Pressing reset

Virtual roundtable examines market place realities, offers strategies for optimal success

There is nothing wrong with taking a few moments to stop and assess the market, reflect upon past decisions and look to the future. It offers the unique opportunity to hit the reset button, start fresh and ultimately gain a perspective of optimism. For many entrepreneurs, it’s the ability to renew that helps keep the drive alive, despite obstacles or inherent challenges.

MBN recently had the opportunity to speak with a diverse group of industry leaders (analysts, advocates, economists, entrepreneurs, etc.) who were willing to share their insight and perspectives on what the rest of 2010 has to offer. And more importantly, this roundtable of professionals discussed what diverse businesses need to know about the economic environment and what MWBEs can do to better prepare their organizations to compete in a continually changing business atmosphere.

Panelists:

Richard Coughlan, Ph.D., M.B.A., senior associate dean and associate professor of management at the University of Richmond’s Robins School of Business, recently honored by the Virginia Minority Supplier Development Council with the Chairman’s Challenge Award for his work in creating a leadership training program for Virginia minority business executives

Grace McDermott, president of U.S. Pan Asian American Chamber of Commerce-Southwest Region

Richard Holland, founder and president of Holland Advisors, former senior manager at The Boston Consulting Group

Harriet R. Michel, president, National Minority Supplier Development Council

Don McKeeley, chairman and CEO, Business News Group Publications

Bill Roth, green business coach, founder of Earth 2017, author "The Secret Green Sauce," owner of NCCT, a consulting firm that enables sustainability results

Bert Wells, Beard Integrated Systems Inc., a proud, American Indian-owned business

Moderator: Peter Fretty
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**MBN-USA: How has the down economy hampered minority business enterprises?**

**Harriet Michel** – As a result of the down economy, credit availability—historically difficult for MBEs—has all but dried up. Additionally, some corporations have reduced both their budgets and personnel assigned to supplier diversity, permitting corporate buyers to stick existing suppliers, who may not be the best.

**MBN-USA: What do MBEs need to know about the current economic environment?**

**Richard Holland**—The major challenges of the current economic times have affected corporate customers of MBEs in a very dramatic way. To the extent that it can be achieved, the more they can support their customers through these very difficult times, the deeper their relationships will become. Typically, as smaller, more nimble organizations, MBEs can provide some of the accommodations their major customers may need for their survival. Helping your customers survive these times will create many opportunities in better times.

**Don McKneely**—The down economy has impacted everyone and as the saying goes, “When GM coughs, minority businesses get pneumonia.” This economy really impacts MBEs. We feel the pain more.

**Grace McDermott**—As local and federal government agencies and corporations tighten budgets, and as consumer confidence goes down, the demand for supplies and services understandably declines. Unfortunately, this domino effect greatly affects minority-owned businesses. As a result, MBEs need to keep current about what is taking place in the country’s economy as a whole, as well as globally, and plan their business strategies accordingly.

**Richard Coughlan**—It is important to understand that in many sectors, business is likely to be relatively flat while in other sectors—especially government, health care, technology and energy—there continue to be many opportunities for new business. In those areas of growth, MBEs can have success in the short term.

**Bill Roth**—The economy will experience a “soft recovery.” But, the real story is that revenue growth is occurring for businesses that can offer a “cost-less, mean-more” product or service to customers.

**Bert Wells**—With the downturn in the economy, there are more and more projects being put on hold or cancelled all together. Couple that with the fact that many large businesses are downsizing and many diversity programs are losing key people. In many cases, these diversity agents are the link between small businesses and corporate America and they help to serve as our champions.

**MBN-USA: As we head out of the recession and into a period of recovery, what are the keys to sustainability and success for minority businesses?**

**Coughlan**—First, solving cash flow issues is critical. The businesses that will succeed in the short term are building a solid base of cash now to invest as the economy starts to take off. Second, building close partnerships with solid corporations is important. Those companies will look for MBEs to help them find innovative ways to solve tomorrow’s problems. Access to capital will continue to be limited, and many sectors will not see much improvement in 2010. Also, some sectors might continue to shrink.

