

Report on Small Business: MANAGING THE SLUMP

How to strategize your way through the storm

'Don't panic,' the experts say. A downturn is an excellent time to reconnect with the marketplace and focus on what makes your business successful

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Breakfast beckons, so it's off to the neighbourhood coffee shop. After a long day at work, you stop at the local salon for a quick hair fix, then pick up lottery tickets at the variety store. A special birthday means a final trip to a nifty local gift shop.

How do Canadians love small businesses? It's not difficult to count the ways. Yet despite their appeal and important contribution to a healthy economy, about half of small businesses go belly up within five years, according to the Canadian Federation of Independent Business (CFIB).

Given the historic economic events that have exasperated a U.S. financial crisis that has resulted in deteriorating global markets and consumer jitters, small businesses have even more cause to get their survival strategies in gear.

The overriding message from economists, small-business experts and owners themselves is: Don't panic, and do embrace your customers and employees.



"Certainly it would be an understatement to say there's a lot of uncertainty right now in the economy in Canada," says Robert Hogue, senior economist at Royal Bank of Canada. "We expect the cooling to continue in Canada, and it will characterize 2009 certainly."

Nervous outlook

In fact, the CFIB, in its latest expectations survey released in late September, two weeks before the collapse of some high-profile Wall Street investment banks, and before some top economists predicted in the first week of this month that Canada could go into a recession, saw a nervous outlook among small and medium-sized businesses in parts of the country.

Despite some optimism reflected in its survey, businesses in regions such as Ontario, Alberta and British Columbia, in particular, are not feeling good about the future, the CFIB says. The industrial centre of Ontario, the least optimistic region in Canada, "is still clearly feeling the effects of the U.S.-based slowdown," says the report by Ted Mallett, chief economist at the CFIB, which represents more than 105,000 small- and mid-sized businesses.

What does that mean for a small business, defined by Statistics Canada, for one, as having fewer than 50 full-time-equivalent employees and, in some statistical publications, with annual sales of less than \$2-million?

While ventures of all sizes must react to economic fluctuations - analyzing budgets and putting cost-reduction and savings plans into place - smaller businesses have to take particular care to keep afloat in murky economic waters, as Toronto entrepreneur Dorothy Kizoff found.

Personal downturn

Ms. Kizoff has run several of her own businesses, including Permanent Makeup Artistry, a cosmetic tattooing and laser aesthetics business in downtown Toronto's upscale Yorkville area.

She says the recent economic woes have resulted in her going through her second personal business recession.

"I was always told that the best time to start a business is in a recession, because if you can make it in a recession, you can make it in anything," says Ms. Kizoff, who opened Permanent Makeup Artistry in 1991, at the height, she says, of the last recession in Canada.

"We just wanted to pay our bills when we first opened. When things started to getting better, I was able to get the money out of the business and actually pay myself, and we were doing quite well for a time."

But in the last 18 months, says Ms. Kizoff, business has slowed dramatically, and is down at least 20 per cent compared with two years ago. In recent months, she has also taken on another job - as a consultant at a private laparoscopic weight-loss clinic - to help provide for her family, including two daughters and four grandchildren.

When small is good

Despite the challenges, however, small businesses have certain inherent advantages over larger businesses, the experts say.

"A small business is able to respond quicker to change in the economic environment compared to large corporations because they have fewer employees and less capital," says Doug Dawdy, a partner at KPMG, which provides audit, tax and advisory services.

"Turning strategy around at a multinational location is a more cumbersome process than doing it if you have one manufacturing plant," says Mr. Dawdy, who manages KPMG's corporate finance and enterprise practice from Windsor, Ont.

When it comes to responding to market opportunities and getting the choose-me message out, Judy Brooks knows what it takes not just to survive, but to thrive - despite economic pressures.

A tale of blo

The 44-year-old founder of several private ventures has the West Coast hairstyling world abuzz: She has opened three Blo - Blow Dry Bars in Vancouver in just over a year.

For about \$30, and in about 30 minutes, a Blo customer can get a wash and blow-dry, and choose from a menu of eight styles. Ms. Brooks says the beauty of her hairstyling bars - which offer only wash-and-style services - is that women who indulge in regular mane maintenance can avoid blowing time and money.

"It's become an affordable luxury," she says. "We've educated clients to use Blo as intended - to save them time and frustration at home, before meetings, events and dates."

Despite economic pressures, Ms. Brooks says her establishments, which have a total of about 45 employees, have experienced growth as anticipated - partly because she has marketed her business as a hair-maintenance must, and not a luxury.

"In building a company, but particularly in times when people are making decisions about how they spend their dollars, it's always about customer experience," says Ms. Brooks. "It's all in the way we build our bars - they're fresh, clean and in a bar style, not with individual [hairstyling] stations like other hair salons."

It just goes to show that the secret to drawing customers isn't always about cutting prices, says Bridget Field, seminar co-ordinator with Vancouver-based Small Business B.C., a non-profit resource centre.

"If you can't compete on price, compete on quality or customer service," she says. "Emphasize in your advertising what makes you different, why consumers should choose your business to spend their money."

Avoid panic reactions

She also warns entrepreneurs to avoid knee-jerk reactions. "Don't panic. Don't slash prices. Don't lay off your staff. Your particular business may not even be affected by a recession to the same degree as another type of business.

"But do manage operating costs as best as possible, do consider bundling products and services together to make them more appealing to customers, and be creative about your offerings. If you are a personal trainer, for example, bundle three hours of personal-training services at your regular prices with a yoga mat and a water bottle, like a gift purchase, or extend better payment terms with customers."

In the throes of today's financial fears, Ms. Field is among those who say small-business owners remain an optimistic bunch, and recent surveys suggest she is right.

Polling by both Ipsos Reid for RBC and the CFIB last month indicated a significant number of small businesses were pleased with their performance and optimistic about their outlook, some even intending to expand, despite the economic turmoil.

Even so, the majority of business owners surveyed by Ipsos Reid were taking steps to ensure their success: 52 per cent were reducing unnecessary expenses; 47 per cent were working to provide extra value to customers; 31 per cent were finding ways to reduce energy and fuel consumption and 27 per cent were increasing their marketing efforts.

"I think it's really important to note that small business owners across the country seem to have a good handle on the importance of managing through uncertain times," Rina Pillitteri, national director of small business for RBC, said in a release accompanying the study.

"Now, more than ever, having a solid business plan is important," she said, "and should include ways to deal with economic and market volatility so that business owners can succeed and grow no matter what obstacles may be in their way."

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