



SHAPING YOUR
FUTURE

A woman with short dark hair, wearing a black long-sleeved top and black pants, is standing at a white desk with black sawhorse legs. She is leaning over the desk, writing in a notebook with a pen. Her left hand is resting on her head. On the desk, there is a laptop, a glass of water, a pen holder with pens, and some papers. The background shows a wooden wall and a blue curtain. The entire image is overlaid with large, semi-transparent blue and teal geometric shapes.

A time to recalibrate

A survey of owner-managed businesses
by Kreston Reeves and the Association
of Practising Accountants

April 2022

Introduction

Owner-managed businesses are the backbone of the UK economy. They employ three-fifths of the UK workforce and contribute 50% of the turnover of the private sector. They are vital to economic recovery. How they perform and a business environment that supports and nurtures them is essential.

The uncertainty of the COVID pandemic, the UK's new relationship with its largest trading partner and now conflict in Ukraine, together with pent-up consumer demand and raising inflation and cost of living, will continue to create challenging economic and trading conditions for many months if not years to come.

Yet as our survey suggests, many owner-managed businesses are confident and optimistic about their future.

There is no 'one picture' of the impact of the pandemic on these businesses. For every restaurant that has closed, there is a facilities management company that has thrived. For every high street that has been impacted, there are cloud-based retail start-ups that have gone from strength to strength.

As businesses continue to understand and adapt to a rapidly changing economic landscape, now is the time to recalibrate, prepare for and shape the future of your business.

This research report is an assessment of the challenges owner-managed businesses now face. It captures a representative sample of the aspirations and concerns of these entities as they seek to navigate a post-Brexit and post-pandemic landscape.

I hope you find this snapshot interesting and helpful.

The Association of Practising Accountants (APA)

The APA is a Managing Partner led network of 19 leading business and professional advisory firms meeting the needs of owner managed businesses and the real economy. APA member firms collectively advise and support well over 14,000 businesses with turnovers up to the hundreds of millions.



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Senior Partner and Head of International

