Weathering the Storm

SME Lessons from the Crisis

The Institute of
Certified Public Accountants in Ireland

Acknowledgements

The author would like to express his appreciation to the following people for their invaluable assistance in compiling this report. Their insightful contributions have helped to give an overview of the responses which Irish SMEs had to adopt as they met the challenges presented by the sharpest and most severe downturn experienced since the Great Depression. The conclusions contained in the report reflect a synthesis of the views expressed and do not represent the individual views of any one named contributor or organisation.

Becci Birchall, Fishers

Patricia Callan, Small Firms Association

Gerard Cleary, Glenisk

Mark Fielding, ISME

Cormac Fitzgerald CPA

Sean Gallagher, Entrepreneur

Ron Immink, Smallbusinesscan

Bobby Kerr, Entrepreneur

Gail McEvoy CPA

Deirdre McGlone, Harvey's Point Hotel

Shirley O'Kelly, Timbertrove

Senator Fergal Quinn

Eamonn Siggins, CEO CPA Ireland

David Walsh, Netwatch

Special thanks also go to the hundreds of CPA members throughout the country who responded to the CPA Ireland Member Survey.

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Foreword

Cormac Fitzgerald, President, CPA Ireland

We can learn far more from the analysis of success than through studying the anatomy of failure. Success in business is not simply about avoiding mistakes, it is about making the right decisions at the right time. Those businesses and business people who have made good decisions can therefore offer valuable lessons.

Unfortunately, over the past six years we have seen many businesses fail as a result of the recession and there was a tendency for the media spotlight to fall on those stories. However, during the same period, CPA Ireland members throughout the country were dealing day in and day out with businesses which were surviving and successfully navigating the stormy waters of the recession. Our members were seeing a very different picture to that being reported in the media.

This led us to begin exploring ways in which the other side of the story could be told and presented. Instead of poring over the entrails of failure, we wanted to celebrate success and the reasons behind it. We didn't want to wallow in the mire of despair any longer, instead we wanted to look at some examples of success and look at ways in which others could follow their example.

The best way to find out what's going on in business is to ask business people and that's what we set out to do. Our first task was to decide on which business people to ask.

There is no such thing as a "typical" business. Every enterprise is different either through sector, location, ownership, size, personnel, age, or a combination of all of these and more. We decided to look for a mix which would reflect the diversity of the Irish business community and we sought to cover a range of sectors including retail, food, hospitality, technology and manufacturing.

We also wanted to include enterprises which were solely focused on the Irish market and others which had a strong export business.

We also wanted to get a broader overview and we included business leaders and experts in the research.

I am pleased to be able to report that everyone we approached agreed to take part without hesitation. That reflects one of the points that was raised time and again by the participants. The recession brought out the best in the Irish business community and many businesses survived because of the help and support they received from other businesses.

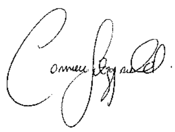
I firmly believe that the recession has forged alliances that will last forever. I have seen businesses support suppliers who were in difficulty and I have also seen suppliers continue to deal with customers who were on shaky ground. That loyalty and sense of community is being repaid now.

But that is a lesson that you can't teach. It is either part of an individual's character or it is not.

While the aim of this report was to explore what can be learned from the experiences of Irish SMEs which have survived the recession, one of the most interesting outcomes is what it tells us about the character of Irish SME owners.

Courage, tenacity, resilience, resourcefulness, ingenuity, loyalty – these are just a few of the characteristics shared by the business people who have been kind enough to contribute to this report.

And these characteristics as much as any actions that they took have been responsible for their success in recent years – the success that we celebrate and analyse in this report.



Cormac Fitzgerald
President, CPA Ireland

Introduction

Eamonn Siggins, CEO, CPA Ireland

The purpose of conducting the research for this report was to establish what can be learned from companies which had weathered the storm of the recession and emerged leaner and fitter as a result of their endeavours. The hope is that other businesses can profit from their experiences.

One of the most difficult tasks in compiling the results of the research has been in segmenting them into different themes. How do you prioritise one theme over another or even decide whether one should be included or not? Quite clearly, you can't.

To say that innovation is more important than marketing or a lower priority than the cost base would be foolish. It depends entirely on the circumstances of an individual enterprise and even then the final decision would be largely subjective.

The order of the sections in the report should therefore not be taken as any indication of the priority level of the different themes involved nor should the inclusion or exclusion of any business area be taken as a judgement on its relative importance.

Another challenge was attempting to distil common learnings from such a disparate group of participants. Usually, businesses within sectors learn from each other but in this instance enterprises from different sectors and owners from different backgrounds were deliberately sought out to give as rich a range of experience as possible.

This challenge also gave rise to perhaps the greatest surprise from the research. The responses were remarkably similar and the way the different business owners went about tackling the problems didn't differ markedly. A manufacturer can indeed learn from an hotelier, as can a retailer from an accountant.

Another unexpected result of the research is a number of recommendations for government action. While the recovery is now in evidence across almost all sectors of the economy, there are some emerging threats which can be dealt with by timely action now. There are some initiatives which could be taken which would help Irish SMEs not only continue their recovery, but also to grow more quickly and be better able to cope with future downturns.

I would like to take this opportunity on behalf of CPA Ireland to thank all of those who gave of their time to participate in and contribute to this report. I would also like to thank the many hundreds of CPA Ireland members who took part in the survey carried out in conjunction with the report. The end result is an interesting and informative view of the responses of Irish SMEs to the worst recession in living memory. We hope it proves useful to SMEs and their professional advisers in future.

Eamonn Siggins.

Eamonn Siggins,
CEO, CPA Ireland

The Participants

Becci Birchall

Becci Birchall is managing director of high quality lifestyle clothing retailer Fishers of Newtownmountkennedy, Co. Wicklow. Along with its own range of products for both men and women, Fishers has developed a retail hub on its site which now includes FOOD at Fishers Café, The Store Room, Anne Gregory Designs, Beds of A Feather and The Creation Room.

Patricia Callan

Patricia Callan is Director of the Small Firms Association (SFA) a national organisation representing the needs of small enterprises in Ireland. The SFA aims to ensure that the economic environment is conducive to small business establishment and development. The organisation offers a range of services to its 8,000 members, including economic, commercial, employee relations and social affairs advice and assistance.

Gerard Cleary

Gerard Cleary is chief financial officer of Glenisk, the family owned business which produces a range of organic yogurts and milks in Killeigh, Co Offaly. Glenisk works with 50 farmers to source quality organic milk for its products. The firm uses 90% of all the organic milk produced on the island of Ireland.

Mark Fielding

Mark Fielding is CEO of ISME, the Irish Small and Medium Enterprises Association, an independent representative association for small and medium enterprises with more than 8,750 members nationwide. ISME supports SME owner-managers by lobbying on their behalf, as well as providing advice and information. ISME also provides a number of opportunities for business networking through events and training and to do business with other ISME members.

Cormac Fitzgerald

Cormac Fitzgerald, CPA is managing partner of Fitzgerald & Partners Accountancy firm based in Kinsale, Co. Cork. Cormac has a special interest in the SME sector and employs over 110 people in the Cork area in his various businesses including a number of businesses under the Blue Haven brand. He was the KPMG Cork Business Person of the Year in 2008 and won the SFA National Small Business Award in 2013. Cormac is president and Fellow of CPA Ireland where he was also chairman of the SMP Committee and a former Chairman of the Munster CPA Society. Cormac has a special interest in working as a consultant to SMEs and entrepreneurs.

Sean Gallagher

Sean Gallagher is an experienced entrepreneur and a highly regarded speaker and business writer. He also stood, as an Independent Candidate, and was runner up, in the 2011 Irish Presidential Election. Sean is recognised nationally as a champion for small business. Today, he works as a strategic consultant and advisor to a number of established and emerging companies, both in Ireland and internationally, in sectors as diverse as venture capital, biotech, nutrition, horticulture and energy.

Ron Immink

Ron Immink is entrepreneur in residence at the Innovation Academy in UCD and is co-founder of Smallbusinesscan.com. Smallbusinesscan.com is a website which allows business people to talk with thousands of other small businesses and entrepreneurs. Business people can share insights, ask questions, tell war stories, pass on contacts and find new ways to promote their businesses.

Bobby Kerr

Bobby Kerr is an Irish entrepreneur and businessman. He presents 'Down to Business' a Saturday Business Breakfast show on Newstalk and was a founding 'Dragon' on RTE's Dragons' Den. Featured on the show from 2008 to 2012 Bobby is still involved with 10 of his investments. He is the Chairman of Insomnia Coffee and one of the owners of Bang Restaurant. He has a variety of business interests in food & hospitality, technology, manufacturing and retail. Bobby is also a popular public speaker and business mentor.

Gail McEvoy

Drogheda business woman, Gail McEvoy, CPA, is a Past President of the Institute of Certified Public Accountants in Ireland (CPA Ireland). Gail McEvoy has been the Principal Partner of McEvoy Accountants, Drogheda since 1999. She was appointed to the Board of the International Federation of Accountants (IFAC) in 2013 and has previously served in an advisory capacity for the IFAC Small and Medium Practice Committee.

Deirdre McGlone

Deirdre McGlone is owner of Harvey's Point Hotel in Lough Eske, Co Donegal. Recently rated as the "No 1 Hotel in Ireland" by TripAdvisor, Harvey's Point has won a series of awards over the years including AA Hotel of the Year, Ireland's Best Carvery and Ireland's Best Wedding Venue. The hotel boasts 64 high quality suites and prides itself on the quality of its welcome.

Shirley O'Kelly

Shirley O'Kelly is managing director of the award winning Timbertrove, a 100% Irish owned family business which designs, manufactures and installs high quality timber products, many of which are custom made to suit specific requirements. The company's success is based on differentiation through innovative design, quality materials, craftmanship and a dedication to customer service.

Fergal Quinn

Independent Senator Fergal Quinn is the founder of the Superquinn Supermarket chain which is now owned by SuperValu. He has presented two TV series on RTE and is an international board member of the US Food Marketing Institute, a former president of the global The Consumer Goods Forum, and former president of the EU-wide lobbying group Eurocommerce.

