

Small businesses = the backbone of the rural economy

The federation of small businesses is the largest business representative organisation in the UK with some 220,000 members. We lobby on their behalf at every government level from the EU to the district council.

I am Ron King, Policy Chairman for the East of England, with my colleagues I am responsible for policy development and lobbying at regional and local government level.

We represent some 20,000 businesses in the East of England

First let me justify the title of this talk

The EU defines small business as less than 50 employees

99% of all rural businesses are small businesses

They employ 45% of the workforce

And nearly 40% of the turnover

They account for 60% of commercial innovation

We in the FSB split the small business sector into three main categories

Because they have different characteristics and problems

1. Sole trader: i.e. one man businesses
2. Micro business: 1-10 employees generally owned and managed by one person
3. Small business: 11-50 employees with multiple management

They also define the three main stages in a small businesses life

1. Start-up as a sole trader
2. Taking on your first employee
3. Employing your first manager

I will now depress you by setting the scene as to

Where we are and where we are going

In the last hundred years, apart from two world wars, there have been three major economic events to look for clues as to where the present one will take us

1. The thirties depression
2. The seventies oil crisis
3. The nineties recession

All have some common characteristics

1. Rising unemployment
2. Depressed stock market
3. Falling house prices
4. Fatuous comments by politicians refusing to face the truth
5. It takes about five years to recover
6. The government who let it happen was thrown out

I was not around for the thirties

But the seventies oil crisis had a major effect on me personally

At the time i was chief engineer for a major new confectionery factory to be built at Blackpool.
We had bought the site,
Engaged the major contractor
And completed about 90% of the design
Suddenly the world stopped!
Nobody knew what would happen
Petrol ration coupons were issued, i still have them
The Blackpool project was cancelled as mars sensibly conserved cash,

However there was a major expansion of the King's Lynn plant, which was well underway and in trouble.

So Ron was sent on a six month posting to sort it out
I am glad to say that 37 years later i am still in Norfolk

But, the immediate effects were dire.

On a personal level, the £50,000 house i left in Buckinghamshire became unsalable in a falling market, and finally sold three years later for £35,000, a 30% drop in value, typical of the market

As soon as the project was finished, we laid off over 2000 contractors, and over the next three years reduced the plant workforce by 20%

It ended with the IMF humiliation + massive cuts in public spending

The nineties followed a similar pattern, with a massive housing bubble fuelled by irresponsible lending - sound familiar.

By this time i had been running my own business for six years, built from nothing to about a million turnover in today's values,
Our butcher customers started to fail in large numbers and within months we had massive bad debts and i had to liquidate the business.

I was luckier than many, and held onto my house by the skin of my teeth
Again it took years of careful fiscal policy, reduced public spending and conservative lending before the market recovered

This brings us nicely to the current crisis

Anybody with half a brain could see the housing market was reaching levels that were unsustainable, but nothing was done

This was again caused by banks irresponsible lending and in inventing a new wheeze of creating packages of dodgy assets and selling them to each other generating turnover, fees, bonuses, massive profits and impressive balance sheets.

It was all a mirage,
The profits and balance sheets were totally fraudulent.

Incidentally can anyone tell me why the directors of these banks, who have obviously been trading whilst insolvent, have not been struck off by company's house, and made personally liable for the debts?

That is the law as I understand it.

Why argue over a few millions in pension funds,

These guys should be made bankrupt and forced to repay some of the money they lost

Anyway here we are in recession again with only one priority – **survival**

First let me start with a case study from this weekend's Sunday times

To illustrate what is happening

A typical Norfolk professional couple who eat out twice a week find their work dropping off, so they cut back to once a month

Fishes, a superb busy restaurant in Burnham Market, which was one of their favourite eateries, find all of their regulars have cut back.

So they are losing money.

They try cheaper menus and special offers but nothing works

So they close the business and sell the property.

A business worth half a million last year is now worthless

And six more people are without employment

Coles of King's Lynn, a thirty year old family fish business, supplied fishes and other restaurants that are all cutting back. For the first time ever they make 5 of their 17 staff redundant

Coles bought brown shrimp from a group of six fishermen running three boats out of King's Lynn
Sales and prices are both down, so they can't support six people any longer

And so it goes on down the chain of businesses

Why I have used this example is that coincidentally I used to eat at Fishes and Fishes and Coles were customers of my own company, which distributes food machinery and refrigeration.

