

When Small Becomes Large

Small and Medium Enterprises (SMEs) remain the backbone of many economies. When large businesses cannot satisfy growing demand, SMEs take up the slack, meeting the needs of the consumer. Because the decision-making process in SMEs can be almost instant, they have a greater ability to react to changes in the economic climate than do big businesses, which are often saddled with red tape and complex decision-making processes. Despite their unique advantages, most SMEs aspire to expand, to become larger organisations and to become more profitable by exploiting economies of scale. Some industry experts have argued that Trinidad and Tobago is not, in fact, host to any “large” businesses. But there are a few SMEs that have enjoyed substantial growth and that have been able to take their products and services abroad into markets once impossible to access based on their original size. They’ve faced significant challenges along the way.

Financing: Many small businesses lack capital to be used or collateral and thus can’t access the affordable financing they need for expansion. Commercial banks often view small businesses as risky, since an SME’s asset value is almost never able to securitise the value of the loan. But many small businesses continue to grow. How? Traditional lending institutions like Credit Unions have always been noticeably supportive and indeed, banking institutions have themselves been recognising the role of SMEs and the critical need to offer them support.

Marketshare & Diversification: Making the transition from small to big is not just about securing capital. SME owners and managers must also access consumers’ needs and identify areas where there is room for growth. Where needs are identified, diversification of the product line is almost mandatory to make the transformation. By providing a variety of products and services, SMEs can tap into previously inaccessible markets and, usually, earn greater revenue. This is not as easy as it sounds; a major change of thinking is required.

Diversification is, however, risky. Introducing a range of products and marketing them to a larger market is a complex venture. Lateral diversification occurs when a company produces and markets new products or services that have no technological or commercial synergies with current products. It’s a strategy adopted to improve the company’s profitability and flexibility, and to get a better reception in capital markets as the company gets bigger. However, even if the company grows, the move away from its core product and expertise can have catastrophic effects.

Distribution: The SME that becomes a large business usually faces far more complex distribution challenges. One major advantage that large corporations have over small businesses is their ability to forge and hold partnerships with distributors, suppliers and retailers to offer competitive prices while still turning a profit. It’s difficult, but a smaller organisation must break into this club if it aspires to grow into a larger, successful enterprise. SME owners and managers who in the past might not have operated in this arena must enter into a distribution network that efficiently meets demand requirements.

Staffing: Staffing is another paramount issue that must be addressed if an organisation is to expand. No longer can an SME rely and thrive on a small base of multi-talented workers, who fill multiple roles in the organisation and who are all very familiar with their tasks and the customer base. The manager must now hire, train and re-train employees to be more productive at fewer jobs and groom specialists rather than a “jack of all trades”.

In an SME, most if not all areas of the business are linked and responsibilities overlap, but if a business is to grow, there must be greater compartmentalisation. New staff and new management are important for overseeing different areas in the organisation, but it is also vital that the new management understands the company’s goals and values so both tactical and strategic objectives can be achieved.

Technology: Big businesses and small businesses differ as well in the methods they use to create their products and carry out their services. Making the right choice about technology and equipment needed to serve the customer base is very important for the transitioning SME. As market share and demand increases, more efficient and cost effective methods become necessary.