

Growth beyond
the lockdown

From crisis management to
seizing opportunities

Our understanding of the trends...

Stability of demand

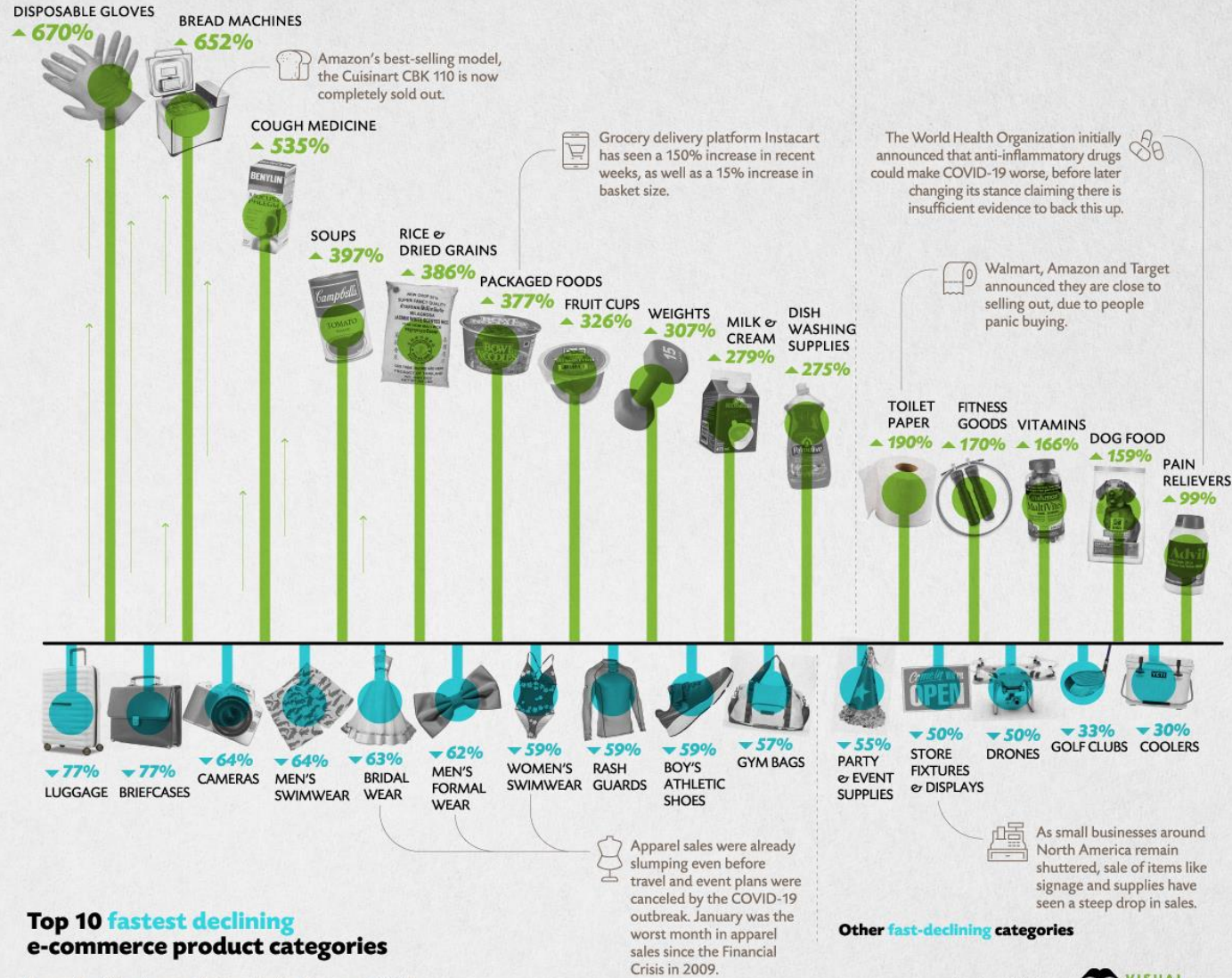
Volatility in attitudes to service, price, timing of payments. How easy it is to win new customers. Volatility in loyalty (swing voters), apathy of buyers. Also demand expectations from investors and staff.

Alternative suppliers

New entrants, competitors undercutting, competitors innovating, momentum to something completely different, changes in sector constraints (e.g. due to reducing margins and increasing debt), battling well funded businesses

	Alternative suppliers respond to trends slowly	Alternative suppliers respond to trends quickly
Stable demand	Revolutionary trends Someone/a small group is trying to break the mould... and they are doing it well. Others have not caught on. Monzo & Revolut Working from home (I pads and smart watches were here once)	Decisive trends Pretty much everyone has adopted these trends and customers/suppliers are starting to expect this as normal Zoom Streaming TV (5G will be here soon)
Unstable demand	Inconclusive trends Trends that are still building momentum. They may thrive or die. Cryptocurrency SpaceX / Virgin galactic (Tesla was here once)	Evolutionary trends Suppliers are pushing something into an evolving market that hasn't decided if it wants it regularly yet. QR codes Automated checkouts? (Streaming TV was here once)

Top 10 fastest growing e-commerce product categories March 2020 vs March 2019



Source: Stackline, Amazon, Business Insider, Euro news, CNBC

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Seizing opportunities

	Low ability to change	Mixed ability to change	High ability to change
Highly motivated to grow into new products and/or markets	1	2	3
Open to growth, but only with the products and/or markets that we already have	4	5	6
Motivated to stabilise with what we have	7	8	9

