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## MONTHLY LETTER

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### *On Small Business Management*

THE decisive factor determining the success or failure of small business is now, as it always has been, the talent and ability of management. Techniques and skills may be learned, but the man at the top must be one whose mind is naturally at home when he is wrestling with problems and controlling projects.

What sort of people become managers of small businesses? Some are men who advanced through working for others; some broke away from departmental management or from specialization in big business. Both sorts are spurred by the desire to run their own show. Both must make adjustments: the first because he is now top man and has no one above him to resolve difficulties and make decisions; the second because he has no longer a picked and qualified staff to handle every chore effectively.

The small-business man is not a type of person. He is an individual. He may be moved by any of a dozen purposes. Some men want their businesses to be small so that they control their own destiny. Others wish to avoid the disciplines of corporate life. Others seek to make money, and they see in a business of their own the best opportunity offered. Others desire the non-financial rewards: they have a feeling of devotion to their product, or they get deep satisfaction out of providing a service.

Managers of small businesses often are faced with serious difficulties because of problems they did not foresee, because of questions they did not ask before making important decisions. This *Monthly Letter* is not an attempt to give detailed operating information. It is concerned with the management function, the key factor in small-business development. It will suggest some of the questions that managers should ask.

#### *Management*

Management has many qualities, but among the basic attributes are equable temperament and patience. The owner of a small business must cope with

a great amount of vexing detail; he needs broad versatility, so that his talent as a salesman is backed up by ability to organize and control. He must have initiative, energy and foresight. He needs character, to deal justly with customers, creditors and employees.

Experience in the chosen field is necessary if one is to avoid pitfalls. A man will decrease his chance of success if he moves into management faced with the need to learn the business from scratch. Enthusiasm will not be enough. But do not be misled into considering the length of time served on a job as a measure of experience. Intensity counts as well as the number of years. Some people merely repeat one year of experience over and over many times.

What are the responsibilities assumed by a small-business manager? They include policy making, improving goods and processes, marketing, and budgeting resources and expenditures. He must plan for the future, operate in the present, and keep sensitive hands on the control of both present and future.

These responsibilities require special aptitudes, promptitude of action in emergencies, capacity for organizing work, great tact, and constant self-culture.

They demand tools to do the work: standards of goods and performances; budgets of time, money and production; records from which to analyze the past, evaluate the present and project the future; research to uncover new commodities, new methods and new markets.

Even if a business man is his own only staff, organization is needed to keep all these duties and functions and requirements in line. When he adds one or two men to his work force it is necessary to determine and make clear for what operations his employees are individually responsible. Doling out instructions piecemeal day by day is wasteful of time and deadly to efficiency. Lord Macaulay said: "Many an army has prospered under a bad commander, but no army has ever prospered under a debating society."

## *What business failures show*

More businesses fail because management is deficient in performing some vital function than for any other reason. Sometimes failure supposedly due to insufficient capital is really due to a policy that is unsound in relation to the capital available. Or failure may be due to inept handling of inventories, over-extension of credit, unbalanced buying of raw materials or stock, misjudgment in estimating markets.

The evidence of all this is to be found in the reports of failures published every year by Dun and Bradstreet of Canada, Limited, Toronto. The report of 1958 has this tabulation of causes of failures as percentages of all failures:

<i>Per cent</i>	<i>cause</i>
2.2	neglect
0.3	fraud
4.4	lack of experience in the line
46.2	lack of managerial experience
12.2	unbalanced experience
32.9	incompetence
1.3	disaster
0.5	reason unknown.

Of the 1,380 failures reported in Canada in 1958, there were 1,321 falling within four classifications: lack of experience in the line, lack of managerial experience, unbalanced experience, and incompetence.

It may seem illogical in face of all this to say that small business holds out unique opportunities in the Canadian economy. It is, nevertheless, true for those with the necessary qualities of knowledge and judgment. Some young men may continue to think of pensions before they have begun to live, and of getting through the intervening years in the easiest possible way. But there are still men with the inner drive, the urge to create and initiate, the push of enterprise and the courage to keep alive this vital sector of our way of life.

## *What to know*

What are some of the facts and conditions about which a small-business manager should be informed?

First of all, is there a demand for the goods or services he sells? Then: what superiority can he give his goods and services over others of the same nature already on the market?

Improvement in goods should be made with two purposes in mind: to make the goods more attractive to buyers and to make production more economical. In today's market it is the customer who defines what is "attractive". Quality still counts. A producer cannot long surmount the handicap of an inferior product. Note how carefully the successful companies check the likes and dislikes of the market place.

