

Annual SME
Benchmarking
Report

2019/20

TAKING BACK MARKET SHARE
Get ready to compete

MENZIES
BRIGHTER THINKING

METHODOLOGY

Our SME Benchmarking initiative aims to capture how business owners at the heart of the UK's economy feel about what is going on around them and share advice on important issues.

Drawing on qualitative and quantitative research, we have commissioned a survey of 1,000 UK business owners and hosted conversations with a group of SMEs at our Business Panel Event.

The findings have been brought together in a report, to inform and guide small and medium-sized businesses as they pursue growth in uncertain times.

For advice on the business challenges and opportunities discussed in this report please speak to your usual Menzies contact or email us at advice@menzies.co.uk

FOREWORD

Things have become tougher for many small and medium-sized businesses over the past year and many are feeling the pressure.

Whilst most business owners report static or improving sales, many also feel it has become harder to make a profit. Most have a positive outlook and feel optimistic about their SME advantages, but a significant number also believe they have lost ground to larger corporates, which have the means to attract the best talent and invest in efficiency-driving technologies.

This is something they can't afford to leave unchallenged.

JULIE ADAMS
MANAGING PARTNER, MENZIES



INTRODUCTION

Instead of sitting back and waiting for ongoing economic and political uncertainty to wield yet more damage, SME business owners know they need to focus on improving cash-flow management and forecasting, whilst at the same time investing in their own competitiveness. However, with so many other pressing areas of concern, not least Brexit and its potential impact on the skills base, market demand and trading relationships, prioritising key management decisions has become much more difficult.

This report will address some key themes and provide insights to help SME business owners to take back market share in the year ahead. It will cover:

- ▶ **TRADING CONDITIONS**
- ▶ **STAYING COMPETITIVE**
- ▶ **SELLING UP OR SELLING YOUR ASSETS**
- ▶ **CHALLENGES AND THE YEAR AHEAD**

PRACTICAL ACTION PLAN

To assist them in making the right decisions, we have also produced a practical action plan showing business owners how to optimise their SME advantages by asking the right questions and seeking expert support – see page 14.

THANK YOU

Finally, a special thanks must go to our client contributors on the Business Panel, who have shared their insights openly and honestly, for the benefit of the wider SME business Community.

TRADING CONDITIONS

HEADLINE FINDINGS

**ONE
IN 3**

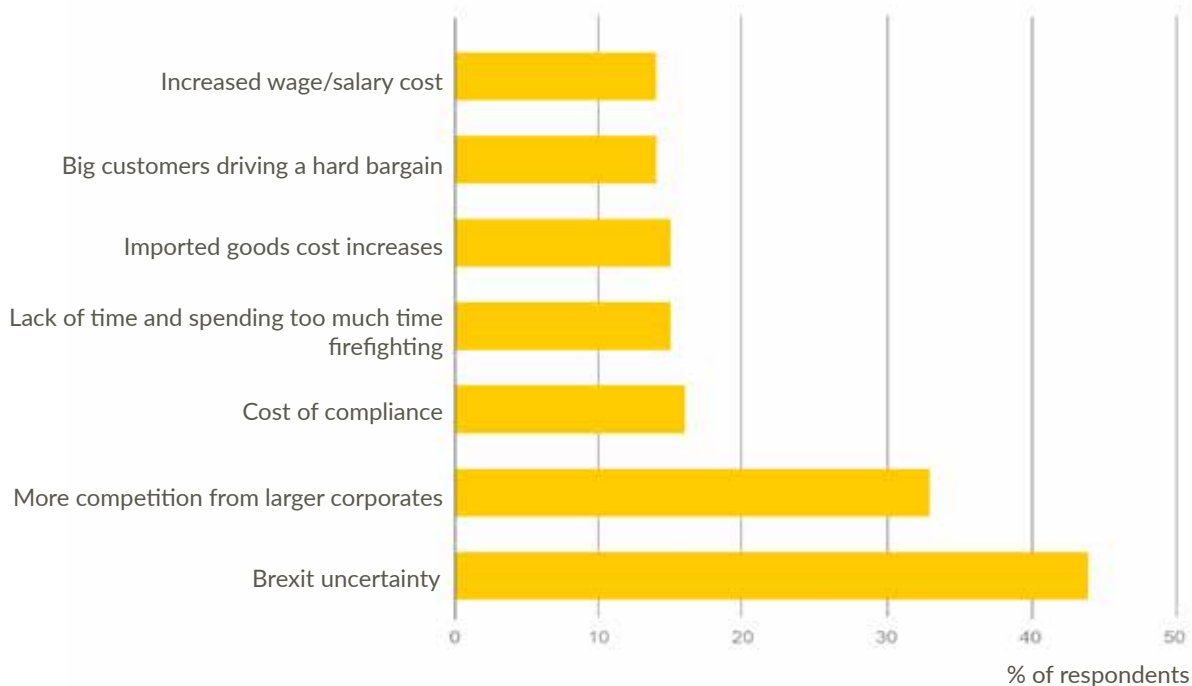
Business owners believe more competition from larger corporates is the primary cause impacting their profitability.

