

Large Businesses and SMEs: Exploring how SMEs interact with large businesses

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1 Executive Summary

ORC International, in conjunction with Durham Business School, was commissioned by BIS Enterprise Directorate to conduct research into Small and Medium Sized Enterprise (SME)¹ and large business relationships and how they relate to growth. The key objectives for the research were to analyse how businesses transition from medium to large and the factors and barriers involved; and how different types of relationships and interactions between SMEs and large businesses affect SME growth.

The research was carried out in the first half of 2012 and was based on 21 in-depth interviews with a range of mid-sized businesses (MSBs²) to discuss business growth. A telephone survey of 506 SMEs was conducted alongside a further 49 depth interviews with SMEs to explore issues around supply chains and other types of relationships with large businesses and how they impact on SME growth.

MSB Growth

- MSB respondents identified a number of factors as facilitating growth. These included a strong, strategic understanding of and responsiveness to the market; maximising long-term, trust-based relationships with customers; product quality, uniqueness and/or innovation; diversification, and – particularly in the prevailing economic conditions – efficiency and cost-effectiveness in order to be more attractive to procurers.
- Also important for MSB growth was the use of external consultants (although these were less useful as businesses grew and learned) and stable and effective management to lead a skilled and engaged workforce.
- A number of MSBs noted that being well established, and able to take advantage of the boom years of the 1980s to early 2000s to buy affordable infrastructure and commodities had provided them with a stable platform for growth, which many newer MSBs did not have.
- Obstacles to increasing the rate of growth were largely rationalised by respondents as the result of external factors – especially those intensified by the current economic climate – rather than internal factors. These included cash flow problems caused by late payments; compliance with red tape (emanating from larger businesses as well as the government); and increasing pressure from procurers to drive costs down.
- Respondents also identified access to finance as a general problem, although none had experienced it themselves. This suggests that the barrier may be as much about the perception of finance availability as the reality – though that perception may discourage

1 SMEs were defined as employing 10-249 employees.

2 MSBs were defined as businesses with a turnover of between £25m and £500m.

some from applying in the first place. Some also reported a lack of available guidance, particularly for potential exporters.

- In terms of encouraging growth, the extent to which respondents believed government could and should do anything here was divided. Some believed that matters should be left to market forces whereas others wanted to see more help in terms of:
 - Reduced bureaucracy, and additional support to assist compliance with regulations.
 - An increase in government procurement from SMEs and MSBs.
 - More notice regarding future public sector spending plans (such as large infrastructure projects) to aid business planning.

SME Supply chain relationships

- Of those surveyed, 77 per cent of SMEs considered that they were part of a supply chain. Two-thirds of this group provided a standardised product or service; half provided a bespoke product or service; and one in five provided some form of Research and Development (R&D). In 30 per cent of cases, the largest supply relationship contributed between a quarter and a half of total turnover.
- Financial gain was the most often cited reason for starting a supply chain relationship. Some businesses were specifically established to service such a contract, often on the back of networking opportunities in the founder's previous employment.
- The main competitive advantage of using SMEs is their ability to provide a niche product or service that larger businesses cannot provide themselves, or cannot provide as cheaply – although competing on price is less likely to lead to growth than having a unique product.

SME Non-Supply chain relationships

Many businesses did not differentiate between supply and non-supply chain relationships, but rather simply perceived relationships to support and promote the core business objective of growing the business in one way or another – in other words, non-supply chain relationships tended to be tightly interwoven with supply chain relationships.

- Almost half of the respondent SMEs networked with larger companies, primarily in order to become more established in the marketplace, and ultimately to win new business. This was particularly necessary for SMEs competing in sectors dominated by large businesses. Informal networking (e.g. on site) was common in construction and manufacturing and a good source of business.
- One quarter of SMEs were involved in R&D partnerships with larger companies. Some benefitted by commoditising products from larger businesses to sell to a mass market, but others felt exploited as a low cost 'research hothouse'.

- 15 per cent of SMEs were in more formal joint ventures with larger businesses, usually to exploit existing relationships for mutual gain. However, joint ventures were more prevalent across SMEs than between SMEs and larger organisations, as the former was more likely to lead to an equitable division of benefits – although the more niche a product or service, the greater the power an SME could exert.
- 15 per cent of SMEs received some mentoring from a larger business, often derived from pre-existing supply chain relationships, with the client seeking to enhance productivity throughout the chain.
- SMEs with relationships with larger businesses not based on supply chains were likely to see these relationships as supporting their core business objectives and growth, for example by establishing contacts for new supply relationships. Other benefits included new product development and sharing of expertise.
- Businesses undertaking these other types of relationships were more likely to have future strategies in place (to grow supply and non supply chain relationships) and to have either grown in the last five years, or be planning to grow in the future when compared to businesses that did not have non-supply chain relationships.

Relationships and SME growth

- The primary motivation for SMEs investing in any form of relationship is to win new business – i.e. to create or strengthen a supply relationship. Other benefits – learning, technology transfer etc. – are less important or a means to an end of winning contracts.
- An essential component of a growth strategy based on supply relationships is the clear identification, packaging and marketing of the SME's USP (Unique Selling Point). A USP based on quality and customer service, that can be rolled out or tailored easily to a large number of potential partners at a competitive price, is crucial. This is difficult, and requires substantial self-reflective capacity by the SME manager, market knowledge and an evaluation of the larger organisation's supply chain. It also requires an understanding of the mindset and culture of larger businesses.
- A USP is usually driven by innovation, not just in product and process, but also organisationally: for example, offering a package of existing services in a 'one-stop-shop' for the client. This offers some insulation against price competition, and the SME characteristic of offering a more personal/less anonymous service may work in favour of such packaged services. Long-term relationships built upon reliability, quality, delivery and trust seem to be the most successful for driving growth, although cost-effectiveness also plays an important role.
- The imposition of strict quality standards by larger businesses, while appearing onerous, can help improve processes and quality in SMEs more generally, which may be ultimately beneficial in areas such as building competitive advantage.

- Many SMEs deriving a majority of their turnover from a single large customer sought to diversify their customer base and spread risk. This could involve cross-selling to their existing customer base or applying the learning from existing relationships to target new and similar clients. Others did not despite acknowledging the inevitable risk; in some instances this had led to growth if the end customer had grown, and also reduced the administration time involved with auditing/ISO requirements from different suppliers or customers.

Benefits and drawbacks of pursuing growth through supply chains

- The majority of SMEs reported that a large supply chain contract provided a more reliable income flow, which facilitated the pursuit of investment and diversification strategies. They also reported that supply chain relationships could lead to an improvement in reputation and quality and help in retaining or winning business. This was aided by tacit skills acquisition, sometimes through the implementation of quality standards. However, in some cases these would be gained specifically in the interests of winning or maintaining business with the larger company than for the sake of skills acquisition itself.
- Only 20 per cent reported drawbacks to a large supply chain contract, including timeliness of payment, unreasonable demands and the absence of a contract in a long-term relationship.
- Some SMEs complained of the high management time spent on the relationship and compliance; differing quality standards between large businesses prevented the pursuit of multiple large contracts in small businesses.
- Some respondents also argued that the bureaucratic processes imposed by large firms were often unnecessarily burdensome particularly as these varied between large firms. For example suppliers in the food industry cited the varying quality assurance requirements that different large supermarkets would impose upon them – which were typically more stringent than those required by the British Retail Consortium

Relationship management

- SMEs felt proud of their high quality relationship management and their responsiveness to client needs. Indeed, the vast majority of supply chain relationships were actively managed by a member of the senior management team within the businesses surveyed. 83 per cent also felt that trust was integral to a successful commercial or collaborative relationship, with contact between key personnel crucial. New relationships were thought to now be harder to establish and more formalised than in the past.
- Fewer, but still a slight majority, agreed the supply relationship was based on equality (51%) or that they sought a closer relationship with the larger business (60%). It is clear

that SME managers are pragmatic about their dealings with larger businesses, and want to maintain some degree of professional distance.

- Some lower tier suppliers had a specific strategy to provide added value within the supply chain, by communicating more directly with primes than their position would normally suggest, moving towards being a co-ordinator of relationships within the chain. The entrepreneurial initiative to build up such a ‘secondary’ USP requires a high level of strategic and market analysis along with foresight capabilities.

Conclusions

- Large businesses can be highly important to stimulating SME growth. Guaranteed revenue streams enable SMEs to develop growth strategies. Being an accredited supplier can lead to more exposure and work, and large organisations assist in up skilling SMEs and improving their work processes. Large organisations also train future entrepreneurs who in turn set up their own SMEs, driving innovation in the economy.
- However, large businesses can also hamper SME growth through late payments, pressure to drive costs down, and the burdensome, administrative compliance with procurement and audit procedures, especially since these are different for each customer.
- Businesses involved in this study suggested a number of ways to improve relationships and encourage future growth. These included:
 - Improving understanding of the SME business model in large businesses, particularly with respect to difficulties of cash flow – possibly through large organisations having staff that have worked for an SME.
 - Improving payment terms for SMEs – at a legislative level.
 - Setting targets for the proportion of business that large organisations commission from SMEs, to overcome the tendency for them to rely on large organisations for their business needs.
 - Improving communications between large and smaller businesses to help SMEs plan more effectively. Suggestions in this area included:
 - The use of trade forums to encourage more networking and collaborative working.
 - The development of an SME directory to enable large businesses to identify the most appropriate suppliers.

2 Objectives

The first strand of this research was concerned with how medium sized business (MSBs) grow and the factors that affect this. The findings from this element of the research can be viewed in Section 4 of this report.

The second strand of this research was intended to add to the Department of Business, Innovation and Skills' (BIS) evidence base on the prevalence and nature of relationships that exist between Small and Medium Sized businesses (SMEs) and large businesses. The results of this element of the research are included within Section 5 of this report.

The overarching objective of this second phase of the research was to analyse how SMEs interact with large businesses, including:

- What types of relationships do SMEs have with larger businesses (both inside and outside the supply chain).
- How widespread and influential these types of relationship are.
- To what extent do they shape the behaviours, experiences and performance of SMEs.
- To what extent are some sectors effectively 'regulated' by a small number of large businesses.
- On the basis of these insights, to establish how these relationships affect SME growth.

A literature review was carried out by the Business School at Durham University to inform and shape the research materials before their design. This review covered both strands of the research project (business growth amongst medium businesses and SME relationships) and is included in the Appendix. Also in the Appendix are copies of the final research materials used in the second strand of this project: the SME relationships questionnaire and discussion guide.

3 Methodology

The research programme involved a number of different research strands including:

- A literature review exploring previous research in relation to mid-sized business (MSB) growth and business-to-business relationships between SMEs and large businesses.
- 21 depth interviews with a range of MSBs – including a mix of businesses that had grown or remained stable over the previous four to five years.
- A telephone survey of 506 SMEs.
- 49 follow-up depth interviews with SMEs that responded to the survey.

3.1 MSB Depth Interviews

To assess how businesses transitioned from medium to large, we carried out 21 in depth qualitative interviews to provide an in depth understanding of how businesses have grown recently (if at all), aspirations for future growth, and any barriers to growth experienced.

The businesses we spoke to:

- Had a turnover of between £25m and £500m.
- Had been in operation for 10 or more years.
- Excluded micro-sized companies.

Interviews were focused in specific sectors, as illustrated in Table 3.1.

Table 3.1 Sample Frame

Sector	Number of Interviews
Construction	4
IT	4
Manufacturing	4
Transport	2
Wholesale/retail	7
<i>Total</i>	21

Within these businesses:

- 10 had a stable turnover in the past four to five years (current turnover is +/- five per cent of their turnover four to five years ago).

- 11 had increased their turnover in the past four to five years (current turnover has grown five per cent or more from their turnover four to five years ago).
- Respondents were decision-makers who were part of the senior management team or board members, and had worked at their organisation for a year or more.

Fourteen interviews were completed face to face. The remaining seven interviews were completed by telephone.

Fieldwork was completed during February and March 2012.

3.2 SME telephone study and depth interviews

For this second phase of the project, we carried out research using a combination of qualitative and quantitative approaches involving:

- An initial literature review, to inform and shape research materials, carried out by Durham Business School.
- A telephone based survey of 506 SMEs to identify the nature, prevalence and significance of the different kinds of relationship that exist with larger businesses.
- In depth interviews with 49 SMEs to provide an in depth understanding of how relationships with larger businesses affect businesses' behaviours performance and growth.

3.2.1 Telephone survey

Five hundred and six telephone interviews were conducted amongst senior business personnel with responsibility and knowledge of commercial/business relationships (see profile of respondents in Section 5.1).

Sample was drawn from a commercial data source used by BIS, the IDBR (Inter-Departmental Business Register) database. The sample frame was stratified by business size and industry sector based on SIC 2007 counts for industry types A-N and employee numbers (small: 10-49, medium: 50-249).

Completed interviews split by business size can be seen in Table 3.2. The definitions of business sizes used throughout this report are based on employee numbers only. The fieldwork period spanned from Thursday 1st March until Thursday 5th April 2012.

A random probability sampling approach was deployed during fieldwork. A sample of 8,834 businesses was selected to take part in the survey. The overall response rate was 29 per cent.

Table 3.2 Completed interviews

Size	Completed Interviews (unweighted)
Small (10-49 employees)	251
Medium (25-249 employees)	255
Total	506

3.2.2 Weighting the data and analysis

Data was weighted by sector and business size, to align with population figures from the IDBR database.

The resulting data was analysed at an overall level, and by key cross breaks, including most notably:

- Industry sector.
- Business size.
- Business profiling information.
- Involvement in supply chain and non supply chain relationships.
- Recent growth trend.

Differences in findings are only noted throughout the report where they are significant at the 95% confidence level. A ‘significant’ difference between two groups means the difference is statistically valid and so likely to be due to real differences in the population and not due to chance. The measure used means we can be 95% confident that significant differences reported are not due to chance.

3.2.3 Depth interviews

All respondents who took part in the telephone survey were asked whether they would be willing to take part in a follow-up interview with a researcher from ORC International. Those who agreed were re-contacted (if they undertook supply or non supply chain relationships), and forty nine telephone depth interviews were conducted. The depth interviews were all conducted between the 2nd April and the 29th May 2012.

The findings from these depth interviews have been summarised, and key insights have been written-up and interspersed within relevant sections of the report. Select case studies have also been included in Section 5.3, to help exemplify the types of the non supply chain relationships that we encountered.

This project was conducted in compliance with ISO 20252.

4 Mid-Sized Business (MSB) Findings

4.1 Successful Business Growth

Summary

- Although only some sectors had experienced recent growth, all sectors believed that growth would return eventually. When is dependent upon the macro environment in terms of government plans, inflation and the return of consumer confidence and spending power.
- Factors which have influenced growth in MSBs included:
 - Being well established; typically for more than ten years;
 - Taken advantage of the boom years of the 80s, 90s and early 2000s to invest in infrastructure and other resources;
 - Maximised and maintained their relationships with contacts;
 - Actively seeking efficiencies and productivity gains;
 - Willingness and ability to diversify and respond flexibly to changing conditions and emergent opportunities. Been responsive to a changing market, and supplied customers with appropriate goods/services that they want;
 - Business leaders who provided strong leadership to their staff in terms of stability, expertise and managing change;
 - Having the right staff, who were engaged with what the business was trying to achieve. Several businesses also noted that there were a lot of candidates to choose from in the current market, and represented an opportunity to 'get more skilled people for the same price' (as opposed to lower skilled people); and
 - An emphasis on efficiency and controlling costs, as well as securing new and repeat business.

Recent and Future growth

All of the MSBs involved in this element of the research had been affected by the down turn in some way over the past few years. For some, this had involved major cutbacks, downsizing, rationalisation and diversification. But for others it meant an opportunity to become more efficient, cost-effective, and for senior management to pitch in on the ground.

In the midst of this difficult climate, many MSBs were able to remain stable and predicted recovery and growth in the next few years. Other MSBs have managed to maintain their growth over this period and have even increased turnover, taken on new staff and/or expanded their market share.

Perhaps unsurprisingly, the MSBs that had grown over the past few years were more likely to predict that this growth will continue into the near future than MSBs that had remained stable. Conversely, MSBs that had remained stable over the past four years were more likely to be planning for the business to continue through a period of stability, or to decline/remain stable for a few years before they begin to grow again. None of the MSBs involved in the research (which had all grown, or have remained stable over the past few years) predicted an overall decline for the future. The mentality seemed to be that if you had "*ridden out the storm*" you were bound to survive.

There were some interesting variations in responses from different sectors in relation to future growth predictions, which most likely mirrors the wider markets within which they operated. For example, respondents from the IT sector were on the whole amongst the most positive. Their target market was growing with the increase in data; data security; networking; cloud systems and advanced communications etc. The construction market which has greatly slowed in recent years predicted an initial period of decline/stability, and then a comeback over the next few years. One respondent described how there is planned to be a five per cent fall in the construction industry as a whole over the coming years after which it will recover. There was in particular a positive outlook for the public sector construction industry, through projects such as building hospitals and schools, and one respondent in the construction industry was hopeful that over the next 10 years the UK needs to build 250,000 homes a year to get back to where they need to be. However, respondents from the construction sector indicated that any future recovery was in a large part dependent on government plans and proposals; unlike the IT sector which was purely responding to markets.

Respondents in the wholesale/retail sector discussed how there had recently been a big decline, particularly on the high street. Their predictions for market recovery were linked to a return of consumer confidence and spending which was in turn dependent on a whole host of other factors such as job security and inflation etc: "*Real growth will not come until consumer confidence returns and people are in a sunnier environment. In three to five years they are hoping this will happen.*" There was in general a hopeful feeling that some of the high street decline had been displaced to spending online and that the future was e-commerce. Even one respondent whose target market was "*the older lady*" (who are not typically high internet users) had been pleasantly surprised as to how well the online market was doing.

It was also interesting to note that some markets seemed to be "*recession proof*", such as one MSB involved with police and armed forces protection which had faced cutbacks, but confidently knew there would always be a market.

Previous Growth

Whether MSBs had recently been stable, had grown, or were predicting growth and/or a period of further stability, they were all able to provide valuable insight into how they originally grew from an idea or a small business into the company they are today, or how they had successfully maintained growth at an already established entity.

It was interesting to note that there were some subtle differences in opinion between MSBs that had increased over recent years, and MSBs that had remained stable, in terms of what they thought were the driving forces behind their previous successful business growth. It is important to firstly mention that “successful business growth” refers to both the success of the specific business associated with the respondent, and also to general business growth. **When respondents were asked what they thought contributed to successful business growth in “general terms” most of them elaborated on the factors they had just discussed as having contributed to their own business growth** - i.e. these respondents believed the same elements which had brought about their success would be applicable to the success of others; the two things were almost interchangeable.

In terms of the subtle differences, MSBs that had increased in turnover in recent years tended to put a greater emphasis on “customer satisfaction” as a critical driver of growth e.g. maintaining good relationships; reputation and the loyalty of customers. They also mentioned to a slightly higher degree the importance of good staff/leadership and the importance of understanding your market. They put much greater emphasis on growth through efficiency and on watching their costs/margins.

MSBs that had remained stable in recent years alternatively put a lot more emphasis on having a good product – i.e. having something that was better than the competition or was in some way unique (although as discussed below, this could be because businesses that have grown in recent years take it as a “given” that they have a good product). They also put marginally more emphasis on investing for the future and in taking risks.

The factors which respondents discussed as contributing to successful businesses growth are presented under the headings below:

Factors influencing successful MSB growth - timing

It was interesting to note that the majority of MSBs involved in the research had been operating for longer than the ten years required by the recruitment specification, and were now “well-established”. A lot of them described how they had taken advantage of the boom years of the 80s, 90s and early 2000s. During these years, businesses were:

- Able to **buy affordable infrastructure/commodities** – such as buildings or vehicles; and
- Able to **benefit from low prices in the global market**, for example when it was cheap to manufacture things in the Far East: *“that was the basis that the business was started,*

because these guys I think hit the Far East just at the right time, just at the beginning". It was also a time when businesses could "buy things cheaply there, bring them over cheaply and sell them at a profit."

This timing seems to have been particularly important for MSBs involving manufacturing or wholesaling.

As a result of these boom years, some MSBs noted that they were in a much better position now than newer smaller businesses, due to for example owning their own vans rather than having to hire them on an *ad hoc* basis, or owning their own storage warehouse rather than having to rent out the space from a landlord etc.

Many respondents remarked how they would not be able to benefit from the same business advantages today, as they did 20 to 25 years ago when they were getting started. The main example given was access to finance and banks lending. This is discussed further in the "obstacles to growth" section below.

Factors influencing successful MSB growth – reputation

Since the majority of MSBs participating in the study were older and well-established, they had mostly been able to build up a **positive reputation** over the years. This was cited across all sectors as having been a critical factor contributing to successful growth (and as mentioned above was particularly important amongst MSBs that had experienced growth over recent years).

The proven prior ability to "*deliver what you promise*" and "*build up very strong relationships*" was seen as key to continued success in a very competitive market. As one respondent in the IT sector described: "*effective business comes in with the quality of the relationship you have as much as anything else that you deliver*" or as a participant in the wholesale sector said: "*over the years there's many people we've dealt with and we're still dealing with these people for many years, some long established customers... so it's a long-standing relationship*".

On a more nuanced level, one respondent in the IT sector suggested that an element of successful relationship/customer satisfaction was creating the feeling for clients that you genuinely want to help their competitive advantage, and it isn't just about making yourself more money. Another respondent in the IT sector said they offer clients some free advice services which was designed to make their clients feel like they are more of a partner than a provider "*because ultimately, we get more business from our clients that way*".

The research also suggested there were wider knock-on benefits to relationship-building beyond simple business growth:

- Ability to work with larger organisations, which are more likely to work with existing contacts than source new ones. One manufacturing business described that “*certainly with the larger organisations, they stick with somebody they know*”.
- Ability to be trusted to work on credit (for example, a supplier agreeing to be paid once their client had been paid), which is particularly useful in these cash poor times where access to finance is more limited.
- The often very positive effect experienced when a business can get on a preferred supplier list.

Related to the importance of long-standing relationships, the reputation held with key **individual contacts** was also seen to be of high importance to those who had them. One respondent said it's: “*all about who you know (xx is a personal friend) - that did really help. If you made a cold call, they wouldn't want to know*”.

A number of MSBs talked about their early success as having come from **contacts they had made in previous roles**. It was interesting to note that most of the respondents interviewed were at a similar late stage of their careers. Having previous experience and prior contacts was particularly mentioned by respondents who were involved in businesses that had been set up from scratch (as opposed to the few respondents who worked at larger pre-existing companies). Many businesses that were established 25-30 years ago seem to have been done so on the back of existing networks and contacts, with some suggestion that the practice of poaching former employer contacts was quite widespread.

For example, one respondent from the IT sector who set up a business was able to sell to contacts from previous networks; and likewise a respondent in the transport industry was working for a delivery firm until he realised he could go to the people he was already dealing with directly, and offer the work for a cheaper price. A respondent in the wholesale/retail industry left one company to set up another and took with him the same agents of the previous company; and a respondent from a manufacturing firm was able to use his contacts/networks to test out new designs which were then a success.

Factors influencing successful MSB growth – family run

Of the twenty one MSBs interviewed, nine had been associated with some kind of family ownership/involvement (with three of these still having family involvement today) and twelve had never had any kind of family ownership/involvement.

Of those that were associated with family ownership/involvement in some way, this was seen by respondents from these MSBs as having had a **positive influence on the success of the businesses**. One of the reasons for this was believed to be the strong **trust** that exists between families, as one respondent from the retail/wholesale sector said “*we discuss everything, we have meetings every week. The real benefit of being a family business is trust.*” Similarly, a respondent from the manufacturing sector described how being family run can have a positive impact on the **reputation** of the company (which, as described above,

was critical to success): “*I think it was their reputation that originally got them the contracts and the fact that they worked so hard and developed it like that.*”

The research provides some evidence that being family run can actually give businesses a competitive advantage. For example, one respondent from the wholesale/retail sector described the positive advantage of family businesses being **personal** and the fact that external people know everybody working there: “*I think it's very much appreciated by lots of retailers that know...it's grown, but still things are very much personal as opposed to being an account number and a name*”. Similarly a respondent from the transport sector described the advantages of businesses with family origins appreciating the value in small contracts: “*we still respect the small things in life, if somebody came in with a small contract we would still talk to them, whereas you go to the likes of the major guys and they wouldn't be really interested in talking to smaller outfits, they're going for bigger and bigger things, and they forget their roots....there are a lot of lucrative little contracts as well*”.

The general pattern discussed tended to be that businesses were family owned and run in the beginning but were then “*sold up*” by the family when they become established and successful, making the family a sizable profit. The sense from the interviews was that the motivation for this was purely financial (rather than necessarily for the benefit of the business for example). The three companies that were still operating as family businesses were all in the retail sector, and they were still small to medium sized (with 200 employees and under).

Factors influencing successful MSB growth – management and staff

Although the respondents were prompted to talk about their leadership/management structure, not a great deal was said about this in terms of the impact it was having on the success of the company. It should be considered however that this could be because the interviews were with the senior management/leadership, so it may have been a case of not wanting to ‘talk about oneself’. There were some factors mentioned by respondents which are worth noting below. A lot of what was said was unique to each individual company and there were no real patterns or similarities that emerged:

- One respondent in the construction sector said the stability of management over the years had been a key ingredient of success.
- An interview with a retail business which was owned by a US company highlighted the advantages of being able learn from the external expertise and follow their lead.
- One transport executive described how a new CEO had joined and had instigated some major changes and asked some challenging questions of the way things were operating which had been instrumental to success.
- Another respondent in the retail sector said their open management style (likened to that in Californian IT companies) was key to stimulating ideals and employee loyalty.

- And a respondent from IT sector said that entrepreneurship was one of their company's corporate values - they promote business improvement and business growth from within in everything they do.
- Whereas a different respondent in IT sector said being professional; having full control and full reporting and knowing where everyone is and what everyone is doing was important.

In relation to staff, this was again not an area that emerged from the research as being a critical driver of success/growth. This is not to say there were not organisations that spoke of the importance of their staff, just that it was not generally reported recognised as one of the top factors influencing growth.

However, one respondent in the retail sector did, speak of the key advantage of having engaged good staff: "*What we see as our key competitive advantage is our staff, and having initiatives in place to train them on product knowledge, on customer service and selling skills. We call it our ACE programme - Amazing Customer Experience. It's constantly evolving, and we're finding staff turnover has come down because we're investing in our people. We also have a commission scheme, which encourages staff working collaboratively, and facilitates the transfer of best practice.*"

Another respondent in the transport sector spoke of how the culture change training that their staff had gone through had been instrumental to the positive changes happening in the company, and how changing management was key because "*the right person for the job now might not be the right person in five years time*". Whereas conversely, another respondent in the transport industry spoke of the advantages of key members of staff staying the same: "*That's our advantage, we're very accessible, we don't change staff, that's the thing, there's five or six of us who have been there a while, but also our sales people underneath us, there's probably fifty of them who have been with us for over ten years, so it works very, very well*".

It is worth noting that recruitment is currently an area which is positive for businesses as there are more people wanting to work than the number of jobs available and you can "*actually get more skilled people for the same price*". Several organisations spoke of having to turn people away and receiving a lot of applications if they advertise a position.

One business working in manufacturing did however say that it was difficult to recruit as he believes the machine workforce is losing skills which can't be replaced, and one IT business recruiting in America said it was tough.

Two IT organisations spoke about how they tended to recruit high level candidates and then '*grow them internally, give them a career path and make it worth their while*'. One of the respondents said this saved the company "*a fortune*" in recruitment costs for experienced hires and meant they could pay them less than they would an external recruit.

Factors influencing successful MSB growth – product

Having **the right product** emerged across the board as being fundamental to success. As mentioned above, this factor was stressed relatively more strongly for MSBs that had remained stable over recent years compared with companies that had grown. This could however be because a successful product was more of a 'given' for companies that are experiencing growth. It also came out more strongly in the wholesale/retail sector, but this could be due to them having a more 'definable' product.

One of the aspects of having the right product was developing something that your competitors did not have. This was illustrated by one respondent in the wholesale/retail sector: "*if you have something a little bit different, and people realise they can't get it anywhere else, then you're able to sustain your margin.*" Another business in the wholesale sector said that it was also important to establish which products their competitors were not interested in. For example, due to the buying competition from large supermarkets, it was important to make sure their business targeted the products that the big companies were not interested in.

Another aspect to the product success was **keeping abreast of the market and what the customer wants the most**. As one respondent from the wholesale/retail sector described: "*What is it? Who is it aimed at? Who is potentially going to buy it? Who is already doing it? What price points are they doing it? What is it going to cost us to manufacture and transport through?*". One respondent from the IT sector said they had a conscious strategy worked working out what the customer might want in the future and how they can add value by providing this capability. He said the key issue was being able to adapt the service at a fast enough pace to keep up with what clients want.

One of the fundamental points that strongly came out of the research was the need to **diversify** products. Most of the MSBs involved in the study looked very different to when they started, and they had gone on a journey responding to the shifting needs of the market; branching in to new markets and investigating areas that were more profitable. As one wholesale/retail respondent said: "*we're diversifying; if you don't diversify you just die*". This was also illustrated by another respondent from the IT sector: "*we've read the economic climate - we read the signals that the house building market was going to collapse before it collapsed, so we focussed on different sectors where we could bring in sales.*" They said they made sure that they were in the right sectors that wouldn't decline as a result of an economic downturn.

There were several examples of the varied diversification in businesses, for example: having changed sectors from importing one product such as food, to a completely new product such as clothes; or shifted from selling mainly to independent retailers to larger chain stores, or moved from being purely wholesalers to developing their own product label (a theme which came out strongly amongst the wholesalers); or acquired completely new companies; or

made more money through a spin-off service unrelated to the original purpose of the business (for example shops in airports).

Factors influencing successful MSB growth – strategy

A factor which emerged from speaking to many respondents was that becoming **more efficient and cost-effective was fundamental for survival as a business**. This was illustrated by this respondent from the IT sector: “*Streamlining - we've taken a look at each of our business units, and taken out the whole of middle management, and streamlined the business so we're looking at our gross profit per head, as opposed to our gross profit per unit... That has increased our profit per head. The industry average for turnover of staff is 45 per cent, and ours is 20-23 per cent*”.

As mentioned, this factor came out as relatively more important to MSBs that had grown over recent years (as opposed to MSBs that had remained stable). It also seemed to feature more strongly in the construction/transport sectors.

Greater efficiency/costs related to trimming down staff; focussing on the most productive areas; merging premises/warehouses; doing things in-house (such as one transport company that was able to keep their costs down by having their own mechanics to repair/maintain their wagons); monitoring finances/cash flow; pricing products thoroughly (one respondent in the construction industry said it was about making sure you're selling at a good margin and that you're getting the cash in, being disciplined). This was illustrated by this comment from another respondent in the construction sector: “*I think the key to this one is margins and keeping borrowings down. The success I'm looking at is margin and return on capital in terms of when I've got money out, how fast am I actually getting it back and getting the margin*”.

Conversely, MSBs that had remained stable over recent years seemed to place marginally more emphasis on taking risks and making big investment, as opposed to watching costs and efficiency. This included buying new infrastructure; spending money on marketing and generally investment so that their business is ready for when things recover.

4.2 Obstacles to business for growth

Summary

- Respondents typically rationalised obstacles to business growth as being caused by current economic pressures, rather than failings within their own businesses.
- Cash flow was a fundamental issue for many MSBs – both in terms of other organisations not paying invoices on time, and needing a larger ‘contingency fund’ to provide protection against the current economic climate.
- Another widely reported issue was a need for additional information and support, especially if the business was expanding into new areas.
- Several respondents noted red tape and bureaucracy as an issue, and requested guidance in complying with regulations as a result. This included intra-business bureaucracy.

This section discusses the areas which MSBs identified as being barriers to growth. Unlike in Section 4.1, where respondents tended to talk interchangeably about general success factors for growth and factors which had been of importance to them specifically, when asked about obstacles to growth, the respondents seemed to mainly focus on general factors. It was also an area where respondents across the board had a lot less to say about compared with factors for successful growth.

It was interesting to note that the MSBs that had remained stable over recent years tended to see a lack of growth as being more of a product of the current economic times, rather than as a result of specific inhibitors/obstacles to growth. And as already mentioned, most MSBs that had recently been stable predicted eventual growth after a continued short period of stability. On the whole, all MSBs were relatively optimistic.

Obstacles to growth for MSBs – access to finance

Access to finance was cited by most of the MSB respondents as being the single biggest factor which they believed to be an obstacle to growth. It was important to note that most of the respondents were talking in general terms from their knowledge of the market and the experiences of other businesses, rather than necessarily talking about something which had affected them personally.

The most commonly reported reason cited to explain access to finance problems was banks not lending (or more specifically not lending like they used to). This point was illustrated by one respondent: "*the banks are another problem, the banks will not lend you any money...but 15/17 years ago you had a chance, you were able to build businesses up, you really were, there weren't the restrictions. In Margaret Thatcher's time there was money available, banks were lending money, you could borrow money from the banks and they weren't bothered*". It was important to note that several respondents believed this problem to be worse for SMEs. There was also a belief that the government already knew of this problem but was not addressing it. Additionally, the high charges associated with bank loans were seen to be a big problem.

A couple of respondents (from the construction and wholesale/retail sectors) explained that funding from banks was more important than it used to be as businesses are increasingly only being paid for delivering something on completion, whereas they themselves have to pay up front for their stock/materials - which means that otherwise viable businesses can encounter cash flow problems. Another respondent in the manufacturing industry described how it was more important to have access to extra funding because it was harder to "*tie up company money*" in business growth/investment as it was needed as a contingency fund (for example to use if other members of a supply chain go bust). Equally, another respondent described how they had to be more discerning about which contracts they took, as they were not in the position to risk another company going bust or not being able to pay.

A second reason mentioned by several respondents (particularly by the wholesale/retail sector) to explain why there was not access to finance was to do with **companies not paying their invoices on time**. One respondent in the transport industry said this phenomenon was particularly true amongst larger companies; "*the problem we have is the larger companies take a lot longer than they should do; I mean we have 28 days but it's always 90, you know, you never get paid in 28 days, never*". Another respondent talked about how the Government was bad at paying invoices on time, which affected financial planning as well as access to finance. A common theme was that invoices often took up to three months to pay, which had a crucial impact on cash flow.

In general, the inability of companies to be self-financing; having cash flow problems; or being dependent on borrowed money were all seen as significant barriers to growth. However, there were a couple of respondents who thought the whole issue of access to finance had been inflated. One said: "*I don't buy into this argument that it's to do with finances, of course it's something that would need addressing, but when someone wants to start a business, or someone is trying to expand a business, it's not the most critical thing.*" The alternative view was that having a good idea, or the right support/access to a mentor was actually more important.

Obstacles to growth for MSBs – information and support

Just one respondent suggested that access to support/information was more important than access to finance. However, **several of the MSBs spoke about the provision of**

information and support as an issue in general terms as being a very important present day barrier to growth. There was a real sense that new businesses learn by making the same mistakes that the more established businesses had already made, which is unnecessary. One respondent in construction believed that preventing companies from making these same mistakes would be better for everyone: “*mentoring would be a very rewarding thing to do - you'd get quite a smile from preventing a company making the same mistake that you had made. In the wider context, if you can make some of these more marginal businesses successful, then isn't that good for everybody?*”

Some of the issues discussed in relation to information/ and support were fairly specific, such as one respondent in the IT industry suggesting that other companies need help in how to work with China; or a respondent in the wholesale/retail sector suggesting more guidance was needed for new businesses on how to import and export goods: “*guidance for export, people are always put off and scared of red tape and things like that, so it would be making it something that's very simple and easy, maybe packages or tax incentives for advertising or marketing, or showing how to get the products shown abroad; grants and incentives for these companies*”.

Several other MSBs spoke of the need for more general access to information, whether that be through case study videos; dedicated help lines or “starter” how-to packs. One business alluded to the fact that the information already out there might not be that accessible or well-known, and was unaware of the discontinuation of Business Link services “*I was aware of it a few years ago, it's a Government sponsored body which encourages local links to businesses and stuff, but they seem to be keeping their light under a bushel at the moment and it would be good to see a bit more about what they are doing and maybe publicise them.*”

Some of the MSBs talked about how their friends or other acquaintances had got in touch with them as “experts” for advice, and they had been happy to provide it. It should be noted however that since these friends seemed to be starting small new businesses, or were operating in different areas, they were most likely not seen as competitors. As the comment at the beginning of this section suggests: “*if you can make some of these more marginal businesses successful, then isn't that good for everybody?*”

Obstacle to growth for MSBs – bureaucracy

Several organisations thought many small businesses³ these days are put off moving things to the next level because of all the **bureaucracy and government “red tape”**. For example, one respondent in manufacturing discussed how the regulations frighten people, as they worry they will get fined: “*I think sometimes the whole protocol of what you actually have to*

³ Some MSB respondents either classified themselves as ‘small businesses’ despite fitting the criteria of an MSB, or referred to other ‘smaller businesses’ when discussing business experience beyond their own organisation.

do to run a business, especially if you've got staff, if you're employing people, it's a bit scary". Another respondent in wholesale/retail expressed the same sentiment: "there are a lot of young businesses out there, smaller businesses that have got great ideas, but they're just being smothered, they're being strangled with finance, red tape and all the barriers that are involved with that and so many issues around Employment Law. Everything is very PC these days".

While regulation was typically reported as an obstacle for all, in some case MSBs were clearly talking more widely about the regulatory environment for smaller businesses rather than talking about their own business experience directly. In addition, some of the MSB respondents appreciated the benefit that they get from the regulations being in place. One respondent described that whilst "*Customs is always a nuisance...I actually prefer and am happy with the safeguards that are in place with import and export because it allows me and my staff to cross the T's and dot the I's. And it stops other people infringing on my rights.*"

Obstacles to growth for MSBs – for different organisations

Many respondents mentioned obstacles to growth which were a product of the sector within which they operate. For example, growth in the wholesale/retail sector has been hindered by the decline in consumer confidence mentioned above and a couple of respondents in the construction sector spoke about how the sector tends to experience natural cycles of growth and decline anyway. Within sectors, there were also seen to be specific sub-areas which experience greater barriers to growth – for example, within the retail/wholesale sector it has tended to be the middle of the market which has been badly hit with the reduction in disposable incomes.

The extent to which competition within sectors was seen as being strong enough to be a barrier to growth also seemed to differ between sectors. Within the construction and wholesale/retail sectors for example, respondents spoke about new businesses trying to jump on the bandwagon causing greater competition, which affected their own chances of success: "*the obvious challenges we've had are businesses all jumping on the bandwagon*".

In construction, a lot of these "speculative" companies went bust; one respondent described how a number of Irish companies came over to England to make a quick profit and now they have "*bitten the dust*". In wholesale/retail however, the volume of competitors in the market place is considered to be more of a continuing problem: "*a lot of businesses jump on the bandwagon, and they see someone doing it and they think 'Oh, we'll have a go at that', and it's become saturated now and it's very, very hard to maintain momentum, to keep profits up*".

The respondents spoke of this "jumping on the bandwagon" by "speculative" firms in negative terms, as it was an obstacle to their own growth, whereas in stronger economic times, this phenomenon is perhaps exactly what we would expect to see as a healthy indicator of growth. Equally, respondents spoke in general terms about their competitors failing as being a positive thing for them: "*the last few years it's been tough in textiles, there*

have been other wholesale distributors that have fallen out of business in the UK, fallen away, so sometimes it helps if you get a bigger share of the market”.

Within the IT sector, one respondent explained that a barrier to growth for smaller businesses centred around intellectual property issues, as often businesses can have a good idea, but a large company can mimic the technology and reproduce it at a much cheaper price. This all suggests that respondents believed that the outlook for MSBs currently trying to grow was not very bright.

4.3 Encouraging Business Growth amongst MSBs

Summary

- Respondents highlighted a need to reduce bureaucracy, and provide additional support to businesses to assist compliance with regulations.
- Other responses included asking the government to ‘lead by example’, and increase their procurement from SMEs and MSBs
- Some respondents argued that the government should provide better and more timely details of plans for major infrastructural projects such as the development of new airports.
- Respondents used external advisors for issues where they perceived they had a lack of knowledge – often around finance and new markets. There was a perception that external advice was less useful as businesses grew and became experts in their field.

This section examines what the MSB respondents believed to be the key ways that growth could be encouraged and promoted. It was interesting that not all of these points are related to either the factors they highlighted as contributing to success, nor are they necessarily ways to overcome the obstacles to growth described in previous sections. This was perhaps partly a product of the research, as the respondents tended to answer things that they thought the government/BIS could do to encourage growth, whereas many of the factors described in previous sections are “market” driven (taking into account the point made by a several respondents that the markets etc are heavily influenced by Government). Furthermore, it could be that the respondents did not want to repeat themselves, so tried to come up with some areas they had yet to mention.

Encouraging growth amongst MSBs – role of the government

The extent to which respondents from MSBs believed government could and should do anything to encourage growth was divided. Some respondents talked at length about taxes and polices etc, whereas others seemed to think there wasn’t much that could be done to influence the way things went. Respondents in the IT industry for example tended to think

that not much within government control could be done, whereas respondents in industries based heavily on transportation were the ones to think the most could be done.

Some respondents had requests for government that were specific to their sector, for example one participant working in construction thought the government should make it easier to change the registered use of a property and speed up the planning process; a respondent working in transport thought the government could be doing more to speed up growth outside of the south east, (particularly in areas that are easily accessible from London by train) and another respondent working in transport thought the UK government had missed out due to their strong adherence to European open competition laws.

The respondents did also talk about general factors as well. The main areas cited by businesses overall were financial:

- The cost of fuel; road tax and energy prices came out very strongly as having a big hindering affect on businesses - particularly in wholesale/retail and transportation industries: "*we would like to see – I suppose everybody would – the price of fuel go down. This is very, very important.*"
- A few businesses talked about the negative effects of minimum wage and NI contributions.
- Suggestions were made as to how MSBs specifically could be helped more, for example additional assistance covering maternity leave (particularly in retail industry dominated by women) and things such as a tax relief if businesses pay for benefits for their staff e.g. health insurance and also greater access to small business grants. For example, one respondent from the wholesale/retail sector said that in the past early days there were government grants for going to trade shows.
- Business rates and corporation tax were cited by a couple of organisations as being unsustainable for businesses.
- VAT was also discussed by a few businesses, including the bureaucracy surrounding what businesses have to do in relation to VAT.

