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# How to Diversify Your Business

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By:

Matt Alderton

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A carpenter by trade, Ben Spofford has been remodeling kitchens and baths and building new custom homes since 1988, when he started his own business, Hudson, Ohio-based Benjamin Builders. Twenty years after founding his company, however, the housing bubble burst and the global economy tanked—hurting Ohio homeowners and Spofford's company.

Despite the down economy, Spofford's phone was still ringing—but not with the typical inquiries.

"People were still calling us," he says. "But they weren't calling about big jobs. We were getting a lot of calls from people who wanted little things."

Because Spofford's bread and butter—new home construction and remodeling—was missing, he decided to fill the gap with a supplemental handyman business, called Housecalls Home Services.

"We started Housecalls Home Services based on the fact that customers were asking us to come over and do odds and ends," he says. "Now, we're swamped."

### **The case for diversifying**

Although he acknowledges it will take a lot of \$500 handyman jobs to fill the void left by a single \$500,000 custom home project, Spofford says his booming new service line will allow Benjamin Builders to survive the recession and thrive when it's over. This comes as no surprise to small business consultant Terry Justice, president of Keystone Financial Consulting-based in Arley, Ala., who says diversification is a key component of small business success, both in good times and in bad.

"I generally recommend that all businesses diversify to some extent," he says. "It is never healthy for a business to have all of its eggs in one basket."

Diversification can mean offering a new service or offering the same service to a new market. Either way, Justice says, the point is to ensure business—and insure your business—with ongoing opportunities.

“Every company needs to offer something that will sustain [it] if their primary craft experiences a business falloff,” he says. “I typically apply the same logic that I use for investing: The broader the portfolio, the better your chance of remaining viable in tough times.”

### **Potential pitfalls**

As with investing, diversification in business comes with just as many risks as it does rewards, Justice points out. For that reason, builders should proceed with caution.

“A common belief is that you should focus on your core competency to be as good at your craft as you possibly can be,” Justice says. “You don’t want to do anything to over-diversify because you’ll begin to lower the level of quality in your primary craft. That happens all too often because companies try to be all things to all people; when they do that, every business line begins to suffer.”

Diversification’s biggest risks, according to Justice, are:

- **Resources:** When businesses diversify without hiring additional staff or additional supplies, they place a heavier burden on their existing resources, which become strained.
- **Cash:** Because diversification demands that businesses increase their outgoing cash flow, business owners must be certain that their incoming cash flow is sufficient to maintain multiple business lines.
- **Experience:** If a business diversifies without properly training its employees or bringing in additional staff that already have experience to deliver its new service line, quality will be low and will therefore damage the reputation of the entire company.

### **Strategy + sales = success**

Maximizing the pros of diversification and minimizing the cons requires two things, says George Hedley, author of *Get Your Business to Work* and owner of Costa Mesa, Calif.-based Hardhat Presentations: strategy and sales.

That is, business owners must want to grow their business—not just sustain it—and they must be willing to take on a sales and marketing role in order to do so.

“In the old days, you spent most of your time working and a few hours a week selling,” Hedley says. “Now you have to spend most of your time selling and a few hours a week working.”

What do you sell, exactly? That’s where diversification comes in. “You need to add more services and more value for your customers,” Hedley continues. “People are tired of dealing with 17 different trades. It’s a nightmare. I’m not saying you need to become a general contractor, but if you’re a carpenter, for instance, you need to be able to do hardwood flooring, baseboards, doors, drywall repairs, crown molding, cabinets, bookcases, shelving, roof repairs—not just framing.”

In other words, a carpenter shouldn't diversify to the extent that he's doing electrical work—he must continue to rely on his core competency as a carpenter—but he should learn and offer as many woodworking services as possible. And because he'll likely be using the employees, resources and tools he already has, he'll be mitigating his financial risks along the way.

Of course, offering services outside his area of expertise might make him even more attractive to his customers, and he can successfully do so, according to Hedley and Justice, by forming strategic partnerships with other companies and tradespeople—plumbers, electricians, stone masons and even land surveyors, interior decorators or insurance salesmen—who agree to join forces with him in order to sell projects and execute them.

“The more you can do for your customers,” Hedley concludes, “the easier it is for them to buy from you.”