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The CMO's Recession Survival Guide

So here we are again. Marketers have to deal with recessionary conditions. We've been here before and we learnt from the experience. This article attempts to predict what will happen, how it will impact you, and what strategies senior executives in emerging companies should consider now – today, before it's too late.

The article makes no pretence of political correctness. It's the unvarnished wisdom that has been assimilated by a lot of senior marketing executives who have managed to stay focused on their business and survive past recessions. They emerged, if not unscathed, at least with minimal damage caused and careers that remain viable.

The Outside World

Money is not flowing as before. The cost of money is escalating. Credit limits are being cut. The cost of servicing loans is going up. People and businesses have stopped spending as they brace for the worst.

Falling or unstable stock prices and the collapse of the investment banking sector will stall initial public offerings (IPOs). The stock market does not look like a viable harvest (exit) strategy for shareholders at this time. Many venture capitalists (VCs) plan on a 5 year harvest. If you have VCs that invested in your firm before 2006, they are getting very nervous.

Your investors are facing the possibility that your firm will fail, or be forced into a sale that doesn't recoup their investment, let alone generate the profit they wanted. They are looking at several choices:

1. Invest more money in your business and prepare to keep investing until the economy gets better.
2. Invite other investors in and dilute their existing stake.
3. Stop investing and hope that budget cuts and revenue will see the firm through.
4. Sell the business as soon as possible.

Regardless of what happens in your firm, other firms are planning to sell themselves at the first opportunity. Many were founded with this exit strategy in mind. The current capital and market conditions will force others into this situation. This means the supply of businesses for sale will rise as the ability to purchase them falls.

In many industries the big firms effectively use the small firms as technology and market researchers. The innovative startups develop new technology and attempt to build markets for it. If the new technology and market show some traction, the big firms purchase some of the small firms and leave the rest to languish. This acquisition cycle can start and finish quickly – often within 6 to 12 months.

Once one big firm grabs a new technology its competitors also move to get similar technology – or at least prevent others from getting it. However, at the end of the buying cycle you may see only 2 or 3 firms get bought up for a reasonable price. A few others will merge with other struggling firms. Most of the rest will either die or preserve a few engineers and start again with a new product.

Interestingly, the big firms do not necessarily buy the firms with the best technology, or even the ones with the most sales. They buy the firms that they perceive to be the best fit for them – the ones they come across in their target market. They often favor firms who have compatible products, desired customers, the same resellers and executives that they've met. The big firm's decision makers are influenced by the press, analysts, reseller executives and the customers they talk to, as well as their own network.

In effect, there is an accelerated Dutch auction (one buyer, multiple sellers) for small firms at the beginning of a recession and maybe again at the end, as the economy is seen to be turning. If your firm is not among the few that are purchased for acceptable money, it needs to survive on revenue, its existing capital, and/or new capital.

In a recession revenue will become more difficult to attain as your customers' budgets get cut, projects get postponed and people are laid off. Sales cycles will lengthen for products that are complex and/or expensive. More people will get involved in purchasing decisions and the politically prudent decision may well be not to purchase at this time. Purchases will be made only when they are expected to increase a firm's revenue or alleviate an imminent crisis. Firms will be reluctant to invest in anything that purports saves money – unless the saving is quantifiable and immediate.

The Inside World

Initial Paralysis

There is usually a temporary period of paralysis at the beginning of a recession. This happens because nobody can predict the future, because people don't want to overreact, and because some people "spin" their account of the situation out of self interest. Recession looms, but what to do?

Early on, the sales pipeline will still show potential customers who are "close" to purchasing. In many cases, the champion at the potential customer is trying to purchase, but the approval process is tightening, causing delay after delay. In other cases, your salespeople are presenting overly optimistic forecasts, knowing that if the team gets cut, those with the highest sales potential may survive. The survivors will get the territories of those who were laid off. By cherry picking from the expanded territory, they may make their sales goals.

There is no reason not to believe the sales forecast, other than that your instincts and experience tell you it's overly optimistic. Everyone wants to believe it and there is no personal benefit to arguing otherwise. If someone argues for a big cutback, they'll never be able to prove they were right and they'll become extremely unpopular – the obvious fall guy for anything bad.

The standard action as recession looms is to postpone purchases, make some project cutbacks, implement a hiring freeze and go into planning mode. Generally, progress is stalled but no bold, decisive action is taken at this time.

