



The Advice Dividend

Introduction

All businesses set out to win. To grow profits, to innovate, to stay ahead of the competition or, for some, to win just by keeping their business going.

Yet our 3.7 million small and medium sized businesses - the engine of the economy, responsible for half of private sector employment - are shunning the collective wisdom available across the country that could help them succeed. Currently only two in five are taking advantage of strategic advice that could not only help them secure their long term future but also help improve economic prosperity. As a consequence, survival rates amongst new businesses remain too low, with one in five closing within the first 12 months of trading, whilst only around one in 20 small businesses ever grows into a larger business.

For business owners and managers, the day-to-day pressures of running the business, such as getting customers, fulfilling orders and getting cash in are, of course, vitally important. But there's a danger: that of getting so caught up in the detail that you fail to see the bigger picture.

This report demonstrates to small and medium sized businesses that by thinking more long term and seeking help, they can find advice that will make winning easier. And advice, as this report proves, pays its dividends in hard cash.

Martin Wyn Griffith

Chief executive of DTI's Small Business Service, responsible for the Business Link National Business Advice Service



Executive Summary

Business Link commissioned researchers to question a nationally representative sample of 1,002 small and medium sized businesses - those employing up to 249 workers - on the subject of strategic business advice*. This means advice on planning for sustained growth and profitability, rather than day-to-day advice on immediate business issues such as legal and tax matters. Respondents were interviewed about their use of strategic advice, their attitudes to it and, for those who used it, the financial and general benefits they got from it.

The main findings are that:

- SMEs that use strategic advice report making profits that are typically double those of businesses that don't act on this type of advice.
- SMEs using advice report an average return of 2,000% on their investment in it.
- Businesses that have invested in advice on training report the best profit results.
- Businesses in manufacturing are the most likely to seek out strategic advice, whilst their counterparts in retail are the least likely.
- Despite all this, small and medium sized businesses in the main say they eschew strategic advice - fewer than two in five (39%) have taken such advice in the last three years.

* Research conducted autumn 2002



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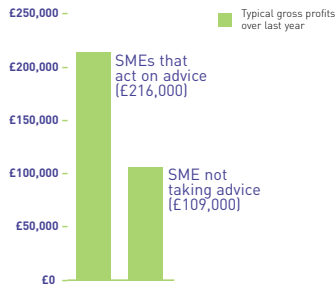
Does Advice Pay Dividends?

Is there a financial payback from taking strategic advice?

According to the businesses taking part in the research there is. In fact, SMEs of all sizes that act on strategic advice typically make double the profits of their do-nothing competitors.

Researchers for Business Link also found that:

- Simply taking advice doesn't benefit a company. In fact the average gross profit over the last year of an SME taking and not acting on advice is less, at £109,000, than a typical SME's profit of £114,000.
- When businesses take and act on strategic advice, they significantly improve their performance. Gross profits over the last 12 months for SMEs that act on advice are typically £216,000 - 98% more than their do-nothing competitors.



Business Aspirations & Advice

Not all business owners want to be the next Richard Branson. Some have grown their business to the size they want. For others, just staying in business would be an achievement. Researchers examined how advice brings different benefits for SMEs with different aspirations.

Unsurprisingly, high-growth 'entrepreneurial' SMEs are the most likely to seek out strategic advice; seven in ten (68%) do so, compared to fewer than half the rest of the SME community.

These 'entrepreneurial' SMEs are focusing on the bigger picture and dealing with the hurdles associated with fast growth, such as new forms of finance, breaking into new markets and more complex management issues. Amongst these businesses, those

that have taken advice show staggering average turnover growth rates of 36%. Those in this category not taking advice are growing by 22% - more than many businesses, but still less than their peers that are taking advice.

Those SMEs that categorise themselves as 'mature' are also more likely than average to take advice. For mature SMEs, advice is helping increase gross profit margins by eight per cent this year, compared to do-nothings, growing by just one per cent.

SMEs that depict themselves as 'stagnant' are less inclined to take advice, despite probably being in the most need of help. In fact only a third of businesses in this category have taken advice. Whilst the performance of stagnant businesses who have taken advice is no better than their do-nothing counterparts, they are probably better placed for recovery in difficult market conditions.



