

COGS 2009

Challenges and Opportunities
for Growth and Sustainability
in the West Midlands



The financial and economic crises did not originate in the small business sector. Yet across the world, the small business sector has been affected by a fall in consumer demand, increased difficulties in accessing finance and uncertainty about the full extent of the crisis. In response, this research suggests that growth-oriented small enterprises have tightened up their business models, reduced costs, bootstrapped their operations and chosen caution over rapid and unsustainable growth.

The Challenges and Opportunities for Growth and Sustainability (COGS) was established in 2008 to study growth-oriented enterprise founders and how their businesses are affected by changes in economic conditions. It is a UK wide survey of 2,120 founders of businesses between 2 and 10 years old with turnovers of above £250,000. The ages of the businesses surveyed captures the period during which growth is most rapid, while the lower turnover threshold captures those companies that have already embarked on a sustainable growth path. The survey was conducted between mid-August and early October 2009.

Advantage West Midlands is committed to increasing the Gross Value Added of the region by stimulating growth in the entrepreneurial and small business sector. In this capacity it boosted the COGS survey to include 500 founders across the region in the 2008 and 2009 surveys. Just over 50% of the sample in the region were individuals who participated in the survey in 2008, representing a panel element to the study.

The immediate casualty of the recession on small businesses appears to be turnovers which have, across the UK, reduced by 19% between 2008 and 2009. Against this backdrop, the West Midlands has fared relatively well, with a fall in turnover of its entrepreneurial businesses of just 14%¹.

Some summary facts for the West Midlands

- It took £127,000 on average to start a growth oriented business in the West Midlands region of which founders had put in 69%, or £87,690, themselves.
- There are no significant differences by gender or ethnicity in terms of the amounts entrepreneurs invested, their growth expectations, turnover per start-up investment or turnover per employee.
- On average, founders of growth businesses have experienced 154% growth since start-up and 22% say that their businesses have grown by more than they expected.
- 74% are classified as “innovative” businesses² which is very similar to the UK figure of 73%.

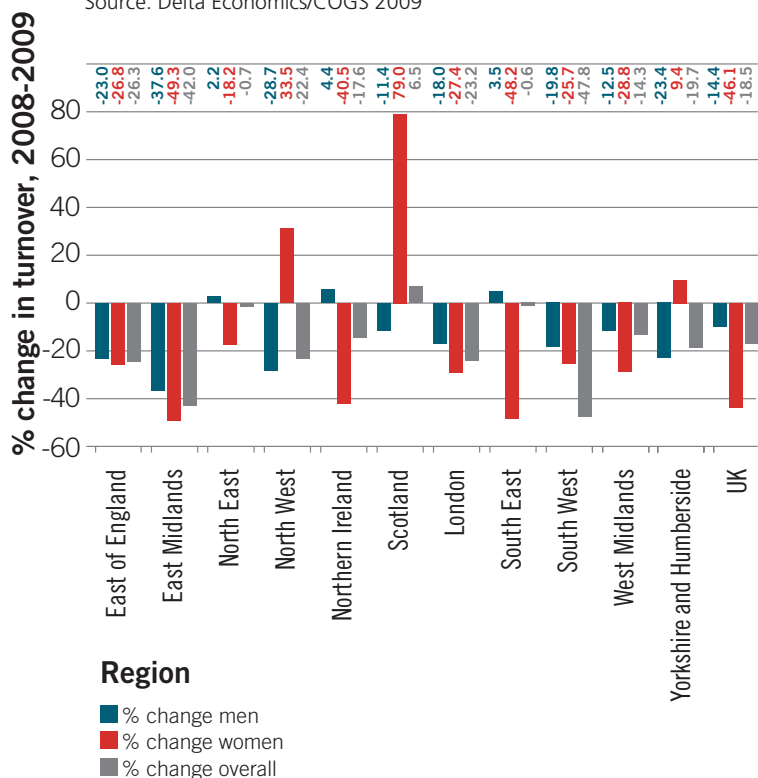
Impact on turnovers

The biggest casualty of the last 12 months has been business turnovers. The fact that businesses have struggled has been well-trailed in the press, but COGS can quantify the scale of the impact on the country's smallest growth-oriented businesses. This is illustrated in Figure 1.

