

Thinking of starting a business during a recession?



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LAUNCHING A BUSINESS DURING A RECESSION

Recession, downturn, economic hardship. All words that presumably no business owner or entrepreneur wants to hear as they launch and grow their business. But as history has borne out, it's true to say that recessions can actually yield opportunity.

Opportunity to solve the problems created by hardship, opportunity to grow in markets where competitors have exited, and opportunity to diversify and communicate your business into a place of steady growth and prosperity.

Why and how?

The reality of a recession can impact in a variety of ways. From rising unemployment to sluggish industry growth, a reduction in working hours, lower personal income and a rise in poverty.

This perfect storm is certainly not what you'd normally consider encouraging when it comes to starting a business but it's widely acknowledged that a recession truly can offer the ideal market space to launch a business.

I think frugality drives innovation, just like other constraints do. One of the only ways to get out of a tight box is to invent your way out.

Jeff Bezos, founder of Amazon

Taking stock of the negative impacts of recession is important, but what's also key is to look at a period of economic downturn as a time of great opportunity. When things look bleak, it's true that opportunity exists to improve life in a myriad of ways that true entrepreneurs will be looking for.

If you're unconvinced, take a look back through the business successes of recent periods of downturn - from General Electric and General Motors to Netflix and Airbnb, the boom of businesses created during periods of hardship is notable.

So why is it that recession really can present opportunity when it comes to launching and growing a business?

Find solutions, not problems

As consumers and businesses panic in response to economic challenge, gaps in the market open up. Society always has problems to fix, an issue never more true than in times of downturn. Simply start by drawing on personal experiences in education, work or life and you'll find problems waiting to be solved.

Get to work on who your potential customers might be and what they need to improve and you're on the right track. Perhaps it's finding a way to provide a product or a service cheaper or faster? Or is it inventing something totally new that streamlines life and saves time or money in unprecedented ways? Once you've found the solve, build your business plan around that.

Stay lean and flexible

By nature start ups are small and have lower overheads. Stay in that space if you can. Start with the smallest minimum investment possible and set up your business with a tight team, low overheads and low expenditure so that you can be as flexible as possible.

Staying lean organisationally and financially means you'll be more resistant to changes in the market. It will allow you to flex around changes that take place and to pivot your offering more quickly than your larger competitors can.

SUCCESS STORY

During the last financial crisis in 2007-2008, Chicago based entrepreneurs launched Groupon, a website offering users discounts on local businesses.

Now with more than 6,000 employees, Groupon has been floated on the stock market with a reported value of around £2.5billion.

Less competitors

An economic downturn will result in natural attrition. Not every business will succeed and when you're looking to launch your business, be aware of your competition, direct and indirect. Businesses become hesitant to expand, some will close entirely and others will simply cut back on marketing output. Inevitably your competition will be notably decreased.

This gives you the perfect opportunity to engage with your prospective customers, start grabbing market share and grow gently and consistently until the downturn is over.

Establish standards and grow from there

Starting a business in a period of economic challenge offers an opportunity to set up the type of business that really speaks to your customers. Establish authentic and cost conscious standards that encourage communication with customers, market intelligence and the idea of developing long term relationships. Focus on relationship building, community work and grass roots first, as laying these foundations will allow you to start small, grow organically and conserve your budget while doing so.

Think relationships

Business is about innovation and that applies equally to relationships. If you're considering launching, or growing your business during a period of economic downturn, you'll need to stay creative and the relationships that you build will be vital to your success. Perhaps you will consider collaboration with another brand in order to share customer lists and brand reach?

Maybe linking up with another small business will allow you to seek efficiencies in office overheads or shipping savings? You could consider recruiting brand ambassadors from your customer base to spread the word organically in a way that your marketing budget could not? Whatever path you choose, each starts with building and investing in strong and honest relationships.

Bear in mind that it's not about starting *any* business during a recession, it's about starting *this* particular business that matters. Establish what you are planning to offer your customers that no one else does. Figure out how to do that on the smallest margins possible and build strong relationships around you to fuel and buoy you through your early years.

Many people assume that entrepreneurs are allergic to recessions. It turns out that downturns can be times of tremendous opportunity and, yes, profit for entrepreneurs but only if they play their cards right. What sets them apart is that they are willing to take big risks in pursuit of a promising idea or worthy cause and they're adept at managing risks even with dark clouds overhead.

