‘Diamonds in the Sand’

A Marketing Strategy to Attract High-Growth Business Start-ups to Grampian Enterprise’s Chrysalis Elite Programme

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Abstract: This paper considers those high growth companies who do not appear to consult official support bodies – in particular, Grampian Enterprise Ltd. The challenge of finding these businesses has been likened to looking for ‘diamonds in the sand’. Both general and specific recommendations are drawn that would help in the locating and motivating of these SMEs to seek official help.

INTRODUCTION

All Grampian Enterprise Limited (GEL) and local Enterprise Trust (ET) research previously has focused on clients known to the network. These clients provide valuable feedback on products and services offered, but represent less than 20% of the start-up population according to clearing bank statistics. Of 2560 businesses that started up in Aberdeen and north-east Scotland in 1996, only 446 (17%) sought public sector assistance. GEL is therefore keen to understand where else these start-ups approach for support, and specifically why high growth companies in particular, do not consult the official support bodies.

OBJECTIVES

The primary objectives are to investigate why 80% of business start-ups in GEL’s area do not approach the four Enterprise Trusts, or GEL’s Chrysalis Elite (CE) programme for support before setting up operations, and determine what alternative sources are used. A marketing strategy to attract a higher proportion of high growth companies will then be recommended,
and an assessment made of the value and helpfulness of current new venture initiatives.

BACKGROUND

GEL is one of thirteen local Enterprise companies (LECs) who report to Scottish Enterprise in Glasgow. The LECs’ principal business is economic development creating jobs and prosperity for the people of Scotland.

The Business Birth Rate Strategy (BBRS), introduced in 1993, was intended to close the gap between Scotland and the rest of the UK, in terms of the number of new businesses created. This would involve the creation of 25,000 additional new businesses by the year 2000, and between 50,000 and 100,000 new jobs, equating in Grampian to approximately 320 new businesses per annum between 1993 and 2000.

The objective of the CE programme, launched in 1996, is to foster the development of innovative high growth start up companies for the period leading up to the launch, and an aftercare period of one year, through provision of financial, administrative and consultancy support.

GEL’s mission statement is:

“Our vision for the north east of Scotland is of a region which realises the potential of all its people and provides a high quality of life for all who live and work here.”

The corporate objectives, as outlined in the GEL strategy document, are as follows:

- To develop internationally competitive businesses
- To develop, attract and retain the best people
- To make the north east a world class, quality place to work

These are translated at operational level into:

“Improving the number and sustainability of new businesses through the NV strategy with a range of initiatives and support networks designed to make Grampian a positive environment for entrepreneurs.”

(Source: GEL 1999/00 Operational Plan summary)
With the Scottish Parliament and Scottish Executive taking more interest in SE and LEC operations, and low interest rates contributing to a healthy economy, evidenced by the Bank of Scotland’s monthly survey of Scottish companies (The Times, September 1999) the climate for new business is encouraging. Entrepreneurship is also more socially acceptable, and with the growth of service businesses, e-commerce and knowledge intensive industries, there is a focus on creativity and added value.

GEL need to be aware of the changes occurring, and adapt accordingly, if customer needs are to be identified and met. They must equally be aware of, and assist customers to overcome, any new obstacles that high growth companies have potentially to face, including their own organisation and processes!

The problem with the Chrysalis programme however is that the NV team struggles to meet annual high growth targets. An initial evaluation undertaken in May 1997 by economic development consultants suggested that promotion of the programme was weak, and it is therefore assumed that better communications would attract more, better quality, high growth businesses, but this research aims to determine if there is more to it.

The majority of GEL initiatives are free or charged at a nominal fee. Most events take place in Aberdeen, and are publicised using direct mail, public relations activities, promotional literature and word of mouth. The quality of the materials used however, is inconsistent and poorly branded. The direct mail clearly only reaches those companies and individuals (‘enthusiasts’) already known to GEL, and who have attended or shown interest in a previous event.

