The difference between a mild recession and a deep recession

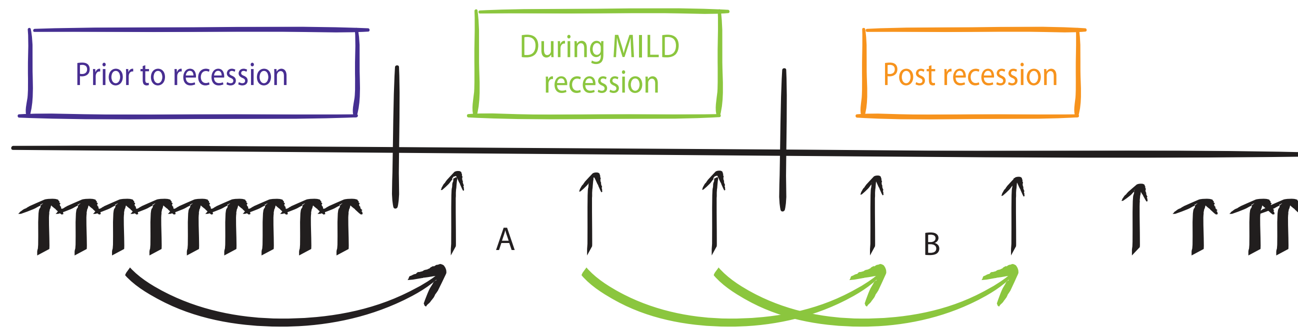
For the entrepreneur - will coming out of this recession be the same as the last five recessions? The answer very clearly is NO.

Let's explore the difference between a mild recession and a very deep one. Only four times in the last 80 years have the markets fallen by more than 50%; 1929/30, 1937/38, 1973/74 and now this one 2008/09.

This means that all the previous recessions dating back to 1973/74 could be classified as 'mild' against this big one.

> The result: unless you were a CEO running a business in 1973/74 then you have not run a business out of a recession like this one; and this potentially is where many business mistakes will be made over the next three years.

The mild recession



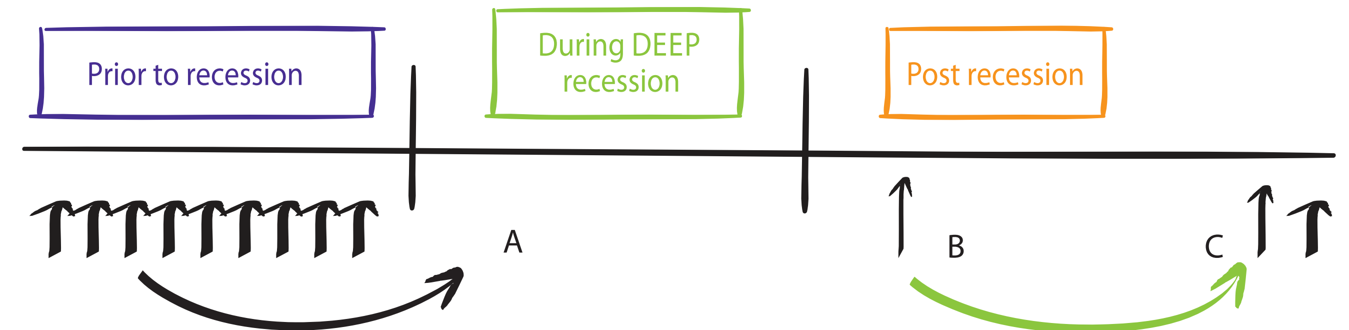
The arrows above represent investment.

Prior to recession investment is strong, regular and in large amounts. As it takes nine to 18 months to get a return on investment (ROI) from each investment there are cash amounts coming into the business during the recession (as indicated by the). In a mild recession these amounts are used for further investments during the recession (point A). The amounts are reduced substantively as most of the cash is kept to operationally run the business, but that said the business does continue to make investments.

These investments then take nine to 18 months to produce a ROI – and so coming out of the recession the business continues to receive CASH. This cash is then used for investment post the recession; indicated by the (and point B).

The impact of this in the markets is that it creates a "V" shaped recovery.

The deep recession



The arrows above represent investment.

The same logic follows prior to recession however this time at point A none of the CASH is used for re-investment as the business is completely focused on operational matters.

The key differentiator therefore from the mild to the deep recession is that there is NO investment during the recession – and as such there will be no CASH amounts coming out at point B.

The result is that the business will invest some money at point B to recommence growth – however they are forced to wait - from point B to point C until there is a ROI – then they can expand quickly again into the next boom.

The impact of this in the markets is that it creates a "W" shaped recovery.

> For the business owner/CEO the way in which you managed a business out of a "V" shaped recovery is completely different to the way in which you manage a business out of a "W" shaped recovery. Knowledge of how the three waves work across the "W" is imperative and forms part of our next article.

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