

MOORE STEPHENS

Planning for the future in 2015

The owner managed business view

Foreword

Maintaining confidence in the owner managed business (OMB) sector is vital for sustaining the UK economy's growth curve. In our second survey among this vital UK business segment, we find OMBs in a confident mood – but cautious too. Economic and political uncertainties are causing widespread concern.

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OMBs are made up of different types of businesses – start-ups, companies bought and run by serial entrepreneurs and family enterprises. The importance of OMBs was recently confirmed in research by Oxford Economics for the Institute for Family Business: the UK's 3 million family businesses provide 9.4 million jobs and generate a quarter of our GDP. The impact of OMBs as a whole is clearly significant and the health of this section of UK enterprise is vital for the national economy.

The good news is that OMBs are still confident about hitting profit and revenue targets in 2015. In the medium term, the majority expect turnover and net profitability to increase in the next three to five years. These are encouraging results but some OMBs may occasionally be a little over-optimistic – and we did find some evidence of a 'reality gap' last year. Even so, many of the businesses surveyed did perform strongly and expect to continue to do so.

There is uncertainty in the OMB sector, however, particularly about the strength of the UK economy and to some extent about the global economy. OMBs will be affected not only by a UK relapse, but also by a weakening of the business pulse in Europe and further afield. Political uncertainty is also causing concern.

With the outcome of the General Election so hard to call, many OMBs are worried about the longevity of the tax incentives

they value. High capital gains tax rates act as a direct disincentive to business investment and entrepreneurship. If Entrepreneurs' Relief were to be withdrawn, this could force owners to push for higher valuations on a business sale – potentially driving the management team out of the picture. The political parties should take OMBs' concerns seriously. Whoever wins, providing clear tax policies that can be relied upon for the medium term – and that encourage ongoing business investment by the UK's entrepreneurs – should be a priority.

The UK's skills shortage is also demonstrated clearly in our survey findings. For OMBs, this is a particular challenge. Salary costs are rising but paying staff more money is not necessarily sufficient to retain talent. Many employees now look for career development opportunities – a request that's harder to satisfy in an OMB than a major international corporate. Nevertheless, investment in training will be important for OMBs to retain and develop their valued employees.

Many more detailed findings are set out in this report. I would like to thank all the OMBs who completed this year's survey, and particularly those who agreed to be interviewed. Your stories provide insight and inspiration.

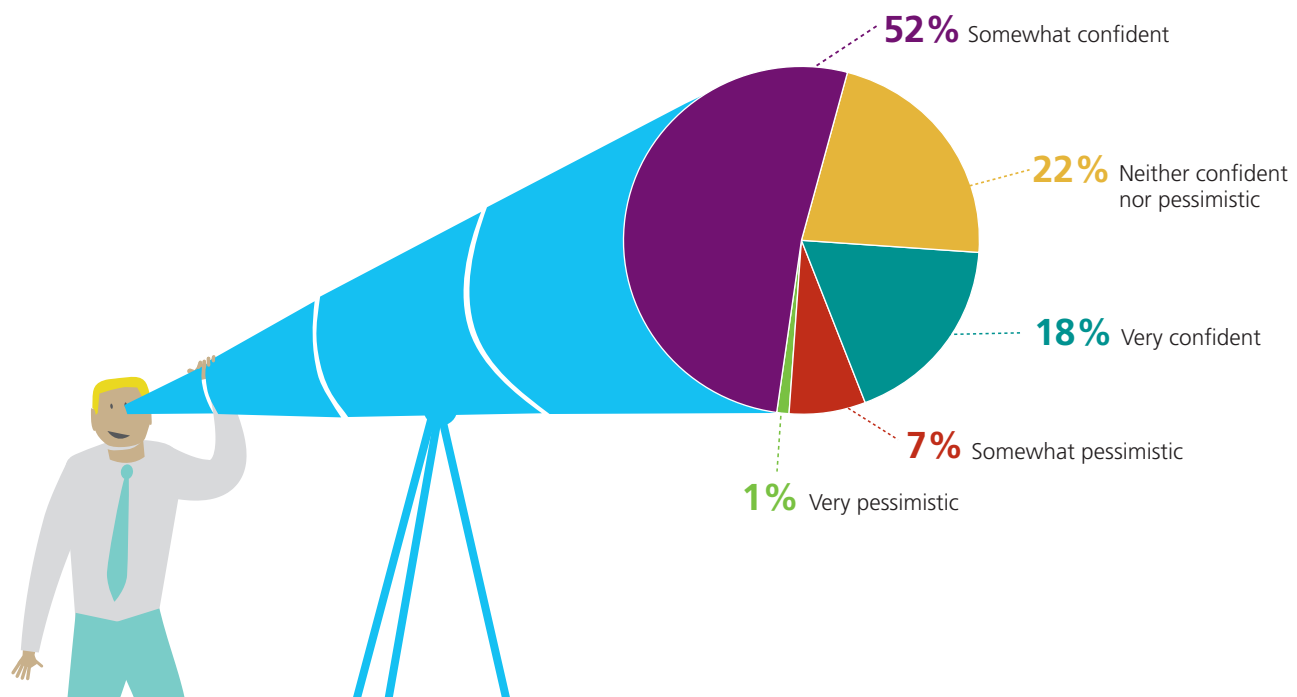
Mark Lamb
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Survey details

We conducted an online survey of OMBs between 31 October and 22 December 2014. We analysed 247 responses, drawn from across all business sectors, with respondents being senior personnel within their businesses – primarily founders and owners, chief executives and managing directors, or other high-level directors. We then spoke in depth with leaders of six OMBs to find out more about their hopes for 2015, their strategic plans and the risks and challenges they face when building their businesses.

Survey highlights

Fig 1: How confident are OMBs about the general outlook for 2015?



The majority of OMBs have high hopes for 2015:

- 70% are confident about the general outlook, 75% are confident about meeting revenue targets and 70% are confident about hitting profit targets – results similar to last year.
- 68% of OMBs expect 2015 to be a better year than 2014 – including 21% who expect it to be much better.

OMBs are particularly focused on growing their UK customer base in 2015, but have other strategies too:

- 62% plan to expand their UK customer base, while 20% are aiming to expand overseas.
- 44% are looking at investment in new technology or IT systems, while 27% plan to introduce new production techniques or other forms of innovation.

- 40% expect to launch new products or services and diversify their market offering.
- 40% are pursuing cost reductions – substantially more than last year (28%).