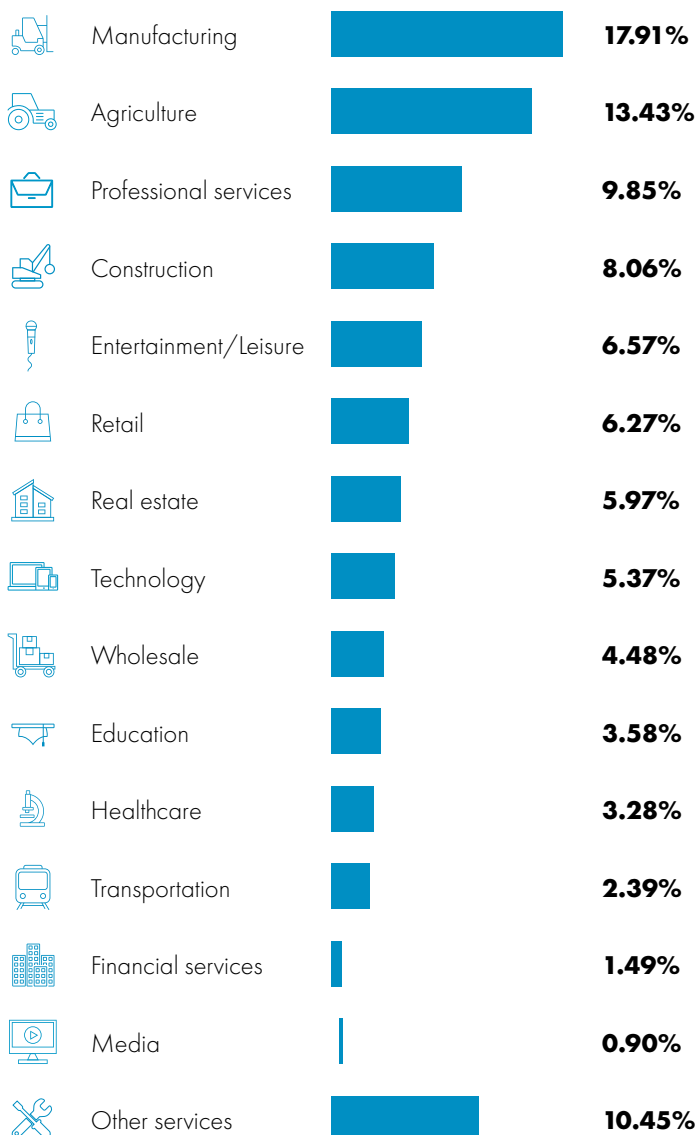
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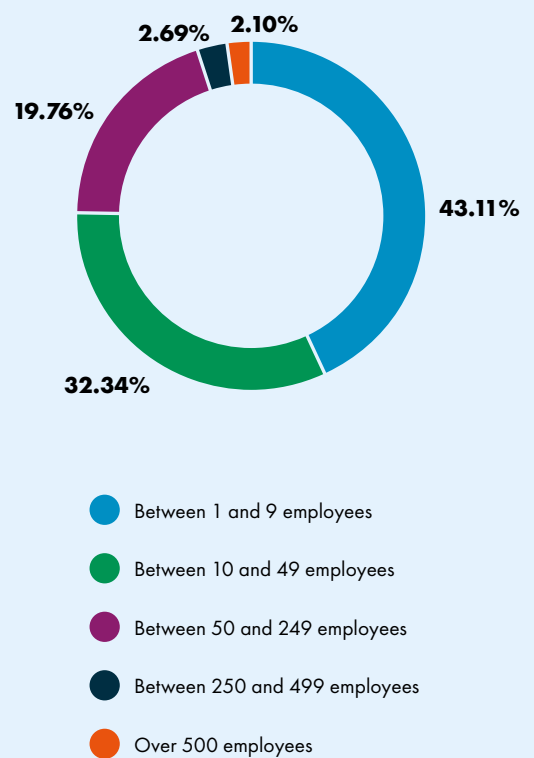
Who we surveyed

In February and March 2022, Kreston Reeves and APA member firms surveyed 335 owner-managed businesses across the UK.

Industry sector



Size



Location of businesses surveyed



A time to recalibrate

It has been two years since the first Government enforced lockdown following the COVID pandemic and its impact continues to be felt. Simultaneously, businesses have had to adjust to a new trading relationship with our closest and largest trading partner.

An uncertain economic landscape with constrained supply chains and a tighter labour market has been further compounded by rising inflation and conflict in Ukraine. Uncertainty is perhaps the only thing that is not in short supply.

Yet even here, there are green shoots of optimism amongst owner-managed businesses, as our survey highlights.



Economic headwinds threaten recovery

87% think that inflationary pressures will limit their growth over the next 12 months.

64% report that rising energy costs are impeding their ability to deliver their business growth.

43% report that Brexit had either had a negative or very negative impact on their business. Just 4% report it having a positive impact.

59% report that staff recruitment and retention is now presenting more of a challenge than 12 months ago, with only 3% reporting this is now less of a challenge.

62% are focused on surviving or sustaining their business against 33% who are looking to grow over the next six months.



The overall picture is more optimistic than 12 months ago

81% of owner-managed businesses report that they are in better shape for the future than before the pandemic.

82% of respondents were either very or somewhat confident that they would be able to access the finance they needed over the next six months.

79% think that overall, the UK Government's response to COVID has been either very or quite effective.

48% report that it is either likely or very likely they will make significant capital investment in their businesses in 2022/23.



Optimistic future

Over half (57%) of businesses surveyed say that their businesses are in a fundamentally better shape today to address the challenges they face when compared to three years ago. However almost a quarter (24%) of businesses do not agree, believing they are in worse shape.

