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New and Improved

For many small firms, the key to survival is this: Don't just sell the same old product to the same old people

By SUZANNE BARLYN

Diversify, diversify, diversify.

Across the country, many businesses, especially small ones, are finding the key to survival is to broaden their appeal in new markets while increasing their profitability among existing clients.

"You have to diversify," says Marvin Powell, a business coach in Centreville, Va. Small businesses can usually remake themselves faster than larger companies, he adds, since there are fewer decision makers -- a significant advantage in a tumbling economy.

Here's a look at five businesses that are improving their bottom lines with new product lines.

BRANCHING OUT Dave Chewey's landscaping business recently began offering an array of environmental services.
Photo By: George Tenney

Group Power

One-on-one instruction has been the cornerstone of Mike George Fitness System since the upscale training boutique opened in 1995 in Chicago. Clients pay about $1,000 a month for three one-hour personal-training sessions a week, says founder Michael George.

Revenue grew steadily until the recession started to take hold in 2008. New business slowed and existing clients were leaving. By September, the company had suffered nine straight months of decline, says Mr. George -- a 50% drop in revenue. "We had to look at our model and do something to change our ability to reach more people," he says.

Mr. George cut $17,000 a month in costs, including a personal-chef service that delivered customized meals that complemented clients' fitness programs.

But perhaps the biggest change was introducing training sessions for groups of four to six people -- which cost participants about $270 per month instead of $1,000.

Mr. George says monthly revenue has increased 33% since October. He doesn't know yet if this move will replace all of the lost revenue, but he says it might.

Small-group classes remain true to the original concept of the business while bringing in more money per hour than individual sessions, says Marianna Hayes, president of HALO Business Advisors in Clinton, Miss.

Mr. George's business now gets about $1,080 a month if four clients pay $270 each, compared with $1,000 for the same time expended on one client.

The group approach also enhances word-of-mouth marketing, Ms. Hayes says. While individual clients may be more private about their training, group members "want to talk about it with their friends," she says.

Mr. George is now marketing the group-training concept to hospital-based weight-loss programs, in which he groups participants according to limitations -- for example, those with hip conditions or other orthopedic problems.

Riding the Sustainability Wave

Eye-catching shrubbery is an expense that even wealthy homeowners seem to be trimming these days. That hurt Garden Associates Landscape Architecture Inc., a 19-year-old firm in Somerville, N.J. Revenue from its typically well-heeled clients plunged 60% in the fall compared with the year-earlier period.

So, the company consulted a small-business adviser, Carl Gould, in Riverdale, N.J. Mr. Gould helped refocus the company on something it was doing already: promoting environmental sustainability. Many of the company's landscaping designs, for example, already relied on native plants, which require less maintenance because they're in their natural surroundings. The company also taught its clients rainwater-recycling techniques.

In November, Dave Chewey, president of Garden Associates, began offering a wider array of sustainable services. His company now partners with contractors to install solar energy panels. He also offers home energy audits and consultations about geothermal energy systems, which tap moderate underground temperatures to provide heat in the winter and air conditioning in the summer.

Such services appealed to existing clients, who have generated 80% of new business, says Mr. Chewey. He now expects to recoup 50% to 60% of the business lost last autumn, he adds. Last month, Mr. Chewey regrouped the environmental services under the umbrella of a separate company, Green Domain.

Clients have responded well to the new services because of Mr. Chewey's well-honed message, says Mr. Gould.

Finding a Niche

Bob Dimke, president of Lexington Manufacturing in Minneapolis, started preparing for the recession when housing prices peaked in 2006.

Lexington is mainly a supplier of wood parts used in making doors, windows, cabinets and other architectural features. Mr. Dimke saw that a softening housing market would mean less demand for the parts his company makes. So, Lexington began developing stylish and environmentally friendly fire-resistant door components made from wheat straw fiber, a material that Mr. Dimke says burns slower than wood fiber.

Some customers now order the fire-resistant components while they're placing orders for other parts, helping them save on shipping.

