

## 14 BIG BUSINESSES THAT STARTED IN A RECESSION

Thought you couldn't start a company during a recession? These enterprises made it big by doing just that.

By **Sarah Caron**

It might seem counterintuitive to start a new business when the economy is in the dumps. But a **recession** can actually be the ideal time for launching a company. In fact, many well-known and successful organizations were born during an economic slump.

Why do these companies succeed? Usually it's because the founders recognized a market need and filled it. Identifying that need — whether it's related to entertainment, travel or even streamlining how businesses operate — is the key to any thriving enterprise, regardless of the economic climate in which it begins. The following major corporations made it big during recessions by doing just that.

**Hyatt Corp.** opened its first hotel's doors at the Los Angeles International Airport during the Eisenhower recession (1957 to 1958). The chain rose to worldwide fame in the following decades and now operates more than 365 hotels in 25 countries with premium services such as wifi **hotspots**.

**Burger King Corp.**, with its flame-broiled burgers, is another recession **startup**. The company began in 1954 when James McLamore and David Edgerton opened a Burger King restaurant in Miami, Fla. During another recession in 1957, the company introduced its successful signature burger — the Whopper. Today, the company operates more than 11,100 locations in 65 countries.

**IHOP Corp.** is another star from the Eisenhower recession. The first restaurant in the now national chain opened its doors July 1958 in Toluca Lake, Calif. Owners Al and Jerry Lapin were at the helm of the fast growing company, which began franchising just three years later. Today, there are more than 1,300 locations across the U.S.

**The Jim Henson Company** was created by famed puppeteer Jim Henson in 1958. Henson's business was responsible for some of the best-known puppet characters of all time including Miss Piggy, Kermit the Frog and Elmo. Today, the privately held company is managed by Henson's children and continues to thrive by creating popular kids-friendly shows and movies.

**LexisNexis** is a research hub for the law, media and more. The company, originally a government contractor, began its LexisNexis computerized legal research service during

the 1973 oil crisis that rocked the country into steep economic slump. The now Web-based service is used in 100 countries by individuals in law, government, education and business.

**FedEx Corp.** began operations on April 17, 1973 as Federal Express, a nod to the Federal Reserve, with whom founder Frederick W. Smith had hoped to get a contract. He didn't, but the company that delivered 186 packages to 25 cities on its first night of operations now manages more than 7.5 million shipments everyday worldwide.

**Microsoft Corp.** wasn't always the jaw-dropping enterprise it is today. In 1975, when it was created by Harvard University dropout Bill Gates, **Microsoft** was just a little company in Albuquerque, N.M. It dealt in rudimentary computing languages and began its climb to business stardom with the success of MS-DOS, which was sold and marketed to IBM Corp. and then-IBM clones. Today, the company is estimated to earn more than \$60 billion in revenue per year and is branching into new areas including **VoIP** and **CRM**.

**CNN** might be a news giant now, but in recession-plagued 1980, it was a little-known station called The Cable Network News. It revolutionized how people received information when it premiered as the first 24-hour all-news channel. Today, 1.5 billion people across the globe watch CNN.

**MTV Networks** brought something new and different to the music scene when it debuted in the economic slump of 1981. Intended to be an all-music-video channel, MTV used VJs (video jockeys) to host programs and facilitate transitions between videos. Today, MTV is a global brand with dozens of shows, music-related and not.

**Trader Joe's** started as a chain of convenience stores called Pronto Markets in the slow financial times of 1958. In 1967, the company changed its name to Trader Joe's and began to carry unique grocery items under its own brand. The company now operates more than 280 stores in the U.S.

**Wikipedia Foundation Inc.** was born during the recent post-9/11 recession. Established in January 2001, the online encyclopedia had more than 100,000 entries by 2003. Today it is home to more than 2.5 million articles and continues to grow.

**Sports Illustrated** magazine was launched on August 16, 1954, at the tail-end of a recession. The magazine benefitted from fortunate timing as a boom in professional sports exploded soon after its founding. Sports Illustrated now sells about 3 million copies in the U.S. each week.

**GE** (General Electric Co.) was established in 1876 by famed American inventor Thomas Edison. In the middle of the Panic of 1873, a six-year recession, Edison created one of the best-known inventions of all time — the incandescent light bulb. In terms of market capitalization, GE is now the third largest company in the world. The enterprise has evolved from a manufacturing-strong business to an enterprise earning more than 50 percent of its revenue from its financial services division.

**HP (Hewlett-Packard Development Company LP)** was inauspiciously born in a Palo Alto garage at the end of the Great Depression. The electronic company, initially supported by a mere \$538 investment, has grown into the first technology business to exceed \$100 billion in revenue, earning \$104 billion in 2007. It now operates in nearly every country in the world.

Recessions, however, aren't advantageous only to start-ups. Pre-existing companies can also make incredible gains in years where the economy is down. Some of the most recent success stories are those of Google, PayPal and Salesforce.com Inc. From 2000 to 2001 each of these companies thrived, leading PayPal to go public in 2002, followed by Google and **Salesforce.com** in 2004

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**1) A recession forces founders to be frugal.** Starting a company without a lot of money is an excellent discipline for entrepreneurs and for every early-stage company. While it may feel painful to track every dime, the lessons that frugality teaches are invaluable. Having limited capital leads to creative thinking, healthy deliberation about expenditures, and the need for founders to pay very close attention to cash flow, budgets and balance sheets.

