

Finding Recession-Resistant Businesses

Prepare Now for the 2009 Economic Downturn

For more than 15 years, New York Times best-selling author Harry S. Dent, Jr. has been uncannily accurate in predicting the financial future. He predicted the financial recession of the early 90s, the economic expansion of the mid-90s, and the financial free-for-all of 1998-2000.

As early as 1993, Dent forecast a generally *positive* trend, reflected in his book “The Great Boom Ahead”. The next 5 years went exactly as he had predicted. And in 1999, Dent repeated and extended his forecast in his book “The Roaring 2000s”*.

What makes Dent more accurate than other economists? Simply this: Dent concedes that there are many factors that affect the economy (including extreme variables like 9/11 and the war in Iraq), but he believes one factor is most important. While traditional economists look at interest rates, money supply and other financial benchmarks, Dent’s theories are based on population trends. For Dent, it’s *people* that drive the economy. The more people, the more money is spent. And more spending creates more jobs, more growth and a more robust economy.

If Dent continues to be accurate, there is both good news and bad news ahead. First, the good news. The next few years promise to be extremely healthy, with an expanding and healthy economy.

And now the bad news: Dent believes that 2009 will bring one of the biggest economic downturns in the last 50 years – at least here in the United States. When he first predicted this in 1993, it was viewed with passing interest. But in the intervening decade, Dent’s forecasts have been right on target, and now 2009 is only 4 years away.



The Argument for a Recession

While Dent’s theory may seem simplistic on the surface, his successful track record warrants a closer look at the underlying data. And that data is compelling, to say the least.

First, as reflected in Figure 1, Dent’s extensive research on spending trends show that consumers reach their peak spending power in their mid 40s - at age 46.5 on average. And Dent has looked closely at *what* people buy at what age.

He knows, for instance, that men become fathers at age 27 (on average). Thus, spending on potato chips and other junk food peaks at age 41, when their children begin to reach their early teens.

Key Consumer Expenditures/Investments

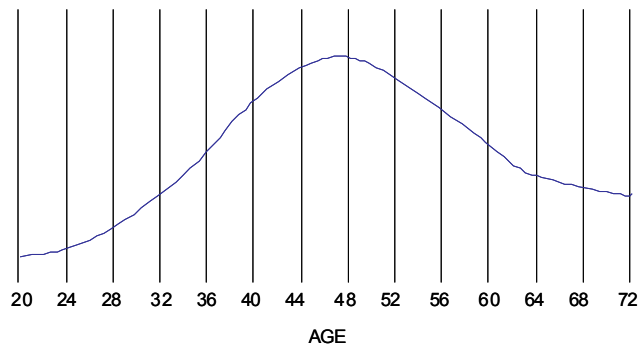


Figure 1

Spending on veterinarian services peaks about the same time, since pets usually join a family shortly after children arrive. And spending on roof repairs peaks around age 68, roughly 25 years after most people build a new home. So as you might expect, Dent’s research is especially interesting to those looking for the best sectors and industries to invest.

Immigration-adjusted Births (Millions)

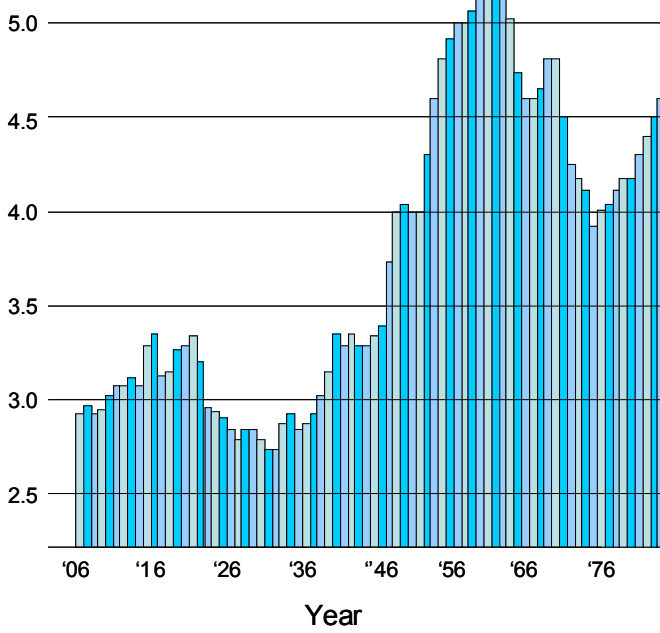


Figure 2

Peak spending becomes a crucial factor when one considers birth rates. In Figure 2, we see those birth rates reflected from the early to late 1900s. Not surprisingly, the “Baby Boomer” generation is easy to detect. That generation began in the mid-40’s and continued through the early 60s – until 1962 to be exact. At that point, there was a significant and prolonged *decline* in birth rates until the mid-70s. So what is the effect of that birth rate on the future economy?

Figure 3 completes the picture. Here, the same birth rates are reflected, but have been adjusted *forward* 46.5 years to accommodate the average age for peak spending. Also in this figure, the Dow Jones Industrial Average (adjusted for inflation) is superimposed over the ages. Incredibly, the DJIA has tracked almost exactly with the baby boomers. And as baby boomers have approached their peak spending years, the economy has grown as well – and at almost an *identical* rate.

So that's it in a nutshell. If births peaked in 1962, spending power (and thus the economy) will do the same in 2009. And with a sharp decrease in birth rates *after* 1962, we can expect to see a corresponding dramatic decline in the economy after 2009.

