Small Business Strategy: an empirical analysis of the experience of new Scottish firms

Volume II: Appendices

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A thesis submitted in partial fulfilment of the requirements of the University of Abertay Dundee for the degree of Doctor of Philosophy

This research programme was carried out in collaboration with the Centre for Research into Industry, Enterprise, Finance and the Firm (CRIEFF), Department of Economics, University of St Andrews

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I certify that this thesis is the true and accurate version of the thesis approved by the examiners.

Signed: [Redacted] (Director of Studies)
Small Business Strategy: an empirical analysis of the experience of new Scottish firms

Volume II: Appendices

APPENDIX I Data Dictionary

APPENDIX II Administered Questionnaire

APPENDIX III Semi-Structured Questionnaire

APPENDIX IV Case Studies

APPENDIX V Publications
APPENDIX I

Administered Questionaire: Data Dictionary

Notes to Appendix I

Appendix I gives the Business Strategy variable names used in the Database that holds all of the Administered Questionnaire data, and shows how answers were coded for ease of analysis.

Notes to accompany the Data Dictionary

'**' used where the value is missing because it does not apply

'?' used where the value is missing because it is unavailable

Note

1 = 0 (no), = 1 (yes)

2 = 0 (in-house), = 1 (outside)

3 'on-going' is coded as monthly

4 = 0 (scarce), = 1 (moderate), = 2 (very)

5 = 0 (not applicable), = 1 (could be better), = 2 (fair), = 3 (good)

6 = 1 (adaptability), = 2 (faith in the business), = 3 (foresight/forward planning), = 4 (values of management), = 5 (plant and resources), = 6 (managers), = 7 (employees), = 8 (product quality), = 9 (product range), = 10 (organisation structure/systems), = 11 (sources of finance), = 12 (customers), = 13 (suppliers), = 14 (market share), = 15 (technological/specialist know-how), = 16 (innovativeness/new ideas), = 17 (image), = 18 (other)

7 = 0 (not applicable), = 1 (weak), = 2 (medium), = 3 (strong)

8 = 1 (rivals' adaptability), = 2 (rivals' foresight/forward planning), = 3 (rivals' plant and resources), = 4 (rivals' managers), = 5 (rivals' employees), = 6 (rivals' product quality), = 7 (rivals' product range), = 8 (rivals' organisation structure/systems), = 9 (rivals' customers), = 10 (rivals' suppliers), = 11 (rivals' market share), = 12 (rivals' technological/specialist know-how), = 13 (rivals' innovativeness/new ideas), = 14 (rivals' image), = 15 (red tape/government legislation), = 16 (breakdown of barriers to trade in EC), = 17 (substitutes), = 18 (competition), = 19 (other)

10 = 0 (not applicable), = 1 (none), = 2 (some), = 3 (a lot)

11 = 1 (adaptability), = 2 (faith in the business), = 3 (foresight/forward planning), = 4 (values of management), = 5 (plant and resources), = 6 (managers), = 7 (employees), = 8 (product quality), = 9 (product range), = 10 (organisation structure/systems), = 11 (sources of finance), = 12 (customers), = 13 (suppliers), = 14 (market share), = 15 (technological/specialist know-how), = 16 (innovativeness/new ideas), = 17 (image), = 18 (breakdown of barriers to trade in EC), = 19 (other)
# Administered Questionnaire: Data Dictionary

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Table</th>
<th>Note</th>
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<td>STRATEGY</td>
<td>Business strategy data (strat)</td>
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<td>BUSPLAN</td>
<td>whether firm has a business plan</td>
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<td>FORMWRIT</td>
<td>whether business plan is formal &amp; written (=0) or 'in head' (=1)</td>
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<tr>
<td>WHOPLAN A</td>
<td>respondent was involved in the business plan</td>
<td>strat 1</td>
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<tr>
<td>WHOPLAN B</td>
<td>family and/or friends were involved in the business plan</td>
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<tr>
<td>WHOPLAN C</td>
<td>&gt;1 person in business was involved in the business plan</td>
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</tr>
<tr>
<td>WHOPLAN D</td>
<td>outside help was involved in the business plan</td>
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<tr>
<td>WHOPLAND</td>
<td>some other people were involved in the business plan</td>
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<tr>
<td>WHOPLAN 1</td>
<td>others who were involved in the business plan</td>
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<td>how often business plan is reviewed (in months)</td>
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<td>IMPACT</td>
<td>time firm looks ahead, considering impact of decisions (mths)</td>
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<td>respondent involved in business as alternative to unemployment</td>
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<td>respondent involved in business to get rich</td>
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<td>INVOLVE C</td>
<td>respondent involved in business to take over family business</td>
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<tr>
<td>INVOLVE D</td>
<td>respondent involved in business to profit from a hobby</td>
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<tr>
<td>INVOLVE E</td>
<td>respondent involved in business to be own boss</td>
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<tr>
<td>INVOLVE F</td>
<td>respondent involved in business to satisfy need for achievement</td>
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<tr>
<td>INVOLVE G</td>
<td>respondent involved in business to exploit market opportunity</td>
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<td>INVOLVE H</td>
<td>respondent involved in business for other reason</td>
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<td>other reason for respondent becoming involved in business</td>
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<td>MAINAIM A</td>
<td>main aim of the business is survival</td>
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<td>MAINAIM E</td>
<td>main aim of the business is increased sales</td>
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<td>MAINAIM F</td>
<td>main aim of the business is increased market share</td>
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<td>MAINAIM G</td>
<td>main aim of the business is a high rate of return</td>
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<td>whether firms seeks inside or outside advice on R&amp;D</td>
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<td>STRPROD</td>
<td>whether firms seeks inside or outside advice on new products</td>
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<td>whether firms seeks inside or outside advice on legal matters</td>
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<td>whether firms seeks inside or outside advice on insurance</td>
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<td>firm uses factoring to improve cash flow</td>
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<td>C A S H U P B</td>
<td>firm uses invoice discounting to improve cash flow</td>
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<td>C A S H U P C</td>
<td>firm extends trade credit to improve cash flow</td>
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<td>C A S H U P D</td>
<td>firm chases up debtors to improve cash flow</td>
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<td>C A S H U P</td>
<td>some other method is used to improve cash flow</td>
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<td>C A S H U P 1</td>
<td>other method used to improve cash flow</td>
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<td>F I N B A N K</td>
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<td>F I N V C I</td>
<td>whether firm has previously been financed by venture capital</td>
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<td>F I N B U S A N</td>
<td>whether firm has previously been financed by business angel</td>
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<td>F I N O T H</td>
<td>whether firm has previously been financed by other methods</td>
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<td>S A C S T A K</td>
<td>whether respondent willing to sacrifice proportion of stake held</td>
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<td>F E E D B A C K</td>
<td>whether firm receives any feedback from customers</td>
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<td>A S K F E E D</td>
<td>feedback is asked for</td>
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<td>feedback is given freely</td>
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<td>C O M N O T</td>
<td>whether respondent does nothing with/about feedback</td>
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<td>C O M C H A N</td>
<td>whether respondent implements changes suggested by customers</td>
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<td>whether respondent does something else with feedback</td>
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<td>whether respondent gathers trade intelligence on rivals</td>
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<td>whether firm gathers information on rivals' market share</td>
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<td>I N T P R O D</td>
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<td>whether firm gathers information on rivals' product quality</td>
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<td>whether firm gathers information on rivals' finances</td>
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<td>whether firm gathers information on rivals' customer relations</td>
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<td>how regularly information is gathered about rivals</td>
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<td>G A T G O S S</td>
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<td>whether firm uses fax</td>
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<td>whether firm uses electronic mail</td>
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<td>whether firm uses radio communication</td>
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<td>whether information technology is used for networking</td>
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<td>whether information technology is used to produce accounts</td>
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<td>whether information technology is used to design new products</td>
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<td>whether information technology is used for some other reason</td>
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<td>TQM system gives improved motivation</td>
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<td>TQM system gives improved business image</td>
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<td>opportunity afforded by the firm's specialist know-how</td>
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<td>opportunity afforded by the firm's innovativeness</td>
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</table>
Notes to Appendix II

1. Appendix II contains the Business Strategy section (4) from the Administered Questionnaire. Included are the summary statistics (average results, given in percentages) from the first two years' of the study.

2. The results from year one are given to the left, in **bold italic**.

3. The results from year two are given to the right, in *underlined italic*.

4. There are some slight rounding errors in percentages.
4. Business Strategy

4.1 Do you have a business plan?
   (a) Yes 89% □ 64% (b) No 11% □ 36% Go to Question 4.2

4.1.2 Is it a formal, written plan or is it 'in your head'?
   (a) 79% □ 63% formal, written plan.
   (b) 21% □ 37% 'in your head'. Go to Question 4.1.4

4.1.3 Who was involved in preparing the plan? [Tick all that apply]
   (a) 100% □ 100% yourself
   (b) 9% □ 6% family or friends
   (c) 25% □ 35% others in the business
   (d) 68% □ 33% outside help
   (c) 35% □ 14% other [please describe] ___________________________

4.1.4 How often do you review this plan? [answer in months] 6 6 _______ monthly

4.2 How far ahead do you look when evaluating the impact that planned decisions might have? [answer in months]
   15 19 _______ months

4.3 What is your main reason for running this business? [Tick one]

Is it:
   (a) 25% □ 17% an alternative to unemployment
   (b) 6% □ 17% to 'get rich'
   (c) 0% □ 0% to take over the family business
   (d) 8% □ 3% to profit from a hobby
   (c) 18% □ 13% to be your own boss
   (f) 25% □ 36% to satisfy the need for achievement
   (g) 11% □ 9% to exploit a new market opportunity
   (h) 5% □ 6% other [please specify] ________________________________
4.4 What is the main aim of the business? [Tick one only]

(a) 16% ___________ survival
(b) 1% ___________ short term profit
(c) 30% ___________ long term profit
(d) 20% ___________ growth
(e) 8% ___________ increased sales
(f) 12% ___________ increased market share
(g) 8% ___________ high rate of return
(h) 5% ___________ other [please specify]

4.5 Decisions can be either strategic [LONG-TERM. e.g. whether or not to branch out into a new product-market niche], or operational [SHORT-TERM. e.g. which computer software to use for producing accounts].

When making decisions, do you consider the past experience of other, similar businesses, first of all for strategic, and then for operational decisions?

4.5.1 Strategic | 4.5.2 Operational

(a) Yes 56% ___________ 67%
(b) No 44% ___________ 33%

4.5.3 Strategic | 4.5.4 Operational

(a) One person 45% ___________ 47%
(b) More than one person 55% ___________ 53%

Are these decisions imposed upon the business by one person, or do they come about through negotiation between more than one person? Again please answer for both strategic and operational decisions.

4.6 What percentage of decisions are made for personal reasons, and what percentage for financial reasons?

Personal 30% ___________ 29% Financial 70% ___________ 71%
4.7 When you are constructing a new business strategy, where do you turn for help? Is it from outside, or is it available 'in house'?

Could you answer for each item on this list.

<table>
<thead>
<tr>
<th>In-House</th>
<th>Outside</th>
<th>Pay for?</th>
<th>N/A</th>
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</thead>
<tbody>
<tr>
<td>(a) new investment</td>
<td>49%</td>
<td>27%</td>
<td>51%</td>
</tr>
<tr>
<td>(b) marketing</td>
<td>62%</td>
<td>73%</td>
<td>38%</td>
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<tr>
<td>(c) personnel</td>
<td>77%</td>
<td>79%</td>
<td>23%</td>
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<tr>
<td>(d) R &amp; D</td>
<td>74%</td>
<td>72%</td>
<td>26%</td>
</tr>
<tr>
<td>(e) new product design</td>
<td>78%</td>
<td>68%</td>
<td>22%</td>
</tr>
<tr>
<td>(f) legal matters</td>
<td>35%</td>
<td>6%</td>
<td>65%</td>
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<tr>
<td>(g) insurance</td>
<td>11%</td>
<td>28%</td>
<td>89%</td>
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<tr>
<td>(h) accounting matters</td>
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<td>9%</td>
<td>86%</td>
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<tr>
<td>(i) other [please specify]</td>
<td>0%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.7.2 For those for which you have ticked outside, could you also please indicate whether you pay for that advice.

4.8 In order to make more cash available, do you:

4.8.1 inject more capital. Go to Question 4.8.3

4.8.2 How do you do this? [tick one]

<table>
<thead>
<tr>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>(d)</th>
<th>(e)</th>
</tr>
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<tbody>
<tr>
<td>3%</td>
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<td>2%</td>
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<tr>
<td>0%</td>
<td>2%</td>
<td>46%</td>
<td>51%</td>
<td>17%</td>
</tr>
<tr>
<td>factoring [i.e. factor takes full responsibility for the sales ledger; customer is aware of this]</td>
<td>invoice discounting [i.e. customer pays into a trust bank account; usually confidential]</td>
<td>extending credit with suppliers[i.e. giving you longer to pay]</td>
<td>chasing up debtors more quickly</td>
<td>other [please specify]</td>
</tr>
</tbody>
</table>
4.8.3 How have you raised finance in the past? [tick all that apply]
(a) 91% □ 94% personal financial injection
(b) 15% □ 11% loan from family or friend
(c) 5% □ 3% family or friend taking 'share' in business
(d) 49% □ 67% bank loan or overdraft
(e) 1% □ 2% venture capital equity stake
(f) 1% □ 1% 'business angel' equity stake
(g) 73% □ 75% grant or subsidy
(h) 6% □ 15% other [please specify] ________________

4.9 Are you willing to sacrifice a proportion of your stake in the business in order to promote growth?
(a) Yes 49% □ 56% (b) No 51% □ 44% Go to Question 4.10

What is the minimum stake, as a percentage of total equity, that you would be willing to hold?
52% 52% _____ %

4.10 Are you willing to accept smaller profits for a time, in order to expand the business?
(a) Yes 89% □ 89% (b) No 11% □ 11%

4.11 4.11.1 Do you receive any feedback from your customers about your products?
(a) Yes 98% □ 99% (b) No 2% □ 1% Go to Question 4.12

4.11.2 Do you (a) ask for it 23% □ 18%; is it (b) given freely 30% □ 19%; or (c) both 48% □ 63%?

4.11.3 How do you react to their comments? [tick all that apply]
(a) 84% □ 83% take note of them, for referral later
(b) 60% □ 55% discuss them with other customers
(c) 86% □ 85% implement changes based on their suggestions
(d) 2% □ 3% do nothing
(e) 16% □ 12% other [please specify] ________________
4.12 4.12.1 Do you gather trade intelligence on your rivals?
(a) Yes 65% □ 55%  (b) No 35% □ 45%  Go to Question 4.13

4.12.2 What form does this information take?

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<th>Yes (%)</th>
<th>No (%)</th>
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</thead>
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<td>(a) market share</td>
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<td>52%</td>
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<tr>
<td>(b) new products</td>
<td>81%</td>
<td>86%</td>
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<tr>
<td>(c) product quality</td>
<td>92%</td>
<td>93%</td>
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<tr>
<td>(d) financial performance</td>
<td>30%</td>
<td>32%</td>
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<tr>
<td>(e) customer relations</td>
<td>83%</td>
<td>82%</td>
</tr>
<tr>
<td>(f) personnel</td>
<td>64%</td>
<td>63%</td>
</tr>
<tr>
<td>(g) marketing methods</td>
<td>79%</td>
<td>82%</td>
</tr>
<tr>
<td>(h) pricing</td>
<td>n.a.</td>
<td>86%</td>
</tr>
<tr>
<td>(i) other [please specify]</td>
<td>14%</td>
<td>4%</td>
</tr>
</tbody>
</table>

4.12.3 How regularly is this done or reviewed?
[answer in months]

2 2 ______ monthly

4.12.4 How do you gather this information?
[tick all that apply]

<table>
<thead>
<tr>
<th>Source</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) electronic databases</td>
<td>9%</td>
<td>18%</td>
</tr>
<tr>
<td>(b) government publications</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>(c) trade journals</td>
<td>57%</td>
<td>55%</td>
</tr>
<tr>
<td>(d) library sources</td>
<td>14%</td>
<td>16%</td>
</tr>
<tr>
<td>(e) newspapers</td>
<td>65%</td>
<td>63%</td>
</tr>
<tr>
<td>(f) membership of trade associations</td>
<td>41%</td>
<td>43%</td>
</tr>
<tr>
<td>(g) own research/conversations</td>
<td>99%</td>
<td>98%</td>
</tr>
<tr>
<td>(h) other [please specify]</td>
<td>27%</td>
<td>23%</td>
</tr>
</tbody>
</table>
4.13.1 Information Technology (IT) refers to the devices businesses use to transmit, store and process information e.g. telephone, fax, PC.

How important is information technology (IT) to your business?

Is it:
(a) 15% □ 25% scarcely. Go to Question 4.14
(b) 20% □ 22% moderately
(c) 64% □ 54% very important?

4.13.2 Which kinds of IT do you use?

<table>
<thead>
<tr>
<th>Kind of IT</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) telephone</td>
<td>99%</td>
<td>1%</td>
</tr>
<tr>
<td>(b) fax</td>
<td>72%</td>
<td>28%</td>
</tr>
<tr>
<td>(c) telephone answering machine</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>(d) electronic mail</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>(e) telephone conferencing</td>
<td>8%</td>
<td>92%</td>
</tr>
<tr>
<td>(f) video conferencing</td>
<td>1%</td>
<td>99%</td>
</tr>
<tr>
<td>(g) cellular telephone</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>(h) satellite link</td>
<td>2%</td>
<td>98%</td>
</tr>
<tr>
<td>(i) radio communication</td>
<td>6%</td>
<td>94%</td>
</tr>
<tr>
<td>(j) microfiche</td>
<td>5%</td>
<td>95%</td>
</tr>
<tr>
<td>(k) personal computers</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>(l) electronic database</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>(m) other [please specify]</td>
<td>5%</td>
<td>97%</td>
</tr>
</tbody>
</table>

4.13.3 For which of the following do you use information technology?
[check all that apply]

(a) 16% □ 18% tracking activities of competitors [e.g. electronic databases]
(b) 57% □ 40% networking [i.e. keeping in touch with what's going on / talking to those in the business]
(c) 58% □ 72% producing accounts
(d) 95% □ 96% administration [e.g. keeping track of buyers/suppliers]
(e) 48% □ 55% forecasting / producing business plan
(f) 33% □ 41% designing new products
(g) 36% □ 12% other [please specify] ___________________________
Total Quality Management (TQM) systems are installed with the help of consultants, who are employed by the business to suggest improvements in all areas. The main focus is on continuous improvement with quality being the responsibility of every employee.

4.14.1 Have you installed such a system?
(a) Yes 15% □ 13%  
(b) No 85% □ 87%  Go to Question 4.15

4.14.2 What do you gain most from this? [tick one]
(a) 8% □ 5% improved motivation
(b) 19% □ 26% improved business image
(c) 31% □ 37% increased efficiency
(d) 23% □ 26% better cost control
(e) 19% □ 5% other [please specify] __________________
4.15 4.15.1 Are there other steps you have taken to achieve formal quality approval [e.g. BS750] for the following:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Please specify</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) product(s)</td>
<td>9%</td>
<td>3%</td>
<td>91% 97%</td>
</tr>
<tr>
<td>(b) operations</td>
<td>6%</td>
<td>3%</td>
<td>94% 97%</td>
</tr>
<tr>
<td>(c) personnel</td>
<td>6%</td>
<td>6%</td>
<td>94% 94%</td>
</tr>
<tr>
<td>(d) business as a whole</td>
<td>17%</td>
<td>18%</td>
<td>83% 82%</td>
</tr>
<tr>
<td>(e) other [please specify]</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[if any of the 'yes' boxes are ticked]

4.15.2 What have you gained from these approvals?

<table>
<thead>
<tr>
<th></th>
<th>Improved Motivation</th>
<th>Better Image</th>
<th>Increased Efficiency</th>
<th>Higher Benefit/Cost</th>
<th>Other *</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) product</td>
<td>13% 0%</td>
<td>40% 67%</td>
<td>33% 33%</td>
<td>13% 0%</td>
<td>0% 1%</td>
<td></td>
</tr>
<tr>
<td>(b) operations</td>
<td>0% 0%</td>
<td>27% 50%</td>
<td>64% 50%</td>
<td>9% 0%</td>
<td>0% 0%</td>
<td></td>
</tr>
<tr>
<td>(c) personnel</td>
<td>44% 38%</td>
<td>11% 38%</td>
<td>11% 19%</td>
<td>33% 5%</td>
<td>0% 0%</td>
<td></td>
</tr>
<tr>
<td>(d) business as a whole</td>
<td>7% 0%</td>
<td>53% 50%</td>
<td>23% 22%</td>
<td>10% 11%</td>
<td>7% 17%</td>
<td></td>
</tr>
<tr>
<td>(e) other [please specify]</td>
<td>□ □ □ □ □</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* [Please elaborate, briefly]
For the following, how do you rate each item, as it relates to your business, on the scale 'good', 'fair' or 'could be better'?

<table>
<thead>
<tr>
<th>Biggest Strength</th>
<th>Biggest Weakness</th>
<th>Good</th>
<th>Fair</th>
<th>Could be Better</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>17%</td>
<td>your adaptability</td>
<td>78% □</td>
<td>83% □</td>
<td>19% □</td>
<td>15% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3% □</td>
<td>2% □</td>
<td>0% □</td>
<td>0% □</td>
</tr>
<tr>
<td>14%</td>
<td>faith in the business</td>
<td>75% □</td>
<td>81% □</td>
<td>19% □</td>
<td>17% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2% □</td>
<td>3% □</td>
<td>0% □</td>
<td>0% □</td>
</tr>
<tr>
<td>0%</td>
<td>foresight/forward planning</td>
<td>35% □</td>
<td>39% □</td>
<td>48% □</td>
<td>52% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16% □</td>
<td>9% □</td>
<td>0% □</td>
<td>0% □</td>
</tr>
<tr>
<td>3%</td>
<td>values of management</td>
<td>37% □</td>
<td>41% □</td>
<td>35% □</td>
<td>44% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12% □</td>
<td>10% □</td>
<td>17% □</td>
<td>5% □</td>
</tr>
<tr>
<td>1%</td>
<td>plant and resources</td>
<td>30% □</td>
<td>35% □</td>
<td>31% □</td>
<td>40% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>27% □</td>
<td>22% □</td>
<td>12% □</td>
<td>3% □</td>
</tr>
<tr>
<td>1%</td>
<td>managers</td>
<td>23% □</td>
<td>25% □</td>
<td>23% □</td>
<td>27% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4% □</td>
<td>3% □</td>
<td>50% □</td>
<td>44% □</td>
</tr>
<tr>
<td>3%</td>
<td>employees</td>
<td>31% □</td>
<td>45% □</td>
<td>23% □</td>
<td>20% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>53% □</td>
<td>7% □</td>
<td>41% □</td>
<td>28% □</td>
</tr>
<tr>
<td>25%</td>
<td>product quality</td>
<td>85% □</td>
<td>85% □</td>
<td>13% □</td>
<td>14% □</td>
</tr>
<tr>
<td></td>
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<td>0% □</td>
<td>3% □</td>
<td>1% □</td>
</tr>
<tr>
<td>1%</td>
<td>product range</td>
<td>61% □</td>
<td>63% □</td>
<td>22% □</td>
<td>27% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11% □</td>
<td>3% □</td>
<td>6% □</td>
<td>7% □</td>
</tr>
<tr>
<td>0%</td>
<td>organisation structure/systems</td>
<td>23% □</td>
<td>16% □</td>
<td>33% □</td>
<td>48% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>24% □</td>
<td>18% □</td>
<td>20% □</td>
<td>18% □</td>
</tr>
<tr>
<td>0%</td>
<td>sources of finance</td>
<td>25% □</td>
<td>26% □</td>
<td>34% □</td>
<td>32% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>32% □</td>
<td>29% □</td>
<td>9% □</td>
<td>13% □</td>
</tr>
<tr>
<td>3%</td>
<td>customers</td>
<td>46% □</td>
<td>55% □</td>
<td>34% □</td>
<td>25% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>19% □</td>
<td>20% □</td>
<td>1% □</td>
<td>0% □</td>
</tr>
<tr>
<td>0%</td>
<td>suppliers</td>
<td>44% □</td>
<td>49% □</td>
<td>38% □</td>
<td>44% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11% □</td>
<td>7% □</td>
<td>7% □</td>
<td>5% □</td>
</tr>
<tr>
<td>0%</td>
<td>market share</td>
<td>11% □</td>
<td>17% □</td>
<td>34% □</td>
<td>41% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>53% □</td>
<td>40% □</td>
<td>2% □</td>
<td>2% □</td>
</tr>
<tr>
<td>14%</td>
<td>technological/specialist know-how</td>
<td>49% □</td>
<td>49% □</td>
<td>28% □</td>
<td>36% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15% □</td>
<td>9% □</td>
<td>8% □</td>
<td>6% □</td>
</tr>
<tr>
<td>8%</td>
<td>innovativeness/new ideas</td>
<td>46% □</td>
<td>44% □</td>
<td>7% □</td>
<td>41% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11% □</td>
<td>12% □</td>
<td>5% □</td>
<td>3% □</td>
</tr>
<tr>
<td>4%</td>
<td>image</td>
<td>52% □</td>
<td>55% □</td>
<td>35% □</td>
<td>29% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13% □</td>
<td>15% □</td>
<td>1% □</td>
<td>1% □</td>
</tr>
<tr>
<td>5%</td>
<td>other [please specify]</td>
<td>9% □</td>
<td>27% □</td>
<td>0% □</td>
<td>0% □</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13% □</td>
<td>3% □</td>
<td>78% □</td>
<td>90% □</td>
</tr>
</tbody>
</table>

Could you now please indicate, from the above list, which you consider to be your biggest

**strength** ( ) ________________________________

and also your biggest

**weakness** ( ) ________________________________

[Retrieve Sheet 4.16 from respondent]
For the following, how do you rate each item, as it relates to your business, on the scale 'good', 'fair' or 'could be better'?

[Please tick where applicable]

<table>
<thead>
<tr>
<th></th>
<th>Good</th>
<th>Fair</th>
<th>Could be Better</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>your adaptability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>faith in the business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>foresight/forward planning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>values of management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>plant and resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>managers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>product quality</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>product range</td>
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<td>10</td>
<td>organisation structure/systems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>sources of finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>suppliers</td>
<td></td>
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<td>14</td>
<td>market share</td>
<td></td>
<td></td>
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<tr>
<td>15</td>
<td>technological/specialist know-how</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>innovativeness/new ideas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>image</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>other [please specify]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Could you now please indicate, from the above list, which you consider to be your biggest strength

[ ] ____________________________

and also your biggest weakness

[ ] ____________________________

Thank you. Now please return this sheet to the interviewer.
4.17 How threatening are each of the following to your business, on the scale of 'weak', medium', strong'? If 'not applicable', you may say so.

[Hand respondent Sheet 4.17]

<table>
<thead>
<tr>
<th>Biggest Threat</th>
<th>weak</th>
<th>medium</th>
<th>strong</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>rivals' adaptability</td>
<td>32%</td>
<td>12%</td>
<td>48%</td>
<td>58%</td>
</tr>
<tr>
<td>rivals' forward planning</td>
<td>22%</td>
<td>17%</td>
<td>48%</td>
<td>46%</td>
</tr>
<tr>
<td>rivals' plant/resources</td>
<td>15%</td>
<td>39%</td>
<td>34%</td>
<td>33%</td>
</tr>
<tr>
<td>rivals' managers</td>
<td>24%</td>
<td>15%</td>
<td>42%</td>
<td>35%</td>
</tr>
<tr>
<td>rivals' employees</td>
<td>23%</td>
<td>2%</td>
<td>41%</td>
<td>44%</td>
</tr>
<tr>
<td>rivals' product quality</td>
<td>23%</td>
<td>17%</td>
<td>50%</td>
<td>54%</td>
</tr>
<tr>
<td>rivals' product range</td>
<td>21%</td>
<td>24%</td>
<td>44%</td>
<td>45%</td>
</tr>
<tr>
<td>rivals' organisation structure/systems</td>
<td>16%</td>
<td>24%</td>
<td>45%</td>
<td>41%</td>
</tr>
<tr>
<td>rivals' customers</td>
<td>15%</td>
<td>28%</td>
<td>44%</td>
<td>37%</td>
</tr>
<tr>
<td>rivals' suppliers</td>
<td>24%</td>
<td>11%</td>
<td>38%</td>
<td>36%</td>
</tr>
<tr>
<td>rivals' market share</td>
<td>11%</td>
<td>35%</td>
<td>38%</td>
<td>49%</td>
</tr>
<tr>
<td>rivals' technological/specialist know-how</td>
<td>24%</td>
<td>20%</td>
<td>45%</td>
<td>44%</td>
</tr>
<tr>
<td>rivals' innovativeness/new ideas</td>
<td>33%</td>
<td>17%</td>
<td>47%</td>
<td>41%</td>
</tr>
<tr>
<td>rivals' image</td>
<td>22%</td>
<td>32%</td>
<td>45%</td>
<td>42%</td>
</tr>
<tr>
<td>'red tape'/government legislation</td>
<td>25%</td>
<td>24%</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>breakdown of barriers to trade in EC</td>
<td>34%</td>
<td>6%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>substitutes</td>
<td>32%</td>
<td>7%</td>
<td>32%</td>
<td>31%</td>
</tr>
<tr>
<td>competition</td>
<td>12%</td>
<td>35%</td>
<td>50%</td>
<td>53%</td>
</tr>
<tr>
<td>other [please specify]</td>
<td>0%</td>
<td>9%</td>
<td>2%</td>
<td>0%</td>
</tr>
</tbody>
</table>

From the above list, could you now please indicate which you consider to be the biggest threat ( ) ________________________________ to the business.

[Retrieve Sheet 4.17 from respondent]
How threatening are each of the following to your business, on the scale of 'weak', 'medium', 'strong'? If 'not applicable', you may say so.

[Please tick where applicable]

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>rivals' adaptability</td>
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From the above list, could you now please indicate which you consider to be the biggest threat ______________________ to the business.

Thank you. Now please return this sheet to the interviewer.
4.18 How great is the business opportunity afforded to you by each of the following, on the scale 'a lot', 'some', or 'none'? If 'not applicable' you may say so. Here, I am referring to opportunities for expansion, increased profitability, entering a new market niche, and so on.

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<td>other [please specify]</td>
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<td>4%</td>
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From the above list could you now please indicate which you consider affords the best opportunity ( ) ____________________________ to the business.
How great is the business opportunity afforded to you by each of the following, on the scale 'a lot', 'some', or 'none'? If 'not applicable' you may say so.

Here, I am referring to opportunities for expansion, increased profitability, entering a new market niche, and so on.

[Please tick where applicable]

(1) your adaptability

(2) faith in the business

(3) foresight/forward planning

(4) values of management

(5) plant and resources

(6) managers

(7) employees

(8) product quality

(9) product range

(10) organisation structure/systems

(11) sources of finance

(12) customers

(13) suppliers

(14) market share

(15) technological/specialist know-how

(16) innovativeness/new ideas

(17) image

(18) breakdown of barriers to trade in EC

(19) other [please specify]

From the above list could you now please indicate which you consider affords the best opportunity to the business.

Thank you. Now please return this sheet to the interviewer.
APPENDIX III

Semi-Structured Questionnaire
CASE:

LEVERHULME PROJECT ON
LIFE CYCLE EFFECTS IN NEW SMALL FIRMS

SEMI-STRUCTURED INTERVIEW ON
SMALL BUSINESS STRATEGY

INTERVIEWER: MISS JULIA A SMITH

<table>
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<th>RESPONDENT</th>
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<table>
<thead>
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<th>SIC</th>
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PREAMBLE

This questionnaire has been designed to find out how small business make decisions and formulate strategies. You will be asked about the environment in which your business operates, how you formulate and implement strategies, and how you evaluate and control performance. The interview will follow a semi-structured format, with a pre-arranged agenda, but plenty of opportunity for you to expand upon points of interest.

ENVIRONMENTAL SCANNING

Analysis of internal and external factors affecting the business

1.1 Why did you decide to enter this particular line of business?
[Prompt: existing skills, personal assets, areas of expertise, experience, set up costs, resource accessibility, new product idea, new niche]

1.2 Why did you decide to target the:
local□ regional□ scottish□ british□ international□ market?
Prompt: market research, market potential, target customers]

1.3 How did you decide upon the level of price and quality you wanted to offer?
Prompt: existing rivals, potential rivals, value/price, costs]
1.4 You've said your biggest opportunity(ies) is(are) _______________________________. How do you take advantage of this? 
[Prompt: methods of exploiting opportunities, taking advantage of unique skills/attributes]

1.5 You've said your biggest threat(s) is(are) _______________________________. How do you combat this? 
[Prompt: attack, ignore, diversify, defend]

1.6 How would you describe your firm's relationship with its suppliers? 
[Prompt: delivery, timing, quality, discounts, reliability, favouritism, regular suppliers]

1.7 How would you describe your firm's relationship with its customers? 
[Prompt: repeat orders, customer loyalty, complaints, number of customers]
1.8 You've said your biggest strength(s) is(are) ____________________________.
Can you say a bit more about this? How do you try to capitalise on your strengths?
[Prompt: methods of exploiting strengths, use for sales promotion]

1.9 You've said your biggest weakness(es) is(are) ____________________________.
How do you try to improve upon this?
[Prompt: motivation, staff participation, team work]

II STRATEGY FORMULATION

Mission (What do we stand for?)

2.1 Can you sum up what you feel is the overall 'mission' of your business?
[Prompt: directions, goals, reasons, what does the business 'stand for', what are you trying to achieve]

2.2 You've said you have □ no Business Plan.
□ a plan 'in your head'. Go to 2.3
□ a formal, written Business Plan. Go to 2.3

How do you know or decide where your business is going? Go to 2.4
2.3 What is in your business plan and how do you use it in the running of your business?
[Prompt: budgets, target market, time period covered, request copy of Business Plan]

Objectives (What are we trying to achieve?)

2.4 You've said that you hope or expect your business to grow over the next three years, and you identified a main aim of the business as being:

What do you mean or understand by growth?
[Prompt: increase in employees, output, profits, sales, market share, product range, turnover]

2.5 Why do you want to achieve this (these) goal(s)?
[Prompt: business, personal reasons]

Strategies (How are we going to get there? How can we beat the competition?)

2.6 How do you develop long-term plans?
[Prompt: project teams, formal meetings, informal discussions, consulting employees]
2.7 What actions do you take to protect your business from the threat of new/existing competitors or alternative/substitute products?
[Prompt: keeping old customers, gathering and using trade intelligence/feedback/information, protecting markets, blocking threats, posing counter-threats, bargaining over market segments, developing quid pro quo devices, 'horse trading']

2.8 How do you try to attract customers away from your rivals?
[Prompt: special offers, marketing, advertising, promotional material, technological advantage]

2.9 On what sort of information do you base your long-term decisions?
[Prompt: 'hard' information - accounts, financial/business performance, projected cash-flow; 'soft' information - hearsay, gossip, conversations with contacts]

2.10 Do you consider a menu of strategic options?  Yes ☐   No ☐
How do you decide which actions to take?
[Prompt: evaluation of options, decision analysis, computer packages, consultants, outside advice, networking]
2.11 You've said Information Technology was scarcely □ moderately □ very □ important to your business. Why do you think this is so?
[Prompt: flexibility, speed of communication, adaptability, access to news, trade intelligence]

2.12 In what ways do you use Information Technology?
[Prompt: budgeting, cash flow forecast, accounting, stock control]

Policies (What sort of ground rules should we be following to get the job done right?)

2.13 How do you maintain and enhance the quality of your product?
[Prompt: spot checks, TQM (total quality management) systems, British/International Standards, own system]

2.14 What assurances do you give potential customers about the 'fitness for purpose' of your product or service?
[Prompt: guarantee, warranty, assurance of quality, after-sales service]
2.13 How do you motivate employees?
[Prompt: efficiency bonus, cooperation, participation, involvement in decision-making, promotion, status, power, fringe benefits]

III STRATEGY IMPLEMENTATION

Programmes (How should we organise this operation to get what we want done as quickly as possible with the highest quality possible?)

3.1 What are you doing to help you achieve your goals?
[Prompt: new products, investment, additional staff]

3.2 You've said you:
☐ do receive feedback from customers. How do you use it to improve your product or service?
[Prompt: formalising feedback, modifying systems, methods, processes, products]
☐ don't ask for feedback. How do you know that the customer is or is not satisfied with the product or service? And how do you know what needs improving?

3.3 Do you encounter any problems in trying to implement strategies? Yes ☐ No ☐

Can you describe these problems, and how you deal with them.
[Prompt: goal conflict, adaptability, flexibility, re-focusing, market re-positioning]
3.4 What determines the speed at which you implement new courses of action?
[Prompt: is speed important, costs, communication of plans, rivals actions, trends]

3.5 What do you think is the biggest constraint on the growth of your business?
[Prompt: finance, grants, government policy, courses, learning, what would help overcome constraints]

Budgets (How much is it going to cost us and where can we get the cash?)

