Federation of Small Businesses

South East Policy Unit

Response to the

SEEDA South East Business Support Strategy 2008-2011

INTRODUCTION

The Federation of Small Businesses (FSB) is the UK's largest lobbying organisation representing the self-employed and owners of small businesses. Founded in 1974, the FSB now has over 215,000 members across all industry trades and sectors within the UK. In the South East the FSB has over 36,000 members employing over 150,000 people.

The FSB South East Policy Unit (SEPU) welcomes the consultation on the South East Business Support Strategy launched by SEEDA. We hope that the comments and recommendations put forward by the FSB contribute to the important debate on how to develop a business support system that meets the needs of the small business community.

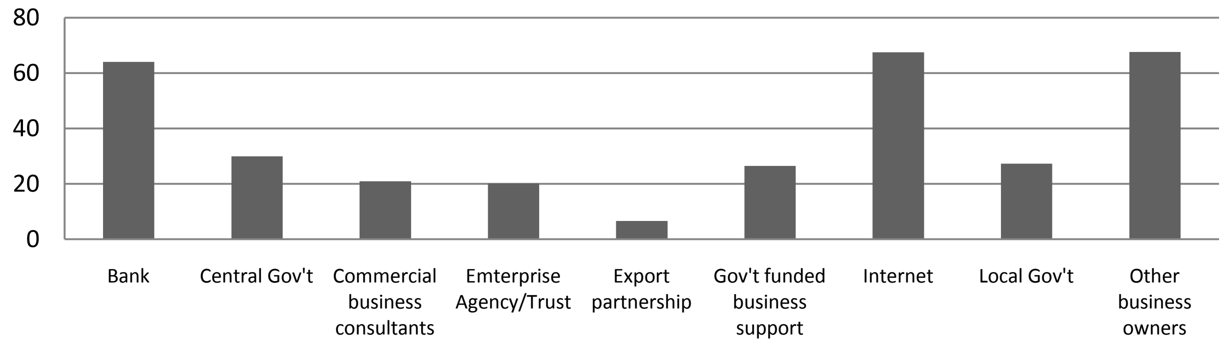
LIFTING THE BARRIERS TO GROWTH SURVEY 2008

The fifth biennial survey of the FSB membership[1] covered a range of topics relevant to this consultation: future business aspirations; employment; skills and training and business advice and services.

The consultation document clearly identifies that if the strategy is to meet its purpose[2] then it must demonstrate that it is "informed and shaped by the needs and views of businesses themselves."[3] This should not be a minor element within the context of the overall strategy but should in fact be the axiom that guides the future direction of business support provision across the South East.

The usage of government funded business support by business owners (table 1 below) stands at 26.5% which makes this option the sixth most used source of business support provision behind other business owners (67.6%), Internet (67.5%), Bank (64%), Central Gov't (29.9%) and Local Gov't (27.3%).