We are obviously experiencing the same problems

Whatever we do some firms will close but if we are going to limit the potentially vast social problems caused by the recession we have to identify those firms that can survive and do all we can to help them

So what should businesses do for themselves?

There is no easy or universal answer. Each business must re-examine its business from the viewpoint that things are likely to get worse, and remain worse for three years

This is a problem for most sole traders whose business plan is normally a 1-2 month order book, which is drying up fast.

Many micro businesses do not have a business plan, or it is written on the back of an envelope and covers the current year only.

It is vital they seek help. Either from an accountant or from business link, who now do sterling work in assisting micro businesses but could do so much more given the funding.

Having got the business plan, there are two things one can do to survive

1. Increase margins by increasing prices or reducing costs
2. Increase sales

One of the mistakes fishes made was to reduce prices

The price elasticity of discretionary expenditure is generally such that you can rarely increase total marginal income by reducing prices

Desperate cost cutting on the high street does not stop them going bust

The cost reduction exercise must look at every area of expenditure,

In most cases staff costs will be top of the list, but there are other areas, supplier contracts etc look at them all

Sales can always be increased by more marketing expenditure, improving the product or looking for new markets

Again marketing knowhow is a major area of deficiency with sole traders and micro businesses.

Speak to business link or other advisers - get help

However a well managed company has probably optimised its marketing spend so it may be uneconomic to increase it. If after all this the business plan still shows three years of losses.

Sell up and get out while you can, it will only get worse.

Most businesses though will find they can produce a viable survival plan even if implementing it is hard work and difficult

But be wary of your customers - you can still fail because of bad debts

I lost my first business because customers went bust owing me money, and the same thing happened to a neighbour of mine in Heacham, Norfolk lavender, only last month - the domino effect

Tight credit control is a must .If possible gets paid in advance, or on delivery. If credit customers miss payment due dates go straight in do not delay!

I would like to illustrate this process using my own company model

We normally market by direct mail to the butchery market and have a turnover between four and five hundred thousand, employing five full time staff and four part time. We made a modest profit until last year, when our customer response declined; reducing sales and we made a loss. Frankly this was an early sign, in 2007, of the downturn to come

Our first priority was to increase sales, which we successfully did by

1. Reviewing and increasing our customer database
2. Increasing our product range, upgrading our catalogue by 50%
3. Starting to test adjacent markets restaurants and hotels

This restored our sales level and produced potential for growth

Secondly we increased prices, where we could, and started to charge for delivery, which we should have done years ago.

This will increase gross profit by 5-6%

Looking at our costs we

1. Modified our employee bonus scheme
2. Changed to a new computerised catalogue printer
3. Upgraded our database to a royal mail cleanmail contract
4. Relinquished one rented storage unit
5. Changed our bank to a free one (a FSB service for members)
6. A whole raft of minor changes

We will make savings of over £20,000 per year

And have already returned to profit

We are also well advanced at selling our manufacturing operation to the craftsmen who work there, which will save another £8,000 in employers national insurance etc and make the business easier to manage

Unless things get dramatically worse we are now confident we can trade profitably for the next three years

You may well ask why we did not do these things before.

Well, i am retired and the running of the business is now in the hands of my son, who like most micro business owners works all the hours god sends (the 48 hour week is a sick joke to us). There is simply no time to do the analysis and implementation.

However, being retired, I came back as a consultant for three weeks and did the work. Not just a glossy overview, but hands on comparison of printers, rearranging and cleansing the database for royal mail, revamping the catalogue etc.

Not only deciding what to do, but actually doing it

This is the real service needed from business link: analysis as now, but also real practical hands on resolving the issues and changing things

There is one potential snag with my own business's recovery plan

During the loss making period we accrued some arrears with PAYE

No problem – the government fanfare from the rooftops a scheme to allow SMEs to delay payment without penalty so we can restructure and pay off the arrears out of profit as the business recovers..

