Downtown Economics
Ideas for Increasing Economic Vitality in Community Business Districts
Issue 146
October 2008

Identifying Businesses in Trouble During Difficult Economic Times

Summarized by Erin Fifield and Bill Ryan*

Critical to the success of any downtown are the very businesses that adorn its streets. Downtown business districts are defined by their small businesses, employing half of the nation's workforce and often serving as the livelihood and cultural center of towns all over America.

With the current economic crisis, many have turned their attention to Main Street. Reporters and politicians alike stress the importance of small businesses and entrepreneurs to job growth and economic development; the U.S. House of Representatives contends that small businesses "will play a leading role in the nation's economic recovery." But it does no good to bring new shops to Main Street if current businesses are struggling to survive.

While there is much interest in recruiting new businesses to downtown districts, those familiar with economic development stress that the primary importance should be ensuring the success of existing businesses. Efforts at business retention and expansion have shown that "keeping what you have is less costly and far more successful over the long run at job creation than industry recruitment." The current state of the economy has only intensified the importance for business retention.

Identifying Warning Signs

Given the importance of downtown businesses, economic development leaders need to be able to identify those businesses that are in trouble before they fail. The National Main Street Program has identified the following list of warning signs to look for that may indicate a business is in trouble:

- Low or slow-moving inventory;
- Cut back in staff;
- Cut back in hours;
- Drop-off in advertising;
- Poor interior/exterior maintenance;
- Negative attitude/defeatist comments;
- Slow payment information;
- On-the-street rumors;
- Poor performance of another business in same cluster;
- Owner's personal crisis or major lifestyle change; and
- Business owners near retirement age with no obvious transition in place.

Blane, Canada Ltd., a Chicago area economic development marketing firm with specialization in retail and local service, include a number of additional warning signs in their interview assessment process.

- Demographic shifts in the market area;
- Failure to adjust inventory to changes in the market;
- Supplier changes; and
- Introduction of competition.

According to Eric Canada, warning signs can be identified through surveys or interviews that examine business and community interaction. New business retention strategies are focused on competitive intelligence to gain a better understanding of the community as a market and how each business contributes to and utilizes that market.

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Each community is vulnerable to different challenges in the current economy. “Identifying these vulnerability differences takes a different interview/information strategy for the economic developer,” according to Canada.

Economic development organizations should be proactive in identifying the above warning signs. First and foremost, they need to have an open dialogue with local businesses and make it known that they are committed to retaining and strengthening current businesses. The Wisconsin Department of Commerce, for example, manages a business retention and expansion program that uses an in-depth survey instrument to collect information from business leaders on the local business climate. One of the purposes of their program is to identify specific concerns and problems of the local businesses and provide swift, effective solutions.

Downtown and economic development leaders can keep abreast of any changes in local business practices, either through a survey or a direct interview with the business owner. Careful listening will identify if a local business exhibits any of the warning signs and if assistance is needed.

Which Businesses May Be Affected?

Small businesses from all sectors of the economy are struggling. The sectors hit hardest by the current economic downturn include manufacturing, housing and construction, and retail trades. With the housing market at the crux of the crisis, a myriad of firms dependent on the housing industry have been affected: construction, carpentry, realty, and mortgage lending. Some of these firms have a presence in our downtowns. Changes in consumer behavior will impact some retail categories more than others. In a slow economy, retailers at greater risk may include those who focus on novelties and luxuries while ignoring value and convenience. The November issue of Downtown Economics will explore related changes in consumer behavior during tough economic times.

Decreased consumer demand in both the manufacturing and retail sectors has also resulted in a loss of jobs. Until the housing market corrects itself, consumer spending increases, and credit becomes more accessible, keeping local businesses afloat will be more important than ever before.

Conclusions

Identifying businesses that are in trouble is one of the first steps in downtown business retention. A number of early warning signs can signal an opportunity for economic development leaders to provide swift marketing, financial and operational assistance. By ensuring that downtown businesses survive the current crisis, they will provide a real and visible role in the nation’s economic recovery.

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