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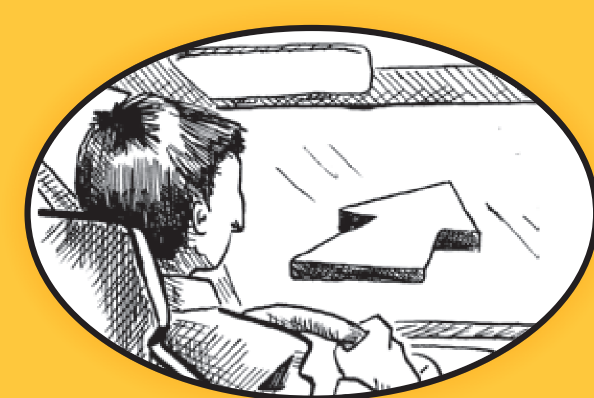
The Recession(?) Survival Handbook



HOW TO:
- ☞ STEER YOUR COMPANY IN THE RIGHT DIRECTION
- ☞ SURVIVE A BEAR MARKET
- ☞ LAUNCH A BUSINESS IN ROUGH WEATHER
- ☞ AND MORE!

Starting on page 16

ILLUSTRATIONS BY JESSICA SHEA

FOREWORD

The Rules of Surviving a Bad Economy

BY SARA DONNELLY

Unless you've been living under a rock and subsisting only on grubs and wild blueberries, you know the economy has lately made us all feel like an Outward Bound teenager navigating her first ropes course — unstable, dizzy and very likely to cry when it's all over.

Are we in a recession? Until we've seen a decline in the nation's gross domestic product for at least two consecutive quarters, we can't officially say yes. But that hasn't stopped investor extraordinaire Warren Buffett, former Federal Reserve Chairman Alan Greenspan and former U.S. Treasury Secretary Lawrence Summers from dropping the "R" bomb. To add to the semantics game, minutes from the Fed's March meeting show that the Fed is not debating whether we are in a recession, but rather how deep and how long that recession will be, according to the Associated Press.

Well, never fear, scouts. *Mainebiz* is here to share our survival tips for doing business in an ailing economy. While *The Worst-Case Scenario Survival Handbook* by Joshua Piven and David Borgenicht (Chronicle Books, 1999) offers plenty of helpful tips for how to jump from a moving car or fend off a shark, we gathered simple advice from local and national experts on how to survive — and even prosper — during an economic downturn.

As you peruse the handbook, keep in mind the motto of every survival trainer, as written by Piven and Borgenicht — "Learn to return." Or, as we like to put it, "Stay smart, stay in business."

How to take off in a thunderstorm

When launching a new business during a downturn, the future may be so stormy it could be hard to see 10 feet in front of you. This makes taking off particularly challenging.

1. Identify the safest course, and stick to it.

"The first thing to do is take a very careful look at the market," says David Hill, director of the Maine Small Business Development Center at Coastal Enterprises Inc., in Wiscasset. "There are some products and services that will be there no matter what. A shaky bet might be a restaurant in a small town that already has five restaurants. Competition is heavy and people might not be eating out as much as they used to when the economy gets slower."

Companies peddling basic necessities like food, clothing and what have become must-have services like cable and Internet stand to do well in a downturn, Hill says.

2. Make sure you take off on time.

Hill says it's especially important during a downturn to time the launch of a business correctly. Not only are consumers more conservative with their dollar when the economy is shaky, but financing may also be harder to land. Of the 200 or so clients Hill works with at SBDC, he estimates about 10% have been hindered by disappearing or delayed financing in recent months. If bank loans or loans through business development organizations like the Finance Authority of Maine, the Small Business Administration or CEI aren't an option, Hill says a determined entrepreneur in today's economy may have to turn to family, friends, angel investors or venture capitalists to find the financing to launch.

3. Plan your trip.

Hill says first-time entrepreneurs often don't have a business plan, an oversight that can leave the fledgling operation without crucial focus. Hill recommends writing a business plan early, and making sure it's viable. "Be certain that what you have is a plan that has reasonable assumptions about the revenue that you are going to generate and what your business expenses are," he notes. "Work with a small business development councilor and get as many objective opinions about your revenue projections as possible. It's always a guessing game and fortune telling — there's no real certainty about anyone's numbers other than to try to confirm them with as many different objective sources as possible."

How to Escape from a Bear Market

The stock market is running wild lately, grizzly one day and cuddly the next. What's an investor to do?