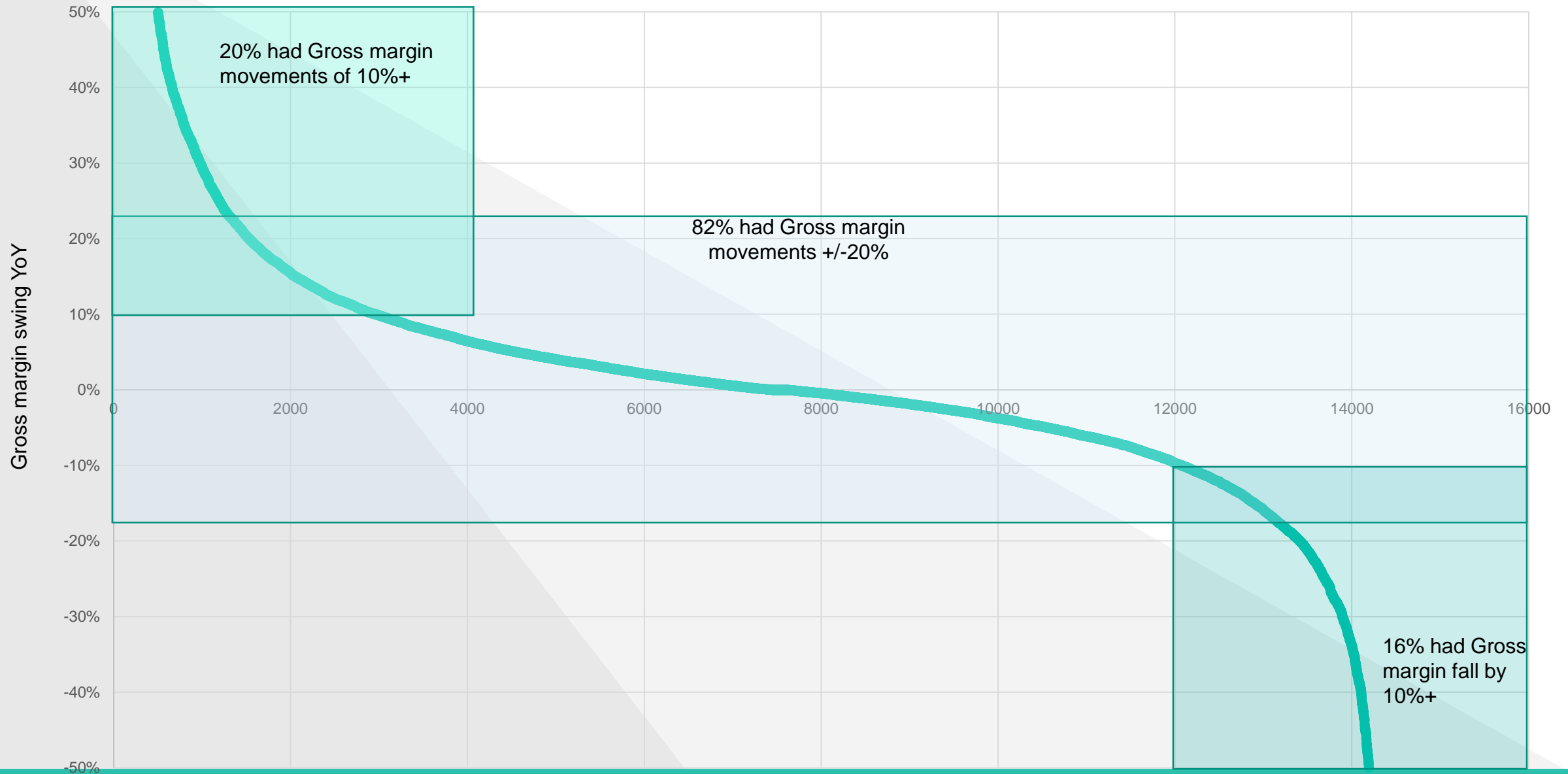
Motivation = what do you want?

Ability to change = your people's ability to change, equipment, surplus cash/access to funding, customers who want change, supply chain that can evolve, culture etc.

Scale up: expansion model



Year-on-year Gross Margin movements of 14,443 UK SMEs £10m to £100m rev, 25+ employees, £1m+ NAV



Volume-margin planning **example**

- Example – planning for a manufacturing business
- Took a risk on proactive changes in products they were going to sell
- Forecasts suggest a 3% fall in revenue as a result of changes, but actually a 5% rise in £ value of gross margin
- But brings risks... have to try some new things
- Probably just accelerating natural changes

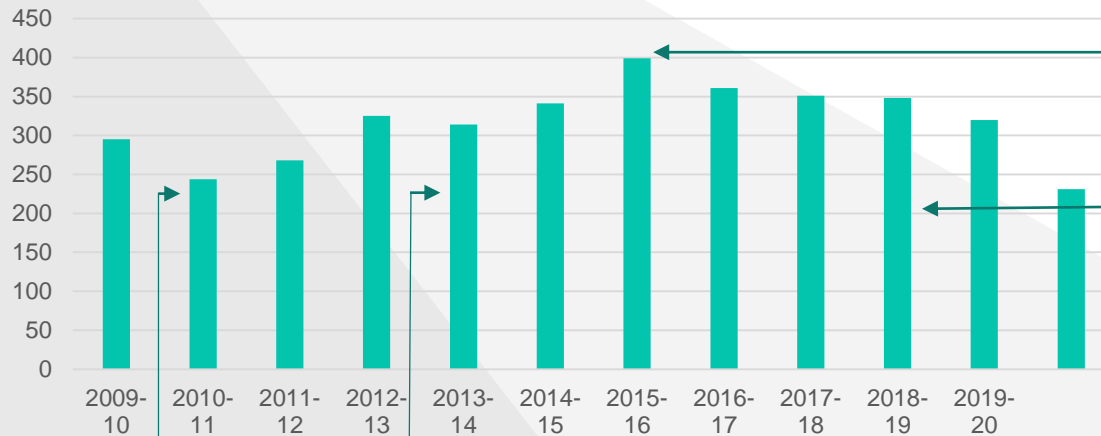
<i>% of total revenue</i>	Low gross margin product/service	High gross margin product/service
High volume product/service	15% of total revenue growing to 30% - if we put in place our cross selling plan and increase prices by 2%	10% growing to 20% if we change channel strategy and lower prices slightly – but we have to take a risk on marketing costs
Low volume product/service	45% reducing to 20% if we cut SKUs; not worth servicing. Expect turnover to fall as result	30% - won't change – products have static demand

5 key organic growth decisions

1. Take a stance on how you will respond to the trends that impact your customer, staff and supplier choices
2. Plan which opportunities you will capitalise on and how they will create mid-term value
3. Evaluate how you can increase gross margin
4. Consider how your cash conversion cycle may evolve and be proactive
5. Treat your growth funding like an investment decision

M&A after the financial crisis

The dip in deal numbers takes a couple of years to return



1. Deal numbers fell at first

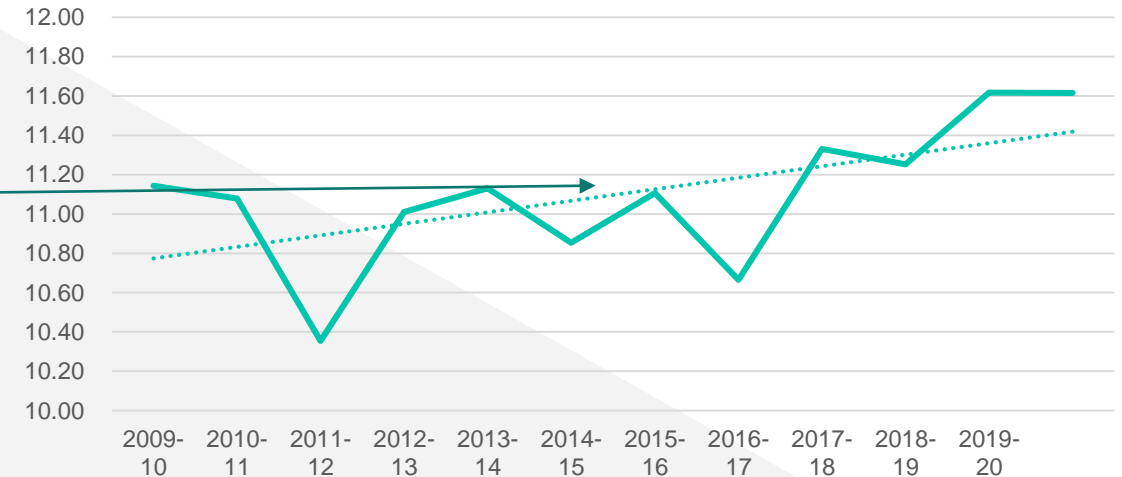
2. But came back 3 years later

3. And actually jumped by a third 6 years later

3. But then fell again

The trend shows that even 'small' deals gradually get bigger

Average deal size (£m) grows



Data: UK sellers to UK & Global buyers (including buy-out funds) for businesses worth £1m to £25m

Changing business models

5 changes we can expect from putting together research that others have conducted on changing business models before Covid-19, how Chinese companies have responded and European and US research on how businesses are changing.