Table 1. Percentage of business owners using each source of advice

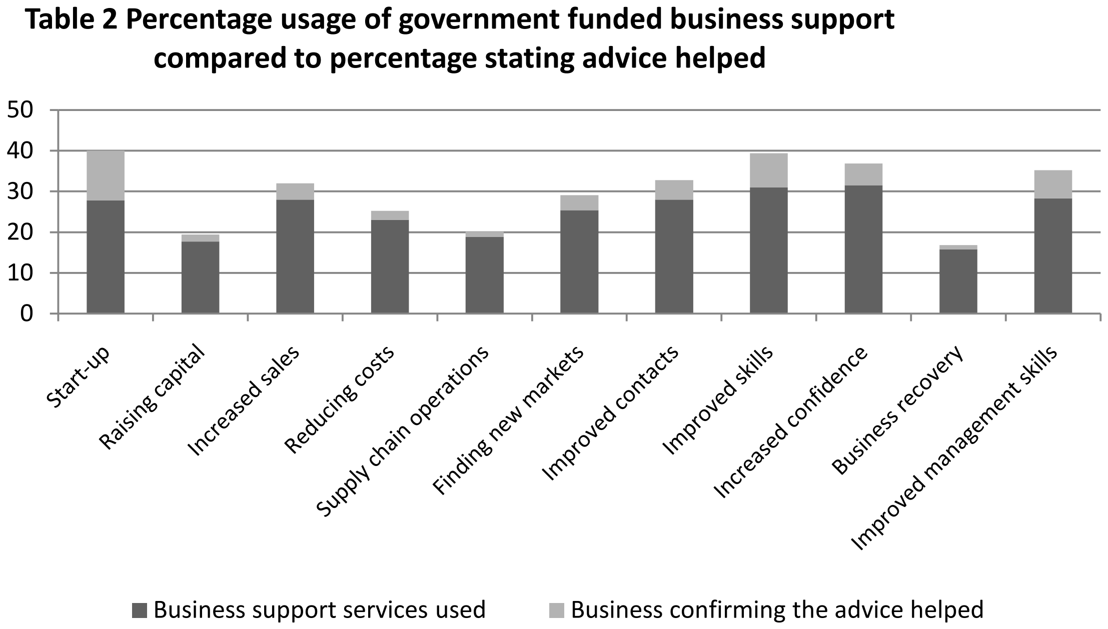


---

[1] The survey was carried out by the University of Glamorgan Business School and the South East findings are based on the responses from 1497 business owners.
[2] The strategy aims to provide direction and common purpose for all those involved in funding or delivering business support and in developing economic and regeneration policies in the region, leading to a more efficient, effective and integrated arrangement (SEEDA Business Support Strategy, page 5).
[3] ibid

The low level of existing usage of government funded business support, which currently lags behind both central government and local government in terms of its take-up by small businesses, clearly has implications for the successful consolidation of Business Link (BL) as the primary access channel for all publicly funded business support.

One of the core problems for small businesses, identified by the survey, is the gap between the uses of government funded business support services compared to those who felt that the advice given actually helped their business (table 2).



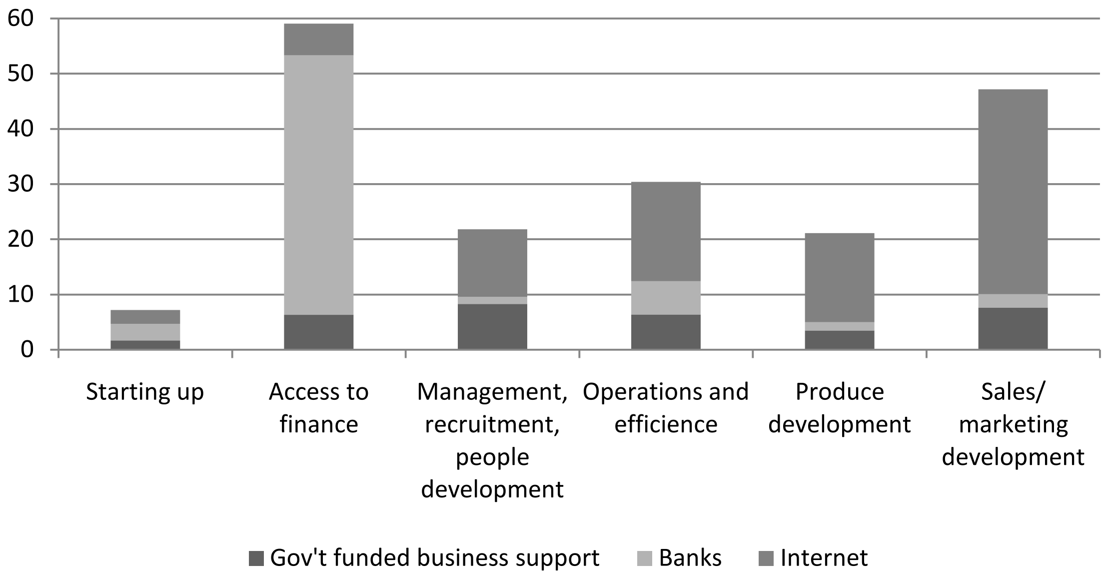
Out of the seven most commonly used government funded business support services: increased confidence (31.5%), improved skills (31%), improved management skills (28.3%), improved contacts (28%), increasing sales (28%), start-up advice (27.8%) and finding new markets (25.4%) the only one that had an approval rating in double figures in terms of providing helpful advice was for start-up advice (12.2%). For all other core services the percentage of business owners who rated the advice provided as useful ranged from 8.4 percent right down to 1 percent (for business recovery advice).