David Walsh

David Walsh is co-founder and group CEO of Netwatch, an award winning provider of remote visual surveillance services. Netwatch visually detects criminal activity before the intended target is reached and intervenes by issuing a live personalised audio warning. Netwatch now employs 150 staff in three continents. A vocal advocate of entrepreneurship, he is a founding member of FUSE, an alliance of like-minded entrepreneurs whose aim is to stimulate growth among existing businesses in the South East region.

Time is of the essence

The strategies and formulas adopted by firms in order to fight their way through the recession bore many common traits but also varied in accordance with the circumstances of the companies and sectors in question. However, the successful strategies shared some characteristics and among those was the speed of response to the crisis.

One factor that set the Great Recession apart from many of its predecessors was the rapidity with which it took hold – particularly in Ireland. Some have compared it to falling off a cliff while others have spoken of it as being like a light switched off.

There was no breathing space, no time to take stock or call in consultants. The storm came suddenly and, for many businesses, without much warning. Those firms with reserves built up from the good times had some room for manoeuvre but in many cases quickly found that disappearing as debtors went out of business.

While there was no magic recipe for survival one lesson which has emerged is that it was vitally important to start introducing the ingredients as soon as humanly possible. And this is a recurring theme among businesses which have come through the recession in reasonably good shape. With events in the financial and other markets moving at an unprecedented pace the rapid responders appear to have been those who dealt with them best.

"It was like a corporate A&E department", says entrepreneur Sean Gallagher. *"Businesses had to stop the blood flow first. They had to stop spending on everything that was not contributing to the bottom line. Those who didn't do this straight away continued to bleed and their resources drained away. They had to right size and live with where the market was at the time. Survival was the new success. They cut costs, they cut overheads, they cut spending, and then they had to do it again."*

ISME chief Mark Fielding echoes this sentiment. *"One thing I would say is that the ones that have survived are the guys who moved fast and cut deep fast. They didn't suffer death by a thousand cuts. The guys who thought there was going to be a soft landing and continued listening to some economists ended up suffering most."*

Sean Gallagher

"They had to stop spending on everything that was not contributing to the bottom line. Those who didn't do this straight away continued to bleed..."

Shirley O'Kelly of Timbertrove/ O'Kelly's Sawmills recalls the rapidity of the downturn. *"Literally overnight it was as if someone had turned the lights off. All the sites stopped dead overnight. We had 49 people working for us and sales plummeted. We couldn't get our costs down quickly enough. It all happened so fast."*

But moving fast for the sake of it is no solution either. While there may have been obvious areas for cost trimming these did not necessarily add up to a strategy for survival. *"One of the big things that came out of the recession is that you have got to have a strategy", Gallagher points out. "You've got to come up with it quickly and you've got to explain it to your staff."*

According to Netwatch chief executive David Walsh that strategy involved changing the business to meet the changing times and doing it quickly. *"In January 2008 we brought our 45 staff to a meeting in the Seven Oaks Hotel in Carlow and we told them that we knew that change was happening around us. We did a lot of work with the construction sector and we saw the change coming."*

The proposal was radical and involved a major investment in the business at a time when others were retrenching and scaling back but he believed that this was the only option. *"Hope is not a strategy", he says. "The choice was either to stay the way we were and hope for the best or invest in the business."*

This resulted in a €3.5 million investment in a new communications hub for the business in Carlow as well as the establishment of an in-house R&D department. This proved the springboard for an expansion which has seen turnover and staff numbers more than treble since, while the company has also expanded successfully into the US and UK markets and also has a presence in East Africa.

Former CPA Ireland President and current Board member of IFAC, the global body for accountants, Gail McEvoy points to how rapid yet strategic response was the key to success for many. *"The ones who have survived; it's not rocket science. The first thing they did was cut down costs to next to nothing. They had to think twice before spending a penny. Discretionary spending practically disappeared. But those that tried to cut corners with the products or services they were supplying to people, found that it didn't work."*

Current CPA Ireland President Cormac Fitzgerald agrees that swift actions such as cost cutting without a strategic focus actually did a lot of damage in many cases. *"2008 was the perfect storm – property and equity markets dropped at the same time"*, he notes. "*The reaction was to cut costs but in some cases by cutting costs right down they actually stopped doing business in some areas where they had been successful and where they should have continued. There was no room for delay but sometimes it was good to have two people running the business, one focused on business development and the other on cost control. These are two separate mindsets but you have to have both in the long run."*

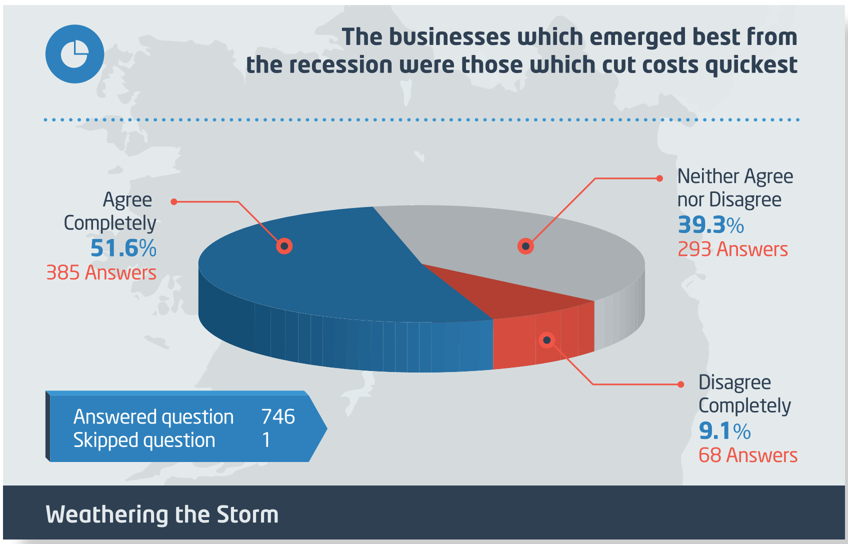
Becci Birchall

"If we hadn't made the adjustments we wouldn't be in business. Speed was critical. We had to drop some key brands and we had to do it quickly."

Of course, there remains the question as to whether the recession simply forced those businesses into taking decisions more rapidly than they might otherwise have done, if at all, or if it was the case that the people involved were already well equipped to deal with what was happening.

SFA chief executive Patricia Callan believes that those who made the quick decisions were already well prepared for what was to come. *"Those that were running well managed businesses made the tough decisions very early on. Speed of reaction was a big factor in the survival of many small businesses. They had hit a cliff not a gradual decline and had to react quickly. This led to a fundamental rethink on the part of many of them. We saw lots of owner managers returning to sales. Some businesses had become order takers and were not actually selling. They had to get back to the basics and get out there and sell again."*

Becci Birchall, MD of Fishers of Newtownmountkennedy, certainly agrees: *"If we hadn't made the adjustments we wouldn't be in business. Speed was critical. We had to drop some key brands and we had to do it quickly. It's something my father and I share, we are not afraid to make decisions and get on with it. I think it's a good thing. Making a decision is better than doing nothing. It's better than stagnation. You have to be proactive and not just reactive, but you have to be reactive to events as well of course."*



Key learning:

It is frequently the speed rather than the nature of the action which determines its effectiveness. Businesses which started the process of cost cutting or other remedial actions too late may have found themselves suffering from a further loss of competitiveness and therefore made an already bad situation worse. The lesson for the future is that while rushed solutions may frequently be ineffective undue delay can be fatal.

Getting costs back under control

Bobby Kerr

"If people were prepared to pay anything for a product or service there would be ten times as many competitors in the marketplace. You have to start with the cost base..."

The phrase "rocket science" came up time and again in the discussion on the need for businesses to address their cost bases back at the beginning of the recession. There was general agreement that costs had been allowed to get out of control somewhat and that a correction was necessary and long overdue.

The question for many businesses was how to effect that correction. In highly labour intensive businesses, the challenge was cutting costs without compromising service or quality. For others it was a question of where the axe could fall without harming the business in some unforeseen way.

Sean Gallagher sums up the position quite succinctly. *"A lot of companies realised just how much money they had been wasting"*, he says. *"They had to right size and live with where the market was at the time. They cut costs, they cut overheads, they cut spending, and then they had to do it again."*

Mark Fielding is even more pointed. *"There was a dramatic fall in both the value and volume of sales. People had been getting money for old rope up until the recession. Things changed and business owners had to start running tight ships. There was too much fat and it had to be cut away."*

Bobby Kerr believes that the key learning from the recession is the need for businesses to get the cost base right. *"The way to make money is by selling things at a price people are willing to pay and at the right margin for you"*, he says. *"If people were prepared to pay anything for a product or service there would be ten times as many competitors in the marketplace. You have to start with the cost base, that's the number one priority."*

Kerr practiced what he preaches in this regard. *"We took a lot of cost out of the Insomnia business. We closed a kitchen and we took a few vans off the road. We had to maintain our margins, which we did."*

"Sales were increasing every year but we were definitely flabby when it came to our costs", is the refreshingly honest view from Becci Birchall. *"But it didn't matter back then – everyone was the same. "What we did first was look at the cost base side of it. We looked at our stock; we looked at our opening hours; we looked at our staff; we looked at all other costs such as utilities and so on."*

Her approach was to take external advice from two mentors and to look at what adjustments could be made without risking sales. *"It was great to be able to get someone to see the business through external eyes"*, she says of the mentors. *"In terms of cost cutting our Electronic point of Sale (EPOS) told us when sales were happening. We had been opening from 9:30 to 6 and now we open from 10-5. Our first sale wasn't happening until 11 and our last was at 4:30. We were opening for longer than we needed to be. Our tills told us that our busy time was from 12:30 to 4 and we were able to focus on that."*

The EPOS was also used to drill down further into sales patterns. *"It allowed us to look at our suppliers and see what was selling and what was not.*

It also enabled us to look at what was profitable for us to sell and to decide on which brands to keep and which lines to discontinue. We also looked at the price points we were selling as we had started seeing consumer resistance at certain levels. We were able to make the adjustments but there was a considerable time lag as in this business you buy stock six months ahead."