3.6 How will you finance the growth you expect to occur?
[Prompt: reinvested profits, extra debt, extra equity]

3.7 Which is most important to you: controlling costs □ or generating revenue by extra sales □?
Why is this the case?
[Prompt: cutting-costs to beat rivals, increasing profitability]
3.8 How do you re-structure financially as growth occurs, and why?
[Prompt: change in debt/equity ratio, investment by outsiders, bank loans]

3.9 What are the principal components of your budgetary procedures?
[Prompt: Profit and Loss Account, Balance Sheet, Projected Cash Flow]

3.10 What role is played by accountants, auditors and bank managers when you are preparing budgets?
[Prompt: oversight of plans, feasibility studies, advice on investment]

3.11 Have local or central government subsidies or grants influenced your budget procedures?
[Prompt: grants for equipment, premises, advertising, staff]
Procedures (In how much detail do we have to lay things out, so that everybody knows what to do?)

3.12 How are new plans communicated and implemented?
[Prompt: policy books, leaflets, plan of action, involvement and motivation of/communication to employees, allocation of resources, reward systems, bonus schemes, employing new staff - full/part-time, subcontracting]

3.13 How has your own role within the firm changed or developed since start-up?
[Prompt: authority, delegation, decision-making, move from production to management role?, time allocation]

IV EVALUATION AND CONTROLS

Performance (What are those few key things that will determine whether we make it? How can we keep track of them?)

4.1 What measures do you use to describe the success (or failure) of new strategies?
[Prompt: increased productivity e.g. rising output/labour ratio, increased profits, increased orders, actual results vs projected targets, financial measures e.g. liquidity, cash flow, asset growth, increased market share vs other e.g. lifestyle goals]

4.2 What methods do you use to do this?
[Prompt: milestones, personal performance appraisals e.g. check-list of tasks requested/completed, computerised targets, variance analysis]
4.3 Have you changed policies based on your appraisal of performance?
[Prompt: negotiating change, re-focusing, re-positioning, redeployment of personnel, divestment, downsizing, upscaling]

4.4 What do you think your product or service has that gives you the edge over rivals?
[Prompt: quality, range, personal service, after sales care, value/price]

Thank you very much for your assistance. That is the end of the interview.
[Prompt: any business information, business plans]

Time at end of interview: ________________________________

Signature of interviewer: ________________________________
# APPENDIX IV

## Case Studies

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<td>Furniture Restoration</td>
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<tr>
<td>Case B</td>
<td>Hotel Marketing</td>
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CASE A: Furniture Restoration

I BACKGROUND

The business had been running for 15 months at the time of first interview. The two partners had taken over the premises of an existing furniture restorer and the business provided a general restoration service to the area surrounding its base in a small Angus town. This included re-upholstery of old furniture, bar stools and office chairs, as well as french polishing of wooden furniture. Their clients came from businesses and the general public, and the main market they targeted had developed from covering, first of all, the local, to now, the regional area.

At the first interview, there were two partners and one each of full-time and part-time employees. By the following year they had lost the part-time worker, but turnover had increased from £45,000 to £60,000. The pair were unable to identify gross profits, and could only say they they expected to ‘break-even’ at each meeting. In other words, there were not yet any profits available for reinvestment. On a more positive note, they were not incurring any losses, and were building up a steady flow of customers and reputation, which had increased their volume of sales.

The business was in the process of buying the premises from which it operated, with the help of the previous owner who was effectively letting them purchase the building from him on a mortgage basis. The terms of the agreement stated that the debt of £18,000 would be paid off over a period of nine years, in other words, at £167 a month. This was the only debt the business had.
The average debtors payment period\(^1\), a measure of how quickly customers settled their bills, was, at first interview, 20 days, but had fallen to six days by the following year. Given that 'normal credit terms' are for 30 days, this shows that the business started off well at getting money in from debtors, and had even improved its management of such affairs by the following year. The slow progress experienced by this firm so far was summed up by one of the partners, who stated that 'survival' was still, first and foremost, what they were struggling to achieve.

II ENVIRONMENTAL SCANNING

The respondent chose to set up this business because that was what he was trained to do: "It's all the skills I can do, so I was forced into it". But he was also quick to point out that the area "hasn't got a lot of competition for this line of work [and] the circumstances were right". When asked why he chose to target the 'regional' market, he answered that it was "a small town, and we are limited to what we can do here". Covering a much larger area would increase their costs too greatly, and would consume too much time in travelling, so they had chosen the happy medium of something that fell between the local and Scottish market.

The quality of their product and service was identified as being a major strength of the business: "People go around advertising for us. We get 90 per cent of our work from recommendation, and the quality speaks for itself". The respondent was keen to give the best quality of which the business was capable. The price level was based partly on expenses incurred, and partly on what they thought they could get. Rivals were said to have no effect on such decisions: "We do the best

\(^{1}\) Debtors \(\div\) Sales \(\times\) 365 days
we can regardless of the competition - we’re not interested in them and what they do”.

The firm were not keen to admit there were any threats to their business, but had identified their “rivals’ image” as a possible example. However, the respondent’s comments were slightly unconvincing when he said, “If they give a better image they’re either bluffing or trying to get a grade better”. He was more forthcoming when explaining the main weakness as being their “plant and resources”. The premises were set back from the main road, along a narrow close. Access and parking were both, therefore, very limited: “It’s difficult to get furniture in without damaging it”, he explained. Another drawback was the lack of a shop front, and the partners thought that they were losing customers because of it. However, given that they had a constant stream of customers and a large backlog of work to complete, it was not a problem they wished to tackle at this time: “We would have to really expand, and it’s a big risk factor at the moment”.

On the whole, the firm had a very favourable relationship with its suppliers, of whom it had a regular list, and said they were especially good as regards timing and delivery. If payment were made on time, they were able to obtain a small discount for their purchases. They also enjoyed a good relationship with their customers, and had much repeat business. Very few had cause to complain: “One out of a hundred will perhaps complain. For example, one admits that she’s very fussy and difficult, but she keeps coming back”. The firm were happy with the number of customers on their books, as they did not have the capacity to accept any more.

They were generally operating under the assumption that competitors had no effect on the business. The partners were very inward-looking, concentrating on
their own business and the production of a quality product at a good price: “We just plod on and stick to our guns and our principles”, they said. However, they were enjoying a steady flow of customers and would be unable, at this time, to take on any more without further expansion.

III STRATEGY FORMULATION

The business was run very much to achieve personal security for the partners and their families, and the means by which they hoped to do this was by getting “a good name throughout Angus for quality work at a good price”. There was no formal business plan as, said one partner, “It’s hard to sit down and make a plan, and stick to that plan. We will try and put ideas into action, but it’s hard to plan at the moment”. At the time of first interview, there had been a business plan in existence, written with the help of the local Enterprise Trust and their bank manager. However, this was no longer current, had not been revised, and was not used in the running of the business. With only three members of staff, they obviously found it difficult to devote any time to long-term planning, and looked only up to a month ahead when making business decisions.

Although the business was still struggling for survival, the partners did anticipate growth over the next three years. By this, they meant, “widening our product range, [and] taking on, for example, an apprentice”. If they managed to achieve these two objectives, it was thought they could “take on more work, exploit more customers and make a financial cushion”, which would in turn provide more security and stability for themselves and their dependants.

They reasons they were hoping for growth included a feeling of satisfaction in the knowledge that they could provide jobs for people, the fulfilment of personal
ambitions and "to better myself and the business". As the respondents said, "We've got a very good thing going here; why not 'snowball' on it?".

There were no formal meetings or discussions about future plans: "It's in the back of my head ... a dream ... a fantasy situation". The two partners would often discuss ideas when they were travelling in the car together to see a customer, but would not write down anything seriously. They talked of being in a "delicate" situation where the business was "one day up, one day down", and lamented the lack of help and financial support that they had hoped for, and seemed to feel they deserved, from the Enterprise Trusts.

The business was making an effort to retain the customers it had already. They did so by ensuring that "quality is up to standard, the work is done within a reasonable time, we are not overspending and are keeping our prices at a reasonable level". One of the partners had worked previously for a rival firm in the town, but rather than compete against them, they appeared to work together: "We sometime use our rivals to give us a hand, and vice versa". They were not, therefore, fighting to get new customers or to 'poach' those of their rivals, but seemed quite happy to let customers seek them out of their own initiative, saying, "I don't know why they come to us; they just do".

Decisions were based primarily on the past experience of the two partners, and on the knowledge they were gaining through running the business. Financially, they used past figures, as they felt unable to make projections given that the length of time they had been in business (two years at second interview) was so short. The partners appeared to have complementary personalities, with one being willing to gamble and take risks, but the other being more conservative and restrained: "Alan thinks black, I think white ... We talk about it. We think opposites all the
time, but we come to the same agreement”. In this way, they were able to look at ideas from two differing perspectives and, having weighed up the pros and cons of each, were able to come to a mutually satisfactory decision. The only time they had tried seeking advice on decisions, from the Enterprise Trust, had been a failure: “They were just a bag of wind”, was the rather uncomplimentary remark about this experience.

Information technology was of very little importance to this business. They used a phone, and had accounts and records stored on an old PC, but thought that generally, they were able to “cope with our heads”. They were unaware, in any case, of what might be available to them, but had all the resources they needed, with help from other local companies: “One lets us use their fax, and we have the local gossip next door [for communications]”. The simile used by the respondent to describe his feelings on information technology was as follows: “Communications may be important, but it’s like having a big muscle that you don’t need - it sits there and wastes. It’s better to have lots of small muscles that you use all the time ... we have the small resources that we need”.

The internal management of business operations seemed to work well for this firm: “Everybody gets a say ... If there’s a problem we all give our opinions and make the best decision”. To ensure that quality was maintained, they took their time over jobs and concentrated on what they were doing. Given that each product was individual, there could be no ‘spot-checking’ as would occur in a mass production organisation, so quality had to be maintained by other means. The respondent explained how this was done: “We ask each other what we should do, so automatic quality control happens all the time, and it’s very, very good”.

6
Customers often approached the firm having seen other products done for friends and relatives; personal recommendation was vital. The partners would have a short discussion to find out the client's requirements but, if asked, they were willing to give a full explanation of the processes involved. If the demand arose, a guarantee would be given on, for example, springs: "We know they'll last, so we guarantee them for up to three years". In practice, written guarantees were very rarely requested.

The respondent was keen to work in an easy-going atmosphere; having worked previously under constant time pressure, he was keen to avoid it in the future: "We're very flexible on time, and put no time pressure on ourselves ... There are no rules and regulations - it's easy come, easy go". Each member of staff was said to be "self-motivated", and the congenial atmosphere in the workshop, with the radio on and friendly conversation, led to a happy and productive working environment.

The business was run on a day-to-day basis, with the two partners and one employee all involved at every level, spending the majority of their time on production, thus leaving very little time for planning. They were hoping for growth, but constrained by premises and finance, and had little time to think about it, so involved were they in trying to clear the backlog of work. Decision-making was informal, and came about through casual conversations at irregular times. However, the systems in place at the time of interview seemed to suit the characters of those involved, and were appropriate to the size of the business.
IV STRATEGY IMPLEMENTATION

The team were not actually doing anything to try and achieve their goal of growth, but were fully preoccupied instead in catching up on the orders they had in: “We’re biding our time”. If they could manage to find some funding, “for example, a grant of, say, £20,000 to £40,000”, they would anticipate great changes. They thought expansion would then not be a problem, but the current lack of financial support meant that they were “stuck”.

Feedback from customers was generally positive, and so not instrumental in quality control or changing things within the business. Implementing new strategies was also said to be something that was invariably successful: “If we have an idea, and go and do it, it works”. Speed was thought to be very important in such cases, as the respondent explained: “We would jump on an opportunity. If there was a big contract, we would go out of our way to get it, if it was beneficial and worth our while. Speed is very important”.

Finance again was mentioned as the main constraint on growth: “Grants would help, but you never hear about them”. They had trouble in getting a loan at a rate the business could afford to pay back, and had even employed consultants to put together a document giving potential sources of funding. Unfortunately, however, this list had proved to be irrelevant to their type of business, and nothing had come of it.

The only way the respondent could see of financing future growth was “through our own savings, off our own back”, so it would have to wait until the business was achieving a high enough profit level to permit reinvestment. Generating revenue was of prime importance, as costs were kept well under control: “Controlling costs is how we survive in this game ... We want to attract customers
and keep our prices fair, so we keep our costs down”. Here, the respondent gave the first real indication that they actively sought clients, saying “We fish a bit for customers. If they are willing to spend more, we take them. We look for the big fish”.

When asked how the financial structure of the business had changed over time, the respondent replied, “It’s gone bad. We’re spending more than we’re earning”. The equity holding in the firm had fluctuated greatly, and cash flow was poor, although, as he explained, it was not their fault: “People are not paying”. This may appear to conflict with the earlier statement that the debtors’ payment period had improved, but the financial data upon which this finding was based were of an earlier date than that of the semi-structured interview, which related to the situation at the time of meeting. There was little to learn from past financial statements, as there were only two years’ worth of data. However, the partners did try to identify seasonal patterns; for example, slumps during holidays and boom periods before Christmas.

External specialists on finance and planning had been of no help to this business. They had received no grants, and had started with nothing, save for the subsidy from the former owner of the premises. They seemed a little bitter about this, almost as if they expected help to come to them without asking for it, and were at a loss to know where to go for good help and advice, let alone finance.

The communication and implementation of new ideas were very informal in the firm. It all came about through verbal communication: “I say ‘what do you think?’” because, explained the respondent, “we can’t do plans at this stage”. The roles of the two partners had changed very little from one year to the next, with both still being involved at every level. The respondent had started in the business
with greater knowledge of it than his partner, who had more of an aptitude for financial matters, but the gap in knowledge had narrowed, and the partner now was “a bit more independent”, in terms of production.

New ideas were brought in on an ad hoc basis, with a major constraint on growth thought to be the lack of financial backing. Time constraints too appeared to be restricting the firm’s progress; although there were enough orders in to keep the team working for quite some time, an extra member of staff would enable the work to be completed quicker, thereby increasing turnover per time period, and allowing more orders to be taken. However, the training of an apprentice would require valuable time they could ill afford to spend at this point.

The respondent showed that there was some discrimination in the customers they would take on, in that they sought those who appeared to have more disposable income, and would therefore be willing to pay a greater price than others for the product. This was something they were able to do, as their books were already so full; they did not need to take on customers who would only pay a low price.

V EVALUATION AND CONTROLS

The respondent said that success of a new strategy would mean “reaching the black in the bank account and starting to build a financial cushion”. In turn, this was expected to lead to “more personnel, nicer premises [and] a better wage”. Having the time to concentrate more on the strategic side of running the business would be, thought the respondent, “more fun”, although he was aware that it would mean ‘more responsibility and harder work’.

At the moment, however, this was all a dream held in the respondent’s mind. The firm had no formal plan of how to achieve its goals, but had to turn their
minds towards the more pressing matter of appeasing their bank manager: “We’re in a bad state at the bank, and have got to get work done towards that”. The respondent explained, “We feel the pressure and dig our heels in. It’s a mutual commitment [and] it never goes to plan. You would need a very large plan to cover all the aspects that can go wrong”.

As already noted, new ideas that had been implemented were generally considered a success, so changes had only been necessary “on a very small scale”. The respondent said further, “We have found a good course and stuck to it. Why change what’s working?” And when asked finally what he thought gave his business the edge over its rivals, he mentioned the two main contributing factors: First, he thought, “It must be the quality, because people keep coming back”. But, in addition to this, he believed that the personalities in the business had to play some role in attracting and retaining their customers.

VI SUMMARY

Decision-making within this business was very much linked to personal aspirations and values; for example, the reluctance to work under time pressure, and the provision of a good standard of living for dependants were prime motivators for the partners in running their own business. Both partners were involved in all decisions, and everyone was entitled to have their say. However, new plans were based mainly on the partners’ past experience, and were ‘up in the air’, rather than written down as concrete ideas. Forward thinking was obviously something the firm had difficulties in achieving; there were no forecasts, targets or budgets, and they planned only up to one month ahead.
Financial stability was a major concern; they were overdrawn at the bank, and constrained by debtors who refused to pay on time. There had not yet been any reinvestment, as this was contingent on profits, of which, as yet, there had been none. In the year between interviews, the firm had lost a part-time member of staff, who had not been replaced, so the workload on the remaining three was heavier than it had been previously.

The firm thought information technology to be more or less irrelevant to their line of work. Communications were more often than not informal, and fairly poor; they kept themselves to themselves, feedback from customers was barely important and news of rivals came only through gossip or hearsay. In general, the partners were rather inward-looking, seemingly almost oblivious to competitors in the outside world.

The quality of their product and service received the most attention, as this was thought to be the key aspect of the business that drew customers in. Each member of staff was responsible for maintaining and ensuring quality, and few complaints were ever received. The firm, however, seemed unaware of the potential opportunities this could offer, and were probably not taking full advantage of the strengths held collectively within their business.
CASE B: Hotel Marketing

I  BACKGROUND

Two directors formed this private limited hotel marketing company in April 1993, having both been employed previously as directors of a large national hotel chain. They hoped to put the experience gained over 18 years in this line of business to good use, targeting an initial niche market of conference placements for known customers. By the time of first interview, their largest market had become the provision of late availability short breaks to the general public, contracting with hotels throughout the UK enabled them to sell direct to their customers at highly discounted rates.

The provision of a conference placement service was still an important part of the business. The company would locate venues “within a budget and specification for conferences, meetings or training courses”, and had built up a base of regular clients requiring this service. The third line of business was a central reservations service offered to a list of independently owned country house hotels in Scotland, all of which were highly recommended by the Scottish Tourist Board.

At first interview, there were three directors in the business, and three full-time employees. In the two years since start-up the business had grown to achieve an annual turnover of £1.5m. It operated from a shop premises on the High Street of a small town in Central Scotland, but lack of space was proving to be a constraint on further growth. By the time of second interview, the business had moved into a large unit on an industrial estate, employees had increased - there were now five full-time employees and an additional full-time manager, and turnover was up to £1.7m.
The gross profit margin\(^1\), a measure of return on turnover, increased from 1.57% at first interview to 9.42% the following year, showing that the cost of sales had decreased relative to turnover. Net profit margin\(^2\), calculated after all costs have been deducted, showed only a small increase, from 1.12% to 1.42%, which means that other expenses had increased. The changes in these figures may be due, in part, to the appointment of a full-time accounts manager and differences in the reporting conventions of accounts from one year to the next; but they may also be accounted for by the costs of installing a new computer system and the associated consultancy fees. Actual net profit increased fivefold, from £5,000 to £25,000, giving a much larger residuum available for reinvestment in the business. Gearing remained unchanged at zero, given that the business had been built entirely on internal capital, with no debt equity employed. Overall, the financial growth that had occurred appeared to put the business into a relatively stable position, with no long-term liabilities, and a healthy positive cash-flow.

II Environmental Scanning

The directors had chosen to enter the line of business they were in because it was a market they knew well, and they had a list of clients who would form the initial customer base. Their aim was for long-term growth, and a high rate of return, but they wanted first of all to concentrate on the British market, building on their internal strengths: “We want to get the mainstay of the company up and running before we start getting into lesser-known territory”.

\(^{1}\) Gross Profit Margin = Gross Profit ÷ Turnover × 100%
\(^{2}\) Net Profit Margin = Net Profit ÷ Turnover × 100%
They had been very specific about the level of price and quality they wanted to offer their customers. Acting as a type of broker for their clients, they had little or no control over the quality of the end product, the holiday itself. They made a "conscious effort" to guarantee quality as far as possible, by only dealing with three and four star hotels, as these were perceived to be "more controllable".

The directors were actively trying to build on their biggest strength, which was thought to lie with their employees. They were put through training and incentive schemes to try and encourage loyalty to the business. As one director said, "we try one hundred per cent of the time to keep hold of our staff. Too many businesses underestimate the physical cost of staff turnover; if you keep good staff, it saves you money".

The directors were also well aware of potential opportunities, and were proactive rather than reactive in taking advantage of these. The biggest opportunity was listed as "red tape", by which was meant the increased need for government training courses. Their main conference clients were related to government bodies and education departments, so changes in legislation would produce a greater demand for conference organisation. An example of this was given: "If we see an article in the paper, '£2m awarded to the Department of Education', we ring our contacts and ask where the training courses will be carried out, and who will be running them". In so doing, the firm would try to pre-empt its rivals by getting in first and winning the contract.

Paradoxically, "red tape" was also listed as a major external threat to the business. However, in this case, it referred to the legislation surrounding the running of their own small business. Specific problems were given as "Health & Safety Laws" that often can be contravened unknowingly. It was suggested that a
useful development would be a central point where small business owner-managers could seek help and advice as “Enterprise Trusts can only tell you what they can help with”.

The biggest weakness mentioned by one director was “in-house specialist know-how”. This referred to the narrow, very specialised knowledge held by the people in the firm. They had considered buying into another existing business, but their lack of expertise in this new area was to prove a drawback: “New opportunities need existing skills”. They were, however, improving and increasing the skills in the business, as evidenced by the appointment of a full-time accountant, and the use of consultants on a part-time buy-in basis.

In terms of its relationship with suppliers and customers, there appeared to be a healthy flow of information and cooperation: “Ninety per cent of our suppliers are hotels; they supply us and we do get favouritism ... we get a high rate of repeat business, and few or no complaints”.

The directors appeared to have a very good knowledge of the environment in which they were operating. They could identify strengths, weaknesses, opportunities and threats, and the actions each one had prompted. They were actively seeking to improve and expand the business, always looking for new opportunities. Their relationship with those affecting their business was said to be ‘good’ or ‘very good’, and they were aware of the importance of this: “It has to be [good] to be successful”.

III STRATEGY FORMULATION

The firm’s mission was, overall, “to make money” and, more specifically, “to build up a business over the next ten or fifteen years that can become a saleable item,
should we wish to do so”. They used a formal, written business plan to help them map out their ideas, and a copy of this was provided to the interviewer. It was a sophisticated document, given the size of the firm, and contents were listed under the headings of: (a) company information; (b) the business; (c) marketing; (d) management and organisation; and (e) financial performance. The plan was reviewed every six months and was used in the running of the business. For example, “last year, we wanted to increase the short breaks side of the market, so we took a short-cut through newspaper promotions. We made a good relationship with The Glasgow Herald and doubled our turnover of late availability. It was in the Business Plan”. The plan also included items such as when staff levels would need to be increased, budgets and full management accounts.

A main aim of the business was a “high rate of return”. The directors hoped to move into doing more conference and incentives work, as this market offered a higher rate of return. It did, however, also require more intensive manpower and more investment, so one part of the latest business plan covered the buying-in of consultants to do “pure sales work” in this area.

The directors were keen to grow the business so that they could “stand back and see where we want to be in the long-term”. They were all very much involved in the day-to-day running of the business, at every level. Increased staff would lead to further delegation, and should free up time for the directors to become more involved in strategic decision-making and forward planning.

New ideas were generated with the help of “brainstorming” sessions, when a couple of directors would meet with someone from the office, or the “department head”, to discuss possible future actions. These meetings would take place every six months or so, or “as ideas present themselves”, which was very often the way it
happened. In terms of defensive strategies, the firm seemed reluctant to accept that rivals posed any competition, saying, “I’m not sure we take any” actions to protect the business from the threat of new or existing competitors. They were aware that competition existed - “we scan the papers and the trade press weekly” - but could not identify any means by which they actively competed head-on for customers. They relied on their advertising, through Teletext and direct mail, to attract new clients.

Long-term decisions were based more on “hard information”, according to one director, who gave the following example: “It has been very difficult to find space in London, but we have not pushed clients to go elsewhere. Because of the IRA bombs, in the next three or four months, business will drop out. At the moment, they have full books, but we expect more space to become available in London, so I’ve been talking to Intercity Rail about running special offers. I know the bookings will drop off soon”.

In other words, the directors’ long experience in the hotel industry meant that they could afford to gamble on ‘over-booking’, because groups that had reservations in London were likely to pull-out, leaving hotels empty and looking for last-minute bookings. By tying in this with a cheap rail ticket, the firm hoped to take a good share of the late-availability short-break market.

The business plan also showed a strong emphasis on financial information, giving projected profit & loss accounts, cash flows and balance sheets for up to three years ahead. The directors were aware of the size of the market, and had a good idea of the share held by their major competitors.

When deciding upon actions to take, they would take ideas and narrow them down into one of three groups: (1) ideas; (2) potentials; and (3) realities. In areas
where they felt their own specialist knowledge was insufficient, they would seek advice from outside. This had happened, for example, with the new computer system they had recently installed. New hardware was bought in, and new software written to their requirements, to take over from the manual system previously used for reservations. Consultants and computer specialists had been brought in to assist in this transition.

Information technology was therefore thought to be very important to the business, because of the number of outlets with which they were dealing: “We have to show availabilities, which would be impossible with a manual system”. It was used to provide immediate information, and also helped with analysis of performance. The data were in such a form as to enable the breakdown of where bookings and clients were coming from, “so we know where we need to market and advertise”.

There were two sides to maintaining and enhancing quality. First, they knew enough about all the new products available for the conference market to enable them to “stay one step ahead of the game”, and to be “consistent”. Second, they were always on the lookout for new opportunities in the short-breaks market, continually offering different products and special offers. Customers were assured of quality because the hotels were all three or four star rated, and had been visited by one of the directors. They could be told what was needed for a hotel to achieve its rating.

Employees were motivated to cooperate in implementing policies by working in a very easy-going atmosphere. The directors were involved at all levels and, as one said, “we are all very involved on a daily basis, and our enthusiasm comes to them”. Employees participated in decision-making and their ideas were taken
seriously. Rather than individual bonuses, they were offered bonuses based on office targets: “An office target makes for more teamwork”.

The formulation of new strategies was a very well organised process in this business. Planning was formal and long-term, and used projected financial figures as well as known information about the market place. The directors were willing to seek outside advice whenever needed. Employee cooperation and motivation were achieved through their participation in decision-making, and a real emphasis on teamwork. The directors had a very clear view of where they wanted the business to go in the future, and knew exactly how they wanted to do it, and by when they hoped to achieve it.

IV STRATEGY IMPLEMENTATION

To help the business achieve its goal of growth, new staff had just been employed. The directors were actively trying to increase turnover by improving sales volume, and were already, at the time of the semi-structured interview, well ahead of budget. Figures were monitored on a weekly basis and, if it looked like targets might not be met, they would take action there and then; for example, by putting on “specials”, or targeting a specific area.

Feedback from customers was a vital component of quality control: “Clients are our unpaid inspectors”. Comments from customers were encouraged, and these were logged in complaints and compliments files. If a pattern emerged, whereby many complaints were received about a hotel whose management, for example, might have changed, then they would drop that establishment from their list.

The firm had experienced some problems in implementing new strategies, mainly because of their underestimation of the time involved in changing systems and re-
training. The new computer system was in place and ready to run, and time had been allowed for teething problems, but the system was crashing twice a day. The speed at which strategies were implemented was therefore “based on necessity”. The directors, however, knew where mistakes had been made, and would probably act differently in future: “We allowed the computer company to go over the time periods agreed. We should have pushed and harassed them more after things went wrong”.

When asked what constraints there were, if any, on growth of the business, the respondent could only say that they were constrained by the number of hotels available. Having been the originator of the short-breaks idea in Scotland, they were now in competition with two other companies who had copied the idea. This, however, was not perceived to be a problem, as competition was thought not to affect their business.

Growth had been funded entirely through the directors’ initial investment, several grants, and reinvested profits, and the intention was that this would continue to be the case; there was no plan at this time to seek external equity or debt finance. The business was adept at controlling costs, and monitored them weekly, so at this stage of its development, the generation of extra revenue was of more importance to the directors.

Budgets included: cash flow, which was looked at daily; full management accounts; turnover; and an analysis of outgoings. Within the business, there was a part-qualified accountant and a full-time accounts manager. One of the large accounting bodies acted as consultants when required.

The Enterprise Trust movement had given the business a good deal of financial assistance and “first class help and advice”. As one director pointed out, “With
any of these organisations, it’s a two-way working relationship ... we have made sure they have been fully in the picture”. The money they had received had enabled them to take on two employees, and helped towards the installation of the new computer system: “It makes a big difference in a small company”.

New plans were communicated in an informal manner. A strategy meeting would be held with the staff who were to be involved in implementing the plan. The aim was to ensure that everyone in the business was happy with things, and that they knew and understood what their role was to be in advance. A key element of the success of the business was thought to be that they ‘communicate well, about the smallest thing, on a daily basis’, although it was anticipated that this would have to change once the business grew to more than 12 or 13 staff.

The directors roles within the business had altered since start-up. At first, there were only two or three people, and each had his or her separate field or area. But, as the respondent noted, “from the second you start increasing staff, someone has to be the boss ... now, I’m involved with everybody - accounts, conferences, reservations - and I play a managerial role”.

Communication and participation obviously played an important role in the success of this business. New strategies had been implemented, and the directors had evidently learnt from the experience. The firm was in a healthy position financially, and had benefited from several grants and helpful advice from various Enterprise Trusts. The internal structure of the organisation seemed to work well at the time of interview, although there was some feeling that the ‘hands-on’ approach currently adopted by the directors would have to change if the firm grew very much larger.
V EVALUATION AND PERFORMANCE

Success to this business meant increased turnover and therefore increased profit; "It's very mercenary", said one. Projected targets were set monthly, and performance measured against these. Also carried out was a complete personal evaluation of each person's performance. Salaries were reviewed annually, based on performance of the firm as a whole: "We work together as a team for one overall goal". Policies had never required changing, as the business had always exceeded target.

Finally, when asked what the business had that gave it the edge over its rivals, the respondent answered: "We have the most brilliant set of people. It's all down to staff. Attitudes come from the top; if I think the client doesn't matter, why should they? We exist because of our clients. We've never had to say it because it's been patently obvious from day one".

In terms of the targets it set for success, the business had achieved and greatly exceeded expectations. A rapid growth had occurred, in terms of employees, turnover, and business premises. Profit too had increased substantially since start-up. More staff had led to greater delegation, and specialists in, for example, finance, sales and computing had been bought in to assist in areas where the skills of existing staff were inadequate for the tasks at hand. In total, there could be little about which to criticise this business, save perhaps for their apparent lack of concern over the activities of their competitors.

VI SUMMARY

The directors of this firm were long-term strategic thinkers, whose aim was to build up a successful business which could eventually be sold on at a profit if they
chose so to do. Major decisions in the firm were ultimately made at the top level of hierarchy, but employees played an active part in the discussion and formulation of plans. The firm’s knowledge and awareness of its environment were extremely good, but in areas where skills were lacking they had brought in outside expertise, and had paid for this wherever necessary.

The firm used a formal, written business plan, primarily for internal management purposes, but also as an indication to outsiders, for example Enterprise Trusts, of the structure and ambitions of the company. Regular six-monthly strategic planning meetings were held, to review actual progress against target, and to set out new ideas for the period ahead. The firm would regularly analyse various possible options, and seemed to have a clear view of the way it should progress. The directors were, however, always looking for new ideas, and willing to listen to suggestions from employees.

In terms of finance, this business was in a strong position. There was no debt, nor any other long-term liability. Everything had been funded through reinvested profits, following an initial injection of capital by the directors, and a few grants from Enterprise Agencies. However, not all profits had been ploughed back into the business; a proportion had been distributed to employees as a bonus for good productivity. In this way their loyalty to the business was rewarded.

Information technology had enabled this firm to customise their systems and target a specific niche market. It was vitally important to them in that it provided accurate information at high speed, and could also be used for a detailed analysis of operations. The directors were looking into ways of using the internet to enhance the quality of communications between themselves and their buyers and suppliers, and had sent their accounts manager on an orientation course to this effect.
With a strong emphasis being played on teamwork, each member of staff had a responsibility to ensure a quality service. Their commitment was gained and maintained through a series of training programmes, team incentives and a continuous involvement in major decisions. A knowledge of the firm’s strengths and weaknesses enabled the directors to keep quality at a good level, and this was assisted by their contracting only with reputable rated hotels.
CASE C: Carpet Retailer

I BACKGROUND

When first approached, this floor coverings retailer had been operating for seven months from a high street outlet on the outskirts of Edinburgh. The highly charismatic owner-manager was in sole charge of the running of the business, which provided a wide range of floor coverings, from carpets through to vinyls, to the local market. He prided himself on being able to offer “friendly, professional advice and excellent service at a competitive price” and on the company’s “No Problem” attitude, which effectively meant that “moving your furniture or lifting carpets is no problem”.

By the second time of interview, the business had expanded by opening another retail outlet in an exclusive part of Edinburgh. This had necessitated the employment of further staff; in addition to the owner-manager, therefore, there were now a further shop manager, one full-time employee and one trainee. Fitting was, as before, carried out by subcontracted fitters who, although self-employed, were very much tied to the business.

The firm had not only taken on further premises, but had plans (and the capabilities, in terms of assets and finance) to open yet another shop within the following year. It had also launched a new “at home” service to meet the needs of customers unwilling or unable to travel to one of the two retail outlets. As an advertisement in the local press explained, this is “a logical way of extending the boundaries of our shops to encompass all of the Lothians and parts of Fife”.

In terms of turnover, the business had experienced growth of 100 per cent between interviews, from £200,000 to £400,000, but the net profit margin fell from
13.5% to 8.75% in the second year. This can be accounted for by the increased wage bill and costs associated with setting up the additional retail outlets, viz. the shop and the “at-home” mobile service. Gearing remained constant, at zero. The owner-manager was keen to finance growth through profits, rather than further injections of either debt or equity. Trade creditors increased from year one to two, in line with sales, from £10,000 to £22,000. Trade debtors were minimal, since customers were required to pay as the job was completed. Fixed assets more than doubled between interviews, and the increase in stocks from £2,000 to £3,500, reflected the need to fill the new outlets with merchandise.

All things considered, this business appeared to be doing well. Growth was occurring at a steady, but sensible, rate, as profits allowed. New staff were being trained to take over the day-to-day running of the business, and a growing reputation throughout Edinburgh and Lothian meant that ‘word-of-mouth’ business was becoming increasingly important.

II ENVIRONMENTAL SCANNING

Low set-up costs were the attractive feature that led the owner-manager to start this business. It was a market about which he was knowledgeable, and his access to capital was also limited. As he explained, “I had an idea and identified a gap in the market for a professional, small, carpet retail business”. The main target market was local to each of the two shops. Again, this was because of the logistics and costs involved. His ultimate aim had been, and still was, to reach a “national audience”, but this was dependent upon the business generating sufficient funds internally to finance the required growth.
Pricing was based on market conditions and the standard industry margins applied. This allowed the business to provide a basic level of service while, at the same time, generating a small profit. The aim was to be competitive, and the owner-manager's opinion was that the price and quality of the goods and service his business offered appeared to "equate with most other businesses in the same marketplace".

It was thought that, among the firm's strengths, faith in the business and the personal values of those involved were most important. The values were communicated to customers before the sale was even made, and they were, as the owner-manager put it, "that we are friendly, professional, and have complete integrity, and we really care about the job we do". Major opportunities within the business again lay with the people concerned. Staff were given "autonomy" and encouraged to be innovative. For example, one employee was interested in, and good at, training new members of staff; another had good marketing and administrative skills. The owner-manager was keen to take advantage of the opportunities offered by the skills and qualities of his staff, as evidenced by his statement that "the more skills we have, the more we want to utilise them".

An early weakness had been identified as a difficulty in recruiting fitters who were of a high enough quality, or who could be trained. However, this situation had improved and was less likely now to cause problems, due to the increased skills of workers now employed, and the fitters attached to the business. The biggest threats to the business were thought to come from competition or rivals. The firm sought to combat such threats by operating in a specific niche market, and by being prepared to do things that their rivals would not contemplate: "We
provide service above and beyond - we will uplift carpets, move furniture, work after 5pm. We are differentiated”.

Relationships with both suppliers and customers were thought to be good although, as the owner-manager pointed out, “the evidence is anecdotal”. The firm enjoyed good relations with their regular suppliers, and it was thought that they received “amongst the best deals available for a firm of our size”. Customers generated much referred and repeat business through word-of-mouth. They very rarely, if ever, complained: “We have had about 3,000 customers since we started, and less than half a per cent have been really annoyed”.

The owner-manager appeared to have a good grasp of the industry in which his firm was operating. He knew exactly how he wanted the business to be perceived, had chosen and targeted a specific market niche, and was growing the business on at a comfortable rate, as and when he thought the time was right. His own personal values seemed to spill over into the business, and this was evident in the relaxed and friendly atmosphere in the shop.

III STRATEGY FORMULATION

The owner-manager had developed a mission statement for his business, as follows: “We want to make it easier for our customers to change their floor coverings, and we want them to enjoy the process”. He also made use of a formal, written business plan, with a ten year planning horizon, that was written when the business was first set up, and updated when he was contemplating expansion or, in the case of budgets, reviewed annually. The key points, however, were contained in the firm’s ‘Vision Statement’. As he explained, “our vision is strategic, our mission is to please our customers”. The vision statement would contain specific
criteria relating to “product mix, price and promotion”. It was thought that this helped to keep the business focused.

Growth and long-term profit were amongst the main aims of this business, measuring the former in terms of “an increase in the number of branches and the ‘at-home’ service”. The owner-manager was keen to create “new opportunities for [his] staff, and to be comfortable financially and provide for [his] family”. He intended this to occur through “organic” growth, and identified three predicted outcomes from such expansion: first, he hoped for “an adequate return on capital”; second, “an opportunity for the employees to develop”; and third, the provision of “a quality service on a national basis”.