What we would call “more noise”...

- There are more groups demanding attention: customers, staff, suppliers, regulators, the news. Everyone has a different view that seems amplified at the moment.
- Issues as diverse as technology, remote working, mental health, pricing, currency all just have more noise right now.
- All of this combines to form the pressures around new ways of working and decision making.
- What is important is whether or not business leaders put the ‘ear defenders’ on and shut it all out and carry on largely as before with a few token changes, or, if they filter some of the noise to come in.
- This is about the governance of decision making. No company can or probably should respond to everything, but it probably won’t be enough for a company to say “we’re too small or too large for that.” Change expectations will impact all businesses.
- Boards will have to make choices on their balance of decisions between 1) loss aversion, 2) keeping business as usual, and 3) growth.
- Getting the balance of these three wrong may well mean that some companies left behind.



Changing business models

People

- Normally, after a recession, there is a talent war and it becomes harder to attract and retain good people.
- Survival comes first but, finding new ways to attract, support, develop individuals and teams now is crucial.
- Things like virtual inductions or trusting remote or low supervision working might mean the mind-set and characteristics of the right person might shift from what they were before.
- Being trusted to collaborate, communicate and build relationships all also looks to be essential and technology is just a tool in that; culture, values and character are going to be more important.
- All of this means that the expectations of good people, and the employer, are likely to change and some companies will embrace that with more success than others.

Spaces

- Our physical spaces will change radically. They might not disappear but they will change to be COVID secure and then again as/when legislation evolves.
- Investment in space is often perceived by teams as reflective of how much the organisation cares about them, influences changes in culture and it can be an enormous source of both motivation and demoralisation.
- This may be context dependent but it is an important consideration at a time when cash is tight and there are only a few things we can all do.

Changing business models

Positioning

- Your industry and position within it can be worth up to 50% of your ability to create positive movements in what we call 'economic profit' (i.e. company profit after calculating a 'fair' return to shareholders).
- There are exponential gains to be had from making active choices to position yourselves to be in a valued position and profitable position in your industry which then allows you to sell to buoyant customers, using a strong supply chain or workforce and using modern methods and processes to embed competitive advantage. Product market fit is key – our podcast on this topic can be listed to [here](#).
- COVID has been an accelerant to change; having the right market position and embracing trends has been seen as essential to maintaining and growing profits and value.
- Organic growth, M&A and business model change are all methods of changing the position in the value chain.

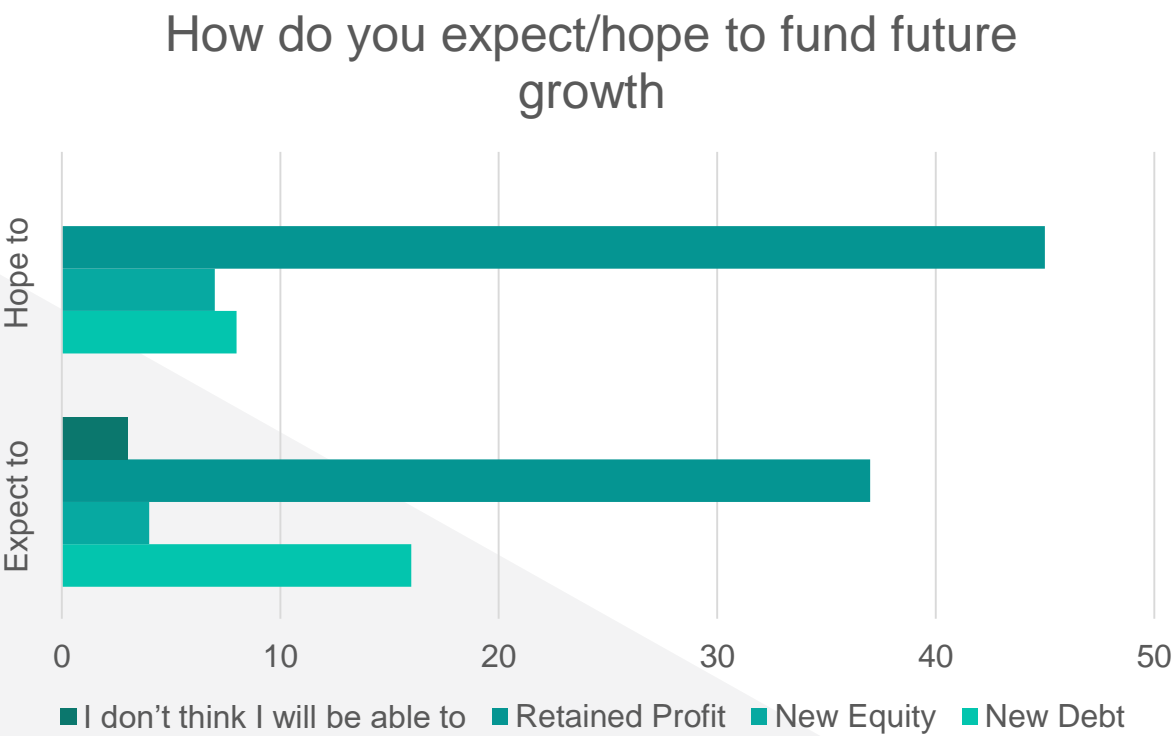
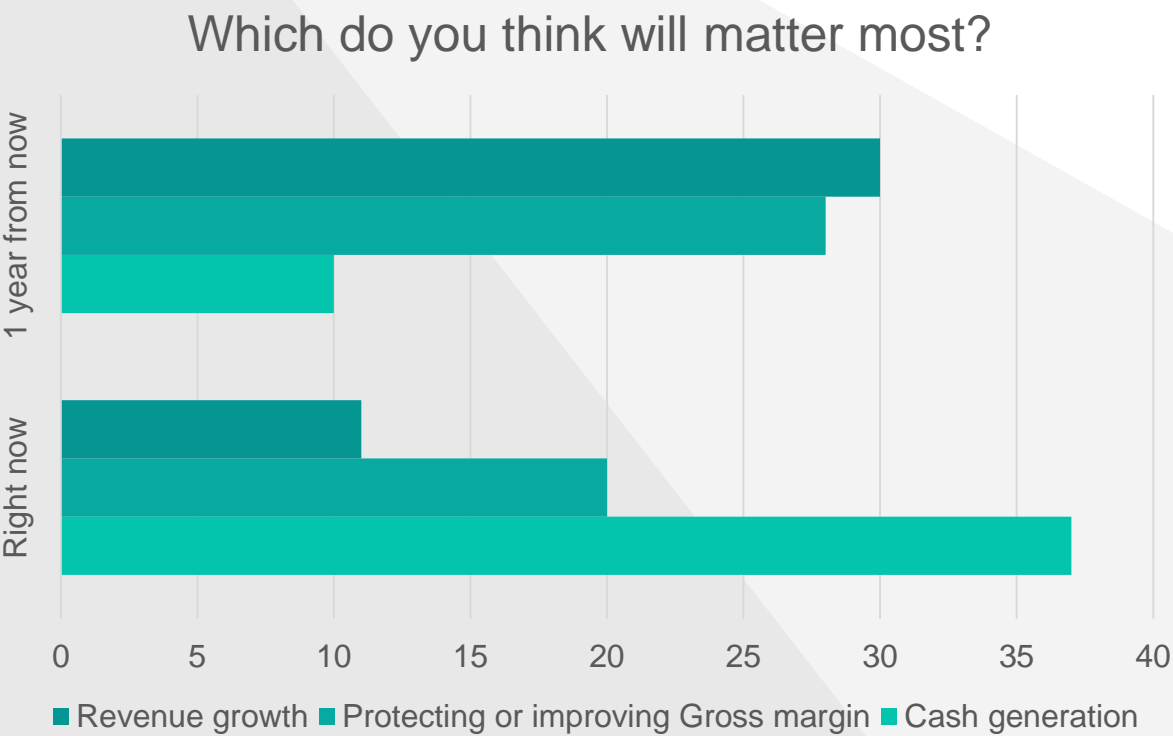
Finally, how to make money

