

# High-tech Startup Businesses in a Recession

## Why Now May Be the Right Time for Opportunistic Entrepreneurs

By JEFFREY I. FIALKY

To the casual observer, this might seem an inopportune time to be launching a new high-tech start-up venture, and, in many respects, the conditions are certainly not ideal.

The economy, while no longer in freefall, continues to struggle, negatively impacting consumer and business spending. Meanwhile, access to credit has been tightened, venture capitalists and angel investors are being far more cautious with their money, and, in general, capital is more difficult to attain.

But for those with entrepreneurial spirit, where there is a will, there is usually a way, and while this economy poses challenges to those looking to start a business, this may in fact be the time to move forward and strive to take an idea from the drawing board to reality.

Why? Because business owners and consumers are constantly seeking more and better ways to utilize today's telecommunications technology, and history shows that there are substantial rewards for those who can develop such ways. And at the same time, this technology is enabling companies to operate in a seemingly virtual manner and to market themselves effectively and very inexpensively using social-media outlets that are soaring in popularity.

So, while capital may be harder to come by, today's high-tech startups often need far less seed money than those of a generation or even a decade ago. Couple this with constant demand for technology that is better, faster, and more versatile, and it's easy to see why many entrepreneurs are not waiting for the economic storm clouds to clear before taking their bold step forward — new Internet portals, trended Web sites, Web-based games, and Internet-driven applications are budding all around New England, and right here in Western Mass. — and why others should follow suit.

The technology sector is not recession-proof, as everyone learned when the dot-com bubble burst at the start of the this decade, but there are business opportunities to be found — and developed — in any economy, even a severe recession such as this one. And a downturn often provides need and incentive, as individuals finding it more difficult to secure attractive jobs look instead to bring

their new ideas to the marketplace.

And in this climate, they can, and often must, do so with modest initial capital investments. Today, entrepreneurs are often implementing business plans with less than \$25,000, and sources for meeting such smaller capital demands may be more approachable to borrowers with little proven track record or collateral, such as funds from sav-



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ings accounts, home equity loans, and friends and family.

As an example, consider the case of Michael Vann, a principal with the Vann Group in Springfield and also a serial entrepreneur. He recently launched NextUp Careers, an Internet portal aimed at the reliability engineering and predictive-maintenance market. "Five years ago, developing our platform without a lot of capital would have been impossible, but with cloud computing and open-source software development, costs are a fraction of what they used to be," he said.

In order to compensate for modest operating budgets, new companies are relying upon social networking and viral marketing in order to advertise their products in the marketplace. Social networking sites such as Facebook, Twitter, and LinkedIn have become inexpensive substitutions to more costly traditional media platforms for product and service advertisement.

"These marketing tactics are the online version of working the room," said Christine Pilch, co-owner of Grow My Company and a social-media consultant. "They take the networking that many successful entrepreneurs have been doing for years to a new level with a much broader reach. And best of all, these tac-

tics are largely permission-based. The people receiving your messages have signed up to hear them."

Certainly, not only have changes in technology enabled new businesses to reduce marketing expenses, but innovations in telecommuting have permitted companies to work in virtual environments without commuting limitations based upon geography. Today,

companies are looking for virtual business packages; while they want a physical business address and both conference rooms and advisory services on-demand, their employees are working remotely, sharing and editing documents online for free with Web-based apps such as Google Docs.

Entrepreneurship, in any sector, is not without challenges, however.

It certainly takes a special personality and business acumen to enable individuals to take the leap and go into business for themselves. And in addition to the spark of innovation, new entrepreneurs operating on a shoestring budget should be mindful of the fact that they may not have much by way of capital return for some time following commencement of their business.

While new businesses have traditionally not been profitable for the initial six to 12 months of operation, high-tech startups in the current economic climate may have to wait a year or two before showing a profit.

For individuals contemplating the launch of a new business venture, there are some considerations that should be kept in mind:

- Assume that each dollar item in your business plan has been understated, and will cost at least 30% more than anticipated;
- Expect that each date, including launch date, will be inevitably delayed, and that everything takes longer than estimated;
- Plan for an alternative income source during the start-up period, as the business may not be profitable for 12 to 24 months;
- Negotiate with all vendors for a fair price,

as the current economic climate is more amenable to compromise on price;

- To avoid liabilities, rely on professional advisors. Do not make any assumptions, but instead consult your accountant, attorney, and business advisor; and

- Use low-cost, Web-based applications and marketing strategies to reduce overhead costs.

Taking these steps can certainly help improve the odds for success in any economy, but especially a recession like the one being experienced today.

These are not the best of times to be starting a new business, but, as many economists suggest, economic downturns do breed opportunities. Changes in technology, and demand for more innovation, can enable

entrepreneurs to make the most of these opportunities. ■

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