

Five Ways to Leverage a Down Economy to Grow a Business

WHITE PAPER

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1 INTRODUCTION

As the American and global economies continue staggering through an increasingly lengthy period of financial, political, and military upheaval, businesses are wrestling with a variety of critical issues and decisions, many of which could very well determine the ultimate fate of their organizations.

The uncertainty of the current business climate has led executives, managers, and business owners to adopt a wide spectrum of strategies and tactics for navigating through the economic downturn. Some are maintaining the status quo, hoping they can eke out an existence through a sheer survival strategy. Others are refocusing on their core competencies, cutting back on expansion plans, and buckling down to ride out the storm.

However, there is another segment of the business world where companies are trying to leverage their relative strength to take advantage of the downturn as a means of greatly expanding their operations, market share, and competitive advantage. These organizations are betting that their carefully calculated gamble will pay off handsomely when the market eventually turns for the better.

Specifically, there are at least five key aspects of an economic downturn that hold the most promise for companies bold enough to implement strategic growth initiatives: (1) commercial office space; (2) talent pool; (3) marketing; (4) fundraising (equity); and (5) M&A, joint ventures, and strategic alliances. This White Paper examines how companies can leverage these factors to develop a strong growth strategy.

Perhaps ironically, a “down economy” can present a business with its greatest opportunity for achieving its growth objectives. Successfully executing a deeply calculated well-planned growth initiative can pay tremendous dividends against manageable risk. While implementing even a moderately aggressive growth strategy during an economic downturn may not be a suitable tactic for every business, the concept has sufficient potential to warrant at least careful consideration by owners, executives, and managers.



2 GENERAL GROWTH STRATEGIES

In order to fully appreciate the potential benefits of growing a business during an economic downturn, business owners or executives must first understand the many potential growth strategies at their disposal. Each of the organic (internal) and external strategies in the following chart (which is certainly not exhaustive) are affected in different ways by distinct factors in the economy.

ORGANIC	Headcount	<p>Add employees</p> <p>Execute on existing business strategy</p> <p>Examples:</p> <ul style="list-style-type: none"> ▪ More senior management ▪ Increase engineering or sales ▪ Fortify deficiencies
	Lines of Business	<p>Extend beyond core competencies</p> <p>Add completely different business model</p> <p>Examples:</p> <ul style="list-style-type: none"> ▪ Services firm adding product line ▪ Infrastructure company offering services
	Product Lines	<p>Extend within core competencies</p> <p>Add complementary products or services</p> <p>Examples:</p> <ul style="list-style-type: none"> ▪ IT services firm offering IT consulting services ▪ Accounting software company adding CRM
	Client Markets	<p>Expand target market segment</p> <p>Attack new vertical industries or client size</p> <p>Examples:</p> <ul style="list-style-type: none"> ▪ Leverage financial services clients into retail ▪ Leverage small business clients into mid-market
	Geographic Markets	<p>Expand geographic reach</p> <p>Open regional or satellite offices</p>
EXTERNAL	M&A	<p>Leverage outside core competencies to extend market position</p> <p>Two companies combine to create a new company (merger)</p> <p>One company combines another into itself (acquisition)</p>
	Joint Ventures	<p>Leverage outside core competencies to extend market position</p> <p>At least two companies co-invest in a new venture</p>
	Strategic Alliances	<p>Leverage outside core competencies to extend market position</p> <p>At least two companies sign mutually beneficial agreements</p>



3 FIVE KEY GROWTH ASPECTS OF A DOWN ECONOMY

Every growth strategy has its own particular set of elements that are crucial to its ultimate success. However, there are at least five key aspects of most growth strategies that are severely affected by economic downturns. While each of these carries its respective risk profile, they hold sufficient potential promise to warrant close scrutiny and analysis by owners, executives, and managers.

The five key growth aspects—discussed below in more detail—are: (1) commercial office space; (2) talent pool; (3) marketing; (4) fundraising (equity); and (5) M&A, joint ventures, and strategic alliances.



3.1 Commercial Office Space

Discussion

A generally accepted rule holds that the real estate market lags behind the overall economy by at least six months. In the commercial arena, this figure can stretch significantly, especially during the transition from boom times to downturn.

During this most recent economic expansion (1992-2000), with its Internet and Telecom “bubbles,” many cities throughout the U.S. experienced a tremendous explosion of commercial office building construction. However, many of the anticipated tenants are now struggling, and demand has dwindled significantly.

Many owners and landlords find themselves fighting to fill their otherwise empty (and costly) buildings. Financially stable companies are enjoying a true “buyers’ market” and can capitalize on the high vacancy rates to expand their current operations or upgrade their facilities. Likewise, landlords are much more willing to re-negotiate existing leases in order to retain current tenants.

IN BRIEF

Opportunity:

Commercial Office Space

Why it makes sense:

1. Availability (high vacancy rates)
2. Lower rent
3. Sublease opportunities
4. Re-negotiation of existing leases

What to look out for:

1. High deposits
2. Long-term leases
3. Skittish landlords



3.2 Talent Pool

Discussion

Perhaps the most prominent manifestation of the current economic downturn is the huge number of news-making layoffs throughout the technology sector. Thousands of employees from both small startups and large established companies have found themselves without jobs and, worse, without real prospects of obtaining new work.

