

Finding growth in a challenging economic climate

A survey of owner managed businesses from the Association of Practising Accountants

Date launched: May

Date closed: July

Total responses: 512

Introduction

Owner managed businesses form the backbone of the UK economy accounting for the vast majority of all businesses by number. This research captures a representative sample of their aspirations and concerns. What is clear is that this critical economic sector is continuing to struggle. Uncertain trading conditions, wage inflation, labour shortages as well as increased labour and supply-chain costs are preventing the capital investment that is needed for growth.

While there was widespread disillusionment with the previous Government's support for business with 83% of respondents rating it as poor or very poor only 30% of respondents believe the incoming Labour Government can improve things.

What follows is a call to action for the new Administration. Owner managed businesses need to be given the structured support they need to drive growth. The last few years haven't proven exceptionally difficult. An incoming Government needs to understand the distinct needs of these entities and put in place the policy frameworks and light touch regulation to have them thrive.

Introduction

The Association of Practising Accountants (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 owner managed businesses with turnover up to the hundreds of millions. Our clients produce goods and services which help drive and jobs and growth across the UK and internationally. Owner managed businesses face significant challenge. This report provides a snapshot of the current landscape.

Methodology

Between May and June the Association of Practising Accountants sent out a detailed survey to owner managed businesses through its network of member firms. In total 512 clients responded to the consultation across 15 sectors and 9 regions of the UK economy.

Headline findings – uncertainty , wage inflation and labour shortages remain key challenges

- Uncertain trading conditions (38%) followed by wage inflation (17%) and labour shortages (14%) were identified as the biggest challenges facing owner managed businesses
- 82% of these businesses expect supply-chain costs to rise over the next 12 months
- 81% expect labour costs to rise
- Only 46% think they are in better shape to face these challenges than 12 months ago

Headline findings – Trust in Government is at a low ebb

- 83% of respondents rated the previous Government's support for owner managed businesses as poor or very poor
- Only 30% of respondents believed the new Administration will improve things

Headline findings – Growth and capital investment are not priorities

- Only 28% cite growth as their main priority over the next 12 months
- 65% of businesses are unlikely to make significant capital investment in the next 12 months

Headline findings – Environmental impact is a growing concern

- 35% of respondents were under pressure from their clients and customers to demonstrate their environmental impact

A snapshot of the views of owner managed businesses

The following verbatim quotes from owner managed businesses who participated in our survey provide a snapshot of the breadth of challenge facing this sector:

Messages for an incoming administration

“A combination of Brexit, immigration policy and huge regulatory and compliance burdens...makes running an SME incredibly challenging. I am not aware of any positive Government impact in the last 5 years let alone the last 12 months.”

“Uncertainty over the policies of a Labour government (is a concern).”

“We desperately need to see greater focus, competence and long-term planning and clarity from Government.”

“I think as a small business we are doing ok. But by the time we pay our own wages, income tax and VAT there is not that much profit left...The Government takes far too much off small businesses.”

A snapshot of the views of owner managed businesses

Messages for an incoming administration

“Government change is all politically driven, rather than policy driven...(and) just means us having to do more for less.”

“The Government could do more to help businesses spread the cost of the corporation tax, abolish IR35 and...(improve) HMRC response times.”

“Meaningful Trade deals are a must.”

“The lack of a coherent economic and business strategy from ALL UK political parties means fiscal and financial planning for business growth is short term and reactionary.”

The need for a better policy and regulatory infrastructure

“Business rates are a problem. We are being overcharged and the appeal process takes years...It is a big problem for businesses during tough times and needs major reform.”

“Significant increase in regulatory and compliance administration costs are now restricting growth opportunities.”

“Rapid increase in environmental reporting is a challenge particularly for small SMEs. Inflationary pressures from all sides continue to burden us. Tax is overly complex. European legislation still controls us via our export activity. HMRC are punitive rather than helpful in their approach.”

“As a B2B business our main impacts are secondary i.e. our target clients are being impacted by uncertain trading conditions and potential retraction of consumer spend and therefore they are looking to make efficiencies that could impact us.”

The need for a better policy and regulatory infrastructure

“Inflationary pressures are cooling but our overall overheads and input costs are significantly higher than 3 years ago and will not reduce to those levels.”

“Support from the banks is a major concern - poor financial support, but also branch closures.”

“The last 4 years have been the most challenging, exhausting and hardest of my 40 plus years owning and managing the business.”

The legacy of Brexit is still being felt

“Brexit is a disaster which keeps destroying SMEs.”

“Export changes post-Brexit are a significant cost and an additional administrative burden. Loss of the single market was a huge mistake.”

“Grants have all but disappeared and are now a lottery to win. Not worth the time and effort. This is a direct Brexit loss. EU grant schemes...were a tremendous help, but since losing those to Brexit, nothing of any real value has replaced them. In real terms we've lost crucial funding and growth ability adding further pressure to the credit crunch that is the reality for all SMEs right now. It's having a very seriously detrimental effect.”

“Finding the right employees is easier than 12 months ago but still very hard. Regulation is getting more challenging all the time. We need to be careful not to become a country that is over-regulated as it will stifle growth. We have had to increase our spending on support staff massively despite turnover not having increased commensurately. Brexit continues to be a nightmare - we have fewer international clients now than we did.”

“It is a challenging operating environment. Brexit has not been good for business or recruitment. Inflation and related movements in the cost of finance make it difficult to preserve profit margins.”

Sector specific challenges

“Businesses operating in the visitor economy sector are subject to numerous external challenges that are contributing to cost and eroding margins. Consumers seem to be spending less per head which is creating additional pressure. Trying to grow and invest in a new business at this time is very difficult indeed.”

“In the retail sector, sales are declining but staffing costs have risen 20% over 2 years. This is totally unsustainable.”

“We are a logistics-based business involved heavily in supply chains, our biggest challenges are rising costs and reduced sales volumes driven mainly by a sub-par economy.”

“Tax generally in the UK is too high at 25% for small businesses and increasing regulation of the private rental sector shows an ignorance of the industry : we are not all slum landlords ... regulate the property itself not the market.”

“Government support for agriculture is not fit for purpose and I can’t trust governments anymore even more so if Labour gets in.”

“If the past year is climate change and a taste of things to come farming will face the biggest challenge it has ever seen.”

Conclusions and recommendations for policy makers

The incoming Labour Government needs to demonstrate it understands the needs of owner managed business and is prepared to act. In particular there is a need to:

