cut through muscle and cut into bone. Now that's grim, little macabre, but you've seen companies do this throughout history, paying attention to what companies do. Companies who cut too much to increase short term profitability will end up hamstringing their ability to grow when they come out of the recession. So, this great insight from the HBR article is you have to be thinking offensive. You have to be on the balls of your feet. And that means, couple of examples could be that in a real recessionary environment, market cap, the value of companies, drops. Well, can your company acquire interesting companies that they couldn't when there was boom times, because the prices have dropped? Or while your competition is cutting and cutting talent, could you pick up top talent in the marketplace while you get ready to come out of the recession? Just a couple of simple examples of offensive moves. So, I would just caution you: we know the reaction is to go defensive and cut, but force yourself, force your leadership team and managers to think offensive as well, because that will greatly benefit you coming out of the recession.
Rick Cheatham:	To me, it makes complete sense with what we were

	talking about earlier around making sure that going into this recession, we have very clear goals on what are our non-negotiables, what has to happen. If cutting into muscle prevents that thing from happening, we've got to make sure we don't. Well, gentlemen, I can't thank you enough for spending so much time with us today. I would like to ask you each to just give us a final reflection on these times that we're in and specifically these challenges that so many of us are facing right now.
Darshan Shrestha:	Yeah, for me, I think this is a really tough time and leaders are, there's a natural confusion that goes on. And as an inspiration or reminder, I love this quote from Winston Churchill, which is "Courage is what it takes to stand up and speak. Courage is also what it takes to sit down and listen." And in a downturn, when there's so much volatility and confusion, sometimes leaders just need to sit down and really listen to their customers, their employees, their suppliers, to market trends. And that's really the difference that getting that alignment and making the right plays and moves will — that's what it really boils down to.
Dan Parisi:	Yeah. Rick, on a final thought, I want to share something. Well, one of the fun things about being a consultant is you get to be a fly on the wall inside companies and watch really capable CEOs and senior leaders in action. And I think back to 2009, pretty grim, the Great Recession, we can learn from that experience. And I was in a room with the CEO of a transportation company, and I watched him rally his team to navigate the recession. And he said, We are not participating in this recession. He said, We can let our competitors participate in this recession, but we are not going to participate in this recession. And what he meant was, we were not going to participate in the gloom and doom, in the mental mindset that believes that everything's gone negative and it's time for pessimism. He was saying, we should do the opposite. So, we are not participating in this recession is something I remind myself as our business could be headed into a recession, that you always go, you put the extra effort. **If in doubt, spend the extra hour with the client. If in doubt, make the extra sales calls to grow revenue.** Think optimistically around

	acquisition of talent or acquisition of companies. Do not, my advice to you is when it happens, do not participate in it. Let your competition participate in the recession. You have better things to do.
Rick Cheatham:	Wow. That is, that's very thought-provoking. And I appreciate you both sharing such great insights with us today and cool things that we can actually start to begin to go do in our own organizations to make sure that we've got the right level of preparation to potentially not participate. So, fantastic time. Thanks again to you both.
Dan Parisi:	All right. Thanks Rick. Thanks for having us.
Darshan Shrestha:	Thank you, Rick.
Masami Cookson:	If you'd like to stay up to date on the latest from the Fearless Thinkers podcast, please subscribe, or you can always reach us at BTS.com. Thanks again.