

COGS 2009

Challenges and Opportunities for Growth and Sustainability in the North East



Regional Development
Agency

delta

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 they have tightened up their business models, reduced costs, bootstrapped their operations and chosen caution over rapid and unsustainable growth.

The immediate casualty of the recession on small businesses appears to be turnovers which have, across the UK, reduced by 18.5% between 2008 and 2009. Against this backdrop, the North East has fared well, with a fall in turnover of its entrepreneurial businesses of just 0.7%.

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.

One North East (ONE) 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 300 founders across the region in the 2008 and the 2009 surveys. 72% of the sample in the region were individuals who participated in the survey in 2008 representing a panel element to the study.

Some summary facts for the North East

- It took £187,893 on average to start a growth oriented business in the region, of which founders had put in 64% or £120,251 themselves.
- Male and female businesses do not differ significantly in terms of their turnover growth expectations.
- On average, founders of growth businesses have experienced 157% growth since start-up and 23% say that their businesses have grown by more than they expected.

Impact on turnovers

The biggest casualty of the last 12 months in the UK as a whole 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 businesses. This is illustrated in Figure 1.

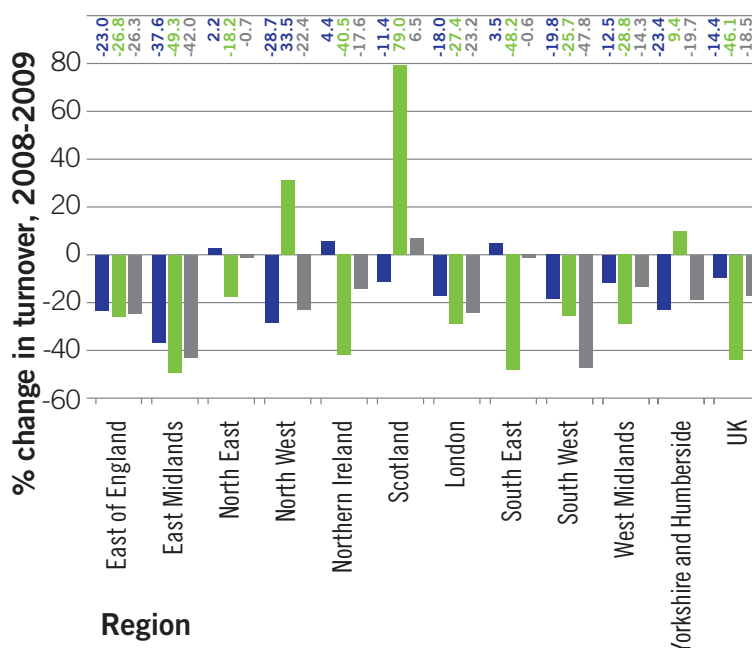
Turnovers in the North East have barely been affected overall and, although women founders have seen their turnovers reduce by nearly 18% in the region the figure for the whole UK is 46%. In addition, there are a number of additional facts from within the data:

1. The companies that participated in the survey in 2009 did not have significantly different turnovers on average to 2008 suggesting that they might be more established and have more sustainable business models than the newer companies in the survey where turnovers were lower than the UK average.
2. This is corroborated by the fact that younger firms in the region (aged 2-5 years) saw 24% drops in their turnovers on average compared to average growth amongst those companies who were older (aged 6-10 years) of 15.1%.

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

Source: Delta Economics/COGS 2009

■ % change men
■ % change women
■ % change overall



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. 35.9% of companies use government business support (Business Link) when they start up and this number does not drop significantly after the business has been established for a period of time. These levels are much higher than the 22.6% at start-up in the UK as a whole and also much higher than the 22.4% for the UK once businesses are established.
2. There appears to be greater use of broad “networking” type support as the business gets older. For example, the use of support from another entrepreneur and from 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. Generally, founders find the support they get most “useful” or “very useful” from mentors or other entrepreneurs, support professionals and family members.