How BL measures its performance must be called into question. Their published customer satisfaction rating of 90% clearly does not tally with the findings of our survey. The measurement of BL services is crucial and has to accurately reflect the performance of BL rather than merely being a tick box exercise.

Sources of business support and how they will be used by business owners over the next two years demonstrate the growing importance of the Internet as a source for business support advice (see table 3). Indeed 37.1% of business owners expected to use this to help develop their marketing and sales skills, compared to 7.6% who expected to use government funded business support.

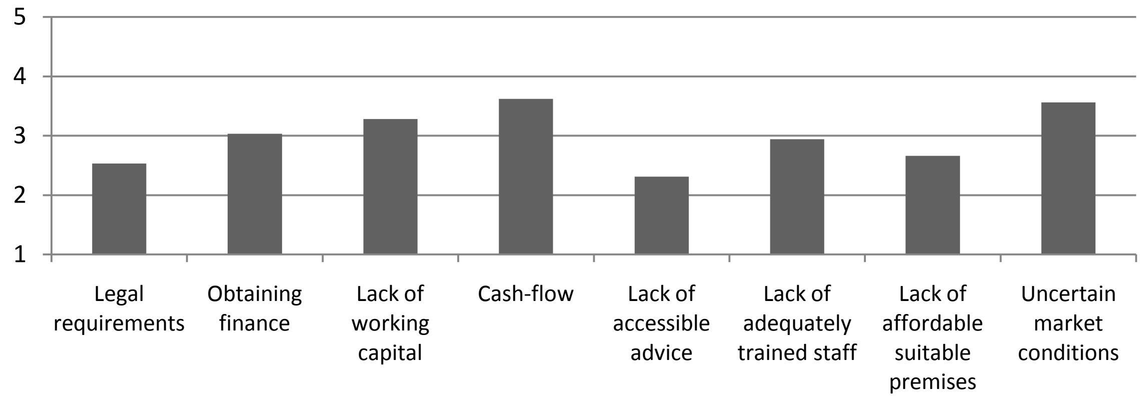
It is clear that the Internet is emerging as a recognised source of business support by small-firm owners. BL need to ensure that when business owners use search engines to locate sources of business support the BL web site is always placed within the top three search engine choices. At present this is not always the case as some searches utilising key words fail to bring up any link to the Business Link website.[4]

Table 3. Sources of advice and their uses



Banks remain the overwhelming choice of small business owners for access to finance, however as the current economic problems remain and banks continue not to make finance either easy to obtain or affordable for small firms then BL needs to provide an alternative source for small business owners to identify means of raising finance.

Table 4. Barriers to firms aiming to grow in the next two years (1 no barrier - 5 major barrier)



The need for BL to start focusing services which provide small business owners with access to information on how to raise finance (outside the normal bank route) will become increasingly more important over the period 2009-2011. This is demonstrated by the fact that when business owners were asked to identify the barriers to their growth over the next two years the main ones identified

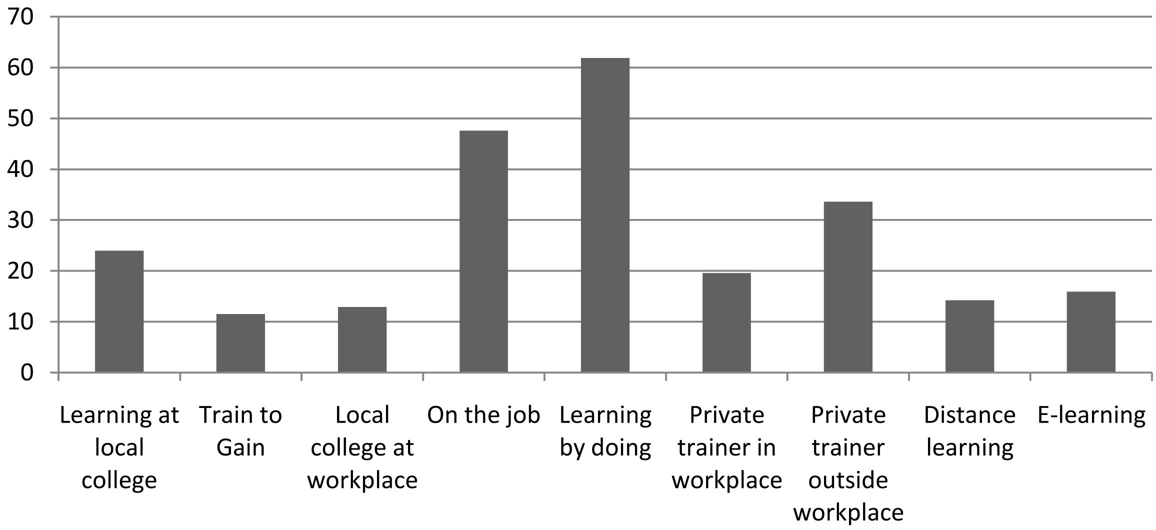
[4] Inputting combinations of the following words: training skills, support, business, and marketing into a Google search engine did not automatically list the BL website as one of the main choices.

