

# *A voice for private business*

## Enterprising UK survey 2011

*Britain's privately-owned  
businesses deserve to be  
recognised as a positive  
force for the economy.*

October 2011



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# Introducing the Enterprising UK survey

We are excited to announce the results of our fourth Enterprising UK survey which looks into the experiences and expectations of private businesses in the UK. After interviewing 300 private businesses over a wide range of industries and regions, this report reveals how private businesses see their markets, their competitors, their prospects and the regulatory and tax environment in which they operate. The results build on our findings from previous studies carried out in 2006, 2007 and 2009 to form a clear picture of how private businesses are developing and coping with wide-ranging economic and market changes.

It does seem that private businesses are the unsung heroes of these times. There are over 1 million in the UK, providing a vital backbone to support the economy.

The results of our survey show that private businesses in the UK are reasonably optimistic for the medium term, despite low levels of growth and uncertain economic conditions. In 2009, when we last carried out this survey, 68% of private businesses said they expected to see an improvement in the business environment within two years. This year, 82% tell us that they expect to see an improvement over the next five years.

This result might be surprising considering the changes to the economy in the past few months. However, after speaking to a number of owners about this statistic, it's clear that many are prepared for the coming uncertainty and their optimism is based on their longer term approach.

Our research shows that private businesses have learned a lot from the recession and are facing the future in the knowledge that they're stronger and better prepared. They're confident about their core competencies and have a clear strategic focus for the future. And above all, they're prepared to be brave and flexible in their ambition to meet the needs of their customers and clients.

The strongest message to emerge from the research is that private businesses are watching their customers closely and are learning from them. They're ready and able to explore the new markets and opportunities that their customers are beginning to access. They're keen to grow, nationally and internationally, and are mostly in an excellent position to do so, with strong balance sheets and healthy cash balances.

Having said this, it's been a difficult couple of years and some sectors and regions of the country are still struggling with difficult trading conditions. But those that have come through so far are strong, healthy and ambitious. Private businesses have become smarter about how they run their businesses, smarter about strategy and smarter about how they exploit new technologies and communication channels. This is what being an entrepreneurial business is all about. They're enterprising in every sense of the word, and that will continue to be of huge benefit to UK Plc.

We hope that this year's survey will prove interesting reading for private companies, the Government and other stakeholders.

**Ruby Parmar**

Head of Private Business, PwC

## Main findings

- Private businesses remain cautiously optimistic about their future prospects, with 82% expecting the business environment to improve over the next five years.
- 78% of respondents across the UK expect their revenue to increase over the coming 12 months, and 70% expect their pre-tax profits to grow.
- Private businesses are focusing on finding new ways of increasing revenue and profitability and maximising the return on their resources. They're striving for greater efficiency.
- Private businesses are increasingly willing to explore developing markets. More than one in five, who were looking at new geographical markets, were looking to expand into India and China, 18% were looking at Brazil and 15% at Russia.
- 61% of private businesses saw the growth in demand from emerging markets as an enabler for future growth.
- Over half of respondents (56%) plan to increase headcount in the next year, compared with 31% in 2009.
- 72% of companies felt they have the right people to get them where they want to be in 5 years time but feel that they don't have the right skills. And 41% think that lack of skills is a potential barrier to innovation.
- Private businesses feel that their needs are not being heard by the Government.
- 44% of respondents said they would like to see a reduction in the administrative burden they face, compared with 29% in 2009.

# Looking at the results

## Confidence and optimism survives

This year's survey is characterised by continued levels of confidence and optimism among the country's private businesses. Overall, private businesses are demonstrating a level of optimism about their future prospects that exceeds that of their larger competitors. 82% of private businesses expect to see the business environment improve over the next five years, compared with 65% in our earlier FTSE 250 survey<sup>1</sup>.

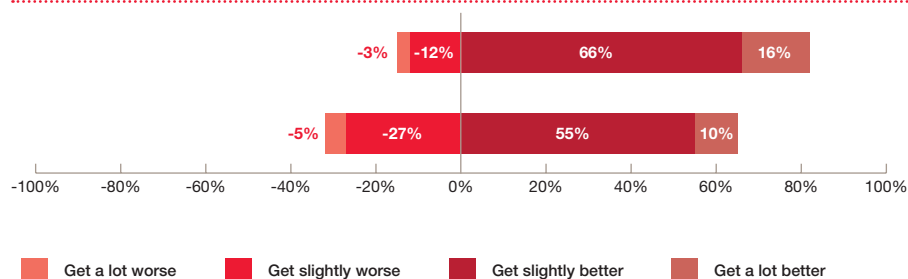
It's clear that those businesses that survived the recession feel that they're in good shape and are ambitious for the future. Of the UK respondents we asked, 78% told us that they expect their revenue to increase over the coming 12 months, and 70% expect their pre-tax profits to grow.

