

Strategy in recession spending or not to spend

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In recession, spending / investment will gain more profit when economy are recovered Objective The purpose of this research project is to study the effects of investment or spending of the Hong Kong organizations during economic recession and try to prove that their profit will be increase higher than others which are less spend in recession when economy are recovered.

Introduction In past 10 years, Hong Kong has faced 3 times of economic recession. In 2003, Hong Kong faced SARS impacted the GAP in 2003 SQ drop to -7. % & finally turned back to positive GAP until 2004 IQ . In 2008, United State's financial crisis turned to world- wide financial crisis. Hong Kong started to recorded negative growth of GAP until 2009 SQ. Now we are facing the downtrend of GAP due to the Rupee's national debt crisis.

Our HUSSAR Financial Secretary forecast Hong Gong's GAP growth is 1-3% in next year, which down from over 6% of 2011. During the economic recession time, most of the companies show defensive posture, try to minimum their spending to keep them survival.

However, some companies take these changes to increase investment ; spending. They believed that during the economic recession, they can get a better opportunity for investing ; spending, they can use less cost to expend their business as many others are in the defensive position. As the result, they will gain much more growth when the economy recovery is come.

Literature Review Tells and Tells (2009) ; Payday (2011) shown the definition of economic recession is two successive quarters of negative growth in gross domestic product (GAP).

Economic recession are times of adversity for firms in which large banks fail, insurance companies tress, industrial goods' sales plum, consumer demand shrink, tillers go bankrupt, and requests fir bailouts skyrocket (Payday, 2011). In these ' hard times', managers are searching for competitive advantage strategies aimed at, not growth, but survival itself (Payday, 2011; Hunt, 2009; Duncan, 1972). During economic recession, process of decreasing demand for raw material, products, and services, including labor is observed.

A lower demand for labor leads to a smaller disposable income, which, in turn, further results in a decrease in demand. In effect, recession is a demand-push inflation in reverse: decreasing demand and generally a slow moving or shrinking economy. Such an environment normally requires strategies to stimulate consumer demand, but at the same time makes consumer reluctant to spend (Payday, 2011; Shaman, 1978).

With start of a recession, managers they fear that sales figures will lead to bloated inventories and financial losses.

Taking severe measures such as reducing orders can deepen a recession even more (Payday, 2011 ; Werner, 1991) These behaviors will let the economy go further down. Also some organization may start to lay-off employees, or offers voluntary severance package & try to cut-out some " fat" inside the organization. However, as Payday (2011, IPPP) states, lay-off employees will resulted in declining in service quality. The traditional result for offering voluntary severance package to employees is - the wrong people leave.

Those talented employees leave were critical to the ongoing strategic initiatives and, when they leave, knowledge, engagement and innovation walk out the door with them. Morale among survivors plummets. Some of the leavers have to be replaced while others, who are not as critical to the mission (and without good options) remain to face the possibility of involuntary termination Newman & Barren, 2009). As James (2009) mention that retaining staff will improve the long-term profitability and success of the firm. Following these helpful guidelines will help to create a culture where the staffs do not to leave.

So as to increase the employee retention & result in maximize the firm's efficiency as employees are willing to stay longer ad work harder, Also new Job seeker will seek out the firm so they can be part of its positive culture.

All of the about shown that the cost cutting or stop spending will not enable companies to survive in the recession. Reducing unnecessary costs to survive a recession is absolutely necessary, but cost cutting is no longer the only goal of a recession strategy. In the current competitive environment, other goals must be considered.

Primarily, managers must be concerned with two additional goals: first, protecting their market share, so that economies of scale and market penetration effects are not lost to competitors, and second, positioning the company such that it is highly competitive when the recession ends; ensuring that the firm does not enter good times in an impoverished state (Ronald and Penn, 1992). Recent research (Chou and Chem.

, 2004; Shaman, 1993; Payday and Getting, 2011) shown that some marketing experts suggest companies to keep advertisements as in recession time, they can deals at a lower cost, which can build-up company bands as a long term investment.

As Ronald and Penn (1992) mentions : " Advertising is also a traditional cost-cutting target. Unfortunately, cutting the advertising budget can have one of the negative impact by loss of market share. Some companies actually adopt the opposite strategy and go on the offensive, by increasing advertising during recessions. They view this tragedy as a meaner of driving marginal competitors out of business and grabbing their market share".

