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BW SMALLBIZ -- STRATEGY

Jumpstart Your Business

How a smart expansion can revive a struggling company

Telemarketers don't often get much sympathy, but anyone could see that Andy Orr was in a bind. Orr's company, Circulation Services in Fort Collins, Colo., had been making most of its money selling newspaper subscriptions by phone. But in 2003, Congress passed legislation prohibiting telemarketers from contacting anyone who had asked to be put on a do-not-call list. Then Orr began losing clients as newspapers' advertising and circulation numbers dropped because of competition from the Internet. Orr knew he had to act, and fast. "If I didn't take drastic measures, we were going to be in serious trouble," he says. With Circulation Services' core business fading, he looked for ways to expand its offerings. Orr wanted to hold on to his employees and limit retraining, so he searched for options that would make use of their skills. And because his employees were busiest in the evening hours, Orr needed something they could do during the daytime lull. Today, in addition to its original business—still about 25% of revenue—Circulation Services makes cold calls for freight companies looking for new customers and handles customer service calls for media clients. Revenues at the 60-employee company, which plans to change its name in April to Press-One Customer Care, rebounded to \$4 million last year.

Even a business that has been thriving for years can suddenly start sputtering. New technologies may make your business model obsolete or give rise to competitors that snatch your sales. Consumer tastes and market trends are constantly evolving. And a new law or regulation can change the way an entire industry needs to do business. But entrepreneurs who feel the ground trembling can sidestep disaster. "If you're running a successful small business and your core marketplace changes, the business doesn't have to go under," says Lynn Daniel, a management consultant and head of the Daniel Group in Charlotte, N.C. "But you will need to tackle many management obstacles in the process."

Once it's clear that the decline is more than a blip, you'll require a smart expansion strategy. That new business model is crucial, but it is just the beginning. The real work comes in managing the transition. Entrepreneurs trying to revamp their strategies face a dizzying array of challenges, including funding the effort while keeping the original business afloat, training existing employees and hiring additional ones, and fielding the expectations of customers and suppliers, both new and old. As Orr says: "It was hard to know where to begin."

FILL A NEED

Existing customers can be a source of good ideas for new revenue streams. "You have to put in some serious time with them, looking for unmet needs," says Rita Gunther McGrath, associate professor of management at Columbia Business School. Talk to your clients, of course, but also try to hang around their offices and factories to see what you can discover. Orr spent time observing his clients' in-house customer service operations, which helped him recognize that his company could provide a similar service, and how it should be done.

Two years ago, as the real estate market cooled, Benison International Group, a venture capital and real estate development firm, began feeling the pinch. Michael Lara, who started the 16-employee, Miami-based company in 1997, took a fresh look at both his customers' needs and those of his own business. He realized his clients often talked about problems finding quality printers, desks, and the like. "We decided if they are asking about it there must be an opportunity," says Lara, who soon started reselling business equipment. He also noticed that he often bought promotional products to give his clients. After some research, he began selling similar goods for his customers' businesses. Benison had \$4.5 million in sales in 2006, up from \$1.5 million the previous year.

In your eagerness to get your company on more solid ground, avoid giving research short shrift. "Don't just stop at the first idea," says McGrath. "I've seen many companies jump on a new business concept just to get the cash flow." Investigate your market by attending trade shows, reading periodicals, and searching the Internet, using such sites as Technorati.com to see if people are blogging about products or trends that affect you. During the first year of Circulation Services' transition, Orr went on

many of the sales calls himself and attended trade shows such as that of the Newspaper Association of America. "It was learn-as-you-go for us," says Orr. And think carefully about how you will persuade your rivals' base to buy from you instead. Says Daniel: "Companies really underestimate the power of the entrenched competitor. Consumers are slow to change."

Just how quickly should you rev up the new business? "It's a huge balancing act," says Daniel. Much depends on the nature of your businesses, old and new. "The more different it is from the old model, the harder it will be to run both of them," says McGrath.

As the new model will probably mean substantial changes for many of your employees—and because its success may depend on their performance—begin by explaining to your staff the new direction and why you are taking it. "People have to understand what's going on," says Vince Thompson, a principal at Middleshift Consulting, a management consulting firm in Sausalito, Calif. "Transparency will give people a context for change, allowing them to accept it more quickly." At Benison, Lara first met with his four top managers. Then he gathered all his employees and told them the company would go under unless it took drastic action. Lara asked his workers if they would stay with the company through the transition, even if it meant taking a different job. About 90% of the staff has remained.

It's considerably cheaper to develop existing employees than to hire new ones, so make the effort to study each individual's abilities—even those they might not be using in their current posts. "You have to really understand the breadth and depth of the skills your people already have," says Thompson. Lara, for example, decided a member of the real estate team in charge of land surveying had sales potential, and transferred him to a sales management position. The company sent him to seminars on selling techniques and trade shows to help him learn more about the industry.

