ACCELERATING THROUGH THE DOWNTURN

How Businesses Can Use Smart Technology Investments to Move Ahead of their Competition

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Introduction:

Economic Volatility Puts Technology Roadmaps in Question

The last three years saw a massive acceleration in the digital transformation of businesses. From remote productivity and collaboration to digital customer connections, communications, e-commerce, and digital service delivery, businesses made technology investments because they simply had no other choice. McKinsey says the typical company jumped years ahead on their technology roadmaps — or completely rewrote those roadmaps in some cases. A recent Forbes article simply stated, “2020 became 2025 on the digital acceleration timeline” for most businesses.

Ultimately, these tech investments paid off. Business leaders saw new technologies quickly pay for themselves in the form of enhanced customer experience and loyalty, streamlined processes, better resilience, and improved productivity. And this tech wave wasn’t limited to enterprise organizations. Small and medium-sized businesses (SMBs) are now more connected, agile, and data-driven than ever: A 2022 survey showed that 2 in 3 SMBs say tech is the primary factor helping them reach their strategic objectives.

But today, businesses see the squeeze of persistent inflation crashing into fears of a major economic slowdown: The majority of SMBs say inflation is a significant challenge right now. Most also said they’re worried about a recession in the next 12 months. Yet more than half of SMBs are still planning to increase their year-on-year tech spending in 2023.

As businesses look at tightening up or cutting back, the question is:

How do you manage your business’ technology roadmap — and make smart technology investments — amid macroeconomic uncertainty and volatility?

This ebook provides guidance on that question with five key areas to focus tech investments in order to accelerate through a potential downturn.

“Most businesses are wondering if they need to adjust their tech investments right now. The truth is that investing in technology can help streamline processes and return significant business value. A dedicated, local banking partner can help companies to explore if equipment purchases are right for their business — and consider available financing options.”

- Russ Keithley, Chief Lending Officer at Coastal Community Bank

The Research is Clear:

Winners Accelerate Through Downturns to Come Out Ahead

The concept of momentum is helpful to understand best practices for investing during economic downturns: Many businesses make the mistake of thinking they can slow down technology spending and hit the pause button on digital innovation — and then ramp back up when the outlook improves. But inertia is powerful. It's hard to get momentum going from a standstill. Businesses that keep that innovation momentum going through a downturn can accelerate out of it. In fact, doubling down on technology during a downturn often amounts to doubling your money. Businesses that aggressively innovate in tough times are surging ahead, picking up market share and potentially disrupting their market — all while their more hesitant competitors stand still.

This is not just theory. It's a strategy proven by substantial research:

BAIN & COMPANY

THE NEW RECESSION PLAYBOOK

"Our research has found that companies make more dramatic gains or losses during downturns than during stable periods."

89%
more "sinking ships"

BUT ALSO

47%
more "rising stars"

What do rising stars do differently?

"They play offense by selectively reinvesting for competitive outperformance."

MCKINSEY & COMPANY

BUILDING MOMENTUM IN A SLOWDOWN

An investigation of the 2008 Great Recession found that businesses that survived the economic downturn and came out ahead of their competitors shared common qualities:

1. Willingness to invest in priority growth opportunities
2. Continued investment in digital

GARTNER

RECESSION ADVICE:
GO ON THE OFFENSE WITH IT INVESTMENTS

A broad analysis of previous recessions showed:

Businesses that take calculated risks to drive innovation outperform those that take the conservative, cost-cutting path.

THE RISING STARS & SINKING SHIPS ARE ALREADY EMERGING

Verizon State of Small Business Report 2022:

39% of SMBs say they have already cut back (or plan to) on tech investments due to recession worries.

Spiceworks Ziff Davis: The 2023 State of IT

MORE THAN HALF of businesses plan to *increase* year-on-year tech spending in 2023.

5 Areas to Focus Tech Investments Through the Downturn

The research and expert analysis show that cutting back to "weather the storm" is a dangerous strategy. A business may survive a downturn — but emerge into a disrupted market where competitors have surged ahead and stolen market share. Instead, the winning strategy involves accelerating through the storm with strategic investments to drive differentiation and growth — and today, differentiation and growth are largely fueled through technology investments.