There are, of course, exceptions. The construction industry has been particularly badly hit during the downturn and remains the least optimistic about the future, although almost all respondents in this sector said they expected to see some growth over the next year. There are regional variations too, with private businesses based in London the most optimistic about the immediate future, followed by businesses in Wales. Confidence levels are lower in Northern Ireland and Scotland, but are still a marked improvement on two years ago.

Overall, many private businesses have moved firmly away from the survival mode that they fell into during the recession, and are preparing themselves for growth. They've emerged leaner, more efficient and better prepared to grasp the opportunities that they see ahead.

## Cautious optimism about UK growth in the long-term

82% expect a better environment vs. 65% of FTSE 250 companies



How do you expect the UK business environment to change over the next five years?  
Base: All respondents (Private businesses-300; FTSE 250-103) – March 2011

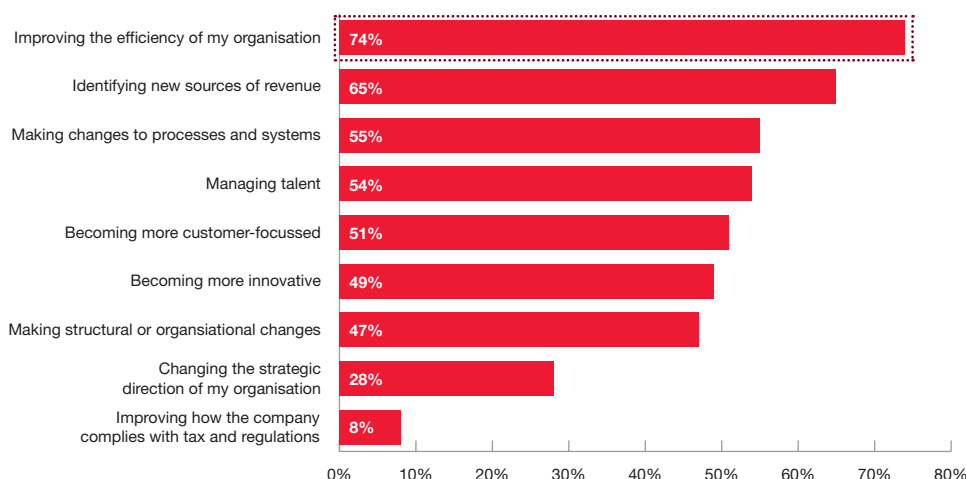
1. FTSE 250: Realising ambitions for growth, March 2011

***‘Britain’s privately-owned businesses deserve to be recognised as a positive force for the economy. As Britain looks to the private sector to provide jobs and growth, private businesses are making a massive contribution by constantly innovating, creating and benefitting their communities.’***

Ian Powell, chairman and senior partner, PwC

## Focusing on growth

### Short term: a clear focus on efficiency



What are you focusing on changing in your business over the next 12 months as you work towards your goals?  
Base: All respondents (300)

When asked about their main priority for the next year, 74% of private businesses said that they were looking to improve the efficiency of the organisation. This suggests that most have put the difficult cost-cutting decisions that had to be made during the recession behind them and are focused on maximising the return on their resources. They've emerged more streamlined and focused on their core competencies, and the majority are now turning all of their efforts on finding the best way to grow revenue and profit. The fact that strategic direction is no longer seen as a major priority suggests that private businesses are comfortable with where they are heading, and how they will get there.

Some sectors have different priorities than others. Industry and manufacturing, and the construction and engineering sectors, for example, have suffered particularly badly during the recession. Businesses in these sectors now say that their priority is finding efficiencies within the organisation. Those that have fared better, such as the business services and entertainment and media sectors, are more focused on finding new sources of revenue.

The challenge they face is finding these new areas of growth in an intensely competitive market. The research shows clearly that private businesses are brave and ambitious, and are exploring geographical and tactical boundaries in their quest for growth. But critically, this is not an unfocused search – they're being led by their customers and clients.

***‘Ambition is still alive and well in private businesses.’***

Ruby Parmar, PwC

### Smarter, resourceful growth

It's long been a matter of pride for private businesses that they're able to adapt to a changing environment and new challenges. As far as business owners are concerned, being a private business brings a sense of freedom and an ability to innovate that they willingly embrace. They believe they're able to make big strategic decisions quicker than listed companies, unhindered by a complex management hierarchy and large numbers of shareholders. The results of the research show that the UK's private businesses have emerged from the recession with healthier cash balances and so are less reliant on the uncertain availability of credit. Even so, the ability of the sector to grow is hampered by the reluctance of banks to lend.

The combined result is a private business sector that is agile and eagerly responsive to the fast-changing needs of their customers. But they are now going one step further and seeking to predict what their customers will want, and where they will be in the near future.

The private businesses we talked to during our research tend to talk in terms of innovation. When they speak of finding new ways to innovate in their business they don't necessarily mean new technology or products – they're talking about the much wider concept of exploring the strengths of the business to find new ways of increasing revenue and profitability. For private businesses, innovation is about ideas and not about assets. It's about creativity and smarter thinking.