What new commodities should be added to those already carried? Although some companies seem to think that there is something sacred about the relationship between their company and a single product, it is generally recognized that even a small business should give careful consideration to broadening its base. Unused machines or space — which, even at zero production, are still elements of cost — suggest the advisability of considering expansion, addition or re-organization.

If you decide to diversify your products, make sure that every added item stands on its own feet. It must serve a real purpose, not merely that of keeping wheels turning. It should yield a profit, or serve as a hedge against a seasonal recession, or make use of a by-product. It should be of admitted worth to customers, representing a new standard of value in its field.

## *Materials and inventories*

It goes without saying that the efficient handling of materials is a big factor in costs. This applies to every incident, from the manufacturer's order for raw material through reception and processing to dispatch, and from the retailer's order to the wholesaler through display on counters to the check-out desk. Everyone in the plant or shop should be made to respect material, because it represents a certain definite amount of money to the proprietor.

As to purchasing, the wise man knows that the size of the outgo is just as important in determining profit as is the amount of income.

The purchasing function has received much attention in recent years, with one eye on saving money and the other on increasing efficiency. A general rule of prudent management is that no one should have the power to spend money until he has justified the expenditure. In business as in household management, the essence of good purchasing is to decide precisely what you need and not to pay for anything you don't need.

A business can fail even though it owns things worth more than it owes, so the amount of inventory is important. Bills are paid with liquid funds, not with frozen assets. Running out of money to meet outstanding obligations can amount to bankruptcy, even though the warehouse is filled with goods ready to be sold.

## *Production*

In giving his plant a periodical critical examination, the business man will have in mind these questions: is the product being turned out by the most efficient method, in the shortest time, at the lowest possible cost, and in the best quality?

Matthew Arnold wrote, in the expansive Victorian days a hundred years ago, "Faith in machinery is our besetting danger . . . as if it had a value in and for itself." The purpose of the machine is to increase

production, and if it is not doing so, or if there is no profitable way to dispose of what it produces, then machinery is an expensive waste.

To make sure there is no waste, the manager might consider a study of the methods used on his machines. One such study resulted in a 78 per cent increase in production, a ten per cent decrease in material costs, and an improvement in the appearance of the article.

Another source of loss in an establishment where organization and control are not up to par is in time. The business man should develop his sense of timing, looking toward simplifying jobs, eliminating duplicate processes, and decreasing handling. Any work that does not add value to material, does not plan or calculate, does not give or receive essential information: that work involves waste of time.

### *Marketing*

Marketing is one of the most necessary and most difficult of small business activities, but there are certain principles and practices that will help.

To do a good job of marketing may mean a somewhat painful change from comfortable habits of work. It is a job involving the product designer, the machine operator, the production manager, the advertising and sales people, and everyone having anything to do with getting products from raw material to the consumer. Unless all departments are busied about the provision of a good article at a good price, suitably packaged and attractively presented, there cannot be efficient marketing.

Every business, however small, needs to advertise. Unless you let prospective purchasers know what you have to sell, whether goods or services, you cannot expect them to buy. But advertising is not something to be attempted hap-hazardly. When done by people ignorant of the principles, it is one of the easiest ways of throwing away money.

Large sums are not necessary. Wrigley started with \$62; Waterman's first advertising appropriation was \$65, and Borden's was \$513. One point of judgment is the amount (in percentage of sales or other measure) being spent on advertising by other concerns with similar products.

Discussion with an advertising agency will provide suggestions as to the most effective means of advertising your goods: direct mail, newspapers, radio, television, general magazines, trade publications, handbills, posters, point-of-sales displays, or combinations of some of these.

The advertising must have a purpose: to introduce new goods, promote new uses, establish your name, or some other objective. Aimless advertising seldom pays.

### *Setting an objective*

The most stable and successful business growth is that which follows a sound predetermined plan,

propelled toward a known destination. No wind, however benign, is of use to the sailor who has not a landing-place in mind.

Every journey must start from a point, and the only way to determine that point is by way of records. Today's relationship of income and outgo, of production and sales, must be taken into account when deciding the destination and route.

Some business men have an aversion to keeping records, perhaps because of boredom or lack of aptitude, while a few shrink from accounts because they do not like to face the grim realities of their position. The history of business is marked with the bleached bones of many promising industries whose managers neglected their book-keeping.

Suppliers and banks usually require financial statements before advancing credit, and certain government departments call for periodical reports. The book-keeping need not be too greatly detailed. Keep it simple, but do it regularly and correctly. The man whose business does not need a full time book-keeper would be well-advised to employ a qualified person to make up his books and accounts once or twice a week. Many small-business men find this help in the ranks of retired accountants and bank managers.

