



SHAPING YOUR
FUTURE

Maintaining resilience in a tough economic climate

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

Autumn 2023

Introduction

Owner-managed businesses are struggling. A combination of inflationary pressures, a cost-of-living crisis, energy price volatility and a continued uncertain economic outlook present significant challenges.

And with owner-managed businesses employing three-fifths of the UK workforce and contributing 50% of the private sector's annual turnover, the health of these engines of the UK economy matters.

As a member of the Association of Practicing Accountants, we produce an annual survey that looks at the financial health and aspirations of UK businesses. It makes worrying and reassuring reading in almost equal measure.

What is clear is that businesses are not getting the help from the Government that they need. Over two-thirds (77%) of businesses rate Government support as 'poor' or 'very poor' and expect costs to continue to rise over the next 12 months. Over two-thirds of businesses (68%) say they are delaying any capital expenditure for the next 12 months as a result.

There is real frustration but also there are glimmers of encouragement; almost half (49%) say they are in better financial shape than 12 months ago, and 78% are confident they can cope with further interest rate rises.

Businesses are resilient and adapt to change but need the support from Government and their advisers. They need to understand the options open to them as they navigate a tough economic climate.

This research is a brief insight into those challenges and how they can be tackled. I hope you find this snapshot interesting and helpful.

The Association of Practicing Accountants (APA)

The APA is a Managing Partner led network of 20 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 turnover up to the hundreds of millions. Our clients produce goods and services which help drive jobs and growth across the UK and internationally.

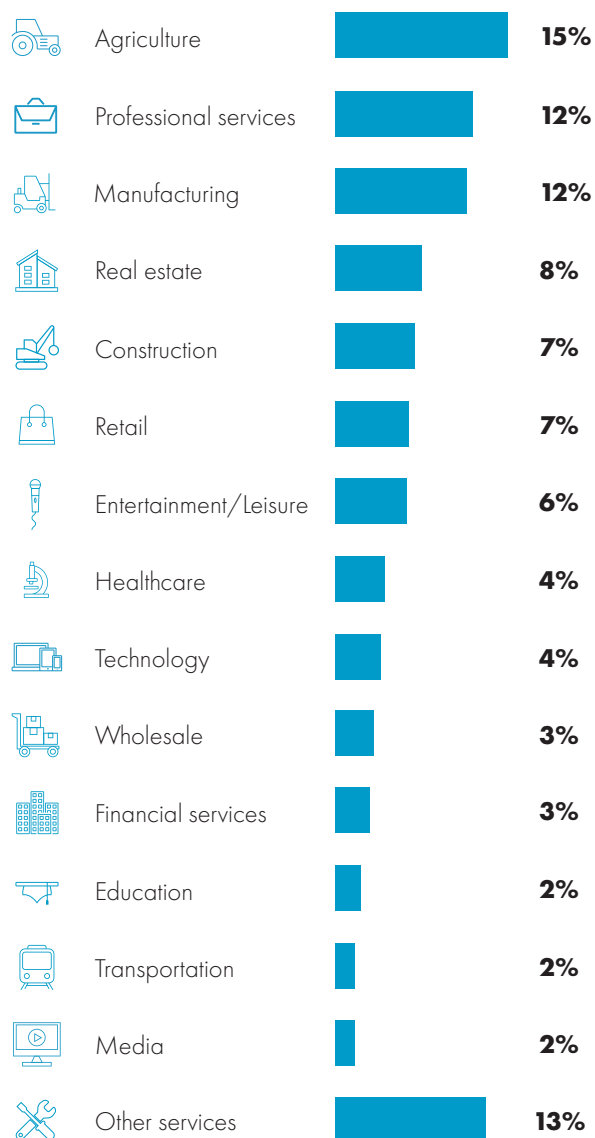


Andrew Griggs
Senior Partner and Head of International
+44 (0)330 124 1399
andrew.griggs@krestonreeves.com