1. Don't panic.

"We never want to be in a position to sell anything in a down market," says David Hines, portfolio manager and research analyst at Portland's H.M. Payson & Co., one of the oldest investment firms in the country. Hines cautions investors to be as careful about selecting stocks when a bear market attacks as they would facing a bull market.

2. If the bear charges, run far and fast.

Hines recommends investors with short-term goals consider bonds or cash, and that long-term investors consider international corporations doing business in growing third-world countries. Coca-Cola, Hines says, does more than 80% of its business overseas. During the 12 months through early April, Coca-Cola's stock rose by nearly 24%; the S&P 500, by comparison, fell over the same period by 5.6%. Colgate and Johnson & Johnson are other multinationals Hines favors.

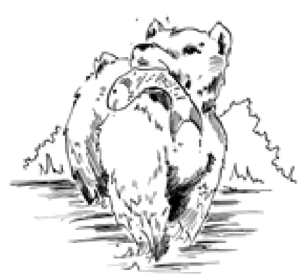
Clifford Dow, the chief investment officer at Dow Investment Group in Falmouth and a financial analyst for more than 40 years, says the rate of inflation could hit between 10% and 15% by early 2009, and that keeping your money active is critical. "If we're trying to protect our purchasing power and we're worried about inflation," he explains, "we have to own something for which the replacement will track or outpace inflation." Don't, for example, invest in CDs with interest rates that may be plowed over by inflation. Dow suggests stocks, or tangible property like real estate, factories or farmland.

3. If the bear has you in his grip, grab weapons.

If you're in this fight for the long term, now can be a great time to buy stocks, which have been battered and bruised during the past few months. Dow warns investors to pick carefully. "If we're going to have a really bad recession, god forbid a depression, a lot is going to happen to common stocks," he says. "The weaker capital companies will go down and not come back. Make sure the common stocks you own are of very high quality." Dow wouldn't buy stocks from companies rated lower than A- by Standard & Poor's.

Keep a sharp eye out for these bears:

Grizzly bears



- The fallout from subprime loans gone bad continues to rile the market. Following Bear Stearns' collapse, Goldman Sachs analyst Andrew Tilton told *BusinessWeek* magazine he expects U.S. financial institutions to record $460 billion in total credit losses, and few economists are willing to predict exactly when the bear will utter its last growl.

Baby bears

- The slump may have a lot of living to do. In a recent survey of 55 economists by *The Wall Street Journal*, three out of four believe we are in a recession, and nearly 75% say we haven't hit bottom yet. Meanwhile, 67% of those polled believe U.S. house prices will hit bottom next year.

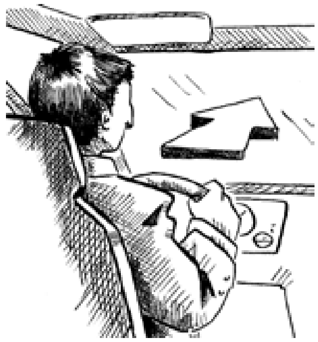
Teddy bears

- Some economists warn late-March's encouraging bump in the stock market is nothing more than a temporary rally. Indeed, what appears to be a kinder bear could be little reason to rejoice because more doom and gloom could plunge prices lower.

How to Steer your Business in the Right Direction

When the road your business is on gets too rough, a survivalist has to know how to get on the right track.

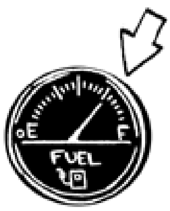
1. **Stay alert and keep your eyes on the road.**



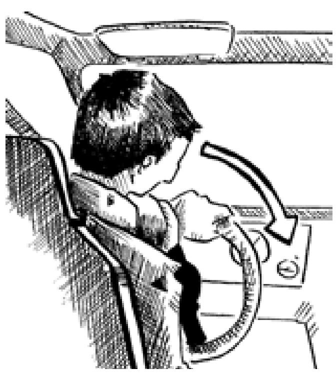
If you're worried your company's heading down the wrong path, draft a year's projection of revenue, expenses and cash flow, says turnaround consultant Joe Steiner, owner of CFO Associates in Brunswick. Laying out in black and white how strong your company is and will be, Steiner believes, is the first step in developing what he calls an "intelligent response" to economic pressures.

