

# Small Companies Fare Better Than Big Companies in Tough Times

By Tom Reilly

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*It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair . . ."*

(Charles Dickens, *A Tale of Two Cities*)

Even though Charles Dickens wrote this in the mid-nineteenth century about a different time and a distant place, the French Revolution, he could have been writing about the dramatic shift in the U.S. economy at the dawn of the new millennium. For some, this economy is "the best of times"; for others, it is "the worst of times." Wall Street went from the "season of Light" to the "season of Darkness." In the midst of the current economic uncertainty, there are those who look to the future with great trepidation; for them, it is the "winter of despair." Others look to the future through the eyes of an optimist; for them, it is the "spring of hope."

Since 1854, we have experienced thirty-two economic downturns in the United States, each lasting about 1½ years, followed by an expansion of about three years. It seems we've discovered a way to handle these downturns more effectively, because over the past forty years, the average contraction is less than one year, and the average expansion is almost four years.

One reality of the business world is that if you're in business long enough, you will experience an economic downturn. Seventy percent of today's CEOs have never led a company in or out of a recession. Another reality is that every downturn is followed by an expansion of the economy: As spring follows winter, as day follows night, expansion follows contraction. A third reality of business is that some companies navigate more successfully through rough economic waters than other companies. In tough times, 5% of companies thrive, 70% survive, and 25% fail.

For the past twenty-five years, I've had the privilege of working for big companies and starting two small companies. I've served as a consultant to Fortune 500 corporations as well as Mom-and-Pop businesses. I've been their student as well as their teacher and witnessed how each engages tough times. Small companies have inherent advantages that help them prevail in tough times.

The first advantage that small companies—or those who think and act as small companies—have in tough times is *cultural*. Small companies adopt the personality of their owners: risk-oriented, entrepreneurial, innovative, decisive, and bold. Companies that thrive in tough times share these characteristics. Those who set their sights on thriving in tough times increase market exposure, invest in infrastructure, retool, train their people, and prepare for the economic spigot to open. Those who focus on survival in

tough times reduce promotional expenses, engage in across-the-board cost reduction programs, and wait for things to get better.

Nowhere is this difference more noticeable than at the top of these organizations. I recently spoke to the CEO of a large St. Louis-based company that is going through tough times in their industry. He sounded as if he were delivering the eulogy for his company. Another CEO, who owns a small industrial supply house in St. Louis, told me about the initiatives they are taking to prepare for the future: hiring new talent, investing in sub-assembly operations, training their employees, and increasing their marketing efforts. He was as excited about the future as the other CEO was depressed.

By their nature, large companies—or those who think and act like big companies—are more conservative and move slower. Their management teams answer to higher authorities—boards of directors and shareholders. In many large companies, winning means not losing. Committees make many decisions to gain buy-in and spread the risk. In small companies, the owner makes many decisions and assumes most of the risk—good or bad.

A second advantage that small companies have in tough times is *immediacy*. Things happen quicker in small companies. They can read the industry tea leaves and act more quickly than large companies. Small companies are more nimble. The analogy I like to use is that small companies turn like a jet ski while large companies turn like an ocean liner. Small companies can implement new ideas more quickly than large companies that require committee approval, management sign-off, and budgetary approval. If a business owner likes an idea, he or she creates the funding. By the time most big companies act, small companies are implementing the idea.

One example is a small independent construction equipment dealer I work with. They wanted to improve their cash position so they created *buying opportunities* for customers. These *buying opportunities* allowed customers to purchase cheaply inventory the distributor wanted to move. This marketing strategy produced cash quickly, which the distributor immediately redirected into faster moving items. The speed with which this program was implemented surprised even the owner of the company. The small company sales force struck, as a guerilla force, to close sales and close out the competition. While larger competitors were strategizing, the small company seized early sales and penetrated the market quickly and thoroughly.

A third advantage that small companies have in tough times is *proximity*. Their owners are closer to the action. In most cases, they deal with customers and employees directly. This gives the owner the opportunity to see first-hand the impact of his or her decisions on the people that they affect most, employees and customers. It's one thing to lay off 5% of your work force from the corner office; it's another to terminate employees face-to-face. It's not easy to lay off people if you're an executive for a big company, but direct contact with employees in a small company confronts the owner with the stark reality of lay offs that someone who is shielded from the dirty work does not face.

