FINANCIAL POST

There is no free lunch

Steps to help you ride out tight capital market

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About now, owners of small-or medium sized businesses are looking ahead and wondering what to do, or not do. I offer this advice.

First, do not presume capital of any type will get easier to raise any time soon. With few exceptions, it will get harder and more expensive or dilutive. The institutional and pseudo-institutional capital markets are working through their own issues, some deep and fundamental, others more temporary and related to economic conditions. Even liquid and active niches are inundated with opportunities. The bar has been raised very high. This is not an unhealthy dynamic in a macro sense: It is a rebooting of the economy and financial markets, a cyclical flushing out of recent excesses. Long term, good, but very challenging for SMBs.

Second when it comes to the economy, the cure has been more harmful than the disease. Look for a difficult few years in a broad sense and do not anticipate an upturn before it is truly established. There is no historical precedent for governments spending their way to prosperity, including the Depression-era New Deal. Economies have accelerated only when overall tax burdens were cut, full stop, for example, after the Second World War and during the Reagan era. This likely won't happen again for a long, long time.

There is no free lunch. At best, government spending serves as a onetime boost to a frozen economy, and that has already happened. Any additional spending crowds out the private sector by forcing tax rates to rise and consumers and businesses to cut back spending in anticipation. The bailout of Greece is the latest straw and sets a bad precedent for things to come. The U.S. and world economies have been infected with the Other People's Money virus -- where spending and investment decisions are separated from the owners of the capital, on many levels.

Here are some steps to can take to help you get through these times:

1. Get serious about forecasting cashflow. Keep it simple and track your ability to do it accurately. If it's not working, change it and fast. You should be able to hit your forecast pretty accurately on a weekly basis, or understand the variances and make adjustments for them.

2. Closely related to 1, figure out what your core business is and exactly where you make your money, by business line and customer.

3. Continue to invest in sales and marketing and customer service in that core. Yes it's risky, but skimping here may seal your fate. Business is a game of probabilities, so play the odds at the right end.

4. Forget about side projects and blue-sky research and development initiatives. Exit non-core items quickly and cleanly, even at a reduced price tag. Avoid a continuing distraction in the pruning exercise. If you do have a great idea or project, spin it off and fund it independently. In this environment, separating out the pieces of your business may make each piece easier to fund. There may also be government funding for new products and R&D initiatives.

5. Forget about glowing and explosive financial forecasts, as they aren't taken seriously now anyway. Focus on the tangible and contractual in your core, as these are the only things investors will value today -- that is the relationship with your core customer and the economics of that relationship at the unit level.

6. Be rigorous and systematic about how you make strategic decisions. Don't fall into the trap of falling so far behind the curve you start to use the excuse of not having a choice, or time, to make proper decisions. It is hard to recover once you are in this state. If squeezed, make fewer decisions.

7. Importantly, at some point stop listening to advice. The most important resource entrepreneurs have, by far is their's and their core team's raw instinct and self-confidence. Businesses are being inundated with new world paradigms and increasingly diffuse socio-corporate responsibilities, which will only get worse. Keep your centre.

8. Trust no one blindly. Everyone from investors to advisors, customers and employees is a potential resource, either for cash, new business or information. But use them correctly. Understand the boundaries between them and your business.

9. Anyone who tells you anything is quick and/or easy today has shot their credibility. It is a great time to be a corporate acquirer, but it doesn't mean you should do it necessarily.

10. And my personal favourite -- if you can't analyze and quantify it, it ain't worth squat.

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