Turnovers in the West Midlands have not been affected as much as in the whole of the UK. Women founders have seen their turnovers reduce by nearly 29% in the region but the figure for the whole UK is 46%, while for men the comparative figures are a fall of 12% and a fall of 14%. Behind this are a number of additional facts:

Figure 1:
Change in turnover by UK region, 2008-2009

Source: Delta Economics/COGS 2009



1. The companies that participated in the survey in 2008 and who were re-surveyed in 2009 had not had as substantial drops in turnover as the sample over all, at just 8%, suggesting that they might be more established and have more sustainable business models than the newer companies in the survey.
2. This is corroborated by the fact that younger firms in the region (aged 2-5 years) saw 18% drops in their turnovers compared to 11% amongst those companies who were older (aged 6-10 years).
3. The average company in the West Midlands created a median of 7 jobs in 2009 compared to 6 in the UK, with 2 created at start up (UK, also 2), expects to create an extra 10 jobs in the next three years (UK, also 10) and the actual growth in jobs from 2008 to 2009 has been two thirds, which is the same as for the whole of the UK.
4. Within the West Midlands, the median costs as a percentage of turnover are 70%, which is identical to the whole of the UK.

¹ Although this result is not statistically significant it does suggest that turnover performance has fared relatively well in comparison to the rest of the UK

² This is derived using filter questions based on the OECD 2005 definition of innovative (“Oslo Manual” <http://www.oecd.org/dataoecd/35/61/2367580.pdf>)

Use of business support

With turnovers squeezed and pressure on entrepreneurs to maintain their market presence, business support becomes all-important. COGS asks which forms of support in the public and private sector have been used when the founder first started up the business and now. It also asks about the usefulness of that support. The results are presented in Figure 2.

There are several interesting points to pull out of this table:

1. There are a variety of types of advisors used at the start up phase, stressing the importance of having a wide choice available. 22.2% of founders in the West Midlands used Government business support (mostly Business Link) when they started their company. This is a similar figure to the UK as a whole (22.6%). For those finding government business support useful, the figure for the West Midlands is 38.5% compared to 43.1% for the whole of the UK.
2. There appears to be greater use of broad “networking” type support as the business gets older. For example, the percentage finding support useful from another entrepreneur and from entrepreneur support networks is higher for those using it now than for those using it when they started.
3. Support from professional advisers such as lawyers, consultants and accountants increases significantly the older the company is. This is likely to be because legal and accounting procedures are more complex as the business grows.
4. In the West Midlands, a larger percentage of founders find the support they get from a mentor, entrepreneur support network, the bank and work colleagues “useful” or “very useful” than the rest of the UK, and find such support from another entrepreneur, potential investor, support professional, family member and government business support less useful than the rest of the UK.

Figure 2:
Use and usefulness of business support in the West Midlands

Source: Delta Economics/COGS 2009

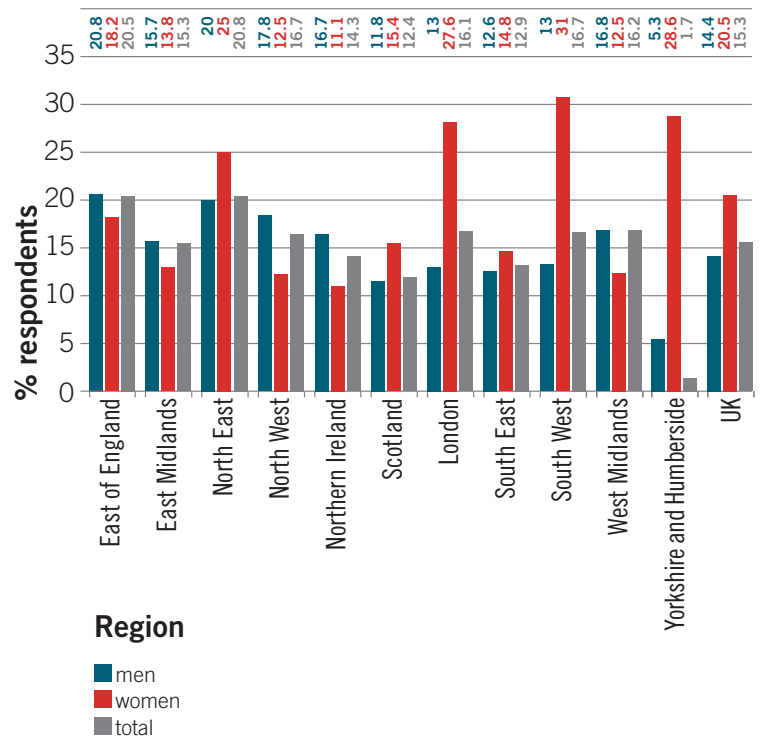
	Support used at start		Support used now		% finding support useful	
	UK	WM	UK	WM	UK	WM
Friend	30.1	25.6	29.6	24.8	60.1	61.3
Mentor	12.2	9.4	14.4	9.4	78.3	80.0
Another entrepreneur	22.2	20.5	25.3	25.6	73.9	66.7
Entrepreneur support network	8.7	7.8	14.2	12.8	49.6	55.5
Bank	31.4	31.6	27.2	27.4	43.4	47.3
Potential investor	8.1	10.3	8.5	7.6	51.8	31.7
Work colleagues	26.2	25.6	42.4	44.1	51.9	55.2
Support professional	47.2	47.0	64.9	65.3	64.8	44.8
Family member	29.2	22.4	25.5	25.0	69.7	60.0
Government business support	22.6	22.2	22.4	23.1	43.1	38.5

