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About Small Business Success

SMALL BUSINESS is an important element in Canada's economy, characteristic of the democratic way of life in which a man is free to make choices and achieve security through his own efforts.

Historically, ours has been a nation of entrepreneurs, independent business men who are proud of their self-reliance and their ability to accomplish miracles against overwhelming odds. They are marked by their competitive spirit and their single-mindedness of purpose.

There are still, in spite of the increasing bigness of industrial operations, a large number of people in Canada with that spirit of entrepreneurship, people who not only believe in and talk about free enterprise but practise it by going into business for themselves.

Some people, of course, deplore the present status of small business, but reports of its impending demise have been greatly exaggerated. In many sectors of our economy small factories and small businesses hold a preferred and stable position.

We should disabuse our minds of the idea that a small business is merely a miniature and shabby replica of big business. It is a special area, calling for special qualities and knowledge. Its strength resides in its individuality. It may not have the capital and buying power and the other things that go with size, but it is spared the sprawling bureaucracy of the big firm, with its piles of paper work and its horde of filing clerks. A man can keep it in his own hands, if they are capable hands.

The essence of small business is its freedom and its scope for enterprise. Should it come to rely upon government for help that is not normally a government function, it loses its independence. It is not far-fetched, under such circumstances, to imagine a day when the entrepreneur would have to seek a government charter before beginning business, and then submit to tutelage by a government bureau.

Find out what's wanted

This freedom, like all other freedoms, entails responsibility and self-reliance. The man who starts

a small store or a small factory will make use of all the aids offered him in the way of government and industrial information, but the summing up and the decisions for action are his alone.

One of the first things to be done is to make a careful survey of the potential market. What is the demand for the item he proposes to make or to sell? What is the demand at the price he will charge? Unless the prospect is for a good volume of business in the face of competition at a price high enough to return a profit, the outlook is bleak.

This survey makes it necessary to learn about people's wants and how to satisfy them. It will not do to pick some product out of the air, however enthusiastic one may be about it, and decide without analysis that there is a market for it. One man tried to sell old country style pork pies in Toronto but had to switch to Canadian style baking to become successful.

Not only the wants of people but their caprices are important. A business man may not approve of people's tastes, but insofar as his product is concerned he is ruled by them.

If a man feels that he is not getting a fair share of the potential business he might ask himself: "Does my product or my store appeal to the sort of people in the price bracket I wish to serve?" Something designed for buyers in the \$3,000 a year category may lack attractiveness for people who have more buying power, while a store design that is attractive to wealthy people may frighten away the lower income group. Many a business man runs into initial difficulty through his failure to aim a specific product at a specific group of customers.

Business is not an altruistic effort to improve people's habits. The word "business" implies a financial statement upon which the two most important words are "profit" and "loss".

Profit, which is the reward for taking the risks of business, is not a guaranteed reward. It is earned only by businesses which are successful in overcoming the risks, some of which can be foreseen and allowed for by good management while others come out of the

blue when least expected. It is the outcome of hard work and effort, but above all of good judgment.

Among the most common risks are these: a competitor may produce a better product or as good a product more cheaply; buyers may change their wants; business may change for the worse; discovery or invention may render both product and capital investment obsolete; governments may alter tariff rates adversely or increase taxes.

These risks apply to all business, but small business is particularly vulnerable because it is likely to spend some years still unsteady on its feet. To give himself the best possible chance of reaching success, the small business proprietor should allow himself ample time to think ahead on management problems; to organize efficiently; to plan adequately; and to relate in their proper importance the operating and financial responsibilities and functions.

These principles — that business consists of production and marketing, with finance as the facilitating agent of both — should be a required part of education in primary and secondary schools. There is no need, at that stage, to learn about the complex organization of business or to draw process flow charts, but everyone, as prospective business operator or prospective customer, should learn the basic principles of the private enterprise system.

Build a team

The proprietor of a small business must have the knowledge and skill to keep reliable people on his payroll. The turnover rate among employees may make the difference between profit and loss.

Losing one man is more serious in a small business than in a big concern, because quite often that man may mean the difference between production and no production, between sales and stagnation. A temporary absence may be overcome if everyone else stretches a little, but turnover is always costly.

How can one protect one's self against unnecessary turnover of staff? One suggestion is that simple aptitude tests, which may be bought, borrowed, or designed by the manager, would eliminate undesirables by revealing the square pegs applying for round holes.

Industrial personnel people are more and more stressing the benefit of positive rather than remedial action: if employees are chosen with reasonable care as to their ability and then given good relations with the firm, turnover may sink to obscure proportions. Pride of workmanship can be cultivated by recognizing work well done; security can be assured and a chance of advancement held out, and as pleasant as possible working environment provided. The manager will find that some of his great satisfactions arise from his skilful handling of workers and the building of a team.

Keep score

Keeping score on business operations lets the manager know whether performance is living up to

plans. It involves three things: (1) a statement of the goal, which tells what is to be done; (2) the procedure, which specifies how and when something is to be done and who is to do it; and (3) the check-up, which tells how well the job has been carried out.