She also addressed the issue of costs and margins during staff training. *"Sometimes retailers get a bad press for the margins they take but they are needed. At a staff training day a while ago I took out a scarf and took a scissors to it. I cut off various pieces to represent the cost price, the rent, the light, the heat, the VAT, the staff costs, and so on. We were left with one tiny sliver which was our margin and I pointed out that we couldn't afford to offer any discount on that item despite the fact that we appeared to be making such a big margin on it."*

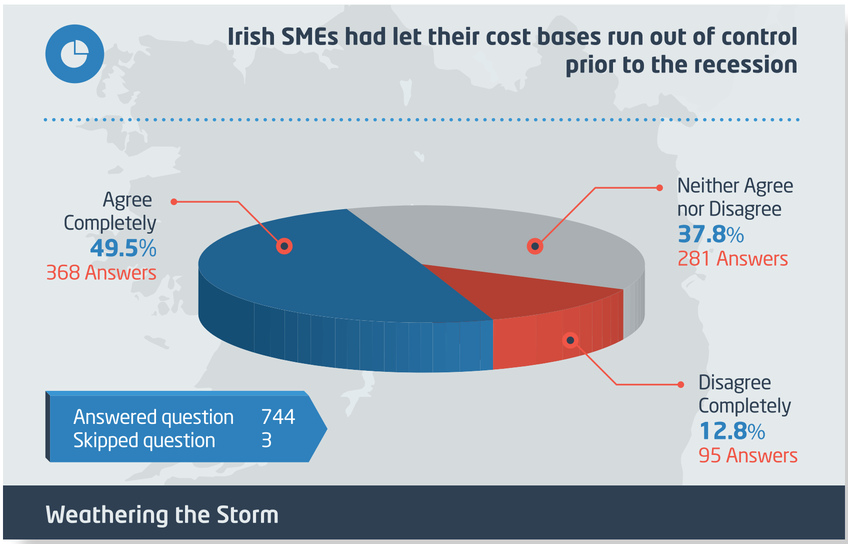
Shirley O'Kelly recalls the rapidity of the downturn. *"We couldn't get our costs down quickly enough. It all happened so fast"*, she says. *"We probably hung on a bit too long before making cuts. If I was doing it again I would do it more quickly. We had to have redundancies. It was the hardest thing I have ever done. We knew their families. It took a lot out of us. We went from 49 staff down to 13."*

While Timbertrove is growing again and staff numbers are on the rise the focus on costs remains. *"It's important to have a good simple computer system that gives you the right management information every month. You need to be able to see your profit and loss account every month. There's no point in getting it at the end of the year. It's vital to have up to date information. It's still tough but we're out of survival mode now. We have to work smarter to keep control of our costs. We are still working on reducing our administrative costs."*

Harvey's Point Hotel in Donegal prides itself on its high quality of customer service and significant staff cuts were therefore not really an option. *"We got our staff together and told them that our objective was to have no redundancies"*, says Deirdre McGlone. *"They agreed to a 10% pay cut and a three day week during winter and this helped us cut spending without any redundancies. The recession has made us stronger as a business. Before that we were a turnover driven business and we weren't focused enough on costs. Our bank manager used to say that we were running it with our hearts and not our heads. Now we are doing it with both."*

While staff costs are a fairly obvious area of focus during difficult times some of the measures were not necessarily as effective as they might have been. *"There is a tendency to hold back on redundancies and wage cuts initially", Mark Fielding points out. "Many of them went for the option of putting people on short time instead. Now that the staff are going back full time they are back on Celtic Tiger wages and that's not sustainable. It might have been better if they had negotiated new wage rates back at the outset."*

He also points to the issue of where not to cut. *"The loyalty of staff to a small business is very important and there is always a fear of losing key people. There is a lesson in that as well. Sometimes people put on short-time working used the spare time to set up competitive businesses of their own so care has to be taken."*



Interestingly, a recent CPA Ireland member survey found mixed views on this issue with less than half (49.5%) of respondents agreeing that *"Irish SMEs had let their cost bases run out of control prior to the recession"*. On the other hand, just 12.8% disagreed while 37.8% neither agreed nor disagreed.

These results mirrored the responses to the proposition that "*the businesses which emerged best from the recession were those which cut costs quickest"*. In that case just over 51% agreed with less than 10% disagreeing and the remainder neither agreeing nor disagreeing.

These results probably support a point made by Mark Fielding who believes that some sectors were better prepared for the downturn than others and didn't have as much work to do on costs. *"Take the guys in the precision engineering sector who had invested in equipment and efficiencies back in the 80s and 90s. They had already come through a recession and had invested in quality and lean at an early stage and came through the last recession quite well as a result."*

Gail McEvoy sees a positive in all of this. *"Businesses have become very cost aware and conscious of every cent spent"*, she comments. *"It's right across the board but it's not so much a case that they are not spending at all but that they are spending more wisely. Businesses have become much more aware of the labour laws and how they affect costs and that will stand to us."*

However, while much has been done to address costs and put in systems to keep them under control, there are fears in relation to upward pressures now that the recovery is taking hold. *"One concern I'm having now that we are on the path to recovery is rising costs"*, says Patricia Callan. *"We are seeing wage pressures, pressures on public spending and so on. I am very concerned. The most recent National Competitiveness Council report points out that we are already slipping in some areas. We have to look at things like commercial rates which are already too high. It is very worrying."*

Patricia Callan

"...recent National Competitiveness Council report points out that we are already slipping in some areas. We have to look at things like commercial rates which are already too high. It is very worrying."

Her fears are shared by Bobby Kerr. *"Costs are still going up all around. Construction costs have actually gone up because regulation has increased for building and planning. The construction industry was all but annihilated and it is still struggling but the increased costs it is facing is going to hold back the recovery. It means that businesses like Insomnia will look to move into something that's already there rather than a new build. If you're opening a restaurant and go into an existing premises you're going to save an awful lot of money. That has to be looked at."*

Key learning:

While there is agreement that cost control had been lax to say the least during the recession the main challenge facing many businesses was not how much to cut but where. Targeted surgical cuts were seen to be more effective than across the board measures. Getting it right was more important than getting it down. A heartening message is that those businesses which had dealt successfully with an earlier recession and entered the last one with good cost disciplines in place came through it quite well. This augurs well for the future of those firms which have survived this recession trimmer but tougher.

However, while businesses seemed to have learned the lesson, there is evidence that the government has not. Several participants pointed to rising cost pressures in a number of areas including construction, property, and wages and there is a clear need for the government to take action now in relation to these before they have a negative impact on the still fragile recovery.

Changing the business to meet the circumstances

Ron Immink

"They learned to adapt their business models by adopting new technologies and embracing new ways of doing business like outsourcing."

Changing direction is not always a sign of past errors but is very frequently an indication of changed circumstances. John Maynard Keynes famously responded to a critic who accused him of having been previously mistaken on some matter by saying *"When my information changes, I alter my conclusions. What do you do, sir?"*

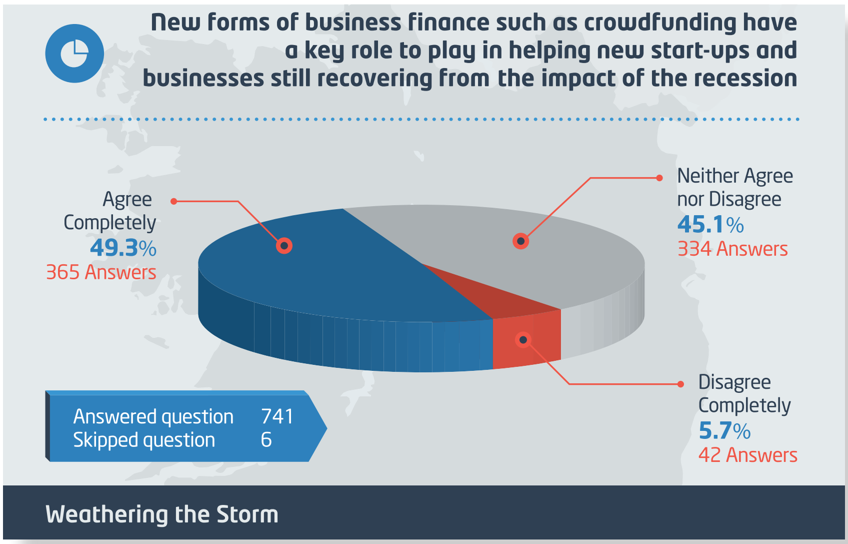
A shared characteristic of many successful businesses in recent years has been their willingness to adapt and change to meet altered environments. People often talk about Apple as an example of a company which fundamentally changed its business model in order to turn around its fortunes but we can find very good examples much closer to home.

Aer Lingus has successfully morphed from a high cost full service airline into what might be called a hybrid carrier which can compete on price and service with both low cost and full service carriers on short-haul routes while still maintaining a well performing long-haul business.

The fact that it takes the shock of a major recession or other disruptive event to force a business to change course should not be a cause for lament, however. Openness to change is always good but doing so at the expensive of abandoning the core business – Lee Iacocca's "knitting" – can be counterproductive. The evidence from the participants in this report is that Irish businesses seem to be getting the balance just about right.

"One of the good things to come out of the recession was that many of the businesses which survived came out of it leaner and meaner", says Ron Immink of the small business community forum, Smallbusinesscan. *"They learned to adapt their business models by adopting new technologies and embracing new ways of doing business like outsourcing. I think many Irish companies can now compete with the very best in Europe. But they had to have a strategy and a vision to be able to achieve that. If you look at it from a military perspective no plan survives first contact with the enemy but you have to have a plan as a framework for the decisions you need to make after that."*

While not fundamentally altering the core business model for Insomnia, Bobby Kerr embraced the franchise model through a partnership with Spar. This has allowed Insomnia to expand its market presence through the opening of some 200 additional sites across the country at no capital cost to the main business. *"The franchisee looks after the costs"*, says Kerr. *"It costs €200,000 to open an outlet. The M1 J14 outlet is selling 20,000 cups of coffee a week. That's a serious amount of coffee and it is now one of our busiest outlets."*



Shirley O'Kelly

"Everybody else was against the idea but I said it's something we have to try. It was our last shot. It was something that would work or not."

