

Competitive Intelligence

A quarterly eBulletin from the people who bring you the Competitive Intelligence Executive MindXchange

June 2009 Vol 2 | Issue 2

Strategic Competitive and Market Insights to Propel Profit and Growth

Business Opportunities in a Recession: Just Do It!

By Vinnie Aggarwal
Chief Economist, Frost & Sullivan

With the economy in recession, there has been considerable pessimism about business opportunities. Global gross domestic product growth is projected to decline by about 2% in 2009, or possibly lower, from 4.8% that was witnessed two years ago.¹ Five million people have lost their jobs in the United States within the last year,² credit markets are tight and the financial sector is wounded. What is perhaps less intuitive, however, is that it is also a great time to start a business.

In fact, some of today's top corporations have started in the middle of a recession, with 16 of the 30 companies that make up the Dow industrial average claiming such an origin story. General Electric Co. began during the panic of 1873, and the Great Depression saw the birth of Hewlett Packard.³ Some more recent examples include Supercuts, Famous Amos cookies, Chilis, and Microsoft Co., which all got their start in the 1970s,⁴ and Sun Microsystems, Compaq Computer Co., and Adobe Systems Inc., that began operations in the 1980s' recession.⁵

Yet starting a business even in good times is a difficult endeavor. Perhaps those companies succeeded because they would have succeeded under any circumstance. However, to make this argument is to explore a counterfactual that can never be known and to foist our own knowledge of the present into a teleological interpretation of the past. What we can know for certain, however, is that times of recession offer unique opportunities to start a successful business.

The most important quality of a recession is that it disrupts the economy's normal rhythm, presenting a unique opportunity for new businesses to take advantage. It also offers lower opportunity costs to potential entrepreneurs. Though starting a business may mean quitting a secure and lucrative job in times of boom, the alternative for the unemployed may be less risky. Recessions also change the way in which businesses operate, clients consume and competitors compete, all of which can be advantageous to a new business.

In times of recession, companies reflect more seriously about the basic business essentials. In boom times when credit is loose, it may be easier to obtain funding for an "off-the-wall idea," but in an economic downturn, entrepreneurs are forced to refine their thinking and develop more solid business plans for the future.⁶ There is also a wider pool of applicants to choose from, as many of today's top talents are being let go. Moreover, startup companies are also more likely to have a more committed startup team to work with, as employees are more committed to the companies' success.⁷ Most importantly, there is an urgent need for new ideas and solution to address critical requirements in the marketplace. As companies cut back, low-price alternatives are increasingly demanded, providing an opportunity for new businesses to swoop in.

Economic conditions are also conducive for nurturing small startups. Clients in hard economic times are likely to have loosened their brand loyalties as they shop around for cheaper alternatives.⁸ Potential competitors are also likely to be weakened by the recession, presenting an opportunity for new companies to expand into their fields.⁹ Because everybody is hurting from a recession, businesses that can find innovative ways to reduce costs, instead of just spending money for convenient but more expensive solutions, will be able to sneak in a foothold.¹⁰

Starting a business is hard regardless of the economic circumstances. Starting a business in a recession is no more difficult and, in fact, offers its own set of unique opportunities, allowing one to stay one step ahead when the boom times return. In fact helping the economy develop better, more cost-efficient solutions will lead us to the path to guide everybody out.

¹AME Info, Business Section: November 25, 2008.

²<http://www.bls.gov/news.release/empsit.nr0.htm>

³CNN.com, February 1, 2002.

⁴USA Today, Money Section: October 17, 2008.

⁵CNN.com, February 1, 2002.

⁶Business Innovation, March 26, 2008.

⁷Business Innovation, March 26, 2008.

⁸USA Today, Money Section: October 17, 2008.

⁹USA Today, Money Section: October 17, 2008.

¹⁰The Examiner, March 13, 2009.