

The UK's Entrepreneurs

Confidence, not caution, is the key to fast recovery

Guest Column
RENÉ CARAYOL

For many small or medium-sized enterprises, it is starting to feel like late 2007 all over again.

Large companies are taking their time paying smaller companies and are cutting back on anything and everything, from marketing and information technology to training and recruitment. These are early indicators of a serious downturn.

The main difference between now and four years ago is that there is no run on liquidity for the banks. Therefore, this will not be another credit crunch, but it will be

another period of uncertainty brought about by falling confidence across the markets.

The economic problems in the eurozone, particularly in Greece, have heightened the fear factor, especially within large corporations.

As those at the top of the business food chain start to panic, SMEs suffer beneath them; many rely on commercial relationships with large companies as the mainstay of their businesses. And with 70 per cent of us working for an SME, it does not take long for the economic shockwaves to be felt far and wide.

Recessions hit poorly run SMEs hard. Those

businesses that may have moved into new territories during times of prosperity without having done proper research, or perhaps made expensive hires with no real understanding of the return on these significant investments, are particularly vulnerable.

When revenues are high and budgets are full, it is easy to brush mistakes under the carpet. But they can come back to haunt businesses when times are hard.

Recessions are kinder to well-managed SMEs. These businesses can pick up the pieces of their failed competitors, and they reap the rewards of having restructured at the early signs of a downturn.

The best-run SMEs tend to have the agility and leadership to adapt their necessarily defensive mindset to a more confident approach that ensures opportunities are grasped at the first signs of recovery.



Medium-sized and small companies are the lifeblood of our economy

This is vital, as SMEs tend to get the recoveries they deserve.

A friend of mine acquired a small, branded shoe business in 2005, which had its manufacturing base and

business offices in the West Country and its sales operation and stores in London.

He quickly identified an opportunity to close down the expensive manufacturing operation in the UK, and picked up spare capacity in a high-quality shoe factory in Italy, halving production costs.

He was able to recruit the services of two freelance shoe designers, well known to him, who also worked for certain large fashion houses. He moved the offices to above one of the stores in London and completely closed down the West Country part of the company. This drastic, but necessary, restructuring

rejuvenated a failing business.

Everything was moving in the right direction, but he had borrowed and invested significantly to deliver this business turnaround.

By the beginning of 2008, the recession had hit the branded area of footwear hard. No one needs to buy high-end shoes in a downturn. The banks were no longer supportive and his business shrank as he continued to limp along, desperately managing his cash flow.

With financial support from his fellow directors and an angel investor, the business made it through until early 2010, when the banks eventually returned

with fresh credit facilities. Given how well the company had managed through the downturn, and the painful lessons it had learnt, it received offers from four banks for new facilities. It will now adopt a multi-banking approach and has set up agreements with three banks in order to spread future risk.

SMEs and consumers share the same mindset currently: they are remaining cautious. This may seem sensible for businesses, especially regarding investment, growth, recruitment and marketing, for example, and so on, but it also makes for a constrained economy. We are living in a vicious cycle that will

only be broken when the economy, and especially the banks, regain their confidence.

Forward-thinking SMEs have a key role to play in a return to a stable and healthy marketplace. It is a lack of confidence that has killed so many businesses. This is the main lesson for SMEs.

And it is time we took the banks off our hate lists. By "shafting" the banks, they will only "shaft" SMEs. Banks are the lifeblood of the SME sector and the SME sector is the lifeblood of our economy.

The author is a writer and broadcaster on business and entrepreneurship