Harvard Business Review

THE ESSENTIAL VALUE OF RECESSION MARKETING

What usually happens as soon as a recession is predicted is that consumers set themselves stricter priorities and reduce their spending in order to weather the financial storms. In response business sales drop and companies begin to cut their own costs and reduce the investments they would otherwise be making in running and growing their business.

Spending and saving during a recession

The real challenge for start ups and growth companies is to balance efforts to pare back costs while still investing enough in the business to allow for long term brand health and survival. Not an easy set of priorities to juggle. As cut backs happen and businesses tighten their own belts, it is often the marketing budget that gets slashed before anything else. But what are the long term effects of that marketing cut?

Stopping advertising to save money is like stopping your watch to save time

- Henry Ford

In a recession, customer numbers fall, disposable income drops and so really who would you be marketing to? It's true that spending decisions are often made more carefully but nothing changes the fact that the bedrock of any business revenue comes from loyal customers. Whether customers shop as frequently, they should continue to be treated as valued individuals in order to address not only current pressures but future brand protection.

Why you should market your way out of a recession

Visibility becomes more attainable

When all around you companies are pulling back on their marketing spend, the noise level of advertising decreases and whatever marketing you do invest in will have more resonance.

What do your customers see?

Making a strategy of marketing through difficult economic periods can project an image of a stable and confident company that consumers can trust in even during difficult times.

It's a buyer's market

The cost of advertising and marketing often reduces during a recession so it can be a buyers market. Taking time to rethink your marketing strategy can end up offering you more output than you might expect.

Long term priorities win out

Competitors who decide to cut marketing budget run the risk of losing their market share, while if you maintain or increase your marketing output, you can expect to pick up some of that market and hold onto it in the future. Being visible during this time also offers the benefit of grabbing more of consumers' 'share of mind' not just the share of market. When these customers do ultimately think about buying you would be the brand they come to first.

The numbers don't lie

Statistically speaking, companies who have spent on marketing during a recession are proven to do better in the medium and long term than those who cut back. While savings in the short term can be found, these come with inevitable damage to brand visibility and market share which is often irreparable.

We have more than 100 years of economic history to show that investing in marketing during a recession is the business-smart thing to do. Recessions present opportunities for companies who are willing to bet on themselves and consider the long term future of their brand. As the industry saying goes '*When times are good, you should advertise. When times are bad, you must advertise.*' While any economic downturn is a nerve wracking time for individuals and businesses, it's hard to argue with the evidence of historic recessions and the companies who have come through them in positions of economic health and prosperity.

When it comes to the months and years ahead, we'll see which companies follow their lead, investing in their marketing strategy which while difficult at the time, should offer the growth and security companies need to protect them for the years ahead.

PROTECTION THROUGH SUPPLY CHAIN INNOVATION

SUCCESS STORY

Before the Great Depression of the 1920s Post were the market leader of boxed cereals in the US, above Kellogg's.

When the recession hit, Post cut back marketing spend significantly and Kellogg's by contrast doubled theirs. Kellogg's ended up growing profits by 30% and became the market leader, a position they still hold 100 years on.

The last years have heralded huge disruption in global supply chains. From rises in shipping and oil costs, container shortages, lack of staffing during Covid, Brexit red tape and current supply shortages exacerbated by the war in Ukraine, the supply chain path has been rocky.

It's estimated that around 86% of small and medium sized businesses have, or will be, affected and with further economic challenges around the corner, what can businesses do to protect and future-proof supply chains?

Communication

Economies of scale mean that large companies are often seen to have an advantage when it comes to their ability to procure inventory, whereas small businesses can find themselves adversely affected due to their inability to meet order minimums. This doesn't always have to be the case. Talking to your suppliers openly and honestly about your position and what is reasonable for you can help.

Make use of your network

Try and tap into your local business network and see if there is an option to collaborate on procurement. It's possible to form a network of contacts and businesses who together can obtain better supply conditions and share the overheads while doing it. Splitting the minimums and burden can make immeasurable difference to a small business and setting up trading partnerships may yield further efficiencies in the end.

Oversight and visibility at every stage

The devil is always in the detail and none more so than in your supply chain. Having visibility over every aspect of your supply chain is vital. Drilling down into the spend at every stage and overseeing your budget in a very specific way will avoid waste, cut down inefficiencies and help you to spot opportunities when they present themselves.

