

Small Enterprise Research Report

Competition:
Small Firms Under Pressure
January 2009



Lloyds TSB

Small Enterprise Research Report

Competition:
Small Firms Under Pressure
January 2009 - Vol.5, No.2

Produced by:

The Small Enterprise Research Team
Open University Business School
Michael Young Building
Walton Hall
Milton Keynes MK7 6AA



Tel: 0190 865 5831
E-mail: b.dash@open.ac.uk
www.serteam.co.uk

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WEB VERSION: INTRODUCTION

The Lloyds Bank/TSB-sponsored series of small business management reports commenced in 1992, and concluded in 2009. In total, 53 reports were published over a period of 17 years.

Our target audience comprised the owner-managers of independent small businesses, typically employing fewer than 50, and based in mainland UK.

The series originated from a longitudinal study of small business management, undertaken by the Polytechnic of Central London (now University of Westminster), and culminating in: *The Management of Success in 'Growth Corridor' Small Firms*, (Stanworth, Purdy & Kirby, Small Business Research Trust, 1992).

THEMES

The themes were wide-ranging – including such as entrepreneurship, work & stress, employment strategies, and the environment – a full list is shown overleaf.

INSIGHT

In addition to asking questions and supplying the respondents with a range of answer options, the corresponding questionnaire was included as an appendix to each report so that readers would know exactly what questions had been put to respondents.

We also sought qualitative information – in the form of verbatim comments about the key theme – to help elaborate on whatever related challenges respondents felt they were facing at the time.

Finally, the findings are primarily intended to be indicative rather than definitive – partly due to the sample size, which is, on average, 111 for the 2003-09 reports.

PUBLISHING FORMAT

The reports were published in hard copy form, obtainable via subscription. Initially

by the Small Business Research Trust, and from 2003, by the Small Enterprise Research Team (SERTeam), both research charities based at the Open University.

Regrettably, SERTeam ceased operating in 2009, and so in 2010 the authors felt that the more recent reports would find wider interest if they were made freely available in Acrobat format via the Internet – especially with the UK economy set for a protracted journey out of recession, and with the government in turn refocusing on smaller businesses to aid the recovery.

It is worth mentioning that the series commenced as the UK economy emerged from the early 1990s recession.

In 2015, the earlier reports were also converted (1993 to 2003), with the full series made available at Kingston University: <http://business.kingston.ac.uk/sbrc>

SUPPORTING INFORMATION (WWW)

In later years – as the world-wide-web developed and an increasing number of sources of information became more readily available – suggestions for online sources of related material were included.

N.B. For reports 2003 onwards - where successfully validated, the web links (URLs) were enabled in 2009. And in the case of many invalid web links, an alternative was offered, but not where the organisation appeared defunct and an obvious replacement was not traced.

**John Stanworth, Emeritus Professor,
University of Westminster**
<http://www.westminster.ac.uk/schools/business>

**David Purdy, Visiting Fellow,
Kingston University**
<http://business.kingston.ac.uk/sbrc>

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- 4 Financial ManagementDecember 1993

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- 3 Crime Against Small Firms June 2003

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- 1 Small Firms And PoliticsOctober 2003
- 2 Pensions February 2004
- 3 Work-Life Balance July 2004

2004-05 (Vol.2)

- 1 Education & EnterpriseOctober 2004
- 2 Made in Britain February 2005
- 3 Management & Gender Differences July 2005

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- 1 Local or Global ?January 2006
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- 3 Networking in Business September 2006

2006-07 (Vol.4)

- 1 Owner-Manager Flexible Working December 2006
- 2 The Ageing Workforce April 2007
- 3 Travel & Transportation August 2007

2008-09 (Vol.5)

- 1 The London 2012 Olympic And Paralympic Games April 2008
- 2 Competition: Small Firms Under PressureJanuary 2009

WEB VERSION PUBLISHING

<http://business.kingston.ac.uk/sbrc>

Certain content needed to be re-set, e.g., the figures in the earlier editions, but the report body content is intended to be identical to that in the printed original. This web version - an Acrobat document - is derived from the original DTP text and will permit searching.

LIABILITY DISCLAIMER

The information and analysis in each report is offered in good faith. However, neither the publishers, the project sponsors, nor the authors, accept any liability for losses or damages which could arise for those who choose to act upon the information or analysis contained herein. Readers tracing web references are advised to ensure they are adequately protected against virus threats.

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The Small Enterprise Research Team is particularly pleased to acknowledge the generous support provided by Lloyds TSB in sponsoring the research, analysis and presentation of this report. However, it is important to note that any opinions expressed in this publication are not necessarily those of Lloyds TSB.

Report Author – Professor John Stanworth (University of Westminster)

Series Editor – David Purdy

HIGHLIGHTS

This is the fourteenth in a series of small business management reports based on surveys of a panel of small firms, mainly in manufacturing, retail/distribution and business services. The focus of this survey was on **Competition: Small Firms Under Pressure** and the principal findings were as follows:

- **Expectations for future trading conditions** – Over half of respondents (51%) saw their future prospects deteriorating either moderately (36%) or significantly (15%) over the coming 12 months.
- **Expectations for future trading conditions and respondent age variations** – Around one-third (31%) of older respondents aged 65-plus were expecting a notable trading deterioration over the next 12 months compared with just over half their younger counterparts.
- **Recovery timescale for the UK economy** – Nearly two-thirds of respondents (62%) are expecting a recovery within 2 years. And whilst the oldest respondents were more optimistic about the prospects for their own businesses, they were less so about the UK economy in general.
- **Strength of competition faced by respondents** – 59% of respondents thought they are facing either ‘strong’ or ‘heavy’ competition. Nearly one-in-five (19%) weren’t sure how their own business sat in relation to their primary market.
- **Strength of competition faced by respondents and variations in respondent age** – 50% of the younger respondents reported ‘strong’ or ‘heavy’ competition, rising to 81% amongst those aged 65 years or older.
- **Most significant challenges facing respondents** – The top 3 challenges were ‘shrinking market’ (for 55% of respondents), ‘increasing supplier costs’ (52%), and ‘undercutting by competitors’ (37%).
- **Significance of competition faced by respondents** – A majority of respondents (60%) said that competition for them was of some significance, either as the main issue (for 8%) or as one of several key issues (52%).
- **Changing competition over the past 6 months** – For 43% of respondents, competition in their market had increased either significantly or moderately. But for a further 43% it had been unchanged, and for 14%, it had decreased either significantly or moderately.
- **Action plans to remain competitive over the coming 12 months** – The most common features were: ‘cultivate new markets’ (56% of respondents), ‘cut costs/overheads’ (49%), ‘increase promotional activity’ (44%), and ‘develop new products/services’ (40%).
- **Business confidence for the coming 12 months** – Only 14% of respondents were ‘totally confident’, whereas 58% had ‘some reservations, and over a quarter (28%) had ‘major reservations’.
- **The benefits of increased competition for smaller businesses** – Most common was an ‘opportunity to be more flexible and innovative’ (38% of respondents), but not far behind was ‘there are no real benefits’ (33%). These were followed by ‘niches may become available as larger firms outsource’ (28%), and an ‘opportunity to capture a demand for more localised services’ (28%).
- **The benefits of increased competition for smaller businesses and age variations** – The responses for an ‘opportunity to capture a demand for more localised services’, rose from 13% for those aged 35-44, to 63% for those aged 65 years or older. A possible explanation is a wider perception amongst older respondents of increased opportunities for locally-supplied goods and services.

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Under
Pressure
33%
No.14
2009

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MANAGEMENT ISSUES

The emphasis of the management reports is on monitoring the key management problems and practices of smaller business, with an emphasis on survival and success. Accordingly, each issue of the report addresses one or more highly topical small business management issues. In this survey we focus on **Competition: Small Firms Under Pressure**. The report is produced three times a year.

THE SAMPLE

This report is based on the responses received from a panel of over 350 small businesses situated in the northern, midland and southern regions of Britain. Respondents are predominantly small firms with fewer than 50 employees, drawn mainly from the manufacturing, business services, and retail/distribution sectors of the economy. The precise distribution of firms varies from survey to survey, but typically over half of the participants employ fewer than 10 people.

