

Strategic Management for SMEs

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Introduction

This report focuses on Developing a strategic direction for a selected Small and Medium Enterprise (SME). The first step will be to identify a SME and provide a business description of the business activity. The report will investigate the selected company by performing a strategic analysis such as external analysis, internal analysis and industry analysis.

The report will look at the current strategic direction, it will evaluate it by applying PESTEL analysis, Porter's 5 forces, VRIO analysis and SWOT analysis. It will assess the best strategy for the business and will provide conclusions and recommendations.

Organisational background

This report is assessing the activity of a Small and Medium Enterprise (SME) which is a recruitment agency in childcare. The company is based in London and provides nanny to the families who need childcare arrangements. This is a small company which does not have a long history being founded in 2011 and are focusing on recruiting candidates that fit with the family needs and provide help all through the process from start to finish (GOV, 2023).

According to Gov (2023) a SME is "any organisation that has fewer than 250 employees and a turnover of less than €50 million or a balance sheet total less than €43 million". SME's are divide in there categories depending on the number of the employees and earnings such as: micro, small and medium size. Homebodies is a micro size SME with turnover less than or equal to €2million and less than 10 employees (Apppendix).

Current strategic direction

The company mission statement is to match perfectly the family needs by hand picking the most suitable nanny. According to Homebodies (2023) it is a specialist nanny agency which offers continuous support and builds long term relationships with the families and the nannies. The organisation aim is "to make the nanny finding process smooths, stress-free, and even pleasurable". The core values of the organisation are discretion, professionalism and understanding client's needs and busy lifestyle. The leadership has high standards of dedication and expertise and takes security and privacy very serious.

PESTEL analysis

Political factors

Political stability is important for business organisations as it influences customer and investor confidence, and therefore, has a wide impact on the economy. High political instability has serious implications for the consumption, investment, and economic growth of businesses. According to Ibis World (2022) the childcare industry is forecast to grow over the next five years in line with rising employment, which is set to stimulate demand for industry services. Additionally, as more households become eligible for the free childcare and tax-free childcare schemes, government expenditure on childcare is projected to rise in the coming years. Childcare is increasingly supplementing education and holiday care as parents work longer hours.

Economic factors

The industry is highly fragmented and the demand for childcare services is strongly linked to conditions in the labour market, since parents are most likely to use childcare services so it can be a volatile demand. Rising wages can influence the industry as well as rising the Government funding. Childcare is a labour-intensive industry and therefore cost-cutting measures invariably centre on staffing costs, either employing fewer or cheaper staff. This, in turn, runs the risk of increasing turnover and lowering the quality of the care provided (Children England, 2021).

Social factors

Society has changed nowadays with more women being in workforce and therefore more mothers working part time or full time. Female participation in the labour force is forecast to rise, supporting demand for childcare. High-quality childcare is often only available to wealthier families because access to high quality provision is constrained by income and location (Children, 2021).

Technological factors

According to Exchange Express (2003) childcare tends to be a low tech profession with a strong preference for high touch learning experiences. Most child care professionals, unlike the young children in their care, have come to computers as adult learners and can be resistant to using technology when face-to-face interactions and relationships are at the

heart of their work. Some child care programs are making good use of computers and digital technology, but few are able to take full advantage of technology as a tool. Technology development has helped the business with data collection and reporting, communication with parents, progress and system logging, online learning and teaching.

Environmental factors

The service providers in the childcare like any other industry through their activity can have impact on the carbon footprint, waste disposal, recycling.

Legal factors

The legal factors refer to Ofsted Regulations / inspection, local authorities, Governance structures, changes to curriculum requirements, SEN funding, EY funding entitlements , Minimum wage/ Living wage, Employment Law regulations, Health and Safety Law and guidance, Safeguarding legislation and local procedures, change to opening hours (Statista, 2022).

Porter's 5 forces

Threat of New Entrants

The threat of New Entrants is high because being a childcare service provider does not invest a large capital unless it is intended to have a larger capacity, to develop a brand name or to have very modern and premium location. A nanny will have costs for training and education but a reduced cost for other aspects such as locations if the family will want someone to come to their house. New entrants can bring innovation and that can put pressure on the market.

Bargaining Power of Suppliers

Power of suppliers can be limited because it does not rely on specialised products or large quantities. Childcare providers usually have suppliers for food regularly when is the case, stationary products, cleaning products, technology.

