5 Lessons Learned From the Recession That Are Still True Today

July 22, 2020 5 min read

Opinions expressed by *Entrepreneur* contributors are their own.

The economic impact of 2020 will be felt for a very long time. Businesses have closed en masse, gutting certain industries and leaving millions of Americans without jobs. More than 40 million people — over a quarter of the work force — have filed unemployment claims since March.

As we face these scary prospects and the long, unknown financial road ahead of us, many people reflect on the most recent major economic downturn, the Great Recession of more than a decade ago. Although the Recession officially spanned December 2007 to June 2009, it took several more years for employment and the economy to stabilize to previous levels. It marked the largest economic crisis of our lifetime.

Many people are familiar with the quote, "Those who cannot learn from history are doomed to repeat it." Regardless of what the future holds, it is important for us to look at the business successes and failures from the most recent financial crisis and learn from that challenging time. Here are five lessons we learned from the Recession that are still true in 2020:

1. Diversify your customer base.

One of the most common recommendations from financial planners to people managing the stock market is to have a diversified portfolio of investments. That is, to have a mix of investments in different areas and yields, which limits the potential for financial distress that comes from a single failed asset or risk. That is also true for businesses and their customer bases.

If a company has only one or two segments of customers, regardless of how successful it may be at the time, that can be a risky venture. It is best to have diversified income streams and establish multiple industries and types of customers that can be serviced. That way, the business will continue to exist if any of them go away.

One of the key factors for businesses that survived the recession is that they had a strong operating system. This is not just from the franchisor, but having franchisees who implement the system in an effective way. These are the people who understand how the numbers work and how to run the business in an efficient way.

This is why franchisees with strong operating systems survive downturns while weaker franchisees or mom-and-pop businesses often do not. It is not just about having the system in place, but people with a good knowledge of the system who can effectively implement it.

3. Cash is king.

It is fine to use debt to get into a business and it can be a common practice. However, it is important to preserve cash and reduce debt as soon as possible. Too much leverage in an economic downturn is a problem.

The people who were successful during the recession were those

who were not overly leveraged. When a business owner makes money, one of the things they will want to do is to reduce their debt load as quickly and effectively as possible.

4. Always be prepared.

We don’t know many things about the future, but we can predict it will be different than the present. Those who went through the recession ten years ago and may be struggling now should find solace in knowing the situation will eventually improve. Meanwhile, some people who felt business couldn’t be better in 2006 may have been upended just a few years later. The key is never to get complacent and fail to think about the future.

Business owners should be prepared for what is coming next, even if they don’t know what that will be. To a certain extent, they need to be worried about it so they do not become comfortable where they are. Like a good chess player, they should anticipate a move a step or two ahead of time. It is important to have a contingency plan and be flexible in how to respond.

A great example of how to anticipate and react to change can be seen in the book *Who Moved My Cheese* by Spencer Johnson. The story follows the journey of four characters in search of their favorite food in a twisted maze. It is a metaphor about the ongoing search for what we want in life and the many changes we will face along the way. The main message is that change is inevitable and that we must learn to accept it, adapt to it and embrace it.

5. Seize the opportunity.

During difficult times, whether it was a decade ago or in the present day, I have seen people panic and think the sky is falling. This is often the mindset of the weaker players, and they ultimately don’t survive.

Contrast that to others who look at the situation as one of opportunity. This becomes a time of less competition and a greater chance to consolidate ownership in a marketplace. There are new advantages, such as cheaper real estate and more available employees that were not possible just six months ago. You will see larger, stronger franchisees buyout out the weaker ones and positioning themselves for greater success in the future.

Warren Buffett said, “Someone is sitting in the shade today because someone planted a tree a long time ago.” This is the time where people start planting trees. There are currently some available opportunities and over time those trees grow. They may not immediately enjoy the fruits of their labor, but at a certain point in the future, they will be sitting in the shade.

There are many valuable lessons we learned ten years ago. It is important to remember these examples as we move forward in the current situation.

https://www.entrepreneur.com/article/351647