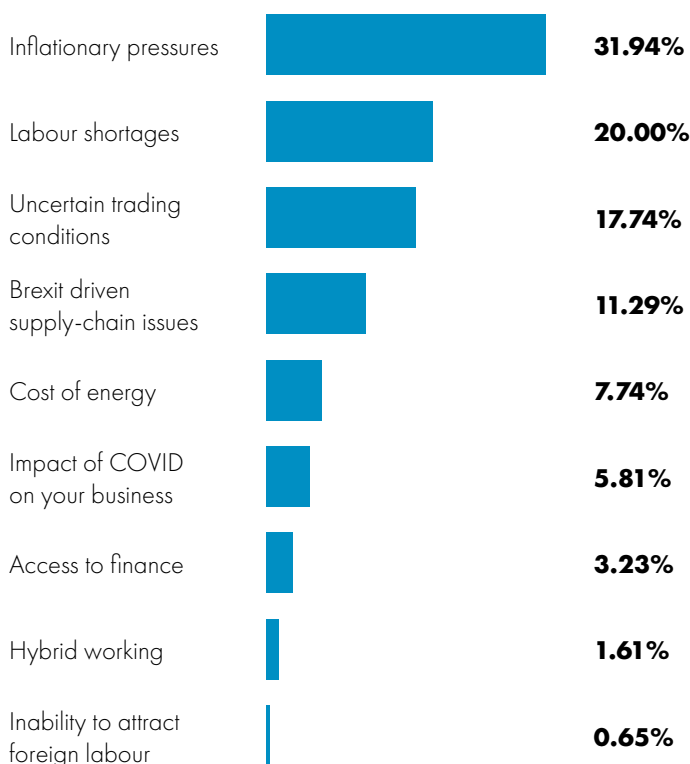
This optimism translates into turnover forecasts for 2022 with 39% of businesses expecting turnover to increase by between 10 and 50% over the next 12 months. A similar figure, 38.5% expect turnover to remain broadly the same. A small but not insignificant percentage of businesses surveyed, 13%, expect to see turnover fall by between 10 and 50% over the next 12 months.

In times of economic uncertainty, it is vitally important that business leaders take time to forecast changes in turnover against predicted increased costs and review the impact that will have on cash flow. A business that understands where future squeezes might hit can better plan and prepare for them.

Challenges ahead

It is the very nature of business that there will be difficult and challenging times in that journey, and just as it is important to forecast financial pinch points, so too is it helpful to prepare for future challenges.

What is the biggest challenge you face as the economy gets back on its feet?



As the chart shows, the single biggest challenge facing businesses today are inflationary pressures, followed closely by labour shortages then supply chain issues. Inflation, as all business owners will know, will lead to increased wages, adding further costs.

Some businesses will look to pass on these costs, at least in part, to customers, yet for many that will simply not be an option. Suppliers on fixed-price contracts will have little choice but to try and renegotiate or absorb increased costs. Consumers also feeling the pinch will have to make sometimes difficult choices, voting with their feet and wallet.



Survey respondents

“The construction industry needs help. We have worked tirelessly throughout COVID and now seem to be facing the toughest challenges with price rises and taxation. Our country depends on the construction industry and the government need to support it.”

“Rising energy costs as well as other inflationary pressures are increasing costs in our sector, but some of our larger customers are resisting price rises and threatening to withdraw their support. As a medium-sized business with large suppliers and large customers there is a squeeze!”

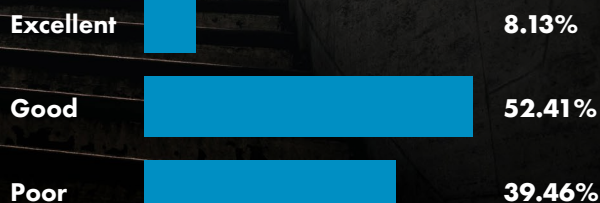
Government support

The UK Government can take a degree of comfort from this survey, with owner-managed businesses saying that its response to COVID has been 'very effective' (20%) or 'quite effective' (59%). Just 21% believe that its support has been 'not that effective' or 'ineffective'.