Bargaining Power of Buyers

The bargaining power of buyers is high because it depends on the families needs for the services. That takes into account the purchasing power of the buyers. Also the

Government is one of the most important “buyer” as it can decide the amount of funding provided for childcare

Threat from Substitute Products

The threat of substitute can be moderate to high, although families tend to stick to known and familiar childcare providers who trust and have good feedback for the care provided. Grandparents, friends and other relatives can help with the high cost of childcare.

Rivalry among the existing players

The competition can be at high levels because childcare providers can copy easily the service type provision, there is not a high application for intellectual property as many business are small local business.

Life Cycle

Study.com (2023) defines the product or life cycle as the “process that follows the different stages that a product or service encounters”. The life cycle has four stages which situates the product or the services in the market at a certain time: introduction, growth, maturity and decline. The introductory stage is the initial phase of a service. Homebodies is not in the introductory phase anymore as it has been incorporated in 2011. The growth stage is when the industry is growing rapidly and many companies show interest for a good business opportunity. The maturity stage is when the number of sales starts to decrease as a consequence of arisen competition. Homebodies is in the maturity stage. The service provided by Homebodies is still in very much demand with parents having to work full time in order to provide for their families, but competition has increased. Parents are looking now for childcare providers for distinguished characteristics from the pool of the providers. It can be confirmed that the service life cycle for childcare services is in the maturity stage, with a high demand from the families and with an increase of population in the United Kingdom (source, increase population)

Value Chain

A value chain is defined as “the series of consecutive steps that go into the creation of a finished product, from its initial design to its arrival at a customer's door. The chain identifies each step in the process at which value is added, including the sourcing, manufacturing, and marketing stages of its production” (Investopedia, 2023).

Porter’s value chain suggests that an organisation should maximise the value of each functioning operation and separates the activities in two main activity types. Primary activities are essential to the business and include inbound logistics, operations, outbound logistics, market and sales, service and secondary activities which are supporting the primary ones procurement, technological development, human resources management, infrastructure. Homebodies (2023) understands and implements the value-chain model and ensures each activity is carefully executed. It is a dedicated service to offer quality and continuous support at all times and has a current achievement of being a Finalist for Best Nanny Agency 2023. As a service provider the inbound logistics are not “seen” by customers, but the company is trying to ensure cost effectiveness being a small enterprise. The operations are all in house operations, from payroll to maintenance. The organisation only outsources the accounting for balance sheet and financial statements. The outbound logistics for the selected company refers to the customer experience when going to their office, customers are welcomed in a nice area, very professional. Both families and candidates are approached in very nice and friendly atmosphere, usually offered beverages if preferred. Marketing and sales. Being such a small size the business does not invest a lot in marketing, but instead it uses social media and online platforms and mainly on word-of-mouth, families or candidates who have worked with the agency and recommend it further. The service in Homebodies focuses on a personalised approach, in creating relations with the families and the nannies. The secondary activities benefit of the same attention and participation, being a micro SME everything is supervised by the business owner and in accordance with the business objectives and promoted values.

VRIO analysis

VRIO analysis is a theoretical model used by the business management to identify and assess the existing resources and the advantages that makes them competitive in the market. This internal analysis is a measurement for value, rarity, imitability and organisation. The selected company has been actively in the market for more than 10 years, surviving Pandemic when many business failed. The value of the business is also captured through the finalist position of the industry award and is still in competition for final results (UK Nanny, 2023). The rarity measurement is not overpowering, because it is a service that has existed for long time in the market. The imitability is not at high levels, being relatively easy to start a business in the industry. The organisation itself stands up through the service quality and trust from the families and nannies. This what make the agency to stand up and connect families with nannies.

SWOT analysis

Strengths	Weaknesses
Trust Continuous support Personalised approach Close relationships	Limited resources Limited manpower
Opportunities	Threats
First Aid Course Specialised training Expanding operations Entering new markets	Fierce competition Ageing population Recession Brexit Pandemic

The SWOT analysis for the selected company assess its strengths, weaknesses, opportunities and threats. Is an internal analysis that helps the organisation to understand its capabilities, its position in the market and based on that what opportunities could be suitable, but not disregarding the threats from the market. The strengths for this organisation rely on the service provision determinants and based on the testimonials from their website and on the industry rewards, it has been identified that it is a trusted company by its customers, it functions on word of mouth and recommendation for its services, families and nannies and especially families need a service provider who can trust with looking after their children, keeping them safe and ensuring they are look after.