But there were also other areas discussed that were non-financial:

- There was a belief that the government should be doing more to "*lead by example*". For instance one respondent working in the IT sector believed that government should procure more from SMEs/MSBs. He said that currently 80 per cent of IT in government was outsourced to twelve companies, many of whom are on seven to ten year contracts which have room for extension.
- Similarly, another respondent thought the government should be better at publicising details of what they are planning, which would help MSBs to plan themselves (for example around the planned airport in Kent).

- One respondent in construction thought the government could be doing more to encourage SMEs and MSBs to get onto the preferred suppliers list, so that it was not just the “big players” on there.
- Related to what was discussed above in obstacles to growth, there was a general sense that the government could do more to make it “*easier for companies to do business*”, for example in terms of retail: “*make it easier for companies to be flexible with employees, make it easier for companies to open stores here, which is where the customer is shopping, not there where you’re telling them to open a store*”. Or as one respondent in construction described, removing government restrictions as to what homes should be built, and instead following more what the market wants.

In relation to the role of government, it should finally be noted that there was mixed opinion as to whether the government should play a part in staffing through apprentice schemes. One respondent in construction thought the government’s apprenticeship scheme was “great” and said they had a handful of people at any one time and most go on to become full time employees. But a few other respondents said they did not have the time or the resource to take on apprentices, and there was no guarantee they would have a position for them at the end of their apprenticeship. As one respondent in the construction industry said: “*I would be loathe to take on a trainee or an apprentice because you’ve got to dedicate somebody to them to bring them on, which is a distraction when you’re trying to run your business so tightly*”.

Another respondent explained that the government offering financial incentives wouldn’t make a difference as the barrier wasn’t money, it was time: “*it’s not the physical capital outlay of paying for that youngster, it’s the fact that we haven’t got the time to devote to bringing them on … I haven’t got that spare capacity any more to teach or train*”. This respondent thought the solution was for youngsters to learn these skills in a college first, so at least they had some helpful knowledge before starting in the workplace.

Encouraging growth amongst MSBs – role of external advisors

The majority of respondents were currently using, or had previously used external advisors. Proportionately, slightly more of the MSBs that had recently experienced growth had used advisors compared with organisations that have had a recent period of stability.

Many respondents spoke about external advisors having been instrumental to their growth, and suggested that the same could be true for encouraging growth in other MSBs. Again, this would be dependent on the businesses being able to afford the advice. It was for example mentioned that advisors who specialise in raising funding want a percentage share of the profits.

One respondent in the wholesale/retail industry for example described how they will need to use advisors as they continue to expand: “*we have used advisers, we will continue to use advisers as we grow and as the business grows, we will need to, especially for our planned march into Europe and America. We use a mixture of advisers; financial advisers obviously*

from the accountancy side of things, but also business structure advisers as well, and also from an HR point of view for the cultural and legal sides of different countries and everything else”.

Other MSBs described how they had consulted with advisors before taking decisions such as whether to diversify, whether to pass a cost on to the customer, or how to get into overseas markets. All of them said the advice had been positive, and it was interesting to note that none of the businesses complained that the advice wasn't useful or was a waste of money, etc. A few businesses also mentioned getting advice from other people in business to inform decisions.

There did seem to be a theme that advice was particularly useful when businesses were new and starting up, when they had a very specific requirement which could not be met internally – such as watching the currency markets – or needed someone to provide a professional service such as an accountant or solicitor. There was also an opinion that as businesses progressed and became experts in their field, that advisors became redundant. This was illustrated by the comment of one respondent: “*we know our business and there are very few people out there that could tell us how to run a jewellery store better than we ourselves know*”. Or this respondent working in the construction industry: “*Experience tells us we know our sector quite well. We're open minded, but we'd be somewhat surprised if someone came up with a revelation we hadn't thought of*”.

Many respondents also complained about how expensive advisors were – but one respondent actually said they wouldn't use free advice as the tailored advice that you pay for was better quality than generic advice. There was a sense from others however that businesses were less willing to pay for advice as they are more able to find the advice they need themselves, for example using the internet or Google.

Encouraging growth amongst MSBs – guidance for export

Other research with MSBs (for example the ‘BIS Growth Review – MSB Evidence Base’) has indicated that levels of exporting activity are an important factor in supporting MSB growth, but this was not raised as a significant factor by the businesses that we consulted. Two of the MSBs interviewed did state that given the state of the UK economy, they had plans in place to grow via the export market as they felt that there may be more opportunity within developing markets (specialist construction and retail/wholesale businesses).

Another respondent felt that the government should help people to move overseas – both in terms of exporting, but also in shifting factories and operations abroad. Their view was that the future lies with the export market and that the government should provide more “*guidance for export*”:

“... people are always put off and scared of red tape and things like that, so it would be making it something that's very simple and easy, maybe packages or tax incentives for advertising or marketing, or showing how to get the products shown

abroad, grants, incentives for these companies who are quite aware that they are going to struggle in the UK and their outlook is realistically bleak in getting expansion in the UK, but given the right help could prosper, not just out of Europe but further afield, where doing some international trade show, or given guidance of how to get their products or services shown, and done easily.”

This low level of export activity was in line with findings from the Literature review (included in Appendix B), but also suggests a lack of awareness of some of the services and support already available to businesses via organisations such as UK Trade and Investment (UKTI).

5 Small and Medium Sized Enterprise (SME) relationships with larger businesses

5.1 Respondent Profile

In this section of the report we establish the profile of respondents that took part in the SME survey and depth interviews as part of the second element of this research study – to assess the prevalence and dynamics of relationships that exist between SMEs and large businesses; both within and outside of the supply chain.

We first outline the profile of the 506 respondents that took part in the telephone survey, starting with data from the original sample: industry sector, business size, economic sector and region. We then establish profile data that we gathered in the survey: respondent job title, business profile and turnover. We then outline the profile of respondents that took part in the in-depth interviews.

The second half of this section focuses on business growth, including an overview of the recent growth trajectories of SMEs interviewed in both the quantitative and qualitative strands of this research study. This provides a backdrop to explore their relationships with larger organisations, which comprises the rest of this Section of the report.

5.1.1 Demographics from the sample

Industry Sector

The data was weighted by industry sector and business size according to the IDBR, reflecting that nearly a quarter of all businesses form part of the wholesale, retail and repair sector, nearly one in five are part of the manufacturing sector (16%) and one in ten are part of professional, scientific and technical and accommodation and food service sectors (12% in each). Complete listings of each demographic can be found in Appendix A.

Economic Sector

The industry classification sectors were aggregated into primary, secondary and tertiary sectors to aid analysis purposes⁴. Seven in ten respondents formed part of the tertiary sector (71%), a quarter were in the secondary sector (26%) and three per cent were part of the primary sector.

⁴ Breakdown of sectors and allocated industry type can be seen in the Appendix.

Business Size

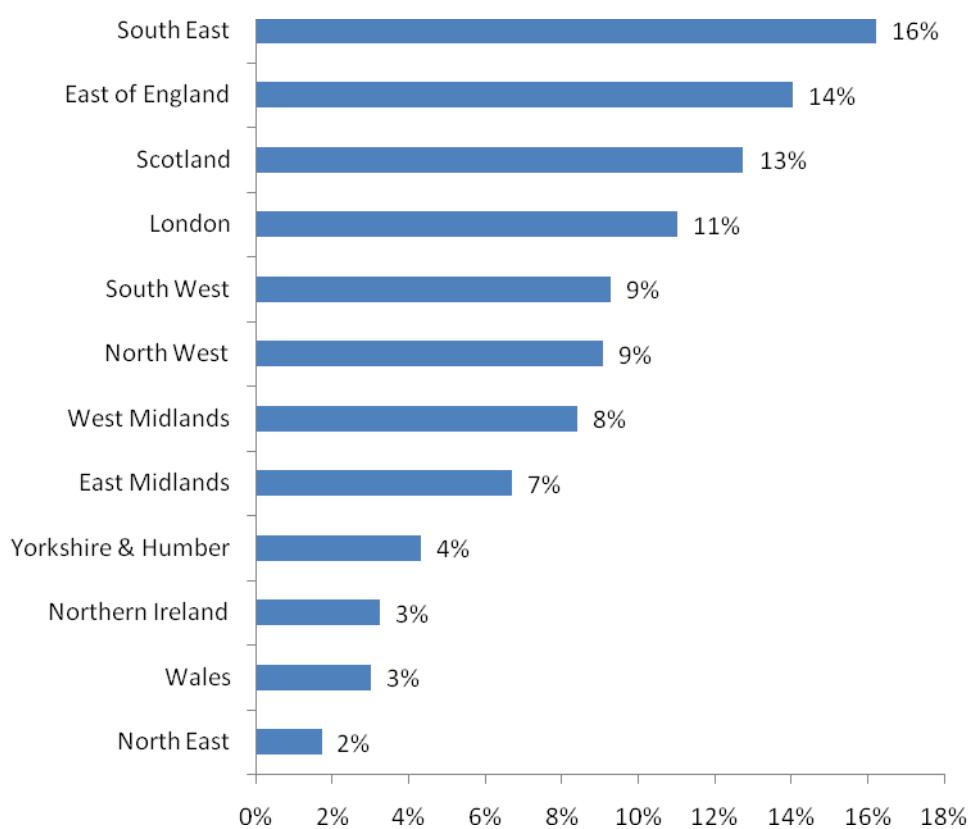
The data was weighted by size of business to be representative of the SME population and according to the IDBR. From the IDBR statistics, the final weighted data included one third medium sized businesses (35%) and two thirds of small businesses (65%).

Region

The largest proportions of respondents were based in the South East, East of England and Scotland (16%, 14% and 13%). London represented just over one in ten respondents (11%). The South and North West and West and East Midlands represented just short of one in ten businesses each. Fewer than one in twenty respondents were present in each of: Yorkshire & Humber, North East, Wales and Northern Ireland (4%, 2%, 3% and 3% in each). This is illustrated in the Figure below.

Figure 5.1.1: Sample data: Region of Business location?

Base: All respondents



5.1.2 Respondent profile - Job Title

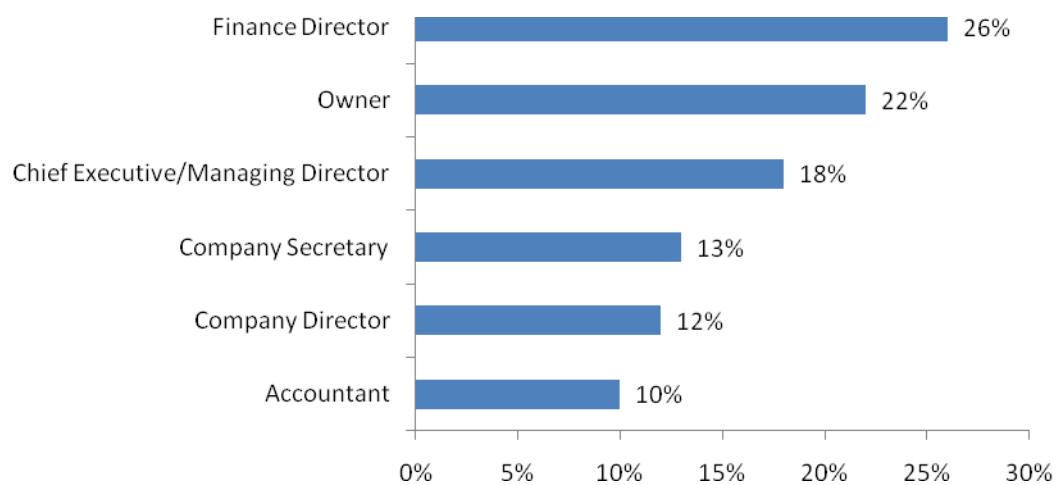
A quarter of respondents described themselves as Finance Directors (26%), and one in five as Owners or Chief Executives/Managing Directors (22% and 18%, respectively).

Approximately one in ten described themselves as Company Secretaries, Company

Directors or Accountants (13%, 12% and 10%, respectively.) The results are illustrated in Figure 5.1.2.

Figure 5.1.2: Q1 Firstly what is your job title/position?

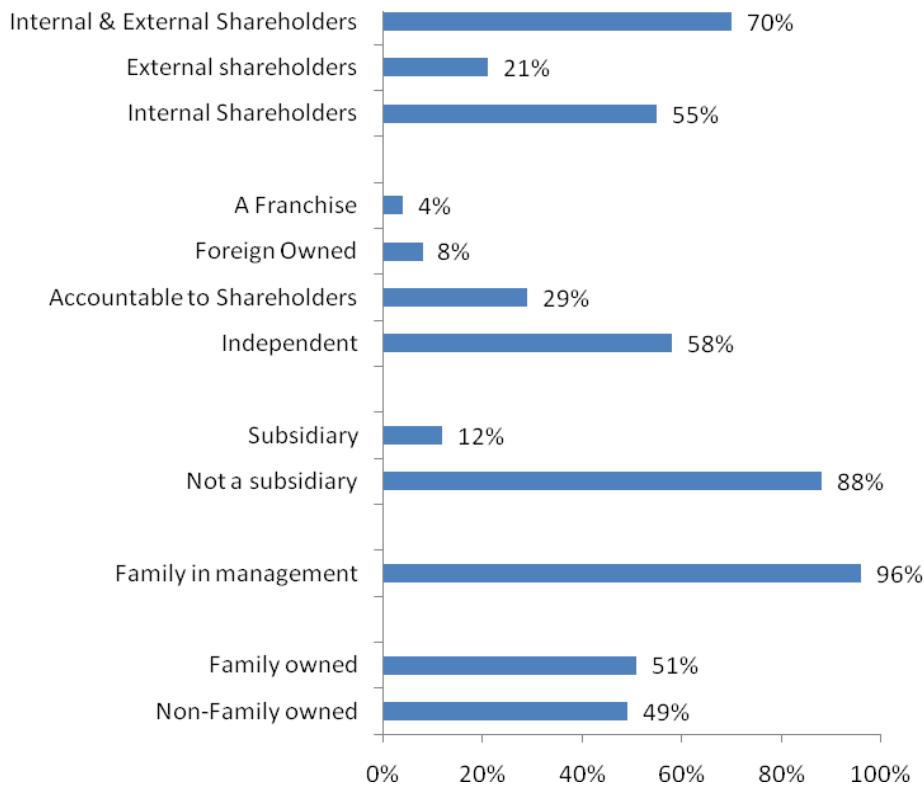
Base: All respondents



5.1.3 Business Profile

Half of respondents described the business as family owned and half as non-family owned (51% and 49%, respectively). Nearly all the family owned businesses had family still involved in the management of the business (96%). One in ten described the business as a subsidiary (12%). Over half of businesses were independent (58%) and nearly three in ten were accountable to shareholders (29%). Nearly one in ten were foreign owned (8%) and four per cent were a franchise. This is illustrated in Figure 5.1.3.

Figure 5.1.3: Q4, Q6, Q8 - Business Profile
Base: All respondents



Looking at different types of businesses in more depth now, the following significant⁵ differences were evident within different business profiles:

Family owned business (51%):

- Primary and secondary as opposed to tertiary sector (65% and 59% vs. 47%);
- West Midlands and Scotland than London and South East (70% and 64% vs. 16% and 35%);
- Agriculture, construction, manufacturing than information & communication or finance & insurance sectors (74%, 63% and 56% vs. 33% or 19%);
- No shareholders than external shareholders (59% vs. 25%); and
- Only supply chain relationships than non-supply chain or both (65% vs. 49% in each).

⁵ Differences in findings are only noted where they are significant at the 95% confidence level. A 'significant' difference between two groups means the difference is statistically valid and so likely to be due to real differences in the population and not due to chance. The measure used means we can be 95% confident that significant differences reported are not due to chance.

Subsidiary (12%):

- Tertiary than secondary or primary sectors (16% vs. 4% and 6%);
- Medium sized than small (20% vs. 8%);
- B/D/E, wholesale/retail/repair and finance than agriculture, manufacture and construction (20%, 20% and 27% vs. 0%, 5% and 1%, respectively); and
- Non-family owned and with external shareholders (19% and 33%).

Independent (58%)

- Non-Family owned, not a subsidiary, with internal shareholders (70%, 64% and 65%).

Accountable to shareholders (29%)

- B/D/E sector than wholesale, retail and repair (44% vs. 23%);
- Non-family owned, a subsidiary with external shareholders (38%, 60% and 58%); and
- Both supply and non-supply relationships (36%).

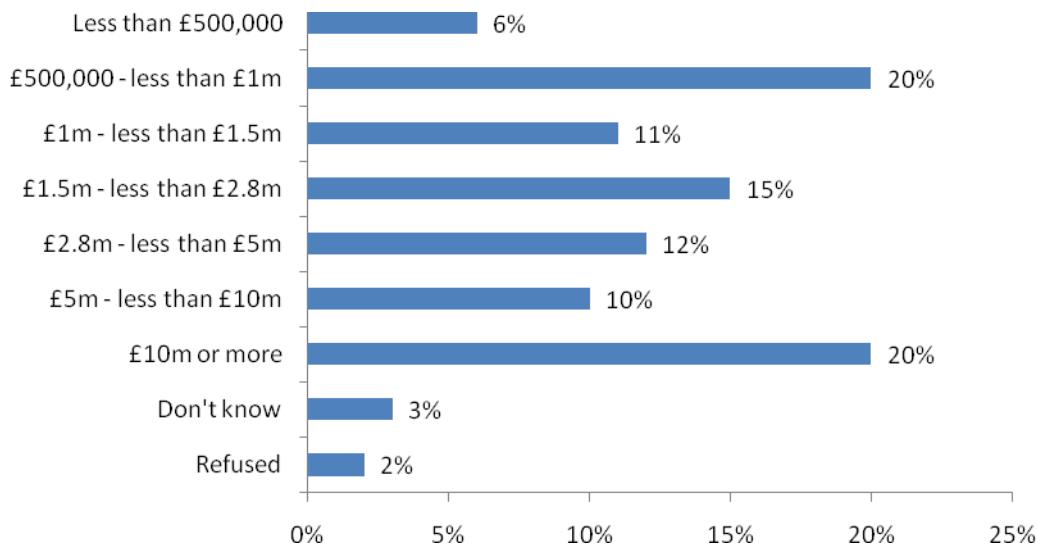
Foreign Owned (8%)

- Agriculture and wholesale/retail/repair than construction (11% and 10% vs. 1%);
- Medium sized than small (15% vs. 5%); and
- Non family owned and a subsidiary (14% and 50%).

5.1.4 Turnover

A range of turnover was evident across the sample. Businesses were least likely to have a turnover of less than £500k (6%) and most likely to have a turnover of between £500 - £1m or £10m or more (both 20%). Over half of all respondents had a turnover of less than £2.8m and just under a third from £5m upwards (52% and 30%, respectively). This is illustrated in Figure 5.1.4.

Figure 5.1.4: Q10 - Turnover
Base: All respondents



Those with a turnover of £500 - £1m were more likely to be small, not in a supply chain and in agriculture and manufacturing sectors (28%, 35%, 30% and 25%, vs. 20% on average.) They were least likely to be in a subsidiary (8%) or have shareholders (28% had none).

Those with a turnover in excess of £10m were more likely to be medium, non-family and subsidiary (48%, 29% and 55% vs. 20% on average.) They were likely to be in a supply chain in the wholesale/retail/repair; finance and B/D/E sectors (37%, 28% and 30%, respectively).

5.1.5 Supply chain and non-supply chain relationships

Three quarters of respondents considered themselves to be in at least one supply chain relationship and just under three quarters considered themselves to be in at least one non-supply chain relationship (77% and 73%, respectively). The in-depth interviews provided opportunities to explore businesses' understanding of their roles in the supply and non-supply chains in more depth; findings are discussed in greater detail in Sections 5.2 and 5.3 of the report.

5.1.6 Growth Profile

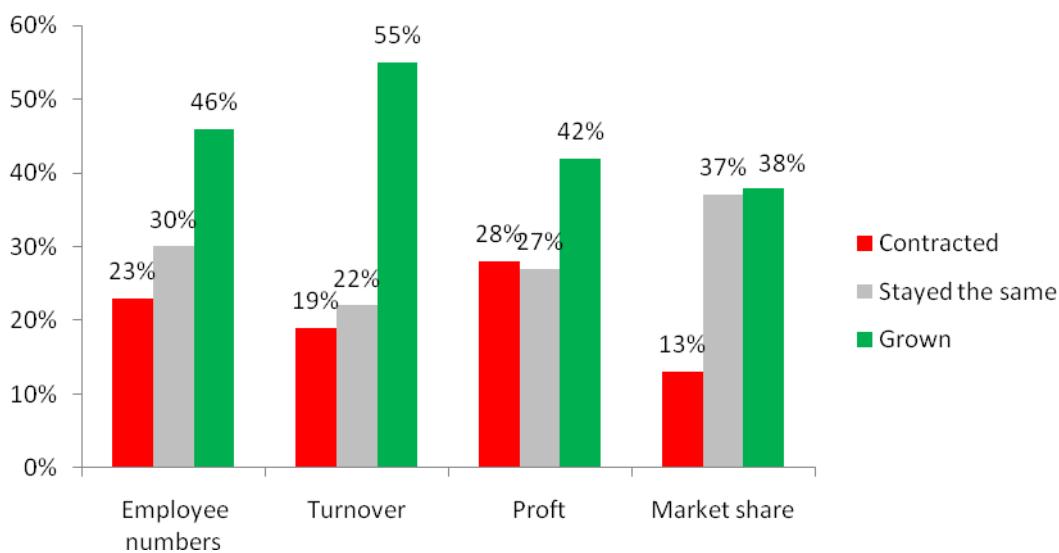
Trend in the last 5 years

We asked respondents whether or not their business had grown, stayed the same or contracted in the last five years across employee numbers, turnover, profit and market share. Their responses are illustrated in the Figure below. Despite difficult economic conditions, the majority of SMEs surveyed had grown, with the greatest growth evident in

turnover and smallest growth in market share. The greatest contraction was evident in profits.

Figure 5.1.5: Q11 Please can you tell me whether your business has grown, stayed the same or contracted in the following areas in the last 5 years?

Base: All respondents



Overall, 64 per cent of businesses enjoyed growth in at least one of the areas identified above, 58 per cent had stayed the same in at least one area and 38 per cent had contracted in one of the areas.

The following significant differences were evident:

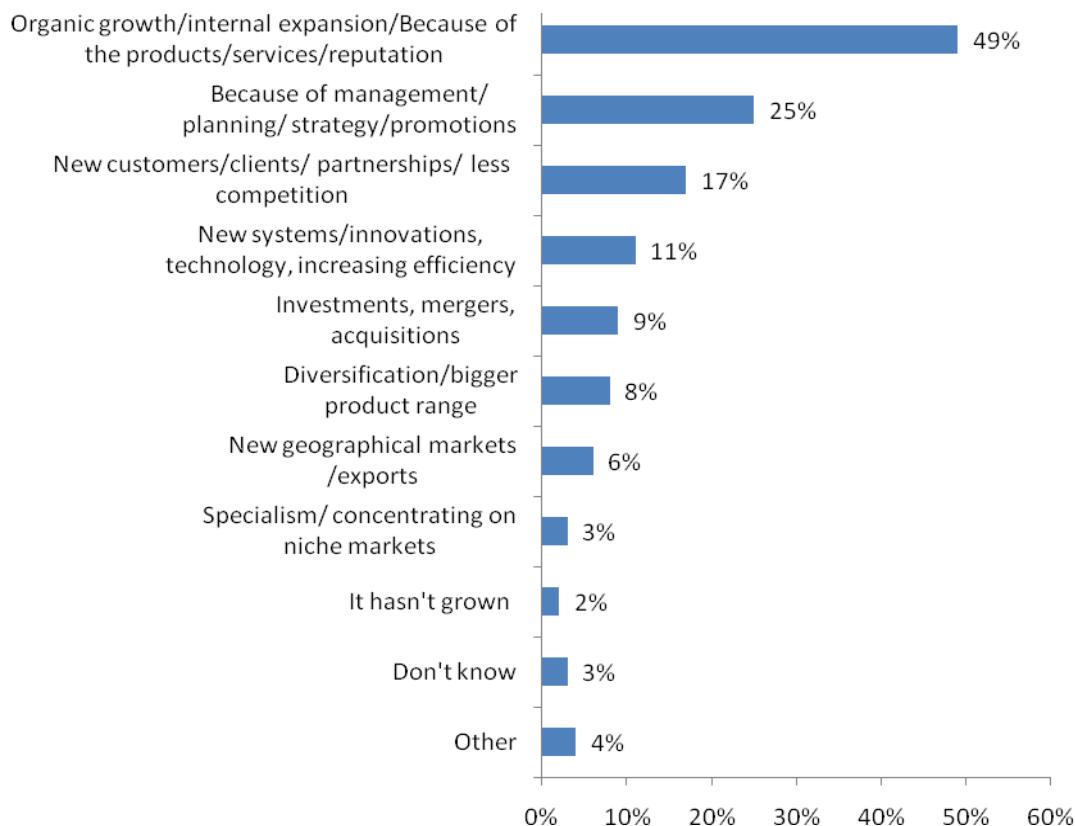
- **Business that had grown in any area** (64% overall) were more likely to fall within wholesale/retail/repair, B/D/E and manufacturing sectors than information & communication (80%, 70% and 61% vs. 43%); be medium sized (73%), with shareholders (68%). These businesses were also more likely to:
 - Perceive their target market to be growing (75%);
 - Have taken external advice;
 - Have plans to grow and build the business (76%); and
 - Were more likely to be in supply chain and non supply chain relationships (68% and 69%, respectively).
- **Businesses that had stayed the same in any area** (58%) were more likely to be in B/D/E than Financial services sector (69% vs. 48%) and be small (61%). These businesses were also more likely to:

- Have taken no external advice (76%); and
- Plan to stay the same size (74%).
- **Businesses that had contracted in any area** (38%) were more likely to be in the Construction and Information & Communication sectors (54% and 50%), family owned (45%), with external shareholders (45%). They were also more likely to:
 - Have taken advice from an employee consultant (45%); and
 - Perceive their target market to be contracting (69%).

Reasons for growth

All respondents who indicated their business had grown were asked why their business had grown. The primary reason that respondents spontaneously gave for growth in the last five years was organic growth/internal expansion/because of products/services/reputation (44%). A quarter of businesses grew due to management planning/strategy and promotions and nearly one in five grew due to new customers/client partnerships and less competition.

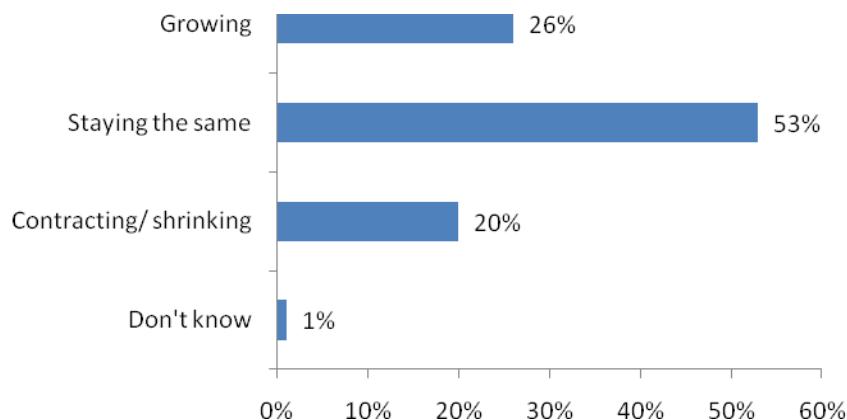
Figure 5.1.6: Q14 – Why has your business grown in the last 5 years?
Base: Businesses that had grown in the last 5 years



Growth or contraction of target market

A quarter of businesses perceived their target market to be growing and more than half perceived it to be staying the same. Only one in five perceived their target market to be contracting. This is illustrated in Figure 5.1.7.

Figure 5.1.7: Q15 – Thinking about the current time, would you say that your target market is....?
Base: All respondents

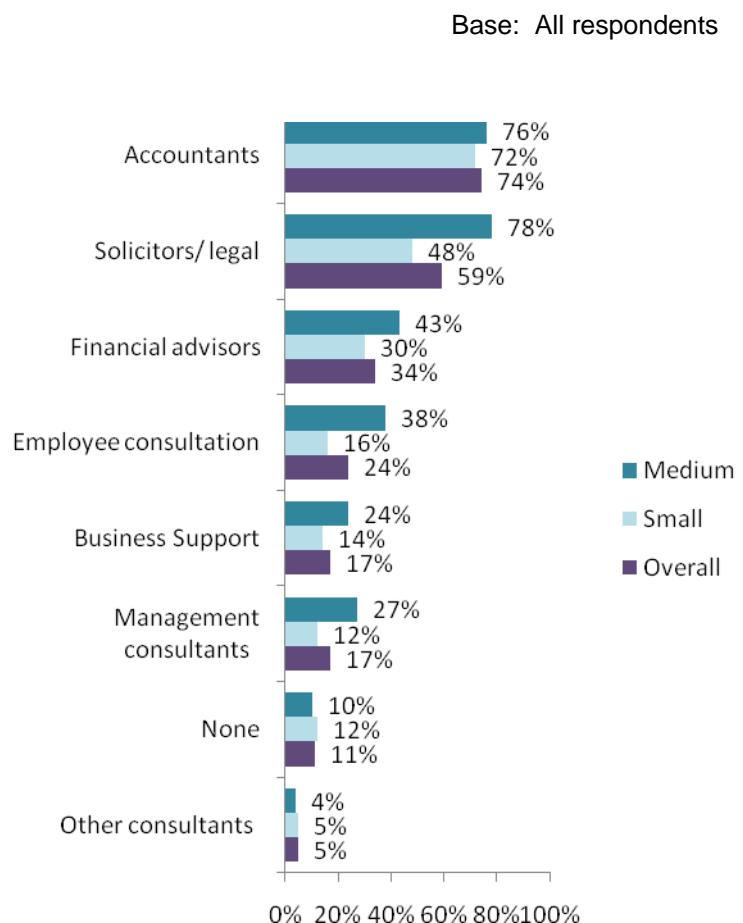


External advice and support

During the survey, we asked all respondents if they had sought external advice in the last 12 months. Three quarters of SMEs had consulted accountants and six in ten had sought legal advice in the last 12 months (74% and 59%, respectively). Fewer businesses had sought advice from any other external source: a third sought the advice of a financial advisor (34%), a quarter of employee consultants (24%) and only 17% had taken up business support or engaged management consultants.

Similar proportions of small and medium sized companies sought the advice of accountants. However, with regard to all other sources of external advice it was evident that medium sized businesses were more likely to seek advice than small businesses.

Figure 5.1.8: Q9 – In the past 12 months, have you asked for external advice from any of the following



Further statistically significant differences were evident across the different types of advice that businesses sought:

- **Accountants'** (74%) advice was more likely to be sought by those in a family owned and not a subsidiary business (81% and 75%), in a supply chain than not (76% vs. 65%), having grown or contracted in the last 5 years than stayed the same (78% and 79% vs. 68%), and with future strategies in place (83%).
- **Solicitors/legal** (59%) advice was more likely to be sought by those in finance and B/D/E sectors than agriculture (70%, 65% vs. 45%), those in a supply chain than not (64% vs. 39%), planning to grow and build the business (63%) and with future strategies in place (68%).
- **Financial advisors** (34%) were more likely to be in construction than financial services (37% vs. 19%), with a growing target market (50%) and planning to grow and build the business (38%), and with future strategies in place (42%).

- **Employee consultation** (24%) was more likely to be sought by those in financial services (40%), with a growing target market (32%), planning to grow and build the business (28%) and with supply chain growth strategies in place (41%).
- **Business support** (17%) was more likely to be sought by those in financial services compared with information & communication (28% vs. 8%) and planning on growing and building the business (21%).
- **Management Consultants** (17%) were more likely to be sought by those in wholesale/retail/repair and agriculture compared with manufacturing (27% and 28% vs. 10%), those in a supply chain (20%), and those with growth strategies (other than supply chain) in place (39%).

An emphasis on future growth planning was detected from those businesses that employed external assistance in running their business.

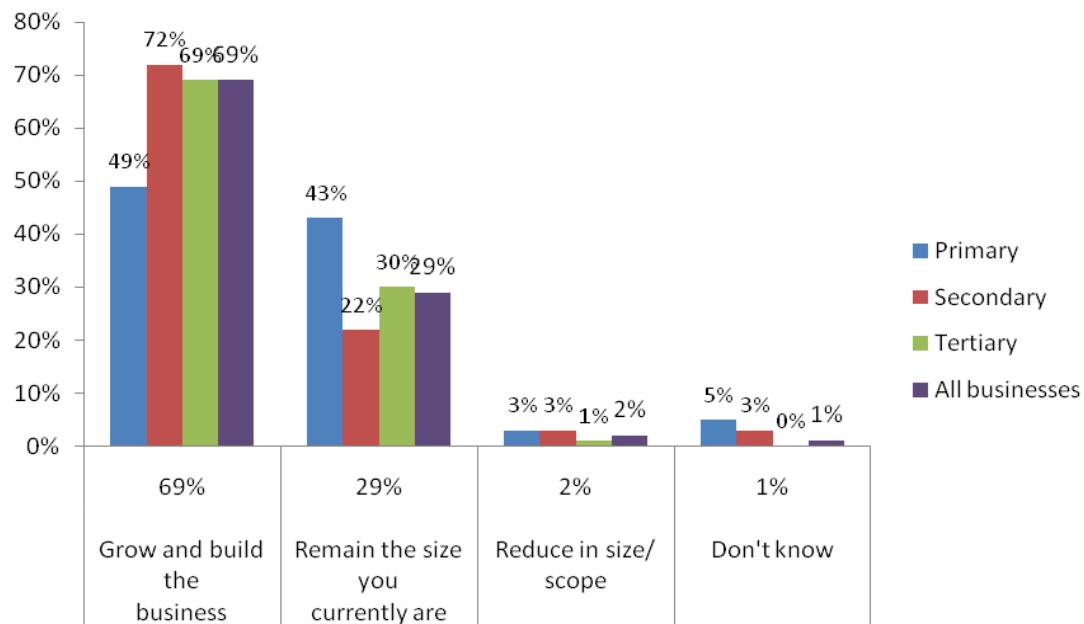
Indeed, **businesses that had not sought advice were more likely to have stayed the same or contracted within the last five years than grown** (15% and 10% vs. 4%). Their target market was also more likely to be staying the same (16% vs. 11% on average), the business was likely to be planning to stay the same size in the years ahead and not have any growth strategies in place (23% and 18%, respectively).

Future growth aspirations

The majority of respondents aspired to build and grow in the business in the future (69%). Almost a third aspired to stay the same size and a minority sought to reduce their size and scope (29% and 2%, respectively).

Businesses in the primary sector were more likely to stay the same size than grow relative to the secondary and tertiary sectors. This is illustrated in Figure 5.1.9.

Figure 5.1.9: Q16 And thinking ahead do you plan to...?
Base: All respondents



5.2 Relationships between SMEs and larger organisations within a supply chain

Summary

Survey Findings

- Over three quarters (77%) of businesses considered themselves to operate within a supply chain.

Nature of largest supply chain relationship

- Majority (two thirds) of businesses provided a standardised end product or service, and half provided a less standardised/more bespoke service⁶.
- Nearly half of respondents were direct selling to customers in this role, a quarter were top tier suppliers, and one in five were lower tier suppliers.
- In 37 per cent of SMEs, the largest supply contract contributed up to a quarter of total turnover. In 30 per cent of SMEs the largest supply contract contributed between a quarter to half of total turnover.
- Nearly all respondents worked independently within the supply chain as opposed to being part of a strategic alliance or in partnership with larger companies.
- Eight in ten respondents perceived their largest contract to be important to their business.
- The top three reasons for why this relationship began were: financial gain, through an existing customer or shareholder and high quality product/service and reputation.

Relationship management

- The vast majority of relationships were actively managed by a member of the senior management team within the businesses surveyed.
- Amongst nearly six in ten businesses (59%), the relationship had been managed by the same key contacts in both organisations since inception.
- For half of SMEs the largest supply chain contract was locally or regionally dispersed (31% and 20%, respectively). A third of businesses had a national focus and one in ten

⁶ A multi-code question was asked to establish role in the supply chain; note that business can play more than one role in any one chain.

an international focus (36% and 13%, respectively.)

Views on the relationship

- A majority of respondents agreed that their relationship with their largest supply contract was based on trust (83%). However, fewer agreed the relationship was based on equality or that they would want a closer relationship with the business they supplied goods to (51% and 60%, respectively).
- Just over half (55%) of SMEs felt that there were benefits to their largest supply contract. Only one in five respondents felt there were drawbacks to their relationship.
- The top three reported benefits were: increased turnover/sales/profit; an improvement in their reputation and quality; and retained clients/new clients/referrals to new clients (59%, 29%, 28%).

Findings from the in depth interviews

Supply Chains overall

- Businesses understood the term ‘supply chain’ differently, and were involved in different capacities. Some lower tier suppliers had specific strategies to play particular roles within their supply chains and add value by “acting-up” and communicating directly with primes that they otherwise would not be involved with.
- Unsurprisingly, SMEs tended to prefer working independently or in the role of primary contractor as this yielded the greatest financial gain. This explains the prevalence of this manner of working with their largest supply contract.
- Whilst some businesses implemented a deliberate policy to spread risk and avoided being too heavily reliant on a single customer relationship, others did not despite acknowledging the inevitable risk. In some instances this had led to growth particularly when the end customer had grown. It also reduced the administration time involved with auditing/ISO requirements from different customers further up the supply chain.
- Current relationships often stemmed from previous networking relationships. In other words, some large supply contracts emanated from an individual identifying an opportunity for financial gain in their day-to-day business relationships and setting up an enterprise to capitalise on this gain. These enterprises thus improved the efficiency of operation for the large supply contract.

Relationship Management

- SMEs typically prided themselves on high quality relationships.
- The larger the business, the more formalised the relationship management. In some

areas – such as joint ventures or R&D - there was evidence that SMEs would prefer to work with other SMEs rather than with a larger business.

- SMEs were pragmatic about their key business relationships – they identified with the need for trust in the supply chain and with their largest contract. However, they did not feel or expect that this would be an equal relationship and accepted that the client (or a larger business within the supply chain) would necessarily hold the greatest power balance. Some SMEs wished to protect the commercial integrity of their relationship with the largest supply contract and so did not wish to pursue a closer relationship.
- Continuity of personnel is a key success ingredient for relationship management.
- Positive working relationships were showcased – including supplier event days bringing the whole supply chain together, and ongoing on-site interactions with suppliers. Such activity all contributed in fostering open communications, a feeling of ‘togetherness’ striving towards the same goal and facing difficult economic conditions together to weather the storm.

Benefits

- Guaranteed revenue is the overarching benefit of working with large businesses.
- Skills acquisition enabled small companies to adopt better business processes.
- Accreditations and ISOs can raise the game of SMEs and so improve quality and enhance opportunities to work elsewhere.

Drawbacks

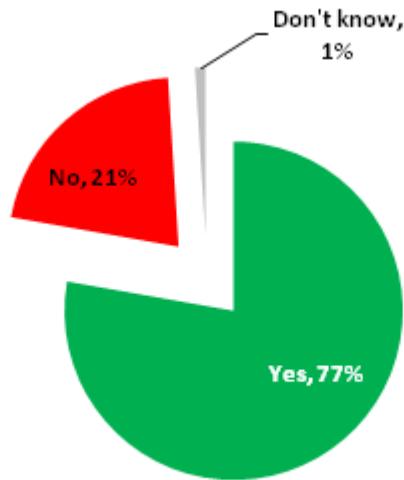
- The most significant drawback for many SMEs we spoke to was cash flow problems relating to late payment for services provided.
- Unreasonable demands were evident – for example, when attempting to share costs for R&D work or sharing intellectual property rights
- Absence of long-term contracts – particularly in wholesale/retail sector – could be a deterrent to growth.
- Relationship building could be frustrated where client contact and decision maker functions were divorced.
- For some SMEs, accreditations and ISOs were expensive to achieve/maintain.
- The time required to manage relationships (particularly in relation to audits) was depicted as a barrier to engaging in more. Differences between audit processes made working with more than one or two large companies hard to achieve.

In the following section we explore findings from the telephone survey and in-depth interviews conducted amongst SMEs. We begin by exploring SMEs perceptions of whether they are in a supply chain and their role in the supply chain; and then go on to focus on each SME's largest supply chain contract – it's nature, size, importance; origin; relationship management ; geography; benefits and drawbacks.

5.2.1 The nature and prevalence of supply chains

All businesses were asked if they considered themselves to operate within a supply chain. Over three quarters of businesses did (77%). This is illustrated in the Figure below.

Figure 5.2.1: Q24 Given your business profile, do you consider yourself to be in a supply chain?
Base: All respondents



Those that perceived themselves to be in a supply chain were more likely to:

- Be in the secondary than tertiary sector (84% vs. 75%);
- Be in manufacturing (89% vs. 77% overall);
- Small than medium (80% vs. 72%);
- In non-supply relationships (82% vs. 77% overall);
- Have internal and external shareholders than none (82% and 88% vs. 56%);
- Have a growing or contracting target market than staying the same (82% and 88% vs. 71%);

- Be planning to grow and build the business than remain the same size (80% vs. 68%); and
- Have future strategies in place than not (92% vs. 62%).

The survey results indicated a higher number of businesses operating within a supply chain than was initially anticipated and therefore we looked to explore definitions with some businesses during the qualitative research stage. The results are outlined below.

Respondents understand supply chains differently

The depth interviews showed that respondents understood the term ‘supply chain’ differently. For some it referred to discreet product lines they sold; for others it was the different streams of customers they serviced (i.e. end user/first tier/lower tier etc.), yet others perceived their supply chain to encompass each of their customers. One respondent defined a supply chain as a ‘spiders web’ and the lack of clarity observed in understanding the term may in some parts explain the survey findings showing a very high level of agreement that they operated in a supply chain.

Results from the survey should be analysed with this in mind.