Increasing proportions of sales are expected to come from foreign markets over the next five years:

- 44% of OMBs are looking to increase their customer base in Europe.
- 30% expect the proportion of their customers based in North America to grow.
- Developing economies are also being targeted, with one in five or more OMBs anticipating increased customer representation in Asia (27%), the Middle East (23%), China (23%), Africa (22%) and India (20%).

Economic uncertainty and competitive pressures dominate the risks OMBs perceive for 2015:

- Almost half (49%) are concerned about whether the UK economy is sufficiently strong, and 29% are worried about the global economy.
- 45% see domestic competition as a key risk.
- 39% are concerned about employee skills shortages.
- 17% identify the tax environment as a risk – the General Election clearly on their minds.

High expectations for 2015

Building on their success in 2014, the majority of OMBs are confident about their prospects for 2015.

We first asked OMBs how they performed in 2014. The largest proportion (45%) say their business performed better than expected, compared to 49% in 2013.

For some of the OMBs we spoke to, 2014 was “exceptional” and the “best year ever”, while for others it was a year of consolidation following rapid previous growth. The fastest-growing OMBs have done better than the UK economy as a whole. GDP continued to grow in 2014, though slowly – at a rate ranging from 0.6% to 0.8% in the first three quarters of the year.

These indicators – and positive comments from the likes of the International Monetary Fund director Christine Lagarde who recently praised the UK’s “improving” growth – are sustaining OMB confidence. Three-quarters (75%) are confident about achieving revenue targets in 2015 and 70% are confident about profit targets, in line

with last year’s findings (78% confident about revenue and 68% confident about profit targets). Overall this year, 70% of OMBs are confident about the general outlook for 2015.

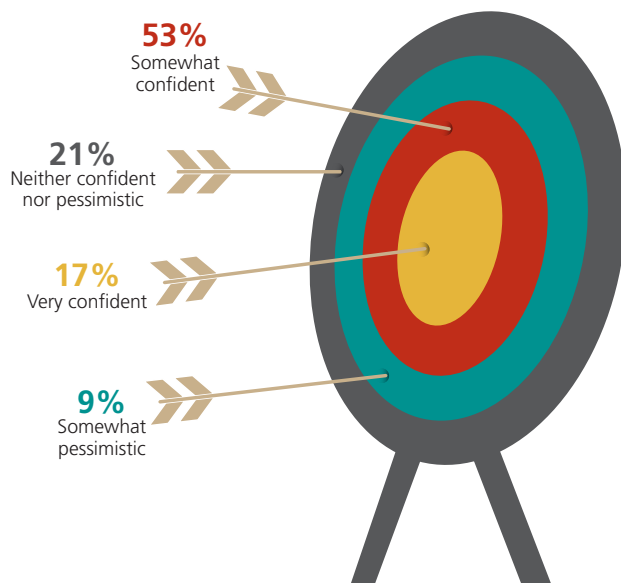
Positive signs, such as improved labour productivity (up by 0.6% in the third quarter of 2014 – the strongest rise seen since 2011), may be encouraging such confidence. Low interest rates are also keeping down borrowing costs and encouraging the housing market.

“Our core clients are residential developers,” says Guy Barker, Commercial Director of JL Knight Roadworks. “That market is linked to interest rates. It’s a reasonably buoyant housing market at the moment, but a change in government and change in policy and planning can have a knock-on effect. So the General Election is something we will watch out for.”

Electoral uncertainty may explain the slight drop in the proportion of OMBs who expect things to keep getting better. Overall, 68% of OMBs in this year’s survey expect 2015 to be better than 2014 – down eight percentage points from the 76% last year who expected 2014 to be better than 2013. Even so, the mood among the OMBs we spoke to ranged from “careful but optimistic” to “very optimistic” and “super excited”.

It also seems that OMBs may have been a little over-optimistic in our first survey. By comparing our latest findings of how OMBs actually performed in 2014 with our previous findings about their expectations for 2014, we calculate an approximate “reality gap”. We find a negative difference – or “reality deficit” – of 17 percentage points: fewer OMBs enjoyed “much better” business performance than had expected to do so. There is also a reality deficit of 15 percentage points for OMBs who expected “a little better” business performance. This may explain the slightly modified expectations expressed this year.

Fig 2: How confident are OMBs about hitting profit targets in 2015?



Medium-term outlook

Looking ahead over the next three to five years, 80% of OMBs surveyed expect their turnover to increase significantly, but only 41% expect gross margins to do the same. Rising costs are creating challenges for OMBs: over half (52%) of those surveyed expect their costs of supplies to increase significantly in the next three to five years. Nevertheless, 60% expect the net profitability of their business to significantly increase, perhaps a result of cost-cutting activities identified later in the survey.

Over half of OMBs (55%) are not planning to increase the number of their products or services over the next few years, but 58%

expect to increase their overall headcount – reflecting their anticipated growth in sales activity.

OMBs continue to shy away from raising external finance. Over two-thirds (68%) of those surveyed think their use of external finance will stay the same over the next three to five years. Only one in five (19%) expect it to increase. Andrew Pirrie, Director of Swann Group and Clearvision International, speaks for many OMBs when he says: “We don’t have any bank financing right now in our engineering businesses, apart from a limited overdraft and we prefer to self-fund – because in the past they have not been supportive of OMBs and if they wanted to ‘pull stumps’ we didn’t want to have any loans outstanding. We would rather be cautious and grow slower than rely on the banks.”

Despite such caution, Miles Hewitt-Boorman, Head of Moore Stephens Thames Valley office, sees much to encourage OMB optimism. “Many OMBs are in a good position now,” he says. “Revenues are up and they have implemented a lot of cost reduction methods from 2009 onwards. A lot of clients have weaned themselves off bank finance and are confident about investing in their businesses through their own resources.”

Countrywide Waste Management: 2014 was a record year

Countrywide Waste Management, provider of comprehensive waste management and recycling services, featured in last year’s report. Managing Director Paul Corbett spoke about the competitive market and high customer demands. So how were the last 12 months? “It turned out to be a record year for us in terms of turnover, with even a hint of a return to slightly better margins,” he says. Core business revenues are up 32% and margins perhaps half a percent.

