

SME Advisory Panel: Revival is in the hands of the small business

1st April 2009



Small Business leaders have demanded further reductions in interest rates and called for companies to work together to survive the tough times ahead.

Stephen Alambritis added that although small business owners were used to going it alone, now was the time to share knowledge, information and experience with other firms and utilise key sources of advice.

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Epstein said 'It is essential for businesses to work together in tough times. We are seeing growing numbers of firms building communities online and joining forums, with the intention of both accessing and providing business support to each other.'

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The panel was unanimous in warning that worse is yet to come for the economy, though all felt optimistic about the opportunities for businesses determined to succeed.



Helen Loveless, Enterprise Editor, Mail on Sunday

Introduction

The UK economy has officially entered a recession, it faces extreme uncertainty with commentators ranging between those anticipating a deep recession followed by an inflationary boom to those anticipating prolonged deflation.

It has been predicted that the economy will shrink by 2.7% in 2009 – the most significant economic contraction since the Second World War. Unemployment is currently running at approx. 6% and could potentially reach 10% by the close of 2009. Overall UK unemployment will reach 3.4 million by 2011. Consumer spending is forecast to fall by 2.6% in 2009, followed by 0.6% in 2010. House prices have a further 22% to fall over the next 18 months and business investment is predicted to decline by 16% in 2009, and a further 6% in 2010. (*Source: The ITEM Club*)

The figures look glum but this does not have to be the case for the individual business or entrepreneur. For those that listen to the right advice, invest and adapt their business model to the new environment, it can in fact open the door to new opportunities. This is particularly the case for small businesses that have the capability to adjust more quickly and easily to their surroundings.

The main points learnt from the last panel were that for small businesses in the current downturn, cooperation is key. The language of business is changing, and now has a harder edge. Businesses have to work harder and re-evaluate and adapt their business models to survive. The recession is here and is likely to be here for some time, so in order to succeed in these tough times SMBs should seek advice, work together and most importantly make a plan that will see them through to a revival.

It should not be assumed that there will be a return to how things were. When the economy rebounds, it will have a significant structural reconfiguration. It is likely to be a business model where management works to smaller margins and customer interaction is on a more personal level, where there is a dialogue between supplier and customer (especially with the increasing adoption of social media platforms).

The current downturn it seems can be split into three main timeframes:

- Short term – How to save money, cut operational expenditure and be as efficient as possible
- Medium term – How to keep customers and generate revenue – innovative ways of connecting with your audience to bring money in when there are less opportunities around
- Long term - How to prepare for the revival and invest for the future

These three timeframes reflect three periods -Instability, Stability and Moving Forward respectively. In each phase, saving money, generating revenue and investing for growth will remain key but the priorities will shift as we move through each phase. We are still in a level of certain instability where saving money in the short term is the key priority for a majority of small businesses. A suggested best scenario has indicated that we will see the recession stabilising in late 2009 / early 2010 and easing further later in 2010.

The hope is that as SMBs come to understand and recognise what they can do to help themselves in the current economy, the level will shift more to a period of stability with growing revenues and liquidity beginning to return to financial markets, so SMBs can start to look to invest more confidently for future growth. Although we are by no means at a point to start to think about the

revival stage, it is still wise for SMBs to plan for the longer term and prepare for a time when liquidity and growth returns so they emerge ahead of their competitors.

It may look bleak for many but the downturn will serve to separate the 'winners' from the 'losers', where the more innovative and adaptable SMBs will thrive and prosper and become a key part in releasing liquidity into the market and relieving the current difficulties for the wider economy as a whole. It could be argued that pre recession, we had almost created a perfect market and this is hard to sustain. When everyone can do it what is the differentiator? The recession will begin to drive innovation once again.

This panel session will examine further ways SMBs can cope with the external pressures they are now experiencing, five months on from the last discussion, and also looking forward to prepare for what may come.

The discussion agenda will be split into three main areas:

- Productivity
- Customers
- Investing for the future.

These also tie into the three stages highlighted earlier; productivity outlines the need to do more with less- save more, do more in the short term. The second stage of looking at your customers will discuss the need to connect and engage with your customers more effectively to generate revenues and encourage growth. Investing for future growth is focussing much more at the long term and planning for the future and ultimately the revival.

