How To Organize and Operate
A SMALL BUSINESS

BY

PEARCE C. KELLEY, PH.D.

Associate Professor of Marketing, University of Mississippi. Formerly Head, Marketing Department, College of Business Administration, University of Arkansas; Coordinator of Distributive Education and Vocational Research Consultant, State of Arkansas; Assistant Professor, University of Utah; Instructor, University of California.

KENNETH LAWYER, M.A., M.ED.

Professor of Marketing & Merchandising, Western Reserve University, Head of Department. Formerly faculty, University of Illinois, and staff member, Research Bureau for Retail Training, University of Pittsburgh; Sales Manager, Weinstock-Lubin & Co.; Manager, Roos Bros.; Supervisor, Distributive Education, State of Illinois; Consultant, Small Store Operation, U. S. Office of Education.

NEW YORK

PRENTICE-HALL, INC.

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FIRST PRINTING . . . NOVEMBER, 1949
SECOND PRINTING . . . FEBRUARY, 1950
THIRD PRINTING . . . . . . JUNE, 1950

PRINTED IN THE UNITED STATES OF AMERICA

Dedicated to

The American Way of Life

INTRODUCTION

THE DEVELOPMENT of the United States has come largely as a result of small enterprisers. Such men cut down the forests, placed the land under cultivation, and built our factories. Even the early toll roads, canals, and railroads were in large part local enterprises financed and built by men who individually had little capital. It was not until the combining of small railroads into large systems and the building of the trunk and transcontinental lines in the 1870's that "big business" arrived in the United States.

Most of the large companies of today were started by men with very limited capital—Swift, a local butcher; Ford, a mechanic building his first cars in a blacksmith shop; Chrysler, who started as a mechanic in a railroad roundhouse and became an automotive engineer; Carnegie, with money saved from his wages as telegrapher and railroad employee; Gilman, founder of the Great Atlantic and Pacific Tea Co., who started selling tea as a sideline in his hide and leather store. Among others, Sears started selling watches by mail in his spare time while a small-town station agent; Montgomery Ward started his business in one small room; Wanamaker began with savings from a small-salaried job; Gimbel's started as a frontier trading post; and so on down the list.

Aside from public utilities most businesses start small and grow up or else are formed by mergers of smaller companies. Many small businesses starting today will be the large- or middle-sized businesses of tomorrow.

It is true that more new concerns fail than succeed. Fear of failure keeps many youngsters with ability from launching their own companies. However, it is young men who can afford to take chances. If they fail, they can go back to work for another. A great many successful businesses have been started by men who failed in their first ventures. They learned from their failures. A great many successful men after a failure save up a few hundred dollars and start again. Some such men have become nationally known. Cyrus McCormick with his reaper and John Patterson of National Cash Register are two examples. "Nothing risked, nothing gained."

"But," the youngster asks, "what chance does the little fellow have against these giant companies?" Let us leave out of our discussion two types of business—public utilities such as railroads and electric and gas companies; and companies requiring large and expensive machinery in order to produce economically, such as steel mills and automobile factories. In most other types of business the small concern can have many advantages: closer contact with customers; closer and more personal supervision of the detailed operation of the business; ability to make changes in products or procedures more quickly; in many cases lower overhead expenses; and sometimes less government supervision and regulation. I say *can* have. The business is not more efficient because it is small, but the fact that it is small does not keep it from operating efficiently and profitably. Managers of large concerns, aware of the inefficiencies in their enterprises, often point out that an efficient small businessman can "run rings around us." One man started in business with a very few hundred dollars and built a business worth $3,000,000, which he sold to a large corporation of which he became a vice president. He was never sure that he did the right thing. As he put it, "Big business moves so slowly. When I had my own business I could decide on an improvement and have it in operation long before the big company decides to make the change."

It may be said that the large concern has only two advantages: the ability to maintain a research department or departments; and its operation by hired managers. Let us consider these two advantages separately to see to what extent the small concerns can meet or counterbalance them.

First, research. Research is at the basis of much of the advance in new products and new methods of producing and selling goods. In regard to technical research, the small man can frequently compensate for this first by his own ingenuity in devising and improving his product; second, he can obtain the results of research conducted by government and university laboratories; and third, small concerns can conduct research coöperatively through their trade associations. Concerns too small to maintain their own research laboratories can pool their resources and coöperatively support their own laboratory or finance research fellowships in universities.

The small concern may have less need for commercial research than the large concern, since the owner of the small concern is closer to his customers. It is often said that much commercial research is necessary because the managers of the large company have lost their personal contact with the consumers and must hire interviewers to go out and ask the consumers what they like and dislike about the company's product, its advertising, dealers, or selling methods. The small man often gets this information direct from his customers or his salespeople who contact his customers. When such contacts are insufficient, small concerns can coöperatively employ research organizations to conduct their surveys and other research.