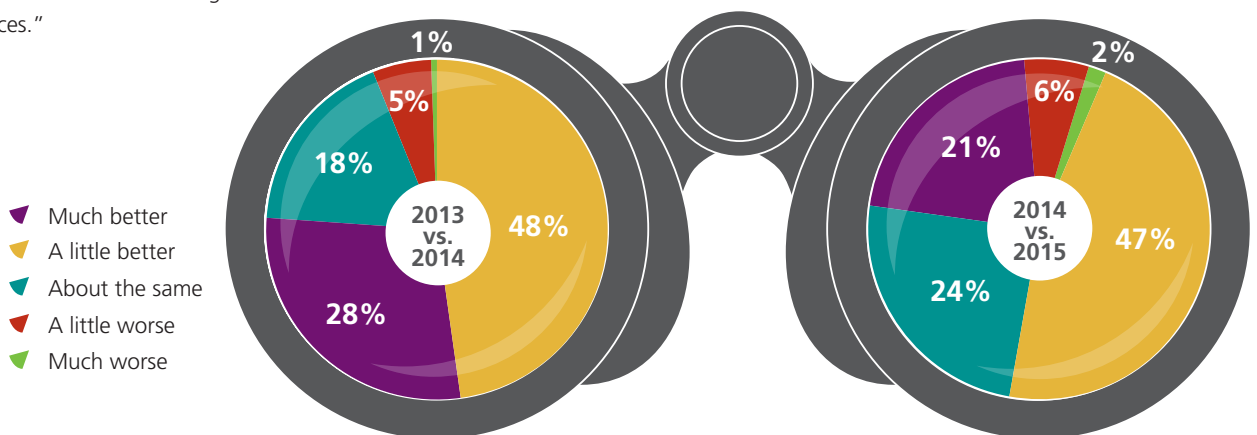
Next year Corbett is anticipating further increases in revenues and gross profit. What has changed? “Our client base is busier,” Corbett says. “A lot of work that had been postponed came through in 2014. We have done well in rail and infrastructure, and overall, construction is definitely up. Customers say they feel more confident.” Although most of the supply chain has increased its prices,

Countrywide has been able to pass this on with no ill effect.

Customers are now willing to pay extra for Countrywide’s added value services. “We have a six-strong compliance team and provide a lot of data for clients – for environmental reporting and landfill diversion targets,” Corbett says. “People recognise our expertise and that they have to pay for it.” The business is providing more consultancy-style services, for example, advising on food waste and how it can be used as a fuel in biomass boiler systems.

Countrywide is investing significantly in software and systems improvements “to make sure we are as lean as possible, which is going towards improving our gross profit, and to make sure we provide the added value customers want and stay ahead of the competition,” Corbett says.

Fig 3: Do OMBs expect 2013/14, to be better or worse than 2014/15?



Strategies for the year ahead

OMBs are highly focused on growing their UK customer base, but are targeting other strategies too.

What strategies will OMBs implement in 2015? The most popular by far – the only strategy selected by a majority of respondents – is to expand the UK customer base. Over six in 10 (62%) of OMBs plan to grow their UK customer base this year.

Engineering business Swann Group has already achieved this successfully. In 2014 the business launched an online shop, supplying niche products such as metal components to customers working on telecoms masts and targeted products in the building industry. “Nobody was selling online products in these niche areas,” says Director Andrew Pirrie. “There are better margins to be had, because people need the products quickly.”

The second most popular strategy is to invest in new technology or IT systems – pursued by 44% of respondents. Similarly, 27% of OMBs are looking at new production techniques or innovation.

Erodex: Building a business on niche expertise

Founded in 1974, family business Erodex is a graphite machining specialist, manufacturing graphite electrodes and distributing spare parts for wire erosion machines. The aerospace sector (mainly Rolls Royce and its sub-contractors) accounts for around 50% of their business, alongside the semi-conductor and other high-tech sectors. Erodex has acquired two complementary businesses in the past 15 years, enabling it to offer customers “the full package – design and manufacture of work holding fixtures in addition to the electrodes that we have traditionally been recognised for.” says Director Ian Rolinson.

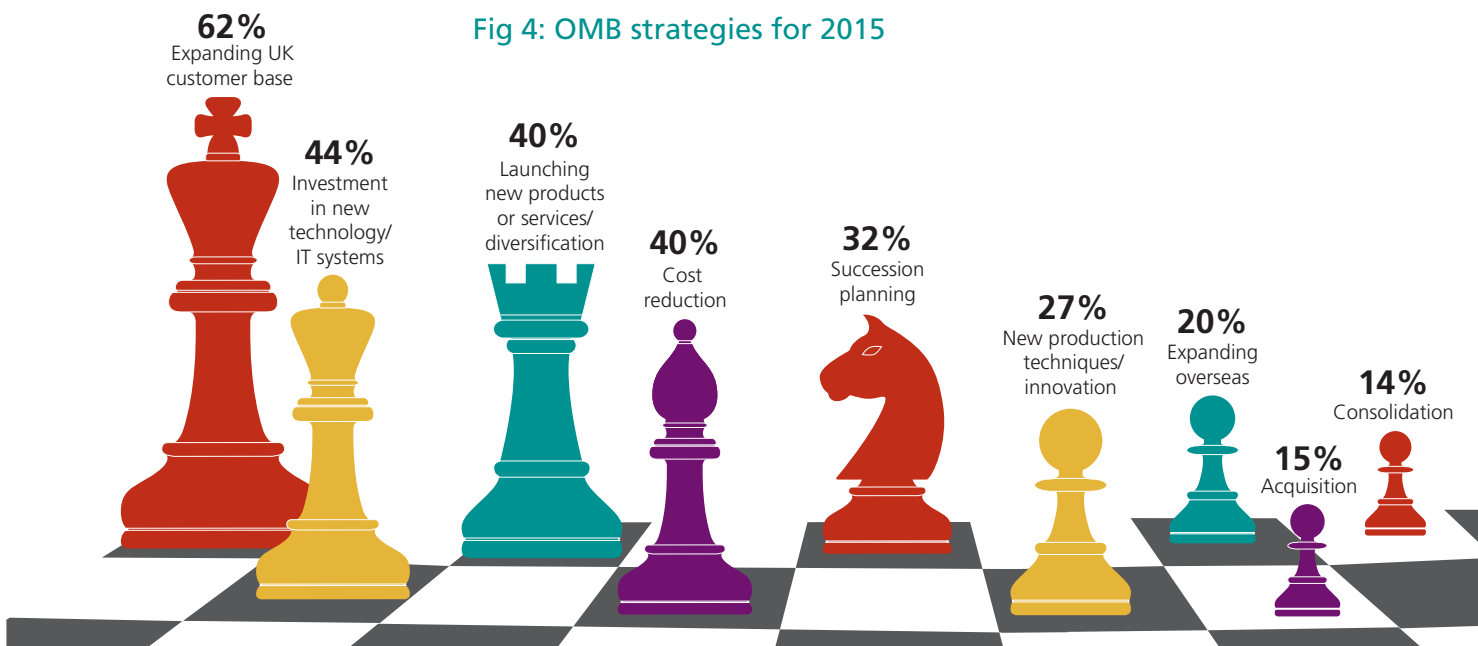
Since 2009 the business has experienced gradual growth. “Last year was a record for turnover,” says Rolinson. “This year is looking the same and next year we are hoping for perhaps a 5% growth.