It behooves you to stay outwardly positive, yet plan for a long siege. You need to have up to date metrics on all key aspects of your marketing mix at your fingertips. Critically assess your resources, your committed budget and what are the core tenets of the organization. In other words, what markets, products, functions are central to your company and what is considered peripheral? For instance, it is not unheard of for software companies to value code development as central to mission but to view marketing, sales, support and even quality assurance as optional extras. Often this is driven by a goal of acquisition, wherein the valuation will be determined on a value per engineer basis. Being realistic about these views, even if you disagree, is important as you transition from growth mode to survival.

What will enable your company to survive a downturn for 6, 12, or even 24 months? Is it end user revenue, OEM licenses, cutting burn rate, or securing investment funding? Which marketing functions best support these needs? Do you have the right resources available? At what levels do you need to maintain staff, tools, analysts, agencies etc. in order to be functional and effective? How flexible are you? What resources are great to have but not core to fulfilling a survival mission?

Although it is natural to consider how hard you worked to pull a team together, get systems, tools and relationships in place to help you be effective and grow your business, now is a time for brutal clarity about what is required for survival, not an optimal future.

This pessimistic stocktaking and planning for survival can help you make better decisions and remain more effective down the road, as you are called upon to make budget cuts, lay people off and shift gears to fulfill changing corporate needs as the reality of recession takes hold.

Cash is King

The CFO and CEO realize that "cash is king" in a recessionary environment. They need enough cash to break even. If the firm is already sustaining a profit and it has large cash reserves, it should be OK, even if it has to make some budget cuts. If the profits are not there, then business needs to take action. That means:

- Raising capital – very difficult, maybe impossible.
- Cutting costs and trying to live off existing revenue streams
- Selling the business.
- A combination cost cutting, seeking funds and preparing to sell the business.

If it hasn't already happened the CEO and CFO will be asking for a revised budget and they will start participating in your purchasing and hiring decisions. In some cases, if you lack ROI data and solid justifications for spending, the CFO will start making your marketing decisions.

The Blame Game

Office politics get worse during recessions. When products do not sell, many salespeople blame marketing. They complain about low sales lead volume, poor quality sales leads, the lack of participation in trade shows in their territory, the lack of publicity and the lack of sales tools. They also complain about the firm's inability to deliver new product features and or one-off products.

New demands on engineering and manufacturing also lead to political maneuvering. The pressure to ship new products and features increases marketing's need to launch them – inexpensively. Additionally, the production of packaging, manuals, training material, sales collateral and promotions can be seen as bottlenecks to revenue.

The investors are not going to blame themselves for accepting an overly optimistic sales forecast. Even if they didn't believe the forecast, they see a benefit to leaving the CEO on the hook to meet it. Additionally, firm's executives are not going to blame themselves. First of all, a recession is not their fault and almost all manage to the best of their ability with the information they have. You can't run a business without taking calculated risks.

Initial Spending Cuts

There is usually room to trim a marketing budget. Any uncommitted projects that are planned can be postponed or cancelled. Subscriptions to analyst services, associations or data services might not be renewed. Hiring can be frozen, bonuses cancelled and pay increases suspended. Infrastructure projects such as adding a marketing software package or building a trade show booth can be put on hold. Often, companies will institute across-the-board cessation of outside services.

Layoffs

No manager wants to lay their people off. The personal stories are heart wrenching. It's understandable that initial layoffs are kept to a minimum. Besides the very real desire not to hurt the people you know, there is the reality that a manager's goals will not get reduced as his/her resources get reduced. Their ability to succeed is greatly impaired and further hampered by falling morale, increasing office politics, and a hiring freeze.

Initial layoffs typically impact administrative personnel, salespeople with low sales forecasts, perceived troublemakers, and people connected with projects that are not core to the firm's mission or unlikely to produce near-term revenue.

In the marketing department the initial layoffs are most likely to impact marketing communications (MarCom) people as promotion budgets get cut. Lower level employees that need to be managed are very vulnerable. Mid-level managers that do little hands-on work are also very vulnerable.

Product marketing people or those associated with field sales activities tend to be less vulnerable.

Of the senior people connected with revenue generation – the CEO, VP of sales, VP of marketing and VP of engineering/manufacturing – the VP of sales is often the first casualty. The VP of sales takes the fall for the unfulfilled sales forecast. However, the VP of marketing may not be far behind. Either way, the first two executives to depart are usually the VPs of sales and marketing.