Lexington's strategy is now helping it recoup some of its falling revenue. While annual revenue fell 25% in 2008 from 2006, sales of its fireproof-door parts have more than doubled since being introduced in 2007. Without the those sales, Mr. Dimke says, total revenue would have fallen 31% from 2006 through 2008. Lexington expects continuing growth this year. Mr. Dimke adds that he is investing all of his research-and-development funds in the fireproof market.

"The process of change begins with fear: Companies see signs in their own financials," says Michael J. Franz, an adviser with the Washington Small Business Development Center in Seattle. Businesses must examine whether their market is shifting, Mr. Franz says, and how their customers' core needs align with the company's current product offerings.

A Family Goes Upscale

Sparkle Pool Co., a family-owned business in Weston, W.Va., built the same type of low-end vinyl-lined pools for three generations. Then came the recession, and declining sales. Bob Pirner, Sparkle's general manager, realized that many potential clients were suddenly on shaky financial ground. He recalled one who had saved $4,000 for a pool and planned to finance the $16,000 balance by obtaining a loan and selling his camper. "That guy isn't buying a pool this year," says Mr. Pirner. "He's worried about his job."

Sparkle has responded by shifting its marketing to more upscale customers who want higher-end pools and can pay cash.

Mr. Pirner says the switch was grounded not only in shifting economic realities, but also in the aspirations of a younger family member, who, Mr. Pirner says, was tired of vinyl-lined pool installations and wanted to create more elaborate pools with amenities such as waterfalls.

In 2008, Sparkle began selling pool installations ranging from $50,000 to $300,000, racking up $1.2 million in sales -- more than a 30% increase from 2007. Its wealthier clients learn about the business through word-of-mouth referrals, says Mr. Pirner. Sparkle stopped print advertising to screen out clients who were simply curious. The company also now exhibits its services at home-and-garden shows, where attendees typically pay an entrance fee, so they're more likely to be able to afford higher-end home amenities, he says.

Sparkle Pool had enough cash flow in January to fund eight weeks' employment for its 26 workers -- typically a challenge during the winter months, says Mr. Pirner.

Some upscale customers feel the recession less, says Dave Westfall, a business coach for DewPointe Ventures LLC in Denver. Mr. Pirner moved his product offerings upscale "and refocused his marketing" on a higher-end niche, says Mr. Westfall.

Implementing a younger person's ideas also helped, says Mr. Westfall. Baby boomers, in particular, get stuck running their business the same way for decades, he says. "They don't tap into Generation X. But this business empowered its employees to make suggestions."

New Market, Same Skills

Civic Asset Management, a commercial-property-management firm, has weathered real-estate cycles since 1989. But in recent years, the Scottsdale, Ariz., company lost about 30% of its business as nervous property owners losing tenants decided to save some money by taking over management responsibilities themselves, says Civic Asset President Tom Kuffler. A construction slowdown and tighter credit standards for commercial investors also mean fewer new properties for his company to manage. "My fear is that it's getting worse," he says. "I think 2009 is going to be a complete bloodbath."

However, the company is now recovering because Mr. Kuffler recognized a one-time opportunity as a survival strategy. A lender contacted him about acting as the receiver of a commercial property that was in foreclosure. Mr. Kuffler says he was familiar with the process from receivership work he did long ago. He signed on for the role, through which he could appoint his own company to manage the property during the months-long foreclosure process. Commercial properties in foreclosure risk losing tenants because the grounds and interiors often aren't maintained, he says.

Mr. Kuffler has since been marketing receivership services to his existing real-estate industry contacts, such as lenders and lawyers. "It started as a trickle, but now it's a steady stream -- and I'm saying 'Holy cow,' " says Mr. Kuffler.

Lenders usually ask a court to appoint a receiver when a property is in decline and can specifically request Mr. Kuffler, he says. "We stabilize the project and smooth the ownership transition between the borrower and the bank," he says.

Mr. Kuffler was a receiver for 700 units in 2008, and expects to close the gap on his 30% decline in management business this year. He says that receivership will account for 50% of Civic Asset's business this year.

"Businesses have to think about how to transfer their skill sets in a recession," says Mr. Powell, the Centreville, Va., business adviser.

Andrew Barden, a Los Angeles-based business adviser, says many companies harbor a perception that there's less money available during a recession, when in some cases it simply moves to a different market.

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