The development of long-term plans was mainly down to the owner-manager at this stage. He would consult others, both in and out of the business, and would even pray about issues. Protecting the business from new or existing competitors or substitutes was achieved mainly through the continued promotion of his own firm: “We advertise regularly and often - that’s a real barrier to entry”. When trying to attract new customers, the business played hard on its ‘No Problem’ attitude: “We are differentiated, and it’s hard work [but] we never even mention price”.

The implementation of new strategies was very much dependent upon having the money available to go ahead: “With our financial standing [some debt, few assets], it’s a struggle to do anything rash”. The key strategic decision had already been made, and it was “to grow” but, as the owner-manager explained, “when it happens is dependent upon the funds being available. Finance is obviously important - when funds are available, the drive is towards increasing the number of outlets”.

30
The owner-manager would not contemplate a list of choices of various strategic options because, as he said, the business was already “focused; the strategic aim is always there: when, why and how is often governed by people”. The example he cited was of having two possible locations for new shop premises. For one location, he also had a possible shop manager in the area; for the other, he did not. Given that his reputation was built on offering a user-friendly service, finding the right person for the job was vital, so a lack of suitable candidates would stall progress. However, he would choose to delay expansion, rather than to put the wrong person into the job, which could prove detrimental in the long-run.

Surprisingly, perhaps, information technology was thought to be very important to this business, offering both “advantages on our larger and smaller competitors” as well as “opportunity as a sales tool”. For example, all customers are logged on to a personal computer, which holds details of their name, address, purchase order, and so on. When a customer walks in again, to make an enquiry or order, and is recognised by sight, they are asked for their phone number. This is then entered onto the computer, which sorts through the database and provides the customer name. As the customer is leaving the shop they are addressed by their name, and are “very, very impressed” that the shop manager knows it. As he said, “It builds on our friendly, local and professional image”.

The database records also helped the business in sending out ‘thank you’ letters to customers: “It’s something our larger competitors can’t do”. Previously, they had sent out a questionnaire, but had decided that a simple letter would be more welcome: “I think the questionnaire gave a negative, rather than a positive, image about the company”. And finally, as regards information technology, it was used
for the typical accounting and administrative tasks involved in running a small business.

Until recently, the business had relied upon questionnaire responses to find out if the customers were happy with the product and service: "We don't have a quality check system ... basically, we rely on the customer telling us, I suppose". However, the owner-manager actively encouraged customers to respond and tried to maintain quality. The main area in which mistakes or faults could occur would be fitting, but any such problem would be addressed by further training.

Any problems with the actual carpet would be covered by the manufacturer. The owner-manager tried to direct his customers to the correct selection of product for their need: "I try to match the right price with something that will give them long-term use". In doing so, he reduced the likelihood of complaints and customer dissatisfaction, while at the same time enhancing his own reputation.

Motivation amongst employees was high: "They are all pretty motivated [and] I encourage them". In addition, there existed financial incentives for each to be aiming for high profitability. One employee worked on commission, and another received a net profit-related bonus. Fitters were paid on a piece-work basis, so the incentive for them was to fit as many carpets as possible.

Again, the owner-manager proved that his business was to serve the needs of his customers in a friendly and efficient manner. Planning was formal and well thought-out, aims and objectives were clear, and advantage was being taken of the opportunities offered by information technology. Quality of product and service were assured, and customers were made to feel at ease by being offered good and plentiful information and advice; and employees were encouraged in their work by the opportunity to benefit from the firm's continued success.
IV STRATEGY IMPLEMENTATION

The owner-manager was taking positive steps to encourage the growth of his firm: "We are creating and maintaining a profitable core that will drive forward growth. We are taking on new staff alongside the planned, steady growth. We are also looking at new premises, and hope to open a new shop in one out of two possible locations". He also sought feedback from customers, and used it to ensure continued quality control. If any problem became apparent, he would discuss this with his fitters. Meetings were held on an ad hoc basis with the key fitter, as and when required, during which any difficulties were aired, and solutions sought.

Previous experience had taught the owner-manager how to deal with implementing new strategies: "I had problems in the past, shooting off at tangents". Now, he had fewer problems, due, he thought, to the fact that the business was "firmly focused". Financial constraints were the greatest limiting factor on growth although, he admitted, the business had been in a position to grow for the last year. However, at the end of the day, people were key. As he explained, "location, premises and people are important". So, even if finance were available, without the right person, he would hold back on growth.

The expected growth in the business was to occur 'organically', through reinvested profits. The owner-manager was willing to consider both debt and equity financing, although not at present. He thought that controlling costs was more important to his business than increasing sales revenue, as he wanted to improve upon gross profit margins: "We have a target thirty per cent margin ... that's where the most effect on our profitability can be made". He explained that it was "easy to give too much away" (in terms of providing free fitting accessories,
for example door bars, or giving away free sample rugs), which was all part of their “friendly image”. But they were very focused on cutting down on such expenses.

The financial structure of the company had begun very simply - “I started with nothing” - and had changed only through the use of overdrafts and increase in profits. The owner-manager found the profit and loss account and cash flow statements to be most helpful and important in the running of his business: “You work out the profit and loss from the cash flow: it breaks things down into manageable, bite-sized pieces”.

Accountants, auditors and bank managers played no role at all in budget preparation. The owner-manager liked to work out all such matters by himself: “It’s all done by the time I go to the bank”. Likewise, training and enterprise councils and enterprise trusts had not helped with budgetary procedures, although they had provided funding, in the form of training grants and the enterprise allowance.

New plans were communicated to staff by conversation and through regular meetings with key people, which included the fitters: they “are subcontracted at the moment, but are firmly within the business and involved in the decision-making process. It is a financial motivation for them to be subcontracted”.

The owner-manager’s role within the business had changed since start-up, although not in the way he would have liked or preferred: “I work harder and am still very much involved in the day-to-day running. I would plan to do more managerial things in February and March, when we’re not so busy, but I lost out
on that this year".\textsuperscript{1} He further added, "it's quite hard at the moment", as a result of the time and effort required to provide a personal service.

V EVALUATION AND PERFORMANCE

The business assessed performance in terms of two distinct measures: first, "does it fulfil the financial targets and budgets we've set?"; and second, "do people enjoy working here?". Staff performance was monitored, although not in any formal sense: "We do have appraisals 'as a word', but not in the real sense because of lack of time and motivation". The owner-manager was attuned to such methods of working, and agreed that formal appraisals "would be good", but lack of time would not permit this at present. However, if he ever did have time on his hands, he would "plot graphs of growth ... for example, this year \textit{versus} last year".

Certain policies and plans had been affected, due to business performance: "I wanted to expand last year, but things didn't go as well as planned. It made me depressed". Instead of forging ahead, and pushing for growth, however, the owner-manager "stood back from the situation" and took time to re-evaluate the company's position in a rational manner.

Finally, the owner-manager listed many "wee things" that he thought differentiated his business from others in the same market: "We move furniture, we do fitting at night and weekends, we are friendly, offer one-to-one contact, are flexible and professional, and we care".

\textsuperscript{1} This was due to the extra work done by the business, caused by many flooded premises, being a result of the extreme and widespread cold weather over New Year 1996.
VI SUMMARY

This business was performing well and experiencing steady, controlled growth. The owner-manager was very much in control and well aware of the firm's strengths and weaknesses. He was also knowledgeable about text-book methods of running a business, and open to receiving suggestions from academics on theories of 'best practice'.

Personalities and Christian values were important to the business image, which thrived on its reputation of being a friendly and helpful company. Communications were good, both internally and externally, mainly through conversation, rather than written documentation. Problems were addressed at the earliest opportunity and a good relationship with employees, subcontractors, suppliers and customers assisted in finding solutions.

The business was following a clearly defined set of objectives, as developed by the owner-manager. Strategies were devised through consultation with staff, who assisted in their implementation and were motivated by financial bonuses and the work ethic in the company. Information technology had been integrated into the business by an owner-manager who was receptive to change and aware of the possibilities on offer.

Feedback from customers was important to the business, and taken note of: there was a very strong feeling that 'the customer is always right', and their comments were taken seriously. The owner-manager had learnt too from past experience, and was cautious, perhaps almost excessively so, when it came to making the decision to take on new premises. In fact, if any criticism were to be made, perhaps it should be that he had become too risk-averse.
Financing was not a great problem, and the owner-manager appeared to be on good terms with his bank manager. Sufficient profits had been made to fund growth so far, and there was no reason to suggest that this would not continue to be the case. In general, the business seemed to be doing well, and the owner-manager and his staff had a positive and optimistic outlook for future continued success.
CASE D: Activity Camps

I BACKGROUND

This business was first approached when it had been running for two-and-a-half years. The owner-manager worked from home, in a town near Edinburgh, and provided multi-activity day camps for children aged five to 15 years, using the rented facilities of local schools. He targeted the regional market, attracting children of the many commuters to the city. The business produced a brochure, which advertised a selection of the many activities on offer, ranging from aerobics and apple ducking, through canoeing and sub aqua, to volleyball and young magicians. Courses were non-residential, but all refreshments, including supervised lunches and breaks, were included, in order to provide as convenient a service as possible to busy parents.

There was a core team of staff consisting of the owner-manager and four part-time employees. This was complemented by up to an additional 13 seasonal staff to cater for the heavier demand during the summer months. By year two, the business had taken on a small office and was operating from these business premises. Staff remained at the same level, with seasonal staff still being employed as and when required.

Turnover grew from £45,000 in year one to £69,000 in year two, though the business became VAT-registered between these years so the difference may be exaggerated by the inclusion of VAT in the second turnover figure. Net profits showed a healthy increase from £4,000 to £15,900 and gearing had dropped from almost 300% to zero, as debt had been cleared. The business had experienced a large increase in trade creditors, from £800 to £8,000, which showed that external
bodies now had a greater hold over the business than previously. Stocks were minimal, and related primarily to foodstuffs held for the childrens’ lunches.

The business was not growing at any great pace, in terms of employment or turnover, although the owner-manager seemed relatively happy with progress. On the other hand, long-term debt had been paid off and net profits were available for re-investment, so the business seemed at least to be stable, if not dynamic in its performance.

II ENVIRONMENTAL SCANNING

The owner-manager had decided upon this particular niche in the market because of previous knowledge gained while in England. He thought there was a gap in Scotland, as there did not appear to be anything offering the same activities and timings as he himself was subsequently to provide. The target market was regional, and customers were typically commuters into Edinburgh; people who came from within a 35-40 mile radius, and who needed somewhere to leave their children for the day.

Quality was of prime concern and always had to be high because, as he explained, “you’re dealing with children”. Price was worked out based on costs to the business with a 20 percent mark-up added on, and rivals’ prices were taken into consideration when this was being decided. Price was seen to be less important to the customer, who wanted to ensure a safe environment for his or her child so, said the owner-manager, “I set up the prices on what it costs us, and quality equals expense: people will pay for quality”.

It was thought that adaptability and quality were amongst the biggest strengths of the business: “We have good quality staff and good quality qualifications: it’s all
reflected in the price and used in advertising". In addition, the children:staff ratio was low, at only six children to every member of staff. Parents needed to do very little to ensure their child’s happiness for the day, as all food and supervision were provided and included in the price.

The two main strengths were also thought to offer the greatest opportunities to the business. These were capitalised on by the staff “being as flexible as possible: we will adapt our business to the clients needs”. So, in other words, by showing a willingness to accommodate, for example, a child who wants to come for three-quarters of a day instead of a morning or afternoon, the owner-manager hoped to gain more business, thus taking advantage of the opportunities such flexibility afforded.

Biggest threats to the business were thought to come from red tape or government legislation and rivals’ resources. The former left little room for negotiation and, in some cases, had led to activities being dropped. For example, the compulsory cost of registering, training and testing abseiling instructors was so prohibitively high as to be not worth continuing. In terms of rivals, the business tried to “keep an absolute tab on what our rivals are doing and match the activities they’re undertaking”. However, as it was thought that rivals had difficulties in offering alternative activities to those in their brochure, they were not now considered to be a great threat.

Early on, the owner-manager had identified a weakness of the business as being the lack of plant and resources, and the need for another full-time member of staff. However, steps had been taken to improve this situation and, as he put it, “we’ve more or less got it now”. The business had moved into rented business premises instead of operating from home; and one girl was now working for three mornings
a week, which had freed time for the owner-manager to concentrate on other tasks such as marketing, sales and the planned expansion into another area.

The firm’s relationships with both its suppliers and customers were said to be good. The main school that provided its grounds and facilities favoured this business and, added the owner-manager, “there is no petty squabbling, and we try to keep them on as good terms as possible. The owner-manager tried to put over a friendly and co-operative image to his customers: “Most of our business comes from word of mouth, so it is imperative that we create the right impression”. Very few complaints were received and, of those, the main ones were about not being able to carry out a specific activity, for whatever reason: “For example, if a child is only here for one day, and wants to do archery but it’s blowing a force nine gale, we do not give refunds, but we offer them exactly what they have booked for free of charge again, and they come back on another day”.

This business was very focused on providing a unique and flexible quality service. The skills of the staff involved were integral to the whole business image and served to justify the price charged. Rivals were thought to pose little threat, due to their lack of diverse activities. Customers were valuable not only because of their own custom, but also because of their use as an advertising medium. In addition, the firm was on good terms with its suppliers, who appeared to offer them favourable terms and conditions.

III STRATEGY FORMULATION

The firm’s mission was “to provide a quality product and service for parents”, aimed at the customer, and “to expand across the whole of Scotland”, which was more related to personal ambition. The owner-manager did not have a formal and
written business plan, but worked instead from a plan he held in his head. At the point of interview he was primarily concerned with a move to Glasgow, where he hoped to set up a similar operation to that in Edinburgh. Taking all that he had learned from setting up and running the business, he hoped to simply transplant a similar company in another city. He had taken certain steps to determine the feasibility of expansion into the new area: “I have spoken to schools in Glasgow and have ascertained the fact that they are interested in renting out their facilities over the holidays”, and hoped to start serious planning for the move later that year.

Growth and long-term profit were mostly being sought by this owner-manager. By growth, he meant “a pure rise in profit”, and explained further: “You can grow, and have more children through the door, but profit can go down”. His business had in fact experienced such a problem, as more children were taking the courses which cost more to run, for example golf and horse-riding. The solution had simply been to increase the prices for those courses.

When asked why he hoped to achieve such goals, it was apparent that the business was very much a personal achievement. It was for “pure satisfaction: my ego”, said the owner-manager: “I get a tremendous amount of satisfaction from seeing something I’ve created succeed - like a seed germinating and waiting to flower”.

Given that there was no written business plan associated with the firm, it was not expected that the development of long-term plans would be any more formalised. Indeed, this proved to be the case, and the owner-manager admitted that he would “mostly knock ideas about with people I trust”, including a contact at the local Enterprise Trust, his accountant, and friends. His long-term decisions were based on “financial forecasting and gut feeling” or an appreciation of “what will and
won’t work”. The example given was of thoughts of offering residential courses during the previous year. A reluctance to put money up front, as required by the school, and the “gut feeling that it wasn’t going to work”, meant that this idea had to be rejected.

The owner-manager said that he would consider a menu of strategic options, but again this would be an informal process. He would carry out “comprehensive financial forecasts” for any new plan, and if he thought it would not work, would give up on the idea. The main criterion that would force him to sit down and write a formal plan would be if external funding were required. However, as of yet, this had not been needed.

When trying to attract customers away from rivals, the main way of achieving this was thought to be by relying on the “quality of our service and the uniqueness of the activities we offer: we are always looking to introduce very diverse activities that they [the children] cannot do anywhere else”. Once this objective had been achieved, the owner-manager would try to retain customers and protect his firm from rivals by advertising and hence keeping their name in peoples’ minds: “Keep your business at the forefront of local industry”, he advised.

Information technology was only scarcely important to this business, as only the telephone was used, although fax bookings and reservations were a prospective innovation. The owner-manager was considering purchasing a personal computer at some point but, as he pointed out, “you have to think about the clients first, for example, by buying good canoes”. Although there now existed some specifically-designed computer programmes for this type of industry, these would cost between £4,000 and £5,000 to install and, while “you can make a reasonable income” from
this industry, "you will never make a fortune". Expenditure on such luxuries would therefore have to take a back seat for the present.

Quality, as mentioned previously, was a very important consideration in this line of business, and was ensured by the fact that the owner-manager was always around, or likely to turn up unannounced: "I insist we provide a very, very high quality and I really do go on about it all the time". This quality assurance was generally communicated verbally to potential customers, although it was also written in the firm's brochure, and it relied on the staff:children ratio and the firm's good and growing reputation.

Employees were motivated in their work "by pure encouragement" and in-house training. The seasonal staff tended to be students of physical education, so the possibility of gaining, for example, an archery teaching certificate (a recognised qualification), which might cost them £120 if they paid for it themselves, was a valuable 'perk' to them. It more than made up for the relatively low wage rate, which might not have been as high as they could perhaps have earned elsewhere. In addition, staff were encouraged to give their ideas and input at regular meetings, and their thoughts were taken into consideration when new plans were to be implemented.

The formulation of strategies within this business tended to be more informal than not. Objectives were largely personal and planning was linked to these. The policies were well worked out and clearly communicated, with staff being involved in decision-making, and motivated by doing so.
IV STRATEGY IMPLEMENTATION

To help the business achieve its goals, the owner-manager was getting feedback from parents so he knew which activities their children wanted to try. This took the form of a questionnaire that was sent out to all who had taken part in an activity. With this was sent a detailed breakdown of what the child had done, as they were often likely to forget the names of any new or unusual activities, and might perhaps give the impression that very little had been done. In addition, given the contemplated move to Glasgow, the owner-manager was looking for new staff and was considering making the manageress of the after-school club a permanent and full-time appointment.

Problems in implementing strategies tended to be logistical and mainly involved time-tabling; in other words, “how to cram everything in to one day”. If it so happened that a child wanted to do two activities which clashed, then they would try to re-schedule for that child, or invite him or her back again, free of charge: “It’s positive PR”, explained the owner-manager.

New courses of action were primarily constrained by cost: it’s a “very, very important issue when it comes to any action, and if we had unlimited amounts [of money] we could move in to all sorts of areas”. However, rather than think things through beforehand, the owner-manager would implement a new strategy straight away - “I’m a very immediate person” - rather than wait. He would then “tend to analyse problems and iron them out as they arise”.

Although controlling costs was important to this business - “I’m always looking to cut costs within the perimeters of safety” - currently more important was generating revenue by extra sales. The owner-manager admitted he was “looking forward to breaking the £100,000 turnover mark”, as this was a target he had set
himself. Financially, the business had evolved from the owner's initial capital injection plus overdraft. The debt was now cleared and profits had been reinvested.

The owner-manager worked "all the time" from cash flow, updating it every month without fail. Profit was also important: "If I start the year with £8,000 profit and end with £8,000 profit, I'm happy, if I've managed to expand within that time". However, balance sheets and profit and loss accounts were not typically used in the day-to-day running of this business.

Budgeting for the year was all carried out in-house. The accountant would be the person most likely to offer outside help or advice: "He tells me how much tax I owe, and gives me advice on how to change or improve the situation". Enterprise companies had provided initial funding, in the form of the weekly enterprise allowance and a £3,500 interest-free loan over 24 months, with a holiday period on repayment if required, of which advantage had been taken.

The business had an "orientation pack" which was handed out to all new staff upon their arrival. In it was set out "our philosophy in dealing with children, risk assessments for each activity, and timetables". In this way, new staff were quickly and easily made aware of what their responsibilities were to be and how the business was run.

The owner-manager's role in the business had changed quite significantly since start-up. The staff now ran the after-school club without his presence being required, although he did put in a regular appearance "to check in with the parents and see if there are any problems". He did all the invoicing from his office and, having delegated much of the physical work, was now in a position to carry out more administration and marketing.
Customer feedback was helping the owner-manager to decide upon future courses of action, and the appointment of extra and permanent staff was a possibility. Problems were dealt with as they occurred, rather than as anticipated. More finance would be helpful, although did not seem to be a crucial requirement. The internal organisation and structure of the company was evolving as growth took place.

V EVALUATION AND CONTROLS

Increased revenue and feedback from parents were the methods used to decide if a venture had been successful or otherwise. Full and part-time workers had performance appraisals, but the seasonal staff were more likely to be judged according to a checklist in the orientation activity pack. The owner-manager admitted to getting “quite worked up” about such matters. Performance-wise, he would compare actual figures with targets and budgets to assess the business.

Policies had been changed in the past; for example, courses such as abseiling dropped, and others introduced. However, this was more likely to have been caused by a lack of appropriate staff or financial constraints than because of the failure of a particular venture; for example, “if I need professional staff for an activity and can’t get them”. Failure to comply with strict regulations on health and safety could lead to the business being sued, and was not worth the risk. Finally, the owner-manager summed up quite simply what he thought were the qualities that gave his business the edge over his rivals. They were: “quality, flexibility, adaptability and diversity”.
VI SUMMARY

The performance of this business was satisfactory, given the owner-manager's goals of providing a quality service and growth in turnover. His knowledge of the market was good, and he seemed aware of the needs of busy parents; for example, being willing to receive children at 8.30am and keep them until 6pm, fully-supervised at no extra charge, outwith the 9am to 5pm course hours, to accommodate working parents. The courses offered were extremely varied and the flexibility offered meant that there would always be something to satisfy every child.

Planning was informal and often ad hoc, so when problems did occur they had to be solved there and then. With a little more foresight, perhaps some of the problems need never have occurred. For example, it might have been anticipated that activities such as horse-riding, known to be expensive to run, would have heavy demand. Prices could have been set accordingly beforehand, and then the losses incurred could have been avoided.

Growth did not appear to be constrained by finance, although it was acknowledged that an increase in funds available would be of great help. The owner-manager hoped that the skills and knowledge he had built up over the past few years would be enough to help him establish a new business in Glasgow. To some extent he may be right: Glasgow has a similar need to service the commuters to the city, and schools willing to provide the necessary facilities. However, a large part of what makes the current business work is the visibility and input of the owner-manager himself. If he can find a suitable person to manage part of the business, then he might do very well. But the wrong person in the job could ruin
things for the firm. Nevertheless, he was optimistic about the prospect of the expansion, and seemed to think that he could make it work.
CASE E: Record Shop

I BACKGROUND

This business was a small record shop based in a rural town in Angus. It had been trading for seven months when first approached, targeting customers in the local area. The owner-manager believed that he could "provide an efficient and more cost effective service to suit the needs of the people of [the town] on a more personal style". Given that the only other outlet in the town was a branch of a multi-national chain, offering mainly best selling pop music, he had decided to concentrate largely on country music. This, he was sure, had a very loyal and supportive following. In addition, he hoped that the provision of sheet music would generate extra sales amongst local music teachers, parents and people involved in musical societies.

When first interviewed, the owner-manager was involved in the day-to-day work in the shop, and had one full-time employee and an additional trainee. In subsequent years, this was to fall to only one full-time employee. Given that the business had only been going for seven months, first year sales were a projected £65,000. In reality, when sales figures were eventually obtained for the first two complete years, they were £47,837 and £49,695 respectively. The business had not yet managed to break-even, making net losses of £9,585 and £4,694 in the first two years of trading.

Gearing was constant at zero over this time, reflecting an inability to raise any long-term debt. Trade creditors varied between £4,000 and £6,000, and debtors were rarely above zero, given the retail nature of the business. Stocks remained close to the original £24,000 over subsequent interviews.
The owner-manager managed to remain remarkably cheerful and optimistic, despite the losses his business continued to incur. He had been forced to inject more of his own capital, in addition to the original input of £12,500, in order to keep the firm going, and was mildly annoyed that the bank refused him a loan or overdraft facility. Still, it was obvious that he enjoyed the work, the music and meeting the public. Being close to retirement age, he seemed to take pleasure simply in having something to fill his days. However, he had reached the limit of what he was willing to invest, and was at the point now where he would just let things take their course.

II ENVIRONMENTAL SCANNING

When asked why he had chosen this line of business, the owner-manager replied, “I don’t know really. When I retired, I wondered what to do, and looked at different things, but I’d always been interested in music”. The nearest city had many such shops, so he decided not to even attempt to break into that market. Instead, he decided to target the local market of his home town and the surrounding area, adding, “I opened the shop and hoped it would make a profit we could live on: I have no great delusions of grandeur, or of being a Richard Branson”.

He had very little control over pricing, as the industry standards applied. The business worked on a percentage mark-up basis, and rounded the resulting figure up or down. So, for example, a marked-up price of £7.10 would be reset to £6.99; £7.60 would go to £7.99. There was a preference for good quality, although the owner-manager admitted, “I keep some cheap rubbish to let them think they’re getting a bargain”. He did accept, however, that “quality is cheaper in the long run, and you don’t get so many returns or faulty products”.

51
One of the biggest strengths in the business had been identified as its adaptability. The owner-manager explained that “we bend over backwards for our customers: we stay open late at night, and deliver to their doors if they can’t get out”. For example, he would drive out to local towns where people were housebound or had limited access to transport, and found that such flexibility “does help a lot”. Amongst the biggest opportunities the owner-manager hoped to take advantage of were, again, his adaptability, and the faith he had in his business. He was about to start a marketing campaign, “going out” to the customers with free gifts, such as six-inch rulers with his business name printed on them. His aim was “to target all the schools in the area, hand them [the rulers] out, and take music books, recorders, and so on, with me”.

The biggest weakness was thought to be the lack of sales and therefore small market share held by the firm. The owner-manager was about to try and improve this situation in two ways, “targeting different areas on different days”. First, he was going to start selling at the local Saturday market, while his employee ran the shop for the day. And second, he was going to be attending a club in a nearby town on Thursday nights. This club was aimed at 12 to 18 year olds, so he would be taking along to sell “the type of music they like”.

In terms of threats to the business, by far the strongest came from large, chart-registered rivals in the city, who were able to purchase their stock at a lower rate by buying in bulk, and therefore attracted people from out of town: “They can compete on a more level playing field”. At times, these rivals were selling at a lower rate than that at which this owner-manager could even buy. But he was caught in a vicious circle, because sales had to reach a certain level before the
business could become chart-registered, and benefit from similar deals to those of
the bigger players in the market.

At first, the owner-manager said that his relationship with suppliers was good,
but on further questioning he admitted to some drawbacks. For example, “next
day service often means three-day service: they are not always on time”. He
acknowledged that this was “not the fault of the suppliers, but of their delivery
companies”, but still refused to accept late deliveries, and would simply send them
back. The relationship with customers was described as “very good”, with much
repeat business and few complaints.

A cursory glance would suggest that this business was doing things right. The
owner-manager was aware of the strengths, weaknesses, opportunities and threats
associated with his business, and had done a fair amount of research into local
tastes and demands. However, a major problem was the costs of his purchases and
the fact that he was finding it hard to compete with large multinational companies
who achieved great economies of scale and were therefore able to sell at a much
lower price.

III  STRATEGY FORMULATION

The owner-manager was seeking mainly to earn “a decent living” while, at the
same time, “trying to provide a service that wasn’t here in [the town] before”. He
had no great mission statement to describe where he would like the business to go,
but instead felt that, “at the end of the day, if the customer’s happy, then I’ll be
happy”. The business plan he did have was a written document that had been
prepared at start-up, and included sections on: market and market research;
marketing and promotion; premises; staffing; pre-trading expenditure; other
expenditure; and funding. Although the owner-manager admitted, "I know basically what's in it", the plan was not heavily used in the running of the business. Rather, he worked from a hand-drawn graph that charted sales on a monthly basis. From this, he was able to see at a glance whether sales were up or down on the same period the previous year. He set himself a target level, also drawn on the graph, and knew at any point in time whether he was above or below target.

The continual struggle for survival was always uppermost in the mind of this business manager, who also hoped, in the longer-term, to increase turnover and, subsequently, profit. The main reasons for aiming to achieve these goals were quite simply, as the respondent put it, "to live; and to pay the mortgage". In other words, the business was seen purely as a way of earning a living, without any ambition to grow very much bigger.

Long-term plans were decided in a most informal manner: "I think about it, and keep trying new products", said the owner-manager. He would also consult his employee who, being in his twenties, was probably more in touch with the tastes and preferences of youngsters in the area, and able to give quite sound advice as to what might be a useful product line to stock. Whether or not the business could afford to finance a proposed strategy was the main factor in whether or not it would get the go-ahead: "There are a lot of things I'd like to do, but I don't have the money for it", said the owner-manager; and a list of strategic options was not something that he would, or even could, contemplate.

It was thought that the business was able to defend itself against rivals' poaching tactics by the service it offered to customers: "I hope the quality of goods and price is right", explained the owner-manager. On occasion, he would also have offers,
such as was displayed by his rather amusing advertisement for CDs: "twafuhrafiver" [or, ‘two-for-a-fiver’].

His expansion into sales at the local market had come about because of a rival, who had come in from outside the area and set up a stall that offered similar product lines. It was hoped that, by tackling this problem head-on, the owner-manager would be able not only to increase his own sales, but also to keep some of the "x amount of money to be spent" in the town, rather than losing it to outsiders. He thought that people who came into the town from elsewhere, to open market stalls, were a main cause of the proliferation of empty shops locally, and hoped to do his bit to help keep money from leaving the area.

Information technology was said to be very important to the running of the business, which made use of mainly the phone and fax for telesales, customer contact and queries. Speed was thought to be very important, so if a request was made for an out-of-stock line, the ability to place an order immediately could mean the difference between gaining or losing a sale.

The responsibility for the quality of the products on offer in the shop lay mainly with the manufacturers, and the owner-manager would “take their word for it” that supplies were up to standard. Negative feedback from customers was passed on to sales reps, who were notified of poor quality products so that they would not occur again. Occasionally, though, faulty products would have to be returned, which could sometimes cause problems, as not all suppliers were always willing to accept returned goods: “It’s sometimes difficult”, added the owner-manager.

Customers were made aware that goods would be exchanged, though refunds were only given if the product were faulty. The example he gave was of one customer who spent a long time listening to a CD in the shop before deciding to
buy it. The customer took the disk home, then brought it back within half an hour, having decided he no longer liked it, and demanding his money back. After a heated discussion, the owner-manager agreed to exchange the CD for another, different disk which, it just so happened, was priced cheaper.

There was little in the way of formal motivation for the sole employee in the business. He was able to work fairly flexible hours, only starting at ten o’clock in the morning, and was allowed to turn up late without any repercussions, so long as he informed the manager beforehand. On the other hand, he was picked up at quarter to eight on Saturday morning for a full day’s work in the shop, while the manager went to work on the market. However, he seemed to enjoy the flexibility of weekdays, and the lack of formal discipline exerted over him, while being able to spend his days in the shop listening to music of his choice.

The formulation of strategies was very much dependent on the personal goals of the owner-manager. He seemed happy enough simply to let the business tick over, and would be perfectly satisfied with a moderate income for himself and his employee. All in all, the management structure was extremely loose and informal, and long-term planning virtually non-existent.

IV STRATEGY IMPLEMENTATION

In order to try and attract more customers to fulfil his aim of growth, the owner-manager was “going out and about more to try to be seen; I’m going out to meet prospective customers, and I go to most of the shows that are on to show my face.” Again, the main problem when it came to implementing strategies was pointed out as being the lack of money, and also a lack of space: “I would like the shop to have a bit more space, for example, for bagpipes”, he said.
Speed was sometimes thought to be important when it came to implementing new strategies or courses of action. The owner-manager gave the example with which he was currently concerned: “The Scottish Traditional Music Festival Association is on the 6th, 7th and 8th of September\(^1\), and I’ve run out of tin whistles. I hope to get an order in and delivered before the date, but it depends upon the suppliers and they’re not always reliable”. So, in other words, the speed at which this particular course of action, the purchase of tin whistles, was implemented was very much dependent upon external factors such as the suppliers being able to deliver on time, and their having the goods in stock in the first place. Of course, it could be argued that, with a little foresight, and knowing in advance the date of the impending event, the owner-manager could have ordered a stock of tin whistles some time previously, and that this sudden stock-out was entirely preventable, and caused by his own short-sightedness.

Cash flow was again said to be the biggest constraint on the growth of this business. Growth was expected to occur by increased sales as, said the owner-manager, “I have the stock there, and hopefully I will need to buy more to keep it going”. There was no prospect of him receiving bank funding of any sort, given the poor track record so far. Although extra sales revenue was currently thought to be more important than controlling costs, it was recognised that “the two go hand in hand, in tandem, with each other”. In any case, although the landlord might be willing to drop the rents for a short time, apart from that, there were few costs over which the owner-manager had any bargaining power.

Since start-up, the only source of finance had come from the owner-manager

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\(^1\) The interview was conducted on the 20\(^{th}\) of August.
himself, who had added more of his own personal funds just to keep the business going, but had now reached the limit of what he was willing to invest. The business was, and continued to be, loss-making, though the losses were getting smaller every year. Cash flow was the most important financial information used by this owner-manager, who explained that “if you don’t have the cash, you can’t buy it”.

In terms of enterprises concerned with stimulating new business start-ups, the only help had come from the local Enterprise Trust, in the form of the enterprise allowance, which was said to have been “slightly helpful”, and worth a total of £500. The firm’s accountant was the only other helpful contact who, as well as doing the end of year accounts for the business, also met with the owner-manager on a monthly basis, to help with the wages and check that the VAT had been calculated correctly.

New plans were communicated by talking, trying them and seeing if they worked: “If it doesn’t work, then we don’t bother”. For example, one idea had been to try and sell cheap CDs, but this had proved unsuccessful, so the business was now selling them off at a cheaper price, and “talking” to the company from whom they had been bought, about the quality of the product. So again, the communication and implementation of procedures and policies was seen to be done in an informal way, although probably appropriate for the size of the business.

The owner-manager did not think that his own role within the business had changed at all since start-up. He was still very much involved in the day-to-day running, concerning himself with ordering, selling and trying to think of new markets, though devoting little, if any, time to long-term strategic planning. His
employee had been there from the beginning, and no more staff had been taken on, so there was little opportunity for delegation of authority.

The implementation of new courses of action was again very informal in this business. Ideas were tried out as and when they occurred; if they did not work, they were dropped. There was little, if any, innovation in the structure of the business, evidenced by the continued daily involvement of the owner-manager. A very short-term view was taken with regard to decision-making, shown by the concern primarily with cash-flow over longer-term measures of profitability.

V EVALUATION AND CONTROLS

The success of a strategy, as described by this owner-manager, would mean that a product had sold: “If it sells, it’s a success, if it doesn’t, it’s a failure, and we often get it wrong”. Target levels of sales were set on the graph for each year; above the line equalling success, and below the line equalling failure. As the owner-manager explained, “we have to buy the right things that people want”, to enable sales to reach and exceed the targets set.

Policies had been changed in the past, based on the appraisal of a particular strategy by the owner-manager. For example, he had changed his supplier of cheap CDs, after the poor quality he had experienced led to minimal sales. Now, the supplier with whom he dealt provided products which, “although they are cheap, are of good quality”.

Finally, the one thing that the owner-manager thought gave his business that slight edge over his rivals was “the personal service” he offered: “We have a larger variety; a greater selection of stock”. Not only did he sell records, CDs and cassettes, but also very many other musical accessories, instruments, sheet music,
videos, and so on. The product range was indeed exceptional, but perhaps so much so that the customer would choose rather to go to a specialist shop than a local, so-called, ‘jack-of-all-trades’, as this business might be perceived.

VI SUMMARY

The business was reaching a crucial period in its life-cycle: funds were low, losses were continuing and finance from elsewhere was a non-viable proposition. In addition, the owner-manager had decided to invest no more of his own funds, so the future of the firm depended upon it making a profit, or at the very least, breaking even, in the near future.

The owner-manager was trying to cater for all tastes, stocking an extremely wide range of diverse products, but perhaps this worked to his disadvantage. For example, the demand for pipe reeds, bagpipes and the relatively expensive record cases he stocked for, in particular, DJs, could only have a limited appeal in such a small area. He seemed to be trying almost too hard to offer that which his rivals did not, to the extent that much of what he did stock was too specialised to sell at a high volume.

Given the uncertainty over the firm’s future, it is perhaps not surprising that long-term strategies were difficult to formulate. The owner-manager was eternally optimistic, and truly believed the service he offered to be better than that of his rivals, but continued to lament the unfairness in the industry which discriminated against him in favour of his chart-registered rivals.

For someone of his generation, he seemed remarkably willing, and aware of the need, to adopt new technology, acknowledging the importance of rapid communications. He was certainly flexible and adaptable, and very keen to take on
board any suggestions about new, up-to-the-minute, pop music; but at the end of the day, he just could not compete on price as far as his main product lines, records and CDs, were concerned.

The business was experiencing similar problems to those currently encountered by many other small retail outlets. The trend for larger, out-of-town superstores, and increasing evidence of multinational stores in the main cities, is moving business away from smaller town centres and destroying the local economy. This owner-manager was unhappy, as are many others, about this chain of events, and was trying, in his own small way, to halt the progress of such major competitors. However, the barriers he faces could be too large to break down, and this small firm may yet prove to be another victim of the advancing flood of multinational enterprises.
CASE F: Catering Equipment

I  BACKGROUND

The four directors of this limited company each had an equal share of and responsibility in the running of the business. The firm, based in Edinburgh, provided primarily a service, installing specialised catering equipment into pubs, hotels, restaurants and so on. The director interviewed, who dealt with the financial side of the firm, was met in his own home, as the only business premises available were a building used to house the tools and equipment.

