

## MPD BULETTIN

What doesn't kill SMEs makes them stronger, but why?

MPD Partners

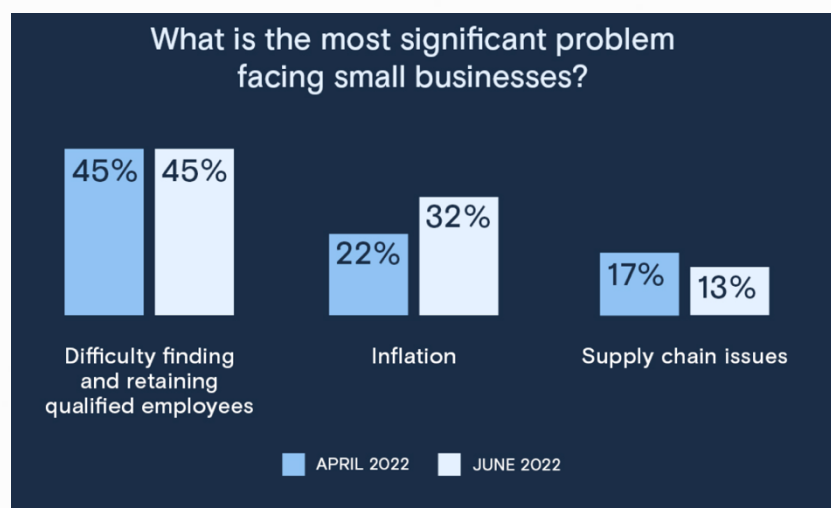
November 2022

## What doesn't kill SMEs makes them stronger, but why?

Small businesses are the backbone of local economies around the world. Without the weighty portfolios and enormous global footprint of their larger counterparts, they are more vulnerable when crises hit. However, therein also lies the key to their success.

Small businesses are the backbone of local economies around the world, and supporting their growth and success is essential to getting the global economy back on track in the wake of the pandemic. They are vital in creating jobs, contribute significantly to economic development, and account for around 90% of businesses and employ more than 50% of the global workforce<sup>1</sup>. Given their importance in all economies, they are essential for the economic recovery.

Without the weighty portfolios and enormous global footprint of their larger counterparts, they are more vulnerable when crises hit. A recent survey conducted by Goldman Sachs<sup>2</sup> shows how 98% of small business owners say broader economic trends, such as inflation, supply chain issues, and workforce challenges, are having a negative impact on their business.



“What we have found is that small businesses are at the tip of the spear of economic cycles,” said Joe Wall, national director of Goldman Sachs 10,000 Small Businesses Voices. In other words, they spot economic trends before a lot of others do.

<sup>1</sup> <https://www.ft.com/partnercontent/visa/the-big-shift-helping-smes-survive-and-thrive.html>

<sup>2</sup> <https://www.goldmansachs.com/citizenship/10000-small-businesses/US/infographics/small-businesses-fear-looming-recession/index.html>

At MPD Partners, we experienced it from very close by managing the controlled companies of our investment vehicle MPD SME Capital One. Pandemic, war, and the global supply chain crisis led to tough months of sales downturn, raw material unavailability and price increases, that even more stable and well-structured suppliers have not been able to absorb. All the latter must have been accompanied with the usual limited access to financing, which made it hard to catch up when market came back in H2, with the consequential struggle to finance working capital.

However, therein also lies the key to their success. Small businesses can react quickly to major changes, and it is this ability to adapt which can protect them. The negative impact of the externalities that hit our controlled companies gave us the drive and opportunity to go through a cost structure reorganization and human resources roles redistribution. Furthermore, they are benefiting, now more than ever, by our investors international practice, experience, and knowledge, also because some of them also sit on their Board.

Research conducted by Preqin and AIFI<sup>3</sup> (The Italian Association of Private Equity, Venture Capital, and Private Debt) confirms that companies with private equity shareholders are more innovative than the national average, regardless of whether they are early-stage companies with new technologies or more mature ones operating in traditional sectors. It also describes how private equity funds devote a great deal of attention to human capital, particularly when identifying and attracting talent through incentive mechanisms and the alignment of interests and objectives. This is exactly what we have been experiencing recently at our companies in MPD SME Capital One, where, due to the recent recession we incurred in human capital reduction. What came out from that has been a more efficient roles and skills redistribution, and a focus on investing in current employees' professional growth, also by providing them with technical and language courses.

No one knows exactly how long this recession will last or how severe its effects will be, but one thing is certain: it will be different than anything we've experienced in recent years. As investors in small businesses, we are strengthening our companies following best practices with the ultimate goal to insulate, or at least mitigate, the effects of the recession and, hopefully, to emerge on the other side stronger and better than before.

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<sup>3</sup> <https://www.preqin.com/insights/research/blogs/private-equity-in-italy-positive-lasting-change>

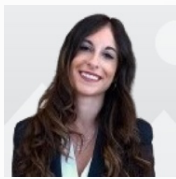
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