Pandemic Planning: A Look Back at Lessons Learned from the 2008-2009 Downturn by Jeff Robbins

According to Victor Zarnowitz, a leading scholar on business cycles, indicators, and forecast evaluation, there have been as many as 47 recessions in the United States dating back to the Articles of Confederation. It is safe to say that the COVID-19 Pandemic has not only severely impacted the United States, but it has had a significant impact on the global economy. Each economic downturn has offered the opportunity to take a prescriptive approach to lessons learned.

Given the recency, the Great Recession of 2008 offers yet another opportunity to glean lessons learned since it is still fresh in the minds of many and was slightly more than a decade ago. Although the current economic situation we are facing today is sort of self-imposed, implemented to ensure that we flatten the curve and slow the spread of the COVID-19 virus, the last recession is still worthwhile to look at and understand.

Back in 2008, the country was in a similar position, politically, as we entered an election year and great uncertainty in the market due to the financial crisis precipitated by a collapse of the housing market. According to CNBC, small business owners, especially companies with less than $5 million in revenue, the effects of the downturn were devastating. Bankruptcies rose 74% in 2009, with more than 1 million cases filed in federal courts that year. Additionally, early stage entrepreneurship plummeted by over one-third from 2005 to 2009.[1]

Generally, small businesses were hit much harder than larger entities, which had a devastating effect on the economy as a whole. According to the Small Business Association (SBA), small businesses (as defined by SBA as companies with 250 or less employees) accounted for 45% of employment, but as the economy shed about 5 million jobs from 2008 to 2009, they accounted for 62% of the net job loss.[2] Over the two year period, from 2007 - 2009 over 8.7 million jobs were lost.

The impact was far reaching, as fewer businesses were started. However, there were some positive lessons learned that can be applied to how the world, the US and consumers can begin to think about life once the COVID-19 virus has abated.

The years following the financial crisis of 2008-2009 saw much better economic conditions for small businesses and consumers. On the business front, companies during the recession used a plethora of strategies to remain relevant and solvent. Harvard Business Review took an insightful view of different companies and placed companies into different categories that described their strategy during the crisis, and how they fared at the conclusion.[3]

They found progressive companies, those that employed both offensive investments (R&D and Marketing) and defensive tactics (strategic cost-cutting) to stay afloat, honed in on customer needs as the means for providing direction on strategy and guidance for where to invest operationally. These companies survived the recession, and thrived after it ended.

Now that we know progressive companies stay closely connected to customer needs—a good guidepost for making investment decisions, what have we learned about consumers?

Consumers, as it turned out, became much more discerning, sought to purchase lower priced, quality products and services, as well as took longer to make purchase decisions for items that were once a want versus a need. Social scientists, whether they are economist or psychologist, agree consumer behavior will be impacted.

“The psychology won’t just bounce back,” said Charles Dumas, chief economist at TS Lombard, an investment research firm in London. “People have had a real shock. The recovery will be slow, and certain behavior patterns are going to change, if not forever at least for a long while.” Certain behaviors are indicative of every downturn, where savings rates go up and spending becomes more targeted and pragmatic.

After nearly 12 years of prosperity, the shock caused by the COVID-19 crisis is still slightly different. The economy of most developed countries, was not interrupted by a financial crisis, slowing of demand, or any other economic downturn. The economy was shut down for the safety of the people. Conventional wisdom holds that the recovery will be slow, but gain momentum

Consumer spending accounts for ⅔ of economic activity worldwide. If anxiety endures and people are reluctant to spend, expansion will be limited — especially as continued vigilance against the coronavirus may be required for years.[4]

Still there is a ray of hope. No matter how long the downturn remains in effect, the structure and foundation of the economy was and is strong. Once the country begins to open, people are free to move, and a return to normalcy. No one knows what the new norm will be, as conditions are different than they were during 2008.

During that time, from the consumer side, millennials were finishing college and just starting to enter the workforce. The downturn hit just before the holidays, and the impact was profound. One of the discoveries of that time was that there was too much retail and too many stores. The retail chains that were once big box anchors, like Circuit City, Radio Shack, and Linens-N-Things, disappeared and were replaced by luxury brands shifted to low cost category players.

The main thing that was indicative of the consumer then, now, and in the future, is the impact and influence that they will have in creating the new normal. The common thread that has passed from recession to recession is the resiliency and adaptability of the consumer. The impact may linger, but the principles will be somewhat the same. Recovery will come, but the lingering impacts of this downturn will be imprinted yet we will all adapt.

Consumers will be discerning, moreso, and business will need to remember a few key things taught over the many recessions, in the relationship between consumer and business:

- Simplify your portfolio of products to manage costs, to offer quality and at a good price.
- Data is the friend of every business, so understand what it says about consumer needs and what they want.
- Businesses that are able to increase their presence during a downturn, gain access to consumers still looking and searching, and end up with more market share than their competitors after recovery.
- Creating an empathetic and comforting message, creates a brand following that consumers look for, appreciate, and reward with loyalty.
- Keep a pipeline of innovations, not just for when times are tough, but when good times return. Consumer confidence will be upfront and center to take advantage of the next best thing.