



**Federation of Small Businesses
Oxfordshire Branch**

**Response to the
Economic Development Strategy for Oxfordshire
(Consultation Draft)**

February 2006

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The Oxfordshire Branch of the Federation of Small Businesses is pleased to contribute to the consultation process undertaken by Oxfordshire Economic Partnership.

The FSB is Britain's biggest business organisation with 190,000 members including over 2000 in Oxfordshire. It exists to protect and promote the interests of the self-employed, and all those who run their own business. Through its National, Regional and Branch structure it seeks to engage with government at all levels to represent its members interest.

More information is available at www.fsb.org.uk.

Discussion:

In South East England Small Businesses' share of the economy is illustrated by the following table.

	Micro Businesses (<10 employees)	Small businesses (<50 Employees)	Med – Large Businesses
No. of Businesses	654,105	677,725	4,655
% of Businesses	95.86%	99.32%	0.68%
% of Regional employment	34.32%	48.64%	51.36%
% of Regional Turnover	21.48%	35.63%	64.37%

Source: Small Business Service Analytical unit.

Oxfordshire has a slightly higher proportion of small businesses and therefore is economically more dependent on them. According to the Oxfordshire Economic Profile, produced by the Oxfordshire Economic Observatory, 75% of employers employ less than 10 people. This report also states that organisations with over 200 employees accounts for 33% of employment. It can therefore be deduced from that SMEs (<250 employees) account for at least 67% of employment in Oxfordshire.

Small businesses form not only the “backbone” of the economy but they also play a significant role in the local communities. The contribution of the small businesses in terms of GDP is relatively easy to measure. The social impact that they have on the community is more difficult to quantify. The fact that the majority of people employed in the private sector actually work in small businesses puts the importance this sector into perspective. More support and encouragement for the businesses (particularly small businesses) therefore has to be forthcoming.

We are therefore pleased that SMEs and in particular small businesses are recognised in this Economic Development Strategy as being an important element of Oxfordshire's economy. However, there are aspects of the strategy that indicate that small businesses are not fully understood. In addressing questions of entrepreneurship and start-up ventures the strategy focuses on spin-off companies from academic and research institutions, from large companies or funded by venture capital. These companies form only a very small fraction of the small companies in Oxfordshire. The reality is that they are businesses operations managed by large organisations. We think that independent small businesses, especially those working on leading edge technologies, need additional consideration.

Many challenges that confront small businesses are not an issue for larger businesses. Some of the main issues confronting small businesses are:

1. Sales:

The single overriding business issue for small businesses is sales. This is also the fundamental factor that determines economic growth, as added value is not realised until a service or product has been sold. Small businesses do not have the large sales & marketing teams that large businesses can deploy. In addition, if small businesses are selling, they are not producing and vice versa. For micro and small businesses, which are trying to grow into mainstream markets, the cost of sales and marketing is a major barrier to growth.

2. Skills & Training

Small businesses are often specialist or operating at the leading edge of technological innovation. They therefore often have to train their own staff because the necessary skills are not available in the market. For micro and small businesses trying to break into and become established in the mainstream market, growing a trained workforce to meet the high rate of demand growth is a significant cost. They also experience difficulties recruiting people with adequate baseline skills to take on the specialist training. The churn rate of trained staff is a problem because of poaching, which leads to higher staff costs.

3. One-Man-Bands (owned and operated by the proprietor with no employees)

A large proportion of businesses with zero employees are specialists and knowledge workers. They are catalysts in bringing technological and process innovation to market. They also facilitate incremental innovation by integrating new technology into existing systems. This group gets virtually no support from any of the Government initiatives, nor from banks and funding institutions. Yet they are essential to effecting knowledge transfer.

4. e-Business:

Most small businesses use computers, have access to the internet, use email and have computerised management applications for accounting and document management. The main problem is the lack of portals, especially for e-commerce. Those that exist are focused on narrow market segments or they amount to no more than directories. These are not cheap, around £250 - £350 p.a., and to cover their market a small company needs to subscribe to several. This adds a further factor of time and effort to monitor these services, which is a considerable burden to a company with few people.

5. Publicly Funded Advice

Very few of the people employed by agencies delivering publicly funded advice and support have recent experience of starting up and building a small business. Also, "career" public sector employees have very little understanding of small businesses. Frequently they regard small businesses as scaled down big businesses, with the same organisation and management processes and structures. Small businesses are as different from medium and large businesses as the SAS is to the regular army. The first breakdown in communication is in timescales. Public sector organisations and large businesses think in years, small businesses think in weeks. Bureaucracy and regulations add further to the breakdown in the relationship.