Yet, there's no question that businesses need to be more careful with their investments. So, what are the smart bets when it comes to tech investments? Here are five key areas to consider:

1. **INVEST IN TECHNOLOGIES THAT ENHANCE THE CUSTOMER EXPERIENCE (CX)**
2. **INVEST IN TECHNOLOGIES THAT IMPROVE OPERATIONAL EFFICIENCY**
3. **INVEST IN ANALYTICS FOR SMARTER PLANNING & UTILIZATION**
4. **INVEST IN TALENT TO MAKE THE MOST OF YOUR TECHNOLOGY**
5. **USE THE AS-A-SERVICE MODEL TO SHIFT DIGITAL INFRASTRUCTURE INVESTMENTS TO OPERATIONAL EXPENSES**

1. Invest in Technologies that Enhance the Customer Experience (CX)

Investing in your customer experience is always a smart strategy because, as PricewaterhouseCoopers (PwC) summed up in a recent report: “Experience is everything,” the majority of consumers (and even B2B buyers) say the experience of shopping for, buying, and using a product/service is more important than the product itself or its price. Research shows customer experience (CX) draws customers to your business, builds lasting loyalty, leads people to buy more, and great CX is even worth a 16% price premium. Making the investments to keep your CX ahead of the market standard is essential. And making investments to push your CX ahead of the competition can be a solid strategy for gaining market share.

Essential Infrastructure that Drives CX Forward

Every business runs on technology, and that means every business’ CX is powered by technology. Investing in upgrading core technologies can directly improve your CX.

- Retail point-of-sale (POS) technology continues to make major leaps forward every year. Investing in upgrading your POS system gives your customers faster, more seamless check-out — and allows you to accept contactless payment options
- Every business now has a digital tech infrastructure to maintain. Upgrading laptops and other devices, servers, networks, etc., is not just necessary to keep up with the speed of modern business, but essential to empower your employees to keep up with customer experience expectations.

Digital Technology that Drives Customer Connections

The other main area of CX investment centers on technologies that help you make better connections with your customers.

- Investing in better digital platforms — from e-commerce and digital service delivery to apps and mobile commerce platforms — gives your customers seamless, omnichannel experiences that drive loyalty.
- Improving your sales and marketing technology — upgrading your customer relationship management (CRM) system or implementing a marketing automation tool — can help your people do more to make personalized connections with customers and build longer relationships.

2. Invest in Technologies that Improve Operational Efficiency

In the face of inflationary (costs going up) and recessionary (sales potentially going down) pressures, every business is taking a closer look at how to reduce costs and protect margins. But just cutting spending too often leads to a “less for less” outcome. Instead, businesses should start by focusing on operational efficiency — to get more from the same budget. Those efficiency-boosting strategies can then be advanced and scaled to achieve a “more for less” outcome.

Core Equipment and Technologies

Many businesses depend on essential equipment and/or large technology systems to drive core business operations. Continuing to make regular and often significant investments in keeping these core technologies state-of-the-art is critical to sustaining a cost-effective business model. For example, dental and orthodontic practices leverage a wide range of technology systems — both in the delivery of patient care, as well as in administrative operations. Investing in modernizing technologies can not only provide a competitive differentiator from a clinical capabilities standpoint, but can deliver stand-out patient experiences that simultaneously drive advantageous efficiencies. For example, upgrading a scheduling system to enable online patient scheduling; installing a digital patient record system that gives patients mobile access to their records and allows easy communication with providers; or implementing the technology necessary to enable teledentistry.

Automated Systems

Robotic process automation (RPA) has made dramatic advances in the last five years — both in terms of what automated systems can do, and how easy to implement and affordable they’ve become for businesses of all sizes. For example, nearly every business could benefit from investing in automating back-office work — from accounting and payroll to procurement and inventory, to human resources and employee management. A recent study found that the typical management-level employee is wasting about eight hours every week on tasks that could be automated. Investing in automation not only accelerates business operations — it frees up more time for your people to work on revenue-generating tasks while helping with talent retention by reducing tedious work (we’re still in a labor shortage, after all).

Self-Service Technologies

One of the best strategies for meeting rising customer expectations while simultaneously driving efficiency is to deploy self-service technologies that give your customers an empowering channel for handling various needs. Artificial intelligence (AI) and machine learning (ML) make self-service a much more natural, quasi-human experience. Chatbots let customers get on-demand service and support; advanced search functions let customers find answers instantly; and more broadly, modern online and mobile customer portals use embedded AI to learn what actions customers are most likely to take — and serve up a convenient, easy path to resolve their issues. Meanwhile, businesses can redeploy staff to focus on delivering service only a human can provide.

3. Invest in Analytics for Smarter Planning & Utilization

Closely related to operational efficiency, every business should be looking at how it can make the most of what it has from a resource and capital planning standpoint. The major challenge is that this planning requires making big predictions about the future — predicting demand, and with persistent supply chain disruptions, predicting supply, as well. Investing in advanced analytics tools can give a business a significant competitive advantage through more accurate forecasting, more confident planning, and more effective resource optimization.