Proximity gives small business owners the benefit of clearer channels of communication. Being closer to employees and customers gives business owners the opportunity to disseminate and gather information more effectively and directly; there are fewer levels to cleanse the information that the decision maker receives.

Nowhere is proximity more important than cost-containment. In large companies, upper management deals with big picture issues; therefore, cost containment usually appears as across-the-board cuts instead of prudent pruning. Across-the-board cuts are like blanket bombing: You get the job done but leave much collateral damage in your wake. Strategic cuts are like surgical strikes: You trim only that which ought to be trimmed. Across-the-board cuts drain departments of desperately needed resources that will help these companies emerge victorious from tough times. Why would a company trim promotional spending if it produces results? This happens with sweeping cuts. Why would a company eliminate the bottom 5% of their work force every year as a management practice? What happens to the department that has all top achievers? Do they lose one of their employees, too?

A fourth advantage of small companies is *commitment*. That is not to say that the management teams in large companies are uncommitted; someone rarely ascends to the top of a company if he or she lacks commitment—the opposite is usually true. Business owners will do things that their corporate counterparts will not do. How many corporate executives forego their salaries and bonuses to meet payroll? The last one I remember was Lee Iacoca. One business owner I know funded his company with personal savings to help it through tough times. Another cut his own salary significantly so that others wouldn't suffer.

The personal stake in small business is greater. Business owners' self-image is tied closely to their businesses. They will not let these businesses fail. They take it personally. This is their motivation to do things that others wouldn't even consider doing.

Two Fortune 500 companies I work with have compensation plans that encourage management to make short-term, questionable decisions. One company pays executive bonuses based on cost containment, not revenue production, growth, or profit enhancement. In other words, if you spend less than last year, you get your bonus. This creates a contraction and hoarding mentality. Unfortunately, things that created revenue were eliminated because they cost money. Everything was seen as an expense. For example, it costs companies money to participate in trade shows. Even if they produce revenue, which they do, trade shows would be eliminated because they are seen as an expense to those with an expense-contraction mindset. R&D is an investment in the future, but in tough times, it may be seen as an expense for today. The same is true with training. What better time to train your folks than when things are slow? It's a good use of their time, but those people who have a contraction mentality may view training as an expense, not an investment.

A small business owner, who is closer to the bottom line, may view the following things as investments: Hiring good talent in tough times is a good move for small businesses because the talent pool is more full and increasing promotional activity makes sense because ad rates may be lower and printers more willing negotiate.

Another Fortune 500 company linked its CEO's compensation plan to shareholder value, which sounds good to the investor. The problem they encountered was that it appeared to employees that every decision he made was designed for Wall Street. His motivation? Move the stock up twenty points and cash in his stock options. This created a severe morale problem inside his company because their top line was fine; he cut expenses

across the board to swell the bottom line, and the employees viewed his actions as padding his compensation package.

Big companies have advantages, too. One might argue that their depth of resources is an advantage. It is, but these resources carry a price tag—they are expensive and many of them are the first to go in tough times. Big companies have buying power and can wield this in the marketplace for competitive advantage. Many small companies have discovered that you cannot out Wal-Mart Wal-Mart. But is cutting your price the way to compete in tough times? It's giving away that which you need more of—money.

I like big companies. They have given us some of our best innovations throughout history, and many of us began our careers with them. Thank you. My argument is that the culture in big companies and the nature of the beast make it more difficult for them to operate as effectively and efficiently as small companies in tough times. Well-intentioned managers in big companies are forced to make hard decisions that they may not otherwise have made.

Big companies are not doomed to slug along in tough times just because their cultures are more cumbersome. In fact, a number of big companies are making the news lately because of their proactive and prudent approaches to tough times: Intel, Corning, Schlumberger, and Alcoa to name a few. Their examples serve as a beacon for any company—large or small—that is weathering an economic storm.

Those who wish to turn the season of darkness into the season of light can look to small companies—or those who think and act like small companies—for the success model: speed, proximity, and commitment.

**Author byline:** *Tom Reilly is a professional speaker and the author of twelve books. This article is an excerpt from his book, **How to Sell and Manage in Tough Times and Tough Markets**, Motivation Press, ISBN: 0-944448-22-4, \$14.95. You may contact Tom at 636-537-3360 or visit his website: [www.TomReillyTraining.com](http://www.TomReillyTraining.com).*