



# THE ROYAL BANK OF CANADA

## MONTHLY LETTER

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### *Managing a Small Business*

**B**USINESS is an occupation in which men, at the risk of loss, seek to make money by producing things for sale, or by buying and selling goods, or by hiring people to do things for which payment is received. Business concerns of all kinds depend upon one another, and the interests of all sizes of businesses are tied up together.

Most of the prosperous firms grew from small beginnings. They represent a partnership of invention and production and salesmanship.

The small business has a big and important place in the everyday life of Canada. As is pointed out in the *Small Business Manual* issued by the Department of Trade and Commerce, Ottawa, we deal every day with grocery stores, butcher shops, clothing stores, shoe stores, drug stores, garages, and scores of other enterprises, many of which are owned by small-business men. Then there are the factories that operate on a small scale, like flour and feed mills, sawmills, sash and door factories, and metal-working shops.

These firms are established by individuals or groups who, after weighing the advantages and disadvantages of ownership, have decided to become proprietors, and have had the capital plus the energy and the ability needed for success.

There is a certain sentiment attached to owning one's business, but there are sound reasons also. Small business constitutes a very substantial part of the business we do in this nation, both in terms of dollar turnover and in the number of persons employed. It is, indeed, the backbone of the private enterprise system. Strong, independent small business is just as important to our way of life and our national welfare as strong, healthy agriculture.

#### *Small v big*

At what point business ceases to be "small" and becomes "big" is largely a matter of individual point of view. All but the smallest concerns look big to

some, and all but the largest look small to others. Some people may measure by sales volume, while others look at total resources or the number of employees. The Canadian corporation tax uses as a dividing line an income of \$20,000. The United States Department of Commerce includes as small business all manufacturing plants with not more than 100 employees, wholesale establishments with less than \$200,000 annual net sales volume, and all retail stores, construction firms, service establishments, etc., with annual net sales or receipts below \$50,000. As a rough-and-ready rule, a small business may be thought of as one that is independently owned and operated and not dominant in its field.

At the last published count, 1951, Canada had 26,635 manufacturing establishments with up to 14 employees each, and 10,386 with 15 or more employees. There were 15,795 establishments under \$25,000 gross value of products and 21,226 with more than that.

Whatever the size of a business, the basic principles for success are the same. The manager of a great manufacturing concern may raise the net earnings of his corporation by a million dollars in a year, and yet not really be so successful as the proprietor of a country cross-roads store who increases his intake by \$1,000. In assessing success, one must take into consideration the opportunities various enterprises have within their own environment, and the cleverness with which they relate financial resources, economy, management and initiative.

Starting a small business is not easy, but it can be tremendously rewarding. The man who takes an idea and a small capital investment and puts them together into a venture is displaying the very spirit of human enterprise.

The important things are to consider the risks, so as to eliminate or reduce as many of them as possible by advance planning within the limits of available funds,

and to pay proper respect and caution to risks that cannot be reduced or avoided.

The man who determines to start on a shoe-string, with meagre equity funds and small working capital, should at least do so with his eyes wide open after analysis of all the known factors. A relatively minor miscalculation or a trivial misfortune may spell insolvency and will at the very least obstruct a man's efforts to operate efficiently and to expand sales.

We must admit that the difficulties have a salutary effect. Unless a new venture can show the possibility of a good return it probably should not absorb money and talent that could be better employed in another direction. Only the business that finds a balance with its environment lives: the others perish.

People who are considering seriously the starting of businesses would do well to read *Facts You Should Know about Going into Business*, a brochure published free and sent for the price of postage (5¢), by the Toronto Better Business Bureau, Inc.

### *Advantages of small business*

What are the advantages of having a small business? Even in this age of mass production, some economic functions can be performed as well by small units as by large. The ingenious small enterpriser often is a source of new materials, new processes, new services, that bigger firms are reluctant to offer. The small business is flexible, light on its feet, and can adapt itself quickly to new demands within its field and capacity.

As to the personal reward of the proprietor, he sees a direct connection between his enterprise, his ability and his energy, and his material rewards. He does not have to wait for someone with the right rubber stamp to approve his plans or raise his salary. He is responsible for his own advancement and profits. He is building something to be handed on to his family as a prideful and profitable accomplishment.

To operate any sort or size of business requires the translation of sound business principles into policies and action. These principles include judgments about materials, workmanship and service, and they are given effect through methods of production, accounting, financing and selling.

Problems will arise daily. One of the first needs of a business man is ability to understand what the problems are, and then to go on to solve them so as to approach nearer his objectives. He must be able to sort out things. Stress and strain may be avoided by spending adequate time asking questions and seeking answers before uncertainties create crises. To foresee problems and to work out the solutions is a very gratifying experience.