2. **Make sure you have enough gas.**

"The worst, worst thing that can happen is that you run out of cash, because then you end up declaring bankruptcy," says Steiner. Figure out how long your cash-to-cash cycle is, or the time it takes between selling and getting paid for your product or service. "You ought to have enough cash to get you through that cycle," he says. "What will happen in a downturn, well, two things — your customers will want to extend out how long it takes to pay you and your suppliers will want to be paid more quickly. So everybody is getting squeezed."



3. **Turn your accounting around sharply and stay focused.**



If you don't have a reliable, clear financial map and organized accounting practices, your business may careen off the road when the economy gets rocky. "Companies that get into trouble by and large have poor accounting systems and poor reporting systems so management doesn't really know where they are," Steiner says.

Tips and tricks

- If you're sputtering, let your lenders know. "Saying, 'I've got a problem, here's how I'm going to work it out,' they are a lot more likely to stay with you and maintain that dialogue," Steiner explains. "What lenders hate is bad surprises."
- Go after your outstanding IOUs, and don't waste time with the ones you'll likely never get back, says Deb Neuman, director of the University of Maine's Target Technology Incubator and host of the radio show "Back to Business." Focus on maintaining your cash cushion — examine your expenses to become more efficient (take fewer business trips, for example), work with your lender to temporarily lower loan payments, or barter with other businesses (make sure to declare the transactions on your taxes, Neuman cautions).

Major economic downturns of the last 100 years

1918-1921 | **Post-WWI Recession**

1929-1933 | **The Great Depression**

The crash of the U.S. stock market led to soaring unemployment, a dwindling money supply and the failure of nearly half of the country's banks. Maine industries took a hit, but the state's strong agricultural sector helped it fare better than most other states, according to Hank Gemery, professor emeritus of economics at Colby College in Waterville. The Great Depression was followed by a recession from 1937-1939.

1946-1948 | **Post-WWII Recession**

Rapid post-war disarmament prompted what had been a booming wartime economy to decline, especially in Maine, where thousands had joined the war effort making weapons and building Navy vessels and Liberty cargo ships. Almost 30,000 shipbuilding jobs were lost after the war, and it took about two years for the manufacturing industry to readjust, says University of Southern Maine economist Charles Colgan.

PHOTO/COURTESY MAINE HISTORICAL SOCIETY, FROM THE COLLECTIONS OF THE NORDICA MEMORIAL ASSOCIATION

1953-1954 | **Recession of 1953**

1957-1958 | **Recession of 1957**

1973-1975 | **1973 oil crisis**

OPEC cut production of oil and put an embargo on shipments to the West, including to the United States, which sparked the nation's second worst recession since World War II. Maine's heavy dependence on oil for heat and manufacturing made the state particularly vulnerable, says Colgan.

1981-1982 | **Recession of the early 1980s**

To control high inflation, the Federal Reserve raised interest rates to nearly 20%, which led to job losses and the beginning of the savings-and-loan crisis that lasted into the 90s. Though this was the country's worst recession since the Depression, Maine and New England escaped the brunt of its effects. Since the economy here was still relatively weak because of the 1970s recession, rising interest rates didn't affect us as dramatically as other states, Colgan says.

1990-1991 | **Recession of the early 1990s**

A spike in oil prices due to the start of the Gulf War and the continued floundering of savings-and-loan institutions led the country into a mild recession. Maine and New England were hit harder than other parts of the country because the economy here had grown rapidly in the late 1980s, according to Colgan.

2001 | **Recession of the early 2000s**

The collapse of the dot-com bubble in 2000 coupled with the September 11, 2001, attacks meant a drop in business spending and layoffs, particularly in manufacturing. The effects in Maine were relatively mild, Colgan says. Though Maine lost a number of manufacturing jobs, the overall number of lost jobs was offset by growth in the education and health services sectors.

Mindy Favreau

Sources: CNBC, National Bureau of Economic Research

How to defuse a bomb

Layoffs can have a sudden impact on morale. A bomb like this, if ignored, can wreak havoc on interoffice politics. Practice the following tips to contain an office explosion

1. Identify live wires.

If cutbacks are necessary, be honest with yourself about who really needs to go.

"A lot of times, the attitude of owners is 'We want to do this as fairly as possible,'" says Kenneth De Meuse, a management professor at the University of Wisconsin-Eau Claire and co-author of the 2005 book *Resizing the Organization: Maximizing the Gain While Minimizing the Pain of Layoffs, Divestitures, and Closings*. "What often then happens is they look at years of service, and that is not a good indicator of who to keep."