Shirley O'Kelly is not afraid of saying that she went out deliberately to see if she could learn from and copy others. *"I started to read a lot of different books to see if I could learn from others like Steve Jobs and Zev Siegl of Starbucks. One thing I learned is that you have to be positive and another was that we had to change our business model and the way were doing things. We changed our focus as well. Rather than just concentrating on sales all the time we started looking at the bottom line. We stated looking at cost control and our margins and specialised a bit more in our product range."*

This worked to a certain extent but still wasn't bringing in the customers. O'Kelly's eureka moment came when she had the idea of opening a café on the site of the business. *"I always had a dream to open a country store and café"*, she says. *"Everybody else was against the idea but I said it's something we have to try. It was our last shot. It was something that would work or not. We put our last bit of money into it. We opened in September 2012 and very quickly it was bringing in 3,000 customers a month. We also had people coming in who had never seen the place before and saying that they never knew what we did. By changing our business model we became a destination and not just a timber yard. One of the suppliers to the timber business came to me afterwards and said that he had never thought that a coffee shop could save a sawmill. Norah Casey gave me a great tip once – if you're losing money stop and stand back . Don't keep doing the same thing because you're going to get the same result. Change is crucial."*

Netwatch was doing very well in 2007 but saw some straws in the wind which indicated that change was coming. As a result the company committed to a major investment programme and altered the basis on which it did business with its customers. *"We changed the way we did business"*, says David Walsh. *"In the beginning we sold the equipment and a service contract. The recession saw things getting tough. That business model wouldn't work anymore so we changed it and started giving the equipment for free with a five year contract and we charged for the relationship. There was no cheque upfront. This had a powerful effect on the business. It made for increased capital expenditure on our part and it changed our business model. This year we will have €15 million in recurring income."*

The Fishers approach was to fundamentally alter their relationships with suppliers. *"We developed partnerships with a number of our existing suppliers as well as some new ones"*, explains Becci Birchall. *"In some cases we came to arrangements where we would take their stock on a concession basis. This meant that it was on a sale or return basis. We had a lower margin but there was a big advantage in terms of cash flow and the fact that we had the whole range available to our customers. Also, we didn't have to take any hit on margin at sale time."*

"In other cases suppliers would sell to us at the wholesale price but we would only pay when the stock was sold", Birchall continues. *"We were also able to arrange payment plans covering the whole season with other suppliers. All of these different types of partnership have been fantastically beneficial to us. We effectively changed our whole business model. It's been really interesting. When we started doing this a lot of our suppliers were reluctant to even talk to us about it. By the time we got to 2010 they were approaching us offering deals."*

Key learning:

A recurrent theme among participants is a willingness to change the way they do business in order to meet the needs of the market. In some cases this meant modifications to the pricing model which previously had been based on the costs of production and is now dictated by the market. In other cases the sales model itself had to be changed to meet the needs of customers.

The courage shown by companies in giving up sales of certain lines in order to improve overall net margins is also noteworthy. Possibly the most interesting lesson is how bolting on a seemingly conflicting activity can actually enhance or even save a business. In all cases, however, the lesson appears to be that willingness to change plays a key role in the ability of businesses to withstand a crisis.

Finance

One of the more striking features of this study is the relative absence of mentions of the availability of finance. This can in part be explained by the fact that this report focuses on the success stories to emerge from the recession rather than the casualties.

Another factor relates to the relatively small role which the banks have traditionally played in the SME sector as a whole. A continuing theme in the narrative of small and medium sized business development in Ireland for many years has been the lack of bank credit available to the sector. While it undoubtedly became even harder to come by during the recession, there was never a time when anyone would claim it was easily available.

Certainly, the results of the CPA Ireland member survey indicate that the lack of availability of finance had a major impact on businesses during the recession. More than 85% of respondents agreed that lack of bank credit during the recession made a bad situation worse for many businesses. Just 4% of respondents disagreed.

Surveys carried out by ISME confirm this paucity of bank credit. "*We have been doing credit surveys since we were founded back in 1993"*, says Mark Fielding. *"Up to 2007 the refusal rate was between 18% and 22%. In September 2008 it went up to 58% and has come back down to 48% since then. There is a lot of fear and ignorance among bankers when it comes to dealing with SMEs. When you go to a bank looking for a loan the HQ says it is open for business but when you go into the branch they are afraid of their lives of giving out further bad loans. They are not able to assess the applications. But they are starting to get a little bit better. The banks have come on in how they are dealing with the debt issues. They have some good guys who are doing that."*

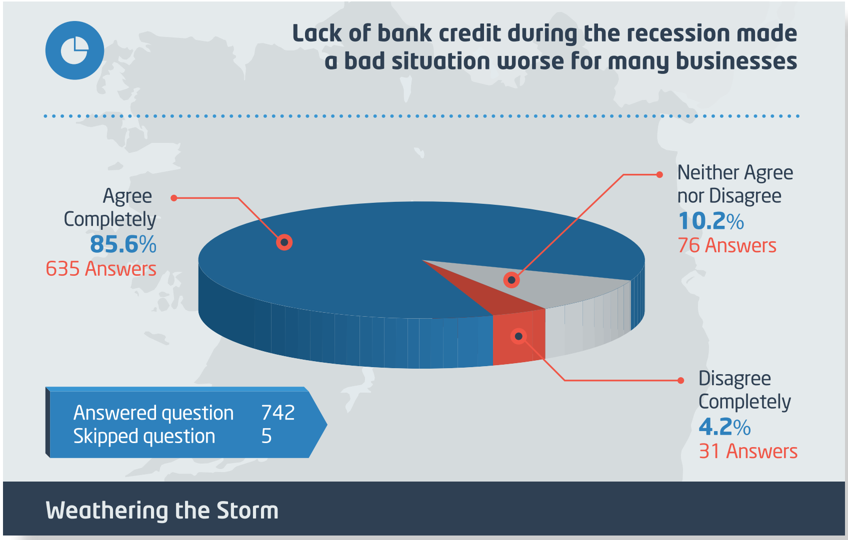
Bobby Kerr agrees that banks have become more risk averse. "*The banks will not take risks now",* he says. *"Credit is available but only for gilt edged propositions. A quarter of businesses have no debt or overdraft but one of the key priorities over the past three to four years for many businesses has been paying down debt."*

Business people were forced to fall back on their own resources in the absence of support from lenders according to Gail McEvoy. "*Some business owners drew no salaries for long periods",* she says. *"Businesses struggled a lot more than they might have because of lack of access to finance. I have to say that the Revenue Commissioners have been quite good on payment plans though."*

Cormac Fitzgerald agrees saying that a lot of businesses had to get through the past six years on their own with no access to finance. *"The two most crucial things are access to finance and legacy debt. Working capital is also a major issue. Initiatives by the Department of Finance in areas like working capital are very welcome and a lot of work has been done in this area. That will be valuable for the future. Thankfully, the banks seem to be engaging on legacy debt. Those that have survived went through extreme pain and lots of sleepless nights as to how they were going to pay the wages. They got through it with the support of family, friends, and loyal customers. I have seen businesses who stayed loyal to customers when they were in difficulty and that loyalty is being repaid now."*

"You will find lots of business owners out there who have not been paid for the past two years", adds Bobby Kerr. *"They have done that to keep the business going and it has worked."*

According to Patricia Callan the supportive environment among businesses did help but times were very tough. *"Those that were running well managed business made the tough decisions very early on and they were also good at managing their relationships with the banks",* she says. *"Bank credit has been an issue with around 25% of companies. A lot of our data shows that most were not all that reliant on banks anyway. It's a mixed message. The majority of businesspeople have always run tight ships. There certainly were working capital issues. A lot of that has settled down now. Some business people had to do equity injection themselves. There is a balance sheet issue with some businesses but the banks are taking a pragmatic approach to many of those cases and are working towards solutions."*



Shirley O'Kelly recalls the feeling of isolation. *"We were going one step forward and two back. I had lots of sleepless nights, the banks were on our case, and we were getting no support from anywhere. We just had to keep fighting and we put the last of our own money into the café in the end."*

Fergal Quinn believes that credit was there for businesses with the right propositions. *"Carrie's Cakes in Ennis is an example of a business I came across recently"*, he recalls. *"The business had not been doing well and the owner lacked confidence. She lacked the confidence to go to the bank to look for the money she needed to get the business going. But when she went to the bank with a well prepared plan for the business she got the money."*

This is a point echoed by Deirdre McGlone. Along with her husband she had invested €4.6 million in upgrading Harvey's Point Hotel in 2005 and thus entered the recession with a significant level of debt. *"We took the plunge and went with a big investment and transformed the property into a hotel product which met international standards"*, she says. *"But we met all of our debt obligations during the recession. We were able to source credit when we needed it. We needed to keep something in the kitty to continue investing in the property to keep up standards. It was very tight."*

Some businesses like Netwatch were fortunate enough not to have to rely on the banks or external investors. *"We never took on a venture capital investor"*, David Walsh points out. *"We had a very strong vision and always invested our own resources. Unless someone was bringing more than money we were not interested."*

But there is some good news emerging for businesses which need working capital or equity finance for future expansion. *"There are alternatives to the banks now"*, Bobby Kerr points out. *"Microfinance Ireland, Linked Finance, crowd funding and other sources of small money. These are out there for businesses. There are places you can go now for small amounts that didn't exist before the recession. They haven't been around long enough to be able to assess how successful they will be. But it's good that the void is being filled by people other than the banks."*

"The emergence of crowd funding has been very welcome", adds Cormac Fitzgerald. *"We need more innovative schemes for crowd funding. There is little enough there for start-ups or small businesses aiming at expansion. There are no real sources of working capital for them other than their own money."*

The CPA Ireland member survey results reflect the early stage of this form of financing with slightly less than half of respondents agreeing that *"new forms of business finance such as crowdfunding have a key role to play in helping new start-ups and businesses still recovering from the impact of the recession."* Interestingly, a very high 45.1% of respondents neither agreed nor disagreed with this statement. That is probably an indication of a reserved judgement on the part of those respondents.

That said, the fact that a mere 5% disagree shows a strong welcome for this form of finance and a willingness on the part of professional accountants to give it a fair wind. This will be very important for businesses who choose this path to raise funds.

Bobby Kerr has some stark advice for business people who may find themselves at the other end of the cycle. *"People with businesses* *still struggling under very large debts should consider selling up"*, he counsels. *"Getting out from under the psychological burden of the debt will help give them the boost and the strength they need to start again. And if you have made up your mind to do that you can go to the bank and let them know your thinking and that might make them more willing to cut a deal in those circumstances. One way or the other it's a resolution."*

Key learning:

Unsurprisingly, the businesses which came through the recession best were those which came into it without the burden of large legacy debts, especially debts incurred for non-core business purposes. For example, businesses which had borrowed heavily to purchase premises at the top of the property boom found these non-cash generative assets a burden on performance rather than an investment for the future. On the other hand, where companies had borrowed prudently to invest directly in the business the debt, while sometimes onerous, tended to be manageable.