Plan B your plan Bs

Putting all your eggs in one supply chain basket is setting yourself up for problems in a volatile market. Establish your preferred supply chain and then figure out some alternatives in case the market necessitates you to pivot at any point.

Being ahead of any problems, setting up relationships and understanding the financial repercussions of using other supply chains means you'll be one step ahead of any disruptions.

Return to local

Mitigate any potential risks using international supply chains by linking back into local networks where available. Finding a local solution to your supply needs may be the best way to protect your business. Establishing local relationships and feeding back into the local business market will also have a positive impact on your brand reputation locally.

Recession or not, supply chain continuity should always be a top priority of any business and as markets move through one of the most volatile periods, this continuity becomes even more critical.

CONSIDER CREATIVE COLLABORATION

SUCCESS STORY

Netflix have not always been the market leading giant they are now. Infact, founded before the dot com bubble burst in 2000, it grew slowly and in the recession of 2008, the company survived only through innovation and collaboration with organisations like Xbox so that users could stream through those devices before it could build independent subscriptions.

While instincts tell us to turn inwards during a difficult time, to think small and save, there's an argument to say that during a recession, the opposite response provides far more scope for survival. Rather than cutting down on marketing budget and limiting growth plans, experience suggests that external collaboration is the path for creative small business growth.

Most businesses operate using collaboration skills within their offices, from team meetings to joint projects, departmental overlap and streamlining resources. It's time to figure out how to use the same thinking but apply it externally.

Think local

Recognising the cost of overheads is fundamental to any bottom line so if you have space to spare, why not offer it to a like-minded business? Consider sharing costs, establishing a space to share ideas and motivate growth, and create the kind of business environment you may not be able to make alone.

Pop up all over

Banding together with other businesses to offer customers a wealth of choice is the perfect way to benefit from a wider customer base, to offer your product or service alongside complimentary offerings, and to create a network of business colleagues who can support you along the way.

Incubate

Setting up a space for other business owners to meet and share ideas is a simple way to initiate collaboration and innovation. Establishing shared incubation space is a beautiful way of creating the business environment you need no matter what economic challenges your businesses are enduring.

Marketing small to big

Consider how to launch joint marketing initiatives. This might be setting up a shared directory to help local customers find the businesses they need or issuing a local newsletter that features updates from businesses and brings customers added value that will in turn encourage loyalty.

Customer knowledge

It's always helpful to get to know your customers as much as possible. Find out what else they shop for, what disposable income they have access to and what problems you could solve for them. Team up with your partner businesses to offer your customers even more.

Think global

Finding peer businesses online with whom you can share a marketing campaign is a simple and quick way to expand your social media visibility and reach. Encouraging a 'Like, Share, Win' competition generates social currency and bolsters your brand reputation.



Influence with influencers

Once you've established which influencers match your brand values and target customer base, approach them to establish how you could best work together. Influencer advertising can be cheaper than traditional advertising and it offers you access to a customer base who trust the influencer they're following.

Guest post

Mark out your own voice in online posts or publications. Carving out a blog specific to your business and then branching out in guest publications and editorials, is an organic way to spread your brand. Benefits are not only tied to bolstering brand visibility but encourage positive SEO and powerful back links to your website.

So I think the winners in recession are the people who produce new technology that does things better, which people really want.

- James Dyson

Ripple effect

Stop seeing the competition and instead get together to figure out what you can bring to each other's businesses. Taking the opportunity to pool resources and expertise can offer customers far more together than individual businesses operating in isolation and in competition.

Above all, periods of economic downturn present a necessity to change. Whether those changes are to slim down budgets and overheads and hold firm until the danger passes, or whether those changes involve reaching out in collaboration and innovation.

DIVERSIFYING REVENUE STREAMS

You have established your core business offering. It's the product or service that makes the best business sense and that your experience and research wins out on. This will be the revenue stream that floats your business through each part of launch, growth and scaling.

But what happens when economic problems impact your business and the business health of every other organisation around you?

When a recession is looming, taking an 'out-of-the box' attitude towards your business offering and how that might evolve could be the smartest thing you do. Adding a new revenue stream can help to alleviate cost pressures, broaden your customer base, grow your brand and protect from the inevitable supply chain issues that go hand in hand with times of downturn.