At the first interview, the business had been going for eight months, targeting the whole of Britain as its market. Turnover was a projected £126,100, based on the eight months to date, and net profits were expected to be around £18,000, or 14 per cent. There was no long-term debt, nor any trade creditors or debtors. Fixed assets were valued at around £4,000. In year two, financial figures were not available, as the accounts had yet to be finalised. However, the respondent was able to predict a sales figure of around £150,000. The target market had narrowed to cover just Scotland. Now that they had been trading some time, trade creditors had risen to £3,000 and trade debtors to £6,000. Fixed assets had changed very little and stocks were a relatively low £200 to £300.

The third approach to this business saw a downturn in performance. The first negative sign was that one of the directors had left, bought out by the remaining three. Turnover had dropped to just under £100,000 and, more importantly, the business showed a net loss, after all deductions, of £3,370, or minus 3 per cent. Debt was still zero, creditors slightly lower than previously, at £2,000, and the current asset of debtors had gone up to £20,000. Fixed assets remained very
similar and stocks had risen to £3,000. This reflected a change in the direction of the business; the directors now hoped to supply and install re-conditioned equipment, rather than simply install that which their customers had bought, and were building up stocks to this effect.

The sudden decrease in sales, of one third, was a disappointing event for the respondent, who found things were moving slower than he might have hoped for. However, he expected the new direction the business was taking to be more profitable: it was thought that second-hand equipment could be picked up fairly cheaply and that, with their specialist knowledge, the directors could transform the goods into profitable products with a higher margin than simple installation would offer. However, this idea was one that had been raised as a possibility from year one, and the slow progress so far made did not suggest that new niche invasion was a primary goal, nor even indeed one that might soon be achieved.

II ENVIRONMENTAL SCANNING

The four directors had fallen into working for themselves because they had been made redundant from their previous employers, who worked in the same line of business. The respondent explained that, in setting up the business, they “were guaranteed an amount of work as subcontractors, doing the same job”. The British market was more imposed than chosen, as they continued to work for their previous employers who “started us off”. In addition, companies with their headquarters in England were also working in Scotland, so the business decided to offer a service to these companies too. However, by year three, 95 per cent of the work was being carried out in Scotland, although the source of the work would often come from a “non-Scottish source”. 
The pricing and quality strategies had been developed whilst working for the previous employers: “It was our pricing structure; we invented it”. It had been developed by the workers simply choosing a price, and being told whether or not it was acceptable. Experience taught them that they were pricing at a level about 20 per cent too low, so now they used the same formula as before, but with an additional 20 per cent to 25 per cent. Quality had always been reasonably high, because of the type of contracts taken on by their employers, which was “often high class work”.

The respondent rated one of the strengths of his business as being the technological and specialist know-how of the directors, and they used this word ‘specialist’ in their firm name, and in their marketing: “We rely on that to be different from the bog standard plumbers and electricians”. Opportunities were thought to lie in the foresight and forward planning capabilities of the team, and in their innovativeness and new ideas. As the respondent explained, “The company I worked for were an old company and had set ways. We weren’t bound by this; we were open to suggestions that would make us money. We are also flexible, and if we saw an opportunity to diversify from our own standard product, we would take it”. And the example he gave as evidence to support this argument was the company’s intended move to selling and installing the re-conditioned equipment although, as mentioned previously, progress in this area was slow.

A weakness of the company was identified as being the lack of a customer base: “We were relying on one or two”. This situation was improving, however, with a now greater list of regular customers covering a wider area. The current client list was reasonably satisfactory to the respondent, but he thought that they “could probably do with expanding it again”. He hoped that the re-conditioned market
would permit them to widen their market and take on some employees, but was happy with the current level of staffing for the time being.

The main threat to the business came from rivals’ adaptability, but competition was thought to be “basically one guy: we’ve all found our own niche”. This competitor had started-up after the respondent’s own business’ inception, and was thought to be the only threat they had, who could “only take on a certain slice of the work”. It was admitted that he had made efforts to attract customers, and had actually managed to take away some of their work. Another competitor was in Glasgow, and the respondent claimed to have made “a wee ingress in there”. Basically, though, he considered that everyone in the industry was happy at the moment with the work they were getting, and that it was sufficient.

Relationships with suppliers were “reasonably good”, but the firm was not a major purchaser, as the majority of equipment was supplied for them by their clients. The only things they might need to buy would be small parts, for example, gas flexi-hoses, and for those they achieved a “good deal”. Again, external relationships, this time with their customers, were thought to be relatively good, although the evidence (viz. falling turnover) suggests that this might not be the case. They had lost customers to their rivals, because “they expected to get the job done too cheap, and found someone who would do it for them”. They were reluctant to drop prices to keep such customers, although they relied on repeat business to keep them in work.

This firm had come about because of a need by the directors to carry on working in the trade in which they were trained. The systems (for example, in terms of pricing and quality) had been simply transferred from their previous employer’s business to their own firm. This perhaps contributed to the problem in the size of
their customer base: the fact that they had previously not had to seek business might have been a drawback when it came to finding their own clients. Although a strength of the business was thought to be the innovativeness of the team, now free from the restraints of their previous employers, there was little evidence to suggest that this was being exploited, or even pursued with any urgency.

III STRATEGY FORMULATION

The respondent expressed a wish to be “the top installer of catering equipment in Scotland and a local supplier of re-conditioned equipment”. The reason for keeping to a local market for the re-conditioned equipment was because of the three-month warranty they intended to offer, which might necessitate travel to sort out minor problems; they did not want to have to travel too far, as this would only put up their costs.

As far as planning was concerned, the respondent said that the only plan they had was “in his head”. They had started off with great ambitions to have monthly meetings, but found that time constraints would not permit such frequency. Instead, they would meet during a slack period, when they would “throw ideas around” and “come up with brilliant ideas”, but admitted that “it takes us a long time”, and that a real downfall was that, when they were working, they were too busy to plan.

The objectives of the firm included increasing their market share and making some money. The respondent claimed to have “achieved some of that” and said that “our name is now bandied around in circles where it wasn’t before”. The main aim now was to increase the other side of the business, the combined provision and installation of equipment, and show a return for all the input they had invested in it.
To this end they had all taken out pension schemes through the business, had bought some equipment and now needed to rent out a business unit.

Long-term plans were developed through informal discussion, usually when the business hit a crisis: “If something happens, we have a meeting”. The respondent thought that the future of the business lay in the new direction they intended to follow, and had received help and advice on this from the local Enterprise Trust and university researchers, who had effectively carried out a feasibility study both of the proposed ideas and of the local market and advertising necessary.

The directors had considered various alternative niche markets. For example, they had contemplated opening a coffee shop, using their wealth of experience in installing catering equipment, and then “getting someone else to run it”. However, both money and opportunity had prevented this idea from taking off: “It’s a lucrative business, but getting the right spot is difficult”. Another proposal was to buy and develop a property, but again money had proved to be a restrictive force.

In terms of attracting new customers and protecting the business from the threats of new or existing rivals, the respondent thought that “there’s not much we can do”. Cutting prices did not work, although a variation on this theme might. For example, if they considered that a 20 per cent discount might encourage the customer to return, then this is what they would offer. Then, once the repeat business was forthcoming, they would gradually raise their prices until they reached an acceptable level and the business was “back where we want to be”.

Information technology was classified as ‘very important’ to this business, although it was mainly used as a ‘back-up’ to the existing manual systems. The personal computer held a database of customers and suppliers. It also contained the pricing structure of the business, and was used for estimating jobs. In addition,
it helped the directors to keep track of stock, for bookkeeping purposes. Faxes and mobile phones were used for communications. However, the computer was used, for more than anything else, as a wordprocessor. In time, they hoped to extend the IT facilities in the business, with a view to putting wages and VAT on to the PC. There was also talk of installing a more complex and efficient system for stock control.

The team relied very much on one another to ensure that quality was always up to scratch: "We’re such a small team that there’s always one of us there: we rely on our own judgements as to what’s acceptable". On the occasions when they subcontracted labour, they would still have oversight of the workers on the job, and be around to correct any mistakes. On the installation side of the business, no written guarantee was given as regards quality but, as the respondent explained, "If they weren’t happy, we wouldn’t get any more work. We will go back and sort out any problems; it’s in our interest to do so". For the re-conditioned equipment, where they would actually be supplying a product, they planned to provide a three-month warranty to the customer.

There was only one employee in the business, who had been brought in to help ease the workload following the departure of one of the original directors. The directors tried to motivate him by treating him as if he were a partner, letting him know "the ins and outs of the business" and having a say in decision-making. On a daily basis, he was given a "free hand" and allowed a certain leeway to work on his own discretion. To motivate themselves, the directors had all taken out company pension schemes, from which they considered the biggest benefit to be "the amount we can put in, compared to private pensions". In addition, there were tax advantages to the business of doing this.
The Directors had an idea of what they hoped to achieve through the business, although it was not laid out in any formal manner. Put simply, they hoped to be able to make more money for themselves by increasing their share of the market and moving into a new market niche. Plans were developed informally through discussions, and their formulation was a reactive, rather than a proactive, procedure: they would only meet when the firm hit a crisis. Policies were simple, and communicated through conversations.

IV STRATEGY IMPLEMENTATION

With a view to reaching their goals of growth and increased sales, the directors were actively involved in proceeding towards entering the new market niche of supplying re-conditioned equipment, buying in old equipment and working on it to build up a supply of stock. Meanwhile, they continued with their installation business, and used feedback from customers to make sure mistakes were never repeated, taking a note of any problems: “If they have a legitimate problem, or we’ve not done it to our customer’s satisfaction, we make sure it doesn’t happen again”.

When implementing new strategies, the respondent admitted that there had been problems, but also thought that “most are probably still to come”. The main difficulty was in developing a sales technique, which would involve the directors learning a new skill, before perhaps taking on someone to work full-time on sales. They had the option of transferring their current employee to such a position, then taking someone on to do his job, but were not yet certain as to whether this would be the route they would follow.
It was considered that the business was “very slow” at implementing new courses of action, which was caused mainly by the lack of time they were able to devote to arranging any changes: “It’s difficult to find time to do things”. However, once they could find a gap in their busy schedule, the infrastructure was there to allow the new development to progress. Again linked to their pressure on time, the lack of labour, or core staff, was a main constraint on the growth of the business. The respondent explained that the firm had been hesitant in employing new staff because of the quiet periods that they expected in their business: “We hate the thought of paying someone to do work, and not having enough for ourselves”. He was well aware that, having made the commitment to employ staff, the onus would be on them to ensure further work was forthcoming, and this was an intimidating proposition: “Once we start the ball rolling, we have to keep it rolling”.

The slow progress in moving into the new niche market was seen to be an advantage in that the purchase and re-conditioning of stock for re-sale had “been a gradual drain on funds” as opposed to a major outlay: “We are gradually building up stocks so it’s easier to fund”. So far, further investment had come purely from profits. The important thing now was for the business to begin to increase sales, rather than trying to control costs, as they had “got the stock there” ready to sell.

Originally, the business had four shareholding directors, who had invested their own money to start the business. However, one had left, having been bought out by the other three, from profits. Cash flow was the main item of concern, in terms of financial reports. It was looked at on a monthly basis, with the “ups and downs” and “money in, money out” being noted. It was thought to be “a constant problem”.

70
The firm dealt with its own bookkeeping, with a little help from a small accountancy company. The respondent thought that it would be useful for accountants to play a greater role, but that it would probably not greatly influence the actual budget. The firm’s bank manager had been involved in a long discussion about the future plans of the business, had advised the directors to change to a more professional accountancy firm (which they were in the process of doing) and had said, helpfully, that “there was money there for us if we wanted it”.

The enterprise allowance had been granted to the firm’s directors at the start of trading, and was thought to have been helpful, although it did not influence the running of the business in any way: “It was there, so we took it”. They had since tried to obtain further assistance, but had been turned down on the grounds that they were “vague about employing people”. However, they had been offered money to spend on advertising through the local Enterprise Trust.

Communication was more likely to be verbal than any other way. The respondent was the one who dealt with the books and administration, so he tried as much as possible to make sure his colleagues were kept informed about things relevant to the business. Occasionally, the lack of a formal system had led to problems: “A guy working for us has ‘lost the place’ completely, due to a lack of writing things down”. This obviously annoyed the respondent, who added: “I write things down; the others don’t”.

The roles played by the team members had changed very little since start-up. The respondent was still very much involved in the day-to-day running, and still held the role of administrator, as well as installer of the equipment. He did add, however, that most of the administration had to be done at nights and over weekends, given the heavy schedule during the week.
The directors were moving their business slowly towards the new niche they had identified. The respondent was aware that they had a problem with sales techniques and the slowness with which they moved, and that labour constraints reduced the time they had available to correct such problems. However, they were obviously reluctant to take on employees whom they might not perhaps be able to support for an extended period of time. As staffing had changed very little over the life of the business, it was perhaps unsurprising that the Directors’ roles were also unchanged, and that all three remaining directors were still involved in the daily running of the business.

V EVALUATION AND CONTROLS

Success was measured in this business by the observed increase in the customer base. Although this had not had a massive impact on business performance, the respondent said that the increased security it offered “makes us feel a bit more successful than we were, although only slightly more successful financially: we feel more comfortable”.

Initially, they had set a financial target, but as things progressed, they were getting “more realistic”. The targets they set tended to be more financial than anything else: “We don’t even look back on a certain project - we haven’t got the time”. The respondent recognised that it might be useful to analyse the costs and time taken per job if they had the necessary hours to do so but, as he then added, “as far as we’re concerned, the job’s done”.

Certain things had been changed in the business, through the knowledge gained from actually running the business: “we are learning through experience that some things just aren’t worth doing”. For example, they would sometimes now turn
down "renovation-type work", whereas in the past they would have taken on any job that was offered to them. Other than that, when problems did arise, they would just "fumble through".

The respondent thought that "the experience to do all types of installation work, from small to large jobs, gives us the edge" over rivals. In addition, quality was probably also a substantial factor. However, by far the most important attribute of the business, as perceived by this director, was "the fact that we can take on major affairs".

VI SUMMARY

Financially, the performance of the firm was declining over time, and the loss of one of the original Directors must have been a great blow to the firm. The respondent portrayed the business as being an off-shoot of his previous employer's business, and there appeared to have been little consideration of the problems that would be encountered by an independent small firm with competitors and the need to seek out its own business.

Although the respondent felt that his employers had been too 'stuck in their ways' or 'inward-looking', and his opinion seemed to be that opportunities were there to be grasped, in practice he did not show that his own business was acting upon such potential opportunities. In fact, they seemed to be generally too timid: witness their reluctance to employ staff, which would obviously free up time for them to concentrate on new markets and improve selling techniques. They seemed to have reached a point beyond which they could not easily progress without additional personnel.
Planning, policies and all communications were informal and generally verbal. There was only a vague outline given of the future direction of the business, and the speed at which this was occurring was extremely slow and cautious. The respondent still seemed to believe that the sale and installation of re-conditioned equipment would provide increased sales in a market only they were qualified to exploit. However, whether or not advantage will be taken of this opportunity, before rivals move in and capitalise on the firm’s lack of dynamism, remains to be seen.
CASE G: Computer Sales and Maintenance

I BACKGROUND

This company was a sole trader that had operated from a business unit in Dundee for two and a half years at the first time of meeting. Its main customer base was the local market, and it provided computer hardware and software mainly to other businesses in the area. In addition, it tried always to build into its sales a maintenance contract, which was to prove a highly lucrative source of income. This meant that, once a sale was made, the customer paid a regular amount to ensure a full after-sales service. The business also provided a consultancy service to those wishing to gain a further understanding of the products available and suitable to their own business.

In the first year of interview, there were one director and four full-time workers. Turnover was quarter of a million pounds, and the net profits on that were £24,000, or 9.6 per cent. Gearing was zero; the company had no debt. Debtors and creditors were roughly equal at about £12,000. The net value, after depreciation, of fixed assets was £9,000, and stocks held were also valued at £9,000. By the second year, staff had increased to still one director, two managers, three full-time workers and two part-timers. Turnover was up to £400,000, on which the net profits were £40,420, or 10.1 per cent. Some debt had been acquired, taking the gearing ratio up to 51 per cent. Debtors and creditors were again roughly equal, but had almost tripled in size to stand at £32,000 and £34,000, respectively. Further fixed assets had been acquired, the net book value of which was £27,000, and stocks had more than doubled, to £20,000.
Year three again showed a healthy growth. There was still only one director, two managers, now six full-time workers, no part-timers and one trainee. Turnover had doubled on the previous year’s figures, to £824,857, with net profits of £57,872, or 7 per cent. The net profit ratio had therefore declined slightly on previous years, probably due to the extra investment in acquiring stocks, company cars for employees, and further fixed assets, for which the net book value was now £35,000. Gearing was again down to zero as debt had been paid off. Additionally, the company had also purchased another small company in Fife, whose operations it had taken over, but from which only one member of staff remained.

The trend in turnover of this business was upwards. It had grown steadily, almost doubling its sales in each year of trading. At each time of interview it had taken over an additional business unit, from having one in the first year, to three by the third year. The number of employees had grown too and, although the profit ratio had declined, this probably reflected the increased investment in the company. The owner-manager interviewed was under growing pressure by his accountant to transfer the business to a limited company but this he steadfastly refused to do, seeing his sole tradership status as a signal to his customers that he believed in his business and did not require the protection of limited liability. In addition, he was grateful for the fact that he did not have to disclose his accounts to competitors, as would be the case if the business became limited.

II ENVIRONMENTAL SCANNING

The respondent had started the business because he felt there was a niche into which he could fit: “The customers were not getting the service for the money they were paying”. He had trained as an engineer, and started off the business as a
maintenance company. Having built up his core knowledge through working in other businesses as an engineer, he had left because he wanted to be able to make his own decisions.

The local market was targeted because, as he joked, "I'm too lazy to drive anywhere else!". More seriously, he explained that "local markets are easier; your finger's on the pulse and you know the area you live in". He felt that it was important to get to know the business community with which you would be dealing, and personal contact was a major part of the way in which his business worked. In terms of price and quality levels, he had chosen to opt for a "like-for-like" service. He copied his rivals in that they all used IBM machines, but offered extra services that competitors did not: "I knew what I was doing; they didn't", he said: "I looked at what the customer wanted".

The owner-manager considered the biggest strength of the business to be his staff, and was consciously trying to improve their conditions of work in order to create a friendly and happy working environment; "reinvesting in staff training, paying well, making sure they are happy, and giving them the perks that come with a good job". He advised, "pay a good wage and they become loyal and don't leave you", adding further his observation that "the Italians are very good at this". Again, employees and the skills they had were thought to offer the greatest opportunities to the firm. Competitors did not invest so heavily in training their staff. For example, this business chose to employ honours graduate engineers, with no practical experience. Because they have been trained to learn, they pick up very quickly the practical skills required to actually do the job, through further training on the relevant technical courses: "Students who successfully complete that sort of course [i.e. a degree] will see the task through to the end".
A major weakness was thought to lie in the cash-flow of the business, but it was accepted that "with a growing company, cash-flow is always a problem", and anticipated that "eventually, it will turn around". The continual reinvestment in the business was also thought to put a strain on finance. However, the owner-manager had plans to change this situation, saying "we will be a cash rich company and have a bigger maintenance base paying up-front". In other words, the growth of the maintenance side of their business, it was hoped, would lead to the regular advance payments by customers, thereby improving the firm's liquidity.

Threats were identified as coming largely from rivals' image, or from bigger companies spotting the gaps in the market that this owner-manager had identified. However, such threats were yet to materialise into substantial competition: "I don't know why other companies don't do what I do - they don't listen to their customers. It's not difficult what we do, and you can make a lot of money from doing it; they don't seem to want to copy us". The respondent was mystified as to why no-one had followed his lead in the market, given that maintenance offered an 80 per cent profit margin, and sales 25 to 30 per cent. He admitted that his business was "one of the dearest dealers in the area", but that this had not dampened sales. In fact, just the opposite was true: "We have the customers and give the level of service they want".

The suppliers to this company were considered to be "awful". A special supply chain called "The Channel" operated in the industry. The respondent explained this as follows: "IBM might make 10,000 boxes, which they will only sell as a whole package. They sell to a mainline distributor in the UK, of which there are five. They then sell to the dealers in ones or twos. The distributor is supposed to give technical support, after-sale care and service to the dealers - they are contracted to
IBM to do so - but they don’t”. The owner-manager would have liked to have been able to deal directly with the manufacturer, but they were unwilling to deal in small orders, so he was forced to rely upon the distributors, whom he appeared to think were both unhelpful and somewhat unscrupulous.

Customer relations, on the other hand, were considered to be extremely good: “All customers love us; they keep coming back”. The image they had seemed to be of a very professionally-run company: “They would compare us to, for example, a solicitor or accounting practice: we come in, quote a price for the job, it’s non-negotiable, the job is guaranteed to work, then they pay us”. Previously, he explained, computer companies had been “very vague” about what they would do for their money. This firm detailed in writing just what they would do, and this would often come in the form of a “ten-page quotation document”, so the customer was always aware of exactly for what they were paying.

The respondent was very knowledgeable about the products, the market, his rivals, suppliers and customers. Being so well-informed enabled him to fit his business into the niche he had identified, while all the time keeping an eye open to potential threats. He placed a great emphasis on keeping his staff happy, and worked extremely hard to keep them loyal to his business, whilst motivated at the same time. The professionalism with which this company was run was used to attract customers willing to pay a slightly higher price for the guarantee of a quality product and service.

III STRATEGY FORMULATION

The respondent had a “Company Statement”, of which he provided a copy. It emphasised the main aims of the business as being: “To deliver the highest quality
of service that both meets and exceeds customer expectations in terms of exceptional service, total quality management and competitive market prices”. He had no formal written business plan, but an idea ‘in his head’ of where he hoped his business would lead. The main thing that concerned him was where the next money would be coming from. He likened his concerns to those of Rupert Murdoch, whom he said “never liked to look at the phone bill; he would worry too much about how to pay it”. So the foremost thing on this owner-manager’s mind was the continual striving to make money.

Realistically, he said that the business had five year goals and that, although he considered this to be “a bit far away”, he would make sure that those targets were reached within the time limit set: “I work quite hard to make sure it happens, or it’s bad for morale”. In the short-term, he tried to set annual targets. For example, he wanted to stop dealing with the general public, because “you can make more money with maintenance”. He had trouble persuading the engineer that this would be a profitable move and, at first, business was slack. Now, however, his hunch had proved right, and the business was struggling to keep up with demand.

The owner-manager wanted to grow the business and to “establish a sound business that will continue to be profitable in 20, 30 or 40 years’ time”. He described growth as being “building a company on a firm foundation, then building the tiers”. His company had what he called “the ground floor”, which included the office, administrative workers and engineers. The next stage as he saw it was to put on “the second floor”, which would include taking on staff to cover project management, bigger jobs and projects valued at anything between £60,000 and £80,000. For this, he realised that senior management would be required.
The reasons for his wish to grow such a big company had been purely personal in the first instance. He originally had a partner in the company, who had left, causing many legal problems. He wanted to prove to this former partner that he could make the business successful on his own. However, he acknowledged that personal goals change as you get older: “you lose a lot of your naivety of youth and discover that nothing lasts forever, so you build it with a view that you want the best possible lifestyle in the time you’ve got left”. The company, he said, would continue after he had left, but at the end of the day, he wanted to see a return from the money he had invested.

The owner-manager would have regular quarterly meetings with his accountant on major goals, where they would sit and discuss the six-month financial figures. He would “bounce ideas off other people on a daily basis”, adding that they very often did not realise what he was doing. In order to protect his business from competitors, the respondent said that “we maintain private ownership”. The advantages of so doing, he suggested, were that it “prevents other companies from seeing our accounts, and it gives us an ‘edge’; if you’re not happy, it’s me that’s paying”. Private ownership was therefore thought to “protect the business”. On the other hand, if someone wanted to buy out the company, and offered the right price, the owner-manager would be willing to negotiate a sale, or change the legal status of the business.

Originally, customers had to be sought through “cold-calling”. Now, however, customers would come to the firm through recommendation, and there were more customers at present than the business could cope with comfortably: “it takes me all my time to deal with the customers coming in”. Certain customers were now
even found to deal primarily with another member of the company, rather than trying to speak to the owner-manager himself.

Long-term plans and decisions were based on 'soft' rather than 'hard' information: "I never look at finance: If an entrepreneur has to sit and look at figures, then he's got something wrong. He should know by gut feeling how it's going". Most of the time, he said that he was aware of the financial status of the company, and always had his "finger on the pulse". He summed up his thoughts on planning with the observation that "accountants can only tell you history; entrepreneurs can tell you today or tomorrow".

The respondent, when asked if he considered a menu of strategic options, said "No. If you're new to owning a business you would do that. As you get more into the business or are naturally good at it, you go through things in your mind". In effect then, he probably did consider various strategies and options, though perhaps not in any formal manner but more through mulling them over in his mind.

Information technology was obviously very important to this firm: "It's the heart of the business". It was said to be both a "labour-saving option" and to contribute to the "customer feel-good factor"; the former, because "what would take a man eight hours to do, I could do on a PC in half the time"; and the latter, because customers "are glad to feel that we know all about them, because it's all held on the PC". In addition, Information Technology was used for contact management, administration, and storing all the other information involved in running a business.

Trade journals were important to this business for letting the owner-manager know "what's happening and what's going on". In this way, he was better able to position his business in terms of the products and quality he was offering, compared to his rivals. However, he pointed out that "I.T. is not as fast and
furious as people perceive it to be; it relies on tried and tested methods, often two
to three years old. It doesn’t really change as much as you believe if you watch the
news”. To ensure that staff were kept informed about how the firm was run, they
had produced their own procedure manual, which aimed to cover all aspects of the
business: “It’s not complete, but the basic functions are all down, including
administration, and so on”.

The greatest assurance the business could offer customers that the product would
be fit for the purpose for which it was intended was said to be the terms of
payment: “If it doesn’t do what it should, then they don’t pay me”. Conversely,
the customer should realise that, if the job is completed satisfactorily, then they
should not be late in paying: “That’s their part of the deal”.

The motivation of employees in this firm was seen to be extremely important, and
the personality of the owner-manager is captured neatly in his belief that “there are
two rules” when it comes to motivating staff: “You’ve got to know who to tickle,
and who to kick”. He had learnt that different people respond to different
handling, and insisted that you have to “know your staff well enough to know
which is appropriate for which staff”. In addition, the company offered perks such
as a company car, non-contributory pensions scheme and a salary linked to
profitability to increase motivation.

The business had a ‘Company Statement’ which reflected the values held by the
owner-manager and his staff. Plans were developed rather more informally than
formally, although the owner-manager worked on a five-year time horizon, so he
was obviously thinking, if not formally planning, strategically. He believed in
setting targets and working hard to achieve them, with the ultimate aim being to
build a long-running profitable business. Meetings were held regularly with the
accountant, and figures were looked at in some detail but, at the end of the day, 'gut-feeling' played a large part in the decision whether or not to go ahead with a particular plan. Policies and procedures were well-documented, and there was no excuse for anyone not knowing what was their role.

IV STRATEGY IMPLEMENTATION

The respondent listed several things that were being done in order to achieve the main goals of growth and long-term profit. First, they were taking on new staff to cope with the increased workload. Second, they were reinvesting all the available money back into the business; the owner-manager took a fixed salary, and had done so since day one. Third, the business was implementing new ideas: "Instead of selling a system, we now sell networks of systems, and we take on more complicated jobs".

Feedback from customers was used as an additional motivating factor if it were good. Likewise, if bad, the staff were informed: "I'm very straight and to the point; not always Mr Nice Guy", added the respondent. On occasion, he realised, he could upset some of the more sensitive members of staff, in which case he had learnt to delegate responsibility for reporting negative feedback: "If I'm not happy, I only speak to some people, who then pass on and decipher the message. I could upset people too much".

Most of the problems that had been experienced in implementing strategies had come from people and their attitudes. In these circumstances, the owner-manager would talk through the problem with them. He explained that the root cause of difficulties was that "people get certain ideas, saying 'it's not my job' and 'you can't teach an old dog new tricks'. But you can. People can think for themselves.
You have to break down the barriers that society has built up with them". Implementing strategies in this industry required staff to be "very fast and very reactive to the customer", and breaking down the old beliefs and opinions of employees with a lack of belief in their own skill and abilities was a necessary action if the firm were to continue to be successful.

The future growth of the business was being determined by the owner-manager, who believed that "we need controlled growth as opposed to the explosive type, which leads to over-trading, bad management, and so on: you can only control so much, and it's how much I can control”. He had previously run into problems when trying to grow the business too fast, and had had to threaten the bank to get the £20,000 he needed, saying "If it turns bad, you're never going to get your money". The bank had eventually been of assistance, but with the strictest warning never to let it happen again. “It was an eye-opener”, he said.

Growth was to be financed through re-invested profits; the only debt being on the company cars, which tended to be bought, and then traded in. At the present time, generating extra revenue through increased sales was more important to the respondent than cutting back on costs, because they had taken over a loss-making company, which they wanted to turn around to be a profit-making concern: “I will do it”, he assured. Bank overdrafts had been used in the past, but there had generally been little extra cash input apart from the initial financial injection by the owner-manager, and re-invested profits.

Whenever major decisions were under consideration, the respondent would look at monthly management reports, based on the profit and loss account. On a daily basis, he looked at cash flow, and would ask his administrative workers, “how are we standing at the bank?”. Accountants were involved in planning, whereas the
bank manager was "told what’s going to happen". The local and regional Enterprise Agencies had proved to be of "no help at all" and had "given nothing, in terms of money or support".

Procedures were all included in the policy booklet, mentioned above. This was a helpful way of communicating to new staff, for example temporary secretaries, the way the business worked: "It’s how they know what to do, because I couldn’t always tell them". Each member of staff had their own copy with their name on it. In terms of the role played by the owner-manager, he felt that he was getting "further and further away from the ‘hands-on’" and was indeed "almost to the point of being surrounded by a few people who pass on messages". The role he most enjoyed was that of salesman, and he expressed the wish to spend all of his time in front of the customers, because "I love their money". Having started in business doing all of the engineering work, he now did none at all, but was proud of the fact that his skill and expertise was still needed. For example: "Sometimes they ask me for technical advice, and sometimes I tell them ‘that’s wrong’. They hate it. I know if they’re lying when the engineer says he’s spent two and a half hours on a job that should only have taken half an hour. I just say, ‘That’s your lunch-time; if you want to spend it getting your messages then that’s fine!’"

The business had taken positive steps to implementing new strategies, investing in the workforce and plant. The only real difficulty the owner-manager had found, in trying out new ideas, was in altering the fixed opinions and attitudes of older members of staff, who were reluctant to learn new or additional skills. His own skills as a salesman, though, had helped him in persuading them that they could and should keep learning.
V EVALUATION AND CONTROLS

The success or failure of a new strategy was evaluated simply by the question: “Does it make any money?”, with a comparison of cost against return. The new loss-making business the firm had taken over was set the following targets: “three months to turn around; six months to break even; 12 months to make a profit”. He was very clear about setting such objectives, but also open to modifying or re-evaluating options, based on actual performance: “If it doesn’t work, then I’ll close it down, unless I see that targets are unrealistic and a couple more months are needed”. An important lesson to learn, he said, is to not “pretend to yourself”; and the thing that gave his business the edge over its rivals was himself, and “the team” or workers he employed.

A further example of the owner-manager’s willingness to shut down non-workable operations was his experience of opening an office in London to trade with schools. This followed the Government’s “supposed” de-regulation of services. He had thought there was a niche there that his business could exploit, but found extreme opposition from the local authorities, who “didn’t like it, and caused us problems: it was all ‘jobs for the boys’”. Having found that they were unable to get enough business to make it worthwhile doing, they closed the office down.

VI SUMMARY

This firm was experiencing steady growth, in terms of both turnover and employees, expanding into adjacent premises and buying out another small business. The owner-manager was a key factor in this growth, and his personality
was obviously the driving force behind the company's success. Additionally, though, he was willing to delegate authority to subordinate members of staff, and was sensible enough to realise that people management was a vital skill in any small business.

The firm presented itself as being friendly, yet professional, and there was a strong emphasis on teamwork. Staff were consulted regularly to gauge their opinions, and information-gathering of this sort helped the owner-manager to formulate his own plans. He thought ahead quite far into the future, and continually set targets for the business to strive towards, with a key aim being to keep money coming in.

Planning was a mixture of both the formal and informal sort, based on conversations with the accountant, and the judgement of the owner-manager. His closeness to information technology meant that he appreciated its use, and this had filtered through to all other members of staff, who used it on a daily basis to carry out their tasks.

The owner-manager was the one controlling the growth of the firm. The larger it grew, the more inclined he was towards becoming a limited company. He claimed that his sole-tradership status had brought him in extra clients, though admitted that some of the larger firms had shown a reluctance to deal with a small non-registered company. But perhaps it was his fear of losing absolute control that was holding him back from changing the legal form of the firm. Whatever the cause, a vehement 'never' in year one had become a 'possibly' by year three, and the growth he had experienced, perhaps not anticipated, might finally persuade him to change his mind, and take the step towards limited liability.
CASE H: Computer Software

I BACKGROUND

This firm was described, by the relatively young owner-manager during his first interview, as a provider of multimedia productions software. He had started working from home, as a sole trader, before moving into the premises from where the business was now run in Dundee. The firm had started up two-and-a-half years previously, with the initial output being multimedia productions for both small, private sector firms and corporate businesses, who wanted to break into the worldwide web, using it as a sales tool. In addition, the company also provided a similar service to tourism bodies and hotels.

When first interviewed, there were one director, two full-time employees and one part-timer working in the business, which rented office space from a larger company in the city. Turnover was £150,000, with a net profit of 30 per cent, and no debt, hence a gearing ratio of zero. No stocks were held; the company developed the product then sent it elsewhere for production runs. Trade creditors were £6,000 and debtors £4,000, and the net value, after depreciation, of fixed assets, was £20,000.

By the second interview, staff had increased to one director, one manager, seven full-time employees and two part-timers, or a total headcount of 11 personnel. Turnover had risen to £220,000, but a net loss had been made, of £60,000, or 27 per cent. This is probably caused partly because of the greatly increased wage bill incurred over this period, due to the appointment of new staff. A further cause is likely to be the purchase of new equipment, the net value of which was now at around £57,500. Debt servicing might also have contributed to the net loss.
experienced this year, gearing was about 300 per cent, so debt had obviously been taken on since the previous year. Creditors were £2,000, while trade debtors had risen substantially to £80,000. Stocks were still valued at zero.

The third interview with this business saw the biggest change yet. Until now, the firm had targeted mainly the tourist and corporate sales markets, with most of their own sales going to UK-based business with international customers. In effect, then, their product was reaching an international market. The scope of the market had not changed over their involvement in this study, but the product they provided had. The owner-manager had taken the decision to move into the computer and video games market exclusively, which was not entirely a new niche to them, but which was set to become their main involvement.

Headcount had, by now, risen to 21 personnel; a second director had come aboard, there were now five managers, 13 additional full-time staff and one part-timer. The personnel tended to be university graduates, in disciplines ranging from computer science and programming to business studies, art and design or music. Turnover had more than doubled this year, to £587,500. The financial structure of the company had become extremely complicated, with involvement by various types of venture capital companies. The owner-manager was unable to give a net profit figure, though his financial director suggested that a net loss of around £150,000, or 25 per cent (a slightly smaller percentage than the previous year), would be a close enough estimate. Gearing was back to zero, so the debt must have been paid off. Creditors were standing at £80,000, debtors at £100,000 and further investment in fixed assets meant that their net value was now around £120,000. Stocks were valued at a minimal £800.
Additionally, the owner-manager had changed the legal status of the firm, which was now a private company, limited by guarantee. The ultimate aim was, in a few years’ time, to float the business on, perhaps, the Alternative Investment Market (AIM), if not the stock exchange. The firm spent the majority of its time now developing software, which would only go on sale in eighteen months’ time, just ready for the Christmas market. They were in the process of negotiating an advance against royalties with their customers (the distributors of their games) to tide them over, but only when the new products actually began to sell did they hope to see a sufficient return for all their invested time, money and effort.

II ENVIRONMENTAL SCANNING

The owner-manager had decided upon this line of business because of his training: "Something computer-science-related was always a number one choice". The decision to move into the games market came about because “it was something I’ve always enjoyed and the market sector seemed really buoyant”. Of all the possible regional market sectors, the business seemed to “fit best” into the international arena, because “it offers the best market, the best growth and the most opportunity for a small company like this”, he said.

Pricing was based on the level of costs incurred by the business. The respondent explained that there were several alternatives in the games market, in terms of both price and quality, and that his firm had chosen “to offer new and original games”, which meant that “quality has to be the best it possibly can”. Once costs were worked out, then, a price was set for the customer, who was then charged an advance against royalties, which might be, for example, £1 million. Only when the
The owner-manager had previously identified the biggest opportunities offered to the firm as coming from the technological and specialist knowledge or know-how of the staff involved. They took advantage of these unique attributes "by developing unique and custom technologies for our games". As the respondent further explained, "Our creative slant is slightly different, and we use it as a USP". Another strength was said to lie in the firm's process organisation: "Our level of management and process control is vastly superior to other companies, which makes us much more efficient".

Threats, if any, were thought to come from rivals' organisation and their customers, but the respondent pointed out that he thought it was "not a particularly threatening market" and that "there's a big enough pie for everyone". They defended themselves from any potential threats by relying on their ability to provide a quality service at a cheaper price than their rivals in the US, and they also had an agent in the market, whom they paid to secure their initial contracts.