- Key concepts around markets, pricing, gross margin and cash generation have clearly shifted for many businesses but as we've seen it is very possible to shift these metrics upwards in defiance of a recession.
- Richard highlighted in the first webinar some of the issues around this and the connecting with concepts like fair value – these are all crucial points as some businesses will proactively embrace new ways of making money, others will just see what happens.
- Perhaps the litmus test comes back to some of the organic growth and M&A questions discussed previously and Simon's question (see polling results) about if you invest in your own cash for ordinary shares in your own business now.

Polling results

We asked you for your thoughts and views with a variety of polls throughout this series, here's what you said:

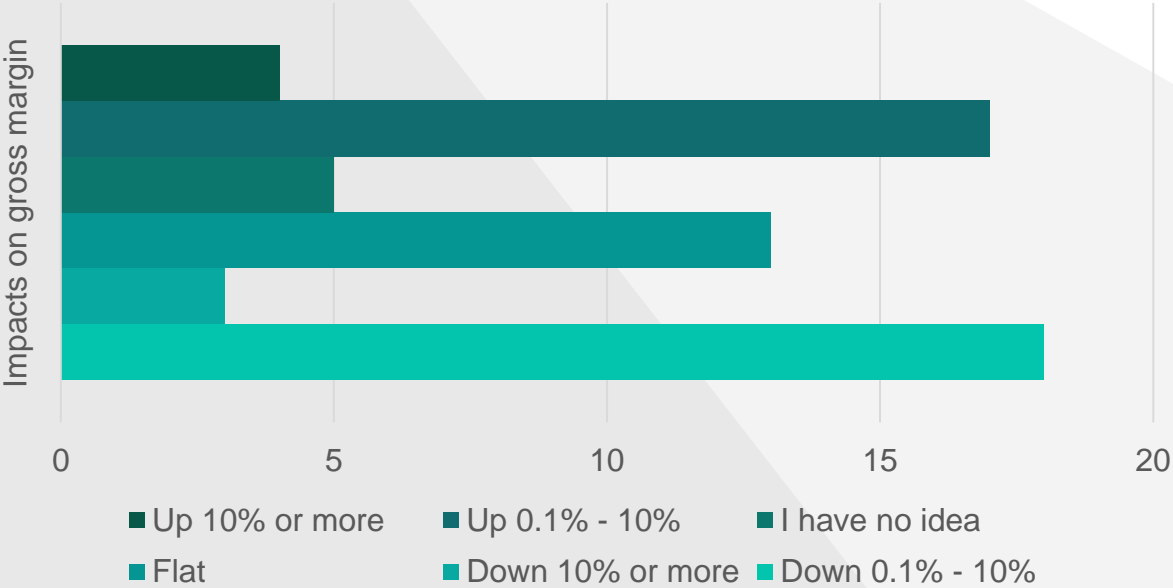
Event 1 - Poll's 1 & 2



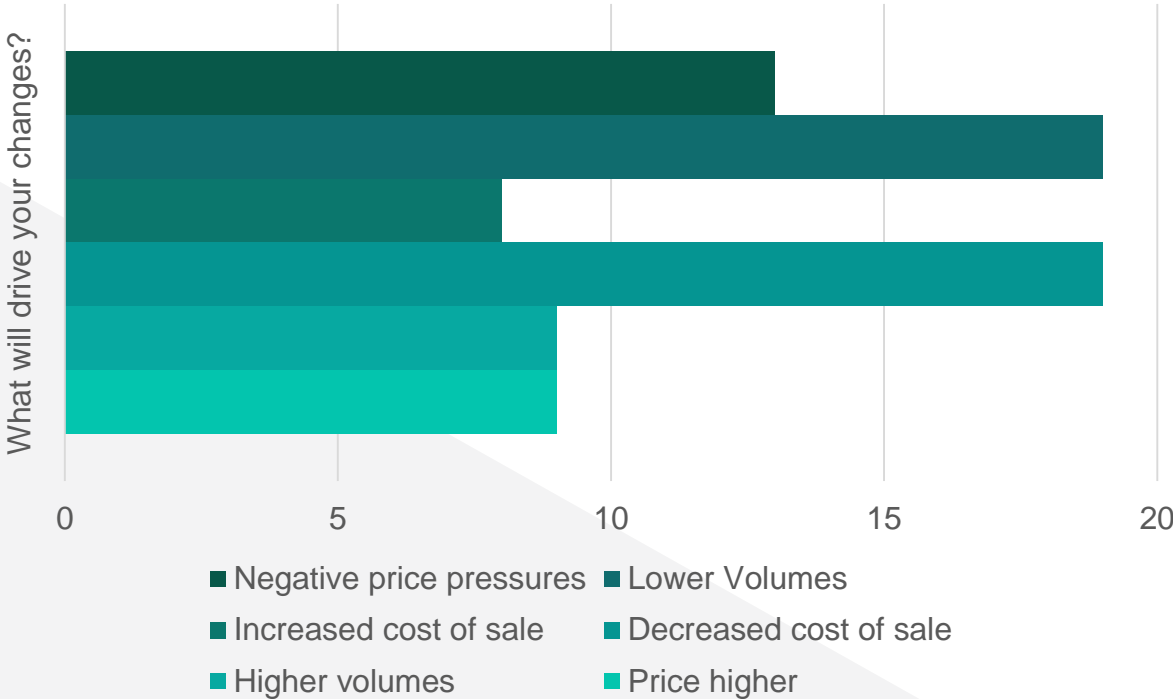
Polling results

Event 1 – Poll 3

Do you think your Gross Margin will go up or down in the year ahead?



