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2011: The Year
of the Entrepreneur

Eye on the long game pays off

Aaron Lynett, National Post

Rather than cutting back, Fred Pritchard of Golda's Kitchen expanded his product line. The result? Business went up.

Mary Teresa Bitti, Financial Post · Jun. 6, 2011 | **Last Updated: Jun. 6, 2011 9:29 AM ET**

Fred Pritchard, owner of Golda's Kitchen Inc., a multichannel retailer in Mississauga, Ont., is happy to report that through the recent recession he expanded his product line, adding 20% more SKUs, and increased his staff to 30 from 21. And he did so when many of his competitors and suppliers were focused on cost containment, thinning their inventories and cutting customer service and warehouse staff.

"We adjusted our inventory depth and mix to better reflect what was and wasn't selling but our demand from customers was strong," Mr. Pritchard says. "Part of the reason was we had goods in stock that they wanted while many other larger retailers didn't expand into new categories or did not have enough stock to meet their customers' needs. We knew this presented an opportunity for us."

Unlike many small business owners, Mr. Pritchard kept his eye on the long game and a profitable growth strategy through the recession.

"We were able to forecast out what our needs would be. Anybody can cut expenses, find cheaper suppliers, which is fine. But rather than focusing on the cost side of the equation, why not focus on the revenue side and growth? You have to put an equal amount of energy into both. And many businesses lost sight of that.

"Make sure you are investing enough money in your business, otherwise you risk not having the cash flow to meet obligations when markets drop. More small businesses should have a line of credit in place so they can keep their customers happy -and keep them coming back," he says.

Brad Cherniak, partner at Sapient Capital Partners in Toronto, agrees with Mr. Pritchard. "A good entrepreneur knows you can't just slash and burn. While 2008 was a particularly tough year and for many small business owners cuts were not discretionary, the fact is your success is more likely to come from sales than cost control -although both are critical.

"It is imperative for entrepreneurs that they don't manage by the numbers like a big business. You can't cut costs by 10% across the board, as you can in big businesses, which often have a lot of fat they can trim. Small businesses don't tend to have the luxury of being inefficient. You have to determine whether a short-term cut will put your sales at risk or engender future higher-cost outlay to make up for it. Think carefully."

Companies that cut as a knee-jerk reaction to the down market are now at a significant competitive disadvantage, says Deborah Conroy, senior manager with Ernst & Young's Transaction Advisory Services practice in Montreal. "During the recession, many small businesses were too focused on immediate cash shortages and as a result they could have missed opportunities. Maybe their competitor was in a prime situation to be taken over. Maybe a facility was available at a discount and they could have had a huge production capacity increase."

Now is a good time for businesses to get introspective and see if they have assessed everything they needed to in the past few years or just skated through and made it on luck, Ms. Conroy says. "Have a close look at your business. Did you just cost cut and squeak by or did you clean shop and focus on what will allow you to not just survive but succeed?"

Cost cutting and clean-ing shop are two very different things, Ms. Conroy says. "When I talk about cleaning shop, I'm talking about looking at your whole strategy. Do you have a long-term goal? Are you looking at just this week's cheque run or do you have an eye on long-term savings -the bigger prize?"

The risks of being too focused on costs as opposed to revenue and growth can range from not being able to meet production requirements or quality standards to losing your niche or differentiation to overworked, frustrated employees and a whole lot of inefficiencies. "It can also lead to fraud because if you lose too many people and too many internal controls and safeguards, you can expose your business to abuse and missed opportunities from not being able to see the big picture," Ms. Conroy says.

MOVING FORWARD

Ernst & Young's Deborah Conroy offers some key advice for small businesses to move forward strategically:

- Make better use of the cash and credit you have. Take advantage of all the credit your suppliers are offering and keep tight watch on all the credit you give customers.

- Develop purchasing and inventory strategies tailored to your business.

- Look at your goals and what you want to achieve. This will force you to look beyond just preserving cash.

- Watch for red flags on suppliers that have cut too deep, as this will impact your ability to meet demand. Those red flags include: delivery delays, reduced quality, pressure for payment ahead of agreed-upon terms, high staff turnover. If your business is too dependent on any one supplier, it might be wise to expand your supplier base.