There are many decisions to be made by management which cannot be made by intuition or hunch: only facts can give you a sound foundation for action. The solution of business problems requires accurate information: in fact, examination of the causes of business failure shows that a large percentage of those firms which have become bankrupt either kept inadequate records or none at all.

It is not to be thought that record keeping will of itself ensure success, but it does keep you informed as to the progress of your business, and it discloses faults in operation which might be disastrous if not detected in time.

One might think that by this stage in world history business men would have become accustomed to the need for keeping records. It is 470 years since Luca di Borgo of Venice wrote in detail about double-entry bookkeeping, and 420 years since the first book in English on the subject was written by John Gowgne. But many a manager today gets so involved with daily operating problems that he forgets to keep score on cash reserves, inventories, expenses and accounts receivable.

Preparation of a budget which relates purchasing, producing and selling to their financial effects on the firm has several benefits besides that of providing continuing information. It raises useful questions. Will the proposed expenditure yield a profit? Am I planning to incur this expense at the right time? In what other way, or in what other department, could I spend this sum to better advantage? Am I budgeting for an excessive investment in fixed assets? Does the budget maintain net working capital in proper proportion to sales? Does the budget indicate where short-term and long-term financial commitments are coming from?

Having a continuing budget provides reliable data for the preparation of financial statements, such as those required by a bank when making an advance. The bank likes to compare the most recent figures with those for the previous and other years. One thing expected is an explanation of any changes in working capital. While it is reassuring to look at an operating statement which shows a profit, it is important also to see how the earnings have been used, as well as to determine what has been done with the capital at work in the business generally.

Another point brought out by continuous budgeting is the liability situation. A question often asked is: "How do you stand with the trade; are any accounts pressing?" On the other side of the ledger, it is not healthy to have a multiplicity of slow accounts receivable. The regular income of the company, which is the collectibility of its sales, is the very lifeblood of the enterprise.

Emphasis on the budget and the financial statement does not mean that the business is to become wrapped up in routine and red tape. Far from it. These features of record, if they are properly and consistently prepared, offer a spring-board for development and expansion.

Here is the constructive feature of budgeting: it makes your financial plan work for you throughout the year. Enter monthly figures alongside the budgeted figures and study the variations. If there is a lag in sales, you can follow through to find the causes: weakness of sales appeal, dealer inertia, or product and delivery trouble. If raw material costs are higher than anticipated, you may consider changing suppliers or changing to a lower cost material. If labour costs are greater than anticipated in your budget, a survey of your plant production schedule is indicated.

Without a budget, none of these checks is possible, and the business is drifting without control.

Watch that inventory

The handling of material and its storage are important operations to watch. Handling does not add a cent to the basic value of the items, but merely gives them "place utility" — it puts them where they should be at the right time. The manager should make it a rule to restudy the processes in his plant or store periodically, to see that the handling is being done efficiently, with least damage.

Out-size inventories cost money just to carry. Figures compiled by the United States Department of Commerce show that the average cost of carrying average warehouse stocks is 25 per cent of their value, divided as follows: storage facilities $\frac{1}{4}$ of 1 per cent; insurance $\frac{1}{4}$ of 1 per cent; taxes $\frac{1}{2}$ of 1 per cent; transportation $\frac{1}{2}$ of 1 per cent; handling and distribution $2\frac{1}{2}$ per cent; depreciation 5 per cent; interest 6 per cent; and obsolescence 10 per cent.

It is evident, then, that if inventories get out of balance it can quickly lead to trouble. If the amount of any one item of the merchandise is out of proportion, the cost of carrying this item can become a serious factor in the ultimate cost of other finished articles.

For example, if a sizeable quantity of goods which can be sold in only one season of the year has to be carried until the next year, it follows that the money tied up in these "frozen" assets is expensive to replace, or, if this isn't possible, the lack of money will restrict the volume of business the company can do until the item is brought back into its proper proportion.

When looking at inventory figures you should take into consideration the net sales and determine the turnover ratio. This is only a simple arithmetical ratio and is not conclusive, but when placed beside the comparable figures for previous years it can give rise to worth-while questions. If it is out of line, that fact can be a danger signal indicating obsolete or slow moving lines, or stress due to overbuying.

The budgetary system, in which inventory record plays its part, enables the proprietor to stand off from affairs for an over-all view. When one man did this he found that his turnover ratio had declined from an average of X per cent to Y per cent and that his credit position could be considered vulnerable, and he immediately took steps to remedy it. He had been so close to the scene in his day-to-day operations that he did not know his total position until the need for such an appraisal was brought to his attention.

Plan before expanding

While keeping his finger on all the elements mentioned heretofore, the man in small business must be always on the search for new markets where he can launch his goods with a well-thought-out programme; he must pre-test his commodity with consumers before embarking on extensive expenditures; and he must follow through to make sure that consumer-response is good and that needed service is being given to customers.