Private businesses take pride in the fact that they take the time to really understand who their customers are and what they want. The next step, and one most are already taking, is to understand where their customers are heading and how they can be in the right place to meet their customers' changing needs.

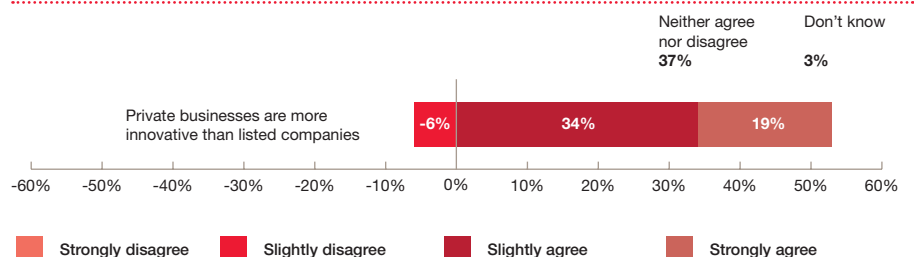
In other words, private businesses are focused on finding enterprising new ways of expanding their market share and growing their business. If that means following their customers into new and developing markets, that's a step they are more than willing to take.

***'Companies with £10m-£100m turnover represent less than 1 per cent of businesses, but generate 22 per cent of economic revenue and 16 per cent of all jobs.'***

Future champions. Unlocking growth in the UK's medium sized businesses  
Research for the CBI by McKinsey.  
October 2011

### Private businesses see themselves spearheading innovation

53% think they are more innovative than listed companies

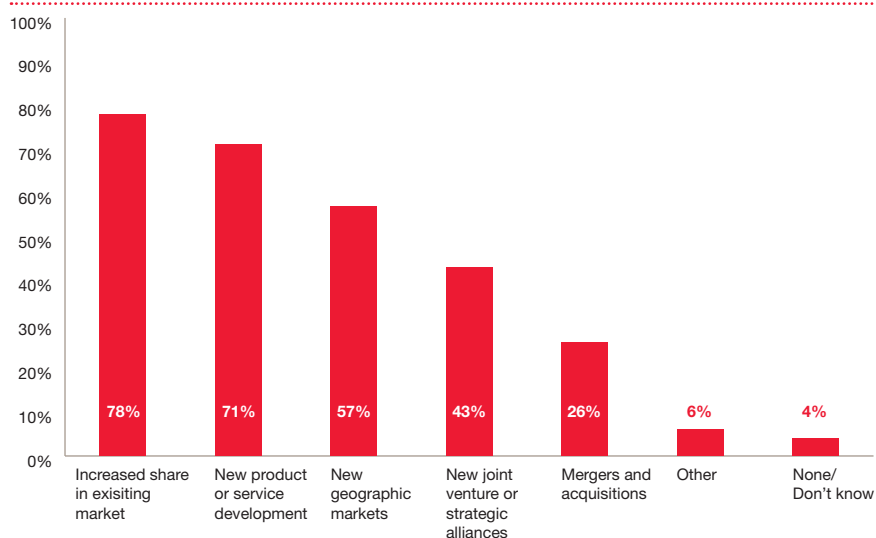


How are do you agree with the following statements?  
Base: All respondents (300)

***‘It’s partly product innovation, but we’re making sure that products are matched to lifestyles and what people really need. It’s much more about understanding peoples’ lifestyles and mentalities.’***

Survey participant

#### **People are looking at innovative new ways to increase their market share and grow their business**



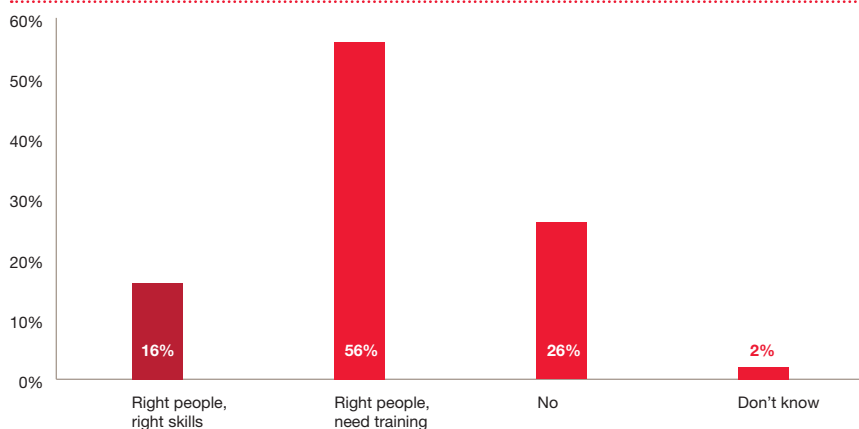
Please select the top three strategies you will use to grow your business in the next 5 years?  
Base: All respondents (300)

### ***Moving into new markets***

Our research suggests that private businesses haven't shied away from exploring new avenues and are increasingly looking for new opportunities overseas. The emerging markets of Brazil, Russia, India and China (BRIC) are of particular interest. These new markets are seen as critical to the future of UK business, in terms of accessing growing markets and cheaper suppliers, but also as a source of competition. More than one in five of the private businesses we questioned were looking to expand into India and China, 18% were looking at Brazil and 15% at Russia.