They need someone to refer to if it does not match their needs or any differences arise between nanny and family. Therefore the continuous support is one of their strengths as the company offers support out of office hours and can be contactable on mobile phones (Homebodies, 2023). The personalised approach is carried throughout the process from start to end of the collaboration and the company understands that is required considering the type of the service. Empathy, care, respect, trust are values that lead to close relationships which are a strength for the business to deliver a personalised service. The weaknesses of the business relate to limited resources and manpower, meaning that it can only deal with a number of situations or problems at one point, it can have limited financial resources as it is a micro enterprise. The opportunities for the business can be in enlargement of the service provision such as providing in house training for First Aid Course, in house training for specialised training in childcare on different topics, expanding operations and identifying new services unrelated to the current industry and entering new markets such in different geographical areas. The threat of competition is very high because many companies can provide the same service or families can even choose to find a nanny on their own. Ageing population is another threat, when children are growing and the families do not need a nanny anymore or can not recommend further the agency as they are at a life stage when their friends and peers do not have young children anymore. Brexit has also affected the influx of candidates for the agency. Pandemic has also limited operations and recession has enabled the population to pay for childcare looking for alternatives such as grandparents.

Porter's generic strategies

Porter's generic strategies (Figure 1) have been developed focusing on competitiveness and look at cost leadership, differentiation, cost focused and differentiation focus. The cost leadership strategy aims to minimise the costs that comes with the service provision or product offer. The differentiation strategy will ensure a product or a service has unique and distinguished features over the existing offer in the market. Cost focused refers to minimising the cost in a focused marked and differentiation focuses means a business orientation for differentiation in a focused market (Mind Tools, 2023).

Homebodies is focusing on differentiation strategy which allows the company to uncover customers needs through unique service provision, making the customer feel at ease when benefiting of the services provided. According to Homebodies (2023) the service provided distinguishes through the care for details and personal interaction and the

company hand selects and gets to know the nannies in order to ensure the match with the family is successful and suits the family needs and expectations.

