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# DIVERSIFICATION HARDBALL

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## LERDAHL BUSINESS INTERIORS' DIVERSIFICATION EFFORTS MOVE IT TO THE BIG LEAGUES

BY KEN WYSOCKY | PHOTOS BY SHANNA WOLF

ABOUT 17 YEARS AGO, OFFICIALS AT LERDAHL BUSINESS INTERIORS INC. IN MIDDLETON DECIDED THEIR COMPANY WAS A LOT LIKE A ONE-LEGGED STOOL: MUCH MORE SUSCEPTIBLE TO FAILURE.

Uncomfortable with the precarious perch, brothers Greg and Jeff Lerdahl and first cousin Tim Lerdahl began to aggressively expand their product offerings. In doing so, they eventually transformed the company from a small niche firm, known for installing movable-wall products for offices, into a full-service, office-furniture supplier.

The game-changer came in 1997, when Lerdahl became a dealer for Kimball Office, says Jeff, now the president and co-owner of the company, along with his cousin, Tim. Within a few years, the company's sales mix flip-flopped from 80 percent movable walls and 20 percent office furniture to 80 percent office furniture and 20 percent movable walls.

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DAN OLSZEWSKI, DIRECTOR, WEINERT CENTER FOR ENTREPRENEURSHIP,  
UNIVERSITY OF WISCONSIN-MADISON SCHOOL OF BUSINESS

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“In our business, it's difficult to be a viable supplier without a partnership with a major furniture manufacturer,” says Jeff. “Being a Kimball dealer expanded our product offerings exponentially... we probably had five times more office products to offer at a lot of different price points.”

Unlike its pre-Kimball days, Lerdahl suddenly could source an entire office project from one supplier with nationwide name recognition, instead of piecing it together from open lines of products.

“Customers prefer to purchase all their products from the same manufacturer,” Jeff notes. “That's how the professionals do it.”

“It had a major impact on our business,” he continues. “All of a sudden, after 13 years in business, we were being considered for jobs we otherwise wouldn’t have been asked to bid on. Before becoming a Kimball dealer, we were a good minor league baseball team. After that, we were in the big leagues — with a chance to get into the World Series. You can’t get to the World Series if you’re a minor league team.”

### CLASSIC STRATEGY

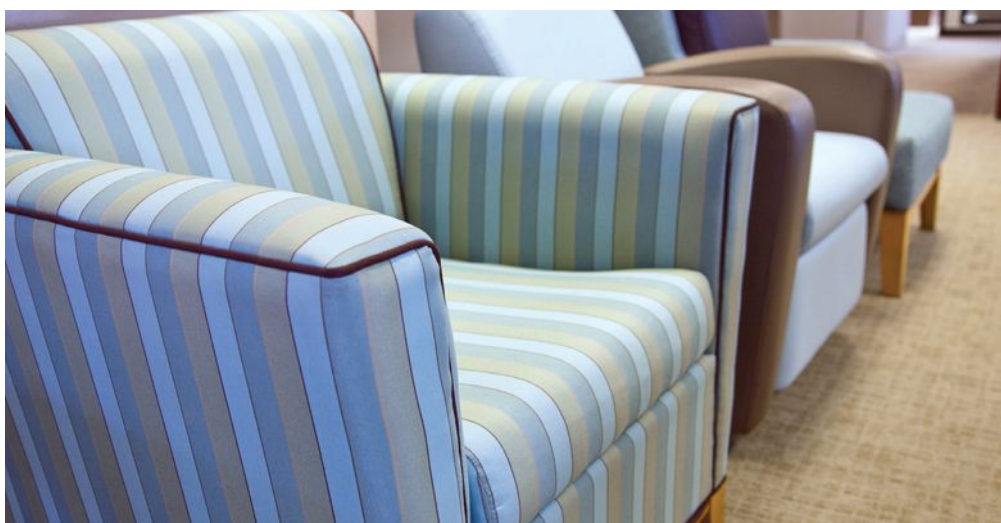
Lerdahl’s transition reflects a classic diversification strategy: Expanding a customer base by bringing new products to an existing market. Two other time-tested strategies involve taking existing products/services into new markets, or bringing a completely new product/service to a totally new market, says Dan Olszewski, the director of the Weinert Center for Entrepreneurship at the University of Wisconsin-Madison School of Business.

