Why to Start a Startup in a Bad Economy

October 2008The economic situation is apparently so grim that some experts fear  
we may be in for a stretch as bad as the mid seventies.When Microsoft and Apple were founded.As those examples suggest, a recession may not be such a bad time  
to start a startup. I'm not claiming it's a particularly good time  
either. The truth is more boring: the state of the economy doesn't  
matter much either way.If we've learned one thing from funding so many startups, it's that  
they succeed or fail based on the qualities of the founders. The  
economy has some effect, certainly, but as a predictor of success  
it's rounding error compared to the founders.Which means that what matters is who you are, not when you do it.  
If you're the right sort of person, you'll win even in a bad economy.  
And if you're not, a good economy won't save you. Someone who  
thinks "I better not start a startup now, because the economy is  
so bad" is making the same mistake as the people who thought during  
the Bubble "all I have to do is start a startup, and I'll be rich."So if you want to improve your chances, you should think far more  
about who you can recruit as a cofounder than the state of the  
economy. And if you're worried about threats to the survival of  
your company, don't look for them in the news. Look in the mirror.But for any given team of founders, would it not pay to wait till  
the economy is better before taking the leap? If you're starting  
a restaurant, maybe, but not if you're working on technology.  
Technology progresses more or less independently of the stock market.  
So for any given idea, the payoff for acting fast in a bad economy  
will be higher than for waiting. Microsoft's first product was a  
Basic interpreter for the Altair. That was exactly what the world  
needed in 1975, but if Gates and Allen had decided to wait a few  
years, it would have been too late.Of course, the idea you have now won't be the last you have. There  
are always new ideas. But if you have a specific idea you want to  
act on, act now.That doesn't mean you can ignore the economy. Both customers and investors  
will be feeling pinched. It's not necessarily a problem if customers  
feel pinched: you may even be able to benefit from it, by making  
things that save money.   
Startups often make things cheaper, so in  
that respect they're better positioned to prosper in a recession  
than big companies.Investors are more of a problem. Startups generally need to raise  
some amount of external funding, and investors tend to be less  
willing to invest in bad times. They shouldn't be. Everyone knows  
you're supposed to buy when times are bad and sell when times are  
good. But of course what makes investing so counterintuitive is  
that in equity markets, good times are defined as everyone thinking  
it's time to buy. You have to be a contrarian to be correct, and  
by definition only a minority of investors can be.So just as investors in 1999 were tripping over one another trying  
to buy into lousy startups, investors in 2009 will presumably be  
reluctant to invest even in good ones.You'll have to adapt to this. But that's nothing new: startups  
always have to adapt to the whims of investors. Ask any founder  
in any economy if they'd describe investors as fickle, and watch  
the face they make. Last year you had to be prepared to explain  
how your startup was viral. Next year you'll have to explain how  
it's recession-proof.(Those are both good things to be. The mistake investors make is  
not the criteria they use but that they always tend to focus on one  
to the exclusion of the rest.)Fortunately the way to make a startup recession-proof is to do  
exactly what you should do anyway: run it as cheaply as possible.  
For years I've been telling founders that the surest route to success  
is to be the cockroaches of the corporate world. The immediate  
cause of death in a startup is always running out of money. So the  
cheaper your company is to operate, the harder it is to kill.  
And fortunately it has gotten very cheap to run a startup. A recession  
will if anything make it cheaper still.If nuclear winter really is here, it may be safer to be a cockroach  
even than to keep your job. Customers may drop off individually  
if they can no longer afford you, but you're not going to lose them  
all at once; markets don't "reduce headcount."What if you quit your job to start a startup that fails, and you  
can't find another? That could be a problem if you work in sales or  
marketing. In those fields it can take months to find a new  
job in a bad economy. But hackers seem to be more liquid. Good  
hackers can always get some kind of job. It might not be your dream  
job, but you're not going to starve.Another advantage of bad times is that there's less competition.  
Technology trains leave the station at regular intervals. If   
everyone else is cowering in a corner, you may have a whole car to  
yourself.You're an investor too. As a founder, you're buying stock with  
work: the reason Larry and Sergey are so rich is not so much that  
they've done work worth tens of billions of dollars, but that they  
were the first investors in Google. And like any investor you  
should buy when times are bad.Were you nodding in agreement, thinking "stupid investors" a few  
paragraphs ago when I was talking about how investors are reluctant  
to put money into startups in bad markets, even though that's the  
time they should rationally be most willing to buy? Well, founders  
aren't much better. When times get bad, hackers go to grad school.  
And no doubt that will happen this time too. In fact, what makes  
the preceding paragraph true is that most readers won't believe  
it—at least to the extent of acting on it.So maybe a recession is a good time to start a startup. It's hard  
to say whether advantages like lack of competition outweigh  
disadvantages like reluctant investors. But it doesn't matter much  
either way. It's the people that matter. And for a given set of  
people working on a given technology, the time to act is always  
now.