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INSIDE THE MINDS OF BUSINESS LEADERS

2017

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WHAT BUSINESS OWNERS THINK AND WHY IT MATTERS

By Martin Clapson, managing director, Price Bailey



I'm pleased that for the second consecutive year, 200 businesses that are owned and managed in East Anglia have spoken to our research partner – Ipsos MORI.

WHEN READING the business headlines on an average day, you'd think the UK economy is driven by the top FTSE companies and, perhaps, the occasional superstar tech start-up success.

Hardly anyone talks about the UK's real growth engine: Britain's owner-managed businesses.

Why we don't talk about and celebrate them more in this country is something that I find baffling and frustrating in equal measure.

In my role as Acting Global Chairman of our international association IAPA, I hear lots about the fabled German equivalent, known as the *Mittelstand*, yet UK businesses already outpace the *Mittelstand*, having grown 33% in the past five years compared with Germany's 12%¹, and they now employ more people – 9.3 million, compared with 9.2 million.

According to a study by Gowling WLG², mid-sized businesses are expected to grow by 18%, compared with just 8% for the largest companies.

If that is not an engine of growth, I don't know what is.

Price Bailey's clients are just these kind of businesses – growing, thriving, owner-managed businesses that know their sectors and niches, are resilient, and can spot opportunities and move fast to grasp them.

I know because I talk to the leaders of these vital businesses almost every day. When I meet them to discuss their plans they are mostly optimistic, doing well and planning to grow further.

With the right strategy and – in many cases – some timely insights and advice, they can grow much further still. The potential they have to invest in even better productivity and create many more new jobs for the UK economy is vast.

As a nation we don't listen to them nearly enough and if we don't listen we won't understand how we can help them. The oft' quoted 'captains of industry' seldom speak for them. The opinions, aspirations and achievements of mid-sized businesses are left largely unreported and public policy seldom seems to take account of them.

This clearly matters for a body of businesses that are responsible for so much wealth creation. We wanted to form a deeper, data-led understanding of what drives and shapes these businesses in our region, which is why we decided to commission this survey and report.

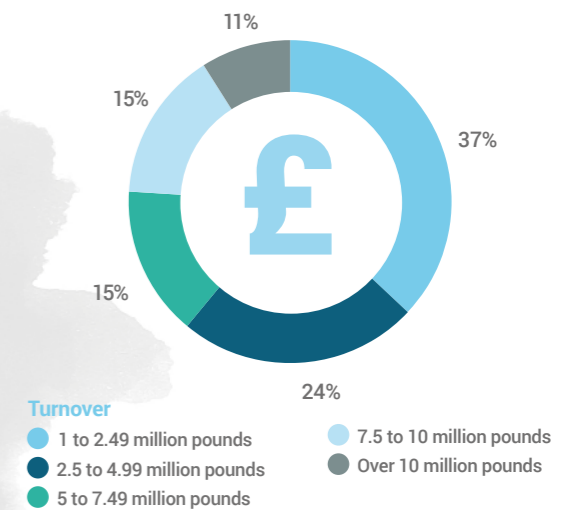
We hope you find the results as illuminating and thought provoking as we did.

¹<http://www.growthbusiness.co.uk/brits-turning-to-entrepreneurship-to-escape-bad-working-past-2508146/>
²<http://www.talk-business.co.uk/2016/04/08/mid-market-set-fastest-growing-segment-uk-economy-now-2020/>

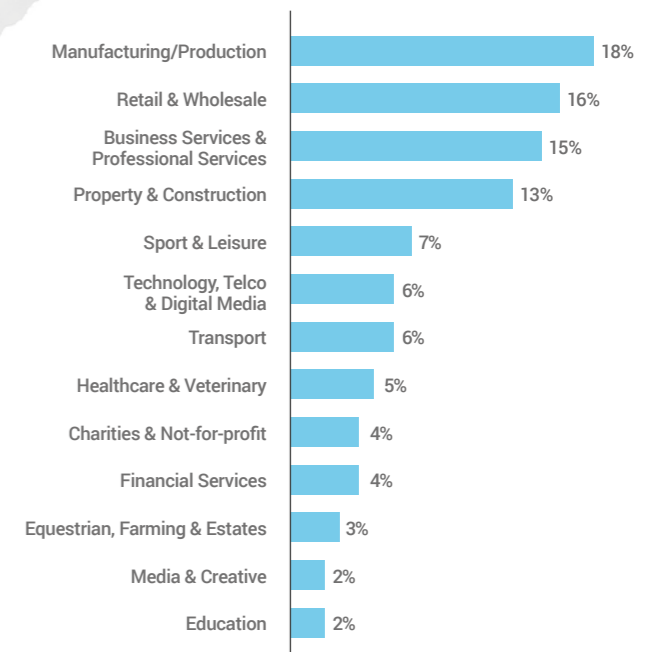
Methodology

On behalf of Price Bailey, independent research agency Ipsos MORI conducted a telephone survey of 200 decision makers from businesses based in London, Hertfordshire, Essex, Norfolk or Cambridgeshire, with a turnover of more than £1 million – of which 89% had turnover in the range £1 million to £10 million and the remaining 11% had a turnover in excess of £10 million. Fieldwork took place between 11 July and 3 August 2017. When percentages do not add up to 100%, this can be due to computer rounding, multiple answers or to the exclusion of 'other' or 'don't know' categories.