Figure 1 Porter's generic strategies

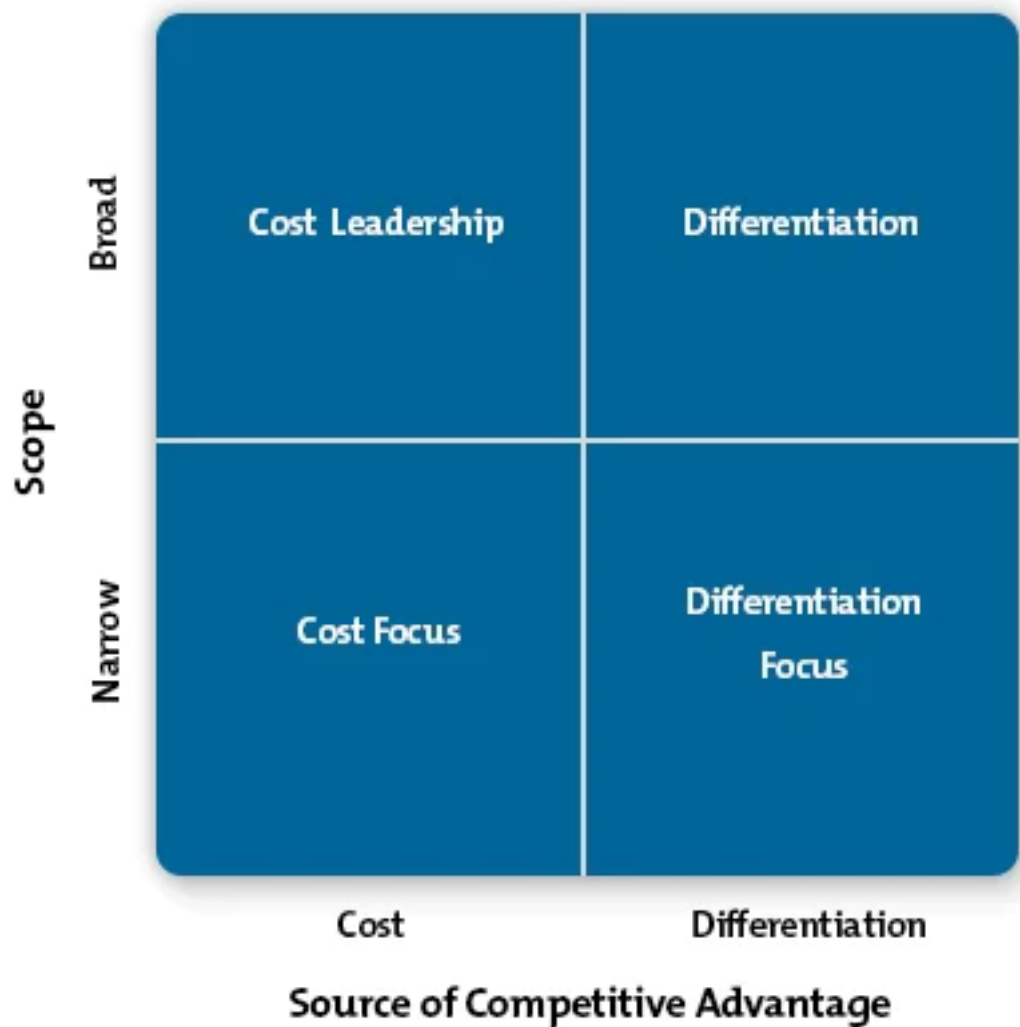
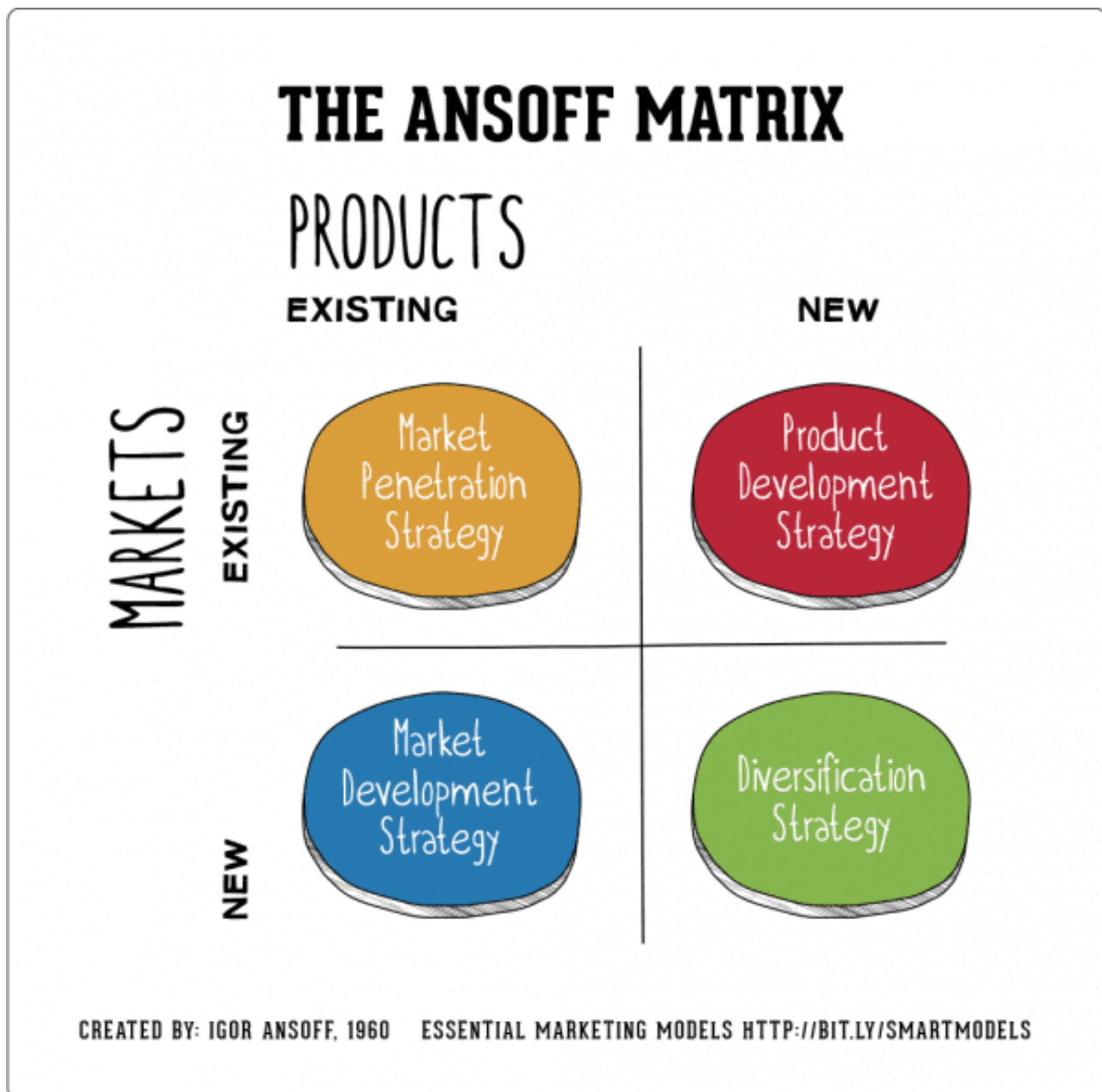