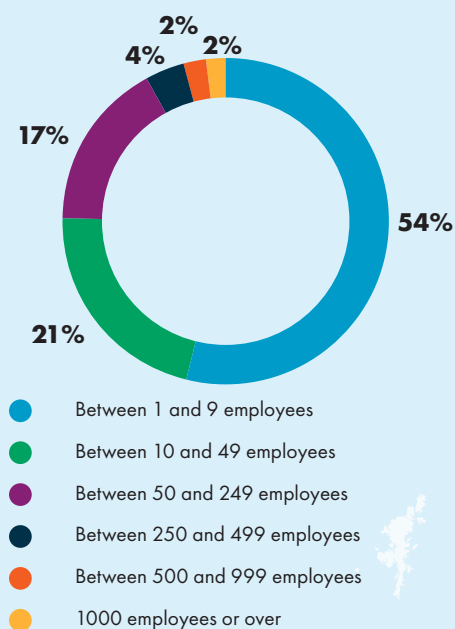
Who we surveyed

In Summer 2023, Kreston Reeves and APA member firms surveyed 532 owner-managed businesses across the UK.

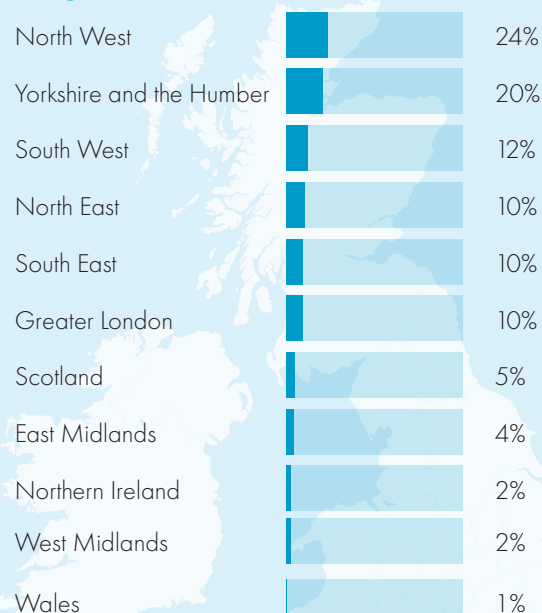
Industry sector



Size



Region



Facing challenges

Although UK owner managed businesses have admirably maintained incredible resilience, they are still facing a wide variety of challenges.

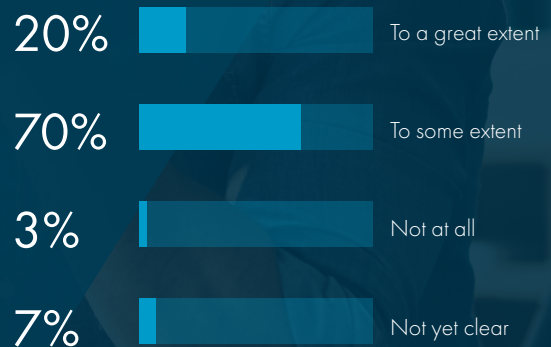
Rising costs

As inflation continues to bite and the cost-of-living crisis shows little sign of abating, businesses expect costs to continue to increase.

Almost all (90%) of the businesses surveyed expect the cost of employing people to increase, with a similar number (89%) expecting supply chain costs to increase over the next 12 months. Energy costs, although expected to fall over the next year, continue to concern businesses with over half (53%) believing it will impede their ability to deliver the goods and services they provide.



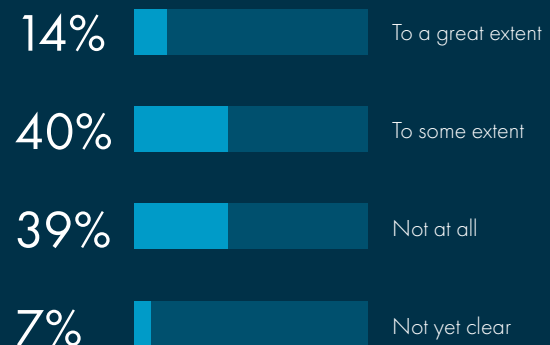
Do you anticipate that labour costs will rise in the next 12 months?



Do you anticipate supply chain costs will rise in the next 12 months?