It is futile to trust to luck. It is not sound business to leave things to chance. The man who will be successful is one who proceeds on the bases of careful calculation and sound advice, rather than on hunches or guesses. But good luck can be enticed by accepting opportunities. As Arkad says in the instructive book by George S. Clason (Hawthorn Books, Inc., New York) *The Richest Man in Babylon*: "Opportunity is a haughty goddess who wastes no time with those who are unprepared."

### *The 4-M's*

There are certain things essential if one is to be ready to take advantage of opportunity. Every successful business, whatever its size, is the outcome of paying proper attention to what a United States Secretary of Commerce boiled down to "the 4-M's": money, man-power, merchandise and management. Of these, management is supremely important, since it is the business mind that directs the uses of the other three tools with determination, a sense of direction, and discretion.

Business effort is intelligently directed only when it is founded on a well-ordered plan. The man is handicapping himself, perhaps fatally, who is so busy that he cannot take time for an over-all preliminary survey. Can he look ahead for six months or a year? Then he may start, with some assurance, to work on details.

Details are important, without doubt. A man needs to be reasonably sure that he has provided against the loss that would be occasioned by having idle workers, idle machinery, excess set-up time, wasteful operations, bottlenecks, rejected material, and cancellation of orders because of failure to meet delivery dates. Disorder is deadly.

Planning does not mean erecting an immovable structure of procedures. Indeed, one of the purposes of planning is to retain one's mobility. There are no successful pat rules for running a business. Many a time the only way to do a thing efficiently is an unorthodox way. Imagination is needed, and the ability to think and to do new things.

### *Success depends on manager*

This need for planning makes management of a small business an intensely personal thing. Whatever becomes of the business — success or failure, growth or decline — depends on the manager. While being jack-of-all-trades, he will have his hand on the controls. It is not enough for him to know how to produce or how to sell. He needs to apply, in a statesmanlike way, his knowledge of buying, cost accounting, advertising, displaying, producing, and dealing with employees.

Through it all, the manager is seeking a balance of many factors. He may have a wonderful idea, but it must be balanced by practical production. He may



have a production system equipped with splendidly-devised tools and machines, but it must be balanced by a good marketing organization. He may have an enthusiastic sales staff, but it requires the balance of dependable commodities produced within time limits.

The foregoing discusses the obligation of the small-business manager to his business. He also has a responsibility to his customers. He must sell them the sort of goods or services they want, of dependable quality, at prices that meet those of his competitors. He has a responsibility to his employees, to meet payrolls, to establish and maintain efficient ways of working, to provide safeguards for health and safety, to supply working conditions that are as pleasant as possible. And, points out the *Small Business Manual*, he has responsibilities to government: to pay taxes, to collect taxes, to comply with labour and building codes, to meet fire regulations, and so forth.

The man with these varied qualities will be worthy of the prestige to which his position as proprietor raises him. He may not, to begin with, be much better off financially than an employee, but he is building toward something superior. His trading instinct, his knowledge and sense of the real value of an article (without which he should not enter business at all), enable him to apply sound reasoning to business problems and situations.

It seems contradictory, but it has been proved true by thousands of examples, that although the business man is seeking to make a profit for himself he must nevertheless think more of others than of himself. He sells his goods and services only through his ability to please others; he produces efficiently only through his capacity for building a good working force; he can contemplate only failure if he presumes to dictate.

Dr. J. F. Johnson says this jocularly in his Alexander Hamilton Institute textbook *Business and the Man*: "He may be a manufacturer of shoes and know very well that high heels make walking painful, but he will not let what he knows about physiology and anatomy shape the model of any woman's shoe — unless possibly his wife's."

### *On making decisions*

Everything that has been said heretofore involves the small-business man in making decisions. The quality of making decisions is one without which management just will not work. When a manager wobbles, rubs his chin, and cannot decide which of two policies is the better, he is a man of weak will, irresolute and wavering, and he is lost.

Making decisions involves courage. All business men who become successful do so by virtue of their courage to dare and to do things that frighten and paralyze weaker men. Their initiative, based on

knowledge, purpose and ambition, is backed up by willingness to decide and to bear the brunt of the responsibility their decisions involve.

Management is the keystone of a business. It is a complex and difficult job. It can be more effective than increased capital in promoting, expanding or saving a business.

The manager needs to know enough about the various and often conflicting managerial duties to perform them all passably well, and to find time to think and to plan as well as to do. He will cultivate and nourish the business man's liking for facts. He will refuse to take things for granted. He will avoid prejudices. He will weigh evidence, draw conclusions and initiate action, not recklessly, but with determination. He will check continually, ready to profit by mistakes and to adapt himself to new methods.

Where is a man to gather all this knowledge and develop all this wisdom? Knowledge is the only sound basis of confidence, and there is no sleepy way of turning knowledge into business wisdom. No "get-clever-quick" scheme will be effective for the small-business man.