What about the advantage of hired management? An efficient owner is better than a hired manager. The most efficiently operated companies are managed by their founders and owners who have had the ability to start and manage their own businesses. As a rule, they make better products, sell them cheaper, or do both, while earning higher rates of profit than their competitors. If so, why do we say that hired managers are more efficient? Simply for the reason that life is short and uncertain. The efficient manager gets older and eases up. Either he loses some of his energy with age, his doctor tells him to "slow up," or he realizes that "he can't take it with him" and so starts to enjoy some of the fruits of his arduous labors. But he eases up. Efficiency drops. Finally he retires or dies. In many cases he has no heirs of equal ability to carry on the business, in which case efficiency usually goes down until the business fails or is sold to a competitor—often to a larger competitor.

On the other hand, when a company is too large to be controlled by a family, the managers are hired, and hired on the basis of their ability and performance. They win their positions, by and large, through competition. They may never be as good as the efficient and hard working man who builds his own business but they are commonly more efficient than the sons who were raised with "silver spoons" in their mouths, or the in-laws who "married the business."

Granted that this is true, it need not deter the young man who considers starting his own business. He hopes to succeed in building a profitable business. He doesn't need to worry about the ability of his heirs to carry it on. That is a problem for the next generation. If they cannot operate a business that they inherit, they deserve no sympathy from their fathers or from society.

If this volume helps young persons to determine if they have the ability and personality successfully to operate their own businesses and then encourages them to do so, it will perform a useful function. We need efficient small businesses for the services they render the consumers, and we need them to compete with big businesses. If it also teaches individual enterprisers sound principles and practices needed for successful business operation, this book will be doubly useful.

P. D. Converse
University of Illinois

September, 1949.

PREFACE

For many years before World War II interest was developing in the place and problems of small business. During the early postwar years attention was centered on helping veterans and former war workers get started quickly in businesses of their own. Relatively little, however, has been done toward providing a well-rounded guide to the fundamental needs, problems, and opportunities of the field of small business as a whole. Such an integration of the subject is one of the objectives of this book.

The book is intended as a text of continuing value to all persons interested in the field of small business. It may be used for independent reading or as a text in college or adult courses for students who later plan to go into business for themselves, as well as for owner-managers who desire to increase their knowledge of modern small business operation. In fact, in note and manual form, it already has been used by the authors for several years in training each of the three groups just mentioned.

When used for individual study or as a text for prospective owner-managers (whether employees or students), best results will be secured if the following outline for individual application is used concurrently: *Manual of Small Business Operation,* by Kenneth Lawyer. New York: Prentice-Hall, 1946.

In the process of assembling material for training present and prospective small businessmen, much of which has been used in this text, several extensive surveys were conducted. In addition, the authors have had the advantage of access to the excellent material on small business released by the United States Department of Commerce, by trade journals, and by the publishers of many books and pamphlets on different aspects of the subject. It would be futile to attempt to acknowledge the authors' indebtedness individually to each of these sources of information and ideas. In all cases where material or assistance was requested, the coöperation received was most generous. Throughout the text many references are cited, and the bibliography at the end of the book suggests excellent collateral readings.

The text follows a sequence recommended by the authors for persons interested in small business. First the importance of small business, its status, problems, and requirements for success are discussed. Then procedures for becoming a business owner are considered, followed by separate chapters dealing with each important management function involved in operating the enterprise. In all cases attention is given to the relatively greater importance of personal factors in small, as compared to big, business. A short concluding chapter deals with the future of the small independent enterprise. A comprehensive check list for organizing and operating a business is presented in the appendix.

In scope, the text recognizes three main fields of small business: merchandising, including retailing and wholesaling; manufacturing; and service businesses. In most chapters, following a general treatment of the topic, special applications to each of the three main fields are considered in turn. This organization helps to stress the fundamentals basic to all three fields while recognizing variations in application suited to particular needs. At the end of each chapter questions and projects are suggested for review and discussion as well as to guide individual research and application.

Excellent coöperation and much valuable information have been received by the authors from editors of trade journals, trade association officials, Department of Commerce and other Government representatives, Directors of Industrial Development Agencies, officials of the member schools of the American Association of Collegiate Schools of Business, former students who are now independent businessmen, many owners and managers of small businesses, and other authorities on small business. To attempt to name individuals would be futile, since the number is in the hundreds.

The authors gratefully acknowledge assistance in the preparation of the manuscript given by their respective institutions, and by students and colleagues.

For the thoroughness of her research work and for generous contributions of time and effort given to the preparation and completion of the manuscript, the authors desire to express their sincere appreciation to Mrs. W. Overby, faculty member of the Marketing Department and Head of the Secretarial Science Department, University of Arkansas.

PEARCE C. KELLEY
KENNETH LAWYER

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