



## Enjoying the Downturn: Some Sectors Grow When the Economy Slows

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Recession. The “R” word. Some fear its mere utterance will usher in an era of economic stagnation. But given the housing doldrums and challenging cost escalation of late, the recession buzzword can be seen or heard seemingly once a minute on TV, radio newspapers and around company water coolers. Talking heads on the evening news exploit the word in their usual nightly routine of alarming the general public of impending doom. To many, the word “recession” triggers conservative spending; holding off on that big purchase as well as monitoring expenses more closely and stashing away a few dollars for a rainy day.

But as Dicken’s wrote: “It was the best of times, it was the worst of times.” To some companies, the “R” word is music to their ears. In fact, there are many counter-cyclical industries that are not only recession-proof, but actually thrive during an economic slowdown. Examples of sectors that historically enjoy success during an economic downturn include operational consulting companies, discount clothiers and electronic refurbishing companies.

### **Time to Rightsize Businesses**

As manufacturers, service providers and retailers feel the pinch of an economic downturn, many must adjust or streamline their operations in order maintain their profitability. During this difficult process, third party experts are often in to help analyze, identify, and address issues within a company’s organizational and process flow. For some companies, the process changes and new initiatives could prove the difference between survival and bankruptcy.

Many CEOs turn to consultants to aggressively reduce company cost structure. Consultants can remove 20-30% of total operating costs while increasing efficiency. They accomplish this feat in a myriad of ways, including: decreasing labor costs, improving employee productivity, reducing outside contractor costs and reducing waste.

Enterprise-wide cost reduction require both process and behavior modifications on the part of management and workers. Consulting firms not only have the expertise to install these modifications, but also the expertise to ensure the sustainability of these changes.

Like many other companies in this industry who have seen success in 2008, Management Consulting Group Plc., parent company of Proudfoot Consulting, Parson Consulting, Kurt Salmon Associates and three other prestigious firms, has seen their stock jump 25% from February 1 to May 15, 2008. Many other well known consulting firms are experiencing healthy growth trends as well. Many in the industry are expecting double digit growth over the next 12 months.

### **Shopping for Cheap Chic**

Discount apparel companies such as Marshall’s, T.J. Maxx and Ross enjoy an expected rise in sales at the mere mention of an economic slowdown. Rising gas, food and energy prices are pinching current economic conditions and directly affecting the average consumer’s disposable income. Many are purchasing at these discount clothing stores as a means of stretching their hard-earned dollars.

Investors are already responding to this sales trend. Since early January, the stock price of The TJX Companies Inc., parent company of Marshall's and T.J. Maxx, has risen from \$26.59 per share to \$32.04 per share; a rise of 18%. Net sales for the first quarter of Fiscal 2009 increased 6%. TJX Management anticipates aggressive growth over each of the next two years.

The discount clothing chain Ross has enjoyed even stronger success. For the thirteen weeks ended May 3, 2008, sales increased 15% over the same period of 2007. From January 8 to May 15, 2008, Ross Stores Inc. stock has soared from \$21.48 per share to \$36.93 per share; an increase of over 60%.

### **Reduce, Reuse, Recycle**

With both business and private consumers paying attention to every dollar they spend, many turn to pre-owned or refurbished hardware during an economic slow down. Slimmer budgets and reduced operating income make the procurement of refurbished equipment an attractive alternative to buying new; especially since very few actually need "state of the art" equipment for the performance of everyday functions.

Refurbished lap top and desk top computers, monitors, copiers and phone systems are the perfect remedy to fill a need on a tight budget. These goods are reliable because the manufacturer has already corrected any quality issues the product may have had. Also, many are still protected under manufacturer warranties and are sold at significantly lower prices than new equipment.

Adding to economic conditions, the growing emphasis on "going green" has given this industry an additional boost. Much fewer natural resources are depleted in the refurbishing of electronics than to manufacture new ones. Refurbishers are capitalizing on this trend by promoting the environmental angle in their collateral materials.

Acer, Inc., the parent company of Gateway and E-machines, has seen its stock rise from 50.1 TWD on February 1<sup>st</sup> to 68.9 TWD on May 15<sup>th</sup>. For the first four months of 2008, Acer reported sales of 115.2B TWD against sales of 80.6B TWD over the same period of 2007, an increase of 42.9%.

Clearly, economic downturns for some are opportunities for others. There are dozens of other industries that welcome slower economic conditions. Wholesale clubs (Sam's, Costco and BJ's), fast food restaurants and a myriad of other sectors historically flourish during recessions. So the next time a "talking head" on television, radio host or office know-it-all informs you how bad things are, remember, there are firms thriving amidst the gloom.