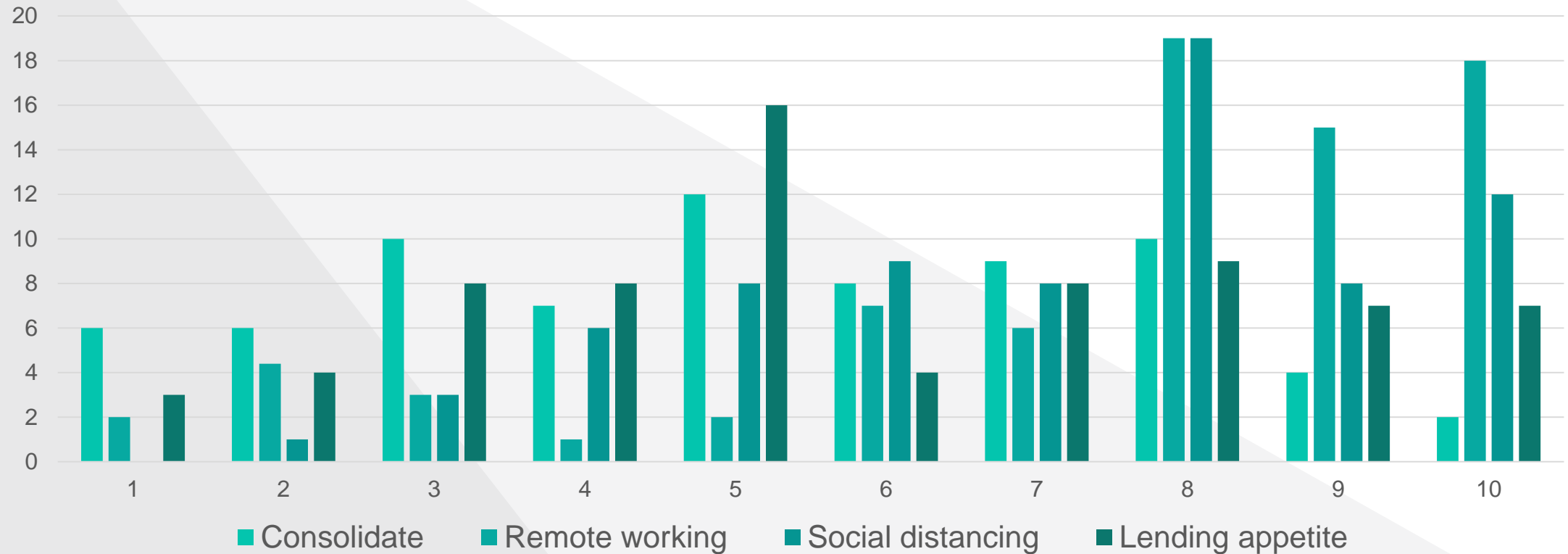
What will drive your gross profit changes?



Polling results

Event 1 – Poll 4

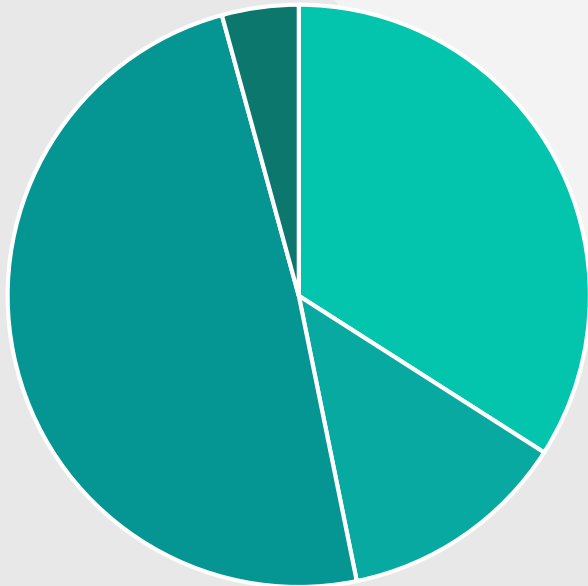
On a scale of 1 – 10, how would you rank the following based on their level of impact?



Polling results

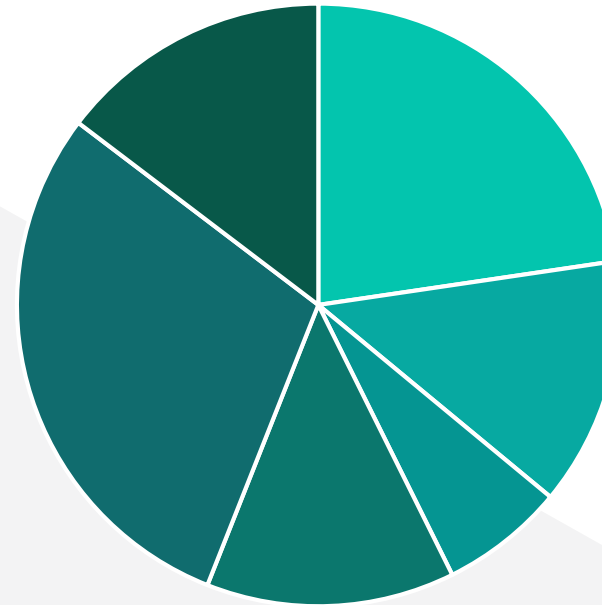
Event 2 – Polls 1 & 2

Would you invest in your own business now?



- Yes, I would put cash in and subscribe for shares
- Yes, I would borrow borrow personally and subscribe for shares
- Yes, but only as a directors loan
- No