**2) Recessions force entrepreneurs to take another close look at their ideas.**

Incubating a business that is based on a flawed idea won't work. A great start-up team or a lot of money can lend the appearance of success, but in the long run, a business built on a bad idea will end up standing on shaky legs. During a severe economic downturn, entrepreneurs will be sure to look long and hard at their business ideas before jumping in. A recession will force questions like:

- Will there be a market for this product if customers are cutting back?
- Do I have the capital to get this off the ground without raising VC money?
- Will the product or service benefit users in both good and bad economic times?

These types of questions will force business owners to refine their thinking -- and will leave them with more solid ideas and plans.

**3) Recessions lead to committed startup teams.** A common perception about recessions is that jobs are put in jeopardy. This **may not be true**, but if people feel nervous about their job security, they probably will not want to leave a comfortable situation -- especially for a start-up. But the flip side of this is that anyone who does come to work for a startup will be incredibly committed. A founder will have employees who really believe in his or her vision and products, and/or who love the start-up environment so much that they're willing to live with the added risk and Spartan conditions. Those are the types of people **entrepreneurs need for their teams**.

**4) Startups get a head start.** Let's say you have a great idea and you know that you're going to start a company, but you're wondering about the timing. What should you do? The answer is: Start now. This will give you a lead over the competition, and will be well worth any extra struggle. When the economy comes out of recession, your business will be that much further along, and that much closer to being ready to raise capital (which will once again be available, with VC firms eager to invest after sitting on their cash during the down years). You can get a great head start on that day by starting your business now.

**5) Recessions toughen up companies.** A recession is a great time to start a company, but it isn't the easiest time to incubate a business. That doesn't mean entrepreneurs should back away from the challenge, however. Adversity brings out qualities that every

entrepreneur needs to succeed – guts, problem-solving, strength and perseverance. Starting a company in the lean times helps develop those qualities more quickly, which will help the startups in the long-run.

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By [Rhonda Abrams](#), USA TODAY

OK, you're going to think I'm nuts, but listen up. Because right now is a terrific time to start a new business.

Yes, I am very much aware of what's going on in the economy and the stock market. Yes, I know credit is tight, customers are cautious, the equity in your home is plummeting, and your 401(k) is more like a 201(k). Doesn't seem promising for starting a business, does it? But it is.

History bears me out. When times are bad for the economy, it can be a great time to start a business. In fact, 16 of the 30 companies that make up the Dow industrial average were started during a recession or depression. These include Procter & Gamble, Disney, Alcoa, McDonald's, General Electric and Johnson & Johnson.

Let's take a look at the years 1973-1975. At the time, the United States had an unpopular president, was in the midst of the Watergate scandal and was at the tail end of an extremely costly war that had divided the country. Gas prices jumped by nearly 50% in two years. Consumer confidence dropped to an all-time low.

It was a terrible time to start a business, right? Well, here are just a few of the companies started in those awful years of the early 1970's: Supercuts, Chilis, Cablevision, Industrial Light & Magic, Famous Amos cookies, Oakley and, oh, yes, a small company called Microsoft.

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Why? What makes it possible for new companies to thrive when times are so bad? Why can it be a good time to launch out on your own?

First, there's a lower "opportunity cost." In good times, if you already have a safe job or the company down the street is hiring, starting your own business means giving up the opportunity of a good job. There's a cost to that: a salary, health insurance, other benefits.

Of course, if you have a good job or are offered a good job, I'm not telling you to quit to start your business now. But what happens if you lose your job or you're just finishing school and no one's hiring? There's little opportunity cost in hanging up your own shingle rather than staying home and watching a rerun of "The Simpsons" or Oprah.

OK, but that might just mean creating some income for yourself until you find a job. What actually makes it a good time to start the [next Intuit, Whole Foods, J.Crew, Costco, or Applebee's](#) (all launched during recessions)?

Here's what happens in bad times — disruption. Disruption means things change. And things often change quickly and dramatically. When things change, there are opportunities. And entrepreneurs seize opportunities — that's what makes them entrepreneurs.

Some of the things that are changing:

•**Weakened competitors.** It's likely that many of your competitors are facing tough times, tightening their belts, perhaps retiring or selling out. Hey, even many of the biggest companies are closing up shop.

•**Customers seek cheaper alternatives.** When times are good, customers are likely to stick with the suppliers they're used to — even if they're a more expensive alternative. Now, however, customers are looking around for cheaper alternatives to get the products and services they need.

•**Big corporations cut back.** They slash their marketing and reduce their services, especially to "smaller" customers who might be great customers for you.

•**Loyalties loosen.** As competitors reduce services to customers, and as customers look around for cheaper alternatives, it means they're less likely to be loyal even to longtime suppliers.

That means opportunities for you. Specifically, what you can do:

•**Be the inexpensive alternative.** Target customers who use more expensive options now.

•**Market aggressively.** As loyalties loosen, your competitors' customers are more willing to jump ship.

•**Innovate.** Come up with new solutions, especially less expensive ones, for customers' problems; they'll be in a more receptive mood.

•**Present yourself as an outsource source for big corporations.** You'll be less expensive than the in-house staff they're laying off.

•**Hedge** your offerings by also having products and services that are counter-cyclical.

•**Expand.** See if you can acquire some of your weakened competitors.

In a world of good times, customers are happy, with the attitude that "if it ain't broke, why fix it?" But suddenly, things are broke — and they need fixing. You can be the fixer.

*Rhonda Abrams is president of The Planning Shop, publisher of books for entrepreneurs. Her newest book is Successful Marketing: Secrets & Strategies. Register for Rhonda's free business tips at [www.PlanningShop.com](http://www.PlanningShop.com). For an index of her columns, [click here](#). Copyright Rhonda Abrams 2008.*