SMEs work across different supply chains in different capacities

In some sectors and supply chains it was evident that SMEs sometimes operated as principal contractors and in other situations as sub-contractors depending on the work streams available and profit motive, as exemplified below:

“The aim of the business is to act as principal contractor, but where business is slow we will sub-contract in joinery capacity to larger builders” (Construction Business)

In these situations, the larger companies provided an additional work stream. However, the preference of the SME was to work as principal contractor as their own margins were higher. Many SMEs sought opportunities to act as a principal contractor, cutting out the larger company. The opportunity to assume different roles in the supply chain varied across the industry sectors and nature of SME service. For example, the construction sector was particularly fluid, as the trade skills were fairly uniform whereas the information & communication sector was less fluid as the skills/service tended to be more specialised. However, a preference for holding the primary role in the business relationship defined the different roles that SMEs assumed. Securing this status frequently appeared to come down to network connections, but also the willingness of the large business to engage with a smaller enterprise.

Adding value further up the supply chain

Examples were also given where lower tier suppliers in the supply chain have “acted up” to enable them to provide greater value add to (and get noticed by) primes at the top.

For example, a lower tier manufacturing firm for the aerospace sector developed a specific strategy around behaving in a “less parochial” way by building their profile and reputation (via active membership of NADCAP, a quality assurance body in the aerospace sector) and communicating up the chain with primes in their sector. This has also meant they can offer a USP to other, lower tier partners regarding their ability to have direct involvement and communication with primes rather than dealing with the system of “Chinese whispers” with various communications being passed up and down the supply chain through various tiers and being changed and mis-communicated on the way. This ultimately gave them a stronger bargaining positioning and power within the supply chain:

“We shouldn’t just be victims of our industry but we have the ability to become involved in it too” (Aerospace Manufacturing Business)

5.2.2 Length of supply chain relationships

The survey reflected a fairly even spread in the length of supply chain relationships – from one month to more than ten years. Three in ten respondents felt unable to comment.

From the in-depth interviews it was evident that there was significant range of supply chain relationships within many businesses. Businesses frequently had a few core and long-standing relationships that provided them with a degree of stability and around which they could build a more fluid businesses.

Lack of formal contracts restricts long-term planning

There were also examples of where shorter-term agreements (such as supplier contracts to large supermarkets) were designed to favour the larger business and could create real challenges for the smaller businesses in terms of their ability to make long term plans. For example, one interview focused on an agricultural business that provided soft fruit to one major retailer, which operated on a three month basis with no formal contract as such. They also have to forecast their production three years in advance, which for a seasonal based produce that is weather dependent, is challenging, especially when at any time ‘*they (the retailer) can just drop you*’. This theme is followed up further when assessing the importance of the largest supply chain relationship in section 5.3.3.

Another food supplier to several major retailers faced similar challenges – emphasising that the drawback of supplying large food retailers was with the lack of a formal contract. The agreements worked on 13 weeks (three months) notice and any contract is theoretically constantly up for negotiation which “*keeps them on their toes*” and challenges them to innovate. The danger of losing a contract in three months can be quite restrictive in terms of long-term planning. Payment terms were often deemed to be too rigid but it was acknowledged that.

“They are the rules of business .. when you are working with companies like xx they have all the clout don’t they?” (Food Manufacturer)

5.2.3 The largest supply chain contract

Businesses that perceived themselves to operate in a supply chain and not a non supply chain were all asked in more detail about their largest supply chain relationship, where they supplied goods or services up the supply chain to a larger business. Businesses that operated in both a supply and non supply chain relationship were randomly routed through the survey to answer questions in relation to one of these aspects.

Information captured with regards to the largest supply chain included: the role and position the responding business held in the chain, the importance of the contract, what the business they contracted with did, whether the relationship was actively managed, how long the relationship had been place, how it started, continuity of key contacts, geography and relative to location of respondent's business, and a few questions around the nature of the relationship (trust, equality, skills acquisition).

The in-depth interviews explored key aspects of the relationship in greater detail. Findings from both these phases of the research are detailed in the following section of the report. A similar set of questions were asked about non-supply chain relationships and for ease of analysis these statistics are presented together in the charts below.

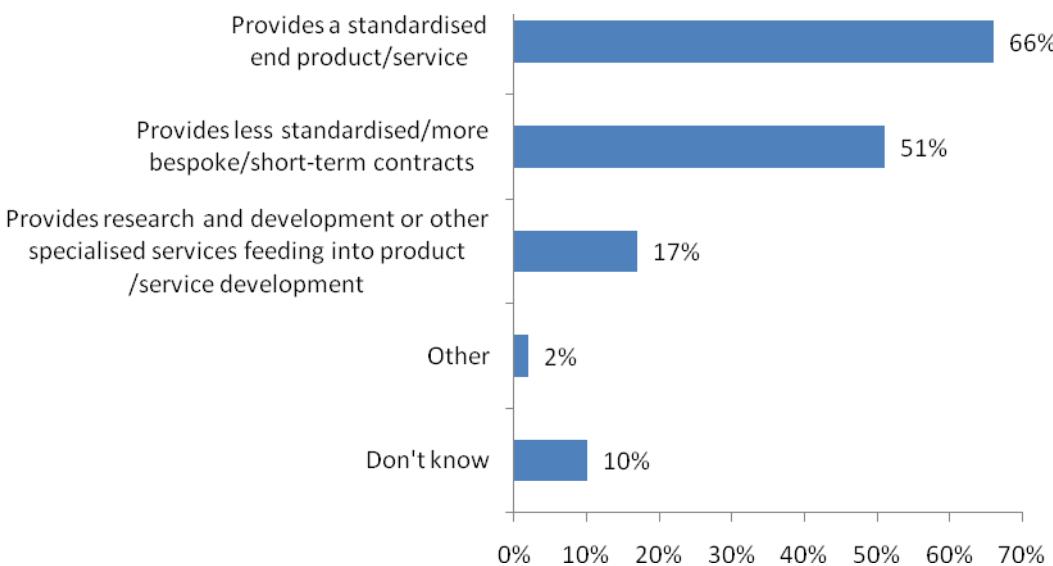
Nature of cooperation in supply chain

Respondents were firstly asked what role their business played in this specific supply chain relationship. Two thirds of respondents provided a standardised end product or service in their chain, and half provided a less standardised/more bespoke service. Nearly one in five businesses provided research and development or other specialised services feeding into product service/development. One in ten businesses did not know their role. The results are illustrated in Figure 5.2.2.

Figure 5.2.2: Q29: Focussing on the largest supplier contract you have in place where you supply goods or services up the supply chain to a larger business...

Firstly, what role does your business play in this specific supply chain?

Base: All respondents answering questions on supply chain relationships and who consider themselves to be in a supply chain (Multicode)



The following significant differences were evident:

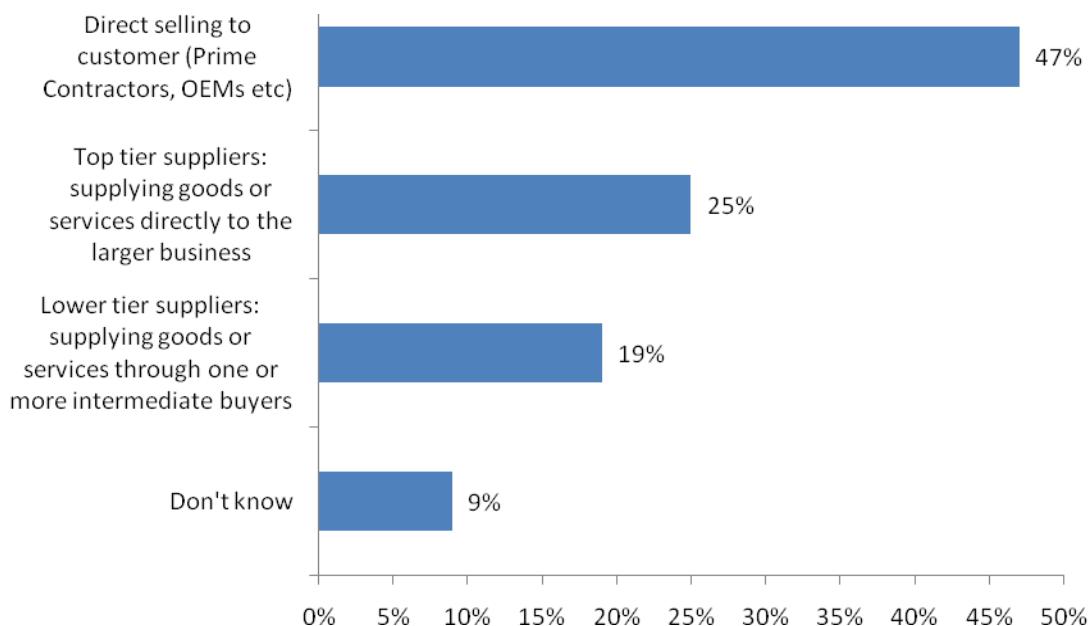
- **Those providing a standardised service** were more likely to be in the tertiary sector than on average (72% vs. 66%) whereas those providing a more bespoke solution were more likely to be in the secondary sector (69% vs. 51%).
- **Those providing bespoke solutions** were more likely to have contracted or stayed the same than grown in the last five years (60% and 55% vs. 42%) and be in both supply and non-supply chain relationships (58%).
- **Those providing research and development** were more likely to be non-family owned and in both supply and non-supply chain relationships than on average (23% and 22% vs. 17%).

We then asked respondents where in the supply chain they sat. Nearly half of respondents were direct selling to customers, a quarter were top tier suppliers: supplying goods or services directly to the larger business, and one in five (19%) were lower tier suppliers: supplying goods or services through one or more intermediate buyers. Their responses are illustrated in Figure 5.2.3.

Figure 5.2.3: Q30: Focussing on the largest supplier contract you have in place where you supply goods or services up the supply chain to a larger business...

And where do you sit in the supply chain with regards to this relationship/contract?

Base: All respondents answering questions on supply chain relationships and who consider themselves to be in a supply chain (Multicode)



Where respondents worked in the largest supply chain

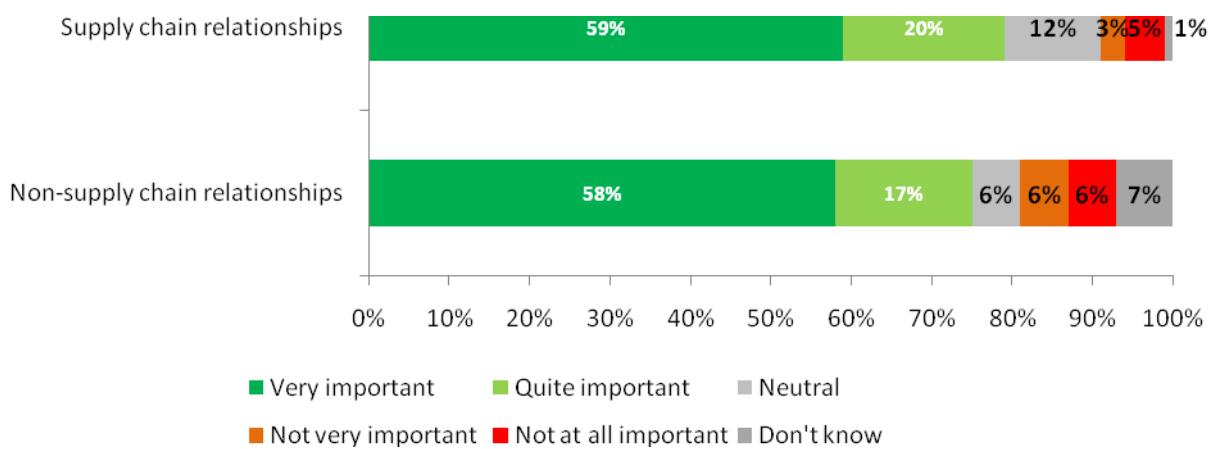
Nearly all respondents worked independently within the supply chain as opposed to part of a strategic alliance or in partnership with larger companies (86% vs. 2% and 4%). Few significant differences were evident across the respondent profiles.

Perceived importance of the largest supplier contract

Eight in ten respondents perceived this largest contract to be important to their business, with six in ten deeming it very important (80% and 59%, respectively).

Figure 5.2.4: Q32 and Q52: And how important would you say this supply chain relationship is to your business on a scale of 1 – 5 where 1 is very important and 5 is not at all important?

Base: All respondents answering questions on supply and non supply relationships and who consider themselves to be in a supply and non supply chain



The following respondents were more likely to deem the relationship important:

- Non-family businesses than family (88% vs. 73%);
- Those with shareholders than none (82% vs. 66%);
- Those planning on growing their business in the future than staying the same (84% vs. 66%); and
- Those in both supply and non-supply chain relationships (86%).

Small companies, those with external shareholders and those that were also in one or more non-supply relationships were more likely to deem the relationship very important (65%, 69% and 69%, respectively).

During the qualitative research interviews, many respondents talked of a deliberate policy to spread risk and avoid being too heavily reliant on a single customer relationship (*“having all our eggs in one basket”*) and reducing the risk of manipulation by an influential customer.

However, in other cases this was clearly unavoidable, despite the risk of having one large supplier being acknowledged. This is exemplified by an agricultural business supplying soft fruit to a major retailer (through a producer organisation, but the retailer insisted on being the sole end customer). This SME’s situation and their business success is fundamentally linked to that of the prime and their requirements:

“It's a very worrying situation and we're just hoping to get a different buyer with a different philosophy...”

The main benefit is access to a national market/window to the supply chain (supermarkets), and thus it was acknowledged:

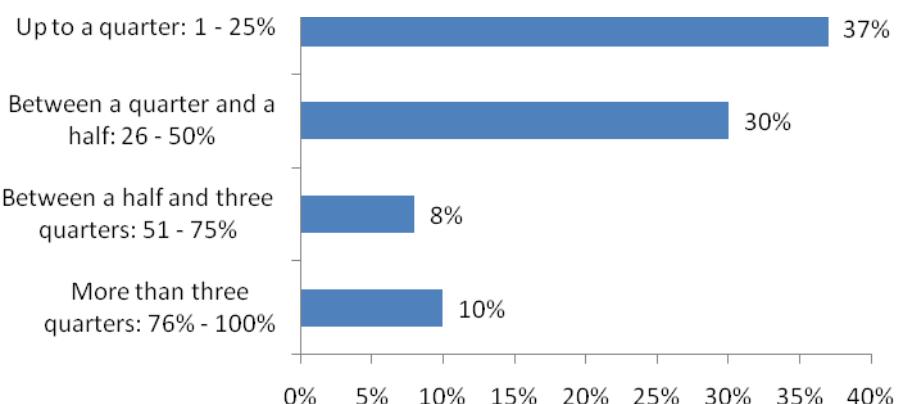
"Although we might gnash our teeth about the way we get treated...without them we wouldn't have a business...If you want your business to flourish, you have to be in supermarkets".

Percentage of total turnover

Nearly four in ten businesses had up to a quarter of their turnover represented in their largest supply contract. A further three in ten had between a quarter and a half of their turnover arising from their largest supply contract. Nearly one in five had more than half of their turnover arising from their largest supply contract (17%). Sixteen percent of respondents did not know.

Figure 5.2.5: Q33: And what percentage turnover does this contract currently represent?

Base: All respondents answering questions on supply chain relationships and that consider themselves to be in a supply chain



Findings were fairly consistent across the demographic groups, however the following differences were noted:

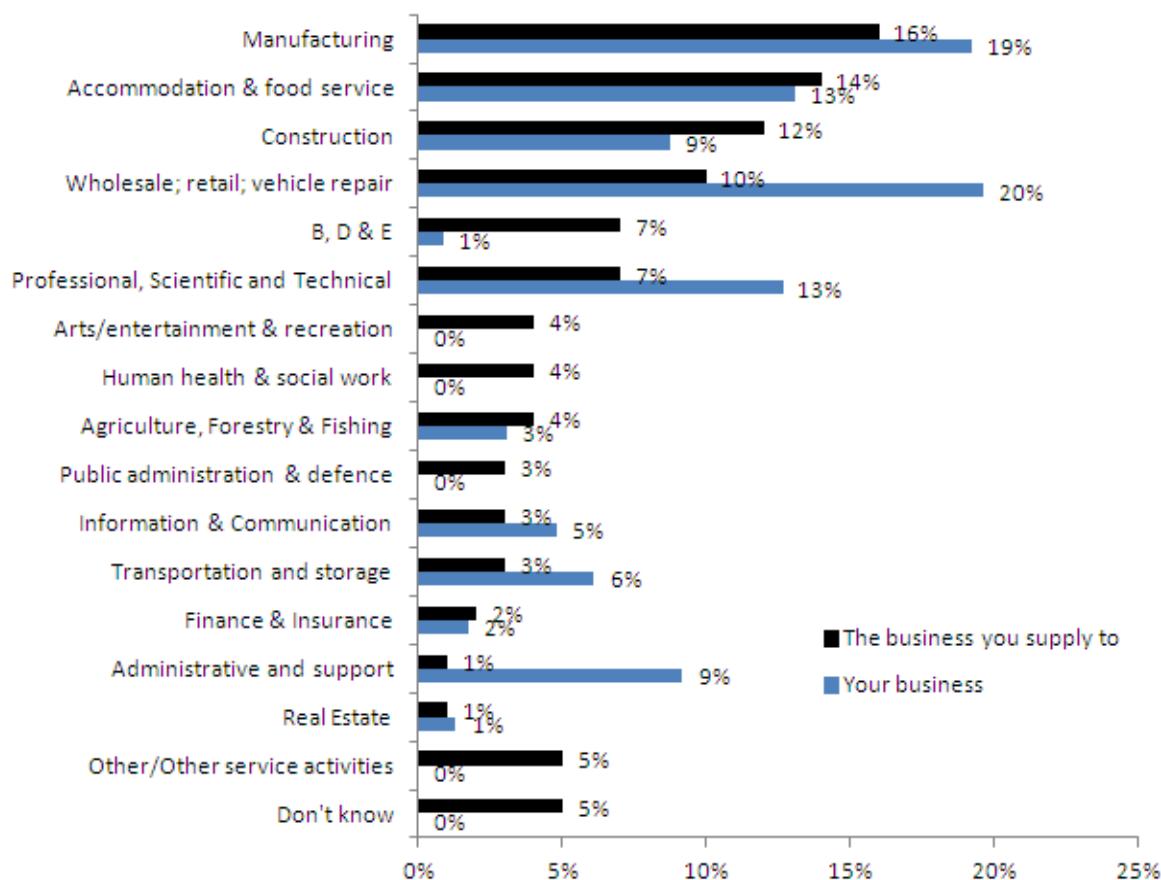
- **Businesses whose largest supply contract accounted for up to a quarter** of total business (37%) were more likely to have been incorporated since 1980, be non-family owned (46%) have shareholders (42%) and have future strategies in place (50%) than on average.
- **Businesses whose largest supply contract accounted for over three quarters** of turnover were more likely to be in manufacturing than construction (13% vs. 2%), have external shareholders (21%) and also be in one or more non-supply chain relationships (14%).

The largest supplier contract by sector

The largest supply contracts were providing goods and services to clients that were in the manufacturing sector (16%). Other significant sectors included accommodation and food services (14%), construction (12%), construction (12%), wholesale/retail/repair (10%) sectors.

Figure 5.2.6: Q34: What does the business you are in a relationship with mainly make or do? Shown against sector of business from the sample

Base: All respondents answering questions on supply chain relationships and who consider themselves to be in a supply chain

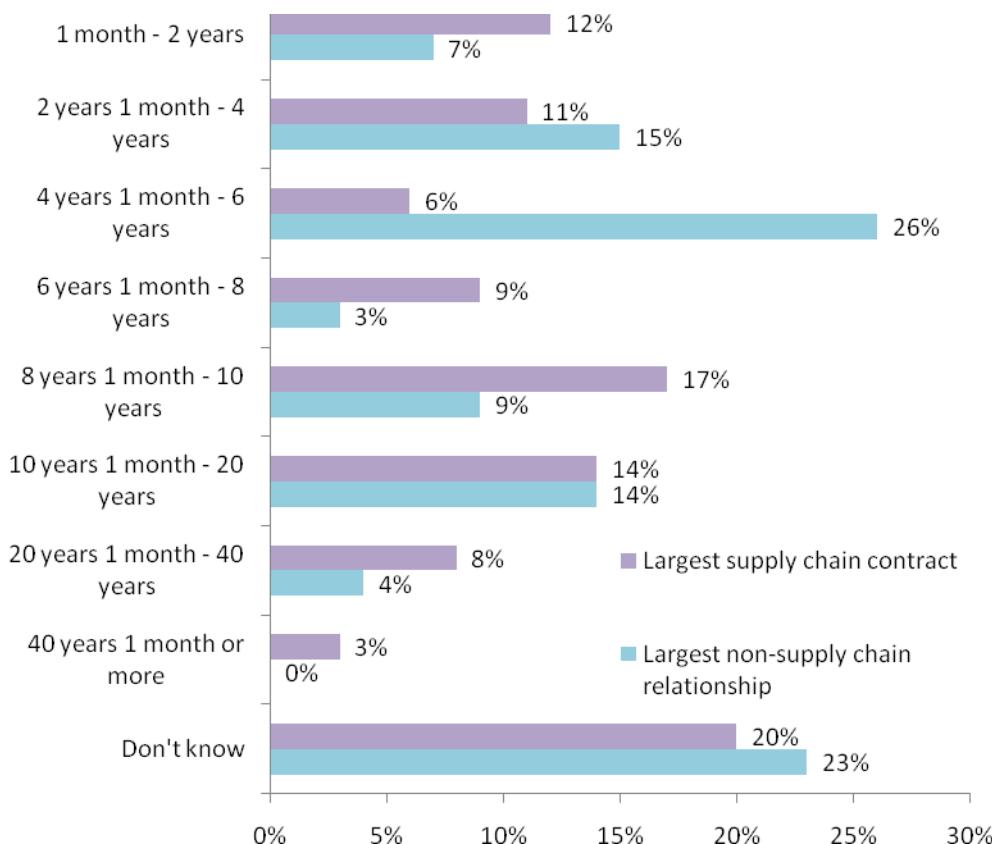


Length of contract

Over half of all the largest supplier contracts had been in place for six or more years (51%). Nearly one in five had been in place for between eight and ten years (17%). For twelve per cent of businesses, their contract had been in place for between one month to two years. One in five respondents were unable to say how long their largest supply contract had been in place.

Figure 5.2.7: Q35 & Q51: How long has this contract been in existence?

Base: All respondents answering questions on supply and non supply relationships and who consider themselves to be in a supply and non supply chain



Most businesses did not know how long the contract was scheduled to run for (60%). Amongst those that did know, twelve per cent stated it would run for between a month and two years, seven per cent for between two – four years and five per cent for eight – ten years. One in ten businesses had a rolling contract (11%).

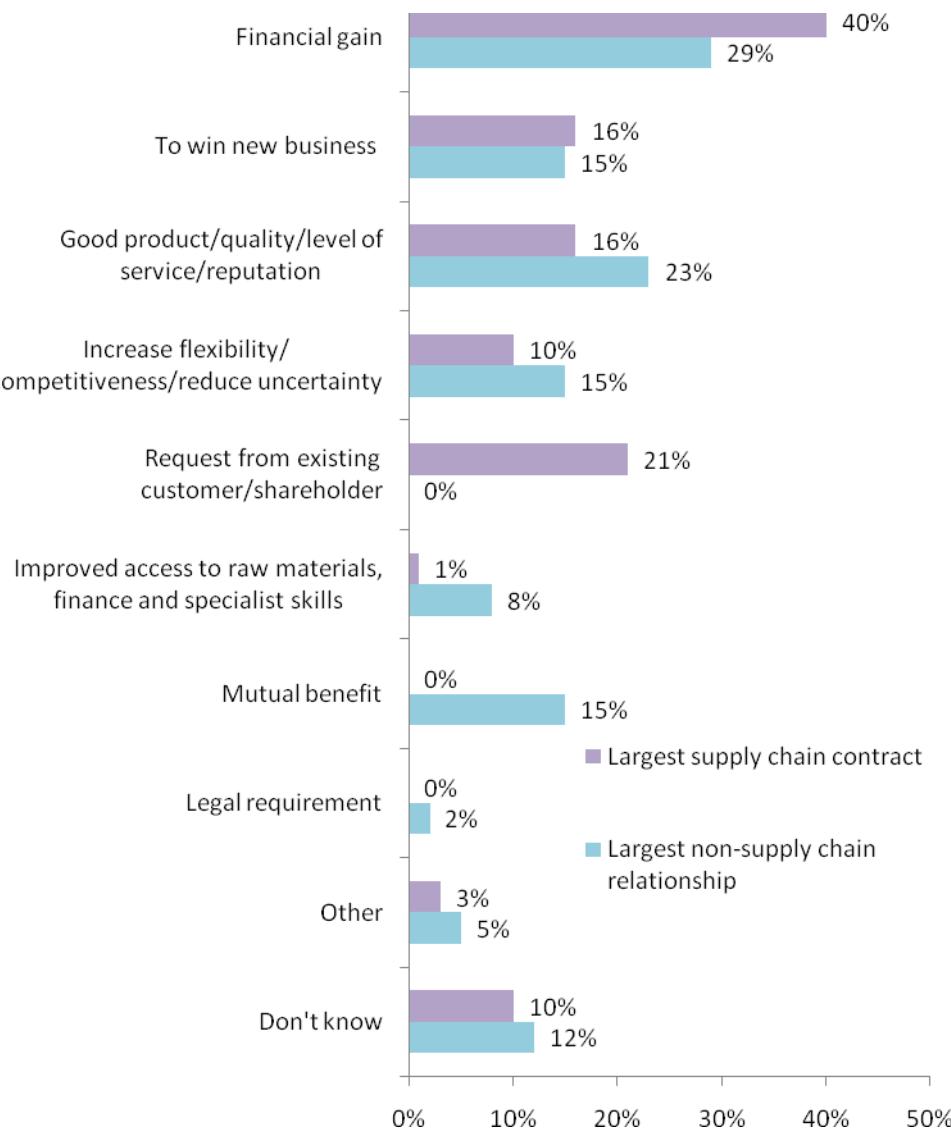
Origins of the largest supply contract

We asked respondents why their largest supply contract began. Their responses are illustrated in Figure 5.2.8, and from this it is evident that the primary motivation was for financial gain (40%).

The second most significant origin of the relationship was through an existing customer or shareholder (21%), and along a similar vein, through the respondents' high quality product/service and reputation (16%). A minority invested in the relationship to increase their flexibility and competitiveness (10%).

Figure 5.2.8: Q37 & Q53: Why did the relationship begin?

Base: All respondents answering questions on supply and non supply relationships and who consider themselves to be in a supply and non supply chain



Few significant differences were evident amongst those whose relationship originated out of financial gain. The following significant differences were evident across the other motivations:

- Those whose relationship originated out of wanting new business were more likely to be in the primary sector (32%); in construction (29%), and have enjoyed business growth in the last five years (20%).

- Those seeking increased flexibility were more likely to be in the tertiary sector (13%) and family owned (15%).
- Those whose relationship had originated through existing customer were more likely to be in a non-family business (32% vs. 10% in a family owned business).

The depth interviews provided further insight into the origins of this key relationship:

Supply chain relationships often stem from previous networking relationships

It was evident that in many instances, key relationships grew out of existing networking relationships that individuals had before setting up/joining the SME. For example, in an investment broking business, the Managing Director had previously worked for a large organisation and had made contacts in this working life there, which he had then taken with him when he left the large organisation to head up a small investment broking company. The contacts he brought with him became his largest and most stable clients.

Entrepreneurial attitudes can also be a catalyst for new supply chain relationships

In other examples, key supply contracts originated out of positive actions by the SMEs that identified different ways of doing business and managed to sell it to their key supplier. For example, a building contractor identified that they could contract directly with insurance companies to undertake claims work as opposed to extant system of working through a middle man. Once they had established this way of working with one company, they were then able to roll this method of working to a range of insurance companies.

Key supply contracts sometimes also originated through formal tendering processes and established business through ongoing delivery. Word of mouth and referral were reported as a part of the business development process in sectors like manufacturing and construction.

Relationship management

In most instances, the largest supply contract was actively managed by a member of the senior management team within the businesses surveyed (84%). The results were fairly consistent across the demographic profiles.

Amongst nearly six in ten businesses (59%), the relationship had been managed by the same key contacts in both organisations since inception. This was particularly evident amongst businesses in the secondary and tertiary than primary sectors (59%, 61% vs. 30%), those incorporated since 2000 (69%), and those that planned to remain the same size in the future (71%).

The depth interviews gave further insight into relationship management, and the dynamics of these relationships within the supply chain. Also the importance of good interpersonal relationships was reinforced here.

SMEs pride themselves on high quality relationships and are loyal to fellow SMEs

Some SMEs maintained that they tried to treat all their customers the same and give them the same attention, care and after sales service. Invariably for small companies, client relationship management was handled by the owner or managers of the company – investing in ‘high quality’ relationships.

“We would like to think that we treat all our customers the same, and give them the same treatment... We believe that sets us apart from our competition and give everyone the same service. We maintain relationships through good service and informal relationship management. XX [owner] seems to do this naturally - there is no formal structure for relationship management in place just through experience, nothing written down.” (Waste Management Businesses)

However, a common perception amongst SMEs was that they were in a better position to foster high quality relationships with their small customer base relative to larger organisations that had less time to spare in developing meaningful client relationships.

A number of SMEs also highlighted a greater loyalty amongst the fellow SMEs they serviced, and highlighted different strategies to maintain different sized customers within their client base:

“Ours tend to be long term relationships, larger operations are more likely to be driven by price pressures [and less loyal]. Whereas farmers will only buy seeds once a year and our experience (here) is that once we have built a relationship they are more easily able to maintain relationships with smaller clients than larger” (Agricultural Business)

The larger the business, the more formalised the relationship management

In a number of instances, as businesses grew in size, the role of relationship management was often passed down the line to sales and account managers and with growth came more formalised targets and objective setting.

Some of those with a significantly large customer as part of their customer portfolio employed similar techniques of relationship management down the line:

“Our largest client accounts for about 25% of business – it is a large farmer. The relationship is maintained through all contact points in the supply chain, good service delivery, high quality, getting it right..... they trust me and it is a fairly equitable relationship.... (but) there is no room for mistakes, if I get it wrong the client will go elsewhere.” (Agricultural Business)

Continuity is a key success ingredient for relationship management

Other SMEs highlighted how they were able to maintain well established, high quality relationships through continuity and understand their customers’ requirements:

"You know what level of service is needed depending on the kind of organisation... Our [SME] clients tend to have very static staffing themselves, which means the pension scheme does not require much upkeep and the focus is more about maintaining contact with the client. Element of personal service. Large companies have far more focus on maintaining the scheme as far more fluidity in the staffing etc. arrangements. We personalise our service around customer needs, are small and flexible enough to do this and also provide advice in absence of in-house expertise." (Financial and Insurance Activities)

Continuity of staff was also found to be fundamental in maintaining relationships longer-term, and movement of staff with whom solid relationships were forged could be detrimental to the business. This was particularly evident when SMEs were dealing with buyers within larger businesses. One business described buyers in the retail sector as now being "*more aggressive*", and less interested in quality than price. This has hindered long-term planning and created instability for the respondent business.

Positive working relationships were showcased

Other interviews highlighted very encouraging SME experiences of partnership working within the supply chain with large contractors where positive and open relationships have been proactively encouraged and been very positively received. For example, one SME supplier was invited (along with other suppliers) to an internal conference run by a prime contractor in the construction sector, effectively being treated as a member of staff. The SME's MD was "*open-mouthed*" to be invited to what was a "*team-bonding*" type event in West Midlands with all expenses paid. All delegates were shown a promotional video about the Seattle Fish Market ("*Fish*") with the overarching theme of the benefits of joint working and partnership. The event was received very positively by the respondent and has helped to foster ongoing contacts and better relationships and opportunities going forward. Furthermore, it has really encouraged collaborative working and fostered the concept of pulling together across the supply chain in tough economic times for mutual benefit.

Another interview with an Information and Communications business highlighted the importance of communications and everyone working together:

[It is] "vital you build ongoing partnership relationships with the supply chain...so that you are all singing from the same hymn sheet". That way "everybody does well", "Win-win situation".

This was further echoed from the manufacturing to the construction sector, and this "*togetherness*" was thought to be reinforced due to the economic climate, and reduced margins, meaning that the supply chain needs to cooperate to still deliver on time and budget.

The need to understand the clients' business was expressed by another SME as:

"We tend to treat clients differently in terms of what they are doing and what they are trying to do... and try to be as efficient and helpful as we can...Others [clients] out there you have

to give product and sales support. Question of maintaining relationship through efficiency for some, and others investing in developing relationship now so that in future you can reap the investment. Most of this business is built off relationships...." (Professional, Scientific and Technical Business)

For some, understanding and client relationship management was fostered through spending time with the client, working with them to understand their issues:

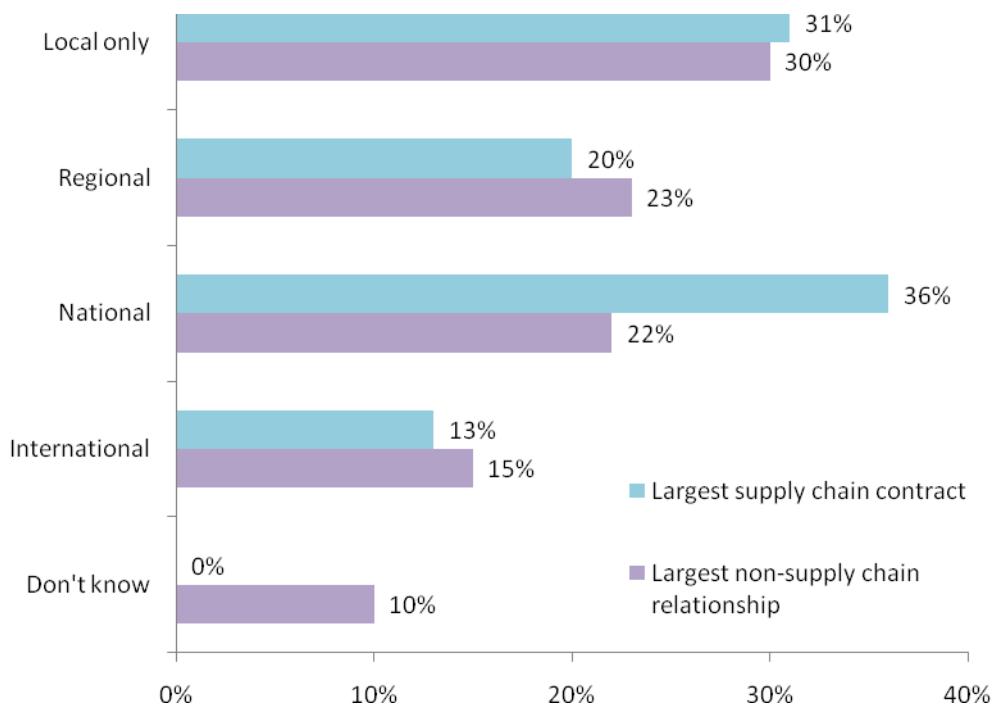
"The key to good relationship management is time on site - so all we (account managers/project team) spend at least a day a month on site at all our larger clients – this enables us to understand our clients better and develop product solutions" (Information and Communications Business)

Face to face communication is further noted as a key quality of successful relationships in Section 8 of this report.

Geographical dispersion

For half of SMEs the largest supply chain contract was locally or regionally located (31% and 20%, respectively). A third of businesses had a national focus and one in ten an international focus (36% and 13%, respectively). This is illustrated in Figure 5.2.9 and reflects what, through depth interviews, was evidently an aspect that a number of SMEs felt was part of their USP – their understanding of the local community and needs.

Figure 5.2.9: Q40 & Q54: How geographically dispersed is the network/relationship?
 Base: All respondents answering questions on supply and non supply relationships and who consider themselves to be in a supply and non supply chain



A local dispersion was particularly evident amongst SMEs in the construction industry (47%), that were family owned (39%), where the target market was static (41%), when the business was planning on remaining the same size (43%) and had no future strategies in place (40%).

This resonated with the in-depth interviews were it was evident that SMEs in the construction industry were more likely to be involved in buildings work in their immediate locality than SMEs that were involved in activities such as financial and insurance activities.

Few other spatial differences were evident. However, those with an international focus were more likely to be in the primary sector (24%), in manufacturing (25%), perceive a growing target market (21%) and be non-family owned (18%); those with a regional market were small (26%) and perceived a contracting target market (34%).

Two thirds of respondents identified that their current location was mostly due to the proximity to existing customers, networks and partners (67%). A quarter did not know why their business had its current location (26%).

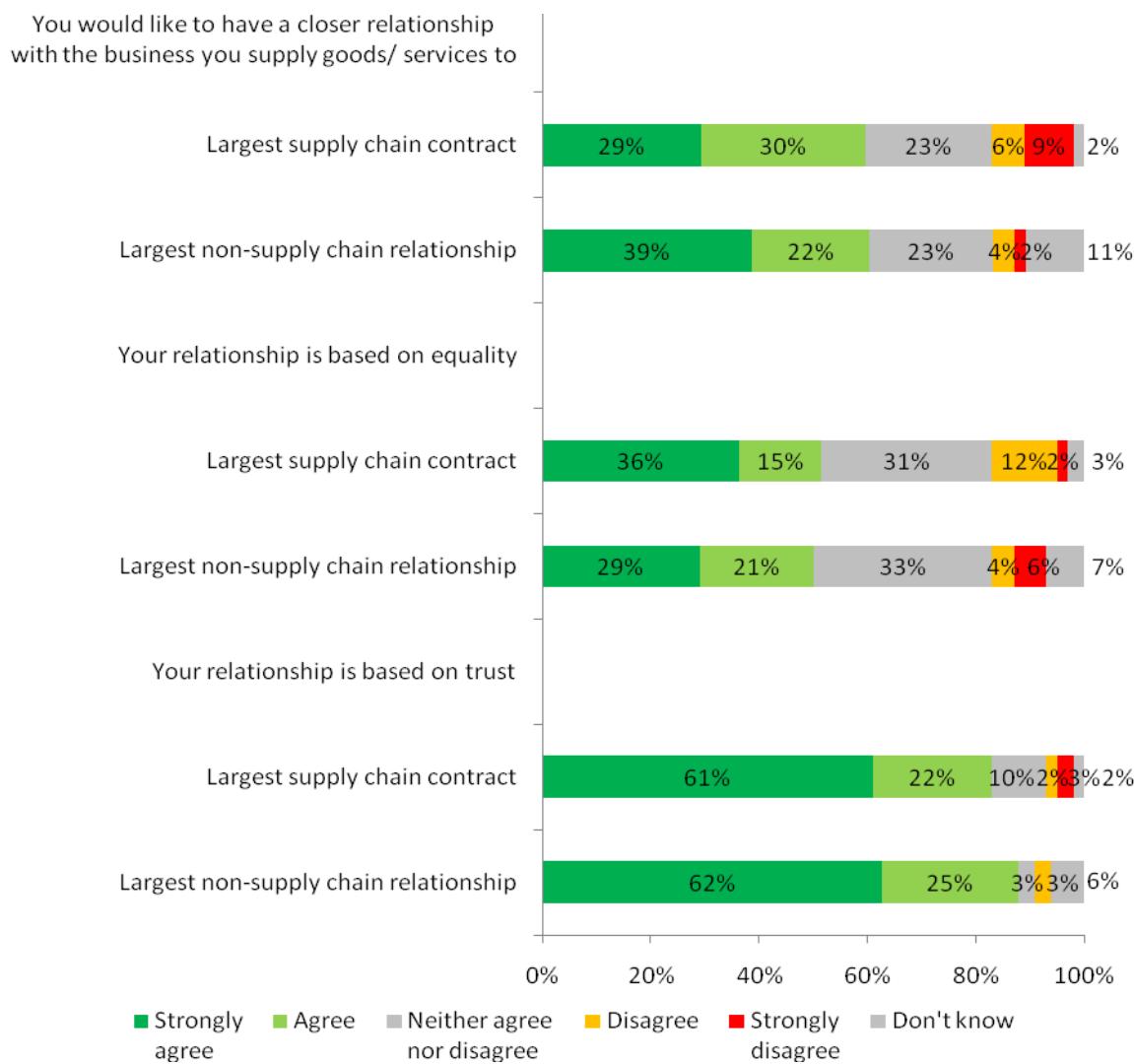
The quality of the relationship

Most respondents agreed that their relationship with their largest supply contract was based on trust (83%). However, fewer agreed the relationship was based on equality or that they

would want a closer relationship with the business they supplied goods to (51% and 60%, respectively).

Figure 5.2.10: Q42 & 56: To what extent to you agree or disagree that....

Base: All respondents answering questions on supply and non supply relationships and who consider themselves to be in a supply and non supply chain



The following significant differences were evident:

- Those SMEs that agreed their relationship was based on trust were more likely to be small than medium (87% vs. 76%) and family owned than non family owned (88% vs. 77%); be in both supply and non-supply chain relationships (89%) and have contracted than stayed the same in the last 5 years (86% vs. 74%).

- **SMEs that felt their relationship was based on equality** were more likely to be in the secondary than tertiary sector (65% vs. 45%); have no shareholders (65%); have a growing than contracting target market (60% vs. 39%).
- **SMEs that agreed they would like a closer relationship** with their largest contract were more likely to be in the secondary and tertiary than primary sector (63% and 60% vs. 33%) and provide a standardised service (70%).

