

DeLisle Worrell: Lessons for small business from the financial crisis

Opening remarks by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the 19th Annual Meeting of the Small Business Association, Bridgetown, 20 November 2012.

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The richest source of expertise about small business in Barbados lies with the experience of small businesses themselves. Many in this audience have far richer insights about what makes for success in small business than I do, from their many years of entrepreneurship, in good times and bad. My comments are mainly on the basis of observation and discussion, of the operations of the many small businesses whose products and services I have used over the years, and those with which my family and friends have been associated in one capacity or another.

Before sharing my brief thoughts about the challenges facing small business I will give you a brief rundown on the economy:

The challenge for small business is similar to the challenge for all of us: how to raise our productivity and quality to such a high level that our customers are happy to pay premium prices for our goods and services. Each individual and each business must find their own answer to that question. What is it that makes what you are selling special, that keeps the customers coming even when competitors spring up and undercut your prices? Is it the ambience that you offer? Is it your comprehensive and in-depth knowledge of your craft, your awareness of relevant new trends from across the globe? Is it the personalised attention you offer to each and every customer?

The savvy business person recognises that they are hostage to their customers. If people don't buy, the business will not survive, no matter the price or quality of the product. Therefore, the way to secure your company's future is to build your customer base. That is what competition is really about. How do you attract a sufficient volume of business, and how do you make your customers loyal to you? The answer to that question will encompass many different facets and characteristics of your market and operations, but there are a few points of general applicability.

The first is that you must treat every customer well, with a genuine concern that they are happy with the product or service that you provide. You have to build a relationship with your clients. I believe that a lack of concern about business relationships is among the ailments that are contributing to the decline of the American style of capitalism. If I am a mortgage lender and I hope to stay in business for the long term, my concern will be that my customers get the best home they can truly afford. I will not encourage them to take a mortgage that requires a payment that their incomes cannot support, even if I can benefit from it in the short term, because I want to preserve my relationship with my client. They will be receptive when I market other services to them, and they will spread the word about my services. Relationships build customer loyalty, and loyal customers stick with you in hard times.

When going into business for yourself, it seems best to start with a sizeable equity commitment, and try to keep it intact, as your buffer against lean times. It is not a good idea to start a business with borrowed money, because you invariably start with no customers and therefore no revenue. You will need to fund yourself, start-up costs and much of the initial running costs, all out of your own resources, until you have built revenues to the breakeven level. What is more, things do go wrong, and you may find yourself losing some of the start-up capital as a result. If, in addition to all of this, your new venture has to meet bank service charges on a loan from the first month of operation, the chances of a successful launch are much reduced. Indeed, your best bet is to launch your business while you are still in salaried employment, if possible, so that there is already a revenue stream to cover early expenses.

I admit that this advice is not helpful to most of this audience, who are already in business, and suffering through some very trying times. I do think that those who may have lost their jobs and are seeking ways to employ their skills and experience in remunerative ways might bear these realities in mind. Your best bet is to package your experience and expertise into a product or service which stands out in the crowd that you can sell from home, and to depend on marketing by word of mouth.

For all of you who are struggling through the hard times the message is to make a realistic adjustment plan, based on pessimistic assumptions about the future, but with an eye to your long term survival. Exactly what that involves will have to be worked out on a case by case basis, because there will be trade-offs, and the options available depend on your starting point. For example, for almost all of us, adjustment means having to shrink our operations. However, if we simply lay off workers to balance the books we may prejudice the survival of the firm, because of the adverse impact on the morale of the firm and the quality of output, and the consequent loss of hitherto loyal customers who are put off by your falling standards. There are many other variables to be taken into account, such as the timing of adjustment, the treatment of maintenance and renovation, the extent of the owners' resources, whether there are marketable assets that might be sold, etc.

As everyone knows, small business makes a disproportionately large contribution to employment, compared to large businesses, in all economies, including our own. This is especially so in these times of stagnation, when so much of the labour force is forced back on their own resources. However, small business faces an extra challenge in a country like Barbados, because we need foreign exchange in order to grow, and small businesses need to depend largely on others to do the overseas marketing that brings in the foreign exchange from which they ultimately benefit.

Ultimately the message for small business is the same as for all Barbadians: we need to sell quality, value and unique experiences, and to secure a loyal clientele, however small to begin with, by a consistently high standard of service. To survive and prosper we need to have a long term plan to preserve or restore the viability of our business. It needs to be realistic, because it must sell itself to the financial institutions, equity holders and others, whose assistance and accommodation you may need in order to complete the adjustment.

Finally, successful adjustment may take a longer time than we would like. However, we should be wary of action that, while necessary, may be too precipitate. In medical practice it is sometimes necessary to stabilise the patient's condition before embarking on radical surgery, and a similar strategy may be warranted for some firms.

In the end, small businesses face the same challenge that Barbados faces as a nation: to marshal our skills, experience and ingenuity to develop products and services that are unique and compelling, and to build a loyal clientele for the long term. The way forward is for each one of us to do what we do best, to the best of our ability. Above all, we must have confidence in ourselves as we face the uncertain future. We will need to be patient, but we should pursue our goals with firm determination, as individuals and as businesses, large and small.