



### Four Reasons Why This Recovery Will Be Different

History will tell you, after recessions, growth. After big recessions, even bigger growth. So after the deepest recession since the Great Depression, we should be looking forward to a few good years of strong growth. A rising tide that lifts all boats, letting us loosen our relentless focus on efficiency and cost containment and sell, baby, sell. But this time, history is wrong. This recovery will be weaker and less certain. Companies that want growth will need to stay wedded to their recession-era disciplines of efficiency, partnerships, and cautious investment in innovation.

Why is history not a guide for the recovery? We have identified four factors that make this recovery different:

***Emerging Markets are leading growth.*** Past expansions began with developed economies increasing consumer demand that fueled export-driven growth in emerging economies. This time around, according to [Grant Thornton's International Business Report](#), it is the economies of China and India that have dropped the least in the downturn and recovered the fastest. Due to tight access to capital and smaller size, their ability to drive global growth is lower than the United States or Europe.

***The financial nature of the last boom doesn't provide the same stimulus.*** During booms, companies over-invest in major capital projects. In the following corrections, cheap goods and equipment flood the market and allow new players lower barriers to entry. These new players offer products and services at drastically lower cost, creating new growth markets. But [McKinsey's Global Institute](#) points out that the last boom was led by financial innovation and investment. Other than real estate, this has not resulted in cheap resources for new companies and industries. In fact, it has resulted in a lack of credit and spending as governments, companies, and consumers start the process of deleveraging – exactly the opposite of what is needed to fuel new growth.

***The government bailouts are slowing the recovery.*** The last downturn precipitated the largest government interventions in the economy since the great depression. While these interventions reduced the impact of the recession, the [World Bank](#) points out that they will soon start impeding the speed and size of the recovery. Government investment in

large companies prevented a larger loss of jobs, but it also protected entrenched existing players, keeping barriers to entry high and preventing new industries from reducing costs. Additionally, the large debt burden shouldered by governments will lead to inflation and lower spending, creating more impediments to growth.

***There is no clear “next big thing”.*** During past recoveries, investment became concentrated in a few industries that experienced booms that lifted many other parts of the economy. Green energy looks most likely to attract this investment this time around, says the [Economist Magazine](#). But green energy has suffered a contraction, and has not regained the growth exhibited prior to the recession. It is also the handmaiden to the Sustainability movement, a response to global climate change. Sustainability is about lower growth and less consumption, while climate change will force a more restrictive regulatory environment. These are not likely drivers of a new boom.

In past expansion cycles, many companies could rely on the high growth rate of the market. In the 1990’s, Gateway and Dell rode the wave of growth in the computer industry by capitalizing on the direct sales model. But when the computer market matured, only Dell continued to grow, while Gateway was eventually bought for a dollar a share by Acer. Once the high growth rate went away, the companies had to compete on price and service. Gateway had done little investment in efficiency and cost reductions during the boom. In contrast, Dell is rightly famous for its IT investments, supplier partnerships, and lean manufacturing model that allowed it to win on price and customer service.

The lesson for this recovery is clear: when growth in the United States may be slow and uncertain, investing in growth must be paired with continued investments in efficiency, partnerships, and business model innovation. Our next article will dig deeper into what opportunities exist for companies to grow in this challenging environment.

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