



## Recession or Opportunity?

For young entrepreneurs who launched businesses in the booming markets of the past few years, the Wall Street meltdown presents their first real economic crisis. So are they worried? How will they cope? The members of our 30 Under 30 list open up about their fears, where they see opportunity, and what they would do to fix the economy.

By Angus Loten and Laura Palotie | Sep 23, 2008

The recent meltdown in the financial market and plans for a federal bailout has many seasoned business owners reliving grim memories of past recessions and hard-fought battles with tough economic times.

Yet, many younger entrepreneurs are heading into unfamiliar territory. Studies have shown that as a group, 20-something business owners tend to be more flexible than their older competitors, adapting quickly to change -- when they're not outright driving it. Without the added burden of mortgage payments, children, or other financial obligations, many are able to take the kinds of risks needed to come out ahead in a crisis.

That's not say their stamina, ingenuity, and pocketbooks won't be tested as the economic impact spreads, prompting consumers to curb spending and lenders to tighten credit. How will their businesses be impacted? How will they cope?

We put these and other questions to members of this year's 30 Under 30, Inc.com's annual ranking of the nation's coolest young entrepreneurs. Here's what they had to say about the mess on Wall Street.

### Are you worried?

**Aaron Hall, 29, CEO of Borrego Solar System, an El Cajun, Calif.-based solar power company:** Yes and no. I am worried as any slowdown in the economy is bad news, particularly a tightening of liquidity in the capital markets. When people and businesses are struggling, it is less likely that they will spend, particularly on something they perceive as not absolutely necessary. In addition, we are already seeing our bank tighten down. Fast-growing businesses often don't have the best financial ratios, so we may have less access to bank debt, which can stymie our growth potential. On the other hand, now is the time for solar. What this economy needs is to decrease our energy dependence on oil.

**Claire Chambers, 28, founder of Journelle, a New York-based lingerie shop:** I think anything that affects New York -- our primary market, for the moment -- is a big concern. I'm making sure we're taking on fewer risks than usual, and being a little more careful than usual with cash flow, as we see how it will affect us.

**Omar Soliman, 27, co-founder of College Hunks Hauling Junk, a Tampa, Fla.-based junk removal firm:** As an American, regardless of being a business owner or not, I think it is hard not to worry about the current state of the U.S. market. However, peaks and valleys are part of the natural progression of any economy. Right now, we are obviously in a valley, but I am very confident in the resiliency of this country. We tend to learn from our mistakes and bounce back stronger than before.

**Rob Van Etten, 28, founder of Brighton Cromwell, a Randolph, N.J.-based supply chain management firm:** Yes. Anytime it becomes more difficult to borrow it makes it more difficult for companies to grow. Anytime we start to question the strength of our financial system we know there is a problem.

**Stephanie Goldman, 26, co-founder of Family Creations, a Woodland Hills, Calif.-based egg donor organization:** As an American, I think you have to be worried about the financial crisis. People are losing their homes, jobs, equity. It is a very difficult time for our economy, however hopefully with this treasury plan that should be voted on this week, liquidity should ease up and the economy will hopefully recover.

**Matt Mullenweg, 24, founder of Automattic, a San Francisco-based software firm:** Of course, it's the worst financial crisis in my lifetime. But with regards to our business and assets, it doesn't change any of the fundamentals and we have little or no exposure to financial companies. It does make me glad we made a decision to put our cash into the safest securities possible -- T-bills -- rather than try to squeeze out a few extra basis points.

### **How would you describe the current business climate in your industry?**

**Hall:** Our industry is skyrocketing. There is a lot of consolidation and investment in the space. There is one threat to our medium-term growth and that is if the extension of the federal tax credits for solar do not get extended this year, which really means this month.

**Van Etten:** Currently, a lot of companies are having both layoffs and hiring freezes. In my industry, there is much uncertainty in how a change in administration will affect military spending. It is both a cost cutting game and a waiting game.

**Soliman:** Fortunately, the junk-removal industry is not as affected by the market crisis as some other businesses are. Benjamin Franklin once said "Nothing is certain but death and taxes." I would have to add junk to that list.

**Chambers:** Wary. When buyers worry, so do manufacturers, and I think that reduces lingerie designers' ability to take risks and create items that really catch the consumer's eye. From consumers, while we haven't seen overall sales suffer too much, we have seen a drop-off in big purchases in the last week, quite remarkably, as people worry about what will happen locally.

**Goldman:** Our industry has been seemingly unaffected by the economic slump. There are two aspects of our business plan. One is recruiting egg donors. Egg donors receive a sizeable fee per donation, so with a weak economic cycle, there are more women applying to become donors in hopes of supplementing their income. The second aspect is marketing to intended parents looking to use a donor. With a larger amount of egg donors, we have more options for intended parents to choose from.

