Quarterly Survey of Small Business in Britain

Special topic: resilience and recovery

2013
Acknowledgements

The Open University Business School enterprise research team would like to thank the many SME owners and managers who invested time and effort in completing our questionnaire. Our aim in this report is to represent their views and experiences as accurately as possible. In doing so, we hope to provide a useful, timely and objective source of evidence about small and medium-sized firms that can be used to inform future policy and practice. We are also pleased to acknowledge Barclays Bank, ACCA (Association of Chartered Certified Accountants), and the FLA (Finance and Leasing Association) for providing sponsorship and organisational support. It is important to note that the Quarterly Survey is editorially independent and any opinions expressed may not necessarily reflect those of The Open University or other organisations.

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Would your organisation like to propose a special topic or commission a custom research report on a topic related to SMEs, entrepreneurship or innovation? The Quarterly Survey offers a number of cost-effective research opportunities. For example, a recent Quarterly Survey report (Q1, 2012) examined issues related to illness, retirement, and succession planning. It revealed that half of the UK’s small and medium-sized businesses had changed their plans in response to current economic problems. Media coverage focused on evidence that many business owners were delaying their retirement beyond the age of 65. Our findings were also featured on BBC Breakfast television as part of a studio interview:

**FINANCIAL TIMES**

‘Business owners delay retirement’ (Hugo Greenhalgh, 8th June 2012)

**The Daily Telegraph**

‘Tough trading hits entrepreneurs’ retirement plans’ (James Hurley, 16th June 2012)

For an informal discussion, please contact the Editor at: richard.blundel@open.ac.uk

Next quarter’s topic: **networking trends**
Summary

SMEs and the UK economy

Our analysis of a number of prominent SME research studies and UK macroeconomic data reveals that these varied sources are presenting broadly similar messages, with output continuing to grow. There are also increasing signs of optimism regarding future growth prospects, but with some sectoral and regional variation (e.g. more confidence being expressed by higher order services businesses and by firms located in London and the Eastern regions of England). However, it should also be borne in mind that summary statistics of this kind necessarily mask large differences in the experiences of individual firms.

Resilience and recovery

This quarter, we examine the way that SMEs deal with external shocks of various kinds, including the recent economic downturn, infrastructure failures, social unrest and extreme weather events. We ask how business owners and managers prepare themselves for these inherently uncertain events and how they deal with immediate impact on the business when it faced with an external crisis. Our research also explores the longer term effects of exposure to adverse conditions, to see whether these experiences tend to undermine businesses, or help to make them more resilient over time. The key survey findings are accompanied by further commentary and a set of case studies:

- Nearly three quarters (73%) of respondents identified at least one external event that had posed a ‘real threat’ to their business over the last five years. This finding, which is based on surviving businesses, underlines the challenges experienced by many small and medium-sized firms.
- Almost half of the SME owners and managers surveyed (44%) thought that the credit crunch had posed a real threat to their business; the impact of the economic crisis was also reflected in the same proportion (44%) that identified unstable market conditions.
- Extreme weather conditions posed a real threat to more than a quarter of these businesses in this survey (27%). This is a particularly interesting result given the continuing debate over public policies for climate change mitigation and adaptation, and the role that SMEs might play in these developments.
- Some 40% of respondents thought that their business was stronger as a result of their exposure to these external events, but for more than a quarter of respondents (27%), the business had been weakened as a consequence. Almost one third of businesses (32%) thought that there had been no real change.
- The most commonly identified changes that businesses were making in order to become more resilient were to diversify into new market(s) and/or business activities (37%), closely followed by making changes to the supply chain and/or or forming new business partnerships (30%), and reducing the number of permanent staff employed (28%).
- Respondents thought that the most important factors in becoming more resilient were: having people with the skills, initiative and authority to respond rapidly to unfolding events; maintaining relatively low fixed costs and/or very little debt; and being able to identify potential risks in advance.
The Quarterly Survey of Small Business in Britain
2013 Quarter 4
Special topic: Resilience and recovery

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SMEs and the UK economy

This section reviews the current state of the UK economy and the performance of its small and medium-sized firm population over the period covered by this report. It is based on our analysis of a number of prominent SME research studies and UK macroeconomic data. These varied sources present broadly similar messages, with output continuing to grow. There are also increasing signs of optimism regarding future growth prospects, but with some sectoral and regional variation (e.g. more confidence being expressed by higher order services businesses and by firms located in London and the Eastern regions of England). It should also be borne in mind that summary statistics of this kind necessarily mask large differences in the experiences of individual firms.

The UK economy and SME performance

Our review begins with a comparison between GDP figures, which provide an indicator of overall economic performance, and recent data from the Barclays Small Business Activity (SBA) Index. The SBA data, which is derived from the banking activity of over 200,000 small firms (Chart 1) has fluctuated since early 2012 while the UK’s GDP growth rate has remained relatively stable over the same period, until a sharp year on year rise in the second quarter of 2013, which has continued into Q3. Between the second and third quarters of 2013 the SBA rose from -1 to +4, continuing its rise from -10 in Q1, whilst GDP rose from 0% to +1.5% between Quarter 3 2012 and Quarter 3 2013.1

The Barclays Stock and Activity Index (Chart 2) estimates the number of ‘mainstream’ businesses, based on the number of business accounts held with them and an estimate of their market share. These figures suggest a continuation of the unbroken trend for net increase in the business stock in England and Wales over the past five years. However, the rate of new business starts has fallen to its lowest level since Q4 2009, whilst the rate of closures has increased to its highest level since Q1 2012, resulting in the lowest net increase of business stock of just 1,100 businesses since Q1 2009.

The latest ONS labour market statistics, published November 13th 2013, point to a return to growth in self-employment, after the previous quarter’s net decline, with a seasonally adjusted net increase of 15,000 between July and September resulting in an overall figure of 4.2 million in self-employment. There was also a net increase of employees in this period, pointing to the further growth of existing businesses.2

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Chart 1: Barclays Small Business Activity Index versus GDP (latest quarter on corresponding previous quarter)

![Chart 1: Barclays Small Business Activity Index versus GDP](image)

Chart 2: Mainstream businesses in England and Wales, starts and closures and net change (thousands), four quarter moving averages. Source: Business Economics, Barclays

![Chart 2: Mainstream businesses in England and Wales](image)
Review of other SME survey findings

The **Federation of Small Business ‘Voice of Small Business Index’**³ for the fourth quarter of 2013 reported that: “The optimistic trend … continued this quarter, as the measure of small business confidence continued to post strong year-on-year increases. This leaves confidence levels in positive territory for a full year now, giving economic growth solid foundations moving into 2014.” It indicates that confidence was +21.6%, the second highest level recorded, following +33.5% for the previous quarter. Confidence is rising in most sectors and all regions, with confidence greatest in the Eastern regions, particularly the East Midlands and North East. Financial and business services and technology firms continue to exhibiting most confidence.

Growth intention for the next 12 months continued to rise, up to 56.6% from 54.2% reported in Q3. More firms were hiring rather than firing staff for the second quarter in a row, and although down to +1% from the net positive balance of +3.7% reported in Q3, the prospects for Q1 2014 are for further improvement at +3.1%. Of more concern is the rise in skills requirements as a barrier to growth for one quarter of small businesses.

The most recent third quarter **BDRC Business Horizon Survey** of 500 UK businesses⁴, published in November, also highlight an overall improvement in business growth sentiment, with 67% indicating that they were either forging ahead or progressing steadily in Q3 compared to 54% in Q2. The biggest improvement in business growth sentiment was found in manufacturing where 69% of firms were either forging ahead or progressing steadily in Q3, compared to just 49% in Q2. This survey also revealed an emerging East-West divide in business growth sentiment, with the eastern regions of England all out performing those in the west of the UK in terms of improved growth sentiment in between Q2 and Q3.

The **CBI Quarterly Manufacturers Survey**⁵, published on 17th December 2013, provides a far more optimistic message than that reported in August: “The manufacturing sector is showing further signs of momentum with nearly all sectors reporting growth for a second month. Total order books and output growth have maintained the strong performance from last month, while export orders have also shown an encouraging upturn in fortunes … this survey provides further evidence that the recovery is becoming more embedded.” 35% of firms reported that total order books were above normal in December, with 23% indicating that they were below normal, producing a net balance of +12%, the highest balance since February 1995. Output growth remained at the highest positive balance of +29% for the second quarter in a row, since January 1995, whilst exports ‘being above normal’ exhibited a positive balance of +11%. There are also strong expectations for growth over the next quarter with a positive balance of +16% forecasting increased output.

The **English Business Survey (EBS)**⁶ is still classified as ‘experimental official statistics’ and advises against comparisons across months. The survey uses balance statistics but they are not directly comparable to other data reported in this section, or to findings of the other SME surveys reviewed in this section. For example, it is based on individual workplaces rather than firms (though as the EBS points out, 97% of all enterprises are based on a single workplace). In

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³ FSB Voice of Small Business Index, Q4 2013: [http://www.fsb.org.uk/small-business-index](http://www.fsb.org.uk/small-business-index)
addition, the EBS excludes the smallest non VAT and PAYE registered businesses, which may represent 55% of all SMEs.