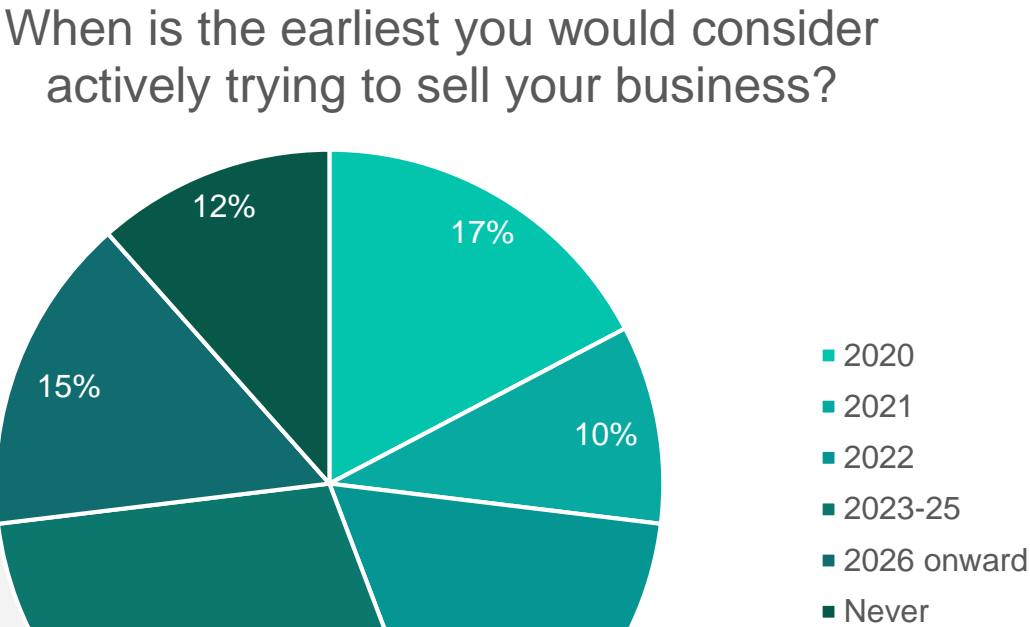
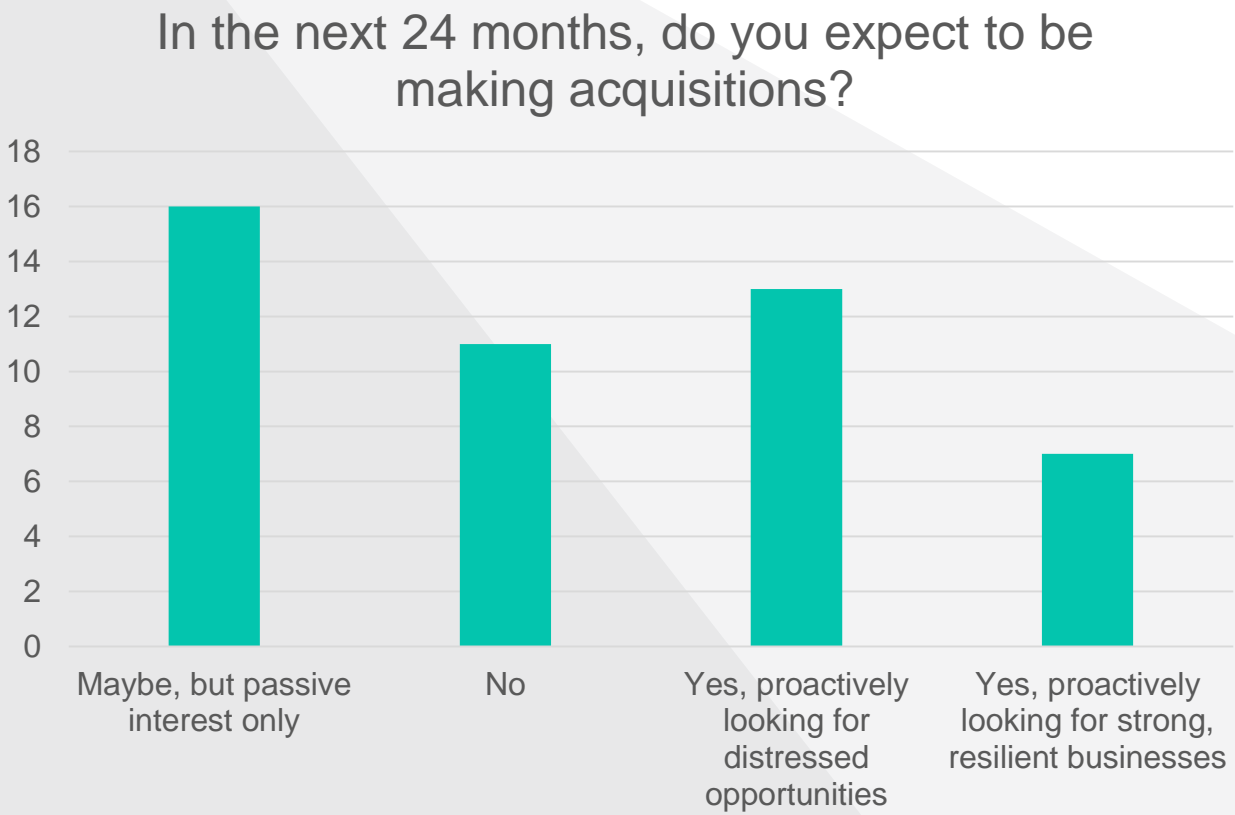
How would you fund an acquisition?



- Bank to lend against asset
- Bank to lend against future profits
- The sellers to fund part of the deal
- Third party equity funding
- Company's retained profits
- My own money in

