Mar 6, 2020, 04:58pm EST | 974 views

How Entrepreneurs Can Deal With Economic Turmoil

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Entrepreneurs

I write about tech & finance.

A tourist in front of the semi-deserted Colosseum in the center of Rome, Italy on March 4, 2020. - ... [+] NURPHOTO VIA GETTY IMAGES

Sequoia Capital, which has backed breakout companies like Apple, Cisco and Google, has written a post that has an ominous headline: “Coronavirus: The Black Swan of 2020.” It’s actually similar to its memo from 2008, which warned of a rapidly deteriorating economy–and how startups should manage through it.

Sequoia's global footprint and extensive portfolio of investments provide much insight on economic trends and developments. As for the COVID-19 coronavirus, the firm is already seeing the adverse impacts. According to the post: "Some companies have seen their growth rates drop sharply between December and February. Several companies that were on track are now at risk of missing their Q1–2020 plans as the effects of the virus ripple wider."

Then there are the supply chain disruptions and the drops in travel, especially from the cancellations of conferences. In fact, Sequoia believes that it will take considerable time for the economy to regain its footing.

What Now?

"If there is anything that the recent stock market downturn should teach us, it is that the market is vulnerable—whether to political uncertainty or the possibility of pandemic," said Zach Sims, who is the CEO and Co-Founder of ~~Codecademy~~. "Startups would do well to be prepared."

So what actions to take? Well, of course, it is essential to focus on cash preservation.

"Take a hard look at the forecast—the second half forecast is already optimistic in a hot market, so try cutting it in half or 2/3rds," said Michelle Palleschi, who is the CFO at ~~Sendoso~~. "Ask: How far ahead are you investing? When do you run out of funds if companies or consumers axe their spending? You must know the impact of these factors on your business."

There should also be transparency and clear communication across the organization. “Savvy startup CEOs will prioritize the needs of their company and arm themselves and others with facts to quell fears and instill confidence in their business and its needs,” said Zain Jaffer, who is the CEO and founder of ~~Zain Ventures~~. “When communicating with employees, entrepreneurs need to project a sense of calm and confidence. Employees will probably be thinking about how their options are now underwater and perhaps it would be better to move to a safer, more mature company.”

The Opportunities

Despite all the concerns, it’s important not to panic either. Keep in mind that during economic downturns–say in 2000 and 2008–there emerged great companies. If anything, the environment forced entrepreneurs to be more efficient and strategic with their resources.

Just look at ~~Expensify~~, which was founded during the last recession. “I saw firsthand how difficult it was to get funding,” said David Barrett, who is the CEO and founder. “I dealt with it by pivoting my original, riskier business idea—a secure platform for feeding the homeless, which was a passion project—into something much safer and recession-proof, that banks would be more comfortable supporting: namely, expense reports. I knew that even during an economic downturn, people still need to do expense reports, still find them tedious, and will always be looking for a better, easier way. True, not every startup will be able to pivot like this. But my case shows that starting out with a safer and more ‘boring’ business concept isn’t always a bad thing. Instead, it can help serve as a stepping stone towards your larger, longer-term business goals. In our case, that meant first launching an expense management platform, then a corporate card, and finally, an initiative to give back to the community and help fight hunger, homelessness, and climate change.”

Finally, there should not be a single-minded focus on the business side of things. “As a governing principle, CEOs should first and foremost take care of their people,” said Saar Yoskovitz, who is the CEO of ~~Augury~~. “As the ongoing concern for their employee’s health rises, companies should seek ways to optimize for their safety, even at the expense of slowing down their business metrics. Tracking the progression of the outbreak as well as the financial slowdown is crucial. Executive teams should appoint a Business Continuity Committee that assesses the risks on a daily basis and is empowered to adjust operations accordingly. The magnitude of your actions should be proportional to the amount of risk your business is facing due to market forces.”

Tom (~~@ttaulli~~) is the author of ~~Artificial Intelligence Basics: A Non-Technical Introduction~~ *and* ~~The Robotic Process Automation Handbook: A Guide to Implementing RPA Systems~~.

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