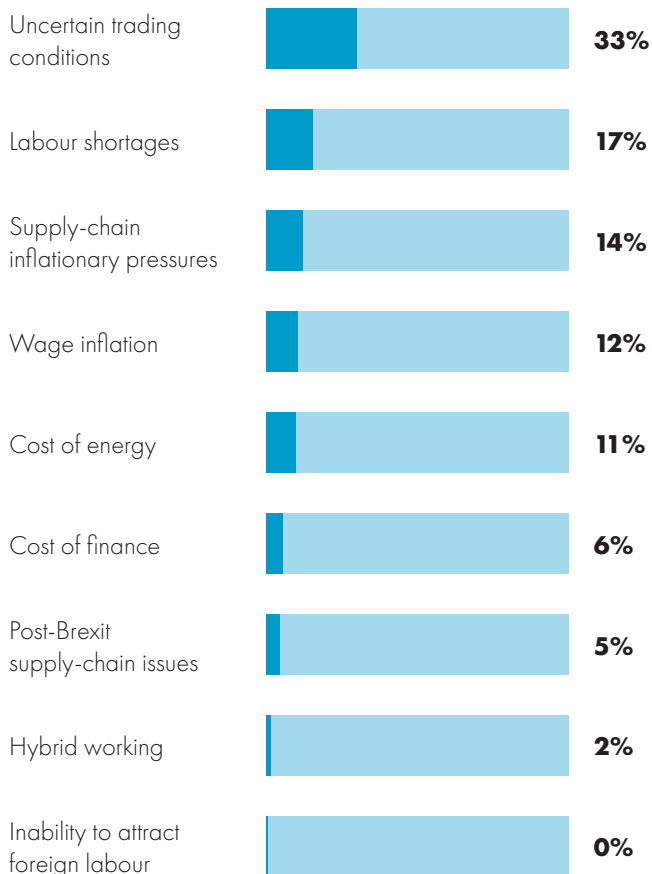


Compared to 12 months ago to what extent are energy costs impeding your ability to deliver?



Whilst labour and supply chain costs remain worrying, they are not the only concern of businesses in our survey. Labour shortages and the continued uncertain trading conditions remain primary issues for businesses. The cost of finance and Brexit's legacy too remain high on the list.

What is the biggest challenge you face in the current economic climate?



Survey respondents

"We cannot leave everything to the market to resolve as we compete globally. We need level playing fields which governments have to provide."

"Brexit has caused tremendous damage to our EU sales, with export and associated delays from order to deliver making it uncompetitive compared to our EU competitors."

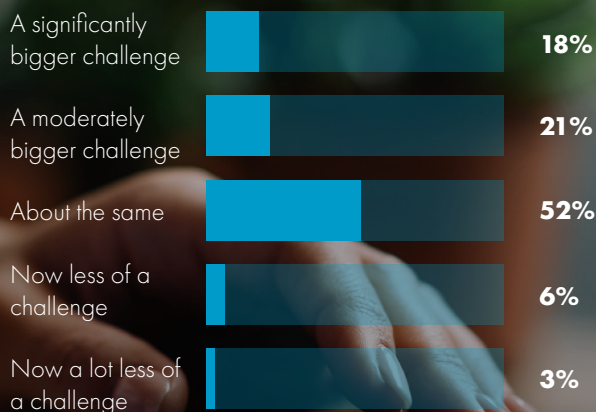
"The cost-of-living crisis and the shortage of labour supply is stifling growth. The Government does not appear to have any solutions to these problems or initiatives for growth... which is hugely disappointing and feels like economic suicide."

The war for talent

Attracting and retaining talent has and continues to remain a significant challenge for businesses of all sizes. Salaries are increasing with employees able to move to new roles with increased pay more easily than ever before.

Whilst for half of the businesses in our survey the position has remained unchanged in the past 12 months, 39% report it to be a bigger challenge and 18% say it to be a significantly bigger challenge. The picture, of course, varies from industry to industry.

How big a challenge is staff recruitment and retention compared to 12 months ago?

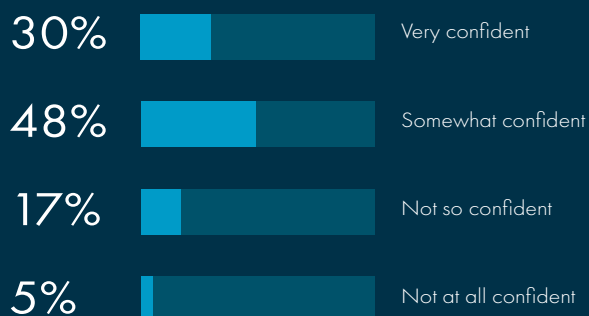


Tax and inflation

Inflation has reached its highest point in over four decades and interest rates have responded. Whilst a source of concern, businesses in our survey are overwhelmingly confident that they can cope with the current rate and future increases. Businesses will, however, wish to see interest rates fall.