The emerging consumer class in the BRIC countries, and particularly India and China, is a major target for companies of all sizes. But it's clear that private businesses aren't afraid of competing with much larger companies for their share of the market. 62% of private businesses saw the growth in demand from emerging markets as an enabler for future growth, and 50% said they would consider sourcing from lower cost providers from abroad.

**People management: only 16% of companies have the right people with the right skills to be where they want in five years**



Thinking about where your business will be in 5 years time, do you have the right people in place?  
Base: All respondents (300)

### *The fight for talent*

With so many private businesses confident about the future and planning for growth, it's hardly surprising that more than half of participants in the survey (56%) said they planned to increase their headcount in the coming year. This represents a significant improvement from the 2009 survey, when only 31% said they planned to increase headcount.

Most of the demand for talent is likely to come from smaller private businesses, as 29% of the largest businesses, as 29% of the largest participants in the research (those with turnover of more than £200m) said they planned to decrease staff numbers over the next year. Businesses based in London (76%) and those with a highly skilled workforce (77%) are more likely to recruit new workers over the coming year.

**More than half of survey participants said they planned to increase their headcount in the coming year**

**56%**

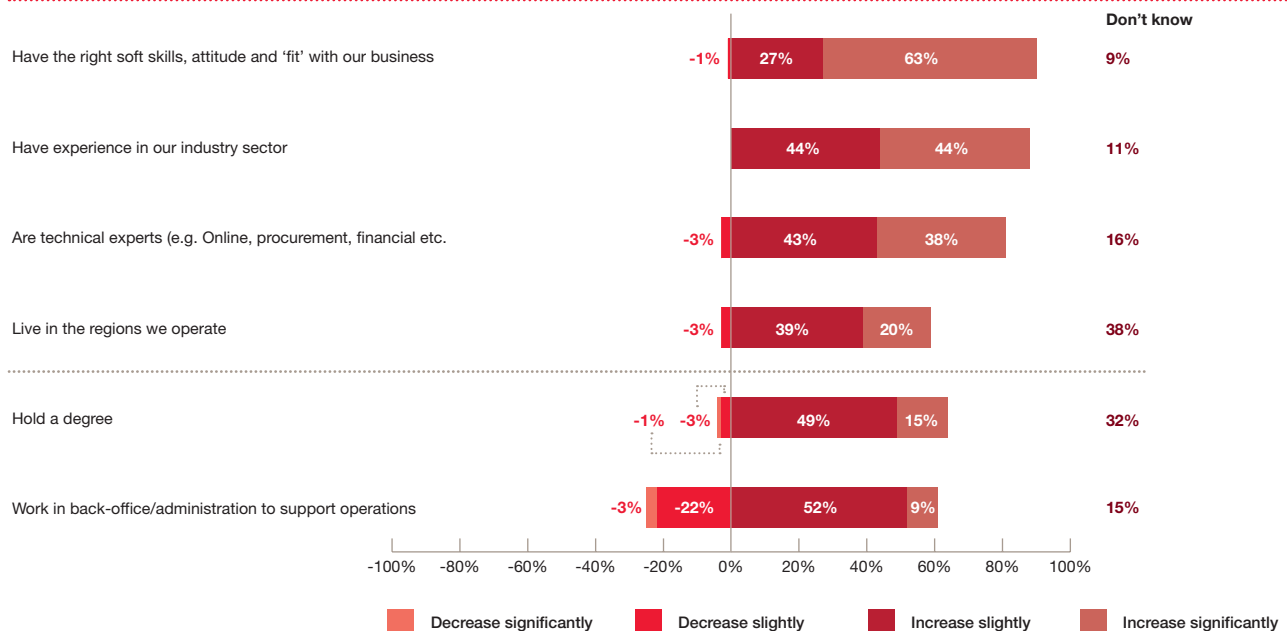
Compared to the 2009 survey, where only 31% said they planned to increase headcount

**31%**

***'The capacity to recruit and the need to increase people skills is an indication of the scale of change that private businesses expect to see over the next five years.'***

