Can a Start-Up Mentality Save Small Businesses?

Small-business owners are having to learn approaches like "fail fast," course-correcting and going virtual — and some are succeeding.

Nichole Craddock, an operations manager at the Greater Knead, inspecting bagels before packaging at the company's warehouse in Bensalem, Pa. Michelle Gustafson for The New York Times

By Eilene Zimmerman

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In early February, things were looking good for Practice San Francisco, a center offering individual psychotherapy and classes for children and adults that promote physical and mental well-being. Business was so good that owner Nina Kaiser, a psychologist, had just renovated and moved into a bigger space with the goal of doubling revenue.

Then the coronavirus pandemic hit. In early March, Ms. Kaiser moved all her classes and counseling services online. Fairly quickly, however, video fatigue set in. "After a few weeks, we saw a big downturn in attendance across all our programs, even psychotherapy," she said. Thus began a period of "endless pivoting and troubleshooting."

Like many other small businesses, Practice San Francisco, which has been around for three years, has essentially become a start-up again, employing a strategy similar to the "fail fast" approach well known in start-up culture: A change is made to some aspect of the business and if it works, it sticks, but if it fails, data is collected and something else is tried.

"There has been a lot of flying by the seat of your pants," Ms. Kaiser said. "We see what doesn't work, where we run into trouble, and we course-correct. It's this constant, iterative process."

That process is crucial right now for small businesses, whose numbers dropped by 22 percent — 3.3 million — between February and April, according to the National Bureau of Economic Research.

With Practice San Francisco's classes being delivered remotely, Ms. Kaiser partnered with a local yoga studio to offer joint programming, increasing both businesses' visibility and revenue. It worked for a few months and then became problematic. "It wound up being more difficult than I anticipated to combine two communities with different expectations," she said. Enter the fail-fast approach: The collaboration has been paused and is being reconfigured.

After that, Ms. Kaiser decided to change her class model from drop-in to series-based, keeping a cohort of students together for an entire series. "That builds relationships within the class," she said. "We are now intentionally focused on building community." Attendance went from one or two people per class to between eight and 15. And once it became clear the pandemic would not be short, demand for remote psychotherapy began increasing. Despite the pandemic-related challenges, Ms. Kaiser projects that 2020 revenue will be up 50 percent.

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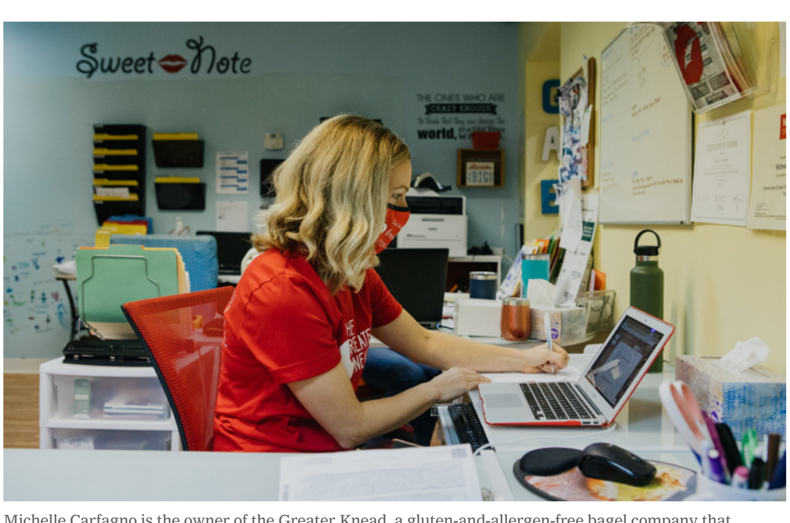

Michelle Carfagno is the owner of the Greater Knead, a gluten-and-allergen-free bagel company that switched to an online sales model during the pandemic. Michelle Gustafson for The New York Times

The Greater Knead, a gluten-and-allergen-free bagel company in Bensalem, Pa., also was poised for a good year in 2020. The eight-year-old company, whose bagels are sold in bagel shops and supermarkets, had finally turned a profit, with just under $1 million in revenue. In February, sales were up 20 percent and the business was on track to have its best year yet, said the owner, Michelle Carfagno.

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But in early March, sales dropped steeply, as stores closed and customers stayed home. Supermarkets began running out of the Greater Knead's bagels and they didn't reorder, focused instead on stocking items like toilet paper and cleaning supplies. By May, revenue was down 60 percent. A small bright spot, however, was web sales, which were slowly increasing. Ms. Carfagno decided to capitalize on that and invested in social media advertising, something she had not done before, to drive traffic to her website. Now that people were staying home, they were seeking the Greater Knead's bagels online, and she wanted to make sure they could find them.