Two weaknesses had been identified previously, but steps had been taken to rectify both of these. First, the lack of customers had been seen as deficiency that should be, and had been addressed; the firm now had "lots more customers". Second, the organisation's structure and the systems in place had been thought to be lacking, but were now greatly refined: the organisation "has our own systems", explained the owner-manager, "which are like ISO9000 where we want them to be: we've taken a half-way house approach".

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1 Unique Selling Point.
Regarding the respondent’s awareness of the marketplace and players in it, he described, first of all, the firm’s relationship with suppliers as being “very good” saying that there were “no real issues with them”. They gave the business discounts, but these were probably no better than those offered to competitors. And finally, the relationship with customers was likened to “a partnership”. The company was working on four different projects for four different clients and, as the respondent said, “we work hand in hand with them”.

The owner-manager of this business had a keen awareness of the market targeted by his firm, and had fixed the price and quality of his products accordingly. He chose very deliberately to employ highly-skilled workers with specialist technical knowledge suitable to the tasks they would perform, and used these unique attributes as a marketing tool. He believed that there was little or no threat to his business from rivals, which seems surprising, given the huge market for computer games, and the large market share held by (typically) US rivals. The owner-manager was aware of weaknesses in the firm, and had taken positive steps to remedy these, while at the same time trying to exploit the firm’s strengths and opportunities.

III STRATEGY FORMULATION

The firm’s mission, according to the owner-manager, was “to develop a quality and high value product, which will let us grow to be a big and successful business”. They were striving to attain such goals with the help of a formal and written five-year business plan, containing “absolutely everything”. Financially, forecasts were provided for five years for each of the profit & loss account, balance sheet and cash flow statement. In a narrative sense, the plan included the initial aims of the
business. It was monitored "constantly, by monthly management accounts, to see any variance" and, every twelve months, a new and updated plan would be prepared, again forecasting five years ahead.

The respondent stated key aims of the business as being growth, leading to long-run profit and a high rate of return. Growth would be measured by an "increased volume of sales, profits and the value of the company". The main reason for wishing to reach such goals was that the owner-manager wanted "to build a strong company, because that’s what we do, and that’s what we’re in business to do". He clarified this reasoning by stating his belief that "if you’re going to run a business, [you should] run the best business you can".

The owner-manager would listen to his employees’ thoughts when he was working on a new strategy: "I take ideas from everywhere in the company and try to put it into coherent thoughts", he said. Such ideas were then discussed during the regular staff, management and board meetings that were a feature of this firm. Additional information, that would be taken into account when making major decisions, came from market research, market information on competitors and "market information on the global market in general". The performance of the firm so far, from following the strategies they did, led the owner-manager to his belief that they were "obviously doing it right".

The current position of the firm was thought to be fairly strong in relation to its rivals. However, the respondent did acknowledge that they needed "to get into a better one". The way in which he intended this to come about was to "keep pushing until we are seen as the best". Some of this, it was expected, would be done "through PR". The act of attracting new customers away from rivals was done on a similar basis. When the firm were trying to clinch a new contract, they
would prepare presentations for potential new customers to show exactly what the company could do. It had been shown to work; they had just gained a big contract because of the superiority of their “pitch” over that of their rivals.

The respondent clearly would consider various alternative strategic options. The current concern within the business was “how to make games”. Following on from that, the next stage would be to decide between “Do we go into other sectors?” and “Do we acquire more games companies to strengthen our position?”. In other words, should the company diversify its product range to attract a wider customer base, or should it buy out rivals to cut down on the competition? As the capital needed to fund such growth was limited, the firm was looking for the best possible return on capital, and carried out sophisticated analyses to help them choose between options: “We look at the return on investment on everything, and quantify any big capital purchase in terms of IRR\(^2\).”

Obviously, information technology was of extreme importance to this business: “Everything is on the PC: I couldn’t imagine it any other way”. The respondent thought that running the business would be “impossible without PCs”, which were not only used to develop the product, but also held all information, in terms of accounts, business plans, financial forecasts, diaries, and so on. Of prime importance, thought the respondent, was “the speed at which we can turn around a budget and feed in real information”. Without the computers, such work would otherwise need “a team of accountants working on it all day”, he added.

Heads of departments were involved in monitoring the quality of products from beginning to end. The business had “various levels of quality assurance as it goes

\(^2\) Internal Rate of Return.
into production, then we have formal quality assessment levels, with batches of people playing the games”. Customers were given no guarantees about the fitness for purpose, or quality of the finished product, but instead would “assure themselves”, accepting the order “at their own risk”.

The respondent was aware, however, that previous reputation was important, suggested by his comment that “they have to be sure we can provide quality: We have never failed to deliver or given a sub-standard product”. Additional assurance that the final product would be suitable for the customer’s purpose was given by the fact that “the client is involved throughout the development of a new product”, and so was always on hand to criticise, suggest amendments and check that things were going to plan.

Employees were offered various benefits to increase their motivation. First, because the majority of employees tended to be fairly young, they appreciated management’s attempts to “provide a quality work environment and social events”. Further, as the respondent explained, “we empower them, so they are always in charge of their own work: they plan out what they will do in a day”. Pecuniary measures were an additional perk: “We are also going into share options and profit-related bonuses”, he added.

The firm had well-defined objectives, and developed strategies on a formal basis, with clearly identified routes to growth and profitability. Employee input was considered seriously when major decisions were being made. The respondent would contemplate alternative plans, evaluating each one very carefully through the use of formal financial appraisal and strategic analysis. Information technology was extremely important in assisting such evaluations.
Quality assurance was communicated to potential customers by the reputation of the firm, and the fact that clients’ involvement was encouraged. Monitoring was constant, throughout the development of the product, and games were fully tested before the final production run. And finally, given the importance of employees and the trouble taken to recruit suitable staff, offering them an attractive package, in terms of remuneration, working environment and pecuniary benefits, was seen to be a worthwhile investment if it would retain their loyalty to the firm.

IV STRATEGY IMPLEMENTATION

The firm was taking specific action to achieve its goals of growth and future profitability. It had taken on a substantial amount of new staff, was chasing and gaining new and larger contracts, and had attracted equity investment from so-called “private placement” venture capital funds. This was explained, by the owner-manager, to be funds made up of “part private individuals’ money”.

Feedback from customers was extremely important to the running of this business: “We have constant feedback on everything we do, so we constantly adapt”. It materially affected the way the products were developed. If a client had a problem, and the firm agreed that there was a difficulty, they would alter things accordingly. On the other hand, if they disagreed that such a problem existed, they would rather “discuss it with the client”, in order to come to some mutual agreement. As yet, according to the owner-manager, the firm had not encountered any problems in implementing new strategies.

The speed at which new courses of action were implemented was dependent upon “how quickly they need to be done”. If something was going to make a big impact on the business, then they would need to turn it around immediately”. In
such cases, finance could prove a restriction, but any new plan that required major financing would be devoted its own specific plan of action: “We would give a strategic plan and work out the finance for it, or how we were going to bring in investment”, said the respondent.

The major constraint on growth was thought to be the speed at which suitable new staff could be found and recruited. The firm was about to take on 30 new staff to deal with the latest large contract. These would typically be “mostly artists and programmers”, but they would also include “musicians and some admin people”. Obviously, such staff would need to be intelligent enough to work on their own initiative, and people with the very specific skills required for this line of work would need to be sought out carefully.

The growth expected and hoped for was to be financed through equity investment and the generation of new business. Currently, generating extra revenue by an increase in sales was thought to be more important than controlling costs, mainly because “we’re expanding the business”. However, the respondent acknowledged that both were equally important: “Controlling costs is vital, and we’re constantly doing that. They are monitored daily”, he said.

Financially, the main change since start-up had been the additional equity investment. Once the company became more established, it was thought that they might take on some debt financing. The profit and loss account was thought to be the “most important thing”, in terms of financial or management reports, and was looked at monthly.

The business had its own fully-qualified CA in-house, whose designated title was “Financial Controller”. He spent the majority of his time doing such things as preparing budgets. For a major business plan, the firm would also involve its
accountants [auditors]. The bank manager was “never involved unless we’re asking him for money”, but equity investors had a seat on the Board of Directors, and would be expected to “take an active role” in helping to formulate new plans and strategies.

Regional Selective Assistance, or RSA, had provided a small innovation grant of £850. This was to be used primarily to finance a move from the premises in Dundee, to new premises near Dunfermline, just off the main North-South motorway. It was also intended partly “for capital investment in the company”. The amount given was related to capital spending on the business, and the money and jobs thereby created. Apart from this small assistance, no other grants had been awarded.

New plans for the business were communicated through meetings with the relevant staff. The business also held all procedures on the PC: “Every process is documented on the computer and can be looked up at any time”. The owner-manager found his role had changed in quite a substantial manner since start-up: “At the start I did everything, including making the tea. Now I do business development, long-term business planning and making the tea”. He no longer worked on developing the products, although he might sometimes sit down and discuss production with project teams, and so had “an operational input in that way”. However, his main role was, as he described it, “strategic planning and generating new business”. When asked whether he felt comfortable with the changes in his position, he simply stated that “you have to trust the people you’re bringing in, and let them get on with it”.

The business was implementing its new strategies according to the defined methods set out in its business plan, and taking into account feedback from clients.
The speed of implementation was restricted by finance and the search for new staff. However, growth was being financed through further equity, the business having managed to attract investment from financial backers, who obviously considered it as having a promising future. The firm had access to both internal and external advice from specialists in financial matters, and used this advice to help with forecasting and the evaluation of options. New plans were communicated verbally, with procedures being laid down formally and stored on the computer for ready and easy access.

V EVALUATION AND CONTROLS

For a new business strategy, success would be measured by "how successful that part of the business has been, compared with the plans we've had for it". For a new process, its performance would be evaluated on whether it had been a hindrance, against any possible benefits that had arisen through its implementation: "Is it helping the product, at the end of the day?".

Employees were set annual targets, which were evaluated at six-monthly appraisals: "We talk about what they'll do over the next year; are the targets and skills we're expecting of them reasonable? Where do they want to be in the business; animating, programming, drawing?". The respondent was keen that staff developed within their own niche, building on their specialist skills and knowledge, rather than being forced into positions where they would feel uncomfortable: "If you have a brilliant engineer, then let him develop that way, as an engineer. Don't force him into management positions".

The owner-manager said that the business had not yet had to change policies through unacceptable performance, but agreed that "we would if it came up". In
general, he thought his business and products offered customers a superior service over rivals: "We have a better game, it is more fun to play, plays faster and comes out on time within the budget set at the start", is how he summed up the quality of their service.

VI SUMMARY

This business was managing to increase turnover each year, although no profits were being made. However, it was accepted that, during these early 'development' years, the company should be seeking to invest in plant, equipment and staff, and that profits would be forthcoming once sales began to materialise; losses in the first few years were to be expected. A sign of the belief held in the future profitability of the firm is that it had managed to attract outside equity investors, who would have carried out an extremely careful analysis of the firm's prospects before making the decision to invest.

Awareness of the environment was generally good, although the belief that competition was lacking might have been somewhat of an under-estimate of rivals' capabilities. Supplier and customer relations were thought to be good, and the client was integrated into the business during development of a new product, almost on a partnership level.

The business operated on a strictly formal planning process, using information technology to help with analyses, forecasts and feasibility studies. The owner-manager was keen to build up a strong and durable business which would eventually be subject to a public sale. Quality and reputation were important aspects of the company, but key to both of these were the skills and knowledge of the well-qualified workforce. The firm hoped to encourage staff to stay with them
by offering various incentives, a major part of which was the relaxed and informal atmosphere evident in the light and airy open-plan office space.

Developing from the detailed strategy formulation was a clear and well worked-out method for implementing new strategies. The respondent knew what he wanted, and how he planned to get there, and was taking steps accordingly to achieve his objectives; employing new staff, seeking further investment and chasing new contracts. Indeed, the majority of his time was now spent on developing the strategic direction of the firm.

Constraints on growth were both financial and related to finding the best personnel for the job. However, the firm was working towards improving both of these, and had been moderately successful so far. Information technology and the gathering of information, both from internal and external sources, were used in implementing new strategies, and the firm relied heavily on input from clients when developing its products.

Strategies were evaluated against previously defined goals and targets, with the main criteria for success being that it helped in the development or marketing of the product. Staff, too, worked to a set list of objectives, customised to suit their own personal skills and wishes. In general, given that no change of policy had been necessary due to poor performance, the business seemed to be following the path it had set for itself, working towards objectives as stated, and looking forward to a promising future.
CASE I: Shopfitting

I BACKGROUND

This private limited company provided a high-class joinery and shopfitting service to a variety of clients, employing, as it states in their brochure, "craftsmen using traditional skills to produce tailor made high quality joinery and furniture". Their clients ranged from large multinational companies, to branches of building societies, hotels and casinos, and the Scottish Tourist Board. The work was bespoke and ranged from small display cabinets to the complete refurbishment of large rooms and even, on one occasion, a courthouse.

The business had been trading for two-and-a-half years at the first interview, with three directors, one manager, six full-time employees and three apprentices taking salaries from the firm. The market covered the whole of Britain, and turnover had already surpassed the £2 million mark, with net profits of £151,000, or seven per cent. Gearing was 71 per cent, so not excessively high. Trade creditors were typically around £50,000 and trade debtors £250,000. Stocks were valued at £10,000.

At the second approach to this business, there were still three directors, but now also three managers, 52 full-time employees and four apprentices. Turnover had increased to almost £3 million, with net profits of £47,000, or a net profit margin of two per cent. This drop in the margin, although there was an increase in sales, can be explained by the now much higher wage bill suffered by the firm, that had greatly increased the total workers employed. Gearing had increased to 100 per cent, so debt servicing would most likely have been a greater expense than previously. Trade creditors had trebled, and trade debtors risen by forty per cent,
and stocks had risen to £15,000, still a relatively low figure in terms of the size of the business.

The third visit saw this firm consolidating its position, with little or no change in total headcount. However, turnover had risen quite sharply to just over £4.5 million, showing a net profit of £229,125, or net profit ratio of five per cent; an increase on the previous year’s ratio. Debt had been cut dramatically, to leave gearing at only 14 per cent, whilst trade debtors, creditors and stocks showed very little change.

The trends shown in this business were generally favourable: it was steadily increasing its turnover year upon year, increasing both gross and net profits, and had greatly augmented the core staff working for the firm. The net profit ratio had at first fallen, but this can be explained, and is to be expected, by the greater investment in employment. This investment subsequently led to an increase in production, an increase in turnover and, as a result of increased manpower, learning, experience and improved efficiency, an increase in the net profit as a percentage of turnover.

II ENVIRONMENTAL SCANNING

The owner-manager had learned his trade as a joiner over many years working for a large conglomerate, moving through the ranks from apprentice to shop floor worker, through junior management to senior management positions. The company for whom he worked was sold-off, and they then disbanded the in-house shopfitting division which was his area. From this point onwards, he decided to work for himself, and set up his own small business. The whole of Britain was targeted as the main market, because “you have to go where the work is”. This
industry was said to operate nation-wide, and the business itself was a member of the National Association of Shopfitters (NAS), so targeting a smaller sector of the market was not even considered.

Very often, work was gained through tenders, so quality had to be very high: “You’re only as good as the quality you can produce: If it’s not of a high standard then you’d not be considered on any tender list”, said the respondent. The prices were fixed at a rate which was based on what the business required to break-even, and had “a lot to do with what rivals price at”, although the owner-manager insisted that “we don’t regularly compete with anyone”.

The quality of promotional literature produced by the firm was though to offer a great opportunity for future business, and had in fact proved to be fruitful: “We have had the brochure for a year, and the dividends have been enormous”, explained the owner-manager. The brochure consisted of a collection of loose leaf pages, with each one dedicated to an individual client. The pages included full colour photographs of jobs completed, and a short summary description of the tasks carried out. In addition, a list of current and complete products was included so that potential customers could contact previous clients for a reference. As the pages were loose, the brochure could be adapted to target individual clients, whether they operated retail, commercial or hotel operations. Its importance was evidently “invaluable”, as “nine out of ten clients don’t consider you unless you’ve got a brochure”.

The respondent thought that high quality and the firm’s adaptability were both strengths of the firm; as he explained previously, tenders were often given on the strength of the quality of product. In addition, he explained that the firm’s purchasing power was now also a great strength in relation to rivals: “As we get
stronger and bigger, our competitive edge is sharper than that of the smaller companies”.

One weakness had been identified as the management structure in the business, though steps had been taken to rectify this situation: “We’ve made a lot of inroads with management: we have removed three people and brought in one who is doing more than the other three together. We’re getting there now”. Another weakness had been the size of the market share held by the company. Again, though, with the help of its brochure, the firm was now “tapping into foreign markets”, with contracts in Germany, France and Spain.

Threats were thought to come primarily from poor paying customers. The business therefore tried to target companies in those sectors with a better reputation for paying on time, such as, for example, the hotel industry. The construction industry was considered to be a “nightmare for getting payment from” and, if a choice arose, the firm would “always drop the construction client first”.

The firm’s relationships with suppliers were “first class”, according to the respondent, who saw them as “partners of ours”. For example, a large hotel chain had expressed an interest in having the business carry out some work, but was unsure as to when the job should be done. The respondent knew what material would be needed when the time arose, and so exercised his facility to “pre-book” materials with his suppliers, who would only invoice the firm once the material was needed. This ensured that the supplies were always ready when required, so the customer need not wait once they had given the go-ahead for the work to commence; and it also meant that the firm kept its cash flow under control, by not having to spend large amounts on stock holding or storage space. The firm’s relationship with its customers was again “first class, as measured by repeat
business, which speaks for itself”. As the respondent emphasised once more, “We are only ever as good as our last job”.

The respondent had built up a detailed and expert knowledge of the industry over a long career in the trade. He knew his market, which was large, very well, and was good at dealing with the needs of his customers, having developed an awareness of their requirements through careful research and information gathering. The quality and image of the firm were well presented and vital to its future success and continued business. The respondent seemed very much aware of his firm’s strengths, weaknesses, opportunities and threats, and was dealing with them as required, while relationships with all who came into contact with the firm were generally favourable.

III STRATEGY FORMULATION

The main aim of this business was “to be as big and as good as we can”, and the respondent expressed a wish to “take on the big boys in the UK”. Management had created a strategic plan which aimed to take the business from a turnover of £4 million to £15 million over the next seven years, with the initial target for the first year being an increase of 50 per cent. This plan was formal and written, and included an analysis of the production premises, discussing the question, “Are they big enough to sustain our planned growth?” The conclusion was that they were not, and so the plan included a strategy for re-location to a bigger site in five years’ time. In addition, the plan also included detailed financial forecasts and an analysis of the machinery owned and needed.

Growth and long-term profit were the prime concern of this business, growth being measured by their having “more money” coming in, in terms of both turnover
and profit. Primarily, these goals were to enable the owner-manager “to be wealthy, and provide employment for our guys here and the kids that they bring along”. The business operated within a “family-type atmosphere”, and employees were actively encouraged to bring along their sons to train as apprentices.

New plans were developed during regular formal Board meetings with the three directors. They would also carry out regular “strategy reviews”, where they looked into what they had achieved in relation to proposed strategies. The plan was constantly being updated and adjusted, as necessitated, by performance, showing that the Directors were always very aware of new directions that need be taken, and of how these should be achieved.

At the end of the day, it was considered that the quality of the product the business provided protected the firm from its competition: “We are constantly looking over our shoulders to update and improve our quality”, explained the owner-manager. To assist the business in this continual search for excellence, the firm had recently installed CAD\(^1\) technology into the workshop, thus facilitating the design and production of the goods, and its implementation had proved to be “a great asset to my selling abilities”.

Again, attracting new customers away from rivals was “all down to quality”. Forty per cent of turnover was “negotiated” with the client, whereas the other 60 per cent came from “competitive tendering”. Two most important types of informal marketing or advertising were therefore extremely important; these were “word of mouth and recommendations”. The respondent showed a remarkable willingness to be honest with his customers - “we are open with our clients, and

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\(^1\) Computer Aided Design.
show them our margins" - and it was thought that this moral and truthful attitude gave them a competitive advantage over rivals when it came to negotiating or winning contracts.

Long-term decisions were based on the firm’s belief in its own future ability to achieve sales. They based their calculations on information gathered about what potential customers would be spending over the next five years or so, always trying to be “in the know” and “keeping abreast” of any developments. The owner-manager suggested that they had “fairly confident future expenditure” from around 12 of their clients, and so could formulate their own strategies around this information.

The respondent would consider a menu of strategic options, and carried out a fairly extensive analysis of the implications of various alternatives. One such example was his current plan to develop a separate division for electrical and plumbing installations. At the moment, the firm subcontracted such work, which was valued at around £34 million turnover per annum; as he pointed out, “a fairly substantial small business in itself”. Using computers, which they did frequently, the firm had developed a business plan for this new electrical company, based on what they thought they could achieve, and had set a target date by which they hoped to have this up and running.

Technology was therefore obviously very important to this business, as explained by the respondent, who agreed that, “if you keep up-to-date with technology, there are new ways always on the market place”. They kept their knowledge current by regular attendance at machinery exhibitions, so as always to be aware of new products and possibilities. The firm had invested heavily in new machines, to the tune of £60,000, because “history shows that if you don’t keep up-to-date with
technology, you suddenly become less competitive”. The new plant enabled the firm to make timber sheet, produced directly from CAD designs, linked to the machines, and hoped soon to link this in turn to their estimating department, and so facilitate the calculation of quotations.

The business ensured that quality was always in place by regularly checking the product, employing one person with specific responsibility for the finished article: “he checks absolutely everything as it’s put on the van”. The hardest part was to ensure the quality on site, rather than in the workshop, so foremen were given responsibility for that. Customers were given a one year guarantee on the finished product, or a six month guarantee if they kept a 2.5 per cent retention. However, they could be assured that the job would be fit for their purposes, as the business followed the exact specifications of the client’s own designer and architect.

Employees were motivated in different ways to cooperate in the firm’s overall mission. Management were considering implementing “Investors in People”, which, it was thought, would “let the guys know what we’re trying to achieve and how we intend to achieve it”. It would be more of a discipline, which encouraged communication and cooperation, than a pecuniary benefit. However, the company also had pension schemes in place, and were looking into the possibilities offered by PRP.\(^2\)

The business had grand ambitions and was involved in formal strategic planning and analysis in order to help it achieve its goals. All three directors took part in the planning process, and regular Board meetings were a feature of their methodology. Decisions were based on projected financial figures, and information gathered on

\(^2\) Profit Related Pay.
potential customer spending. Information technology was an important aspect of the company’s operations, and the owner-manager was well aware of the advantages to be gained from its implementation.

IV STRATEGY IMPLEMENTATION

The business was taking steps to achieve its goals of growth and long-term profit, holding regular Board meetings, carrying out strategic reviews and analyses and implementing various stages of its plan through the year. They were improving the existing machinery, and had linked it to CAD. In terms of marketing, they were in the process of recruiting a sales manager, but also had access to the NAS booklet of specialists in the shopfitting industry. These people provided leads, for example, on which jobs were coming up for tender.

Feedback from customers was used in the running of the business, primarily to boost employee morale. The majority (95 per cent) of the time, feedback was extremely positive, and was passed on verbally to the workers. Occasionally, though, they would also receive written letters praising their performance, and these were passed around the shop floor to encourage and congratulate the workforce.

As yet, the respondent could not recall any serious problems encountered in implementing new strategies. He did suggest that a shortfall of labour might be the only difficulty: “we take a long time to choose individuals”. He described his firm’s training as follows: “The industry has a three year apprenticeship; ours is for five years. But after three years they are on 80 per cent of the full tradesman’s rate, plus any overtime they can get”. So in the long-term, this rigorous
recruitment and training probably paid off, as it promoted a loyalty and commitment to the firm of well-trained, knowledgeable and experienced staff.

The marketplace itself was said to dictate the pace of change or implementation of new strategies by the company. For example, one customer had been giving the firm much regular and repeat business, and the decision was made within two weeks to spend £15,000 on a new machine, specifically to deal with this client's work; although it was also subsequently used for other customers' needs. The firm had bought it because of this client's work, and had very little time to think about it. In other words, finance was not a constraint nor a time-limiting factor to this business. In fact, the respondent claimed that "nothing" was constraining growth at the moment; only a recession could do that, and as the business had started during a recession, they had proved that even this could be overcome.

The owner-manager expected profits to finance the future growth. The bank were also putting on pressure for them to extend their start-up Small Firms Guarantee Scheme loan of £120,000, due to be paid off by the end of the year, and had also made it clear that they were willing to extend overdraft facilities. However, the firm were also considering a type of merger with another manufacturing company, whose work complemented theirs, and who could share the cost and use of machines. Further advantages would include an investment of finance by the other owner-manager, and business connections from his customers.

It was currently more important to this owner-manager to control costs than to generate extra revenue: "If you control costs within estimates then profitability looks after itself", he explained. As a result, he added, it then "allows expansion, more people, higher profits, and so on". Financially, there had been little change since start-up, although one Director had left, having been bought out by the
remaining three. Each new product had a detailed cost analysis carried out on it, and all the financial data were carefully analysed. The firm’s profit and loss account was calculated every three months; it had been done previously on a monthly basis, but “the monthly information we used to get was not always one hundred per cent accurate”. Performance and results were monitored and appraised on the basis of the profit and loss account.

All financial reports and forecasts were carried out in-house. The firm employed an accountant specifically for this task. By far the most critical item was the 18-month cash flow forecast: “it’s the most important document that it ever put in front of me”, said the respondent. Grants and subsidies had been of little help; only one had been received, for a water-based spray unit to help the environment. However, the local office of Scottish Enterprise had proved “invaluable” in providing information to keep the company abreast of new developments.

The firm used its own procedure system, developed over five years, to communicate and implement new plans. For a new contract, the respondent would first approve the file. He then handed it over and appointed a “setter-out”, or draughtsman, and a contract team for the project. This team would meet to discuss the programme, production and cash flow, so that each project developed its own detailed agenda, and each member of staff was clear about what was to be his role.

When asked how his own role had changed, if at all, as the business had grown, the respondent joked that he now had “more time to play golf”. He thought that his actual job description had not changed a great deal; although previously he would both estimate jobs and carry out contract management. Now, he found that
he spent very little time in the office, but was instead heavily involved in trying to
generate new business.

The respondent was proactive in implementing new courses of action to achieve
specific goals. He knew what the business needed and how he hoped to achieve it,
and used customer feedback to assist him in making decisions. Few difficulties had
been encountered and finance was not a problem; indeed, the bank were trying to
persuade the owner-manager to consider further debt financing. Procedures and
policies were well-formulated and documented, employees well-trained and
motivated, and roles clearly and accurately defined.

V EVALUATION AND CONTROLS

Performance was measured by the results shown in the profit and loss account.
The firm tried to keep a tight cost control for each project, in order to ensure the
best possible profit margin for the job. In addition, the client's reaction and the
amount of repeat business a contract generated would, in some measure, represent
the success or failure of a particular job. Every project had an estimated figure,
with targets being set. Following completion, the firm would “do a brief” on every
tender, comparing actual results with targets, and identifying any variances.

Certain things had changed following the appraisal of performance; for example,
the firm had employed three quantity surveyors, but now had only one. The
operations of contract management were now also controlled by a contract
manager. The firm had “wanted to go for bust”, and so now had two contract
managers and one quantity surveyor, whose job it was to control the overall
margins. This complement of supervisory staff seemed to fit well with the current
operations of the business, and the respondent was happy with performance following these changes.

Finally, the owner-manager thought that the quality and service his business was capable of producing, thanks to the installation of the CAD technology, was the most important attraction that gave his business the edge over rivals: "It's proving a draw for new clients", he said. The advantage from the customer's point of view was that they need only provide a disk with their design on it, and the business could work from that. He admitted that he had not been in favour of such technology before, because "nothing was specific to this industry", but now was reaping the benefits, as it proved to be "the best asset in terms of sales".

VI SUMMARY

This business, which had started during and come through a recession, was building up an established client base and beginning to extend its operations overseas. The owner-manager had appeared as a contestant on Scottish Television's The Business Game, having been encouraged to apply by the local Scottish Enterprise office, and beating thousands of other businesses to a place on the series. This had been an excellent opportunity for him to advertise the firm's products nationally.

The firm had grown across all dimensions since the first interview, including headcount, turnover, profits and customer base, although employment growth had slowed latterly. Financially, the situation was relatively stable, and was not thought to be a constraint on future expansion. The firm had alternative funding sources open to it, and were considering the various possibilities that were on offer to them.
The respondent showed a strong awareness of the environment in which his business operated. He was conversant with the latest techniques and technologies, and acknowledged the importance of keeping plant and machinery up-to-date, in order to maintain a competitive edge. The use of information technology enabled the business to ensure a quality product, and it was this quality that helped the firm to clinch its tendered contracts.

There was a very clear focus in the business, shared by the three directors, who wanted it to grow to such a size that it could compete with main players in the market. The infrastructure in place was such that would permit this growth, with specialists employed, or about to be recruited, to take charge of key areas, such as finance, contract seeking, project management and sales.

All in all, the firm appeared to have in place the procedures and policies it needed to pursue its goals, along with the trained staff and latest machinery available to the industry. Management kept themselves well informed of new developments, and planned strategically for seven years in advance, so as not to be caught out by their competitors. The owner-manager was generally cheerful and optimistic about the prospects for the success of his firm, and the evidence available would appear to support his faith in the future of the company.
CASE J: Dress Hire

I BACKGROUND

For eight months before the first interview this business had provided a ballgown hire service to clients in and around Stirling, operating from shop premises in a small town nearby. In addition, the owner-manager, a graduate in art history, also stocked hats for hire, and accessories such as jewellery and tights for sale. Customers tended to be professional ladies, or university students, who required an expensive outfit for a ball or dinner party. Originally, the respondent had worked on her own, but was now building up the core staff to allow her some time to concentrate on other aspects of the business.

In the first year, turnover amounted to £18,000, and net profits were £2,500, or 14 per cent. The house in which she lived with her husband and teenage family had been re-mortgaged to the tune of £17,000, and this money had been put in to the business as start-up debt finance, with no equity invested at all. There were no trade credit terms in place, so no trade debtors nor creditors. Stocks, which were taken to include the ballgowns themselves, were valued at £15,000.

By year two, a part-time member of staff had been employed, and sales had almost doubled, to £32,628. The firm had also extended its market scope to cover now the whole of Scotland, with customers coming from far and wide. However, the business had made a net loss of £6,088. This is probably partly explained by the move from small premises to a much larger shop, closer to the town centre, and the increase in rent and rates this involved. In addition, £10,000 of the £17,000 debt had been paid back out of the business, and £5,000 of equity was now in place. So, although the loss might suggest that the business was doing worse than
previously, in reality, debt was smaller, gearing was reduced from infinity to 200 per cent, turnover showed a healthy increase, and the client base was much stronger.

By the third year, the respondent's husband, a university lecturer, had joined the business as a partner, in name only. There was also an additional part-timer, taking the total number of people with a concern in the business to four. Full accounts were unavailable, but it was expected that turnover would roughly equal that of the previous year. Suppliers now extended trade credit to the firm, and the outstanding balance at the time of interview was around £2,500. This year saw a change in the range of products on offer, with a much greater emphasis on the hire of hats, due to customer demand. The respondent was also now able to sell off her stock of older hire dresses, having cleaned them and carried out any necessary repairs, alterations or additional enhancements using her own dress-making skills.

The respondent was quite optimistic about the future of the business, having come through the difficult period of having to find suitable new shop premises at short notice. She and her husband had an interest in making the business a success, given that the main source of funding had come through a re-mortgage of their own home. However, the firm was paying back the debt, and continuing to generate an amount of revenue that could support the respondent and two part-time workers. The broader product range and wider client base led her to believe that the firm would continue to grow over the following years, and would in turn lead to profits and a return on the investment she had made.
II ENVIRONMENTAL SCANNING

The respondent had started up the business because, as she put it, “I was bored”. She further clarified her decision, explaining that “I wanted to be independent, and I saw a gap in the market”. Originally, she had targeted the regional market, because of the gap she had identified, but also because “the competition wasn’t doing as well as I thought I could do”; and simply aiming to exploit the local market “just wouldn’t work”. She decided therefore to set up a business that could move into and take over the same niche and existing customers, which is subsequently what she did. The level of price and the quality decided upon was based on her observation of the competition in the marketplace. It was also a function of the prices set by her suppliers, and how much money she hoped to make on the dress hire, and was not a constant: “It shifts all the time”, she explained.

The owner-manager considered major strengths of her business to be the quality of the product she offered and the image of the firm: “The fact that I came from a different background - university art history - makes the shop a different environment from others”, she explained. She felt she could provide a different atmosphere and feel to that of her competitors, and used her background knowledge “a lot”, bringing art history into her innovative and attractive window displays.

The quality of her products was also, she thought, the thing that offered her business the most opportunity. She depended upon comments from customers, or “feedback from punters”, as she called it, to be sure that her quality was better than her rivals’. The positive remarks she received meant she was entitled to believe that hers was, in fact, a superior product, and it was extremely important to her
business that she kept hearing such good comments: “I need people to come in and be astounded”, she said.

The respondent thought that weaknesses of the business lay in the product range and lack of forward planning. The latter had not improved over the time the firm was under observation: “I don’t plan properly”, she confessed. However, the product range had increased, with hats becoming a more important hire item, and accessories now stocked for re-sale: “I look for goods that don’t cost me a lot, but I can sell for a lot”, was how she described her sales strategy.

Threats were thought to come primarily from the share of the market and amount of customers held by rivals. However, the respondent was not taking any steps to change this situation at present, explaining that she was “quite happy with the position I have in Stirling”. She kept an eye on the competition, and was aware of new rivals starting up; but had sent in her “spies” to report on their service, and received back reports that the new shop was “tacky”. So, currently, local competitors were not thought to pose a substantial threat: “I am aware of them, but not bothered at the moment”.

The owner-manager was a friendly and sociable lady, so it was unsurprising that her relationships with both suppliers and customers were described as good. Suppliers were “very good, very amicable and understanding of cash flow problems”, proving tolerant when she could not pay on time; whereas customers were “wonderful” and “very, very friendly”, and dealing with them was “more like friends talking to friends”. This cordial atmosphere was obviously useful in generating repeat business, and word of mouth referrals were an important source of custom.
The respondent was aware of the other players in her market, and was sure that her product quality and service were superior to those of rivals. For this reason, she was not unduly worried about her competitors but, nevertheless, kept an eye on their activities. She used feedback from customers to ensure that her product and service were still the best available, and also relied on her clients to spread the word about the business, and to refer new customers to her shop. She was aware that her lack of skills as regards planning might be a drawback, but had developed an awareness of areas that required improvement, and was only now beginning to find the time to dedicate to such activities.

III STRATEGY FORMULATION

The respondent hoped that the business would generate enough revenue to make a profit and to pay herself a decent salary. She also hoped to provide a service to women, who would feel they had received something worthwhile: “I want to let women who come into my shop go out feeling a million dollars, not having paid much”. The target was therefore to develop a “feel good factor”, which would leave the customer feeling they had been treated well, given good service and made to feel special.

This owner-manager had a formal, written business plan, which she would discuss on an annual basis with her accountant. The overall plan, as she described it, was “to make myself money, and to persuade the bank to lend me more when needed”. She was also considering the possibility of opening up another shop in a different area; an idea that “lurks about in the back of my head”. There were no projected profit & loss account, nor any balance sheet, but cash flow was monitored “all the time”.

121
Growth to this firm would be more customers, more money and a salary for the owner-manager, with the additional possibility of another shop. The respondent wished to achieve her goals of long term profit and an increased share of the market because "there's no point doing it unless you achieve them [i.e. goals]", and she did not consider herself to be "a total martyr to market forces". In other words, if she were to run a business, then she wanted to run it to the best of her ability, to make a profit and to earn a good income: "now that I'm committed to it", she added, "I have to make it work".

The respondent did not make a habit of sitting down and preparing long-term plans. Instead, decisions were based on advice and information from her accountant, who analysed the financial position of the firm, and feedback from customers. She would not, therefore, consider formally a list of strategic options, or possible alternative courses of action.

Being always aware of what was going on in her region, the respondent was ready to face threats as and when they occurred: "If I see a threat I send people to suss it out and see what they're doing". She also kept an eye on the local papers to see if rivals were starting-up. However, as the biggest threat would be a new competitor offering exactly the same products and services in the same town, she felt "quite relaxed" about the situation as it stood. Customers were attracted to her business because of her reputation and from word of mouth referrals, so the owner-manager had managed to cut right down on advertising, being much more selective about how and where she advertised now.

In terms of information technology, this owner-manager considered it to be moderately important to the business, although she could see advantages to be gained from its implementation, and was looking into the possibility of installing a
computerised system. She suggested that it would “improve the way I do business with suppliers”, acknowledging that faster communications, and therefore the quicker response it offered, would be an asset. At the moment though, she used mainly a personal computer, at home, on to which her husband was putting her accounts. She also used the phone for stock enquiries, ordering, and for finding out details of forthcoming events, fashion shows and trade fairs.

The owner-manager herself was responsible for checking each garment when it was returned after hiring. She would check all the seams and make sure it was cleaned, and would carry out any repairs from her work-room at the back of the shop. She would also check with suppliers, before buying the dresses, about the quality of the fabric, and any special cleaning requirements. With customers, she was “completely honest” about whether the dress was new or previously hired, and if it had been cleaned, starched and ironed, as relevant.