We are pretty confident”.

Erodex is exposed to exchange rate fluctuations. “We source from China, Korea, America, Germany – all the main markets,” Rolinson says. “We also sell to those markets. Exports used to account for around 10% of sales but are now up to 15%. We sell into Europe, the Far East and America primarily.

Erodex has invested in its UK facilities in the last year, spending almost £750,000 on new machines for the machine shop. “We had been pretty much flat out, but want to be able to take on extra business,” Rolinson says. Software for the design house is frequently updated. Extra staff, particularly designers and machinists, have been brought in but recruiting is “proving more problematic” Rolinson says, because of the niche skills required.

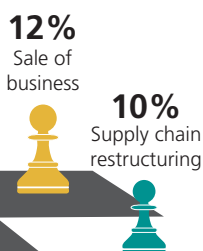
Fig 4: OMB strategies for 2015



Miles Hewitt-Boorman sees strong interest in investment in IT systems and processes among his OMB clients, particularly in relation to manufacturing systems, stock control and customer relationship management (CRM). "There's a lot going on with CRM," he says. "It's about knowing your customers better and understanding your sales position, collecting information and being more rapid in exploiting opportunities."

The OMBs we spoke to understand the importance of investment in innovation and technology. "It's the intellectual property inside our products that gives them the value, and all that comes from Research and Development (R&D)," says Erica Adams, Operations Director of Phabrix. "Ongoing maintenance is required too – bringing out new software for new standards. Technology is getting better and better and people's expectations get higher, so we need the R&D."

62%
Over six in 10 (62%) of OMBs plan to grow their UK customer base this year.



New products and services

Four in 10 OMBs surveyed (40%) are planning to launch new products or services and diversify their offering, compared to 53% in last year's survey. The fall this year suggests that those who did launch new offers are consolidating their activity this year.

R&D activity is important for OMBs, and tax breaks are available to encourage it. "In manufacturing, R&D claims can be significant and useful to help fund future project development and so continue evolving the business growth plans," says

Paul Fenner, Head of Real Estate & Construction at Moore Stephens.

"Unfortunately our experience shows that a number of construction businesses have been slow to tap into the R&D credits in the same way that manufacturing companies have, although there are as many opportunities for them to claim them. R&D can improve or simplify construction processes, or make construction more efficient, faster or safer. For example, R&D can also be claimed where construction uses renewable materials, achieves energy efficiencies or reduces carbon footprint."

PSCo: Latest technology and quality service drives growth

Reading-based PSCo is a high-tech business focused on the hire and sale of audiovisual equipment, with particular expertise in videowall and large format displays. The business is driven by technology trends and over the last 18 months has moved from plasma to leading-edge LCD and LED, while also expanding its service offerings. As a result, 2014 was "fantastic", says CEO Stuart Holmes.

"When technology becomes mainstream, we don't add as much value," he says. "But when customers need technical, repair and service support – all the things that go with new technology, that's our strength. We remove all the risk. My product manager goes to China every six weeks, making sure we understand the technologies coming through and our business is equipped to support them."

PSCo is forecasting revenue growth of about 130%, with profit also expected to increase. "We are confident our

margins will increase largely because of the investment we are putting into the service element of the business," Holmes says. "It's not just about selling our customers a product, it's supporting them for its lifetime. As long as we source the right technologies – good quality products that don't have high failure rates, then our productivity measures will continue to improve and so should our margins."

PSCo primarily finances its business through its working capital, but uses asset finance for some rental stock. Raising external funding has become easier as the business has established a track record, but it still is not easy. "We might not tick all the right boxes because the technology is seen as high risk," Holmes says. "It's not vans or cars. People understand metal and rubber. They don't necessarily understand LED walls that are going into retail stores. But as they get to know us better, they understand our business better."

Ongoing cost reduction

A substantial proportion (40%) of OMBs are looking to reduce their costs – an increase on last year's survey, when 28% were planning to do so. This is a surprising result, as OMBs typically have been keeping a tight control on costs through the recession. This year's focus is perhaps a response to rising wage pressure – if salaries need to increase to retain staff, cost cuts may need to be found elsewhere.

A good time for opportunistic acquisitions?

Among the OMBs surveyed, 15% are thinking about making an acquisition in 2015. Opportunities seem likely to arise as 12% are considering selling their business.

"We are seeing an increasing level of M&A activity, with OMBs looking at acquisitions as opportunities come up," says Debbie Clarke, Head of M&A at Moore Stephens. For OMBs still looking to grow their business, acquisitions can help them respond to the competitive environment. "If you can gain economies of scale through combining with a competitor and at the same time take someone out of the market, that can be a very good rationale for doing the acquisition," Clarke says. "If you have a skills shortage and know there are good staff in a small business nearby, if an opportunity arises to buy it, that could be worth looking at. But with all acquisitions, careful planning and proper due diligence is essential."

Succession and exit

Almost a third (32%) of OMBs are looking at succession planning in 2015 and 32% plan to exit or retire from their business in the next five years.

When asked about what options they would consider, OMBs are most likely to contemplate selling to a UK competitor (81%). The majority would also consider selling to an individual investor, their management team, an international competitor or private equity (PE) group.

83%
of OMBs said they have more than 70% of their customer base located in the UK.

However, 30% would never consider selling to their management team, perhaps not seeing them as having the capability or drive to take the business forward. In addition, 41% would never consider passing the business to a family member. This suggests that the tradition of the family business may not be as strong as it once was. Younger generations may be less interested in following their parents. In addition, many OMBs are now owned and run by serial entrepreneurs, looking to create value and then sell on.

A number of OMBs said they would consider a sale to their employees. Debbie Clarke predicts this has become more widespread among OMBs – part of "the John Lewis revolution". Implementing either a management buyout or a full employee buyout scheme can take time. It can however be part of an owner's strategy for building up a business and bringing management along, or exiting from it – ultimately helping them to separate themselves from the business. "One benefit is that everyone's motivations become aligned, because everybody becomes an employer as well as an employee," Clarke says.

20%
Even so, the majority are generating export sales and one in five are looking into expanding overseas in 2015.