The lower level of agreement that relationships were equal accorded with the in-depth interviews, and indeed was the primary reason why only half of SMEs sought a closer relationship with their largest supply chain contract. At the same time, a balance of power and mutual respect was highlighted as important:

"Good relationships have balance of power, each recognising what expertise the other brings; establishing parameters at the outset, and clear on objectives; bad relationships - where parameters are unclear and business spends money developing product for a manufacturer who then for some or other reason goes to a different supplier. Large businesses do hold the balance of power as regards price, and they are always squeezing on price, but our business prides itself not only on engineering expertise, but also all round service, and this good reputation keeps key accounts." (Manufacturing Business)

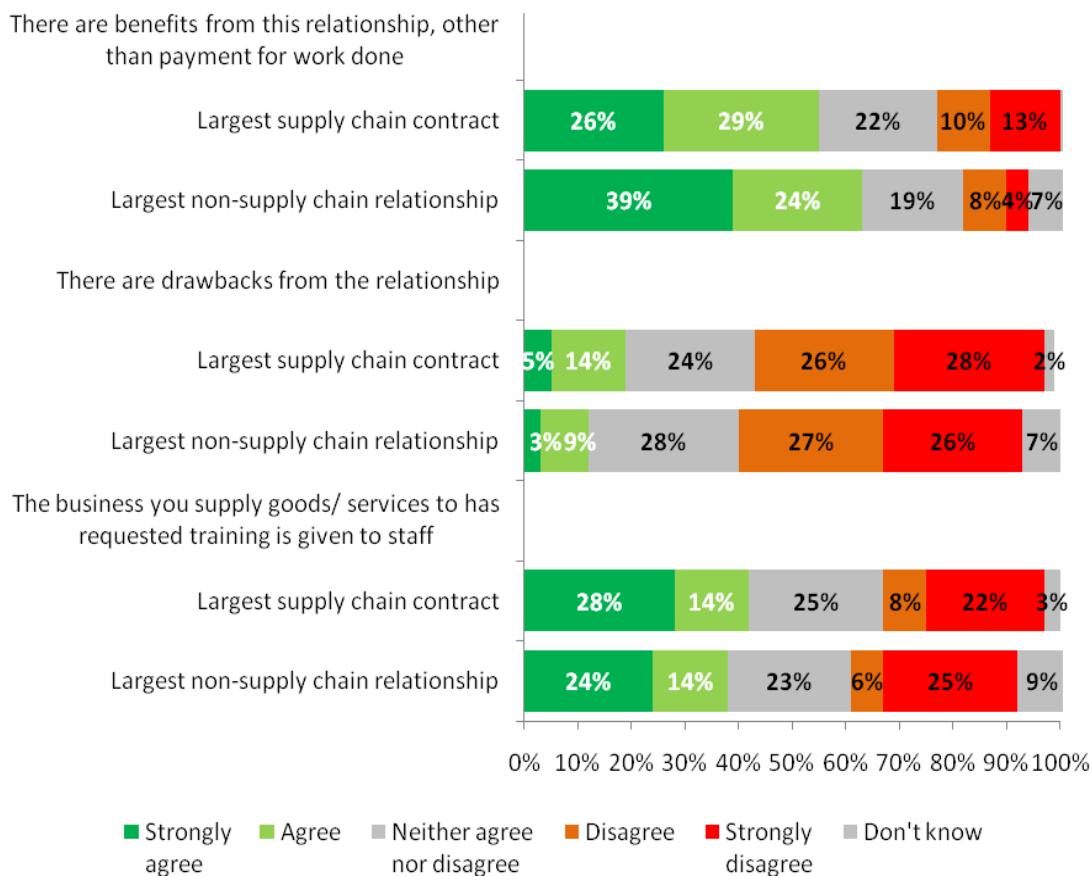
Looking now at Figure 5.2.11, just over half of SMEs felt that there were benefits to their largest supply contract other than the work paid for. Only one in five respondents felt there were drawbacks to their relationship with their largest supply contract. Just over four in ten SMEs stated their largest supply contract had requested training be given to staff.

This resonated with the in depth interviews which demonstrated that SMEs were typically pragmatic about their relationships with larger clients and felt the benefits they offered in terms of long-term financial security, high quality, revenue streams outweighed the negatives. That said, **the most significant drawback for many SMEs we spoke to was that of income streams and cash flow relating to untimely payment for services provided.**

Moreover, the interviews suggested that whilst the large client may not expressly request training, engaging them in the business required the SME to invest in technology or processes.

Figure 5.2.11: Q42 & 56: To what extent to you agree or disagree that....

Base: All respondents answering questions on supply and non supply relationships and who consider themselves to be in a supply and non supply chain



The following significant differences were evident:

- **Those who that perceived there were benefits** were more likely to: be in the secondary and tertiary sectors (58% and 54%); non- family owned (62%) businesses. Those perceiving drawbacks were more likely to not have non supply chain relationships (30%); and
- **SMEs where training had been requested** were more likely to be in the tertiary than primary sector (44% vs.24%) and be in construction than manufacturing (61% vs. 31%).

Other good relationship qualities highlighted in the depth interviews included:

- Cooperation – with the opportunity to “add value” further up the supply chain rather than just being kept in a specific place relative to the SME’s tier.
- Being able to personalise the service.
- Timely and reliable payment (although untimely payment was an issue for others).

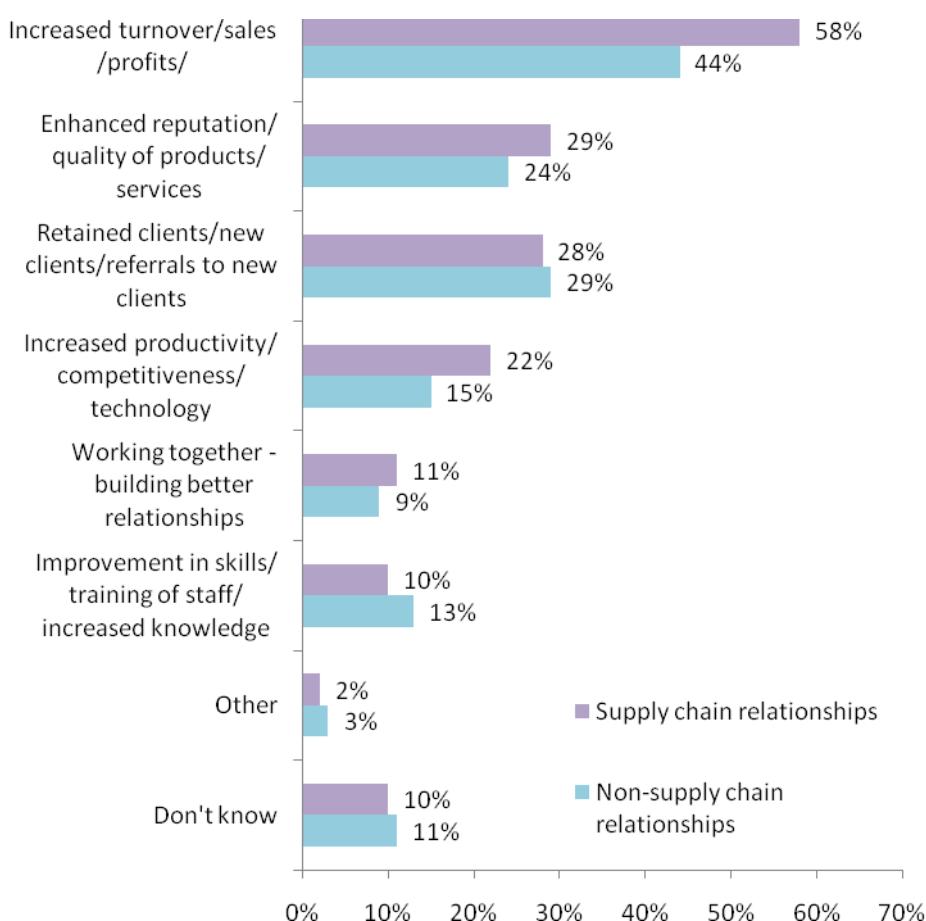
- Partnership working – i.e. being included and felt to be included in a wider, mutually beneficial supply chain relationship.
- The need for “strive for excellence” – with the requirement for accreditations and sufficient QA processes being seen as a benefit that ultimately provides competitive advantage over competitors.

Benefits encountered

Over half of respondents who agreed that there were benefits from the relationship other than work done highlighted increased turnover/sales/profit as a benefit of their relationship with their largest supply contract. Nearly a third highlighted an improvement in their reputation and quality; or retained clients/new clients/referrals to new clients (29% and 28%, respectively). One in five highlighted increased productivity/competitiveness and advancements in technology; one in ten highlighted better working relationships (11%) or improvements in skills/training and increased knowledge (10%). This is illustrated in the Figure below.

Figure 5.2.12: Q43 & Q57 – What benefits have you encountered?

Base: All respondents answering questions on supply and non supply relationships who consider themselves to be in a supply and non supply chain and who agree there are benefits from the relationship other than payment for work done (n=125)



The following significant differences were evident:

- SMEs that felt they benefited in their reputation and referral were more likely to have been incorporated since 2000.
- Those that perceived an improvement in skills or working better together were more likely to be medium, those with improvement in skills were generally also non-family owned.
- Those that perceived increased productivity or enhanced reputation were more likely to be small in size.
- Those with increased profits/sales or increased productivity were more likely to perceive a growing target market.

Drawbacks encountered

Amongst the minority of respondents that felt there were more drawbacks to their key supply contract than they anticipated, four in ten highlighted unreasonable demands from the client, one in five highlighted a lack of decision making power and 16 per cent highlighted an absence of financial gain.

In-depth interviews allowed for further exploration of the dynamics of the benefits and drawbacks of relationships with larger businesses within the supply chain. A synopsis of findings follows.

Large supply chain contracts did dictate terms but could also provide security of guaranteed revenue and SMEs prided themselves in their flexibility to meet different client needs.

SMEs were pragmatic about the balance of power in their relationships with large clients. They recognised that the large company had the power to dictate terms and conditions, but felt that as an SME they were flexible enough to respond to differing customer needs far better than large organisations could.

"We are small enough for anyone in the company to be able to pick up client issues and deal with them immediately - that is the advantage of being a smaller company, what we can do is offered a personal, tailored service. All our clients want different things and we can do that." (Financial Services Business)

Working in the favour of the SME is the personalised service that can be offered to larger businesses, for example having an MD on speed dial. It was also deemed that "*the smaller the organisation, the more innovative they can be*". (*Manufacturing Business*)

Beyond this, positive benefits from working in a supply chain with larger businesses were detected as follows below.

Guaranteed revenue is the overarching benefit

The benefit of working for a large organisation was the guaranteed revenue stream which gave stability to enable the SME to diversify and grow elsewhere:

"We accept that larger customers adopt a keener approach to pricing. Larger customers are more sophisticated buyers and our profit margins are lower here than amongst our smaller clients. However, the size of the client buys security through the guaranteed turnover. I believe that in our relationships both our (large) customers and ourselves are getting satisfactory profit and where there is a problem we can sort it" (Manufacturing Business)

A shellfish processors also pinpointed guaranteed demand as a key advantage. In terms of their suppliers 'downstream', just 10 per cent is contract based; the remaining 90 per cent comprises orders on demand. Their largest supplier is a Spanish supermarket that make a regular annual order pre Christmas; for the business, the key benefit is therefore:

"Guaranteed volume that you know you're going to get at a certain time".

Skills acquisition enabled small companies to learn better business processes

Some smaller businesses – particularly in sectors such as construction and agriculture, learnt better business processes through dealing with large businesses and having to comply with their business operations. For example, one construction business felt they had learnt from large organisations how to do things better – *"larger companies give best practice ideas"* - but it takes the SME to take the initiative to improve.

However, this benefit was increasingly eroded as the International Organization for Standardisation (ISO) specified required standards and methods of working, which stood at odds with the requirements of the large business and between large businesses.

Accreditations and ISOs could raise the game of SMEs and so improve quality and enhance opportunities to work elsewhere

It was widely recognised that if SMEs wanted to work with larger businesses they needed to have various accreditations and QA processes in place.

"...they are after quality and they need to be able to guarantee the life of their engines to their customers" (Manufacturing business supplying engine builders)

Some SMEs invested in achieving accreditations in order to win big businesses. This was positively perceived by many as improving their business process and operations also contributing to better business-to-business relationships.

One manufacturing business in the aerospace sector recognised that without accreditations it would not get work in a safety critical industry. It was thought that within aerospace there is

much more of a commitment to the "quality ethic" (comparative to the automotive sector) as it is vital that every component works without risk of failure. This tends to foster more cooperative working relationships in the supply chain.

A food manufacturer explained that the regular QA and audit processes that the major supermarkets subjected them to were typically far more stringent than the annual BRC (British Retail Consortium) audit. The retailers have their own distinct food manufacturing standards and - unlike the BRC visit – can conduct an on-site visit unannounced on any day during a three month period. They had very precise requirements which made them "raise their game" on a continuous basis. Clearly this requirement to meet differing QA requirements across different customers was onerous and potentially disruptive but they felt that they had grown accustomed to it and were big enough to cope (although they did acknowledge that these requirements made it very difficult for start-ups or smaller businesses to compete). Meeting the requirements of the major retailers had required a significant investment (funded by successful organic growth) in QA processes but this has helped to raise their profile and standing with key customers and provided them with a clear competitive advantage.

However, some negative viewpoints were also detected, as detailed below:

Payment terms are a key issue for SMEs

It was evident that a key issue for many SMEs was terms of payment where they supplied large businesses. Many expressed the perception that big businesses did not understand or simply did not care the difficulties that SMEs encountered with regards to cash flow. The sentiment was also expressed that in many cases SMEs could not afford to pressure large clients around payment or be open about the financial challenges facing them for fear of losing further business with them altogether.

In one case, a consultancy firm working in the construction sector cited the example of having payment terms of 14 days but typically seeing payment from larger businesses around four to six months.

For some, this put them off doing business with large organisations as illustrated below:

"We can work with a range of contracts - direct customers and prime contractors. We don't want reliance on a single customer as leaves us open to too much manipulation".

Cash flow could equally present itself as a deterrent for other businesses to engage with small enterprises, as illustrated in the following quote from a medium sized manufacturing enterprise:

"We do supply these gaskets to very, very small companies for various other reasons, and that seems to be where the real struggle is, on their side, and from our point of view the debt collection really"

Another SME flagged the issues of retentions within the construction supply chain where five per cent of their final contract fee is held back by the main contractor even if they have fulfilled their element of the contract many months, or in some cases years, ago.

"That five per cent could help you grow ... and improve your working capital massively"

Within their role as a systems integrator for construction projects, they would typically sit in the middle of the supply chain but "*at the bottom of the food chain*" which meant that they were manipulated by larger businesses either side of them and would typically have to pay out to suppliers providing them with the systems to install but also carry out work for the prime without receiving prompt payment.

Unreasonable demands were evident

Some SMEs reported what they perceive to be "*unreasonable demands*" particularly in relation to the supply of goods or services that were only differentiated by price. One agricultural business producing soft fruit for a major retailer was asked to provide a large order of a specific variety of raspberries for a calendar occasion, but due to the weather they were one week late in picking which made things difficult – the retailer ended up taking one order but then cutting the programme so the business couldn't sell these raspberries and lost £15,000 of fruit as they had already picked it but the next day the retailer changed their minds...*"financially it really hurts"*.

Many businesses were aware of the power that larger businesses held over them and were often mindful of the strategic imperative of staying on the right side of key contacts within the larger business:

"[We] have to be very careful ... because of the political nature of the animal they can swamp the place with orders or they can just switch production away and you get no work from them at all - it can be a bit feast and famine and we are very wary of that."

There were also examples of SMEs that experienced very different demands (with regard to payment terms, timeframes and other terms and conditions) depending on whether their client was a public sector organisation or a large private sector contractor:

"The further down the chain you are, the further distance you are from the client, there's an expectation that you will provide 'more for less' to the tier one supplier... so terms and conditions tend to be slightly worse than dealing directly with the Government."

Absence of long-term contracts – particularly in wholesale/retail sector – could be a deterrent to growth

As depicted previously in this report, many relationships existed with little or no contract commitment from the large client.

This deterred growth and frustrated long-term planning, but was perceived to be part and parcel of dealing with large organisations – again evidence of a pragmatism amongst SMEs that working with large organisations necessarily entailed these terms and conditions.

Relationship building could be frustrated where client contact and decision maker functions were separate

A number of respondents spoke of frustration of service delivery in situations where the contact point/customer differed from the decision-maker or procurer of services, such as in the public sector.

"Whilst you can be delivering the right service on the ground, very often the purchase decisions are made by people who are completely removed from the coal face so the actual quality of service you provide is less relevant because the decision is made by someone who is not actually experiencing that service" (Manufacturing)

Relationship building was difficult, and delivery over and above that commissioned often a profitless exercise. Particularly where price was a key consideration and the marketplace keenly competitive with little to distinguish services.

For some SMEs, accreditations and ISOs were expensive to achieve and maintain

Despite acknowledgement that accreditations can help improve professional images, some businesses could not afford the outlay and time involved in preparing for audits.

"We can't afford to keep up with quality accreditations – it was useful when starting out as a small business but benefits do not seem to be outweighing the cost implications now."
(Construction Business)

Time of managing relationships (particular reference to audits) depicted as a barrier to additional engagement

This finding resonates with that of why a large majority of businesses rely on just one main customer to supply to. For example, one family run farming business which supplied produce to one main end supplier reported not seeking further such contracts because of the time involved in audits from other end suppliers (he previously worked with several, but auditing preparation took up roughly 20 per cent of his time). His business has expanded and grown with the top end supplier as a result but the risk is of course greater.

And differences between audit processes made working with more than one/two large companies hard to achieve

Whilst accreditations and audits were seen to improve and up the game of SMEs, the differences between the QA processes of different large organisations was seen as unwieldy and indeed a barrier to undertaking work with more than a single supply contract.

The way in which QA processes were implemented, maintained and regulated was also an important aspect of the ongoing relationship. For example, within the aerospace sector, one negative example of a supplier audit process was described whereby the supplier audited them with a “*tablet of stone*” in an inflexible aggressive manner, giving them “*hell*”. This was not seen to be a cooperative process, and viewed more as an annual lecture that did nothing for the ongoing relationship.

Within the agricultural sector, an example was cited where a supplier insisted on conducting ‘ethical audits’ which resulted in the supplier requesting that the working time of some employees on the farm was limited. The respondent did not agree and so did not pursue the contract.

In some cases, there was evident frustration at the lack of rationalisation of processes and requirements across different prime contractors. One supplier to the construction sector pointed to the fact that each of the ten or so different larger business they typically worked with employed different approaches with regard to Health and Safety systems:

“Everyone does things so differently but at the end of the day ... it’s a building!”

This factor was a major barrier to them considering approaching other businesses and taking on new work with larger contractors where they did not have an established working relationship.

5.3 Relationships between SMEs and larger organisations outside the supply chain

Summary

Survey Findings

- Almost half of all businesses are engaged in networking relationships (48%), a third in outsourcing or partnerships; and a quarter in research and development partnerships.
- Businesses undertaking these other types of relationships were more likely to have future strategies in place (to grow both supply and non supply chain relationships), and to have either grown in the last five years, or be planning to grow in the future than businesses that did not have non-supply chain relationships.

Largest non supply chain relationship

- Three quarters of SMEs with a non-supply relationship with a larger organisation regarded this relationship as important.
- The key reasons for establishing the relationship were for financial gain, good product/quality/reputation and to win new business (29%, 23% and 15%).
- Although these are generally similar to those underpinning supply chain motivations, a wider set of reasons for involvement was detected, including mutual benefit (15% vs. 0%), greater flexibility/competitiveness (15% vs. 10%) and access to raw materials/finance/specialist service (8% vs. 1%).

Relationship management

- Two thirds of non-supply chain relationships were managed by a member of the senior management team (lower than the key supply chain contract).
- Over two thirds of contacts in non-supply relationships had remained the same since inception (68%).
- Non-supply relationships tended to be of a local than regional, national or International nature (30% vs. 23%, 22% or 15%).

Views on the relationship

- Nearly nine in ten respondents with such relationships characterised their key non-supply relationship with a larger company as one based on trust. Half characterised it as one of equality and six in ten sought a closer relationship.
- More SMEs saw additional benefits in their key non-supply chain relationship than key

supply relationships (63% vs. 54%). The main benefit was increased turnover/sales (44%).

- One in ten of the SMEs involved felt there were drawbacks to the relationship (12%) and nearly four in ten indicated they had been required to undertake training for their non-supply relationship (37%).

In depth interviews

Non-supply chains overall

- Many businesses did not differentiate between supply and non-supply chain relationships, but rather simply recognised relationships that supported and promoted the core business objective of growing the business in one way or another – in other words, non-supply chain relationships tended not to be distinguished from supply chain relationships.
- Non-supply chain relationships were often grown into supply chain relationships. When looking outside of their current supply chain, businesses interpreted other relationships as potential future supply chain relationships.

Networking

- SMEs stress the importance informal networking – a core activity particularly amongst manufacturing and construction sectors.
- Different patterns of networking are evident across sectors and work streams – particularly based on size and sector of businesses.
- Some sectors have more informal networking than others.
- Membership of trade and skills associations was frequently mentioned as a source of networking.

Mentoring

- Appeared closely intertwined with pre-existing supply chain relationships, and was seen a means of enhancing productivity throughout the chain as a whole.
- The benefit of sharing skill sets was widely applauded and was most noted in the agricultural sector.

Joint Ventures

- Joint ventures were found to be more prevalent amongst SMEs themselves than

between SMEs and larger organisations

- Where joint ventures with larger businesses were detected these typically reflected pre-existing relationships and opportunities for mutual gain.

In the following section of the report we explore these non supply chain relationships in more detail, including: incidence of other relationships with larger companies, nature of their largest non-supply chain relationship, and qualitative insights into relationships with all sizes of enterprises.

It must be noted at the start of this section that through in-depth interviews it was evident that many businesses did not differentiate between supply and non-supply chain relationships, but rather simply perceived relationships to support and promote the core business objective in one way or another. Indeed, often non-supply chain relationships grew out an existing supply chain relationship and strengthened the existing relationship. For this reason, many respondents deemed them to be intertwined, or in fact failed to appreciate the distinction.

When looking outside of their current supply chain, several respondents understood these other non supply chain relationships to be channels through which to win potential new business; coining them therefore “*prospective*” or “*future*” supply chain relationships.

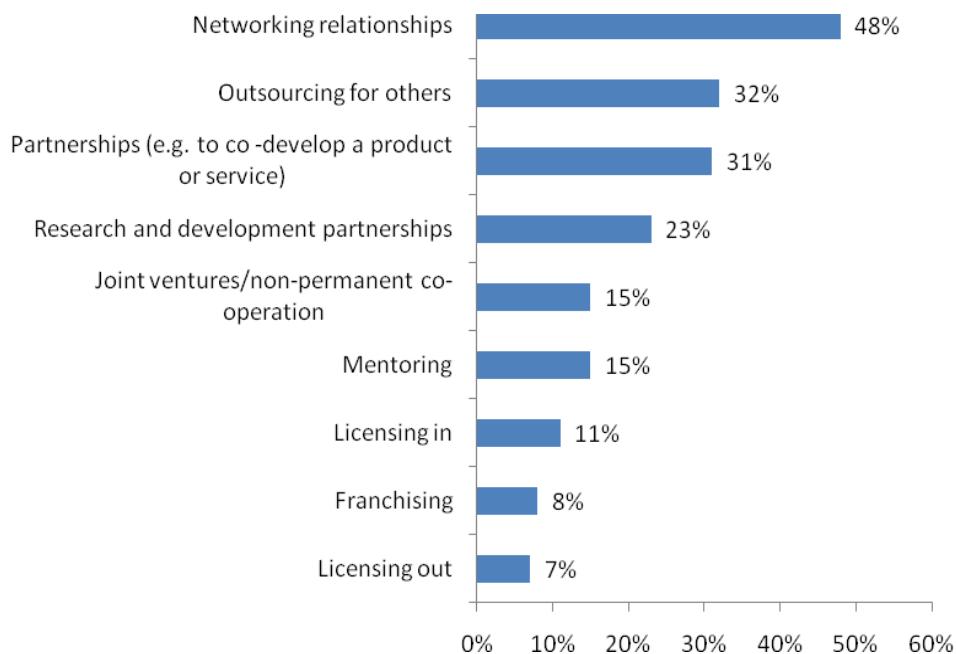
The size of organisation that businesses invested in developing relationships with was often dependent on the nature of their business and source of opportunities. Examples of the types of relationships are exemplified at the end of this section through individual case studies.

5.3.1 Prevalence of other relationships with larger companies

We established the incidence of a range of relationships that SMEs have with larger companies outside of the supply chain. All respondents were prompted with the list of other types of relationships, and the reported levels of involvement can be observed in Figure 5.3.1.

Other than supply chain or direct customer relationships, businesses were most likely to have networking relationships with larger companies than any other type of relationship (48%). Around a third were also engaged in outsourcing or partnerships; and a quarter were engaged in research and development partnerships. Far fewer were engaged with larger businesses in initiatives such as joint ventures, non-permanent cooperation, mentoring, licensing in or out or franchising.

Figure 5.3.1: Q27 How many of the following types of relationships do you have with larger companies?
 Base: All respondents



Those that were involved in **networking relationships** with larger companies were significantly more likely to:

- Be in the tertiary than primary sector (50% vs. 35%);
- Be in the information and communication, wholesale/retail/repair and finance sectors (63%, 60%, and 58%) than agriculture/forestry or transport and storage (29% and 34%);
- Be medium sized (57%); and also in a supply chain (51%);
- Have grown in the last five years (54%) have a growing target market (55%) and be planning to grow the business (52%); and
- Have future strategies in place than not (58% vs. 35%).

Those that were involved in **outsourcing for others** with larger companies were significantly more likely to be:

- In the tertiary sector than secondary (35% vs. 26%);
- In the information & communication sector than construction (39% vs. 20%);
- Planning on staying the same size (40%);
- Play a research and development role in this relationship (66%); and

- Have future strategies in place (39%).

Those that were involved in **partnership relationships** with larger companies were significantly more likely to:

- Be in construction and information/communication sectors than agriculture (40% and 41% vs. 19%);
- Have internal or external shareholders than none (33% and 40% vs. 19%);
- Also be operating in a supply chain than not (36% vs. 13%);
- In a research and development role in this relationship (42%); and
- Have future strategies in place than not (50% vs. 13%).

Those in **research and development relationships** tended to be concentrated in information and communication and manufacturing sectors, be in non-family and subsidiary businesses, with external shareholders, also operating in a supply chain and planning to grow.

Those in **mentoring relationships** tended to be in the secondary and tertiary sectors, in information and communication and wholesale/retail/motor repair, be small, with shareholders, also operating in a supply chain, have grown in the last five years, with a growing target market, with strategies in place and planning to grow.

Those in **joint ventures/non permanent cooperation** tended to have shareholders, have a growing target market and be planning to grow in the future and have future strategies in place.

It is interesting to note that businesses undertaking these other types of relationships are more likely than others to have future strategies in place (to grow supply and non supply chain relationships), and to have either grown in the last five years, or be planning to grow in the future. Positive case studies reported in the depth interviews also revolved around those businesses that had a more strategic outlook on their growth strategy and several had experienced positive growth trends as a result.

This suggests that businesses that actively look to encourage these types of relationships are more likely to grow.

5.3.2 The largest non supply chain relationship

Respondents who undertook at least one non supply chain relationship and no supply chain relationships were then asked further questions about the nature of their largest non supply chain relationship. As aforementioned, if respondents undertook both supply and non supply chain relationships, they were either asked about one or the other at random.

What follows here is analysis of findings surrounding respondents' largest non supply chain relationship, together with further exploration of such relationships

through in depth analysis and a summary of some emerging themes that came to light.

Nature of cooperation

From the depth interviews it was evident that SMEs cooperated with large companies in a variety of ways including:

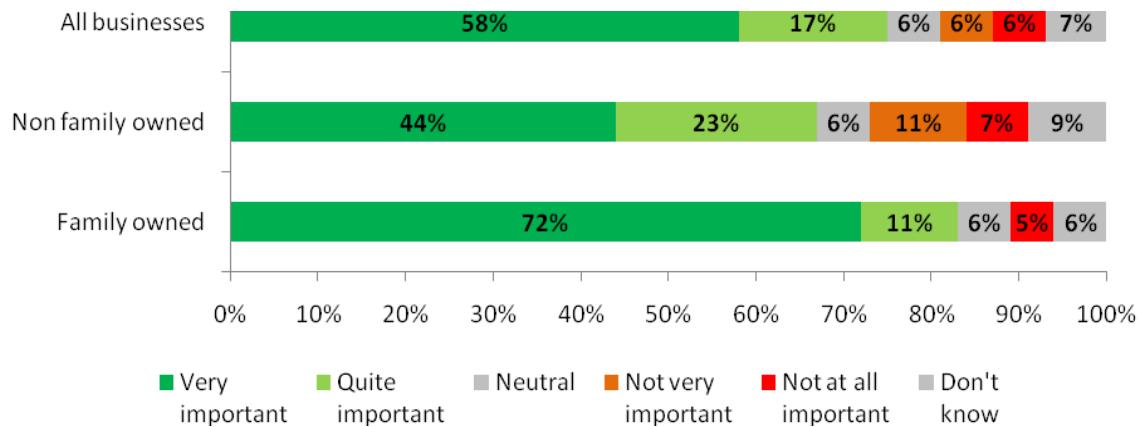
- In dealings with a regulatory body or in relation to compliance with regulatory obligations.
- Relationships with banks or accountancy firms regarding the provision of financial services.
- Formal and informal networking – through business/sector/social events – keeping pace with sector progress and building relationships that promote word of mouth referrals.
- Cross selling – “*we sell to them and they sell to us*”.
- Joining up to deliver a service: “we are both able to bring something to the project, neither partner can reach the end goal without the other one”.
- Members of a national association for their particular skill/sector.

Perceived importance

Nearly six in ten SMEs regarded their key non-supply relationship with a larger organisation as very important and 17 per cent regarded it as quite important. This was higher amongst family businesses than non-family businesses as reflected in Figure 5.3.2.

Figure 5.3.2: Q50: Focussing on the most important non-supply chain relationship you have with a larger business... how important is this relationship to your business on a scale of 1 – 5 where 1 is very important and 5 is not at all important?

Base: All respondents answering questions on non-supply chain relationships and who consider themselves to be in a non-supply chain relationship



Businesses that had contracted over the last five years rather than grown or stayed the same were also more likely to deem the non-supply relationship with larger organisations as important (87% vs. 76% and 72%).

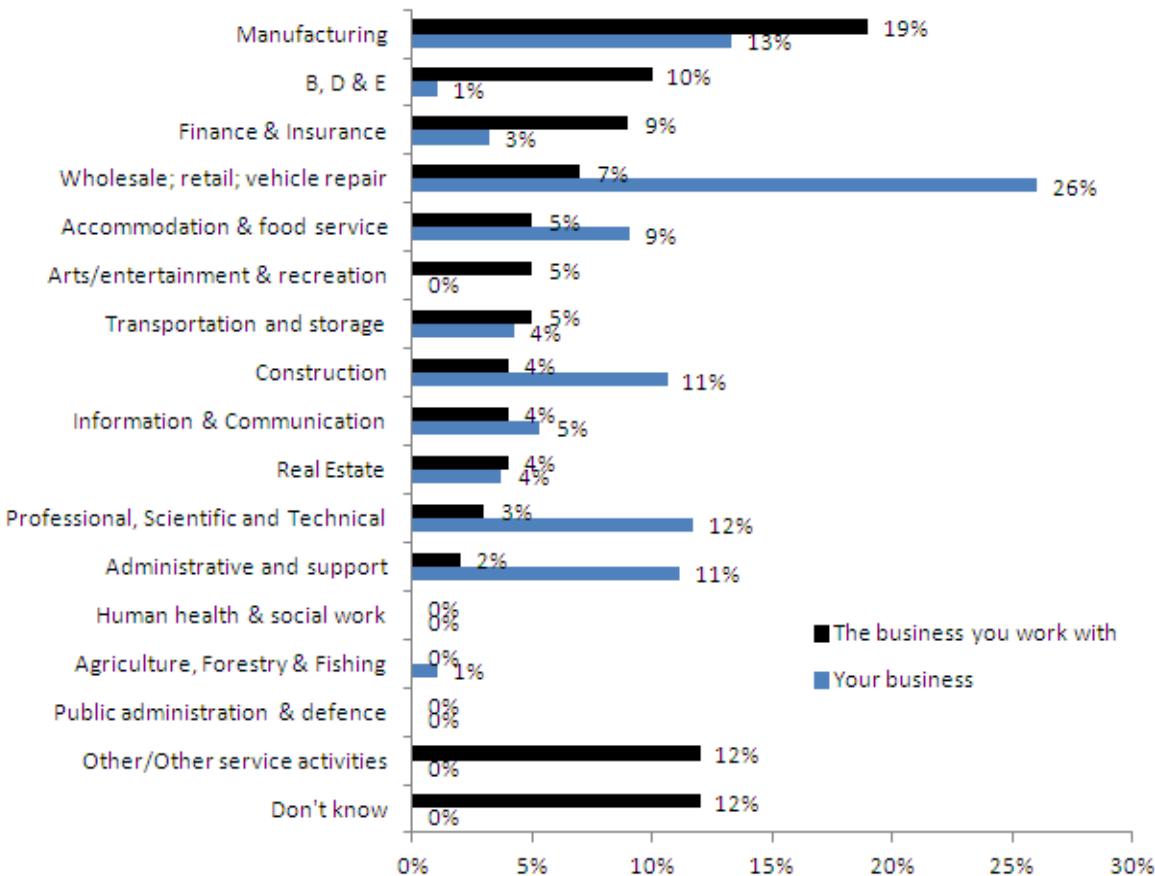
Primary activity

The larger companies that were involved in non-supply relationships with SMEs were more likely to be part of the following industry sectors:

- Manufacturing (19%);
- Financial and insurance activities (9%); and
- Wholesale/retail/repair (7%).

Figure 5.3.3: Q49: What does the business you are in a relationship with mainly make or do? Shown against sector of business from the sample

Base: All respondents answering questions on non supply chain relationships and who consider themselves to be in a non-supply chain



Length of relationship

Four in ten non-supply relationships with a larger organisation had been in place for between two to six years. A quarter had been in place for between eight to twenty years. A quarter of respondents did not know how long the relationship had been in place.

Comparative analysis shows that supply relationships tended to outlast non-supply relationships.

Most businesses did not know how long the relationship would continue (62%).

Origins of the relationship (motivation for starting the relationship)

As with the motivation for engaging in the largest supply chain contracts, the key reasons for establishing non-supply relationships with larger organisations were for financial gain, good product/quality/reputation and to win new business (29%, 23% and 15%). This supports evidence that points towards these other relationships being ‘prospective’ and geared towards new business activity or consolidating existing supply chain relationships.

Comparative analysis however reflects a wider set of motivations for involvement in non-supply relationships with larger organisations than supply relationships than pure financial

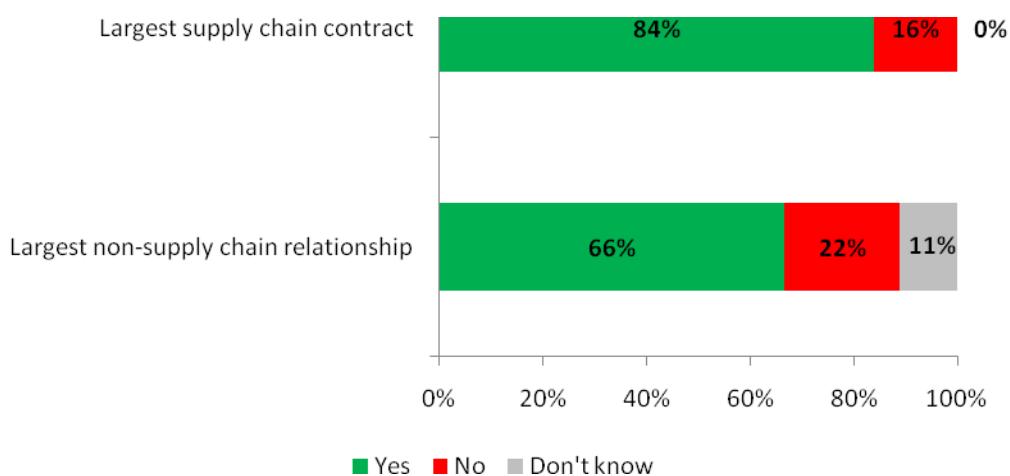
gain, including mutual benefit (15% vs. 0%), greater flexibility/competitiveness (15% vs. 10%) and access to raw materials/finance/specialist service (8% vs. 1%).

Relationship Management

Two thirds of non-supply chain relationships were managed by a member of the senior management team. This was significantly lower than the key supply chain contract which suggests that these types of relationships are less business critical and can therefore be handled by lower-level contacts within different business functions.

Figure 5.3.4: Q38: Is the relationship actively managed by a member of the senior management team within your business?

Base: All respondents answering questions on supply and non-supply chain relationships and who consider themselves to be in a supply and non-supply chain relationship

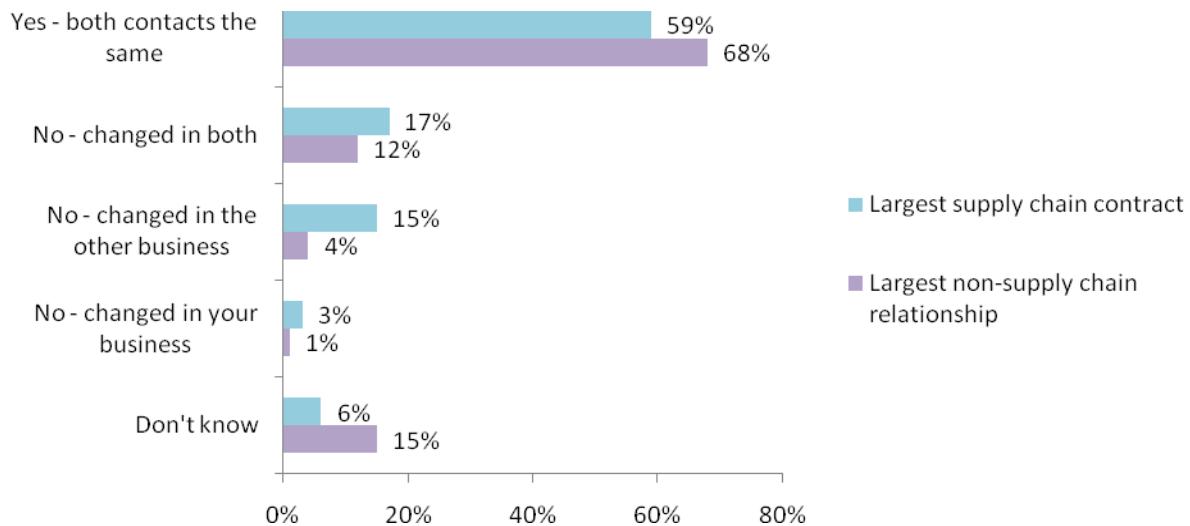


Where the relationship was managed by a member of the senior management team the SME was more likely to be in the primary or secondary sector (89% and 81%); in construction than manufacturing (93% vs. 71%); have shareholders (75%) and be planning to grow and build the business (72%).

Over two thirds of contacts in non-supply relationships had remained the same since inception (68%). Whilst members of the senior management team were less likely to manage the key non-supply chain relationship compared with the key supply chain contracts, non-supply chain contacts were more likely to have remained consistent over time compared with supply chain. This is illustrated in the Figure below and may in part be explained by the shorter duration of the non-supply relationship.

Figure 5.3.5: Q39 & Q48: Has the relationship been actively managed by the same contacts in both organisation throughout its duration so far?

Base: All respondents answering questions on supply and non-supply chain relationships and who consider themselves to be in a supply and non-supply chain relationship



Geographical Dispersion

Non-supply relationships tended to be of a local than regional, national or International nature (30% vs. 23%, 22% or 15%). This contrasted with the largest supply chain contract which was more likely to be national (36%).

Describing the quality of the relationship

Nearly nine in ten respondents characterised their key non-supply relationship with a larger company as one of trust. Half characterised it as one of equality and six in ten sought a closer relationship.

Despite the difference in the nature of the relationship, non-supply and supply relationships tended to have similar characteristics and effects.

Six in ten SMEs felt they had enjoyed greater benefits from their key non-supply relationship (63%). One in ten felt there drawbacks to the relationship (12%) and nearly four in ten indicated they had been required to undertake training for their non-supply relationship (37%). Encouragingly, more SMEs saw additional benefits in their key non-supply relationship than key supply relationships (63% vs. 54%).

Benefits Encountered

The most significant benefit of engaging in the key non-supply relationship with larger organisations was increased turnover/sales (44%). A quarter of respondents identified enhanced reputation as a benefit and 29% highlighted retained/new clients and referrals as a benefit. The pattern of benefits was consistent with perceived benefits of engaging in the

key supply chain contract. This also supports what was voiced in depth interviews, that these other relationships are primarily undertaken with a view to an end goal of financial gain.

5.3.3 Case studies of non supply chain relationships

Focusing in on these other types of relationships during in depth interviews allowed for case studies to be identified to exemplify the dynamics of such ventures in the more detail. The main four other relationships that were most discussed during in depth interviews will be assessed in turn: networking, mentoring, joint ventures, and R&D partnerships. It should be noted that the depth interviews allowed for exploration of relationships with fellow SME businesses, as well as relationships with larger businesses, and in fact the differences between the two revealed some interesting findings.

a) Networking Relationships

A synopsis of the key themes identified in relation to networking is presented below and this is followed by a number of case studies.

SMEs stress the importance of informal networking and word of mouth

From the depth interviews it was evident that two key challenges for SMEs to overcome in order to secure business related to market presence and credibility. Word of mouth was a key source of sales – and this was built through being established in the marketplace, with a track record of delivery, a good reputation and having a well established network of contacts through which they could informally promote the business. In some sectors – such as a manufacturing and construction – networking was seen as a core business activity and a vital part of any business development activity. By staying in touch with a range of contacts at different firms, they could ensure that they would remain on people's "radar" and hopefully generate further sales opportunities and work within new supply chains.

Thus networking was widely reported as key to SME business success. This encompassed networking with both larger organisations and other SMEs, and involved both networking amongst potential clients and with other businesses to keep pace with sector developments and businesses looking for joint venture opportunities (including membership of local Chamber of Commerce, and Trade/Skills Association). Different patterns of networking are evident across sectors and work streams.

Patterns of networking varied between different supply chains, in particular the size of business that the SME was focused on servicing. This was often interlinked with the sector and marketplace. For example, where markets were dominated by a smaller number of large potential networks (e.g. Broadcasting in the information and communications sector, and banks/insurance/pensions in financial services sector) the network of contacts tended to be smaller in number than sectors focused on business with a large number of clients (e.g. construction.)

It was also evident that some sectors had a greater propensity for cooperation (and then networking) than others. For example, those in agriculture were more aligned to cooperating with one another to achieve a greater presence in the marketplace, leverage and buying power. Those in sectors such as manufacturing and administration and support, on the other hand, were less likely to cooperate due to commercial sensitivity and competitive factors.

Some SMEs also were apprehensive about networking with larger businesses rather than with those of a similar size. One small business which provided temporary staffing support to state schools commented:

"In some respects the pressures and anxieties are very similar (for small and large businesses), but in other respects they couldn't be more different".