RESULTS

The questionnaire completed by sample firms appears at the end of this report as an appendix. This survey was carried out between October-November 2008.

BACKGROUND

The report originates from a longitudinal investigation into the development of small firms undertaken by the University of Westminster (then the Polytechnic of Central London) on behalf of the Department of Education & Science, between 1988 and 1992.

PAST SURVEYS

2003-04 (Vol.1)

- 1 **Small Firms and Politics**
- 2 **Pensions**
- 3 **Work-Life Balance**

2004-05 (Vol.2)

- 1 **Education & Enterprise**
- 2 **Made In Britain**
- 3 **Management & Gender Differences**

2006 (Vol.3)

- 1 **Local or Global ?**
- 2 **Managing IT**
- 3 **Networking In Business**

2006-07 (Vol.4)

- 1 **Owner-Manager Flexible Working**
- 2 **The Ageing Workforce**
- 3 **Travel & Transportation**

2008-09 (Vol.5)

- 1 **The London 2012 Olympic And Paralympic Games**
- 2 **Competition: Small Firms Under Pressure**

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COMPETITION: SMALL FIRMS UNDER PRESSURE

Things haven't turned out quite as expected on the economic front.

Not so long ago, financial journalists had been predicting that, by September 2007, the world's banks would have been able to calculate the exact scale of their holdings of US 'toxic' (sub-prime) bonds, and that balance sheet allowances would be made for the resulting debts (write-offs) and then life would carry on much as normal.

But a little over a year later, in October 2008, stock markets were crashing world-wide and the global economy teetered on the edge of disaster. Dealers were selling bank shares 'short' and there was talk of savings being hidden under mattresses.

Then, in true 'Roy of the Rovers' fashion, a UK Treasury team brought forward plans they had been quietly developing for a re-capitalisation of the UK banks, whose inter-bank lending had virtually stalled. In the face of huge falls in global stock markets, they worked through the night to produce a strategy, whilst ploughing through a much-publicised £150 take-away curry order from Chancellor Alistair Darling's favourite Indian restaurant. And by dawn, the grand plan was in place, followed a few days later by a formal statement:

"The Government is making capital investments to RBS, and upon successful merger, HBOS and Lloyds TSB, totalling £37 billion... As part of its investment, the Government has agreed with the banks supported by the recapitalisation scheme a range of commitments covering: - maintaining, over the next three years, the availability and active marketing of competitively-priced lending to homeowners and to small businesses at 2007 levels ...", Treasury statement on financial support to the banking industry, 13th October 2008

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Stock markets calmed (for a while at least). Where the UK Treasury team had taken a lead, the US Federal Reserve quickly followed, as did the major European central banks. Stock markets drew back from the edge. The UK had acted when all others had appeared utterly confused and bewildered at to what to do.

For this, the UK team won international plaudits. But, having avoided financial Armageddon, there still remains the not insignificant issue of taking the edges off what could still prove to be a deep and drawn-out recession.

Historians, financiers and journalists will still be analysing recent events half a century from now, just as students still pursue PhDs investigating the causes of the 1930s recession. But the question on most peoples' lips now is, 'what have the next 2 years got to offer' & 'how long will the recession last' ?

It is worth noting that questionnaire distribution was timely – in the immediate aftermath of the government's banking sector intervention. Also, the UK economy was on the brink of a recession (defined as two successive quarters of negative growth), with the third quarter of 2008 experiencing a 0.5% fall in GDP, having been preceded by a quarter of no growth (**Figure 1**).

Under-cutting Competition

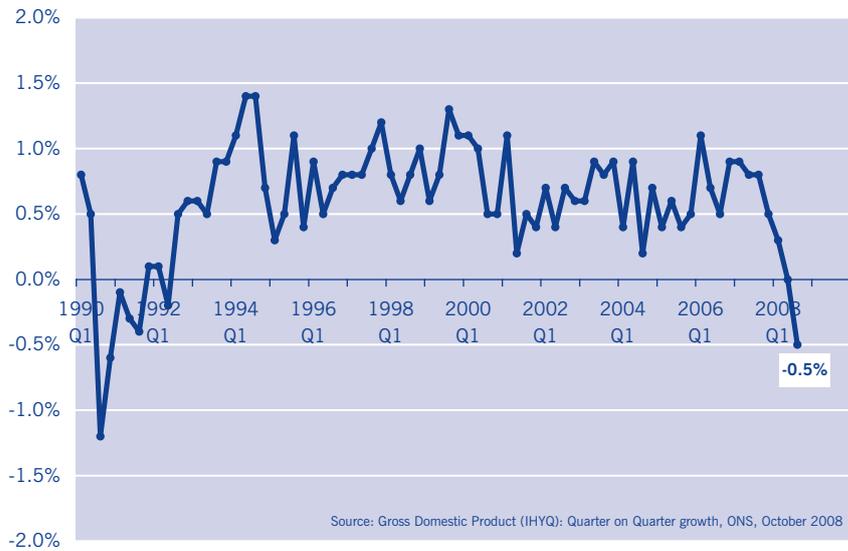
A printer reported competitors charging at prices covering just the cost of materials:

"Under-cutting is a major problem in our locale. We have rivals producing work for the same price that we're paying for materials for the same jobs !"

And a respondent in retail/distribution, said:

"We are seeing a significant 'flight from quality' as buyers, sometimes forced to meet unrealistic targets, purchase low-cost products ignoring quality."

Figure 1 - UK GDP Quarterly Growth 1990-2008



The third quarter of 2008 revealed the first contraction in the UK economy since 1992

However, the risks of this potentially ruinous practice were commented upon:

“Those of us who have been through recessions in the past know that life goes on and can actually benefit good businesses whilst forcing the weak out of the marketplace.”

Indeed, this is supported by a couple of respondents who noted in the very first survey in the report series, undertaken in late 1992 (entitled *Surviving the Recession*):

“The recession has made us tougher and more determined to survive ... It has also weeded out many underpriced ‘cowboys’ that were affecting us.”

“We treat recession as a challenge to give even better service to customers to beat cut-price competition.”

Criticism

One respondent argued that some in the media were at fault:

“I think that the media, and sadly the BBC in particular, is ‘talking up’ the global situation in a destructively

doom-and-gloom way ... It’s not helping ... especially in terms of average customers, who haven’t actually been affected but feel the pressure and stop spending.”

And whilst adverse comment about the banking community has been latterly evident in the media – with regards to prevailing lending policies – there were surprisingly few criticisms aired by respondents (with only 4% commenting negatively), for instance:

“I feel that small businesses have had their prospects damaged by poor banking decisions and lending policy governed by a bonus culture.”

However, there were approximately twice as many respondents criticising the government in one way or another. ‘Red Tape’ appeared to be a common theme, with one respondent noting that their business had a workforce recruitment policy which largely avoided employing people (arguably to the disadvantage of those seeking the benefits and protection of regular employment):

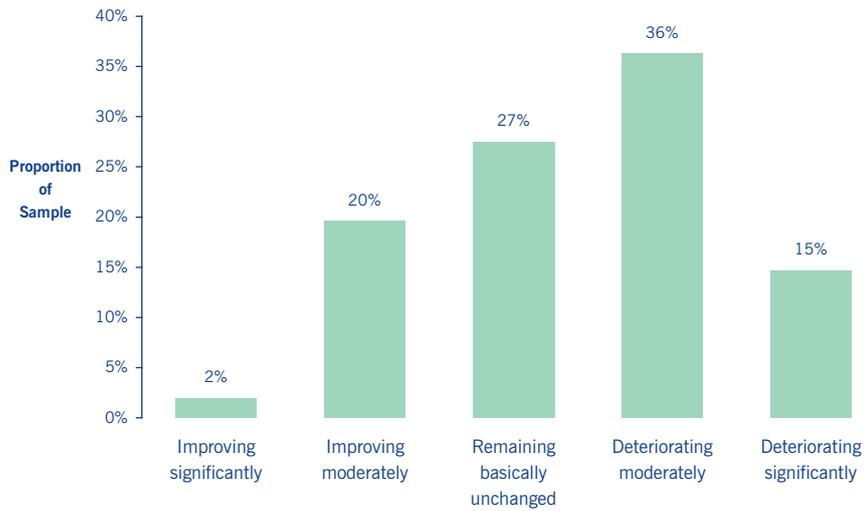
“The inordinate amount of legislation and red tape that small businesses have to comply with is crazy. Personally, in the main I now avoid

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Figure 2 - How Do Respondents See Their Trading Conditions Changing Over The Coming 12 Months ?