Here are a few ways to consider how you might broaden your revenue streams and protect your business in the coming months:

Consider your online offering

Perhaps you sell your products directly to customers from a showroom or store? If so, an opportunity exists to duplicate your offering online and to broaden your geographic customer reach. Not only will setting up an online store give the opportunity to sell more products, it will also lead to organic brand growth and a heightened visibility of your range and services that will continue to benefit your company long after a recession.

If you already sell online, consider opening more doors to your product offering. You could look into joining one or more online market places in order to reach a far broader customer base. You could engage in social selling where you leverage your social media profile to sell directly to your customers. You could also consider establishing collaborative relationships with other online retailers to offer drop shipping through their sites. Online selling is a fast evolving area so no matter what your current revenue stream is, there are always new and innovative ways to extend your reach without over-stretching your investment.

Think tiers

Your core service may be that of consultation where you meet directly with clients to offer your expertise and advice on a fixed, in-person basis. Keep this as your central product and consider building in different product tiers around it.

You could consider offering short online consultations at a lower price to broaden your customer base or building a more exclusive offering for your top tier clients. Work with your clients, listen to their feedback and put together the products that combine their needs with your scope in order to broaden your offering.

Listen and learn

Spend time with your customers, or clients, listening to what they need and can afford. In times of economic challenge, new problems come to the fore and businesses will be looking to identify these problems and solve them, bringing to the market something innovative and valuable. The most successful businesses in a recession are those who have taken the impetus of recession, learned from their customers and come forward in response with new products that speak to customer needs and market demands. Whatever that new idea is, develop it, test it, listen to your customers and then take any failure as a learning experience.

Encourage passive revenue

Take stock of your brand presence online and where your brand ethos overlaps when it comes to influencers, other brands, and loyal customers. You may have had time to establish a strong social media following, or to have amassed some fans who talk about your products or services positively online. Use these moments and leverage them in the best way you can. Consider setting up collaborative products with peer companies or influencers, setting up brand ambassadors to build up brand following and buying power, or tune into your followers to find out what they'd like to see from you next. You may have more potential revenue streams than you realise just waiting to be tapped into.

Focusing on your core competencies and current customers is a good place to start when it comes to evaluating your revenue streams. You know what you do best. Your customers know what you do best. Now it's time to evolve that to bring something different to the market.

CONSISTENT COMMUNICATIONS

When it comes to times of hardship, instinct can tell us to hunker down and deny what's really going on. When it comes to business, this just won't work. Keeping links of consistent communication open during a recession is fundamental to survival and success.

The rules apply to both team communications and customer communications. Whoever your relationships are with, don't go dark in a downturn. Instead put together a strategy to enable more open and frequent communications instead.



Talk to your team

Employees are going to start feeling anxious with news of recession and cut backs so shutting down comms is not the answer. Everyone works better with open and honest information so resist the temptation to stay tight lipped about the challenges you're facing.

Frequent and honest

Talk openly and often to your team. Acknowledge the difficulties the company is facing and allow space for discussion around how those look now and going forward.

Open door

Set in place an environment where your team are encouraged to come to you with concerns. People can feel insecure about the future and uncertain about where the company is going, so inviting them to talk through any concerns is a good place to start building trust and loyalty.

Share plans

You'll need a strategy to get through challenging economic times so when you've worked that out, share it with your team. Talk through your approach as a team. You'll find more support and a willingness to contribute if your employees know what your plans are.

Don't downplay

The urge to panic is real and any attempt to downplay what is happening in the world, in businesses and in homes will not help to calm anxieties. Be realistic, listen to your team with empathy and compassion and be open minded when it comes to how you can support them.



Talk to your customers

Even if you find your loyal customers are cutting back their spend, make it a priority to continue to communicate with them throughout the downturn and after. Taking the time to engage and respond to customers will act as buoyancy to your company now and in the future.

Often and honest

Be aware of all of your points of engagement with your customers from emails and mail shots, to social media and complaints. Small gestures like prompt answers, personal emails and non-automated responses can help customers feel valued.

Make things easy

Customers are more likely to be fickle during a recession and anything that might deter, or derail, their engagement with you should be identified and removed. Reduce any online friction in the customer journey, ensure you have personal and prompt customer care and troubleshoot anything that may come up as swiftly as possible. Every customer counts.