Some sectors have more informal networking than others

From the depth interviews it was apparent that some sectors were far more reliant on informal network connections than others. One sector where such networking and word of mouth were particularly evident was Construction. Here networking began on site whilst doing a job, and future work streams were generated from these connections. Workmanship aside, personality and price were apparently key factors in guaranteeing future work streams.

The informality of how networking is played out in certain sectors (hospitality for example) made it difficult for respondents to resonate with the term '*networking*' which was something they interpreted as being more formalised events. Subtler interchanges with potential and existing customers within and outside the supply chain were still detected.

This reinforces the fact that these interchanges are taking place, but in various guises across various sectors, and perhaps different terminology would be more appropriate for different sectors.

Memberships of trade and skills associations was frequently mentioned as a source of networking

Many respondents spoke of networking through their membership of a trade or professional association that represented their skills sector. A number of respondents were on the Board of Directors for their associations – motivated more by the will to regulate their skills area than necessarily just network through membership. There was some suggestion that membership provided a degree of protection through association.

Given the variety of different relationships and working structures encountered during the depth interviews, we have detailed further case study write-ups to provide a flavour of some of the relationships at play.

Networking Example I

One supplier of specialist coatings to manufacturers in the aerospace sector explained that they “*... tend not to have too many dealings with similar businesses as there are sensitive commercial and competitive factors at play*”. However, there were some examples of where they had pulled together as an industry to protect their overall position: by adopting the “*penguin theory*” they could huddle together and avoid getting “*picked off*” so easily by certain regulations. In one such example they acted in concert via their trade association to deal with proposals regarding environmental legislation to avoid getting “*hammered*” as an industry.

Manufacturer in Aerospace Sector

Networking Example II – Informal networking

The business is a small farm brewery near the Scottish border. They are a 200 acre working farm, brewery and visitor centre (where have a restaurant/tea room). Gradually the business has transformed from a model steam farm to a model micro brewery. They sell beer in the local area (from North Yorkshire to Berwick on the Scottish border). Their end suppliers range from free house pubs to large chain pubs.

They brew to demand, relying on weekly sales orders. If they have a quiet week in sales then cut down production the following week to avoid waste. This also therefore is a prime example of a small business working within the constraints of the absence of formal long-term contracts with suppliers.

To help with the sales effort, the respondent notes that she and her husband make an effort to eat dinner in a local pub every week to get to know the owners. Particularly in the pubs they supplied beer to, she said she’d wear her work coat “*as a visual aid*” and introduce herself. This was thought to “*definitely*” have an impact on business.

“Once you’ve been a few times, they start to recognise you and appreciate you going in – it’s part of our customer service”

This was not however perceived to be ‘networking’, more part of the customer service upon which they prided themselves as a small business.

Manufacturing Sector

b) Mentoring

Our findings suggest that pre-existing supply chain relationships can enhance productivity throughout the chain as a whole. The benefits of sharing skill sets were widely applauded irrespective of how this was driven but were most noted in the agricultural sector.

Others noted the value that an external view can bring in taking a step back and providing a fresh view as small businesses have a tendency to be “*quite insular*”.

Mentoring Example I

The business is a small family run horticultural farming business in Norfolk. They are a contract grower of fruits and herbs. First established in 1870, the business is long-standing and now has a turnover of 1.5 million per year.

They have undergone “*steady, organic growth*” in recent years and believe this is down to their reputation and expansion of the herb side of the business. And they acknowledge the need to be pragmatic, having witnessed others being put out of business due to recent challenges of crop failures, and the milk situation.

They have a very good relationship with their largest supply chain top tier supplier, and through this relationship, they have benefitted from sharing experience with large businesses’ agronomist experts. Amongst the growers who all produce for the supplier there is a sharing of information, and they have meetings together. Agronomists are also sent out to all growers to advise on what products to use/not use and to impart experience (on irrigation methods etc). The respondent deemed this mentoring service “*a good model*”.

Agricultural sector

Mentoring Example II

This soft fruit farming business was established fundamentally thanks to the investment and guidance of an entrepreneur, who is also the Managing Director of another farming business. The current owners met him at a soft fruit networking event and chatted over a pint of ale. From that stemmed the start of a great relationship - he now has a 10 per cent share. But the loan of his expertise and name was deemed to be incredible, and the relationship described as a “*fantastic, wonderful relationship*”.

Agricultural sector

There were also some negative experiences with regard to mentoring as evidenced below:

Mentoring Example III

One small family run business providing metalwork to the construction sector mentioned some very negative experiences of mentoring. They were visited by a mentor with a mentor

who was “masquerading as an expert” via a Scottish Enterprise scheme and at the end of the first meeting was told that they got “nothing for nothing in this life” and demanded that the SME give the mentor’s company exclusive business in exchange for further mentoring input. This was very poorly received by the MD of the SME and he reported the exchange to Scottish Enterprise and has not considered using mentoring services again.

Manufacturing

c) Joint Ventures

Joint ventures appear to be more common between SMEs themselves than between SMEs and larger organisations

The depth interviews also provided evidence of a higher prevalence of joint ventures with other SMEs than large organisations. Respondents frequently spoke of a range of informal joint ventures where they cooperated to provide an entire service. The joint ventures were more likely to be established with other SMEs that delivered a distinct and non-competitive service, where joining up enabled them to compete with larger companies who were able to provide a full suite of services.”

SMEs also talked about more of a willingness to “*take a punt*” with partner SMEs as they could work more flexibly and be more open with one another without needing to work to specific Terms and Conditions and formalised timescales as would be the case of working with a larger business.

Although joint ventures with larger businesses were detected where pre-existing relationships existed and mutual gain sought

However, others described more formalised joint ventures with larger businesses where businesses have collaborated either for mutual gain in a formalised manner, or have combined with competitors to enter a wider market, as is described in the following case studies.

Joint Venture Example I (working with other SMEs)

The business is a small local newspaper business, operating in the Thames Valley area. They publish a weekly news periodical and are also a significant contract printer of other newspapers. All printing and publishing is done in house (publishing/printing). They compete for printing contracts from larger corporations such as News International, and the Mail Group. The business is family run (now in the fifth generation), and they have an annual turnover of three and a half million.

Their growth trend has been reflective of that of the newspaper industry as a whole – a period of rapid growth (peaking in 2007) has been followed by contraction and long-term

decline over the last five years. They put significant investment (10 million) into contract printing in 2004/5 and grew the business from one million to four million (now drifting back to three and a half million). *"It came to a point when we either had to invest in our own press or be printed by someone else".*

The business actively look at where they can increase revenue streams, and as such entered a joint venture with three other local papers to create a new limited company (with shareholders from each paper), through which they disseminate a local jobs paper and website which has a wider reach.

This joint venture started seven years ago but was formalised four years ago, after it grew in scope. The shareholders comprise the directors of each local newspaper. The evolution of such a venture was due to the opportunity of moving into areas where previously they competed against each other.

Information and Communication sector

Joint Venture Example II (working with larger businesses and other SMEs)

The business is a specialist bakery based in Scotland supplying all the major UK food retailers.

Through their "Innovation Group" they look at a whole range of product development ideas and constantly look to improve their products and explore where possible cost-efficiencies can be made in their processes. They developed a new product range catering for people with allergies and they actively promoted the new "free-from" products to the big retailers and received backing from the likes of Tesco who were very interested in bringing the products into their stores. They worked collaboratively with them from inception to develop the products and then became the lead manufacturers in the UK.

As a further offshoot to this initial work led ultimately to the establishment of a joint venture with another SME to develop a market leading product that is now adding £10 million in revenues to the business per year. They were approached by a branded company that came to them via a referral from Sainsbury's to develop a new product. The other SME had the recipe but not the know-how on how to mass-produce the food. Now formally established as a joint venture JV with both SMEs sharing the profits.

Food Manufacturer

Joint Venture Example III (with a larger business)

The business is a fully integrated quarrying (sand) and waste solutions business. It is family owned, now in the third generation, and committed to making a positive contribution to the communities within which they operate – for example, in 2008 opened a two million state of the art recycling and materials recovery plant.

They have experienced recent growth, which they think is down to diversifying and growing the waste management side of the business.

They entered into a joint venture with a foreign owned national company five years ago, whereby both bought into a six million tonne reserve (sand quarry). Whilst the other company takes some of the product which is unique to them, they take the rest of the product. They shared the cost of paying for the planning consent, and have since entered into a number of joint venture type agreements for the foreseeable future with the foreign owned company.

The relationship with the larger company evolved due to "*mutual trading over many years and a good relationship with people at the top of the company, and a mutual desire to see the material extracted and sold through existing networks*".

The respondent thinks this relationship is based on equality and it has been managed by the same contacts on both sides. But he noted that it is now harder to maintain longevity of relationships (in part due to a change in peoples' employment). For him, "*certainty is the most important factor*" in building relationships.

Sector B, D, E

d) Research and Development (R&D) Partnerships

As with joint ventures, there were some distinct differences between the nature and formality of relationships between SMEs and large businesses and SME-SME dealings.

R&D Example I (working with larger businesses)

This was a manufacturer of LED traffic management signs and rail signals who have been working with a prime contractor in the rail sector since 2009 on a joint venture in developing a new type of train signal. They came to the SME as they have Network Rail approval for developing certain types of signal with a very specific requirement to develop a new adaptable "*light on a stick*" signal product for a contract they had coming up in 18 months. As part of the spec wanted to ensure that the signal would only be operable with their systems in terms of control systems, voltage and connectors – to ensure future tie in. The SME were also pressured to absorb all the R&D costs in the interests of getting the big contract with them 18 months down the line. In the end they developed two products in tandem (one for the prime and another one that would be adaptable for the rest of the rail network mass market).

The SME ended up with a large R&D bill but did in the end mean that they could work with any contractor in the future and were not tied into the prime as they would not contribute to the R&D bill. *"It's a typical thing with multinationals that they will never ever contribute towards the development of anything!"*

Manufacturing Sector

R&D Example II (working with other SMEs)

One example of R&D approach with swimming pool manufacturer to develop a new swimming control product. They are a niche supplier of control systems for building and other facilities and on the basis of their specialist reputation they were approached by an SME in the swimming pool sector who had "a particular control problem". The relationship was very informal with no contract or agreement in place but they have engaged to successfully carry out some product development with the aim of producing something that could be beneficial to both companies. The contact (Board Director) felt that only in a small business could this approach be adopted as everything has to be much more guarded and calculated when working with a larger business.

Systems Integrator

5.4 SME overall views on relationships

Summary

Survey Findings

- The most important aspects for ensuring successful relationships included: communication/information sharing (45%); relationship management/continuity/trust (39%) and professionalism/contract/delivery/honesty (30%).
- SME perceptions of the most important factor larger businesses consider when selecting a partner to work with was found to be the quality of product or service and price and value for money (55%).
- The key benefits of collaborative working was reported to be financial gain/cost saving and honesty/trust/understanding each other's business stemming from a collaborative approach to working (24% in each).
- Three in ten SMEs considered that there are barriers to engaging in relationships. The top barriers included: a lack of suitable partners/inflexibility/logistical barriers (57%) and red tape/bureaucracy/regulations (28%).

In depth interviews

- Face to face, open and transparent communications were identified a key factor in ensuring successful business relationships.

Benefits

- Collaborative working gave rise to wider commercial benefits, such as new product development and future partnerships.
- Sharing of expertise and continuity of business were both noted as key benefits in the depth interviews.

Barriers

- In the current economic climate, relationships were thought to be harder to establish and more formalised than in previous decades.

5.4.1 Key factors to successful business relationships

We asked all businesses which of a list of factors they thought were important for ensuring successful relationships between businesses. Their results are illustrated in the Figure below.

Figure 5.4.1: Q17: What factors do you think are most important for ensuring successful relationships between businesses?
Base: All respondents



The top three key factors identified were communication and information sharing (45%); relationship management, continuity and trust (39%) and professionalism, contract, delivery and honesty (30%). Reputation and previous performance and financial stability were deemed far less important (3% and 2%, respectively).

Those significantly more likely to identify **communication and information** sharing were:

- In agriculture rather than B/D/E sectors (57% vs. 35%).
- Those who had grown in the last five years than those that had contracted or stayed the same (48% vs. 38% in each).
- Those whose target market was growing or staying the same than contracting (52%, 47% vs. 32%).
- Those that identified themselves as in a supply chain than not (47% vs. 37%).

Those significantly more likely to identify **relationship management/continuity and trust** as a key factor were:

- In the tertiary than secondary sector (42% vs. 31%).

- In finance than information & communication sectors (45% vs. 25%, respectively).
- A subsidiary than non-subsidiary (51% vs. 37%).
- Those that had stayed the same or contracted in last five years than those that had grown (46%, 45% vs. 32%).
- Those whose target market was contracting than growing or staying the same (52% vs. 34% and 37%).
- Those planning to remain the same size than grow (46% vs. 36%).

Those significantly more likely to identify **professionalism, honesty and contract delivery** as a key factor were:

- Those whose business had stayed the same than contracted (35% vs. 27%).
- Those whose target market was contracting or staying the same than growing (34% and 33% vs. 21%).
- Those with no future strategy in place versus those with a supply chain strategy (38% vs. 12%).

The in-depth interviews gave further insight into what SMEs perceived to be key qualities to forging successful business relationships. Building on the theme of good communication, businesses were in favour of **face to face communication** over all other channels:

“The best bit of communication is standing in their factory” (Technology Sector)

Transparency and open communications were also deemed to be important:

“Trust, respect and some degree of transparency” (Food Manufacturing Business)

Other themes highlighted the need for:

- **Working to common objective** – a “win-win” scenario;
- **Managing and meeting client expectations**, overcoming obstacles and “*how you deal with things that don’t go right*”;
- **Quality of individuals and interpersonal relationships**;
- **Cooperation on both sides**;
- **Consistently good delivery** – “*you are only as good as your last job*”.

Some further verbatim comments which encapsulate these themes follow:

“An understanding and mutual respect. And a well documented scope that all parties understand and can work towards but equally that’s not prohibitive to the development of that product range or service” (Administrative and Support Services)

"Common goals, trust and transparency. If you want a good relationship you need to be transparent around what you are looking to achieve and what your own objectives are"
(Financial Services Sector)

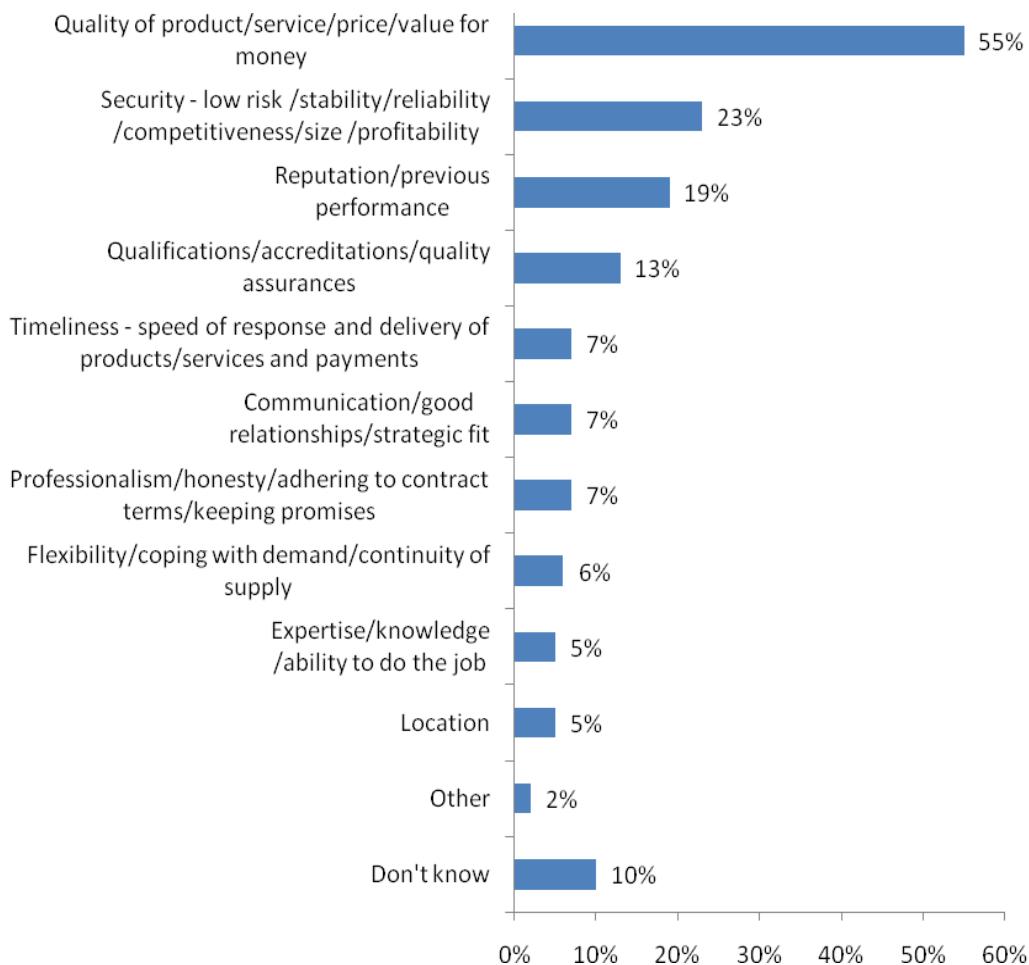
"Clear concise instruction and understanding of client expectations, timely and effective service delivery and effective reporting of associated problems..." (Transport and Storage Sector)

"You have to get on with your clients, even if you have a great product you have to be able to sit down with the client and make them feel good about the product. Make sure you know what the client wants. Share the power - equal - either can work together or can't - both decide what you need to make it work." (Financial Services Sector)

5.4.2 Perceptions of the key factors larger businesses consider when selecting partners

Businesses were then asked which qualities they thought larger businesses considered when selecting a partner to work with and their spontaneous responses were recorded (and themed), without prompting. The results are illustrated in Figure 5.4.2.

Figure 5.4.2: Q18: And which factor/s do you think larger businesses consider when selecting a partner to work with? (spontaneous)
 Base: All respondents



Quality of product/service/price/value for money was identified as the most important factor (55%). Financial security/reliability, reputation, accreditations/quality assurances were also seen as more important than other qualities (23%, 19% and 13%, respectively).

The following significant differences were evident:

- Those that identified **product/service/price** as a key factor were more likely amongst businesses planning to remain the same size (63%) and partnering SMEs than partnering larger companies (73% vs. 38%);
- Those that identified **security/reliability and stability** as a key factor were more likely to be in a non-family or subsidiary (27% and 34%); with shareholders (27%); those planning to grow (28%) and perceived they were operating in a supply chain (27%);

those in partnership with a larger business than SME (49% vs. 21%); those with future strategies in place (32%);

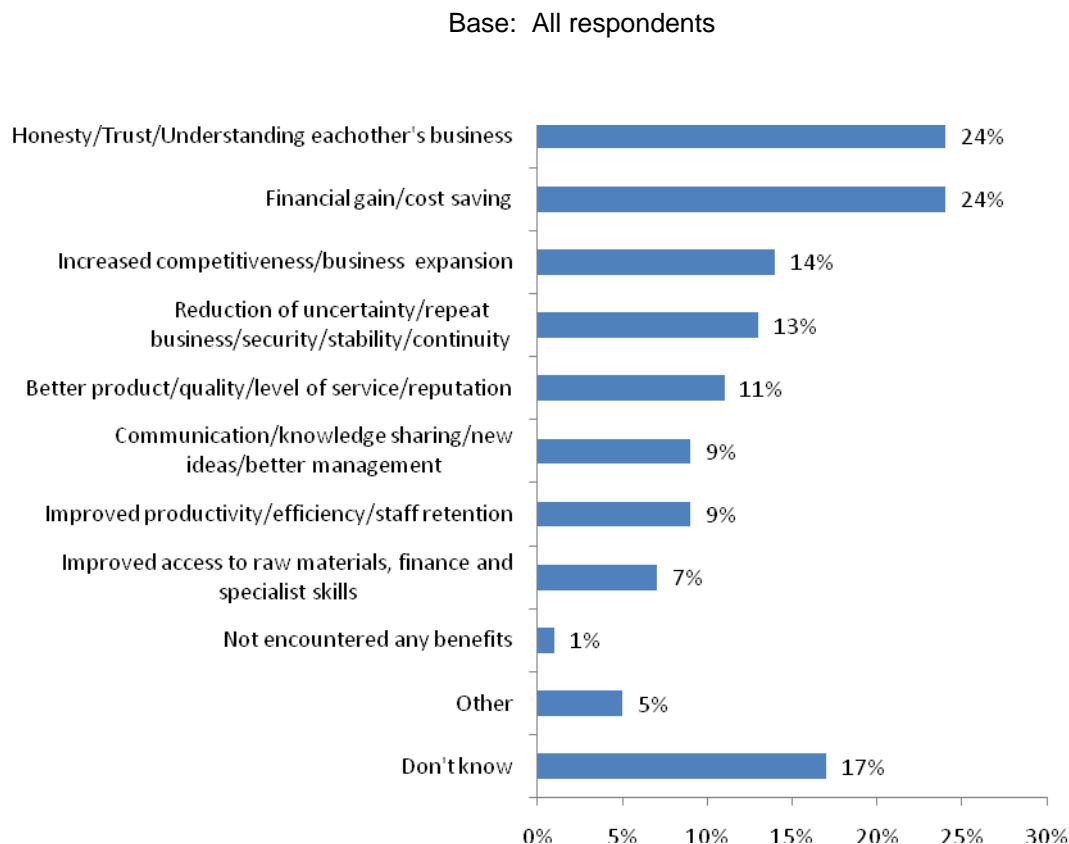
- Those that identified **reputation/previous performance** as key were more likely to be non-family owned and a subsidiary (24% and 33%); planning to stay the same size than grow (35% vs. 13%), and did not perceive they operated in a supply chain (25%).

Businesses were next asked which of a list of four qualities they felt larger businesses would consider when selecting a partner. Quality of product/service/price/value for money was again identified as the most important factor (82%). Three quarters of respondents identified accreditations/qualifications as important and 69% identified reputation/previous work. Location was deemed least important (51%).

5.4.3 Perceived benefits of collaborative approach to working/high quality relationships

We asked respondents which qualities they perceived to be benefits of collaborative working/high quality relationships, without prompting them with specific options. Six in ten identified a single benefit and three in ten identified two benefits (63% and 28%, respectively.) Their results are illustrated in the below.

Figure 5.4.3: Q20: What do you think the benefits of collaborative working/high quality relationships are?



In all, a quarter of businesses identified financial gain/cost saving and honesty/trust/understanding each other's business as key benefits of a collaborative approach to working (24% in each). Fourteen per cent identified increased competitiveness/expansion and thirteen per cent a reduction of uncertainty/security/stability.

Only one per cent had not encountered any benefits.

Those significantly more likely to identify **financial gain** as a benefit of collaborative working were those in agriculture and B/D/E than financial services (35% and 33% vs. 15%, respectively); identifying location and reputation as important when larger business select a partner to work with (77% and 43% than 24%, on average).

Those significantly more likely to identify **honesty/trust and understanding** as a benefit of collaborative working were more likely to be non-family owned and a subsidiary (30% and 36%).

The in-depth interviews allowed for further exploration of the benefits and drawbacks of working in collaboration with a larger business. For some businesses the foundations of their business were set on working with others (primarily those in a traditional manufacturing chain), and therefore to them benefits seemed somewhat obvious, with one not comprehending how a business couldn't not work collaboratively. For others, the issues were less clear and although financial benefits were commonly noted other themes were also reported.

Commercial benefits noted in the context of wider opportunities

Commercial benefits were noted but at times as part of a wider package of benefits including cost sharing, and identification of new product opportunities for potential R&D exploration (again fitting the notion whereby non supply chain relationships can stem from pre-existing successful supply chain relationships).

One food manufacturer who exports shellfish to a Spanish supermarket noted the reliance on market research intelligence about their customer base, and general feedback to enhance their product design. Their end supplier works with them on product design, in turn accruing financial stability through further orders.

Sharing of expertise

As seen within Section 5, those who expanded upon suppliers working with them and sharing of industry experts thought this to be a key benefit.

This was seen to be a key benefit for businesses that had long-established relationships with their larger suppliers. A Scottish waste water treatment business worked closely with a national water supplier and noted that they meet on a monthly basis for them to:

"guide us, talk to us, that's how we exchange knowledge...rather than sitting down, when meet they walk through the plant" (Waste water treatment business)

Continuity of business

Also links in with continuity of revenue, but allows for a better use of management time:

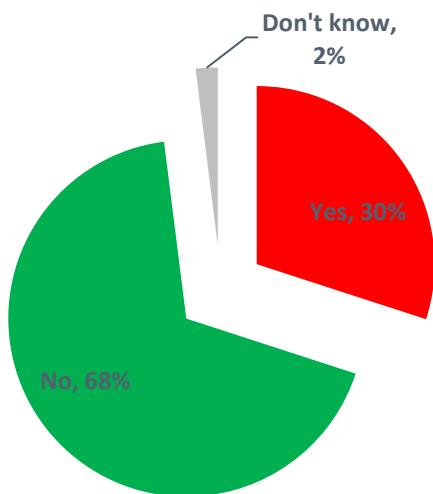
"rather than keep chasing the dog you've got the dog on the lead!" (Information and communications sector)

Continuity also allows for long-term planning and stability within the business.

5.4.4 Barriers to engaging in relationships

The majority of businesses did not perceive there to be barriers to engaging in relationships. However, three in ten businesses did perceive barriers.

Figure 5.4.4: Q21: Have you encountered any barriers to engaging in relationships (supply chain or other relationships)?
Base: All respondents

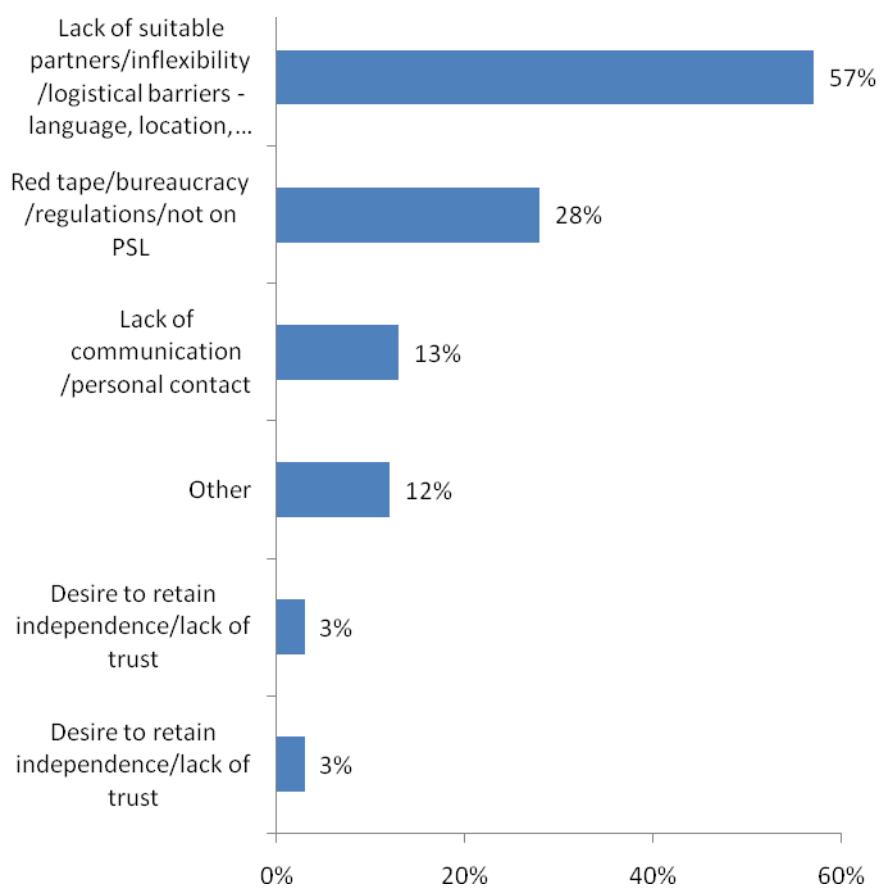


Those more likely to perceive barriers were:

- Those that perceived themselves to be in both supply and non-supply relationships (39%).
- Those that perceived their target market to be growing (45%).

The primary barrier was perceived to be a **lack of suitable partners/inflexibility/logistical barriers** (57%). Nearly three in ten perceived a barrier in red tape/bureaucracy/regulations (28%). Thirteen percent identified a lack of communication or personal contact to be a barrier. Only three per cent perceived lack of skills or lack of trust/desire to retain independence to be a barrier.

Figure 5.4.5: Q22: What barriers have you encountered?
Base: All respondents



Those that perceived red tape/bureaucracy to be a barrier were significantly more likely to be family owned (37%), not a subsidiary (31%), to have internal shareholders (34%), and whose target market was growing or contracting (38% and 37%).

Barriers to relationships were also discussed during in depth interviews.

Relationships are now harder to establish and more formalised

It was perceived by some that relationships are harder to establish now than they used to be and that they are much more formalised. The instability in trying to secure new, and more formalised relationships in an ever more competitive marketplace was noted:

"Relationships are hard to establish in this day and age pure and simply everybody's looking to screw down costs...gone are the days of the good old hand shake and the relationships went on thereafter...it's so much more contractual these days. It's much more formalised now. Before you would win a contract, bid on a contract earn a contract, out of a relationship or by reputation and develop that within the company, it all seems to be almost compartmentalised these days...so much more formalised...synergies seem to have gone out of industry" (Information and Communications sector)

Difficulties of forging new relationships were also apparent where businesses have a supplier already who has a 'special' relationship for example a family member "a back-hander if you like!"

5.4.5 Perceptions of whether larger businesses encourage development and learning in SMEs

Most businesses did not feel larger businesses encouraged development and learning in SMEs like themselves.

Three in ten businesses felt larger companies did encourage development and learning. They were significantly more likely to be in the wholesale/retail sector than information & communications (43% vs. 20%); perceive their target market to be growing (40%); in a supply chain (34%) and working in partnership with larger businesses than SMEs (52% vs. 17%).

This resonated with the qualitative interviews where it was evident that skills acquired through working with larger businesses were more likely to be gained in the interests of winning or maintaining business with the larger company than for the sake of skills acquisition itself. For example, a waste management business noted:

"We need to understand the sorts of business that they are to be prepared to come up with different solutions to meet their needs. For example a metal producing client, they recycle metal differently and they return benefits to clients by charging less. Occasionally we learn from our clients – but it's more about how to improve the way they process their waste...which in many parts comes down to our own insight into how to improve the way our clients are currently processing their waste."

5.5 Improving the relationships between SMEs and large business

In closing, we asked respondents what for them would be key areas they would like to see addressed in order to enable SMEs and large organisations to work more effectively together. Some SMEs did not actually perceive a role for Government to improve cooperation as they believed that business would work it out amongst themselves and as with other question responses there was a sense that commercial drivers would always overrule other initiatives or intervention. Many participants in the qualitative interviews did not feel that larger business could or should be expected to work with SMEs unless there was a compelling need to do so: such as a need to outsource a service or requirement that they did not have the skills or resources to do themselves.

"They use small businesses when it suits them"

Many felt that the onus should be on the SME to prove their value to larger businesses by offering niche skills, flexible delivery or cheaper costs.

Others took a more complacent view, believing that things are as they are due to the current climate, not altogether embracing change on the current situation:

"No. It's a culture thing at the moment - hopefully the cycle will change over time...it all comes down to cost, cost, cost..."

However, others did perceive there to be areas that they would like to see improve, particularly in helping to address issues in the following areas:

5.5.1 Payment terms

Late payment was a particular issue for SMEs as good cash flow is crucial the effective running of the business. It was felt that large organisations needed to improve their understanding of the circumstances that SMEs faced with regards to cash flow:

- *"The larger businesses need to be aware that cash flow to smaller businesses is king and when they agree to 30 day terms it does mean 30 days and not 120 thus causing severe problems or even closure of businesses. I wish the government would put something in place where either large companies and PLCs were made to pay on time as per contract otherwise they should be made to pay penalties. Essentially, it should be to keep small businesses afloat."*
- *"Large businesses need to understand the financial model smaller businesses use."*
- *"Cash flow is king, in other words, we are experiencing a general extension of credit terms with larger clients i.e. they are imposing on smaller businesses longer payment terms which causes difficulty for cash flow of smaller businesses like ours. In this environment with banks less willing to fund businesses there is a big squeeze on the*

smaller business. Larger businesses should be more willing to consider the difficulties faced by SMEs in this respect.”

- “*The single most pertinent thing would be stronger method of payment on time and potentially an easier method of ensuring intellectual property is protected (via legislation).*”

A suggestion put forward by one business to avert such cash flow difficulties, and encourage larger businesses to pay smaller suppliers on time was to devise a mechanism for monitoring how long larger businesses took to pay suppliers (based on size of supplier), and making this visible to all, thus potentially affecting their reputation:

“Perhaps as part of the financial reporting requirements, PLCs should have to report their average time to pay their suppliers by size of businesses...a bit of naming and shaming might drive some better behaviour.” (Food Manufacturer)

Another SME in the ICT sector suggested the development of some kind of “holding pot” of money on contracts where SMEs can access their money for services that they have provided within a supply chain and get access to what they are entitled to. At the moment they are unable to because of the nature of power relationships and that the “strongest person in the supply chain can hold the money back” via retentions.

5.5.2 Improved understanding of SMEs business (model)

It was also thought that there would be real benefits if larger companies improved their understand the SME business model and the constraints they work to:

- “*Larger businesses need to learn how smaller businesses work.”*
- “*Larger businesses do not take the time or devote the resources to properly understand our business model, this is often when relationships break down. For me, larger business could create the resources to create the time to understand the SME business model more closely. Price and discount are usually the two factors that seem the most important to big business and by understanding our (SME) pricing and discounting models better we would be better able to do business with one another.”*

5.5.3 Using SMEs over large businesses – and keeping it local

There was a perception amongst some that large contracts (and frequently public sector contracts) were shared across large companies as they found one another easier to deal with:

- “*If large business had some sought of incentive to use smaller business.”*
- “*I would like to think the bigger companies to have regional polices to deal with SMEs. Larger companies should be deterred from using a one stop national supply company.”*
- “*... It needs larger organisations to be more open and open to suggestions about forming business relations with small suppliers, they tend to focus on larger business.”*

There were also clear concerns that as larger businesses extend their supply chains in the interests of driving costs down, more opportunities were being pushed overseas – to places like Eastern Europe - where costs of labour were cheaper. Some also mentioned that at a macro level this meant that UK money (including public money) was draining out of the UK economy.

5.5.4 Improve procurement – particularly in the public sector

There was also a perception that public sector procurement practices could be improved:

- *"They should commission more local business... Government procurement is always geared towards the large plc supplier who has leverage and high buying power - you'll have a company in Glasgow providing services in say West Yorkshire and precludes SMEs from doing tendering because we don't have the manpower as we are too busy running the businesses."*

Several businesses vented frustration with the barriers that arise through public sector procurement. One business, a provider of temporary teaching staff for secondary schools in the Midlands, had encountered such a barrier – his Local Authority produced a procurement chain in line with European legislation, but as an SME he struggled to meet the service requirements of such contracts. When asked why he struggled to fit the criteria, the respondents' response was in line with others' view that one size fits all legislation makes it very challenging for SMEs to compete:

"some perhaps the advent of technology , some perhaps the contractual requirements - for each particular assignment, the amount of management information required ...if you were dealing with 1,000 schools you could employ someone to do that, but when you're dealing with 100 schools it's all the more difficult yet the volume of information is almost identical".

Another business made clear the implications that can arise from current public sector procurement legislation:

"Withdrawal of procurement legislation is required because it acts as a barrier to growth for SME's. When a contract is established for example, for five years during this period no one is able to join the supply chain. This reduces competition. This has reduced our market share, turnover and profitability as well as our ability to recruit people..."

5.5.5 Reduce commercial red tape

Many SMEs highlighted the onerous, costly and time consuming process involved in dealing with both Government and commercial red tape. This was seen to hamper creativity and entrepreneurialism as captured in the following comments:

- *"The larger business must appreciate that some of the health and safety demand are not relevant to the smaller companies that produce specialist services."*
- *"Less draconian due diligence from the bigger companies, which for some of the smaller companies is too much."*

- “They need to make it easier for small businesses to join the supply chain by taking out unnecessary red tape e.g. over the top health & safety and environmental requirements. In other words simplify the methodology of doing simple business because at the moment you cannot get on the supply list as it requires too much red tape and becomes unviable to tender.”

Again, public sector opportunities were seen to be difficult to get for SMEs:

- “If an SME such as us wants to grow we have to invest an awful lot of money in setting up the right processes to be able to tender for government services”

Aside from red tape in general, there was a clear consensus that markets do not appear equal, and that legislation needs to better reflect SMEs needs rather than those of the larger players in the market:

"The interesting thing to me is that they say (the Government) the success of the economy is on the small business sector. And they equally indicate that large organisations start off as a small organisation, and yet the vast majority of government legislation (and a large proportion of people work within the SME sector, 70 per cent of the economy) is passed as a consequence of effective lobbying of large business...would be nice to see the basis of more legislation based on the support of SMEs as opposed to the maintenance of large business"
(Temporary Staffing Support Business)

Auditing requirements were seen to be burdensome for many, particularly the smaller, family run businesses. One suggestion within this area was for auditors to be more ‘open minded’ and to take on more of a ‘guidance’ role rather than the traditional policing role. This was most noted in the agricultural sector.

A specific form of legislation requested in the agricultural sector was also that of packaging, due to the environmental and cost implications, which currently lead to huge quantities of wasted materials.

5.5.6 Create opportunities for large and small businesses to understand one another better

Events, such as supplier days, were found to be useful amongst those who had experienced them. Opportunities such as these seemed to bring all parties together and help develop enhanced working relationships through better understanding, and imparting knowledge. Specific suggested examples include:

"Have trade forums by bringing together companies and encourage them to work together to develop new ideas and strategies especially leading edge technologies. This would also make large companies aware of the existence of smaller companies. Also focus on risk management i.e. large companies are concerned about the ability of small companies to deliver on contract as well as other financial considerations."

"It would have to be a mean [an improvement in] larger business understanding /a forum for both our exchanges of information in terms of business."

"In house training - they (larger businesses) run and invite their suppliers, although we pay a fee, this is far less than what larger companies charge. Training in areas specialist to suppliers e.g. pipes..." (Waste Water Treatment Business)

One manufacturer suggested that the government could support the establishment of some kind of SME directory so that large businesses could search for and find appropriate SME partners who they could work with and would have the right fit and capabilities for the work that they might require. There was an appreciation that large businesses will not work with SMEs unless they need a specific capability but such a mechanism would allow them to assess possible partners.

5.5.7 Communicate the benefits of collaborative working

One area which would clearly help businesses is raising awareness of the potential benefits that come about through collaborative working. One business thought businesses would eventually continue to go down this trajectory (of working together), but better communications could be a catalyst to this process:

"Ultimately I think businesses are going to work with each other if there's something in it for them. If the government were able to communicate benefits that they're not aware of already... but other than that I think it will just happen naturally based on their perceived needs."

6 Conclusions

The overarching objectives for this research were to analyse how businesses transition from medium to large and the factors and barriers involved; and how different types of relationships and interactions between SMEs and large businesses affect SME growth. A synopsis of findings for both these objectives follows.

6.1 MSB growth transition

Factors primarily influencing business growth pertinent to MSBs included:

- Experience and a strong network of contacts to draw upon.
- Opportunity in 1980s, 1990s and early 2000s to invest in the business.
- Strong leadership, engaged staff, efficiency drives and controlling costs to also allowed businesses to respond effectively to the changing market conditions.

MSBs typically rationalised obstacles to business growth as being caused by exogenous factors, particularly current economic pressures, rather than failings within their own businesses. Cash flow was widely cited as an issue. However it was found that this barrier may be as much about the perception of finance availability as the reality (none had directly experienced this) – though that perception may discourage some from applying in the first place.

Lack of awareness of sources of information and support

When MSBs needed information and support, they were generally quick to engage external advisors to provide the relevant expertise. Several had requested additional guidance in complying with regulations and export activities; others highlighted a need to reduce bureaucracy and red tape. However, there was evidence of a lack of awareness regarding some of the business support services available, including for example those provided by businesslink.gov and UKTI.

Future growth prospects

In light of current economic circumstances, MSBs typically sought to build and maintain strong working relationships and sustainable working practices with multiple supply chain relationships to avoid dependence on one supplier.

Businesses noted that there were risks in working with smaller organisations – especially in terms of cash flow, and late payment.

Survival was the main aim of all the MSBs interviewed. With this in mind, fewer risks were taken with suppliers who might not be able to provide the requisite goods and services, and a wide range of options was considered to secure repeat or new business, including

diversification, taking external advice and working with competitors in strategic alliances and consortia.

Whilst not all sectors had experienced recent growth, **all the MSBs interviewed were positive that growth would return.**

6.2 Impact of relationships with large businesses on SME growth

Amongst SMEs the primary motivation for investing in relationships was to win new business – i.e. to create a new supply chain relationship. Reaching out to find new partners was highly important, and an essential part of a growth strategy.

The other benefits – learning, technology transfer etc. – were typically seen as less important or a means to an end of winning a contract from the larger business.

Positive findings

Overall, the research shows that large organisations play an important part in ensuring the success of SMEs:

- Working with a large organisation provides guaranteed revenue streams that enable SMEs to develop growth strategies for capital investment and diversification into wider markets.
- Working with a large organisation improves the profile and reputation of the SME and being an accredited supplier to a recognised brand or leading contractor can lead to more exposure and work.
- Large organisations assist in up skilling SMEs and their work processes, particularly in the area of technology, which in turn improves the overall competitiveness of the SME.
- Large organisations train future entrepreneurs who set up their own SMEs and drive innovation in the economy.

Areas for improvement

The businesses involved in this research also suggested ways to improve relationships and promote future growth, including:

- Improving understanding of the SME business model by larger businesses was seen as an important part of enabling them to work more effectively together, particularly with respect to the difficulties associated with cash flow. One suggested way for larger organisations to develop this understanding was to employ staff that have worked for an SME.
- Improving payment terms for SMEs – at a legislative level.

- Setting targets for the proportion of business that large organisations commission from SMEs to overcome the tendency for them to rely on other large organisations for their business needs.

Overall synopsis

In many ways, **the relationship between large and smaller business is symbiotic** – large businesses can help smaller businesses access more business opportunities and build their profile. SMEs can serve large businesses by providing niche, flexible and cost-effective approaches to fulfilling specific requirements.