Employees were motivated by the “personal enthusiasm” of the respondent. She admitted that she “would like to give bonuses, but I can’t afford it”. However, everyone who worked in the business was very closely related to it, and very involved in helping to make decisions. Their participation was actively encouraged, and the relaxed and friendly atmosphere that thus ensued helped to motivate the workers on a daily basis.

The business operated on an informal basis, with new ideas being discussed openly with employees before decisions were made. However, there was a written business plan, which was updated annually, and though it was not used on a regular basis to help in the organisation of the company, the owner-manager knew what it contained, and what the long-term goals were. She was willing to discuss her business with others; apart from her employees, she also consulted both her
accountant and business advisor at the bank, acknowledging that their expertise and a detached opinion might be useful to her. And finally, in an effort to move with the times, she was using information technology more regularly, and had considered installing a personal computer in the shop, to help with customer and garment hire details.

IV STRATEGY IMPLEMENTATION

The respondent was “working hard” to achieve the goals she had set for the business. New staff had been employed, and a Saturday worker had been taken on to give the owner-manager “a break”. The firm had re-located to premises that were twice the size of the original shop, the product range had increased, and she now offered for sale accessories, which “cost me less, but sell fast”.

Feedback from customers was received, and acted upon immediately if any problems arose. The respondent had experienced some difficulties in the past, but these were mainly to do with coping with the increased size of the business. Organisation was becoming a problem, she explained: “Now, customers hire not just ballgowns, but also hats and jewellery. The form they fill in has to be more complicated. Currently, they fill in three different forms, but it would be easier if they only had to fill in one”. She was currently involved, therefore, in trying to design a form that would be quick and easy for the client to fill in, but that would also be detailed enough for the shop’s records to state exactly where any one item was at any specific point in time.

The owner-manager did not appear to think that speed was particularly important in implementing new strategies in the business. The move to new premises, for example, had to take place within four months, because the landlord gave sudden
notice for her to go. In terms of efficiency of operations, though, she had been working on the new hire forms for “a long time”; although she knew that “the system isn’t working as well as it might”, she had not yet been able to spare the time to sort it out.

The respondent believed that the current general lack of peoples’ purchasing power was the main thing that would prevent her business from growing. She suggested that there was “a slight air of panic” in the town where she worked, because of “a feeling that people are spending more and more time in cities instead of in small towns”. She cited the tale of a local well-established bookshop that looked like having to close due to lack of trade; but hoped that her business would still flourish, because of its appeal: “I think, if you offer something unique to the region you’re all right, but it’s harder to get people to come into a small centre”.

It was hoped that profits would prove sufficient to reinvest and finance the growth expected in the business, and the owner-manager was keen to put back any money she made if it would improve the future profitability of her firm: “I would rather plough back profits than pay myself a salary”, she explained. Following that, she would approach the bank, for a loan or extension of the overdraft facility; and as a last resort, would appeal to her husband for an injection of finance. Still with thoughts of future growth, she thought that it was more important to her business to generate extra sales at the moment, than to control her costs, because “only by increasing your sales can you invest more in the business and make it grow”.

The financial structure of the firm had not changed a great deal since start-up, except that some of the initial loan had been paid back, and some profits had been reinvested. The respondent looked primarily at past and current cash flow when she was considering the position of her company, and contemplating any
expenditure. This was more important and useful to her than any of the other
typical financial reports, such as profit & loss account or balance sheet.

Accountants were considered to be “very helpful for budgets”, so she would
meet with hers at least once every year, in order to discuss the following year’s
plan. The bank had a business manager, but she found him to be “rather distant
and slightly intimidating”, describing her encounters with him as being “very factual
and impersonal”. Nonetheless, she would meet with him, her accountant and her
husband on an annual basis, to discuss any funding requirements. The firm had
received no grants nor any subsidies from either the local Enterprise Trust nor from
any other regional source.

Plans and policies were not formally written down, but were instead
communicated through conversation, as the need arose: “I don’t sit down and go
through it”. The respondent felt that she had an increased responsibility in the
business because of the amount of money that was now involved: “I am aware that
I’m more in a position of controlling stock and money. I’ve had to become more
business-like”. She still dealt with all of the advertising, but was trying to “step
back” from the shop-front and dealing with customers, letting her new staff take
over these tasks. She described her role as having been “an adventure in the
beginning”, but added that it had “stopped being that now”. Experience had taught
her to be “more aware of what things could go wrong, and how to stop them when
they do”.

The firm had benefited from positive investment, in terms of a move to larger
premises, an increase in staff and additions to the product range. Due to this
growth and the increase in customers and hires, the organisational structure of the
firm was being forced to change, which had caused some problems. Growth was
to be financed preferably through profits rather than through any further injection of capital, although bank loans had not been ruled out entirely.

V EVALUATION AND CONTROLS

It was important to this owner-manager always to be aware of what was going on in the market place, and of what was on offer to the customer. Success was measured by the reactions of customers who came into the shop, and more money coming in as a result of the different products she offered. Some lines had been unsuccessful, and so she had dropped them. For example, customers had been requesting camisoles, so she had started to stock them; but shortly afterwards, a new branch of British Home Stores opened in Stirling, and customers went there to buy their camisoles.

No targets were set as regards the hire of a particular dress. Each ballgown had a card, upon which was marked the date of every hire. If no customer took it, then it was considered a failure. It was very difficult for the owner-manager to guess the life of a ballgown, or the appeal it might have to customers. A dress that was bought for only £99 could make £1,500 on repeat hire. But a more expensive dress might make nothing at all: “I cannot predict which ones will go out again and again”, she said.

At the end of the day the quality of the stock and the friendliness of the staff were what the owner-manager thought set her business apart from the rest of her competitors. She also believed that her skills in layout and design, and the way the business was organised, were both major advantages over rivals, and led to the repeat custom she continued to enjoy.
VI SUMMARY

This business had shown a moderately successful performance since start-up. The losses made were to be expected, following such investment into the firm during its early years. Reputation and sales were growing steadily; enough to finance new investment and a change of location. The respondent seemed fairly happy with progress so far, and optimistic about the firm's future prospects.

It was apparent that the respondent had become more business-like over the course of running her firm. She was now much more aware of issues of finance and stock control, and had started to sell products which offered a high profit margin, and rapid stock turnover, in addition to her main hire line. Her awareness of the market, however, had always been good, so her anticipation of potential threats was to be expected. She relied on good relations with everyone who came into contact with the business, be they staff, customers or suppliers, and found that the cordial atmosphere in the shop was helpful when clinching sales.

The owner-manager had a formally structured plan, which included accounts and budgets. It was reviewed annually, and so was usually up-to-date, although it was not used extensively to assist in the running of the business. Decisions were more likely to be made on an ad hoc basis.

The respondent had invested much time, effort and money into making the business a success. She was obviously committed to its future progress, and really wanted to make it work, as much for financial rewards as for her own satisfaction. She believed that the firm could generate enough future profits to sustain and improve performance, and was willing to put all profits back into the business to achieve the goals she had set, even to the extent that she was willing not to take a
salary. This confidence in the company proves her commitment to it, and her faith that she could continue in this line of business for many years to come.
CASE K: Roofing Merchants

I BACKGROUND

This firm was run by two partners as a private limited company, and had been in the business of selling roofing supplies to building companies for one-and-a-half years at the first time of interview. Their products ranged from felt, cladding and tiles, through to rigid or glass wool insulation materials. They operated originally from a small warehouse on the south bank of Glasgow’s River Clyde, but had since invested in purchasing premises, in the same area, but with a much higher profile.

In year one, the business employed the two directors, nine full-time employees and one part-timer, giving a total headcount of 12 staff. Turnover was £1.47 million, which generated net profits of £87,000, or 6 per cent. At this stage, the main market for the supply of their goods was said to be local. Gearing was zero, as no long-term debts had been taken on. Trade creditors stood at around £349,000, and trade debtors at £481,000. The net book value of fixed assets belonging to the firm was £29,000 and stocks were listed in the accounts as £61,000.

By the second year of interview, the business had changed slightly in its mode of operations. There was now one manager employed, but three of the full-timers had left, leaving the total headcount standing at 10 personnel. Turnover had increased to £2.3 million, with net profits on that figure of £115,800, or 5 per cent. Gearing was still at zero, with no debt having been taken on. Trade creditors and debtors had increased on the previous year, in line with the extra trade the business was doing, to £470,000 and £550,000, respectively. The net value of fixed assets was down to around £10,000, and stocks had increased dramatically, to £150,000.
The third year of interview found the business in a new location, having just purchased new and larger premises, offering the business greater flexibility and opportunity for expansion. The two directors were still in sole charge of the business, though there were now also two managers; but full-time staff now numbered only two, as did part-time staff, so total headcount was down from ten to eight. Nevertheless, turnover had again increased, to just under £3 million. Net profits were slightly down on the previous year, to £100,000, or 3 per cent.

The main difference this year was that the business had taken on an overdraft of £250,000 to purchase the new warehouse and office block. Trade creditors were down again to almost their first year value of £366,000, and debtors down to £449,000, as the business tried to get a grip on its cash flow. The net book value of fixed assets had, obviously, increased, to around £283,000, and stocks were down again to £76,000.

The business had been through ups and downs over the short period of its inclusion in the study. Rapid growth in turnover in year two had led to the investment in year three. However, with the uncertainty in the building trade, sales had not increased quite so much in line with expectations, so some of the staff that had been in place originally had to be paid off in order that the business could rationalise its operations and maintain a feasible level of profit. However, for a business to grow, investment must come first, and now that the infrastructure was in place, the directors were optimistic about the future prospects for their business.

II ENVIRONMENTAL SCANNING

The director interviewed said that he had come to work in this line of business through “luck”. He had been working in a laboratory for a company whose trade
was in technical and metallic work, and was at the stage where he wanted to move into middle management. But his employers considered him to be too young, so he looked for a job where he could fulfil his ambition of working in sales. The business he subsequently moved into, working as a salesman in roofing, went into receivership, so he and his partner set up their own firm.

They had decided upon Scotland as their main market, because “the roofing business is very parochial and relationship-driven”, so they needed to keep the work within easy travelling distance. The level of price and quality came about through their own experience: “We’ve been low price, low quality and high, price, high quality; over the last eleven years our formula has evolved”. They also believed that “we are competitive, and our rivals are cheap and nasty”. So they sold their business on the strength of its quality, and the relationship they built up with their clients.

The respondent had previously identified the main opportunities of his business as lying in the technological and specialist know-how of the personnel, and the suppliers with whom they dealt. Describing the firm as “a merchant; a supermarket”, he explained that “the manufacturers we go with, we believe are the guys moving the industry forward, and are the best in the business; we piggy-back on their technology”. The attributes that offered opportunities were also thought to be the firm’s biggest strengths, but an additional strength was said to be the “team spirit” that existed amongst personnel: “the majority of us have all been in it together for seven or eight years; we have a very informal management structure and we all muck in”. This led to the employees being “self-starters, [who] know their future is in the company; we take care of them; if we make money then they do too”. 

132
Weaknesses had been identified as the firm’s organisational structure and systems, and the plant and resources available. Things had obviously improved with the purchase of a warehouse, which offered more room for storage, and therefore more stock for customers to choose from. In terms of organisation, the business was now registered for the International Standard ISO9000, and had implemented the systems it required. However, the respondent added that “we don’t have enough people, and it’s not as organised as we’d like”.

The main threat was thought to come from their rivals’ share of the market: “if the rivals’ price goes down, then our business goes down”. This was currently causing a few problems, which the respondent claimed to tolerate: “we sit here and take it like men”. More seriously, he explained that “the client base has never been better; we have good companies who, unfortunately, don’t need the volume”. However, the market and business was thought to be improving, so the firm was “battling, and doing the business”, developing their new yard to stock slates and tiles outside, as well as the roofing materials indoors.

Relationships with both suppliers and customers was generally good, although suppliers could be “bad at times on delivery”. It was for this reason, explained the respondent, that “we are a stockist, and always have enough to supply the customer”. The client base was improving and, increasingly, new customers would come from passing trade, speaking to one of the managers rather than to the directors: “people come to the trade counter; we have a higher profile site than before, and there is now a smaller percentage of customers that have me and my partner as a first contact”.

The director of this firm used his experience and detailed knowledge of the trade to great effect. He was well aware of the strengths and opportunities that existed
for his business, and equally conscious of the various threats and weaknesses that might be encountered. Relationships were typically good, but where late delivery might provide a problem with suppliers, for example, the directors had taken steps to ensure that enough stock was available in the warehouse for their clients' needs. A main problem area, organisation, had improved with the implementation of ISO9000. In general, whenever difficulties were encountered, the directors appeared to have the tenacity and perseverance to weather the storm and see things through to a successful conclusion.

III STRATEGY FORMULATION

The firm's mission covered a combination of both personal and purely business ambitions. The director wanted "to be the best, make as much money as possible, sell the business and retire". He also hoped that the firm would be "clearly recognised as the best and most reliable supplier of roofing materials in Scotland". To this end, the directors had formulated two written business plans since the business had started; the first gave a description of what they were going to do, the other showed "what we’ve done and what we are going to do over the next three to four years". It included an analysis of budgets, premises and people. The respondent considered this year to have been one of "learning about the business, us, organisation and relationships", and added that, "when we look back in five or six years time we’ll say it’s been our most formative year".

This firm was looking for growth, with the longer-term objectives of profit and a high rate of return. Growth to them would mean "higher profile", because "when you get growth you get more clients, and therefore more business". Those customers who used to spend only £500 to £600 in a month were now spending
more because of this higher profile: “people come in now, and they see what we sell”. The director was seeking such goals because he wanted “to have a good quality of life”.

Long-term plans were not generally discussed during a formal meeting: “we have regular sales meetings, but deal with things on a day-to-day basis, and talk about it ‘off the cuff’”. Strategic decisions were influenced by external factors, such as the impending general election but, as the director pointed out, “we have no influence” over such matters. They would generate a menu of strategic options, but would decide between them after considering the opinions of people in the market place: “we feel out the market and talk to people; that’s the most important thing. We might get 20 opinions and then make a decision”.

The directors protected their business from rivals or substitutes by “maintaining market presence through sales calls, and making sure we’re visible”. The respondent pointed out that such marketing was expensive and “pushes the break-even point further away”, so it was a “real balancing act” to try and keep the business on an even keel. Rivals tried to take away this firm’s customers through offering goods at lower prices, but this director tried to take their customers “through familiarity”. In other words, they tried to develop a relationship with potential clients, would visit them at their place of work and “tell them what we can offer”.

Information technology was very important to this business, which had spent £30,000 to £40,000 on new systems. They used phones, faxes and personal computers, and thought that implementing technology was so important because “it gives you sales on a daily basis and allows you to make decisions; you can mix up the menu a bit”. He recognised also that “technology is moving forward and
there is big national competition”, and so wanted his firm to be able to compete effectively with larger rivals on equal terms. The plan was now to use the new systems for stock control, but the current level of manning meant that personnel resources were slightly stretched at the moment, and that this would need to be postponed for the time being.

The policies implemented in this firm had improved since the implementation of ISO9000, which meant that “materials are inspected when they come in here; it’s all checked and signed”. That, and the fact that the majority of their suppliers were also ISO9000 approved, was enough to ensure that the quality of the products they sold was up to standard. Customers were assured that they were “dealing with a company that has a reputable track record for supplying a good quality product”, and that sub-standard products would be replaced. Manufacturers also supplied guarantees on the products they supplied, so the customer could be confident that the product he bought was of a reliable quality.

Employees in the business were said to be “self-motivated”, but were also given material rewards for good performance: “at the end of the year they get a bonus, on a sliding scale; for example two or three times their salary”. They were also given a “good Christmas Party”. In addition, their input was appreciated when the directors needed to make decisions: “they are involved in decision-making and we value their opinions”.

The respondent was an ambitious young man, who hoped to earn a decent living through a highly successful business. The directors had formulated detailed plans, outlining their aims for several years to come. A high rate of return on their investment was a major goal, and the directors were investing in new equipment, premises and systems to help them achieve this. They used information gained
through conversations to help them make decisions, and to choose between various strategic options. The respondent said that the business relied on some advertising, but mostly on the relationships they developed with clients, in an effort to both keep and steal custom from their rivals. New policies were kept on track with the implementation of information technology, and employees were motivated to participate in the overall mission of the business through a combination of both non-pecuniary and tangible benefits.

IV STRATEGY IMPLEMENTATION

In order to help the business achieve its goals of growth and high profitability, the directors had “moved into new premises and paid people off, to bring the overhead down”. As a result, the “break-even point” was said to be lower. In addition, the business was taking on and supplying new products, and their main asset, the premises, was appreciating in value.

They received feedback from their customers, and used it to help improve or maintain the quality of what they supplied: “we do it as a responsible supplier of materials; it’s very spontaneous”. The respondent explained his feelings about the importance of meeting the customer’s requirements, saying that “it’s naïve and ignorant to ignore complaints”. This firm had experienced problems in the past in implementing new strategies, but the respondent was philosophical about such occurrences: “you’ve got to bite the bullet with certain things [and accept that] things don’t go right”. The faith he and his partner had in the business kept them going through the difficult patches: “if you believe in it and stay the course then you’ve got to follow it through”, he added.
Speed was not a particularly important factor when it came to implementing new strategies, partly because of the experience they had in working for other companies: "we are very slow, because we come from an organisation where everything was done at breakneck speed". As it was "our lives we’re playing with", the respondent explained that "we like to be belts and braces sure". The main constraint on the growth of their business was currently said to be "the market" because of the uncertainty in the trade, and "the lack of government spending at the moment". However, they hoped and believed that the situation was picking up, and would continue to do so.

Growth was expected to be financed mainly through profits, but the respondent explained that the firm was careful in its dealings with suppliers, and looked for other ways to improve its cash flow: they would "do deals with suppliers to extend credit", and were "sensible" in monitoring their stock. They were in the process of improving the premises to create an external stocking area, and this was being financed through a grant of £75,000 and a loan for £20,000.

Controlling costs was at present more important than increasing the sales of the business, because "the sales are the sales". In other words, they did not think that they could currently achieve much more in terms of volume, and were instead concentrating on trying to increase margins through cutting their costs. They believed also that the client base they had would generate enough business to see them comfortably through the following years: "we are a well-established company now and there’s a selection of contractors who use us on a daily basis".

The firm had benefited from various injections of capital since its inception. It had received two loans of £10,000 from the local enterprise company, as well as the recent development grant of £75,000 for the property, which was also
mortgaged. This represented the only long-term debt held by the company. Short-term liabilities included a £75,000 overdraft facility at the bank, which was being used.

When looking at budgets for the firm, the respondent would use a sophisticated analysis of margin and sales per product group: "the product mix is important in terms of the well-being of the company", he explained. At the moment, however, he considered cash flow to be the most important document he received. There was little outside input in a budgetary sense, with the two directors preparing their own plans and forecasts in-house: "the accountant does what we tell him"; but "with the bank manager, we do what he tells us".

New plans and procedures were communicated on two dimensions; both internally and externally. Within the business, the staff would "sit down and talk"; but if the firm had a new product, for example, they would "use mail shots". In terms of motivating employees to implement new procedures, the director said that "if it's more profitable, then they get more money", and believed that "not many people like to think they're not doing a good job".

The respondent's role in the business had changed since start-up, and now he did not "get involved as much in the day-to-day running". To start with, he and his partner would drive the lorries and serve at the trade counter. Although they would still take telephone enquiries, whereas previously they would do everything for a contract, now they would "set up the deals and the manager orders the materials".

The directors had needed to make difficult decisions in order to keep profitability high and keep the business on target for a long-term high rate of return, and so had paid off some of their staff to cut down on overheads. Customer feedback was
used to assist in strategy implementation, where it was thought to be useful. Again, the respondent showed strength of character when he admitted that problems did occur, but that they just had to be overcome. The directors were careful with money, and cash control was efficiently carried out, with cost control also being very important. The business used conversations and meetings to discuss new plans or procedures with employees, who were made to feel very much a part of the organisation, and had taken over the bulk of the day-to-day running and customer contact from the respondent and his partner.

V EVALUATION AND CONTROLS

Success would be assured to this owner-manager “if we made plenty of money”. He used the following metaphor to describe the predicament he felt in measuring success: “It’s like a football team that plays well every week and loses, compared to a team that plays badly every week and wins. Which one does the manager prefer?” In the end, he admitted that it “totally depends on the profitability of the company”.

Measuring this success was done in quite a complicated way, with the directors looking at “the mix for everything; volume and sales”. In other words, they would carry out an analysis of the turnover and volume achieved for each product group, to identify which products sold well, and which made the most profit: “we do product analysis using stock reports, which analyse quantity, cost, sales value and gross margin on a monthly and yearly basis”. The recent strategic plan was to keep the overheads down, so they had suspended payment into the pensions fund. They also set a monthly budget for marketing, and would use this up on entertaining clients, for example. Finally, in terms of evaluating success, the firm
would do a “client analysis, which gives us the sales figure per client for 12 product groups”. It was this final analysis which told the directors “what we’re doing right and wrong”.

Policies had been changed based on the firm’s evaluation of performance; for example, they had needed to pay off staff. It was difficult to predict the future direction of the business, and the respondent said that “our business has evolved rather than been pre-planned; it’s grown up and is continually changing, and skills are being developed”. The ability to adapt to these constant changes was obviously, therefore, a factor contributing to the success of this firm.

The respondent suggested that his and his partner’s experience in the trade, compared to that of their rivals, was a strength of this business: “we’ve been doing it longer, and we will go that wee bit further for them”. Their willingness to adapt to their clients’ needs was also vital. The lorries were on the road from early morning until six o’clock at night, offering flexibility, in terms of delivery times. They would also help with their customers’ cash flow: “we get a plan started for them if they have difficulty paying”. The advantages they believed they had over their rivals can be summed up in the phrase used by the respondent, that “it’s a very personalised business”.

VI SUMMARY

This was a well-performing and focused business, with two directors who were willing to invest both time and money in making it a success. Turnover was rising steadily, although net profits were not, falling from a figure of six to three per cent on sales, over three years. In real terms, though, net profit showed an overall increase, from £87,000 to £100,000 by year three, with an exceptional £115,800
in year two. However, the respondent was aware that overheads needed to be controlled, and so had cut the wage bill by reducing the number of staff employed. Focusing on costs was vital to this firm if an improved rate of profitability were to experienced. The directors realised this, and were taking action accordingly.

The two partners had worked in the industry for quite some time before starting their own business, so their knowledge of competitors and of the market in general was well-grounded. Because of this, and their growing reputation, they were able to price their products at a level that would ensure sales to the quality end of the market. They were very keen to develop friendly relationships with customers, and found that this worked better for them than the 'hard-sell' tactics often adopted by their rivals.

The core team of staff, with some of whom the directors had worked previously for several years, were all made to feel that their input to the organisation was important. They were encouraged to participate and to venture their opinions on strategic options. Decisions were likely to be made on the basis of any such comments received, as the directors realised that employee participation was crucial to ensuring motivation.

The firm's use of information technology was becoming very sophisticated, with the recent installation of a fully-computerised system. They had ideas for further enhancing the system, and hoped to have sufficient labour available to assist them in, for example, computerised stock control and monitoring. Meanwhile, their administration and records had already improved since the new PCs had been installed.

This business had set up the foundations on which it could base its future growth. It owned new, large premises on a high profile site, had a core team of
staff with developing skills, was awarded ISO9000 for its operations and had a new computer system to help with organisation. In addition, it had attracted several grants and business loans, had a sound list of regular clients, and a growing reputation for being a quality supplier of roofing materials. Despite the few hiccups that any small firm experiences, success is dependent upon the drive and determination of the directors to overcome such problems. This firm had both in abundance, and looked set for a busy and prosperous future.
CASE L: Contract Management

I  BACKGROUND

This company had been in operation for two years when first approached for interview. The owner-manager was a time-served joiner who had started up two complementary companies, one dealing with shopfitting, and the other, managing building and maintenance contracts from its base in Glasgow. A feature in the local newspaper quotes the Director's description of the kind of service his contract team aimed to provide: "We carry out all the necessary work, install exactly what you require, to the required quality. We supply everything you need whether it be wardrobes, kitchens, Board Room furniture". The majority of the labour was sub-contracted to competitive tenders, and the director explains, later in the same article, that "we have the services of all contractors, whether it be plumbers, electrical engineers, painters and decorators, and we take care of the entire project".

In year one, there were one Director and two full-time employees working in the business, from a small office in a prospering area of Glasgow. The firm would cover the whole of Scotland, if need be, but the market where it gained most of its work was the local area. Turnover for the first year was just over £1,4 million, with gross profits of £66,000, 25 per cent on turnover. The level of debt to equity was 36 per cent. Trade creditors were around £13,000, and debtors £30,000. Fixed assets were valued at £4,000 and stocks were £1,000.

By the second year, an extra full-time worker had been employed, but no other change in personnel had occurred. Turnover was slightly higher, at £270,250, and gross profits up to £77,000, or 28 per cent on turnover. Not only did gross profits
rise in absolute terms then, but they also increased in relation to turnover. In other words, although more work was coming in, and the cost of sales would be expected to rise, they did not do so in proportion to the extra revenue received. This is probably due to the fact that the firm was very good at finding the best 'value for money' workers to complete the contract, and is reflected in the owner-manager's comment, again in the same newspaper article, that the workers he employs through tenders are “seriously competitive”.

The firm's gearing ratio was relatively similar to the previous year, at 40 per cent, and trade creditors and debtors had changed little, being £12,000 and £20,000, respectively. The net value of fixed assets, however, had increased to £18,000, showing that the business must have invested further in their asset base. Stocks were valued at around £10,000, a large increase on the previous year. However, this is probably due to that fact that, at the time of interview, the business just so happened to have recently purchased stock for a large contract. Typically, the value of stock held was much lower than this.

By the third year, there had been no further change in the number of full-time 'core' staff. However, financially, the business had excelled. Turnover was now at £516,797, with gross profits of £135,557, or a gross profit ratio of 26 per cent, still very good. The gearing ratio had been reduced to 11 per cent, represented by repayment of a substantial amount of debt, rather than further injections of capital. Trade creditors were higher than before, at £27,000, as the business grew and required more supplies, but trade debtors stood at around the same level as previously, at £19,835. Again, investment had been made in fixed assets, the net value of which was now £26,682, and stocks were back to their typical level of around £1,000.
All in all, this business appeared to be doing extremely well. It was increasing turnover on an annual basis, with profits to match, and gearing was decreasing as debt was paid off. Stock was only purchased as and when needed, so there was no cost of holding supplies. Although the total headcount was relatively small, with four full-time members of staff, the firm had managed to develop a core team of well-qualified staff to manage their operations.

II ENVIRONMENTAL SCANNING

The owner-manager had decided to start up the business because “I always wanted to do it”. He had started work in a family business, run by his father, but that had gone into receivership, so he set up on his own. As he said, “it’s in the blood”. He decided upon the local market as his main target for geographical reasons, because it was “easier to control”, but he would cover anywhere in Scotland if a customer demanded it. Decisions on pricing were “pre-set by the building trade”, and established industry ‘mark-ups’ were used; for example, “the mark-up on labour is about 100 per cent, and the mark-up on materials, 20 per cent”. In terms of quality, the owner-manager aimed to provide a high quality product, because, as he explained, “shoddy work neither lasts nor impresses”.

The respondent believed that major strengths of his business were their adaptability and product quality: “we’re flexible enough to carry out any aspect of the trade, and we use it in our marketing: we will tackle anything from a little shelf on the wall to metres of shelving”. However, he acknowledged that “rivals are similar”, and it was a constant battle to try and keep ahead of them. Opportunities were also thought to lie mainly with these strengths, and the firms aimed to “keep
producing the quality and service the clients are looking for” in order to exploit any opening that might crop up.

It was thought that this firm’s biggest weaknesses lay in the lack of foresight, or forward planning, and their incapacity to come up with new ideas, the respondent saying that he found this “hard to do”. New products, when they became available, were not therefore marketed, but the firm would “use them when they arise”. Greatest threats to the business lay with rivals’ product quality and their share of the market, and the owner-manager thought that “there’s not a lot you can do” about it, short of trying to “keep up with it; you can’t go and steal clients”. He tried therefore to combat any threats by confronting them head-on, bettering his rivals “quality, service and price”. He believed it was extremely important to show a detailed knowledge of the product and service, and to be honest with the customers: “you have to have a good knowledge of what you’re doing; I give the correct information to clients”.

The firm’s relationship with its suppliers was thought to be “very good”, because they paid on time: “75 per cent of the time they deliver on time, and 25 per cent of the time they are late and you have to push it”. He found that delivery was more likely to be a problem with the larger suppliers, who received their goods from the USA: “they say next day, it takes three weeks”. Quality was generally satisfactory. The firm’s relationships with its suppliers was also considered to be “very good”, and repeat orders were frequent: “If any other work is wanted, they call us. I don’t know of anyone we’ve lost”, added the owner-manager.

This firm had come about because of the knowledge and experience of the owner-manager, gained from a family-run firm. He knew his market well and the customers he targeted meant that he would be competing directly with rivals on
price and, more specifically, on quality. The owner-manager was well aware of his firm’s strengths and weaknesses, and the opportunities available, as well as potential threats. He knew he had to keep fighting hard to retain his place in the market, otherwise rivals might steal his custom. He was relatively satisfied with the relationships his firm had with both customers and suppliers, saying that both were good and fairly reliable.

III STRATEGY FORMULATION

The respondent said that the firm’s “main objective at the moment is to increase turnover year by year, including increasing profitability”. He had no written business plan to help him in this, saying that “I was always very sceptical about business plans”. He had started the business with a plan, projecting two years in advance, and had managed to reach and exceed the targets he set. From that point on, he decided not to produce a plan. It was not, he explained, like working on a plan for a shop, where “it’s set out for you; you know your customers”. His line of work was very different: “I don’t know who will walk through the door, so it’s difficult to project ahead. You can project what you want to happen, but what’s the point in that?”.

Growth to this business would mean an increase in both turnover and profitability, as well as an increase in the client base, these being also the respondent’s main aims for the following few years. He explained that the reasons behind his wishes to make the business a success were “personal”, and for his own “well-being and finances”. However, he also thought that he would “get a kick out of it: I like to help employment”. Having found a secretary who was extremely
efficient and willing to be trained, he suggested that, “if there are other staff like her out there, I’d like to give them work”.

This respondent said that “I don’t really” develop long term plans. He would not, therefore, consider a menu or list of strategic options. Long-term decisions were most often based on the information that was available in the market at the time: “the financial implications are irrelevant”, he said, probably because the firm was in a fairly stable position, financially.

In order to protect his business from the threat of new or existing competitors, or alternative or substitute products, this owner-manager said that one should “ensure you keep the service going above what they offer” and remain competitive: “if you find out they’re trying to undercut you, lower the prices”. He used advertising and mail shots to try and attract new customers away from his current competitors.

In this firm, information technology was thought to be very important, because “basic communication is necessary”. As the owner-manager explained, “we use it in the day-to-day running of our business; things change rapidly”. The main items of information technology used were pagers and mobile phones, which management used to reach workers on-site, on a daily basis. In addition, though, all accounts and up-dated financial information such as invoices paid and received were kept on a computer in the office, and updated regularly.

In terms of the policies adopted by the firm to ensure quality was always up to scratch, the owner-manager said that “it’s monitored on a daily basis by the personnel in here”. In addition, however, management would “go out all the time” to check the workers on-site, and to check that the firm’s policies were being adhered to, and that quality was being maintained. Customers were given a standard guarantee on their purchases, and major contractors were given a form of
safety buffer, in that they were permitted to “hold a retention of up to 2.5 per cent of the contract value”, until the job was completed to their satisfaction.

In terms of motivation, money was thought to be the most important method of gaining the cooperation of employees, “especially on the shop floor; if they are underpaid, you don’t get service”. Site workers were given overtime bonuses for working on a Saturday or Sunday, which could be as much as twice their normal hourly rate. In addition to the financial rewards, the respondent said that “we have a good working relationship”, and that “we make decisions together”. So, not only was money a key motivator, but the fact that staff could feel that they were part of a team, and had some say in the overall running of the business, and the future directions it might take was seen to encourage their cooperation.

The owner-manager had a fixed idea of what he wanted from the business, although he found business plans unhelpful; his long experience in the trade enabled him to know instinctively what would and would not work. He was looking for increased profitability, but also gained satisfaction from taking on employees and seeing their skills develop through training. Plans were more likely to be developed by reference to market conditions than through projected budgets, as finance was not a problem to this business. Information technology was greatly used by the firm for maintaining contact with on-site workers, as well as for data storage and information retrieval. Quality was monitored constantly, and personnel were motivated to cooperate in the firm’s mission by financial rewards and through an involvement in decision-making.
IV STRATEGY IMPLEMENTATION

In order to try and achieve his goals of growth and profitability, this owner-manager was "always trying to increase the market". He had now reached the stage where the business had "built up a bit of finance that can be invested" and was looking into the possibility of branching into a slightly different line, or perhaps bringing some of the features of his work in-house, rather than subcontracting the labour, as he did at the moment: "we might get a joiner's shop", for example, he said.

Feedback was received from customers, and was used "as a reference, if nothing else", but did not appear to directly affect the firm's product to any significant extent. The main problems that this owner-manager had confronted were in trying to persuade new customers to try out his firm, rather than to keep going back to his rivals: "the probable client is already happy with who he's got working for him, and is reluctant to move", he explained.

When the respondent came up with a new idea or strategy, it was important that he act upon this immediately: "you've got to be fairly swift if you make a decision". He was pleased to admit that "nothing is preventing it [i.e. implementing new strategies] at the moment". Financially, the business had enough to support further growth, but the owner-manager was "holding myself back", partly due to "a lack of confidence a wee bit in the building trade as it is at the moment".

Given the stable financial situation of the firm at the moment, it was expected that growth could be funded through profits, but the owner-manager would, "reluctantly", take on an overdraft if it were needed. His current concern was with generating further revenue through extra sales, rather than trying to cut costs,
because “you should always be controlling costs”. It was an unwritten rule, therefore, and part of the company’s policy, that costs be controlled within the firm. There had been “little change” in the financial structure of the firm since its inception: “I would rather keep money in the company than take it out”, said the respondent. Profits had been put back into the business, but not fully utilised to date, so “money is always there to be invested”.

This owner-manager said that he did not use budgets, but kept a regular daily watch on his cash flow, through the use of a HOBS\(^1\) machine: “it’s essential that it’s done daily”, he said. He would look at his invoices, and compare “debtors due versus creditors due, every single day”, so keeping himself fully aware of the firm’s liquidity position.

This respondent made no appeal for help or advice to any of the bank manager, auditors or accountants, saying “I know what I need; I wanted an overdraft of £10,000, and got it; the bank manager doesn’t care, because we’re solvent”. Local enterprise funds had been relatively helpful to this small firm, who had received “a little grant at the beginning”, and “an 80 per cent grant for computer training”. Although these grants had not, in any way, influenced the firm’s budgetary procedures, the grant towards staff training had “influenced me in doing that”.

New plans were communicated either verbally, through conversations, or “through literature passed on by copying the information from suppliers”. This owner-manager was still very much hands-on and in regular communication with staff both in the office and out on-site, and said that, “it’s [i.e. work] exactly the same thing, just more of it; and I’m working a bit harder now”.

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\(^{1}\) Home and Office Banking Service.
The owner-manager was working towards the constant goal of increasing his client base and share of the market. He was considering investment, but was waiting cautiously while he evaluated the current state of the industry and market potential. This respondent thought it was vital to act immediately on new ideas, once the decision had been made to go ahead. He was in the enviable position of having no constraints on future growth plans; the finance was there when he needed it. Although the respondent did not forecast budgets, he kept a constant watch on cash flow, which was monitored daily. He did not require any outside assistance from the bank manager or accountants, and the only help he had accepted from the Enterprise Trust was in the form of small grants or awards. He used verbal communication to advise workers of new plans, or suppliers' literature when new products or processes were to be implemented, and admitted that the hands-on approach was still very much a feature of his daily routine.

V EVALUATION AND CONTROLS

The respondent said that "I haven’t done anything new" since starting the business, so the evaluation of a new strategy had not arisen. He had no particular methods or procedures in place for measuring performance, but thought that it would be a good idea, if he could find the time: "I used to set targets years ago, and I think I should set them now". However, his experience in the industry meant that he was well able to make judgements and forecasts without having to sit down and formally work through the possible outcomes: "I’ve been doing it for 20 years".

Through the experience he had gained from working in the trade, this owner-manager had discovered that he now found it "easier to know where I think we should be going". It was, he had decided, "financially beneficial to go down the
main contract management line, with major contractors”, than to accept a smaller project, on which he would have “a far bigger input”. For example, “I can do a £300,000 job easier than I can do a little shop along the road”; with the big job, there would be, for example, “a carpet fitter fitting £20,000 worth of carpet; he does it, I do nothing”; whereas for a smaller job, the owner-manager would be much more involved in controlling the operations of multiple workers on a daily basis.

Finally, when asked about the unique skills or attributes that gave his firm the edge over his rivals, this respondent thought that his quality and service would have to come very high on the list. The industry, he explained, was not as sensitive to price as it was to the fact that the firm could provide a good product: at the end of the day, “price isn’t as necessary as the quality and service of the guy”.