6. Innovation

Most government support for innovation is focused on technological R&D. Most recipients of Government support are large companies, universities and R&D establishments, or spin-offs by them. This is because of the matched funding rules, which most small firms cannot meet. Furthermore, most "Innovation" projects are aimed at producing intellectual property, which is eventually sold to a large investor, often a foreign company. Very few of the UK innovation results in the creation of new production companies in the UK.

Some solutions to these issues are:

1. Sales:

- Access to markets
 - Public sector procurement
- Foster networks that promote sales opportunities for small businesses
 - Centralised registration of PQQs
 - Make full use of existing e-marketplaces
 - Set up e-tendering portals
 - Reduce bureaucratic restrictions
 - Enforce sub-contracting strategic suppliers
 - Set targets for local authorities
 - Separate project management from project implementation

2. Skills & Training

- Baseline skills
 - Skills development
- Promote the 3 R's + IT literacy
 - Vocational courses / apprenticeships
 - Provide 100% training grants to firms that train staff in advanced technical skills to achieve growth

3. One-Man-Bands

- Knowledge transfer
 - Key advisors
- Foster one-man-band involvement in technological and process innovation
 - Encourage local authorities to set up project management teams from freelance knowledge workers.

4. e-Business

- Open up e-tendering portals for public sector procurement at all levels
- Centralise PQQ registration

5. Publicly Funded Advice

- Increase the number of advisors with recent small business experience

6. Innovation

- Develop a policy for bringing innovation to market.
- Recognise the need for and support small businesses to continually improve through incremental innovation.

The proposed Economic Development Strategy addresses most of the key issues that are of importance to the economy of Oxfordshire. However, the importance of the economic and commercial infrastructure provided by the many small businesses has not been fully realised.

The remainder of this paper deals with our detailed comments.

A. M. (Sandy) Lovatt
Secretary
FSB Oxfordshire
2nd March 2006.

Comments:

Paragraph	Comment
Introduction RES`Challenges	There is a 4 th challenge relating to changing the culture of the public sector in terms of risk management and their understanding of small businesses. This is a serious challenge because it pervades all aspects of the public sector interaction with small businesses – regulation, time scales risk management, procurement etc.
Introduction Final Paragraph	Definition of sustainability it should include the following: <ul style="list-style-type: none"> • Maintenance of high and stable levels of economic growth and employment. • Social progress recognising the needs of everyone, especially in the area of affordable housing; • Effective protection and management of the environment; • Prudent use of natural resources; • Sustainability of commerce and trade. • An innovative approach to overcoming problems Last 2 bullets added, 3 rd bullet – “and management” inserted
Section 2. Global Market Place Objectives	If these objectives are to be addressed we need to understand properly the innovation value chain and develop our own companies to compete with the world in new markets. We also need to get on board the EU strategy for Innovation and Research and establish Oxfordshire as a European Innovation cluster.
Section 2.2 Develop and exploit international links Next Steps	We should use our technological advantage to create products and services that compete globally – not simply invite outsiders to take our technical knowledge and develop it for themselves.
Section 2.3 Raise awareness of Oxfordshire's "offer"	Oxfordshire is primarily perceived as an academic county. We need to promote its existing entrepreneurial potential. We also need to strengthen the links between our academic and research institutions and local businesses. This should especially include actively seeking partners from among our small businesses to take our R&D forward to the design, prototyping & testing, and the production stages of new products and services
Section 3 Business Environment Aim	To read: “Create a positive environment for businesses throughout the County.” Delete the word “encourage.”
Section 3.1 Encourage a culture of enterprise and entrepreneurship	Entrepreneurship, as has been acknowledged, involves accepting a higher level of risk. It is difficult to envisage how one can instil a risk taking attitude to business in young people when the pervading culture and influence on almost any other aspect of their activities is safety first. This also applies to the Public Sector employees who operate in a regime that is averse to risk; which is the reason why many of them entered this sector in the first place and how the more senior people have achieved promotion. In encouraging enterprise and entrepreneurship there is a fundamental need to change some embedded cultures in the public sectors.
Section 3.2 Refine support services for businesses	The area in which small businesses most need support is in access to markets and sales. This requires a re-examination of the anti-competitive rules currently pertaining in Europe and the public sector.
Section 3.3 Remove barriers to growth	We do not share the satisfaction expressed about business angels and venture capital organisations. In general, very few independent start-up companies get support from these organisations. Virtually all of this funding goes to spin-offs from academic and research institutions and large businesses. The business model for venture capital seeks to realise its investment within 3-5 years. This is just enough time to develop the intellectual property. Because of this, the