This Is Not a Recession (9/01/09) Tom Peters

Don't think of our current economic crisis as a recession. Instead, think of it as a recalibration.

Everything is different now.

If you think of it as a recession, you may be tempted to "hunker down" and wait for the economy to cycle back.

If you think of it as a recalibration, you will be motivated to focus on what you have to do differently, since everything is different now.

The way your business generates results is different, now.

Your customers think differently, now.

Your customers care about different things, now.

Your customers act differently, now.

Your customers may actually be different people, now.

Customers aren't disposable anymore; more than ever, you have to create sustainable customer relationships.

Everything is different now.

One thing I'm convinced of is that the world I am working in today is different from any world I have ever done business in. The world has been reset. We can no longer look at the "LY" column on reports to use last year as a benchmark for what will happen this year.

<http://www.tompeters.com/entries.php?rss=1¬e=http://www.tompeters.com/blogs/main/010803.php>

Advice from the Panel

Robert Epstein, Head of Small Business, Microsoft SMB UK

An IDC study predicts that the worldwide economic recession will have a dramatic impact on SMB IT spending growth. Compared with 2008 levels, the growth in 2009 will be just over half, 3.2%. That noted, there will be a number of new technology areas that will generate strong interest among SMB prospects.

IDC expects the overall IT market is expected to grow by just 0.5% worldwide, but the SMB software market is expected to grow by 4.6% , twice that of large companies (Source: IDC, 11/08)

Despite the lack of government support for SMBs, IDC also predicts that the worldwide SMB software market will experience 9-times the growth of the overall global IT market. (SBSC Survey, Feb 2009)

"SMBs around the world will be increasingly interested in the productivity gains made possible by advanced technology, although the economy will keep them focused on immediate bottom-line impact," said Raymond Boggs, vice president of SMB research at IDC. "New mobile communications solutions, videoconferencing, and online resources will be especially attractive, as will alternative approaches to technology acquisition and deployment. SMBs will be more open to new ideas in 2009 than ever before." <http://www.the-infoshop.com/study/id82062-smb.html>

SMBs employ 90% of the world's workforce, account for more than 50% of GDP worldwide, and have historically led us out of down economies because they are nimble, innovative and connected with customer values. In a nutshell, they are the economic "stimulus." (Eduardo's MGX deck.)

There is the realisation that everyone is responsible for the downturn and working towards the Revival. It is not only a problem for the financial/economic industries. Every business, especially the smaller more agile companies can help to pull the country out of the recession and inject much needed cash back into the market. Unlike previous recessions technology and the IT industry will become the redeemer from the current economic conditions.

Productivity

Small businesses need to concentrate on getting tough. There is a new language of business and it's got a harder edge – forget flexible working and choice, think productivity, efficiency, winning new business and keeping the customers you do have – the themes of the enterprise have come to the small business. You need to talk about how to make your business machine run faster and harder, do more with less and to make your business win, not just keep it afloat. Innovations will never cease but we are in a time when we need to think about how to make the technology or products we do have, work better, or faster, so we can rise above the competition and offer the best value to the customer – “sell more, save more and do more.”

To do this, small businesses must think very carefully about how they can achieve these goals. Investing in IT solutions can have a very fast payback either by cutting direct costs (such as travel and telecoms) or helping deliver revenue (through better customer management or improved

productivity) and can be the key to keeping ahead of the competition; the right IT can be the difference between an small business thriving or failing in the current economy.

In a recent SBSC Survey carried out by Microsoft (Feb 2009), in addition to helping reduce costs, server consolidation, virtualization and CRM systems were ranked as the top technologies for enabling SMB growth in 2009. SMBs are also realising how important business intelligence tools are for improving customer experience and retention.

Small businesses have the benefit of being flexible and adaptable to changing markets and so smart targeted investments, including technology, will enable small businesses to survive and emerge ahead of the competition when the market does become lucrative again. At a time when people are being made redundant, having the correct technology systems in place becomes even more paramount as we are having to achieve the same level of work and productivity but with fewer people.

Mobile working

We are only now seeing the true 21st Century working as businesses are being forced to become truly mobile and collaborated. 21st Century working has until now been very limited – the current economy may prove the tipping point for those more forward thinking businesses to start taking the latest technologies more seriously to adopt new working practices – redefine teams, reduce office space, limit travel etc. We need to see technology as a value and cost saving rather than a cost centre.