ERP Systems

The very name Enterprise Resource Planning (ERP) system suggests that it's a technology that only fits large enterprise organizations. But modern ERP systems are more accessible, practical, flexible, and scalable than ever. An ERP system links a company's financial, supply chain, operations, commerce, reporting, manufacturing, and human resources data together. Investing in an ERP system gives your business an integrated view of all of this essential business information — creating a single source of truth and centralized visibility from which all decision-making can happen. Perhaps most importantly, this integrated platform enables businesses to leverage analytics tools to see connections between activities within different parts of the business; to identify trends, gaps, and opportunities; and to re-allocate, re-strategize, and re-optimize to address those gaps and capture those opportunities.

Inventory Planning Tools

With the continued snags in what experts say may be a permanently disrupted global supply chain, many businesses are caught in a perpetual roller coaster between "we can't get anything" to "our warehouse is overflowing." Investing in a modern inventory planning tool can dramatically improve demand forecasting while better-predicting supply chain timing and delays. This investment pays off in two ways: You can make sure you're not missing out on revenue because of stock-outs, while also ensuring you don't have excess capital boxed up on overstocked shelves.

Customer Analytics

Analytics tools aren't just for enterprises anymore. Businesses of any size can use analytics tools to understand and even anticipate their customers' needs and wants, so they can identify how to add value and make their customers' lives easier. From monitoring your customers' behaviors on your website, app or e-commerce platform, to using point-of-sale or other in-store data, you can understand customers' shopping patterns, map out a buyer's journey and more — and then use those analytics insights to adjust promotions and special offers, personalize product recommendations, and even tweak pricing in real time.

4. Invest in Talent to Make the Most of Your Technology

SMBs typically don't have the luxury of big teams of data scientists and tech experts. More often, those managing a piece of technology — a CRM or marketing automation system, an inventory planning platform, or an analytics tool, for example — are juggling plenty of other responsibilities as they learn on the fly and do their best to make use of the technology.

The job market remains tight overall, but the tech sector has already been hit hard by the economic slowdown. The silver lining: Layoffs concentrated in the tech sector mean experienced tech talent is flooding the job market. Now may be the smart time to invest in adding focused expertise to your staff, enabling you to make the most of your existing technology investments.

General IT Support

The shift to remote work and digitization of business has dramatically increased IT needs for most businesses in the past few years. Adding additional support for your IT team (or single IT person) can pay off across the business — from boosting productivity by reducing IT downtime, to protecting customer satisfaction by mitigating the risk of service outages or delays, to improving overall staff satisfaction and retention by reducing IT frustrations.

Web/App Development Team

It's easier than ever for SMBs to build a customized website or app on their own. But to take your website or app to the next level and stand out in your market typically requires more extensive custom development. If your business frequently or continuously engages a third party for custom development, or if you have a long list of features and capabilities you'd love to add but lack the expertise, someone with web and/or app development experience can be a valuable asset to add to your team.

Digital Marketing

Digital marketing technologies give you the ability to use detailed information on your customer's behaviors and preferences to automatically send highly relevant and hyper-personalized messages. Adding talent with experience in understanding and using these customer insights — and how to leverage marketing automation tools — can help you realize greater ROI from your digital marketing tools.

Data Scientists/Data Analysts

Like custom development, custom data analysis is often what pushes leaders ahead of the pack. Modern analytics tools can give you empowering foundational insights into your customers and your business. But having someone with data science or data analysis experience on staff allows you to quickly and easily go deeper, unlocking the complete insight hiding within the huge quantities of data your technologies collect every day.

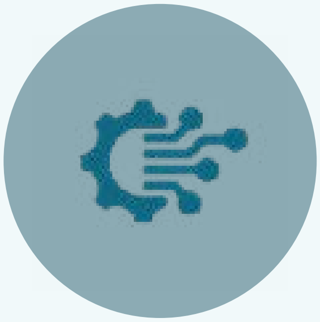
5. Use the As-A-Service Model to Shift Digital Infrastructure Investments to Operational Expenses (OpEx)

When a city or state budget tightens up, road maintenance is one of the first things to see cuts. Similarly, businesses often pause investments in their own core infrastructure when economic forecasts get cloudy. They don't want to make big capital expenditures (CapEx) to upgrade employees' laptops; they see if they can go a few years longer before updating their servers and networks; and they cut back on data security or cybersecurity protections. But this is the medium for your digital business. The value of all your other tech investments is enabled (or limited) by this core tech infrastructure. Continuing to invest in your core tech infrastructure is essential to keeping business moving forward. It's also critical to attracting and retaining talent.

