

### **'Flash' companies changing old business models**

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I'm often asked whether, in the historical context, this is a good or a bad time to own a business. Logically, coming out of a major economic downturn is the best time: Customers are starting to reopen their wallets, but employees are still shellshocked and salary expectations are still modest. Mediocre business operators are either out of business or crippled for some time to come, making it easier to compete.

Classic business economics; but it's not that simple this time.

First, the financial arc of a business is not as clear as it once was. Traditionally, you would start and grow a business, building the infrastructure and customer base to hit "maturity," then sell it or take it public.

The advent of technology, particularly driven by the Web, at least temporarily has changed what it even means to be a business. Many companies are built to sell quickly, never even contemplating maturity. They stay virtual, holding few resources in-house to take advantage of market opportunities quickly or change tack completely. Companies barely need to hit proof-of-concept stage to become attractive tuck-under targets. I call these companies "flashes."

They consume minimal capital using the nearly costless infrastructure of the Web, and are generally part of someone else's paradigm. It is not critical to become large and profitable, the more traditional goals of business.

These companies are being bought by large companies including Google, Oracle, Time Warner and IBM, based on what they can do for their core businesses. They are not buying established management teams or businesses, making them easier to integrate than "traditional" businesses.

It's almost impossible to make sense of the valuation of many companies being sold or financed today. You see companies less than six months old, with two employees, selling for eight figures or more, while others with millions in sales and profit sell for a fraction of that. Some call it a bubble -I call it the advent of the flash.

It's hard for other companies to compete with these flash companies, as they often give their beta products away for free as part of a bigger, broader, possibly unknown plan.

Even more confusing is deciding whether to run your company as a flash or a traditional business. Entrepreneurs must decide which they are quickly and govern themselves accordingly -but making the wrong choice can be damaging. All this before considering whether the product or service is one the world needs in the first place.

The second factor in whether this is a good time to start a business is the advent of the ubiquitous government. It is getting difficult to say where the line between private and public sectors is, to an extent unprecedented in modern Western history. Virtually nothing is outside the purview of government today -and its appetite for building its infrastructure to handle this is insatiable. On the business side, the most extreme example is cleantech. It is impossible to make rational assessments about this technology, or its markets, outside the context of government support. Hyperactive governments worldwide are increasingly nationalizing what used to be purely private decisions through regulation and taxation, as well as direct intervention.

Even more daunting is the new hyper-populist sentiment of governments, which is no accident. The political game has become a raw battle for votes, not ideas. The business class, or upper class in raw political terms, has become that most attractive of targets -they hold the money but represent few votes. Their money can just be taken, not necessarily earned or contributed voluntarily.

The United States experience is becoming a cautionary tale, as are those of many European countries. There is a level beyond which it becomes impossible to deal politically with accumulated debt outside the context of a crisis or default.

Canadian businesses, particularly those that are smaller, should be terrified at the prospect of the dimming financial prospects in the U.S. That country has always been a core element of strategic planning for them. It is difficult to even begin to quantify the implications of fundamental changes to the legendary U.S. private business engine.

The effects of both these new phenomena are only beginning to be understood and assessed. Here is the upshot for SMBs:

- There has never been a perfect time to be an entrepreneur -only the challenges are different.
- Businesses and private capital are being riven by both of the above paradigms.
- More than ever, liquidity will be the wild card and potential Achilles heel in the best-laid SMB strategic growth plans and risk assessments.
- Expect to continue to be capital-constrained and factor this into your planning at all levels. New business initiatives and acquisition opportunities need to be assessed even more coldly with this in mind.
- Timing is still everything in business. Planning needs to be tighter and more rigorous, yet flexible and nimble. Serendipity will play an increased role.

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