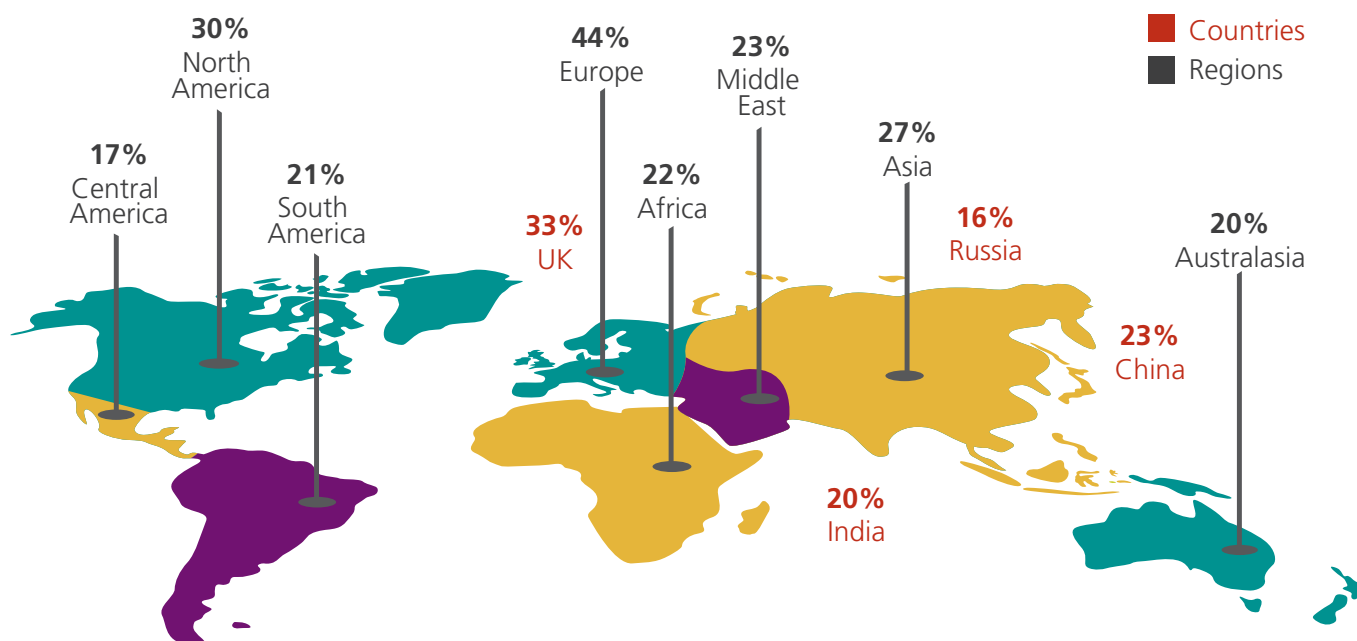
Overseas sales potential

The domestic UK market is most important to the OMBs we surveyed: 83% of them have more than 70% of their customer base located in the UK. Even so, the majority are generating export sales and one in five (20%) are looking into expanding overseas in 2015.

At present, sales to continental Europe are particularly strong, achieved by over half (53%) of OMBs. North America is the second largest overseas market, over a quarter (27%) of OMBs reporting customers there. Almost one in five (18%) have customers in the Middle East and again in Asia, while 16% sell to Australasia. The OMBs we surveyed also report customers in Africa, China (one in 10), Russia, India and Central and Southern America.

Looking ahead over the next five years, 92% of OMBs surveyed expect their UK base to increase proportionately – in other words, the vast majority expect a lower proportion of export sales. This may be because the UK economy appears to be performing relatively well.

Fig 5: OMBs expecting the proportion of their customer base in different locations to increase over the next five years



Nevertheless, significant numbers of OMBs expect to increase the proportion of their customer base in a range of overseas markets, particularly Europe (44%), North America (30%) and Asia (27%). But significant numbers also expect increases in the Middle East, China, Africa, South America, Australasia and India.

Generating business from overseas customers is a sensible response when domestic markets are mature or in recession, but it is not easy. "Many overseas markets – including the US, Middle East and India – are parochial and tend to want to do business with their own," comments Paul Fenner. "In addition, ensuring the quality of goods or services can be a challenge. OMBs therefore need to make sure they have good quality inspection procedures in place. Some clients have addressed this issue successfully by setting up joint venture arrangements with local companies and then using loyal expatriate staff to ensure quality inspection on site."

Phabrix: Export sales based on leading Research and Development (R&D)

Newbury-based Phabrix, set up in 2005, is a leading designer and manufacturer of innovative broadcast test and measurement devices. It now has a headcount of 34 in the UK and two in a new US marketing office. The business is R&D focused and benefits having manufacturing, sales and marketing capabilities within the business. Phabrix launched its most successful product in 2009, and is about to launch another which is expected to boost turnover for the year to March 2016. Erica Adams, Operations Director, describes the team's outlook as "very, very careful but optimistic."

Phabrix sells its products internationally, approximately 80% of its sales being exports. USA is the company's biggest market, followed closely by Europe and APAC. European sales, traditionally their core market, have been affected by the

continent's economic problems. "We sell worldwide, so where you have one country going down, another is coming up," Adams says.

Phabrix invests significantly in R&D, making the most of R&D tax credits. "Our R&D is really expensive and it's right that it is," says Adams, explaining that R&D engineers should be well paid.

"We always do the benchmarking and everyone is on a bespoke salary," she says. "Pay increases are linked to performance."

The business works hard to keep down costs of supplies, but is competing against lower-cost US competitors. How does Phabrix respond? "You have to optimise your people – make sure there is no barrier to them working," Adams says.

Risks causing concern in 2015

UK economic strength, domestic competition and skills shortages are the top three risks OMBs identify for 2015.

We asked OMBs to identify the three risks that most concern them for 2015. We offered a selection, then gave participants the opportunity to name any other risks of concern.

Economic concerns

The risk worrying most OMBs is whether the UK economy is sufficiently strong – identified by almost half (49%) of our survey respondents. In addition, 29% are

concerned about the global economy in 2015. Their economic worries are also reflected in the fact that one in seven OMBs surveyed (14%) are concerned about interest rate fluctuations and one in 10 identify exchange rate fluctuations as a risk.

