

## Small Business

# Change of Plans

*For companies in the real-estate business, hard times don't have to lead to disaster. Owners just have to think creatively.*

By Riva Richmond

**A**T THE END OF March 2007, Scott Kirkpatrick could see in black and white that it was time for a big change.

Monthly sales had fallen for the first time at his 40-person company, San Diego-based **Superior Internet Solutions**, a Website-development and Internet-marketing firm that was helping small mortgage brokers drum up new borrowers. At that time, about 30% of the company's business came from

### Good From Bad

- **Anticipating Trouble:** Some companies that rode the real-estate boom are surviving—or thriving—the down market because they saw the shift coming and diversified.
- **How They Changed:** Some brokers, for example, now help banks sell houses at risk of foreclosure; an online marketing company that used to assist mortgage brokers now caters to chiropractors and other entrepreneurs.
- **Bottom Line:** What these companies have in common is they moved early, and found ways to adapt their services that still played to their core strengths.

subprime lenders, and customers were “dropping like flies,” the chief executive says.

In April, Mr. Kirkpatrick let go six staff members and slashed spending

tied to subprime contracts. “It was dead weight,” he says.

Then came the crucial step: He pulled together a team to brainstorm potential new markets for Superior's core Web site and online-newsletter and marketing products.

“We view ourselves as small and agile, and adaptable,” Mr. Kirkpatrick says. “As soon as we saw a slowdown, it was a no-brainer to gather the troops” and tackle the challenge. “It was painful,” he admits, “but it was also exciting in how we were going to navigate through this and come out on top.”

Upheaval in real-estate and mortgage markets has caused crises for an enormous range of businesses. But some savvy companies that rode the boom have also prospered during the bust by adapting, expanding services for existing customers in new markets. Their experiences show that, by keeping their eyes on the road ahead and being willing to change course, businesses can succeed despite disaster in their industry.

“As soon as you're seeing the early warning signs, it's the time to think, “Where is this leading? Where do I have to go?”” says Peter Iannone, a director at CBIZ Accounting, Tax & Advisory Services Inc., a Cleveland-based firm with consultants around the country who work with small businesses. Entrepreneurs ought to use the opportunity to tighten up their operations, he says. They should also look for ways to expand that are in tune with their core competencies.

“It's a good time to take inventory of

what it is you're good at and what you can do,” Mr. Iannone says.

### Changing Focus

The team at Superior was confident that its Internet-marketing products and skills would be useful to many kinds of customers. During the April brainstorming sessions, the team identified a dozen possible markets that fit its vision of what the target client should be: small service businesses that have one key decision maker and that “live and die by the phone and marketing,” Mr. Kirkpatrick says. The team decided to test the markets for five of these types of businesses: chiropractors, beauty salons, auto mechanics, general contractors and insurance agents.

The big hit turned out to be chiropractors, a growing market that's benefiting from rising interest in alternative health treatments. By August, Superior had rolled out a line of products for chiropractors, which today account for 60% of the company's revenue. Despite the mortgage industry's woes, Mr. Kirkpatrick thinks Superior's revenue this year will actually grow slightly from its current \$3.2 million to as much as \$3.4 million. In 2007, revenue rose 14% to \$3.2 million.

The company launched products for auto mechanics in April and aims to enter two more markets in the fall. In addition, it's planning to add new services for small companies, including call-center and data-entry services, and has begun building an operation in Bangladesh to support them.

## Return to Roots

Some companies wracked by the tough real-estate market are returning to businesses they already know. Dranoff Properties Inc., a developer and building manager in Philadelphia with 110 employees, has returned to its roots in the rental market and has put some condominium development on hold.

Since 1998, Dranoff has special-

secure the financing for a condominium project," he says, but "rental buildings are very much still sought after by lenders." His longtime bank got on board, and he broke ground on the \$70 million project this June.

"The fact that we swung with the market enabled us to thrive in these choppy times," Mr. Dranoff says. He expects revenue will rise slightly this

says. All the activity has allowed him to reassign rather than lay off staff, and it has kept the firm "solvent and profitable through a very difficult real-estate market" that has hurt the firm's other four business units and is drowning competitors, he says.

"The truth is, this bear market is going to make us stronger because it's going to weed out a lot of the pretenders," Mr. Willen says. "I believe we will get a dominant market share when things turn."

To prepare for the eventual rebound, Advantage has stepped up training of its salespeople. And it hired a person whose focus is to help the firm expand nationally, as growing numbers of international buyers take advantage of the weak dollar to buy U.S. property.