The most recent EBS data for October 2013, published on 20th December, is positive with a net balance of +22% reporting higher output, slightly down on June’s +29%, but well up on the annual comparative figure of +10% for October 2012. There was also a positive balance of +8% of firms increasing their employment levels, down slightly on the +10% balance for the previous quarter, but twice the +4% balance recorded for the equivalent quarter in 2012. There was also a higher proportion of exporting businesses reporting increased exporting activity than a decline, resulting in a positive balance score +6% for Q3 2013 in England, considerably higher than for equivalent quarter in 2012 when the balance score was -1%. Forecasts for output and employment levels for Q4 2013 were also positive, with positive balance scores reported for England and all of its regions, with London reporting particularly strong forecasts along with the Midlands and North East, whilst the weakest forecasts were in the South West and rural North West. Overall, England reported a balance score of +25% for expected output, +10% for expected employment levels and the outlook for future exports were also positive with exporting businesses reporting a positive balance of +19%.

Conclusion

Our review of the most recently available UK SME data indicates increasing and sustained business confidence, matching the rise in national GDP and manifested in increased employment levels. This conclusion is underpinned by several indexes, which are registering at or close to their highest levels of confidence in recent years. Whilst there has been a slow-down in new business formation and increase in closures, the signs are that existing businesses are taking on more employees, contributing to a net rise in employment. There continue to be signs of positive output growth, with manufacturing firms showing positive growth and forecasts for the next quarter and with ‘higher order’ services such as finance, technology and business services all performing well. From a regional perspective, SMEs located in the Eastern regions of England, including the North East and East Midlands, appear more confident than those in the West and Scotland and Northern Ireland. The overall level of business confidence remains high for the next quarter, with signs from several sources of positive prospects for manufacturing businesses, both in terms of output and exports.

Another regular performance indicator, the British Chamber of Commerce (BCC) Quarterly Economic Survey’s quarterly report was not available at the time this report went to press.
Resilience and recovery

This quarter, we examine the way that SMEs deal with external shocks of various kinds, including the recent economic downturn, infrastructure failures, social unrest and extreme weather events. We ask how business owners and managers prepare themselves for these inherently uncertain events and how they deal with immediate impact on the business when it faced with an external crisis. Our research also explores the longer term effects of exposure to adverse conditions, to see whether these experiences tend to undermine businesses, or help to make them more resilient over time. The main telephone survey findings are complemented by additional qualitative findings obtained from our online survey respondents and six in-depth case studies.

Introduction

We are now more than five years on from the start of the global financial crisis. This period has also seen a number of other external disruptions, including several severe weather events (e.g. drought, storms and flooding), the August 2011 riots in London and some regional cities, and more localised emergencies, such as thefts and arson attacks on business premises. As many businesses begin to report signs of an upturn, it is timely to examine how resilient SMEs have been in the face of these events, how they have prepared and responded to them, and whether the experience of dealing with a severe disruption of this kind has increase their capacity to respond to similar events in the future. These issues have been examined through our main telephone survey and by drawing on the additional qualitative evidence obtained from our online survey respondents. This report also includes six case studies, which explore the issues in more depth as they affect particular businesses. In evaluating the responses, it is important to note that this is a survey of ‘survivors’ (i.e. SMEs that we are still actively trading at the time of the survey). This means that our data on questions about external events experienced over the last five years, for example, does not include responses from businesses that failed in this period.


8 We are grateful to the Finance and Leasing Association for supporting three additional case studies that have been included in this report. These cases have provided further insights into the relationship between business-level resilience and investments in relevant technologies and equipment.

9 Chart 2 (page 5) includes a useful indicator of changing rates of business closure. It remains difficult to estimate small business ‘failure’ rates for many reasons (e.g. the difficulty in distinguishing voluntary closures from business failures, a lack of evidence for smaller unincorporated business and the phenomenon of so-called ‘zombie firms’).

products or markets. As a consequence, businesses can be undermined by external shocks such as a disruption in the flow of materials from a key supplier (e.g. due to an extreme weather event) or as a result of the sudden failure of a major customer.

For this report, we also invited leading academics to write on the subject as part of a BBC/OU co-produced series, *Hidden Histories: Britain’s Oldest Family Businesses*, first broadcast on BBC Four television during January 2014. The series features three British family-owned businesses that have survived for more than 300 years and follows the current business owners as they discover more about the origins and development of their family businesses. The three featured businesses are:

- **RJ Balson & Son** – retail butcher, Bridport, Dorset.
- **RS Durnell & Sons** – construction, Brasted, Kent.
- **Toye, Kenning & Spencer** – Medal and regalia makers, Central Birmingham.


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**External events that have posed a ‘real threat’**

We asked respondents to look back over the last five years and identify specific types of external event that had posed a ‘real threat’ to their business. Almost three quarters (73%) of businesses identified at least one of these events, a figure that underlines the challenges facing small and medium-sized firms. Almost half of these SME owners and managers (44%) thought that the credit crunch had posed a real threat to their business. The impact of the economic crisis was also reflected in the same proportion (44%) that identified the closely related issue, ‘unstable market conditions’. Perhaps the most surprising finding was that extreme weather conditions posed a real threat to more than a quarter of these businesses (27%).

11 It is important to note that the question refers to a five-year period. Though there were some storms in parts of the country during the period of the survey, it was conducted prior to the long sequence of storms and flooding that disrupted many businesses over the Christmas and New Year holidays. The qualitative evidence on this topic (analysed below) includes many references to heavy snowfall that occurred earlier in 2013.

relatively low, though this may be due to some respondents combining this category with another (e.g. where extreme weather events such as storms and flooding disrupt electricity supplies). It is also likely that infrastructure-related problems are influenced by location, with businesses in remoter rural areas tending to be more vulnerable to intermittent disruptions and also more likely to have to wait longer for repairs.

Chart 3: ‘Looking back over the last five years, which of the following external events has posed a real threat to your business?’

<table>
<thead>
<tr>
<th>Event</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Credit Crunch</td>
<td>44%</td>
</tr>
<tr>
<td>Unstable Market Conditions</td>
<td>44%</td>
</tr>
<tr>
<td>Extreme Weather</td>
<td>27%</td>
</tr>
<tr>
<td>Supply Chain Disruption</td>
<td>13%</td>
</tr>
<tr>
<td>Unexpected Legislation or Industry...</td>
<td>13%</td>
</tr>
<tr>
<td>Infrastructure Failures</td>
<td>6%</td>
</tr>
<tr>
<td>Fires and Other Property Damage</td>
<td>4%</td>
</tr>
<tr>
<td>Riotsing or Social Disruption</td>
<td>2%</td>
</tr>
<tr>
<td>None of These</td>
<td>27%</td>
</tr>
</tbody>
</table>

We received a large number or comments from our online respondents in response to the question: ‘Please give an example, based on one of the events you have selected, to explain why it posed a threat to your business?’ The scale of these threats is difficult to measure in the abstract (e.g. were they relatively short-lived, reducing cashflow or profitability for a few months, or sufficiently severe to put the entire business in danger). However, the following examples illustrate some of the complex ways that they are experienced by SMEs; these accounts also reveal ways in which a sequence or combination of unrelated external events can undermine an otherwise healthy business:

‘A major fire destroyed our workshops at our main depot resulting in our not being able to carry out MOT and eventually giving up on an important section of the business. Electrical supply failures during the winters are frequent and sometime last for several hours resulting in loss of telephones, heating and equipment not working. Local Authority changes of policy have reduced our work and profitability resulting in down-sizing of staff and vehicles.’

‘Bad weather Jan 2013 meant we were unable to get about, if you are unable to visit customers, you are unable to make a sale, as we carry the stock on board our sales display vans, the end result is fewer sales.’

‘Heavy snowfall caused road closures preventing workforce attendance and receipt and despatch of food products to customers.’

‘Bad snow and a useless council who didn’t clear the roads. Just before Christmas – perfect timing!!’

‘Local flooding left 100mm of water throughout our warehouse and office and led to severe disruption to the local area for traffic and business.’

‘Working in the construction industry as an external trade, severe weather conditions stop work. This is nothing unusual but a sustained bad period of one month of poor temperatures/conditions significantly reduces our turnover for that month and has a knock on effect with cash flow.’
Unfortunately the overheads of the business remain the same, even when there are these poor conditions.'

‘Boiler failure in Dec 2007 led to us cancelling Xmas and New Year programme. Storm damage in July 2013 has caused a huge amount of assets having to be discarded - still waiting for insurance payout. Financial problems since late 2007 continued through the recession. [There is also] pressure from banks to reduce overdraft.’

‘During the London riots there was looting within a hundred yards and not sign of any police presence for nearly a week.’

‘The riots in 2011 caused a very quiet period and ruined an exhibition we were at. In March this year heavy snowfall completely ruined the show attendance of another exhibition.’

‘Power failure: all our data and dispensing is based on a functioning IT infrastructure. Our prescriptions are now increasingly sent directly to us from the GP surgeries through the NHS Net via secure broadband. When power failed twice last week we could not function.’

‘One major customer […] saw his turnover reduced by 80% due to the credit crunch in 2008 and lived off stock until 2012, but is now only giving us modest short-term orders. Another customer believed himself to be recession-proof [but] reduced his business with us by 60% due to his market shrinking.’