HAS THE MARKET BECOME MORE COMPETITIVE IN THE LAST YEAR?

46% More competitive 42% Less competitive 6% No change 6% Don't know

WHY MARKETS HAVE BECOME MORE COMPETITIVE

Asked to explain why markets had become more competitive in the past year, most SMEs blamed Brexit uncertainty (44%), more competition from large corporates (33%), cost of compliance (16%), lack of time and spending too much time firefighting (15%); imported goods cost increases (15%), big customers driving a hard bargain (14%) and increases in wage / salary costs (14%).





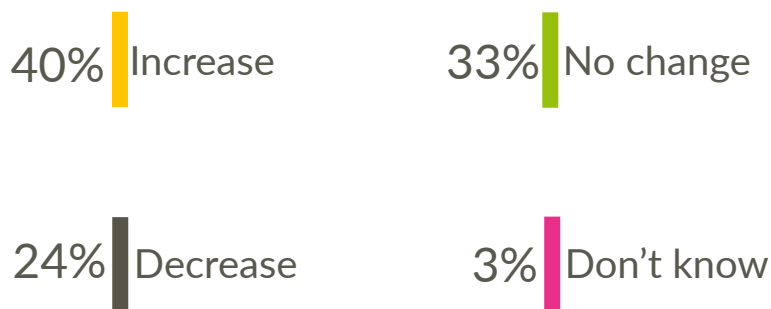
“There is a consensus that markets have become more competitive for SMEs in the past year. This is bad timing and could restrict their ability to take advantage of any post-Brexit dividend.”

JAMES HADFIELD
AUDIT PARTNER, MENZIES

Of those reporting that it had become harder to make a profit in 2018, business owners in the retail & wholesale and transport & logistics sectors said the main reason was ‘increasing corporate competition’.

Despite the pressure on profitability, 73% of business owners said sales revenues had stayed the same or increased in 2018. This is obviously positive news and could indicate that SMEs with domestic supply chains, serving UK-based customers, have to some extent managed to escape the effects of Brexit uncertainty and the need for contingency planning. However, the squeeze on profits, combined with increasing competition, suggest that trading conditions for many SMEs are worsening overall and they are in danger of losing market share.

DID SALES REVENUE INCREASE OR DECREASE IN 2018?



THE VOICE OF THE SME

NICK RUSSELL



NICK RUSSELL - FINANCE DIRECTOR, THOMASONS

"Our engineering business has experienced considerable change including that at top-level management and much greater staff participation. This has quite naturally impacted our profits, but we see this as a short-term cost, for long-term gain. Four directors have now fully retired from the business, and we have recruited new faces at director level with the right skills to take the business forward. We also took the decision to outsource specialist HR and IT support. To increase profitability, we do need to tackle ways of working. For some workers, there is an ingrained belief that quality is all that counts. This is important but combined with effective delivery and giving the client what it asked for. We need to address this through a process of culture change that empowers workers to increase productivity whilst preserving quality."

