
Workspace Group

Resilient Entrepreneurs: research executive summary

9 November 2009

Entrepreneurs have shown resilience in the recession, reporting growth in sales and profits, according to research launched by Workspace Group, conducted by Kingston University [9 November 2009].

Against a backdrop of a global recession, Workspace Group and Kingston University conducted research to investigate how small enterprises have experienced the downturn, how they have adapted to recession conditions and what have been the consequences for their performance.

The study involved a two-stage research design: a combined online/mail survey conducted during March-August 2009 (343 responses) and face to face interviews with 26 business owners conducted June-August. All businesses are independent, employing fewer than 250 employees and are all tenants of Workspace.

Overall, the research revealed that small business owners showed a remarkable ability to “adapt, survive and thrive”. The report highlighted that more than half of small business owners surviving the recession and the squeeze on credit by using their own savings and personal credit cards.

Importance of SMEs to the UK economy

There are 4.7m businesses in the UK (up by 1million since 1997), 99% of which are SMEs and 97% of all businesses employ less than 20 people.

In London, SMEs grow faster than UK SMEs, with 75% of the UK’s ‘fast growth’ SMEs based in London; these are predominately in creative industries.

Report findings

Top line findings from the report:

- Small and Medium sized Enterprises are showing strong profits and growth due to their ability react quicker than large competitors to market shifts
- **48%** of those that took part in the report maintained or **increased profitability** 2008/9

- **46%** of those that took part in the report maintained or **grew sales** volumes achieved before the downturn
- **58%** of those that took part in the report introduced **new products & services**
- Only **a quarter** (24%) of those that took part in the report **saw significant profit falls**

Impact of the recession

The report identified the points of success and pain for small businesses, considering the performance, financing and the timing of the recession's impacts.

SME business performance:

- 48% of London SME's have maintained or increased their profit margins
- 46% of London SME's have maintained or actually grown sales volumes

Timing of recession impacts:

- Biggest impact year was 2008
- Over 20% of London SMEs have not felt any effects

Finance related effects:

- The largest negative effects on the bottom line of small businesses were late payments by customers and the uncertainty over customer payments.

The report also highlighted positive effects on staff motivation (19%) and recruitment (29%).

How SMEs have responded

Many SMEs have taken actions to improve or maintain performance, specifically in relation to:

- sales and marketing
 - more businesses increased advertising expenditure than reduced it
 - over 25% reduced pricing
- changes in the market place
 - Almost half found new types of customers to sell to
- changes to employment
 - Four times as many businesses increased training than decreased it
 - 31% reduced employment
 - 17.5% increased employment
 - 19.5% introduced wag / salary freezes

- adaptations to products and service offerings
 - Almost 60% introduced new products and services against 8% who reduced them
 - 34.7% changed suppliers
- changes in finance
 - 28.6% renegotiated the cost of supplies
 - 19.2% invested personal savings
- changes in entrepreneur behaviour
 - 58% of entrepreneurs surveyed worked longer hours
 - 23% of entrepreneurs surveyed cancelled personal holidays

Financing of SMEs

Almost 40% of businesses did not source external finance. However, of those that did, almost half used it just for working capital.

The main source of finance was business and personal credit cards, with 60% of respondents saying that they used personal credit cards and 21% used friends and family for financial support. Just 21% said that they used bank loans.

In terms of financing patterns pre recession, the majority of SMEs made no significant changes in the types of finance used. In fact, the research showed a decrease in the use of bank loans during the recession.

Conclusions

Overall, the report found that:

- Almost 50% of London SMEs experienced no decline in sales or profit margins.
- Entrepreneurs are working harder and longer and taking less out. Many have cancelled holidays
- Finance is not the major problem. When needed entrepreneurs have been very creative about find sources of capital.
- The perception of the importance of bank finance
- The improvement in the labour markets is proving to be a major positive
- Nearly every respondent had been though and reworked their business.

Appendix

The following tables outline the main findings of the research.

Contents:

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11. How has external finance been used by?
12. What are the main reasons for accessing external finance?
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1. What have been the impacts of business performance?