Mary Monfries, PwC

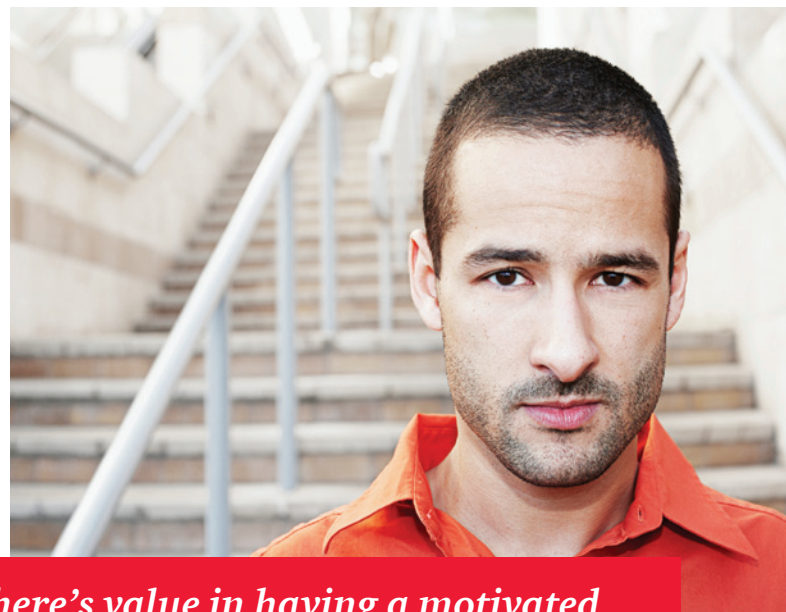
## Companies are looking for people who 'fit' with their business



If you don't have the right people in place what needs to change?  
Base: All respondents (79)

72% of businesses felt that they had the right people to help them get where they want to be in five years' time but 56% said that there is a training and skills gap. And 42% say that a lack of skills is a potential barrier to innovation. When these businesses were asked what particular skills and attributes they were looking for, 90% needed more people with the right soft skills, attitude and 'fit' with the business.

This is a strong indication of the willingness of private businesses to recruit for attitude and 'fit' with the business, and to then invest in the necessary training needed to build up their specific skills. In other words, they're looking for soft skills and for people who'll work well together as a team. Private businesses place great value on the working environment they create, and tend to foster a strong feeling of loyalty among their staff. They don't want to see this change as they grow.

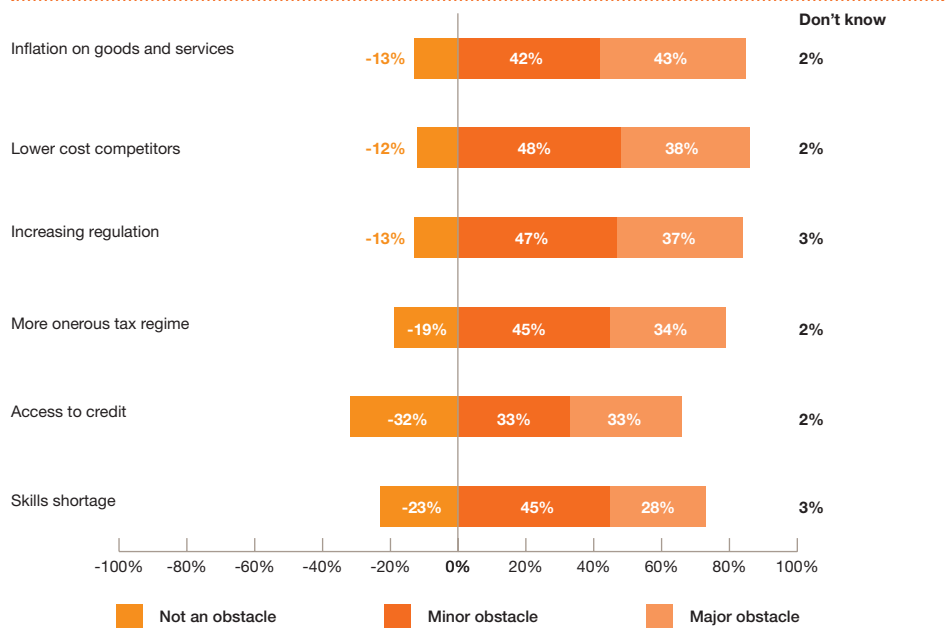


*'There's value in having a motivated workforce. We take the view that if you want people to do a good job and produce quality products, you've got to give them a quality environment and train them.'*

Survey participant

## Macroeconomic environment is key concern over next 5 years

Threat from lower cost competitors & regulatory regime also key



Which of the following issues are external obstacles to growth for your company in the next five years?  
Base: All respondents (300)

## Hurdles to overcome

While they remain optimistic about the future, private businesses face a range of internal and external hurdles that have the potential to restrict their growth. Lack of management time remains the most significant internal barrier to growth, mentioned by 62% of participants. It's a familiar complaint – that business owners have to spend too much time dealing with day-to-day problems and administration at the expense of time they would otherwise spend on making strategic plans. Private business owners sometimes describe this as working in the business, rather than on it.