HUGH WELLS



HUGH WELLS - MANAGING DIRECTOR, AJ WELLS & SONS

"Our overall profits have increased in the past year – with some areas of the business performing better than others. As well as making and selling wood-burning stoves, we also operate a separate contracting business, supplying enamelled signage and other architecture for large infrastructure projects."

ALIA AL-DOORI



ALIA AL-DOORI - MANAGING DIRECTOR, PEARL COMMS

"Now in our second year of operation as a PR agency, we have experienced rapid growth. Whilst profits have increased, we have added to our team, which has impacted our cost base. I also passionately believe in creating a rewarding workplace that people want to join and be part of. This requires investment too and the challenge is to keep this going as the business grows."

JASON LUDLOW



JASON LUDLOW - CO-FOUNDER, BEDS ON BOARD

"Beds on Board has generated double-digit growth for the last two years; underlining the appeal of our business proposition. Our asset-backed business model is planning to invest to increase profitability and improve our operational resilience."

MARTIN REDIF



MARTIN REDIF - DIRECTOR, EXCEL APPAREL

"We are doing more business, but profits are down on where they should be. This is largely due to exchange rates and the higher cost of imported goods. In the textile industry, we are very reliant on imports - this is unavoidable."

STAYING COMPETITIVE

51
PERCENT

Just over half of business owners believe that the prolonged period of Brexit uncertainty has favoured large corporates, allowing them to gain ground.

HAS THE PROLONGED PERIOD OF BREXIT UNCERTAINTY FAVOURED LARGER CORPORATES?



Dealing with Brexit uncertainty is a bone of contention for some SME business owners. Some believe that whilst large corporates are generally more exposed to Brexit threats, due to their globalised operations, they have found it easier to access specialist advice, make contingencies and adapt their business structures. In the UK manufacturing industry, some large original equipment manufacturers (OEMs) are using the period of uncertainty to plan temporary shutdowns; allowing time to invest in staff training and upgrade systems.

"Many micro businesses believe they will be unaffected by Brexit, but other SMEs are aware that they are seriously under prepared and lack the resources to take preventative action. Brexit uncertainty has created a rift in terms of Brexit readiness and many SMEs believe they are at a disadvantage."



TIM DUNN
ADVISORY PARTNER, MENZIES

Further indication of this rift, two-fifths of business owners (37%) identified corporate competition as an 'area of concern'. Whilst most felt powerless to do anything about it, or were planning to do nothing, about one in four of those who identified it as an area of concern, cited the need to cut costs.

Despite concerns about corporate competition, the majority of business owners (62%) believe SMEs have some specific advantages over corporates, which they should capitalise on in the year ahead.

ACCORDING TO OUR SURVEY, THE TOP 5 SME ADVANTAGES ARE:



Lower overheads
such as rent/
energy costs



Quicker decision-
making ability



More nimble and
able to react to
market conditions



Less red tape



Fewer legacy
issues

OUR SME BUSINESS PANEL SAID...

“Large corporates tend to be slower moving and lack the agility of smaller businesses. However, they can be better equipped to ride out stormy conditions. They can afford to be more patient, which could make them more of a threat.”

[James Ludlow, Beds on Board](#)

“We compete very favourably alongside corporates offering the same kind of products and services. Whilst our pricing is generally on a par, we are more agile and can usually get the job started more quickly. We can also service a wider range of contracts than many larger organisations. These are our small business advantages. We also find that a lot of customers prefer to deal with owner-managed businesses because they are less amorphous. They value the knowledge, track record and owner engagement of SMEs.”

[Nick Russell, Thomasons](#)

“We face fewer Brexit risks as most of our suppliers are UK based although our exports may be affected.”

