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Small firms in danger of becoming too cautious

Capital Insight

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There is a danger in sealing your fate by changing tack in a panic or becoming too conservative where it most counts.

Most people are familiar with the statistics pointing to a daunting failure rate for small businesses: One in three or even one in two are the educated guesses thrown about. Many also know about the venture capital paradigm, which goes along the lines of "when they make 10 investments, they expect one or two home runs, about three or four to just survive, and the rest to fail or exit on less than profitable terms."

These numbers are consistent with the notion that small business is highly risky, at the best of times. But it is particularly meaningful given the woeful state of the economy and the "buyers strike" that is hammering almost all sectors, whether business-to-consumer or business-to-business.

The fact is the global economy is burning off the excess created by success. Regardless of the causes, the business cycle is alive and well and the global economy is in a rather unusual synchronized downcycle, all countries, all sectors - which makes it unlike most recent downcycles. The 1999-2001 downcycle, for example, was limited largely to the technology sector. Bottom line, there are too many suppliers of too much product, supplying too few customers with no money or no will to spend it. What that all means is there is not enough room in Dodge for all the sheriffs and someone has got to go, or in this case, lots of people.

Frankly, the companies that looked to be "doomed" are legion - and by doomed I don't mean they are at the point at which they are out of cash, but rather at a point at which the company starts to lose its mojo, its competitive position, bright future, and positive momentum. This is the point toward which an increasing number of businesses of all types are hurtling.

It is in this context, this column, Capital Insight, debuts. This context will drive many thoughts and interpretations of events and situations, beginning with perhaps the most basic: How should owners of small to mid-sized businesses act today? Has the world changed so fundamentally that the old ways of doing things no longer apply or are even detrimental to a

business's well-being? I would answer "no."

There is a danger in sealing your fate by changing tack in a panic or becoming too conservative where it most counts. Every strategy and tactic, everything you do to run your business and earn profits is carried out to manage risk, not eliminate it. Risk is opportunity. That is also true for major corporations, but they have scale and resources such that their risk is not existential but incremental - think Blockbuster or General Motors - and their very public crises are slow moving. For smaller businesses, the cement wall is always just feet in front of them. Few have the resources and the bench strength to shrug off the loss of even one medium-sized customer or top-performing employee without any impact on their business, never mind a major mishap.

For small businesses, the old paradigms of managing liquidity, having the right balance sheet for your business, having a well-crafted strategy and analyzing risks before you jump are still perfectly valid, if not more critical today. The basic blocking-and-tackling of business has not changed, only the number of variables and the number of hurdles have increased.

Businesses need to do the same old things, only better.

The real decision for entrepreneurs now is not whether they should be looking to raise capital: They should be asking themselves whether or not they have the stomach to keep swimming in the small business sea? If not, it is time to analyze and quantify exit strategies, and pursue the best one if it looks better than the status quo.

For those remaining in the game, there are plenty of valid and proven ways to run a business better in order to attract, retain and satisfy the capital providers and other stakeholders you have and need. In this column, I plan to give the straight goods on raising capital in tough times and better ones, as well as on deploying that capital, growing, prospering and exiting successfully.

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