

As behemoths stumble, small fry find footing

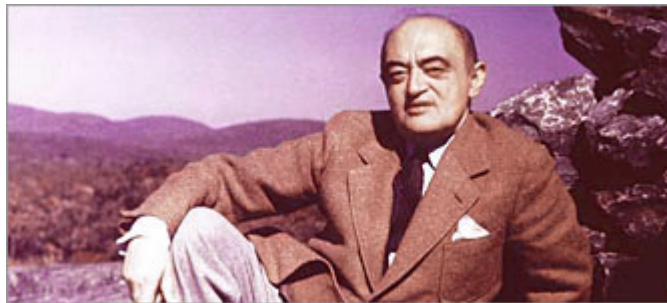
By John Rosenthal
April 13, 2009

Creative destruction, as described by 1930s-era economist Joseph Schumpeter, is the process by which dominant companies are supplanted by those with better products or superior ways of doing business.

Though we tend to think of the S&P 500 as blue chip corporations that have stood the test of time, the average life span of companies on the index is just 12 years.

In 1987, when *Forbes* magazine republished its original Forbes 100 from 1917, nearly two-thirds of the companies had ceased to exist, and just 18 had managed to remain on the list.

As companies grow, they develop a structural inertia — bureaucracy, mid-level managers, bloat — that hinders a quick response to shifting market conditions. Smaller, nimbler companies adapt faster and grab marketshare while the behemoths struggle to turn their ships around.



COURTESY HARVARD UNIVERSITY DEPARTMENT OF ECONOMICS

Businesses tend to forget about creative destruction during heady economic times because freely available capital often forgives poor financial decisions. It's only during a downturn that businesses recognize destruction as the flip side of innovation.

"Cleaning house, careful management, eliminating activities that are no longer needed are part of the equation," says Sarah Kaplan, assistant professor of management at the University of Pennsylvania's Wharton School of Business and author of the 2001 book "Creative Destruction."

'RADICAL CHANGES'

The current economic climate, Ms. Kaplan notes, is "very dire, and the only silver lining is that it will force companies to make radical changes they'd be unwilling to make in more stable times."

Creative destruction will be very much in evidence during this downturn, which is expected to be the worst since Mr. Schumpeter's heyday.

Patrick Murphy, assistant professor of management at DePaul University's Kellstadt Graduate School of Business, also points to regime change in Washington and the aging baby boomer population as pivot points that could alter the commercial landscape.

"The stimulus package is the largest spending provision in history," he says. "The kinds of changes that are going to have to occur in the business community are going . . . to be similarly unprecedented."

It's not hard to identify the companies that stand to lose in this recession.

"Finding the winners is much more difficult," says Don Haider, professor of management and strategy at Northwestern University's Kellogg School of Management.

Still, we're going to take a stab at it.

Here's a look at three sectors dominated locally by a teetering giant — in retail, Sears Holdings Corp.; in media, Tribune Co., and in technology, Motorola Inc. — and a handful of much smaller companies that are rewriting the industry rules.

The small businesses profiled here are not likely to put Sears, Tribune or Moto out of business. And the odds that any of them will ever achieve the size and scale of these three titans in their prime are certainly long.

But the small fry might show those dinosaurs which direction to watch for the falling meteor.

©2009 by Crain Communications Inc.