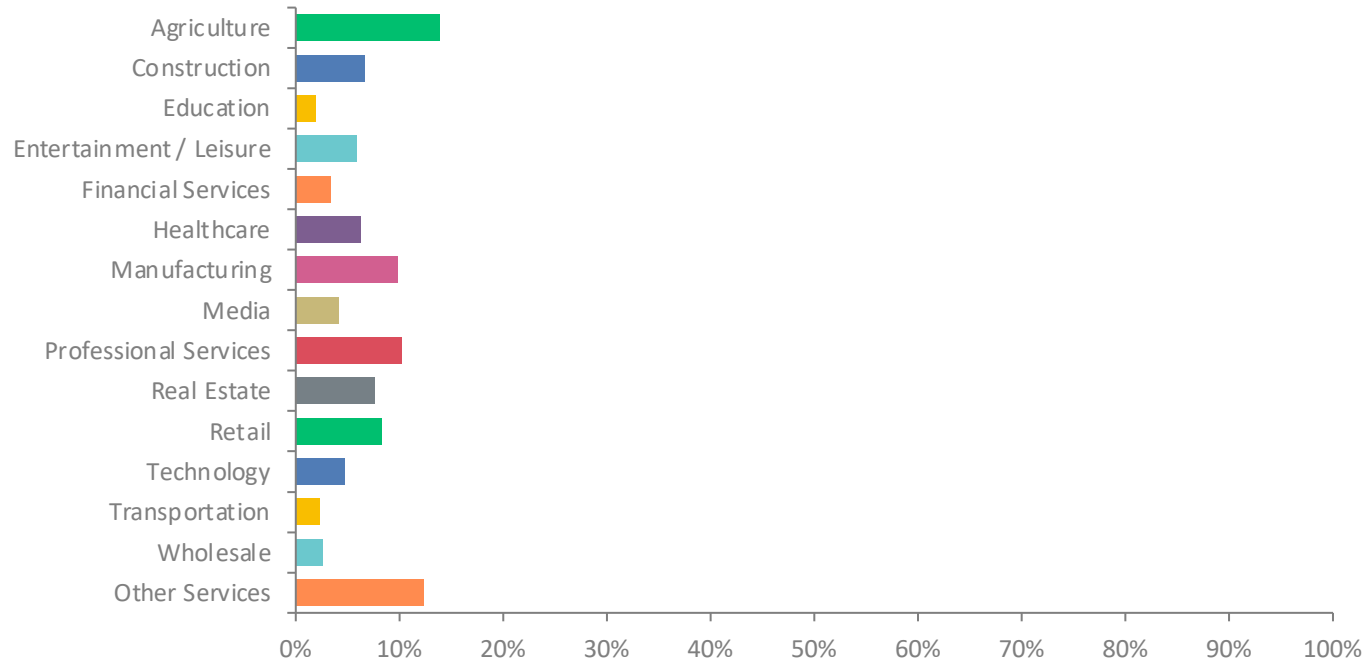
- Identify a series of short-term, stop gap measures to reduce the immediate challenges facing SMEs including revisiting rises in corporation tax, addressing labour shortages with more flexible migrant policies, incentivising capital investment and being seen to champion the SME sector more broadly.
- 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.
- 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 which recognises the many challenges facing owner managers and which prioritise the sustainable growth of this sector.

The APA is committed to working with Government and policy makers to build a regulatory and economic climate that enables these entities to thrive. We will continue to monitor the landscape for owner managed businesses and exercise a strong sector voice on their behalf.

Detailed findings

Q1: How would you classify your business by sector?

Answered: 510 Skipped: 2



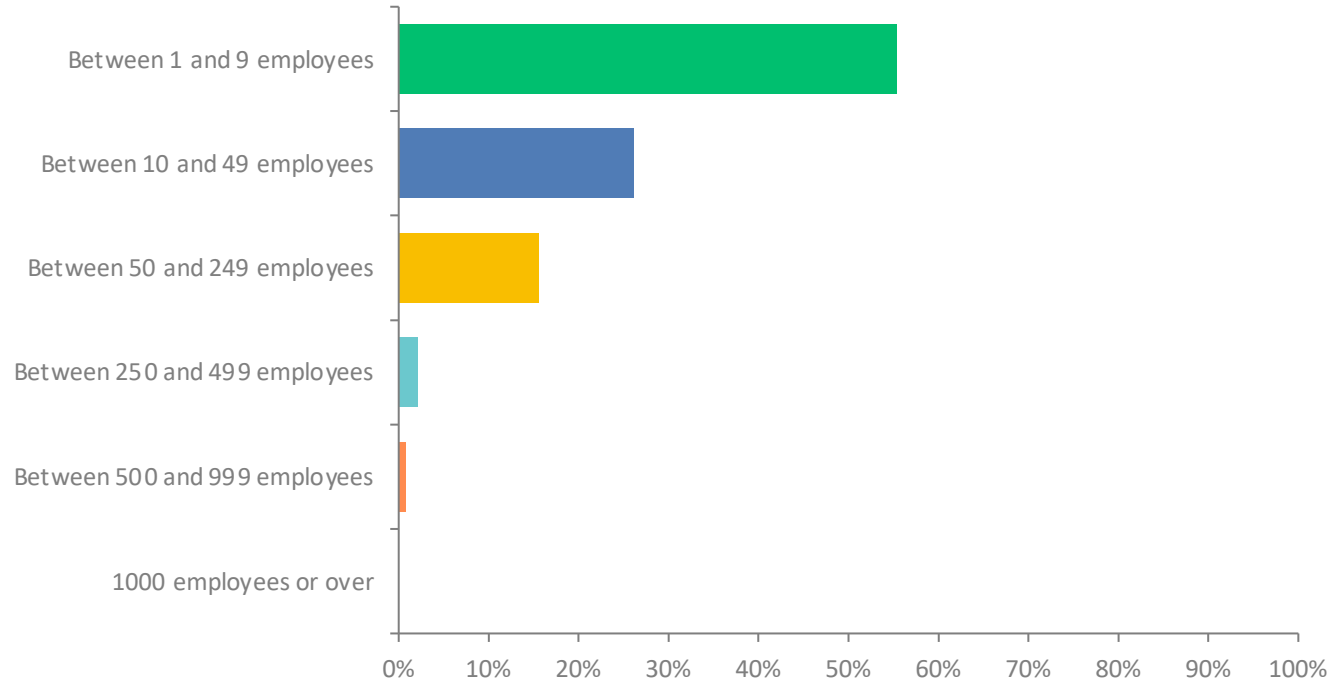
Q1: How would you classify your business by sector?

Answered: 510 Skipped: 2

ANSWER CHOICES	RESPONSES	
Agriculture	13.92%	71
Construction	6.67%	34
Education	1.96%	10
Entertainment / Leisure	5.88%	30
Financial Services	3.33%	17
Healthcare	6.27%	32
Manufacturing	9.80%	50
Media	4.12%	21
Professional Services	10.20%	52
Real Estate	7.65%	39
Retail	8.24%	42
Technology	4.71%	24
Transportation	2.35%	12
Wholesale	2.55%	13
Other Services	12.35%	63
TOTAL		510

Q2: What size is your business?

Answered: 508 Skipped: 4



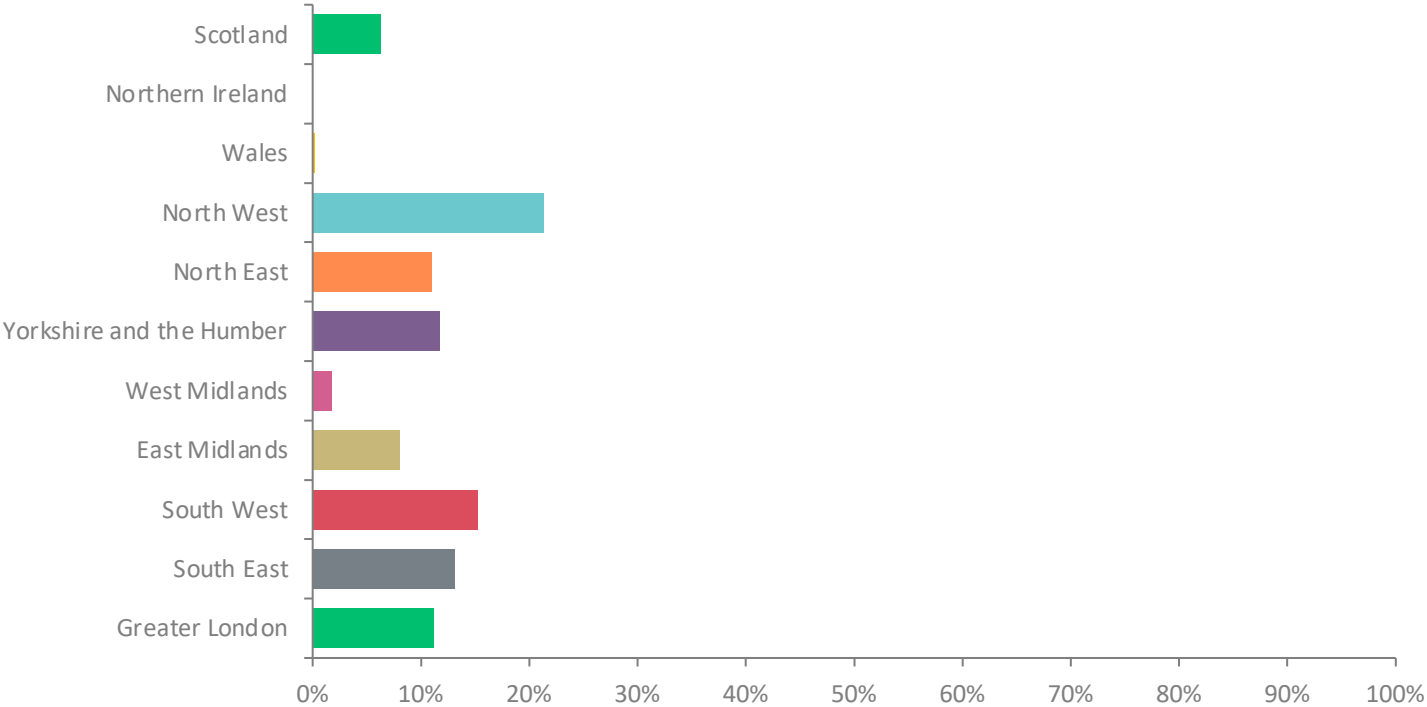
Q2: What size is your business?