Respondents' business size



Respondents' business sector



ON A GROWTH PATH DESPITE UNCERTAINTY

While Brexit and its likely outcomes for the UK as a whole looms large in the (mainly gloomy) national debate, the decision makers in the businesses surveyed by Price Bailey are shrugging off the doubt and negativity surrounding it.

A bright outlook for most

When focusing on their own business, most decision makers are upbeat.

- More than half of businesses surveyed (57%) have grown their business in the past year
- 74% are confident they will grow in the next three years
- Only 11% think their financial position will get worse in the next year
- Even fewer (8%) expect their business to shrink in the next three years

The Brexit effect

Brexit remains the stuff of news headlines that, so far, is having little or no direct impact on these businesses.

- More than half (55%) of decision makers say that so far it has made no difference to their business
- A third (35%) say they have seen some negative impacts
- Less than half (44%) expect some negative impacts in 12 months' time. However, just 13% expect the impact to be positive
- 73% say a soft Brexit would be preferable for their own business, while 15% would prefer a hard Brexit

Brexit is not yet a top concern for most.

- Only a quarter (26%) identified Brexit in their top three business concerns
- 31% expect benefits from Brexit for their business in five years' time while 32% expect negative outcomes

A bright outlook for most



57% of businesses surveyed have grown their business in the past year



74% are confident they will grow in the next three years

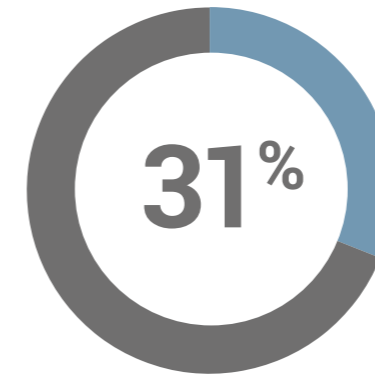
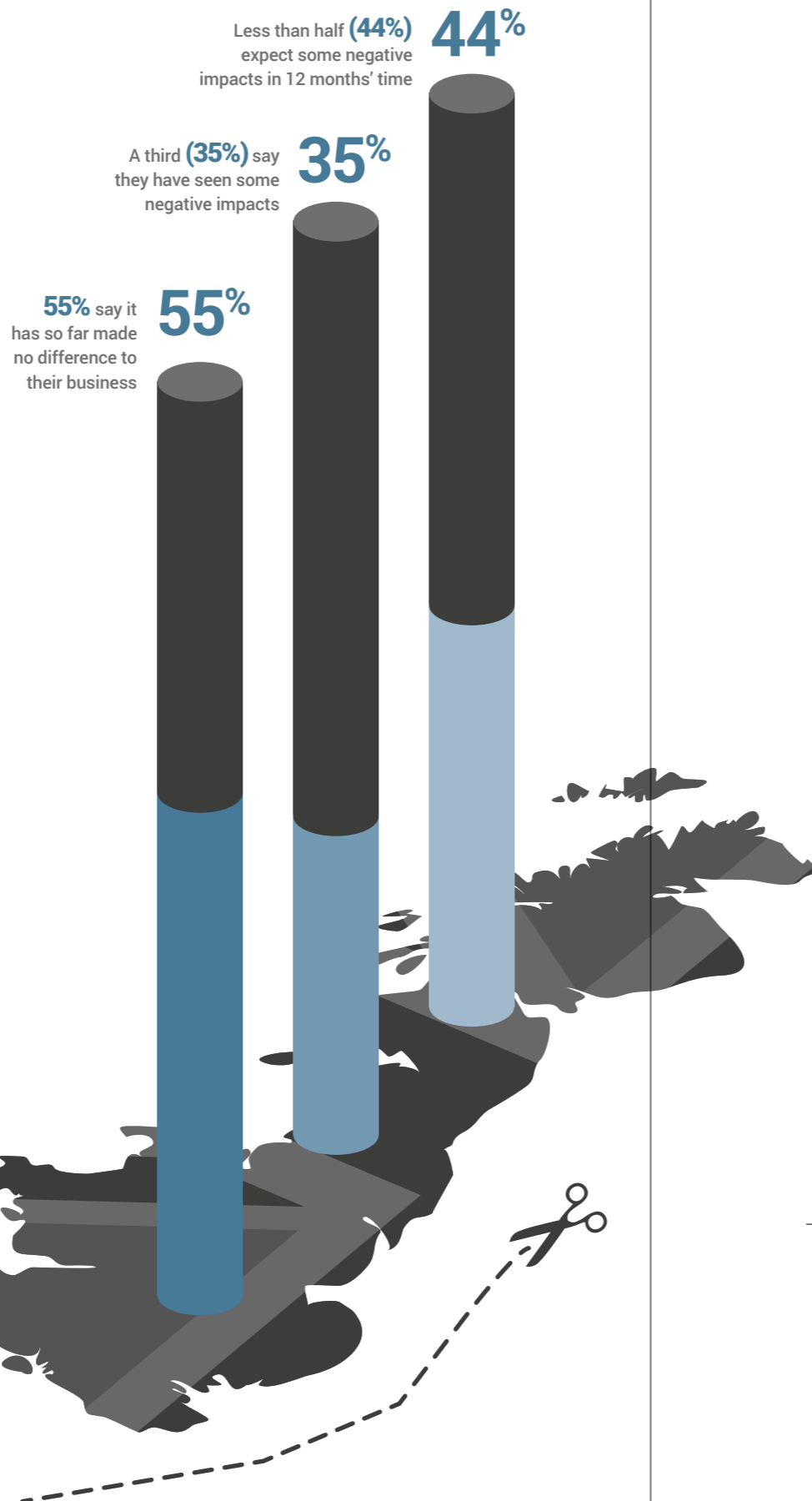