No matter how it’s done, diversification is critical, says Bud Gayhart, the director of the Center for Innovation & Business Development (CIBD) at the University of Wisconsin-Whitewater, which oversees the Wisconsin Innovation Service Center (WISC), a group that helps companies assess market-expansion opportunities.

“When companies find themselves too leveraged in an industry, or with too few customers, that should be a wake-up call to grow their business in other areas,” he says. “We always counsel people about the dangers of being more leveraged with just one customer, because that one customer can go out of business or change suppliers.”

As an example, Gayhart cites a major Milwaukee manufacturer that audited its vendors, then dropped a supplier because the audit revealed it was 90-percent dependent on the manufacturer.

The accelerating rate of change in industries and in the overall economy also should motivate companies to assess their customer base, Olszewski says.





“... WITHOUT DIVERSIFYING,  
I DON'T THINK WE'D BE  
HERE AT ALL.”

JEFF LERDAHL, PRESIDENT, LERDAHL BUSINESS INTERIORS INC.

“Who would've thought 20 years ago that General Motors would go bankrupt?” he asks. “You just can't afford

to have all your eggs in one basket, tied to one customer or one industry. And with technology changing so

rapidly, the things your customers look for can also change quickly. So you need a broad offering of products to handle that.”

### STICK WITH WHAT YOU KNOW

Research shows that of the three strategies, the one used by Lerdahl works best. Olszewski says companies that offer new products/services to an existing market enjoy a 40-percent success rate, most likely because they already know their customers well.

“A good example is Apple,” he points out. “Years ago, Apple was a computer company. Now they've diversified into iPods, iPhones and iPads. They're no longer just a computer company, but a consumer-electronics company.”

On a smaller scale, Lerdahl gained a diversification foothold in 1987 by agreeing to sell a cubicle workstation product made by one of its wall-manufacturing partners. That led the company to hire an office designer so it could serve more than one aspect of office-space division, Jeff notes.

In 1994, it took an even larger step by representing a company that makes stackable-panel products for office cubicles, which provided access to an even wider swath of the office-outfitting market. “Before, we didn't have a product that would invite us to the table,” says Jeff. “You have to give customers a reason to consider you.”

For companies that follow a different path — bringing existing products/services to totally new markets — the success rate drops to 25 percent. And those that go to new markets with new products succeed only 5 or 10 percent of the time, Olszewski notes.

“It's tough to be successful if you stray too far from what you do,” he says. “Don't diversify just for the sake of diversifying. Do it because you can create another successful business. It's the best of both worlds if you can get farther away from your core business, but stay related.”

## MAKING THE SWITCH

So how can companies begin to diversify? They can start by using resources like WISC Small Business Development Centers. (See Diversification Resources at right.)

“We look at various sectors and emerging trends — new areas that companies never considered before,” says Gayhart of WISC’s services.

Libraries also offer a wealth of information, including immense databases like NEXUS and LEXUS. These resources provide clues about new markets that companies could exploit.

Gayhart says many companies aren’t aware that scientists and engineers at universities have developed and patented — but never commercialized — intellectual property. Organizations like the non-profit Center for Advanced Technology and Innovation of Racine County Inc. specialize in pairing businesses with new technology that’s languishing on the vine.

Olszewski says that one key to successful diversification is early-stage conversations with customers, both new and old, as the case may be.

“The key thing is talking through the details of what you’re going to provide to your future customers,” he says. “It’s not a sales pitch at this point, it’s information gathering... doing market research with customers you think might be a good fit. You need to hone your message, meet with customers and attend trade shows before you figure out if there’s an opportunity.

“You also need to know what you’re competing with and be sure that you’re cost-effective, too,” he adds. “It’s not productive if a company solves a problem more elegantly than a current solution, but it costs 10 times more.”

Gayhart recommends a three-pronged attack. First, companies should go after emerging sectors within vari-

ous industries. For example, maybe there’s a certain kind of medical equipment that would be a good target for a plastics-molding manufacturer.

“It’s relatively easy for a plastics company to establish a clean-room environment at its facility and start serving the medical equipment or device industries,” he says.

Next, companies should examine what Gayhart calls “hibernating”

## DIVERSIFICATION RESOURCES

Center for Advanced Technology and Innovation of Racine County Inc.  
[www.racinecountyedc.org/CATI/index.htm](http://www.racinecountyedc.org/CATI/index.htm)

Small Business Development Centers  
[www.sba.gov](http://www.sba.gov)

WISC  
[wisc.uww.edu](http://wisc.uww.edu)

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