More than half of Small Business Specialists see small and midsize businesses increasing their number of remote workers in 2009 and nearly 60% see the roles and responsibilities of those remote workers increasing. (SBSC Survey, Feb 2009)

Cloud computing

The emergence of services in the cloud as well as Microsoft financing payment schemes will also allow more people access to previously costly systems and software. It provides a leveller for small businesses and entrepreneurs as it gives them access to enterprise class solutions and minimal/no cost. In the market as a whole there is a 50% growth year on year in S+S deployment. The current percentage of SMBs who use cloud computing is low as they don't currently realise the incremental capability (no cost of maintenance, immediate installation, no downtime or performance problems if hardware is damaged etc). However, Small Business Specialists expect to see a 20% increase in the number of their small and midsize customers using some form of software as a service, growing from 66% in early 2009 to 86% by the end of the year (SBSC Survey, Feb 2009)

Entrepreneurialism

At the individual level, as many of us have cited, entrepreneurialism is expected to thrive. (Figures show that 3 – 3.5 million are currently unemployed in the UK, a doubling of a few months ago). whether it be people who have unfortunately been made redundant or those that recognise that if you have a good business plan, now is as good a time as any to create a new enterprise. Indeed, some would argue that with a wider talent pool to choose from and organisations like Microsoft with BizSpark there to support them through our network partners, there has never been a better time to create a start up.

Historically, many people see recessions as an opportunity to start their own business and are willing to take risks even in these times. Many major companies have started out of a recession – Microsoft being the obvious example in the 80's.



This time though, there are plenty of technological advances that make setting up on your own easier. Anyone with a mobile phone and a laptop can start their own business, now you can set up virtual companies with a professional looking website, trading quickly and marketing online within a few hours. There is no longer the need for office space and colleagues to be physically in the same place. Businesses can still appear collaborated and overheads are reduced as you can build a fully functioning virtual office.

Customers

As discussed in the last panel, it is more important than ever not to cut costs on marketing as you need to promote your business and reach your customers more aggressively than ever. If you have the right approach there is the potential to entice custom from those companies that have fallen, particularly significant when customers are not so dispensable and replaceable.

It's certainly a time when new business is harder to win so it's equally important to look after and keep the business you already have – As business may be slower, it is the perfect time to step back and spend more time engaging with your customers and interacting with them on a more personal level. This is important for long term stability and growth and to encourage loyal customers and continued revenue.

CRM systems are particularly important in these times as you have to protect your customer relations. These would traditionally be very expensive and only available to enterprise class companies but now anyone can easily access these services online.

Pre recession customer service was poor. Now we are in a phase of needing to 'show' not just 'say' the value we give to our customers in order to keep them. Our customers are judging us by our actions, not just our words.

Investing for the future

We are in a recession and businesses are finally starting to realise that the situation will be with us for some time to come and that they need to start planning for the long term. Whilst cutting unnecessary costs will be an important part of any strategy this doesn't mean all investments should necessarily be put on hold. Investments to help plan for the long term are vital and costs should not just be struck off without regard to the effect on productivity in the long term.

SMBs are focusing on IT investments that directly benefit their bottom line – either by reducing operating costs, improving employee productivity or acquiring and retaining customers. Small businesses that help catalyze the economic recovery this time around will be started by tech-savvy professionals who start their businesses with technology investments and a Millennial workforce that has grown up on mobile phones and social networks. (Forrester, 02/09)

Planning

Again, as discussed back in October, planning for the future and ultimately the revival is paramount, even though it is still a long way off. Small businesses are flexible and need to take advantage of this by adapting their business plans to ensure they come out of the recession with a head start. The post recession economy will not be the same as it was before and SMBs must be aware and prepare for this. Products and technology do not have the answers to the challenges being faced on their own, but they are a great enabler of revival. Companies that deploy the correct technology will become more productive, succeed and thrive and help lift the economy out of the recession.

Investments should therefore be thought through carefully but should not just be stopped in blind panic.