all relate to raising finance (table 4). Issues relating to cash flow, lack of working capital, obtaining finance were all judged to be a barrier to their growth potential. Another significant barrier identified related to the uncertain market conditions which would impact on their growth ambitions.

Business owners did not see a lack of either accessible advice or adequately trained staff as a major barrier to their business.

These results suggest that small-business owners and managers are becoming particularly aware of financial constraints on their ability to grow their businesses. This in turn has significant impact on the take-up of training by small businesses as they look to cut costs in order to remain in businesses.

Table 5 use of various sources of training



Small-business owners tend utilise a combination of learning by doing (61.9%) or on the job training (47.6) to ensure that their employees are able to carry out their roles effectively (see table 5 above). The take-up of Train to Gain, though at present quite low (11.5%) should increase as a result of the changes announced by the Government as part of their new £350 million Train to Gain[5] package.

Q1 COMMENTS AND FEEDBACK ON THE OVERALL APPROACH

The strategy is right to set the objective to help all businesses improve their performance by increasing the take up of all types of business support from the public, private and voluntary sector.

The FSB report "Putting the economy back on track Business Support and Finance"[6]demonstrate that the most commonly used sources of business support by small firms are customers, suppliers and professional services (such as banks, accountants and solicitors) and informal sources (such as family and friends).

[5] Key changes include relaxing the rules to allow funding for "bite-sized chunks" and relaxing the rules to allow workers to get training up to level 2 even if they have a previous qualification and more funding for level 3 training.

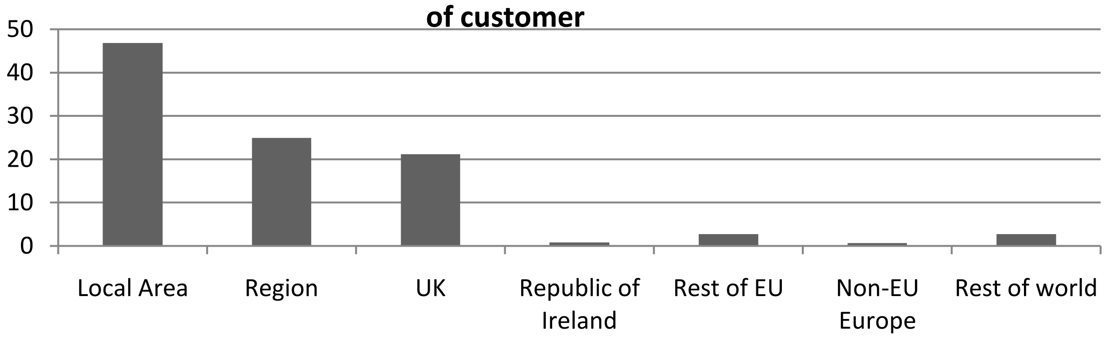
[6] Report based on the findings from the FSB 2008 Lifting the Barriers Survey

The take up of government funded business support is typically between one-fifth and a third of respondents across a wide variety of purposes. However when respondents were asked to assess the impact of government funded business support used (see table 2) the respondents' perception was that it is having little impact on the businesses reporting they had received it. **The strategy needs to demonstrate that government funded business support can add value to the businesses that receive it.**

The current economic crisis underlines the importance of consumer expenditure. It is the start of the cash-flow loop and is the basis for business sales revenue (profit) in the business market. BLs frequently point out that one of the most prevalent shortcomings in business plans presented to them is poor sales information and data. The maintenance of consumer confidence should be a consideration of the Business Support Strategy.