What they did not say is that the scheme only applies if the debt is incurred after 20th Nov 2008; otherwise HMRC resorts to its normal bullying mode with bailiffs and threats of winding up orders.

This is disgraceful.

Their self righteous excuse is they must protect future revenues.

What future revenue is there if you wind up a company which for eighteen years has paid over £50,000 in taxes every year and replace it with ten people on the dole at a similar cost to the exchequer?

HMRC are the enemy of SMEs,

More businesses put into liquidation by HMRC than any other cause.

There needs to be a major culture change at HMRC

They should get rid of their ridiculous mindset of penalties, bullying and harassment which is totally counterproductive

If a SME cannot meet a tax payment it is because the money is not there

No amount of harassment can produce it and liquidating the company merely increases the cash drain on the treasury

What if they responded to a missed payment by sending in a business link advisor to help, instead of a bailiff?

The consultant could advise and make changes as I did with my son's business, and report back to HMRC with a sensible repayment schedule aligned to a robust business plan.

They would get their arrears and taxes for years to come

The business and the jobs would survive and it would be highly effective at stimulating economic growth – everyone would benefit

But, where would the extra money come from for the consultants?

Such a scheme would be self financing and very profitable for HMRC

Initially the money could come from the skills and training budgets

Vast sums are currently spent on retraining people for nonexistent jobs as a means of keeping them off the dole.

There are hundreds of ineffective schemes

Most of the money is absorbed by the people who run the schemes and struggling SMEs cannot afford to use them

Let the HMRC/Business Link consultant decide what training is actually needed and provide it free

This brings me to other areas where government local and national can help

The first way is to simply **get off our backs**

1. We all know about the red tape problem, there are so many laws and regulations nobody even knows what they are, the government does not have the resources to apply and monitor them and the SME has neither the time nor the inclination to understand and implement them.

Get real - make derogation the norm for micro businesses

2. Change the penalty culture of HMRC : get rid of all the fatuous penalties for being a few days late with a payment or worse a worthless form that nobody will read anyway
3. Simplify the ridiculously complicated PAYE and tax system
4. A moratorium on increased rights for employees

Secondly **help where you can**: - a few ideas

1. Procurement :make it easier to get public sector business by
 - Making supply2gov website free and easier to use
 - Simplify prequalification : pc nonsense is irrelevant to SMEs
 - Develop a national database so we only prequalify once

- Make contracts smaller and more local
 - Allow more managers discretion to buy without tendering
2. Rates :
 - Make NDR relief automatic, or abolish it on small premises
 - Remove NDR from empty property
 3. Planning :
 - Implement Govt policy of cooperative dialogue with applicant
 - Remove negative attitudes to reuse of redundant farm buildings
 4. Business advice: expand business link remit to provide real help to SME's not just signposting, and to step up their capacity: reduce the skills & training budget to pay for it .
Protecting existing jobs must be the priority
 5. Vat : raise the threshold to £120,000 and
Abolish employer's NI on the first employee.
This will remove the major financial hurdle preventing taking on the first employee and will encourage more employment
 6. Corporation tax : abolish the planned increases for SME's
 7. PAYE : extend the latitude on payments to all SMEs whenever the debt was incurred
 8. Business bank :
 - Bypass the banks, which will still only lend to SMEs against the security of personal assets, and use the RDAs to lend directly to businesses with business link approved plans
 - Require Govt owned banks to set sensible rates & charges
 - Provide funding to housing associations to buy empty property
 9. Infrastructure : stop pussyfooting with agreed schemes like A11 duelling, get them built and keep the builders ticking over
 10. Parking provision: in market towns and villages, make it plentiful and free. Get rid of unnecessary yellow lines
 11. Minimum wage : freeze it we can't afford rises we need cuts
 12. Beer tax : freeze the increase pub sector is already in melt down
 13. Lastly tell eu what to do with their 48 hour week. Do they really think a small trader struggling to pay a mortgage will comply with this? If it is implemented the black economy will fill the gap with subsequent loss to the exchequer

Most of all for local authorities speak to your local businesses and do what you can to make it easier for them to continue trading