Answered: 508 Skipped: 4

ANSWER CHOICES	RESPONSES	
Between 1 and 9 employees	55.31%	281
Between 10 and 49 employees	26.18%	133
Between 50 and 249 employees	15.55%	79
Between 250 and 499 employees	2.17%	11
Between 500 and 999 employees	0.79%	4
1000 employees or over	0%	0
TOTAL		508

Q3: In which region of the UK are you headquartered?

Answered: 510 Skipped: 2



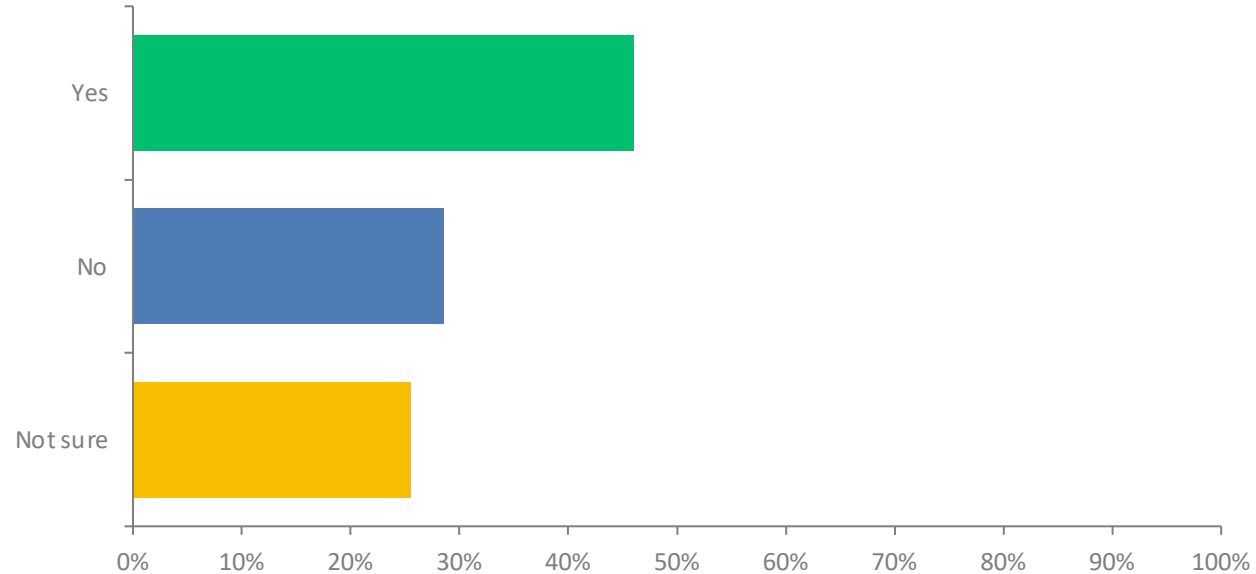
Q3: In which region of the UK are you headquartered?

Answered: 510 Skipped: 2

ANSWER CHOICES	RESPONSES	
Scotland	6.27%	32
Northern Ireland	0%	0
Wales	0.20%	1
North West	21.37%	109
North East	10.98%	56
Yorkshire and the Humber	11.76%	60
West Midlands	1.76%	9
East Midlands	8.04%	41
South West	15.29%	78
South East	13.14%	67
Greater London	11.18%	57
TOTAL		510

Q4: Do you feel your business is fundamentally in better shape for the challenges of the future now compared to 12 months ago?

Answered: 509 Skipped: 3



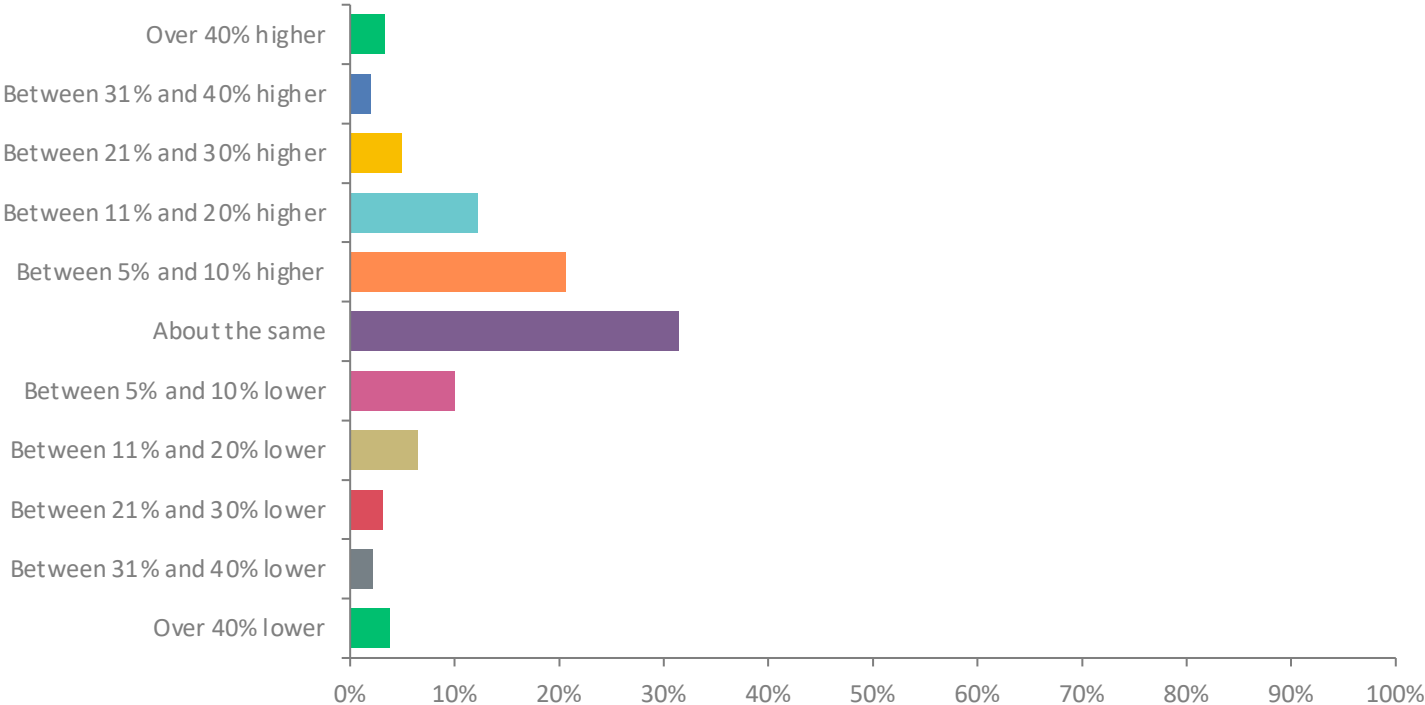
Q4: Do you feel your business is fundamentally in better shape for the challenges of the future now compared to 12 months ago?