**Mullenweg:** Good! More people are publishing online everyday and continue to choose WordPress to do so. Most consumer Internet start-ups like ours have products that are either free or low-cost, so things will have to get a lot worse for people to start thinking twice about spending one or two dollars a month.

### **As a young entrepreneur, do you find it harder to get credit during tough times?**

**Hall:** It is not as a young entrepreneur, but rather as a rapidly-growing, highly leveraged business that is making it difficult for us to obtain credit.

**Van Etten:** I don't believe so. As long as you have a sound business you are on an equal playing field as other small businesses. They may be lending less to other small businesses, but it is based on the market rather than my age.

**Soliman:** I think it will be very hard for a young entrepreneur to obtain credit in today's market. When we first started in 2004, we had to go to eight different banks before we got a loan on our first truck. We kept getting turned down because it was too "risky" to lend money to a couple of 22-year-olds. Back then, the credit crunch was nothing like it is today. So a young entrepreneur will have to be creative when obtaining financing.

**Chambers:** Definitely. I still haven't been able to get anything but very basic credit, and I've recently seen requirements for loans and other growth capital increasing in scope and complexity. As for investment, the last month has been a rollercoaster with investors, but I'm also seeing the appetite for angel investments increasing as brick and mortar investments actually start to look safe compared to the stock markets. This is a good thing.

**Goldman:** We are very fortunate that we have not required additional capital during this time. Our financial management team has been doing a great job controlling our expenses.

**Mullenweg:** Nope.

### **Do you think younger business owners are able to take bigger risks during an economic slump?**

**Hall:** Yes, although some younger business owners, myself included, have not had that experience yet.

**Van Etten:** No, I don't. Younger business owners must be very careful to run a sound business that manages their cash flow. They have less equity built up than more established businesses to take on these risks.

**Soliman:** I think young business owners can definitely take on more risk. My business partner and I are not married and we don't have any children. This allowed us to roll the dice more without having to worry about how our decisions would affect our family. It would have been very difficult for us to invest the \$250,000 back in the business for our national expansion if we had mortgages or kids' tuitions to worry about.

**Chambers:** I think younger business owners have the mentality that they've already risked a lot. I personally feel like if I can soldier on, and grow, during this time, then we'll be one more step ahead when the economy is starting to look healthier again. I don't want to be foolish, but I do think it's important not to get paralyzed by all the fear that's out there, and perhaps my youth helps me push ahead.

**Goldman:** To be successful, business owners will always have to take risks. The goal in any type of economy is to do as much due diligence as possible before taking on a new project or venture. However, any business owner should be able to recognize and seize opportunity when it presents itself.

**Mullenweg:** I don't think it's about taking more risk or not, it's about setting up the business to be sustainable even through an economic slowdown and use the cycle to pick up great people, customers, and assets at bargain prices.

### **Overall, what do you think should be done to help turn the economy around?**

**Hall:** Invest in the solution, not the problem. The problem is our dependence on oil. "Drill, baby, drill" is not the mantra of change and progress. If they want to drill, fine, go ahead. But besides the fact that it may be a bad environmental move, and the fact that it will not really make any material difference, it is distracting us from spending time on real solutions.

**Van Etten:** Historically, the market has always corrected itself. I feel very uncomfortable with the government picking and choosing what companies they bail out. The government and Federal Reserve must continue to make a business-friendly environment with lower taxes and other pro-growth policies. At the same time we must learn from this incident. The way companies will learn is by not getting get bailed out for making bad decisions. This country became great through capitalism and the free market. Over-regulation will hurt us in the long term.

**Soliman:** Over the past decade, the United States has seen a diminishing middle class. What the big companies and politicians need to realize is that the middle class is the foundation of this great country. "Trickle Down" economics does not work. It's time to put policies in place to protect and stimulate the hard working people of this country.

**Chambers:** If I knew that answer, I'd be helping Paulson! While I certainly don't want to see the U.S. in an extended recession, I do want those who have participated in creating this environment to learn sufficiently from their mistakes, so I hope we're not too quick to bail everyone out.

**Goldman:** There are many things that need to change for this economy to turn around. I don't have the answers. I trust in our Treasury and our Federal Reserve to get us out of this mess.

**Mullenweg:** I think we should stop the bailouts to avoid creating a moral hazard that will engender worse market corrections in the future. It's best to take our hits now and build a solid foundation for the next 100 years of growth. American entrepreneurs are just as smart and hard-working as they were two months ago and we can grow our way out of this slump.

<http://www.inc.com/30under30/2008/articles/feature-economy.html>