Research shows[1], that even in relatively good times, the average tenure of a chief marketing officer has continued to decline to just 23 months. General sales staff turnover can run at almost 50%.

Several vice presidents of sales and marketing may come and go before the CEO departs. When the CEO changes, it's common to see the VPs of sales and marketing replaced within 6 to 12 months as the new CEO builds his or her own team and sets a new course for the business.

Contract employees and marketing agencies are initially vulnerable to early termination. However, contractors and agencies may be hired before a firm hires new employees.

Given the choice of cutting the agency of the employees, most will initially cut the agency. Research agencies usually get cut. If the advertising and event budgets are cut, there is no need for an advertising agency or event management contractor. PR tends to be a little less vulnerable.

In a recession, firms often plan to maintain or even increase PR activity. They may seek to replace expensive advertising with less expensive PR. They want to make sure they look active in the market so investors, customers, employees and potential acquirers don't lose confidence.

So what happens to PR people and agencies during a recession? An in-house PR employee who relies on an agency is vulnerable, although the agency may survive. A PR employee without an agency may do well if they have the necessary contacts and can step up to additional marketing responsibilities during a recession. The critical determinant is who has the ability to be successful in generating publicity at the lowest cost.

Recession Management Goals

In a recession the firm needs to generate and preserve cash. Therefore, the CMO needs to help meet that goal by:

1. Increasing sales.
2. Cutting expenses that do not contribute to short term sales.
3. Making the firm as attractive as possible to investors and acquirers.

The CMO's Strategy – 8 Recession Rules

A recession brings tough times to everybody and almost every business. Unfortunately, the downsizing and business failures are inevitable. It's highly unlikely that anyone comes through a recession unscathed. However, as a senior marketing executive there are 8 Recession Rules you can follow to help both the company and yourself.

1 Wall Street Journal 10/10/06

Rule 1: Get Real

Don't drink the Kool-Aid. In other words, you can't always believe the positive things you are told. Expect investors to say they support the firm and they are looking at upping their investment. Expect the CEO to play down rumors of layoffs. Expect competitors to put out rosy press releases.

Rule 2: Generate Quantifiable Leads

Generating quantifiable sales leads is your top priority. If you only do one thing, generate quantifiable sales leads. The business needs sales leads to generate sales. You need them to combat political attacks from the sales team and finance people. At all times you need to know how many sales leads are coming in and what the cost per lead is. With this information, you can manage the quality of the leads and the cost per lead.

To generate quantifiable sales leads you need an effective lead capture system – usually a web form that an interested party completes to get information. You will need to spend money on online advertising.

You cannot control or easily measure the sales leads generated by PR and search engine optimization. It's also very difficult to quantify leads from print or broadcast advertising. You can control and measure leads from online advertising. You can start online adverts with small budgets and you can easily show the finance people what it costs per lead.

Trade shows also deliver quantifiable sales leads. Additionally, a trade show lead is likely to close faster than an online lead. The problem with trade shows is the overall cost of participation. Expect the cost per lead to be very high. It's not just the cost of renting floor space. The shipping and handling costs are significant. The cost of travel is significant. Additionally, the dedication of engineering, support, marketing and even sales time may hurt other critical activities. When times are tough, local shows are the best option – ones that someone can drive to from home and set up a small booth by themselves.

Rule 3: Sustain PR

Don't miss a beat with press and analyst relations. You need to sustain one press release per month and regular pitches to journalists and analysts. In the absence of new products, you might discuss customers (case studies), new channel partners, new sales programs, new product features and industry trends. Write and contribute articles, seek out editorial calendar opportunities and pitch for inclusion. Remember that journalists' and analysts' roles and jobs will also be changing. Your PR people need to be well connected.

Rule 4: Maintain the Website

Keep the website active. Remove stale content, add press releases and press wins (even minor ones). Offer new webinars and new white papers. De-emphasize or remove announcements and profiles of your executive team while all are still employed. This way, executive departures will be less obvious if/when they occur.

Rule 5: Cut Spending

Cut any budget items that are not directly contributing to the sale of product or the company. You need the overall marketing budget, including total salaries, to be a smaller target than other departments when the accountants and investors review the budgets. In many cases, budget cuts are made without any knowledge of the value delivered by the expense being cut. The marketing budget is always a target.