Around half of the respondents are expecting a deterioration in trading conditions



employment legislation by using sub-contractors and freelancers.”

Another elaborated:

“Historically in our trade it has been possible to lay off staff when work is slack. Now you must pay full wages for no work or redundancy. These are not viable for the small business [with] 5 employees.”

Future trading conditions

Respondents were asked how they saw their trading conditions changing over the coming 12 months (**Figure 2**). Over half (51%) saw their future prospects deteriorating either moderately (36%) or significantly (15%).

The responses were relatively consistent when broken down into the usual groups, but, as shown in **Figure 3**, they were somewhat different for older respondents

Figure 3 - How Do Respondents See Their Trading Conditions Changing Over The Coming 12 Months?: 'Deteriorating Moderately/Significantly' By Respondent Age

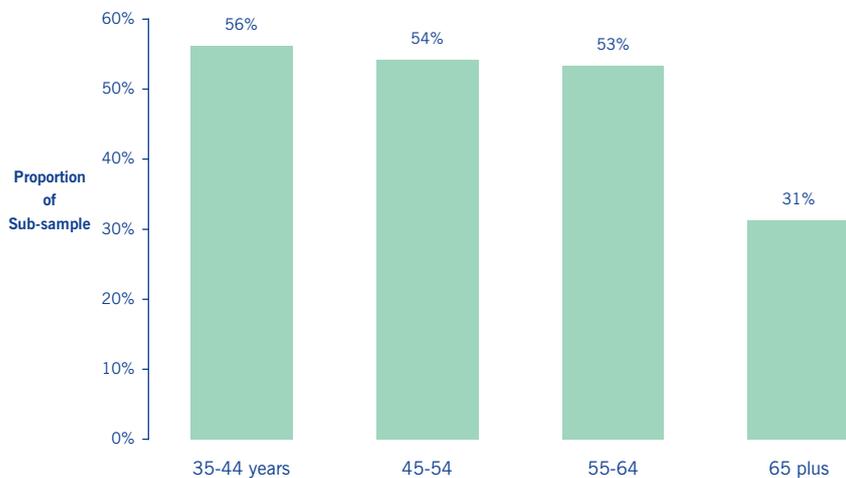
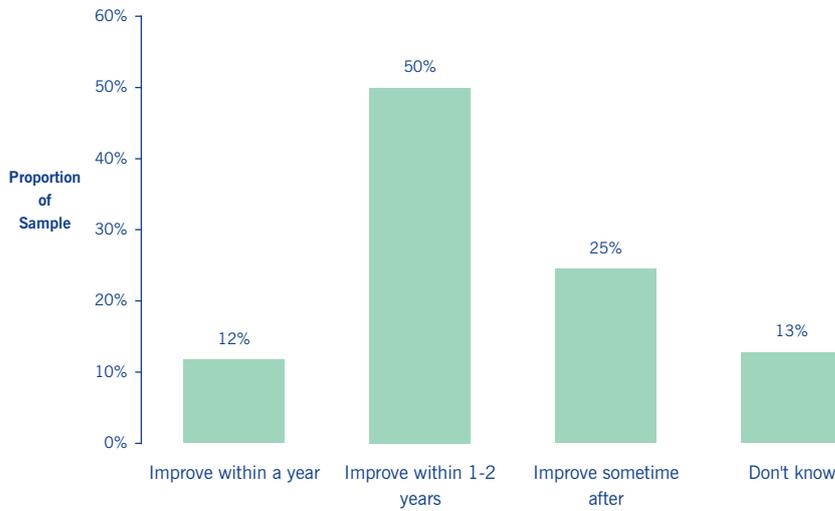


Figure 4 - Expectations For The Duration Of Current UK Economic Conditions



A majority foresee a recovery by the end of 2010

aged 65-plus. Only around one-third (31%) of this group were expecting a notable trading deterioration during the next 12 months compared with just over half their younger counterparts.

debt recovery services – noted:

“Clearly no-one can say with any certainty where we will be in 12 months’ time.”

Expectations For Recovery

Very few of the respondents elaborated on any thoughts they had over their precise expectations for an end to the economic downturn, but one respondent – in legal and

Nonetheless, nearly two-thirds (62%) are expecting a recovery within 2 years (Figure 4). And whilst the oldest respondents were more optimistic about the prospects for their own businesses, they were less so about the UK economy in general (Figure 5).

Figure 5 - Expectations For The Duration Of Current UK Economic Conditions: 'Improving Within 2 Years' By Respondent Age

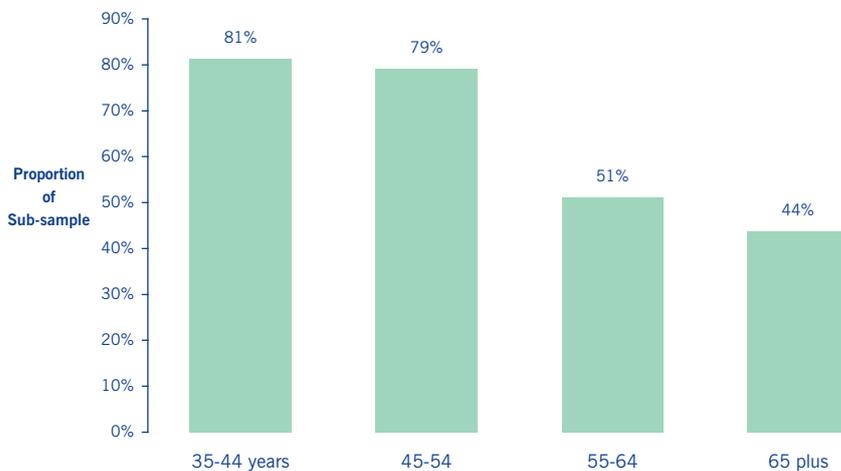
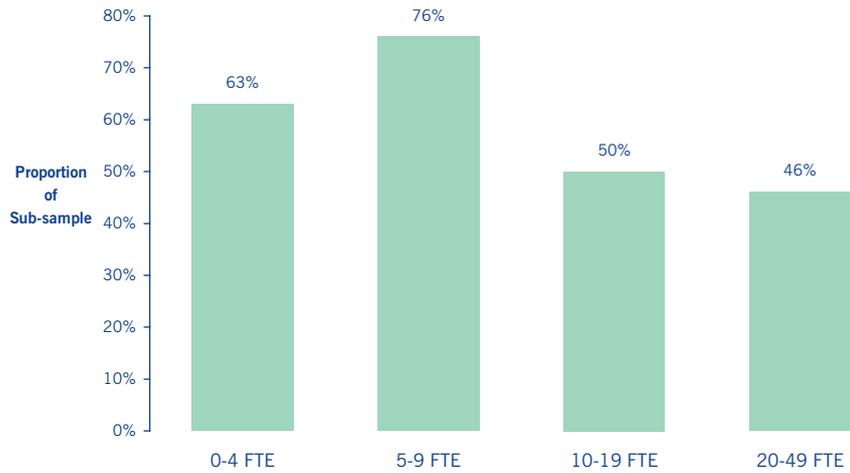


Figure 6 - Expectations For The Duration Of Current UK Economic Conditions: 'Improving Within 2 Years' By Employee Size



Findings from some of our previous research, which investigated the early 1990s recession, suggested that more experienced respondents were less taken by surprise by economic downturns and often more likely to survive them.

than previously (Figure 5), suggesting that variations in respondent age may have a greater influence on expectations than size of firm. To an extent, of course, there is likely to be some link since larger firms may have traded longer than their smaller counterparts in the sample.