‘The credit crunch meant that our developer clients could not get funding from lenders to develop new buildings, therefore commissions dried up. At the same time HMG’s austerity measures meant that public sector projects were cancelled leading to a sharp fall in business activity.’

‘The credit crunch has been appalling for my business. People are making do with old spectacles.’

**Impact on the business of adverse events**

We asked respondents whether they thought their business had become stronger or weaker as a result of these experiences. The most common response (40%) was that the business was stronger, but for more than a quarter of respondents (27%), the business had been weakened as a consequence. Almost one third of businesses (32%) thought that there had been no real change (Chart 4). These differences are likely to be attributable in large part to the nature of the events identified in particular cases, including their severity and whether they occurred as isolated incidents or, as discussed in the previous section, in combination.

Chart 4: ‘Do you think your business has become stronger or weaker as a result of these experiences?’
We examined the responses according to business size, sector and region, as well as by business age. The strongest overall patterns were size-related, and are discussed in the following paragraph. In the figures for business age, the youngest businesses (0 to 4 years), reported particularly positive impacts of external events, with 60% saying they were stronger as a result, 33% seeing no real change and only 4% seeing themselves becoming weaker as a consequence. While this result may be affected by the relatively small size of the relevant sub-sample (48 firms), it would also be consistent with research suggesting that firms founded in adverse conditions tend to be more resilient than those that begin life in more settled times.

The size-related patterns are quite striking. Only just over one fifth of the smallest businesses with a turnover of less than £100,000 (21.1%) thought they had become stronger, as compared to more than half (51.9%) of firms with a turnover of more than £5 million. In a similar way, twice the proportion of these smallest firms (38.9% of those in the below £100,000 turnover category) thought that external events had weakened their business, as compared to their larger counterparts (16% of those in the £5 million+ turnover category) (Table 1). The apparent greater vulnerability of the very smallest firms echoes a result that is regularly identified in our survey findings, where smaller businesses tend to suffer the impact of economic downturns more than relatively larger ones.

Table 1: ‘Do you think your business has become stronger or weaker as a result of these experiences?’ – by turnover band

<table>
<thead>
<tr>
<th>Turnover Band</th>
<th>Stronger</th>
<th>No real change</th>
<th>Weaker</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than £100,000</td>
<td>21.1%</td>
<td>37.7%</td>
<td>38.9%</td>
<td>2.3%</td>
</tr>
<tr>
<td>£100,000-£249,999</td>
<td>34.6%</td>
<td>36.2%</td>
<td>28.5%</td>
<td>0.8%</td>
</tr>
<tr>
<td>£250,000-£499,999</td>
<td>33.9%</td>
<td>34.7%</td>
<td>29.8%</td>
<td>1.6%</td>
</tr>
<tr>
<td>£500,000-£999,999</td>
<td>44.3%</td>
<td>29.5%</td>
<td>24.8%</td>
<td>1.3%</td>
</tr>
<tr>
<td>£1m-£5m</td>
<td>47.1%</td>
<td>27.5%</td>
<td>24.3%</td>
<td>1.1%</td>
</tr>
<tr>
<td>£5m+</td>
<td>51.9%</td>
<td>29.8%</td>
<td>16.0%</td>
<td>2.3%</td>
</tr>
<tr>
<td>All</td>
<td>39.4%</td>
<td>31.9%</td>
<td>27.1%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

In order to get beneath the surface, we asked our regular respondents to provide practical examples of how their businesses had been either weakened or strengthened as a result of their exposure to particular external events. Though many different issues were raised in the responses, the main themes emerging from the ‘strengthened’ businesses were around the way that adverse conditions had made the owners and managers re-assess their ways of working, often resulting in strategic changes such as market repositioning and rationalisation. In many cases, there was also a sense that they had learned from the experience and thought themselves better placed to deal with the next crisis:
‘Forced us to seek new products to sell into existing markets and new markets for existing products.’

‘Having been forced to adapt to changes has made us review what we do and how it’s done.’

‘Having experienced the problems associated with the weather disruption, back up processes have been developed to mitigate the effects of future problems.’

‘We have adapted and diversified. We also identified the weaker areas of business and moved away from them. We also moved to shorter working weeks for many staff, reducing overheads and giving more flexibility especially at peak demands.’

‘The business was able to demonstrate to customers that it was well positioned in the market and had made suitable provision to ensure that supply shortages did not impact on our ability to meet customer demand. We also learnt some useful lessons regarding risk reduction.’

‘We are now more cautious when considering future growth and consider risk in connection with future projects we bid for. We are selective in the markets we trade in.’

‘We are stricter with our terms of business and more careful who we give credit. We have no loans other than to our own family who will support us in times of financial crises unlike the banks.’

‘It induced us to make changes which have benefitted us in the long term, even though profits fell in the short to medium term.’

By contrast, for those businesses weakened by the impact of external events, the story was almost entirely about three seemingly intractable issues: loss of customers, reduced income and problems with cashflow. This often results in owners and managers having to adopt short-term (or ‘fire-fighting’) approaches, and making difficult decisions in order to survive:

‘Our customer base has shrunk and we see little signs of new investment in manufacturing in Scotland.’

‘Our turnover has reduced year on year since 2010. Finance is harder to maintain at economic borrowing rates and terms with a reducing order book even though we are involved in the development stages of major projects with several multinational customers which will go ahead in two/three years’ time.’

‘Cash flow has become more of an issue with us having to resort to using reserves much more significantly.’

‘We no longer have any cash reserves to fall back on. We now rely on cash flow and understanding suppliers to continue trading as there is very little or no profit which would enable cash reserves to be rebuilt.’

‘We find ourselves back – almost to where we started – and day-to-day firefighting with the difficulty of having [no] mid-long term strategy. It’s all about this week and influenced greatly by what government/press/public opinion says about economic issues.’

Lastly, it is worth noting that perceptions of ‘strength’ and ‘weakness’ are open to interpretation. As the following respondent — a private healthcare provider — points out, a business may become ‘leaner’ and more able to cope financially, but the resulting cost-savings can have negative consequences in other areas, including quality of service and ethical performance:
To maintain adequate margins has meant careful management of staff numbers and wages. Some would say not a bad thing, but I would not necessarily agree. Has more pressure on staff potentially reduced patient safety?"

How businesses adapt to become more resilient

We asked respondents how they had adapted their businesses over the last five years to make them more robust or resilient. There were a series of options, based on a review of the relevant research evidence, plus an option to specify other kinds of changes. The most commonly identified change was to diversify into new market(s) and/or business activities (37%). This was closely followed by making changes to the supply chain and/or or forming new business partnerships (30%), and reducing the number of permanent staff employed (28%). The four remaining strategies in the list were adopted by a smaller but still notable proportion of businesses: changing how the business is financed (15%); increasing the number of casual or agency staff (14%); exiting from old market(s) and/or business activities (13%); and reducing the range of products or services (11%). However, it is also worth noting that almost a quarter of businesses (23%) say that they have not made any significant changes, a result that perhaps reflects exposure to less severe (or persistent) external events.

Chart 4: ‘In what ways have you adapted your business over the last five years to make it more robust or resilient?’

<table>
<thead>
<tr>
<th>Change</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified into new market(s) and/or business activities</td>
<td>37%</td>
</tr>
<tr>
<td>Made changes to our supply chain and/or formed new business</td>
<td>30%</td>
</tr>
<tr>
<td>Reduced the number of permanent staff</td>
<td>28%</td>
</tr>
<tr>
<td>Changed how our business is financed</td>
<td>15%</td>
</tr>
<tr>
<td>Increased the number of casual or agency staff</td>
<td>14%</td>
</tr>
<tr>
<td>Exited from old market(s) and/or business activities</td>
<td>13%</td>
</tr>
<tr>
<td>Reduced our range of products and services</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>No significant changes</td>
<td>23%</td>
</tr>
</tbody>
</table>

Though this was the overall pattern, we did identify a few striking variations in relation to the ‘top three’ adaptations. For example, only 22% of the smallest businesses with a turnover of less than £100,000 said they diversified into new market(s) and/or business activities, compared to almost half of those with a turnover of between £1 million and £5 million (44.6%), and a similar proportion of those in the more than £5 million category (44.3%). This strategy was also adopted by more than half of respondents in the Manufacturing sector (52%). By contrast, it was only identified by just over a quarter (28.2%) of respondents in the Hotels and Restaurants sector and a third of those in the Health, Education, Leisure, Other sector (32.9%). The sectors most commonly making changes in their supply chain and/or forming new business partnerships were Wholesaling (37.4%) and Manufacturing (36.3%). Perhaps surprisingly, the sectors reporting the lowest figures for this kind of adaptation were Agriculture, Fisheries and Forestry (22.2%) and Transport, Storage and Communication (22%). The lowest proportion of
businesses reducing permanent staff was also in the Agriculture, Fisheries and Forestry sector (14.8%) while the highest was for Hotels and Restaurants (36.9%).