Answered: 509 Skipped: 3

ANSWER CHOICES	RESPONSES	
Yes	45.97%	234
No	28.49%	145
Not sure	25.54%	130
TOTAL		509

Q5: What do you anticipate your turnover to be in 2024 relative to last year?

Answered: 509 Skipped: 3



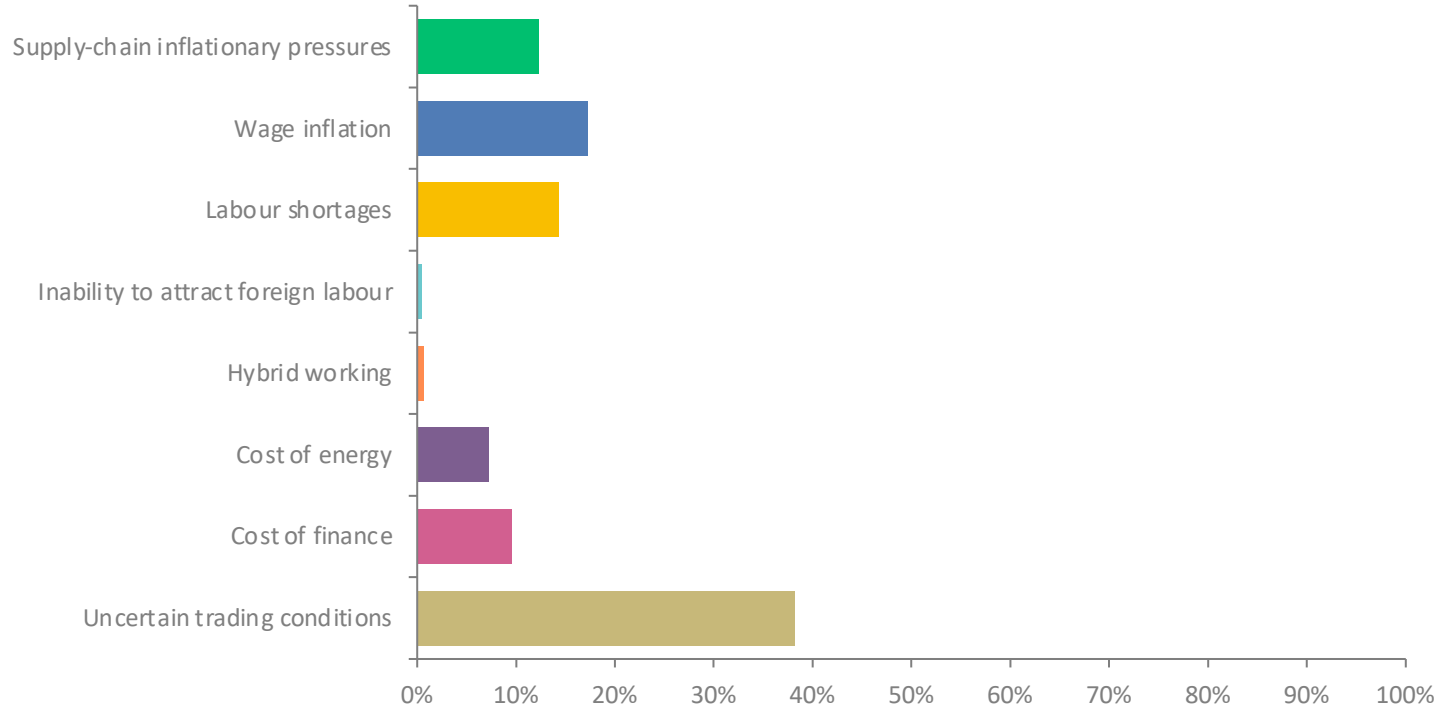
Q5: What do you anticipate your turnover to be in 2024 relative to last year?

Answered: 509 Skipped: 3

ANSWER CHOICES	RESPONSES	
Over 40% higher	3.34%	17
Between 31% and 40% higher	1.96%	10
Between 21% and 30% higher	4.91%	25
Between 11% and 20% higher	12.18%	62
Between 5% and 10% higher	20.63%	105
About the same	31.43%	160
Between 5% and 10% lower	10.02%	51
Between 11% and 20% lower	6.48%	33
Between 21% and 30% lower	3.14%	16
Between 31% and 40% lower	2.16%	11
Over 40% lower	3.73%	19
TOTAL		509

Q6: What is the biggest challenge you face in the current economic climate?

Answered: 440 Skipped: 72



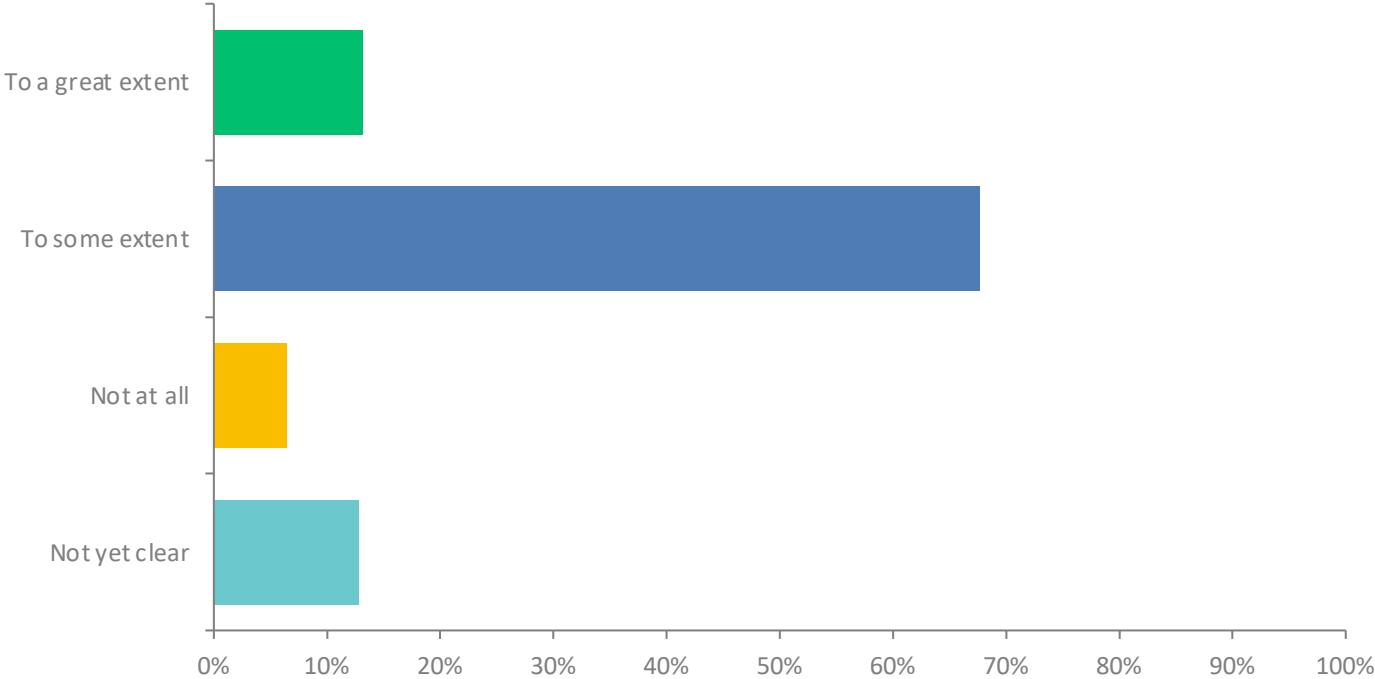
Q6: What is the biggest challenge you face in the current economic climate?