Client relationships are key to any business, and more needs to be done with potential entrepreneurs, other public support agencies and private organisations to increase the number of referrals. Clear, straightforward communication, trust, commitment and good interpersonal skills are therefore essential pre-requisites to what must also be a more customer focused approach. Identifying who those customers are is also vital, and SE has segmented the market into four distinct groups:

Committed potentials (1.7% of the population) have the ability and desire to run their own businesses and also have a business idea. Highest concentrations are amongst ABC1 working men under 40.
Enthusiasts (17% of the population) have the motivation and the capability, but lack a good idea. Mostly 21-40 year olds, spread across all socio-economic groups, with women again under represented.

Unmotivated possibles (37% of the population) believe they have the ability to run their own businesses, but have not the desire.

Finally, some 32% show ‘no interest’, and appear to have neither the desire, nor the ability.

Over 80% of the GEL budget is directed at the first two categories, with over half given over to the Committed Potentials. The primary research will aim to determine if this is in fact, the ideal situation. Perhaps the enthusiasts would offer a better return?

In other words, a market development strategy, extending the existing programme to new users might be more effective than a market penetration strategy intended to increase the use of existing initiatives amongst the Committed Potentials. Other options include diversification, implying the introduction of programmes other than Chrysalis to new markets, or product development aimed at the existing target groups.

Certainly, the formalisation of the marketing strategy to be used would be a worthwhile exercise, to allow all interested parties to know and agree what approach is to be adopted.

LITERATURE REVIEW

It is widely recognised that high growth firms generate employment and wealth creation in keeping with SE and GEL’s goal of economic development. The Confederation of British Industry (CBI) support this statement by commenting:

“New small companies create the majority of new jobs .... are not only the engines of innovation in most sectors, but also some will become the corporate engines of the next 25 years”

Gallagher and Botham (1998) showed that new firms created 25% (599,000) of new jobs respectively between 1989-91 (UK data for DTI 1995).

Westhead (1995) adds that only a small percentage of new and small firms survive and increase their employment over time. As a result, academics and policy makers suggest targeting scarce resources at those ‘high flying
firms which create the jobs’ (Gallagher and Miller, 1991, p.100) through a policy of ‘picking winners’ (Storey, Keasey, Watson & Wynarczyk, 1997).

Gallagher and Botham (1998) defined high fliers in Scotland as those employing over 50 in 1997 (accounting for 44.6% of new jobs), noting that the overwhelming majority of new firms who meet this figure are in the service sector. Within the same paper, the authors observe the conflict between promoting the quantity and quality of new starts, and express the view that:

“Both a general increase in the overall birth rate of a region and the promotion of high growth new starts are compatible concurrent strategies.”

Evidence is provided to support this claim by demonstrating that successful regional economies, which have higher than average business birth rates and higher than average failure rates i.e. greater ‘churning’, also have higher overall growth rates. It may be deduced that a strategy which promotes a higher rate of new firm formation will also generate more high growth new starts.

It is important however, to be aware of the difference between ‘lifestyle’ and entrepreneurial firms (Deakins, 1996). The former, catered for by the ETs, are normally sole traders employing few or no people, characterised by people establishing businesses with no greater objective than survival and maintenance of lifestyle i.e. making a living or supplementing existing income. The latter, the province of GEL, are characterised by entrepreneurs, generating employment and developing medium/large size firms, aiming to grow the business base. These are the minority, and the segment which the GEL CE programme seeks to target.

DTZ Pieda, economic development consultants, commissioned to undertake an economic evaluation of all the LEC network high growth programmes available between 1989-99, found that high growth companies have different needs to volume starts. Supporting this view Westhead (1995) noted that ‘the needs of new and small firms are varied’, emphasising the need for flexible, tailored support, and not just standard programmes and initiatives.

It is not surprising therefore that the most valuable assistance that high growth businesses gain from LECs is the advice and counselling provided
by external consultants. Criticisms of the support provided however, include the speed of delivery and the confusing array of assistance available, with insufficient guidance on appropriate options. Advice is as important as grant aid though, and involvement with LEC actually improved a company’s credibility with other potential funders and business contacts.

In total, 162 high growth firms were supported by the LECs in 1998/9, representing 3% of the total number of businesses started. GEL’s target of 22 per year, is therefore well in excess of the average per LEC of 12. LEC investment in high growth firms is approximately six times greater than the equivalent investment in volume start-ups, but the payoff is in the higher survival rates.