Microsoft can talk about saving SMB customers money because of its offerings such as mobile technologies, CRM technologies or Unified communications and its successes through its BizSpark programme as well as its free services such as Office Live Small Business and Office Live Workspace. The aim is to help SMBs to make the most of technology they already have rather than getting them to necessarily invest in more.

New era of business

As mentioned before, post recession there will be an emergence of new business models and business leaders putting into practice the lessons learnt from the past two preceding periods forming a truly 21st century business world. Corporate structures will become lighter, more nimble and flexible and while entrepreneurs will continue to thrive, they will, like corporate, be more pragmatic in their investments and innovations.

Businesses will support a new set of new values, such as a greater level of openness and interconnectedness and a willingness to partner to pull on others people's IP, rather than having to create it all yourself – Social networking sites are a prime example here where they are being used as a way of both marketing your business and engaging in rich conversations with customers, partners and prospects. They allow a less formal method of communication that can spread rapidly through word of mouth and only requires a minimal cost, in terms of time rather than large upfront capital investment.

Conclusion

The key to prospering during the economic downturn is making the most of everything you currently own, taking advantage of high quality free offerings from trusted suppliers and being fresh and innovative in your thinking. You should be looking at all of your systems and making sure you are getting the most out of them. It may be the case that some systems should be cut and others need investment. You need to be clear on exactly what your business goals are before you begin to aiming at them. Equally, be clear on whether or not investing in technology can help you to reach your goals more quickly or more effectively.

Essentially, IT needs to enhance what a small business does, not take control of it. As an IT provider Microsoft concentrates on what a small business does and tries to provide ways in which tasks can be done faster or better.

About the author

Robert Epstein has worked in the IT industry for over 15 years. Starting with his own PC manufacturing company, supplying IT technology to Small and medium businesses in London before moving to distribution. He has had a variety of commercial roles working with a large number of the major manufacturers in hardware and software including as General Manager for the UK's largest IT wholesaler working with UK IT providers and System integrators supplying small business. Robert moved to Microsoft just over five years ago where he ran the OEM sales teams responsible for Multinational and local PC manufacturers in the UK and parts of Northern Europe. He is now responsible for coordinating Microsoft's UK strategy and marketing to small and medium business, working closely with Microsoft's partner network of over 36,000 IT specialist providers.



Advice from the Panel

Stephen Pegge, Communications Director, Lloyds TSB Commercial

Productivity

It is important to remember that opportunities arise in a recession as well as just risks. It forces everyone to look more closely at their productivity and ultimately separates the winners from the losers and drives innovation. People continue to take risks in a recession and those that succeed will come out on top.

Due to white collar redundancies there are lots of new businesses starting. The FSB is getting increased calls on legalisation of redundancies – management teams who are seeking advice on the process and legal aspect behind cutting back on staff.

A recession also sees an increase in working and trading online as people try and streamline businesses through cutting expensive overheads such as office space. There has been a trend that's seen increasing numbers of shops trading from home premises as well just mobile working. This is due to a decrease in legislation on taxes and a relaxation of rules that have previously separated business and personal life.

Customers

Marketing is key during a recession, even more so than in a normal economy, as businesses need to concentrate on retaining existing customers as well as attracting new ones. The sales departments show the biggest concern and must therefore focus more than ever on adding value to their customers.

The value proposition – In a decreasing economy where cashflow is scarce, no one wants to cut their prices but SMBs are under increasing pressure to add value more than ever to their customers, as they can easily find a better deal elsewhere in a bid to cut their own outgoings. The struggle is offering increased value to customers without cutting on price or quality. The successful businesses will have to think of innovative ways around this.

Investing for the future

There has of course been a heavy decrease in investments and a decrease in long term lending – people are putting it off and waiting to see what happens. However we are also aware that we need to start moving money again in order to lift the economy out of the recession.

The last recession was a dot com bust, this time it has been led by property markets, luxury items and retail (however the latter is lagging as these figures only slow up when people actually lose their jobs).

It also tends to be a situation where those that went into the recession first will also come out first, so retail should be slower to pick up when the market becomes lucrative again for example. Technology is however flexible enough to move with the changing times.

High -tech remains in fast growth. Venture capital has shut trading finance from venture, but where is it now- big businesses or start-ups?