Access to Finance

Some 16.2% of founders in the West Midlands region are looking for finance at the moment compared to 15.3% in the UK as a whole. This is illustrated in Figure 3.

Figure 3:
Those looking for finance now by UK region

Source: Delta Economics/COGS 2009



In the UK as a whole, there are more women looking for finance than men (21% compared to 14%) but this is not the case in the West Midlands where men are slightly more likely to be looking for finance (17%) and women substantially less likely to be looking for finance (13%) than for the whole of the UK.

The challenges ahead

Figure 4 shows where the main challenges for founders in the West Midlands are at the moment in comparison to 2008 responses.

The challenges cited by founders have not changed substantially from 2008 to 2009. Cashflow, access to finance, the assessment of the macroeconomic climate, competition from foreign competitors and your credit profile are all at similar levels. However, issues which are of greater concern are competition from UK competitors and general difficulties in their sector. Some issues are of less concern: team building, entering international markets and maintaining profitability.

Additional evidence from COGS:

1. Entrepreneurs in the West Midlands are least likely to be looking for money to fund working capital and the most likely to be looking for finance to pay off debts, however, the most common reason entrepreneurs cite for looking for finance is growth (78.9%). Qualitative research suggests that the finance environment has been tight and that companies with higher risk profiles are likely to experience less favourable terms from their banks. However, this situation is reported to have eased in the last quarter with marked increases in numbers coming forward for growth and investment finance, although the risk criteria still apply.
2. Bank overdrafts and loans are the most common forms of finance used by entrepreneurs.
3. 77% say they are not looking for finance because they have no need for it.
4. 49% say that they have put the money into the business from their own resources.

Figure 4:
The challenges faced by businesses in the West Midlands

Source: Delta Economics/COGS 2009

■ WM 2008
■ WM 2009

Policy implications

There are two key implications of this analysis for policy towards growth companies:

1. As companies become more established, the founders make more use of support from informal sources (other entrepreneurs, networks, colleagues and family). They also make more use of the services of professional advisers. This suggests that providing routes to private sources of advice as well to peer-to-peer networking would be helpful for this group of entrepreneurs as well as for start ups. In terms of business support, this suggests that closer partnerships between public and private sector delivery, perhaps made or facilitated through a single signposting resource could yield benefits in terms of the sustainability of the business stock in the West Midlands.
2. The responses to finance questions suggest a degree of caution amongst the region's entrepreneurial base. This has been reflected in interviews which suggest that one outcome of the downturn has been to compel entrepreneurs to make their business models sustainable. As such, this is no bad thing but there will be some work to do as the economy starts to pick up again in demonstrating that accessing finance is a route to growth and not just a survival mechanism. In other words, the entrepreneurial mindset has started to focus on people and networks as well as cost management and cash flow. In terms of business support this means that delivery agents should take a lead from the banks in facilitating access to social, human and network capital as a key part of business development.