We asked our regular respondents for some concrete examples of changes they have made to make their business more robust or resilient. The responses were extremely varied, sometimes generic (e.g. ‘Changed the way we finance the company.’), but often very sector specific (e.g. ‘[We] invested in new technology cutting edge high speed printers to reduce cost.’). The following selection from their responses illustrates the diversity, echoing the main strategies identified above, including: diversification, consolidation and cost-reduction (Chart 4):

‘Reduced [product] choices prevent stock falling out of date but this is done in consultation with our customers and the need to address their requirements. [We] reduced permanent staff to give us the flexibility to contract part-time staff only where the need is for extra staff.’

‘Simplified menus, using cheaper ingredients in recipes, introduced more flexible pricing and packaged deals, explored new markets [...]. increased social media communication, expanded with more bedrooms to grow the business as bedrooms still sell etc.’

‘Motorsport was our mainstream business up until 2008 all of which suffered greatly with the sudden arrival of the global financial crisis, the business now operates with no Motorsport involvement and is financially better off by generating more retained profit from similar turnover, this situation has occurred progressively over the last 5 years.’

‘Looked to sell products in export markets to cover the downturn in UK, this way we can have payment upfront before shipping, reducing need for credit.’

‘Manufacturing in India to achieve competitive prices.’

‘More on line selling and dealing directly with manufacturers.’

‘[Started using] outsourcing and Crowdsourcing sites for work.’

Several responses also suggest how some firms have been making strategic investments in stock and fixed assets during the recent economic downturn in order to address problems they have faced due to external events and to remain competitive:

‘Large investment in stock through a partnership with a global player in our industry.’

‘Invested in equipment to produce faster and cheaper. Also purchased equipment to run our tooling so it can sold as “tested and fully functional”. This makes customers more likely to purchase “tested tools”.

‘Continued investment in the latest technology, stayed ahead of the competition.’

**Most important factors in becoming more resilient**

Towards the end of the questionnaire, we asked our respondents to identify how important they found each of the following factors if a business is to survive a serious external event. The factors, listed below, were drawn from a review of the literature and respondents were asked to rate each one (where: 5 is ‘extremely important’ and 1 is ‘not at all important’):

- Being able to identify potential risks in advance
- Preparing contingency plans and/or having business continuity arrangements in place
- Having robust operational and IT systems in place that can cope with extreme stress
• Having people with the skills, initiative and authority to respond rapidly to unfolding events
• Maintaining relatively low fixed costs and/or very little debt
• Building flexibility into commercial agreements and contracts
• Other (please specify)

Chart 6: ‘How important do you consider each of the following factors if a business is to survive a serious external event?’ (where: 5 is ‘extremely important’ and 1 is ‘not at all important’?)

![Chart showing factors for business resilience and recovery](chart)

We conducted some further analysis to identify patterns amongst the most commonly identified factors. The following table shows the breakdown of the category: ‘Having people with the skills, initiative and authority to respond rapidly to unfolding events.’ (Table 2). This shows how respondents from relatively larger businesses place greater emphasis on this factor, as compared to the smaller businesses in the sample.

Table 2: Importance of the factor ‘Having people with the skills, initiative and authority to respond rapidly to unfolding events’ if a business is to survive a serious external event? (where: 5 is ‘extremely important’ and 1 is ‘not at all important’?) – by turnover band

<table>
<thead>
<tr>
<th>Turnover Band</th>
<th>1 - not at all important</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 - extremely important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than £100,000</td>
<td>5.7%</td>
<td>4.5%</td>
<td>14.6%</td>
<td>25.1%</td>
<td>49.0%</td>
</tr>
<tr>
<td>£100,000-£249,999</td>
<td>1.8%</td>
<td>3.6%</td>
<td>12.7%</td>
<td>21.8%</td>
<td>59.4%</td>
</tr>
<tr>
<td>£250,000-£499,999</td>
<td>2.4%</td>
<td>4.2%</td>
<td>7.8%</td>
<td>27.5%</td>
<td>56.9%</td>
</tr>
<tr>
<td>£500,000-£999,999</td>
<td>5.2%</td>
<td>3.1%</td>
<td>9.4%</td>
<td>30.2%</td>
<td>51.6%</td>
</tr>
<tr>
<td>£1m-£5m</td>
<td>0.8%</td>
<td>1.3%</td>
<td>8.5%</td>
<td>27.8%</td>
<td>61.3%</td>
</tr>
<tr>
<td>£5m+</td>
<td>0.0%</td>
<td>1.1%</td>
<td>5.9%</td>
<td>33.5%</td>
<td>59.5%</td>
</tr>
<tr>
<td>All</td>
<td>2.5%</td>
<td>2.8%</td>
<td>9.8%</td>
<td>27.7%</td>
<td>56.6%</td>
</tr>
</tbody>
</table>
We also asked our regular respondents to provide examples from their own experience to illustrate the importance (or otherwise) of particular factors. Again, we received a wide variety of responses, the following quotations indicating the kinds of issues raised. Firstly, in relation to the importance of having the right people in place, with appropriate skills, experience and capacity to exercise their own initiative:

‘A major component failure in our refrigeration plant could have resulted in the closure of operations in one sector of the business. However, with operator skill and workforce flexibility it was possible [...] to limp along with no loss of revenue until repairs could be effected.’

Secondly, we have seen many comments about cost-cutting and operating with much lower capital and cashflow requirements. The following quotations puts this kind of approach in context:

‘Having identified the impending 2008 financial crisis we were able to reduce inventories, cut credit to suspect debtors and reduce our operating costs such that we experienced a significant inflow of cash.’

‘Having relatively low fixed costs was significant when faced with having to reduce our new business activity for a period until we managed to replace the previous level of bank funding.’

‘[I] always keep an eye on the bank balance. I pay all suppliers [myself] now where I used to trust someone else to do that function.’

Lastly, this respondent highlights how important it can be for businesses to develop a capacity to anticipate and prepare for future contingencies:

‘Being able to identify potential risks in advance - in the type of work we carry out it is extremely important to identify risk - Risk and Method statements are carried out and all Health and Safety equipment is maintained to a high standard. Our IT system is maintained on a weekly basis and equipment is replaced on a regular basis.’

**Strategic priorities, growth and resilience**

Finally, we examined the relationship between the ways that SME owners allocate their time between different priorities, their growth ambitions. Firstly, we asked respondents to estimate the proportion of their managerial time and/or resources that is currently devoted to each of the following business goals (where: $5= ‘a very high proportion’ and $1= ‘none’):

- Short-term survival
- Long-term survival
- Short-term growth
- Long-term growth
- Other business goals (i.e. goals not related to business survival or growth)

These results suggest that businesses do tend to adopt a fairly long-term perspective (Chart 7), a finding that has been highlighted in research on smaller family firms in particular.\(^\text{13}\)

Almost two thirds of the respondents (64%) reported spending either a ‘very high’ or a ‘considerable’ proportion of their managerial time on and resources on issues related to long-term survival. Similar figures were reported for long-term growth. The equivalent proportions were lower for short-term survival (41%) and short-term growth (39%). However, when the figures are broken down by size of firms, it is clear that the owners and managers of smaller firms tend to devote more time to short-term issues as compared to their counterparts in relatively larger firms (Table 3).

Table 3: Proportion of your managerial time and/or resources devoted to the goal ‘short term survival’ (where: 5 is ‘a very high proportion’ and 1 is ‘none’) – by turnover band

<table>
<thead>
<tr>
<th>Turnover Band</th>
<th>1 – none</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 – a very high proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than £100,000</td>
<td>11.2%</td>
<td>10.8%</td>
<td>26.0%</td>
<td>20.8%</td>
<td>27.2%</td>
</tr>
<tr>
<td>£100,000-£249,999</td>
<td>12.0%</td>
<td>13.3%</td>
<td>27.1%</td>
<td>18.7%</td>
<td>27.7%</td>
</tr>
<tr>
<td>£250,000-£499,999</td>
<td>13.1%</td>
<td>16.7%</td>
<td>21.4%</td>
<td>22.6%</td>
<td>24.4%</td>
</tr>
<tr>
<td>£500,000-£999,999</td>
<td>20.8%</td>
<td>15.1%</td>
<td>28.6%</td>
<td>15.1%</td>
<td>18.2%</td>
</tr>
<tr>
<td>£1m-£5m</td>
<td>15.5%</td>
<td>17.5%</td>
<td>24.7%</td>
<td>15.7%</td>
<td>22.7%</td>
</tr>
<tr>
<td>£5m+</td>
<td>23.2%</td>
<td>16.8%</td>
<td>21.6%</td>
<td>20.0%</td>
<td>15.7%</td>
</tr>
<tr>
<td>All</td>
<td>15.8%</td>
<td>15.2%</td>
<td>25.0%</td>
<td>18.4%</td>
<td>22.8%</td>
</tr>
</tbody>
</table>
Conclusion

This report has looked at how SME owners and managers prepare for external shocks of various kinds. We also asked about their experiences of these often unexpected and disturbing events, and examined both their positive and negative impacts on the business. We pointed out at the outset that like much of the research in this area, the responses are those of the ‘survivors’; they do not include the voices of owners and managers whose businesses have failed in recent years (or indeed those who decided to close their business for other reasons, such as retirement). With this in mind, it is clear that external events can often pose a serious challenge to small and medium-sized firms. For nearly three quarters of respondents, the last five years had seen at least one external event that posed a ‘real threat’ to their business. While the credit crunch and related market uncertainties were the most commonly identified sources, it was also striking to find that extreme weather events, ranging from heavy snowfall to storms, flooding and heat waves, had posed a real threat to more than a quarter of businesses over the last five years.