How confident are you that your business will be able to cope with further interest rate rises over the next 12 months?



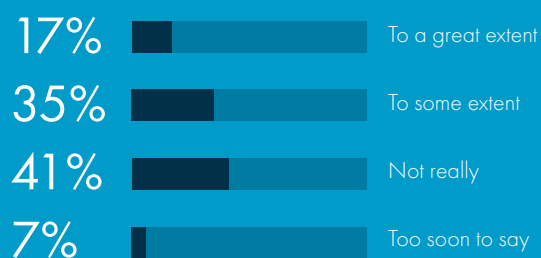
The rate of corporation tax has now increased from 19% to 25% - its highest rate since 2012. Businesses with profits of under £50,000 will continue to pay corporate tax at 19%, with the 25% rate applying to businesses with profits exceeding £250,000.

Over half (52%) of businesses surveyed say this increase will impede their ability to grow, coming at a time when owner-managed businesses continue to face challenging economic conditions. Calls for the Government to reverse corporation tax increases will undoubtedly become louder as we approach the important Autumn Budget.

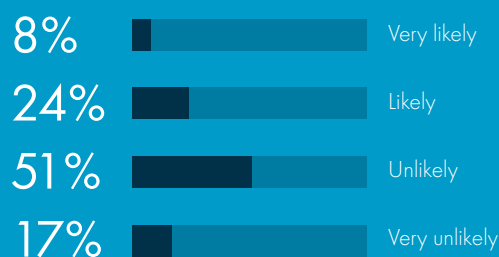
So how are businesses responding? Our survey says that two-thirds (68%) of businesses will postpone any significant capital expenditure over the next 12 months, looking to keep a lid on costs.



To what extent will increases in corporation tax impede your ability to grow?



How likely are you to make significant capital investment in your business over the next 12 months?





Our top tips for facing challenges in uncertain times

- ☑ **Review** – Review everything your business does to ensure it is still relevant.
- ☑ **Business plans** – we recommend regularly reviewing business plans at least every six months.
- ☑ **Budgets and cashflow** – Ensure that you have well-built and carefully considered budgets and cashflow.
- ☑ **Scenario plan** – Forecast different future financial scenarios to stay ahead, remain agile and make it easier when applying for funding. Look for risks, crunch points and plan accordingly.
- ☑ **Business credit score** – Ensure your business credit score is at its best. It is a key factor before considering any form of funding as it can significantly affect rates and terms.
- ☑ **Advice** – Speak with your advisers as early as possible - before any crunch point.
- ☑ **Software and tools** – Make use of the software and tools available to have full visibility of profit and loss, cash flow and forecasting.
- ☑ **Long term goals** – Keep an eye to the future and your long term goals. Whilst it's entirely understandable for businesses to postpone significant capital investment, more favourable economic conditions will return, and businesses need to be well-placed to capitalise on growth opportunities.
- ☑ **Prioritise recruitment and retention** – review employee incentive programmes, benefit packages, bonus schemes, salaries – are they still effective in motivating your people? Is there anything you can do to make it more attractive?
- ☑ **Consider incentives** – Consider alternative incentives such as share option schemes so your key employees can benefit as your company grows.
- ☑ **Identify and communicate your purpose** – what your business stands for – people want to work for a business that cares about making a difference. But make sure it's authentic.

Business priorities

Businesses in our survey are, however, optimistic for their future. Almost half (49%) of businesses told us they believe their business is in a fundamentally better shape today than compared to the same time last year. Just 25% of businesses believe they are in worse shape.

Do you feel your business is fundamentally in better shape for the challenges of the future now compared to 12 months ago?



And that is translating into predictions for increased turnover in the 2023 financial year. Over one-third (38%) predict an increase in turnover for the year, comparing favourably to the number of businesses that expect turnover to remain static (42%). A fifth (21%) of businesses surveyed do, however, expect turnover to drop. Businesses that need support should speak to their accountant.