Give more

Approach your customer communications and relationships with the long term in mind. Perhaps there are ways you could offer something extra, or perhaps there are ways to keep them involved in your company until they are ready to buy? This could look like clever social content or thought leadership, early access to a new launch or a discount at certain times.

Listen up

Positive communications go both ways so when you hear from your customers, listen and take the feedback they are offering you on board. You may discover ways you could improve your process or learn about services that you could offer in the future.





RECESSION TRENDS AND SPENDS




Cost of living is reported to be at a 40 year high and consumer habits will undoubtedly be impacted. In times of economic hardship, it's common for spending to shift to self-preservation over shopping for pleasure. In many ways, tracking consumer behaviour tells the story of our economic environment.






What sells best during a recession?

For businesses setting up and operating through a recession, it's helpful to reflect on past experience to see what sells best throughout a downturn.

-  Consumer staples
-  Automotive parts
-  Coffee and tea
-  Snacks

-  Pet care products
-  Camping products
-  Essential hygiene products

-  Home maintenance items
-  Medicine
-  Alcohol

During a recession, consumers often become more pessimistic about their financial outlook and reflecting this may make changes to their general spending habits. There will inevitably be a cut back on non-essential purchases to allow consumers to continue to afford the increased cost of weekly groceries and utility bills. Areas most affected by this shift may include luxury goods, furniture, electrical and sporting goods.

Habits will of course depend on the groups of consumers in question. With many employees continuing to work from home following a change of habits in the pandemic, it's predicted that remote workers will have more discretionary spending compared to in-person workers who will be faced with increased costs of travel and commuting.

SUCCESS STORY

Founded in 1991, Pets at Home launched at a time when inflation rose to nearly 10%. Founder Anthony Preston opened his first pet supplies store in Chester in 1991, in 2013 was voted the Sunday Times Best Big Company to work for and now operates more than 450 stores.

How to survive a change in consumer spending?

Focus on e commerce

Over recent recessions of the 1990s and late 2000s, surviving and thriving companies have been those who operate online. When consumers pare back spending they inevitably spend more time at home and if your business is not accessible online, you've already taken yourself out of the running for any potential spend. Get to know your customers and where they engage online, make sure your offering is clear and accessible, optimise your site and market places as best you can and spend time focusing on your digital advertising to maximise your presence.

Pay attention to your value proposition

It's important to be clear on what your value proposition is. What is it that you are doing to set your business apart from your competitors? What problem are you solving for your customers and why should they choose to spend on your product or service? Clarify this and make sure you communicate it with your customers. Bring all of your communications into line and know that you're building reputation and loyalty for the long run in doing so.

Be customer centric

Every single customer counts whether during a recession or otherwise. Ensure your customer funnel is intuitive and friction free. Make sure your customer care is personal and prompt. Put yourself in your customers shoes and if you receive feedback, hear it and take it on board.

Winning new customers and retaining existing customers is just as important. Knowing that positive recommendations and word of mouth is invaluable during times of hardship and after.

Offer added value

It's not enough to simply sell your product or service, customers need you to offer more in order for them to spend their money and stay loyal to your brand. What value added can you give them? Perhaps it's social content, instructional videos or thought leadership via your blog? Maybe you team up with industry experts to give your customers exclusive insights? If you operate in e-commerce, make sure you prioritise your loyal customers with first access to sales, offers, or new collections.

Market, market, market

Staying relevant and visible to your customers is vital. Recession marketing is the key and finding a way to make your budget work smarter and more strategically, will be essential in maintaining market share and keeping your company healthy.

If your marketing budget is zero, be creative. Think of small, local, and low cost ways to market your brand. This could involve teaming up with a local business to get your product out, or volunteering for local organisations where your brand can be seen.

Don't let budget constraints limit your ability to leverage your brand where possible.

Whatever your business idea, whether it's just something you've been mulling over or whether you've taken some steps on the entrepreneurial path already, we'd love to help.

Read some of our Go For It Success Stories:
www.goforitni.com/success-stories/

Get in touch: www.goforitni.com/get-in-touch/

Our business experts will be delighted to hear from you and to talk you through everything you might need to know to move forward with your business concept.



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