With regard to resilience, it was notable that while a higher proportion of respondents thought that their business was stronger rather than weaker as a consequence of exposure to external events, there were strong size-related differences. As in other areas of our research, smaller firms tended to fare worse than their larger counterparts. Businesses had made a variety of changes in order to become more resilient, the most popular being diversification into new market(s) and/or business activities, adjusting supply chain relationships and reducing staffing. Respondents’ views on the most important factors in becoming more resilient echoed much of the recent research in this area. Recommendations included: having people with the skills, initiative and authority to respond rapidly to unfolding events; maintaining relatively low fixed costs and/or very little debt; and the somewhat optimistic aim of being able to identify potential risks in advance.

In the next section, we explore the issues raised here in a specially-extended section, which for this quarter contains six case studies. These cases provide a deeper insight into the special topic. They tell the story of how individual SME owners and managers have dealt with specific external events that threatened to undermine their businesses.

Case A: Augentius Group
Case B: Concept Multi-Car Ltd
Case C: Fox and Medcalf Pharmacy Ltd
Case D: Freegrove Care Home Ltd
Case E: LandCruise Motorhome Hire Ltd
Case F: Answer-4u

14 For additional expert views on organisational resilience and suggested references, see the related feature on the OpenLearn website: http://www.open.edu/openlearn/money-management/management/business-studies/britains-oldest-family-businesses-further-insights
Case studies

Introduction

These case studies are based on a series of interviews conducted by Deneise Dadd of The Open University. They examine in greater depth issues discussed in our special topic section on business information and advice. The interviews were conducted during December 2013 and are based on a sub-sample of respondents to the Quarterly Survey of Small Business in Britain. The interview material has been complemented by some additional evidence related to the organisations and their industry context. We are grateful to all of our interviewees for taking the time to be involved in this project and to the Finance and Leasing Association (FLA) for sponsoring the research that underpins three of these case studies. This case material can be reproduced for educational purposes provided that the source is fully acknowledged.

Case study A: Augentius Group

In 2002 Augentius was formed with only seven people, six in London and one in Guernsey. They provide ‘back office accounting services to private equity and real estate funds’. Now they employ almost 250 persons in 5 countries and are the largest independent Private Equity and Real Estate Administrator in the world. They serve around 6,800 investors and administer over 250 funds, acting on behalf of over 100 fund management groups. We spoke with David Bailey, one of the four founders of Augentius. David shared their corporate strategy, ‘rather than diversify into a number of different product areas, we decided to stay with a single type of product and expand the business globally.’ He added, ‘primarily that exposes us to multiple economies.’ This single-minded focus has allowed them to emerge as the global leader in this specialised area. To provide remote access to data in real time for managers and investors they use one fund accounting platform (Sungard Investran v6.2) across the Group. Augentius is a multiple recipient of the ‘Top Rated’ status in the Global Custodians’ survey of Private Equity Fund Administration. They have also received the 2012 Leading Acquisition International Adviser and were the 2013 Private Equity Africa Awards winner.

We asked David about their experience in dealing with the global economic and financial crisis that began in 2008. He began by sharing their income structure. ‘We are very lucky in the sense that when a client signs up with us they will pay us fee income, every month, for the next 10 years and therefore our income is very predictable.’ This is a key benefit for them, ‘in budgetary terms we are able to forecast our annual income to the nearest 5%.’ However, Augentius provides accounting and administrative services, which is ‘a fairly labour intensive business, our biggest operating cost is people.’ Nevertheless, they, ‘can control quite carefully labour expenditure and certainly in 2008 this is what we did.’

David openly shared that he has lived through three recessions, ‘and some of the indicators that were around in the UK, suggested that things were going to fall off a cliff.’ He added, ‘when banks start lending on mortgages based on 5 times salary multiples, that’s an indicator that things are going to go wrong.’ Although he wouldn’t have been able to predict the particular combination of events that lead to this recession ‘the world was going at such a pace that we all just knew it was going to come to a stop at some point in time.’ Even so, he conceded they opened the New York office in the autumn of 2008, ‘exactly at the wrong time’.
However, they were able to mitigate some of their risks because, ‘we’re very able to quite carefully control different elements in our cost base in line with external economic influences. Our business has grown by 25% per annum over each of the last six years – and it had to be a careful balancing act between servicing clients, to a high level, effectively whilst not over-stretching the business. He explained their first operational centre is in London and employs around 100 persons. In 2008, there were plans to open a second operational centre and this was put on hold. There were also plans for investing in internal systems and this had to be suspended, ‘basically in 2008, along with everybody else, because of the uncertainties in the external world, we pulled back, we stopped making investment because of the very uncertain future.’

During 2010/11, they began investing into the business, focusing on expanding to other markets. Their Luxemburg office was opened in 2010 and the Singapore office was opened in 2011. ‘We are very cognisant of the fact that businesses that invest during a recession are likely to have a substantial gain as a result of those investments and we are now starting to see those come to a fruition.’ During this time they also reintiated their second operational centre project. A decision was made to site the office in Belfast and was initially opened, in 2011, with seven employees and now employs 70, making Augentius a major employer in the city. David also shared that they had created 65 new jobs across the Group in the last 12 months and, ‘increased our annualised turnover by about 33%.’ The business has had to make do with basic internal IT systems over the last three years but is now investing in an ERP system to enhance internal data flow and efficiency within the organisation. This may be financed either through their own funds or third party finance.

David summed up their handling of the 2008 global financial and economic crisis in this way, ‘In terms of internal infrastructure, we made do with what we had and were very careful in terms of internal investment, whilst ensuring we maintained service to clients. We also restricted advertising, marketing, and other initiatives. We asked him if he would do anything differently, to which he responded, ‘No I don’t think we would, I think we made the right decisions.’ He added, ‘I think if we had known what was going to happen we would have possibly delayed the launch of our New York office, but overall we got it right.’

Company website: [www.augentius.com](http://www.augentius.com)

Case study B: Concept Multi-Car Ltd

In the late 1960s Alf and Hilary Shortland fell in love with the concept of motor caravanning and the freedom it offered. They pursued this passion with a number of ‘self-build’ campers until they came across the Reimo camper van conversion at an Exhibition in 1987. These types of campervans were not previously available in the UK and so they formed Concept Multi-Car (CMC) Ltd. Hilary is the managing director and Alf is the workshop manager. In 2010 their son, Sam, who manages their IT, sales and communications, joined them and their eight employees. CMC are the only UK manufacturer authorised by Reimo Reisemobil Center GmbH to manufacture Reimo branded Volkswagen campervans. They are accredited by Volkswagen UK to manufacture conversions on the T5 motorhome shell. In 2012, their Multi Style conversions model won the Motorcaravan Motorhome Monthly (MMM)/Which Campervan of the year award.

We recently caught up with Hilary to discuss how they prepare for and deal with external shocks and crisis. She explained that they have three types of customers, business and two categories of direct customers. CMC imports a lot of parts and equipment from Germany and supply some of these parts to other companies. ‘So even if maybe they get the job, we’ll be supplying the parts.’ Their direct customers are split into two main categories: those who purchase the whole vehicle and other who are having work done on their existing vehicle.
Hilary explained that they had been affected by two external shocks in the last five years: fluctuating exchange rates and adverse weather conditions. Importing supplies from Germany and paying in euro ‘…affects the business quite a lot…if it gets particularly bad, which it was at the beginning of last year [2012], we just obviously don’t make as much profit.’ Since they supply parts to other companies, ‘…if it is particularly bad we can put a currency surcharge on but most of it really just affects our profit level.’ However, she believes that ‘…what affected sales most last year, from our point of view was the weather because normally at the beginning of the year is when our customers tend to come look and purchase but because the weather was so awful for really the first three to four months of the year, it sort of delayed everything.’ She recalled that this was unexpected and candidly shared, ‘…all of a sudden we were sitting here thinking, ‘gosh it’s really quiet’ and I guess in fact I think it was more of the weather being a factor probably rather than the economy.’ Fortunately, they became really busy at the end of 2013 and the situation has reversed.

Interestingly, Hilary has observed that her direct customers who plan on purchasing the whole vehicle are affected by interest rates. ‘When interest rates are very high for savers they won’t be spending their money. When interest rates are quite low for investors, they are quite willing, if they’ve got the money, to purchase the whole vehicle, if they are quite well off.’ These customers are looking for the best quality they can get. Her other direct customers are interested in getting the best possible price on part work. During their slow periods, CMC targets these customers ‘…over the winter we do sort of drop our prices to try and encourage people to come and have work done. We are quite flexible, especially when we get enquiries if we know we’re going to be slack we can offer a better price.’ With these different marketing strategies ‘… normally one offsets the other. If we have slack on one side we can get the other side up.’ Since they are importers from a large German company CMC relies on their technology ‘…we’re not actually developing equipment as such, we leave that to the German company to do.’