VI SUMMARY

This firm was a high-performing business, with turnover growing year by year, and a healthy profit being generated on this. The owner-manager’s knowledge of the industry was a key factor in their success, but the core staff he had employed to run the organisation were developing skills through training, and were becoming a vital asset to the firm’s sustained success. The business was able to keep costs down by contracting out the labour involvement, and by choosing the most competitive tender to do the job. This owner-manager was heavily involved in the day-to-day running, was highly visible on-site and with customers, and knew enough about his environment to fend off rivals and enable him to keep the client base he was building up by targeting their specific needs.
The respondent had used business plans in the past, and the firm had outperformed the projections. For this reason, he preferred now to spend more time on generating sales, than making projections of future profits. In addition, though, his entrepreneurial background [his father was an entrepreneur] and his own experience in the industry gave him the ability to know by ‘gut feel’ which actions to take, and when to start on new plans.

He was aiming for growth and long-term profitability, and had the finance ready to invest. He also had some ideas of which new directions to break into, and was just waiting for the right time to do so. Meanwhile, he defended his current business from the threats posed by rivals, by keeping his quality and service at a higher level than theirs, or by cutting his prices in an aggressive attempt to win business.

This owner-manager was an extremely able individual, with an agreeable manner, and had all the necessary skills he needed to run his own business. He required advice from no-one, in terms of financial support, but knew exactly what he wanted, and how to go about getting it. His staff were invaluable to him and he enjoyed being able to provide them with employment, but also recognised that, to keep them loyal, he must motivate them through training and financial rewards. Although no written agenda laid out his future plans for the business, this owner-manager knew what his next move was to be, and had the finance available to allow him to act upon his decisions as and when the time was right. There was no reason to believe that this firm should not continue to be the success it had already proved itself to be.
CASE M: Timber Preservation

I BACKGROUND

The business was run by two directors, who had started-up this limited company two-and-a-half years previous to the first interview. They provided a general service of timber preservation, which incorporated such procedures as damp-proofing, general building services, and dry rot, rising damp and woodworm prevention and remedial work. The main market in which they worked was, at first, local, although the area covered was to expand into the more regional market over the following years.

In addition to the two directors, the first year saw this business with one manager, five full-time employees and another two full-time trainees; making a total headcount of ten personnel. Turnover was almost £¼ million, and the net profit ratio was less than one per cent, although it was positive. The measure of debt to equity, or gearing, was at zero, as the firm had no long-term debt. Trade creditors were £5,307 and debtors, £39,000, while stocks were a negligible £200. The net book value of fixed assets was £25,000.

By year two, the firm's total headcount was down to eight, it having lost the two trainees and one manager, and replaced these with one part-timer. Turnover was similar to the previous year's, and the net profit margin was slightly better, at just over one per cent. Gearing had risen to 14 per cent, as the firm took on some long-term loans. Trade creditors had doubled, to £10,000, but debtors were similar, at £35,000. Fixed assets were now valued at £21,000, as depreciation reduced their balance, and the value of stocks held was standing at £3,000 at the time of interview.
By the third approach to this business, total headcount had risen again to 11 members of staff, the part-timer having been lost, two managers now in place, and an additional two full-timers on the payroll. Turnover had increased somewhat, to £270,000, and the net profit margin was now showing a healthier ratio of 11 per cent on turnover. Gearing was now up to 100 per cent, as the firm had taken on bank loans to finance its investment in fixed assets, now valued at £100,000. Trade creditors were down to £7,000, trade debtors at £45,000, and stocks were valued at around £1,000 at the time of interview.

In general, this business was not performing outstandingly well, given that it had now been in existence for almost five years. Although it had made small profits, it had not increased turnover to any great degree since the first interview. Staff turnover had been quite high, with the balance of personnel changing each year, first decreasing then increasing. The core personnel did not, therefore, seem to be well established. However, the firm now targeted a slightly wider, more regional, market, and they had taken on debt finance to fund investment in fixed assets. The ratio of trade debtors to trade creditors was high (643 per cent), which meant that the firm had assets that could be converted quickly into cash, so its liquidity was not a problem. The business was making money at a slow, but consistent pace, and although it was not moving forward dynamically, it was doing just well enough to provide a living for the people who worked in it.

II ENVIRONMENTAL SCANNING

The two owner-managers had been forced into self-employment when the business they had both worked for previously was closed down: “We worked in it for years; it was our background”, they said. They had decided to move into the regional
market because “it was the one we were familiar with”, and had set their price and quality at the level they did for similar reasons: “We’d been doing it for that long that we worked out what our company needed. Quality is high, and price is based on our knowledge of other industries, and what we need to survive, plus profit”.

The directors described their firm’s relationships with suppliers as “excellent”, adding that they were “OK on timing, delivery and quality” and that “we get discounts, but no more than our rivals - 30 per cent trade discount”. Relationships with customers, too, were thought to be good: “We get repeat orders from larger clients”. However, with private customers, repeat work was not so common, given the kind of service they provided: “With private customers, you only get that if they move, because we do such a good job”.

The directors thought that the biggest strength of their business came from themselves, because of the personal interest they had in the firm: “We, as owners and directors, take a more personal interest in the business than if we were working for someone else”, said one. They also thought that this ‘personalisation’ would offer them opportunities, because “when you deal, you deal with us, rather than a name on the phone; we treat our customer better”.

The respondents thought that their biggest weaknesses lay in the lack of market share they currently held, and were trying to improve upon this by advertising and “general networking”. One explained that this was thought to be working, and added that “we hope it all pays off”. Threats, they thought, came from rival’s market share, and the competition in general, and they tried to confront these by being “better all round, and more honest than our rivals”.

The owner-manager of this firm had developed an awareness and understanding of the business environment over several years of working in the industry. Their
target market, pricing structure and quality of service was therefore based on their knowledge of the market and what they thought they could make from their products. They considered themselves as having a good working relationship with both suppliers and customers, earning repeat orders from their larger clients. The directors thought that they were themselves the firm's biggest assets, but were less able to identify weaknesses of the firm, saying simply that they wanted to improve on their market share. Although they knew the business and their market well, they seemed a little naïve about possible threats and weaknesses of their own operations, and almost complacent about the market position they held.

III STRATEGY FORMULATION

The respondents described their overall mission as being "to have a good name and respectability in the market [and] to prove the people wrong, who said that we weren't going to last". They had a business plan 'in their heads' to help them focus on where they would like the business to go. For example, they had discussed getting their own premises, and were considering branching into different sectors of the building trade: "We're thinking about a year ahead", added one owner-manager.

The main objectives of the firm were both long-term profit and future growth. However, they admitted that "not every company can grow every year" and that, in any case, "we don't want to be too big". Growth, so far, had meant the employment of two further full-time employees and an increase in turnover; the next stage would be to employ "one survey or contract manager, and one operative [technician]", which would make the team complete. The directors thought that these objectives, once achieved, would let them "diversify into other things" and
would “release more time for us, [because] we do everything at the moment”. In other words, for example, “if we get the surveyor, one of us can help him out while the other person does something else”.

Long-term plans were developed through what the owner-managers called “ongoing meetings”, by which they meant that “the two of us will be chatting, and it turns into a Board meeting; every day, we talk about something”. They used “everything”, or all the information they had available to them, to help them make decisions. For example, “we look at monthly management accounts and [pay attention to] gossip”. From these conversations, they would develop a menu of possible alternative courses of action, and would make decisions between them “based on our knowledge, and what we think the profitability might be”. Additionally, they would also “use computer packages, our lawyer and accountant”, to help evaluate options.

This firm used “our name and our history”, as well as the products and service it provided, to try and protect the business from the threat of new or existing competitors or alternative and substitute products: “We’ve got a chemical company [suppliers] that’s as big as anyone else, and we get all the new products. The smaller companies don’t bother us any more as we get bigger, and we are one of the biggest of the smallest companies”. Advertising and word of mouth referrals were important to this firm for attracting customers away from rivals, and “then, eventually, out expertise and our survey”.

The respondents thought that information technology was very important to their business, because “it’s the way forward; we can’t work without it, and it gives you instant knowledge”. They used it regularly in their day-to-day business, faxing surveys through “all the time”, and they added that “ten years ago, it didn’t
happen”. Also of importance were mobile phones, which were used for keeping in constant communication with workers on-site, to monitor how contracts were coming along.

Quality was maintained through continual checking and from customer feedback: “Clients can tell you before the job’s finished; we inspect every job when it’s finished, as well as on-going; and the foreman on-site also checks”. Customers were assured about the quality of the products and service provided, and the fact that they would do the job they were meant to do, by the “insurance-backed 30-year guarantee” offered by the company.

The respondents said that they tried to motivate their employees through having an incentive-scheme in place. This provided the staff with profit-sharing options, and performance-related bonuses. In addition, they would be consulted whenever management were about to make a decision. This, it was thought, would encourage them to participate in working towards the firm’s overall objectives of profitability and growth.

These directors would not sit down and plan formally what they wanted to do. Rather, they would chat on an informal basis, using daily conversations to develop new ideas. They had an ambition for long-term profit and growth, but did not want the firm to become too big and uncontrollable. They simply wanted it to grow to such a size that would enable them to take on different tasks, delegating responsibility to other members of staff. The owner-managers relied on their image and reputation to protect their business from rivals, and advertising to attract new business, but seemed to disregard other small firms as not being competitors. Information technology was recognised for its importance in assisting communications, and was used regularly for information storage, retrieval and
transmission. The directors encouraged staff, by offering performance-related incentives, to cooperate in the firm’s aim of providing a quality and reliable product.

IV STRATEGY IMPLEMENTATION

The respondents had taken on new staff and moved into new premises in order to move towards reaching their objectives. In addition, new products were an ongoing feature of the business, and the directors would “reinvest all profit”. Customer feedback was “generally, all good”, although they would “get the occasional complaint, and we try to correct as we go along”, taking account of any complaints they received.

These directors claimed not to have had any difficulties in implementing new strategies, and said that there was “nothing at the moment stopping us from growing”. They identified potential constraints on growth as being an increase in interest rates, or a lack of work, although they added that this was “not a problem at the moment”. The speed at which new courses of action were implemented was dependent upon “the circumstances at the time; for example, if a chemical was banned from the first of next month, we’d have to implement that immediately”. Another example was in their purchase of new premises, which “came up at the right time”. On this occasion, “the bank was willing to lend a hand at that moment in time”.

Growth would be financed in this business through “reinvested profits, and nothing else”. Both cost control and generating revenue through extra sales were equally important to these directors, who could not choose between the two options. The firm had started with financial injections from both of the owner-
managers. In addition they had received loans at preferential interest rates from Shell, The Coal Board, and their local Enterprise Trust. However, these had all now been paid off, and profits reinvested into the firm.

The directors would look back at the past month's accounts on a monthly basis, and said that "we have forecast in the past, but not at the moment". Their accountant would become involved in any budgeting they might do: "He looks at our figures", they explained. The Enterprise Trust had been extremely helpful to this business, giving them grants for both "people, and the business plan: we needed a joint venture to get started". The personnel grants were dependent upon the number of persons employed by the firm: "We had to employ x amount of people, and were given £x per person", said the directors. This might account for the decrease in total headcount from year one to year two; perhaps the firm had taken on more than it could handle in the beginning, and had needed to lose staff in order to become more profitable.

In terms of the communication of procedures, the directors would "tell [staff] something new, by word of mouth". But, in addition, they also had "a safety manual, which has all the procedures in it", and was "for their own safety". It was in their own best interests to follow the written procedures, in order to prevent injury from occurring during the course of their work.

The directors thought that their own roles had changed in the business since starting-up. Now, "there is more involvement". In other words, they found they were busier than previously, and had taken on more tasks, that they would not have done before. One of the directors explained the changes as follows: "If you are a surveyor, and you start your own company, it takes a lot of time to get to the
managers' stage. You are one of the employees at the beginning, but we are busier now, do a lot more admin, and are managers”.

These directors were investing in the business, purchasing premises and taking on additional staff, having previously lost some personnel. Now that profits were beginning to grow, they were putting them all back into the business. They claimed not to have had any difficulties in implementing new strategies and that nothing would prevent the firm’s growth, but this was probably a fairly naïve assumption. The speed of implementation of new strategies did not appear to be of particular concern. More relevant to this business would be the prevailing market conditions. The directors did not forecast or predict budgets, but rather used past financial reports to help them make decisions. They used their accountant for advice. A safety manual was in place, but the communication of procedures was more usually verbal, through casual conversations. These owner-managers found that they were now working harder than before, and looked forward to a time when they could concentrate on being solely managers, rather than involved on every level.

V EVALUATION AND CONTROLS

The directors measured the success or failure of a new strategy by its “profitability, cost and the response we get from the client”. They would “know for every job if it’s reached target”. This analysis was done in a very detailed fashion: “We know the percentage etc; it’s all done on a PC. There are cost regulations and certain things employees have to do to do the job by Law”. So the owner-managers would have a detailed breakdown and analysis of every single contract they carried out.
Policies had been changed in the past, due to the failure of a new idea. One respondent gave the following example: "We tried to diversify two years ago, and were successful, but [this business] suffered, so we halted it". The diversification had been to establish a related company, in the building trade, but offering a different service to that offered by their current concern. It was still an option to which they would like to return, but not until they had worked their current business into a more stable and profitable position. Finally, when asked what were the one or two vital aspects of their business that gave them the edge over their rivals, these respondents answered, "us, and our personal service".

VI SUMMARY

The respondents knew their industry well; they had developed a detailed knowledge of their environment and competitors through working in the trade over many years. They had based their quality and pricing structure on the existing products and services of rivals, and considered their relationships with those external to the firm as being good. Although they knew about their market and rivals, they were less able to identify their own strengths and, particularly, weaknesses.

The planning structure in this firm was relatively informal, and relied on the two directors always being there, and continually communicating with each other. The firm was very much a two-man business, with one partner holding all the financial knowledge, and the other being more of a salesman. Together, the knowledge they had of the industry meant that the firm was effective, but individually, working alone, the business might not be viable. This could explain the detrimental effect experienced when one owner-manager started-up an additional company; this
director had spent so much time on the other firm that the original business had suffered.

In order to implement strategies, the directors had invested in the business, in terms of both fixed assets and extra personnel. They were perhaps unrealistic in their belief that they had not had any difficulties with new strategies. They were not quick to jump on new opportunities, but seemed to react to market conditions, rather than to seek proactively new courses of action. They were not forward thinking, instead relying on historical information to make decisions, and looking back on performance, rather than setting projected budgets.

The respondents said that they had changed policies in the past, which appears to contradict their earlier statement that they had not previously encountered difficulties in implementing new strategies. They seemed not to have analysed their business and did not appreciate the potential benefits that could be gained through better self-knowledge and awareness. The directors obviously knew their trade well, but seemed lacking in business acumen, and not to have learnt much business sense in their years of running the firm; they still relied very much on their accountant's advice. This perhaps made them vulnerable when making decisions; instead of being able to decide themselves immediately, they would have to wait for his evaluation of the idea.

In general, the performance of this firm was disappointing. Although turnover had increased, this growth was only slight, and the permanent staff and organisation of the firm were erratic. Profits had been negligible, until recently, but at least the business was not loss-making. The two directors spent much of their time talking to each other, and were no longer greatly involved in the daily running of their firm, having delegated responsibility more to their workers. Perhaps they
felt uncomfortable with their new roles as managers and administrators; these were certainly not tasks in which they had gained a great deal of skill. They might be well-advised to follow some training courses, or to employ an experienced businessman to assist in the organisational side of running their small firm, and to concentrate more themselves on the trade at which they were obviously skilled and experienced.
CASE N: Lamp Manufacturer

I  BACKGROUND

The first time this owner-manager was interviewed, he had been in business for three years, manufacturing table lamps for the Scottish market from his site in a town on the outskirts of Glasgow. The products were based on American designs and styling, and involved the manufacture of quality table lamps to varying specifications. The firm’s advertising describes the products as follows: “All lamps are based on ‘classical’ American shapes which are always in fashion, such as the Ginger Jar, the Bean Pot, and others, and have Shades plain, pleated or fluted to further enhance their beauty. The lamps are available in a range of sizes, matched to allow maximum effect by using in pairs or families as our American friends do”. The business sold its goods primarily to wholesalers, who then sold the product on to the general public.

The firm employed, at the first time of interview, two full-time members of staff, as well as two part-timers. Turnover for the year was £217,000, but a small net loss had been made after all deductions. Gearing was 80 per cent, trade debtors and creditors were relatively similar at £12,000 and £13,000, respectively, and stocks were fairly highly valued, at £30,000. The gross value of the firm’s fixed assets was £12,000, and their net value, after depreciation, was around £8,000.

By the second year of interview, one of the full-timers had been reduced to a part-timer, so the full staff complement was now the director, one-full-timer, and three part-timers. Turnover was less than half that of the previous year, at about £100,000, although the firm had reached breakeven point with no loss, but not, as yet, any profit. The ratio of debt to equity was lower, now at 36 per cent, trade
debtors were £10,000 and creditors, £5,000. Stocks were still valued at £30,000, and the net book value of fixed assets was slightly higher, now standing at £10,000.

By the third year of interview, the business had lost further members of staff. Total headcount was now three personnel, with the director, one full-timer and only one additional part-time worker. Turnover was similar to the previous year, at just over £100,000, but with a net loss of £2,798. Gearing had increased dramatically to 300 per cent, as the firm took on debt to finance its operations. Trade creditors had decreased again, to only £2,035, but debtors had increased to £17,043. Net fixed assets were decreasing in value, through depreciation, and now stood at £7,743, whereas stocks had increased to £35,020.

The annual visits to this business saw the total staff headcount decrease from five to three personnel. Turnover had almost halved over this time period and net profits had hovered at around the breakeven point. The net value of fixed assets had decreased, as the owner-manager tried to cut back on costs and investment on premises, and further debt had been taken on by the firm to assist in its operations. Although sales had decreased, the director had rationalised the firm’s operations in line with this, cutting back on labour and other costs, and was optimistic about new business and markets that would help his firm to succeed.

II ENVIRONMENTAL SCANNING

This owner-manager had started up the business because “it was a question of retiring or starting something new”. He had trained and qualified as an engineer, and decided to begin something that would enable him to utilise his existing skills, while providing a new and exciting product for customers, based on something that
had appealed to him on a holiday in the US: “I felt there was a gap in the market I could fill with American lighting products”.

He had decided upon the Scottish market because there was “not enough trade to support the business in the immediate area”. The quality of his product was based on the goods he had seen in America, and price was fixed to allow him a reasonable return on sales: “I wanted to do the same quality as I had seen in the US, at a price that would give a good return on the finances invested in it, while offering the customer a good price”.

The owner-manager considered himself to be on good terms with both his suppliers and with customers, although he admitted that suppliers could be variable: “it differs from one to another; some quality and timings are excellent, others sometimes send rubbish; it’s very variable, but if you know quality can be up and down, you accept that”. As he further explained, “the mark of success is how a business deals with the problems that arise”. Customers provided the business with “a lot of good accounts and repeat orders, and not a lot of complaints”.

The respondent had identified two main strengths of his business as being both the product range he offered and the faith he had in the business: “I have faith that the business will become profitable, I can put a good product on the marketplace, with an attractive style and price, and it will be a blessing to people”, he explained. These were also the things that he thought offered the most opportunity to his firm. Because of his belief that the business would succeed, he had increased the amount of capital in the business, funded through personal bank loans. Faith, he said “is a matter of fact, [and] because of it, I have ploughed money into it; I have an assurance that the thing is going to come good”.

170
The biggest weaknesses of the firm were in the small share of the market it held, and in the structure and systems of the organisation. The owner-manager was making a "constant effort to spread the knowledge of our product further afield, to appoint agents and open new accounts", in the hope that this would increase turnover and market share. He had also decided that the way forward was now to "work through wholesalers", but still wanted to appoint a "good agent", who would effectively play the role of salesman for the company. Largest threats were thought to come from rivals’ market share and the competition in general. The director said that there were two ways to combat such threats: "one is innovation; you bring to the market-place products that are not already in the market-place; [and] the second is efficiency in manufacturing, and so on, so you have a price advantage over them". He was striving to achieve both of these goals.

The respondent had identified a new niche, providing products which he claimed were otherwise unobtainable in the area. He was taking advantage of his skills as an engineer to produce a new product from imported components. He had occasionally experienced trouble with the quality of supplies, but was philosophical about this, seeing it as a challenge, rather than a threat. This owner-manager was a Christian, who repeatedly made reference to his faith and values; he wanted to provide an honest service and reliable product to his customers. This was also the reason for his continued investment of personal finance; he believed that the business would one day reap the rewards he sought. The director was well aware of his firm’s strengths, weaknesses, opportunities and threats, and had ideas as to how he should deal with each of these.
III STRATEGY FORMULATION

The respondent said that the firm's original mission had been "to supply American-style furnishings [such as] lights, coffee tables and mirrors", and that this was still an aim. However, the current mission was "to put a stylish and affordable product on the market, and to earn ourselves a good livelihood while doing so". He realised that the business was "not professional enough", and wanted to become more so. A major ambition was therefore to improve "mainly marketing and presentation, but also slightly the quality and specification" of the products.

There was no business plan attached to the aims and ambitions of the owner-manager. He knew simply what he had to do. Re-location was a current concern, but was "not laid out on paper; it's in my head, I suppose", he explained. The local Enterprise Trust was actively involved in helping him to find suitable new premises. In addition, the firm was putting out new nation-wide advertisements, to try and attract further custom.

Major objectives of this owner-manager included "to achieve profitability, to become sounder established in the market, to pay off debts and to get new premises". In order to do this, he explained, the business would need to "have a minimum of a doubling of the number of accounts we have with retailers; we have about 50 at the moment, and we need 100". The reasons for wishing to reach these goals were that they would "even out the flow of business instead of having peaks and troughs". In other words the booms and slumps of trade would level out over the course of the year, and the business would be able to schedule a more even flow of income.
Long-term plans, and their development, were “all down to me”, said the
director, who would “bounce ideas off other staff I have”. They were based on a
combination of all the various information that he might have on the market place,
including the firm’s financial standing, and anything obtained through hearsay, but
he did not ever work from any projected figures.

This respondent was “not really trying” to attract customers away from rivals,
although he would “want them to buy my product”. Instead, he tried to protect
the customer base that he already had, but found this difficult and thought that
“there is nothing you can do that’s practical, as far as patents and copyright are
concerned”, adding that “we have been copied already”. He believed that “you’ve
got to keep on innovating, so that as they copy you and get to the marketplace,
you already have new products and developments”.

He would consider a menu of strategic options, choosing between them based on
an analysis of their “viability”. This, he said, “makes you choose a way ahead”. It
would come down basically to “what you can do and what you can’t do, [and]
reality impinges itself upon you”. The example he gave to support this statement
was that, “with the practicalities of having to be here and run the business, I’m not
out on the road as often as I’d like to be”. Another consideration regarding the
viability of options was cost: “If I was going to advertise extensively, there is a
limit because of cost”.

This owner-manager considered information technology to be very important to
his business, “because of the international nature of the company; it is quick and
inexpensive and accurate across distance”. Supplies came mainly from the States,
so he would regularly “fax orders and sketches”, explaining that there is “so much
information” that can be quickly and easily transferred in this way.
The quality of the products developed in this business was maintained through the owner-manager “personally checking the stuff as it’s made”. He would also “randomly check items, when I think something could go wrong”. Customers were given a “no quibble guarantee” that the firm would “replace anything they’re not happy with”. The respondent added that “we usually replace the product, and have only ever given one or two refunds, but they don’t generally want them”.

Employees were motivated to adhere to the firm’s policies and to work towards its mission by the director, who would “try to share the vision of the business with them, and keep them informed of happenings, such as new accounts”. He had offered a productivity bonus until recently, but said that “the nature of the work has changed, and you can only really do that on big batches”. Instead of the bonus, therefore, the full-time worker had received a pay increase.

This firm had a clearly defined mission, which was yet to be achieved. The owner-manager had not used a business plan, but knew what he wanted to do. He had several ambitions, and was working on reaching all of them simultaneously. The reasons for achieving growth and profitability were purely to improve the business, rather than specifically for personal gain. Although the director consulted his workers for ideas and opinions, at the end of the day, he made decisions alone. He did not project nor set targets, and would choose an option if it were viable, rather than for the pecuniary benefits it might confer. This owner-manager was aware of, and had implemented into his firm, information technology; given that supplies came mainly from the US, speedy and accurate communications across distance were vital. Quality was maintained through regular checking, and employees encouraged by their sharing of the vision of the company, and through monetary incentives.
IV STRATEGY IMPLEMENTATION

The owner-manager mentioned several things that were happening to try and help him achieve the goals he had set. First, he was advertising in the national press a sale of “seconds”; it was not feasible to return these to the US, if they only had small or minor blemishes. Then, he would go out “prospecting, time permitting”, to try and attract new business. The company was also having a “new brochure” printed. And finally, they were aiming to continue “the policy of improving and upgrading our premises, [putting] new graphics on the van, [and working towards] a continual all-over upgrading in our appearance”.

Feedback was received from customers, although it was “rare that a customer can tell me something I don’t already know; I’m usually ahead of them”, so it was not of much use in modifying the firm’s operations. However, “if there is a constant unhappiness, then we sort it out; if it sounds reasonable, we put it into effect”. Problems were more likely to come from staff, and “trying to get them to be tidy”. As the owner-manager said, “I keep getting on to them and showing them how to do it, [and] we have built additional shelving to help”.

The thing that was determining the implementation of the firm’s major new strategy, to move into new premises, was the current availability of such suitable premises: “the Council are building a new development”, explained the respondent, “which will only be ready mid ‘97”. Finance was also a major constraint, but “at the moment, more important are space and suitable, skilled staff”.

Future growth would have to be financed “on the basis of profits reinvested”. The owner-manager had “run out of money to invest”. He had already “cashed in all my pensions and investments, and [had] taken out a mortgage on my home for £30,000” to finance growth. He would consider the possibility of a “low cost
business loan from the Enterprise Trust”, but preferred to be debt free. He explained that “I don’t want to be big for bigness’ sake”, but realised that “you’ve got to get over that critical size”.

Controlling costs was currently of more concern to this owner-manager than increasing sales, although both were important. He monitored the financial aspects of his firm through bank statements, saying that this helped to show “how much you have in the bank and how much business you’re doing on a regular basis”. The bank manager had been very helpful to this business, and had “reinstated the overdraft facility, although I don’t like debt”. The director would “speak to him when I’m needing money”. The Scottish Development Agency (SDA) and local Enterprise Trust had also been quite helpful, giving both capital grants for the purchase of fixed assets, and grants for attendance at trade shows.

Procedures within this firm were relatively informal, with new plans being communicated through “conversation, over tea”. This respondent was still very much involved in the day-to-day running of the business, especially since he had lost some staff, including his son: “initially, my son was the salesman and I did production; now, I do sales and production and everything else”, he explained.

This owner-manager was actively trying to achieve his objectives, using marketing techniques, and trying to improve the firm’s image. He would use feedback from customers, where relevant, to improve products or processes, and was continually trying to make his staff more tidy and effective in their work. The lack of space and suitable staff were major constraints at the moment, so he was seeking new and larger premises. Growth would now need to be funded through profits, as the respondent had already invested the maximum he could afford from personal savings. Although this owner-manager did not spend a great deal of time
on monitoring financial reports, he would keep a close eye on cashflow and his
bank balance. He was still heavily involved in the actual implementation of plans
and strategies, and carried out a significant proportion of production himself.

V EVALUATION AND CONTROLS

When asked to explain how he would describe the success or failure of a new
strategy, this owner-manager said that it “becomes self-evident; for example, if an
advert brings in new accounts, or I see a great uptake in production”. He summed
up his analysis, saying that it was “cause and effect” that would help him to
evaluate a new plan of action.

As far as output was concerned, he would set a target level of production: “we
want to sell 100 lamps a week of our own product”. However, the firm also set
financial targets: “as an initial step towards viability, we should sell £3,000 worth a
week”, he explained. One of these two targets should guarantee the other, he
hoped. He would also “keep a note of numbers of actual versus budget sales”, and
found that “VAT returns are a helpful quarterly barometer, [because] if you pay a
lot of VAT, you’ve got a lot of profit”.

The business had needed to change certain policies based on their subsequent
effect on performance. For example, it had cut back on advertising in national
magazines: “initially, we thought it would be good to do regularly, but it wasn’t,
[however] we do still occasionally advertise a new product”. But when asked to
sum up the main advantages of this firm over its rivals, this owner-manager said
that they lay in the “transatlantic styling and colour [of the] modern, up-to-the-
minute product”, and the fact that they were able to offer the customer “good
quality, at a good price”. 
VI SUMMARY

Since start-up, this firm had decreased in both turnover and headcount. However, given the small number of personnel now employed - only two full-timers and one part-timer - turnover was still at a substantial level. The owner-manager seemed to be an intelligent man, and he knew where cutbacks had to be made. In letting his son go, he had, by his own admission, lost an ineffectual member of staff, and so was now trying to rebuild the business to its former level of sales, but now with more suitable and skilled workers.

The respondent knew the product well, and was a skilled engineer. He provided a product unique to this country, and was beginning to build up a client list of regular customers. His belief that the business would eventually be highly profitable meant that he continued in this line of work. He knew where there were areas for improvement, and also could identify opportunities for the business.

There was no formal plan associated with the formulation of strategies. Instead, this owner-manager knew what he wanted to do, and would discuss, informally, with his employees, new ideas. He realised that it was important to increase his customer base, but found that time constraints prevented him from being as much the salesman as he would like to be. Information technology was important to this firm for the speed and accuracy it allowed.

The respondent was trying to implement many different strategies at once, and it was perhaps this lack of focus that was letting down the business. However, he realised that he needed additional expertise, which is why he was seeking an agent to assist in sales. He had invested heavily, using his own money, to try and improve the business, and hoped now that the capital in the firm would be sufficient to fund future growth.
This owner-manager measured performance by a strategy's effect on the number of accounts. He also set target levels of sales, in both units and in terms of turnover. He was not averse to change, when needed, and had altered policies in the past, when they were seen not to be working. All in all, this business was ready to take advantage of the investment made in it: there was talk of a move to new premises; the number of clients was growing; and the owner-manager was optimistic about the assured future success of the company.
CASE O: Illustrator

I BACKGROUND

This was a sole trader working, under his own name as an artist, from his home, near Glasgow. He provided a service mainly to graphic design and advertising agencies, who would employ him on a sub-contracted basis. His style was varied and adaptable, and his advertising said that he could provide work in pastel and colour pencil, cross hatching, storyboards, brush stroke, line and wash, marker and woodcut, amongst others. Recently, he had discovered a more lucrative market; that of military illustration for books. He was hoping to move into this area on a permanent basis.

This owner-manager worked alone throughout his involvement in the study. Turnover in the first year was £16,500, gained from a regional market. From this figure he took a weekly wage. His total overheads came to £6,046, so net profits were around £10,000, from which he drew a wage, as and when he needed it. There was no debt associated with the business in terms of either loans or trade creditors. Trade debtors stood at £3,260 and stocks at zero. The net value of fixed assets was around £1,000.

In year two, the respondent said that his main market was now local. This would probably account for the decline in turnover, to £12,648. The net profit figure was £4,000, from which drawings were taken. The book value of fixed assets had risen to £2,000, as he had purchased an overhead-projector for specialist work. There was still no debt, and stocks and work in progress were said to value about £500.

The third year saw little change, financially. Turnover was again around £12,000, but the market now targeted was British, as the owner-manager moved
into the book publication market. He said that net profits were now zero, as “I gave myself a bonus”. However, he tried always to keep some money in the bank ‘for a rainy day’, and had built up a buffer of about £3,000. The net book value of fixed assets was now £1,150, and stocks were again down to zero.

This was a very small business, with an owner-manager who did not wish to grow the firm too much, in any case. The product he provided was very much dependent upon his own artistic talents, so taking on further staff would not necessarily assist him in getting more work; their work might not be up to the quality he provided himself. Turnover had decreased since the first year, although he was hoping that this would now change, with his move into the book market. All in all, this owner-manager seemed quite happy with his lot, and as long as his work could provide a livelihood, then he would remain content.

II ENVIRONMENTAL SCANNING

The respondent had started in the advertising and design market because “I always wanted to be my own boss, and the illustration side was very lucrative as well at the time; it appealed to me to do as I pleased”. However, with more and more work being kept in-house, he was finding it difficult to get enough business from his former clients, and so had moved into military illustration for books. He had started off working in the local and regional markets because “I was known in the area [and] people in the business know each other”. His former contacts would, it was hoped, be useful in providing him with work.

In terms of the kind of product he offered, quality, he said, “is your own illustration style”. Price was based on what he knew competitors were charging: “I found out what other illustrators had; £35 to £50 an hour; I priced at £35 an hour,
and did well for a while, but it got to the stage where you were ‘bulk’ bought, for example, for a week, and you had to charge less; now I charge about £20, and I’m happy at that”.

The respondent’s relationships with suppliers and customers were fair, if not exceptional. His main suppliers, from whom he purchased his paints and brushes, were two retail units in Glasgow, who allowed him discounts and a month’s credit. The quality of the goods they supplied was “fine”, although one outlet, his favoured, was branching into the PC market, and “forcing me to go to the other shop”. Relationships with customers were “quite good, [but] orders are falling off because of the other guy [a competitor] bad-mouthing me”. In addition, he had found that “companies are keeping orders in-house, and cutting back a lot on their spending on illustration; the advertising profit is being squeezed too tight”.

This owner-manager considered his biggest strengths to be the quality of his work and the new ideas or innovativeness he had. He had “ideas for cartoons and greetings cards” and had done a storyboard for a Scottish Television advertisement. These strengths, along with his adaptability, were thought to offer the greatest opportunity: “I know I can turn about and do military illustration”, he said. He was realistic, in that he appreciated that “the advertising and design ‘pond’ is shrinking, and there are too many people in it, so I’m going down the specialist military side”.

His greatest weakness, he thought, was the share of the market he had, which was “very vulnerable”. He was trying to improve upon this by “getting out there and visiting clients”. The work he did get from them was unpredictable and irregular: “sometimes you have no work for a long time, then they phone you up and ask you to do something”. His biggest threat, not surprisingly, given his
previous comments, was from his rivals’ share of the market, which he tried to combat through “vigorous marketing and cutting my price”.

This artist had basically trained as a designer and illustrator, working for a small company, and had wanted to start doing some freelance work in order to gain more control over what he did. He had always been interested in war, and especially in the German officers’ uniforms, so the move into military illustration was almost a dream come true. He could do very little in terms of the quality of his product - it had to be his personal style - so price was the one thing he could negotiate on. In practice, he had cut prices to become more competitive. He was fairly realistic about the market he worked in, he knew where his strengths lay, and was willing to diversify into other areas to get more work.

III STRATEGY FORMULATION

The respondent’s mission was “to make a lot of money then take it easy”. He hoped to get an opening in the US, with a publisher who had shown an interest in his work: “military books have 50,000 to 100,000 print runs”, he said, which involved “eight to nine months’ work, lots of royalties and job satisfaction”.

His plans for the business were held ‘in his head’, which he described as a kind of “marketing plan”. The original business plan that he did have was “more in figures”. His own ideas let him “know what ways I’m going to go; I’ve got a lot of papers and leaflets - they get sent out”. However, because of his move into book illustration, he had “taken a back seat with that at the moment, while I see what happens with the books; I have two three-month book contracts with Osprey for next year”.
He was hoping to achieve an increase in sales, through "getting more work". However, he knew that "I can only go so far, for example, four books a year". Growth would mean to him that "my name gets known in the right circles - the military world". He had read the biographies of other military artists, who were "booked three years ahead", and his ambition was to become similarly in demand. But he realised that "there's a certain amount you can't plan ahead". He was hoping to achieve his goals "for fame and fortune" and because "if I can make a living at what I really want to do, that makes me very happy". In addition to the satisfaction he would gain from being well known, it would also have a great effect on the financial aspects of the business: "if your name's known, people want to buy your pictures, and the plates from books".

The respondent himself was responsible for the development of long-term plans: "I decide myself; I test my tone of the market, do a wee thing here and there, and follow it up if it works". He explained that "I think it's healthy to keep trying different avenues". He based decisions on his own analysis of the information available to him. For example, "if somebody says there's a pile of work, I do blitz campaigns and target areas; it's mostly my own decision, and the odd 'soft' word you hear; my name is known now, so I sometimes get a call through hearsay".

He aimed to keep the customers he had by "trying to have good customer relations", but admitted that "they tend to think they own you, and if you're busy they cut you off for a period if you don't drop everything; you try to do your best". He said that, "to a certain extent", he would try to attract customers away from his rivals, but added that "I don't like stepping on peoples' toes, and I don't like conflict". If there were a lot of work available, he would "send adverts and posters", but observed that "they tend to be loyal to one illustrator". However, he
also noted that “I might get in if he’s away on holiday or too busy doing other things”.

This owner-manager claimed to generate a menu of strategic options, saying that “if I’m quiet I start marketing”, but that more often, his clients would hear about him “through the grapevine”. For example, “I was offered the chance to do [another] storyboard from a script for STV, but I turned it down, because I don’t know the technical ins and outs of TV, or what they can do”.

To this business, information technology was scarcely important, because “the line of work is basically pens and pencils”. He admitted that his competitors used PCs to generate images, but had found that “clients love original work, for example, using markers”. He told of a “time when everyone wanted products on a MAC, but now they’re going the other way and everyone’s asking for ‘marker’ artists”, and that “Edinburgh is setting the trends”.