[Hugh Wells, AJ Wells & Sons](#)

“In the clothing sector, corporates haven’t been having it easy at all, as the recent turmoil affecting the High Street shows. Many of our corporate retail customers – both online-only and clicks-and-mortar operators – are experiencing intense competition and operating margins are being squeezed right across the supply chain.”

[Martin Redif, Excel Apparel](#)

“Most of our competitors are small or medium-sized PR and marketing agencies, so we haven’t experienced much in the way of direct competition from corporates in our marketplace. However, it is still an incredibly competitive industry and our way of tackling this is to make sure we are always delivering the best possible client service and top-notch results. We have also been investing in training and have introduced some software changes to streamline our admin processes.”

[Alia Al-Doori, Pearl Comms](#)

Some members of the business panel commented on their Brexit readiness:

“To guard against the impact of potential tariffs and customs delays, we have bought two months’ buffer stock, but we can’t be certain if it will be enough. We are unwilling to stockpile more as we could be left with stock we can’t sell.”

SELLING UP OR SELLING ASSETS

One in five business owners (21%) said they are 'actively considering' a complete sale of their business in the next 12 to 24 months – this figure is slightly higher among larger SMEs, with an annual turnover of over £10 million.

14%

of business owners who are thinking of selling up said corporate competition was a factor.

Business owners in the manufacturing and transport & logistics sectors are more likely than those in other sectors to be considering a sale in the next 12 to 24 months.

This interest in pursuing a potential sale could be an indication of the challenging trading conditions experienced by many businesses, which could be attracting the interest of trade buyers. However, in recent weeks, deal-making activity has slowed, and this is likely to continue into the second half of 2019.

PERCENTAGE OF RESPONDENTS CONSIDERING A COMPLETE SALE OF THEIR BUSINESS IN THE NEXT 12-24 MONTHS



21%  Yes

73%  No

6%  Don't know

“Deal activity has slowed in recent weeks with some people pointing to the inherent uncertainties and, for overseas buyers, the resulting fluctuating exchange rates. I do not expect this to change in the short term.

However, once we get clarity after Brexit, we could start to see momentum returning to the deal market, due to pent-up interest in deals, which may have stalled earlier in the year. This is likely because there is no overall shortage of funds for many corporates and Private Equity and Venture Capital funds, and it is this strong cash position that ultimately drives activity.

If businesses are planning a sale in the medium to long term, they should seek professional advice at the earliest possible opportunity to allow time for the necessary preparations. Structural changes may be required to attract potential buyers and evidence of strong financial management can help to secure the best valuation.”



MIKE GRAYER
CORPORATE FINANCE PARTNER, MENZIES

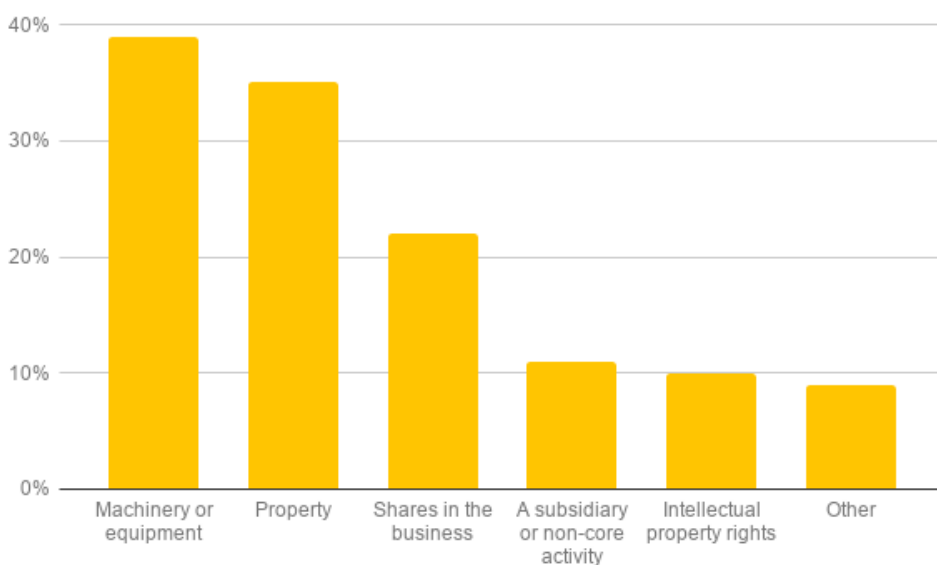
According to the research, those considering selling up are doing so for a variety of reasons. Retirement planning and a lack of succession options are cited by most. However, 14% of business owners who are considering a sale say corporate competition has impacted their decision and 12% believe their business is at the top of the market and will achieve a good value.

