

RECESSION

Why Small Companies Will Win in This Economy

by [Peter Bregman](#)

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I just heard a story from a client that's hard to believe but true.

In the worst economy we've seen in decades, Passlogix, a privately owned 100-person software development company, just received over a million dollars in prepaid commitments for the next three to five years of service. And they beat out several much larger more established companies, like CA (14,000 employees) and IBM (400,000 employees), to win those customers.

Now, how do you explain that? The bigger companies aren't getting similar deals. It's not standard in this industry to prepay contracts of that size and duration. And the clients received only a small reduction for their upfront payment, less than the cost of capital.

I think it's a trend. And understanding it might just be the difference between failing and thriving in this economy.

Yesterday morning I had breakfast with a good friend of mine, a mentor in the consulting industry. He's a senior partner in a large consulting company and has worked in one large company or another for the past 35 years. Really smart, really talented.

And now really depressed. He hasn't been having fun for some time but it's gotten worse. He's survived several rounds of layoffs but who knows, he tells me, he might be hit by the next one. And if he isn't, he might leave anyway because it's so miserable. He doesn't understand how his company is making decisions, including how they decide whom to let go. He is one of the most senior leaders in this company and even he doesn't trust it anymore.

This is not an isolated case. I've been hearing this from many of my large clients. People in senior positions don't trust the decisions being handed to them. And if you go one layer down, to middle managers, the distrust is palpable. I don't know a single person who works for a large company who feels confident they'll have a job in 6 months. Not one.

Now, imagine you're a client wanting to buy from one of these companies. You call up your client contact to talk about the sale. One of two things will happen:

1. You have a relationship with her and so you talk and get a sense of her insecurity, fear, and distrust.
2. You have no relationship with her because the company is so big and you talk to a different person each time you call.

Either way, you'll probably get the sense that your contact may not be there in the future to fulfill her commitments to you. And that won't make you comfortable committing long-term dollars (or any dollars) to the company?

Now compare that to Passlogix, whose clients know they can pick up the phone and speak with Marc Boroditsky, the CEO. He tells clients about his commitment to the company and to them, and they know exactly who to call if the work isn't done to their expectations. That personal relationship, that trust, is important to them. They're willing to invest in it long term — to the tune of millions of dollars, up front.

And it's not just the CEO. If clients speak with other employees in the company, they'll get the same feeling of trust. A small company gives its employees a sense of security and employees pass that feeling on to clients. Not that small companies don't go out of

business. They do all the time. But each employee has much greater control over his own destiny. In a company of 30 employees, if you do a great job, there is a good chance you'll be recognized. But in a company of thousands? It's easy to be missed. And easy to be laid off.

The gap of confidence between small companies and big ones is growing. We used to rely on the security of big companies. That's why we worked for them. And hired them. And put our money in them.

But with the virtual collapse of AIG, Lehman, Citibank, GM, Chrysler, and many more — now even GE is in trouble — all that's changed. Now it's a risk to do business with the big ones.

We simply don't trust companies anymore. We trust people. And in big companies, it's hard to even find a person to trust as we scream "operator" into our telephones only to get transferred to another menu whose options have changed.

That gives small companies a huge advantage.

Just ask John Drummond, who started Unicycle.com after getting laid off from IBM during the last downturn. Once he got the hang of it, he started Banjo.com, his other childhood passion. Both are doing well and he's about to launch more sites.

There are hundreds of thousands of businesses like John's. Small companies that aren't making millions but provide a good living for the people who work in them. Niche companies whose owners are trying to build sustainable businesses they love rather than fast-growing companies they can flip. They have no intention of retiring. They like working in them. And their clients know that. Which is why they have a loyal customer base willing to invest in the relationship.

Big investment banks are burning — but lots of small boutique firms, each with ten to twelve people, are opening up. And they're doing well. They've gone back to the fundamentals. Finding a niche in which they have value to add and deals in which they

are experts. And then sitting across from other people in the deal, building the relationship, making reasonable commitments, and following through.

Small companies with low overhead, reliable owners, a small number of committed employees, personal client relationships, and sustainable business models that drive a reasonable profit are the great opportunity of our time.

Small is the new big. Sustainable is the new growth. Trust is the new competitive advantage.

Between my starting this post and finishing it, Marc Boroditsky called to tell me he's about to book another million-dollar prepaid, three-year contract with another client who said he'd lost trust in the other companies he'd been considering.

The client isn't looking for a vendor who has lots of time in the industry, or who's highly capitalized, or who has a long list of big name clients and a flashy office. I'm sure those things don't hurt. But it's not what he's looking for.

He's looking for people he trusts. For a CEO who picks up the phone when it rings.



Peter Bregman is the CEO of Bregman Partners, a company that helps successful people become better leaders, create more effective teams, and inspire their organizations to produce great results. Best-selling author of *18 Minutes*, his most recent book is *Leading with Emotional Courage*. He is also the host of the Bregman Leadership Podcast. To identify your leadership gap, take Peter's free assessment.

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