Presentation was all important when it came to selling the product, but in terms of quality, “clean artwork is the only thing you can do” to enhance the good. He also said that, “whatever you do, you mount it up on a board”, and tried to give the maximum value for money to his clients: for example, “if I quoted for £6 an hour, or the budget was £120, I might put another one or two hours into it to spruce it up a bit”. Clients usually gave him an outline of the work to be done, “mapped out on a brief”. They would “give you a production order, and deadlines are very important; if it’s not up to scratch or standard, they don’t pay you”. In this way, they assured themselves that they would get a quality product completed to their own specifications.

The motivation of employees was not an issue in this one-man business, but the respondent claimed to motivate himself by taking his own bonus: “I take a very
basic running salary to pay the bills plus a bit of pocket money; I keep it to a minimum and the tax man takes his out; I take what’s left at the end of the year as a ‘bonus’

The respondent was fairly clear in his own mind about what he wanted to do. Working on his own, he saw no need for a formal, written plan, but did have ideas for marketing the business, held in his head. His ambition was to work full-time on military designs for books. Once he became a well-known artist, the original ‘plates’, or his paintings, would become valuable, and could be sold off at auction. In addition, the money made from royalties would mean that he had a steady income from work already completed. He liked to try different outlets for his talents, and was always working on new ideas, for example, his greetings cards and cartoons.

IV STRATEGY IMPLEMENTATION

In order to try and achieve his goal of growth, the owner-manager was “moving into different markets and trying to find the most lucrative”. He knew that there was “money in military illustration work”. He received feedback from customers, saying that, “if someone says ‘do something’, you have to take it on board”. He claimed not to have encountered any problems in implementing new strategies or courses of action: “I get a brief and have to stick to it; sometimes you can suggest different things”.

The owner-manager said that “speed is important” in implementing new strategies, because “when you’re doing something, you have to get in there pretty quickly before everyone else catches on; you have to react quite quickly”. For example, “certain styles come into vogue”, at which point this respondent would
“send out posters straight away and get in there”, before his rivals took all of the business.

The main constraint on the future growth of this small business came from “ruthless competitors”, who would go to clients and ‘steal’ the business from this owner-manager: “it starts to worry you”, he said. Usually, however, he would “get on with the job, and do what I can”. This attack by the competition, though, was one of the main reasons for the move into the “more cushioned environment” of military book illustration.

The respondent thought that he did not need much, in terms of financial support, to keep the business growing: “I’ve got lots of pens and paints to keep me going”. However, he did realise that “if I do a big one-year job, I would need to get some finance from somewhere; I hope to get an advance on royalties against the book”. Although both cost control and increasing sales were important to this business, at the moment “controlling costs is the first thing”. For example, “if I’m not making much money, I keep my salary down to a basic minimum”. But he also thought that “looking for more work is the logical thing”.

This business had started through the financial injections of the owner-manager, and there had been no change since: “I don’t like debt”, but “I have about a £3,000 ‘comfort zone’ [i.e. savings]”. He had received the Enterprise Allowance of £40 a week during his first year of trading, but said “I don’t know if there’s any other grants available”. He had once approached the local Enterprise Trust for help with advertising, but had been told that “they had no money left for that, and it had to be done in the local Press”. That was “useless to me, because no-one in [this town] would want an illustrator”. 187
Cash flow was the most important financial indicator to this owner-manager, who had “my sales for the month and [would] make a graph to chart it”. He would “look at the bank account [and] always watch the financial side; I don’t bury my head in the sand; I see what’s going in and out and make an educated guess”. Accountants, auditors and the bank manager were of no help to this business in budgeting or forecasting, although he had “a friend in insurance who helps a bit”.

Although there were no staff employed in the firm, the communication of plans was still an important aspect of the business. The owner-manager would have to know exactly what the customer wanted him to do. The example he gave to illustrate this point related to his recent work on book publications: “the author writes out everything and sends a big book of references; I like to deal directly with the writer rather than query through the editor; the editor likes to keep control, but I like to hear it from the horse’s mouth”. Not surprisingly, this respondent’s role had not changed at all since start-up; he was, and remained, central to the business.

The respondent was trying to implement new strategies by targeting different markets, and was quick to spot a new trend in the industry. He had come up against some difficulties with one competitor trying to take work from his own clients, so had changed direction to avoid confrontation. He was perhaps a little timid about seeking new clients, not wishing to upset anyone, but would rather be this way than gain a reputation for being a tough deal-maker. There were very few financial requirements for this business, although a long-term contract would require some payment in advance for living expenses.
V EVALUATION AND CONTROLS

The respondent measured the success or failure of a new strategy by whether he could get work out of it, for example, through referrals: “if I have to go out and see people, give out leaflets, and don’t get any work, I feel that’s a failure”. He illustrated this by the example of cartoon greetings cards that he had designed, but which he was, as yet, unable to sell. Formal methods of measuring success were “not relevant: if it’s busy, it’s busy, if it’s quiet, it’s quiet, and there’s not a lot you can do about it”. He added that “you’re basically in other peoples’ hands, [and] that’s why I wanted to create my own work”.

He had, in the past, changed policies because of his analysis of performance. For example, the cartoons were “on the back burner” at the moment, because there had been “not a lot of reaction” to them. However, on the other hand, he was “getting a good response from the military illustrations, so I think that’s definitely the line to go down”. It was this adaptability that he thought would help him to succeed in the future: “I’m trying to tackle things that they won’t or can’t do, and it’s bringing me in money from a different angle”, he added.

VI SUMMARY

This business was not a great achiever, with turnover declining since start-up, and being just enough to provide a living for the respondent. However, he was relatively content with what he earned, as long as he could continue to work at a job in which he was fulfilled. He knew the illustration market well, because of the contacts he had made from previous work, but was less well-acquainted with the book publishers, who were based in London. He was able to obtain various
discounts and credit terms from suppliers, but was finding that customers now had less money to spend on the kind of service he provided.

Planning was informal, not written down, but thought about by the respondent. He knew what he wanted to do, and had a marketing strategy worked out in case the book work fell through. He would test the market and gauge peoples' opinions about new ideas, 'blitzing' an area where there was said to be a good amount of work available. He liked to generate different options and develop new ideas for products, but had, as yet, been unsuccessful in marketing them.

The respondent was moving into new markets and trying to develop a name for himself. He believed this was beginning to be effective, and had even received 'fan mail' since the publication of his first book. He reacted quickly to changes in the market, believing that customer feedback was important, and was a versatile worker who could take advantage of changing tastes and the preferences of customers.

This owner-manager was limited to what he could do by the time available to him. Employing further workers would not help, because they were his own skills that were being sought and paid for. Perhaps if he were more aggressive and willing to price higher, he might gain more work and a higher income from companies seeking illustrators and designers. However, this was not in his nature, and so therefore not an option. He preferred to follow the route of military book design, which would confer many benefits, once he became established: he would receive a lump sum payment; he could sell his 'plates' to the highest bidder; he would earn royalties on book sales; and, hopefully, he would have a steady stream of work lined up for the following few years, providing security. This was his
ultimate ambition but, for the moment, he was happy to eke out a living from the earnings he currently received.
CASE P: Property Maintenance

I BACKGROUND

This was a limited company operating from the owner-manager’s home in a small village near Glasgow. It was concerned with providing property maintenance services to a growing list of clients throughout the country. These services included, for example, re-roofing, anti-graffiti work, hygienic services, general maintenance and renovation. They were on the tender lists of several major companies, including chains of supermarkets and nation-wide banks, so their customers took them to locations all over Scotland.

At the first time of interview, there were two directors working in the business, with an additional full-time worker, the owner-manager’s son. As needed, the firm would also take on between two and seven self-employed, sub-contracted workers, to help with larger jobs. Turnover was £63,450, with net profits of £220, or less than one per cent. Gearing was zero, as there was no long-term debt associated with the business. Trade creditors were £1,500, trade debtors, £11,000, and the net book value of fixed assets was around £6,678. Stocks were about £1,087.

By the second year, only one director was still employed by the business; the respondent’s wife was no longer actively involved in the firm, although she was still a non-executive director. The son was now called a ‘manager’, and the sub-contracted workers averaged about three. Turnover had increased to £91,630, with net profits showing a healthier balance of £3,937, or 4 per cent. There was still no long-term debt, trade creditors were £1,500, and debtors had decreased to £7,000. The net value of fixed assets had not changed greatly, standing now at
£6,400, showing that there had been little, if any, investment in assets. Stocks, on the other hand, had increased to a level of £9,000.

The third time that this business was approached, the staff complement had changed very little, although the owner-manager said that there were now six sub-contractors who now effectively worked for him on a full-time basis, rather than part-time, as required, in previous years. Turnover was up to £157,333, with a net profit of £7,200, or 4.6 per cent. So, although, in real terms, profit had almost doubled, in percentage terms, there was an almost negligible increase. Debt and, subsequently, gearing were still at zero, trade creditors were now much larger, at £7,777, and trade debtors were down to £4,518. The net value of fixed assets was up to £8,210, and stocks were down to £6,626.

This business had not grown particularly in terms of employees, although the sub-contracted staff were now working more hours for the firm than previously. Turnover was rising steadily as the firm aged, although net profit was not showing as much of an increase as might be hoped for, in relation to the extra sales being generated. The market size had not changed; the firm still targeted the whole of Scotland for work. The ratio of trade debtors to trade creditors was decreasing over time, from 733 per cent in year one, through 467 per cent in year two, to 57 per cent by year three. In other words, although the liquid assets of the firm, that could be quickly converted into cash, were still greater than the current liabilities of the business, they were decreasing steadily and rapidly in relation to these liabilities. This might lead to cash flow problems in the future if the firm does nothing to control the situation. Fixed assets had received some investment over the course of the study, though this was not excessive, and stock holding was also a larger expense as the company took on larger contracts.
II ENVIRONMENTAL SCANNING

The respondent had started off as an electrician over thirty years ago. Having followed a sales course, related to a previous post, his employers thought that he would do well in a sales position. He had gained his knowledge of selling through the roofing division of the company he worked for, where he would have to “find the jobs, organise material and contractors”. It was when this division was closed down, and he was made redundant, that he decided to set up on his own.

The market targeted was Scottish, and it had “just happened that way”. The respondent had applied to several supermarket chains, having had a contact in this industry several years ago, and he also tried Scottish brewers based in both Edinburgh and Glasgow, as well as the Electricity Board. Given that these businesses have establishments “all over the place”, the work could be in any town throughout Scotland: “you’re put on tender lists and the jobs can be anywhere”, he explained.

In terms of quality and price, the respondent aimed to provide a good quality, value for money, service: “I’ve always believed in doing it right, and giving value for money, [which] leads to better materials so the price might be slightly higher”. He wanted to build up the firm’s reputation for doing a better job than rivals: “when we go around jobs, we see such pathetic attempts to do jobs, it’s unbelievable”, he added.

Relationships with both suppliers and buyers were considered to be good enough to satisfy the requirements of the business. Suppliers were “fine; they shout at me, and I shout at them; I don’t buy anything without getting a discount”. And customers were good because they kept returning to the firm: “we get repeat orders from virtually the whole lot of them”.

194
The respondent thought that the strengths of his business lay in the quality of the product and service he supplied, and the specialist know-how of the workers in the business: "it's all very well having the know-how and using the best materials", he explained, "but the workforce has to come into it; you'll get work out of the way they're trained, the way they conduct themselves, the way they look, and so on".

He thought that the greatest opportunities would come from the firm's innovativeness and their new ideas, or again from their technological know-how and skills: "we normally get involved, or get a lot of our work, from recommendations; or people are sufficiently impressed by what you say that they give you a try. A lot of people say, 'I've got a problem, will you look at it for me?', and I work out a solution. For example, I saw some new products at an exhibition and was able to fix a leaking roof, because of my knowledge of the materials available. That created our reputation with the Bank of Scotland".

A main weakness of the business was thought to have been the plant and resources available, but the owner-manager said that "we've pretty well got the last bit of equipment I think we need - drills, angle grinders, power wash, and so on". Finance had also previously been a problem, but "turnover has gradually built up and we can handle fair-sized jobs". He did warn, however, that "you've got to watch you don't end up with too much work", which might affect cash flow in the firm.

In terms of threats to the business, the greatest was thought to come from 'red tape' and government legislation. As the respondent explained, "red tape ties me to the desk, rather than talking to people". He had tried to do something to help with what he had found to be a time-consuming occupation, by taking on "a Health and Safety advisor; a consultant who works for us, as and when we need him".
The respondent had gradually developed an awareness of the industry, having switched from his original trade as an electrician, through salesman, to the building trade. He had built up contacts along the way, who had proved useful in getting him work at start-up. Having managed to get on to the tender lists of several clients, he was happy to go where their work sent him, anywhere in Scotland. He aimed for a high quality service, offering good value for money. This owner-manager believed that he and his workers were the biggest strengths of the business, and tried to take advantage of their specialist skills and the opportunities these offered. He was aware of what had been a weakness, and tried to rectify it, but was slightly more vague about threats, seeing only ‘red tape’ as being relevant, in that it tied him to the office because of the amount of paperwork it generated.

III STRATEGY FORMULATION

The mission of this business was purely personal and, in the owner-manager’s own words, “to keep me in a reasonable livelihood and leave my son something to follow on with”. There was a formal, written business plan, which outlined the main aims of the firm, but at the end of the day, decisions were “basically back down to my experience and knowledge of the industry; to a great extent, that’s it”. The original plan, formulated when the business started, had projected figures and targets in it, but these were thought to be “only ‘pie in the sky’”. The respondent had lost many of his contacts, due to local government reorganisation, which had led in turn to a loss of work. To try and combat this, he was “constantly advertising and chasing new work, and keeping relations with the people we’ve got”.  

196
The objectives of the firm included long-term profit and growth, defined by the respondent as an increase in permanent staff. He explained why, as follows: “If, instead of having three men continually employed, it goes up to six, the ‘cost-relationship’ per man comes down. I have two vans on the road, so the cost comes down in relationship to the time it takes to do the job, if I have six men”. He also expressed a wish to “increase permanent staff and have a girl in the office to do the books”. The owner-manager wanted to grow his firm so that he could take a larger salary, in the long-run: “if you get your costs correct in relation to your sales figure, you’re charging £x for a job, and you keep controlling the costs, your profit goes up, so your salary increases too”.

Long-term plans were not formally developed: “we sit and have a blether”. Planning was simply a question of “getting enough customers and having enough men to keep on doing it”, he added, and “the only long-term decisions are what we want to buy, and so on”. The respondent claimed, however, that he would consider a menu of strategic options, and would decide which ones to follow by “throwing a lot of ideas at people to see which ones they accept”.

This owner-manager thought that “you can’t really” do anything to protect the business from the threat of new or existing rivals, adding that “it comes down to the personal relationship with your client”. In the same way, he would not “deliberately try” to attract the customers of his rivals, saying that they came to him when they felt like it: “one guy was not happy with the quality of the work so he called me in”.

Information technology was said to be scarcely important to this business. The owner manager preferred to use other sources for gathering information relevant to the firm: “if I’m looking for something for a specific purpose, I read a lot of
magazines and send away for information on the products. Things such as wages and accounts were all noted by hand, and there was no computer used in the firm.

The respondent maintained the quality for which his firm was known by keeping "a regular check on what they [i.e. the workers] are doing". Additionally, his son worked on-site, and "the guys I use are always capable of doing the job". Customers were given guarantees if, and only if, they were anxious about something: "I phone up suppliers and ask for a 10 or 15 year guarantee". They were also assured that "if there's a problem we'll return and fix it".

The motivation of employees was achieved in two different ways. First, said the respondent, he offered "a productivity bonus related to the individual job, [whereby] they're paid for a full shift plus a production bonus". He would work out how much this was worth on an hourly basis, and add it to their pay. The second motivational factor was, metaphorically, "a size 8 boot in the wrong place", by which he meant a strict dressing-down for any disciplinary offence.

There were many personal considerations governing the decision-making process in this firm. The business plan that existed had been written at start-up, but was not really used in the running of the business. Instead, the owner-manager would discuss ideas with staff, and make a decision based on his own knowledge. The objectives were to grow, and to increase profitability, and the respondent had invested in more equipment to try and cut costs, while increasing profit. He was not doing much to actively gain new clients or to attract them away from competitors, appearing to think this was an impossible task. Information technology was relatively unimportant to this business. Quality was maintained through constant monitoring of the workers, and customers assured, when required, by a written guarantee. The respondent motivated his workers to
complete the job first, through financial reward, and second, by being strict on discipline.

IV STRATEGY IMPLEMENTATION

In order to help the business to reach its goals, the respondent had been investing in some assets: “we’ve bought all the equipment we need, so we’re cutting out the hire charges, as far as we can”. He was also “advertising, and chasing new clients, and developing the ones we’ve got”.

Feedback from customers was generally used “as a recommendation to new clients”. The business had experienced some problems in implementing new strategies, with particular regard to Health and Safety regulations. As an example, he described a problem with his staff: “they’ve been in the business so long that, when you turn up, the hard hat’s lying on the ground; I kick up hell with them, or they do what they like”.

New courses of action would be implemented within “a week to a fortnight”. The respondent said that he had “done everything at least once over the years”. He would not make a particular effort to implement changes all that quickly, unless they were new products, which were “only variations on a theme”. If there were something he was unable to do, he would “get another guy in” to do the work.

The biggest constraint on the growth of this business was currently that the owner-manager did not have “unlimited cash”. He also recognised that growth could not occur without the correct organisational skills: “you have to set up a proper system and have the proper people in place to run the thing, or it could all blow up in your face”, he explained. Growth was expected to be funded through reinvested profits, or directors’ loans: “we put it in and then take it out when the
business can afford it”. If they decided to move into business premises they would seek a loan from a bank. Growth, however, would depend upon the jobs that came their way: “if you’re not in the habit of doing big jobs, people are reluctant to ask you”.

At the moment, it was more important to this firm to control costs than to increase sales: “controlling costs is the most important thing with any small company; if you’re not making a profit, you’re not able to expand; you have to be able to keep some money in the bank, but you’ve also got to generate enough work”.

This business had been funded primarily from the cash injections of the directors, but also through increasing their overdraft facility at the bank. Cash flow was the thing that was most closely monitored, because, “short of knowing what you’ve made per job, you only see the profit and loss account when the CA gets hold of the accounts”. The business used the bank’s HOBS facility “to see the exact account balance”, and this would give him all the information he needed, so long as he knew which cheques were outstanding. Neither accountants nor bank managers were of any use to this business for preparing budgets. The Enterprise Trust had provided the Enterprise Allowance for the first year of trading, and the business had also “managed to get [a grant] every year for equipment”.

Company policies were generally communicated verbally to the employees: “I’m always getting on to them for Health and Safety”. However, he added that his staff had worked for him in some capacity for the past eight to ten years, and there were “very few strangers, so they know how I operate and I don’t expect them to do anything to put themselves in jeopardy”.

200
The respondent's role had changed to some extent since start-up. He was now less hands-on, and "spending more time behind the desk". He would visit the ongoing jobs on-site when he was not concentrating on administration and management: "I did all the building work with my son in the first year, and I still get my hands dirty periodically, a maximum of twenty per cent of the time; but I am doing more on administration, sales and customer relationships".

The respondent was investing some money into the business to help it achieve its goals. Feedback from customers was used, if good, to try and attract clients. The firm did not tend to implement new strategic plans; changes were more likely to be operational, or to do with product variations. A lack of finance was a constraint on growth, as was the fact that the business did not yet have a reputation for carrying out larger contracts. The respondent monitored cash flow, rather than anything else, and kept a regular check on the bank balance. Since inception of the business, he had moved away from the day-to-day running of the business, letting his son assume more of a managerial role, while he concentrated on sales and administration.

V EVALUATION AND CONTROLS

Success to this business would mean "we get repeat business, someone likes the idea, and it makes money". Employees were given a target level of achievement, and a bonus if they reached it. In addition, in order to maintain improvements, "I try to get more work than the year before, every year".

Following the respondent's appraisal of performance, only "little things" had been changed, and not usually because of the failure of an idea. For example, "I haven't really changed materials, but I might use something different". Finally,
when asked what it was that gave his business an edge over his competitors, this respondent replied that it was “myself, and my know-how; the guys are good at what they do, and the materials we use do what we say they’re going to do”.

VI SUMMARY

This business was achieving a basic target of providing a living for the owner-manager and his wife, and a future for his son, the manager. Liquidity was a potential problem, but increasing turnover might help to alleviate any difficulties encountered in the future. The firm took advantage of the benefits offered by subcontracted labour; the workforce took care of their own National Insurance contributions, and were available when needed, but did not have any rights over the business in terms of security of tenure.

The respondent knew the market well, and had been able to rely upon previous contacts when first looking for customers. He was establishing the business in the market-place, and achieving a growing reputation for being able to take on larger jobs than before. He wanted to provide a better quality of service than his competitors, and did not mind increasing his prices to reflect this enhanced quality. The respondent was aware of the strengths of his company, and hoped that these would lead to greater opportunities. However, having improved upon a major weakness, he seemed to think there was nothing else wrong with his firm, and saw few threats from rivals. This showed a naivety that was commonplace amongst the lower performing firms in the study.

The formulation of strategies in this business was a relatively informal affair, with new ideas being generated through conversations with other members of staff. The owner-manager was looking for more profit, and growth of the business, and
wanted to increase staff too. He did little to protect the firm from rivals, seeing
them as posing little or no threat, nor did he seek to attract their customers for
himself. He made very little use of technology, seeing it as being scarcely
important.

This owner-manager was investing a little in the business, to try and implement
new strategies. The main problems with procedures were in trying to get staff to
adhere to them. Speed was not important to this firm, when implementing new
strategies, and finance was somewhat of a constraint. For this reason, the owner-
manager was trying to control costs, and kept a close eye on cash flow.

The respondent had taken a back seat in the daily running of the business, now
doing very little of the actual production, or provision of the service. He had
allowed trade creditors to increase to an extremely high level, in relation to
debtors, and finding the cash to pay them might become a problem, if the trend
were to continue. The business was doing well enough to satisfy the basic
requirements of the directors, but was not showing signs of rapid growth *viz.* its
inability to fund an increase in permanent staff. Perhaps the respondent’s
unwillingness to believe that threats to his business did exist was causing them to
lose out. A more aggressive approach to clinching deals with new customers
might do enough to put this firm on course for a profitable future.
CASE Q: Trophy Engravers

I BACKGROUND

This was a small partnership operating from a retail outlet, with a small workshop downstairs, in Aberdeen. The two owner-managers offered a trophy engraving service to their local market. In addition, they were now also doing glass engraving, and sold giftware and football equipment. Their final service was of key-cutting, which was a minor sideline. Their customers tended to be sports and other clubs, who needed a regular trophy engraving service.

There were two partners and no employees in this business at the first time of interview. Turnover was £39,000, with net profits of £6,403, or 16 per cent. Gearing was extremely high, at 400 per cent, as the firm had a large amount of debt, and very little equity. Trade debtors were £2,000 and trade creditors, £4,000. The net book value of fixed assets was £2,585, and the stocks held by the firm were valued at £8,300.

In year two, there were still only the two partners working in the business. Turnover had increased to £64,625, and net profits to £11,791, or 18 per cent as a ratio. However, there was now negative equity in the business; the partners had taken out more they had put in. Trade debtors and creditors showed little change each, at £2,250 and £4,000, respectively. The net value of fixed assets had increased to £5,426, and the value of stocks was now around £9,235.

The third approach to the business saw again no change in employment, with still only the two partners working in the firm. Turnover had increased again to £76,375, and net profits were £19,670, or 26 per cent, a healthy increase on previous years. The gearing ratio was now at 129 per cent, as more capital had
been injected into the business by the two partners. Trade debtors had decreased to £1,408, and trade creditors increased, to £10,254. Fixed assets were now worth £7,429, and stocks had changed little, being now £9,299.

Over the three years of their involvement in this study, the firm had not grown at all in terms of employees. Nor had they extended their market sector beyond the local area. However, they were showing a healthy and continual rise in both turnover and net profits, and also in the net profit ratio. The gearing level was a cause for some concern, starting very high, going to negative, and ending on a still relatively high figure. Additionally, the ratio of trade debtors to creditors, a rough measure of current assets to current liabilities, had changed from 50 per cent in year one, to 56 per cent in year two, to 14 per cent in year three, which could cause serious liquidity problems unless creditors were very understanding. Fixed assets had risen somewhat, reflecting the investment in new equipment, and stocks were relatively stable.

II ENVIRONMENTAL SCANNING

The two respondents had different skills, of which to make use in the business. The partner who knew the engraving business best had been “in it for seventeen years, and it was the only thing I knew”. He had been made redundant from a previous job through cutbacks, and had “always wanted to start my own business”. A further factor, that had led him to start up this firm was that “my children were grown up and it was the right time to do it”.

The local market was targeted because, “having been in the business, I knew a number of people and had built up customer relationships with them. They knew I would do a good job and that it would be out on time”. In terms of the specific
customers, the respondent also ran “a football team, and we get good feedback and business through that”. Price was said to be “dictated through the suppliers; you used to be able to set your own price, but now they put the price in the catalogue”. They did not target a specific quality end of the market, saying “there are markets for high and low quality, and we go for everything, from £1.50 to £40 for a trophy”.

The firm had relatively good relationships with those people who came into contact with the business on a regular basis. Suppliers were “quite good on the whole; we have built up a reputation with people over the years; we have two main suppliers and they look after us”. Customers, too, were said to be “very good; we try to be as nice as we possibly can, and sort out problems for which we would not charge nine times out of ten; we’re too soft sometimes”, he added.

Biggest strengths of the firm were said to be the experience of the two partners, and the fact that “one of us is cool under pressure”. One owner-manager explained, “we know how to tackle most jobs, and have probably done them sometime during the course of our career; most engravers in Aberdeen were taught by me, and we know their quality”. They also thought that their willingness to provide a quality product was important, and better than their rivals, who “haven’t set a standard; they just want to do the job, and have no pride in their work”.

Greatest opportunities were thought to come from technology and new ideas in the business. They had just purchased a new computer engraving machine, and hoped to upgrade this in the future to a state-of-the-art machine: “we got the machine, but it’s at the bottom of the range, and is only for the trophy side; there is a machine that can do vast signs, which we haven’t got yet, but intend to; the computer costs about £20,000, and is called a ‘workstation’; it does everything -
signs, trophies, glass engraving - and it also does volume”. Obtaining this large machine was the ultimate ambition of the firm, but for now “we are saving time by having the computer, and we are the only ones in the area to have it”.

The biggest weaknesses of the firm had been identified as a lack of funds, and their antiquated machines. They had a “wish to become more modernised”. This situation had changed since the weaknesses had been identified: “we aim to get the computerised workstation, and have bought a small computer, but we want to get more so that we can handle bigger jobs; we could then accept bigger jobs which we haven’t sought in the past”.

Finally, in this section, the respondents thought that their biggest threats came from rivals’ market share, and the possibility of someone else starting-up or undercutting their prices. However, at the moment, they were “not really doing anything about this”, saying that “we are only interested in our own price”. In terms of quality, the respondent said “I hope the word will spread; we say to people, ‘we know that you’ll get a better job here than anywhere else’”.

These two partners had complementary skills, one having worked in the engraving industry for years, and the other being more skilled in sales and administration. They knew their market, which was local, very well, and gained business from contacts and customer referrals. They had not chosen a specific market niche, in terms of price or quality, but offered products across the whole range. They were on good terms with both suppliers and customers. They knew what were the strengths of the business, and where opportunities lay, and were trying to exploit them. They had also tried to improve upon their weaknesses, but were less active in protecting their business from potential threats.
III STRATEGY FORMULATION

The mission of this business was “to survive till we retire, to make a living, and to build up a fund so we can retire at 60”. One partner explained that “the job can be very stressful and demanding, and the rewards are not great, though they could be a lot better”. However, he added that “we get satisfaction from doing a job”.

The partners had a formal, written business plan, which covered a time period of five years. The respondent admitted, though, that “it’s three years since we wrote it, and we haven’t looked at it since; it wasn’t a very detailed plan, and was only done for the Headstart Capital grant”. It had included such plans as “to employ someone part-time”, and it had “also stated that we’d like to have our own computer, and maybe our own premises, as these are rented”. In terms of budgets and forecast figures, “we did profit & loss accounts projected for three years, but we don’t look at it”.

The main aim of the business was currently survival, but they also hoped to increase sales, and ultimately to make a long-term profit. Growth would mean that “turnover improves”, and the respondents remarked that “it’s going the right way, but overheads are higher too; turnover has to rise higher than costs”. The partners hoped to achieve their aims because “we want to be successful, and don’t want to be a failure; you’ve got to keep going and working at it”. They were proud of the fact that the business had managed to overcome early problems: “we’ve come quite a long way, and we took on the glass-engraving business; we were underfunded when we started, which put pressure on us early, but we’ve built it up since then; we have a new key-cutting machine, and do a photocopying service to try and encourage people to come into the shop”.

208
Any long-term plans were developed by the two partners sitting down and talking to one another, “and we don’t go too far ahead”. For example, they had started planning to go to trade shows about three months ahead of time, or they would “see what’s new on the market and talk about it to decide whether it’s a good idea or not”. Decisions were based on so-called ‘soft’ information. For example, “when we bought the computer it was going to save us a lot of time; during the football season we might have to do fifteen to twenty trophies at a time; we haven’t had the benefit yet because we’ve only had it for six months; it cost £2,500, and we needed it”.

The partners would not consider a menu of strategic options, and one of them explained why: “there are three things we can do - trophies, glass, or key-cutting; the cheaper end of the market is definitely dipping; the business is not there, and we are concerned about it. People ask us for a service; if we haven’t got it, we would go and do it, if we had enough enquiries”. For example, “we got asked a lot for glass engraving and an opportunity arose; the woman who did it previously for us sold her business, and we got a very good deal for it”.

Information technology was said to be ‘very’ important to this business, because “the trade is changing all the time, and it’s very fast moving”. The new technology had enabled the firm to expand its product range: “we started with just trophies, but the ease of engraving has improved a lot; you don’t have to be an artist; the computer will scan a logo for you instead”. Technology was therefore used “for producing the product rather than administration”.

Quality was maintained by the respondents’ knowledge of the industry: “I’ve been in it a few years, and you get a standard you set; you don’t want to put anything out that will harm your reputation and image; one of us makes up the
order, one checks it and the customer sees it as it’s being packaged; so it’s checked on-going”. The customer was told that “if there’s anything wrong, we replace it; we wouldn’t let it out of the door if it was knowingly engraved wrong; everything we do is right, and when we do jobs for other engravers in the town we follow their instructions”.

The partners wanted to make a living from the business, but were not too concerned about excessive growth. They had a business plan from start-up, but did not refer to it in the running of their business. Plans were more likely to be developed through informal conversations. The partners used technology to help in the provision of their service, because it enabled them to cope with larger jobs more quickly. However, it was not used for communications nor for information retrieval. The partners checked each other’s work, and made sure that every job was completed correctly, in an effort to maintain the quality of their products.

IV STRATEGY IMPLEMENTATION

In order to help the business achieve its goals, the owner-managers were “extending the product range, working harder and trying to balance the books; the loan will be paid back by March; we are trying to reduce outgoings, because it’s money we could use for something”. They received feedback from their customers and would “put letters of commendation on the back of the door, as advertising”. Word of mouth was important to the business, and they would implement changes suggested by customers “if they come up with suggestions, but it doesn’t happen very often”.

The partners had, in the past, experienced problems in implementing strategies, for example, if “some product doesn’t sell; something we’ve seen that we like at a
trade show, for example, new trophies”. In such a case, they would then “re-introduce them at another time, for example, the football season”. He admitted that “if it’s a new thing, you’re automatically attracted to it”, but the customer might not necessarily want something different. The business dealt with such mistakes by using “reps who take things back, on sale or return; otherwise, we sell them off cheap”.

Money was said to be “holding us back from doing different things”, or preventing the business from implementing new courses of action. If competitors started doing something different, they would copy them, “if it was beneficial to the company”. They seemed to think that rivals would be more likely to copy them, however, because “we are very innovative; the computer was new on the market, we are the only ones who took it on board, and we don’t know why”.

The respondents did not appear to be in a hurry to grow, saying that “we will either plod along the way we’re going, and one day may see a light at the end of the tunnel”. Or, they would require further finance, and “the banks don’t want to help; the Enterprise Trust was the only one who would help”. Currently, they were concentrating on paying off the debt they had: “we want to get rid of the loan and see what happens”.

It was more important for this business to control costs than to increase turnover, because “you’ve only got a budget to work on and you’ve got to watch you don’t go over it”. The respondent acknowledged, however, that they were “equally important”, but added, almost apologetically, that “we’re just a small concern, getting a wage out of a company”. The business had been financed from the owner-managers’ cash injections and a loan from the Enterprise Trust, with additional use of a bank overdraft, on occasion.
The partners would not typically forecast or project figures, but instead compared performance with previous years: "we get our accounts done at the end of March, and sit down and compare them with the year before; if we make a massive profit we will invest in a new machine, or take on new stock". Analysis of the accounts was "only done yearly, [but] we keep an eye on cash flow on a weekly basis".

Accountants and bank managers did not assist the business in budgeting, nor suggest that they do so, although they had been relatively helpful for other purposes: "the accountant does the VAT and the yearly accounts; we had one meeting with the bank manager, who was quite happy to give us what we want; and the bank gave us a small overdraft; we've had no problems since". The Enterprise Trust had specified that the loan given be spent on a computer, "but it took us three years to get it".

Procedures were typically communicated through conversation, given the small size of this firm. However, they did have a written partnership agreement, "and one partner needs to give three months' notice before leaving". In addition, they had been visited by a Health and Safety inspector, "who suggested things we had to do". The roles of the two partners had not changed at all since start-up, as "one does the trophy engraving, and one does the glass and bookwork, and most of the sales".

The respondents were trying to implement new strategies to achieve their goals, by investing in new stock and equipment. They were aware that problems could, and would, occur, but were willing to change and adapt, where necessary, learning from mistakes. They were restrained in implementing new strategies through a lack of finance, but were not, in any case, in a great hurry to change. Turnover was
increasing, so they were agreed that they must concentrate now on controlling costs. Sources of funding were limited, so future growth might have to be financed through profits. Procedures were communicated verbally, and had changed to take into account the recommendations of a Health and Safety officer.

V EVALUATION AND CONTROLS

The respondent gave the following example for the measurement of success or failure of a new strategy: “we gauge the success of the computer machine by how much we use it; people have commented that it’s a lot easier to read, it’s different and it’s good”. So favourable customer feedback would represent success. In addition, the partners could “save time, can take on a bigger order, and do the job quicker”, and although the tapes needed to work the machine were expensive, their cost was negated by the savings made on time. The partners set themselves the target of trying to increase the amount of work they were doing on the previous year, for example, by comparing one month in a year with the same month in the previous year: “we know what we need to surpass the figures month by month”.

The actual policies in the business had not been altered greatly since start-up: “product lines change, but there has been no change in the job”. However, the respondents would “keep adding, [because] you’ve got to get better quality”. To this end, they had now started to stock European ranges of trophies, which had “metal instead of plastic figures”.

Finally, these respondents thought that the fact that they had more experience than their rivals, and the better quality they offered, gave them an advantage: “the standard we’ve set for ourselves sets us apart from them; we’ve worked with some
of the opposition so we know their weaknesses, and they have lower standards than we have”.

VI SUMMARY

The two partners of this small firm were managing to make a living from the takings of the business. Growth and profits were increasing, although the staff headcount was not; they had not yet managed to raise enough to take on the part-time worker they wanted. The capital structure of the business gave the most cause for concern, as it was being funded primarily through debt, and very little equity.

They knew their market and industry well, and had built up the skills and contacts needed to help them succeed. Although they said that pricing was dependent upon suppliers, they had chosen to provide a product that ranged in quality from very low to very high, rather than to pick a specific niche of either high or low quality. They also provided a varied range of goods and services, and might do better to concentrate on one or two of the most profitable lines. However, they were open to suggestions, and willing to accept new technology as it became available. Like many other firms, though, they saw no threats to their business from rivals, and so were doing nothing specific to protect their business.

The business was very much geared towards personal ambitions, and aimed to provide a living to the partners until retirement; as such, it was succeeding. Plans were informal, and the formal, written business plan that had been developed at start-up was purely to get outside funding. The partners would discuss ideas amongst themselves, rather than writing things down, and would decide upon an option if they felt it were feasible, rather than through working through a
quantitative analysis of forecast or anticipated benefits. They relied on their own skills to ensure that quality was maintained, and on their reputation for providing a good and accurate service to keep the customer happy.

The partners realised that the debt had to be cleared, and were waiting until this happened before making any major decisions. In addition to this, they were working harder and trying to increase the range of products they provided, heading more now towards the quality end of the market. Finance was the major constraint, but they did not seem to feel the need to grow quickly.

Instead of increasing the product range, they might be well-advised to narrow it down to the quality range. This should provide a higher profit, and enable them to clear their debts more quickly. It might also cut down on the quantity of work they had to do, giving them more time to concentrate on future plans; instead of doing many small and cheap jobs, they could work on fewer, but more expensive jobs. However, for the moment, the business was achieving the crucial criterion of survival, and growth, although slow, might come along at a later date.
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APPENDIX V

Publications