This is the classic wisdom of hindsight; every investor would have borrowed to buy more shares if they had known a boom was coming and would have sold if they had been aware of an impending crash.

One lesson which comes through loud and clear is that business owners have to be strong and resilient characters to come through a recession and any personal supports such as business networks are extremely valuable at such times.

Another lesson from the experiences of businesses who came through the recession is that banks are not really in the business of risk lending and never will be. Where working or growth capital is needed it has to be found elsewhere either through government backed early stage capital schemes or through other resources available to the business owner.

For the future, these other resources might take the form of crowdfunding or other platforms as well as the growing number of seed and equity schemes backed by the government. In these circumstances the government should investigate whether some of the support it currently provides for SME lending and capital schemes could be diverted to help kick-start the crowdfunding sector in this country.

David Walsh

"We had a very strong vision and always invested our own resources. Unless someone was bringing more than money we were not interested."

Maximising the human resource

The claim that *"our staff represent our greatest asset"* has now become clichéd through repetition. This is a great pity as for a great many businesses the biggest single yet unmeasurable asset is their staff. Service businesses in the hospitality, retail, transport and other sectors not only rely on their staff to deliver the service but to treat their customers in a way that will make them return.

And even when staff are not at the frontline of service delivery, businesses still rely on them to put in the effort that turns plans and strategies into reality. The commitment of staff is never more critically important than in times of difficulty.

This presents a significant conundrum for SME owners. On the one hand they are faced with the need to cut costs while on the other a major proportion of their costs is accounted for by their greatest asset – how to trim one without damaging the other.

Redundancies have a human cost not only on those who lose their job but on their colleagues who are left behind as well. Morale is impaired and fear and uncertainty in relation to their own job security can impact on performance. Pay cuts can have a similar effect.

"There is also a question of how to decide where not to cut", Mark Fielding advises. *"The loyalty of staff to a small business is very important. There is always a fear of losing key people."*

A very encouraging result from the research carried out for this report is the fact that Irish business owners pay very much more than lip service to the notion of staff as an important resource and many are quick to give credit where it is due when it comes to the role their people have played over the past few years.

Netwatch's David Walsh believes that his staff have played a critical role in the success of the business. *"One of the things we really started investing in was our own people",* he says. "*At the end of the day we are a service company and quality of service is vitally important to our successes. If you look at the figures now; we had 45 people on January 8, 2008 and we now have about 150. We are just entering our 46th quarter and we have grown in every single quarter and have been profitable for the past 44. That's down to the people and the culture of the organisation."*

He has strong views on how the leadership of a business should behave when times get tough. *"Don't get involved in the blame game"*, he exhorts. *"It's easy to offload responsibility. We have seen a transformation in Netwatch as a result of getting our people to buy into our strategy. We had no cuts in staff or salaries. We told our staff the plan and that the safe option was too dangerous for us. We gave our solemn word that there would not be one redundancy or salary cut as a result of the recession. In return our staff gave their full support to the strategy."*

And that support goes further than simple acquiescence or agreement. *"If you take your staff with you and get feedback from them on how to improve customer services you will succeed",* Walsh points out. *"We know that our staff will come back constantly with new ways to delight our customers. The more the people in your organisation feel empowered the more they feel they have a meaningful part to play in the business."*

Becci Birchall is another believer in the upfront approach to dealing with staff. *"When staff come to work here they tend to stay. We have enjoyed great loyalty and that's been very important. That's partly what made us so reluctant to have any redundancies. The loyalty of our staff has been very important. We have always been honest and open with them in terms of what we were doing with the business. That may have meant changes to their hours etc., but they bought into that because of the strength of our connection with them. The support of our staff has been phenomenal."*

Explaining the strategy is vital according to Sean Gallagher. *"You've got to explain that strategy to your staff. Everyone needs to know where they're going. They need to be involved. They all have a stake in it and a part to play and they need to be incentivised."*

Communication has also played a key role at Harvey's Point Hotel. *"We got our staff together and told them that our objective was to have no redundancies",* says Deirdre McGlone. *"Our staff agreed to a 10% pay cut and a three day week during winter and this helped us cut spending without any redundancies. But there*

Mark Fielding

"The loyalty of staff to a small business is very important. There is always a fear of losing key people."

were no compromises on quality. Open communication with the team has been crucial."

The same applies to the Insomnia Coffee Company. *"Most of our efficiencies came through outsourcing and purchasing"*, says Bobby Kerr. *"Our staff are very important to us and we didn't change that. You need to be able to explain to your staff that you are all part of the same team. You also need to lead by example. If you are going around the same as usual and not seen to be taking the pain yourself you will run into problems. Morale will fall and this will impact on the performance of the business."*

Cormac Fitzgerald points to a lesson businesses can learn now that they are emerging from the recession. *"You have to hire the right people and have the right team",* he points out. *"You can't afford to make mistakes when hiring people any more. In the Celtic Tiger you could afford the occasional mistake. It's not a cliché; if you have the right team and the right business plan you will succeed. That means that you've got to be very careful and vet everyone you take on. The wrong person can damage the business, and many businesses learned that the hard way. A lot of businesses got it wrong before the recession. A HR study back then showed that 60% of people hired the wrong person for the job."*

Patricia Callan looks back as well as forward. *"Huge thanks must go to employees for the productivity increases they gave. That shouldn't be understated. It was a question of businesses and employees looking at what they could do better and business owners engaging with staff to work together on it. But education and skills investment has slipped nationally and there is a need to get back to previous levels."*

Key learning:

The frequency with which the term "open communication" came up during conversations on this topic was striking. In every case where business owners engaged with staff, explained the challenges being faced and the strategies for meeting them employees gave their wholehearted commitment to those strategies. The lesson, which more than one participant adverted to, is that this open communication must continue in the good times as it will support future growth and success and help prepare for further challenges which may lie ahead.

There is also a need for senior managers and owners to take their share of any pain being meted out. Perception is reality in these matters and nothing is more assured to build resentment among staff than the feeling that cuts are not being shared equally.

Looking to the future, the importance of having the right team cannot be understated and the need to ensure that recruitment mistakes which may have been made in the past are not repeated now the crisis appears to be behind us.

Finally, there is a timely reminder that public expenditure cutbacks have led to reduced investment in training and skills. This could impact on the overall quality of the workforce in the longer term with negative consequences for competitiveness. While there are many competing calls for increased expenditure by the state now that the public finances are returning to health, strong consideration should be given to enhanced investment in skills training.

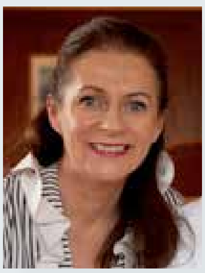
Fortune favours the brave in marketing

Warren Buffet, that most quoted and quotable of business people, once advised investors to "*be fearful when others are greedy and greedy when others are fearful*". That seems to have been the line followed by many successful Irish business people when it came to marketing and customer relationships during the recession. They weren't afraid to spend to hold onto existing customers and win new ones.

They were also willing to take risks in order to keep their businesses afloat. Sometimes that risk involved price cutting, at other times it was increased marketing spend, and at others it was a cost increasing measure aimed at meeting the needs of a particular target market.

Bobby Kerr had to follow a risky price cutting strategy in order to keep the customers coming through the doors of his Insomnia cafes. "*We had to have a strong value proposition*", he recalls. *"We brought in a series of value deals – coffee plus a pastry for one price or coffee plus a sandwich for a fiver. If you had bought a coffee and a sandwich in 2006 it would have cost €7.30. We reduced the price of the bundle not the individual items. We reduced the bundle price by 28% and within 12 months 50% of our sales were in those areas. We kept the same amount of people coming in the doors but they were spending less. This was our key survival strategy and it worked. It is still a fiver for a coffee plus a sandwich today."*

He learned from that experience. *"There's a time to discount and a time not to. It proved to me that good value propositions work. The consumer is always smarter in the end and they will find the best rates but they will still insist on value and quality as well. You can do a value proposition in the B2B space as well. We don't all have to be manufacturing something that we sell to the public. It can be about structuring and pricing services that win new business. People in SMEs have learned that they have to get up and get out there and sell."*



Deirdre McGlone

"We changed and started looking at the US market... and we promoted our welcome and our standards to them."

Shirley O'Kelly not only opened a café to attract customers to her sawmill business, she extended the working week to seven days. This increased costs but she believes it was necessary if the business was to reach its target market. "*We wanted to aim at a particular market – the 50 to 55 plus market. They are people with money to spend and are looking for value in good quality products. But we had to be open at times that suited them. We now open seven days a week. Sunday is a very good day for our target market as that is a day when you can get both partners to come together to look at the products and make a decision. It took some people here a while to get used to working on a Sunday but it worked."*

The marketing budget was a no-go area for cuts as far as Becci Birchall is concerned. *"Marketing has been hugely important to the business"*, she notes. *"Our marketing budget was always quite small but we made sure we maintained it. The biggest part of it now is digital marketing and we have 6,000 customers on our email database. We've continued to spend money on*

Gerard Cleary

"We boosted our marketing spend in 2007. We figured that others would be cutting back and that we could get more bang for our buck by increasing ours."

that. We run events in the store. We have a series of fashion shows during the year and this gets people in. We also put on charity events with local charities. We have a lot of partnerships with local businesses – hotels and so on. We have run joint promotions with Druids Glen and the Glenview for example."