18 PERCENT of business owners are considering selling assets in the year ahead, indicating that they want to strengthen their cash position, potentially due to financial distress. Manufacturers and property & construction businesses are more likely than those in other sectors to be considering this option.

The corporate assets most likely to be disposed of in the year ahead are:



WHAT ASSET ARE YOU CONSIDERING SELLING?



CHALLENGES AND THE YEAR AHEAD

The top three challenges for the year ahead, identified by business owners, are all linked to managing in a climate of uncertainty - when market demand is more difficult to predict.

TOP THREE CHALLENGES



36% / Predicting future demand



32% / Cash-flow forecasting



27% / Uncertainty surrounding Brexit tariffs and trading arrangements

OTHER CHALLENGES IDENTIFIED INCLUDE:

- ▶ Controlling or reducing costs
- ▶ Staying focused on customer service / delivery
- ▶ Staying up to date with regulation

In some cases, challenges have become less evident compared to a year ago. For example, the number of business owners uncertain about whether to invest in the year ahead has halved – down from **30%** in early 2018, to **14%** in early 2019. This could be because business owners have already taken the decision to defer investments until after Brexit, when the economic outlook should become clearer.

The research revealed some differences according to industry sector. For business owners in the property and construction sector for example, 'cash-flow forecasting' was cited as the main challenge in the year ahead. For business owners in the business services and hospitality & leisure sectors, the main challenge was 'predicting future demand'. For technology businesses, uncertainty surrounding Brexit tariffs and trading arrangements was given as the main challenge.

TOP THREE CHALLENGES FOR THE YEAR AHEAD, BY SECTOR

SECTOR	CHALLENGE 1	CHALLENGE 2	CHALLENGE 3
	Cash-flow forecasting	Predicting future demand	Uncertainty surrounding Brexit & trading conditions
	Predicting future demand	Cash-flow forecasting	Uncertainty surrounding Brexit & trading conditions
	Predicting future demand	Cash-flow forecasting	Uncertainty surrounding Brexit & trading conditions
	Cash-flow forecasting	Predicting future demand	Uncertainty surrounding Brexit & trading conditions
	Cash-flow forecasting	Predicting future demand	Uncertainty surrounding Brexit & trading conditions
	Uncertainty surrounding Brexit & trading conditions	Predicting future demand	Cash-flow forecasting
	Predicting future demand	Uncertainty surrounding Brexit & trading conditions	Cash-flow forecasting

OUR SME BUSINESS PANEL SAID...

“

The top three challenges are all linked to Brexit uncertainty, but many businesses can't do much about this. Whilst it makes sense for some businesses to stockpile, others in the services sector, like our PR business, can't really do this. We can focus on building a well-incentivised and committed workforce – this could become a key differentiator.”

Alia Al-Doori, Pearl Comms

“

The most important challenge for any SME is knowing your customers and giving them what they want. Doing this well can create competitive advantage and doing it badly can leave the way open for rivals.”

Nick Russell, Thomasons

“

SMEs must make and dedicate time to maintaining close relationships with customers. This can make the difference between keeping a key account or losing out to a competitor. Staying on top of these relationships is the main challenge we face.”