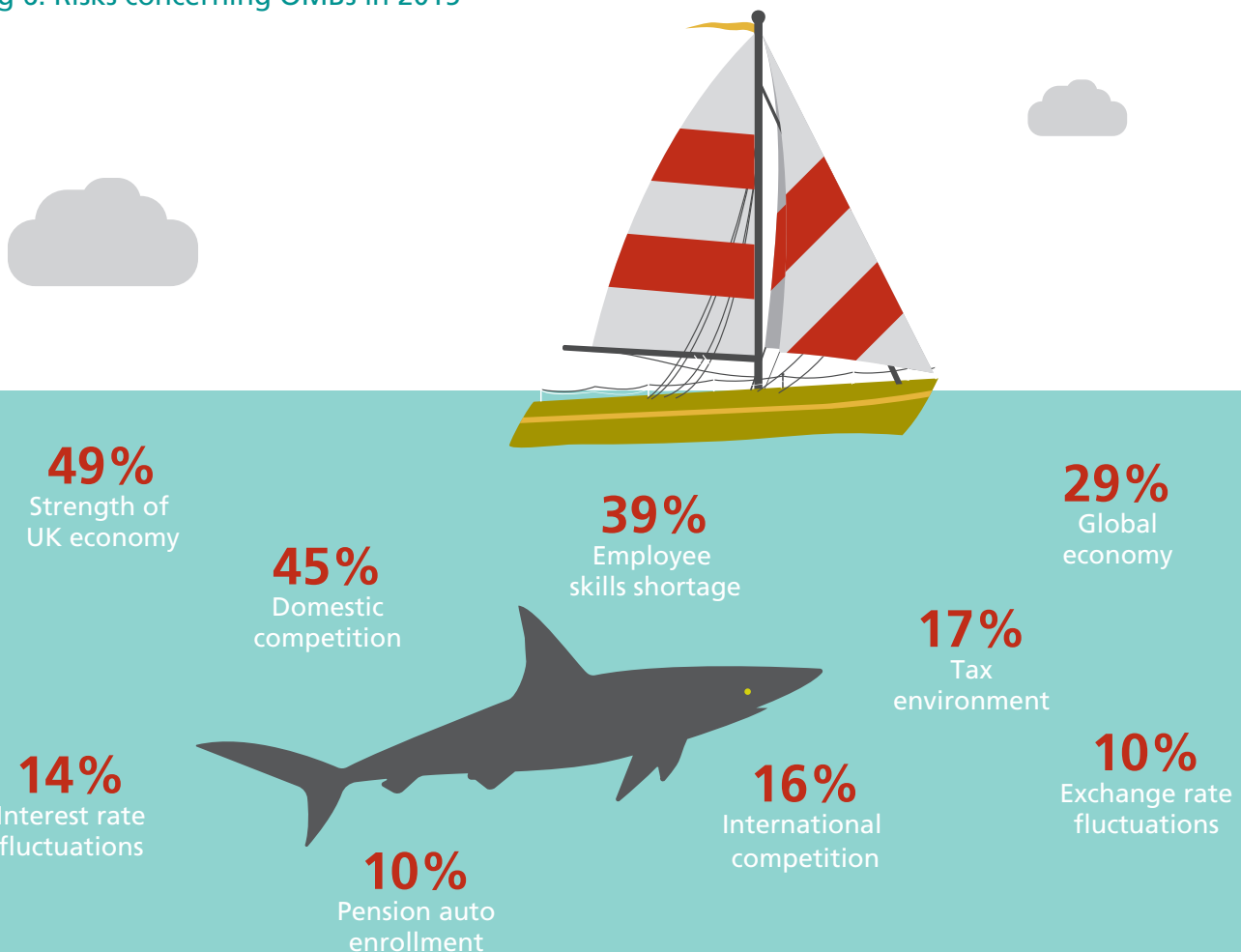
Concerns about the economy are understandable. Inflation fell to a joint record low in December 2014. While good news for household budgets, low inflation

raises the possibility of deflation – an ongoing problem in the Eurozone – which could stifle growth.

Competitive pressure

The second biggest risk for 2015 foreseen by OMBs is their competition – primarily domestic (a concern to 45%), but also international (16%). For audiovisual technology company PSCo, domestic and international competition is seen as the

Fig 6: Risks concerning OMBs in 2015



biggest threat. "Our competitors usually run two to three years behind us, but they are always looking at what we are doing," says CEO Stuart Holmes. "In time they try to onboard our ideas, so will always catch up. We just need to make sure we have moved on."

Skills shortages

Employee skills shortages are also causing concern for many OMBs, with 39% identifying this as a risk for 2015.

"Engineers in particular are in short supply," says Paul Fenner. "Recruiters have been looking overseas, but we have pretty well exhausted Europe and immigration rules are tightening, so this is a real problem."

OMBs need to be opportunistic about hiring, as was JL Knight Roadworks. When a competitor went into liquidation, the business moved fast. "We got in quickly before our competition," says Construction Director Dean Braybrook. "We secured a couple of the managers who had a database of employees for on-site work. We got some good guys from that."

Audiovisual business PSCo would like to train up graduates. Operating in a specialist technical area, finding people with existing skills is unlikely. "It's not like being Manchester United – we can't go and buy a top striker from Manchester City and know they will score a goal," says CEO Stuart Holmes. "There's no one in the UK that knows our products as well as we do. So we have to bring on new young talent. We've got to get people running up and down the touchline ready to come on the pitch."

JL Knight Roadworks: A year of consolidation after dramatic growth

Colchester-based civil engineering and groundworks business JL Knight Roadworks had a record-breaking year to July 2014, with revenue almost doubling. "Our chief clients are big house builders and there has been a boom in the residential property market in the last 12 months," says Commercial Director Guy Barker. "We had our busiest year ever, and the greatest growth in a year since the company began trading in 1972." Numbers of onsite staff have increased rapidly, virtually doubling to nearly 500.

Perhaps not surprisingly, 2015 will be about consolidating that growth. "We don't expect to increase turnover, but are concentrating more on improving the margin," Barker says. That will primarily be achieved through negotiating higher margins on new long-term contracts, and shortening the fixed-price term. "We are generally not fixing prices for more than 12 months, whereas two

years ago it was for the duration," Barker says. "It's supply and demand – there's a lot of work out there and less people to do it."

