RECESSION IS THE MOTHER OF REINVENTION

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The "new normal" is forcing entrepreneurs to rethink — and in some cases completely reinvent — their businesses.

The need to diversify, dump duds from the product line, tweak pricing, get into new markets or find new uses for old technologies has become keenly relevant as shell-shocked business owners grasp the reality that they're facing a structural — rather than cyclical — shift in the economy.

"Last year and into this year, a lot of people were more reactionary and impulsive. Now they're thinking more strategically," says Raman Chadha, executive director of the Coleman Entrepreneurship Center at DePaul University. "Once everybody realized this is how it's going to be, they had to find a way to adapt."

Clare Hefferren found her new niche by repositioning Callosum Creative Ltd., her 4-year-old solo graphic design firm, as a corporate image consultancy.

After realizing last fall that ad agency layoffs were flooding the market with freelance competition, Ms. Hefferren, 40, hired a strategic adviser to help her determine a new revenue stream that drew on her background in fashion as well as marketing. They came up with a service called People-First Branding, which offers coaching in communication, business etiquette, appearance and other aspects of "personal branding."

Wanting to focus on the repositioning, Ms. Hefferren stopped seeking new business in the first half of the year. "Clearly this affected our goals, numbers and my personal finances," she says. This year, she brought in only $20,000. But the upshot is that her new personal-branding business is on track to bring in 70% of her projected revenue in 2010.

Another successful repositioning: Two years ago, retailer Stephanie Sack sensed that consumers' discretionary spending was about to shrink considerably. So she switched Vive La Femme, her plus-size boutique in Bucktown, from high-end price points (up to $525) to a "cheap-and-chic" model with prices from $35 to $175.

REVENUE IMPROVES

Ms. Sack, 35, who opened the store in 2002, says revenue since the price change has been the best ever. This year she expects to take in $400,000, up from $360,000 last year and $240,000 in 2007.

"I had a spidey sense that my decision to reprice the store would play well," she says. "And it did. It completely saved the business." Ms. Sack and Ms. Hefferren were quick to take action in seeking out a reinvention, but that isn't always the norm.

"Recessions have occurred routinely throughout American history, but they've been minor by standards of recent memory, so there's an entire cadre of executives who've never seen anything like this," says Steven Michael, an associate professor of business administration at the University of Illinois in Urbana-Champaign and co-author of a 2005 study on recession-fueled business failures.

"Executives and entrepreneurs are naturally optimists. They want to focus on what they're good at," says Mr. Michael, whose report states that about 500,000 businesses fail in each recession. "It's a second order of consideration to think about the risk (of continuing to do the same thing)."

In September, New York-based ThomasNet, which connects sellers and buyers in an online industrial marketplace, released the results of a survey that asked 800 executives and professionals how they were handling the recession. About 70% were looking for business in new industries, increasing their marketing, and exploring new sales channels as a way to increase cash flow and dilute risk. And 38% were developing new products. All good signs.

But another study released the same month by New York-based credit card issuer American Express Co. found that 68% of 763 small-business owners and managers were stressed out, and 41% focused mainly on retaining current revenue sources (rather than seeking new ones). Only 26% said they were looking to grow this business.In which case Jim Flanagan's case is instructive.

GOING GREEN

Mr. Flanagan, 55, is president of Nuance Solutions Inc., a 37-year-old Chicago company that develops and produces cleaning chemicals for private-label and branded clients. Nuance Solutions was strictly a commercial and industrial manufacturer until 1999, when it began dabbling in retail cleaners. But it was still using mostly conventional chemicals.

Then, in 2002, Mr. Flanagan was referred to a job for Seventh Generation Inc., the huge cleaning products company based in Burlington, Vt. "We'd always prided ourselves on using greener raw materials, but there was no advantage to marketing that because people weren't buying green just to be green," Mr. Flanagan says. After Nuance got the Seventh Generation referral, things changed.

'IN CONTROL OF OUR DESTINY'

"We had to look hard at our company and where to go, and all arrows pointed toward us developing more markets for green products," he says. "That was a significant difference."

And, in hindsight, a prescient move. Sales at the 70-employee company have been rising steadily ever since. Today, 75% of Nuance Solutions' $25 million in revenue comes from green cleaners, commercial as well as retail. And it's the reason, Mr. Flanagan says, that the company has grown even during the worst recession in his lifetime.

"We were ahead of the curve, so we felt we were in control of our destiny and had better seize the opportunity to go out and grow the company before (green manufacturing) gets more crowded," he says. "It's a scary time right now, so I feel pretty fortunate."