You may be able to transfer staff to other departments who can better withstand the budget scrutiny. For example, technical writers could just as effectively work for the engineering department and if a new product is pending their jobs may be safer there.

You will want to renegotiate or terminate any contracts that relate to activities that do not support sales, for example research services. In a recession many firms will accept a renegotiation to a binding contract rather than fight it in court. For you, it may be better to write off $10,000 than to get irrelevant services for $70,000. The $60,000 saving is better spent meeting your recession management objectives.

On the other hand, you may wish to enter contracts that support your sales goals, so that you can better protect your ability to function effectively. For example, committing to critical outsourced marketing services, lead generating media purchases and the like can ensure that you have access to the tools that you're your marketing productive. By committing the budget with contractual agreements, you may be able to protect it from further cuts. The key is to ensure that your commitments empower you to drive measurable and core results, such as lead generation and positive publicity.

The Trick is Timing

These 8 Recession Rules are no doubt difficult to follow. They require a focus on the short term, often at the temporary expense of the long term. They also require you to carefully time each move. If you cut too much too early you wont have anything left to salvage and you may not have the tools to do anything at all.

Difficult as it is, if you follow these rules you will be doing everything possible to generate and preserve the needed cash to enable survival in poor market conditions. You'll be positioning the firm for acquisition, should that decision ever get made. Plus, you will prove yourself an effective and flexible executive, thereby greatly enhancing your resume.

Rule 6: Recreate a Discretionary Budget

If necessary, turn fixed costs into discretionary budget. Obviously, the first things that will be cut will be those expenses that are discretionary - that's just the way of things. However, soon you'll be left with mostly fixed costs – contracts that you cannot get out of and staff salaries. You have to maintain a discretionary budget so you can fund sales lead generation and publicity. It's tough to cut staff, but if the staff expense remains and marketing cannot show that it is generating sales leads, publicity and sales, then the decision will be made for you – if you survive.

While it's hard to look at job cuts as a benefit, many firms find that larger teams produce a lot of busy work. The bigger the team, the more collaboration and communication that is required for it to function. This means more reports, meetings, nice-to-have projects, etc. Cutting a large team in half will not necessarily cut productivity in half, especially if the work can be outsourced effectively for a fraction of the fixed costs of payroll.

Rule 7: Recreate a Functioning Department

Support the remaining team with an outsourced marketing firm – one who understands your industry and that can provide everything you need, not just a single function such as PR. You want a complete range of talent, tools and contacts available on an as-needed basis so you only pay for what you use. Ideally, you need the full complement of services from one firm, because managing multiple firms is time consuming and inefficient. You ultimately pay for each firm's learning curve and overhead expenses, and have to meet minimum engagement levels. If you engage a full-service marketing firm, they can work closely with you, providing you with a flexible marketing mix while still maintaining strict budgetary control.

A firm that provides a complete range of outsourced marketing services, such as MarketingSage, will provide you with ongoing ROI reports and the third party objectivity you need to justify your budget and marketing activities. By providing all of the key marketing services, they have no vested interest in over-emphasizing one service over another, and are motivated to deliver measurable results using the most effective tactics. Additionally, as you start to add back employees in a given area, for example web site management, their focus can shift to other areas of need.

Rule 8: Position for Acquisition

Position the firm so that it's attractive to an acquirer – even if the investors decide not to sell, they'll benefit from knowing they are an attractive target. Proven marketing tactics for positioning a business for acquisition include:

- Identify and prioritize potential acquirers.
- Emphasize intellectual property by announcing patents, innovations and technology developments.
- Ensure compatibility with the products of potential acquirers and get certified where certification programs are available.
- Develop features that complement an acquirer's products, rather than compete with them.
- Highlight market traction by announcing customer wins, entry into new markets, and resale deals.
- Target specific customers, distributors/resellers, partners and analysts who have direct access to the business development people at potential acquirers.
- Seek networking opportunities for a senior executive tasked with building the relationship. If you believe a purchase or investment would be based on intellectual property and technology, rather than sales and revenue, the point person should be someone who can interact with senior product development executives.

About MarketingSage

MarketingSage is a contracted marketing team that helps other marketers and business executives increase revenue by cost-effectively generating sales leads, building brands, launching products and developing sales channels. With MarketingSage you can add expertise, bandwidth, specialized tools and contacts when you need them, for as long as you need them.

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