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Economy forcing some companies to change business models

Phoenix Business Journal - by [Mike Sunnucks](#)



Jim Poulin | Phoenix Business Journal

Mike Gehart writes a receipt for service for customer Virginia Warner. Gehart says he changed his business from Hercules Contractors to Hercules Handyman because handyman services offer more stability in today's economy.

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A number of Phoenix-area small businesses and entrepreneurs are reacting to the housing, lending and general economic gloom by changing their business models — not only to avoid the downturn, but also to find new and lasting ways to thrive.

Many businesses missed the forest for the trees as the housing and subprime bubbles burst and sent their customer bases reeling. Other companies, ranging from small businesses reliant on Arizona's real estate sector to the big U.S. automakers, are not moving fast enough to get out of those forests before they burn to the ground.

Common missteps for businesses during tough economic times stem from owners being unable, unwilling or ill-suited to change their business models when they need to.

Scottsdale contractor Mike Gehart has changed his business completely since the real estate downturn, turning Hercules Contractors into Hercules Handyman. While many real estate

contractors are languishing or going out of business, Gehart said switching to repairs and some remodeling has helped him stay in business and actually expand.

"I decided to look where I can use my lifelong skills," Gehart said.

Hercules has three full-time technicians and recently hired three more. Gehart said the company is poised to expand further when the economy improves.

For now, he still does some contracting work and will continue in the future if it comes his way, but he said he is committed to his new business model because home repairs offer more stability, even in down times. He said many contractors are too proud to move away from larger projects and commercial work.

Phoenix-based Chas Roberts Air Conditioning & Heating is taking a similar tack, moving away from installing new units for home builders and more toward replacement work. CEO Roberta Shank said the company began to focus more on existing customers about a year ago.

"Our replacement division became part of our strategic plan just before the market began to slow," she said.

The change in focus requires technician training, hiring more staff in the replacement area and shifting business hours for consumers' convenience.

Shank said businesses should be wary of ditching their existing business models altogether. Instead, she said, they should try to evolve.

"In times of economic turmoil, some businesses can be tempted to veer far away from their core competencies, and this can cause disaster," she said.

Bob Hisrich, global entrepreneurship professor at the [Thunderbird School of Global Management](#) in Glendale, said businesses sometimes misstep during times of turmoil by not keeping customers, distributors and workers informed of possible changes, by cutting advertising and training programs, and by being too slow to implement changes.

Hisrich said companies in the middle of a transition, or those facing specific challenges, sometimes fail to accept helpful input from customers. Other businesses previously dependent on the housing and real estate sectors are looking to move away from that dried-up well.

"When ... you have pretty much all your eggs in one basket, you go where that basket goes," said Travis Moss, marketing director for Safeguard Security & Communications Inc. in Scottsdale.

Moss said many security-systems businesses became joined at the hip with home builders and developers to put their systems into new properties. But that business stream is gone, he said.

The company has looked to expand its offerings and technology bundles to existing customers. It also has acquired two rivals and is not cutting its advertising and marketing.

Smaller and startup business owners note that while they may not have the reserves to survive downturns, they have the agility large businesses do not.

Brian Johnson, an entrepreneur in Surprise who is starting a business concept called My Office Business Center, said bigger companies often are too slow to change their way of doing business, are too tied to past successes, and can't or won't embrace innovation.

His concept will offer various office services — including graphics, information technology, marketing, meeting space, notaries and Web design — to home-based businesses and telecommuters. My Office is opening its first location this month in Surprise.

Johnson said larger companies have ample research and development and other initiatives, but never fully implement them. He also said they tend to mothball or muzzle ideas from rank-and-file workers.

“I'm from the mind-set you have to be a speedboat on the ocean,” he said.

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