Figure 2 Ansoff's matrix



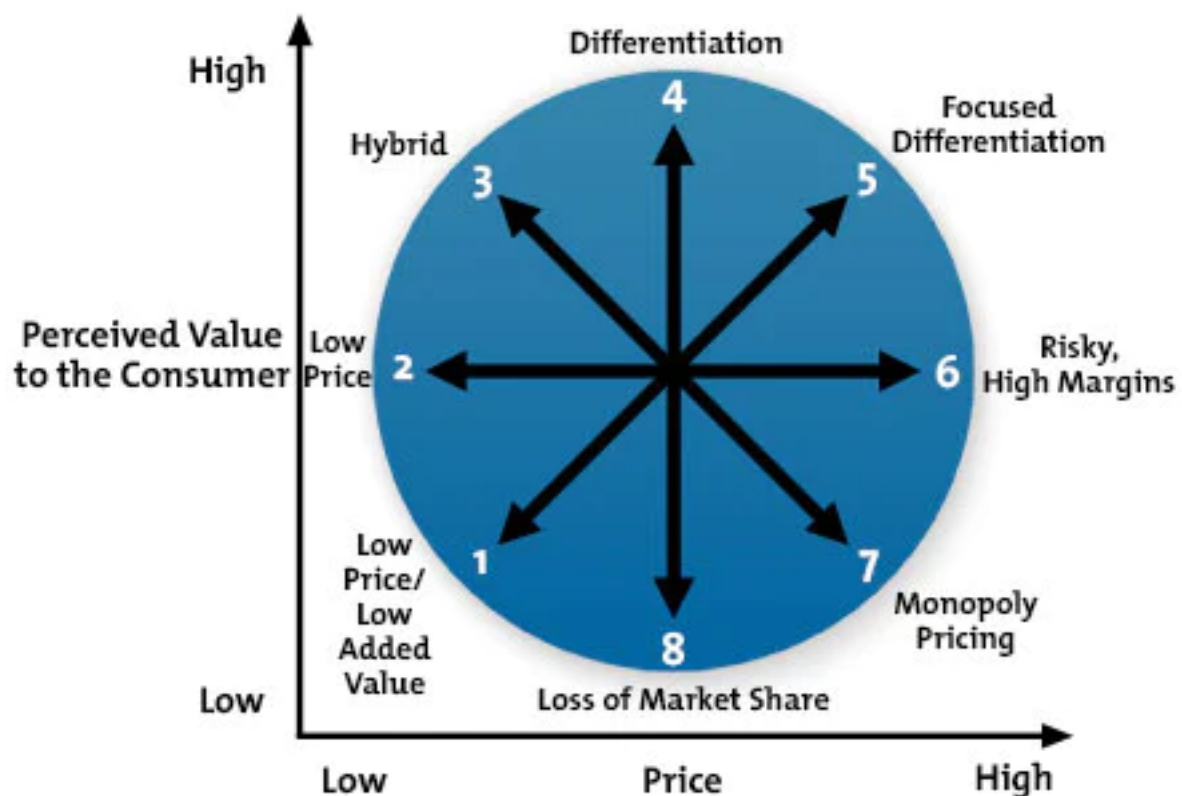
According to Smart Insights (2021) Ansoff's matrix is a model "that helps marketing leaders identify business growth opportunities for their marketing strategies in a challenging market".