By and large, the research reflects the findings from the initial literature review (see Appendix). The stages of strategic relationship formation and the positioning of each SME within a supply chain niche clearly echo findings elsewhere. Other issues which chime with findings from the literature review include: long-term relationships between the same personnel from the two organisations are recognised as important to maintaining the stability and trust of the arrangement; competition on quality and distinctiveness is a means for SMEs to moderate the negative impact of monopsony or oligopsony; and issues of power and trust. The latter concern was expressed by interviewees as a need for '*clear parameters*' in the relationship – where a contract was not specified as fully as it could be, there remained scope for opportunism and exploitation by the larger organisation.

To a lesser extent, other benefits to SMEs reported in the literature were also mentioned. For example, using the larger business as a source for organisational learning and information about innovation, which helps the SME's general competitiveness. These were seen as more of a means to an end, to align the SME with the larger business's needs and win more business. In addition, the difficulty of engaging in multiple supply chain relationships, particularly the differing requirements of different large businesses, meant that it is hard to realise benefits from greater efficiency when new orders are secured.

Our findings show that if SMEs are to achieve growth they need right culture and the capacities in order to capitalise on opportunities. If SMEs are working with large organisations, they need to have the right mindset to grow. Cultural factors can be a key factor to growth and the development of successful relationships with large businesses, including the ability to 'think like' a bigger business or at least have some understanding of their perspective when dealing with them.

Appendix A: Business Growth

A key objective of the research was to explore how associations with large organisations impact on SME growth. Given SME growth was not a principal focus of the main objectives of this research, the findings from the SME survey have been included here, within the appendices.

Summary

Survey Findings

- The majority of SMEs interviewed had grown in the last five years, with the greatest growth evident in turnover and smallest growth in market share.
- Businesses that had grown were more likely to have used external advisors, and to be involved in both supply and non supply chain relationships.
- Over two fifths of businesses deemed profit to be their priority rather than growth in employment or turnover per se.
- The top three factors reported as influencing growth were: organic growth (as a result of products/services); management and strategic planning and new customers/clients/and partnerships.
- A quarter of SMEs perceived their target market to be growing and more than half perceived it to be staying the same. Only one in five perceived their target market to be contracting. Businesses that perceived their target market to be growing were more likely to be in information and communication, agriculture or manufacturing industries.
- Almost seven in ten businesses wanted to grow and build their business, and three in ten wished to remain the same size.

External advisors

- A link was evident between businesses that use external advisors and their likelihood to grow.
- Three quarters of SMEs had consulted accountants and six in ten sought legal advice in the last 12 months (74% and 59%, respectively).
- Businesses consulting external advisors showed a greater likelihood to be planning on growing and building their business, with some having future growth strategies in place.
- Businesses that had not sought advice were more likely to have stayed the same or contracted within the last five years than grown (15% and 10% v. 4%).

In depth interviews

SME insights Business growth:

- SMEs whose business originated from an initial relationship with a large company often have a key focus on diversification.
- Some SMEs diversified through developing distinct strategies for their small and large

customer bases.

- Other SMEs diversified the range of product/services offered but targeted a similar customer base.
- Some SMEs concentrated their business and strategy on other SMEs and purposefully avoided large organisations.

SME insights - Markets:

- Some industry sectors are more affected by macro economic conditions than others.
- During periods of difficult conditions, large organisations tend to compete with SMEs on price.
- New products and services can create growth.
- Some sectors are dependent on world market prices and their success or otherwise is linked to fluctuations in commodity prices.

SME insights - Future growth aspirations

- For those that wish to grow, efficiency gains and increasing the productivity of existing operations is widely seen as a key strategy.
- Others would like to stay as they in order to maintain assets and control.

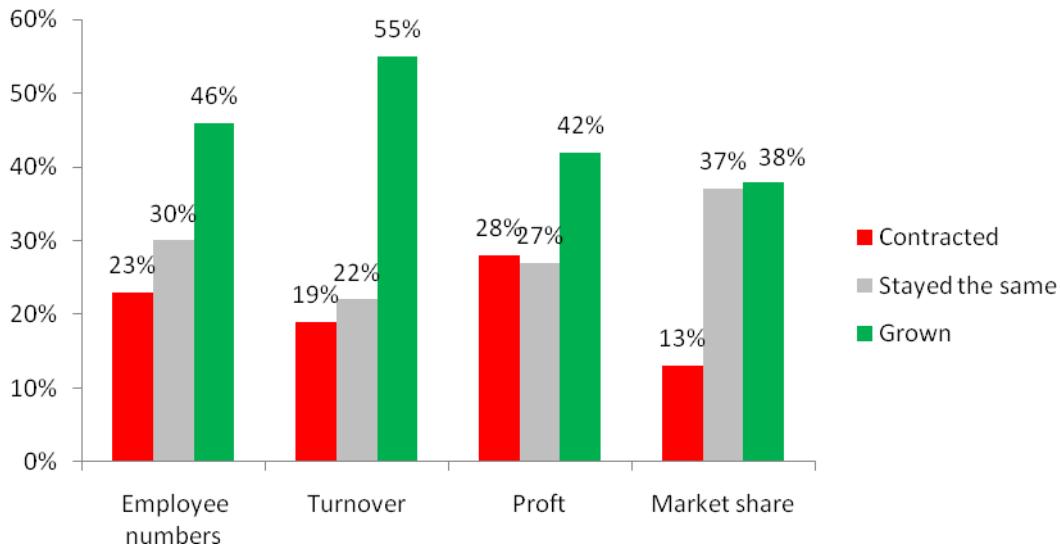
In this section of the report we first review findings from the survey and follow-up depth interviews to establish whether or not SMEs are growing and their own perceptions of why they grow. We build on these initial findings with insights into the transition from medium to large organisations. This provides a backdrop to explore their relationships with larger organisations.

Trend in the last five years

We asked respondents whether or not their business had grown, stayed the same or contracted in the last five years across employee numbers, turnover, profit and market share. Their responses are illustrated in Figure 1. Encouragingly, and despite difficult economic times, the majority of SMEs surveyed had grown with the greatest growth evident in turnover and smallest growth in market share. The greatest contraction was evident in profits.

Figure 1: Q11 Please can you tell me whether your business has grown, stayed the same or contracted in the following areas in the last five years?

Base: All respondents



Overall, 64 per cent of businesses enjoyed growth in at least one of the areas identified above, 58 per cent had stayed the same in at least one area and 38 per cent had contracted in one of the areas.

The following significant differences were evident:

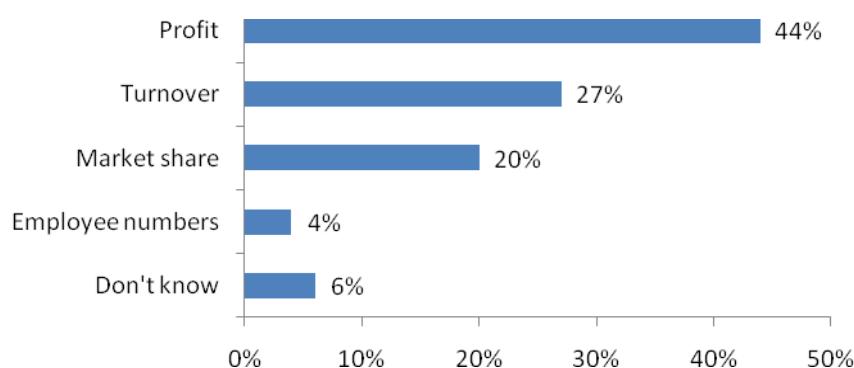
- **Business that had grown in any area** (64% overall) were more likely to be in the West Midlands, East of England (77% in each) and South East (76%); to fall within wholesale/retail/repair, B/D/E and manufacturing sectors than information & communication (80%, 70% and 61% vs. 43%); medium sized (73%), with shareholders (68%). These businesses were also more likely to:
 - Perceive their target market to be growing (75%);
 - Have taken external advice;
 - Were planning on growing and building the business (76%); and
 - And were more likely to be in supply chain and non supply chain relationships (68% and 69%, respectively).
- **Businesses that had stayed the same in any area** (58%) were more likely to be in the North West (66%), B/D/E than financial services sector (69% vs. 48%) and small (61%). These businesses were also more likely to:
 - Have taken no external advice (76%); and
 - Be planning to stay the same size (74%).

- **Businesses that had contracted in any area** (38%) were more likely to be in the North West and Yorkshire & Humber (64% and 54%), construction and information & communication (54% and 50%), family owned (45%), with external shareholders (45%). They were also more likely to:
 - Have taken advice from an employee consultant (45%); and
 - Perceive their target market to be contracting (69%)

Priority areas for growth

Respondents tended to prioritise profit growth over turnover, market share and employee numbers (44% vs. 27%, 20% and 4%, respectively).

Figure 2: Q11a And which area do you consider a priority for growth?
Base: All respondents

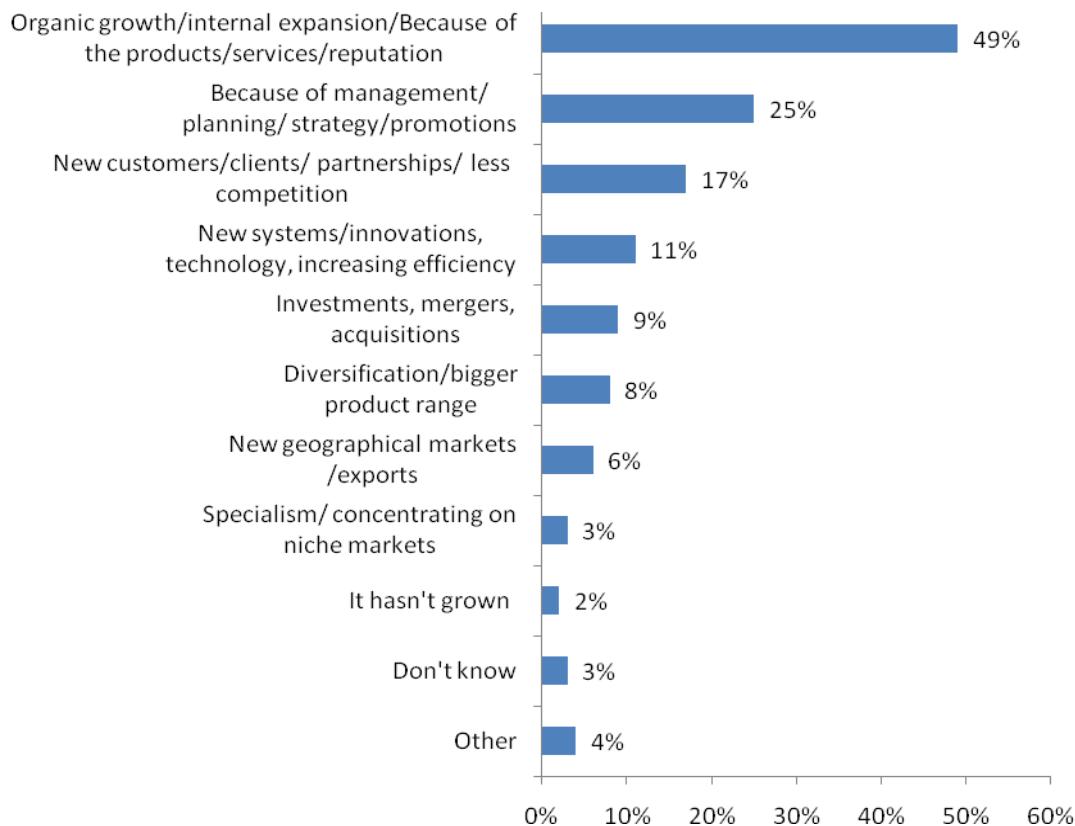


A tendency to prioritise profit was more evident amongst: medium sized businesses (51%), businesses in London and Scotland (54% and 55%), those that had grown in the last five years (50%), and those that had future strategies (other than supply chain) in place (82%).

Reasons for growth

All respondents who indicated their business had grown in at least one of the business metrics illustrated in Figure 3 were asked why their business had grown. The primary reason that respondents spontaneously gave for growth in the last five years was organic growth/internal expansion/because of products/services/reputation (44%). A quarter of businesses grew due to management planning/strategy and promotions and nearly one in five grew due to new customers/client partnerships and less competition.

Figure 3: Q14 – Why has your business grown in the last five years?
Base: Businesses that had grown in the last five years



The following significant differences were evident:

- Businesses that enjoyed **organic growth** were more likely to be based in London than East of England (63% vs. 34%) and not have shareholders (64%).
- Businesses that enjoyed growth through **management and strategic planning** were more likely to be in the tertiary sector and East of England (30% and 47%), to be incorporated after 2000 (35%), and were more likely to be small rather than medium in size (30% vs. 19%).
- Businesses that enjoyed growth through **new customers/clients/partnerships** and less competition in the market tended to be in the primary sector (31%), South West (35%), incorporated in 1970s (27%), have supply chain strategies in place, but not both supply chain and other strategies (30% vs.13%).

Qualitative interviews amongst SMEs that participated in the survey revealed a number of other themes as reasons for growth amongst SMEs. Of note is the fact that growth strategies that SMEs developed were often influenced by their customer base, and for example those dependent on a large client often adopted quite a different strategy to those with many smaller clients.

Key themes identified by the research included:

SMEs whose business grew out of an initial relationship with a large company tended to have a core growth strategy to diversify away from their dependency on this large relationship

A number of SMEs were set up from an initial relationship with a single large organisation – i.e. the relationship was the catalyst that led to SME formation. This initial relationship was frequently based on a history of working together as an employee or contractor and subsequent networking.

These SMEs were typically heavily dependent on the large company and required a strategy built on a clear understanding of their Unique Selling Point (USP) and development of opportunities to diversify the business. This was a key challenge for some SMEs that frequently struggled to break out of the grip of their primary contractor.

Instances where SMEs did manage to diversify their business away from a single contractor often involved to the provision of specialist services, commoditisation of the product to sell on to other buyers and ownership of IP (Intellectual Property). A specialist service typically gave the SME a USP and bargaining power to keep the business of the larger company.

And there were instances where both primary client and SME grew alongside one another, with more partnership working in evidence.

Some SMEs diversified through developing distinct strategies for their small and large customer bases

Some of the SMEs that we spoke to gave evidence of a different growth strategy for small and large companies. Working with large organisations was more likely to involve research and development. If the SME held onto the intellectual property rights, they would then try and commoditise the product to sell on to a wider customer base (often smaller in size):

"Traditionally we developed and sold catalogue/product motors to large number of small customers but then we acquired a business that developed bespoke motors and this has enabled us to develop very different supply chains. Since acquisition we also offer product development services to small number of large clients. This latter part of business is where larger clients are based. It's an international business, with a growing market, having recovered from an initial decline during recession. The nature of product development defines the supply chain as the motors slot into different manufacturers supply chains. Ownership of IP varies across the client base and is something that business has got keener on - whoever owns it, pays for it,. Our largest client owns its IP and we develop and improve various motors for them." (Manufacturing Business)

Ownership of Intellectual Property (IP) could be a bargaining tool and some SMEs recounted examples of large businesses effectively demanding SMEs fund R&D as a prerequisite to working with them. There also examples of promises of future work if they developed the right product. This was understood as large firms effectively using smaller businesses to provide costless and risk free product development:

"It's a typical thing with multinationals that they will never ever contribute towards the development of anything!" (Manufacturing Business)

With regards to relationships with larger organisations, some SMEs appeared to have more power than others. The differentiation seemed to lie in how specialist the service was, and how competitive the market place. As a key buyer of services, large organisations were able to play SMEs off against one another to their own advantage. There was clear evidence from some of the depths interviews with larger companies that they are expanding their supply chains (in many cases overseas) to promote further competition and lever cost reductions out of their suppliers.

Other SMEs diversified the range of product/services offered but targeted a similar customer base

Beyond targeting customers, according to their size, some SMEs employed a growth strategy of winning more business from within their existing client base and through satisfying a wider portfolio of needs within this customer base. This 'cross-selling' to existing customers was particularly evident in financial and insurance activities, wholesale/retail/repair and to an extent agriculture.

Other SMEs grew through extending products and services to new but characteristically similar clients – for example a construction firm who targeted insurance companies for claims related building repairs work – first sold a service solution to one insurance company and then extended it across all large insurance companies; or a financial services company that serviced the needs of multiple local authorities. Here size of organisation was a distinct advantage as once the SME had learnt how to target and manage a large organisation, they could target similar organisations with the same solution, built upon good understanding of their clients' requirements.

Some SMEs concentrated their business and strategy on other SMEs and purposefully avoided large organisations

Some SMEs had no interest in targeting large organisations and geared their business and its processes towards meeting the needs of other SMEs. These needs were identified as more wide ranging and diverse than large organisations needs – as SMEs lacked the internal expertise of all areas of business operations.

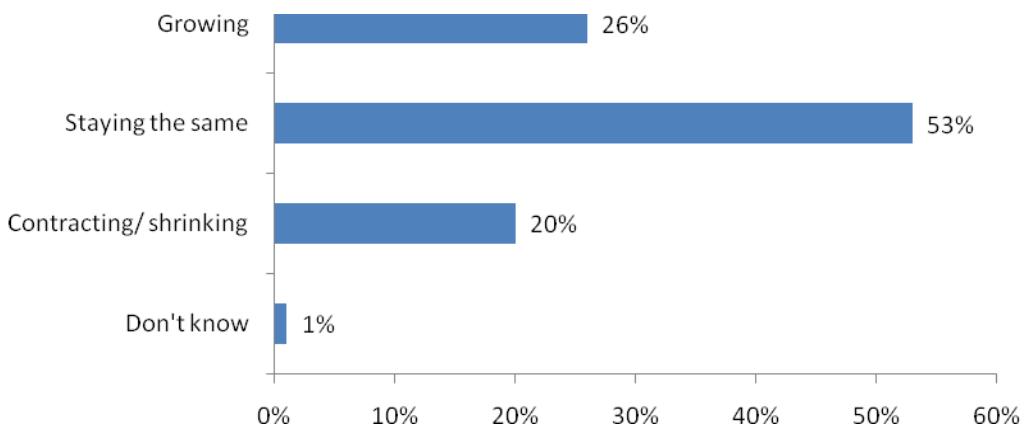
Strategy and diversification were found to be influential factors in the growth pathways that some SMEs have used in recent years. Those that have been forward thinking and devised varying strategies, and expanded sought after products, have fared the best. Diversification, according to one respondent, leads to '*a diverse income and reduced risk*' and this appears to have been an important issue for many SMEs.

Some business pointed to strategies being devised in house by internal management teams, yet for others external assistance proved extremely influential in decisions regarding their growth strategy.

Growth or contraction of target market

A quarter of businesses perceived their target market to be growing and more than half perceived it to be staying the same. Only one in five perceived their target market to be contracting. This is illustrated in Figure 4.

Figure 4: Q15 – Thinking about the current time, would you say that your target market is....?
Base: All respondents



Businesses that perceived their target market to be growing were more likely to be in the North West, Yorkshire & Humber, West Midlands and East of England (48%, 46%, 43% and 40%, respectively); to be in information & communication, agriculture or manufacturing Industries (40%, 32% and 34%); to have grown in the last 5 years (30%); more likely to have sought some external advice than not, and have future strategies in place (34%).

Those that perceived their target market to be staying the same (53%) were more likely to be in London and Scotland (74% and 69%); in the wholesale/retail/repair sector (73%), to be medium sized (60%); be non-family owned (60%); yet have no shareholders (62%); whose business had grown or stayed the same in the last 5 years (both 54%); that had not sought any external advice (76%) and have future strategies in place (63%); and that had no supply or non-supply chain relationships (67% and 63%).

Those that perceived their target market to be contracting were more likely to be in the South East and South West (26% and 28%); be in finance, manufacturing or construction (31%, and 28% in each); be small (24%); be family owned and a subsidiary (26% and 24%); have shareholders (24%); whose business had contracted in the last five years (37%), and those that had supply chain relationships (23%).

In depth interviews gave rise to the following insights on perceptions of market growth and/or contraction:

Some industry sectors are more affected than others by difficult economic conditions particularly where large organisations compete with SMEs on price

The qualitative interviews gave further insights into the different ways in which businesses had grown over the last five years, and encouraging perceptions of recent growth and economic recovery.

The findings show the importance of having right mindset and structures in place to enable management to have time to review their progress and plan their business strategy.

However, it was evident that at a structural level, some industry sectors were performing better than others. In particular, the construction and financial services industries – were struggling with the fall in demand. Many spoke of an initial buffer from the recession, but are now feeling the full impact of an absence of demand:

"It's been up/down since 2002. 2007 was our best year to date. But since then we've experienced a downward slump...a delayed victim of recession. We had to reduce headcount and cut overheads. In last couple of years less of a slump (more plateau) but more trying to keep an even keel. Difficult as margins are being forced upon us"
(Construction Business)

This contraction in economic activity was further compounded where SMEs competed against large organisations that were able to effectively cut their margins and prices and effectively erode SME price advantage. This was particularly evident in services industries, such as financial services.

Encouragingly, some industry sectors did look to be improving, such as information & communication and manufacturing sectors. Some of this was seen as an upturn in the economy.

"Business is recovering again - assets under management and number of staff are our key growth metrics, the more assets under management, the more profit we make as we are looking after more money." (Financial and Insurance Activities)

But new products/services enjoy growth

Innovation was clearly demonstrated as an effective way of growing your business in difficult market conditions. Niche services and products and new market entrants were also typically enjoying growth.

Limited competition encourages growth

It was unsurprising to find that less competition fosters growth. Some SMEs proactively look for areas either to establish themselves in, or new ventures to undertake, where competition is reduced. This forward thinking strategic planning has paid dividends for some.

Learning from the mistakes of others appears key

Even in some sectors that are perceived to be stagnant, such as agriculture, some businesses are still successfully growing. Some reported learning from the mistakes of others as allowing them not making the same mistakes. For example, one respondent (in the farming sector) had witnessed many arable farmers cutting lots of staff to reduce overheads but then finding themselves unable to cope with a reduced headcount (some then going out of business). This farmer had maintained his full staff during difficult economic times and despite industry challenges he had succeeded through not making the same errors as his counterparts.

Other sectors were at the mercy of world market prices:

In some cases, the key issues influencing business success were a function of worldwide economic factors such commodity prices and problems in the Eurozone.

Or at the mercy of downward market trends

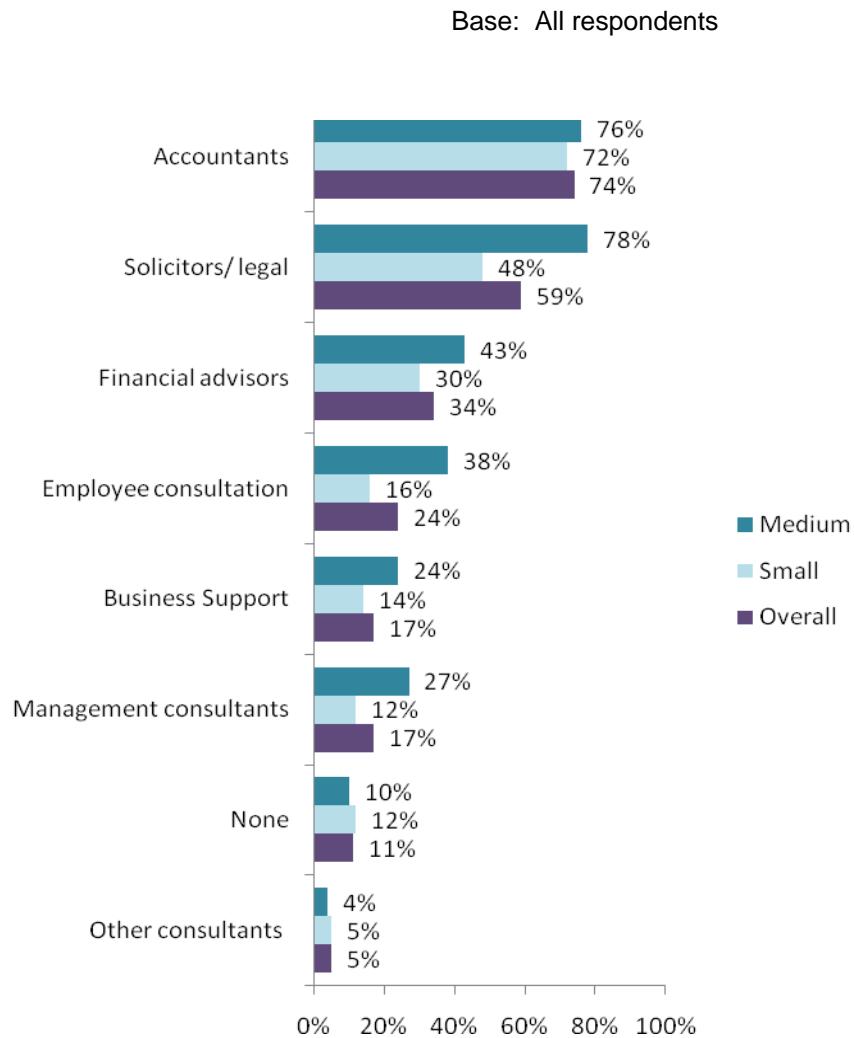
Other markets were seen to be in continuous decline, such as the local newspaper market, and a respondent this sector acknowledged that business contraction was inevitable.

External advice and support

During the survey, we asked all respondents if they had sought external advice in the last 12 months. As reflected in the figure below, three quarters of SMEs consulted accountants and six in ten sought legal advice in the last 12 months (74% and 59%, respectively). Fewer businesses had sought advice from any other external source: a third sought the advice of a financial advisor (34%); a quarter of employee consultants (24%) and only 17 per cent had taken up business support or engaged management consultants.

Similar proportions of small and medium sized companies sought the advice of accountants. However, with regard to all other sources of external advice it is evident that medium sized businesses were more likely to seek advice than small businesses.

Figure 5: Q9 – In the past 12 months, have you asked for external advice from any of the following



Further significant differences were evident:

- **Accountants'** (74%) advice was more likely to be sought by those in a family owned and not a subsidiary business (81% and 75%), in a supply chain than not (76% vs. 65%), having grown or contracted in the last 5 years than stayed the same (78% and 79% vs. 68%), with future strategies in place (83%).
- **Solicitors/legal** (59%) advice was more likely to be sought by those in finance and B/D/E sectors than agriculture (70%, 65% vs. 45%), those in a supply chain than not (64% vs. 39%), planning to grow and build the business (63%) and with future strategies in place (68%).
- **Financial advisors** (34%) were more likely to be sought by those whose business was incorporated in 1970s (49%), those in construction than financial services (37% vs.

19%), with a growing target market (50%) and planning to grow and build the business (38%), whose business was incorporated in 1970's (49% vs. 34% on average) and with future strategies in place (42%).

- **Employee consultation** (24%) was more likely to be sought by those in financial services (40%), with a growing target market (32%), planning to grow and build the business (28%) and with supply chain growth strategies in place (41%).
- **Business support** (17%) was more likely to be sought by those in financial services compared to information & communication (28% vs. 8%) and planning on growing and building the business (21%).
- **Management Consultants** (17%) were more likely to be sought by those in wholesale/retail/repair and agriculture compared to manufacturing (27% and 28% vs. 10%), those in a supply chain (20%), incorporated in 1970s and 1980s (32% and 23% vs. 17% on average) and those with growth strategies (other than supply chain) in place (39%)

An emphasis on future growth planning was detected amongst those businesses that employed external assistance in running their business. This view was consolidated during depth interviews.

Indeed, **businesses that had not sought advice were more likely to have stayed the same or contracted within the last five years than grown** (15% and 10% vs. 4%). Their target market was also more likely to be staying the same (16% vs. 11% on average), the business was likely to be planning to stay the same size in the years ahead and not have any growth strategies in place (23% and 18%, respectively).

In some cases evidence of external advice was related to growth: businesses that sought advice in their strategic planning were more likely to have taken time to plan a growth strategy and to have a focused pathway to growth than businesses that did not seek additional business support and did not always take the time to plan their business growth. The latter sometimes operated day to day, simply trying to run their business, without structure in place to give them time to plan, establish a growth strategy or targets. External advice, in effect, could assist small companies in making the shift in mindset from thinking small to planning big:

"He (advisor) has had a profound influence on the business growth. We realised growth was stalling and our advisor is helping us review, strategies and plan our future growth. Our coach is a catalyst rather than instructor - to help us make/take the next step - delegate more, assess staffing needs, make time for strategic review "

So seeking support in business planning and strategy was in many instances an indicator of the culture of the organisation – on how clear they were on their core objective and how to get there.

But there are examples of some mixed experiences with regard to external support. In other cases, SMEs saw themselves as offering a specialist service, of which they were best informed and which offered little room for professional or business strategy advice. In these instances, the respondents and management team had often come from larger professional enterprises so were experienced in strategic planning "we tend to know our industry better." For this very reason, very few small companies sought the advice of Management Consultants, who were seen as pricey and unable to assist SME business:

"The reality is that the people in this business are advisers to client themselves so they don't need to seek advice for many areas." (Financial Services Business)

So in other instances, SMEs had gained skills through previously working in a larger organisation and this experience provided them with a large company and growth mindset and enabled them to plan strategically. In other words - large organisations play in an indirect role in up-skilling SMEs through training staff that ultimately go on to work for the larger organisations. The movement of skilled workforce from large organisations to SMEs may be an aspect worth monitoring in the future. This is only true of sectors where skills are transferrable, so less evident, for example, in construction and accommodation/food services.

"Because we are close to the technical people [of the main engine builders] we use their technical knowledge and approvals to sell to the aftermarket [spares] and it's really the aftermarket where we can make most of the money" (Manufacturing Business)

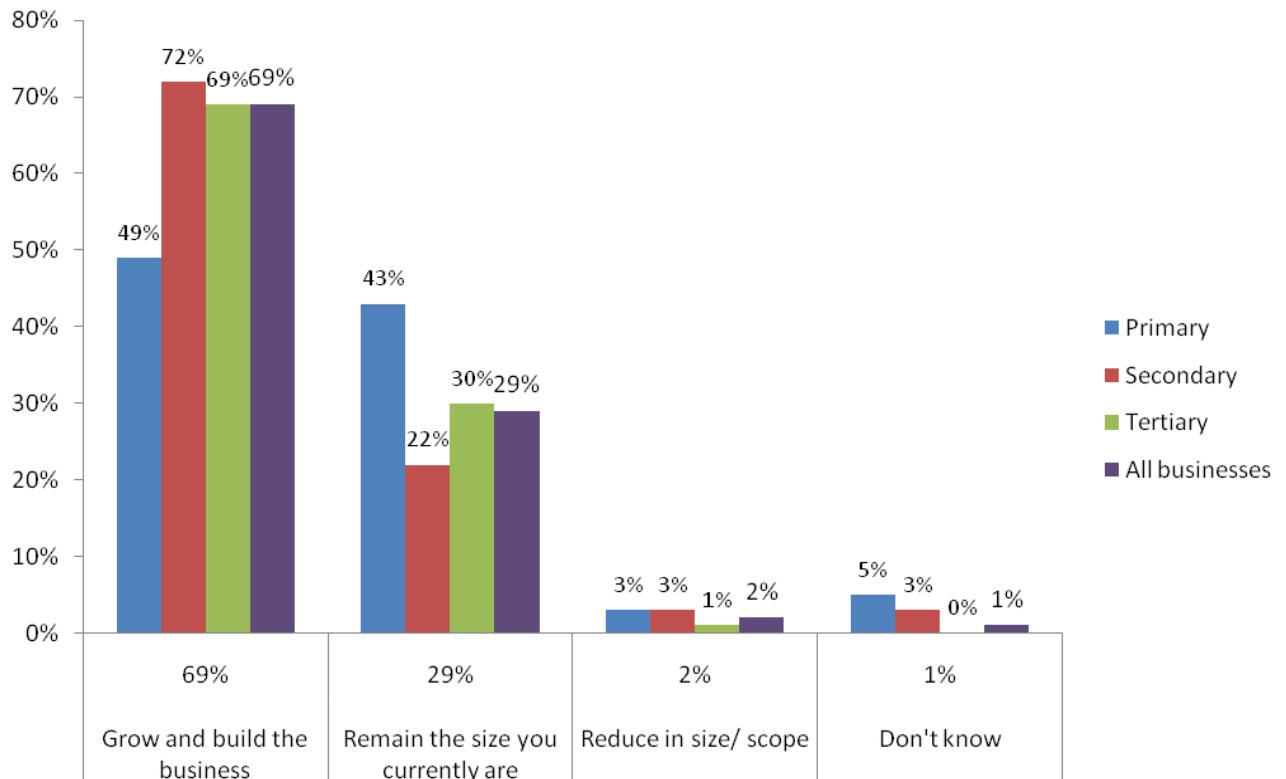
In other cases, businesses needed to demonstrate the fact that they understood the larger company, what was expected of them and that culturally they were not that far apart.

Future growth aspirations

The majority of respondents aspired to build and grow in the business in the future (69%). Almost a third aspired to stay the same size and a minority sought to reduce their size and scope (29% and 2%, respectively).

Businesses in the primary sector were more likely to stay the same size than grow relative to the secondary and tertiary sectors. This is illustrated in the next Figure.

Figure 6: Q16 And thinking ahead do you plan to...?
Base: All respondents



Businesses wishing to grow and build the business (69%): On a regional level, businesses in the South East and North West were significantly more likely to seek growth, whereas those in Scotland more likely to seek to stay the same size than on average (90% and 78% vs. 69% on average; and 54% vs. 29% on average).

Those wishing to grow (69%) were also more likely to be in manufacturing and information & communication (81% and 76%); have shareholders (75%); be in a supply chain (72%) to have grown in the last five years (81%); and perceive a growing target market (84%); have future strategies in place (78%); and be in a supply chain and non-supply chain relationship (72% and 74%, respectively.)

Those wishing to stay the same size (29%) were more likely to be in agriculture, wholesale/retail/repair and B/D/E than manufacturing (46%, 37% and 30% vs. 16%); have no shareholders (45%); not be in a supply chain (40%); to have stayed the same in the last 5 years (37%); and have a static target market (35%); have no future strategies in place (46%); and not be in a supply chain or non-supply chain relationship (40% in each). This would be in line with the fact that within the sectors that are struggling in the current economic climate, companies are just looking to survive and maintain their current size than actually grow.

Those wishing to reduce in size or scope (2%) where more likely to be in construction than B/D/E (6% vs. 0%) and perceive their target market to be contracting (6%).

In depth interviews revealed further insight beside these overarching desires, or lack of desire, to grow and build businesses in the future:

For those that wish to grow, efficiency was a key focus

Some businesses expressed a desire to grow through improving existing operations/customers and further efficiencies to costings and production (to enhance profit, the key business metric as indentified through the survey).

Others would like to stay as they are in order to maintain assets and control and are proud to be a SME

Some respondents seemed reluctant to expand and grow, if that meant that would have to 'relinquish power' over their business (growth for some would make it necessary to employ additional managers).

A sense of pride was evident across interviews from respondents who saw more benefits in remaining an SME than growing any further. This pride was based on a feeling from some that small businesses produce higher quality products and services and offer a more personal service to customers:

"We'd like to keep the business as it is...but we can't...we can't sustain any sensible margin – so we're looking to improve, but we have no capital to invest and work 'flat out'. We would have to have a manager but we'd find it difficult to relinquish any kind of control."

(Agricultural Business)

Appendix B: Literature Review

Key points

Midcap growth

- Many mid-sized businesses retain a ‘small business outlook’. This encompasses a paternalistic attitude towards their workforce, avoidance of risk and a reluctance to relinquish control of the business. This is manifest in the low proportion making use of equity finance, and the high proportion of second generation family management teams, compared to the greater use of non-family managers found in Germany,
- Midcap businesses are generally able to obtain the finance they require, but the proportion applying for finance for investment purposes is low (although there is also evidence that midcaps are not well-served by the UK venture capital and corporate bond markets). Currently, repayment of debt is the main priority.
- Midcap businesses should aim for continuous rather than sporadic growth, as this appears to be more sustainable in the longer term. This requires the creation of clear competitive advantage deriving from a strategic SWOC analysis of the business, and a commitment to a growth strategy by the management team and board.
- Success factors include close relationships with customers, self-reliance, limiting the number of markets traded in and developing a strong corporate culture with stable, long-term leadership. These elements are common in the German *Mittelstand*.
- Midcaps are less able than larger businesses to attract skilled workers, particularly at a graduate or management level, due to relatively poor perceptions of new recruits’ long-term career prospects and poorer links with universities.

SME/large business relationships

- Other than supply chain membership, relationships between SMEs and larger businesses can cover outsourcing, franchising, networking, licensing in, licensing out, joint ventures, and non-permanent co-operation.
- The processes of relationship formation and management can be broken down and analysed as a series of discrete stages: (i) the initial strategic decision to co-operate; (ii) the search for a partner; (iii) the design of the partnership (including SMART objectives, protection of each partner’s competencies and building trust); (iv) implementation and management (including senior management commitment and mutual learning); (v) termination (as prepared for in the design phase).
- The resource-based view of large/small business relationships relates to the benefits each partner derives from the other. From the SME point of view, the business may gain access to otherwise unavailable resources (knowledge, IP, access to markets etc), an enhancement to the skills of the manager(s) and/or more stable cash flow, while the larger business may gain flexibility or access to new ideas. In this approach, the

characteristics of the owner and/or manager, the business and the market conditions feed into the business strategy and the establishment and nature of relationships formed with larger businesses. In turn, this enhances organisational development, leading to competitive advantage and, subsequently, better business performance.

- In practice, there is evidence that SME competitiveness improves with the quality of the relationship. This is influenced by the quality of communications (in turn influenced by the strength of personal bonds) and by equality in the distribution of power. Any abuse of market power is likely to harm a relationship.
- The main barriers to forming relationships are a lack of suitable partners and a desire to retain independence.
- Surveys of SMEs and large businesses indicate that they find relationships between different size classes beneficial, but the nature of the benefit, and the processes through which it is achieved, can vary substantially between countries and sectors, leading to difficulties with generalisability from case studies.
- There are some more 'generic' processes and benefits. For example, collaborative working is likely to reduce uncertainty of orders, give improved access to raw materials, finance and/or specialist skills and (through improved staff retention due to stability) improved productivity.
- The more long-term and stable a relationship is, the greater the derived advantage. With the exception of highly standardised, purely commercial relationships, good quality and frequent communication is crucial to establishing the relationship in the first place, and relationships between key staff are important to sustain it. Establishing relationships at start-up is important for future success, in particular for high tech start-ups.
- Trust between staff – and especially senior management - of the two businesses is often reported as key to relationships. Lean or just-in-time models of production do not engender this trust and are not good models of co-operation for many sectors. Instead, research suggests that SMEs need to be more strategic, analysing the power relationships and characteristics of production in their particular market and position themselves for maximum benefit, given the small scale of their influence. Exploiting a relationship requires high levels of managerial skills and industry knowledge in the SME, and increasing impact may require a change in strategic orientation (e.g. from competing on price to competing on quality) to be effective.
- Although the incremental learning style inherent in partnerships aligns with SME learning preference, encouraging managers to seize the learning opportunities may well require more proactive support from the larger business, implying a closer and more collaborative relationship than is the norm.
- SMEs can benefit from 'actively constructing' new relationships as a response to negative trends in market conditions – for example, using a product differentiation

strategy, such as positioning their products as high-quality or uniquely available from that particular business.

Midcap businesses

Context

- In 2010, there were approximately 10,000 midsize businesses (MSBs) with a turnover of approximately £25m-£500m, according to figures derived from analysis of the Business Structure Database.⁷ The majority of these businesses are at the smaller end of the scale – approximately half have turnover under £50m – while 10-15 per cent are part of larger groups. The number of MSBs has been increasing more rapidly than either smaller or larger businesses since 2005 (with financial and business services the main driver), and has not declined in the recession, while the proportion of all business turnover accounted for by MSBs has been constant at approximately 20 per cent since 2002.
- Of those MSBs alive in 2010, two-thirds had been established prior to 1998, but only a quarter had already been an MSB in 1998 and survived through to 2010 as an MSB – a lower survival rate than may have been expected. The number of business *born* as MSBs is declining, from approximately 300 pa in 1998-2004, to 100 pa in 2005-10, possibly because of a reduced tendency for foreign investors to establish large subsidiaries. In other words, in an increasing majority of cases, an MSB is born as a small business and takes a number of years to reach MSB size, with most of the current stock at least 15 years old.

International comparisons

- In the UK, medium-sized businesses also do not have their own ‘identity’ – to an extent, they feel ignored by policy initiatives and the media, which are thought to target and celebrate both start-ups and large businesses to a far greater extent. CBI (2011a) supports this view, and compares this position to the far more celebrated German *Mittelstand*: the long-established, often family-owned medium-sized businesses, with a strategic focus on sophisticated engineering, exports, training and retention of skilled workers, long-term investment and social responsibility. Venohr and Meyer (2007) expand on this, describing the dominant structure of the most successful such businesses as ‘enlightened family capitalism’ consisting of: continuity; embeddedness in communities; long-term relationships (both internally and externally); relatively informal communication channels and flat hierarchies leading to trust relationships between management and employees; strong oversight of managers from family owners, who retain an emotional attachment. This leads to a ‘patriarchal’ model which emphasises cohesion and strategic and operational independence from external influences.

⁷ Available at www.bis.gov.uk/assets/biscore/statistics/docs/m/msb-evidence-base.ppt

However, there may be limits to the lessons which can be learnt from businesses outside the UK. Recent analysis by NIESR for BIS⁸ indicates that MSBs in Germany, Finland and Sweden – often held up as role models of this sizeband, and countries which have performed relatively well in the current crisis – differ in a number of important ways from their British counterpart when looked at in aggregate. In all four countries, MSBs account for approximately 0.5 per cent of the registered business stock. However, UK MSBs account for the smallest proportion of both total employment (21 per cent, compared with 23-28 per cent in the other countries) and turnover across all businesses (20 per cent, compared with approximately 32 per cent in the other countries). Average turnover and employment per firm are both substantially higher among UK MSBs than the comparators, but productivity in the UK (in terms of turnover per employee) is considerably lower, with the gap larger for MSBs than for all businesses. Although UK MSBs were more likely to undertake manufacturing activities than in the economy as a whole, the proportion of manufacturers among MSBs was substantially lower than in the three comparators (19 per cent compared with 28-39 per cent). By broad sector, manufacturing productivity in UK MSBs is relatively close to the comparators (and above Germany) but services productivity is substantially lower. On the one hand, these differences may imply that UK MSBs are sufficiently different from those in other countries that policy solutions used elsewhere may not apply here. However, on the other hand, it may be argued that those solutions contributed to the difference in the first place, and may suggest new avenues for development in the UK – in particular, ways to enhance productivity among services MSBs.

