

Why Blockchain Matters to Small Businesses

There are many disadvantages small and medium-sized ventures face in the current business atmosphere. Despite their status as the backbone of any major economy and integral to GDP growth and other national metrics, smaller firms face high barriers to entry and low insulation from conditions that would barely scratch their larger peers. The current regulatory environment is purpose-built for companies that are several magnitudes larger, and makes it hard to find financing, scale operations, process payments and recruit other ancillary services that are both necessary and yet monopolize the time and resources of small businesses.

Related: Beyond Cryptocurrency: 5 Do's and Don'ts for Using Blockchain in Your Business

With blockchain's ability to achieve remote, autonomous consensus between users, businesses have quickly figured out that such self-reliant data infrastructure is useful for things far beyond cryptocurrency. It can help bring products and transactional services to market quickly and inexpensively, and offload the traditionally high costs of security, Know Your Customer (KYC) protocols, data storage and other overheads. It not only reduces costs, but also allows businesses of all sizes to compete on a more level playing field.

Piggybacking on blockchain

Small businesses often work solely on scaling, as they should, but this focus neglects and strains the basic processes of invoicing, inventory and payroll that were established at the outset. The bootstrapped peripheral business flows that support a business's product or service also need to evolve,

or risk creating bottlenecks. While this used to mean purchasing a CRM or CMS platform, hiring new employees or contracting with another service provider, blockchain has an alternative solution.

Smart contracts are a more economical option that can help small businesses inexpensively streamline the flows that keep them in business. They use blockchain to create, check and enforce contracts between users, who would be a young firm's merchants, clients and customers. Whether it be invoicing, paying employees or bills, settling interest fees, creating insurance policies, handling fulfillment of inventory, closing new deals or any other transactional activity, smart contracts can have a positive financial impact on small business.

Related: 5 Signs an Initial Coin Offering Is a Scam

Smart contracts can also help small businesses that require consistent cash flow ensure that they are paid on time. For smaller companies that do not have the endless coffers their enterprise-level contemporaries do, a late payment can be the difference between success and failure. In fact, 40 percent of small businesses reported cash flow issues within the past year. Because there is no doubt about when funds will be released, companies can deliver services and know that funds will always be available when they should be. Apart from significantly reducing the investment that founders must make in these support activities, the cost savings can be passed onto customers to make prices more competitive.

Ledger entries make these agreements irrefutable and universally enforceable, negating the time small-business founders and their employees must waste with filing, verification, arbitration and legal support. They're also autonomous. Setting up smart contract functionality between a business and its many partners, participants and stakeholders is a smart and sustainable move. Many business processes that once required personnel, middlemen, expensive software

licenses, subscriptions, and precious time, can easily replace these at little cost. All this and more allows companies that rely on blockchain to remain lean and competitive.

It also decimates the costs of customer service and arbitration, which often relies on presumptive logic that frustrates customers. This is a prohibitive cost for smaller businesses that can now be avoided. Thanks to immutable references on the blockchain ledger itself, the only errors that occur are human (the ones that can't be refunded).

Young companies interested in setting themselves and their partners up with smart contracts can make use of some of the earliest services in this arena. To avoid the initial development costs of building on Ethereum, there are already blockchain companies like Confideal and dApp Builder that make it easy to create and launch a complete smart contract portal with just a few clicks.

Related: 3 Things Entrepreneurs Need to Understand About Blockchain Technology

Improving privacy and security

Significantly reducing overhead costs is a major advantage for small businesses hosting services on the blockchain, but security and transparency will also prove to be value-added benefits for businesses. A system of public and private keys, protected by a layer of cryptography, ensures that participants of blockchain services can be verified by those same services without exposing their most sensitive personal financial or identifying information.

This is a boon for companies that no longer need to shoulder the risk of handling large amounts of personal data. Furthermore, customers also benefit knowing that their sensitive information is kept away from prying eyes. A small business that needs its customers' credit card data can verify

transactions without knowing the identity of the user, encouraging a system that puts users in control of who has access to their personal information.

Already, blockchain-based companies are taking advantage of blockchain's identity tools. Businesses rely on blockchain's decentralized nature and security features to provide better and more transparent identification tools. The company offers a way for customers to identify themselves and have access to certified documents and notaries as well as a marketplace for customers to purchase services and products.

Related: How Blockchain Is Enabling the New Era of Digital Financial Investments

Small businesses that want more comprehensive protection can host their own services on decentralized architecture to accomplish this by default. Instead of buying expensive, centralized server architecture or paying hefty fees to Amazon Web Services or Google, a savvy startup CEO might instead choose to rent custom-sized decentralized hosting space from a blockchain platform. Businesses can buy as much local bandwidth and storage space as they like, which is collected from users within their closest proximity. This provides increased data integrity and a more efficient cost plan as well.

Services like these essentially remove the burden of privacy from companies and ensure that they only have proper blockchain cryptographic standards in place to recognize and verify their customers. In tandem with protecting customer information, companies running services on the blockchain have better lines of defense against hackers.

Web-based attacks cost companies valuable time and precious resources, presenting an especially formidable challenge for small and medium-sized businesses without the IT resources to fend off these potentially fatal intrusions. Many companies

don't consider security a major priority even though up to 14 million companies in the U.S. alone are at risk of being attacked. Even worse, a majority of small businesses that suffer cyber attacks shut down less than a year after sustaining damage.

Thanks to its decentralized nature, a hacker striking a website or application hosted on blockchain needs to breach all the peer nodes on the chain simultaneously, making it extraordinarily difficult to perpetrate DDoS attacks.

Related: Why Bitcoin Is the MySpace of Cryptocurrencies, But the Blockchain Is Here to Stay

Bringing new business to small business

Regardless of the vast equalizing potential of blockchain for small and medium-sized businesses, the best thing to come from the trend is how new ideas find funding. Small businesses are typically starved for funding because of the time commitment it takes to get a bank loan, which eats into time that could be allocated to other activities. Even after monopolizing the time of the owner and accounting department, loans burden the sensitive cash flows of a younger business with interest payments and the threat of collateral. Venture capital, a more modern way of getting capital, is outmoded by blockchain as well. Blockchain was the original impetus behind the new initial token sale trend that sees startups and other young companies try to find working capital by offering their own cryptocurrency tokens to willing market participants.

These currencies have value relative to fiat money through their transitive relationship with an underlying, liquid cryptocurrency like Ethereum. This is also what draws traders to fund these new companies: the idea that firms with great potential and progress boost the token's relative value.

Regardless of the consistency of this principle, it has helped to fund thousands of new businesses in fintech, healthcare, gaming, politics, social welfare and more. Many see it as a competitive new financing option that boasts numerous advantages over other methods, which almost universally come with strings attached. No longer must businesses sacrifice future revenues or creative control in the form of equity, just to get a chance at growth.

At the end of the day, blockchain is a fresh technology, and one that existing infrastructure is still struggling to support. As it gains more stability, new ways of doing business will emerge for savvy small and medium-sized businesses to incorporate into their own value propositions. For this to happen, the biggest obstacle is getting businesses to build on blockchain and drive customers toward these solutions. It is a participatory technology more than anything else, and it cannot bring any of its benefits to those who do not choose to use it. Blockchain represents a rising tide, but the boats that reach the swell first will be first to succeed.

<https://www.entrepreneur.com/article/305853>