Only 11% think their financial position will get worse in the next year

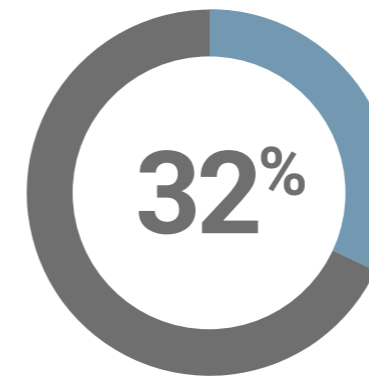


Even fewer (8%) expect their business to shrink in the next three years

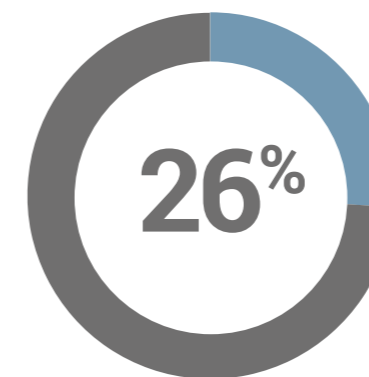
The Brexit effect



31% expect benefits from Brexit for their business in five years' time



32% expect negative outcomes



Only a quarter (26%) identified Brexit in their top three business concerns

Only **one in ten** named Brexit as their chief concern



The Price Bailey view

Every business would like the clarity and certainty that comes with knowing how the wider economy will fare and what the government of the day will do. No business ever really gets it. The same applies for Brexit. Of course, businesses would like an idea of what the effects of Brexit are but no one can know for sure.

Many will have regretted the vote to leave: most bosses were 'remainers' (71% thought the UK was better off being inside the EU) but few now want to revisit the arguments – when asked what one thing the government could do to support their business, just 7% propose negotiating to somehow keep the UK inside the EU. This suggests they take a pragmatic approach – treating the world as it is rather than how they wish it were.

The survey paints a picture of businesses that, rather than worry about matters beyond their control, are instead focusing on the opportunities in front of them. The decision makers and bosses in the survey show that they are out there in their individual markets confidently working to outsmart and outgrow their competition and not letting gloom or uncertainty hold them back.

Perhaps most telling is their short versus medium-term outlook. A third think Brexit will have a negative impact in the short term, but a third think it will be positive in the long term.

This suggests they are more than willing to work with the new post-Brexit reality and exploit the opportunities that arise from it, and so outperform less able and often larger rivals, who will be slower to respond to the new competitive landscape.

Many will have regretted the vote to leave: most bosses were 'remainers' (71% thought the UK was better off being inside the EU) but few now want to revisit the arguments

THE TWIN CHALLENGES OF TALENT AND THE COSTS OF WEAK STERLING

While the leaders we surveyed may expect the wider economy to take a turn for the worse in the coming years, this does not colour their largely upbeat view of the prospects for their own businesses. Instead, the big challenges they experience include finding the talent to help them grow, and the rising overheads they are experiencing from the weak pound. Notably, Brexit is not in their top three business concerns.

Day-to-day issues, not macro-economic or political ones, are their top concerns:

The hunt for talent*

- Finding and keeping the right talent is one of the key concerns business leaders chose from a list of potential challenges, with a third (36%) citing it as their top concern
- Recruiting and keeping the right talent is one of the top three concerns for 60% of businesses

The weak pound*

- Around a quarter (23%) see the weakness of the pound as their main worry
- Half (52%) see the value of the pound as one of their top three concerns

Red tape*

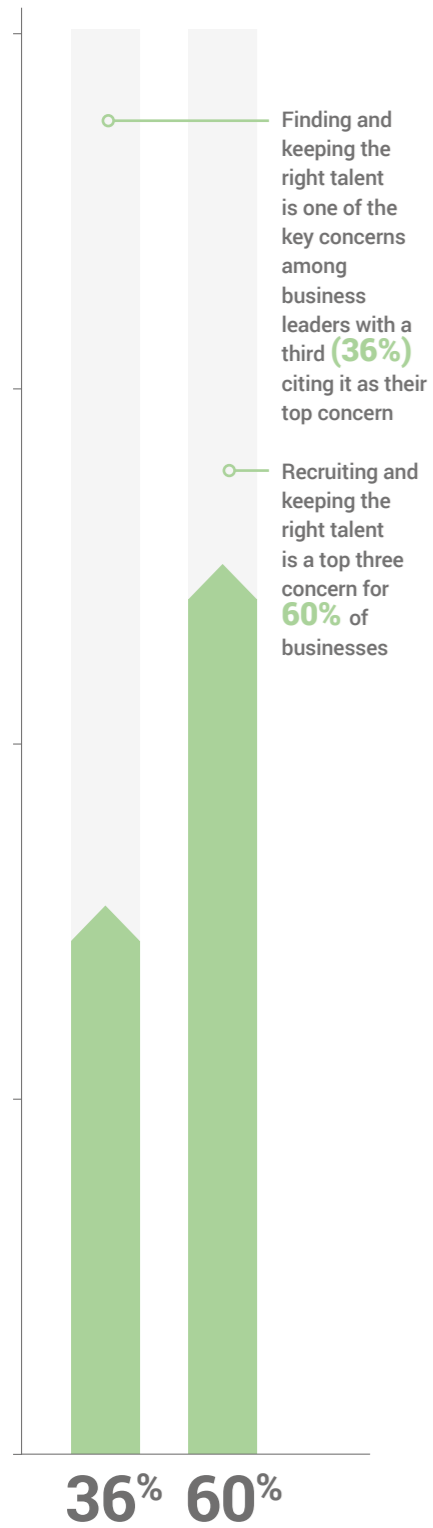
- Around a third of businesses (34%) see regulation as a top three concern
- But it is a distant third when it comes to top concerns. Only 12% say it is their main worry

