



A CASE FOR GREATER OPTIMISM



Hardesty Hackett
& Partners, LLLP

After 12-18 months of the most turbulent and confusing time small businesses have ever faced, they are looking ahead to 2010, anticipating that the ordeal of the 2009 recession may be fading. Having made it through the economic trauma, business owners are hoping that the hard lessons they've had to face will provide them with the discipline and control necessary to help ensure their success.

For many small businesses, this may mean doing business with a new, unfamiliar set of rules. The survival strategies that companies use during a downturn can often aid them during the resulting upswings and make them more resilient. Tight control on expenses can help maximize profits when times are good. More diligent collection practices are needed to speed up slow receivables can be a boon to cash flow. A push for new revenue streams can help a firm diversify its customer base or add value to its product line.

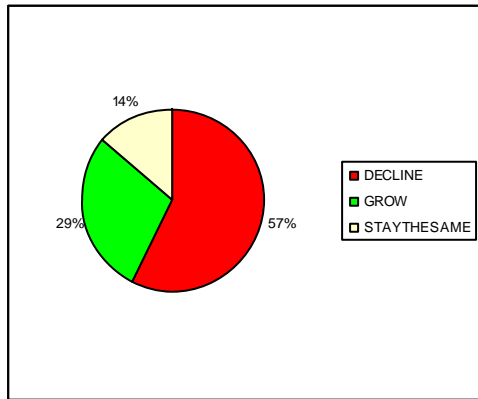
Small business owners and executives at 220 small US businesses with annual revenues of between \$1M-\$15M were surveyed during December 2009 and January 2010. Respondents represented a broad range of industries including business and professional services, engineering and construction, financial management, investing or advisory, retail, technology/telecommunications and others. 61% described themselves as small business owners, 30% held C-level titles and the remaining 8% were other top management.

5 KEY FINDINGS

1. Declining revenues brought on by the 2009 recession have put additional pressure on small business cash flow, *forcing many firms to make tough decisions around cutbacks.*
2. Small business owners are feeling the impact of this economic pressure, working harder and longer than ever before. *Still, there could be a payoff; many feel they are now smarter about running their businesses and are better leaders.*
3. While cautious about the general economy, most small business owners expect their 2010 revenues to grow. *But coming out of the recession, they see the world changing and they will have to do business in new ways to succeed in a more competitive marketplace.*
4. Small business owners know the importance of planning and want to spend more time doing it, *but they appear to have trouble putting those intentions into action. Many also seem to be unclear about how to focus their marketing and employee retention efforts.*

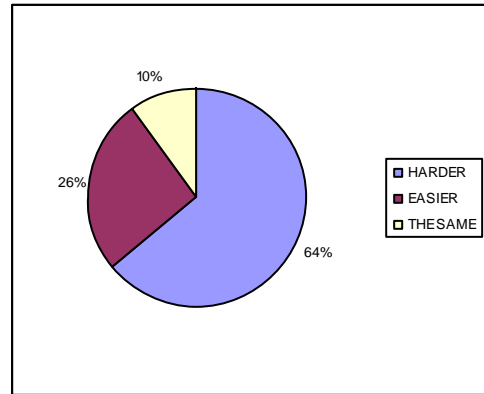
5. Economic stimuli enacted by the Obama administration have had little to no effect on small businesses, *but they remain hopeful that recent proposals to raise SBA loan limits will provide some benefit in 2010.*

Fig 1. In 2009 did your company revenues stay the same



57% - Decline
 29% - Grow
 14% - Stay the same

Fig 2. Is it easier or harder today to manage your company's cash flow than it was 12 months ago?



64% - Harder
 26% - The Same
 10% - Easier

Small Business Owners Worked Harder For Less in 2009

How tough was 2009 for small business owners? More than half (57%) of the companies surveyed said their revenues declined in 2009. (Fig.1)

This falling income put additional pressure on small business cash flow---often considered the bellwether of small business health. Respondents (64%) said managing cash flow was harder over the course of 2009.

Asked to name their top cash flow challenges for 2009, small business owners overwhelmingly chose lower revenues (51%) and slower paying customers (41%). These were followed by higher business expenses (23%) and longer sales cycles (20%). (Fig 3.)

Fig 3. What were the greatest cash flow challenges your business faced in 2009?