However, when asked how they would rate current government support to the owner managed sector, the balance is changing with 39% of owner managed businesses rating current support as 'Poor'.

It has created an interesting conundrum for the Government: should the Government continue to support businesses through what will be a continued challenging trading environment?

How would you rate current government support to the owner managed sector?



Inflation and energy costs

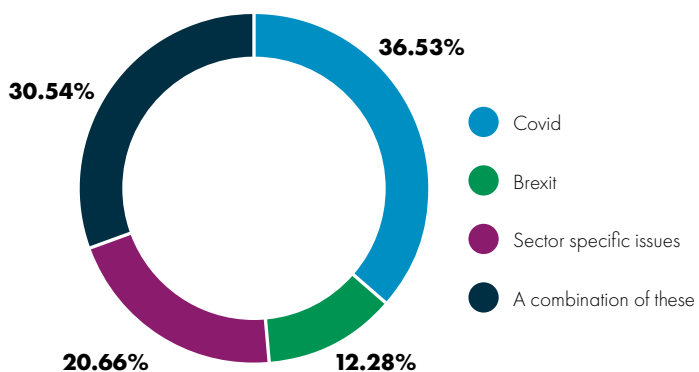
Our survey shows that inflation will, for 24% of businesses have a 'great effect' and for 63% have 'some effect' on impeding growth. It is the same with rising energy costs: 17% of businesses say it will have a 'great effect' and 47% of businesses say it will have 'some effect' on impeding growth.

There is a clear argument and need for continued support.

Yet, our survey asked businesses whether they would have survived the last two years without Government-backed support? Almost three quarters (73%) said they would with just 16% saying the business would have failed.

If the Government does decide support is needed it will surely be targeted in a more careful and impactful way.

What has caused the most challenge to your business over the last 18 months?



Survey respondents

"The hike in NI is the wrong policy at the wrong time. It is too soon to impose this on businesses in the wake of COVID, especially businesses who were negatively impacted by it."

"We are a capital-intensive business and greater tax breaks such as super deduction have made the decision to go ahead easier. This in turn allows us to grow quicker and more productively."

Staff recruitment and retention

Over half (58%) believe staff recruitment and retention is a greater challenge now when compared to 12 months ago, with a third stating that it is unchanged. Discussions with our clients suggest that salaries are increasing as businesses struggle to recruit, and businesses are working much harder on their retention strategies.

It is however, encouraging that 94% of businesses surveyed say that it is 'unlikely' or 'very unlikely' they will have to make redundancies within the next six months.

"We are concerned that we are not in a position to raise the salaries of important staff with a cost of living crisis looming – surely now to be made even worse by the war in Ukraine."

Survey respondent

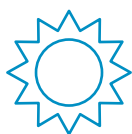


Brexit

The decision to leave the European Union continues to trouble business leaders. 43% of businesses say that it has had a 'negative' or 'very negative' impact on their business. A similar number, 41%, say it has had no impact, with just 4% saying it has had a 'positive' or 'very positive' impact.

Over half, 53%, are less optimistic about their long-term economic prospects now that the UK has left the EU.

On balance are you more or less optimistic about our long-term economic prospects now that we have left the EU?



46.99%

More optimistic



53.01%

Less optimistic



Survey respondents

"Post-Brexit, moving agricultural goods in and out of the EU, our large and prosperous neighbouring market, continues to be an expensive, risky and time-consuming nightmare. Equivalence should have been agreed much the same as the EU has with Norway and Switzerland. Also, The Northern Ireland situation will otherwise remain insoluble. Brexit was necessary but to make trade so difficult was not."

"Brexit has had a huge negative impact on us as we are affected by the free movement of people coming to join our school from the EEA."



