

Thinking Like An Economist Can Help Your Small Business

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If you mention Economics to the average person, memories of high school or maybe even a college course come to their mind. To the average person, Economics means big words, fancy graphs, and old books that can put even the most caffeinated individual to sleep. However, as the leader in a small business, thinking like an Economist could **help your business become more efficient, experience growth, and become more competitive** (even in the business environment we are in now).

How does one think like an Economist? You don't need a Ph.D. or even a dusty textbook. There is something all the major past Economists have in common. It doesn't matter if they're Classical, Keynesian, Monetarist, or Austrian Economists. They all wanted "*efficiency*" in business and the economy as a whole, and they believed in "*the importance of data*". If you look at your business with these two principles in mind, you may see things differently.

Where are the inefficiencies in your business? What could you be more efficient at? Asking yourself those two questions is thinking like an Economist. Inefficiencies come in many shapes and forms, but they all cost something. That cost could be monetary, or it could be something personal like added stress and dissatisfaction. **Waste** is a major inefficiency and can prevent a business from growing. Waste can be things like unusable product or ~~bad~~ poor time management. With waste, however, there is often an opportunity to learn or create. A great example of this is John D. Rockefeller and Standard Oil.

Rockefeller founded Standard Oil in the late 1800s and turned it into one of the largest most successful businesses the world has ever seen. Rockefeller himself thought like an Economist and was determined to run his business with **peak efficiency**. This allowed him to have lower overhead and a cheaper product than his competitors. Rockefeller's oil refineries and its competition had many bi-products from the oil refining process. Many competitors just threw their bi-products away, but Rockefeller saw the waste as an opportunity. From the waste, he created products to sell like petroleum jelly, or as we know it today, Vaseline. Rockefeller and Vaseline are just a small example of what you can create and learn from waste. Making your business more efficient and reducing inefficiencies will help your organization become more competitive and cost-effective.

Knowing **the importance of data and making decisions based on data** is another key to thinking like an economist. Decisions may be harder than ever to make for your business or employer due to Covid-19 and its effects. There has also never been a better time to take a tactical pause and look at your business. When either government or corporate Economists are trying to figure out what's going on and make recommendations, they go to the data. Data takes the emotion out and provides a clear unbiased picture to base decisions on.

One of the biggest key sources of data is your employees and customers. Asking simple questions like "how are we doing?" and "what can we do better?" can provide you with a treasure trove of inexpensive data. Not only can that data help you in your decision-making process, but it also shows that you value your customer's and employees' opinions and ideas. Now for the important part. Take the data you have collected and ask yourself what it means. When looking at your data and formulating options, remember that no one knows your business as you do. You are the expert. Sometimes the data goes against the common narrative and opinion. Don't let this discourage you from using it.

Next time you're faced with an issue or big decision, try thinking like an Economist. Use your data and strive to be more efficient. Again, thinking with these two principles in mind could help your business become more efficient, experience long term growth, and become more competitive.



Tim Ketchum is an on-call Economics and Research Specialist with Lordstone Business Advisors, Inc. Tim introduces small business owners and managers to economic principles, research and how both can improve small businesses through planning, diversification and growth. For more information or access to free resources for readers of Upper Peninsula Business Today, please visit www.lordstoneadvisors.com