A study conducted by Gatewood (1993) provided contrasting views on public sector intervention.

“Public sector venture assistance can positively influence creation through improving the entrepreneurs’ skills, abilities and access to required resources or have a negative relationship to venture creation by denying services or access to resources or through affecting the entrepreneurs’ expectancies for venture success.”

Pieda believe that the case for targeting resources on ‘better quality’ start-ups is strong, emphasising that a strategic approach is required to foster the growth of those few firms with the potential to become international players.

The difficulty however, is for LECs to identify and recruit high growth firms, suggesting that GEL’s difficulties are network wide rather than peculiar to them. Bruce (1997) described attracting high growth start-ups as looking for ‘diamonds in the sand’, and quoted other LECs descriptions such as ‘looking for hens’ teeth’, ‘a lottery’, and ‘plenty out there, but difficult to attract’. Scottish Borders Enterprise added that even once LECs had secured a client, perhaps ‘the advisers needed to be trained appropriately’ to support them. Perhaps one of the reasons recruitment is low is explained by Barclays review (1997) which highlighted:

“The low levels of awareness of the wide range of funding options on offer, suggesting that few firms fully explore the sources of funding available. Only one in five (22%) firms investigate whether they are eligible for government or EU grants.”
Another view, expressed by Perry (1996), suggests the unwillingness of the small business owner to share information about their enterprise and to accept external scrutiny may be factors constraining formal network development (Curran et al, 1993), potentially explaining why so few come to GEL or the ET network.

Other hints that come from focus group feedback following the 1997 SE Personal Enterprise Show, contended that:

There was poor general understanding of the functions and roles of the various Enterprise organisations
Only a basic awareness of the different organisations and what they are responsible for existed, leading to confusion as to which to approach for advice and help
There was a lack of appropriate referral activity between the various agencies, which the majority felt should be happening and was expected, although it was acknowledged that there may be operational and confidentiality issues to consider

Brian McVey, Head of New Ventures at SE, agreed that 80% of those who set up small businesses do not go to public sector bodies for assistance. He contends that start-ups will approach instead, in order of importance, job centres, banks, accountants, solicitors and consultants. They will also consult friends and acquaintances, read books, and take courses. Some do nothing at all.

Fletcher (1995) identified that banks were the most important source of external finance for small firms in the UK. Barclays review (1997) also supported this claim, demonstrating that banks supported 72% of all start up businesses. Family and friends remained an important secondary source.

Research conducted for SE’s Local Heroes publication disputed this, showing banks third in the queue, providing 11% of start-up capital for high growth businesses, behind the founders themselves (42%) and other private investors (23%). SE and the LECs only accounted for 5% of the total, reflecting a further difference between how high growth and volume start-ups operate.

The other key form of support that entrepreneurs value is networking. Mentors and role models are both helpful in terms of providing practical
suggestions, and inspirational in showing what can be done. This view is supported by Perry et al (1996) who acknowledge that:

“Out of the multitude of influences that determine the viability of small business, the importance of personal contact networks is increasingly emphasised”

In practice, Perry further states that many small firms have sparse, predominantly informal, networks. The study suggests that government agencies could assist network development by sponsoring local events intended to bring small business managers together, thereby extending links with other business professionals. Bringing businesses together at similar stages of development, which are sharing similar problems and priorities, promotes cohesion.

Identifying entrepreneurs may be as important as identifying high growth businesses. Smallbone, Leigh and North (1995) commented:

“High growth can be achieved by firms with a variety of size, sector and age characteristics, distinguished more by strategies and actions of managers than by profile characteristics.”

The distinguishing strategies of high growth entrepreneurs stemmed in fact, from their approach to product and market development. Such businesses attract above average investment, are user oriented, and are flexible enough to adapt quickly to changes in the environment. The lead entrepreneur also adopts a strategic focus, and successfully delegates day to day management responsibility.

Phizacklea and Ram (1995) support this by stating that the competitive tactics of product differentiation and market focus were typical of high growth companies, with cost control as a necessary but not sufficient condition for growth. Competitiveness was said to derive from the ability to innovate and quality factors, whereas slower growing or stable businesses are more likely to compete on price.