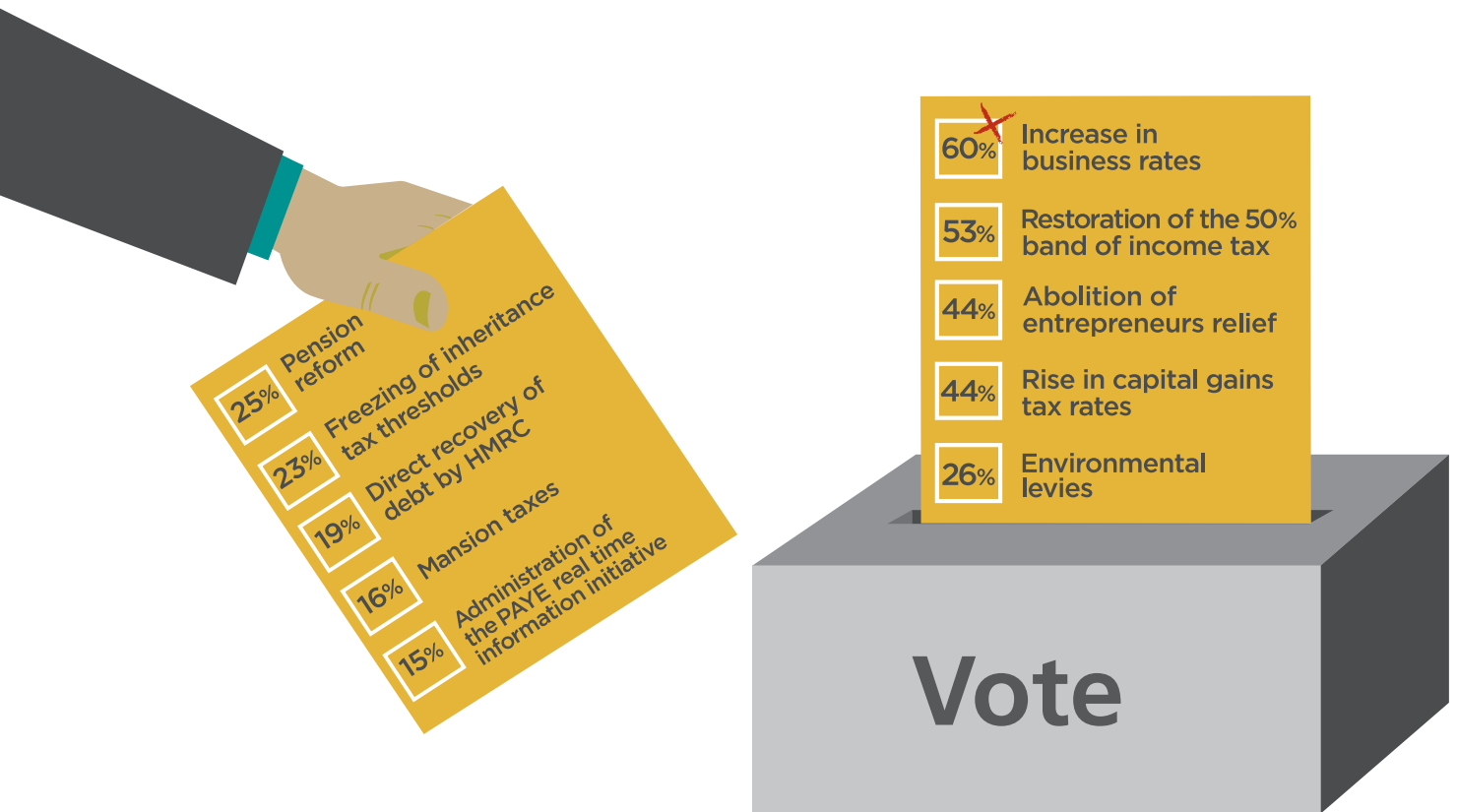
Managing wage bills is the biggest cost control challenge. "There is suddenly so much work and a lack of people in the industry, so there's a lot of headhunting," says Construction Director Dean Braybrook. "We are being pushed to increase wages in order to retain people and have introduced profit-related bonus schemes."

The business is reaping the benefits of past investment in plant and equipment, depreciation costing less than hiring. Investment in a print machine is being considered in order to reduce outsourced photocopying costs. "We are looking to be a bit more proactive in ways that we think will eventually save us money," Braybrook says.

39%

Identified employee skills shortages as a concern for many OMBs in 2015.

Fig 7: Risks following the 2015 General Election



Political uncertainty

Unprompted risks identified as a concern by OMBs in this year's survey often have a political theme. OMBs variously expressed their worries about electoral uncertainty, a potential change in government, political ignorance, local authority cuts and the possibility of the UK leaving the EU. One survey participant commented: "I cannot remember a time when the political landscape was so uncertain as to cause significant concerns in the business environment." Another said: "The danger is that the election makes it a lost year in regards to decision making."

No doubt with an eye on the upcoming General Election, a substantial minority of OMBs (17%) are concerned about the tax environment in 2015. We also asked OMBs specifically to identify any potential risks they perceive following the General Election.

Tax costs to the business

Right at the top of the anxiety list come business rates, with a majority (60%) of OMBs worried about a potential increase. Over a quarter (26%) see environmental levies as a possible risk of concern following the General Election.

Tax administration and regulation is also a concern for many OMBs. Almost one in five (19%) identify the direct recovery of debt by HMRC as a risk that worries them, and 15% are concerned about administration of the PAYE real time information initiative.

Business is personal

Over half (53%) of OMBs are concerned about a potential restoration of the 50% income tax band following the General Election. A little under half (44%) are concerned about potential abolition of Entrepreneurs' Relief and 44% about a rise in capital gains tax rates. "We have put a

lot into this business," says Erica Adams, Operations Director of Phabrix. "So if someone decided to take Entrepreneurs' Relief away, that would be horrendous."

These results reflect the particular nature of the OMB – the business owner's personal fortunes are inextricably linked to those of their enterprise, not only now through salary and dividends, but also in the future when they seek to exit from the business and benefit from the value they have created within it.

A quarter of OMBs surveyed are concerned about pension reform following the General Election. Politicians from all political parties have mused about the possibility of limiting tax relief in pension contributions to the basic rates, so OMBs are perhaps right to be worried.

“Sometimes the government forgets that an entrepreneurs’ and an owner-manager’s life is their business; their business is their life,” says Debbie Clarke. “The two are completely intermingled. They run the business in a commercial way, but they have often invested the whole of their pension pot in the business.”

Personal concerns are again revealed by the 23% of OMBs who express anxiety about the potential freezing of inheritance tax thresholds, and by the 16% worried by talk of mansion taxes.

Miles Hewitt-Boorman understands why OMBs are concerned about so many risks following the General Election. “It’s all about uncertainty,” he says. “If you know what’s going to happen, you can plan for it. But uncertainty about what’s going to happen and when is an issue. What OMBs value is planned notice of any changes to rules and regulations.”

Swann Group and Clearvision International: Contrasting experiences in differing sectors

Andrew Pirrie has invested in several businesses, the largest two being Swann Group and Clearvision International, the latter through the Enterprise Investment Scheme. Swann Group provides “technical and difficult engineering solutions” primarily for the telecoms sector (such as telecoms towers), but also for the advertising; floodlighting and housing markets. Clearvision designs and manufactures LED lighting for offices. The two businesses are experiencing different opportunities and challenges.