The market penetration strategy means that a company chooses to register growth by identifying ways to sell the existing products to existing markets. The product development strategy means that the company will choose to develop a new product or service in an

existing market. The Market development strategy means that the company will enter new market by placing existing products and diversification by creating new products or services and placing them in a new market. By applying the Ansoff's matrix to the selected company it can be suggested that market penetration strategy to be realised through offers and discounts, for product or service development to develop a new service that could interest the existing customers. The market development strategy means that the company will offer the same services but in different geographical areas, as at the moment it is providing services only in London. The diversification strategy means that the company can develop a new service for a new market outside London.

Bowman's strategic clock

Figure 3 Bowman's strategic clock



As observed in Figure 3 above the model presented is organised in eight positions across the clock in order to emphasise in a simple way, a comprehensive approach to the most suitable market strategy. The eight positions indicate different strategy aims and helps the

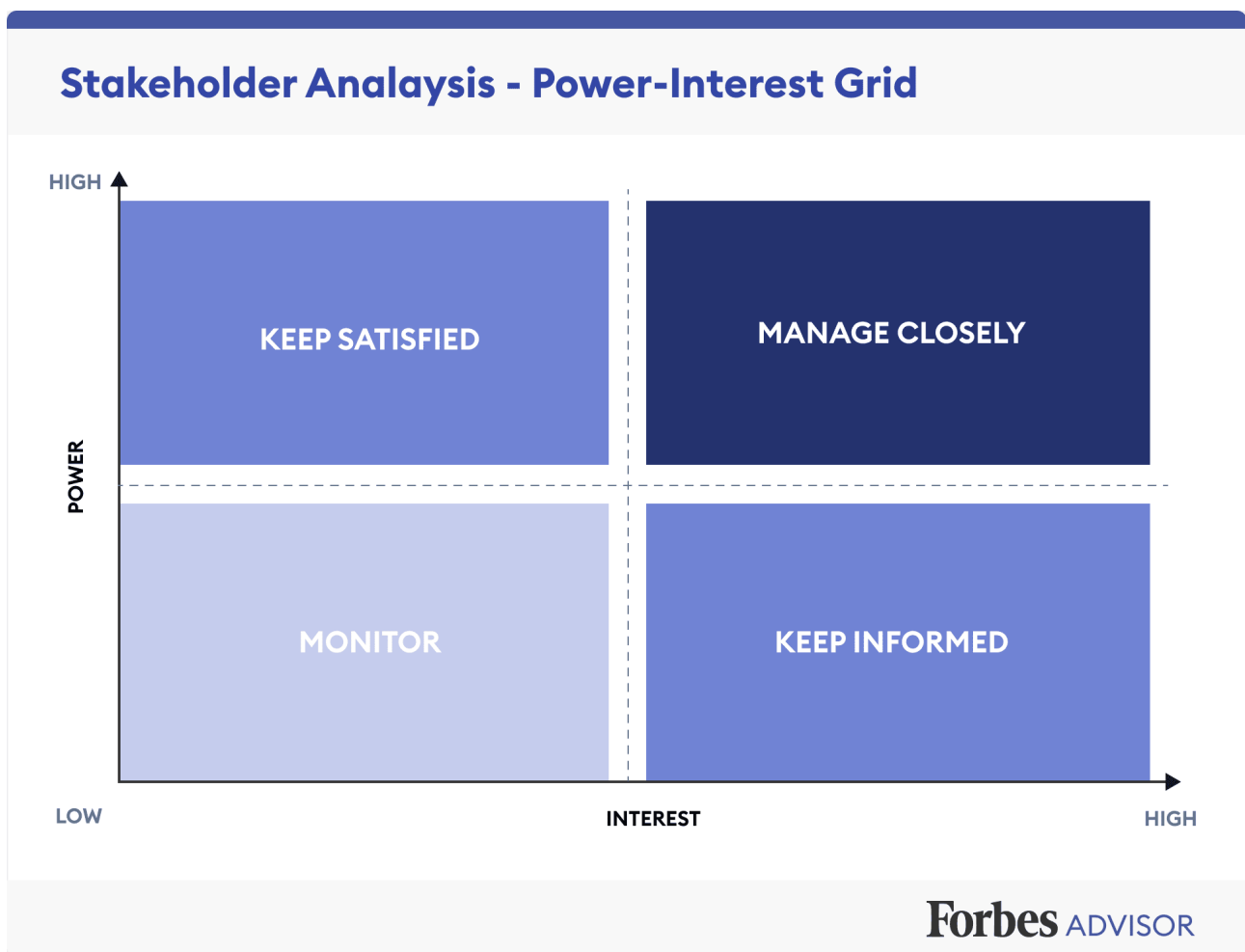
business to make informed decisions on the overall market positioning. The strategies from Bowman's theoretical model look at low price and low added value, low price, hybrid, differentiation, focused differentiation, high margins, monopoly pricing and loss of market share. The first strategy low price and low value added means exactly that the business to offer very low value service at low prices, this would mean allocating random candidates, bulk selection and so on in order, which is not very realistic in a service provision especially in childcare. Low price strategy means that the company is able to offer lower prices than the company focusing on quantity which again as a micro enterprise would not be able to handle a large volume of business. The hybrid strategy is a combination of low price and product differentiation and these means an offer of products of services that have high value at reasonable prices. This is potentially a good strategy for Homebodies as it has a focus towards quality and does not practice high prices. The differentiation strategy offer a product or a service like the competition but try to bring novelty or unique features which has not been offered by the competition. The focused differentiation strategy is when companies offer high value of the products or services and high price which requires certain resources and capabilities. Homebodies has limited resources and capabilities and is not able to pursue this strategy. The risky high margins strategy is a combination of high price and low value for the products or services, which is not feasible for micro enterprises, at least not on the long term as the switch cost is low, customers can choose competition. Monopoly pricing is a strategy that is realisable when is only one service provider in the market and can impose its prices, which is not the case for Homebodies. Loss of market share is when the companies are in decline and lower the price as a necessity.