Answered: 440 Skipped: 72

ANSWER CHOICES	RESPONSES	
Supply-chain inflationary pressures	12.27%	54
Wage inflation	17.27%	76
Labour shortages	14.32%	63
Inability to attract foreign labour	0.45%	2
Hybrid working	0.68%	3
Cost of energy	7.27%	32
Cost of finance	9.55%	42
Uncertain trading conditions	38.18%	168
TOTAL		440

Q7: Do you anticipate that labour costs will rise in the next 12 months?

Answered: 510 Skipped: 2



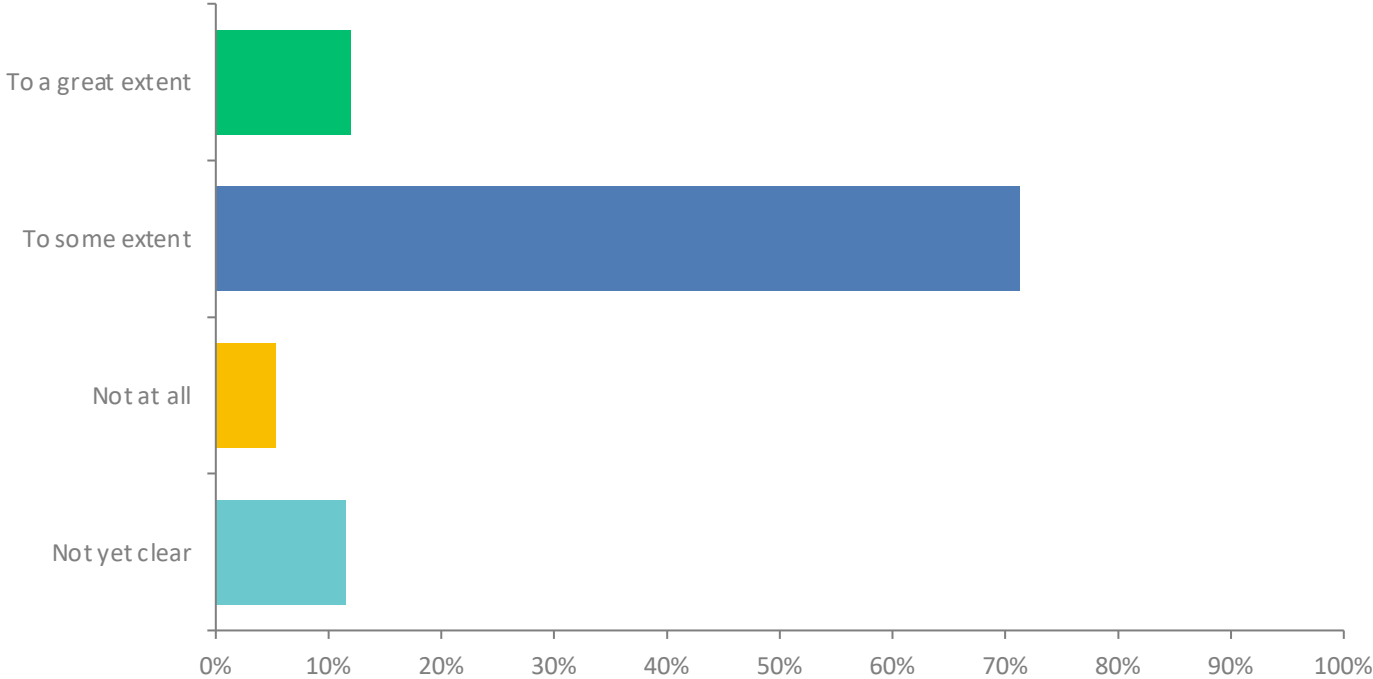
Q7: Do you anticipate that labour costs will rise in the next 12 months?

Answered: 510 Skipped: 2

ANSWER CHOICES	RESPONSES	
To a great extent	13.14%	67
To some extent	67.65%	345
Not at all	6.47%	33
Not yet clear	12.75%	65
TOTAL		510

Q8: Do you anticipate supply-chain costs will rise in the next 12 months?

Answered: 511 Skipped: 1



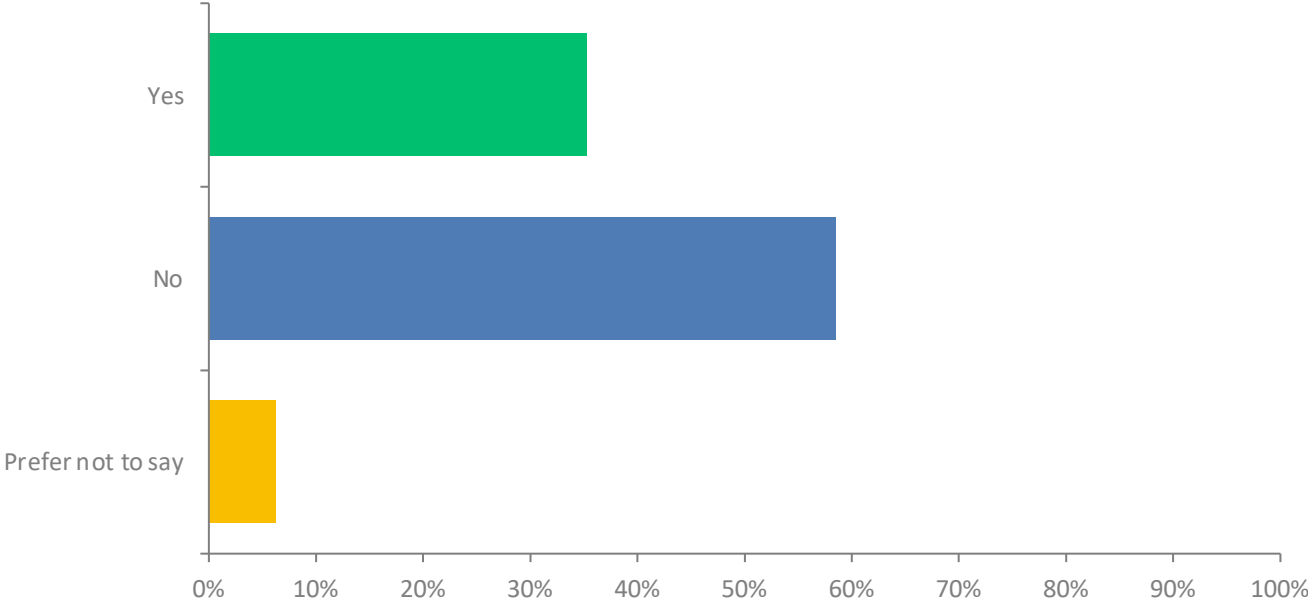
Q8: Do you anticipate supply-chain costs will rise in the next 12 months?

Answered: 511 Skipped: 1

ANSWER CHOICES	RESPONSES	
To a great extent	11.94%	61
To some extent	71.23%	364
Not at all	5.28%	27
Not yet clear	11.55%	59
TOTAL		511

Q9: Are your customers or clients requesting that you can demonstrate your environmental impact as a business?