But it was more than just sales promotions. *"We looked at what we sold and what our customers wanted. Our customers still wanted quality and functionality and style but at a more affordable price. We went and found new suppliers to give us that. It's interesting that when you put the effort into finding new suppliers they were able to offer us better deals and support than many of our existing suppliers."*

Netwatch didn't just maintain its marketing budget, it increased it. *"We doubled our marketing budget when others were cutting"*, says David Walsh. *"If you don't put out the fertiliser you don't get grass. If a farmer cuts back on fertiliser and doesn't feed cows the cows will die and he's out of business. One of the things we are very good at here is recognising the signals from the market. We just knew that things were happening and changing. It's what happens in real life."*

The same strategy was employed at Glenisk. *"The trend across the industry was cutting back and cutting costs"*, says Glenisk chief financial officer Gerard Cleary. *"We made a conscious decision not to cut back on new product development and marketing. We boosted our marketing spend in 2007. We figured that others would be cutting back and that we could get more bang for our buck by increasing ours."*

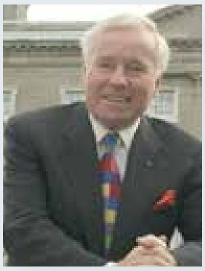
And the company deliberately avoided traditional channels. *"We didn't do radio or TV. We went out and got the product into people's mouths. We popped up in surprising places like at the launch of the Green Luas Line. We also teamed up with like-minded companies on joint promotions. For example, at one stage Airtricity used a piece of our packaging for a consumer offer. Universal Studios also used it to advertise a new movie. That's how we work . We look at interesting ways to market the product but we never pull back from the quality of the product. We kept on using the best quality ingredients."*

Deirdre McGlone also decided to increase the marketing effort at Harvey's Point Hotel. *"We started looking at new markets"*, she says. *"We had been very focused on Ireland and we had a big dependence on that market. We changed and started looking at the US market – particularly the individual travellers segment of the market. And we promoted our welcome and our standards to them. We worked with Tourism Ireland and we attended as many events and took part in as many trade missions in the US as we could. We also continued developing our website and we created a Green Guide to promote Harvey's Point and Donegal. This year alone I will do four trips to the US. I'm constantly knocking on the doors of the travel agents and tour operators."*

While increased investment in marketing appears to have been rewarded there is little evidence to suggest that firms which cut back spend suffered significant losses as a result. Indeed, when asked if they believed that businesses which cut back on areas such as marketing and new product development performed poorly as a result just 26% of respondents to the CPA Ireland member survey agreed while more than 58% neither disagreed nor agreed. Some 15.5% disagreed.

This probably has as much to do with the inexact nature of the marketing science as anything else. The marketing managers lament of not knowing which half of his or her spend is wasted comes to mind. It is clearly possible to cut spending on almost anything without harming a business, it just depends on exactly what is cut.

There was also a renewed focus on the craft and business of selling according to Ron Immink. *"Companies didn't realise that sales and marketing is a means to an end to selling. It was getting to the stage where companies were taking orders and not actually selling you anything. The craft of selling was lost and has been found again. Companies that stuck to sales did best. Before the recession they were just order takers. They had to start selling again when the downturn happened and they didn't know what to do. I genuinely believe that good sales and marketing staff will become incredibly valuable as the recovery takes hold."*



Fergal Quinn

"Too often I see businesses bribing the people who aren't their customers at the expense of the people who are."

Mark Fielding is in strong agreement with this view. *"A lot of owner managers had to get up off their backsides and get out on the road selling and negotiating. A lot of guys went out there and their businesses are all the better for it. They got back in touch with their customers and that was something they needed to do. Companies are reporting that they have more customers as a result of there being fewer competitors being around. It's what you might call a survival dividend and that's going right across the spectrum."*

This return to the coalface has also been noted by Patricia Callan. *"The initial thought was to go back to basics with customers, to add value; become more competitive, and to focus on delivering value and service to customers"*, she says. *"This led to a fundamental rethink on the part of many business owners. We saw lots of owner managers returning to sales. They had to get back to the basics and get out there and sell again. The positive is that people are now understanding more about their businesses and their customers."*

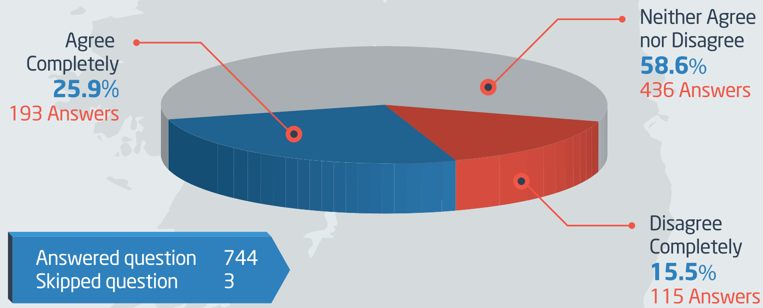
According to Cormac Fitzgerald the recession brought businesses and customers closer together. *"The recession has forged alliances that will be there forever. I have seen businesses who stayed loyal to customers when they were in difficulty and that loyalty is being repaid now."*

Fergal Quinn has seen small businesses adopt new marketing techniques as a result of the recession. *"You have to reward your customers"*, he points out. *"When we started SuperClub back in 1993 it was designed to allow us to give something back to our best customers. Of course we were learning more about our customers as well. Too often I see businesses bribing the people who aren't their customers at the expense of the people who are. And there are cheap ways to use data. I met a florist who ran a little competition at a wedding fair in the RDS. To enter you had to give your email address. About a year later she used those email addresses to send a reminder to people about Mothers' Day coming up. She got a huge response and lots of orders for flowers."*

Another positive outcome of the recession was the number of firms who started marketing their products and services abroad for the first time. *"Many firms started to export for the first time"*, says Sean Gallagher. *"Some of them went to Saudi Arabia or Brazil but they found that this took too long and then looked closer to home to markets they were more familiar with. Exports kept them in business."*

Bobby Kerr saw the same trend. *"A lot of businesses disappeared during the recession but one of the trends among those which survived was the search for customers off this island; this is a good strategy for any business and service businesses in particular. If companies had found those new customers and markets earlier the impact of the recession would have been a lot smaller."*

Businesses which cut back on areas such as marketing and new product development performed poorly as a result



Weathering the Storm

This is not only an Irish phenomenon. ***"I was in Tallinn a while ago as part of EuroCommerce and we were in a retail premises which had two people employed downstairs in the shop and 11 upstairs selling on the internet",*** ***says Fergal Quinn. "Irish firms which have managed to get into international markets have been successful."***

International success brings its own challenges for the country according to Patricia Callan. ***"One area which has been very good is exports and many companies have shifted up a gear there. One of the key challenges now is to get the owners who have scaled up their companies to stay with them and continue building them rather than just sell up."***

She also points to a different marketing challenge facing Irish SMEs in the post-recession world. ***"Irish firms need to become a lot better at winning public procurement contracts – a lot of them are going overseas because it's all on price."***

Ron Immink suggests a possible remedy. ***"The new rules make it almost impossible for SMEs to win local authority contracts. You can put two months' work into a tender and not get anything out of it. In the UK they have a policy of 25% of Government tenders going to SMEs – we need something similar in Ireland."***

Key learning:

The key lesson seems to be that fortune favours the brave when it comes to marketing effort during a recession. Companies which either maintained or increased their investment in marketing were rewarded for their courage.

It wasn't just a question of marketing spend, however. Companies which played close attention to their customers and offered them a compelling value proposition were the winners, as indeed were those which looked to export markets as a way of replacing lost customers on the home market.

The other main lesson is that SMEs and SME owners must continue to focus on the craft of sales. The impact of the recession was magnified for those companies which had lost this focus.

At a national level there appears to be a need for the government to revisit public procurement rules. While value for money is of paramount importance in such matters, the health of the economy and employment in Ireland must also be considerations. The fact that the UK government has found a way to reserve a proportion of contracts for SMEs means that the Irish government must have some latitude and this should be taken in order to assist Irish business.

Cormac Fitzgerald

I have seen businesses who stayed loyal to customers when they were in difficulty and that loyalty is being repaid now."

Recession: the mother of innovation

If there is one single unifying thread which runs through this report it is the willingness of Irish SME owners to try new things and innovate in order to overcome the challenges presented by the recession.

This innovation took many forms. In some cases it was the simple action of moving swiftly to address the sudden downturn in sales, in others it involved changes to pricing and product offerings, while in others still it involved a complete change in the business model. In all cases, however, there was a recognition that things couldn't simply remain the same. Hope is not a strategy is how one participant put it.

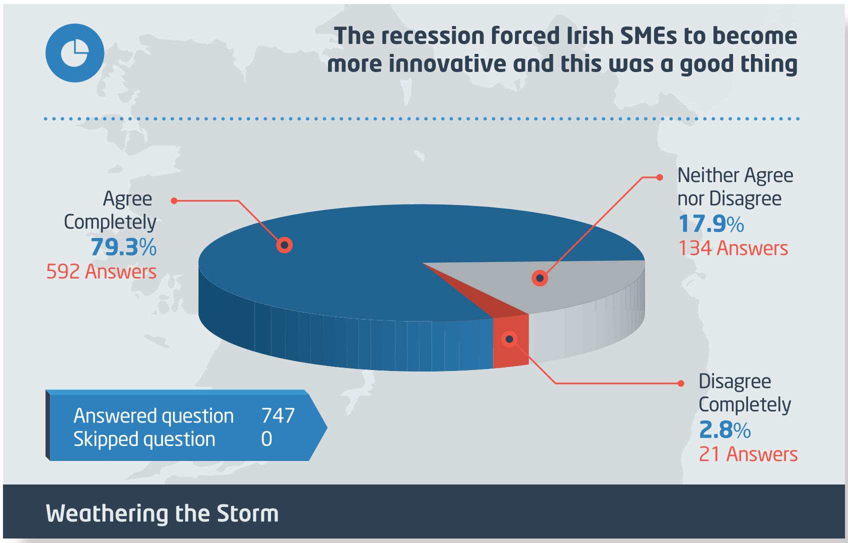
Along with this acceptance of the need for change there was also an understanding of the nature of innovation which ran deeper than many would have assumed. For example, innovation is often confused with technological invention or research which gives rise to new product development and is seen to be the sole preserve of large corporations. There appears to be no such confusion among Irish SMEs where there is a realisation that innovation is, in its widest sense, the *"process of translating an idea or invention into a good or service that creates value or for which customers will pay."*

The importance of innovation was confirmed by the CPA Ireland member survey. When asked if the recession forced Irish SMEs to become more innovative and if this was a good thing almost four in five respondents agreed. Less than 3% disagreed.