Business Performance Changes Between Q1, 2008 and Q1, 2009			
	Value of sales	Profit margins	
Higher	26.5		20.4
About the same	19.2		27.4
Lower	51.9		49.3

2. When were the impacts of the recession felt?

Timing of Recession-related Effects	
Time	% of sample
During 2007	2.3
During 2008	34.7
During 2009	29.4
Have not felt the recession yet	20.1

3. What have been the financial effects of recession?

Experience of Recession-related Effects			
	Positive Effect %	No Effect %	Negative Effect %
Late payment by customers	4.2	31.4	64.3
Bad debt or uncertainty over customer payments	2.1	42.8	55.1
Cash at bank	6.9	44.1	48.9
Credit periods and/or credit terms from suppliers	2.7	63.7	33.6
Availability of bank loans/overdrafts	5.1	70.6	24.3

4. Aside from finance, how were companies affected?

Experience of Recession-related Effects			
	Positive Effect %	No Effect %	Negative Effect %
Cost of supplies	8.1	43.8	48.0
Falling value of sterling	13.5	42.9	43.5
Transport costs	7.2	50.9	41.9
Energy costs	5.1	54.9	40.0
Staff motivation/effort	18.6	55.8	25.6
Ease of staff recruitment	29.1	61.9	9.0
Other	13.4	0.0	86.7

5. What actions have companies taken to improve or maintain performance?

Actions Taken	% of sample
Increased sales effect	56.3
Reduced selling prices, or held price rises below inflation	26.5
Increased advertising and promotional expenditure	24.5
Reduced advertising and promotional expenditure	14.3

6. What changes have companies witnessed in the market?

Actions Taken to Increase or Maintain Business Performance since Start-2008	
Actions Taken	% of Sample
Selling to new types of customers	47.5
Selling more to existing customers	40.2
Selling in new geographic markets	27.4

7. How has employment been affected?

Actions Taken to Increase or Maintain Business Performance Since Start-2008	
Action Taken	% of Sample
Reduced numbers employed	31.2
Introduced wage/salary freeze	19.5
Introduced new working practices	19.0
Increased use of external labour (e.g. sub-contractors, freelancers, agency temps, casuals etc)	17.8
Increased numbers employed	17.5
Taken greater care in recruitment of staff	14.6
Increased employee training	13.7
Increased use of unpaid family labour	5.2
Reduced employee training	2.6

8. What has the effect on products and services been?

Actions Taken to Increase or Maintain Business Performance since Start-2008	
Actions Taken	% of Sample
Introduced new or improved products or services	57.7
Reduced the range of products/services offered	8.7
Increased use of intellectual property (e.g. patents, registered design, registered trademarks, copyright)	5.0
Used new suppliers	34.7
Invested in new equipment	25.9

9. What actions have been taken to increase or maintain business?

Actions Taken to Increase or Maintain Business Performance Since Start-2008	
Actions Taken	% of Sample
Renegotiated the cost of supplies	28.6
Invested personal savings	19.2
Shortened payment periods from customers/creditors	15.5
Reduced debt to external sources	14.3
Extended payment periods to suppliers	13.1
Reduced investment expenditure	12.0
Increased debt financing	6.7

10. What have been the behavioural changes amongst entrepreneurs?

Actions Taken to Increase or Maintain Business Performance Since Start-2008	
Actions Taken	% of Sample
Personally worked longer hours	57.7
Cancelled personal holidays	23.0
Sold personal assets to compensate for poor business performance	5.2
Other changes in owner-manager behaviour	6.1

11. How has external finance been used by?

Use of external finance by performance and size groups	
Used external finance %	Not used %
60.2	39.8

12. What are the main reasons for accessing external finance?

Main Reason Given for Accessing External Finance in 2008-9	
Reasons	% of firms
Working capital	48.0
To Acquire fixed assts	11.0
New product or service development	8.7
Marketing campaign	4.6
Other	4.6
No reason given	23.1

13. What types of finance have been used?

Changes in the Use of Different Types of Finance by Firms 2008-9	
Changes	Used %
Business credit cards	68.2
Personal credit cards	59.2
Trade credit	58.2
Bank overdraft	50.0
Personal savings	49.8
Leasing or HP	43.1
Bank loans	21.2
Informal equity finance (i.e. family & friends)	20.8

14. How has the use of finance changed?

Changes in the Use of Different Types of Finance by Firms 2008-9			
	Increased Use (%)	Decreased Use (%)	Change in Use (%)
Bank overdraft	17.1	4.9	12.2
Bank loans	3.7	4.1	-0.4
Business credit cards	12.3	5.8	6.5
Personal credit cards	11.2	8.2	3.0
Leasing or HP	6.5	5.8	0.7
Trade credit	10.7	1.5	9.2
Factoring etc	3.4	0.8	2.6
Grants or subsidised loans	3.1	0.4	2.7
Informal equity finance (i.e. family & friends)	7.3	0.8	6.5
Formal equity finance & business angels	2.7	1.6	1.1
Personal savings	22.1	3.3	18.8
Other types of finance	83.3	16.7	66.6