On the other hand, this high unemployment can also be good news for businesses looking to expand their operations during this down economy. The pool of available talent is filled with executives, engineers, and other professionals hungry to rejoin the workforce. From a recruiting standpoint, the employers definitely hold the upper hand and can leverage that position to ensure they have the right talent to execute on their growth strategies.

IN BRIEF

Opportunity:

Talent Pool

Why it makes sense:

1. Availability (high unemployment)
2. Quality of resumes
3. Lower compensation costs
4. Higher motivation

What to look out for:

1. Low morale
2. Loyalty

3.3 Marketing

Discussion

Perhaps the epitome of the heady Internet craze was the infamous multi-million dollar Super Bowl ads placed by young startup companies seeking at all costs to capture market share. The marketing function of every technology company kicked into overdrive to ensure keeping pace with competitors.

In the middle of a flailing economy and faced with severe financial pressures, businesses have drastically slashed marketing budgets. This has left marketing professionals hunting for employers and advertising sources seeking advertisers.

These factors combine to make a down economy particularly attractive for companies looking to expand their market share, promote their brand equity, or extend their competitive advantage.

IN BRIEF

Opportunity:

Marketing

Why it makes sense:

1. Availability (services)
2. Lower ad rates
3. Media looking for success stories
4. Less competition

What to look out for:

1. Quality
2. Internal reluctance



3.4 Fundraising (Equity)

Discussion

Arguably the most controversial image of the recent bull market was the ease with which startup technology companies were securing millions of dollars in funding (whether through private investors or the public markets). Likewise, venture capital firms raised billion-dollar funds from limited partners eager to benefit from the run-up.

Although VC firms in particular seem to have now generally swung to the other end of the risk-aversion spectrum, the fact remains that they face tremendous pressure to put their funds to work.

While VCs are extremely careful about making new investments, at the same time they are also anxious to find financially sound, innovative business ideas promoted by experienced management teams.

IN BRIEF

Opportunity:

Fundraising (Equity)

Why it makes sense:

1. Availability of funds
2. Eager investors
3. Less competition
4. Use of funds

What to look out for:

1. Drawn-out due diligence
2. Lower valuations
3. Cautious investors

3.5 M&A, Joint Ventures, and Strategic Alliances

Discussion

At the height of the Internet “bubble,” technology companies seemed fixated on using an IPO as an exit strategy, with a secondary viable alternative being a profitable acquisition. Businesses tended to discount the role of mergers, acquisitions, joint ventures, and strategic alliances as significant growth strategies, especially for target companies.

With massive post-“bubble” industry consolidations and epidemic bankruptcies, many companies are taking advantage of their partners’ and competitors’ woes to expand their own market position. Likewise, companies are also spreading the risk of growth initiatives by collaborating on joint ventures and strategic alliances.

IN BRIEF

Opportunity:

M&A, JVs, Strategic Alliances

Why it makes sense:

1. More target opportunities
2. IP from bankruptcies
3. Technology commercialization
4. Industry consolidation

What to look out for:

1. Cautious large partners
2. Drawn-out due diligence
3. Difficult transition management



4 CONCLUSIONS

Managing an established business through a down economy is an enormous challenge, which is made exponentially more difficult in the technology sector, where competition is fierce and speed to market is critical to survival. However, several factors also contribute to making this time a tremendous opportunity to extend a company's market position through calculated well-planned growth initiatives.

Business executives have several growth strategies they can implement, including organic (internal) strategies and external strategies. Regardless of which path is ultimately selected, there are at least five key aspects of a down economy that can be leveraged to ensure optimal success: (1) commercial office space; (2) talent pool; (3) marketing; (4) fundraising (equity); and (5) M&A, joint ventures, and strategic alliances. Each has a definite risk associated with it but also carries a potential benefit that can far outweigh the downside.

Taking on an expansion philosophy during an economic downturn is arguably not always the best decision for a business. However, given the significant opportunities presented by the identified factors, there is sufficient potential to warrant at least careful consideration by owners, executives, and managers.



5 ABOUT FORTIVO

Fortivo is a growth consulting firm focused on transforming technology companies and professional services organizations into high-growth companies.

The Fortivo Growth SystemSM is a suite of specialized services tailored to meet our clients' specific growth needs. These services include strategic planning, outsourced marketing, and outsourced business development. Fortivo has also fostered an ecosystem of solution partners who provide our clients with complementary and crucial services in areas such as accounting, law, public and media relations, market research, executive search and staffing, Web design, IT consulting, executive coaching, M&A advisory, and fundraising.



Fortivo's proven APEX² MethodSM ensures that every consulting engagement delivers valuable results and culminates with ultimate client satisfaction. As a foundational starting point for all our clients' growth planning initiatives, we have developed the Fortivo Growth AssessmentSM, a comprehensive and thorough analysis of several key internal growth factors. Fortivo consultants use this assessment to generate a Fortivo Growth ProfileSM, which is a critical tool for planning corporate growth initiatives.

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