Also Hollies (2008) mentions : " Its not a good idea to reduce spend during recession in order to hit financial targets.

Doing so may leave your band in aloes competitive that the best strategy in terms of long-term ROI is to increase expenditure during an economic slowdown. While companies that cut spend enjoyed superior Return on Capital Employed during recession, they achieved inferior results after the recession ended. During the recovery, the " spenders" achieved significantly higher return on UAPITA employed and gained an additional market share (Hollies, 2008). During a recession there are some costs where the optimum stays steady or even increase (" good costs") and other costs where the optimum drops dramatically (: bad costs"). Optimum" relates both to performance through the recession and to the recovery thereafter (Keith, 2003).

Under the suggestion of Keith (2003), the “ good costs” are those associated with marketing, quality and new products/services. The “ bad costs” include high manufacturing and administration costs and high working and fixed capital. Not all organizations look at recession with trepidation. In fact, some firms look at recession as an opportunity to pick up market share from shakier firms (Ronald and Penn, 1992).

When a company is cash rich & together with a low debt ratio, it is a opportunity for the firm to invest in efforts to grab market share when their competitors are in the low cash position or with a high debt position that not able to defend against.

Also the market share that the firm has been picked up in a recession time is likely to retain theirs in future good times. In addition, when firm tit available cash always stand at a strong side that can negotiate for a better prices and other benefit such as better payment term & feasibility of delivery date because the firm can pay cash up front.

This will help the firm to reduce costs or expenses even further. Recessions also offer firms the opportunity to pick up top - notch talent from their competitors, as employees can generally be coaxed to switch companies rather than risk layoffs at their present locations (Ronald and Penn, 1992). Also, in recession, firm can easy to find profitable investment opportunities which do not exit when the economic is good.

Firm can have many choices to purchase business at bargain basement prices as panicked companies are all try to sell their assets in order to raise money.

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The saying "the best defense is a well thought-out offense" applies to management in difficult times such as a recession. The best way for a firm to handle such times is to plan for them ahead of time. A management team that is adroit at planning and implementing recession strategies can sometimes use the circumstances of a recession to expand market share (Ronald and Penn, 1992). A good planning or good risk management can help a firm to keep on spending also gain opportunities to expand their market share during a recession so as to increase their profitability in future.

Methodology After establish of Hong Kong Special Administrative Region in year 1997, Hong Kong started to face some economy crisis : Asian finance Crisis which started from Thailand & some investment fund try to attack Hong Songs " linked-exchange-rate- In Year 1998 to 1999, Hong Kong Government try to promote their new property policy - " 85, 000 Policy' (This policy mainly express that government will try stabilize the support of residential property and aim to keep it at 85, 000 in coming years), after remoter this policy, residential property price drop over 30% & also affect the profit of those property development & investment's companies, which are one of the biggest industry in Hong Kong.

In year 2000, when a lot of companies are spending money by fixing their computer system for mike" issue, Hong Kong started to implement another policy that worsen most of companies ' s profitability - implement " Mandatory Provident Fund" (Firm need to contribute additional 5% provident fund for his employee & employee also need to contribute their part (also 5%). In year 2000-2001 , dot. Mom bubble growth finally stopped and technology stocks burst and affected not only the dot. Com companies' <https://assignbuster.com/strategy-in-recession-spending-or-not-to-spend/>

financial result but also affect the overall GAP of Hong Kong as at that time, many people are invested in dot-com's share as they expected it will have a substantial growth in share price.

Finally most of the dot.

Com share ' s price drop over 50%. At last quarter of year 2001, 911 event caused most of the international companies stop investing and even slow down their business as they are afraid of continuous of terrorist attack.

Further, in 1st quarter of 2003, a respiratory viral disease called " Severe Acute Respiratory Syndrome" (SARS), and proves to be deadly was spread out in Hong Kong. In early April, The World Health Organization (WHO) issues a travel advisory concerning non-essential travel to Hong Kong; the tourism industry , retail ; consumable market and related sectors are increasingly hard hit by the SARS outbreak.