Stakeholder analysis

"Stakeholder analysis is the process of collecting information about any person or entity that will be impacted by or that can impact the business activity" (Tractivity, 2023).

The running of the business can present different interest to different parties and it can be influenced in various ways and at different levels. Engaging with stakeholder appropriately it influences the outcome of the business activity and maintain required support for the business. The stakeholder analysis framework (Figure 4) enables the business management to identify and allocate levels of importance to different players and ensure appropriate communication is realised.

Figure 4 Stakeholder analysis



The selected company Homebodies has different stakeholders that needs to be looked into as a micro enterprise. The stakeholders that need to be kept satisfied with hight power and low interest are social media platforms, online publications, media. The stakeholders that need to be managed closely are the business owners, families, Government. The stakeholders that need to be monitored with low power and low interest are suppliers, such as office suppliers. The stakeholders that need to be kept informed have high interest and low power and are represented by potential candidates and employees.

SFA analysis

The SAF analysis is a model used by the business management to determine the application of a strategy that would ensure the best strategic direction for the organisation. It is based on complex research and analysis of the business environment and organisation position in the market which has been realised through this report for the

selected company Homebodies. This framework is a tool used to weigh the assessed strategies selected for this report such as Porter's generic strategies, Ansoff's matrix, Bowman's strategic clock. The SFA framework strategy provides support for the design making process for selective the competitive strategy which will help the organisation to perform (Marketing Generators, 2023).

For this report the SFA framework strategy will make use of Ansoff's matrix and will evaluate the four options: market penetration strategy (option 1), product development strategy (option 2), market development strategy (option 3) and diversification strategy (option 4).

Figure 5 SFA framework

Angles of approach	Option 1	Option 2	Option 3	Option 4
Suitability	6	7	2	4
Feasibility	4	6	3	1
Acceptability	5	5	4	2
Total	15	18	9	7

In the SFA framework (Figure 5) have been considered three different angles of approach suitability, feasibility and acceptability. In order to assess these elements the analysis makes use of the previously assessed aspects of the business. Option 1 which represents the market penetration strategy has a total of 15 points which is not a negative result so it should be kept as an open options. This means that the business could identify strategies to have more market share with the existing services. It could look at offering discounts for families that have used the company before, it could put in place offers for discounts for families who recommend the agency to other families which results in a contract. Option 2 is the strongest option for the company with a total number of 18 points. It has been evaluated that it will be very suitable for the company, it is feasible and the company has the resources and capabilities to adopt this strategy and it is very likely that the stakeholders evaluated in stakeholders analysis as with the highest importance and power to accept the strategy as the most suitable and able to provide a return for the business. Option 3 for the market development strategy means that it would not be a very good strategy for Homebodies as having a high level of dependence on the word of mouth, moving operation in a completely new market will have to start from ground base. It might be the case that it does not have the financial power for the renting cost and office supply.