Figure 6 illustrates the variation in expectations for the UK economy against firm size, and these are less optimistic amongst the larger employers. However, the strength of correlation appears less marked

Strength Of Competition

Respondents were asked to indicate how they viewed the primary market for their

Figure 7 - How Respondents View Their Primary Market & Strength Of Competition

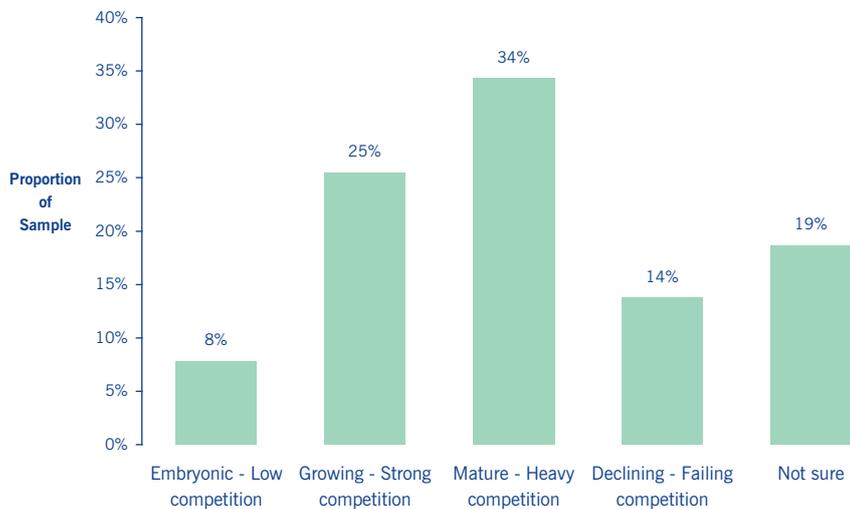
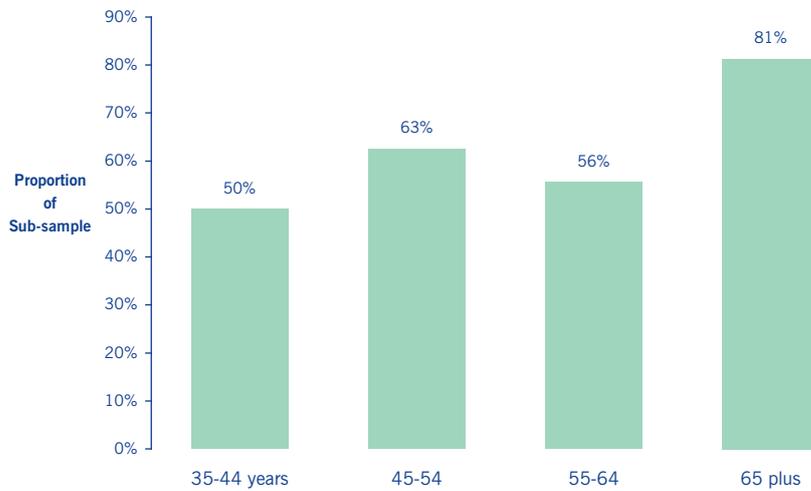


Figure 8 - How Respondents View Their Primary Market & Strength Of Competition: Those Facing 'Strong/Heavy Competition' By Respondent Age



products or services. **Figure 7** indicates that 59% thought they are facing either 'strong' or 'heavy' competition. Interestingly, nearly one-in-five (19%) weren't sure how they fitted into the market.

Figure 8 shows an age trend varying from just 50% for the younger respondents reporting 'strong' or 'heavy' competition, to 81% amongst those aged 65 years or older. The corresponding variations for size of firm were relatively flat, perhaps suggesting more

sober assessments with increasing age – or alternatively, businesses stuck in something of a market rut ?

Firms in business services faced the greatest competition, with 75% selecting 'strong' or 'heavy' (**Figure 9**), and similarly, for 73% of the midlands respondents (**Figure 10**). Although there would appear to be an important caveat for the regional analyses. A comparable breakdown by employee size, shows that the larger firms – namely those

Figure 9 - How Respondents View Their Primary Market & Strength Of Competition: Those Facing 'Strong/Heavy Competition' By Sector

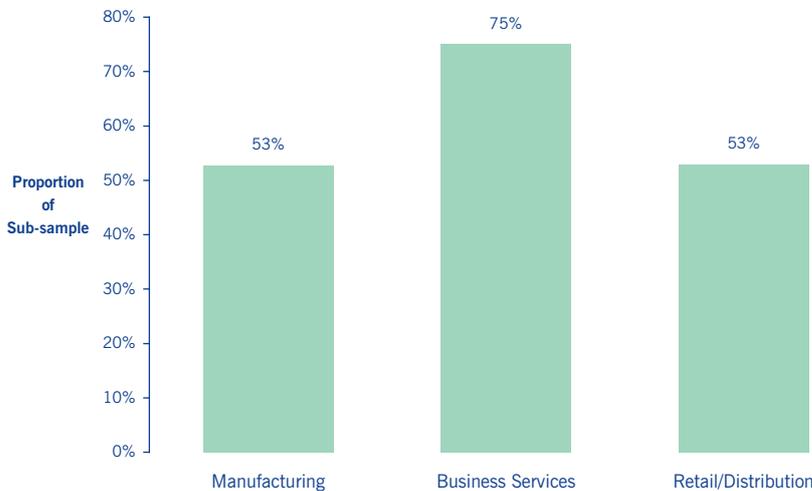
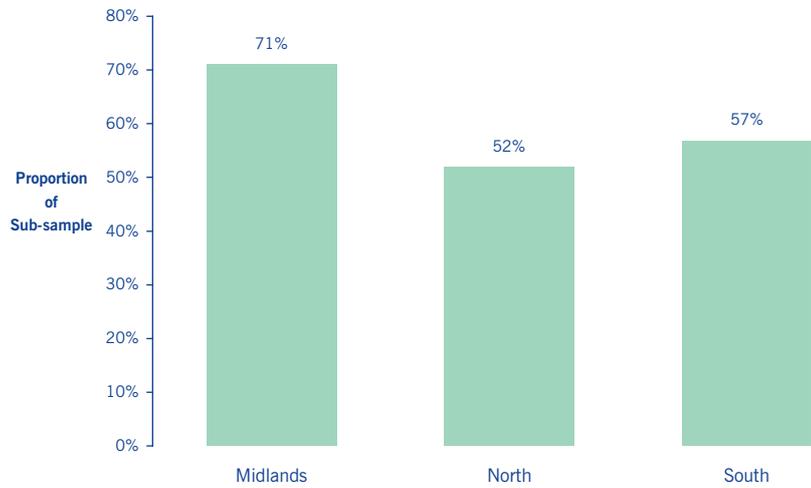


Figure 10 - How Respondents View Their Primary Market & Strength Of Competition: Those Facing 'Strong/Heavy Competition' By Region

Seemingly greater competition in the midlands down to an undue influence of larger firms ?



with 10-49 FTE employees – are facing similar strong/heavy competition (Figure 11). And a separate analysis revealed a skewed distribution towards a higher proportion of *larger* firms within the midlands group compared with elsewhere – NB ‘perfect’ survey samples are impossible to achieve in practice – and thus the seemingly greater competition in the midlands may primarily be influenced by an over-representation of larger firms in this region’s sub-sample.