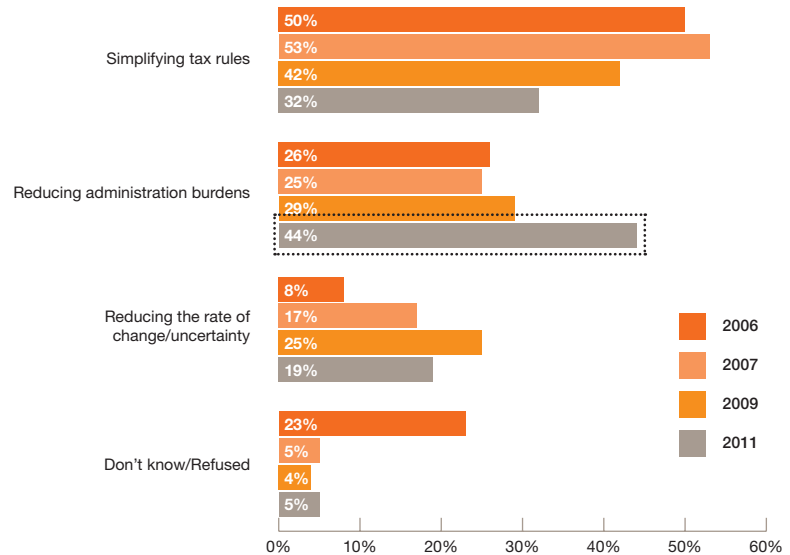
The external barriers to growth are more complex. The difficult economic conditions and ongoing concerns about the macroeconomic environment are creating some anxiety that revenue could be squeezed in the near future. Private businesses face dual pressures – from subdued demand and competition from companies with access to lower costs on one side, and higher employment costs and inflation on the other.

*'When banks aren't lending, one would suspect that family businesses need to make sure they're absolutely controlling the cash, which they tend to do anyway.'*

Survey participant



## Reducing admin burdens has become more important Simplifying tax rules reduced in importance in comparison



Business continues to be concerned about the issue of red tape and the burden of compliance in the UK. What do you think is the most useful change that the Government could introduce to reduce these issues?

Base: All respondents (2011 – 300) (2009 unweighted, 2006/2007 weighted (351-423))  
Code all that apply in 2006 therefore adds to >100%

Large listed companies face the same pressures. Over the past two years many of them have turned to their shareholders in order to raise extra finance to see them through. This, of course, is not an option for private businesses, which typically have a small number of shareholders and operate on a very different basis. Private businesses are less concerned than might be expected about accessing credit in the wake of the credit crunch – there's evidence that many have amassed enough cash on their balance sheets over recent years to fund their expansion plans without having to rely too heavily on bank lending.

This leaves private businesses in a strong competitive position. But the reluctance of banks to lend does hold serious risks for the sector because of the potential impact on companies in their supply chain. The Government agreed with the major banks that they'll lend £76bn to small to medium-sized entities (SMEs) during 2011<sup>2</sup>, but the targets set for the first quarter were missed. The lack of credit availability for smaller businesses remains a significant threat to the health of the entire private business sector.

### Giving the right support

Private businesses are tenacious with their plans for growth, but they still feel very strongly that they are doing so without any significant support from the Government. Private businesses feel they lack an effective voice at government level, and that their needs are left unheard while ministers concentrate on initiatives that are perceived as being exclusively aimed at large listed companies. They feel they need a strong voice at government level and have said this consistently over the past three Enterprising surveys.

Chancellor George Osborne acknowledged recently that entrepreneurial businesses could deliver growth 'only when we in government create an environment in which [their] business endeavour is supported, not stifled'. The Government is committed to introducing a package of measures that are specifically designed to support smaller businesses, and the survey identifies many areas where attention is needed.

### Tackling red tape

For the first time since we began this survey, the administrative burden faced by private companies is the biggest concern. Of the businesses we spoke to, 44% said that reducing red tape would be the most useful change that the Government could introduce, compared with 32% asking for simplification of the tax regime. Concerns about red tape have increased sharply in recent years – in 2006, when we first carried out this research, 26% of businesses cited red tape as their most significant concern, while 50% complained about the complexity of the tax regime.

Employment regulation remains an important worry for private businesses, with many businesses complaining that the current immigration policy prevents them from recruiting skilled workers from outside the UK. Access to home-grown talent is still an issue for private businesses and many are willing to look overseas for the right skills.

2. Bank of England, Project Merlin, February 2011

## The UK tax regime

For some time, the private business sector has had concerns about whether the UK tax regime properly supports or encourages enterprise. But over the past five years in particular these concerns have intensified. This year, 71% of respondents said the tax regime was unsupportive of enterprise, compared with 59% in 2007.

There are strong indications that many of the specific policies intended to help smaller businesses introduced by the Government over the past two years have had little impact in practice.

When asked how SME-targeted tax initiatives introduced in successive Budgets had affected their business, most said they had seen little significant effect. One exception is the increase in Entrepreneurs' relief, which was positively welcomed.

It may seem surprising that 60% of the businesses we spoke to said that the increase in the rate of tax relief for SME

research and development investment had had little effect on their business. This is particularly relevant since it's also clear from our research that private businesses see themselves as highly innovative. We believe there's a simple explanation: our population represents private businesses across a wide range of industries focused on innovation. What they mean by innovation is not new product development (although there are notable exceptions in the technology and media sector), but innovation of ideas and new ways of doing business.