Economic headwinds

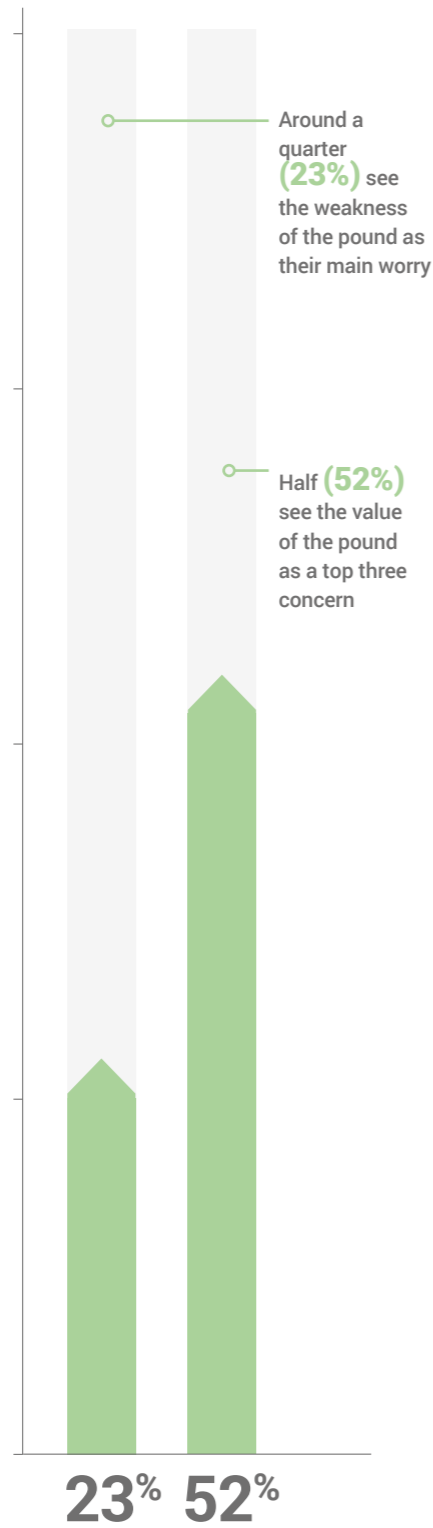
- Nearly half (47%) expect the national economy to worsen in the next year
- Only 18% of businesses expect the UK economy to improve in that time
- Slightly more see reason for optimism on a regional level, as 29% think their local economy is likely to improve in the next year

* Respondents chose from a prompted list

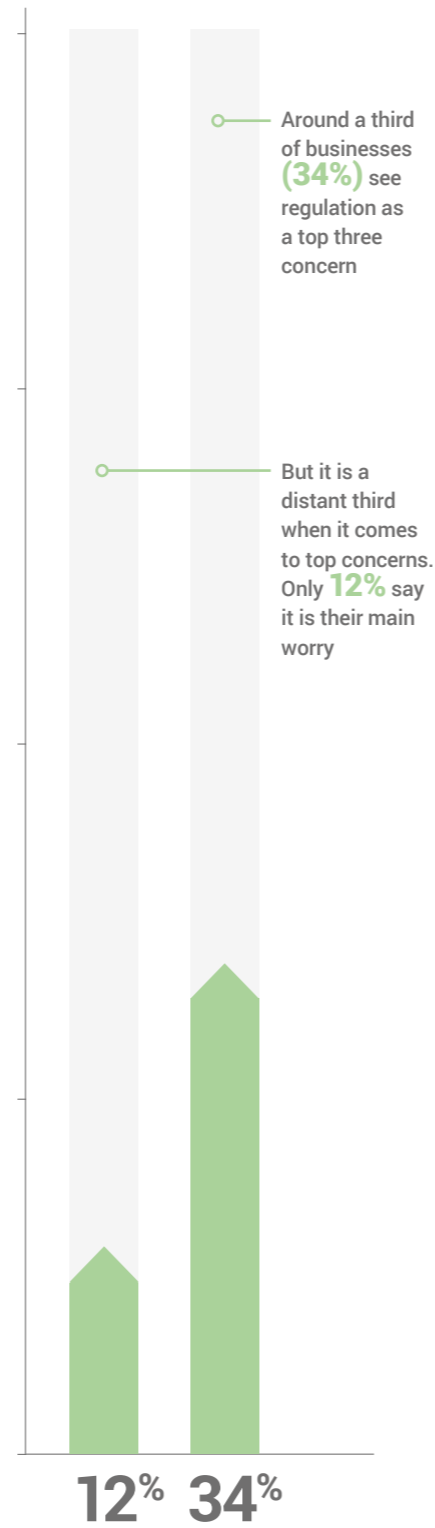
The hunt for talent



The weak pound



Red tape



Economic headwinds



The Price Bailey view

While many decision makers fear the national economy will hit a rough patch soon, most have a success mindset and don't see this affecting their business.