Instead, De Meuse says executives and owners should identify who on staff demonstrates what he calls "learning agility," or the ability to not only excel at their present tasks, but also to learn and adopt new skills that will contribute to the future success of the business.

2. Handle with care.

Layoffs at small businesses or those with generations of employees from the same family, as is the case with many Maine companies, can be especially painful for everyone involved, De Meuse says. Expect that you will feel anxiety leading up to the announcement, and that your remaining staff, who De Meuse calls "survivors," will also endure a range of emotions, including anger, fear and insecurity. The principal concern for most employees, De Meuse says, is self-preservation. They want to know "what's happening next, what's happening to the company, to my job?" says De Meuse. "Everybody personalizes it."

3. Talk through the defusing.

Immediately after a layoff, De Meuse advises owners or executives to hold frequent, 15-minute meetings with survivors to talk about their concerns. If the company employs hundreds or thousands, have supervisors hold the meetings. The key is to be as honest as possible to relieve anxiety, but not to get into specific figures or plans that later might change. "You always want to be honest, and maybe honesty is you don't know what's going to happen next," De Meuse says. "People would rather be told the bad news honestly than told the wrong thing. They may not like hearing it, but they can deal with it much more effectively than if you mislead them."

If survivors press for nuts-and-bolts details such as, say, revenue projections or the number of anticipated future layoffs, De Meuse says avoid giving them. "Oftentimes the details shift, and if you are very specific and detailed about saying something will happen or won't happen and you change it, then employees will feel you manipulated them." Instead, De Meuse explains, "Say you can't share that information with them. 'These decisions are still being mulled over and I can't discuss that, but as soon as I can you will know.'"

4. Face reality: Other bombs are out there

Ready to promise this is the last of the layoffs? Don't do it, says De Meuse. "Don't tell employees that this is it," he says. "Mostly because if there's going to be a second wave and a third wave of downsizing in the future" you could lose all credibility with your staff.

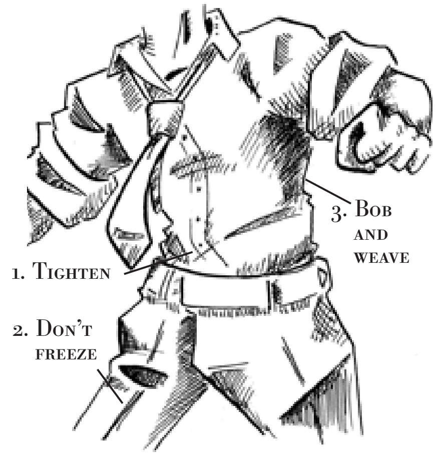
How to Take a Punch at Work

Facing a layoff during an economic downturn can assault your sense of self and stability. Here's how to take the hit and come back swinging.

1. Tighten your finances.

A body blow to your career can send you and your family reeling if you don't have a cushion of savings. Experts recommend stashing away six months of living expenses. But plenty of people don't take that advice, according to career counselor and motivational speaker Susan Arledge of Portland.

To brace for bruised income, educate yourself about the reality of being laid off. Seek immediate guidance from one of the state's CareerCenters, or an independent career center like the Training Resource Center in Portland. Services at these centers are free, and counselors can help you sign up for unemployment and access any special programs or grants to help you retrain and find new work. Also, sit down with your family and figure out what expenses can be eliminated from your monthly budget to better allow you to bob and weave.



2. Don't freeze on the spot.

Getting laid off is often a terrifying experience, Arledge says, not only because of financial concerns but because most people's sense of self-worth is tied up in their job. But Arledge says being laid off can also be a great opportunity to examine what was right and what was wrong about your career path. This kind of positive thinking will never see the light of day, she cautions, if you fall into the common trap of obsessing about the layoff. "I see people who focus too much on the event and not enough on themselves," she says. Some people are still dwelling on the punch several months after the fact, wondering what went wrong, blaming themselves for the lay-off, wasting valuable energy, Arledge says, that could be better spent finding work.

3 . Bob and weave

"If people could just stop and take a breath and realize it's a transition," says Arledge, then the layoff can be used to assess where they are with their job and their career. Former clients of hers have gone back to school, switched careers or launched their own businesses after a layoff. Networks can be indispensible to navigating a shift — not just for job leads, but for feedback and brainstorming. Don't think you have a network? "I give people homework," Arledge explains. "Kick off your shoes, sit down with a yellow tablet and write down all the people you know in your life — neighbors, friends, the person who does your hair. Recognizing who is in your network is key."

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