Geographic expansion "is where this economy and market has forced us," Mr. Willen says.

Dan Sperduto made a similar transition after two decades of selling properties for homeowners in Connecticut and Rhode Island. Three years ago, he felt the real-estate market was getting overheated, he says. So, he added banks to the client list of his Niantic, Conn., company, ERA Realty Pros Inc., a franchise of the ERA unit of Realogy Corp. in Parsippany, N.J.

Mr. Sperduto's company now helps banks resell properties whose market value has fallen below the value of the loan, and whose owners have fallen behind on payments.

"It's 30% or 40% of my business," he says. The sales help banks stem their losses and keep owners out of credit-destroying foreclosure. Buyers are typically able to buy the properties at 10% to 15% below market prices.

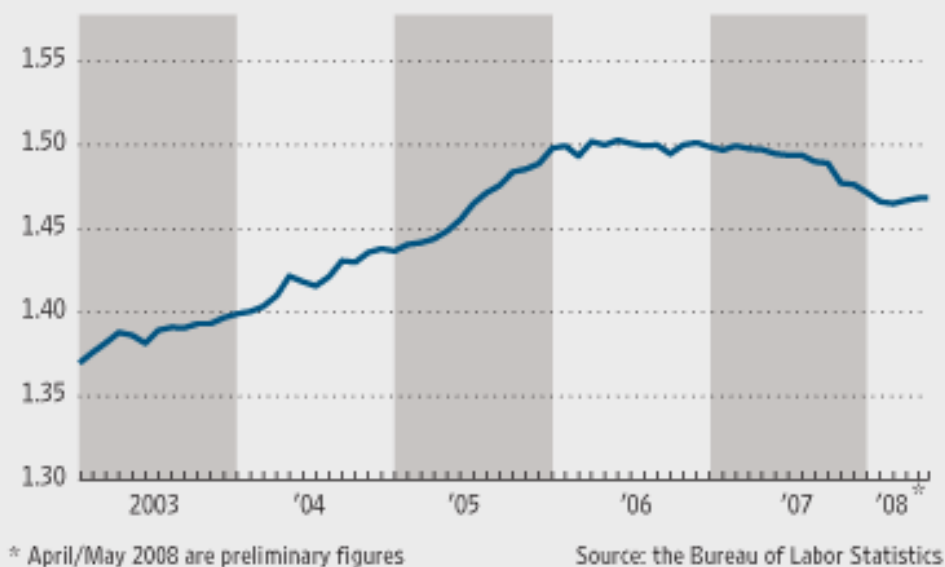
Mr. Sperduto expects to hold revenue flat this year, stay profitable and keep all of his 34 agents at a time when other brokerages in the area are shutting down.

In fact, he says, he hired a coach this year to help train his sales agents. He also is spending more on online advertising and on such technology improvements as upgrading his Web site and email. "I believe we can increase market share," he says.

—Ms. Richmond is a writer in New York. She can be reached at reports@wsj.com.

## Clearing House

The number of workers in real-estate financial services has slipped since the collapse of the housing market. Figures are in millions.



ized in urban-renewal projects, at first transforming historic commercial buildings into rental loft apartments, all of which it still owns and manages. In 2007, the firm completed Symphony House, a \$125 million, 32-floor building on Avenue of the Arts that includes 163 condominiums -- most of which sold before its doors opened -- and a performance space that is now home to the Philadelphia Theatre Company. "It was a huge hit," says Carl Dranoff, the firm's president and founder.

Mr. Dranoff was hoping for an encore with another two-acre parcel on Avenue of the Arts, where he planned to build lower-priced condos. But already by 2006, he says, he could see that the property market would have changed dramatically by 2010, when the building was to be finished. So, he decided to turn the property into high-end rental apartments and street-level retail.

"We would never have been able to

year over last year, when it jumped 54% to \$33.2 million, thanks to Symphony House.

## Early Switch

Being versatile is key to a company's well-being when markets change. Advantage Group LLC, a 150-employee title-insurance company based in Huntington, N.Y., made a point of diversifying into foreclosure work more than a decade ago to protect the company during down markets, says Joseph Willen, chief executive and president of Advantage.

The foreclosure unit does title work for lenders and title insurance when foreclosed properties are sold. That additional flexibility has given the firm stability and is helping it to build for the future.

"Our foreclosure business is booming, and we are doing record numbers every month, month after month," Mr. Willen