# THE CONCEPT OF STRATEGY FOR THE SMALL BUSINESSMAN

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## 1. INTRODUCTION

In small businesses the owner *is* the business. Unlike the large enterprise where a large number of people's livelihood and aspirations must be achieved by the survival and profitability of the enterprise, the small business is there to satisfy the needs and ways of one man or at most a very small group of people. The "death" of a specific small enterprise is therefore not as serious for the manager/owner as for a large one provided that "death" has been recognised as inevitable and an alternative has been planned for, and provided that the owner/manager has a truly adventurous and entrepreneurial personality.

## 2. KEY ADVANTAGES OF THE SMALL BUSINESS

What are the key advantages of the small business? Conceptually, for an adventurous entrepreneur, they should be (1) unanimity, (2) mobility, (3) Innovative potential, (4) Size of Investment and (5) Commitment. Each will be discussed.

### 2.1 Unanimity

Since the small business has at most a very small group of managers and few personnel, there is far less discussion and political manoeuvring when decisions must be made. The control of the company is in the hands of the owner/manager. His decisions dominate the enterprise and so the decision making which takes place is virtually unanimous. There is little question of management by coalition.

### 2.2 Mobility

Since the decision making is virtually unanimous, this gives rise to high mobility. The company can change direction fast, respond to change quickly. The small firm does not have the lumbering inertia of the large one, where a change in direction involves considerable redeployment of resources in the face of resistance by the members of the organisation. Key personnel need not be persuaded and convinced that the new direction is necessary and "management by debate" is eliminated.

### 2.3 Innovation potential

The small business can be far more innovative due to its unanimity and mobility.

With a large organisation any innovative ideas must be sold to a vast number of people whose co-operation is essential but who may have entirely different attitudes to the direction the firm must take. In a small business the only person to convince is the owner/manager and perhaps a very small group of others.

### 2.4 Size of Investment and scale of fixed costs

If the business is small then the investment *should* be small and fixed costs should be small in absolute terms. A small investment means that break-even should be achieved at low volumes. This gives the small firm the opportunity of catering profitably for small market segments, and profitable but low volumes can be disposed of before market saturation occurs. A large firm with large fixed costs and investment cannot afford to compete on this basis.

### 2.5 Commitment

The owner/manager is totally committed to the firm as long as it is *his* firm.

## 3. STRATEGIC IMPLICATIONS FOR SMALL BUSINESSES

What are the strategic implications of these advantages for the strategy of a small business?

If we are to take advantage of these advantages simultaneously this implies:

### 3.1 That fixed costs and investment in fixed assets be kept to a minimum

By investing in fixed assets we reduce mobility and, because fixed investments are expensive, we need larger volumes and hence larger markets to make a good return. The same argument applies to fixed costs.

**3.2 That we keep the business small enough to be run by as few levels of management as possible**

If the business cannot be operated by one level of management then it is desirable to have no more than two levels, so that the lowest level is continuously interacting with the highest. Any more levels of management detract from the advantages of unanimity and commitment (one could say almost geometrically).

**3.3 That the owner/manager devotes most of his creative time to scanning the future for new opportunities**

These opportunities should satisfy the following requirements:

(a) They should not require high investment;

(b) They should promise high initial payoff in a relatively small concentrated market, but need *not* have high payoffs over the long term.

(c) Their product/market scope should be within the capability and/or expertise of the owner/manager.

(d) They should give the entrepreneur the opportunity to continue interacting with the environment.

The primary limitation in the size of the business is the owner/manager's ability to run the business with as few assistants as possible yet still be able to devote substantial time to finding and exploiting new opportunities.

**3.4 That the ongoing, current business be programmed as far as possible: to give the manager time to devote his attention to 3.3 above**

This is perhaps best accomplished by employing a competent administrator — competent to the task of administrating a *small* business, not a large one. His/her cost should therefore not be high.

**3.5 That before the business is started, the conditions under which it will be discontinued be clearly formulated**

Before the business is launched the owner/-manager should clearly bear in mind that:

(a) If it is a failure, he will waste money and effort trying to shore it up if he is not careful. Explicit levels of satisfactory performance must be established and the business ruthlessly demolished if these aspirations are not achieved.

(b) If it is a moderate success he can expect competition from other small businessmen, and the point at which he is going to sell out to some potential competitor wishing to enter the field must be clearly defined.

(c) If it is a great success it will attract the attention of the large companies. The point at which he will sell out to them, or even go to them with an offer, must be clearly formulated. Once they have taken over control the small businessman can still benefit from future growth by opting for part cash/part shares as payment.

The philosophy behind (b) and (c) above is that *small* businesses, if kept small and mobile, have a high chance of survival and *large* businesses have a high chance of survival but it is the small, growing business that has the highest fatality rate, as the business becomes larger the owner/manager loses his total control over the situation (losing the advantage of unanimities), his time becomes more and more absorbed by day-to-day crises (losing the advantage of innovative potential), he is forced to invest more heavily (losing the advantages mobility and investment size) and then it grows to the point where more and more people who are not totally committed become involved (losing the advantage of commitment). By persisting with a growing company without selling out to a larger company *he is eroding all his initial advantages.*

The counter argument that this philosophy means we would then never get large businesses, is rejected. There *are* already large businesses, and it is these businesses to whom the owner/manager should sell. It is they who have the reserves to absorb the growing pains.

(d) That the small businessman must make long-term plans. If he is to adhere to the above strategies the owner/manager must have a clear idea when the opportunities he envisages for the future will materialise, their expected scope and potential, and plan his resource deployments, his phasing out of one activity and phasing in of the other, just as carefully as a large firm carries out its long-term planning.

## CONCLUSION

In conclusion it may be stated that the strategy for a small business is essential. It differs from the strategy for a large business in that the owner and the business are virtually one, so that as long as the owner benefits, the survival of the business is not of importance. The strategy of the small business should therefore be composed of a long linked series of short-term plans which take advantage of the small business's mobility, unanimity, commitment, innovative potential and deliberately restricted investment in fixed assets.