Planning

The key advice for the long term should still be planning for the future. The problem many businesses are experiencing at the moment is what will happen next – with exchange rates, inflation, interest rates etc. People will start borrowing again as the base rates are so low but what if inflation goes up again?

When should we start gearing for the revival? This is the dilemma of planning as people do not currently know the direction of the market. The best solution is perhaps scenario planning where you have several variations depending on different outcomes.

About the author

Stephen has been involved in banking and finance for small and medium sized businesses for most of his 25 years in the industry having been responsible nationally for risk management, international services and training as well as management of local business centres. Stephen's team looks after marketing, on-line and internal communications and external affairs. He is a member of Lloyds TSB Commercial's executive board.

Stephen read Economics at University College London and has professional qualifications in banking and marketing. He participated in the Treasury's Financial Management Working Group, Foresight Panel on Financial Services for SMEs, the SME Task Force for the Council for Excellence in Management and Leadership and in the steering group for small firms training reporting to the Chancellor. He is a trustee and vice chairman of PRIME Cymru, one of the Prince of Wales' core charities that helps people over 50 become economically active and is on the banking advisory panel to the Financial Ombudsman Service. Since January 2004, he has chaired the British Bankers' Association Small Firms Panel.



Advice from the Panel

Henry Ejdelbaun, Managing Director of AIMS Accountants for Business

Productivity

Productivity is the buzz word amongst businesses in the current economy – everyone must save more, do more, however the term ‘save’ more can be dangerous. It should be explained as perhaps save *intelligently* as saving suggests cutting investments and activities when several investments such as marketing should be ramped up rather than slashed as these will aid productivity.

The idea of 21st century business, with mobile working can save you money but it also means an investment of time as people are having to be available 24/7 to respond instantly to emails - the service levels for clients are increasing as the borders between home and business continue to blur.

Entrepreneurialism

We are definitely seeing an increase in startups- 50% out of necessity as people are losing their jobs, but many people are not deterred from taking risks and setting up on their own in the current climate. At the same time however, we are also seeing many startups failing and going under.

The ones that will survive are those that *add value*. This is easier for SMBs than big companies as they are adaptable and flexible.

Customers

To grow and maintain your customer base businesses must ensure they are doing the following:

- Marketing
- Increased customer focus (harder said than done as customer service is not easy)
- SHOW value to your customers, not just say it as has been the case up until now. What differentiates you from your competitors?

Investing for the future

If you need to upgrade or replace your technology you must continue to invest in this, technology is not something you should sacrifice in a downturn. Take the time to understand your technology so you can get the true potential from what you already own. The same goes for any investments you make. Wise investments may make the difference between survival and failure.

The technology industry will certainly help other industries out of the recession, such as the services industry, but it's not a 'one size fits all' scenario. Technology will help in different ways, depending on the situation and industry and as it gets blurred between the customer, services and products.

About the author

Henry Ejdelbaum is Managing Director of AIMS Accountants for Business. AIMS Accountants for Business was established in 1993 and is the largest nationwide independent association of professionally qualified accountants in the UK specialising in the accountancy needs of smaller and independent businesses. With over 240 AIMS Accountants throughout the country AIMS offers a local professional service within a nationwide structure which gives access to the considerable resources of a national practice without the need to charge inflated costs.

A highly successful entrepreneur Henry divides his time between AIMS and several other business interests which gives him specialist knowledge of the SME market.

Henry's personal life is split between his family and his commitment to various charities and his local community.



Advice from the Panel

Stephen Alambritis, Head of Public Affairs Federation of Small Businesses

Productivity

The key ways to improve productivity in a downturn are as follows:

- Labour saving devices (tech)
- Outsource
- Get online – take advantage of the internet
- Distribution agency
- Exporting (to take advantage of the exchange rate)
- Diversify your products/capabilities to reach new markets/overseas markets

Entrepreneurialism

As there are more and more people finding themselves unemployed, they are being faced with 2 options:

- Pocket the pay packet / put into a pension and look for another job (50% of workers find work again within 6 months, although this will decrease in a recession).
- The other option is to go it alone. Today, because of the internet and technology available, it is very easy and quick to start your own business. You can effectively set up your own online shop front in just a day and there are really very little regulations to deter people, there is no necessity to register with the VAT man for example. There is also plenty of help from building societies and local authorities are more lenient about people using their home for business.

