



Stanford eCorner

How to Survive in a Downturn Economy

Judy Estrin, *JLABS, LLC*

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Estrin talks about the key things that entrepreneurs can do to adapt to the climate today: 1) Adjust the business model and expenses. 2) Ask yourself, can I afford to run this business at critical mass? 3) Look for areas of incremental growth. 4) Lead with tight execution skills and flexibility.



Transcript

So, let me take a minute before I talked about the kind of entrepreneurial lessons and sums this up by saying, well okay this is where we are. I've put up that kind of white 2003 slide and painted not such a pretty picture, what do we do about it? So this is a slide to just talk a little bit about some of the things that I think we, as an industry and any entrepreneurs going out into the world today need to think about as we adapt to where we are today versus what we've come off for the last 20 years. And the first is that we really do need to adjust are business models and expenses to a whole different growth level. You can have very good businesses in markets that are not exploding if you know what you're doing and know how to manage that but you can't take the business model that you've used in the explosive growth phase and just continue doing it the same way. So there has to be a period of adjusting and adapting. All over the valley, venture capitalists are going into board rooms and saying, "Cut the burn rate. Cut the burn rate." That's kind of the favorite mantra today as boards are sitting around the table. Sometimes you need to cut the burn rate and I just said adjust the business model. But we have smart about what we do and I see a lot of companies and a lot of venture folks, a lot entrepreneurs going around and getting confused about what cutting the burn rate means. Sometimes it's better to cut your losses than bleed to death.

So you need to take a look and say, "Can I afford to run this business at critical mass." Even if it means not making as much money or losing more money or having to raise more money from the outside world because if you cut below critical mass in a technology business and you can't come out with the next generation product and you don't have enough sales people to evangelize, you might as well not do it. So there is a level of critical mass on each business that you just can't cut that with. If you can't afford to keep running at that level, i.e. you're running out of cash, you don't think you can raise more, then it's almost better to fire sale or close up and return the money. Because I see companies all over this valley that the venture folks or the board is bleeding them to death. They will die, no question about it. But it'll be a much more painful death than taking a realistic view and saying, "Okay I need to sell these assets or I need to do something about it." Look for areas of incremental growth. There are still too many people that only want the home run. So both the investors and the entrepreneurs and I have people saying, "Well why we need to do that? That's a little boring." Well you know what? It may be the stuff that's a little boring over the next five years that succeeds because it doesn't always have to be the home run. You can actually do very well in this business in building companies.

They get to be very successful companies but aren't the Netscapes of the world. When you're looking at either starting something or investing in something, really identify whether it's in. Don't kid yourself if something's incremental and thinking that it's breakthrough because the risk reward and the time frame is different between these technologies. You just need to be

really true to yourself about it. Increment, there is nothing wrong with incremental innovation. Every engineer wants to think that what they're doing is breakthrough. Incremental is every bit as important in driving these cycles. It's really clear that a different kind of leadership is required in this time than what we've come off of. And you know, I hope as the people here in the class go out into the world, you really need to think about this, what the management that needs to catch on to the right up elevator and hang on tight and make the right decisions as it's going up, that's a different type of skill set. That one that takes to manage through a down cycle or a flat cycle, which is really about tight execution and really about a level of flexibility and navigating through the hurdles that are putting up in front of you.