Martin Redif, Excel Apparel

“

Dealing with cross-border regulations is a constant challenge for our global booking site. When it comes to health and safety, tax and VAT, there is a lack of harmonisation in Europe and internationally, which adds to the complexity of our business. Whilst Brexit hasn't caused this, we aren't expecting it to make matters any easier.”

James Ludlow, Beds on Board

“

As an SME, you need to use the advantages that come with your size and agility to move forward positively. Predicting future demand is a massive challenge and businesses need to concentrate on making sales. The answer lies in innovation; making products that really stand out and are better than before.”

Hugh Wells, AJ Wells & Sons

PRACTICAL ACTION PLAN

HOW TO OPTIMISE YOUR SME ADVANTAGES

SME business owners are aware of the advantages their size and agility give them in their target markets, but are they using them to the full to fend off large corporate competition? To help them to compete more effectively and take back market share, advisors at Menzies LLP have compiled the following optimisation tool:



QUICKER DECISION MAKING ABILITY

Are you equipped to make decisions quickly and act upon them? If not, you could be missing out on an important small business advantage.

Key considerations include:

- ▶ Do you know what management information you need – financial and non-financial?
- ▶ Do you know which KPIs are relevant to your business and are you measuring performance against them?
- ▶ Are your systems efficient and able to give you the accurate and timely information you need? If not, integrated systems may help with reporting.
- ▶ Do you need a smarter stock control system – giving you better stock visibility and alerting you if a specific product falls below a certain level?



LESS RED TAPE

It may not always seem like it, but SMEs are not affected by as many rules and regulations as larger corporates and multinationals. However, staying up to date with regulatory changes can still be a challenge and careful management is needed.

Key considerations include:

- ▶ Is red tape and keeping up with regulatory changes eroding too much precious management time?
- ▶ Do you have access to up-to-date compliance advice?
- ▶ Should you outsource other back-office functions or tasks such as HR management, payroll administration, health and safety compliance etc?



MORE NIMBLE TO REACT TO MARKET CONDITIONS

Whilst corporates can struggle to implement changes quickly, SMEs are often more nimble – ready to react to market changes and take advantage of market opportunities.

Key considerations include:

- ▶ Could you amend your product or service offering to match customer preferences now and in the future?
- ▶ Are you optimising cash flow by stretching out creditor days as far as possible and minimising debtor days? This will help you to be cash ready to react to market conditions.
- ▶ Are you investing enough time in strategic planning - finding ways to be smarter with working capital and plan for the future?
- ▶ Are you making use of flexible capacity? SMEs can often flex capacity to meet peaks and troughs in demand.
- ▶ Is there an opportunity to structure supplier agreements to allow greater flexibility? For example, property arrangements could be too restrictive.



CLOSER CUSTOMER RELATIONSHIPS

Customers often choose to do business with small and medium-sized firms, because they get a better and more attentive service, but are you doing enough to stand out?

Key considerations include:

- ▶ Is your corporate vision focused on creating and maintaining close customer relationships?
- ▶ Are you making the most of your ability to offer customers a more 'personal touch'?
- ▶ Have you reviewed your customer base – do you know who your key customers are and are you looking after them?
- ▶ Are you asking for customer feedback regularly?
- ▶ Are you training staff to provide excellent customer service?
- ▶ Are you using non-financial KPIs to encourage the right behaviours, improve customer relationships and monitor the frequency of client contact?
- ▶ Could you improve your responsiveness?
- ▶ Are you using technology to enhance the overall customer experience?
- ▶ Are you investing in automation in back office functions, to free up time for customer relationship management?
- ▶ Are you using the latest apps and video conferencing technology to maximise facetime with customers?



FEWER LEGACY ISSUES

As many small and medium-sized businesses are relative newcomers, they generally have fewer legacy issues to contend with than larger corporates. However, they still need to take care not to create legacy issues for the future.