Management

Looking at the other side –offices that are having to work harder, and with less people. Management must get buy in of staff to work efficiently as those remaining staff need to be working harder, so they need to be aware of the company's long term goals. There may be sacrifices such as hours or pay in the short term but once the market becomes more lucrative again there will a much better package for them for the future. Businesses must get everyone working more closely together, to achieve the same end goal. It is a time of mutual sacrifice and collaboration and there have been rumours of some CEO/senior directors selling their luxury cars to show their commitment to the future of the business. A reiteration from the October panel - cooperation is key. Rather than striving for personal gain people must for the time being look to the good of the wider whole.

Collaborated working

21st century working is finally really with us, as businesses are trying to save costs by decreasing outgoings on premises and bills by allowing staff to work remotely. This is new to this recession, in a time when we have the necessary technology available to us for mobile working where productivity is not lost. You can still portray a professional/cohesive image even if people aren't all in the same place. For example, you can still have a registered office address or a shared office, even if your employees work remotely. Today, in an online world, your website has more often than not become the face of your business and shop front.

Customers

SMBs must now show more value to the customer, or a unique selling point. This could be a cheaper price point but must in some way add value as customers are looking much more closely at the investments they make.

During a downturn, with a lull in business, it's a perfect chance for SMBs to spend more time engaging with their customers. The customer is key to their survival so it's a time to offer added value in the form of a personal touch and closer interaction. For example, it's a chance to put time into customer feedback and research – something that big companies do very well. This level of customer service can also lead to word of mouth recommendations and so helps the growth of the company through viral marketing.

Investing for the future

It should be noted that particularly for an SMB, it is a real badge of honour to make it through the recession. It is tough and they need to have the right information available to them in order to know the best ways to thrive, not to mention survive, through the downturn. The fact that an SMB has survived a recession will also put them in good stead for future investments with the bank once the market is lucrative again.

Planning

The key is to *Plan* for the upturn – show you're ready for it when it comes, as there will be a surge of SMBs applying for loans and capital as soon as liquidity returns. Be prepared so you are ahead of the curve and in a position to take on the opportunities/new customers that arise from other fallen competition. The slowdown gives SMBs more time to step back from their daily grind and look to the future and to plan their strategy around this.

Technology and the internet

Technology will be the enabler of this revival as the most important aspect and difference from previous downturns is being able to trade and sell online. Through the internet business has become global and instant and at a minimum cost. Similarly companies must make sure they are prepared for the revival by ensuring all their technology is up to speed and able to handle the fast paced upturn. Technology should not be cut when looking at investments.

Staff

Invest as much as possible in your staff – they should be the last to go as it is harder to find good people in a profitable economy. The MDs of any company should show commitment back to their staff so they are on side and prepared to tackle the future together.

Stephen's conclusion and key message is to be prepared.

About the FSB

The FSB is the largest campaigning pressure group promoting and protecting the interests of the self-employed and owners of small firms. Formed in 1974, it now has over 215,000 members across 33 regions and 230 branches. On the member benefits side, it offers assistance and support 24 hours a day, while its lobbying arm - led by the Westminster Press and Parliamentary office - applies pressure on MPs, Government and Whitehall, lobbies politicians in their constituencies and puts the FSB viewpoint over to the media. The FSB is non-profit making and non-party political.

One of the major benefits is the FSBs legal helpline which operates 24 hours a day. Last year, the helpline received over 100,000 calls, the majority of calls on employment matters but also dealing with issues such as commercial contract, landlord and tenant and consumer affairs.

During 2001, the FSB allocated £500,000 to members as a result of the Foot and Mouth outbreak. This money was available to businesses that were facing financial difficulties in the form of interest free loans.

The FSB also has Press and Parliamentary Offices in Glasgow, Cardiff and Belfast to lobby the devolved assemblies on behalf of members. Area Policy Development Officers work alongside Regional Development Agencies to further FSB influence at the regional level.

The future will see further work being undertaken. There is concern at Government plans to give local authorities further revenue-raising powers through Business Improvement Districts and for congestion charges, and the continuing burden on employers in administering welfare payments through the payroll. The regulatory burden is a particular concern. On these and other issues, the FSB is fighting for a better deal for small business.



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