Today, nearly all of your core tech infrastructure can now be accessed and implemented on an as-a-service (aaS), subscription-based model: laptops and mobile devices, POS systems, cloud-based servers and networks, and even data backup and cybersecurity monitoring and protection. The aaS model has always offered advantages for SMBs – but now more than ever:

Move Investment from Capital Expense (CapEx) to Operational Expense (OpEx)

Instead of requiring a large capital investment upfront, the aaS model allows you to spread the cost of your tech investment over time — moving it to OpEx. This can allow SMBs to continue to invest in modern and innovative technologies, while protecting their financial health and more easily managing cash flow.



Develop New Technology Quickly — Without Large Internal Burden

Most aaS offerings are designed to deploy in days (or hours) without disrupting your day-to-day business. Many are cloud-based, so there's very little IT burden placed on your business.

Start Small and Scale Easily

Flexibility and scalability are the headline benefits of cloud-based, aaS offerings, making them ideal for risk-averse stakeholders worried about economic conditions. You can start with a smaller, conservative deployment of the technology — at a lower cost. You can even scale back in real time if business conditions change, without worrying about sunk costs. And, you can scale up just as easily as your tech investments accelerate your business and the economic outlook improves.

Accessing the Capital to Power Recession-Proof Strategies

So far, we've covered expert research on the question of whether businesses should continue to invest amid an economic slowdown (yes!). We've discussed how five types of technology investments can be particularly powerful in helping a business accelerate through a downturn. But there's still the big question of, "Where do we get the money for these investments?"

You should always start by considering all three of the main sources of capital funding for business investments:

CASH ON HAND

- This option is the most obvious, but not necessarily the most straightforward. Your business may have cash available — either from profits or capital from an owner — but you still need to consider if now is the right time to invest that cash into the business. It's best to work with an accountant to fully understand your business' financial position and determine if using cash on hand is a good option for financing your tech investment plans.

INVESTORS

- Most SMBs do not have piles of cash laying around. In fact, inflationary and recessionary pressures are eating into working capital for many businesses. If cash is not available, seeking out investors may be a good source of capital. For the majority of the past three years, record-low savings and bonds rates had investors hungry for other opportunities for a return. However, as recession worries mount and savings rates increase, you may find that investors are growing more risk-averse, making it harder to raise capital through this channel.

RAISING DEBT

- Debt is the third way to finance tech investments. Businesses generally avoid taking on more debt in the face of economic slowdowns. More to the point, using debt to "just keep the lights on" can be a dangerous strategy. But if you've focused your technology roadmap on investments that drive growth, then the risk calculation changes: Debt can be an important part of a smart strategy to not just weather the storm of a slowdown, but accelerate through it.

How A Local Commercial Lending Partner Can Help

Debt is not always the right solution to fund business investments. But having solid commercial lending products available puts your business in a strong position to build a recession-proof strategy. Strong, local commercial banking partners like Coastal Community Bank can offer a full range of funding options — from SBA financing, equipment financing, and other traditional commercial term debt, to lines of credit, real estate investment financing, and other customized solutions. Most importantly, a local commercial lending partner like Coastal will be able to provide hyper-localized and relevant insights to understand how the local economy is impacting your customers and your business. This localized, consultative expertise can help you build a tech investment strategy that addresses your specific business conditions and competitive differentiators — so you can realize optimal value from your investments.

"Having a relationship with a local lending partner who understands your business can be tremendously helpful in helping you determine how to best invest in your business. A true, local partner will be able to really understand your income stream, and how your business fits within the local market. That insight helps them match the right lending term and payment to your specific needs."

- Russ Keithley, Chief Lending Officer at Coastal Community Bank

A Watershed Moment for Businesses

Now on the edge of the third recession in 15 years, we have the benefit of learning from our recent past: Economic downturns don't push companies out of business. Rather, the winners and losers are determined by their actions in these critical moments. Research shows that the winners don't take the easy path — or the most cautious path. Most importantly, whatever path they take, winners focus on maintaining momentum. They recognize that it's hard to re-start from a standstill, and that it's easy to surge ahead when your competition is too scared to move.

As the Harvard Business Review recently concluded,

> **"It is not the time to slow digital transformation. On the contrary, it's the time to accelerate it."**

Every business should heed this advice, re-evaluating its technology roadmap and prioritizing tech investments that will drive differentiation and growth.

Learn How Coastal Community Bank Can Help

To talk with a commercial lending expert about how Coastal Community Bank can help you build and finance a recession-proof business strategy, call us at 425.257.9000.

To see our full range of business banking solutions, visit **coastalbank.com**.