Processes of growth

There is relatively little research examining the processes and motivations for growth among MSBs, as opposed to the large volume of research on start-up and small business growth. There is often an implicit assumption that once a business has reached a certain size, the ‘difficult part’ is finished, and the business has developed the processes and structures which would enable further growth if desired.

However, this is not necessarily the case. The BIS/HMT growth review indicates that the management structure of a substantial number of such businesses, and the capabilities of the management team, remain similar to that of a smaller business, as does their outlook on growth (see also CBI, 2011a). For these businesses, there are issues surrounding the avoidance of risk (partly related to their ‘small business outlook’ and the desire to ‘look after’ their workforce) and the retention of independence, limiting their financial options for progress.

⁸ Available at www.bis.gov.uk/analysis/statistics/mid-sized-businesses/msb-international-comparisons

Evidence on growth ambitions of UK MSB gathered from owners and managers will be influenced by the current economic conditions, and may not reflect the underlying, longer term view. The survey undertaken by North, Baldock and Vickers (2011) indicated that the majority of MSBs *desired* growth in the next few years (with a minority aiming merely to survive), but this may well not be realised, and forecasts for *actual* growth were more pessimistic. Similarly, only a quarter of respondents to CBI's (2011a) survey expected to grow by 20 per cent or more in the next five years. Evidence from regressions carried out by Aston University⁹ also indicates that, even before the downturn, UK MSB's growth performance was relatively poor, particularly among smaller MSBs. Business Structure Database analysis reveals a declining rate of job creation among UK MSBs, from 718,000 jobs in 1997 to 236,000 jobs in 2009. However, the performance of MSBs should not be unduly denigrated. IDBR analysis shows that while 40 per cent of MSBs in a typical year experience a turnover decline, half experience turnover growth, with a fifth experiencing turnover growth of 20 per cent or more. Nonetheless, the overall balance of evidence generally indicates that the combination of growth ambitions but only moderate performance suggests untapped growth potential in UK mid-sized businesses.

Finance as a barrier to growth?

The BIS 2010 midcap finance review (BDRC Continental, 2010) reports that while the use of external finance remains high (used by 88% of respondents), only a small minority (9%) make use of any form of equity – although this proportion had risen substantially since the 2009 survey. The majority of respondents continue to only make use of debt finance, and mostly for working capital rather than investment. The report indicates that there is no evidence that businesses are discouraged from seeking finance. The majority had either obtained the finance they required (although 30% of applications had experienced some problems), or considered that they would not have a problem obtaining it if they applied. Instead, the slight fall in demand is driven by businesses wishing to become less dependent on debt – not by switching to an alternative form of finance, but by cutting costs in their business (with one third reducing employment). Some 45 per cent of respondents were taking steps to improve their access to finance, although only 29 per cent of those seeking finance had gone as far as seeking external advice during this process. There is also evidence that the perception of the availability of finance to midcap businesses in general is worse than the reality. In addition, although based on a relatively small number of case studies, evidence in North, Baldock and Vickers (2011) does seem to indicate that investment finance has been easy to obtain.

However, it is worth noting that the survey analysed in BDRC Continental (2010) was undertaken in the midst of the crisis, and it can be argued that the MSB responses reflect this. In particular, it is likely to be the case that the demand for investment finance is lower

⁹ Available at www.bis.gov.uk/analysis/statistics/mid-sized-businesses/msb-growth-performance

than in more normal economic conditions, with businesses primarily seeking finance for short-term purposes. However, it is also the case that while UK manufacturing MSBs cut their level of investment during the downturn, the decrease was lower than in other OECD countries surveyed (Bloom et al, 2011). This may be positive evidence that UK MSBs are coping with the recession better than MSBs elsewhere; however, it also may indicate that investment was already at a relatively low level, compared to other countries. Evidence on employment changes reported by Bloom et al (2011) tends to support the latter point: UK manufacturing MSBs had cut the second largest number of jobs of any surveyed country. This is backed up by North, Baldock and Vickers (2011), which reports generally low levels investment among their surveyed businesses, and analysis of the Business Structure Database, which reports generally weak investment patterns among UK businesses, but also consistently lower levels of investment among MSBs than larger businesses. Given this evidence, it is difficult to predict both MSBs demand for and their chances of securing access to finance in the eventual upswing. Equally, there is evidence that a minority of MSBs have substantial cash balances (over £25m), for a variety of reasons including: a buffer against possibly low future orders and for future investment purposes (North, Baldock and Vickers, 2011).

This may also be due to failures in the market for MSB finance. CBI (2011a) notes that, other than for start-ups, the UK venture capital market is relatively weak (especially compared to the US), and businesses may struggle to find the level of funding required for midcap growth given the returns expected by investors. The Business Growth Fund (established by the major banks) may help fill this gap, the report notes, but it is too soon to evaluate its success. The market for issuing bonds is underdeveloped, and the minimum issuance of £100m for corporate bonds is set too high for many midcap businesses. Avenues for such a business to issue debt are thus limited. In Germany, for example, the Bondm initiative in the Stuttgart Börse has a minimum issuance of €25m, and has seen 20 issues by German midcaps from May 2010 to October 2011, amounting to a total volume of €1.4bn. The initiative extends MSB bond availability beyond institutional investors to smaller investors for the first time, and aims to provide a high degree of transparency and information about the businesses involved, providing more data and regular and ad hoc reports than would be the case for corporate bonds from larger businesses. Specialist personnel provide risk assessment ratings and advise the issuing businesses on processes, both before and after the issue of bonds.

The report recommends reforms to midcap finance (including ways to facilitate the issuing of debt or the selling of bonds), extending the applicability of R&D tax credits to midcap businesses, encouraging exports via more proactive UKTI support, working through the supply chain of large businesses and improving management skills and leadership.

Other barriers to growth

Evidence from the latest BIS Small Business Survey (BIS, 2011) suggests that the main barriers to growth faced by MSBs centre on government regulation, including: employment law restricting freedom to make redundancies; immigration law; the costs of NI; trade

regulation (e.g. export licences, bribery laws); overseas tax law and UK reciprocal arrangements; credit laws (e.g. customers being able to terminate credit agreements at no penalty cost; credit reference agencies). This is in contrast to SMEs, where regulation is ranked 6th in terms of barriers, with the economy the most important barrier to growth.

'Hidden Champions'

Simon (2009) contains case studies of a number of prominent midcap businesses which have gone on to grow larger, which he refers to as 'Hidden Champions'¹⁰. He finds that there are a variety of methods to achieve growth – his examples grew by adding new products, entering new geographical markets or appealing to new customers. 'Continuous' growth (i.e. steady, relatively slow growth over a number of years) produces greater business sustainability in the long term than a succession of brief but rapid growth spurts. Several of his case studies made a strategic choice to take market share from their competitors, which entails creating a clear competitive advantage and sustaining it for some years. This may also be the most viable strategy for a midcap business facing a shrinking overall market for their products or services, and requires long-term planning and a clear managerial assessment of the niche most suited to the business. Schmitz-Cargobull, for example, severely restricted their product range to those it considered would be the most popular in a shrinking market and where it possessed (or could develop) a comparative advantage, enabling it to increase its share in that niche. The elements of a successful strategy in a small niche can be easily replicated worldwide, since customer needs in that niche are generally the same regardless of location. Conversely, Enercon grew with a growing market, but outpaced competitors by emphasising technology and innovation.

Generally, the 'Hidden Champions':

- Were innovative in both products and processes (with incremental innovative activity common);
- Were outward looking on a global scale;
- Were close to their customers - in particular, not delegating aspects of the customer relationship to an external partner, and often wholly owning distribution and servicing channels. Servicing in the machine equipment sector was estimated to account for 50 per cent of turnover and 75 per cent of profits in 2003 (Venohr and Meyer, 2007);
- Were self-reliant (using a lower level of outsourcing than others);
- Had strategies which were 'deep' not 'wide' (i.e. only competing in a limited range of markets). This means that the overall strategy can be characterised as 'business as

¹⁰ These are defined in Simon (1996) as being number 1 or 2 in world market position, or number 1 in Europe, with a maximum turnover of €800m and 'low public visibility'.

usual', persistently and consistently repeating the same small operational steps rather than taking large risks; and

- Had a strong corporate culture and strong, stable, long-term leadership.

Venohr and Meyer (2007) also examine Simon's 'Hidden Champions', finding that they grew at a substantially higher rate than both other German businesses and the economy as a whole, over the period 1994-2004. Most retained their market leader position, although a relatively small proportion lost market ground because of cost competition from overseas (prompting the majority to expand their overseas manufacturing operations) or failure to keep pace with technological change. Bloom et al's (2011) survey of manufacturing MSBs notes that the majority had not – or were not able to - cut prices during the downturn.

The majority of Hidden Champions remained in private hands in 1994-2004, although the percentage of publicly quoted companies increased from 2 per cent to 10 per cent over the decade, possibly because of more stringent financial conditions (Venohr and Meyer, 2007). This suggests that flotation may well be an operational response to negative changes in external conditions, rather than part of a strategic plan.

Innovation

Innovation is commonly seen as a route to growth, and a higher proportion of medium-sized businesses (63%) are 'innovation-active' than either large (60%) or small (57%), according to data from the UK Innovation Survey 2009. Those businesses with 250-500 employees, in particular, are highly innovative, especially in terms of registration of IP. However, there is some evidence that innovation activity remains lower than in key competitors such as Germany or France, and that the level of collaboration with outside innovation partners is lower (Community Innovation Survey 2008, UK Innovation Survey 2009).

Exporting

According to analysis of the Business Structure Database, a high proportion of UK MSBs (40 per cent of those that export) are 'low-intensity' exporters - i.e. exporting accounts for less than a tenth of their turnover – and very few (approximately 15 per cent) are 'high-intensity', with exports accounting for three-quarters or more of their turnover. Only a small proportion (approximately 7.5 per cent) of UK MSBs have overseas subsidiaries, a figure unchanged for a decade.

Management

Bloom et al (2011) surveyed 265 UK manufacturing businesses with between 100 and 5,000 workers in winter 2009/10, and scored various aspects of their management practices, comparing the data with survey responses from the same businesses in 2004 and 2006, and with a sample of foreign businesses. Management quality overall seemed to have improved since previous surveys, indicating some learning, although the quality of management in a particular business was likely to change relatively little over time - 'well-managed firms in 2006 tend to also be the well-managed firms in 2009' (p1). There is some evidence of convergence in management practices and quality across the surveyed countries, and

evidence that increased competitive pressures and higher managerial turnover can be a driver for improvement.

Related to this is evidence that midcap businesses are unable to attract high calibre graduates as easily as larger businesses. According to High Fliers Research (2011), only 19 per cent of graduate leavers specifically look for employment in SMEs, compared to approximately half targeting large national or international businesses. The perception is that the latter businesses offer better long term career prospects. The recruitment of graduates is also hindered by the relative lack of close links with students during their course: 38 per cent of medium sized businesses with links to universities offer sandwich courses or work placements, compared with 54 per cent of larger businesses. In addition, a high proportion (50%) of UK medium sized family businesses continue to be *managed* by the family into the second generation than elsewhere. In Germany, the proportion is 10 per cent (Institute for Family Business, 2011), and Venohr and Meyer (2007) emphasise that intergenerational transfer in the absence of external management team can be a weakness even among successful German midcaps. This is likely to lead to lower returns than if the business brought in external managers (Morgan, Dowdy and Rippin, 2006). Bloom et al (2011) – based on a cross-country analysis of survey responses from manufacturing MSBs - go further, and suggest that the ownership role of the family should be reduced, principally through higher inheritance taxes and removing barriers to foreign takeover, in order to improve managerial quality. However, there is conflicting evidence on this point: regressions by Aston University show that the relatively poor growth performance of UK MSBs against the top performers cannot be explained by family ownership. Bloom et al (2011) also report that there is an inadequate supply of managerial skills to their surveyed MSBs (and in particular to the smaller end of their sample, with 100-300 employees), with further barriers to managerial improvement being inadequate worker skills and a lack of information about potential changes, exacerbated by a shortage of cost-effective consultancy (these barriers to improvement are similar across the OECD). North, Baldock and Vickers (2011) rated family-owned MSBs as in the middle of the business performance scores, but also that they seemed to be less likely to acknowledge their weaknesses.

This seems to indicate a need to encourage a higher proportion of midcap businesses to recruit high calibre external managers and professionalise to a greater degree the manner in which the business is run, although evidence from Germany indicates that continued family ownership (as opposed to flotation or venture capital buy-ins) need not be a hindrance to growth. In addition, it suggests greater promotion of MSBs to graduates and other highly skilled workers.

Small/large business relationships

There are two broad categories into which it is useful to divide relationships between small and large businesses: (i) supply chain relationships – i.e. with a contractual basis involving the small business supplying goods or services either directly to the larger business (top tier suppliers) or through one or more intermediate buyers (lower tier suppliers); and (ii) non-

supply chain relationships – partnerships (e.g. to co-develop a good or service), networking, mentoring etc.

Framework for research

Figure 1 shows a framework for conceptualising business relationships drawn from a range of theoretical paradigms. This takes a broadly chronological view of the formation and maintenance (and potential termination) of a business relationship, broken down into five stages (Wolfmann and Schlosser, 2001):

1. Strategic analysis and decision to co-operate.

Partners must each make the strategic decision that they need to form an external relationship. This involves examining the business's strategy, and deriving potential objectives for a relationship to determine the form the relationship will take. Each partner must have 'excess' and complementary resources to share – for example, an SME may lend flexibility to the larger business, while the larger partner might bring stability to the SME's cash flow. Partners must also be aware of the time it takes, both to form a relationship in the first place and for benefits deriving from its fruition.

2. Search for a partner.

Relationships must be built on trust and co-operation, and a good 'cultural' fit, to be of optimum benefit to both parties. There may be questions about how applicable this may be in the case of larger businesses working with SMEs, given the unequal distribution of power in the relationship.

3. Designing the partnership.

An optimal relationship requires precise definition of rights and duties, emphasising the potential for joint value creation (i.e. what do *both* parties get out of it?), perhaps the most important aspect of the relationship and implying the need for agreement on SMART objectives and fixed milestones. In addition, and of particular note in a relationship where power distributions are unequal, there must be steps taken to keep and protect each business's core competencies – where do you restrict exchange of information to protect each other's expertise and advantage? This also entails the building of trust through avoidance of opportunistic behaviour by both parties, avoiding the need to build in (costly) safeguards and penalties)

4. Implementation and management of the partnership.

Any relationship requires an effective information and co-ordination system, making use of ICTs, and rapid response measures, to lead to a comfortable working partnership. This also facilitates continual performance review. It also requires support from senior management to ensure commitment and availability of resources, and avoid any transfer of knowledge. Conversely, however, the relationship is also an opportunity for mutual learning, dependent on the absorptive capacity and degree of openness of each partner.

5. Termination of the partnership.

The potential end of the partnership also needs to be recognised from close to the start, with some degree of preparation outlined in the design phase – akin to a succession plan, and requiring approval by all partners.

Figure 1 Conceptualising business relationships

	1. Strategic analysis and decision to co-operate	2. Search for a partner and partner selection	3. Designing the partnership	4. Implementation and management of the partnership	5. Termination of the partnership
C o n t e n t V a r i a b l e s	<p>Strategic rationale of the alliance</p> <ul style="list-style-type: none"> Collaborating in situations with high need for strategic flexibility and limited need for control (TCE) Contributing specific strengths and looking for complementary resources (RbV) 	<p>Looking for strategic and cultural fit</p> <ul style="list-style-type: none"> Building on established trust-based relationships (TCE, Soc) Partner is excellent in field of co-operation (RbV) Complementary contributions (RbV) 	<p>Organisation of principles</p> <ul style="list-style-type: none"> Precise definition of rights and duties (TCE) Equal contributions from all partners (RbV) Emphasising the potential for joint value creation (RbV) Keeping and protecting core competencies (RbV, KbV) 	<p>Following through</p> <ul style="list-style-type: none"> Establishing an information and co-ordination system (TCE) Establishing required resources (RbV) Avoiding unwanted transfer of knowledge (KbV) Capacity to learn from partners (KbV) Top Management Support (RbV, GMT) 	<p>Ex-ante rules</p> <ul style="list-style-type: none"> Preparing for termination already in the design phase (TCE)
P r o c e s s V a r i a b l e s	<p>Systematic strategic analysis</p> <ul style="list-style-type: none"> Deriving alliance objectives from business strategy (GMT) Awareness of time requirements for alliance development (Soc) 	<p>Building a common understanding</p> <ul style="list-style-type: none"> Agreement of fundamental values and convictions (Soc) 	<p>Leadership of negotiations</p> <ul style="list-style-type: none"> Agreement on clear and realistic objectives (GMT) Building trust by unilateral commitments and avoiding opportunistic behaviour (Soc) Implementing plan with fixed milestones (GMT) 	<p>Putting it in action</p> <ul style="list-style-type: none"> Speedy implementation of measures and fast results (GMT) Continual review of alliance performance (GMT, Soc) 	<p>Keeping trust-based relationship</p> <ul style="list-style-type: none"> Termination only upon approval by all partners (Soc)

TCE ... Transaction Cost Economics

RbV ... Resource-based View

KbV ... Knowledge-based View

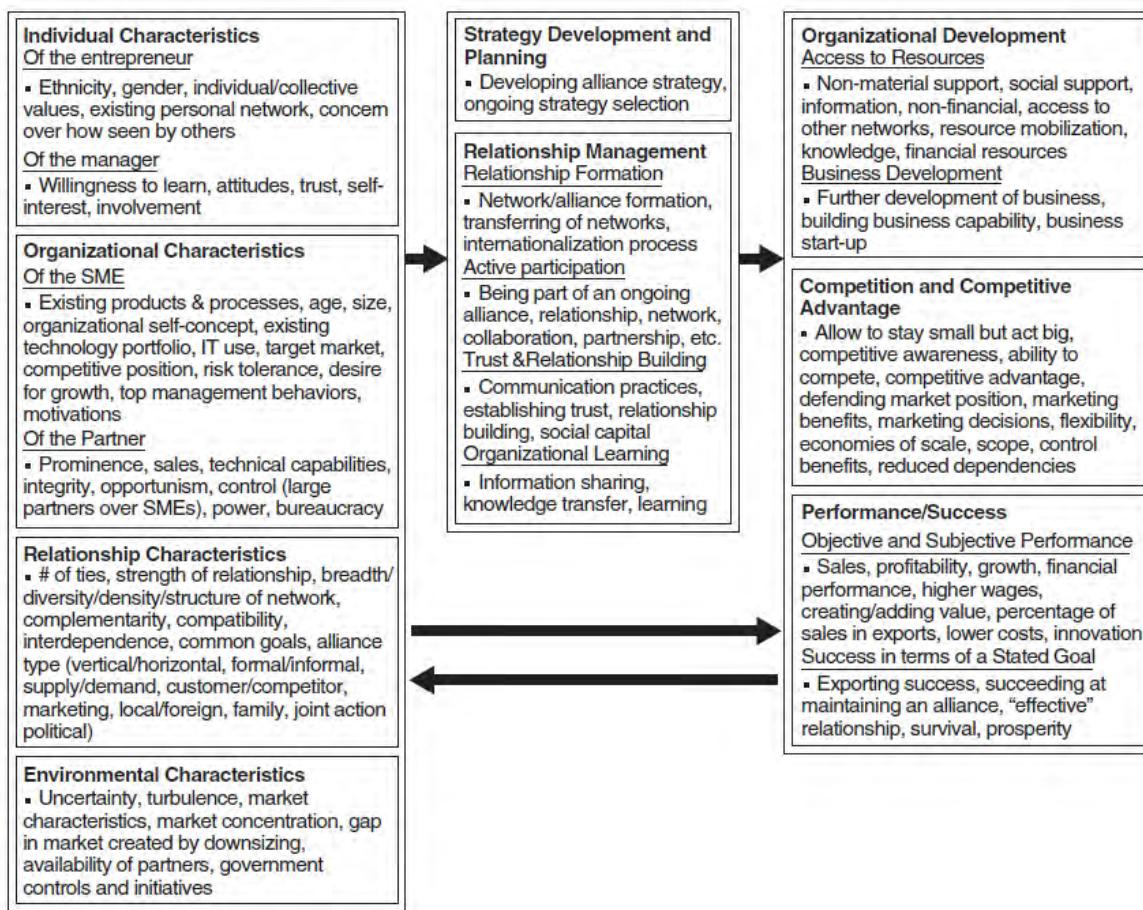
Soc ... Sociological Theories (Interorganisation Theories)

GMT ... General Management and Leadership Theories

Source: taken from Wolfmann and Schlosser (2001)

Figure 2 expands on the elements linked to the Resource Based View of the firm outlined in Figure 1, and illustrates a more detailed and specific framework for conceptualising the processes of relationship formation and maintenance.. In this paradigm, business owners assemble bundles of resources with the outcome dependent on the availability of various resources (labour, finance, technology etc.) and their skill at assembling these into effective bundles. A business relationship is a method of both gaining access to additional, otherwise unavailable resources and to increasing and/or extending the skills of the manager.

Figure 2 Aspects of relationship formation and management



Source: taken from Street and Cameron (2007)

The elements shown in Figure 2 can be placed into three broad categories, again roughly chronological but with more explicit feedback loops between them:

1. Antecedents (left column). This is the context against which the relationship is formed, primarily the characteristics of the business and owners; their pre-existing networks and relationships; organisational characteristics of SME and partner; the market and sector; and the organisation of the relationship itself (formal/informal; horizontal/vertical; cluster/supply chain).

2. Processes (middle column). These relate to the strategic planning of the relationship, including interpersonal and inter-organisational relationship management (e.g. choosing a partner; setting objectives; reciprocal learning).

3. Outcomes (right column). This encompasses: organisational development and learning (what resources can the SME access from the larger business and vice versa?); competitiveness, productivity and similar improvements (leading to bottom line gains at some later time); and improvements in outcomes against the counterfactual outcome (e.g. the SME may not have survived if the relationship had not been formed). These outcomes apply to both the SME and the larger business.

Strength of relationship

The above frameworks point to a number of different aspects of relationship formation and maintenance which require closer investigation. The first of these is the factors which contribute to the *strength* of the relationship, and how this may impact on the SME. While there has been substantial research into the characteristics of supply chains and supply chain management methods (see e.g. Power, 2005), there has been very little research directly examining the actual impact of supply chain membership on the competitiveness of SMEs, as noted by Gracia, de Magistris and Albisu (2010). This paper itself reports that, based on a survey of businesses in the Spanish wheat-to-bread chain, SME competitiveness improves as ‘relationship quality’ improves, with the greatest influences on the latter variable being communication quality and – to a lesser extent – equal power distribution among stakeholders. In turn, the quality of communication is strongly positively influenced by the strength of personal bonds between stakeholders.

These three inter-related factors – personal bonds, quality of communications and power distribution – are frequently mentioned in the literature as being of importance to the success of supply chain relationships and other, similar (potentially) long-term contractual relationships (for example: Mohr and Nevin, 1990; Fischer et al, 2009; Schulze et al, 2006; Rodriguez and Wilson, 1995). Investigating the *quality* of relationships in some depth is therefore crucial to understanding how the relationship may work to the benefit of the SME.

Prevalence and general opinions on business relationships

Schmiemann (2007) reports the findings of a cross-country survey on ‘inter-enterprise relations’, defined as ‘relations between enterprises, excluding legal ownership and relations arising from the normal purchase or sale of goods and services for immediate consumption. They cover outsourcing for others, franchising, networking, licensing in, licensing out, joint ventures, as well as non-permanent co-operation, but exclude relations between mother or holding companies and their subsidiaries’ (p1). Respondents from all size classes regarded such relationships as highly positive, with two-thirds anticipating an increase in competitiveness in the next three years deriving from a long-term relationship. Although larger businesses generally have a higher propensity to engage in long-term relationships,

this is highly variable between countries, as is the area in which the impact is felt. For example, the impact in Nordic countries is much more likely to be felt in R&D and innovation, suggesting that framework conditions play a large role in how relationships are built and how they impact on SMEs. The main reason for engaging in relationships, Schmiemann (2007) finds is to increase flexibility (outsourcing, predominantly, followed by short-term contracting). The main barriers to forming relationships are a lack of suitable partners and a desire to retain independence.

Processes leading to competitive advantage

The ‘classic’ view of the relationship between SMEs and larger businesses is that small businesses derive access to resources and stability from the large firm, while the large businesses in turn acquire access to new technologies and revitalisation (Aldrich and Auster, 1986). However, more nuanced views have since emerged, examining supply chains and other relationships in terms of the actual processes and factors underlying the business relationship, and these translate into commercial advantage.

Reynolds, Fischer and Hartmann (2009) analyse ‘collaborative advantage’ in German pig meat and cereal chains. This is defined as any benefit derived from businesses working together, and has a number of effects: (a) reduction of uncertainty through a more stable inflow of orders and prescriptions of quality in the supply chain; (b) improved access to raw materials, finance and specialist skills; and (c) a knock-on effect of improved productivity through better staff retention.

Reynolds, Fischer and Hartmann (2009) note that their findings are in line with previous work. The more sustainable and long-term a relationship is, the greater the advantage derived. They report that relationships between key staff are important for this sustainability, and that a lack of personnel succession planning can lead to deteriorating relationships if the handover is poorly handled. However, for mature businesses in a standardised relationship (e.g. meat processor/retailer), key staff are less important to maintaining the relationship. For newer businesses, establishing and maintaining a relationship depends less on key staff and more on the quality and frequency of communication, in order to build up the relationship in the first place. Any abuse of market power harms the relationship, and leads to a deterioration in collaborative advantage. However, they sound a note of caution that the high sustainability of relationships which lead to these positive outcomes may be linked to the established traditions and trust-based values of the particular supply chains under examination, and may not be generalisable.

In a cross-country analysis deriving from the same EU project as Reynolds, Fischer and Hartmann (2009), Fischer et al (2008) report similar findings, but also that the relative importance of these factors does indeed differ across countries, and across different tiers in the supply chain.

Cox (2004) echoes concerns about power relationships, but in a different framework. Rather than seeking an ideal form for a business relationship, managers have to develop the ‘most

appropriate' relationship given the circumstances of their business and the market. This means that they must understand the specific model of supply chain in which they are operating, the power relations between suppliers, and their current position within that model. Cox argues that Japanese-style 'lean' or 'just-in-time' methods of supply chain management are not, as commonly argued, an exemplar for all supply chains, as they are based on top-down contractual control, rather than trust and equity. As such, they fit models of mass production, but result in the lower tier suppliers passing value to the ultimate buyer, which does not provide a positive environment for SME growth. In other industries (Cox's examples are fashion, construction and publishing), lean models are not appropriate – SME managers need to identify the particular model used, strive for the best possible, but be realistic given their lack of influence over overall power relations. Figure 3 illustrates this, and shows the wide range of potential relationship management styles which SME managers must choose between to achieve an optimal outcome for their business. This clearly leads to the question.

If SMEs have the managerial capacity, skills and knowledge of their industry to be able to make a properly informed decision.

Figure 3 Supply chain models and appropriate relationship management styles

SOURCING APPROACH	POWER AND LEVERAGE CIRCUMSTANCE	APPROPRIATE RELATIONSHIP MANAGEMENT STYLES
SUPPLIER SELECTION	BUYER DOMINANCE (>)	Buyer Adversarial Arm's-Length/Supplier Non-Adversarial Arm's-Length
	INDEPENDENCE (0)	Buyer and Supplier Adversarial Arm's-Length
	INTERDEPENDENCE (=)	Buyer and Supplier Non-Adversarial Arm's-Length
	SUPPLIER DOMINANCE (<)	Buyer Non-Adversarial Arm's-Length/Supplier Adversarial Arm's-Length
SUPPLY CHAIN SOURCING	BUYER DOMINANCE (>)	Buyer Adversarial Arm's-Length/Supplier Non-Adversarial Arm's-Length
	INDEPENDENCE (0)	Buyer and Supplier Adversarial Arm's-Length
	INTERDEPENDENCE (=)	Buyer and Supplier Non-Adversarial Arm's-Length
	SUPPLIER DOMINANCE (<)	Buyer Non-Adversarial Arm's-Length/Supplier Adversarial Arm's-Length
SUPPLIER DEVELOPMENT	BUYER DOMINANCE (>)	Buyer Adversarial Collaboration/Supplier Non-Adversarial Collaboration
	INDEPENDENCE (0)	Not Applicable
	INTERDEPENDENCE (=)	Buyer and Supplier Non-Adversarial Collaboration
	SUPPLIER DOMINANCE (<)	Buyer Non-Adversarial Collaboration/Supplier Adversarial Collaboration
SUPPLY CHAIN MANAGEMENT	BUYER DOMINANCE (>)	Buyer Adversarial Collaboration/Supplier Non-Adversarial Collaboration
	INDEPENDENCE (0)	Not Applicable
	INTERDEPENDENCE (=)	Buyer and Supplier Non-Adversarial Collaboration
	SUPPLIER DOMINANCE (<)	Buyer Non-Adversarial Collaboration/Supplier Adversarial Collaboration

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However, it is also clear that there are circumstances where it is difficult for SMEs to gain competitive advantage due to the nature of the commercial relationship. As noted above, for example, just-in-time models may leave little opportunity for exploiting growth opportunities due to the standardised nature of production and pressure from dominant buyers for lowest cost production and adherence to stipulated norms.

Concerns about the market power of large businesses in a monopolistic or oligopsonistic relationship with small businesses, and the negative impacts of this relationship on SMEs, are most obvious in the case of supermarkets, both in the UK and across Europe. Since 2000, there have been several Competition Commission investigations in this area – the first (Competition Commission, 2000) found evidence of 30 anti-competitive practices which '*adversely affect the competitiveness of some of their suppliers with the result that the suppliers are likely to invest less and spend less on new product development and innovation, leading to lower quality and less consumer choice. This is likely to result in fewer new entrants to the supplier market than otherwise. Certain of the practices give the major buyers substantial advantages over other smaller retailers, whose competitiveness is likely to suffer as a result, again leading to a reduction in consumer choice*' (p7). The second (Competition Commission, 2008) reported similar concerns: '*the transfer of excessive risk and unexpected costs by grocery retailers to their suppliers through various supply chain practices if unchecked will have an adverse effect on investment and innovation in the supply chain, and ultimately on consumers*' (p6). This transfer of risk was primarily accomplished through retrospective changes to the terms of supply, although up-front risk-sharing agreements could also fall disproportionately on the small supplier. Acts addressing the issue of supermarket power have also been passed in France (in 1996 and 2005) and Germany (in 2005). In the German case, the legislation specifically addressed large businesses demanding special terms and conditions from smaller suppliers. In both France and Germany, supermarkets selling below cost price – which would put pressure on small suppliers for lower prices – is restricted. Blundel and Hingley (2001), looking at the UK, find that the most successful relationships with large retailers are with SMEs possessing the following characteristics: traceability of products; greater motivation towards collaboration; a lack of competitive threats from other suppliers; access to sources of innovation and/or product differentiation; ability to resolve sporadic conflicts. These SMEs can become 'developmental' suppliers, entering a virtuous circle of learning and reinvestment, and ultimately growth. A more defensive approach on the part of the SME, designed to maintain independence, may prevent this progress. Subsequent work by these authors (e.g. Hingley, 2005) develops this theme, and notes that the acceptance of power imbalance may be a prerequisite towards developing a successful relationship; the larger buyer may well extract greater value from the relationship, but the smaller supplier also benefits and can collaborate effectively by 'learning to live with' the power imbalance.

Interestingly, in a similar area, Wrigley and Dolgea (2011) find that the most 'adaptively resilient' High Street shopping centres in the current downturn display high levels of 'complementarity': 'raised levels of quality and service, and new forms of symbiotic relationship between small independent stores and corporate retailers' (p2360). Thus, while

the impact of large retailers may be negative on at least some of their SME suppliers, their presence in town centres may have positive impacts on nearby SMEs, depending on how the latter react to the arrival of the larger business. The authors suggest that this indicates that policy should concentrate on promoting quality, in a broad sense: good practice guides, recognition of local retailers through awards etc., mentoring and more proactive planning regimes. In the absence of such support, however, it is less likely that the SMEs would prosper in this situation.

Similar examples come from the literature surrounding larger 'leader' firms, which can help raise the competitiveness of spatially proximate SMEs in industrial districts, particularly as a response to globalised cost competition (see McGrath and Jacobson, 2010, for an overview). Leader firms use 'co-ordination integration' rather than 'ownership integration' to build a 'social network' of sorts. On the positive side, the emergence of such a leader can encourage technology and skills transfer to an area and align SME production with demand in potentially distant markets; on the negative side, a leader firm may introduce oligopoly or oligopsony into the existing climate cooperative competition among SMEs thereby disrupting it and leading to linkages based on market power rather than symbiotic relationships (Lazerson and Lorenzoni, 1999; Harrison, 1994a, 1994b; Jacobson and O'Sullivan, 1994). Overall, the strategy taken by the local leader in an industrial district in the face of cost pressure from overseas can determine the future path of that district, and whether the local cohort of SMEs will thrive or not (McGrath and Jacobson, 2010).

Innovation

One of the most common topics for investigation in this area is the effect of inter-business relationships on innovation - particularly among networks of high-technology businesses (and other stakeholders, such as universities) (Powell et al., 1996). Such relationships are emphasised as routes for the transfer of technology and knowledge, thus facilitating innovation (Mody, 1993; Teece, 1992). Baum, Calabrese and Silverman (2000) examine more specifically the impact of similar relationships on growth, concentrating on start-ups in cutting edge technology sectors. They find that establishing relationships – and particularly vertical relations – at start-up is a key factor to enhancing competitiveness throughout the life of the business. A lack of effective networks early in the life-cycle of the business limits its competitive position at every future stage. They note that while such relationships may be particularly important to high-tech businesses, the conclusions apply more generally: they note that '*start-ups access social, technical, and commercial competitive resources that normally require years of operating experience to accumulate, buffering themselves from hazards typically faced by new firms and sowing seeds of future opportunities to develop their alliance networks. Startups that fail to configure effective alliance networks at founding, in contrast, are likely to suffer conditions of resource scarcity, forced to rely on more peripheral resources, and relegated to the periphery of the industry. As a result, efforts to shift from organizing to operations are hampered, employees have few chances or incentives to invest in learning and refining organization-specific routines, and recovery from such initial deprivations is taxing'* (p288). They also emphasise that complementarity of relationships is important, partly to avoid damaging intra-alliance competition.

Capacity of SME managers to exploit relationships

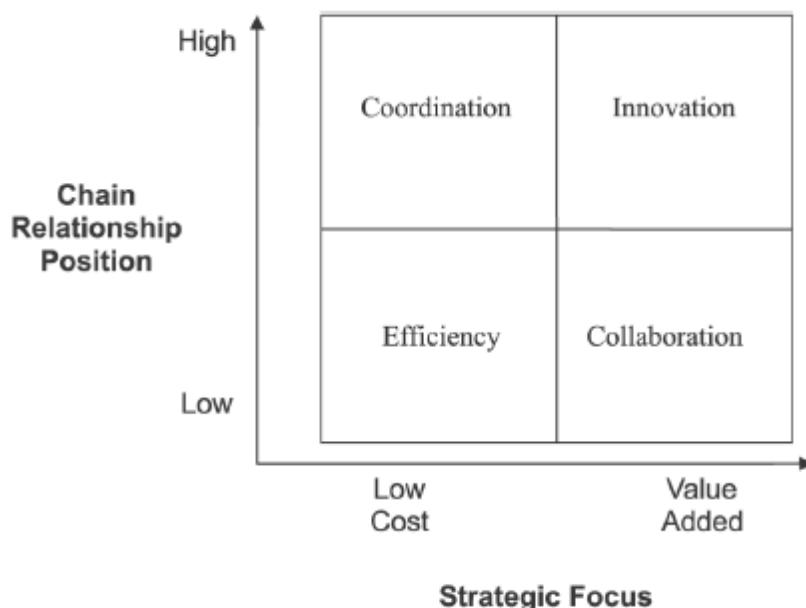
In order to extract maximum benefit from a relationship with a larger business, SMEs must possess the appropriate skill set – primarily, the absorptive capacity to recognise and exploit a learning opportunity over and above a simple commercial transaction. Macpherson and Wilson (2003) report that supply chains do indeed offer an opportunity for SME development among manufacturing businesses, and that it aligns with managers' preferred learning style (i.e. incremental, informal and focused on specific business needs). However, there is doubt over whether buyers are willing or able to support such development. They recommend that support should encourage managers to look for learning opportunities, and enhance their 'relational business competences' to take advantage of these opportunities. Equally, larger businesses must be convinced of the benefits of up skilling their supply chain in order to compete more on value-added and quality rather than simply cost, in order to proactively engage SME managers more effectively. This proactivity is necessary as research implies that close integration and collaboration is relatively rare (Forker and Stannack, 2000 – which notes that '*there appears to be a better "shared understanding" within the "competitive" relationship than within the "cooperative" exchange*' [p37]). In addition, imposing learning on the supply chain goes against notions of trust and mutual exchange being paramount, as noted above.

Belvedere, Grando and Papadimitriou (2009) examine a similar topic among Italian manufacturing SMEs, namely the responsiveness of such companies to the demands of larger businesses. They find that SMEs are indeed more responsive than larger businesses in terms of delivery. However, their findings somewhat contradict the view that this is due to some measure of flexibility among smaller businesses. Instead, this advantage comes about as a result of SMEs typically having a narrower product range and simpler product structure than larger businesses. As such, SMEs have shorter lead times for assembly and manufacturing, but longer lead times for set-up – i.e. for new products or those not currently within their product line – partly as a result of their weaknesses in implementing best practice and technology. This implies that it would be difficult for many manufacturing SMEs to step outside their niche and deliver similar results, limiting their ability to grow rapidly as a consequence of being part of a supply chain. This again implies up skilling and upgrading of processes and technology is required, in order for maximum competitive advantage to be extracted.

Growth strategies

The analysis of Grando and Papadimitriou (2009) corresponds well to that of Hong and Jeong (2006), who examine the various options available for growth within supply chains. The authors categorise the strategic focus of the SME as either low cost or value added, and the position in the supply chain as low or high (i.e. nearer the buyer), giving four possible categorisations as shown in Figure 4. The position depends at least in part on the nature of the product – standardised mass market products, for example, tend to only require low cost components, limiting the scope of managers to adopt a non-low-cost focus. In turn, this positioning affects the characteristics of the SME, as shown in Figure 5.

Figure 4 Characterisation of SME supplier by strategic focus and supply chain position



Source: Hong and Jeong (2006)

Figure 5 Characteristics of SME by supply chain category

	Efficiency	Coordination	Collaboration	Innovation
Competition characteristics	Competition on cost advantages	Competition on operational advantages	Competition on product advantages	Competition on innovative capabilities
Position in supply chain	One of many cost-driven competitors	One of dominant cost-driven competitors	One of many innovative competitors	One of dominant innovative competitors
External relationship patterns	Accept cost-reduction targets dictated by their customers	Negotiate productivity improvement targets with their customers	Involve new product development effort by their customers	Initiate new product development effort with their customers
Firm capabilities	Adequate cost improvement capabilities	Strong productivity enhancement capabilities	Adequate product development capabilities	Strong product development capabilities
Management process focus	Specific target driven management control	Sets of targets-driven management development	Specific new product development initiatives	Sets of new product families development

Source: Hong and Jeong (2006)

In order to grow more rapidly – or at all - Hong and Jeong (2006) suggest that SMEs may need to adopt a strategy of shifting from one categorisation to another, requiring a shift in their strategic focus and/or in their relationship with the buyer. In practice, the two are highly inter-related, meaning that a shift in one could not be accomplished without a consequent shift in the other. For example, a business may wish to move from ‘efficiency’ to ‘collaboration’, implying a more value-added approach to products or services. To achieve this, the business will also have to adopt a greater degree of flexibility in relationship building with both the buyer and other SMEs in the chain, in order to determine the areas of production or processes on which to focus their improvement efforts. Similarly, a move from ‘efficiency’ to ‘co-ordination’ implies not only an improved, closer relationship with the ultimate buyer, but also with other SMEs in the chain, requiring development of leadership, networking and communication alongside higher investment and more effective use of ICT.

Again, this implies the main obstacle to SMEs taking maximum advantage of relationships with larger businesses is the management capacity and skills of the SMEs themselves, in combination with the role of the larger business in actively encouraging development and learning. SMEs would require a diagnostic identifying their current strategic position, and be able to formulate steps to move towards a more desired and profitable position, particularly in order to evolve from low-cost to more innovative businesses.

Marsden, Banks and Bristow (2000) identify four dimensions in the evolution of supply chains based around high quality products (or services) delivered by small suppliers. These relate primarily to the agri-food sector, but the general principles may be more widely applicable as a way of thinking about how SMEs can find a niche to work effectively with larger businesses. The four dimensions of evolution are:

- (i) *Temporal evolution.* There are distinct stages in the formation of networks, often driven by external stimuli (institutional development of protected designations in the 1950s and 1960s; market conditions in agriculture in the 1990s).
- (ii) *Spatial evolution.* Certain regions may be able to benefit more than others from given networks due to pre-existing local specialism (e.g. Champagne).
- (iii) *Demand evolution,* relating to the capacity of markets and distribution channels to expand in scale (e.g. the evolution of Parmigiano Reggiano from a very small scale of regional production to a mass international market encompassing both high quality and generic product variants). This may well entail a more flexible and dynamic approach to marketing and product development.
- (iv) *Associational/institutional evolution.* Networks are critical in the development of supply chains, particularly for development at the regional level, but are subject to external and internal disruption. Indeed, the authors emphasise that ‘there is no inevitability that strong and mutually acceptable associational interfaces will be

reproduced over time', and any breakdown of networks may take years to rebuild due to the loss of trust and relationships. Such networks can be seen as both a cause and effect of the development of supply chains of this nature. They can also be bolstered by the actions of the state (institutional evolution) through regional development and business support policies, as well as in IP measures, certification of products or promotion of quality schemes (for example, IIP).