The day-to-day challenges cited by the decision makers in the survey do not reflect a body of businesses expecting their outlook to darken, even if they have less confidence in the wider economy. It could be argued that their top concern, the hunt for talent, reflects a faith in their ability to grow, a fundamentally healthy economy and seems to suggest the local business ecosystems in which they operate are thriving.

The factors holding owner-managed businesses back stem not from a lack of demand, but an inability to grow to their potential. Recruiting and keeping the right people is their top concern by a long way – not the concern, surely, of businesses in a recessionary frame of mind.

Without the right people in place, decision makers cannot grow their businesses to their full potential. Tellingly, those who believe they will grow at more than 11% over the coming three years see recruitment as an even bigger challenge compared with the sample as a whole.

Finding the right talent is not the only conundrum they face when it comes to their human resources. Deciding on the optimal headcount is more important than ever. The costs of employing people (employers' National Insurance, in-work benefits, newly compulsory pension contributions) are growing, along with the costs of redundancies if things don't work out.

This makes recruitment a twin challenge – finding good people who will help the business grow, while identifying the areas where headcount can be kept down, perhaps by outsourcing non-core and often complex activities.

A good example of such a trend that Price Bailey has experienced first-hand is the outsourcing of activities such as bookkeeping, payroll and so on, which are increasingly onerous and also non-core to the growth of the business.

On top of the rising costs of employing people, input costs of another kind are a large and understandable concern that is hitting firms. The weakness of the pound is a source of rising costs, in large part owing to the vote to leave the EU. In this respect, it can be said the businesses we surveyed – most of which do not export – are indeed already taking a hit from the result of the decision to leave the EU, even though most do not see Brexit as a top concern.

Notably, Brexit was not highlighted as a top three concern for most respondents.

SOURCES OF GROWTH

Most decision makers surveyed are upbeat about their business prospects despite their doubts about the immediate prospects for the wider economy. Those pushing harder to grow, expect not just to grow, but to outgrow competitors, by winning business from slower rivals.

Growing organically*

Decision makers chose organic growth as their main growth strategy.

- From a list of growth strategies, 76% chose growth by selling more to new customers, and 65% say they will grow by selling more to existing customers
- Only about one fifth chose boosting their online presence as a top-three growth strategy

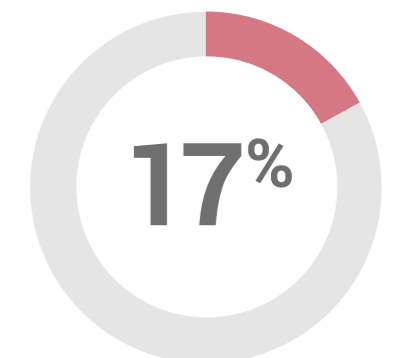
Growth through M&A will be limited*

Acquisitions are far down the list of growth priorities for most, in contrast with larger listed businesses for whom the M&A route is often the shortcut to growth.

- Only 14% choose an acquisition as a top-three growth strategy
- Only 12% consider a joint venture or partnership and 5% cite a merger

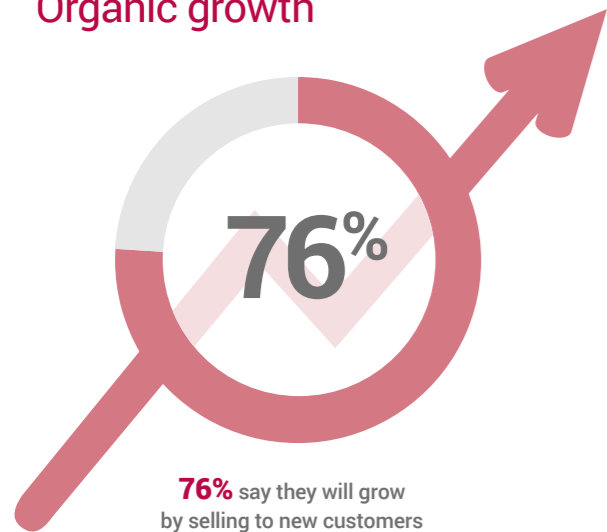
A lack of pricing power*

Few expect their growth to come from increasing prices – only 17% plan growth by increasing prices as a top-three growth strategy

