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Facing the recession head-on

By DEE DePASS, Star Tribune

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After losing two brothers and his home to the bloody civil war in his native Liberia in 2001, Beauclarc Thomas figures he can survive anything.

Today, after being laid off from his design job at the Cunningham Group last spring, the architectural designer is looking to his former war-torn country as a means to financial survival. He created beauclarccthomas.com, rented a one-room studio in St. Paul and launched Innovative Homes, which designs schools, clinics and homes for a handful of Liberian clients who are determined to return home and rebuild their shattered nation.

"By God's grace I will give it my last shot. If I survived bullets and stuff during the civil war, I can definitely survive this," said Thomas, a husband and father of three kids. "It's a journey, but there are a lot of encouraging signs telling me that this could end up being my full-time job."

For some folks, tough times have a way of distilling both creativity and determination out of the raw desperation that often overwhelms others. Whether driven by necessity, fear or bullheadedness, Thomas and others are pursuing gutsy ventures during the worst economic downturn in 70 years. And while that's remarkable, it's also nothing new.

"Desperate times prompt people to do risky things because the potential payoff is way better than what they are facing," said Heidi Shierholz, labor market economist for the Economic Policy Institute. "You might take a bigger risk if you are looking around and saying there is nothing else out there for me."

Mavericks often emerge when times are darkest. IBM, General Motors, FedEx and General Electric were all born on the doorstep of economic disaster. Frederick Smith started FedEx in the middle of the 1973 oil crisis. Brothers-in-law William Procter and James Gamble combined their fledgling soap and candle enterprises to form Procter & Gamble during the economic "panic of 1837." Bill Hewlett and Dave Packard launched what became technology giant Hewlett-Packard in 1939, as the Great Depression persisted and World War II was about to break out.

Closer to home, Stewart C. Mills founded his Mills Automotive in Brainerd, Minn., in 1922 and expanded into property development during the 1959 downturn. Months later he changed the company name to Mills Fleet Farm and launched a new strategy to sell discounted tools and retail goods to farmers. The concept thrived.

Good time to buy

Mike Ryan, director of the Twin Cities Small Business Development Center, is seeing similar gutsy moves today.

"There are many highly skilled workers out there who are unemployed and scratching their heads figuring how they can make a go of it," Ryan said. Some start sole proprietorships. Other established small business clients are snatching up discounted raw materials from

bankrupt firms or scrounging for distressed businesses to buy.

"If you can get into these [deals] at a really competitive purchase price, the return could be great," Ryan said. "After all, this recession can't go on forever. It's already gone on longer than anything we have seen for decades."

Alan Dale's father and grandfather would certainly agree with that logic.

They started laying tile in neighbors' homes as a way to make money during the Great Depression. Their modest door-knocking enterprise of the 1930s became Deephaven-based Dale Tile Co. Today it has more than \$10 million in annual sales.

But last year, business fell to about 50 percent of 2007 levels. And 2009 was the first unprofitable year since the 1983 recession. But hard times only emboldened Alan Dale, who took over the family business from his dad at the height of the 1982 recession. At that time he worried that he'd wreck the family business. Not to worry.

"That recession was the best thing that ever happened to me because it taught me to be a better businessperson and not to just think that happy days were always there," said Dale, 65.

Last winter, in the midst of the Great Recession, his phone rang. The caller suggested that Dale buy Pollux Manufacturing Inc., an unprofitable stone fabrication shop in northeast Minneapolis.

"I have no interest in buying an unprofitable company," Dale said at the time. But after some thought, he reconsidered.

"You can only sit around and worry about this recession for so long before you say, 'Come on. We have to do something here,'" Dale said.

Pollux produces three times the number of finished countertops as Dale's subsidiary, Minnesota Tile & Stone. If he made the acquisition, Dale Tile would gain 17 Pollux workers and bump revenue 40 percent.

He convinced Pollux owners to rework depreciation schedules on the equipment they'd bought at the height of the housing boom. He renegotiated leases, held his breath and jumped. The sale closed in June -- just in time for a lousy unemployment report to set economists squawking about a possible double-dip recession.

"Everyone is talking about a double-dip recession and everything falling through the floor. And I am saying, 'Holy smoke, what did I just do?' But now I see signs that the clouds are parting. Traffic in our showrooms is up, and people are more optimistic," Dale said. "I think it will be difficult for another couple of years. But we restructured so that going forward we are going to be profitable. ... We have been around for almost 80 years and I am not going to let it go down on my watch. I will stay the course."

In July, Dale Tile dug into cash reserves to begin a \$1 million renovation of Pollux's Minneapolis location. When done, it will sport new showrooms and house Dale Tile's newly relocated Minnesota Tile & Stone fabrication shop from Brooklyn Park.

"In tough times like this you have to do some unusual things," Dale said. "You can't just keep doing things the way you have always done them. Time will tell if Pollux was a good

investment. But I think all the indicators [say] yes it is."

Tooling up

Similar optimism is surging through Top Tool in Blaine.

Armed with input from five prospective customers, the company recently paid \$700,000 to become the only contract manufacturer in the Midwest (and the fourth nationwide) to buy an electrical discharge machine capable of making extremely tiny electrical connectors, components for nuclear devices and highly specialized parts for medical devices that in some cases are thinner than a human hair.

That rare capability is expected to launch Top Tool into a whole new category of sophistication and specialization, said Duane Kari, Top Tool's technical sales support manager. The company already makes high-precision components for medical device makers, but this is the first entrance into the realm of minuscule manufacturing.

It's a bet the company is now counting on after weathering both revenue declines and layoffs last year. Company officials declined to disclose revenue or say how much they dropped. What they did disclose is that they threw their heart into this new machine that stands to change the course of the company.

"This is definitely risk-taking," Kari said. "The risk was in getting the equipment in a down economy. It's a huge investment in money and resources. We even built a dedicated room around it."

A typical manufacturing order from a customer would run about \$10,000, with an occasional order for maybe \$100,000 in tooling equipment. "It could take years to recoup the investment," he said.

But as the word gets out about what is possible with this new technology in both tooling and production "we would expect to bring in more than \$1 million a year. That's the forecast," Kari said. "A couple of years ago no machine was capable of cutting features this small in metal."

Only time will tell if the leap was worth the faith.

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