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Inc.

STARTING UP IN A DOWN ECONOMY

Nobody loves a recession.* But many successful entrepreneurs say that, in retrospect, they were lucky to have launched their businesses in tough times

Let me save you time and money

Andrea Arena was 24 in 1991 and says she had no idea that the economy was bad: "I was too young to notice it or maybe too naive." At the time, Arena worked at a restaurant and lived in a drafty apartment in Atlanta with a roommate. "I dated a lot—to eat," she says. When friends who slaved away in cubes for large consulting firms told her how overworked they were, a light bulb went on. She went to the HR departments at Andersen Consulting and Ernst & Young and told them that she would pick up their employees' dry cleaning and walk their dogs. Workers would be less stressed out, she explained, which would boost retention. Arena also suggested that if the consulting firms would pay her in full before the start of the next fiscal year, she would happily give them a 1 percent discount. Both companies signed on as clients, and Arena's company, 2 Places At 1 Time, was on its way. *—Jill Hecht Maxwell*

CASE STUDY NO. 1

How Method Weathered the Dot-com Bust

k BACK on the early days of their start-up, Adam
Ryan remember that a lot of potential investors
. The Bay Area, where they were living, was
t start-ups. Each week in 2000 brought another
y or news that the scantest of business plans had
capital. Even office landlords were demanding
dot-com tenants. Lowry and Ryan, who wanted
y to make—of all things—humdrum household
ecidedly out of step with the times. "You had the
was this real historical thing going on in the re-
s not going to end well," says Ryan.
Lowry felt they had a good idea.
tart-up, wouldn't sell just any
cts. Its soap and cleaning supplies
om environmentally friendly in-
ould come in chic packaging.
he products of giants like Procter
& Gamble and Clorox, Method's merchandise would be hip. So the partners passed on interesting and potentially lucrative job offers and pooled $100,000 in personal savings to get started.

You know what happened next: The go-go New Economy abruptly ran out of steam. Dot-coms ran out of money, layoffs were rampant, and the entire city of San Francisco seemed to suffer from an economic hangover. People started to worry openly about a recession.

Like most business owners facing hard times, Lowry and Ryan focused on their costs. They were expert bootstrappers, mixing cleaning solution in a bathtub, bottling it themselves, and driving around town to restock shelves. They would accost any store manager who would listen to their spiel. They returned to some stores three and four times before they got an order, and little by little their sales pitch improved. And the partners noticed something else: Compared with the situa-

*A recession is commonly defined as two consecutive quarters during which the country's gross domestic product shrinks. It is too soon to say whether the economy is in a recession now.

e, when there seemed to be five start-ups
or a business, the competition was rela-
Starting a business in a recession is like
he off-season," says Ryan. "It's a little less
verything starts going on sale."
2001, Lowry and Ryan had gotten small-
n on track and had hired a CEO named
d. But Method's debt stood at $300,000,
three men's personal credit cards. Pay-
vendors were three or four months past
point Lowry and Ryan had just $16 left in the bank.
eal to the inner entrepreneur of each of our ven-
y. "We had to sell them on the fact that Eric and I
hing that had never been done before."
Ryan also tried again to raise money, and with VCs
e with dot-coms, they found that there was more
dea. In early September 2001, the partners received
a term sheet for $1 million—a sum that would allow Method to get current on its bills and then begin to expand. They were set to close the round on September 11. Needless to say, the deal didn't go through right away; the partners finally closed in November. And there were some serious strings attached. Lowry and Ryan would receive $550,000 up front. Of that money, the legal fees associated with the transaction

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winning their business.

> "Starting a business in a recession is like vacationing in the off-season," says Method's Eric Ryan. "It's a little less crowded, and everything starts going on sale."

was declined. And Dorward's. Their backup cards were declined, too. "It's a good thing Eric knew the owner of the restaurant," says Lowry. "We convinced him we were good for it—that that guy over there was about to give us a million bucks."

Method did make it into 800 stores by March—though just barely. When Lowry and Ryan got the remainder of their Series A funding, they paid off old accounts and then jumped right back into fundraising mode. With the recession in full swing, venture capitalists were being very picky when it came to making new investments. But Method, which had been ignored barely 18 months earlier, was suddenly a Bay Area darling. "It was really interesting," says Lowry. "We used to be completely off investors' radar screen, but when the bubble burst, people were clamoring for us. Our business plan wasn't some sort of ad-based or online thing that was hard to understand. Our model was, 'Hey, we're going to make this cool product, and if you think we can sell a lot of it, then it's a good investment.'"

Being able to raise money in 2001 undoubtedly put Method on the growth path. By 2006, the company had $71 million in