

Institution: University of Sussex

Unit of Assessment: UoA 19 Business and Management Studies

Title of case study: Improving Barclays Bank Financing Services to SMEs in the UK

1. Summary of the impact

Barclays–Sussex collaborative research has resulted in financial benefits to the bank in the range of £21m to £25m annually. These benefits accrue from changes in the way in which the Bank targets customers and from changes in the provision of free banking and advice services. The research has also made Barclays Bank a front-runner in responding to UK government requests for information on bank-lending to customers living in deprived areas, enabling more small-business owners to gain access to Barclays' account facilities. In the past three years, Barclays has made these policy changes in the financing of SMEs on the basis of the collaborative research by Professor David Storey and Dr Alex Coad at the University of Sussex and Julian Frankish and Richard Roberts at Barclays Bank.

2. Underpinning research

The key feature of this research is that it is undertaken jointly between the Barclays Bank staff – Richard Roberts, Head of SME Market Analysis and Julian Frankish, a senior economist, SME Market Analysis at Barclays Bank in the UK – and the University of Sussex academics David Storey and Alex Coad. The data it uses include every financial transaction passing through the bank account of a new enterprise over a five-year period. The scale and detail of the data available within Barclays make it extremely unusual, with only data available from the Nordic countries bearing any comparison. For example, one piece of analysis in this collaborative research examined 473,094 individuals aged 18–64 who were owners of active, non-agricultural, businesses with a turnover of less than £1m. These are compared with 386,174 individuals within the same age range who were in employment but were not business owners.

The topics addressed in the research emerge from regular meetings between Barclays and Sussex. Once a topic of mutual interest is identified, the anonymised business-account details of samples of Barclays' customers are analysed. Roberts and Frankish are responsible for initially assembling the data and providing the first-round results. They then fully participate in later rounds of analysis and in the drafting of academic papers in conjunction with Coad and Storey.

No payment is made by Barclays to either the University of Sussex or to Coad and Storey.

The questions addressed in this research include:

- ***How many new enterprises begin each year in England and Wales?***

There is no single comprehensive and reliable source of data on new enterprises in Britain. So, although it is a sample, the Barclays dataset became the forerunner of data compiled by the British Bankers' Association and which is now quoted officially by the UK government.

- ***How many start-ups survive and what influences their survival?***

The five-year survival rate from Barclays' new-firm customers is 41.8 per cent. However, models seeking to explain survival have weak explanatory power, although they do improve slightly over time partly through sample attrition. The key factors influencing survival are 'account behaviour characteristics' – such as periods of sales growth, low sales volatility and prompt and full repayment of any loans. Once these are taken into account, then all 'human capital' characteristics such as age, education and prior experience of founder(s) become non-

significant.

- ***If they survive, how big do they become?***

In their first year, the median sales of a surviving new enterprise is £17,000. Five years later, median sales amongst survivors have risen to only £22,000. During this period almost no new firms grow, in terms of sales, continuously in each six-month period. A useful rule of thumb is that 1.2 new starts in every 100 will have 10 employees (with sales slightly over £1m) in 6 years. Of the factors influencing growth, legal form is significant, as is initial size.

- ***Can we predict which firms will become large?***

It is not possible to forecast, either at start-up or in early years, which firms will become large. As noted later, this finding has discouraged the Bank from seeking to 'pick winners'.

- ***Does entrepreneurship constitutes a route out of disadvantage for those living in deprived areas?***

Business owners living in the most deprived areas of England are more likely to move their residence than otherwise-comparable non-owners. If they do move, they are significantly more likely to move to a more prosperous address than non-owners living in those areas. This implies that entrepreneurship is a route out of deprivation.

3. References to the research

- R1** Coad, A., Frankish, J.S., Roberts, R.G. and Storey, D.J. (2013) 'Growth paths and survival chances: an application of Gambler's Ruin theory', *Journal of Business Venturing*, 28(5): 615–32.
- R2** Frankish, J.S., Roberts, R.G., Coad, A., Spears, T.C. and Storey, D.J. (2013) 'Do entrepreneurs really learn? Or do they just tell us that they do?', *Industrial and Corporate Change*, 22(1): 73–106.
- R3** Frankish, J.S., Roberts, R.G., Coad, A. and Storey, D.J. (2013) 'Is entrepreneurship a route out of deprivation?', *Regional Studies*, 47(6): 993–4.
- R4** Frankish, J.S., Roberts, R.G. and Storey, D.J. (2011) 'Enterprise: a route out of disadvantage and deprivation?', in Southern, A. (ed.) *Enterprise, Deprivation and Social Exclusion: The Role of Small Business in Addressing Social and Economic Inequalities*. London: Routledge, 16–38.
- R5** Coad, A., Frankish, J.S., Roberts, R.G. and Storey, D.J. (2013) *New Venture Survival and Growth: When Does the Fog Lift?* Brighton: University of Sussex, SPRU Electronic Research Paper No. 202: www.sussex.ac.uk/spru/documents/sewp202.pdf

Outputs can be supplied by the University on request.