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"Before the pandemic people learned of us through word of mouth, store signage and in-store demonstrations," she said. "All of that was gone."

From left, the bakers Jim Sinibaldi, Nate Walton, and Alexander Townsend making cinnamon raisin bagels in an industrial kitchen at the Greater Knead. Michelle Gustafson for The New York Times

Soon after, Ms. Carfagno decided to work with a West Coast fulfillment center, enabling her to ship nationwide, something she had not considered before because of the high cost of shipping frozen bagels. It turned out to be a smart move: By September, web sales were up 250 percent. "We now see this as an opportunity to have a direct relationship with customers," Ms. Carfagno said.

She abandoned a planned move this fall to a bigger facility and decided instead to change the physical layout of her manufacturing space to increase efficiency. She also invested in automation, purchasing a state-of-the-art bagel-making machine as well as a packaging machine, which will vacuum seal the bagels, eliminating the need to freeze them for shipping. Ms. Carfagno projects that revenue for 2020 will be about 5 percent higher than last year. It's not the 20 to 30 percent she had expected, but the changes she has made — and will keep making — have helped her in ways she hadn't anticipated.

"We are so much more efficient now," she said. "And because we have consumers buying directly from us, it's much lower cost to launch a new product. We are looking at other things we could be selling, possibly a whole line of gluten-free baked goods."

Ms. Carfagno projects that revenue for 2020 from the Greater Knead will be about 5 percent higher than last year. Michelle Gustafson for The New York Times

Anthony Casalena, founder and chief executive of Squarespace, a website building and hosting company with more than 2.5 million customers, the majority of which are small businesses, sees an increasing willingness among these businesses to try new strategies, including fostering a more direct online relationship with their customers. "Companies creating new websites on our platform, and email marketing campaigns, are at an all-time high," he said. "And e-commerce sales on our platform have doubled."

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Before the pandemic, Seattle-based Snapbar, which created custom selfie stations and photo booths for events, was the kind of company that did business over the phone and in person. Its staff members in five cities would set up "luxe photo booths" at events like weddings and charitable galas. Snapbar also shipped "selfie stands" — easy-to-set-up photo booths that use an LED light and an iPad — for use at sporting and corporate events. At the start of 2020, the eight-year-old company was on track to more than double its 2019 revenue, which was $3.2 million.

Joe Eitzen, left, and his brother, Sam, are the co-founders of Snapbar, a Seattle-based company that created custom selfie stations and photo booths for events.

But by mid-March, Snapbar had lost all its business, and operating remotely was not an option. During a night of panicked insomnia, Sam Eitzen, its co-founder and chief executive, came up with 50 ideas for "pivots, changes, adaptations and reinventions." Eventually he and his brother and co-founder, Joe Eitzen, settled on Keep Your City Smiling, a direct-to-consumer site that would sell gift boxes filled with items from local small businesses in a particular city. "We didn't rebrand ourselves or shut down Snapbar, we just built something new," Sam Eitzen said.

During the pandemic the Eitzens founded Keep Your City Smiling, a direct-to-consumer site that sells gift boxes filled with items from local small businesses.

In its first three months, Keep Your City Smiling earned $500,000 in revenue, with 50 to 60 percent going back to the small businesses whose products were included in each box. But as the pandemic wore on, orders plummeted and Mr. Eitzen shifted its focus again, this time from consumer to corporate gift giving. That enabled Keep Your City Smiling to stay afloat, but it did not generate enough revenue to sustain Snapbar.

During this period, however, Snapbar's director of engineering had been intensely working on developing a product he believed could save the company: a virtual photo booth. "Most corporate virtual events feel like lectures or webinars," Sam Eitzen said. "We create a custom-designed and branded photo booth that lives in a link on the event's site. So an attendee is still consuming information, but they can also engage in another way, taking a selfie at the event and posting it on Instagram."

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This pivot transformed Snapbar into a tech company. The virtual photo booth is now the fastest-growing product it has ever had. And revenue — after the company nearly went under — is projected to be $2 million this year.

"My brother and I really struggled with this big question," Sam Eitzen said. "After eight years of working so hard, is it better for us to put all of our savings on the line again? Or do we cut our losses and let the team go? But we really love the people we work with. And that's why we stayed in it."

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