

BUSINESS DIALOGUE

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Is There A Tough New Reality for Minority Entrepreneurs? I Think So!

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This article comes with a warning. It is not for everyone. But if you plan to be a supplier to major buying organizations it is a tough message you want to understand. The message starts with the reality that the activities that built the significant minority firms from the 70s, 80s and even 90s are difficult to repeat today. The reasons are pretty clear. The world of business has simply become more complex with bigger players and more fierce competition. It is still true companies want to buy from diverse suppliers but they also have less tolerance for even, what we see as minor, concessions. Organizations have more minority firms to select from so they likely do not “need” you to reach their minority spending goals.

Minority status and certification still has value but it is more the icing than it is the cake. So what should entrepreneurs know about building a sizable business today?

1. Start-ups are tough to grow to significant size. It is often easier (mainly because it is perceived as cheaper) to start a business from scratch rather than to buy one. But they are also difficult to grow to any level of significance. Almost every market now is highly competitive with firms who have been in business longer, have stronger financials and an existing customer base. Start-ups typically lack the “stuff” they need the most like scale, a track record and geographic reach. These dynamics

hurt the ability to compete with existing businesses. Start-ups also have a lot to discover. Even the best business start-ups get a lot of things wrong on their way to getting things right.

2. Contract-by-contract growth is a rough road. Most business owners who desire to grow a sizable business, plan to do so by getting an increasing number of contracts over time. It’s what is referred to as organic growth. It’s a nice idea and it used to work but it’s just difficult to grow that way now. It’s difficult because getting the next contract is a lot more competitive. Which means it is also more expensive and the percent of times you win are lower. Gaining access to new customers is also very difficult. They are likely to already be doing business with a firm a lot like yours. Growing contract-by-contract is also difficult to finance and difficult to get contract opportunities larger than the ones you have done in the past.

3. Risk is the new quality. There was a time when everyone was focused on proving they had high levels of quality. Remember the Malcolm Baldrige Awards? Quality is now a given and *risk* has become the hot business topic. Your customers want to avoid it, share it, and even shift it to you. Managing risk is at the top of every customer’s mind. Supply chains are more important than ever. They have literally become the life blood of corporate profits. Breaks in the supply chain are more disruptive and more expensive. Suppliers with any indica-

tion of risk are suppliers to avoid. The perception of risk (and perception is all it takes) can come from even harmless observations like the size of your firm, depth and length of your track record, and how clearly you can articulate your value proposition. Every customer everywhere is looking for signs of risk. Many proactive suppliers are even using their customer’s concerns with risk as an opportunity to separate themselves from their competitors.

So What Should You Do?

Maybe nothing. Why change if you like what you have right now and you think you can keep it going? For the rest of us the message is clear. In our complex global economy you simply have to get there faster. 1. Get bigger because size almost always matters. My first advice is to explore acquisitions or a merger with another firm. Well done partnerships and strategic alliances might also work. 2. Get into a better market position. Bigger is better but becoming better is important too. Make your value proposition clearer and increasingly more unique. Use your partners to add what you lack and vice versa. 3. Learn more about risk. Risk is a complex topic. Smart business owners will seek to understand how to mitigate it, share it with other firms and leverage it with their customers. It is on every customer’s mind whether they say it or not. So managing risk should likely be on your mind too.

This article sets a high threshold and I understand the challenge it

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presents for minority entrepreneurs in particular. I realize it may also appear to rule some people out of opportunity. I do not agree it does. What it does do is explain what successful suppliers already knew. This is the reality for firms who desire to grow and who want to be a

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supplier to major organizations. There are other options for business ownership. Maybe you can avoid these realities with a small consulting practice, or a local construction firm or a niche manufacture. I just advise caution. Most markets are extremely competitive and unlikely to get less so.

Of course none of this may matter if you have access to all the financial resources you need and a ton of the right business relationships. Maybe you can buy your way past the hazards and use your relationships to boost your opportunities. For the rest of us, trust me this is our reality.

That's what I think. What do you think? E-mail your comments to Dialogue@entrethinking.com.

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