The employees you most value may need some incentives to stick around and learn a new job. In 2005, Mylle Mangum bought IBT, a 45-employee, \$31 million design firm in Atlanta. The company designed internal "mini-branches" at banks, but struggled as its clients increasingly developed the mini-branches themselves. So Mangum launched a design consulting arm that would work with clients in all industries, as well as a service to develop larger projects for financial institutions. To keep the firm's top designers and architects from bolting, Mangum gave key players financial and other incentives. One valued architect, for example, received training, a promotion, and a raise. "You have to spend a lot of time courting them," says Magnum. Even so, she says 30% of her staff has turned over in the past two years.

PUMP UP EMPLOYEES

Your sales staff may pose the biggest problem, because your new strategy may call for employees with very different skills and personalities. Mangum replaced four members of her seven-person sales force, as she needed people who liked to sell larger projects and thrived in a high-growth environment. Three years ago, Michael Zippelli, CEO of Dormia in Jessup, Md., shifted from selling waterbeds to foam mattresses. In addition, he changed from direct sales to retail and started making the mattresses in his own factories. Zippelli began hiring salespeople with "a kinder, gentler approach to mattress sales" and looking for salespeople who would be enthusiastic about his new product's health benefits. Zippelli says his best salesperson is a former chiropractor.

If you move away from a commission structure, be prepared: Salespeople may take time to adapt. At Circulation Services, Orr decided commissions no longer made sense. He developed a system to evaluate employees that recognized both the amount of time agents spent on customer service calls for newspaper clients and the revenue they brought in from sales calls for other clients. With that information, he created a tiered rating system, then used the ratings to craft weekly schedules. His goal is to have several top-rated workers on the floor working each shift.

In an environment of uncertainty, morale is almost guaranteed to plummet. Look for ways to keep employees engaged, even if it means spending money. Realizing his staff was under strain, Orr introduced a computerized game from Snowfly, a Laramie (Wyo.) company, which alerts agents when they've achieved a desired goal—say, signing a certain number of customers. Agents then win tokens to play several Las Vegas-style games with prizes from product discounts to restaurant dinners. "It boosted retention and morale enormously," says Orr.

Five years ago, when Karen Dry bought Garrett Interiors, a 29-employee company in Westlake Village, Calif., that undertook interior design for model homes, business was booming. But then the real estate market grew so hot that developers were able to sell houses without bothering with interior design. Custom homebuilding also took a dive. Finally, the company's founder, who had stayed on as a designer, died suddenly, and employees who had been loyal to her left. "I had eight people leave me overnight," says Dry. She rebuilt the company by starting a consulting service to help architects map an interior design plan at the beginning of the project, rather than at the end, as is usually done. She also formed a commercial interior design division. At the same time, Dry says she also improved her relationships with employees. "I'm your typical Type A engineer," she says. "I wasn't seeing things from a designer's point of view." After discovering that continued training and professional certification were important to her staff, Dry began paying for education and training for designers. She also started a charity program through which employees could take time off—averaging six hours a month—to volunteer for a cause they support.

Similarly, since the reorganization at Benison, Lara has donated 25% of all net profits to charities selected by employees. He says the program encouraged people to stay with the company and has also boosted recruitment.

All these changes don't come cheap. It's especially worrisome as cash flow, already trickling, can dry up as you put resources and time into developing the new business. That's what Randy Auslander found as he repositioned Phil's TV & Appliance, his six-employee Toledo store, as a custom installer of in-home electronic systems, to fend off the big-box competitors. During that transition, Auslander says sales hit a 10-year low. But the downdraft was temporary. Revenues have started to creep back up, to \$1 million, and by 2008 he's hoping to get sales to \$1.5 million, where they were when he was simply running an appliance store.

LOCK 'EM IN

You may be able to slow client defections by talking to existing customers about your company's plans. Propose different terms of payment, such as committing to a yearly lump sum with a discount, to hang on to their business. That will create more predictable cash flow as well as increase the efficiency of operations. "If you can lock a small number of customers into a long-term deal, you can reduce your head count and increase your earnings per customer," says Thompson. "Then you'll have the resources to build your new business model and still have a revenue stream you can count on." At IBT, Mangum approached new suppliers and negotiated high-volume discounts, along with faster lead times. Sourcing less expensive materials or renegotiating terms with suppliers might also help trim spending. Then there's old-fashioned cost-cutting. To offset the higher salaries Magnum paid employees, she replaced the company's cash-guzzling client gatherings at high-end resorts with a single annual meeting for all clients at a conference center.

Those moves may not be enough to fund some expansions. To finance changes at Circulation Services, which included employee retraining, developing new computer programs for tracking performance, and hiring a new head of sales, Orr drew on a bank line of credit and refinanced his house for the \$140,000 he needed. Benison's Lara shelled out about \$1 million for technology and other expenses, with much of that money coming from the sale of some of the company's real estate assets.

In some cases the only way to handle added expenses is to bring in outside money. At Dormia, Zippelli's ambitious plan to build stores and boost manufacturing capacity required deep pockets—\$6 million in private equity. That meant the additional expense of hiring an auditing firm, as the investors mandated, and bringing in a new CFO. But now at least Zippelli, and not an unpredictable marketplace, is in the driver's seat.

By Anne Field

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