According to Gail McEvoy, innovation played a key role in keeping many small businesses afloat. *"What worked was innovation; where businesses tried to be a bit innovative in what they were doing. For example, I know of a delicatessen business which responded to a fall in demand for its products by moving into the hot food and takeaway side of things. This was just a small shift but the innovation worked. Innovation was particularly important for businesses where there was no finance available for anything big."*

Sean Gallagher sees innovation taking place not only in what businesses are selling by how they are behaving. "*They had to reinvent their product mix to come out with something more innovative and this took time"*, he notes. "*One of the biggest things we have seen is businesses helping each other out. I'm seeing a lot of cooperation and collaboration between entrepreneurs which was not there before. There is a degree of comfort in the sharing of problems."*

Deirdre McGlone points to a particular innovation at Harvey's Point Hotel which allows them to target a particular market. *"We have stables and you can bring your horse on holiday here. We are also a pet friendly hotel so pet owners don't have to leave their pets behind when they come to stay here. That can be very important to some guests."*



Gail McEvoy

"Innovation was particularly important for businesses where there was no finance available for anything big."

Glenisk chose to use the impact of the recession on consumers to its advantage. *"The versatility of the product was good for us"*, says Gerard Cleary. *"In the changed environment people started looking at making their own food and natural yogurt is a very versatile ingredient. We worked hard at educating consumers by teaming up with cookery schools and putting cookery demonstrations on our website. Last year we did something completely out of the box. We opened a pop up shop in Dawson Street in Dublin to show how yogurt can be used in various ways. This helped to grow awareness of the product and its uses."*

For Netwatch it was the more traditional R&D based approach to innovation which paid dividends according to David Walsh. *"We decided to invest in our own in-house R&D department as we knew we had to have something unique to Netwatch. We have invested €2.5 million in R&D since 2008 and this has given us technologies which no one else in Ireland had and allowed us compete in America, the UK and East Africa."*

But there are barriers to innovation that still need to be addressed, according to Ron Immink. "*It's still quite difficult for Irish SMEs to innovate and internationalise. Part of this is because of our definition of SMEs. In Europe that's up to 250 people. One person out of 250 devoted to innovation and international market is not a major overhead – one out of 15 is. A co-operative approach between companies might be a solution to this. That should be encouraged. Collaboration between companies should be encouraged in some way."*

Key learning:

Every business which participated in this report innovated in some way in order to deal with the recession. The key learning is that businesses must change their offerings and behaviours in some way if they are to remain competitive in a fast moving marketplace. Consumer facing businesses have to move most swiftly but those in the business-to-business space are not immune.

However, the absence of the imperative of the recession doesn't mean that there can be any relaxation of the innovation process. Innovation has become a fact of life for many business owners and those that slacken off will soon find themselves overtaken by competitors.

The small scale of many Irish SMEs makes this requirement for continuous innovation a particular challenge. While there are many schemes promoted by the state through Enterprise Ireland, InterTradeIreland and other bodies to support innovation the suggestion of support for co-operative or collaborative innovation merits further investigation. Self-help schemes of the type proposed tend to be of minimal cost to the exchequer whilst holding out the prospect for very high returns.

Conclusions and findings

Possibly the most important lesson to be learned from this report is that businesses are more alike than you might have first thought. The actions and initiatives taken by successful businesses in response to the onset of the recession were remarkably similar regardless of their size or sector. This makes the findings of the research all the more valuable.

Those findings may not be very surprising when taken individually but when viewed collectively add up to an interesting recipe for how a business can take on the challenges presented by a recession as deep as the one we have just come through.

The key learnings from those experiences are:

- A swift response is critical. Businesses which started the process of cost cutting or other remedial actions too late often made an already bad situation worse. The quick solution may not be wholly effective but delay can be fatal.
- Tight control of the cost base is essential in good times and in bad and a temporary lack of price sensitivity on the part of customers is no excuse for letting costs rise.
- Across the board cuts can do as much harm as good. Targeted cuts based on solid management information and a sound business strategy are far more effective.
- Everything must be open to change including the business model itself. SME owners who were willing to change the business model profited as a result.
- Turnover is largely pointless if it is not profitable. Businesses which gave up on non-profitable lines were able to focus their energies on areas where there was profit to be made.
- Debt incurred for non-core activities can place so heavy a burden on a business that it is not able to withstand even minor setbacks.
- Bank credit is always more difficult to come by in a recession and SMEs have to be able to draw on other resources during such times.
- Business owners should participate in networks and business associations as much as possible as the support and advice they can offer can be invaluable during difficult times.
- All SMEs should look at the crowdfunding sector to establish if it might offer them a useful source of funds in the future.
- The support of staff is critically important to a business at all points in the economic cycle. This support can only be fully gained through open and upfront communication with employees. Failure to communicate will only arouse suspicion and create uncertainty and doubt.
- Great care must always be taken in hiring people. This is even more important for SMEs than large companies.
- Senior managers and business owners must lead by example in taking their share of pay and other cuts being imposed on the business.
- Marketing budgets should only be cut if there is clear evidence of wastage. Companies which either maintained or increased their investment in marketing during the recession were rewarded for their courage.
- SMEs need to find ways of listening to their customers in order to keep them. These can include social media, e-marketing channels etc.
- Where possible companies should explore means of extending their sales beyond this island through contact with their Local Enterprise Office (LEO) or Enterprise Ireland.
- Greater attention should be paid to the skill sets and capabilities of sales staff.
- Innovation is not the sole preserve of large corporations or companies in the technology space. SMEs need to look for ways to innovate possibly in co-operation with each other.

Some messages for the government also came out of the research:

- Rising cost pressures in a number of areas including construction, property, and wages are endangering the recovery. The State has a direct role in areas such as energy, water, commercial rates, construction and planning regulations, rent legislation, and taxation of income and should take steps to reduce the cost burden on business.
- Reduced State investment in training is reducing the availability of workers with the skills required by Irish SMEs with a negative impact on competitiveness. With employment growing once again investment in training also needs to grow.
- Public procurement rules have all but locked SMEs out of many state contracts. The Government should examine means to ring-fence a proportion of public procurement for SMEs in a similar fashion to the UK system.
- It is generally agreed that lack of availability of bank credit made a bad situation worse for SMEs during the recession. The opportunity should now be taken to establish a framework to ensure that credit is available to viable businesses in future.
- Crowdfunding and other innovative forms of finance are still in their infancy in Ireland. Enterprise Ireland should be given a mandate to support and encourage their development.
- Specific supports should be given to SMEs who wish to come together to co-operate on innovation.
- The tax treatment of SME owners in relation to dividend income and passing the business onto the next generation should be examined with a view to incentivising Irish people to grow their businesses over time rather than to sell them on.

CPA Ireland Member Survey

A key element of the research on which this report is based was a survey of CPA Ireland members carried out during August 2014. The survey sought their views both as business people and accountancy practitioners and asked specific questions in relation to the experiences of SMEs during the recession.

The questions focused on the key areas of credit availability, costs, innovation, and marketing. Among the more striking aspects of the survey responses was the divergence of opinion in a number of areas among the 747 respondents. This probably reflects the fact that the dust has still to settle following the end of the recession and there remains a degree of uncertainty regarding the final outcome for the Irish business landscape.

One area on which there was near unanimity, however, was credit availability.

When asked if lack of bank credit during the recession made a bad situation worse for many businesses an overwhelming majority (85.6%) agreed. Just 4.2% disagreed. This points to a clear and ongoing problem in relation to credit availability for SMEs.

Another area on which there was strong agreement was innovation. Almost four out of five (79.3%) agreed with the proposition that the recession had forced Irish SMEs to become more innovative and that this is a good thing. That view was backed up by the experiences of the business people who participated in this report, with innovation being a response to the recession common to almost all of them.

Interestingly there was far less agreement on the area of marketing and new product development. Only a quarter of respondents agreed with the proposition that those businesses which cut back on areas such as marketing and new product development performed poorly as a result.

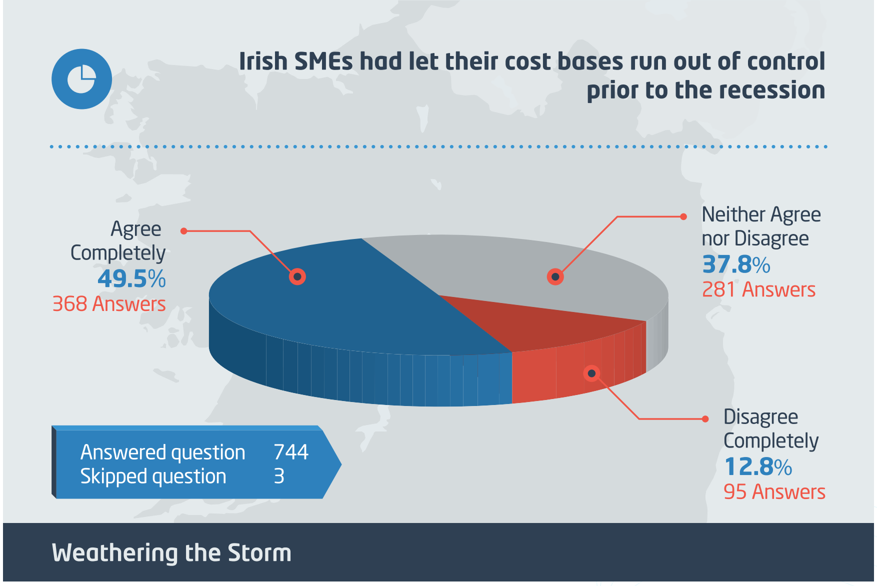
It should be noted that some 58.6% neither agreed nor disagreed with the statement.

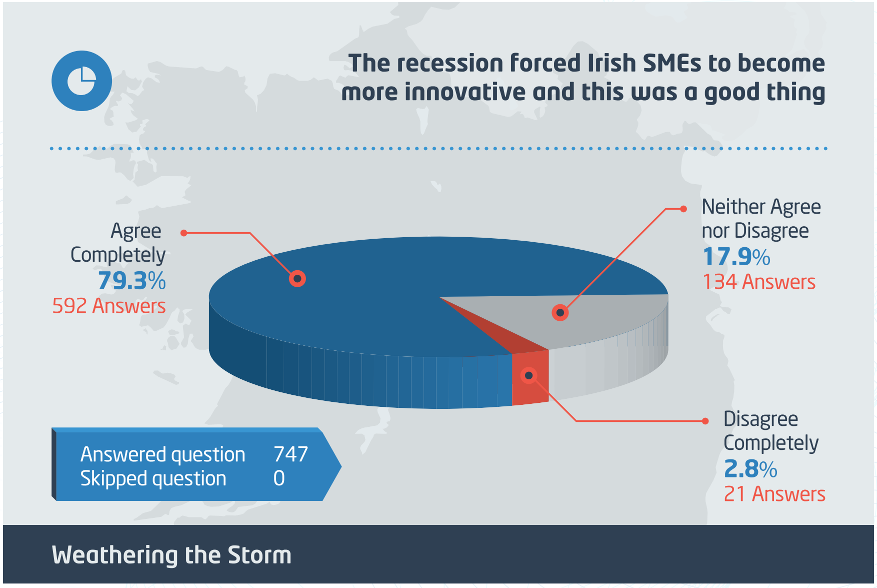
Given the strong endorsement for innovation from respondents the lack of an equally strong view in relation to marketing and product development could be seen as being in conflict. However, the well-known difficulties in establishing direct causal links between marketing spend and sales on the ground probably explains the relative indecision on this question.