Why do businesses fail to take advice?

The main reason businesses give for not taking advice is that they feel they don't need it. This may be because they are genuinely content with their performance or because they have grown complacent. The profit payback reported by those that do take and use advice challenges this inertia.

The second reason cited is that advice is too expensive. Does this 'cost' objection have any merit? Researchers tested whether advice is still considered too expensive after businesses have used it.

SMEs, on average, spent £4,200 a year on advice. They valued the gross profit they got as a result of this advice at £80,000 - a return on investment of nearly 2,000%. The smallest SMEs - with between one and nine staff - got the most remarkable payback.



For a typical investment of £1,600 they gained gross profits of £53,000 - a 4,000% return.

Time spent on advice is typically 18 hours a year - around two days - and it takes between four and six months for the advice to start delivering benefits.

What types of advice pay dividends?

Four in five SMEs taking advice say it has 'positive, major or enormous benefits'. But advice clearly isn't a one-size-fits-all solution - different businesses get different benefits.

Overall however, investing in advice on training, IT, planning, finance and marketing are reported as most likely to result in profits or turnover growth.

Of these, the benefits of advice on training and human resources emerge most strongly. Advice on these subjects ranks first and third for boosting profits. This reinforces the fact that getting the right people in the right roles, with appropriate skills and experience, is probably the biggest factor in most businesses' success.

The role that advice on IT plays in building business also stands out. Advice on IT enhancements is the second most important factor in increasing both growth and profits. Clearly, having a solid technology infrastructure contributes to a business' success.

Advice area:	Ranking for profit growth	Ranking for turnover growth
Training	1	3
IT	2	2
Human Resources	3	5
Finance	4	4
Marketing	5	1

Rankings based on percentages of businesses reporting growth in profit or turnover after using the different types of advice



It pays to be open minded

The need for businesses to be open-minded about solutions offered by strategic advisers also emerged. Businesses tend to experience problems, or symptoms, and go in search of a specific cure. Often, symptoms are misdiagnosed and an entirely different cure is needed.

For example, most businesses wanting to increase profits think the cure for them is specific advice on finance or marketing. But these are fourth and fifth in the top five areas of advice that actually deliver profit growth.

Conversely, the two areas of advice that pay back best in terms of growing profits, training and IT, are SMEs' third and fourth priority 'cures' when they go to seek advice.

The top five areas that SMEs ask for advice about	Versus	The top five advice categories that deliver profit growth
1. Financial		1. Training
2. Marketing		2. IT
3. Training		3. Human resources
4. IT		4. Finance
5. Human Resources		5. Marketing



Who's making advice pay?

Different SME sectors and those in different regions enjoy greater and lesser success with advice. Our research covered all of Britain and looked at seven typical SME sectors - manufacturing, IT, business services, construction, transport, retail and hotels, pubs and restaurants. The study also compared SMEs by size, and the ethnic origin and gender of the owner or manager.

ahead of their competition. The two sectors are getting the highest returns on their investment in advice - 4,800% and 3,200%.

Transport SMEs are most prone to ignoring the benefits of advice. More than half the firms in the sector don't take it up - and give no specific reason for not doing so.

SMEs in retail take the least advice. Their overall profits and return on investment in advice are both second lowest of the groups surveyed.

Just one in three hotels, pubs and restaurants (34%) seeks advice. The sector has the lowest profits of those taking part in the research.

Sectors

Manufacturing SMEs take most advice. Half have done so over the last three years and they are suffering less than the rest of their sector. Of all the sectors surveyed, manufacturing businesses that take advice have the second highest gross profits - at £342,000 this year. In a sector in recession, using advice appears to make the difference between being a successful or failing business.

Nearly half of SMEs in the IT sector (48%) seek advice. They are rewarded with equal best margins of the sectors researched. Four in five describe advice as beneficial.