There are low chances for the business owners to want to commute in different cities in order to manage the business in different markets at once. Option 4 is the least that could be considered to create new service in new market which involves high risks for such a small business, it would need drastic changes and risk taking.

Conclusion and recommendations

In conclusion this report has evaluated that the selected company is a SME based on the data collected from the balance sheet (Appendix). It has been elaborated a complete analysis of the business environment, of the external and internal factors that could affect the company. It has also been evaluated the business capabilities and number of resources, although the research has been limited to a reduced number of sources being a micro enterprise. The report has made use of different tools of analysis which allowed a complete evaluation of the business activity. It has been applied different framework developed for competitive strategies which has ensured a comprehensive approach of the available concepts and theoretical models. It has been selected only one strategy to be pursued by the companies by using the SFA framework which has determined the most suitable strategy for Homebodies.

The recommendation for Homebodies is to pursue a strategy growth and develop a new service in order to expand the business. According to the business website, the company has had a continuous activity from 2011 and it had evolved in a trusted and appreciated service provider. It has great capabilities, expertise and it provides quality over quantity. The industry experience makes the company a distinctive service provider and this has been proved but the testimonials of the customers and nomination for awards.

Developing a new service for the existing customer base can refer to families or it can refer to the nannies. Therefore the company can look into providing in house training for their nannies. This can generate profit for the SME as the nannies do not have to go somewhere else to have their training done. This new service will involve an initial cost for obtaining the knowledge through a course and making sure it can issue accredited certificates to the nannies. The in-house training could expand to other different knowledge based courses related to the training that a nanny will need. This service will be generating profit and it will benefit the business and the nannies at the same time. It will be convenient for the nannies to have the training at a place that they know and trust. Also it would be an opportunity to get to know the nannies better and be sure for matching them with the best family for them. These courses could be realised at the company office which can be

realised through detailed scheduling in order to offer training for more nannies at once. It would also be a chance for the nannies to socialise and share their experiences.

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Appendix

REGISTERED NUMBER: 07775059 (England and Wales)

UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

FOR

HOMEBOODIES LIMITED

CONTENTS OF THE FINANCIAL STATEMENTS
for the Year Ended 31 March 2022

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Balance Sheet	1

HOMEBOODIES LIMITED (REGISTERED NUMBER: 07775059)

BALANCE SHEET - continued
31 March 2022

The company is entitled to exemption from audit under Section 477 of the Companies Act 2006 for the year ended 31 March 2022.

The members have not required the company to obtain an audit of its financial statements for the year ended 31 March 2022 in accordance with Section 476 of the Companies Act 2006.

The director acknowledges her responsibilities for:

- (a) ensuring that the company keeps accounting records which comply with Sections 386 and 387 of the Companies Act 2006 and
- (b) preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial year and of its profit or loss for each financial year in accordance with the requirements of Sections 394 and 395 and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements, so far as applicable to the company.

The financial statements have been prepared in accordance with the micro-entity provisions and delivered in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the director and authorised for issue on 11 November 2022 and were signed by:

Mrs S Wilson - Director

Homebodies Limited (Registered Number: 07775059)

BALANCE SHEET
31 March 2022

	31.3.22		31.3.21
	£	£	£
FIXED ASSETS		1,971	1,617
CURRENT ASSETS	47,911		19,714
CREDITORS			
Amounts falling due within one year	<u>(22,424)</u>		<u>(11,193)</u>
NET CURRENT ASSETS		<u>25,487</u>	<u>8,521</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>27,458</u>	<u>10,138</u>
CAPITAL AND RESERVES		<u>27,458</u>	<u>10,138</u>

NOTES TO THE FINANCIAL STATEMENTS

1. STATUTORY INFORMATION

Homebodies Limited is a private company, limited by shares , registered in England and Wales. The company's registered number and registered office address are as below:

Registered number: 07775059

Registered office: 6b Parkway
Porters Wood
St Albans
AL3 6PA

The presentation currency of the financial statements is the Pound Sterling (£).

2. AVERAGE NUMBER OF EMPLOYEES

The average number of employees during the year was 3 (2021 - 1) .