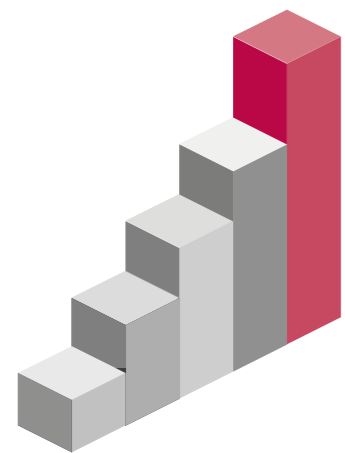
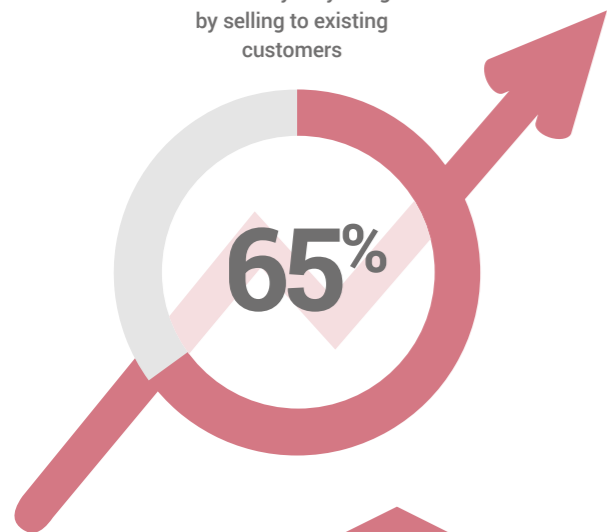


* Respondents chose from a prompted list to decide their growth priorities

Organic growth



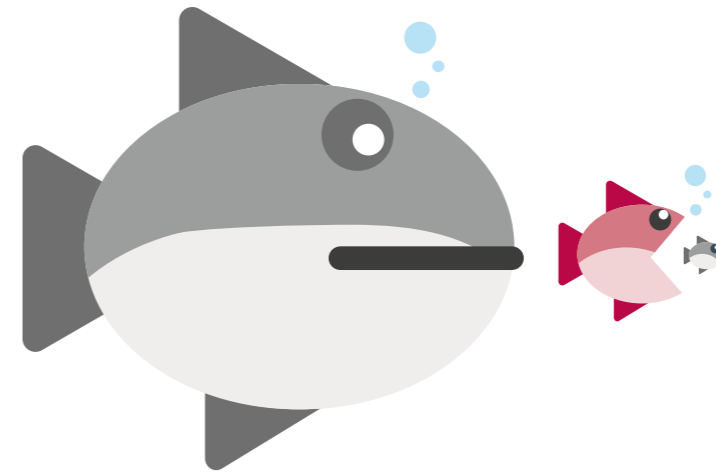
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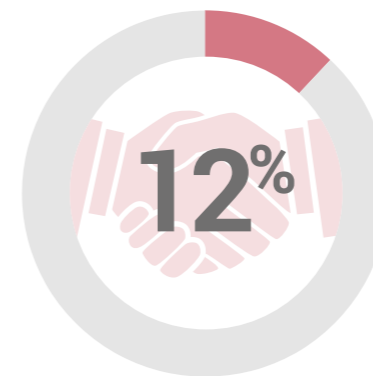
ONLY ABOUT **ONE FIFTH** PLAN TO **BOOST THEIR ONLINE PRESENCE** AS A **TOP-THREE GROWTH STRATEGY**



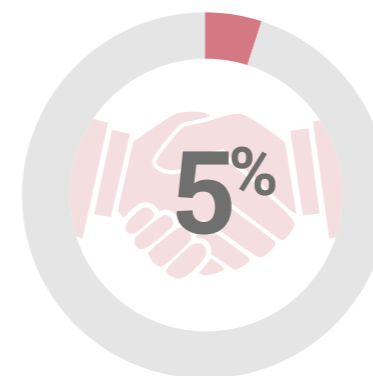
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The export outlook

Exports are not a growth priority for most of the businesses we surveyed, but for those who export, prospects to the rest of the world (excluding Europe) look brighter.

- 57% don't export anything at all
- 16% of businesses are exporting up to 10% of their products or services
- Exports account for more than 50% of turnover for only 13% of those surveyed
- Post-Brexit, the majority of businesses that already export (58%) expect to export about the same to the EU
- 16% expect to increase EU exports compared with 21% who expect them to fall post-Brexit

New export horizons

Global exports will flourish for some post-Brexit.

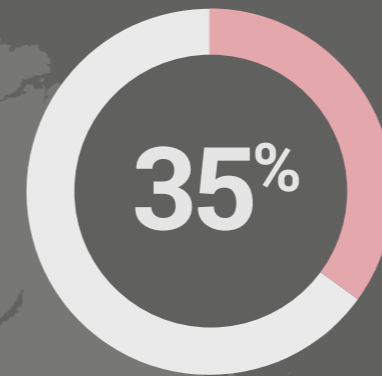
- More than a third of businesses that currently export (35%) believe they will export more to the rest of the world (excluding Europe) post-Brexit
- However, many businesses don't expect much change, as 58% think their EU and non-EU exports will stay the same

Exporting is an obvious route to higher sales and turns the weak pound from a drag on growth into a tailwind

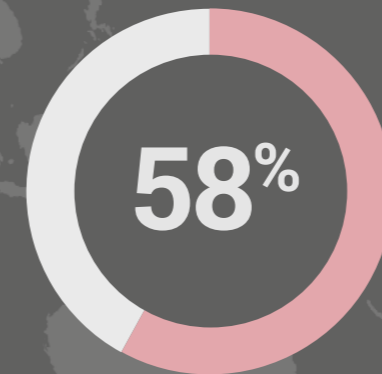
The export outlook



New export horizons



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The Price Bailey view

Doing what you are already good at is the prudent path to growth: serve the customers you already have better and find new ones like them. This is what most decision makers in the survey plan to do and there's nothing wrong with growing organically rather than, for example, chasing growth through acquisition. The latter strategy often pursued by large listed businesses, can all too often destroy rather than enhance business value.