Answered: 511 Skipped: 1



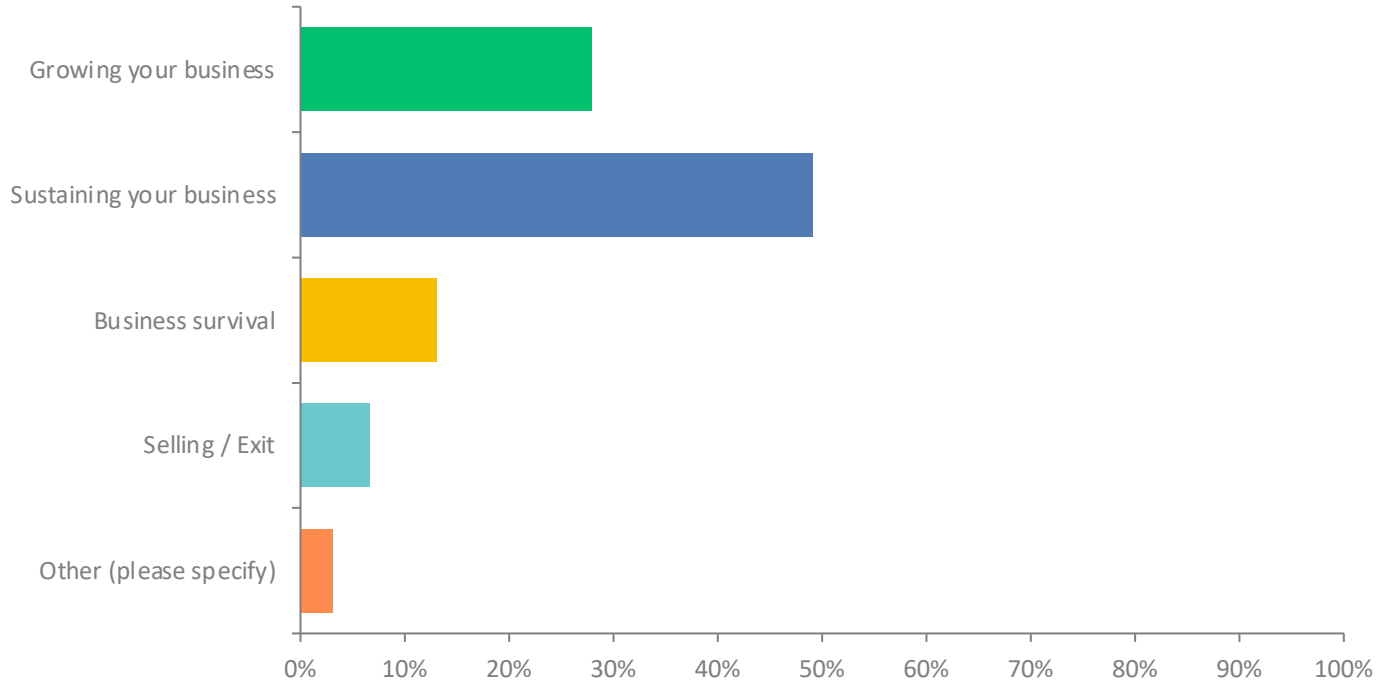
Q9: Are your customers or clients requesting that you can demonstrate your environmental impact as a business?

Answered: 511 Skipped: 1

ANSWER CHOICES	RESPONSES	
Yes	35.23%	180
No	58.51%	299
Prefer not to say	6.26%	32
TOTAL		511

Q10: What is likely to be your main priority over the next 3-6 months?

Answered: 511 Skipped: 1



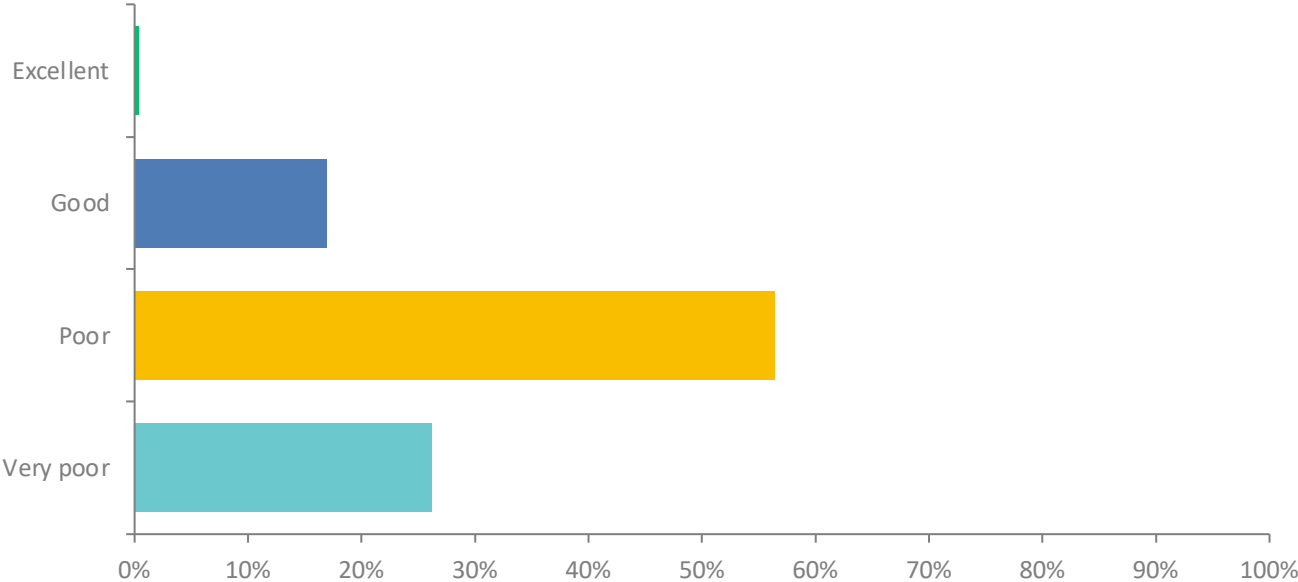
Q10: What is likely to be your main priority over the next 3-6 months?

Answered: 511 Skipped: 1

ANSWER CHOICES	RESPONSES	
Growing your business	27.98%	143
Sustaining your business	49.12%	251
Business survival	13.11%	67
Selling / Exit	6.65%	34
Other (please specify)	3.13%	16
TOTAL		511

Q11: How would you rate current government support to the owner managed sector?

Answered: 507 Skipped: 5



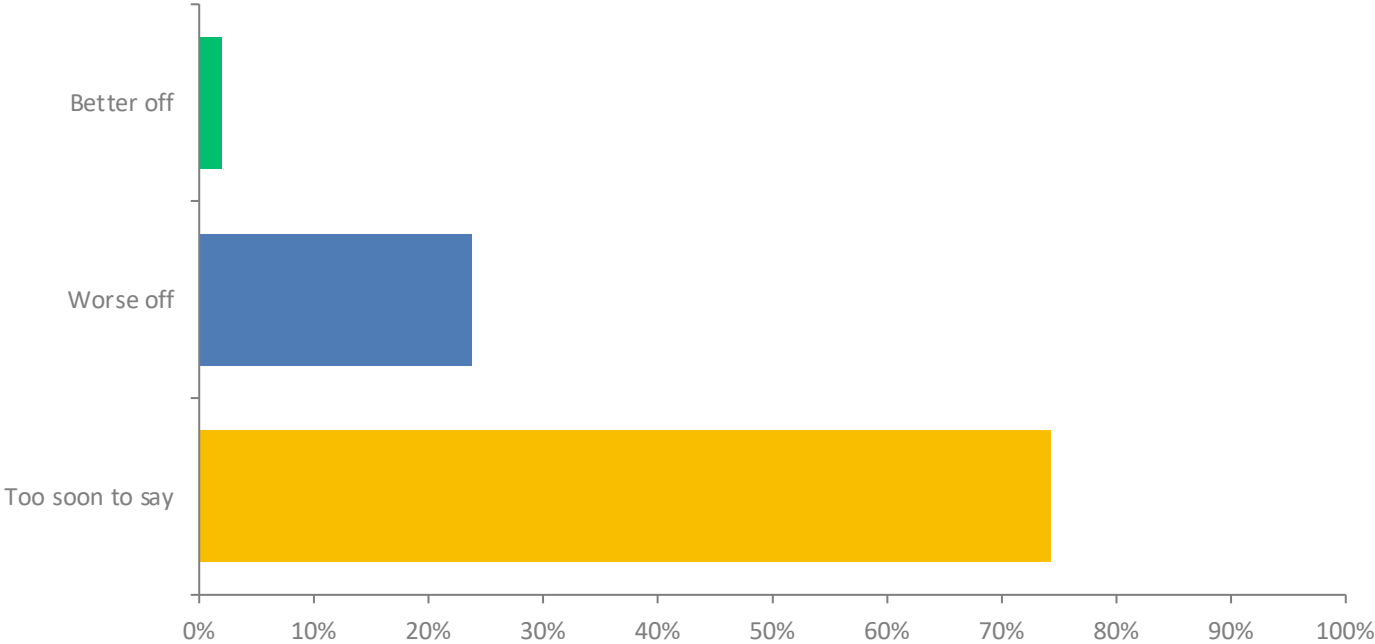
Q11: How would you rate current government support to the owner managed sector?