Ongoing survival indeed, is down to the management team, as Bird (1998) acknowledges:

“The survival and growth of the small firm is by and large dependent on the individual(s) running it. Their drive and goals more than anything also steer the firm’s evolution.”
Wightman and Kelly (1996) agreed, stating that the main reason for small and medium sized enterprises failing in their early years was the lack of business and managerial skills or inexperience on the part of the owner manager.

**METHODOLOGY**

Semi-structured personal interviews, of 50 minutes duration, were undertaken with senior representatives of 28 organisations, in order to obtain sufficiently detailed information and to maintain consistency in terms of the quality and value of the data provided. In line with the research requirements, half of these had approached GEL or the ETs for start up support, and half had not.

Companies set up since 1990, which had traded for a minimum of two years and had met the desired high growth criteria i.e. a turnover of £400k at the end of the two year period, were randomly selected from Dun & Bradstreet’s database. The population was further limited to business start-ups in GEL’s geographic area.

The questionnaire was designed to obtain information concerning demographics, entrepreneur background, start up details, development and growth, and involvement with and awareness of, GEL and ETs. Slight modifications were made following an initial pilot.

**FINDINGS AND ANALYSIS**

86% of the sample were male, and 14% i.e. four, were female. The age profile of the respondents ranged from 25 to 64, with 86% aged between 35 and 54. GEL and the ETs apparently attract slightly younger high growth start-ups. 55% of the sample held the position of Managing Director, with others holding Director posts.

The majority came from the Oil and Gas industry, closely followed by Services and Technology. There was no representation from Food, Tourism or Agriculture.
Companies in contact with GEL and the ETs employed more full time employees, but derived less income from exports, despite a roughly equal international presence.

All the entrepreneurs had left good jobs to start up in business, although interestingly, several of those with no contact had owned a business previously or worked in a family concern. The trigger varied, but included spotting the opportunity, frustration with employment, ambition, challenge, unemployment/redundancy, a desire to make money and a need to control own destiny. The biggest obstacles to starting up were a lack of finance, market knowledge, a business plan and time. Lack of an idea, a market or advice, were not seen to be problems.

Companies with no contact had sought help instead from solicitors, banks, accountants, and business partners/friends, and rated the usefulness of the assistance provided in that order. Even companies with contact rated these sources higher than GEL and the ETs, suggesting that there is plenty of room for improvement. Other support organisations referred to included venture capitalists, PSYBT, a private company, and business angels.

The main reasons given for seeking advice stemmed from a desire to tap into expertise (including legal and financial) that the respondents didn’t have, to gain access to funding and property, and simple networking. In particular, GEL was seen as useful for grants, general start-up advice and training.

Decisions regarding which organisations to approach mostly followed recommendations from family and friends, then other contacts and finally press advertising or articles. Direct Mail was not a source for anyone, despite the fact that GEL see this as one of their main promotional tools!

Other support organisations did not recommend GEL’s services, indicating either a lack of knowledge, or that these are not rated. Opinions of respondents themselves varied between very positive and very negative. Some valued the assistance provided by GEL and the ETs, others were sceptical.
96% of the sample had heard of GEL and most knew of the ETs. This level of awareness however, had been lower when the businesses were started. Both were perceived as public sector bodies which foster/propagate business activity.

On the positive side, GEL and the ETs were regarded as very supportive, good listeners, had good relationships with clients and an extensive network. Their role was seen as vital to business start-up and small companies’ subsequent prospects. Staff were high calibre, experienced, helpful and professional. Networking meetings were seen to be the biggest benefit.

On the negative side, GEL was seen to be distant, uncommunicative and secretive. Potentially because of a lack of resources preventing all clients receiving similarly helpful or generous treatment. Problems also arose because individuals were unaware of how the trusts deal with new ventures, and the terms on which assistance is given. By comparison with the directly contrary finding above, some found staff ineffective, lacking expertise or inexperienced. In their opinion, the wrong people were in place, no one else signposted them to GEL or the trusts, there was too much red tape or they were unfamiliar with service businesses and had no track record in this area. A lack of practical help was highlighted, and both GEL and the ETs were labelled ‘grippy’!