	<p>exit strategy for companies benefiting from this investment is to sell out to a larger, usually foreign, organisation, which often prevents further development in bringing new products to market. It is effective at creating millionaires but adds little value to the economy. Furthermore, the proportion of companies benefiting from this support is a tiny fraction of the small businesses in the county. Other sources of finance for small businesses, such as the Small Business Loan Guarantee Scheme, are bedevilled by bureaucratic delay. For small business, time is in as short supply as finance. In the building a new enterprise, money buys time to create a company.</p>
<p>Section 3.3 Remove barriers to growth Next steps</p>	<p>Two additional next steps are needed: Develop incentives to investment organisations to support bringing new technology to market in the UK. Improve the responsiveness of public sector organisations to match small business timescales.</p>
<p>Section 3.4 Transform business and maximise opportunities created by technology innovation and utilisation</p>	<p>Small businesses, particularly those operating in the business-to-business markets, do not lack the will to use new technology in running their businesses. What are needed are the networks and portals to enable them to benefit from it. Electronic markets in the public and private sectors will do much to support small businesses becoming sustainable. An additional next step is to develop the facilities to exploit new technology, in particular ICT.</p>
<p>Section 3.5 Improve the Environmental Performance of all employers</p>	<p>Additional Next Step Make environmental regulations easy to comply with rather than simply becoming another stick with which to beat small businesses. Deliver solutions, not just problems.</p>
<p>Section 3.6 Nurture Business Clusters and Support Networks</p>	<p>First and foremost, small businesses need customers. The purpose of clusters and networks is to facilitate commerce and trade. Their object is to open up and expand markets to increase wealth. SEEDA has withdrawn funding for clusters, in many cases at a critical point in their development. How is this aspect of the strategy going to be achieved? We agree with the identification of Tourism as an important cluster. Tourism is probably one of the solutions to the issue identified at Section 5.7</p>
<p>Section 3.7 Spread Innovation Best Practice</p>	<p>Add an additional next step: Create a forum of business representative organisations to develop business policy and programmes</p>
<p>Section 3.8 Exploit the commercial and creative potential of the science and technology base</p>	<p>Academic and research institutions commercial departments are notoriously difficult to deal with for small businesses. Their role is to maximise the gain from the research carried out by their parent organisations. This usually means making financial arrangements with the larger companies, often foreign, for the transfer of IPR. There is very little incentive for them to the fruits of their research to market through partnerships with local businesses. This needs to be addressed.</p>
<p>Section 4 Skills Development</p>	<p>Many independent small businesses deliver leading edge technology. A critical stage in their growth is the step from being a micro-business (<10 employees) to being a small business (10 – 49 employees). They are usually the only organisations with the knowledge to train new staff in their technology. This growth step requires a significant investment in training, which businesses have to fund themselves. There is a need to restructure training funds, and the accompanying regulations (e.g. anti-poaching rules) to take account of this and provide support for growing companies.</p>
<p>Section 4.1 Learning and Skills strategy for Oxfordshire</p>	<p>We have no disagreement with the ethos of Life-long Learning, which is the basis of maintaining continuous development and innovation. We do however question the amount of resources going into remedial action rather than progressive development.</p>
<p>Section 4.2</p>	<p>The quality of output from schools is the basis of all further progress</p>

Invest in learning - Performance and attainment at school	in economic skills development. It is of fundamental importance that the requisite levels of attainment are achieved in order to minimise remedial costs later on. The requirements of the economy must therefore be designed into the educational standards.
Section 4.3 Education and business	There needs to be more involvement of small businesses in the interaction with schools. If an entrepreneurial culture is to be instilled into young people, it is the example of successful small businesses that will convey the message.
Section 4.4 Invest in Workforce Development	Apart from Business Links, none of these agencies have any direct contact with small businesses or seem to have created any proactive initiative to engage with small businesses. We would also question the depth of small business or entrepreneurial experience that the staff in these organisations may have. Add additional Next Step: Increase the involvement of small businesses and entrepreneurs in planning workforce development initiatives.
Section 5 Oxfordshire's Environment	Community Strategy: Business representation on these groups is minimal with the possible exception of the OCP in which the OEP has 4 specific business representatives, including the FSB. Main Objectives: We would caution against the further use of brownfield sites in town centres for residential development as this is beginning to have an adverse effect on town centre businesses.
Section 5.1 Secure adequate investment in infrastructure	We would advocate a clear long term business case for the development of county transport and roads infrastructure as this will be the only basis for arguing the need for funding for projects.
Section 5.7 Support Urban economy	We agree with all of this section. We would add that this may become a significant business and political issue over the next few years. There are 3 main issues involved: <ul style="list-style-type: none"> • the development of out of town shopping sites • traffic congestion and parking problems • development of housing projects on previously commercial sites. <p>All three are leading to a reduction in footfall on retail premises and access to customers for other businesses. New strategies for bringing customers into town must be developed.</p>