4. Details of the impact

The SME research function in Barclays mainly works on projects that will either increase income from its customer base, or reduce the costs of serving clients. The research findings and knowledge acquired from the collaborative research with the University of Sussex have been applied across a wide range of activities in conjunction with contributions from other Barclays' staff, so making it difficult to separate the Sussex contribution from these other factors. Nevertheless, Barclays have estimated that, if the Sussex collaboration leads to a 1 per cent improvement in either measure (higher income or reduced costs), this implies a direct annual value of between £6m and £10m *p.a.* The judgement of Frankish and Roberts is that the direct benefits considerably

Impact case study (REF3b)

exceed £6m–£10m *p.a.* but cannot be specifically identified for the reasons noted above. In addition to this, Barclays estimate a saving of £15m *p.a.* from ending the provision of free banking, a development introduced in 2012 as a result of collaboration on the Sussex research [see Section 5, C1, C2 and C3].

This impact is clear in four specific developments in Barclays:

- **More specific targeting and segmentation of customers** [based on the findings of R1, R2 and R5]

During the last three years, Barclays has moved to target start-ups and to segment existing customers based on both future survival prospects and their potential use of business banking products and services (where product use, especially, is often linked to business growth).

For start-ups, the emphasis has moved to a greater focus on incorporation, supported by links with company-formation agents, an improved ability to process a high volume of account openings from a single source and better management of Barclays' wider capacity in this market. As a result, the proportion of companies amongst start-ups has risen from 56 per cent in 2011 to 68 per cent in 2013. This is expected to increase income from start-ups by 7–8 per cent over the next five years.

Among established customers there has been a move away from a generic approach to segmentation, based primarily upon location and backward-looking measures of size, to one combining medium-term potential with a focus on the attitudes and relationships of owners to their businesses.

- **Switchers** [based on the findings of R1 and R5]

In the last two years, Barclays has revised its policy on providing free banking for established businesses moving banks. Barclays no longer offers switchers a period of 12 or 18 months' free banking, unlike most of its main competitors. This strategic shift was a direct consequence of the improved understanding of business demographics and growth provided by collaborative research with the University of Sussex. The savings from the ending of the provision of free banking are £15m *p.a.* [C1, C2 and C3].

- **The provision of training and advice seminars** [based on the findings of R2 and R5]

In the last two years, Barclays has shifted the focus of its seminar programme partly as a direct result of the work from the Sussex collaboration. For over a decade, short introductory seminars were funded by Barclays and offered to people in the early stages of going into business. A shift is currently underway to refocus this £2m of spending a year towards providing events for established, rather than potential, customers. The content of these events has also been adjusted [C1, C2 and C3].

- **Deprived areas and postcodes** [based on the findings of R3 and R4].

A key area of engagement between banks and government in 2013 is a requirement that banks publish disaggregated SME lending data by postcode sector. Barclays' ability to engage with government in a detailed and timely manner was underpinned by the skills developed, and the wider insights to the postcode data gained, directly from the Sussex University research on SMEs in UK deprived areas. Indeed, at the conclusion of the negotiations, Barclays' CEO received a letter from the Chancellor of the Exchequer praising the role of the company in 'leading the industry' on this work, suggesting strongly that other banks were much-less-well prepared [C4].

The impacts of Barclays–Sussex collaborative research on Barclays Bank are reflected in policy changes towards SMEs (that have improved service to SMEs and the Bank's profitability), and the Bank's ability and readiness to meet government requirements for data. These demonstrate the two-way commitment and trust between a high-profile commercial organisation and the University

Impact case study (REF3b)

of Sussex's academic researchers. The commitment of Barclays' employees, Frankish and Roberts, to obtaining the best possible understanding of their SMEs' customer base and their combined more-than-40-years of service with Barclays makes their recommendations for policy change highly influential within the bank.

5. Sources to corroborate the impact

- C1** Senior Economist, SME Market Analysis, Barclays Bank Plc.
- C2** Director, SME Market Analysis, Barclays Bank Plc
- C3** Director of Business Lending and Partnerships, Business Banking, UK RBB Products and Segments, Barclays Bank Plc
- C4** Letter to Barclays CEO from the Chancellor of the Exchequer on request.