As economic growth is the primary aim of the Regional Economic Strategy (RES) one of the key measures to ensure strong growth levels is by achieving a positive trading balance in foreign exports and with other UK regions. Table 6 below demonstrates the distribution of sales by location of customer[7].

Table 6 Distribution of sales (percentage of annual sales) by location of customer



For most small firms local and regional markets are their major sources of sales, however greater assistance needs to be supplied if we are to increase their competitiveness in other key markets (UK and foreign markets).

Business competitiveness derives from a number of factors such as improving efficiency, innovation and developing/applying leading edge skills and knowledge. The overall approach to business support should therefore prioritize the following three elements in order to ensure that small firms reach their full potential:

1. Competitiveness
2. Efficiency
3. The economic skills base

[7] Figures taken from the South East findings of the Lifting the Barriers Survey 2008

Q2. DO THE PROPOSED FOUR STRATEGIC OBJECTIVES FOR THE BUSINESS SUPPORT STRATEGY OFFER THE RIGHT FRAMEWORK AND PROVIDE CLEAR DIRECTION WHICH CAN BE USED BY ALL PARTIES IN THE REGION WORKING TO SUPPORT BUSINESSES?

There is an issue about how we measure the achievement of these objectives. The Richards Review on Small Businesses[8] made the point that “We must stop making the measurable important and begin to make the important measurable.” This maxim should be at the heart of how we measure the success of the Business Link model, for example the target for measuring the number of VAT start-ups per 10,000 resident adults should not be taken as a reliable outcome focused performance indicator.

A recent report by the New Economics Foundation[9] also emphasised the pit-falls of using government regeneration targets, and in particular the use of VAT start-ups as a performance indicator: “Measuring VAT regulations overstates the scale of the ‘enterprise gap’ between deprived communities and other areas, as a bigger proportion of businesses in deprived areas are below the VAT threshold.”

The South East Business Support Advisory Board needs to identify a new set of indicators for measuring the success of Business Support objectives rather than relying on the existing mechanisms.

Q3. WILL THE IMPLEMENTATION OF BUSINESS SUPPORT SIMPLIFICATION SUFFICIENTLY IMPROVE THE COHERENCE OF PUBLICLY FUNDED BUSINESS SUPPORT PROVIDED BY ALL ORGANISATIONS?

The business support simplification programme (BSSP) has to demonstrate that can improve both the coherence and **take-up** of government funded business support by small firms. The past experience has been that even where the products and services on offer matched business needs the take-up remained very low in relation to the overall business population. Therefore the key target for BSSP is not necessarily to reduce the number of services offered but actually to address the problems of inflexibility in delivery and the bureaucracy that business owners have to deal with in order to get the support they need.

The success of BSSP also depends on the efficiency with which the programme is administered by BL, and in particular attention needs to be directed at how BL works with the private sector providers. In the past there problems have arisen when a business consultant has referred a client to BL for assistance and BL has ended up “owning” that client. As a result of this many consultants and potential intermediaries are unwilling to refer clients onto BL.

Q4. HOW SHOULD THE STRATEGY BE USED TO SUPPORT THE OBJECTIVES IN LOCAL AREA AGREEMENTS/MULTI AREA AGREEMENTS?

LAAs have historically only been designed to delivery safer communities and have not until this latest round of negotiations included local economic indicators. However the indicators chosen by the government to be included in their list of 199 national indicators will not deliver many direct benefits

---

[8] D. Richards, Richards Review of Small Businesses and Government: Interim Report 2007

[9] Ellis Law and Jeremy Nicholls, NEF, Hitting the target, missing the point. How government regeneration targets fail deprived areas, March 2008

to the business community. Analysis of the 19 LAAs in the South East reveals that the most commonly chosen 'economic' targets from within the 34 local economy indicators section are:

- Number of additional homes delivered (18 LAAs)
- Proportion of population aged 19-64 for males and 19-59 for females qualified to at least Level 2 or higher (17 LAAs)
- Net additional homes provided (14 LAAs)
- Access to services and facilities by public transport, walking and cycling (12 LAAs)
- Working age people on out of work benefits (10 LAAs)
- New business registrations (9 LAAs)

Given that very few of the LAA local economic indicator targets directly benefit the business community SEEDAs business support strategy should only support those indicators that actually already align with the existing priorities (e.g. new business registrations and the percentage of businesses in the area showing growth). The strategy should focus on supporting the RES targets rather than trying to deliver on LAA targets that at present do not address the needs of the business community.