Polling results

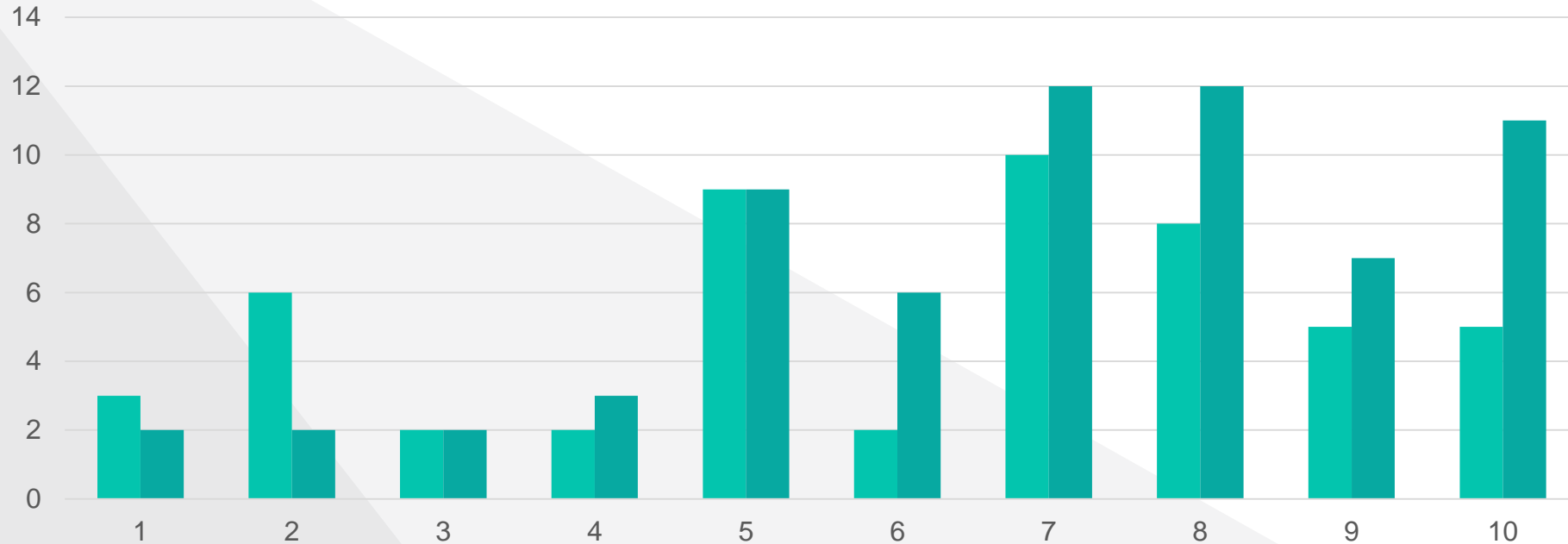
Event 2 – Polls 3 & 4



Polling results

Event 2 – Poll 5

On a scale of 1 to 10



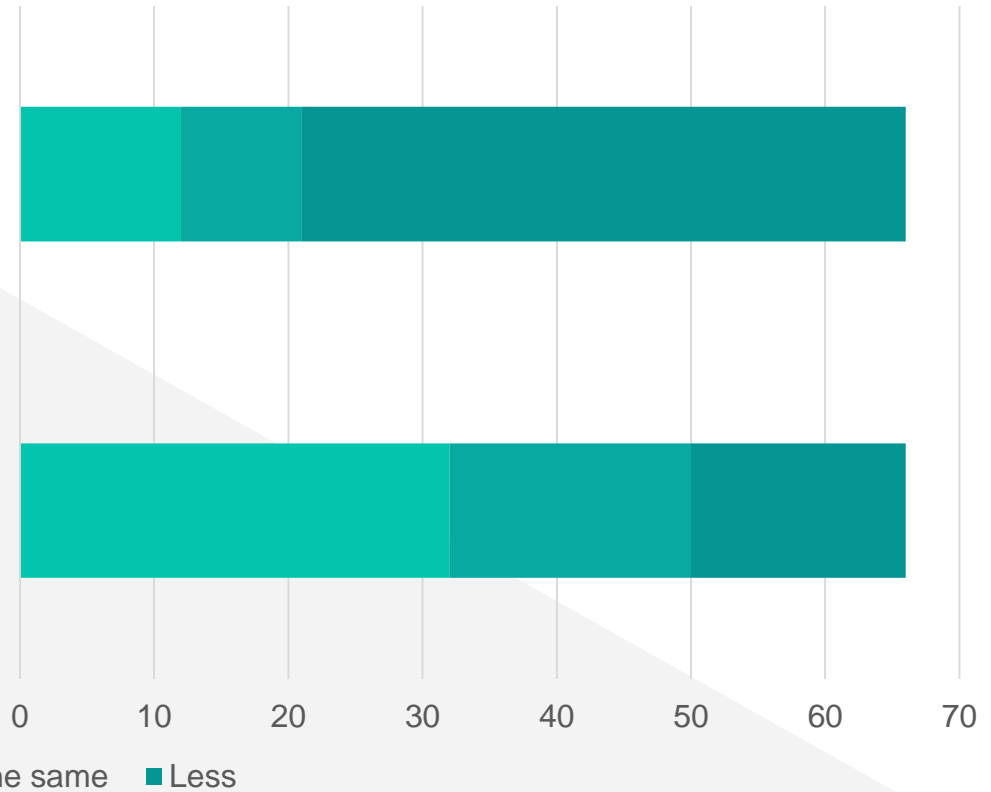
- How comfortable would you be entering a process to sell your business to the next tier of management?
- How important is it to you to know what your company is worth?

Polling results

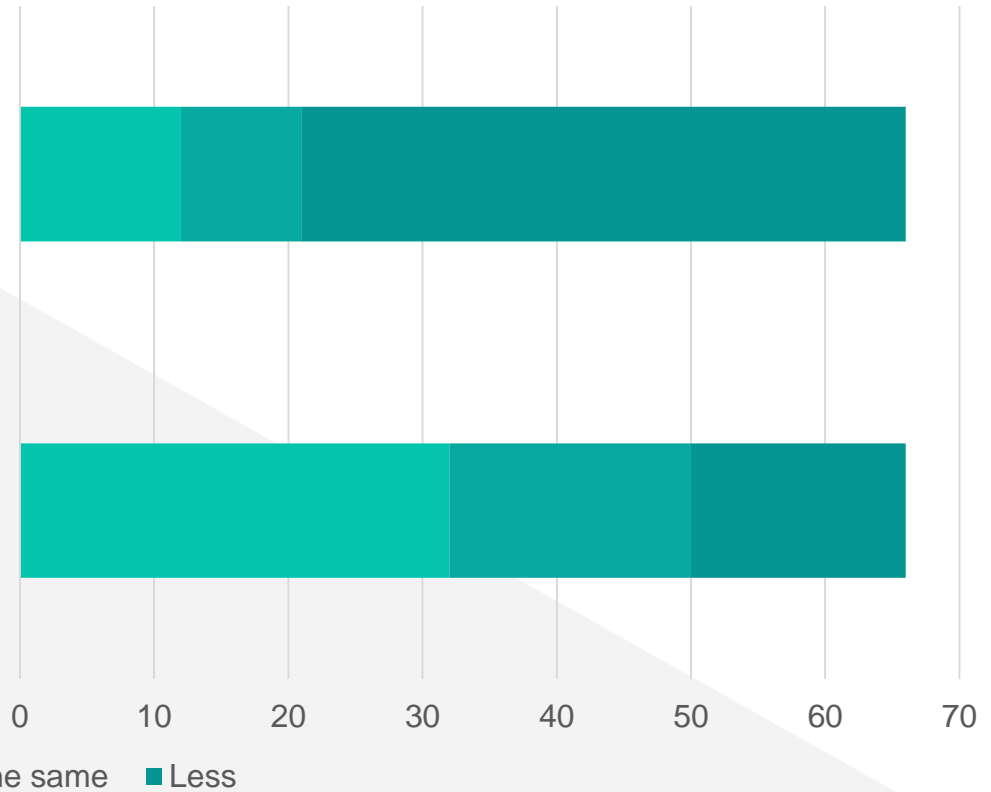
Event 2 – Poll 6

Buying your own business, now or later

If you were buying your own business now, would you pay more, less or the same as a year ago?



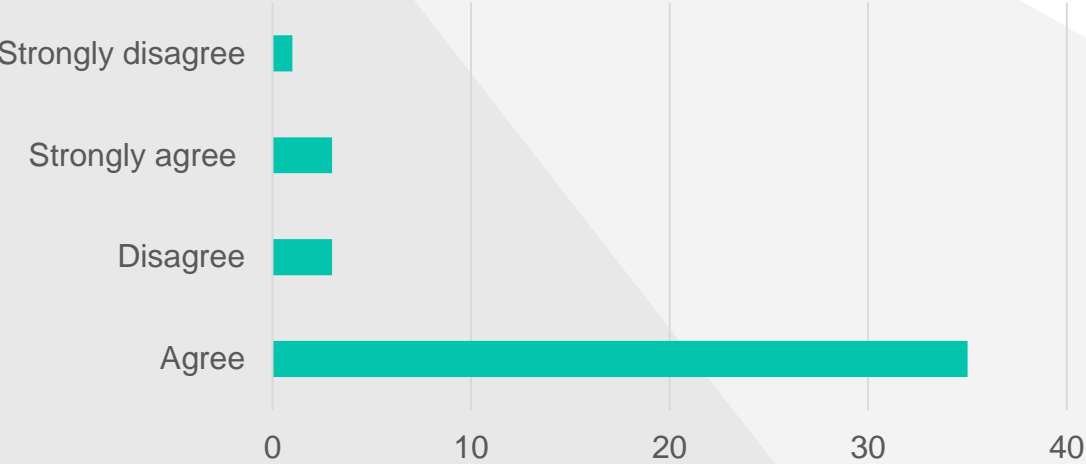
If you were buying your own business in 2021, would you expect to pay more or less than in 2019 given the plans you have in place?