It could probably be said that no technique is more beneficial in sound business management than that of budgeting.

Without a budget it is practically impossible to provide for the three sorts of working capital: regular, seasonal and special. By planning for these in advance, a company is able to insure itself to a large extent against financial embarrassment.

The budget is not, as those who dislike the idea declare, a straight-jacket. It is a measure of performance providing a guide in new conditions. It gives the manager a means of control. It prevents waste. It is a safety signal that operates in good and bad economic weather. It sets up a target and provides a gauge measuring the accuracy of the shot.

Every budget should provide for savings. Capital goods are constantly wearing out, and must be renewed. Business men have to decide every year how much of the production capacity at their command shall be devoted to assuring future production. That sum is saved to provide capital.

Credit is useful as a money-making tool. It should not be used to make up for inefficiency in management or production. That habit gets quickly out of hand, leading to a vicious circle whirling one into trouble and disaster.

Those who have money to lend (the chartered banks of Canada are the primary source of short-term loans)

are prepared and willing to advance money for productive purposes. If a small-business man shows that his sales volume yields an adequate margin over costs, and that there is a good amount of ownership capital invested, and that he has an adequate system of records and accounts, he should experience little trouble in obtaining an amount of short-term money in keeping with his legitimate needs. There must be a reasonable working capital so that the banker is assured that the business is not threatened by pressing current debt. Current debt and fixed assets is a combination which leads to trouble.

As to granting credit to customers, sound business demands a thorough knowledge of the customer's financial position and a regular checking of accounts receivable to note and correct deviations from the agreement for payment.

To extend credit costs money: what would otherwise be cash in your till is tied up, and should you need cash you must borrow at interest; the book-keeping of customers' accounts costs money; there are bad debts to reckon with.

### *The dynamics of business*

Business and the business manager cannot remain static. All the routines and procedures in the world will do no more than provide the mechanics. From there on we need thinking, planning and doing.

The business must keep abreast of developments, and as far ahead as possible. Change is the daily experience in business, but even unexpected changes need not be bad if you are flexible and can take advantage of them. Do not cling to opinions about business possibilities with too great obstinacy. Just as soon as you get an inkling that there may be another viewpoint, go over and take a look. You may find that what you took to be a temporary, unimportant change is really the setting in of a basic trend.

Determine, for example, what is held in store for your business by these facts: (1) Every year there are thousands of new customers starting to buy things in Canada, young men and women entering the 20 to 24 age group, earning their first money. By 1980, it is predicted in the report of the Royal Commission on Canada's Economic Prospects, there will be 2,187,000 in this group, more than twice what the number was in 1953. The earlier age group, 15 to 19, will have expanded from 1,129,000 to 2,262,000. (2) There are 260,000 citizens getting married every year, setting up new households, forming new buying habits. (3) People move from district to district, from town to town and from province to province. In the nine years ending with 1955 there were 323,350 migrations from one province to another. (4) About 100,000 immigrants come to Canada every year.

The market, therefore, is not static. There are new needs and new people to attend to. Your product, packaging and distribution may have been admirable five years ago, but out of date today. Customers have changed individually. They cannot be viewed as units in a statistical mixture. They are struggling to improve their status. Every satisfaction of a want they attain plants the seeds of new desires.

The successful small-business man is ahead of his time, not by flights of fancy but by studying and judging facts and trends like these. He anticipates change instead of waiting to have it forced upon him. He is studying the line from the engine driver's cab, to see where he is going, instead of from the caboose, where he can see only where he has been.

Practical business wisdom comes by constant vigilance, periodical revision of ideas, and positive thinking. It might be a good idea to diarize every month: "What innovations can I introduce this month?" Ask of every unique event in manufacturing or distributing: "What does this mean to me?" By answering the question you may open up a new area of production or a new market: at the very least you keep your business mind alive.

Even in time of stress, when, like the Red Queen in *Through the Looking Glass*, it takes all the running you can do just to stay in the same place, self-pity is not a good weapon to have in the business man's armoury. Necessity often fosters a kind of practical audacity that enables a man to do great things with little means.

The greatest resources of the small-business man are within himself, close to home.

Every business man over fifty has heard, or has heard about, the lecture called "Acres of Diamonds" which was given several thousand times by Russell Herrman Conwell at the turn of the century.

Every small-business man of whatever age could profit by reading it. One place to read it is in volume eight of *Modern Eloquence*, to be found in many public libraries.

"Acres of Diamonds" is based upon an Arab's story of a man who was seized by diamond fever, sold his farm, and wandered over the earth in search of diamonds until he died, impoverished and discouraged. The man who purchased the old farm from him found therein the great diamond mines of Golconda.

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