

How to guide your business through tough times

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Brad Cherniak: You should have two driving imperatives: First to survive — neither society nor the government care a whit whether you succeed or fail, nor should they — and second, to increase sales and profit.

Everyone seems to have ideas on what small to mid-sized businesses should be doing in this economy.

One line of thought is that business owners should bite the bullet and hire more people to help the economy out. There is also talk companies large and small must become more innovative, although I've yet to see a satisfactory explanation of what that means.

Governments and blue-ribbon panelists love to talk about innovation, then decide it is smart to effectively cut capital expenditures out of the Scientific Research and Experimental Development program.

Then there are those people who contend companies have the same moral imperative as people to make the world a better place.

In my humble opinion, none of this is germane to what SMBs should do in turbulent times. If you run a privately held company, this is likely your paradigm:

- You may or may not yet have carved out a position in your market;
- You may or may not have any or many entrenched or defensible relationships with customers;
- You are seriously resource-constrained at all levels;
- You need to spend money to make money, but you need to make some first;
- You likely have an incomplete and imperfect team;
- You are largely running on gut instinct at this stage, supported by some basic analysis based on limited data and ad hoc relationships;
- You may be supplementing your internal domain knowledge through, for example, an advisory board to find cost-effective ways to achieve your objectives;
- You are interested in sharing war stories and insights with other SMBs, ideally to learn from their mistakes.

If this describes your business, you should have two driving imperatives: First to survive — neither society nor the government care a whit whether you succeed or fail, nor should they — and second, to increase sales and profit.

Although there are small businesses that are and will always be small, I'm speaking of the ones that need to pursue scale to obtain sufficient resources to be able to properly service their increasingly demanding customer bases in a highly competitive world, whether business-to-consumer or business-to-business.

There is also a lift in valuation multiples as these types of businesses get larger. Growth increases your chances of survival by increasing your ability to profitably maintain sufficient resources in-house to react to the inevitable curve balls thrown at you, say, losing a key customer or employee. You have more pieces to move around the chessboard and you can take more calculated gambles without imperiling your survival.

Here are a few pointers to keep your business on track to grow:

Survival Making changes to your core team is akin to repairing an airplane wing while in flight. Make changes only in extreme cases, and put up with a lot before you pull the trigger. Keep your high-performers happy, however you can.

Focus Stay focused on your goals. Talk to other companies, share experiences, but don't get caught up listening to everyone's experiences and advice. You risk losing focus and, more importantly, the stomach to make decisions.

Exit strategy Don't obsess about this until you are close to exiting. I put this on the same level as military exit strategies: Neither is particularly useful in the trenches.

On a related note, there are several web/software companies driven by the imperative to sell out to highly acquisitive platform technology companies such as Google or Oracle, and now Facebook or Zynga. These companies have very different ways of dealing with the two strategic imperatives of survival and growth.

Those companies should not stray too far from the paradigms that govern "regular" businesses. Or be romanced by developments such as Instagram's story, which is akin to having a buddy on your high school basketball team drafted by the NBA. This does not mean the scouts are looking over the entire team. And calculating the value of your business as a fraction of Instagram's will lead to poor decisions and ultimately disappointment.

Growth Pursue it in small, executable and measurable steps. Think big, but also think small.

Avoid hype Be realistic and use your horse sense to discern between what is reasonable and what is nonsense. The market window for hype-driven businesses is much more volatile and fickle than more fundamentally driven companies.

Capital All companies should pursue and take on outside capital only as a last resort. If you can grow without it, so much the better. Do the analysis of what you look like with additional capital and without.

SBMs should be more wary of taking on third-party debt other than a small operating line to help manage short-term liquidity swings. Heavy-term debt obligations are a ticking time bomb, and debt covenants are the most likely triggers of the explosion that brings down growing businesses.

Simplicity above all SMBs should seek simplicity and clarity in everything they do. It increases the chances of growth — everything is still hard, but it should not be complex. Mediocrity shelters behind complexity, as complexity becomes a ready excuse for every missed target or deadline.

As with all businesses, an SMBs only task in today's world should be to survive and grow. Simple, but not easy.

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