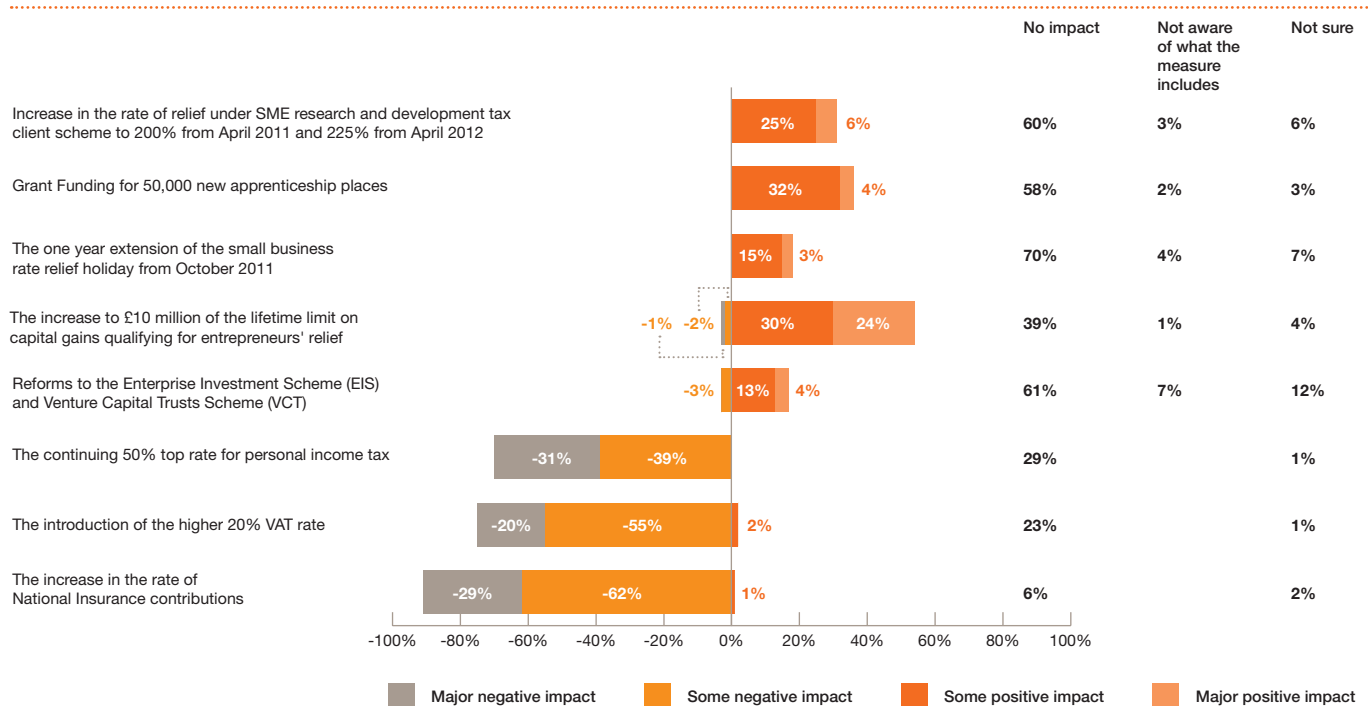
More immediate concerns include the 20% VAT rate, which is a bugbear for many private businesses, and 70% felt that continuing with the 50% top tax rate for personal income tax would have a negative effect on their business over time. The biggest concern, though, is National Insurance contributions, with 91% of respondents saying an increase in the rate had affected their business.

*'For all the input they give to the economy, private businesses feel they don't get much recognition and have very little voice.'*

Ruby Parmar, PwC

## Most think new policies will have no impact

The increase in the amount of tax will have a -ve effect



How do you think the following measures announced by Government in recent budgets will impact or are already impacting your business?  
Base: All respondents (300)



*'It's tough because making the corporate voice heard is an issue. Everything we see is geared around large businesses. Nothing really changes for us.'*

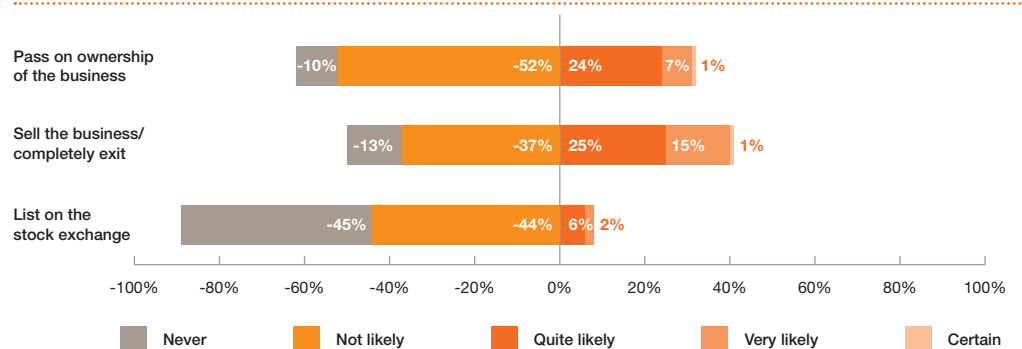
Jim Shaikh  
Managing Director, Yoomi Baby Bottles