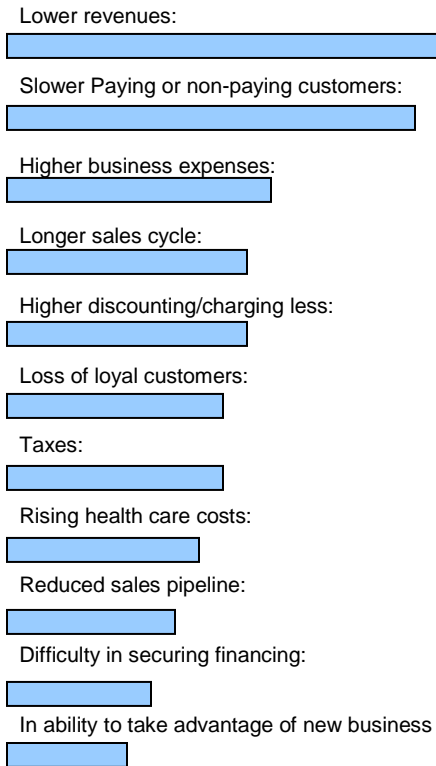
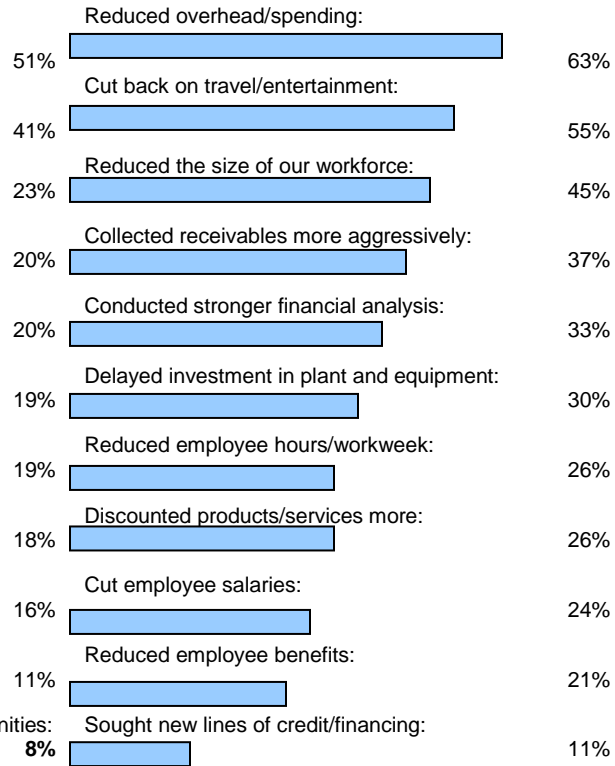


Fig 4. What actions have you taken in the past year to improve your cash flow?



Possibly owing to the pressures of operating in this tricky economy, 71% of small business owners agreed that they are working harder and longer to run their businesses than ever before. (Fig 5.) Perhaps more surprising, while the vast majority of owners remain dedicated to the success of their businesses, 29% indicated that the recession made them doubt whether they wanted to continue operating a small business.

This rough experience could pay off in the future: 80% of respondents said they are now smarter about running their businesses and 70% said the challenges of the recession have made them better leaders.

Fig 5. The lessons of the recession

I'm working harder and longer to run my business now than I ever have before.



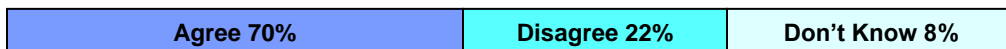
The recession has made me doubt whether I want to continue operating a small business.



As a result of steps taken during the recession, we are now smarter about operating our business

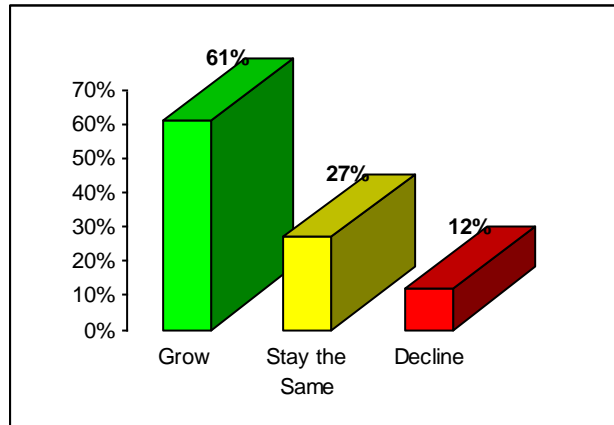


The challenges of the recession have made me a stronger leader at my business.



Still small business owners are more optimistic when it comes to their own companies' prospects. About 61% expect their companies' revenues to grow in 2010 and 27% expect their revenues to remain the same. Just 12% see 2010 bringing a revenue decline.

Fig 6. What is the top step to achieve growth? 61% cited greater focus on operating efficiencies.