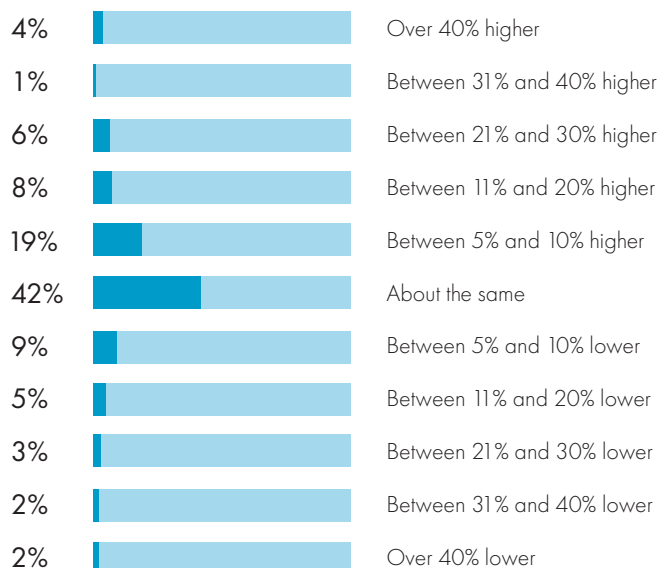


Survey respondents

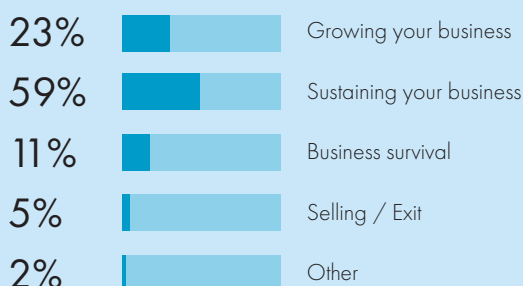
"SMEs need to look after their workforce, who in turn need to have a strong work ethic. Working in partnership is key."



What do you anticipate your turnover to be in 2023 relative to last year?



What is likely to be your main priority over the next 3-6 months?



Businesses continue to be focused on growth but are adopting more protective strategies in the short term to sustain the business. Managed well, this can leave a business well placed to quickly capitalise on future growth opportunities.

A small number of businesses in our survey report active plans to sell or exit. This may be a result of existing plans being delayed because of the Covid pandemic and presents opportunities with cash reserves to acquire a competitor or a critical part of their supply chain. But those businesses planning a sale are reminded that it is a time-consuming process that needs well-laid plans.

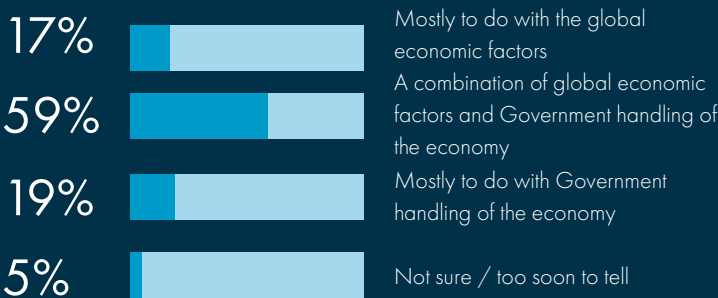


Government support?

Businesses are broadly critical of the way the Government has managed the post-Covid period but recognise too that the global economic factors are often out of its control. Over half (59%) of businesses point to both a combination of the Government response and global economics to the current difficult trading conditions, with a fifth (19%) believing it is mostly to do with the Government's response. Almost half (48%) believe the Government could do more to tackle soaring inflation.



Where would you locate the cause of the current challenging economic climate between global economic factors and Government handling of the economy?



Businesses are disappointed in how the Government has supported owner-managed businesses, with well over half (58%) saying it is poor and 18% saying it is very poor. Yet half of businesses surveyed do not believe a change in government would be good for businesses.

As we enter an election cycle, we can expect owner-managed businesses to be one of the key election battlegrounds and the current government does have quite a hill to climb.



Survey respondents

"Inflation is a direct result of monetary policy over the last three years."

"Manufacturing in the UK is in danger of being wiped out as there is no support for mid-tier businesses and no interest from the Government in maintaining traditional manufacturing skills."

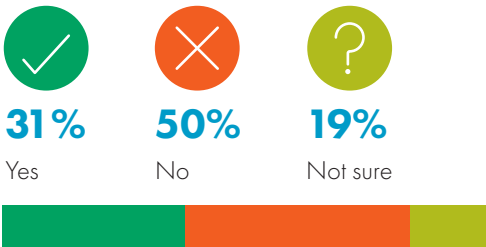
Could the UK government be doing more to help tackle inflation?



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



Do you believe a change in government would be good for business?