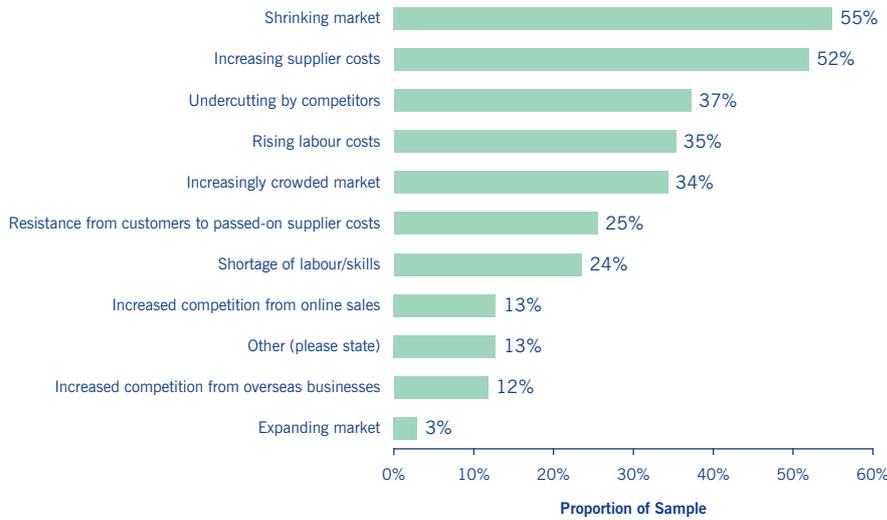
Most Significant Challenges

Figure 12 indicates the most significant challenges currently facing respondents. The list was headed by ‘shrinking market’ and ‘increasing supplier costs’. Both were felt widely by respondents from all 3 sectors examined: manufacturing, business services and retail/distribution, although business services firms were less affected by ‘increasing supplier costs’ and also by ‘resistance from customers to passed-on

Figure 11 - How Respondents View Their Primary Market & Strength Of Competition: Those Facing 'Strong/Heavy Competition' By Employee Size



Figure 12 - Most Significant Challenges Facing Respondents' Businesses



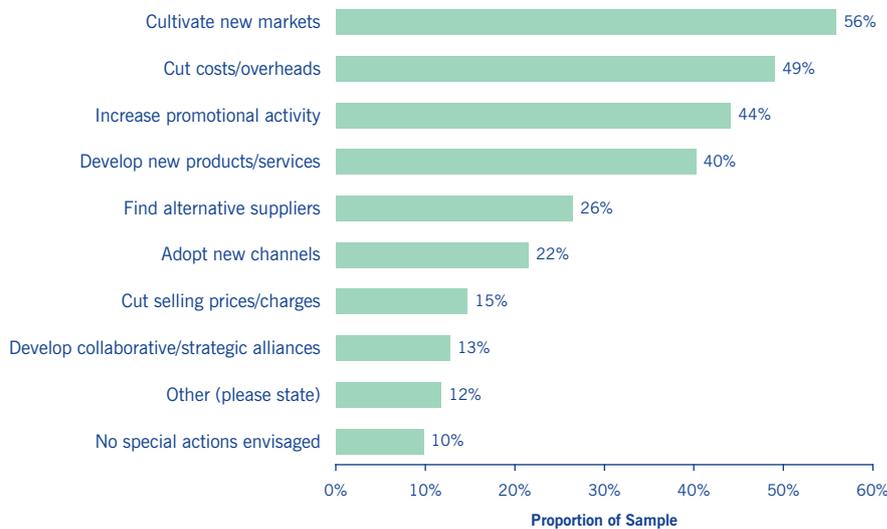
Respondents appear caught in a pincer of shrinking markets and rising costs

supplier costs' (perhaps due to an inherent tendency to be less dependent on goods/materials to process or to resell in business services). The 'other' options noted by respondents included:

- Bad debts
- Cash/money for trading and expansion
- Caution over investment decisions
- Charity shops been given monopoly on high streets
- Cost of borrowing
- Cost of implementing government legislation
- Downturn in the economy
- Government cut-backs on expenditure
- Increase in business rates and costs including new rules on empty properties for business rates
- Increasing legislation in all areas
- Local traffic conditions
- Supermarkets

Looking back over the previous 6

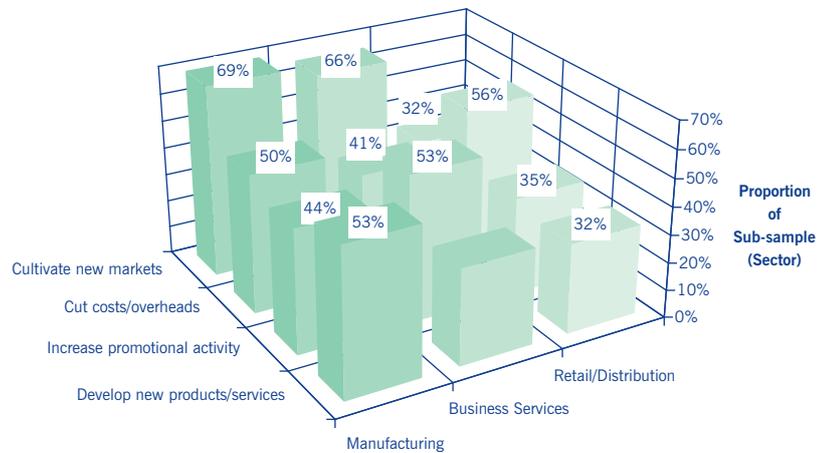
Figure 13 - Expected Actions To Remain Competitive Over The Coming 12 Months



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Figure 14 - Expected Actions To Remain Competitive Over The Coming 12 Months (Top Four): By Sector



months, 43% of respondents reported that competition for their businesses had increased either significantly or moderately, although for a further 43% it was basically unchanged, and for the remaining 14% it had decreased.

by 'cultivate new markets' was the most common target (for 56% of respondents), although **Figure 14** indicates that this was far less important for retail/distribution firms.

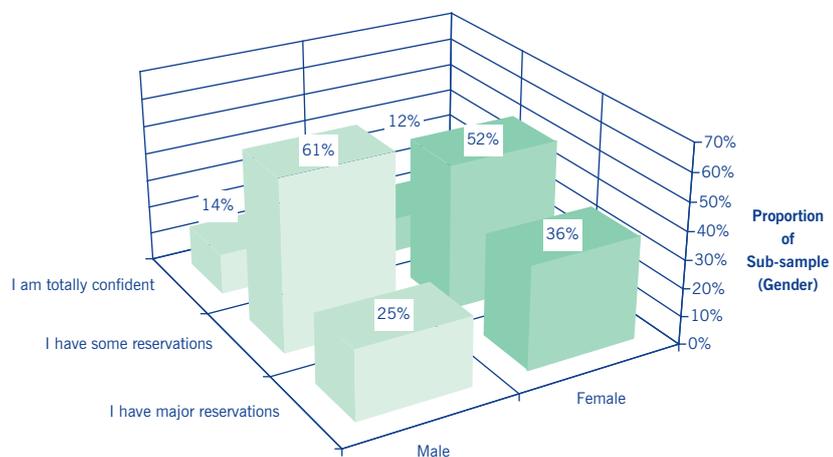
Action Plans To Remain Competitive

Respondents were asked about any plans they had to remain competitive over the coming 12 months. **Figure 13** shows that

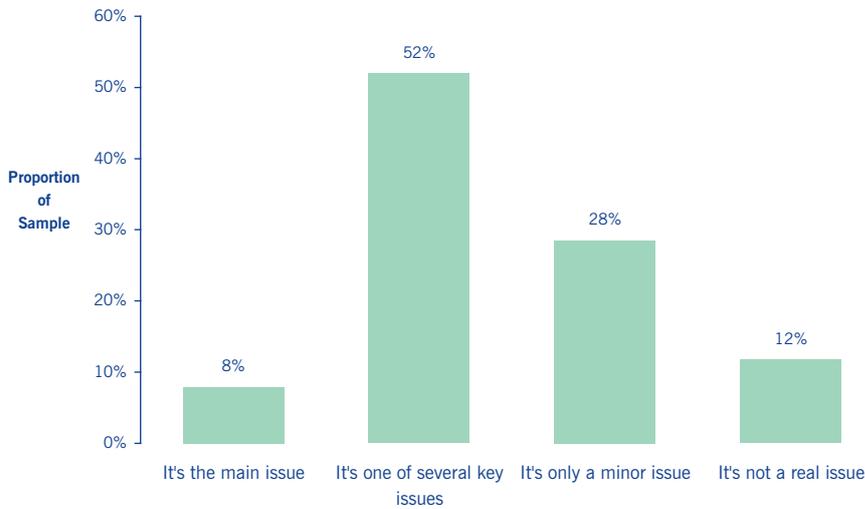
Business Confidence

Figure 15 shows the gender differences in confidence levels for the coming 12 months. Whilst anxiety levels were generally quite high, over one-third of female respondents had 'major reservations' in coping with the

Figure 15 - Respondents' Business Confidence For Their Firms Over The Coming 12 Months: By Respondent Gender



**Figure 16 - Significance Of Competition
Relative To Other Issues Facing Respondents' Businesses**



anticipated trials and tribulations.

