

COGS 2009

Challenges and Opportunities
for Growth and Sustainability
in the North West



Northwest
REGIONAL DEVELOPMENT AGENCY

delta

The financial and economic crises did not originate in the entrepreneurial or small business sector yet across the world, these companies, often with less than 50 employees have been affected by a fall in consumer demand, increased difficulties in accessing finance and uncertainty about the full extent of the crisis. In response, research conducted as part of the UK-wide Challenges and Opportunities for Growth and Sustainability (COGS) research suggests that they have tightened up their business models, reduced costs, bootstrapped their operations and chosen caution over rapid and unsustainable growth¹.

The immediate casualty of the recession on young, entrepreneurial businesses appears to be on average turnovers which have, across the UK, reduced by 18.5% between 2008 and 2009. Against this backdrop, the North West has fared slightly, although not significantly worse, with a fall in turnover of its entrepreneurial businesses of 22.4% on average between 2008 and 2009. However, women's business turnovers have actually increased over the same period by 33% which tentatively suggests a very positive trend for the region's female business founders.

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 between £250,000 and £20m. 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 path². The survey was conducted between mid-August and early October 2009.

The Northwest Regional Development Agency (NWRDA) is committed to increasing the Gross Value Added of the region by stimulating growth through enterprise. In this capacity it boosted the COGS survey to include 500 founders across the region in the 2009 survey.

1 This is no bad thing as it suggests long term viability, as argued by Harding, R (2009): "The Business of Recovery" HSBC Commercial Banking, <http://network.hsbc.co.uk/blog-entry/Hsbc-Experts-Blog/Video-Business-Recovery/1700003867>

2 The survey does not intend to replicate the business base of the UK or the North West economy. Rather, it is a survey of "survivor" businesses: ones which have got through the initial two years of operation, have generated substantial turnover and can therefore be classified as growth or sustainability-oriented. This is a much smaller proportion of total business stock and COGS only surveys founders. These are the companies that are beyond the earliest stage of start-up activity but may not yet have reached the status of small or even medium sized companies. They represent the potential growth drivers of the country therefore. Only 9.2% of the companies in the total survey have experienced less than 100% growth from when they started to now. Over 25% of the whole sample classify as high growth companies with over 500% growth in turnover from when they started to now. Further details on this will be included in the full report.

Some summary facts for the North West

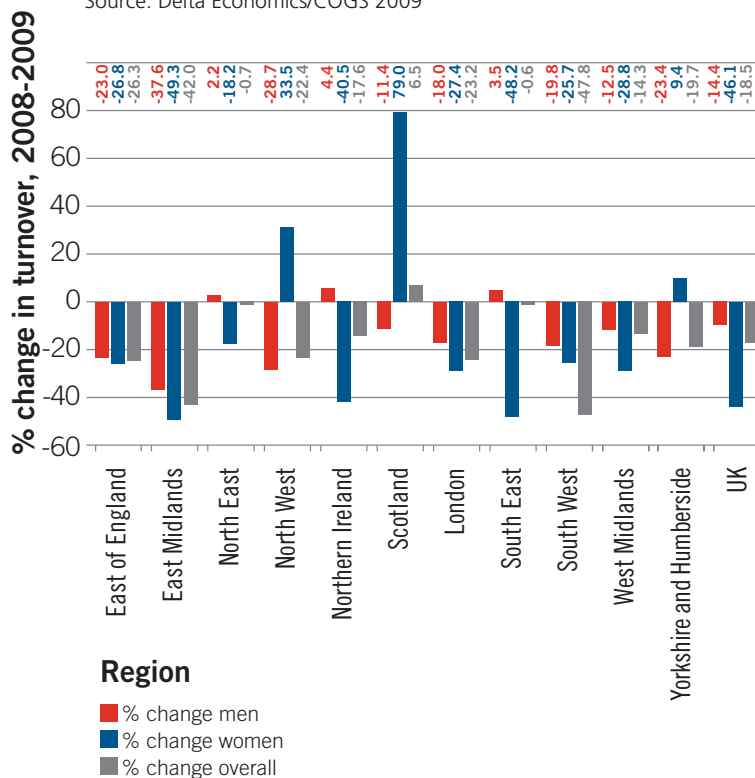
- In 2009 founders on average needed £111,606 in start up finance for their business of which they had put in 70% or £78,124 themselves.
- Men's businesses have, on average, created 11 jobs since they started while women's have, on average, created 15.
- Jobs created by male businesses since they started grew on average by 49% while women's business job creation grew by 53%.
- On average, founders of growth businesses have experienced 158% growth since start-up³. Similarly male business turnover since start up has grown by 57% while women's has grown by 62%. While these results are not statistically significant, they do suggest that women's businesses in the region are creating substantial value.
- 23% of men and 31% of women say their business has grown faster than they expected since they started.

Impact on turnovers

Turnovers in the past 12 months across the UK have fallen. This is illustrated in Figure 1.

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

Source: Delta Economics/COGS 2009



3 COGS asks the founders their turnover after their first year of trading and their turnover now and calculates the difference as a percentage. It is important to distinguish between "sustainable" growth (i.e. mean growth over the whole time period irrespective of age of firm, and rapid growth which is for firms of 2-5 years 100% or over (assuming a 20% year-on-year growth) and for firms of 6-10 years, 500% or over. For the North West, 52% of companies 2-5 years and 36% of companies 6-10 years fall into the rapid growth category

Two other features of the data are worth highlighting:

1. Turnovers in the North West have fallen by 22.4% which is above the UK average, although women founders have seen their turnovers increase by 33.5% in the region. In comparison, women's businesses in the whole of the UK experienced reduced turnovers of 46.1%.
2. Younger companies (2-5 years) grew by 3.5% in terms of turnover while older companies (6-10 years) shrank by 30%.