**McDermott**—Now more than ever, MBEs need to do their homework. MBEs need to be fully prepared to go above and beyond the usual routine of doing business so that they can take advantage of opportunities as they arise.

**Holland**—Three things come to mind: Maintain strong banking relationships – As new business opportunities emerge, a solid relationship with your bank is of critical importance. Those companies that are able to quickly obtain lines of credit and other financing will be prepared for the opportunities provided by their customers. Get involved early in your customers’ major initiatives – As customers begin to seize market opportunities, make sure you are involved early in those discussions. Unfortunately, MBEs are not at the table for these discussions in general, but in times like the present, tremendous opportunities will become available for those involved from Day One. Value your people – Employees of MBEs have had a particularly tough time during this economic downturn. As the recovery begins, ensure your “team” remains committed to your business model and strategy. They are valuable members of your product/service delivery capabilities.

**McKneely**—It is a tough environment, but opportunities exist—even in tough environments. There are ways to get things done and earn business, but you need to be more creative, innovative and constantly looking at the value proposition you bring to the market.

**Roth**—The key to business success in this environment is threefold. First, business owners need to align value with values. Secondly, embrace branding that “proves it, conclusively.” Third, embark on a marketing campaign that enables the consumer to learn, experiment and then buy—“know it, embrace it.”

**Wells**—Although in some cases, we do see a light at the end of the tunnel, I think we are far from being in a recovery. I think there are going to continue to be many aspects of this economic environment that are going to challenge us great deal. The key for MBEs now is to stay strong to the organization’s core values—whether it’s a focus on diversity of projects, quality, customer service, safety or any other core value—it is important to take the road map for the company and make sure all employees are sticking to it.

It is also important to ensure that any cost-cutting measures or streamlining processes that have been established during this down economy are maintained, even while transitioning into the recovery period. Business owners must continue to take certain risks, but it is what I would consider calculated risk, as any one strategic move at this point can still have a huge impact both from a negative and positive aspect.

**MBN-USA: What challenges should MBEs anticipate as they prepare for the year ahead?**

**Michel**—Access to capital will continue to be a problem for MBEs, even as the economic recovery unfolds. To keep their companies viable, MBEs will need to re-calibrate their businesses to fit within the current business paradigm. For example, suppliers that manufactured seats for the automotive industry should consider retooling to make seats for trains, airplanes and buses.

**Wells**—This economic environment has several challenges from tighter budgets on projects to projects cancellations. As a result, MBEs must be more selective in the projects they pursue. This means that business owners must focus on those activities that are in the “wheel house” and not look too far outside of their core competency. Now would be a good opportunity to find a good mentor or partner to help support the types of projects they would like to pursue.

A real-time example of this policy is that there were many projects too large for our organization, Beard Integrated Systems. However, we have found larger competitors to team with—providing numerous benefits for both companies. These projects include, but are not limited to, the following: helping
to win large projects and BIS self-performing a scope we can handle, helping to meet MBE goals on projects and helping with our limited bonding capacity, as well as establishing business relationships for both companies in new markets. This collaboration can help to strengthen both companies in a very tough economic market, which is what our organizations consider a win/win.

Roth: The most notable issue will be that capital will continue to be constricted. Diverse firms need to remain focused upon a "get-to-first-base" strategy that can be achieved with their cash flows.

Holland: There is typically a lag in the recovery for MBEs, behind similar recoveries for larger major businesses. It is wise to stay focused on what you do well and demonstrate the benefits your company can contribute. Try to ensure your major customers know how you can help in their recovery — that will position you for 2010 and beyond.

McKneely: MBEs need to prepare for a year of true competition. As MBEs grow, they become more of a threat to larger businesses, and no one is going to step out of the way. As the market and supply chains shrink, you need to be in a position to exceed the competitor. Improved efficiency is crucial.