Hilary said that the business had expanded quite a lot in the last five years by increasing the number of the different types of vehicles available for purchase. ‘And that’s really where our main problem in the company lies. Because, whereas we don’t have too much problem getting finance for our day-to-day turnover on the company, it is really difficult to get finance on stock vehicles.’ They usually have to buy them from their own funds because the vehicles are unregistered. ‘A lot of our work is on new unregistered vehicles because obviously when we sell them they are registered to the first owner, and you can’t get finance on an unregistered vehicle’ She added ‘…the main drawback to our expansion is that we just can’t afford to have any more vehicles than the ones we’ve got.’ This affects their operational planning ‘…whereas if we were a bit slack, we’d say, “okay we’ll get six vehicles in and do them ready for when we’re not slack, so we’ve got something there to sell”, we can’t do it because we just can’t get the finance to buy new vehicles.’ She explained that they were previously able to get finance but she thought that as a result of the financial crisis, ‘they’ve [lenders] all tightened up so much that makes it quite difficult for us’.

Company website: www.conceptmulti-car.co.uk
Case studies

Case study C: Fox and Medcalfe Pharmacy Ltd

Michael ‘Mike’ Sheard has been running the Fox and Medcalfe Pharmacy in Lancaster for almost 35 years. The pharmacy was already established in this ancient city before Mike purchased half of the business from the previous owner’s widow. Around 10 or 12 years ago she retired and he bought out her share of their partnership. Fox and Medcalfe’s services include appliance fitting and supplies, incontinence supply, needle and syringe exchange, pregnancy testing, sexual health services, disability aids, wheelchair hire, as well as traditional pharmacy services, including collection and delivery service. There are two branches. The main branch is on the edge of the town centre and beside 2 large GP practices. There is also a smaller branch on the University of Lancaster campus. There are 16 employees in total, 14 at the main branch and 2 at the university branch.

Recently, we caught up with Mike and asked him about his company’s experience with external shocks and crisis. The recent major changes to the structure of the NHS were an important source of concern for Mile because a large proportion of the turnover is linked to public spending. Therefore, any changes in governments and as such government policy will affect his business. He added, ‘I can understand the public quite rightly wanting accountability but we’re at the stage now where we’ve spent so much time covering our accountability and various legal aspects that it’s difficult to actually find time to do the job let alone think about moving forward.’

Mike thought that his experience over the years might have left him a bit cynical because he has seen similar changes in the past, ‘and the structures don’t change in the slightest but they are disruptive totally in the changeover period’. The new NHS, which officially began in April 2013, gives GPs a lot of responsibility over the NHS budget through the Clinical Commissioning Groups and this leaves Mike troubled. ‘I’m very, very worried as a pharmacist that now GPs have been given a very high level of control over what used to be the PCTs so they will be doing what is financially viable for GPs and not what’s in the best interest necessarily of the patient.’ He also added that there were changes already being worked on before the reorganisation began, such as ‘diagnostic testing from pharmacies, smoking cessation and healthier lifestyle, all this sort of thing, which in the past we were given some recompense for.’ He wondered, ‘the doctors are going to, certainly they are not going to extend it and I can’t see them even maintaining it, or am I just being cynical?’ However, Mike conceded that they have not yet felt the full impact of the changes because they are still working their way through the system.

He explained that his university branch pharmacy is currently situated in an inconvenient location and he has been trying to move it to a more logical location for the last two years. The NHS reorganisation has stalled the process, which is causing problems for the business. Mike explained that this branch is classified as an Essential Small Pharmacy, “which is not viable on its own but it is essential to a reasonably sized population.” It serves a university population that is on campus 6 to 7 months of the year, while having to cover overheads for the full 12 months. “So even if you can make it profitable during the time they are there, you’re losing money while they are not there. So it’s subsidised by what is called an Essential Small Pharmacy Scheme, which is now defunct.”

With the scheme now defunct, Mike would have to resign his current contract and tender for a new contract in order to move. ‘Well, I’m a very kind, very thoughtful, very altruistic person but I’m not stupid. I’m not going to give up a viable contract on the hope that I may get the new one.’ In the meantime he believed the students are the ones who are suffering because the pharmacy is far from
where they are, ‘…and we want to move, the doctors want us to move, the university authorities want us to move and the students want us to move but we’re not allowed to.’

We asked Mike about his plans for purchasing new technology and equipment in the coming years. He shared that around 10 years ago he invested in robot dispensing technology for the pharmacy, which is still operational. However, he believes that, ‘there are various things that would improve it and bring it more up to date but I’m 64 and I’ve had enough.’ Mike is ready to hand over the pharmacy and he plans on retiring soon. Therefore, he would not spend any more money on improving this technology. He has not found the next pharmacist to continue at Fox and Medcalfe but he admitted, ‘I haven’t tried seriously yet’.

Company website: www.foxandmedcalfepharmacy.co.uk

Case study D: Freegrove Care Home Ltd

Freegrove Care Home can be found on the edge of the small south coast town of Lymington, Hampshire. It is an independently-run family business, registered to care for up to 17 residents. The proprietor, Mrs Charlotte Duffin, handles the day-to-day management of the home and is assisted by 18 employees. Freegrove has been in Charlotte’s family since 1986 and they pride themselves on looking after their residents as individuals in a friendly, caring, bright and cherry environment. Their motto, ‘We never forget to remember it's your home’ sums up this ethos. As an EMI (Elderly and Mentally Infirm) registered home, they specialise in taking care of residents with dementia and also offer respite care for a day, weekend or even longer. Their employees are fully trained and on duty 24 hours a day. A chiropodist, hairdresser and vicar regularly visit the residents.

Charlotte shared her recent experiences of dealing with the aftermath of a major external shock to the business. When the property crash occurred, she observed that, ‘people weren’t buying and selling houses and people weren’t putting their relatives into care.’ For some time it appeared that there was a reluctance to sell homes to pay for residential care because families thought that their properties were undervalued. The resulting fall in demand had a significant impact on the business, which also faced competition from other providers, including a large company with four care homes in the local area. ‘We went right down to seven residents. That was three years ago.’ Although some of their costs also fell, their wage bill increased over this period as regulatory requirements mean that many of these costs are effectively fixed in the medium term: ‘I still have to provide the same service and because of the laws and the regulations that we work by, that we’re guided by, I have to provide the same number of staff – I’ve still got to provide exactly the same level of service whether I’ve got seven residents or 17.’ Fortunately, things are getting better and they are now back to full occupancy and were even able to take on three additional staff in the last year. However, as Charlotte notes, ‘it’s been hard work’.

Charlotte has had to make substantial changes in the business in order to make it more resilient. She explained, ‘We’ve always been careful but never probably as vigilant as we should have been.’ Now, they are much more aware of how much they spend on everything. She has changed the way she sources her supplies in order to reduce costs without compromising on quality: ‘I’m much better at finding something cheaper somewhere else now, which I wouldn’t have perhaps done a few years ago because I would have wanted to support you know local businesses’. She has also found ways to avoid large capital purchases, such as servicing, mending and repairing equipment, rather than always purchasing something new.
Dealing with the impact of this external shock has also had an effect on the couple’s personal finances. At one point, they had to pay some of the staff’s wages from her husband’s salary, ‘*and we’ve ended up being personally in debt, which we’d never been before*’. However, they felt it was necessary to do this in order to avoid redundancies and to keep the business going through a difficult period. Charlotte is confident that the situation is already improving and this debt will soon be repaid. She has also learned from the experience: ‘*It has taught us definitely that you can’t take anything for granted and we just have to save more really - so that’s what we’re doing*.

Looking back, Charlotte had not expected that demand for their services would decline so drastically in the recession because they were providing specialist care for residents with dementia. The dip in numbers appeared to be primarily a result of some people wishing to preserve their family’s inheritance, so becoming reluctant to ‘lose’ money by selling property in a depressed market. Many people had tried to look after their elderly relatives at home but as Charlotte noted, ‘*it’s difficult to look after someone at home who has dementia. You could do it for a while but there does come a time when they have to go into care*.’ It has not been an easy time for Britain’s smaller care home businesses. However, regardless of the challenges she has faced in recent years, Charlotte is determined to keep Freegrove open so that her elderly and vulnerable residents can have a real home, with kind and friendly people to take care of their needs.

**Company website:** [www.freegrovecare.co.uk](http://www.freegrovecare.co.uk)

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**Case study E: LandCruise Motorhome Hire Ltd**

LandCruise Motorhome Hire Ltd was established in 2010 in Chichester, West Sussex by its two directors, Lorraine Dunabin and Andy Wheeler. They started out with six vehicles and since then they have been steadily increasing the number of vehicles available for hire and expect to have a fleet of 35 in 2014. The company also intend to increase the number of employees from their current five to between eight and 10, although some of these will be summer workers. The motorhomes come in a range from two to six berths and priced from budget to luxury/VIP. They are each fully equipped and include electronic entertainment (TV/DVD/Freeview/Radio/CD/iPod connection), mod con kitchen and bathroom, as well as air conditioning, heating and storage. Short and long-term hires are available for UK and European travel, with comprehensive vehicle insurance and breakdown cover. They even offer free secure parking for the customer’s car and membership in the Camping and Caravanning Club. LandCruise Motorhome Hire support the [Brit Stops Scheme](http://www.britstopsscheme.org), which offers its members 24 hours stay at participating hosts free of charge.

