

# No time like the present

By: Sarah Klein  
November 10, 2008



Starting a business, even in the best of times, takes guts. Starting a business as the economy teeters toward recession may seem more than gutsy — it may seem downright nuts.

But with pink slips flying throughout corporate Chicago, there's no doubt that at least a few erstwhile cubicle-dwellers are imagining that their next career move may not involve another big employer. It may be that long-dreamed-of cupcake bakery (or Internet cafe, or dog-walking service, or kiddie portrait studio).

If you're thinking of making the leap into entrepreneurship now, you may not be as crazy as your friends and family think you are. Some of the world's biggest companies were started in downturns. For those who have truly innovative ideas, the strength or weakness of the economy is almost irrelevant. Microsoft Corp., the company that turned Bill Gates into one of the richest men in the world, was incorporated in 1975 — a year when crippling inflation and an economic contraction gripped the United States.

With the right amount of capital, research and marketing, small companies can position themselves well to compete with larger ones. Still, it's best to look before you leap. Here's what experts say you should consider before launching a business in a recession.

## Finding financing

Even before the worst of the credit crisis, gaining access to capital had become a challenge. Traditional sources for entrepreneurs — home-equity lines of credit and other loans — had been drying up for some time.

That doesn't mean money isn't out there; entrepreneurs may just have to look elsewhere to find it. "People should check the cash value of life insurance policies," says Barry Moltz, a Chicago business consultant and author of "You Need to Be a Little Bit Crazy: The Truth about Starting and Growing Your Own Business."

Would-be entrepreneurs also may want to consider using credit cards or getting a loan against retirement funds.

Start-up financing needs are often greater in a recession because would-be customers keep their wallets shut. "It takes more time to bring those clients to you because everyone is going to be more careful," says Glenn Muske, a professor and specialist on home-based and small businesses at Oklahoma State University in Stillwater.

After outlining a business plan, figure it will take three times as long — and three times as much money — to implement, says Kenneth Yager II, managing director of the Chicago office of MorrisAnderson & Associates Ltd., a turnaround firm. If you need \$10,000 a month to cover expenses and you expect it to take two months to sign customers, you should have \$60,000 on hand — or access to it.

Keep expenses down. Don't hire full-time staff until you must. That may mean using freelancers, some of whom may be willing to trade services for equity.

"Don't be afraid of giving (it) out," says Meghan Hoover, founder of XploreU LLC, a travel Web site geared to college students that she plans to launch in Chicago this year. She's raised \$300,000 from angel investors, bank loans and credit cards. "You have to be creative."

## **Customer service: Don't scrimp**

In a recession, the quality of customer service is more critical than ever. Ignore this advice and you'll learn one of the cardinal rules of business the hard way: It's more expensive to create a new customer relationship than to improve an old one.

"It costs \$1 to maintain a customer vs. \$20 to get a new one," says Oklahoma State University's Mr. Muske.

So how do you prevent your customers from firing you? Start making personal visits or phone calls to find out what they think about the business.

"Stay on top of your customers. Ask them how you are doing," advises Mr. Yager, the turnaround specialist.

In hard times, many business owners are reluctant to do this. "People are afraid of their customers," he says. "If it is bad news, you want to know it."

Being responsive to customer comments is critical in a recession. Customers are more irritable and more easily offended in economic downturns, says Tom DeCotiis, CEO of CorVirtus Inc., a Colorado Springs, Colo.-based management consultancy. They'll notice if you cut back on staff or resize a portion.

So don't try to cheapen the experience during a recession. "Just accept you are going to make less money," Mr. DeCotiis advises.

## **The right niche: problem-solving**

Some business ideas are just plain bad in a downturn, like opening a luxury-clothing boutique in a middle-class area or a cafe in a spot where even Starbucks couldn't make it work.

It isn't simply that customers are looking for cheaper versions of their favorite products during a recession; they're looking for products and services that solve a problem, usually one that causes them pain and difficulty. "You have to solve a problem that has intensity attached to it," says Gerald Hills, chairman of the Institute for Entrepreneurial Studies at the University of Illinois at Chicago.

Greg Wozniak, a Morton Grove real estate developer, had just such a problem. He was paying \$4,000 to \$8,000 for high-end doors for single-family-home and townhouse projects.

As expensive as the doors were, they were even harder to come by, he says. Big-box stores sold a few but lacked customer service. Specialty millwork companies demanded 14 weeks of lead time.

With a partner, Mr. Wozniak decided in 2006 he could do a better job by manufacturing doors overseas, importing them and keeping them stocked in a Bensenville warehouse. His company, Doors for Builders Inc., sells doors at a discount — some as low as \$1,100. Sales will reach \$2 million this year, Mr. Wozniak says. The company broke even its first year and has been profitable since. "Small businesses can keep overhead low," he says.

He might have had a harder time if he had tried to set up the manufacturing facilities himself.

"Capital-intensive businesses are going to be really hard to start unless you have capital or assets to pledge (to secure a loan)," says Ellen Rudnick, a clinical professor of entrepreneurship at the University of Chicago's Graduate School of Business and executive director of the school's Polsky Center for Entrepreneurship.

## **Sizing up the market**

When it comes to market research, the best strategy has always been the cheapest: Talk to people who might buy your product or service.

"The sooner you can get your product in front of potential customers, the better," says UIC's Mr. Hills. And don't rely on friends and family for their opinion of your idea. They probably like you too much to be critical.

Another relatively inexpensive form of market research is to pick up the phone and call similar businesses in different cities. Ask: Who are their best customers? How did they find them? How has the recession complicated their business?

"Worst case: They hang up on you. Best case: They give you some phenomenal advice," says Ken Gaebler, president of Gaebler Ventures LLC, a Chicago private-equity firm that specializes in startups.

Another resource: the Web. You can get free access to neighborhood-specific census data and location-specific traffic counts. Also, read SEC filings of public companies in comparable businesses. They may alert you to risks you haven't considered.

When it comes to marketing your new enterprise in a downturn, think the opposite: spend, spend, spend. Marketing is critical. After all, you can't force people to buy your product, notes Mr. Moltz, the business consultant. You can only make them aware that you're around when they're ready to spend. Your message should be pretty straightforward: "I am here. I am here. I am here," he says.

## **Real estate: real risky**

The experts' advice here is simple: Don't buy property and don't sign long-term leases, no matter how tempting the deals may be.

Most new entrepreneurs don't think this way.

"They think you have to have an office to have a real business," says Peg Corwin, marketing chair for the Chicago office of Score, a non-profit that provides workshops and one-on-one counseling for small-business owners.

There are two good reasons to avoid long-term leases and extended purchases during a downturn. First, you're going to need the money for your business. "Those who have the cash in a recession can strengthen their position relative to their competitors," says UIC's Mr. Hills.

Second, you don't know what your business will look like in two years. Your real estate needs may change completely. "Nothing is ever correct in the business plan," says Mr. Gaebler, the private-equity specialist.

If you need to downsize, you may not be able to sell or sublease the space until the market turns around. Instead, consider subletting or moving into unused space in the offices of friends.

"My son and his business partner were really cash-strapped when they started their business. A business associate gave them some extra cubicles so they didn't have to pay any rent," says U of C's Ms. Rudnick.

Ignore offers from landlords who are willing to build out a unit in exchange for a three-year or five-year lease. "That is great in booming times when you get financing. Right now that would be pretty risky," Ms. Rudnick says.

Another possibility is to work from home.

When Ms. Hoover's lease on her office expired in July, she and her XploreU employees began working from their homes, saving the company \$1,450 a month.

"I'm going to save a lot of money," she says.

©2008 by Crain Communications Inc.