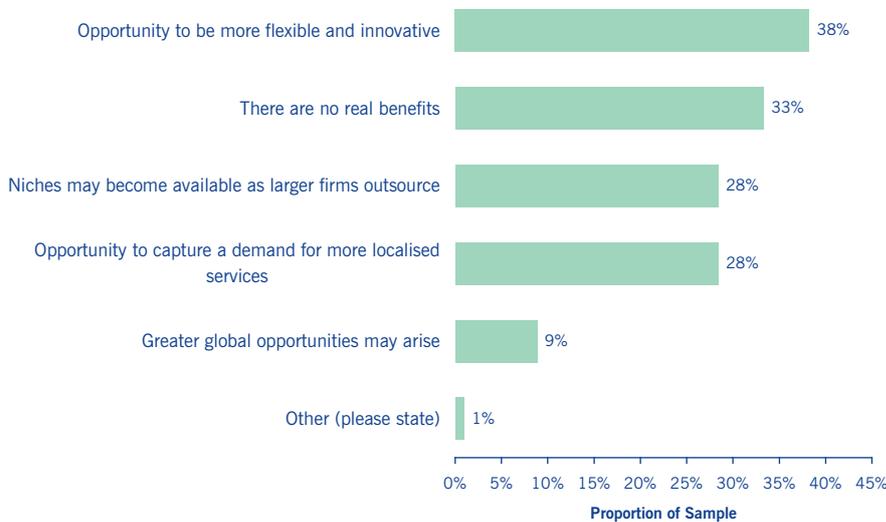
Significance of Competition

A majority of respondents (60%) said that competition for them was of some significance, either as the main issue (8%) or as one of several key issues (52%, **Figure 16**). This applied to a similar extent in both manufacturing (64%) and business services (66%), but less so in retail/distribution (50%).

Possible Benefits Of Increased Competition

Finally, respondents were asked to identify where they thought that increased competition might benefit smaller businesses. Most common was an 'opportunity to be more flexible and innovative' (38% of respondents), but not far behind was 'there are no real benefits' (33%, **Figure 17**). A quarter of manufacturers (25%) felt there were no real benefits from increased

Figure 17 - Benefits Of Increased Competition For Smaller Businesses



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competition, as did 29% of those in retail/distribution. However, this dismissal rose to 47% in business services.

A noteworthy variation occurred with respondent age, where the responses for an 'opportunity to capture a demand for more localised services' rose from 13% for those aged 35-44, to 63% for those aged 65 plus. A possible explanation may be a wider perception amongst older respondents of the increased opportunities for locally-supplied goods and services.

RESPONDENTS' COMMENTS

These commence in verbatim form on p.17.

REFERENCES: COMPETITION: SMALL FIRMS UNDER PRESSURE

The following references are offered as an aid to readers interested in seeking further information via the world-wide-web. The coverage is not intended to be definitive, and inclusion here should not imply either agreement or disagreement with the views expressed via these sources. Some web sites have appeared before, but there is usually a section noted with interests relevant to the theme of this report.

Special care should also be taken with material obtained from **outside** the UK, where different legal issues may apply.

N.B. Some pages may contain links to other WWW pages offering related material. Tip: The WWW links were functional at the time of going to print, but the world wide web is in a state of constant change. So if later problems arise with a link, edit the link back to the 'home page' – e.g., truncate <http://www.bl.uk/bipc/index.html> (Business & IP Centre at the British Library) back to <http://www.bl.uk/> – and look for a similar topic heading there (or use the 'search' facility if available).

- **Bank of England**
Quarterly Bulletin 2008 Q4 includes

an article based on a company survey, 'Price-setting behaviour in the United Kingdom'.

<http://www.bankofengland.co.uk/>

- **Business Link**

Government-supported body: The web site "helps your business save time and money by giving you instant access to clear, simple, and trustworthy information... There are over 600 guides offering practical advice for businesses in all aspects of business... You can access local advice and support online, by phone and face-to-face from regional Business Link operators across England." It offers online case studies (via regional web sites, found under 'Contact us'), e.g., Developing your business, Developing your people, Environmental business advice, Starting a business, and Trading internationally.

<http://www.businesslink.gov.uk>

- **National Federation of Enterprise Agencies (NFEA)**

"Local Enterprise Agencies (LEAs) are not-for-profit companies limited by guarantee, whose primary objective is to assist new and growing businesses by providing a comprehensive range of quality services. Increasingly, Enterprise Agencies also provide support to established businesses as they progress to stable and sustainable growth... LEAs are able to offer counselling and business advice to start-up companies and small businesses, usually free or heavily-subsidised... Many of our member agencies operate managed workspace for start-ups and small firms, offering tenants a sheltered working environment in which the landlord is also the business adviser." There is an online directory of LEAs.

<http://www.nfea.com/>

- **UK Business Forums**

"The UK's most active help and advice forum for owners, managers and entrepreneurs of small businesses and startups."

<http://www.ukbusinessforums.co.uk/>

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MANUFACTURING

Brewers	<i>I am having to spend too much time on the paperwork involved in needless legislation to the detriment of driving sales !</i>
Custom Curtains Drapery; Soft Furnishings & Reupholstery	<i>[Not fully appreciated] By government: Historically in our trade it has been possible to lay off staff when work is slack. Now you must pay full wages for no work or redundancy. These are not viable for the small business [with] 5 employees.</i>
Fabrication, Welding, Machining, Special Purpose Machines	<i>Survival of market leaders and global players in the UK is critical to us in the UK. Manufacturing sector: Rail is currently spending and just enough UK-based activity has survived - Bombardier. Whether the same can be said of nuclear is uncertain.</i>
High-tech Contemporary Textiles	<i>As jobs are lost, people resort to self-employed work and become small businesses. Large companies may outsource but they also shrink and so become 'small' businesses - competition is extreme. The current economic climate and the lack of government intervention and support is detrimental to SME, micro and SP businesses in the creative industries. They are failing and abandoning business. No wonder job seekers total 1.79 plus [million].</i>
Labelling For Cosmetics & Toiletry Industries	<i>The tough trading conditions present SMEs with opportunities to gain business/strengthen customer relationships through good service, developing new products and reacting to requirements.</i>
Manufacturing and Publishing Greetings Cards & Gift Stationery	<i>A lack of confidence amongst customers has led to a downturn in trade. It is exacerbated by the negative attitude of the media.</i>
Medical Electronic Instruments	<i>My main concern is instability of markets, leading to loss of confidence [and] will damage recovery.</i>
Pipework Fabrication	<i>Do not trust or rely on your bank for anything.</i>
Pneumatic Connectors/ Valves	<i>Central government and local authorities should pay supplier invoices immediately they become due. Excessive borrowings lead to job losses & unnecessary running costs.</i>
Printers	<i>Under-cutting is a major problem in our locale. We have rivals producing work for the same price that we're paying for materials for the same jobs !</i>
Repair/Restoration Of Antique Clocks	<i>No strong views other than 'fear' of events being worse than they are, due to misleading reporting in the media causing an increasingly ignorant population to panic.</i>
Temperature Control Equipment	<i>Food supply security will be an increasingly important issue. Only support for local supply chains will ensure local sustainability. Origin of produce labelling should be made mandatory.</i>
Toys/Educational Products	<i>If we are to rely more on design and innovation skills, we need increased government support to protect this area.</i>

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**Competition:
Small Firms
Under
Pressure
No.14
2009**

BUSINESS SERVICES

Agency for Office Staff & Typing Services

1) Today (20/10/08) marks the start of a completely new 'era' for our business, and at present we have no way of knowing how it is going to be for us. For years we have supplied our local council with temporary office staff, but the council now have appointed a management company as 'middleman' in a cost-cutting exercise.