We caught up with Lorraine recently and asked her about any external shocks she has experienced in the last 5 years. Lorraine explained that she and Andy, were previously in the building trade and ‘*…were looking for a business that was more recession-proof than building*.’ Since the business began in 2010, they had no pre-recession experience in this industry. When they entered the market there were a couple of very small motorhome hire companies in Chichester but the biggest company in the market had 45 vehicles and had only been in business for 5 years. LandCruise is experiencing a similar growth curve. They had six vehicles in their first year, 12 in their second year, 18 in 2012, 25 in 2013 and are expecting 35 for 2014. Lorraine explained that motorhome hire is a new market
in the UK, ‘it’s quite established in Europe but Britain has been very much a caravan holiday, you know, people go away in caravans. And motorhomes is quite relatively new but it is growing tremendously.’ The main difference being the size and that the motorhome is a motorised vehicle that usually includes bathroom and kitchen facilities, while the caravan is typically unpowered and pulled by a powered vehicle.

She believed that the main external crisis affecting her business is, ‘how many big players’ enter the market. ‘Our biggest external factor is bigger and bigger competitors getting into this market.’ The largest motorhome hire company in the UK has 500 vehicles. The minimum cost of a motorhome is around £40,000, so that would generally limit the number of competitors. However, Lorraine conceded that although, ‘it is not an easy thing to get into, if people have vehicle hire businesses or you know outside investors then they can try.’ She gave an example of a large investor who had entered the market during the time they had been operating. However, it seemed that, ‘it’s stalled so I don’t know, so we’re waiting to see what happens in 2014 with them.’ So there may be other factors at play that could affect large investors entering the market.

We asked Lorraine how she plans on dealing with these competitors and any potential competitors. She kindly shared her marketing strategy with us. She explained that larger companies tend to offer a smaller range of vehicles. In fact, the nearest, biggest competitor offers only three main styles of motorhomes, ‘they have small, medium and large. And that’s what you have to have’. In 2014, LandCruise will extend the range of models on offer from nine to 14 different layouts. ‘And that’s the way we’ve decided is our you know unique selling point to be able to compete against bigger companies that will compete on price.’ They already receive positive feedback from customers about their motorhomes. ‘And most certainly we do get comments that our motorhomes are the nicest just because we have that wide range therefore we’re likely to appeal to somebody more than just saying: “well, you have to have it like this”’. Lorraine also added that they compete on customer service as well: ‘We compete on the basis that we are nicer. It does sound strange but it’s a holiday business and being small can work in our favour really.’

Since being in the business, Lorraine has observed that low interest rates, ‘does have effect on retired people’s income and therefore they are going on less holidays.’ This affected the types of vehicles they purchased, therefore instead of two berths; they purchased more of the bigger vehicles for families. However, she added, ‘that is changing around and we are turning that around slightly.’ Interestingly, the impact of unusual weather over the last few years worked both for and against them. So, whereas some customers may have had to cancel, other customers who, ‘were going to go either on holiday or to a festival or an event in a tent will change their minds, and they will upgrade to a motorhome.’ Motorhome hire is a seasonal business but it seems the recent increase in ‘staycations’ may have contributed to opening up this market. Looking to the future, Lorraine thought that LandCruise were, ‘at the very beginning of the surge in motorhome usage.’ At the moment it is just Lorraine and Andy running the company with, ‘no children yet directly involved in the business.’

Company website: www.landcruise.uk.com
Case study F: Answer-4u

In February 2004 Mark Menhennet started Integrated Communication Services Ltd with his and his wife’s savings, as well as investments from family and friends. They trade under the name Answer-4u. It is a third party call centre with the mission, ‘to innovate through technology and empower our staff to perform to the best of their ability for the benefit of our clients’. Over the years they have carried out these aims through a number of initiatives such as the homeworker solution, ‘Chatterbox’ (a proprietary communication software that manages call outs), an automated and digitized billing system, reception service (a fixed cost telephone answering service, with no management fees), which was later expanded to include the ‘Reseller Program’. The Reseller Program allows other companies to offer their own branded telephone answering service. Answer-4u moved into their own 150-set Call Centre office in 2010, which is operational 24 hours per day, seven days a week, and 365 days a year and has around 130 employees. The head office is situated in Nottingham but takes a variety of calls on behalf of clients from all over the UK including emergency breakdowns for national companies, sales and website enquiries.

We spoke with Mark recently and asked him about how he has prepared for and dealt with external shocks and crisis to his business. He explained that the entire business runs on electricity and disruptions to this service are one of his biggest problems. ‘No electricity, no business and we have had electricity supply breakdown several times, which has caused huge problems.’ During 2012 and 2013 they have had to deal with a number of power disruptions, the longest outage lasting for 6 hours in their old premises during 2007. With thousands of calls coming in each hour, this caused them some problems with their clients. ‘In the past we’ve had to kind of grin and bear it until the supply company have managed to fix the problem and resupply us.’ The main source of their power disruption occurred when resurfacing work was being done in the market square and a major supply cable was dug through. Answer-4u was not the only company to be affected, ‘but for us we were literally dead in the water without power’.

After two recent power outages that occurred six weeks apart, their power suppliers assessed the situation and informed them that it was highly probable that their main supply feed cable would need replacing in a few months. This would require about 48 hours. Mark and his team decided that they needed to acquire a generation system. They purchased a fully automated stand-by generator powered by natural gas. It kicks in about 20 seconds after the power is disrupted. Fortunately, the building was already being supplied with natural gas, so this was a ‘very convenient way of solving potential power shortages through a gas supplier that’s already on the premises’. In addition, they upgraded all the IT and phone equipment so that they are powered by an uninterrupted power supply (UPS) that is capable of running for around an hour. ‘We had to do that because we were seriously concerned it would cause major damage to our business.’ There has been a power outage since these have been installed and Mark shared that his employees barely noticed it had occurred. He also added that with the recent news about businesses switching off their electricity during peak winter times under the endorsed plans of Ofgem (the statutory regulator for the energy sector), he believed that he got his electricity back up system just at the right time. With more companies having to go this route, the prices would likely increase.

We asked Mark how they were able to finance all of this spend. He explained that it had mostly been paid for out of cash flow and profits but also that they had ‘used crowd funding to raise 100K to help towards the cost.’ They used the crowd funding company Funding Circle, which provides an online market place for investors and businesses with at least two years’ filed accounts and a minimum annual turnover of £100,000. Funding Circle’s credit assessment team review each business plan before placing them in the marketplace where the loan is then auctioned to investors for the lowest rate. Mark was very enthusiastic about this approach to financing and saw it as having a significant role to play in the future: ‘My experience with crowd funding is, it is the way forward for the western world. It’s a fantastic tool for the business and it’s a fantastic investment tool for the ordinary man in the street or for the sophisticated
investor. It’s a very simple system to use.’ Mark is quite passionate about crowd funding and is concerned that the Financial Control Authority ‘are talking about regulating it and they are going to burden them with over complicated regulation, which will strangle the idea at birth’. He believes crowd funding will mount a serious challenge to the banks, which may be pushing the government to have it regulated ‘and strangle it, and I hope they don’t because it is a perfect way for small and medium sized businesses to raise money. It really is.’

Company website: [www.answer-4u.com](http://www.answer-4u.com)
How the survey is carried out

This is the 117th survey report completed since the Quarterly Survey of Small Business in Britain was created in 1984. The small and medium-sized firms that respond to the survey are drawn from a large telephone omnibus survey and a parallel online survey. The aim of the sampling strategy is to provide a fair representation of the SME population while also enabling the research team to explore the inherent complexity and richness of business life today. It should be noted that the survey sample is not a panel, nor is it fully random. The online survey continuously recruits new members to reflect the national distribution of small firms but also seeks to retain respondents over the longer term in order to support the more in-depth questions and case studies, and to provide insights into the changing experiences of SME owners and managers over a more extended period.

The survey combines the questionnaire responses of our regular online sample (i.e. owners and managers of small businesses who had previously volunteered to take part) with responses from telephone interviews conducted on our behalf by BDRC as part of their Business Opinion Omnibus survey. The link to the online questionnaire was emailed to regular respondents on 29th October, 2013 and a reminder email was sent to non-respondents on 19th November, 2013. In total, 617 of these regular participants responded, with 475 valid usable responses in total (note: this sample included a number of new online respondents recruited with assistance from the FLA and its member organisations). A total of 878 telephone interviews were carried out in two monthly waves. In the first wave, a total of 440 telephone interviews were conducted between the 7th and 17th October 2013. In the second wave, a further 438 telephone interviews were conducted between the 4th and 14th November 2013. This generated an overall total of 1,353 responses. The online survey was conducted using Qualtrics survey software. The two sets of survey data were combined, checked and analysed using the SPSS statistical package.

There are some differences in the composition of the two sub-samples. For example, the telephone survey does not include firms with a turnover below £50,000 and few of the online survey respondents have more than 50 employees. The telephone survey sample includes more firms established since 2006, compared to that obtained from our regular online respondents. There are also some sectoral differences (e.g. there is a higher proportion of telephone respondents in the business services and manufacturing sectors, but somewhat lower proportions in health, education, leisure & other and hotels & restaurants).