In two sectors, business services and construction, firms are taking less advice than average - but appear to use it well to stay





Sizes

Looking at different sizes of SME, the smallest firms - one to nine workers - take the least advice, but make the most of it. Fewer than a third (32%) take advice - but those that do use it get ahead, making gains of £53,000 from an investment in advice of just £1,600.

Larger firms - with 50-249 employees - are most accustomed to advice, taking it and acting on it more frequently, and most likely to use it again in the next year. They rate its value highest. Over nine in ten (93%) say it has a positive, major or enormous benefit.

Sexes

Women and men are equally likely to take advice for the SMEs they manage. Men, however, appear to gain more from it.

Women spend less money on advice than men do - £2,200 a year compared to £4,500 a year. They also spend less time - 14 hours a year, compared to 19. And they get less out of it, seeing a below average 1,400% return on what they spend, compared to the 2,000% return achieved by men.

Ethnicity

Ethnic minority SMEs rate advice more highly than businesses owned by non-ethnic minorities.

Four in five ethnic minority SMEs (81%) say advice has brought them positive, major or enormous benefits, compared to 76% of non-ethnic minority firms. Accordingly they spend more time and money on advice and get more of a return.

Ethnic minority SMEs spend 25 hours a year and £4,600 on advice and get a payback of £96,000. In comparison, firms that are non-ethnic minority owned spend 17 hours and £4,100 for a return of £80,000.

Regions

In the regions, SMEs in Wales appear canniest about advice. They use it more than in any other region and spend less on it. They're rewarded with the best gross profit margins of all the regions.

London SMEs, despite their relative prosperity, are most likely to say they don't need advice. Three in five fall into that category. However they would benefit from profit-boosting guidance - their gross profit margins, at 13%, are among the lowest in the country.

SMEs in the North East use advice well.

A higher than average 44% of firms take it, they rate it more highly than in other regions and they get the best return from it. They're also most likely to use it in the next year.

SMEs in the North West and Yorkshire and Humber side eschew advice most. Less than a third of firms in each region look outside for help. And they have the second and third lowest rating for its effectiveness.

SMEs in the East Midlands use advice least well. The region is joint last for taking up advice and spends least time on it. When it does, it spends the most money after London

but gets the lowest return for its investment - 600%, less than a third of the national average of 1,900%.

In East Anglia, SMEs score above average for the amount they use advice and the success they have with it. Despite this, they rate its effectiveness lowest of all regions and are least likely to use it in the next year.

SMEs in the South East appreciate the value of advice and rate its effectiveness second highest. In the West Midlands and South West, SMEs are slightly more likely than average to use advice, though the benefits they get from it are lower than average.

Region	% of SMEs taking advice	How SMEs rate advice*	How well SMEs use advice**
Wales	53	82	1700
London	44	79	800
North East	44	87	2600
East Anglia	43	68	2000
South West	42	76	1600
West Midlands	41	73	1200
Average	39	77	1900
South East	38	86	2000
North West	33	71	2600
East Midlands	33	82	600
Yorkshire & Humber side	30	72	2600

* % saying advice has a positive, major or enormous benefit

** % return on investment for money spent on advice





About Business Link

Business Link is administered on a national level by the DTI's Small Business Service (SBS).

The SBS vision is that, by 2005, the UK will be the best place in the world to start and grow a business.

The purpose of the SBS is to make the UK an enterprise society in which:

- many more people want, and have the opportunity, to start a business
- every business with the ambition to grow is helped and supported
- small businesses find it easy to respond to Government and access its services



Services

- One of SBS' key aims is to help small firms get the advice and support they need to prosper.
- Working through the national network of Business Link operators, SBS provides information, advice, or access to experts on just about everything needed to start and expand a business.
- Business Link services are impartial, and either free or charged at affordable rates. They can help SMEs find the answers to business queries over the phone or the Internet, or organise a meeting with one of their experienced business advisers to discuss long-term business solutions.
- Services include business planning, finance, marketing, management, exporting, quality, employment issues, training and development, innovation, design, regulation, information and communication technology and e-commerce.

To find out more, visit the website at:
<http://www.businesslink.org>
or to contact your nearest
Business Link call 0845 600 9 006.