How your accountant could help

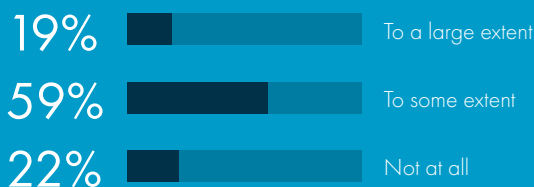


In uncertain times businesses need guidance and support, and business owners are quick to recognise that.

78% of businesses in this survey turn to their accountant for support and guidance. Accountants provide independent advice and can marry the technical guidance a business needs with the holistic view based on experience with a wide range of clients that is most valued.



To what extent do you rely on your auditor or accountant to provide you with additional business advice and support?



We support businesses by:



Understanding your business, your goals and helping 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 an outsourced finance team, saving costs with de-risked efficient compliance.



Navigating the regulatory landscape.



Helping you source funding and finance.



Preparing the company so that it is in the best possible condition when approaching funders.



Helping you to prepare for and embrace opportunities.



Helping you manage your online accounting platform.

Recommendations

Economic uncertainty and challenging trading conditions have been the underlying theme of the past three years. Covid's long tail, the increased red tape that has followed the country's decision to leave the European Union and rising costs linked to soaring inflation have seen owner-managed businesses face the brunt of that economic uncertainty.

What they think and how they respond matters. They are, quite literally, the engines of the UK economy. Owner-managed businesses are creative, adaptable, and resilient, and that will see businesses not only survive but thrive.

Yet government and political parties need to listen to the concerns of these businesses and create an environment that is supportive and conducive to trade. Whilst businesses are understandably hopeful for the future, there is a feeling that their needs and concerns are being overlooked.



The APA would urge the Government to look at:

- **Inflation.** Demonstrate to owner-managed businesses that it takes rising inflation seriously and is not just leaving it to the Bank of England to sort out the problem.
- **Tax, policies and support.** Identify a series of short-term, stop-gap measures to reduce the immediate challenges facing SMEs including revisiting rises in corporation tax, addressing labour shortages with more flexible migrant policies, incentivising capital investment and being seen to champion the SME sector more broadly.
- **Brexit.** 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 long-term growth.
- **Advice and support.** Recognise that uncertainty remains across many sectors of the economy and that businesses want reassurance as well as clear and unambiguous advice and support.
- **Flexibility.** Adopt a flexible approach to business policy that recognises the many challenges facing owner-managed businesses and prioritises the sustainable growth of this sector.

For businesses, it is important to:

- **Keep an eye on the horizon.** As well as dealing with urgent and immediate challenges. Regularly review your business plan and plan ahead.
- **Have a clear strategy for development** to achieve your objectives with the right team of advisers around you.
- **Forecast and scenario plan.** Use forecasting and scenario planning to explore and identify challenges and answers to them.
- **Identify risks,** financial pinch points, risks and important KPIs to monitor.
- **Identify future funding requirements.** Assess and plan for future funding requirements.
- **Develop risk mitigation strategies.**
- **Budget and keep an eye on cashflow.**
- **Utilise the tools, system and support available.**

Generally, understand the pressures facing your business and plan for them, remain agile to shape the future you want for your business. And remember your accountants and advisers are here to support you with all the above.

**For more than accountancy,
business and wealth advice.**

Our offices are across London, Kent and Sussex.

Call: +44 (0)330 124 1399

Email: enquiries@krestonreeves.com

Visit: www.krestonreeves.com

SHAPING YOUR
FUTURE



Kreston Reeves have made every effort to ensure accuracy at the time of publication (September 2023). Information may be subject to legislative changes. Recipients should note that information may not reflect individual circumstances and should, therefore, not act on any information without seeking professional advice. We cannot accept any liability for actions taken or not taken as a result of the information in this publication. Kreston Reeves LLP (registered number OC328775) and Kreston Reeves Private Client LLP (registered number OC342713) both operate under the Kreston Reeves Brand and are together known as "Kreston Reeves". Any reference in this communication or its attachments to "Kreston Reeves" is to be construed as a reference to the Kreston Reeves entity from which the information originates. Both entities are registered in England and Wales, and the registered office address is 37 St Margaret's Street, Canterbury CT1 2TU. Further details can be found on our website at www.krestonreeves.com.

KRE.REE.016 09/23