In approaching the building up of business we should have in mind the rule common to so many commercial enterprises: two of the greatest factors in volume sales are quick turnover and low profits on the individual sales. There is no good reason why the small independent store and the small manufacturer can not use these selling weapons to as good effect as the chain store and the big factories. Price is as much a matter of efficient management and imaginative selling as it is of low first cost through quantity buying. The Woolworth Building in New York is a monument to the genius and initiative of a young man who discovered the commercial importance of the nickel and the dime.

If the manager of a small business keeps his mind alert and his finger on the pulse of operations and is broad minded enough to take advantage of new ideas, he will become aware early of burgeoning opportunities as well as of developing weaknesses.

It is reported in a publication of the Small Business Administration in the United States that ninety per cent of all business failures are due to managerial shortcomings, and this is confirmed by a Dun and Bradstreet survey. Only one out of twelve of the affected proprietors in an earlier survey conceded any possibility that his own shortcomings were a handicapping factor.

Keep learning

What should a small business man do in order to enhance his prospects of success? He should make sure that he minimizes the chance of failure and increases the prospect of success by attaining additional skills in management.

Unless a man recognizes that he does not know all about everything he is not likely to embark upon such a course, but, on the other hand, if he does not know that there are things to learn he has no right to be in business. As Paul Donham said in an article in

Harvard Business Review: "Education programs in business have attendance problems not unlike those of the churches: the ones in the greatest need are not there."

The man most likely to succeed in small business is the man who will take the time to study just what he is trying to make of his business and the methods he will follow. How is he to go about this? There are several courses of action which he can follow: (1) He can avail himself of the educational opportunities which exist in his community, such as evening classes; (2) He can urge his trade or industry association or his business organization to promote the establishment of an educational programme which will fit his requirements; (3) He may persuade the nearest available school of business or commerce to undertake an educational programme for men in small business; (4) He may enroll in a correspondence course in the subject in which he feels himself to be deficient; (5) He may lay out for himself a course of reading, using the many available books in every area of business administration. A good book with which to start is the *Small Business Manual*, published by the Department of Trade and Commerce, Ottawa, and available from The Queen's Printer for 75¢.

In addition, he may wish to avail himself of outside aids. Unlike big concerns, he is not in a position to hire expensive consultants or employ specialists in all areas of his business. He may, however, find talent on his doorstep. Many university and college schools of business are ready to have their competent staff assist people in small business. Their combined knowledge and skills are usually available, and their fresh, unbiased, viewpoints may make the difference between life and stagnation of the business. Even if the business is running along at a relatively stable level, free of obvious difficulty, it can be improved by objective study with the perspective of an outsider.

Growing and progressive small businesses have available now, as in the past, through their banks, a great fund of helpful information and all the financial help their initiative and good management warrant. Whether you are in manufacturing, processing, wholesale or retail trade, transportation, construction, or one of the service industries, or if you are planning to start in one of these activities, your bank is just as ready to support your small business as it is to make advances to bigger corporations.

Bank personnel are particularly qualified to give guidance in matters affecting organization and expansion. Not only are branch managers well acquainted with local conditions, but they have access, through their head offices, to national and world-wide sources of information regarding the money market and the trends of business.

Look ahead realistically

Simple hopefulness, sometimes desirable in ordinary affairs of life, leads only to disaster in business

management. Activity designed to foster growth is needed if the enterprise is to succeed. Even if a business man is holding his own at last year's figures and not sliding downhill, some competitor is moving up, or moving past.

It is a very good rule for the man intent upon building up his business to develop to the best of his ability an inquiring mind and a mental attitude receptive to lessons.

The records of successful small companies show that sound management uses yesterday's records and today's experiences to plan for the future. The manager finds time to think. He sets objectives and draws a map showing how he expects to reach them.

How should you go about this planning? No matter how much or how little capital you have available, make a list of desirable things. By knowing ahead of time what items will become available and what items will have to be left out until later, you can plan so as to make the best of every month's work and every machine and worker.

Planning of this sort does not remove all risk, but it does make you aware of uncertainties and their possible consequences so that you may take bold or avoiding action as seems best. It also reveals to you the opportunities for expansion and tells you the prospect of success.

Getting down to bed rock, you should know at all times these factors: what the plant is capable of producing or what the store's turnover should be; what jobs or what goods are on hand for current consumption; what work or what prospects are lined up to keep your plant and staff busy, and what materials, supplies and tools are needed.

We should guard against allowing planning to wander off into a dream world. Planning is an exceedingly practical job, on which the future of your business depends. Objective honesty is essential. No true values are impaired by learning the truth about them. If you allow your wishes to rig your analyses so as to make some aspect of your business look well, you invalidate your planning.

Discrimination is a part of planning: the ability to see the best ends and the best means to those ends; the ability to distinguish between what is effective and what is inefficient, what is necessary and what can be done without.

Long-range or wishful planning must not be pursued at too great expense of short-range policy, or there may be no long-range existence in which to apply the planning.

Other features of Small Business Management were dealt with in our *Monthly Letters* of June 1955, September 1955, and March 1960, and in our collection . . . of *Interest to Executives*, copies of which are still available on request.