Key considerations include:

- ▶ Have you considered standardising processes and procedures to reduce risk and maintain quality?
- ▶ Are you reviewing systems and procedures regularly?
- ▶ Are you investing in automation to improve efficiency?
- ▶ Do you have clear contractual terms and conditions in place with customers, suppliers and employees? For example, are you able to bill customers for any additional services/scope creep? If not, you may need to re-negotiate contractual terms and conditions.
- ▶ Are you reducing risk by building a strong, well-trained team, so customers aren't reliant on you alone?



MORE REWARDING WORKPLACE

You may not be able to match the remuneration offered by some of your competitors, but your workplace could still be more rewarding and enticing.

Key considerations include:

- ▶ Are you using your leadership skills to create a motivating workplace and support staff retention?
- ▶ Are you creating a strong employer brand?
- ▶ Are you providing sufficient training?
- ▶ Consider use of tax-efficient share incentive schemes.
- ▶ Do you know what your staff think of your business, have you obtained feedback?
- ▶ Do your teams receive regular communication on business performance and issues?
- ▶ Are you hiring good decision makers, with strong leadership skills, who share your vision and can help you to create a positive culture?
- ▶ Do workers have a clear sense of purpose and are you offering them a career path, supported by training and development opportunities?
- ▶ Is the workplace appealing – both the physical space and working arrangements?
- ▶ Are you promoting diversity and inclusiveness within your working environment?

CONCLUSION

SME business owners have reported that trading conditions have become more challenging due to increased competition, which is impacting their profitability.

- ▶ A significant number of business owners believe that they are coming under pressure due to corporate competition – whether that's large customers driving a hard bargain or rivals encroaching on their market share.
- ▶ SME business owners are finding they are at a disadvantage in the current climate of uncertainty. While most large corporates are ready for Brexit, comparatively few SMEs are prepared.
- ▶ To counter this, SME business owners must not lose sight of their SME advantages and be prepared to use them in any way they can. As well as prioritising cash-flow management and forecasting, they should keep their growth strategies under review and ensure they are ready to act quickly to strengthen their business model by improving its cash position or building in some additional resilience.
- ▶ By optimising their SME advantages now, business owners can be ready to make the most of any post-Brexit dividend that could be just around the corner.

A HUGE THANK YOU TO OUR SME PANEL!

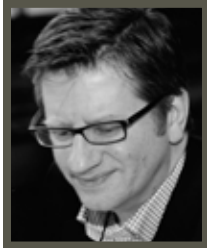
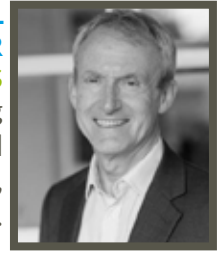


ALIA AL-DOORI
MANAGING DIRECTOR
PEARL COMMS

Owner of a 2-year old professional services PR agency employing eight people.

NICK RUSSELL
FINANCE DIRECTOR
THOMASONS

Thomasons is an award winning independent civil and structural engineering consultancy, employing more than 80 people.



MARTIN REDIF
DIRECTOR
EXCEL APPAREL

A producer of quality, bespoke clothing for a variety of UK based customers.

JASON LUDLOW
FOUNDER
BEDS ON BOARD

A peer-to-peer platform that connects boat owners with accommodation seekers. Boat listings can now be found in more than 80 countries.



HUGH WELLS
DIRECTOR
AJ WELLS & SONS

A family-owned British business that designs and manufactures wood-burning stoves as well as vitreous enamel products and signage.

ABOUT MENZIES

BRIGHTER THINKING is how we sum up the difference we make to our clients. It encompasses our finance and accounting expertise, combined with strategic commercial thinking.

Keeping a watching eye over your business helps us to understand your personal and business aspirations. We use our in-depth sector knowledge and our advisory-led approach to challenge your objectives and find solutions that guide your business growth.

We offer a full range of services – tax, corporate finance, audit & compliance and business recovery, as well as strategic advisory, outsourced HR & FD support and business valuations.

If you require any further information on any of the issues raised in this report, please email advice@menzies.co.uk.



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