“Clearvision is on a significant growth curve, because everyone is becoming aware of the many benefits associated with LED and both new build and refurbishment projects are relying on LED and building control system technology,” Pirrie says. “It’s about how many knowledgeable and motivated salesmen you can get out on the streets. It’s a disruptive technology based business so we are very bullish. We are targeting turnover gains of 100% per annum for the next couple of years at least.” Alongside UK trade, Clearvision is also looking to increase sales in Europe and the UAE. Though wary of bank finance, Pirrie and his team are reviewing the financing for growth and considering an invoice discounting facility to support Clearvision’s rapid growth. The company

is investing in Research and Development – planning “new production methods and massive innovation on the next generation products, so we always stay ahead of the competition” – and is “recruiting talented go getters” for roles across the board.

For Swann Group, business has been “quite tough through the recession”, Pirrie says. “Large infrastructure projects in telecoms, such as the 4G rollout, have been delayed because of licensing issues and the budgets haven’t been available. But companies are beginning to invest in large advertising structures again, which tends to imply a recovery in confidence, so that’s a good sign.” The company is seeking to broaden its customer base, targeting rail infrastructure projects; CCTV and to offer LED outdoor lighting – it’s a “cross-germination of skills between the companies we have,” Pirrie says. So while turnover and profit for 2014 might come in at 70 -80% of forecast, 2015 is looking better, with growth of at least 10%. The company is trying to recruit engineers and project managers, with more vacancies than it has had for eight years. “Chartered engineers with the correct skills are near on impossible to find, and as a result their salaries and worth have risen hugely,” Pirrie says.

53%

Over half of OMBs are concerned about a potential restoration of the 50% income tax band following the General Election.

Building on OMB successes

OMBs face many challenges in building and running their businesses. Recruiting and retaining staff, research and development activity and building sales in the UK and overseas all require management time and cash investment.

Our conversations with owner managers have identified a number of ways in which OMBs could be better supported. This year's 'wish list' for action by government and policymakers is as follows:

- develop policies designed to ensure economic stability so that OMB confidence is sustained;
- build a stable, dependable tax regime so that OMBs can plan ahead with confidence;
- reform business rates, particularly in relation to empty premises;
- maintain tax incentives to encourage entrepreneurship and business investment;
- create a simpler tax regime that OMBs and their owners can understand more easily;
- reassess immigration and education policies to address the UK skills gap;
- build houses to maintain momentum in the construction sector and address the UK housing shortage – unaffordable London housing makes it harder for the capital's businesses to recruit essential staff cut red tape and bureaucracy;
- put more pressure on banks to support OMBs, particularly in high-tech or non-traditional sectors that might appear higher risk.

The issue of bank finance is a recurring one – raised by OMBs in both this and last year's survey. There is no doubt that OMBs expect raising external funding to be difficult. They are sceptical about the banks' appetite to lend, regardless of any marketing, and anxious about the level of security that may be required.

But could OMBs be reducing their opportunities for growth by minimising bank funding? "Winning work isn't the problem now for OMBs, it's delivering," says Paul Fenner, who advises many construction and manufacturing clients. "They see all the sweets in the candy jar in terms of orders coming through, but fulfilling those orders is a challenge. There is a skills shortage and they haven't always got the working capital they need. So there is a risk of overtrading. More companies have been known to go into administration post recession that during a recession due to overtrading."

If OMBs have low expectations about their ability to raise bank funding, Debbie Clarke suggests that negative press reports may be partly to blame, as well as bad past experiences. However, she believes funding is available for OMBs with a sound business and a well-explained funding need. Businesses need to be sure they only go to the bank asking for funding which the business can afford to payback on its current performance, not on hypothetical future forecasts. "The key is to match the right funding to the requirements of each business," she says. "For example, rather

than seeking to increase a mortgage or agree a senior debt facility, trade finance may be more appropriate. We encourage OMBs to look at the whole of their trade cycle, from the moment they start production or plan a service provision to the minute they get cash in from the client. Then look to see where the cashflow pinch-points are – that's what you need to fund and there will be funding products to help you."

Our special thanks are due in particular to the following business leaders who were interviewed for this report:

- Erica Adams, Operations Director, Phabrix
- Guy Barker, Commercial Director and Dean Braybrook, Construction Director, JL Knight Roadworks
- Paul Corbett, Managing Director, Countrywide Waste Management
- Stuart Holmes, CEO, PSCo
- Andrew Pirrie, Director, Swann Group and Clearvision International
- Ian Rolinson, Director, Erodex

Conclusion: Stability please

This year's survey contains a lot of good news for OMBs and policymakers. OMBs are relatively bullish about their prospects, but they also give a clear message to those in power – a stable economy and tax regime is important to maintain OMB confidence and growth.

It is impossible to ignore the shadow cast by the coming General Election. OMBs are unsettled by the uncertainty of the outcome and future government policies. We leave the last word to Paul Corbett, Managing Director of Countrywide Waste Management, who captures the concerns of many OMBs.

“All the political parties are in danger of dabbling – nicking a quid from here to put there to keep voters marginally happy,” he says. “There doesn't seem to be a clear strategy for injecting life into the economy. We need a clear long-term fiscal policy set out so we know where we are going and that we are not going to have a big shock next year or the year after.”

We hope the politicians listen.

10 tips for OMB success in 2015

- 1** Make sure you **make maximum use of current tax incentives**, as appropriate to your business and its lifecycle, before the General Election.
- 2** If skills shortages are driving up salaries and putting margins under pressure, **consider alternative remuneration approaches** including profit-related pay and share option schemes.
- 3** **Look out for opportunistic acquisitions** that could eliminate a competitor, bring in complementary products or services, or give you access to skilled personnel.
- 4** When seeking bank funding, **ask for what you really need**, prepare a clear business case and negotiate.
- 5** **Analyse your whole trade cycle** to identify any cash pinchpoints, then look for a finance product to match.
- 6** **Make sure current IT systems and processes are working** as efficiently and effectively as possible so that higher paid staff can focus on value-adding and revenue-generating work.
- 7** **Maximise sales from existing customers** by enhancing existing products and services or offering complementary new ones – and make sure you really understand your customers' needs.
- 8** **Innovate to stay ahead of the competition** – continuing to spend on research and development (perhaps funded through grants and tax credits), delivering services in new ways or increasing your staff training budget to enhance in-house skills.
- 9** **Get maximum advice and support when planning** to increase overseas sales – in particular, make good use of the government's UK Trade & Investment services.
- 10** **Plan well ahead of any desired exit** from your business, particularly in relation to developing your management team: the business needs to be able to run successfully without you.

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