Access to Finance

Nearly 20.8% 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

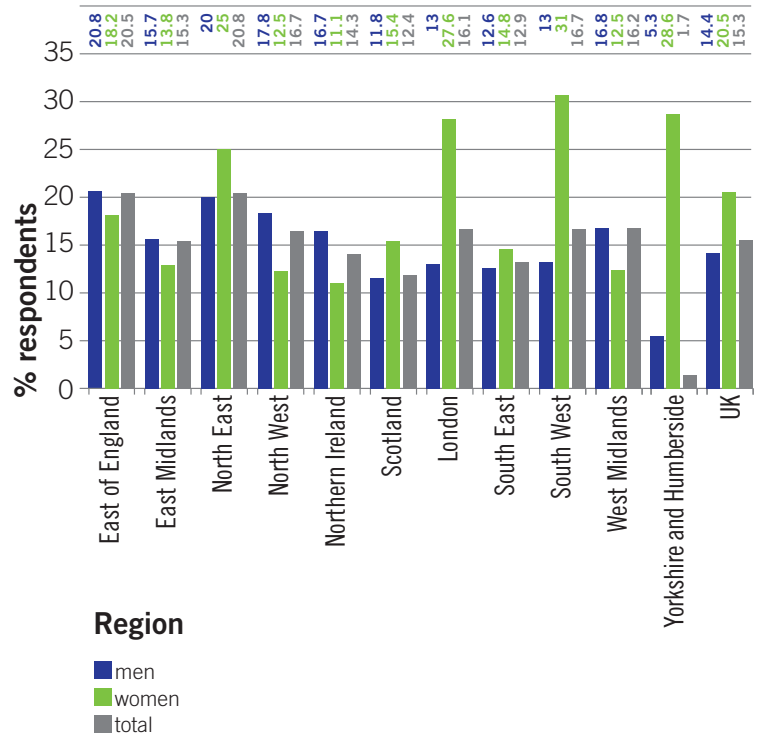


Figure 2:
Use and usefulness of business support in the West Midlands

Source: Delta Economics/COGS 2009

	Support used at start		Support used now		% finding support useful	
	UK	NE	UK	NE	UK	NE
Friend	30.1	25.4	29.6	23.6	60.1	48.7
Mentor	12.2	5.0	14.4	13.3	78.3	73.4
Another entrepreneur	22.2	17.7	25.3	26.3	73.9	69.8
Entrepreneur support network	8.7	9.0	14.2	20.0	49.6	46.5
Bank	31.4	33.0	27.2	33.4	43.4	47.6
Potential investor	8.1	7.0	8.5	8.7	51.8	45.4
Work colleagues	26.2	25.8	42.4	47.5	51.9	24.6
Support professional	47.2	46.8	64.9	70.9	64.8	65.3
Family member	29.2	27.2	25.5	26.3	69.7	62.1
Government business support	22.6	35.9	22.4	34.6	43.1	40.7

In the UK as a whole, there are more women looking for finance than men (20.5% compared to 14.4%). This is more marked in the North East where 25% of women are looking for finance compared to 20% of men.

Additional COGS background information to the data in Figure 3 suggests that:

1. 81% of entrepreneurs looking for finance in the North East are looking for growth finance and the North East has the lowest percentage of those looking for finance to consolidate debt of any region at 18%.
2. Bank overdrafts and loans are the most common forms of finance used by entrepreneurs in the North East and also for the whole of the UK.
3. 83% of entrepreneurs in the North East say they are not looking for finance because they have no need for it.
4. 50% of entrepreneurs in the North East say that they have put the money into the business from their own resources.

The challenges ahead

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

It appears that entrepreneurs in the region are marginally more concerned about the economic climate in 2009 compared to 2008 and more concerned about access to finance, UK competitors and sectoral difficulties. They are less concerned in 2009 than 2008 about cash flow, building a team and international markets. But the main challenges noted in 2009 are the economy, profitability, UK competitors and sectoral difficulties.

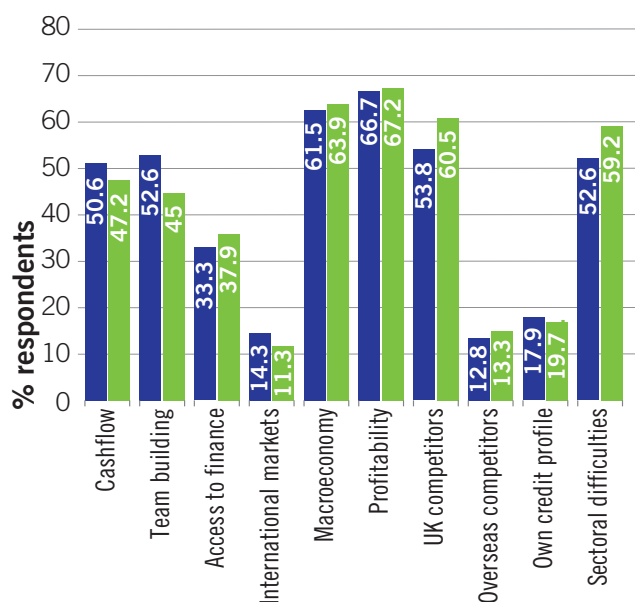
Policy implications

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.
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 East 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.

Figure 4:
The challenges faced by entrepreneurs in the North East, 2008 and 2009 compared
 Source: Delta Economics/COGS 2009

■ 2008
 ■ 2009



Challenges at present