Training and experience remove much of the experiment from management. A man who has been through the mill knows something of what he should expect, some of the dangers against which to be on guard, and some of the ways in which his business may develop. The more he has learned through experience and study the keener will be his insight into opportunity and the greater his resourcefulness in meeting adversity.

### *What do we not know?*

Most men making themselves responsible for their own businesses will not rest content with what they learned by experience, because times change and processes improve and markets demand new and better commodities. They need to refuse to be sunk by the weight of the obvious, and to ask "What do we not know? Where can we find out about it?"

The first question demands the utter honesty of a mind not afraid to recognize its insufficiencies. It takes, too, determination of a high order to seek diligently in all nooks and corners. No matter how clever a small-business manager may be, there are corners he has not explored, and in the dimness of those corners he may find the very gadget, the technique, the plan, he needs to raise his business to a new level of success.

As to where to get the facts and information to supply his deficiency, the sources are legion. For some purposes — for example, to learn mathematics or bookkeeping or better English — it will pay to attend night school. Some study of books at home will be



effective in some subjects. Much may be learned about machines and production from the technical journals, and much about markets and sales methods from trade papers. Membership in a trade or business association brings one into touch with other men who have met and perhaps solved similar problems. A practical short course is given in *Small Business Manual*, the 90-page mimeographed book obtainable free from the Department of Trade and Commerce, Ottawa. This book is now in course of revision, and new copies are expected to be available later this year.

When all aspects of production and selling, from incoming inventories to outgoing labelling, are skilfully planned and efficiently carried out, then the manager is contributing mightily to the best use of materials, money and man-power, and the enhancement of profit. In *Management Aids for Small Business*, obtainable from the Superintendent of Documents, U.S. Government Printing Office, Washington 25, for 65¢, there are thirty chapters dealing in a clear and forthright way with as many aspects of the manager's problems.

### *Building a small staff*

The wise manager will have a work-distribution chart showing that the load is being evenly distributed among workers according to knowledge and skill, and that everyone has special responsibilities. Teamwork and morale are encouraged when the manager considers his workers and uses "horse-sense" in human relations.

Many workers prefer to work for small firms because of the cosy atmosphere. Traditionally, discord in small business is likely to break out, not among routine workers, but at the top. There you have two or three men working closely together every day. They work hard and earnestly, and business is tough and competitive. Even a little mistake costs money the firm can ill afford. If one man slips, they all pay for it, and they see not only a temporary setback but the possible ruin of all they have ventured. Each man may wonder if the others are pulling their weight. Frank, unprejudiced, tolerant behaviour is called for if the business is to prosper.

This makes it doubly necessary for the manager or the proprietor to build his staff with skill. While he may be able to do many things himself, the really important ability of the small-business proprietor is that of getting other people to do things for him. He would like, not unnaturally, to deal with every problem and solve it, but he must learn to co-operate with the inevitable and pass along an increasing number of decisions to subordinates.

The manager will get together a reasonable proportion of sound people. With them, the business goes: without them, it falls down. It's the same as getting

the steel framework of a building true: everything depends on getting the core in line and plumb.

The top man must not allow himself to feel that if he takes a few hours away from production or selling the business will fall apart. He is the enterpriser, the initiator, the spark-plug, and he needs time and opportunity to function in these vital areas. Subordinates in whom he has confidence, plus ready communication of ideas to-and-fro: these are needed by every small-business man.

### *Professional help*

We have considered, so far, making one's own way by experience and study, but the small-business manager should not hesitate to consult specially qualified people. It may appear an extravagance to pay an auditor or a personnel guidance man or a financial adviser or an estates trust officer, but every one of these is likely to cut down expenses, increase business or avoid trouble: and all these are valuable to the manager of a small business.

Consulting firms have a wide range of experience in similar problems with many companies, and all that knowledge is yours for a fee. Even the most accomplished business men find it advantageous to consult experts regarding tax laws and the legal form of business best suited to their purposes. Some accounting firms, whose services are widely used by small businesses for routine work, have set up departments to give management advice. Other sources of help are the Chamber of Commerce or Board of Trade, agencies of Federal or Provincial Governments, trade associations, the Better Business Bureau, and members of the legal profession.

If questions of a technical nature should arise when consideration is being given to the establishment of a business or industry, the Technical Information Service of the National Research Council, Ottawa, is prepared to offer certain kinds of assistance.

No consultant worth his salt will claim to be able to perform miracles, but he brings to your problem an amount and quality of knowledge it would cost you a fortune to accumulate. Businesses that are in or close to university towns have ready at hand in the universities a wealth of qualified consultants on almost all phases of production and business.

The business man seeking ways to improve his factory or shop will not overlook a most prolific source of ideas: his employees. A simple, practical suggestion system will be of advantage in almost any plant. It brings in tips, shows employees that they are thought of as people and not just hands, and taps their day-to-day experience in making and selling your product.