The performance indicators need to be fundamentally restructured. They are currently political rather than operationally (economic) focused.

Q5. How should the geographical priorities of the RES best influence the decisions of the providers of publicly funded business support?

Providers of publicly funded business support should not be influenced by the geographic priorities of the RES. The strategy must at its heart always adhere to the notion of being "customer driven" this would be compromised by the focus on a spatial approach for business support according to geography/location. Business location should not be an issue in obtaining publicly funded business support.

Specific geographical focuses within the RES should not be funded through the Business Link budget but should be delivered via other sources of funding.

Q6. How can additional support for under-represented groups be integrated into business support rather than being marginalised?

Support for under-represented groups should not be pursued to the detriment of the business community as a whole. The majority of business start-ups do not come from these groups but still require significant assistance during their first three years. The strategy of Enterprise for All should be just that.

Q7. Will the proposed segmentation to focus intensive support on high value businesses allow business support services to be targeted where they can have the greatest impact?

Targeting high intensity business support for those sector with the greatest potential for growth, innovation and internationalisation could be undermined by the track record of the public sector to "pick winners" which has actually stunted their growth, rather than supporting it. As with the target for under-represented groups we should not create a situation whereby if a business is not on the correct list, it does not get the level of support that it needs.

The weakness of this proposal is that it fails to appreciate that businesses, unlike the public sector, do not work in silos but across the market. It would be far more valuable for the business support organisations to provide opportunities for all innovative businesses to develop their products and to let the market decide which ones make businesses the most competitive.

Sales and profitability is the number one priority for all businesses that overrides all other imperatives. It is also the primary driver for economic growth. Rather than attempting to “pick winners” the strategy should concentrate on improving sales growth which in turn can drive improvements in skills, finance and business management.

Q8. Will the greater coherence of business support be sufficient to promote business formation effectively?

When looking at take up and satisfaction with the business start-up advice given by government funded business support 27.8 per cent of business owners had used this advice, but only 12.2 per cent stated that the advice they were given helped.[10]

The issue is not necessarily about the coherence but more importantly it is the quality of the advice offered that needs to be addressed.

Q9. The strategy’s performance measures are currently based on the RES and SEEDA’s Corporate Plan. Should the LAA National Indicator set be included?

The LAA indicator set has very little relevance to business aims and objectives, or even to economic development and therefore the indictor set should not be included in the performance measures.

10. Additional comments and suggestions

There is still a long way to go with regard to fostering awareness and providing useful information on government funded business support. It also needs to make it clear that the services available are for established businesses as well, and not exclusively for business start-ups.

The brokerage service needs to offer a number of business support options. This should, where appropriate, include at least one private sector and one public sector option of provision. The strategy should fund provision where there is no private-sector provision available.

The strategy needs to carefully consider how BL can effectively engage with private sector consultants so that they sign-up to the supplier matching service. The service needs to demonstrate that it can be truly independent rather than frequently including ex BL employees as one of the recommended training options.

It is crucial that the diagnostic service, offered by BL, is staffed by businesspeople with a background in the field for which they are providing business solutions. This will further enhance the reputation of BL and ensure that the advice being given is honest and business-focused.

[10] South East findings of the Lifting the Barriers 2008

Where an existing business support scheme operates under a good brand it should not necessarily be rebranded as a BL product e.g. NETREGGS should remain as a service provided by the Environment Agency and not taken under the BL umbrella.

MAIN PROPOSALS

1. The strategy must be customer driven if it is to successfully engage small businesses.
2. Government funded business support services provided to businesses must demonstrate that it adds value to the businesses that receive it.
3. Business support must be available to all businesses and prioritising business support according to minority status or geographical location undermines this goal.

For further information on any of the issues covered by this response please email: Andrew.barter@fsb.org.uk.