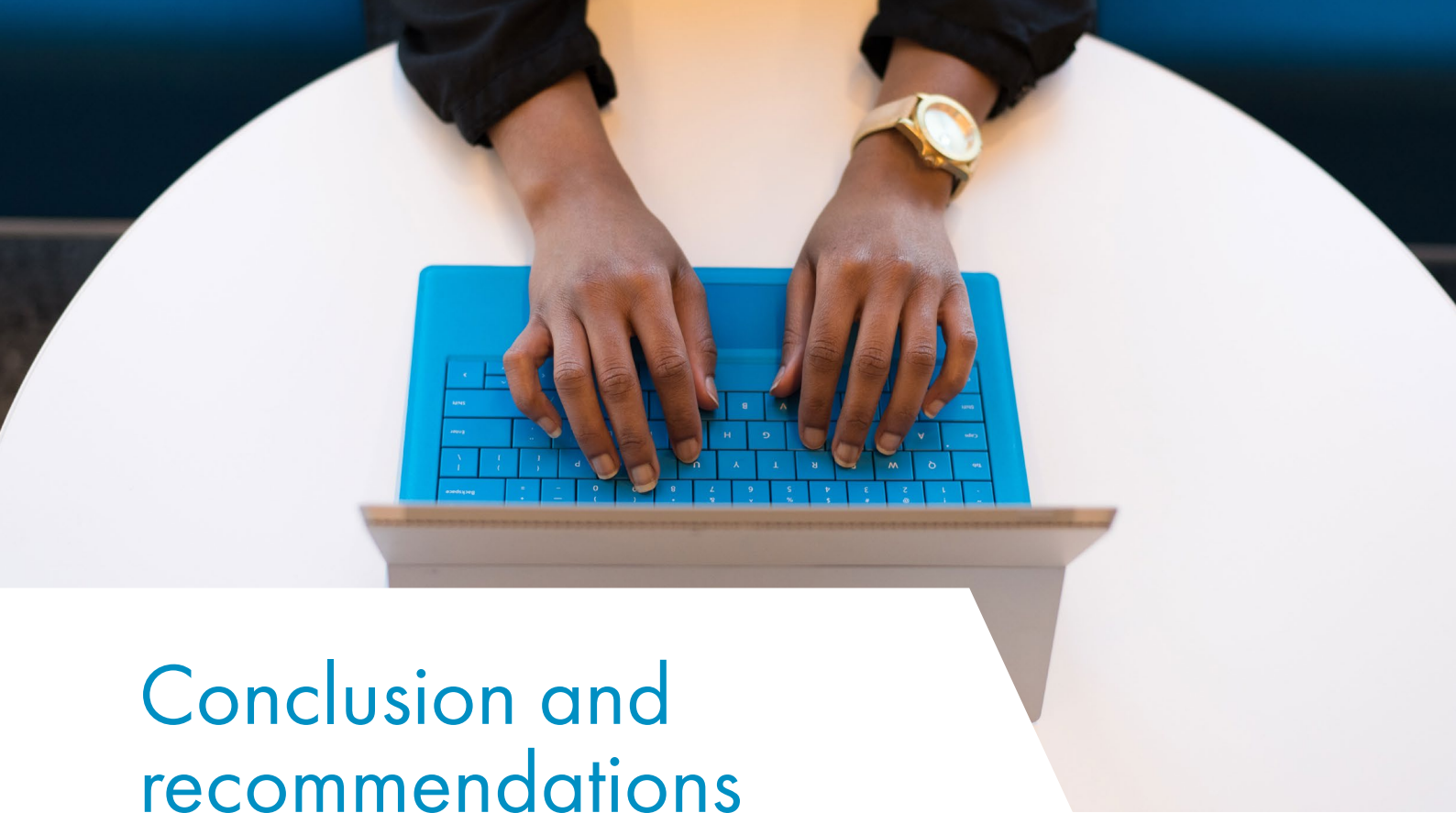
Business priorities and looking ahead

Given the uncertainty surrounding the UK economy, it is perhaps unsurprising that for over half (54%) of businesses surveyed, sustaining their business is the top priority. And just as uncertainty for some businesses creates opportunity for others, a third (33%) say they are prioritising growth. Just 8% say that survival is their priority for the next six months.