For tables by number of employees, we have adopted the BIS definition of a firm with no employees. This is where a self-employed sole proprietor or partners work on their own with no employees, or where a limited company has a single employee director (n.b. a firm with one sole proprietor and one employee is counted as a one employee firm, but a company with two employees is counted as a two employee firm). Barclays Bank also provides its latest estimates of small business closures and starts, and their Small Business Activity Index, which are used as indicators of recent performance. A full set of historical tables is available on request, and will continue to be available as a resource for researchers. For more information on the survey, please contact oubts-enterprise@open.ac.uk.

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15 The telephone survey is part of BDRC’s Business Opinion Omnibus and draws a sample of SME owners and other senior managers. Further details are available at: http://www.bdrc-continental.com/research-specialisms/business-omnibus/
Survey questionnaire – Q4 2013

This is the text of the ONLINE questionnaire

USE OF DATA The details requested are for the purpose of carrying out research into small firms and will not be passed to third parties for the purpose of unsolicited advertising or any other unauthorized purpose. The Open University strictly adheres to the Data Protection Act, and this information will be treated in confidence.

1. What is the legal status of your business?
   Private (limited) company; Partnership; Self-employed sole trader / sole partnership; PLC; Other

2. In which of the following ranges is your firm's annual turnover (excluding VAT):
   Less than £50,000; £50,000 - £99,999; £100,000 - £249,999; £250,000 - £499,999; £500,000 - £999,999; £1m - £5m; £5m - £10m; £10m - £20m; Over £20m

3. Are the owners of the business...
   Male; Female; Joint Male/Female

4. Including yourself, how many people work in the business including both full and part-time workers?

5. How many years have you been running a business?

6. How many years has your present business been trading?

7. What is the main activity of your business?

8. What county or large city is your business located in?

9. Please enter your Business Postcode:

10. Entrepreneurial firms are more competitive, growth-minded and innovative than other firms. Where would you put your firm on a scale of 1 to 10? 1 = not at all entrepreneurial, 10 = extremely entrepreneurial.
   1; 2; 3; 4; 5; 6; 7; 8; 9; 10

11. Is your business wholly or largely owned and controlled by members of one family? Yes; No; Don’t Know

In the last few years, businesses in the UK have had to respond to a number of external shocks such as the effects of the global economic crisis. Some businesses have also coped with extreme events in their local areas, such as flooding, riots, fires or infrastructure failures. We’d now like to ask you a few questions about the ways that you deal with this kind of problem.

12a. Looking back over the last five years, which if any, of the following external events have posed a real threat to your business?
   Extreme weather events, such as droughts, storms, heavy snowfall and flooding; Supply chain disruption (e.g. the collapse of major customer or shortage of essential materials); Fires or other kinds of property damage; Rioting or other kinds of social disruption; The ‘credit crunch’ (e.g. cannot obtain acceptable credit terms from customers and suppliers); Unstable market conditions (e.g. fluctuating or falling demand for our products and services); Unexpected changes in legislation and / or industry regulations; Infrastructure failures (e.g. disruption of electricity, water or internet services); None of these.

12b. Please give an example, based on one of the events you have selected, to explain why it posed a threat to your business.

12c. Please explain why none of the events listed in the previous question posed a real threat to your business.
13a. Do you think your business has become stronger or weaker as a result of this / these experiences? Would you say: Stronger; No real change; Weaker; Don't know

13b. Please explain the reasons for your answer to the question above.

14a. In what ways have you adapted your business over the last five years to make it more robust or resilient?

- Reduced our range of products or services;
- Made changes to our supply chain and/or formed new business partnerships;
- Reduced the number of permanent staff;
- Increased the number of casual or agency staff;
- Changed how our business is financed;
- Diversified into new market(s) and/or business activities;
- Exited from old market(s) and/or business activities;
- No significant changes;
- Other (please specify)

14b. Please give an example, based on one of the changes you have identified, to show how you think it has made your business more robust or resilient.

15a. How important do you consider each of the following factors if a business is to survive a serious external event? Please rate each factor on a scale of 1 to 5 where 1 is ‘not at all important’ and 5 is ‘extremely important’

- Being able to identify potential risks in advance;
- Preparing contingency plans and/or having business continuity arrangements in place;
- Having robust operational and IT systems in place that can cope with extreme stress;
- Having people with the skills, initiative and authority to respond rapidly to unfolding events;
- Maintaining relatively low fixed costs and/or very little debt;
- Building flexibility into commercial agreements and contracts.

15b. Please give an example from your own experience that shows how you made use of one (or more) of these factors in order to deal with a particular threat or crisis.

16a. What proportion of your managerial time and/or resources is currently devoted to each of the following business goals? Please rate each business goal on a scale of 1 to 5, where 5 = ‘a very high proportion’ and 1 = ‘None’

- Short term survival;
- Long-term survival;
- Short-term growth;
- Long-term growth;
- Other business goals (i.e. Not related to business survival or growth)

16b. Please give an example to illustrate your answer to the question above.

17a. Which ONE of the following best describes your MAIN business growth target over the next three years?

- Expand significantly;
- Expand moderately;
- Remain at present size;
- Reduce size;
- Sell your business;
- Merge with another business;
- No growth targets;
- Other (please specify)

17b. Please comment on the reasons for your answer.

18a. Do you think your business has the equipment and technology needed to be resilient and/or to support your growth targets over the next three years?

- Yes, we already have all the equipment and technology we need;
- Yes, once we have completed our planned investments in new equipment and technology; Not yet, but we intend to make further investments in new equipment and technology in the near future; No, but we have decided not to invest in new equipment and technology for the time being; No, we would like to invest in new equipment and technology but cannot do so.

18b. Please explain the reasons for your answer.

18c. What options have you considered for acquiring new equipment and technology?

- Pay cash using existing funds;
- Pay cash using a bank loan or overdraft;
- leasing or hire purchase;
- Other option(s) (Please specify); Have not considered any options; Don't know

19. Please enter any comments you have on the issues raised in the questionnaire.
APPENDIX

The history of the Quarterly Survey

Policy recognition of the economic, political and social importance of small firms in Britain traces its roots back 40 years to the publication of the Bolton Report in 1971. Chaired by John Bolton, a successful and publicly-spirited industrialist, the Bolton Report also marks the conception of the Quarterly Survey of Small Business in Britain. Frustrated by the lack of accessible and consistent good quality data on Britain’s small business sector, the research director and principal author of the Report, Graham Bannock, strongly recommended that a regular survey of the small business sector be established in order to inform researchers and policy makers. With a mix of some public and mainly private sector funding and after a long gestation period, the Quarterly Survey was eventually born in 1984 under the direction of its inspirer, Graham Bannock. Making up for lost time, the Quarterly Survey has produced a report on the state of Britain’s small businesses every quarter ever since.

In the beginning, with entrepreneurship as an academic discipline in its infancy, the focus of the special topics each quarter was very much led by the concerns of financial institutions, interested government departments and bodies such as the Bank of England, Companies House, House of Commons Library, National Audit Office and so on. As academic, political and public policy interest in entrepreneurship and small business management grew, so too did the focus and reach of the Quarterly Survey. With this broadening of interest also came a significant shift in location when then Open University Business School Dean, Andrew Thomson, offered to host the Quarterly Survey in 1989. Some 20 years later, with an increase in enterprise activities across the University, the Dean at the time Professor James Fleck welcomed the Quarterly Survey formally into the Open University as a core element in its enterprise research.

The Quarterly Survey has been used widely as an economic barometer since it began in 1984. It has been and remains an important resource for SME academics, policy-makers and professional support practitioners (such as accountants, bankers, consultants and lawyers). It reveals quarterly and longer term trends on entrepreneurship and key small business issues. It also provides benchmarks for gauging SME regional, sector and size-related performance. The survey findings are regularly reported in the national press and other media. In addition, each quarterly report contains a feature section on a selected small business issue. Recent features have included the impact of the ‘credit crunch’; how entrepreneurial and non-entrepreneurial small firms differ in their approaches to growth and the recession; sources of advice on business and regulation compliance; environmental performance and changing use of information and computing technologies.

The Quarterly Survey is the longest established report focused entirely on small businesses in Britain. It owes its survival and success to its historic knowledge of the SME sector; its dedicated and loyal research/production team, and the long term support from the Open University and from its sponsors. Together we have helped forge a worthy legacy of the Bolton Report.

Emeritus Professor Colin Gray

A full set of historical tables is available on request, and will continue to be available as a resource for researchers. For more information on the survey, please contact oub- enterprise@open.ac.uk
Recent special topics

2013

Q1 Mobile and web based services
Q2 Job creation and contracting out
Q3 Business advice and information
Q4 Resilience and recovery

2012

Q1 Retirement, succession & illness
Q2 Business advice & education
Q3 Education, training & skills development
Q4 SMEs and the British Business Bank

2011

Q1 ICT, smartphones, cloud computing
Q2 Capital allowances
Q3 Focus, employment, ‘greening’ business
Q4 Post-recession trends

Next quarter’s topic: networking trends