Is it time for your business to change course?

Ann Field

In an economy like this, it may take more than tinkering to turn your company around. But big changes carry big risks.

Kim Matheson Shedrick- Bill Wadman

Kim Matheson Shedrick had spent 16 years growing New York-based Natural Resources into a 15-person, $1 million company that advises developers of high-end spas. But in late 2008 no one was building much of anything, never mind pricey spas selling hot seashell massages and lavender-oil body scrubs. Matheson Shedrick decided the time was ripe for an idea she'd been kicking around since 2001—mySpaShop.com, which would offer products and wellness advice for less affluent spa aficionados. "I looked at how I could use all the contacts I have in the industry to target the customer who can't spend $500 visiting a spa," says Matheson Shedrick, who now makes $10,000 a month through the site. She also expanded the B-to-B side of her company, charging spa owners a monthly fee for advice on how to boost revenue. She expects the new line of work to bring in about 15% of her overall sales by the end of the year.

Sometimes, when business is bad, you can't just tinker at the edges—you have to make fundamental changes to your company. That might mean selling to a new market or changing your offerings. It might mean strategic changes in distribution or marketing.

But these changes can be risky. Botch the introduction of a new initiative, and you could confuse or alienate existing clients. Your new line of business may be less lucrative than the original, eating into your margins. Your employees might not be able to adapt to the new business model. And there's always the chance that your new business could end up cannibalizing the old one. "The concept of setting a different strategic course isn't something to be taken lightly," says Dennis Ceru, an adjunct professor of entrepreneurship at Babson College. You want to undertake a major repositioning only if you see no other choice. Ideally, your new brainstorm can be carried out by your current employees and is a logical extension of what you're already good at.

Then you'll still have to address the nuts and bolts of implementation, from employee morale to pricing. It may be easier to dip your toes in the water before trying to overhaul your entire business. Once the new initiative is launched, you'll want to review your numbers monthly, if not weekly. Should you find reason to reverse course, do it quickly. "In a bad economy, you don't have a lot of time," says Ken Gaebler, president of Gaebler Ventures, a Chicago business incubator and investor. "[A poor] strategy should die a pretty fast death."

Change- resistant?

How do you know if a repositioning is well advised? Start by examining key indicators such as revenue, profit growth, and market share; then consider other metrics. If it's taking longer to

close deals, that could be a warning sign. If clients are paying every 90 days instead of the usual 30, that should also be a red flag. And, says Gaebler, "If your customers are leaving because they can't afford your services anymore, or their needs have changed, it's time to reexamine your strategy."

Then try to determine if you're being affected only by the economic downturn or if there are other, more fundamental issues at play. You may be able to ride out a bad economy, but if your industry has changed dramatically, you need to change with it. If your competitors are making adjustments, it could mean they're also seeing signs of a long-term industry shift.

Don't try to answer these questions in a vacuum. "The entrepreneur who makes a decision without consulting employees and clients is not going to make nearly as good a strategic choice as somebody who gets those folks involved," says Gaebler. Talk to plenty of suppliers in your industry to get their take. Then bring your employees together to hear their perspective.

When it's time to sound out your customers, start out with your best accounts, requesting an in-person meeting as a forum for serving them better. "You're asking, how can I help you during a time like this?" says Verne Harnish, CEO of Gazelles, an Ashburn (Va.) entrepreneurial consulting firm. He has been doing just this with his own clients. "

I've been meeting more with customers in the last three months than I have in the last three years," says Harnish, whose 11-employee firm has $3 million in revenue.

He opens up with simple chitchat, then asks about the latest trends and events in the client's industry, challenges they're facing, and different services they need. Finally, he tries to find out what they know about his competitors and any changes they've made. "If you don't think they're being called on by your competitors, you've got your head in the sand," Harnish says. Don't be shy about asking—just explain that you want to make sure your product or service remains competitive. Even conversations that don't immediately yield a new business idea will strengthen your client relationship.

Sometimes a single chat yields a bumper crop of ideas. But, more likely, after a dozen or so meetings with a variety of customers, a pattern will emerge. That's what happened to Jeff Kaye, CEO of Kaye/Bassman, a 120-person Plano (Tex.) executive search firm. Clients, especially those in such hard-hit industries as construction, kept telling his staff they needed more information about competitors' salaries, restructurings, and cutbacks. Kaye and his consultants gather that type of intelligence every day as a natural part of their business. So starting last winter, Kaye started selling market research focusing on just those areas. Kaye says the typical market research project brings in about half as much as a recruiting fee. "It's probably a little more work and not as lucrative," he says. "But it's what the client needs." Kaye had been expecting revenues to drop about 30% this year, but he now thinks he can halve that, ending up with about a 15% dip below 2008's $17.3 million.

Shifting gears

When switching up your business model, it's most efficient to keep your current staff, even if you need to factor in extra training. Domenic Rinaldi, the principal owner of Sun Chicago, a $2 million Chicago brokerage firm for small to medium-size businesses, has been working with his 17 brokers on how to represent buyers. That's a shift from past years, when his firm mostly represented sellers. But in January, with three times as many inquiries coming from potential buyers—largely laid-off executives looking to buy businesses—and fewer companies for sale, Rinaldi shifted gears. Brokers now receive training to help them educate and guide buyers. He hopes to grow that business to one-third of revenues, up from about 10% now.

David Eisner, the CEO of Dataprise, a Rockville (Md.) technology company that works with small and medium-size businesses, had to reconfigure his staff's job descriptions to focus more on customer service. When clients weren't renewing annual contracts because of the economy, he decided to switch to month-to-month contracts. "It was very scary for us," he says. "This just isn't done in our industry."

Eisner had already increased his staff by 25% in September, to 100, with the objective of winning more business and reversing deteriorating sales. He also paired account managers with technical experts to create teams that could provide top-notch customer service. That move was key to persuading clients to renew their contracts each month. So far, renewal rates are running at about 95%, and new business is up 25%. Revenues are on track to rise slightly from last year's $14 million.

Of course, it's important to seek employees' input—and get them on board—before you embark on your strategy. "You don't want people thinking that maybe it's time to get out their résumé," says Gaebler. "Employees have to understand why you're taking these steps and the implications for them."

Incremental change

Depending on how dire your situation is, you may not have the luxury of being entirely ready when you launch your new offering. For that reason, the safest approach is not to pull out all the stops immediately. "Go for small successes," says Davis. Rinaldi isn't courting would-be business buyers aggressively. Instead, he's working with "clients who walk in through the door," and says it will be take at least six months of testing before he decides how hard he'll go after this new market.

There's always room for fine-tuning. "We weren't 100% ready when we started," says Matheson Shedrick of mySpaShop. Over the past three months, she's added more products, such as odometers and jump ropes, and advice from experts in Chinese herbal medicine and feng shui. She hired three new employees, but relies on staff from her consulting firm to work at both operations. That has meant divvying up assignments based on employees' strengths, weaknesses, and schedules, and she has already had to rejigger the workload once. "It's been a bit of trial and error," Matheson Shedrick says. But with your company's future at stake, you may have no choice but to keep trying.

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