But does business as usual do justice to their true capabilities? Do some of them lack ambition and if so why? Perhaps a lack of clarity about the economic future post-Brexit holds some back from bolder action.

Exporting is an obvious route to higher sales and turns the weak pound from a drag on growth into a tailwind. Are the businesses in the survey missing a chance here and should they be looking beyond not just the UK, but also beyond Europe, since most expected global growth will come from outside its borders in the coming years?

Acquisitions do not loom large for many of the businesses surveyed. Even among those with greater growth aspirations, only 14% say they were considering this as a growth strategy.

Caution about debt is also, potentially, another factor holding back growth. Is there an argument for taking a more bullish view on debt to fuel growth? Many businesses that suffered during the financial crisis have reduced gearing and distanced themselves from borrowing as a source of investment funds. Growth instead is funded by reinvesting retained profits. It is often wise to be prudent, but is caution holding back decision makers from achieving higher growth levels, for instance, not borrowing to invest in technology and productivity improvements?

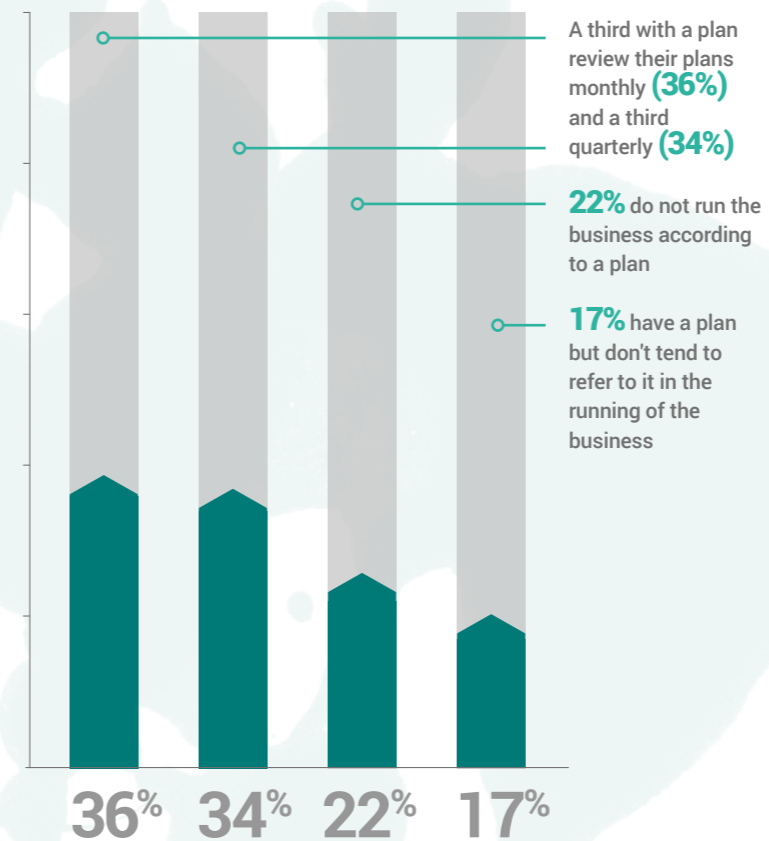
If the hunt for talent is the big challenge (both the challenge of finding good people and the employment costs that come with a high headcount), borrowing to invest in automating processes, investing in technology and productivity improvements with better IT and systems could be a positive way forward for many.

PLOTTING A PATH FOR GROWTH, NOT AN EXIT



Business planning

More than half (53%) of businesses have a business plan to which they regularly refer.



Uncertain about the exit

Exit planning is not a priority for most.



The way decision makers create and execute their business plans varies widely. However, those with the most considered strategic plans are likely to grow fastest.

The Price Bailey view

It is understandable for decision makers not to look at their business plan regularly or to keep their plan largely in their heads, but it's not the most effective approach. The survey suggests that those without a business plan have grown less over the past year and have lower growth expectations for the future.

Without a plan, decision makers risk working in the business not on it. Those who formalise their business plan, seek external advice in charting their strategy and execute it with discipline via a formal board-driven method, are more likely to enjoy growth.

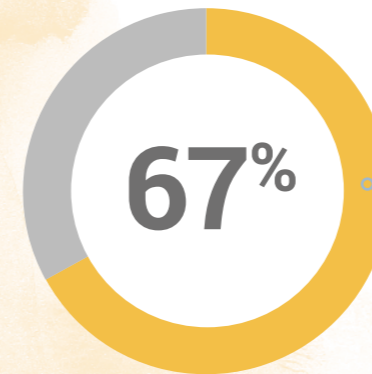
A plan will also help decision makers think about the business as it matures. An exit does not loom large for most, many of whom enjoy building and running their business. This is understandable but every business has a life cycle.