Renting, Marsden and Banks (2003) use 'alternative food networks' as an example of the above analysis. This term covers a variety of forms of supply chain in the food sector which differ from, and have emerged as a response to dissatisfaction with the standard mode of industrial food supply – for example, organic production, higher quality production or direct selling by producers to consumers. The focus is on how these forms of supply chain can benefit economic and business development in rural areas, since the industrial model of production seems to have reached a limit in terms of increasing both volume and technical efficiency, which led to a 'squeeze' on farm margins and incomes. In other words, (small) farmers and other primary producers have sought new ways of interacting with larger businesses (and consumers) in response to a negative stimulus, in order to capture a higher proportion of added value. New relationships have been 'actively constructed i.e. they are a result of conscious actions to form 'different' networks by a variety of actors within the food sector, rather than emerging from purely market-based actions, and need to be studied in a more 'sociological' manner to be properly understood. The key development is to 'shorten' the chain between producer and consumer, not necessarily in terms of time and space but rather in terms of providing specific information about the provenance of high quality produce to enable the consumer to make connections with the place of production, the producer's values etc. This may well be mediated through large international businesses (e.g. a UK supermarket selling premium Parmigiano Reggiano cheese from a named producer). This has been facilitated by more formalised networks and codes – for example, certification of organic status and protection for regional specialities. They estimate that these forms of supply chain contributed an additional 2-4 per cent to net value added in the agricultural sector (as of 2003). However, these supply chains are subject to similar squeezes as conventional ones, unless they can be supported by additional rural development practices.

This body of work implies that new forms of relationship can be created by SMEs which will enable them to capture higher levels of value added in a squeezed marketplace by exploiting their non-price advantages. The examples given here essentially involve pursuing quality-based differentiation of products and services to stand out in a market dominated by standardised mass production. The form these relationships will take depends on both the market conditions and the end user of the products and services, as well as interventions by regional, national and international state or quasi-governmental bodies.

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Appendix C: Industry Split

Sector	Industry Types
Primary	<ul style="list-style-type: none">• B, D & E• A - Agriculture, forestry and fishing• B, D & E - Mining and quarrying, Electricity, gas, steam and air conditioning supply and Water supply, sewerage, waste management and remediation activities
Secondary	<ul style="list-style-type: none">• C – Manufacturing• F - Construction
Tertiary	<ul style="list-style-type: none">• G - Wholesale and retail trade; repair of motor vehicles and motor cycles• H – Transport and storage• I – Accommodation and food service activities• J – Information and communication• K – Financial and insurance activities• L – Real estate activities• M – Professional, scientific and technical activities• N - Administrative and support service activities

Appendix D: SME Relationships Questionnaire

ORC International**SME and large business relationships****BIS 98289****WHEN THROUGH TO THE RIGHT PERSON:**

Good morning / afternoon. My name is and I am working for an independent market research company called ORC International. Can I confirm that you would be the person to have responsibility and knowledge of commercial/ business relationships like supply chain relationships or other relationships with larger businesses?

ASK ALL

We are conducting a survey on behalf of the Department of Business, Innovation and Skills (or BIS as it is commonly known) to explore how businesses are working together, the types of relationships that exist between small and medium sized companies (SMEs) and larger businesses, and the impact of these relationships.

This research will feed into wider business policy design. All of your comments are confidential and your details will not be shared with any third parties.

The survey will last no longer than 15 minutes Are you willing to take part in the survey?

IF FURTHER INFORMATION REQUESTED:

- Send email verifying the research
- (If preferred) contact details are:
 - Cat York, Research Executive, **ORC International**, 020 7675 1061,
 - cat.york@orc.co.uk
 - Ian Drummond, **BIS**
Ian.Drummond@bis.dti.gov.uk

This research study is being carried out in accordance with the Market Research Society guidelines and I can assure you that all your responses will remain totally anonymous and will not be attributed to you personally.

IF WILLING TO PARTICIPATE CONTINUE WITH MAIN SURVEY**FROM SAMPLE – SECTOR, SIZE, TURNOVER****Part 1 - Business Context**

Q1. Firstly, what is your job title/position?

INTERVIEWER: READ OUT. SINGLE CODE.

1	Owner	CONTINUE
2	Chief Executive/Managing Director	CONTINUE
3	Chairman	CONTINUE
4	Finance Director	CONTINUE
5	Company Director	CONTINUE
6	Accountant	CONTINUE
7	Company Secretary	CONTINUE
8	Other (INCLUDE DON'T KNOW) – SPECIFY	THANK AND CLOSE

Q2. How many employees does your business currently employ across all sites, excluding owners and partners?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE.

1	<Enter number>	GO TO Q4
2	Don't know	CONTINUE
3	Refused	GO TO Q4

Q3. Could you please tell me, is it... ?

INTERVIEWER: READ OUT. SINGLE CODE.

1	0 employees	THANK AND CLOSE
2	1-9 employees	THANK AND CLOSE
3	10-49 employees	CONTINUE
4	50-249 employees	CONTINUE
5	250+ employees	THANK AND CLOSE
6	DO NOT READ OUT - Refused	CONTINUE
7	DO NOT READ OUT - Don't know	CONTINUE

Thinking about the structure of your company

Q4. Is your business...

INTERVIEWER: READ OUT, AND ASK FOR YES OR NO ANSWER FOR EACH OPTION. MULTICODE.

1	Family owned	GO TO Q6
2	A subsidiary company	GO TO Q5
3	Independent	GO TO Q6
4	Accountable to shareholders	GO TO Q6
5	Foreign owned	GO TO Q6
6	A franchise	GO TO Q5
7	Don't know	THANK AND CLOSE

**IF SUBSIDIARY (IF Q4=2) AND/OR Q4=6 (FRANCHISE) – INTERVIEWER PROMPT TO RESPONDENT:
PLEASE ANSWER ALL QUESTIONS IN RELATION TO YOUR COMPANY AND NOT THE LARGER
ORGANISATION**

IF Q4=2 (SUBSIDIARY) AND/OR Q4=6 (FRANCHISE)

Q5. And how much autonomy do you have as an individual business? Please rank on a scale of 1 to 5 where 1 is none at all and 5 is full autonomy.

INTERVIEWER: DO NOT READ OUT. SINGLE CODE.

1	None at all	THANK AND CLOSE
2		GO TO Q6 (IF Q4=1), OTHERWISE GO TO Q8
3		GO TO Q6 (IF Q4=1), OTHERWISE GO TO Q8
4		GO TO Q6 (IF Q4=1), OTHERWISE GO TO Q8
5	Full autonomy	GO TO Q6 (IF Q4=1), OTHERWISE GO TO Q8

IF Q4=1 (FAMILY OWNED)

Q6. Is the family currently involved in the management of the company?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE.

1	Yes	GO TO Q8
2	No	CONTINUE
3	Don't know	GO TO Q8

IF Q6=2 (FAMILY NOT CURRENTLY INVOLVED IN MANAGEMENT OF COMPANY)

Q7. Were the family previously involved in the management of the company?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE.

1	Yes	CONTINUE
2	No	CONTINUE
3	Don't know	CONTINUE

ASK ALL

Q8. Does your business have internal or external shareholders?

INTERVIEWER: DO NOT READ OUT. MULTICODE OPTIONS 1 and 2.

1	Yes - Internal	CONTINUE
2	Yes - External	CONTINUE
3	No	CONTINUE
4	Don't know	CONTINUE

Q9. In the past 12 months, have you asked for external advice from any of the following...

INTERVIEWER: READ OUT, AND ASK FOR YES OR NO ANSWER FOR EACH OPTION. MULTICODE

1	Management consultants	CONTINUE
2	Accountants	CONTINUE
3	Financial advisors	CONTINUE
4	Business Support	CONTINUE
5	Employee consultation	CONTINUE
6	Solicitors/ legal	CONTINUE
7	None of the above	CONTINUE
8	Other (SPECIFY)	CONTINUE

Q10. Can you please tell me the approximate turnover of your business in the past 12 months?

INTERVIEWER: READ OUT ONLY IF NECESSARY. SINGLE CODE.

1	Less than £500,000	CONTINUE
2	£500,000 – less than £1m	CONTINUE
3	£1m – less than £1.5m	CONTINUE
4	£1.5m – less than 2.8m	CONTINUE
5	£2.8m – less than £5m	CONTINUE
6	£5m - less than £10m	CONTINUE
7	£10m or more	CONTINUE
8	DO NOT READ OUT - Don't know	CONTINUE
9	DO NOT READ OUT - Refused	CONTINUE

Q11. Please can you tell me whether your business has grown, stayed the same or contracted in the following areas in the last 5 years?

Q11a. And which area do you consider a priority for growth?

INTERVIEWER: READ OUT. MULTICODE Q11, SINGLE CODE Q11a

		Q11	Q11a
1	Employee numbers	Grown, stayed the same, contracted, DK	CONTINUE
2	Turnover	Grown, stayed the same, contracted, DK	CONTINUE
3	Profit	Grown, stayed the same, contracted, DK	CONTINUE
4	Market share	Grown, stayed the same, contracted, DK	CONTINUE

IF Q11.1= employee numbers have grown or contracted ask Q12

If Q11.1= employee number have stayed the same or DK skip to Q14

Q12. How many employees did your business employ five years ago (in 2007) across all sites, excluding owners and partners?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE.

1	<Enter number>	GO TO Q14
2	Don't know	GO TO Q14
3	Refused	GO TO Q14

Q13. Could you please tell me, was it... ?

(ALL RESPONDENTS NOW ROUTED PAST THIS Q TO DECREASE QNAIRE LENGTH/ INCREASE EFFICIENCY)

INTERVIEWER: READ OUT. SINGLE CODE.

1	0 employees	CONTINUE
2	1-9 employees	CONTINUE
3	10-49 employees	CONTINUE
4	50-249 employees	CONTINUE
5	250+ employees	CONTINUE
6	DO NOT READ OUT - Refused	CONTINUE
7	DO NOT READ OUT - Don't know	CONTINUE

IF Q11=grown (for any of the options), if Q11=not grown (for all options) skip to Q15

Q14. Why has your business grown over the last 5 years?

INTERVIEWER: DO NOT READ OUT. PROBE. MULTICODE.

1	Organic growth / internal expansion	CONTINUE
2	New innovations	CONTINUE
3	Entering new geographical markets	CONTINUE
4	Diversification	CONTINUE
5	Any major investments	CONTINUE
6	New partnerships	CONTINUE
7	Merger and/or acquisition	CONTINUE
8	Exports	CONTINUE
9	Specialism/ concentrating on niche markets	CONTINUE
10	Because of the products/services	CONTINUE
11	High quality	CONTINUE
12	New customer demand/ or client demand	CONTINUE
13	Because of management/ planning/ strategy	CONTINUE
14	Better price	CONTINUE
15	More efficient	CONTINUE
16	Other (SPECIFY)	CONTINUE

ASK ALL

Q15. Thinking about the current time, would you say that your target market is:

INTERVIEWER: READ OUT. SINGLE CODE.

1	Growing	CONTINUE
2	Staying the same	CONTINUE
3	Contracting/ shrinking	CONTINUE

Q16. And thinking ahead, do you plan to:

INTERVIEWER: READ OUT. SINGLE CODE

1	Grow and build the business	CONTINUE
2	Remain the size you currently are	CONTINUE
3	Reduce in size/ scope	CONTINUE

Part 2 - Relationships/ partnerships in general

I'm now going to ask a few questions on your views about business to business relationships

Please answer thinking about supply chains, and any other more informal relationships you might have with larger businesses

Q17. Which factors do you think are most important for ensuring successful relationships between businesses?

DO NOT READ OUT. MULTICODE.

1	Personal bonds/ relationship between staff	CONTINUE
2	Quality/ frequency of communication	CONTINUE
3	Power distribution	CONTINUE
4	Trust	CONTINUE
5	Continuity of key staff managing relationship	CONTINUE
6	Long-term nature	CONTINUE
7	Transparency/honesty	CONTINUE
8	Paying on time	CONTINUE
9	Pricing (sensible pricing/ correct pricing)	CONTINUE
10	General communication	CONTINUE
11	Customer service	CONTINUE
12	Other (SPECIFY)	CONTINUE
13	Don't know	CONTINUE

Q18. And which factor/s do you think larger businesses consider when selecting a partner to work with?

DO NOT READ OUT. MULTICODE.

Q19. Do you think larger businesses would consider... ?

DP- List all not spontaneously mentioned in Q18

INTERVIEWER: READ OUT, AND ASK FOR YES OR NO ANSWER FOR EACH OPTION. MULTICODE

		Q18	Q19
1	Price	CONTINUE	CONTINUE
2	Previous relationship	CONTINUE	CONTINUE
3	Accreditations/ quality assurances	CONTINUE	CONTINUE
4	Personnel qualifications	CONTINUE	CONTINUE
5	Location	CONTINUE	CONTINUE
6	Quality of product/service	CONTINUE	CONTINUE
7	Other (SPECIFY)	CONTINUE	CONTINUE
8	Don't know	CONTINUE	CONTINUE

Q20. What do you think the benefits of collaborative working/ high quality relationships are?

DO NOT READ OUT. MULTICODE.

1	Financial gain	CONTINUE
2	Reduction of uncertainty	CONTINUE
3	Improved access to raw materials	CONTINUE
4	Improved access to finance	CONTINUE
5	Improved access to specialist skills	CONTINUE
6	Improved productivity through better staff retention	CONTINUE
7	Increased competitiveness	CONTINUE
8	Not encountered any benefits	CONTINUE
9	Better trust	CONTINUE
10	Longevity of relationship/ ability to have longer term relationship	CONTINUE
11	Other (SPECIFY)	CONTINUE
12	Don't know	CONTINUE

Q21. Have you encountered any barriers to engaging in relationships (supply chain or other relationships)?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Yes	CONTINUE
2	No	GO TO Q23
3	Don't know	GO TO Q23

IF Q21=1

Q22. What barriers have you encountered?

DO NOT READ OUT. MULTICODE.

1	Lack of suitable partners	CONTINUE
2	Desire to retain independence	CONTINUE
3	Lack of skills	CONTINUE
4	Other (SPECIFY)	CONTINUE
5	Don't know	CONTINUE

Q23. In your experience, do larger businesses encourage development and learning in SMEs like yourself, or not?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Yes, larger businesses do encourage	CONTINUE
2	No, larger businesses do not encourage	CONTINUE
3	Don't know	CONTINUE

Part 3 – Prevalence of relationships

Thank You. Now I'm going to ask you a few questions to explore the types of relationships your organisation has with larger companies.

First, we'll look at supply chain relationships.

INTERVIEWER: IF NEEDED: The definition of a supply chain is as follows:

"A supply chain includes all parties involved, directly or indirectly, in fulfilling a customer request"

Q24. Given your business profile, do you consider yourself to operate in a supply chain?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Yes	CONTINUE
2	No	GO TO Q27
3	Don't know	GO TO Q27

IF Q24=1

Please now think about the range of all supply chain relationships that you might have in place (including both relationships where you are a buyer and those where you are a supplier).

Q25. How many supply chains are you involved in?

1	0	GO TO Q24 (if business operates in a supply chain, this needs to be a positive number)
2	1-5	CONTINUE
3	6-10	CONTINUE
4	11-20	CONTINUE
5	21+	CONTINUE
6	Don't know	CONTINUE

Q26. What is the average length of time that you tend to maintain a supply chain relationship?

	Years/ Months (if DK to years, do not prompt for months)
--	--

Now, please think about other more informal business to business relationships and partnerships that you might have with larger companies (i.e. rather than commercial/ contractual/ supply chain relationships)...

Q27. How many, if any, of the following types of relationships do you have with larger companies?

INTERVIEWER: READ OUT RELATIONSHIP TYPES. DO NOT READ OUT FREQUENCY OPTIONS. SINGLE CODE EACH TYPE OF RELATIONSHIP

1	Networking relationships	0, 1-5, 6-10, 11-20, 21+, DK	CONTINUE
2	Partnerships (e.g. to co-develop a product or service)	0, 1-5, 6-10, 11-20, 21+, DK	CONTINUE
3	Research and development partnerships	0, 1-5, 6-10, 11-20, 21+, DK	CONTINUE
4	Mentoring	0, 1-5, 6-10, 11-20, 21+, DK	CONTINUE
5	Outsourcing for others	0, 1-5, 6-10, 11-20, 21+, DK	CONTINUE
6	Franchising	0, 1-5, 6-10, 11-20, 21+, DK	CONTINUE
7	Licensing in	0, 1-5, 6-10, 11-20, 21+, DK	CONTINUE
8	Licensing out	0, 1-5, 6-10, 11-20, 21+, DK	CONTINUE
9	Joint ventures/ non-permanent co-operation	0, 1-5, 6-10, 11-20, 21+, DK	CONTINUE
10	Other (SPECIFY)	0, 1-5, 6-10, 11-20, 21+, DK	CONTINUE

DP – LIST TYPES OF RELATIONSHIPS WITH POSITIVE SCORES, AND ASK Q28 FOR ALL OF THESE RELATIONSHIPS

Q28. What is the average length of time that you tend to maintain this/these relationships?

	Years/ Months (if DK to years, do not prompt for months)
--	--

NOTE TO DP: Depending on their answers to Part 3, all respondents will now be routed onwards as follows:

- If they don't have supply chain relationships (Q24=2, or Q25=1), but they do have other relationships (Q27=have relationships), go to Q45 (Part 5 – Non-supply chain relationships)
 - If they do have supply chain relationships (Q24=1), but they don't have other relationships (Q27=do not have relationships), go to Q29 (Part 4 – Supply chain relationships)
 - If they have neither type of relationship (no supply chain relationships (Q24=2, or Q25=1), or other relationships (Q27=do not have relationships)), go to Q59 (Part 6 – Future plans)
 - If they have both types of relationship (supply chain relationships (Q24=1), and other relationships (Q27=have relationships)), we want to be able to choose whether they continue to Q29 (Part 4) or Q45 (Part 5) – This will change as the fieldwork progresses
-

Part 4 – Supply Chain Relationships

Thinking about your supply chain relationships in more depth now, please focus on the largest supplier contract you have in place, where you supply goods or services up the supply chain to a larger business

If needed:

- Not a supply chain where you are the final customer
- largest supplier contract in terms of current financial value to your business

The next few questions look at the nature of this relationship, and the roles that you and the larger business play...

Q29. Firstly, what role does your business play in this specific supply chain?

INTERVIEWER: READ OUT. MULTICODE.

1	Provides a standardised end product/service	CONTINUE
2	Provides less standardised/more bespoke/short-term contracts	CONTINUE
3	Provides research and development or other specialised services feeding into product/service development	CONTINUE
4	Other (SPECIFY)	CONTINUE

Q30. And where do you sit in the supply chain with regards to this relationship/ contract?

INTERVIEWER: READ OUT. MULTICODE.

1	Direct selling to customer (ONLY IF NEEDED - Prime Contractors, OEMs etc)	CONTINUE
2	Top tier suppliers: supplying goods or services directly to the larger business	CONTINUE
3	Lower tier suppliers: supplying goods or services through one or more intermediate buyers	CONTINUE
4	Joint ventures/ non-permanent co-operation	CONTINUE
5	Other (SPECIFY)	CONTINUE

Q31. Do you work...

INTERVIEWER: READ OUT. SINGLE CODE

1	Independently	CONTINUE
2	As part of a Strategic alliance – e.g. a consortium to bid for work among (mostly) SMEs	CONTINUE
3	In partnership with larger companies to deliver work	CONTINUE
4	Other (SPECIFY)	CONTINUE

Q32. And how important would you say this supply chain relationship is to your business on a scale of 1 to 5 where 1 is very important and 5 is not at all important?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1 – Very important	2	3	4	5 – Not at all important

Q33. And what percentage of your turnover does this contract currently represent?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Enter response	CONTINUE
2	Refused	CONTINUE

Q34. What does the business you provide this product or service to mainly make or do?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Enter response	CONTINUE
2	Don't know	CONTINUE

Q35. How long has this contract been in existence?

	Years/ Months (if DK to years, do not prompt for months)
--	--

Q36. How long is the contract currently scheduled to continue?

	Years/ Months (if annual rolling contract, or if DK to years, do not prompt for months)
	Annual rolling contract

Q37. Why did the relationship begin? (Probe: what was the motivation for taking part in this supply chain relationship)?

INTERVIEWER: DO NOT READ OUT. MULTICODE CODE

1	Financial gain	CONTINUE
2	To win new business with the desire that it grows into something significant	CONTINUE
3	Increase flexibility	CONTINUE
4	Increase competitiveness	CONTINUE
5	Reduction of uncertainty	CONTINUE
6	Improved access to raw materials, finance and specialist skills	CONTINUE
7	Out of previous relationships	CONTINUE
8	Other (SPECIFY)	CONTINUE

Q38. Is the relationship actively managed by a member of senior management within your business?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Yes	CONTINUE
2	No	CONTINUE
3	Don't know	CONTINUE

Q39. Has the relationship been managed by the same key contacts in both organisations throughout its duration so far?

INTERVIEWER: READ OUT. SINGLE CODE

1	Yes – both contacts the same	CONTINUE
2	No – changed in your business	CONTINUE
3	No – changed in the other business	CONTINUE
4	No – changed in both	CONTINUE
5	Don't know	CONTINUE

Q40. How geographically dispersed is the supply chain network?

INTERVIEWER: READ OUT. SINGLE CODE

1	Local only	CONTINUE
2	Regional	CONTINUE
3	National	CONTINUE
4	International	CONTINUE
5	Don't know	CONTINUE

Q41. Thinking about the current location of your business, is this mostly due to:

INTERVIEWER: READ OUT. SINGLE CODE

1	Proximity to existing customers, networks and partners	CONTINUE
2	Proximity to potential new customers, networks and partners	CONTINUE
3	Don't know	CONTINUE

I'd now like to ask a few more questions on your overall view of the impacts of this particular supply chain relationship.

Please answer the following questions on a scale of 1 to 5, where 1 is strongly agree, and 5 is strongly disagree

Q42. To what extent do you agree or disagree that

INTERVIEWER: READ OUT. SINGLE CODE

1	Your relationship is based on trust	1-5; DK	CONTINUE
2	Your relationship is based on equality	1-5; DK	CONTINUE
3	You would like to have a closer relationship with the business you supply goods/services to on this contract	1-5; DK	CONTINUE
4	The business you supply goods/services to has specifically requested that training should be given to staff in certain areas	1-5; DK	CONTINUE
5	There are benefits from this relationship, other than payment for work done	1-5; DK	CONTINUE
6	There are drawbacks from this relationship	1-5; DK	CONTINUE

IF Q42.5=1/2 (agree that there are more benefits than expected)

Q43. What benefits have you encountered?

INTERVIEWER: DO NOT READ OUT. MULTI-CODE

1	Increased turnover/sales	CONTINUE
2	Increased productivity	CONTINUE
3	Increased profits	CONTINUE
4	Expansion of business/need to hire more staff	CONTINUE
5	Improvement in skills/ training of staff	CONTINUE
6	Increased competitiveness	CONTINUE
7	Enhanced reputation	CONTINUE
8	Advancements in technology/ ICT	CONTINUE
9	Learnt new techniques,	CONTINUE
10	A share of Intellectual Property rights	CONTINUE
11	Joint marketing/events	CONTINUE
12	Retained clients/ new clients	CONTINUE
13	Other (SPECIFY)	CONTINUE

IF Q42.6=1/2 (agree that there are more drawbacks than expected)

Q44. What drawbacks have you encountered?

INTERVIEWER: DO NOT READ OUT. MULTI-CODE

1	No financial gain	GO TO Q59
2	Lack of power in decision making	GO TO Q59
3	Unreasonable demands/ client	GO TO Q59
4	Other (SPECIFY)	GO TO Q59
5	Don't know	GO TO Q59

Part 5 – Non-supply chain relationships

Thinking about your non supply chain relationships in more depth now, please focus on the most important relationship that you have with a larger company.

The next few questions look at the nature of this relationship, and the roles that you and the larger business play...

Q45. Can you describe the nature of this relationship?

OPEN VERBATIM

Q46. And do you work...

INTERVIEWER: READ OUT. SINGLE CODE

1	As an equal or close partner with another SME	CONTINUE
2	As a partner with a larger business	CONTINUE
3	As part of an SME cluster	CONTINUE
4	Don't know	CONTINUE

Q47. Is the relationship actively managed by a member of senior management within your business?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Yes	CONTINUE
2	No	CONTINUE
3	Don't know	CONTINUE

Q48. Has the relationship been managed by the same key contacts in both organisations throughout its duration so far?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Yes – both contacts the same	CONTINUE
2	No – changed in your business	CONTINUE
3	No – changed in the other business	CONTINUE
4	No – changed in both	CONTINUE
5	Don't know	CONTINUE

Q49. What does the business you are in a relationship with mainly make or do?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Enter response	CONTINUE
2	Don't know	CONTINUE

Q50. And how important would you say this relationship is to your business on a scale of 1 to 5 where 1 is very important and 5 is not at all important?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

	1 – Very important	2	3	4	5 – Not at all important

Q51. How long has this relationship been in existence?

	Years/ Months (if DK to years, do not prompt for months)
--	--

Q52. How long is it likely to continue?

	Years/ Months (if DK to years, do not prompt for months)
--	--

Q53. Why did the relationship begin? (Probe, what was the motivation for taking part in this relationship)?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Financial gain	CONTINUE
2	To win new business with the desire that it grows into something significant	CONTINUE
3	Increase flexibility	CONTINUE
4	Increase competitiveness	CONTINUE
5	Reduction of uncertainty	CONTINUE
6	Improved access to raw materials	CONTINUE
7	Improved access to finance	CONTINUE
8	Improved access to specialist skills	CONTINUE
9	Mutual benefit	CONTINUE
10	To fill a need	CONTINUE
11	Other (SPECIFY)	CONTINUE

Q54. How geographically dispersed is the network/ relationship?

INTERVIEWER: READ OUT. SINGLE CODE

1	Local only	CONTINUE
2	Regional	CONTINUE
3	National	CONTINUE
4	International	CONTINUE
5	Don't know	CONTINUE

Q55. Thinking about the current location of your business, is this mostly due to:

INTERVIEWER: READ OUT. SINGLE CODE

1	Proximity to existing customers, networks and partners	CONTINUE
2	Proximity to potential new customers, networks and partners	CONTINUE
3	DO NOT READ OUT - Don't know	CONTINUE

I'd now like to ask a few more questions on your overall view of the impacts of this particular relationship.

Please answer the following questions on a scale of 1 to 5, where 1 is strongly agree, and 5 is strongly disagree

Q56. To what extent do you agree or disagree that

INTERVIEWER: READ OUT. SINGLE CODE

1	Your relationship is based on trust	1-5; DK	CONTINUE
2	Your relationship is based on equality	1-5; DK	CONTINUE
3	You would like to have a closer relationship with the business you are in a relationship with	1-5; DK	CONTINUE
4	The business you are in a relationship with has specifically requested that training should be given to staff in certain areas	1-5; DK	CONTINUE
5	There are benefits from this relationship, other than payment for work done	1-5; DK	CONTINUE
6	There are drawbacks from this relationship	1-5; DK	CONTINUE

IF Q56.5=1/2 (agree that there are more benefits than expected)

Q57. What benefits have you encountered?

INTERVIEWER: DO NOT READ OUT. MULTI-CODE

1	Increased turnover/sales	CONTINUE
2	Increased productivity	CONTINUE
3	Increased profits	CONTINUE
4	Expansion of business/need to hire more staff	CONTINUE
5	Improvement in skills/ training of staff	CONTINUE
6	Increased competitiveness	CONTINUE
7	Enhanced reputation	CONTINUE
8	Advancements in technology/ ICT	CONTINUE
9	Learnt new techniques,	CONTINUE
10	A share of Intellectual Property rights	CONTINUE
11	Joint marketing/events	CONTINUE
12	Retained clients/new clients	CONTINUE
13	Other (SPECIFY)	CONTINUE

IF Q56.6=1/2 (agree that there are more drawbacks than expected)

Q58. What drawbacks have you encountered?

INTERVIEWER: DO NOT READ OUT. MULTI-CODE

1	No financial gain	CONTINUE
2	Lack of power in decision making	CONTINUE
3	Unreasonable demands/ client	CONTINUE
4	Other (SPECIFY)	CONTINUE
5	Don't know	CONTINUE

Part 6 – Future plans**Thank you for all your answers so far. We are almost at the end of the survey.**

Q59. Looking ahead, do you have any future strategies in place to pursue or grow further supply chain relationships and/or other relationships?

INTERVIEWER: DO NOT READ OUT. SINGLE CODE

1	Yes – supply chain relationships	CONTINUE
2	Yes – other relationships	CONTINUE
3	Yes - both	CONTINUE
4	No	CONTINUE
5	Don't know	CONTINUE

Q60. In your view, what could be done to communicate and influence large businesses and smaller businesses to work together more effectively?

OPEN VERBATIM

Q61. We would like to speak to some organisations further to explore the nature of their relationships in more depth. Would you be happy to help us with this? There would be an incentive and we may contact you in the next couple of weeks if you agree.

1	Yes	CONTINUE
2	No	CONTINUE
3	Don't know	CONTINUE

Q62. The Department for Business, Innovation and Skills may be following up this study in a few months time. Would it be possible to recontact you at some point in the future?

1	Yes	CONTINUE
2	No	CONTINUE
3	Don't know	CONTINUE

Q63. Would it be possible for BIS to link your responses to other information that you have provided previously to the Government? By this data linkage, we can reduce the burden of our surveys on your business and can improve the evidence that we use. Data will only be used to inform research on businesses in aggregate - we will never release information that identifies any individual business - and your survey responses remain strictly confidential. Do you give your consent for us to do this?

1	Yes	CONTINUE
2	No	CONTINUE
3	Don't know	CONTINUE

THANK & CLOSE

Thank you very much for taking part in this survey. If you have any queries about this survey, I can give you the name and number of the Research Executive at ORC International, or if you'd like to verify our status I can give you a free phone number for the Market Research Society. Would you like these numbers?

If required read out:

Research Manager: Cat York: 020 7675 1900
The Market Research Society: 0500 396 999

- **Appendix E: SME Relationships Discussion Guide**

98289 – BIS SME and large business relationships

Topic guide – SME Relationships

Research commissioned by: Department for Business, Innovation and Skills (BIS)

Conducted by: the Public Services research division, ORC International

Date: January 2012

Method: 50 in depth interviews with SME businesses

Length of interview: 45 minutes

Research Aim:

To analyse how SMEs interact with large businesses

Key research objectives:

- What type of relationships do SMEs have with larger businesses (both inside and outside the supply chain)?
- How widespread and influential are these types of relationship, to what extent do they shape behaviours, experiences, and performance of SMEs?
- To what extent are some sectors effectively ‘regulated’ by a small number of large businesses?
- Overall, how do these relationships affect SME growth?

Introduction - your business

First of all could you tell me about you and the business?

- Can you tell me a bit more about what the company does? Sector?
- Who are your target customers?
- Who are your target customers?
 - o Probe who they actually sell to and what they supply (i.e. are they at the top of the supply chain – e.g. an Original Equipment Manufacturer, or are they somewhere lower down)
 - o Who supplies them?
- Who are your competitors?
 - o What do they do?
 - o Where are they based?
- How many staff do you have?
 - o What are different types of job role (i.e. sales, support, technical/delivery)?
- Confirm financial turnover/profitability – past and present
- Now thinking about you, what does your role involve?

Thinking now about the structure of your company

- Are you independent, owned by another company, by an investment company?
- Are you a subsidiary, or do you have subsidiaries?

- Do you have shareholders?
- Are you or were you originally a family business?
 - o How many generations of the same family were involved in the management?
 - o Are they still involved in the management?
- And thinking about your internal management, how is this structured?
 - o Junior, middle, senior management?
 - o Strategic management?
 - o Skills/ambitions/capabilities of current staff
- Do you use advisors?
 - o What types of advisors:
 - Management consultants?
 - Employee consultation?
 - Accountants?
 - Financial advisors?
 - Business Support? (used any Govt-backed services like Business Link in the past?)
 - Other

Growth of business

- Thinking back over the last 10 years, how has your company grown if at all?
- What have been the business metrics that you have focused on? (i.e. turnover to maintain market share; employee numbers or profit?)
- Why has that happened? Result of:
 - o Organic growth?
 - o New innovations?
 - o Entering new geographical markets?
 - o Diversification?
 - o Any major investments?
 - o New partnerships?
 - o Acquisition?
 - o Exports?

Your Market (present/future)

- Would you say your target market is growing or contracting?
- Do you have a sense of how the economy is impacting your customers, suppliers, competitors?
- How have you been impacted by the economic uncertainty? In what way? (staff, sales revenue, profits?)

Desire to grow the business (future)

- What are your aspirations as a business?
 - o Do you want to grow and build the business?
 - o How do you want to grow (staff, revenue, market share, profits, geography)?
 - o What are the plans for expansion?

Supply Chain Relationships with larger companies

Extent of Supply Chain Relationships

I now want you to think about the range of all supply chain relationships that you might have in place (including both relationships where you are a buyer and those where you are a supplier).

Firstly, could you tell us a bit about the nature of all supply chain relationships that you are involved in?

- How many larger businesses do you supply goods/services to?
- How many larger businesses supply goods/services to you?
 - o Probe for strength of relationship/importance to business
 - o Type of goods/services they supply or supplied to them?
 - o Long/short-term status?
 - o Value of contracts?

Now focusing on supply chain relationships where you supply goods/services...

How would you describe the relationships you have with:

- With the more important businesses (larger contracts/businesses) you supply goods/services to?
- With the less important businesses (smaller contracts/businesses) you supply goods/services to?
- What requirements do larger companies you supply to have of you?
 - o Probe for: Accreditation/QA processes/payment terms/other contractual obligations

Focusing in on largest supply chain relationship (present)

Next, still thinking about relationships in place where you sell goods/services on to larger businesses, please think of the largest supplier contract you have in place (in terms of company size that you supply to). The next few questions surround the nature of this relationship, and the respective roles you and the larger business play...

- Where do you sit in the supply chain with regards to this relationship/contract?
 - o Final customer
 - o Direct selling to customer
 - o Top tier suppliers: supplying goods or services directly to the larger business
 - o Lower tier suppliers: supplying goods or services through one or more intermediate buyers
 - o Joint ventures/non-permanent co-operation
- What type of role does your business play in this supply chain relationship?
 - o Standardised end product/service – primarily compete on cost against other SME suppliers
 - o Less standardised/more bespoke/short-term contracts etc
 - o R&D or other specialised services feeding into product/service development
 - o Strategic alliance – e.g. consortium to bid for work among (mostly) SMEs
 - o Partnering with larger company to deliver work
 - o Other
- Thinking now about this particular business that you supply goods/services to, how would you describe them?

- What type of company is it? Why do you work with them?
- How is the relationship managed/how does it work?
 - Who by (tier of management)? What role do key people have to play in this?
 - How are they maintained? Meetings? Contract updates?
- Length of contract?
- How geographically dispersed is the network/partnership?
 - Local only?
 - Regional?
 - National?
 - International?
 - Was the location of their business based on considerations to do with available networks and partners in the region?
 - Are you involved in the contractual process at every step, or from early in the process, or are you only called upon to fulfil a certain need at a certain point? – i.e. partnership or contracts?
- And do you work as...
 - Equal or close partner with another SME?
 - Partner with larger business?
 - Part of SME cluster?

Evolution of largest supply chain relationship (past)

Now, please look back and think about how this relationship/contract began. We are interested here in how the relationship was initiated, your motivations for doing so, and how it developed from there.

- How did the relationship(s) start?
 - Purely commercial/contractual?
 - What was the original basis for getting together? Formal/informal?
- What was the motivation for taking part in a supply chain/partnership?
 - Financial gain (only)?
 - To win new business with the desire that it grows into something significant?
 - Increase flexibility?
 - Increase competitiveness?
 - Reduction of uncertainty?
 - Improved access to raw materials, finance and specialist skills?
- How did the relationship develop/get maintained?
 - Still contractual; maintained by key people?
- Did you *expect* anything other than a purely contractual relationship when the relationship/partnership started out?

Attitudes towards and impact of supply chain relationship

I'd now like to ask a few more questions on your overall view of the impact of this particular supply chain relationship, covering aspects such as whether any benefits have been derived, and discussing the relationship dynamic in a little more detail...

- What did you find good about this arrangement?
 - What actual benefits has the overall arrangement brought to your business
 - What has not worked as well?
- Do you consider there to be an equal partnership between you and the larger business?
 - Take into account their needs e.g. when designing timetable etc? Or make unnecessary demands?
- To what extent do you agree that your relationship is based on trust and equity? Why?

- What impacts have you experienced from joint working:
 - o On the bottom line?
 - o On skills?
 - o Other impacts from partnering?
 - o On competitiveness?
 - o On reputation?
- What explicit benefits have you received, if any, from this supply chain relationship (other than payment for work done)?
 - o What have you learnt – new techniques, a share of Intellectual Property rights?
 - o Has the contractor offered advice or support to up-skill the workforce?
 - o Have you actively demanded (a proportion of) the workforce be skilled to a certain level or in certain areas?
- Are you getting the most out of this relationship?
- What else did you expect?
- Where could they be improved?
- Do they feel they are exploited? Or are there examples of where they might be exploiting partners? How do they do this?
- Or do they take the lead? Could they take the lead?
- Examples of where relationships/partnerships have not worked?
 - o Why? Costs? Better options? VFM?

Non-supply chain relationships with larger businesses (other partnerships with larger businesses)

Extent of Non-Supply Chain Relationships (Partnerships)

I'd now like you to think about other more informal partnerships and relationships that you might have with larger companies (i.e. rather than commercial/contractual/relationship)...

- What other partnerships or relationships do you have in place with larger companies?
 - o Networking relationships
 - o Partnerships (e.g. to co-develop a product or service)
 - o R&D partnerships?
 - o Mentoring
 - o Outsourcing for others,
 - o Franchising
 - o Licensing in/Licensing out
 - o Joint ventures/non-permanent co-operation
 - o Strategic Alliances – i.e. Consortium bidding?

Focusing in on main partnership (present)

Next, please think of the most important partnership (i.e. non-supply chain relationship) you have in place with a larger company. The next few questions surround the nature of this relationship, and the respective roles you and the larger business play...

- Thinking now about this particular business that you have a partnership relationship with, how would you describe them?
 - o What type of company is it? Why do you work with them?
- And thinking about the partnership itself, what roles do you/the larger business play?
- How is the relationship managed/how does it work?
 - o Who by (tier of management?)? What role do key people have to play in this?
 - o How are they maintained? Meetings? Contract updates?
- Length of partnership?
- How geographically dispersed is the network/partnership?
 - o Local only?

- Regional?
- National?
- International?
- Was the location of their business based on considerations to do with available networks and partners in the region?
- And do you work...
 - In your own right as a partner with the large business
 - As an equal or close partner with another SME
 - As a partner with larger business
 - As part of SME cluster

Evolution of largest partnership (past)

Now, please look back and think about how this partnership began. We are interested here in how the relationship was initiated, your motivations for doing so, and how it grew from there.

- How did the relationship(s) start?
 - Purely commercial?
 - What was the original basis for getting together? Formal/informal?
- What was the motivation for taking part in a partnership?
 - Financial gain (only)?
 - Increase flexibility?
 - Increase competitiveness?
 - Reduction of uncertainty?
 - Improved access to raw materials, finance and specialist skills?
- How did the relationship develop/get maintained?
 - Still contractual; maintained by key people?
- What were your expectations at the start of the partnership?

Attitudes towards and Impact of partnership

I'd now like to ask a few more questions on your overview view of the impact of this partnership, covering aspects such as whether any benefits have been derived, and discussing the relationship dynamic in a little more detail...

- What did you find good about this arrangement?
 - What actual benefits has the overall arrangement brought to your business
 - What has not worked as well?
- Do you consider there to be an equal partnership between you and the larger business?
 - Take into account their needs?
- To what extent do you agree that your relationship is based on trust and equity? Why?
- What impacts have you experienced from joint working:
 - On the bottom line?
 - On skills?
 - Other impacts from partnering?
 - On competitiveness?
 - On reputation?
- What explicit benefits have you received, if any, from this partnership (other than payment for work done)?
 - What have you learnt – new techniques, a share of Intellectual Property rights?
 - Has the contractor offered advice or support to up-skill the workforce?
 - Have you actively demanded (a proportion of) the workforce be skilled to a certain level or in certain areas?
- Are you getting the most out of this relationship?
- What else did you expect?
- Where could they be improved?

- Do they feel they are exploited? Or are there examples of where they might be exploiting partners? How do they do this?
- Or do they take the lead? Could they take the lead?
- Examples of where relationships/partnerships have not worked?
 - o Why? Costs? Better options? VFM?

Relationships/partnerships in general

Thinking now more generally about supply chain relationships and other partnerships...

- How long do such relationships last/have they lasted, on average?
 - o All short-term – no longer term relationships beyond spot contracts (even if repeat business, all done contractually)?
 - o Longer-term continuous relationship?
 - o Has a relationship been terminated for cost reasons –i.e. larger businesses discarding a long-term prior relationship because of a lower bid from a rival?
- What makes a successful (quality) relationship?
 - o Relationship between key staff?
 - o Quality/Frequency of communication?
 - o Long-term nature?
 - o Power distribution?
 - o Anything else?
- Do you think that larger business look at only price or do they take into account previous relationships/partnerships and how much do they value this?
- What are the benefits of collaborative working/high quality partnerships?
 - o Reduction of uncertainty?
 - o Improved access to raw materials, finance and specialist skills?
 - o Improved productivity through better staff retention?
 - o Increased competitiveness?
- Have you encountered any barriers to engaging in relationships?
 - o Lack of suitable partners?
 - o Desire to retain independence?
- In your experience, do larger businesses encourage development and learning from SMEs like yourself?

Future plans

- Do you have any future strategies in place to pursue grow/cultivate further relationships/partnerships?
- SUPPLY CHAIN: Do you plan/could you implement strategies to:
 - o Shift from low cost to greater value added;
 - o Moving up the supply chain to work more closely with customer (how would they do this? Do they have the skills as a business to do this ... Any strategies in place to realise this potential?)
 - o Staying in same supply chain position but working more closely with customer;
 - o Keeping same position but providing greater value?

Close

- In your view, what could be done to communicate and influence large businesses and smaller businesses to work together more effectively? Government activity or elsewhere?

URN 12/1196 - Exploring how SMEs interact with large businesses