Answered: 507 Skipped: 5

ANSWER CHOICES	RESPONSES	
Excellent	0.39%	2
Good	16.96%	86
Poor	56.41%	286
Very poor	26.23%	133
TOTAL		507

Q12: Is your business better or worse off following the Spring Budget?

Answered: 509 Skipped: 3



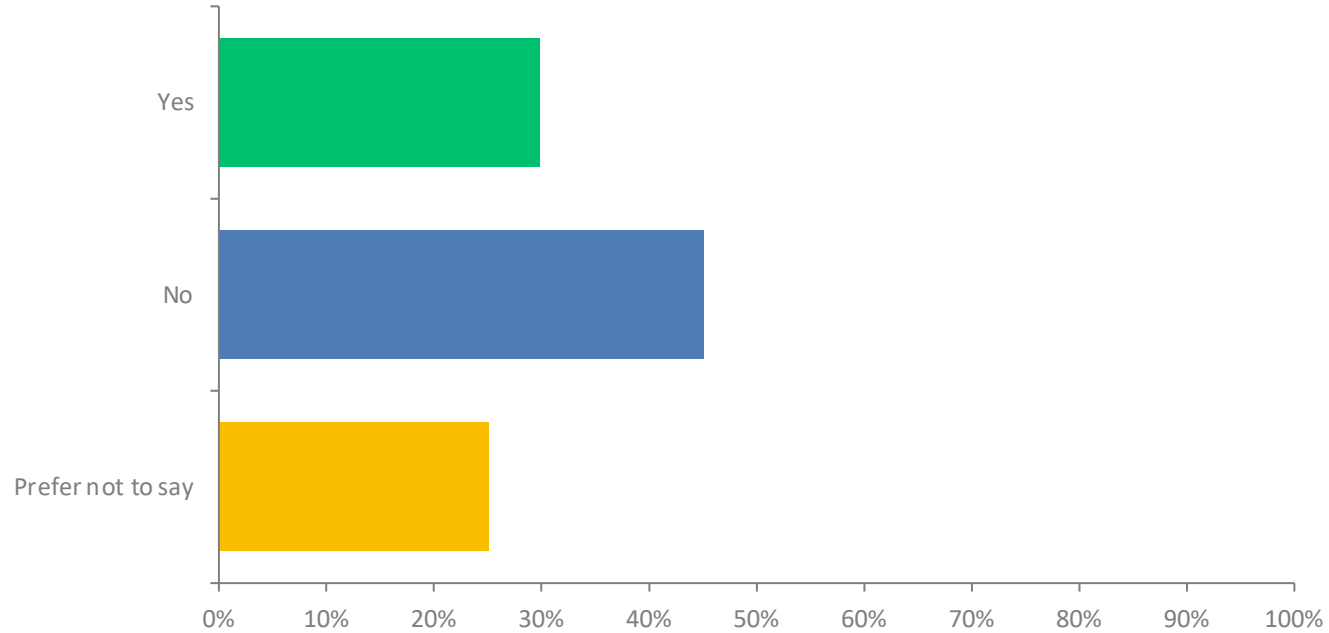
Q12: Is your business better or worse off following the Spring Budget?

Answered: 509 Skipped: 3

ANSWER CHOICES	RESPONSES	
Better off	1.96%	10
Worse off	23.77%	121
Too soon to say	74.26%	378
TOTAL		509

Q13: Do you believe a change of Government would be good for business?

Answered: 510 Skipped: 2



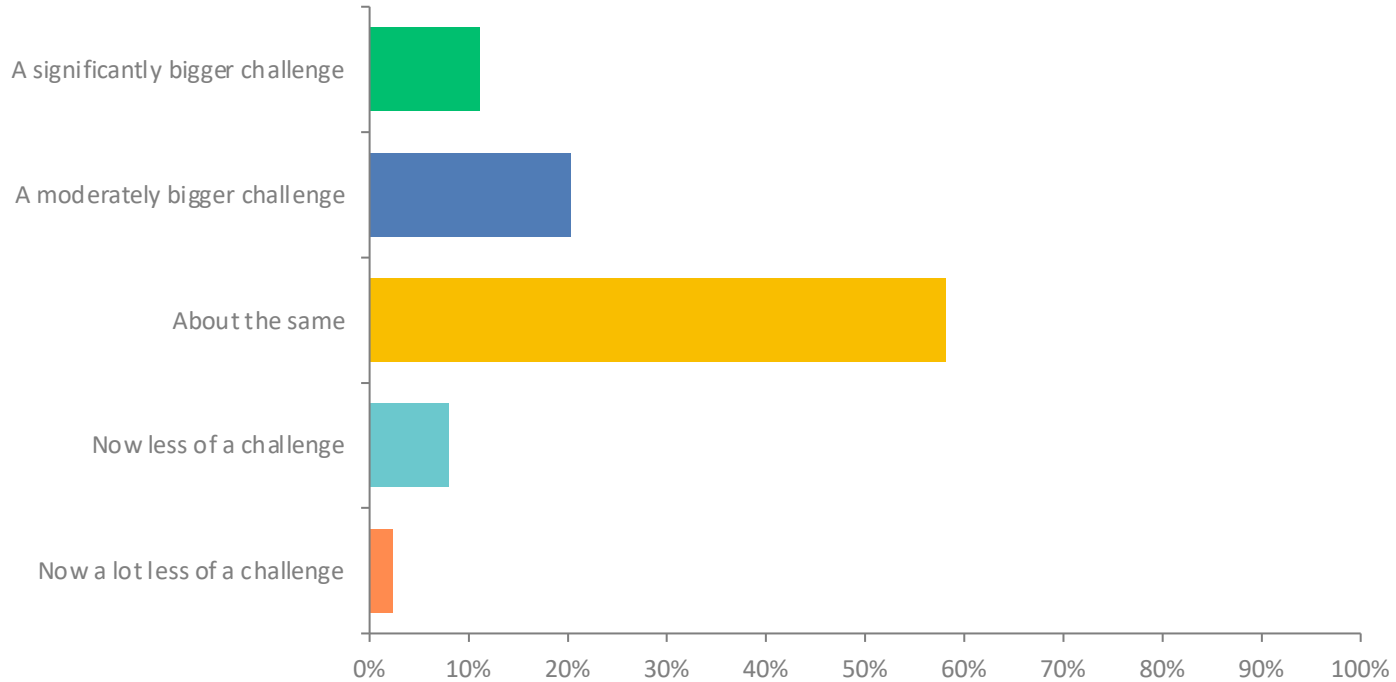
Q13: Do you believe a change of Government would be good for business?