Half (50%) of businesses are 'confident' and 32% 'very confident' that they will be able to access the finance they need to meet their priorities. 15% of businesses are unsure whether they will be able to access financing, with just 3% 'not at all confident' they will be able to access the funding they need.

Our survey asked one final question: How likely are you to make a significant capital investment in your business over the next 12 months?

Given the uncertainty in the economy, it is not entirely unsurprising that businesses are split. A third (48%) said that capital investment is 'likely' or 'very likely' with 52% saying it is 'unlikely' or 'very unlikely'.



Conclusion and recommendations

The overwhelming feedback from business owners is that just as it appeared that the economy was getting back on its feet following the pandemic and Brexit, they have been hit by the triple whammy of inflation, a cost-of-living crisis driven by increased energy prices, and significant new uncertainty compounded by the conflict in Ukraine.

While many owner-managed businesses might now feel more resilient than they were before the pandemic, challenging economic headwinds mean that there is unlikely to be anything approximating 'business as usual' for some time.

Now is not the time for the Government to leave businesses at the mercy of global politics. The APA would urge the Government to:

- Take a more realistic view of our future trading relations with Europe, recognising that labour shortages coupled with an altogether more challenging export environment pose a real threat to recovery.
- Recognise that uncertainty remains across many sectors of the economy and that businesses want reassurance as well as clear and unambiguous advice and support.
- Adopt a flexible approach to business policy that recognises the many challenges facing owner-managers and prioritise the sustainable growth of this sector.

For businesses, it is important now more so than ever to:

- Plan ahead – review business plans.
- Use forecasting and scenario planning to explore and identify challenges and answers to them.
- Identify financial pinch points, risks and important KPIs to monitor.
- Assess and plan for future funding requirements.
- Consider what risk mitigation strategies are needed.
- Ensure you have well-built and properly considered budget and cashflow.

Generally, to take stock, understand the pressures facing their business and plan for them to shape the future they want for their business.



We work alongside and advise many businesses facing these issues. If you would like some guidance on any of the topics covered in this report, please get in touch. Alternatively, we have a library of helpful content to support businesses with their planning at www.krestonreeves.com/shapingyourfuture.

How we can help

Our purpose is to guide our clients, colleagues and communities to a brighter future.

The world is forever evolving and we help all generations embrace change through trusted advice, support and guidance.

Our passion for continued improvement ensures that we work to understand your goals, support and advise you on your journey, and help you to realise your ambitions.

We help businesses, charities and individuals navigate the risks and opportunities faced today and tomorrow, providing guidance and information together with the specialist services and support required.

▼ We help by:

- ▶ Giving the time needed to understand your business, charity or investment portfolio to help you move forward on a stronger and more resilient footing.
- ▶ Working alongside you as your partner to ensure your business succeeds and that business owners and directors are tax efficient and secure.
- ▶ Providing access to highly qualified professionals to support all businesses whether they are well established, in early stages or are facing difficulties.
- ▶ Providing the solid foundation of best practice to enable effective growth, expert advice, analysis and efficiency — becoming part of your team.
- ▶ Providing an outsourced digital finance team, saving costs with de-risked efficient compliance.
- ▶ Navigating the regulatory landscape to provide you confidence and expert information on all sources of finance, providing navigation and the information needed to help you to grow and exploit opportunities.
- ▶ Helping to determine the level of funding required, preparing the company so that it is in the best possible condition when approaching funders.
- ▶ Advising on and introducing appropriate sources of funding, advising on the most beneficial funding structures and assisting in the negotiation of terms relating to the appropriate funding.
- ▶ Embracing opportunities, finding innovative solutions, protecting and maximising assets, both tangible and intangible.
- ▶ Helping you manage your online accounting platform.

For more than accountancy, business and financial advice.

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