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 a few interesting points to pull out of this table:

1. Companies in the NW use all forms of business support slightly less than for the whole of the UK at start up. This pattern continues once established and the percentage finding support useful is also below UK averages except for family member and government business support.
2. Usage of most forms of business support drops as the business becomes more established in the region. There are exceptions to this:
 - a. Support from business professionals such as lawyers, accountants and consultants increases significantly reflecting greater regulatory complexity as the business becomes more established.
 - b. "Informal" advice from networks and work colleagues increases slightly.
3. Mentoring support, support from other entrepreneurs and support from family are seen to be the most useful forms of advice for entrepreneurs in the region.

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

Source: Delta Economics/COGS 2009

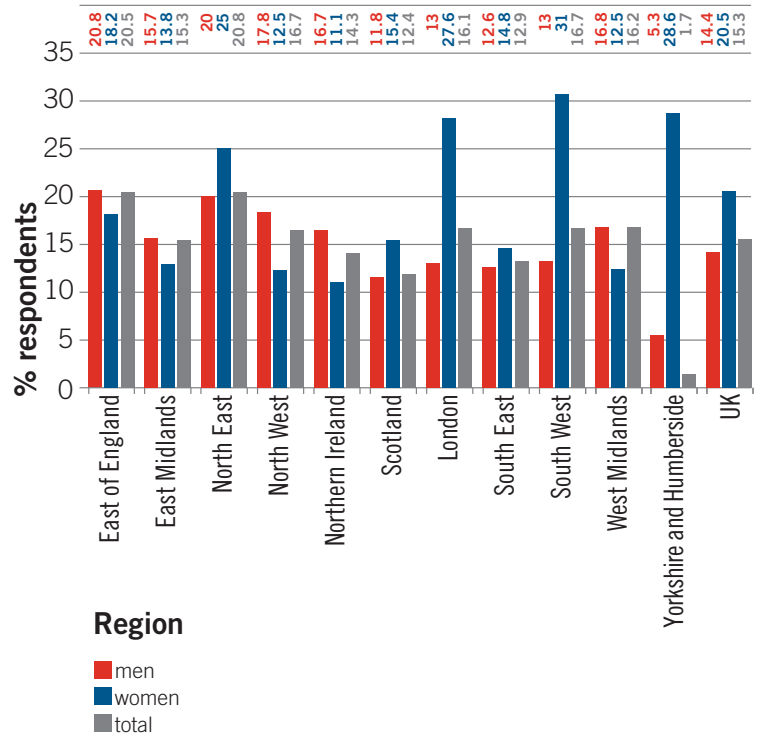
	Support used at start		Support used now		% finding support useful	
	UK	NW	UK	NW	UK	NW
Support professional	47.2	45.3	64.9	60.6	64.8	63.4
Bank	31.4	30.2	27.2	25.0	43.4	39.7
Friend	29.2	27.0	29.6	19.2	60.1	54.8
Family member	26.2	28.1	25.5	21.6	69.7	73.4
Work colleagues	22.6	23.6	42.4	35.0	51.9	47.5
Government business support including Business Link	22.2	22.6	22.4	19.2	43.1	46.5
Another entrepreneur	8.7	21.8	25.3	19.2	73.9	72.7
Mentor	12.2	9.8	14.4	9.8	78.3	75.5
Entrepreneur support network	8.7	8.5	14.2	12.4	49.6	48.9
Potential investor	8.1	7.9	8.5	4.8	51.8	41.1

Access to Finance

Nearly 16.7% of founders in the 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 North West 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.

In the UK as a whole, there are more women looking for finance than men (20.5% compared to 14.4%). The reverse is the case in the North West where 17.8% of men and 12.5% of women are looking for finance.

Additional facts for the North West from within the full COGS data set suggest that:

1. 84% of those entrepreneurs looking for finance in the North West are looking for growth finance.
2. The North West has the lowest percentage of those looking for finance to consolidate debt of any region at 16%.
3. Bank overdrafts and loans are the most common forms of finance sought by entrepreneurs.
4. 81% say they are not looking for finance because they have no need for it.
5. Nearly 44% of those not needing finance say that they are not looking for money because they have supported the business through the downturn from their own resources.

The challenges ahead

Figure 4 shows the main challenges for founders in the North West by gender. Women are less concerned about building teams than men, less concerned about overseas competitors, their own credit profile and significantly less likely to see access to finance as a challenge over the next 12 months. However, they are more concerned about their profitability and UK competition than their male counterparts.

Figure 4:
The challenges faced at present by businesses in the North West

Source: Delta Economics/COGS 2009

■ Men
■ Women
■ Total

Policy implications

There many implications of the analysis but two highlights with policy implications might be:

1. The economic climate has taken its toll on the region's entrepreneurs but they are anticipating growth over the next few years irrespective of gender. Interestingly, however, it is the older entrepreneurial businesses that have been hit especially hard and the role of advice in helping them through could be critical. The evidence thus far suggests that the use of support, including public sector support, drops significantly as the business gets older. Policy should focus on retaining businesses through the growth stages in order to limit the impact of future recessions on businesses and, critically, to fuel the latent growth in the region.
2. The responses to finance questions suggest a degree of caution amongst the region's entrepreneurial base which is not reflected in the numbers of founders who cite finance as one of their key challenges for the next 12 months. The fact that there is a big gap between those saying it is an issue and those actually attempting to access finance suggests that entrepreneurs may not be looking for money because they are wary. This has been reflected in supporting interviews in the North West 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.