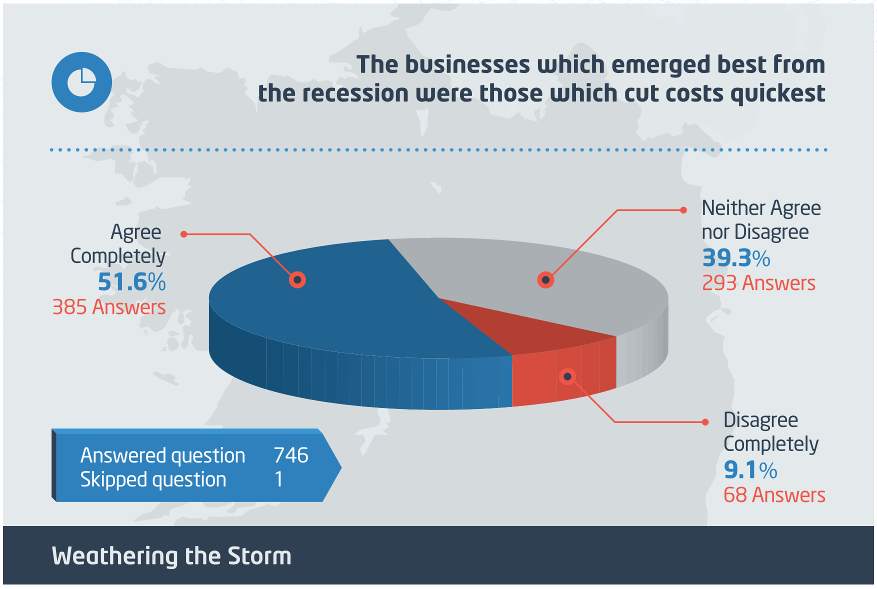
A phenomenon which came up a number of times during the research for the report was the emergence of crowdfunding and other innovative forms of finance. Almost 50% of respondents agreed that these have an important role to play in helping new start-ups and businesses still recovering from the recession. Only 5.7% disagreed. This quite strong backing from professional accountants is very positive and augurs well for those businesses which may wish to access funding from those new sources.

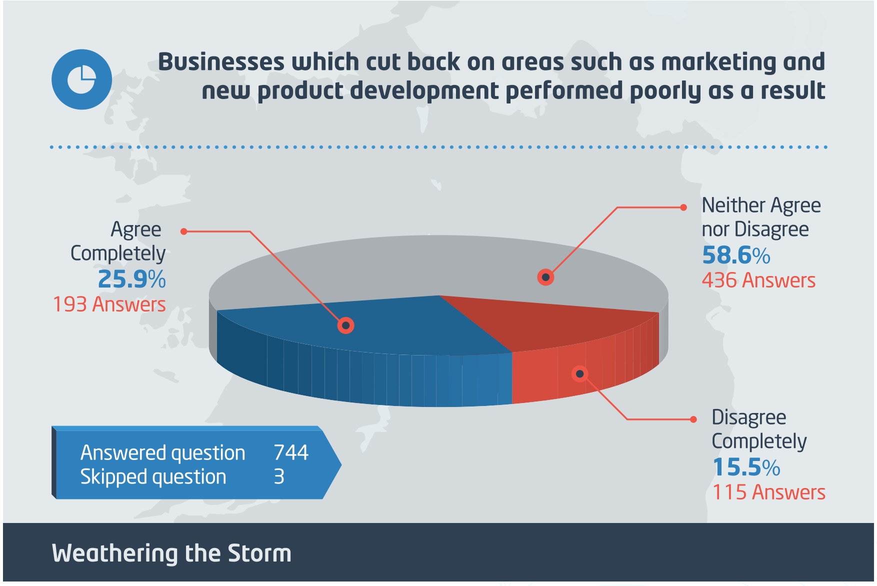
The response to the questions on the cost base was also noteworthy. Just under half of the respondents (49.5%) agreed that Irish businesses had allowed their cost bases run out of control prior to the recession. Interestingly, almost all of the business people who participated directly in the report agreed that they had lost at least some control of their cost bases. The fact that CPA Ireland members are not in complete agreement with this suggests that many businesses were indeed running tight ships all along.

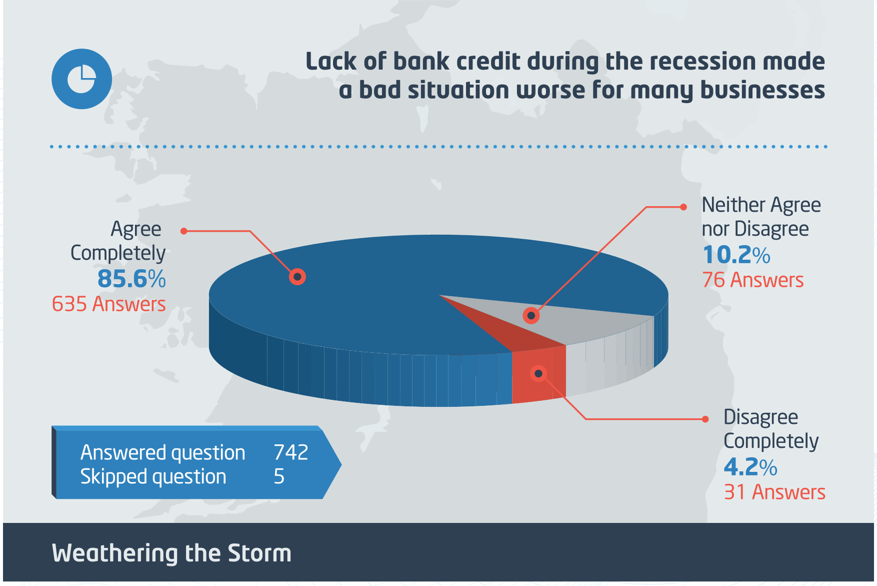
Finally, slightly more than half the respondents (51.6%) agreed that those businesses which cut costs fastest emerged best from the recession while only 9.1% disagreed. This probably suggests that there were businesses which did not have to engage in deep cost cutting in response to the recession but that those which did had to do so quickly.

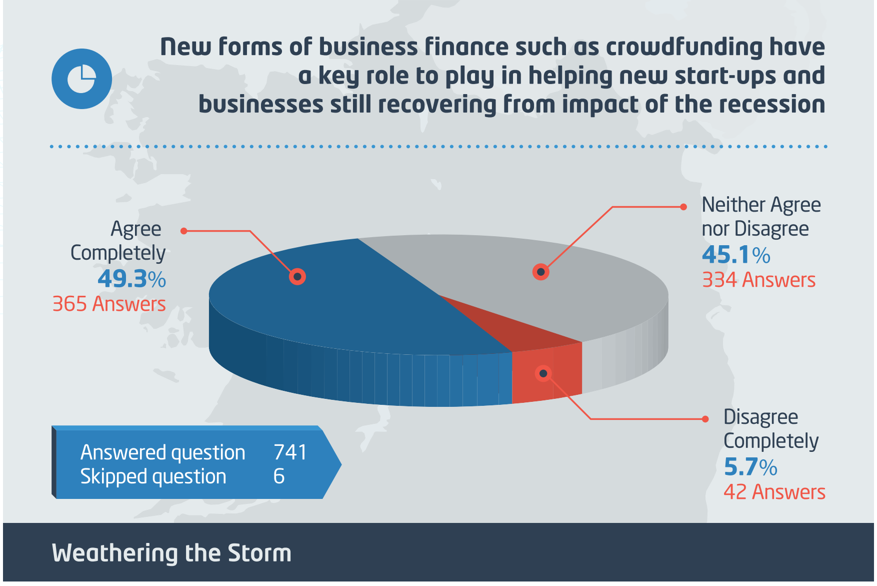

Irish SMEs had let their cost bases run out of control prior to the recession
Agree Completely
49.5%
368 Answers
Neither Agree nor Disagree
37.8%
281 Answers
Disagree Completely
12.8%
95 Answers
Answered question 744
Skipped question 3
Weathering the Storm


The recession forced Irish SMEs to become more innovative and this was a good thing
Agree Completely
79.3%
592 Answers
Neither Agree nor Disagree
17.9%
134 Answers
Disagree Completely
2.8%
21 Answers
Answered question 747
Skipped question 0
Weathering the Storm


The businesses which emerged best from the recession were those which cut costs quickest
Agree Completely
51.6%
385 Answers
Neither Agree nor Disagree
39.3%
293 Answers
Disagree Completely
9.1%
68 Answers
Answered question 746
Skipped question 1
Weathering the Storm


Businesses which cut back on areas such as marketing and new product development performed poorly as a result
Agree Completely
25.9%
193 Answers
Neither Agree nor Disagree
58.6%
436 Answers
Disagree Completely
15.5%
115 Answers
Answered question 744
Skipped question 3
Weathering the Storm


Lack of bank credit during the recession made a bad situation worse for many businesses
Agree Completely
85.6%
635 Answers
Neither Agree nor Disagree
10.2%
76 Answers
Disagree Completely
4.2%
31 Answers
Answered question 742
Skipped question 5
Weathering the Storm


New forms of business finance such as crowdfunding have a key role to play in helping new start-ups and businesses still recovering from impact of the recession
Agree Completely
49.3%
365 Answers
Neither Agree nor Disagree
45.1%
334 Answers
Disagree Completely
5.7%
42 Answers
Answered question 741
Skipped question 6
Weathering the Storm

To download a pdf version visit our website:
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CERTIFIED PUBLIC ACCOUNTANTS

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