Planning for an exit in whatever form – be it a sale or family succession – is a process not an event, and every business owner would do well to ponder the eventual manner of an exit to ensure the best outcome for all involved in the business.

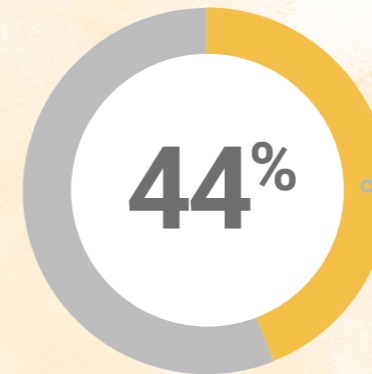
This suggests that those who think about the big strategic issues and document such thoughts within a business plan, are likely to benefit from such an exercise. This is not always easy. Owning and running a business demands so much attention to the everyday issues and it is not always clear where to turn to for help with strategic advice.

Currently many owner-managed businesses struggle to find external advice that adds value, yet despite stepping back from having a local presence banks can still be a source of valuable advice, as can accountants if they are given the opportunity to discuss strategy.

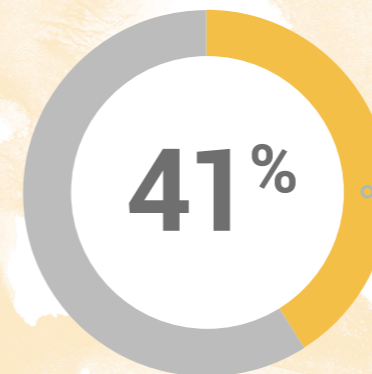
LIFE AS A BUSINESS OWNER: BUSY BUT FULFILLING



Hitting a good work/life balance is not a problem for most (**67%** believe they have an adequate balance)



44% now see no effective separation between their work and personal lives



They are prepared to make sacrifices for the good of the business – **41%** have not taken a two-week holiday in the last year

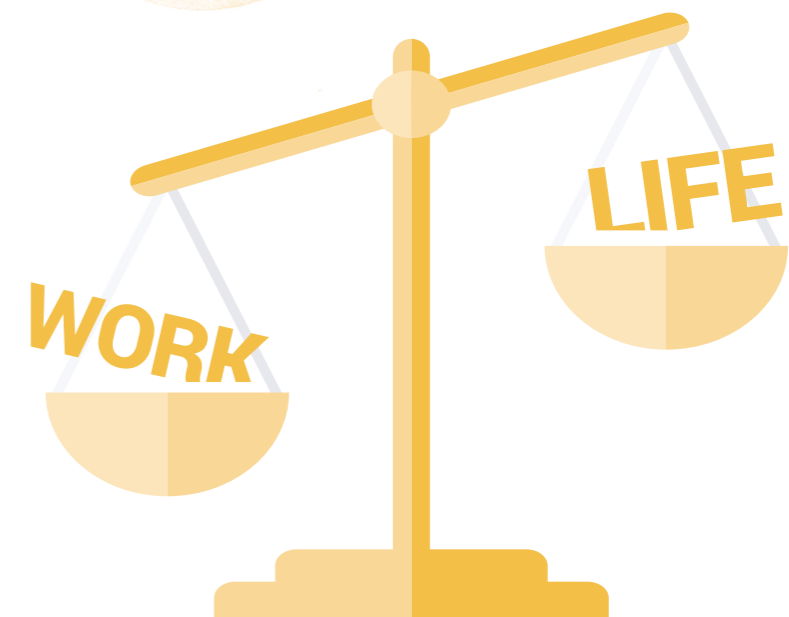
Many of the decision makers in this survey are happy with the balance they are striking between work and their personal lives. They are prepared to make sacrifices for the good of the business – 41% have not taken a two-week holiday in the last year.

The Price Bailey view

Decision makers, as well as being upbeat about the prospects for the business, are also upbeat about their own lives. They work hard but enjoy the fruits of it, including the flexibility to fit work around leisure and family time even if it means two-week holidays are a rarity.

Being your own boss means enjoying great personal freedom despite the attendant workloads and responsibilities.

Those less satisfied with their work/life balance also expect greater growth going forward, showing how leaders of this mentality tend to put themselves under greater pressure. Also they have a clearer plan for an exit that maximises the potential value of the business.





AN UPBEAT SNAPSHOT OF THE UK'S UNSEEN GROWTH ENGINE

The decision makers we polled have proved to be a pragmatic group. While clearly not relishing the fog obscuring the financial landscape as the UK approaches Brexit, rather than be downbeat, they have continued to grow their businesses by concentrating on the things they can control, taking advantage of the new opportunities that are inevitably presenting themselves during this time of change.

And so, the challenges they face are not caused by a slowdown in their activities, but by their opportunities for growth. It's not a lack of turnover but an apparent shortage of appropriately skilled people that is their main concern, something that we at Price Bailey have complete sympathy with.

While we recognise that larger organisations with global supply chains have valid concerns about life after Brexit, it's important to us that we spend the time and effort understanding what drives the kinds of businesses that form the backbone of the British economy. Having listened to them we believe that there is every reason to hope that when the fog lifts, things will turn out fine for the nimble and the bold among us.

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