Wells: The greatest challenges MBEs face as we move into this next year is support from a banking and insurance liability standpoint. Banks are touting that they are here to help support small businesses grow and diversify, but this is just not the case. One can look no further to the programs like the SBA loans and lines of credit including 7(a) and 504 programs. The bottom line on these programs is: if you do not have enough equity or your asset-to-debt ratios are not right, banks will not even consider you. Couple this with the fact that although the SBA will guarantee the loans up to 90 percent, the ROI is so low that they will first look at other ways of lending their money. This exclusiveness is also the case as it relates to insurance companies looking to bond MBE organizations. They consider some of these organizations "high risk" in an already risky market. These are keys to MBE success moving forward, having the ability to resource capital and bonding in a very tight market.

McKneely: Regardless of how the economy is performing, there is always a place within the service sector for diverse businesses to continue to find niche opportunities to shine. However, looking ahead, I see great promise in the growing green space, as well as key sectors of technology and energy.

Holland: In terms of sectors for looking for opportunities, I believe health care, energy and technology will be core to the overall recovery and core for MBEs. In particular, the energy sector — with a focus on clean energy technologies and associated infrastructure — will be a significant area of benefit. Service delivery components of the energy sector should also see robust growth.

Wells: One of the greatest opportunities for MBEs is with the stimulus programs that are being set up by the federal government. There are a wide variety of opportunities from construction to commodities and these programs are geared in many cases towards qualified MBEs.

Michel: MBEs must identify areas of growth within their industries as well as the new growth industries such as healthcare, energy technologies or anything "green."

MBN-USA: Is a recovering economy the right time for MBEs to pursue strategic alliances?

Holland: Anytime is a good time for strategic alliances. However, in a recovering economy where the growth may be slightly volatile, the alliances should pay particular attention to cost effectiveness. Leveraging the best that both parties have to offer in the alliance will be critical. The value proposition put forth to the marketplace must be cost-competitive and unique compared to other offerings. Customers will value this type of offering.

McKneely: Collaboration, size and scale are not just buzzwords — they are a necessity for progressive MBEs, and this is especially true today in an increasingly competitive marketplace. If you lack the resources to compete, you are not going to be able to succeed. In shrinking markets, the big fish are swimming in the small pond. The niche markets are attractive. MBEs need to find ways to sustain. Strategic partnering and alliances are crucial avenues. Maybe in the past you would not have considered working with a competitor, but if doing so gives you both an advantage, you cannot afford to overlook the opportunities to succeed.

Coughlan: Absolutely. Major corporations tell us that MBEs ought to be seeking alliances with other MBEs and with similarly-minded businesses that can adapt quickly.

Wells: Yes, as I mentioned before, there are many programs that have been set up by the state and the federal government. These programs are in the way of mentor/protégé partnering agreements, joint venture agreements and many others. These are set up for MBEs to have the opportunity to participate in more larger projects that they would otherwise not have the ability to participate in, if they did not have these programs in place.

McDermott: I think so. In our Asian culture, we truly believe that there always are hidden opportunities amidst challenges.

Roth: It's all about strategic alliances and with the emergence of social/new media, the most important strategic alliance is with your customer or potential customer. This alliance is especially true with the millennial generation who expect to have input on the design, pricing and implementation of what they buy.

MBN-USA: What mistakes are common in this type of environment, and what should MBEs do to avoid falling prey?

Holland: The key mistakes involve trying to predict how quickly the economy will begin steady growth. Overinvestment, which is dependent on robust growth projections, can be very risky. In addition, as things improve, ensure you understand the supply chain demands of your key customers and engage in meaningful dialogues with them to gain full alignment. The growth projections of your key customers will become your growth projections.

Coughlan: The most common mistake is to fall into a sense of hopelessness. The typical MBE has lost major clients during the last year or two and has revenue cut significantly. Executives in MBEs must continue to seek new business.

Wells: Some of the common mistakes are taking on too much risk in a short amount of time, growing too fast too quick and working outside of the preferred comfort zone.

McDermott: Making decisions too quickly without thorough investigation could cost MBEs a tremendous loss of money and opportunities. Again, doing homework is one way to avoid possible failures.

Roth: The opportunity is in offering goods and services that “cost less, mean more.” It is not enough to just offer a low price. That will just reduce margins. The key is to offer the customer solutions that mean something at a competitive price.