2) In addition, we have suffered from a disturbing fall in turnover over recent months, but I am loath to blame recession for this as I have sometimes been advantaged by 'recession' conditions (probably by my prudence in the use of money in general).

Audit Accountancy and Taxation

If government does not stop legislating in areas affecting small businesses, people will lose the will to carry on.

Business & Marketing Consultancy

As a service business in a manufacturing sector, I am concerned where we are going. I have a differentiated offering but I don't know how we will grow.

Chartered Surveyor

I envisage a serious economic downturn.

Computer-Aided Drafting Services

[I would like to see:]

- Lower bank charges
- Reduce employers' contribution (NI)
- All payments 10-20 days maximum credit

Finance

Huge increase in cost of implementing new CCA 2007 legislation [consumer credit]. We need to own a forest for the paper required.

Food Technology & Quality Consultant

[There should be:]

- 1) Government pressure to get companies to pay their bills on time.
- 2) Grants for innovative projects.
- 3) Consultancy specialist help to augment our business skills.

Graphic Designers

Having met recently our young and inexperienced bank 'managers', I am not surprised that they have let lending reach dangerous levels. They told me that the blame lay with the borrowers however.

Insurance Brokers

The 'trend' has been with us since the 80s.

Legal and Debt Recovery Services

Clearly no-one can say with any certainty where we will be in 12 months' time.

Property Consultant/Estate Agent

I feel that small businesses have had their prospects damaged by poor banking decisions and lending policy governed by a bonus culture.

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BUSINESS SERVICES continued

Public Relations and Marketing Consultancy

The inordinate amount of legislation and red tape that small businesses have to comply with is crazy. Personally, in the main I now avoid employment legislation by using sub-contractors and freelancers.

Recruitment - Contract & Permanent

The outlook is indeed gloomy but we should not panic - that would be the worst option. [A] Good, solid well-financed business will survive unless there is a complete crash.

Recruitment Agency

Gordon Brown's prized (by himself) image of prudence looks nonsense in the light of history and his intentions to raise public borrowing - and I don't even like politics/politicians !

Road Haulage

As a service industry provider, the lack of our industry will no doubt see more and more in the dole queues. [The] Country lacks skills and encouragement for small businesses.

Textile Marketing

Those of us who have been through recessions in the past know that life goes on and can actually benefit good businesses whilst forcing the weak out of the marketplace. There are a few reasons for us feeling slightly more confident than we were a year ago.

1) The last five years have been very challenging as bulk business has been lost to manufacturing in the Far East, China in particular. However, rising uncertainties there, such as questionable quality, inflexible lead times, increasing costs in supply and currency fluctuations are leading to a partial return to manufacturing nearer to home, where we specialise.

2) In order to survive the above we have already trimmed costs and taken steps to increase our cash flow by developing new relationships with companies who offer higher quality in niche markets which in turn give us better returns.

3) Unit prices are rising in response to increasing raw material and energy costs and are now finally coming up to the levels of ten years ago ! This improves income.

4) In recessionary times, when unemployment begins to bite, consumers tend to pay more attention to quality by buying fewer but better items, especially if job interviews are on the cards. There is a traditional concept that menswear is adversely affected during housing booms due to domestic pressure on household spending. Both these situations should now benefit the middle to better end of the market where we are positioned.

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**Competition:
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2009**

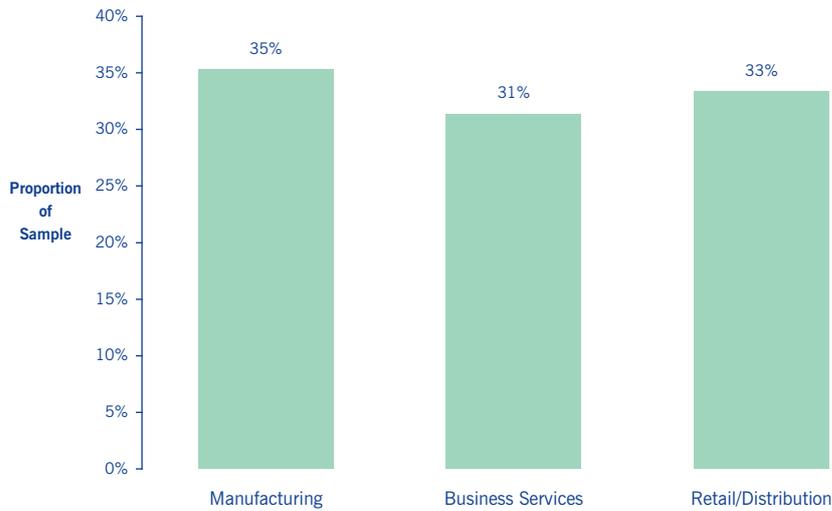
RETAIL & DISTRIBUTION

Art Metalwork	<i>I think that the media, and sadly the BBC in particular, is 'talking up' the global situation in a destructively doom-and-gloom way, i.e., CRISIS logo on Breakfast [TV]. It's not helping ... (especially in terms of average customers, who haven't actually been affected but feel the pressure and stop spending).</i>
Bookseller	<i>We are a bookshop paying high [business] rates and earning peanuts. Competition from online and supermarkets discounting [is] too great.</i>
Diamond Tools	<i>The UK economy since 1977 has been based on a hollow premise - a sea of public and private debt. Like nature, economies decide what is true and false, and the next 4 years are the price for the past.</i>
Dress Fabrics, Wools & Haberdashery	<i>I expect that most businesses feel unsteady with the current money crisis around the world. The public are worried about spending money and if the end users aren't buying then it's a big problem !</i>
Electronic Equipment & Components	<i>We are seeing a significant 'flight from quality' as buyers, sometimes forced to meet unrealistic targets, purchase low-cost products ignoring quality.</i>
Garage Services & Car Sales	<i>[It's] Time the government realised that the North East existed, and gave us a fair share of everything.</i>
Hand & Power Tools, Fastenings, Outdoor & Industrial Clothing	<i>We are closing a branch because local traffic changes have moved it from a high street position to a no through road.</i>
Hardware and Pet Store	<i>Non-specialisation and diversity are key to sustainability at [the] present time. Having been established over 25 years, I have seen tough times before. Nothing for nothing has been a motto to follow. If you can't take a joke you shouldn't have joined ! Business will now show whether or not we have a solid foundation or are built on sand.</i>
Retail Newsagent, Groceries	<i>The rising cost of electricity is major consideration for our business and has hit us quite badly in the past 12 months.</i>
Shoe Repairs, Key Cutting, Watch Repairs, Trophy & Engraving, Silverware Suppliers	<i>Small businesses [are] being forced out by charity shops on all major high streets. They pay little rent and have free concessions on Rates and other bills, i.e., discount on electricity/water, etc.</i>
Wines/Spirits Sales To Travel Retail Trade	<i>This government has little or no consideration for small businesses, otherwise they would not tax them to extinction.</i>

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**Figure 18 - Profile Of Sample:
Respondents By Industrial Sector**



APPENDIX 1 - ADDITIONAL INFORMATION

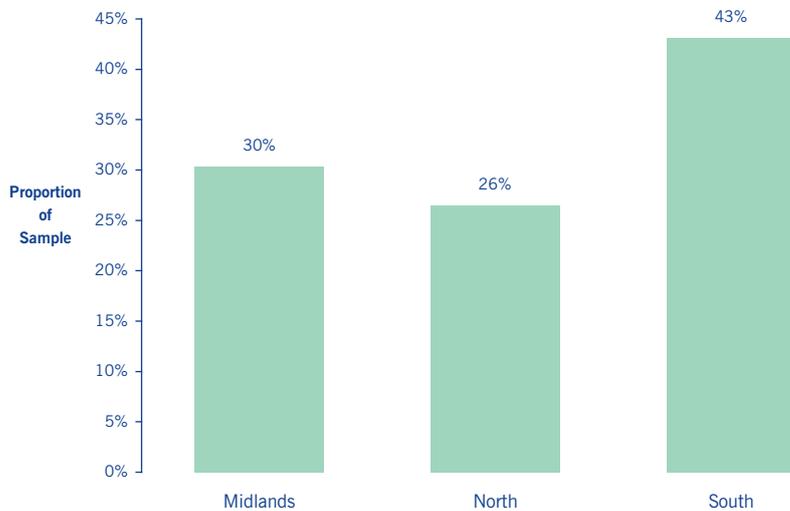
As an aid to the interpretation of the various figures (histograms), we have included some further information about the firms responding to this survey.