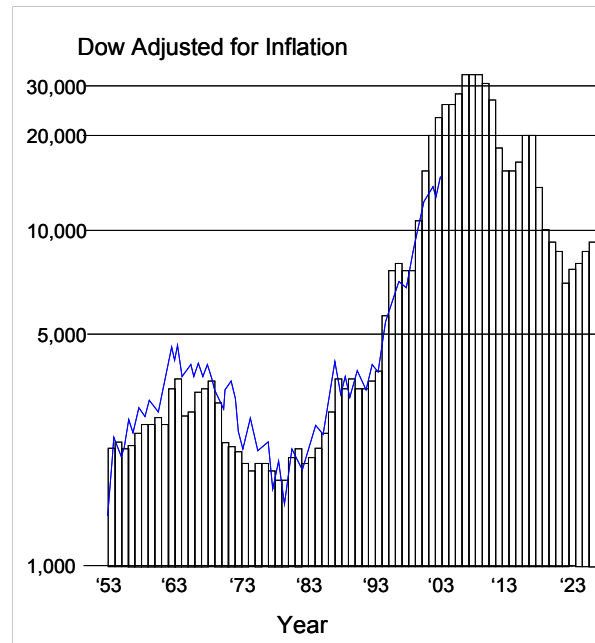


Figure 3

According to Dent, there *will be* a full recovery (again based on population trends) and, in fact, he believes the economy will move significantly higher than 2009 levels. Unfortunately, that won't happen for at least a decade.

What This Means for You

First, it's important to realize that there's no escaping the effect of the economy, whether you are an investor, an employee, a business owner – or even just a consumer.

As we said earlier, Dent's forecasts are of significant potential value to investors since his books contain some very specific advice on how and where to invest in 2009 and beyond. As the US economy declines, there are alternative opportunities to leverage growth elsewhere in world.

If you are an employee -- working for someone else and *determined to continue* -- we strongly recommend you evaluate how recession-resistant your current company is.

- ◆ Does it offer a vital product or service?
- ◆ If consumer-based, does it cater to a growing segment of the population?
- ◆ Is it price-competitive?
- ◆ Does it have aggressive competition and will its research and development enable it to stay ahead of that competition?

If the answers to most of these questions are “no”, this might be a good time to consider a career change. If Dent’s predictions are accurate, many of today’s jobs will disappear 4 years from now. Finding a recession-resistant employer may be the best way to ensure that your job isn’t one of them.

If you currently run your *own* business, we recommend you apply the same questions to best determine if this is the time to expand your business portfolio or to move to a completely different enterprise. At Franchise Consultants, Inc. we regularly get inquiries from those whose businesses have suffered from the difficult economic trends of the last few years.

Finally, if you have always dreamed of starting your own business but haven’t yet taken that step, this is probably the ideal time to do so. Starting now will enable you to both choose a business that is recession-resistant and one that you will have 4 years to build and make successful.

What Makes a Business Recession-resistant?

And how do you choose such a business? First, it’s important to note that any business or industry is, at best, *recession-resistant* -- not *recession-proof*. Its success depends on many factors, including on how well the business is run.

As an example, many years ago I ordered a “waterproof” diver’s watch that (as proof) was shipped to me in *a vial of water*. I probably shouldn’t have been surprised when the watch stopped working a month later when it fell on the floor. Obviously, the ongoing successful operation of the watch depended on *many* factors – not just its ability to withstand moisture!

Businesses are the same, but it *is* possible to identify those with recession-resistant qualities. In general, the following characteristics reflect spending trends in difficult economic times. Customers (both consumers and businesses) will:

- ◆ cut back on discretionary expenses (example: travel)
- ◆ spend less on conveniences (drycleaning)
- ◆ curtail spending on products and services they can provide themselves (home repair)
- ◆ delay buying products and services they *cannot* provide for themselves (car maintenance)
- ◆ look for products and services that *save* money vs. what they are now spending (professional business services)
- ◆ opt to rent vs. buy (business equipment leasing)
- ◆ opt for used vs. new (autos)
- ◆ demand low-priced alternatives (fast food vs. gourmet dining)
- ◆ continue to buy *vital* products and services (health care)



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In general, customers in a tough economy will look for “better, cheaper, faster” -- the same approach NASA adopted when tight budgets curtailed spending on the nation’s space program in the early 90s. If they can make it, do it, or fix it themselves – they will. If they can do without it or delay the need for it – they will. If they can save money – they will.

Additionally, look carefully at the following factors:

- ◆ Age – products and services *geared for the baby boomer generation as they age* have significant promise.
- ◆ Population – businesses *that get the product or service out to the customer* (vs. a retail storefront approach) are particularly valuable in rural areas with dispersed populations.
- ◆ Demographics – selling air conditioners in Anchorage or furnaces in Miami is not likely to be anymore successful than selling ice cubes to Eskimos or opening a surf board shop in a retirement community.

In conclusion, it’s probably important to note that, despite Harry Dent’s gloom vs. boom forecasts, there *will be* many very successful businesses operating in 2009 and beyond. And most business consultants will tell you that there is never really a *bad* time to start a business. In fact, knowing what the future will bring makes today perhaps the best time to start a business, because we believe that the window of opportunity will grow narrower as 2009 approaches.

Working in a recession-resistant industry will increase your chances of surviving the Recession of 2009. *Owning your own recession-resistant business* will better ensure your survival. At Franchise Consultants, Inc., we help entrepreneurs investigate and find businesses that ensure their economic success and financial freedom. We welcome the opportunity to be of service to you.

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