

## Iowa State retail economist provides tips for running a business during tough times



Meghan O'Brien, an economist with Iowa State's Regional Capacity Analysis Program (ReCAP) and an ISU Extension program specialist.

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<http://www.amesnewsonline.com/category/news/business/iowa-state-retail-economist-provides-tips-running-business-during-tough-times>

(July 22, 2009) These troubling economic times may be taking their toll on some businesses, but an Iowa State University retail economist points out that recessionary conditions also create opportunity for some savvy entrepreneurs.

"More than half of the Fortune 500 companies were started or expanded in a recession," said Meghan O'Brien, an economist with Iowa State's Regional Capacity Analysis Program (ReCAP) and an ISU Extension program specialist.

"One of the things that works in their (new start-ups') favor right now is commercial real estate. Vacancy in office space is rising, which brings down the rents," O'Brien continued. "There are certain costs of doing business that get reduced in a recession. So yes, demand is constrained, but you also have an opportunity to perhaps start a business with a little lower cost in some areas that can be restrictive in good economic times."

O'Brien created "Tips for Running a Business During a Tough Time"

([http://www.econ.iastate.edu/research/webpapers/paper\\_13082.pdf](http://www.econ.iastate.edu/research/webpapers/paper_13082.pdf)) to provide current and future entrepreneurs with the current economic picture, as well as a step-by-step guide on how businesses can both survive and thrive in the current economy.

"I discuss ways to form a business strategy and plan, and then provide a description of how to conduct an industry analysis so that you're going into it with full information to make the best possible decisions," O'Brien said. "In addition to the industry analysis, it looks at how focused and differentiated you want your product or service to be to get an idea of whether you're serving a niche market or larger market. So there are tools in here to give you an idea of how to position your business."

O'Brien starts with the six essential steps to strategic planning and management. She then provides a five forces industry analysis -- entry, buyer power, supplier power, substitutes and compliments, and internal rivalries -- that includes both strategies on pricing and marketing, as well as some on growth, stability, restructuring, succession and exit.

She concludes that businesses should take these steps to make it during tough times:

1. Know and listen to your customers, it's the oldest adage for a reason.
2. Make the moat around your business deep and wide.
3. Know your inventory and your competitors.
4. Adjust your pricing if you can.
5. Remain liquid!
6. Conduct SWOT (strengths, weaknesses, opportunities, threats) analysis and industry analysis.

Consider your overall position, what competitive advantage do you have?

O'Brien emphasizes the importance of strategic planning for businesses to come truly entrepreneurial.

"One of the things I find a little bit troubling is how we want to label any business start-up or business activity as entrepreneurship, when sometimes people are forced to start a self-employment business to compensate for wages that were lost," she said. "That's not necessarily an economic gain to be felt by society or by the state.

"I think true entrepreneurship, in its purist form, is wealth creating," O'Brien said. "And I think that distinction is not just seizing an opportunity, but also creating opportunities for others and for future employment and that is the foundation for economic growth. That is something we will necessarily have to have to move out of the recession and into a period of expansion."

Some of her economic indicators in the report -- bank failures, foreclosures and unemployment rates -- might suggest that Iowa's weathered the economic storm much better than most states. But O'Brien cautions against becoming too optimistic.

"I always say this about Iowa - that we're doing better than other states, but we didn't have the kind of economic growth going into the downturn than they did," she said. "So Iowa always has less far to fall -- less to give back because we didn't have the same type of growth.

"If you look at other relevant indicators and income growth in Iowa, it has not been good," she said. "It declined far greater than the national average during the record consumer spending expansion. If we look at that from 2004 to 2006, our personal income fell at probably three times the national average. And we had a little bit of growth, which I think came from some of the commodity prices, but now we're in decline again.

Personal income's a huge indicator of how retail and business is going to rebound. So that's a little bit concerning, I would say."

But because Iowa's population is aging rapidly and the state's service sector hasn't fallen as far as expected, O'Brien sees potential opportunity ahead within the state for businesses that serve the elderly.

"Whether it's service businesses to retrofit houses that make them more livable for elderly, it seems like Iowa should have some opportunities in that area because of where we sit demographically," she said.

"I've done some research in that area and it seems to be something that's not declining. In fact, our only recent employment growth in Iowa is educational and health services."

O'Brien created her tips initially for community presentations she made across Iowa in What Cheer, Story City and Columbus Junction, and to the Wisconsin Main Street Program.