### Happy where they are

The economic conditions of the past two years have been tough. It might be reasonable to expect some private business owners to be considering an early exit from their responsibilities. But the research suggests that most are committed to building a long-term business. Fewer than one in three said they had current plans to pass on ownership of their business in the next five years (succession), whilst 41%

could see themselves selling or exiting the business entirely in that time period. Another strong message to emerge from the research is that business owners value their independence. They like the flexibility and control that comes with private ownership and are reluctant to consider a flotation. Of those questioned, 45% said they would never consider listing on the stock exchange and a further 44% said it was not likely.

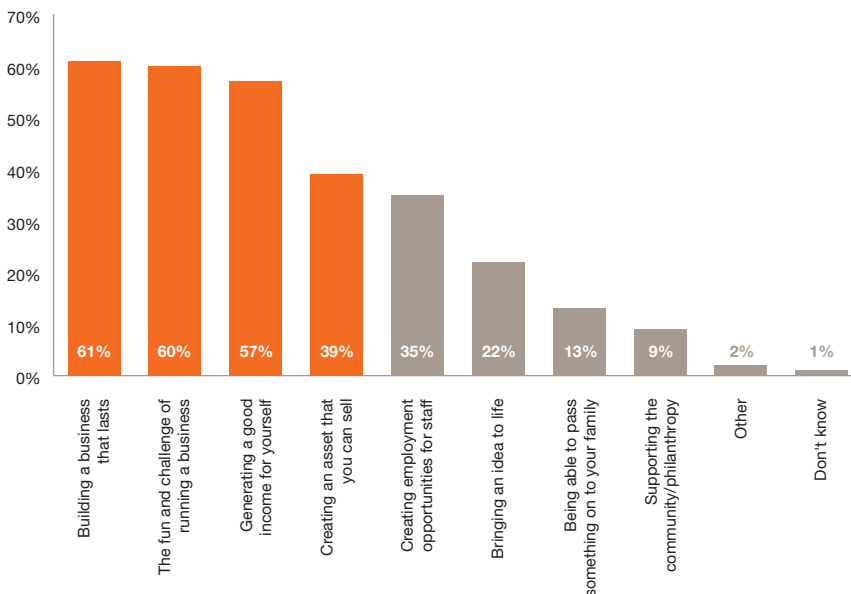
### Few see stock exchange as platform for growth 41% of businesses looking to sell



Within the next 5 years what is the likelihood that your company will?  
Base: All respondents (300)

Above all, the research reveals that most private business owners and CEOs thoroughly enjoy their work and are committed to building a business that's respected by its customers and employees, and that will leave a lasting legacy for their families and for the wider community. Private business owners say that their main motivation is to build a business that will last. Most tellingly, 60% of private business owners said that they were in it for the fun of it – and it's that enthusiasm and commitment that will continue to drive the sector to success.

#### What are the main motivations for running the business?



What are your main motivations for being involved in and helping to run your business? (Top 3)  
Base: All respondents (300)

*‘[A listing] just puts you on a treadmill of quarterly results. You’re spending as much time managing the expectations of analysts even when your business is going well.’*

Survey participant



Number of  
responses received

300

### *The outlook for private businesses*

Our fourth national Enterprising UK survey demonstrates why the country's private businesses have much to be proud of. Despite some of the most challenging economic times that many can remember, they've not only survived but have emerged from the recession stronger and with their ambitions reaching new heights.

In many ways, private businesses are in a strong position to grow. Many have taken the wise decision to increase their cash reserves, and so are protected from the worst of the credit crunch. They're focused on strategy and ready to anticipate the movements and needs of their customers, wherever that may take them. They have the ambition and the agility to grasp the opportunities that they see in their future.

Even so, it's a telling fact that many feel their success has come in spite of government support and not because of it. As a sector, private businesses

constantly struggle with an overload of distracting red tape and a taxation system that often seems to work against them. There's still much to do in helping private businesses access the support that is available to them, and improve the opportunities for the Government to hear their voice.

### *How we conducted the survey*

The research was carried out by Lighthouse between May and August 2011 and included online research of the chief decision-makers of UK-based privately-owned companies across all major sectors across England, Scotland, Wales and Northern Ireland. 300 responses were received. This research was supplemented by a series of in-depth interviews with business owners and CEOs.

37% of the participants had an annual turnover of £10m or less;  
31% between £10m and £50m;  
16% between £51m and £199m;  
and 18% of more than £200m.

A wide range of private businesses across size, sector, industry and region gives a representative perception of private business.

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