Answered: 510 Skipped: 2

ANSWER CHOICES	RESPONSES	
Yes	29.80%	152
No	45.10%	230
Prefer not to say	25.10%	128
TOTAL		510

Q14: How big a challenge is staff recruitment and retention compared to 12 months ago?

Answered: 502 Skipped: 10



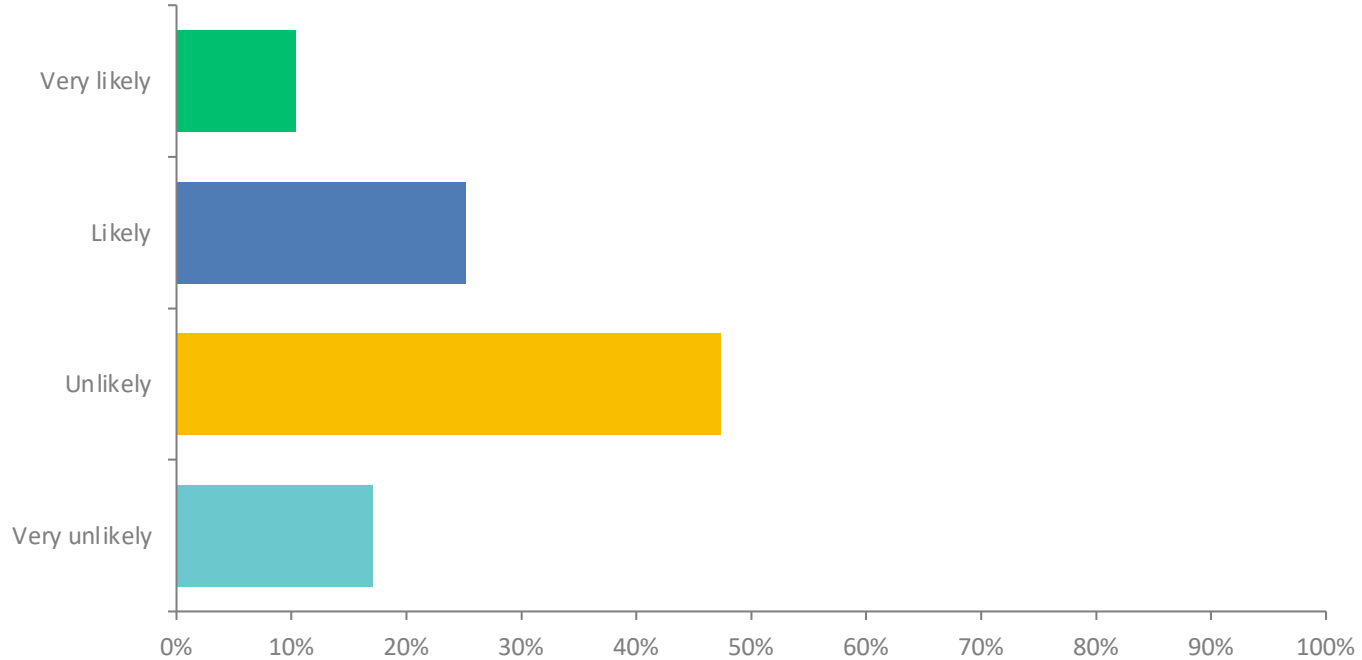
Q14: How big a challenge is staff recruitment and retention compared to 12 months ago?

Answered: 502 Skipped: 10

ANSWER CHOICES	RESPONSES	
A significantly bigger challenge	11.16%	56
A moderately bigger challenge	20.32%	102
About the same	58.17%	292
Now less of a challenge	7.97%	40
Now a lot less of a challenge	2.39%	12
TOTAL		502

Q15: How likely are you to make significant capital investment in your business over the next 12 months?

Answered: 509 Skipped: 3



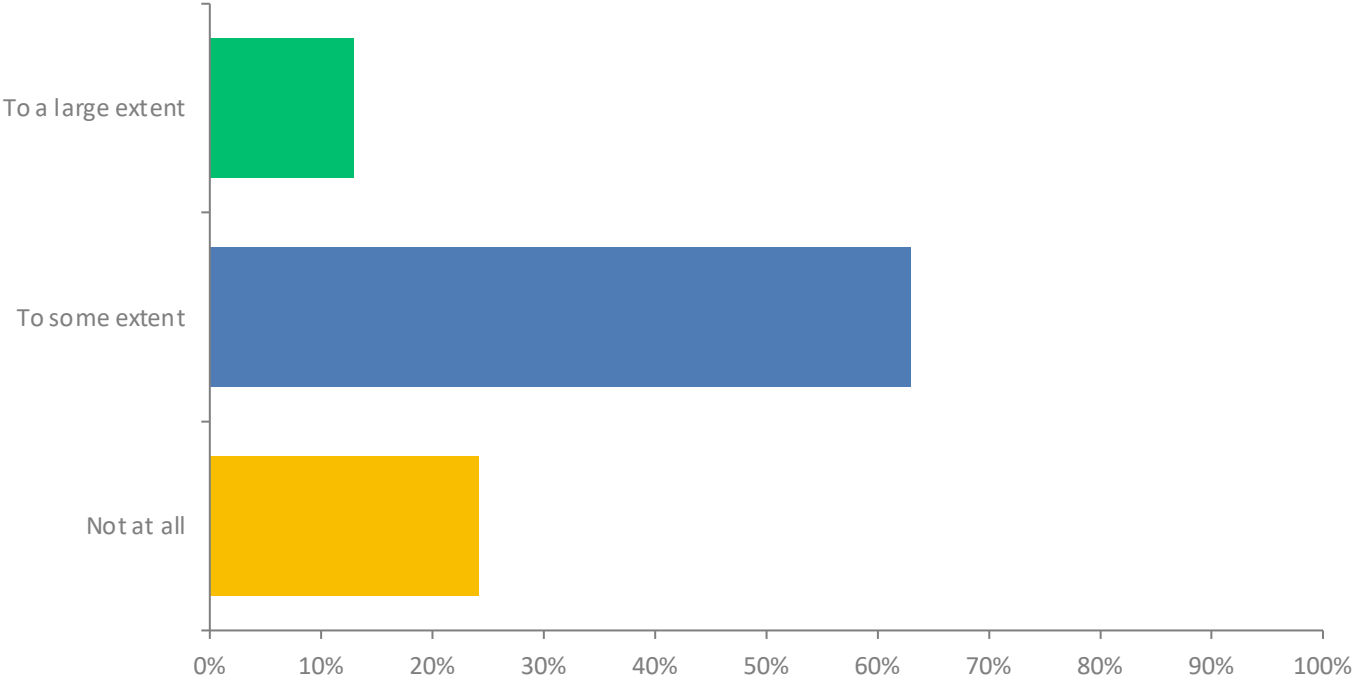
Q15: How likely are you to make significant capital investment in your business over the next 12 months?

Answered: 509 Skipped: 3

ANSWER CHOICES	RESPONSES	
Very likely	10.41%	53
Likely	25.15%	128
Unlikely	47.35%	241
Very unlikely	17.09%	87
TOTAL		509

Q16: To what extent do you rely on your accountant to provide you with additional business advice and support?

Answered: 510 Skipped: 2



Q16: To what extent do you rely on your accountant to provide you with additional business advice and support?

Answered: 510 Skipped: 2

ANSWER CHOICES	RESPONSES	
To a large extent	12.94%	66
To some extent	62.94%	321
Not at all	24.12%	123
TOTAL		510