The analyses involve key variables, and **industry sector** and **employee size** are those most frequently used as they are reasonably reliable indicators and less prone to

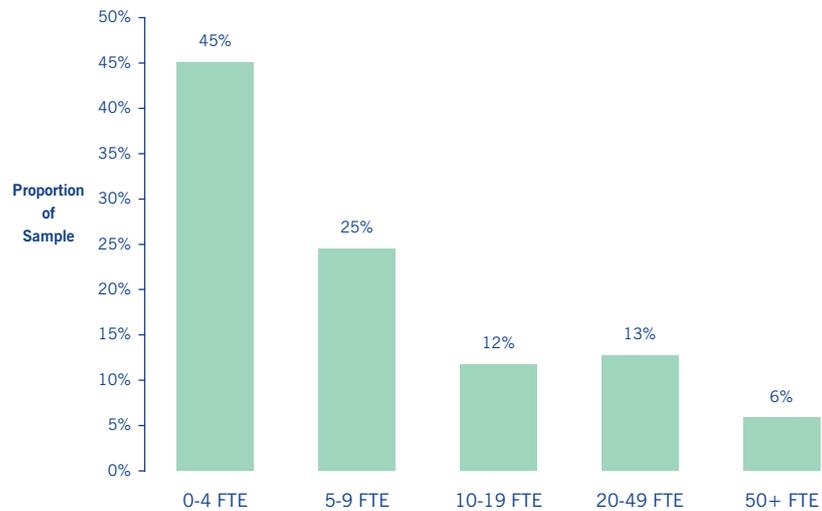
misinterpretation. Other variables have also included **region, sales growth, respondent age** and **sex**.

Industrial sectors – based on the descriptions supplied by respondents, each firm is coded according to the Standard Industrial Classification (SIC 1980). Firms are then grouped into manufacturing, business services, retail/distribution. Firms falling outside these 3 bands – which would otherwise be classified as ‘other’ – are allocated

**Figure 19 - Profile Of Sample:
Respondents By Region**



**Figure 20 - Profile Of Sample:
By Employee Size**



to the foregoing sector which offers the closest match.

Regions - firms are also classified according to their physical location, namely, North, Midlands and the South.

Employee size - finally, firms are placed in bands according to the number of employees. Each part-time employee is assumed to be equivalent to 40 per cent of a full-time employee ('FTE' = full-time equivalent). All of the surveys to date have received only a small number of responses from firms with 50 or more FTE employees. These responses have been **included** in the breakdowns for the **sectoral** and **regional** analyses, but have been **excluded** as a '50+FTE' band in the **employee-size** analyses (the 'All' band in each histogram includes all usable responses regardless). This is because a percentage breakdown band based on just two or three firms may not be representative of this size of business.

Distribution of firms

The highest proportion of respondents is in manufacturing (35%; compared with retail/distribution, 42%, for the previous report), see **Figure 18**.

The South region has the largest representation, with 43% of the sample's respondents (41% previously), see **Figure 19**.

Manufacturing and business services firms in samples can tend to be larger, in terms of employees, whereas the firms in retailing/distribution may have fewer full-time equivalent employees. Likewise, the sample is biased towards the smaller businesses – but not the very smallest (sole traders), of which there is a preponderance amongst the small firms population generally. The employee size distribution for the sample is shown in **Figure 20**.

In terms of respondent age, they are predominantly 35 years or older, with the bulk between 45 and 64 years' old.

Finally, the sample is predominantly male (68%, compared with 70% previously).

Abbreviation of questionnaire text

It should be noted that, for reasons of space and, hopefully, clarity, questions and response options are sometimes abbreviated in the report text and the accompanying figures. The exact wording used is shown in the questionnaire appendix.

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Small Enterprise Research Report COMPETITION: SMALL FIRMS UNDER PRESSURE



Report No.14 - 2008 - Sponsored by Lloyds TSB

We are seeking the views of small firm owner-managers. This questionnaire will take approximately 5-10 minutes to complete – most answers require only a single tick. All information received will be treated in complete confidence.
PLEASE RETURN AS SOON AS POSSIBLE.

1a Workforce size – Please indicate the total number of people working in your business (including yourself):

Full-time A
Part-time (16 hrs/wk or less) B

1b Respondent age – Your age last birthday:

16-24 years A
25-34 B
35-44 C
45-54 D
55-64 E
65 or over F

1c Respondent gender – Your gender:

Male M
Female F

2 General economic downturn – What are your expectations for the duration of the current economic conditions in the UK ?:

Tick ONE only

They will improve within a year A
Or They will improve within 1-2 years B
Or They will improve sometime after... C
Or Don't know D

3 Competitive challenges – What are the most significant challenges facing your business at the moment ?:

Tick all which apply

Shrinking market..... A
Expanding market B
Increasingly crowded market
(more players, offering similar
products and services) C
Undercutting by competitors..... D
Increasing supplier costs E
Resistance from customers to
passed-on supplier costs F
Increased competition from
overseas businesses G
Increased competition from
online sales H
Rising labour costs..... I
Shortage of labour/skills..... J
Other (please state): K

4 Action plan – What action/s do you expect to have to take in order to remain competitive over the coming 12 months ?:

Tick all which apply

Cut selling prices/charges..... A
Cut costs/overheads B
Find alternative suppliers C
Increase promotional activity D
Cultivate new markets E
Develop new products/services F
Adopt new channels (e.g.,
internet selling, mail order, &c.) G
Develop collaborative/strategic
alliances (e.g., with competitors) H
Other (please state): I

Or No special actions envisaged J

5 Market life-cycle/competition – Which one of the following most closely describes the primary market for your products or services:

Tick ONE only

- Embryonic - Low competition A
- Or Growing - Strong competition B
- Or Mature - Heavy competition C
- Or Declining - Failing competition..... D
- Or Not sure..... E

6 Changing competition – Please indicate the extent to which the competition generally has changed for your business over the past 6 months:

Tick ONE only

- Increased significantly A
- Or Increased moderately B
- Or Basically unchanged..... C
- Or Decreased moderately D
- Or Decreased significantly E

7 Significance of competition – How much of an issue is competition relative to the other issues your business is now facing ?:

Tick ONE only

- It's the main issue..... A
- Or It's one of several key issues..... B
- Or It's only a minor issue..... C
- Or It's not a real issue..... D

8 Future prospects for your business – How do you see the trading conditions changing over the coming 12 months ?:

Tick ONE only

- Improving significantly A
- Or Improving moderately B
- Or Remaining basically unchanged C
- Or Deteriorating moderately D
- Or Deteriorating significantly E

9 Benefits of increased competition – Please indicate where you feel that there may be one or more benefits to be derived for smaller businesses from increased competition:

Tick all which apply

- Niches may become available as larger firms outsource A
- Greater global opportunities may arise B
- There may be an opportunity to capture a demand for more localised services C
- There may be an opportunity to be more flexible and innovative D
- Other (please state): E
- _____
- Or There are no real benefits..... F

10 Business confidence – Which one of the following is closest to your attitude towards the coming 12 months for your business:

Tick ONE only

- I am totally confident..... A
- Or I have some reservations..... B
- Or I have major reservations..... C

11 Current economic climate – If you have any strong views, especially if you feel that any aspect is not fully appreciated by other small businesses or by sections of the wider community, or by government, then please comment (on a separate sheet if you wish):

Thankyou for your co-operation. Please return the completed questionnaire, using the pre-paid envelope, to:

Ms. Beverley Dash
SERTeam - Open University Business School
Walton Hall, Milton Keynes MK7 6AA

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