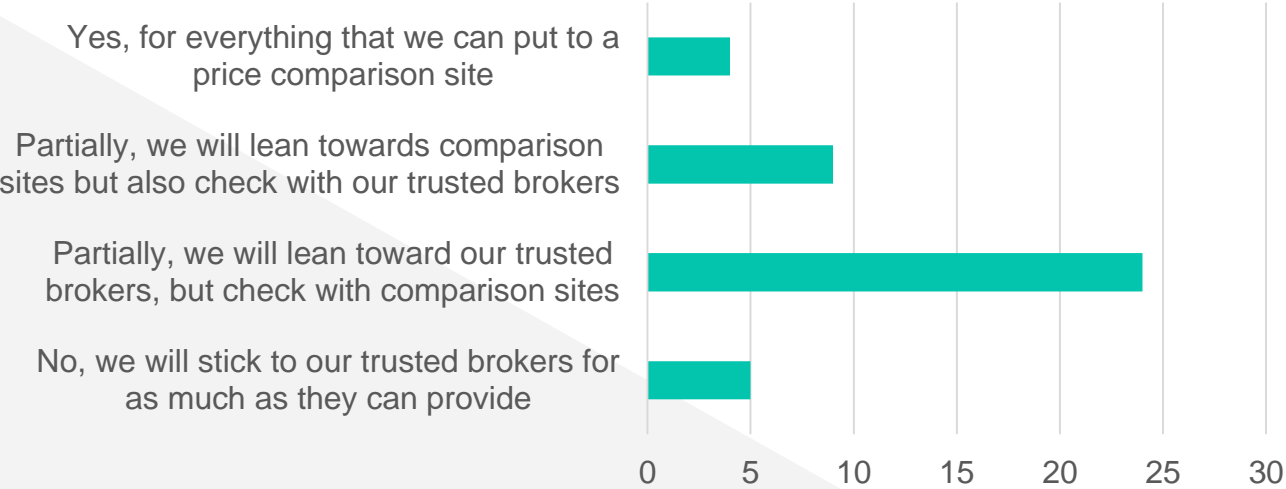
Polling results

Event 3 – Poll 1

Do you think appetite for investment for online platforms is back with vengeance for at least the next 6-12 months?



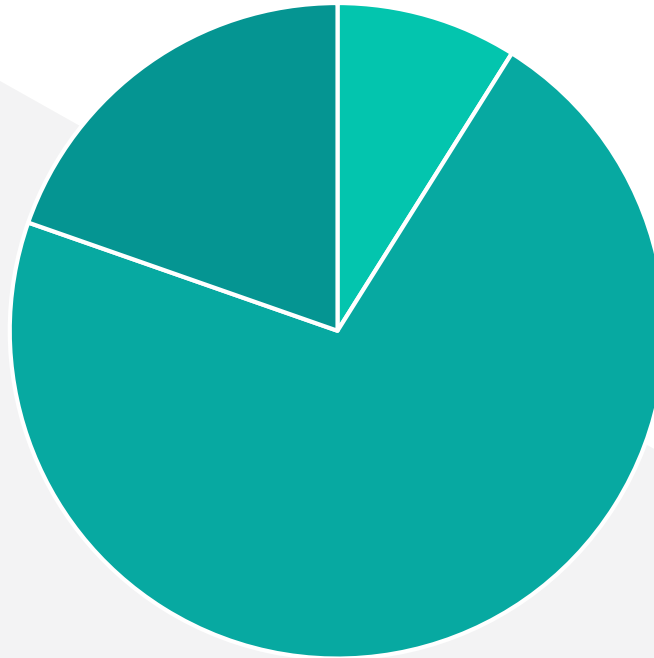
Do you expect to move your purchasing of goods and services from well established, relationship driven, B2B brokers toward online market places and comparison engines over the next 3 years?



Polling results

Event 3 – Poll 2

As a business owner, post Covid-19's arrival: is supply chain transparency, resilience and governance now:

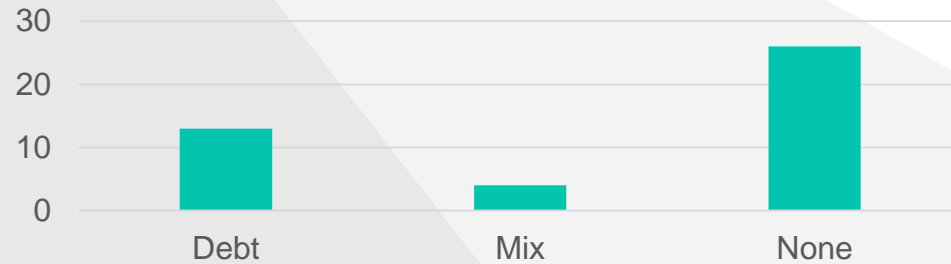


- More important and receiving significant new focus from the leadership
- More important than before
- As a business owner, post Covid-19's arrival: is supply chain transparency, resilience and governance now:

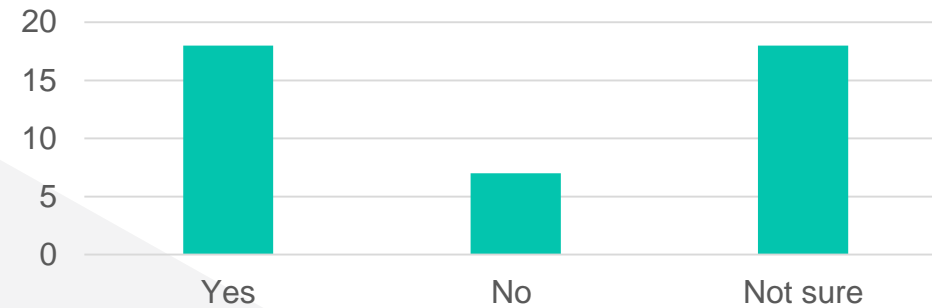
Polling results

Event 3 – Poll 3

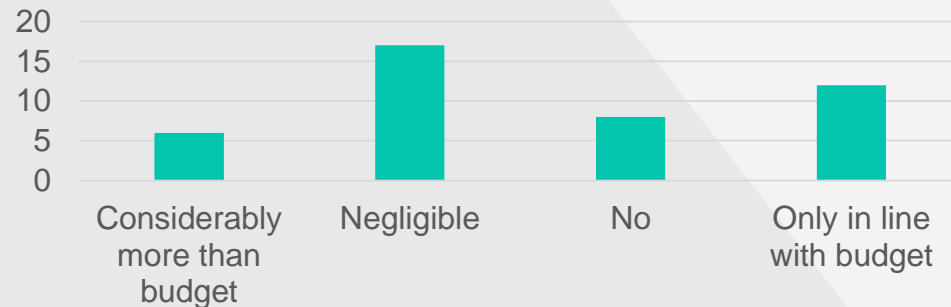
Will you be taking on more debt or equity in the short term to finance either poor trading conditions or CAPEX



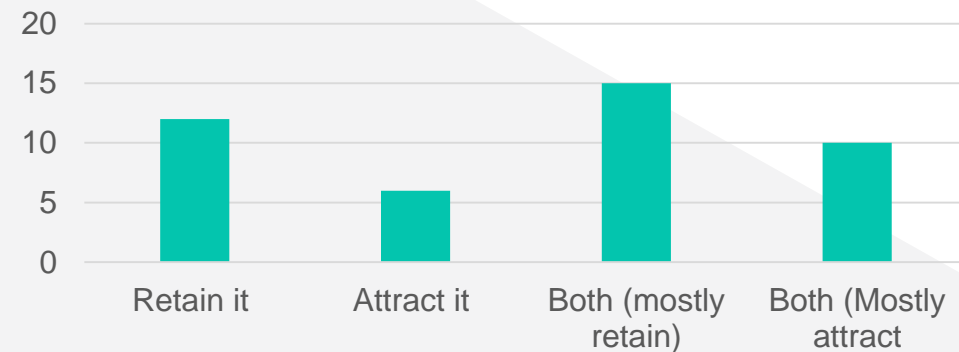
Our business has risks which are distinct from our valuable property



I envisage there will be a CAPEX requirement for returning to work



I am doing the following with our talent



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