The Paradox of Planning

Small business owners agree that planning is perhaps the most important factor for succeeding in this new economic environment. But like eating right, exercising and flossing, small business owners just can't seem to get around to doing it regularly. This was evident from the 2010 outlook results, as small business owners continually highlighted their desire to plan more.

Yet while small businesses recognize the importance of planning, they don't necessarily do it. In the survey, small business owners were asked if their company had a strategy in place to guide growth once recovery from the economic downturn begins. Just 44% said they had a strategy in place and 44% said they didn't but were working on it, and 12% said they didn't have one.

This lack of planning further came out in the indefinite way some business owners describe their 2010 strategies and tactics. While 33% said they would likely reduce their hiring and 29% expected to hire more workers, a surprisingly high 38% said they didn't know what their 2010 hiring strategy would be. A similarly high 33% didn't know what their pricing strategy would be.

Contradictions in Marketing and Retention

While most respondents indicated a desire to increase their spending on marketing and advertising, they may be unclear about how to target those programs. Asked about the focus of their marketing programs, 48% said they would focus primarily on lead generation, while 42% said they would focus

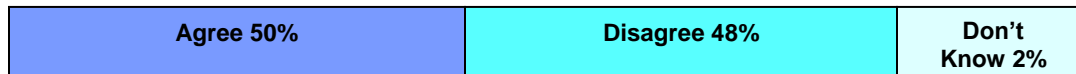
primarily on building/maintaining their brand. Given the stress the recession put on sales pipelines of many small businesses, the lack of overwhelming focus on lead generation in 2010 could be a cause for concern.

The View from Washington

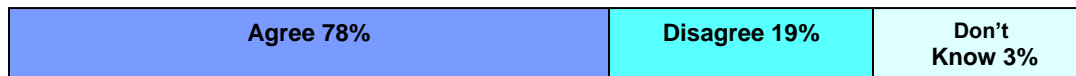
Surveyed owners and top management believe small businesses will lead the country out of recession. Yet they feel they will achieve these feats in spite of, rather than assisted by, support from the federal government.

New Ways of Doing Business

The recession exposed flaws in our business strategy that were not apparent previously.



Coming out of the recession, the old way of doing business won't work; we need to find new ways to take advantage of market opportunities.



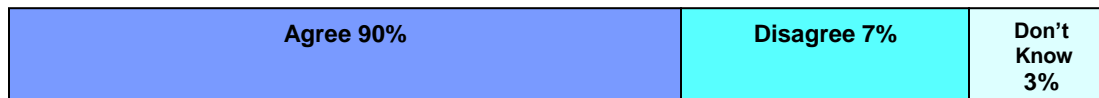
Our market segment is more competitive than before.



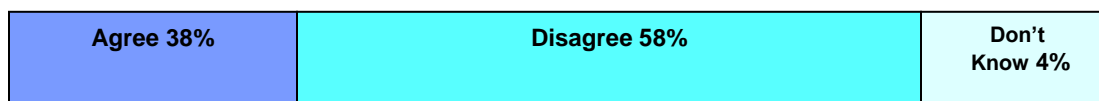
Small businesses will lead the U.S. out of the current economic doldrums.



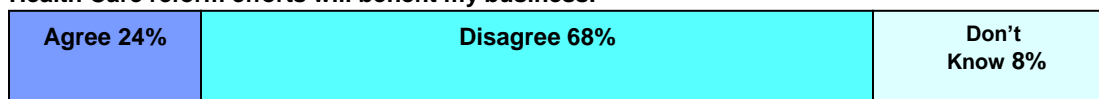
Current economic stimuli do not benefit small businesses.



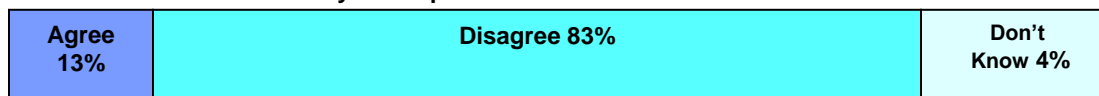
The role of small business as an economic engine is diminishing.



Health Care reform efforts will benefit my business.



Small businesses should stay out of politics.



Small businesses pay a disproportionate amount of tax compared to larger businesses.

Agree 79%	Disagree 11%	Don't Know 10%
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Regulatory compliance is a major burden for small business.

Agree 83%	Disagree 8%	Don't Know 9%
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You should interact and associate with those people who are positive and optimistic and who are comfortable with an abundance mentality. Stay away from those who would have you believe that we're all victims. The next year can make or break your business based on YOUR decisions, not those of others.

We stand ready to get you out of the mud, and back on the pathway to managed, controlled growth.



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