

FT WEEKEND

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Stay small but still rake in the dough

Business Challenges

Can small companies compete with big players without succumbing to expansion?
Jonathan Moules reports

It is hard to maintain a small waistline if you work in a bakery. It is also hard to run a small business in a bakery market dominated by large players.

These are the challenges faced by Lise Madsen, founder of Honeyrose Bakery, which makes organic cakes, muffins and cookies by hand in a converted factory beside London's Regent's Canal.

Madsen was born in Denmark but trained under the legendary pastry chef Gaston Lenôtre in Paris before moving to the UK with her British husband and setting up on her own.

She remains a passionate believer in the concept that small is beautiful – insisting that the quality of production with a workforce of just 42 people is far superior to that of manufacturers 10 times her size.

"Our unique selling point is that we are not over-managed," she says.

"It means we are quick because we have a lot of people in the business who know how to do different roles. We can also be flexible to provide what the customer needs."

Madsen is quite happy to have large corporate customers, though – not least because it validates the strength of her business to others.

However, while she is full of praise for the big companies that she does supply – such as Harrods, Waitrose

and Sainsbury's – she knows that other large retailers will think nothing of squeezing companies such as hers.

She recalls a meeting with one buyer at a large national chain, whose opening gambit was to ask for a 40 per cent discount on Honeyrose's prices.

"I think the real reason they were talking to us was that they were trying to get their current supplier to reduce its prices," Madsen says. In the end, she walked away.

"You have got to know when it is just not good business. Turnover isn't everything. It has got to deliver profit and not drain management resources."

It can certainly take time to win round large customers if you are small.

Honeyrose spent a year lobbying the buyers at one chain before eventually getting a break when an existing supplier's service levels had started to slip. Even then, it was a case of winning the company over, one muffin range at a time.

"They initially tested just one of our organic snacks, then they gave us another line and another line, until we had completely replaced the old 30 pound gorilla of a business they had been using," Madsen recalls.

Jason Cromack, chief executive of digital marketing business the Lateral Group, admits that he is still waiting for his "Dunhumby moment" – referring to the husband-and-

wife data-mining company that gained fame as a small business when Tesco took it on board. The supermarket group later said that work done by the company on its Clubcard scheme transformed its performance.

Lateral remains small, but Cromack and his colleagues have accepted the need to gain a certain scale, and have conducted a series of acquisitions since 2004.

They targeted businesses that were in administration, but capable of being turned round, and used asset financing and invoice discounting to fund the purchases.

Cromack reports that each of these acquisitions is now standing on its own feet, and has become a leader in its field – be it database management or printing.

As a result, Lateral's turnover is now up to about £50m – but is still tiny compared with the global advertising businesses that it competes against, such as WPP and Omnicom.

One way Lateral has attempted to allay large client's fears is to focus on compliance, getting its business accredited with a series of ISO standards and hiring a compliance officer, who comes in on deal negotiations.

The ISO standards don't just demonstrate that the business is a safe pair of hands, but have helped the company shave hundreds of thousands of pounds off its running costs by tightening its own working practices,

according to Cromack.

"If you say it is too costly [to organise compliance], I think you have to look at the price of not doing it," he says.

Validation was an issue for Memex, a Glasgow-based security technology business, when it was starting out 20 years ago as a 10-man operation.

So the solution the company came up with was to prove its credentials with smaller clients first – such as the Fife Constabulary in

Scotland – before seeking to work with much larger law enforcement groups – such as the Metropolitan Police in London, which it later did successfully.

Those smaller deals not only provided reference points for future, larger clients, but enabled Memex to develop its technology by working closely with the end users.

David Carrick – the Memex chief executive who acquired the business through a management

buy-out in 2001 – also expanded into the US, winning contracts with the Pennsylvania State Police and the Los Angeles Police Department. This allowed the company to develop further expertise which it was able to sell back to large clients in the UK.

But he believes that it is getting harder for small businesses to win contracts from large customers in the UK. Partly for this reason, he has since decided to become part of a large com-

Lise Madsen (right), chief executive and founder of Honeyrose Bakery, with an employee at her London bakery
Shaun Curry



"Turnover isn't everything. It has got to deliver profit and not drain management resources"

Ask the experts

Big ways to get ahead for the small and nimble

Russel Griggs, chair of the CBI's national SME council

"The one thing that a small business can do better than a big business is putting the owner in front of the customer."

"What you should not do is try to compete on price with a large company that can afford to undercut you. Nobody can afford unsustainable pricing for long. It is better to hang in there [at a sustainable price] because nobody has a bottomless pit of reserves."

"Sometimes, it is good for a smaller company to go to a bigger company and show what they have got and where they can add value. There are inherent risks to that kind of partnership but, when there is a high barrier to entry to a particular

customer, there is no problem with doing it as a sub-contractor. If you cannot beat them, join them."

Alex Macpherson, head of the ventures division at Octopus Investments

"When times are harder, entrepreneurial businesses have an advantage over their larger competitors as they can adapt and change by being nimble and quick."

"An entrepreneurial business can listen and respond to the customer's needs. This can be problematic in larger organisations with bureaucracy and processes in place. Delivering what the customer requires in the way they want it will win clients when competing against rigid sales machines."

Sally Preston, founder of Babylicious, maker of frozen children's meals

"If you are a small innovative company, it is best to say so from the outset rather than pretending you are something bigger."

"Tell them that you have something different, but make it clear that they cannot come after you for extra cash because you haven't got it. If you tell the large retailers you are well funded, then you set yourself up to be squeezed."

"To be honest, I find that all of the big retailers do respect companies that are honest about their position. What they are all after now is what they call 'challenger' brands, which can shake it up a bit."

Simon Campbell, non-executive director of ViaPost, an alternative mail service

"When we launched ViaPost into the postal market, we needed to be taken seriously where all the competitors were huge players. As a disruptive technology, we needed to get credibility and find an advocate where we were able to engage on a personable level."

"To gain credibility, we got close to Microsoft, being launched as one of the first five companies on its UK Accelerator Programme. A photo of me with Steve Ballmer helped. We made sure we had a couple of credible names on the board. David Bland, our chairman, was a previous chair of Postwatch, south east."