Clearly then, a challenge exists to attract more high growth companies to the CE programme, requiring a major exercise in marketing communications to create greater awareness of the assistance on offer and to overcome the negative perceptions held by a significant segment of the target market.

Better training for business advisers too, is necessary to ensure that attitudes are positive, preparation is improved, including gaining greater awareness of unfamiliar industries, bureaucracy is reduced and all potential clients - in all industry sectors - are dealt with using the same criteria. Generally the role of mentors should be reviewed. Temporary secondments might also be considered to improve knowledge. Even the initial reception and handling process should be analysed to determine how first impressions are gained and whether these are favourable.

A review of the training and workshops provided will ensure that they meet clients’ requirements as well as being delivered satisfactorily. The research
showed positive feedback on some courses, a less enthusiastic response to others and indicated gaps in areas such as exporting, presentation skills, sales and promotional techniques, tax advice, and mentoring. The style of delivery must also be assessed, given that some respondents objected to an academic, rather than practical, approach.

82% of the sample expected to receive free advice, with just fewer than 50% believing that a day’s training should also be free of charge. Ironically, those with no contact thought that they should pay more, and indeed, fee expectations generally were higher than those charged in reality.

Less than a third of participants however, planned to approach GEL or the ETs for development support, either because they were not needed, or because they lacked credibility, or because the companies were unaware of their services.

CONCLUSIONS AND RECOMMENDATIONS

The difficulty experienced with recruiting a suitable research population suggests initially that there are not as many high growth new start companies in the Grampian region as might be expected. The level of awareness of GEL and the ETs amongst these firms however, is very high, but the support available is much less well understood. For this reason, solicitors, accountants, banks, and family and friends, are frequently used as alternative sources of moral support and specialist advice. Entrepreneurs base their decisions on who to turn to on recommendations received from those same family and friends, and the media.

Businesses that had made contact nevertheless were appreciative of the consultancy advice provided, the grant support, and the assistance given in preparing business plans, but more is required in the areas specified above. Feedback was also divided as stated, indicating poor communication, inconsistency in delivery of the support packages available, differing levels of knowledge of the various industries represented, and occasional personality clashes.

Marketing strategy recommendations based on these conclusions are detailed on the following page:
MARKETING STRATEGY RECOMMENDATIONS

A consistent long term integrated communications plan, focusing on the CE programme, is necessary to increase awareness and interest amongst potential clients, and improve perceptions and knowledge amongst entrepreneurs who have turned their backs on the support organisations;

Specifically, PR activity should be used to raise the profile and credibility of the initiative and all promotional material, especially that describing the CE programme, needs to be re-designed and updated, with increased emphasis on the GEL corporate identity;

Alternative providers, such as solicitors, accountants and banks, should be invited to briefing sessions and encouraged to become partners, rather than competitors;

Budget allocations should be reassessed with greater emphasis on ‘enthusiasts’ to catch and convert likely candidates at an early stage;

Client handling procedures and processes should be made more efficient and less cumbersome, and a customer service charter introduced to underline the need for improved, consistently delivered product quality;

In particular, the people handling skills, knowledge, experience, and level of advice provided by the business advisers must be improved, and the method of allocation to clients re-assessed;

ETs should be given financial incentives to refer qualifying clients, with better internal communications ensuring not only that the various support packages and networking activities are known to all staff, but the need for a consistent team-based approach to high growth businesses is clearly recognised;

Consultancy advice, workshops and training on offer should be reviewed for both content and style and a more tailored and comprehensive list provided, drawing on other specialist support in the organisation if available and appropriate;

Mechanisms to identify and proactively seek out high growth entrepreneurs, such as weekly ‘surgeries’, business breakfasts, etc. must be identified and implemented in order to establish and strengthen relationships with, and perceptions of both GEL and the trusts;

The CE programme itself must be reviewed, and if necessary repositioned, with a view to removing blockages which currently slow the system down and differentiating the initiative from other support packages available;

Any sectors receiving priority treatment, and the reasons why, must be clearly identified and explained.

Together with a regular research package designed to review, evaluate and reconsider the measures in place, a strategy based on the above recommendations may go some way further to attracting those elusive ‘diamonds in the sand’!
REFERENCES

Aberdeen City Council (1999), *Labour Market*, August.


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