

Maintaining resilience in a tougher economic climate - challenges facing UK owner managed businesses in 2023:

A survey from the Association of Practising Accountants

Date launched: 6th June 2023

Date closed: 6th July 2023

Total responses: 532

Introduction

Owner managed businesses are struggling. A combination of inflationary pressures, cost of living challenges, energy price volatility and an uncertain economic outlook present significant threat to this vital economic sector.

What is also clear is that these businesses are not getting the help from Government that they need. 77% of respondents rated current Government support for the owner managed sector as either poor or very poor. Moreover, while the sector as a whole is generally resilient, many owner managers are still in survival or steady state mode rather than looking to grow.

There is real frustration among these businesses at the lack of resolve from Government that is now required to help tackle these issues. The overarching message from our research is that uncertain trading conditions are hampering competitiveness and that while there are multiple causes, not enough is being done by policy makers to help owner managers deal with the fallout.

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 the aspirations and concerns of these entities as they deal with a more inflationary business landscape and the impact of greater geo-political uncertainty.

Increased labour costs, supply-chain shocks, energy price volatility, these and other factors all need to be addressed by Government in a co-ordinated way. The prize for getting this right is sustainable growth not just across the SME sector but the whole of the economy.

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 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 in the coming months. This report provides snapshot of the current landscape.

Methodology

Between 5th and 6th July the Association of Practising Accountants sent out a detailed survey to owner managed businesses through its network of member firms. In total 532 clients responded to the consultation across 15 sectors and 11 regions of the UK economy.

Headline findings – Economic uncertainty remains a significant challenge

- Uncertain trading conditions (30%), followed labour shortages (15%) and inflationary pressures (12%) were identified as the biggest challenges facing the owner managed sector going forward.
- 90% anticipated labour costs will rise over the next 12 months
- 89% anticipate supply-chain costs to rise over the next 12 months
- 53% expected energy costs to impede their ability to deliver
- Economic uncertainty (53%) was also identified as the biggest challenge over the previous 12 months followed by wage inflation (13%) and post-Brexit supply chain issues (9%).

Headline findings – Government needs to do more to help the sector

- 77% of respondents rated current Government support for the owner managed sector as either poor or very poor.
- 48% of respondents felt that Government could be doing more to help tackle inflation.
- 19% felt that the challenging economic climate was caused by Government handling of the economy while a further 59% identified the cause as a combination of global economic factors and Government handling of the economy.
- 53% felt that increases in corporation tax would impede their ability to grow.
- Only 32% felt a change of Government would be good for business suggesting that there is little confidence in any of the main political parties right now.

Headline findings – On the whole owner managed businesses are proving resilient

- 49% think they are in better shape than 12 months ago
- 78% were confident they could cope with further interest rate rises in the next 12 months
- Only 39% felt recruitment and retention was likely to be a bigger challenge going forward than in the previous 12 months

Headline findings – But there is evidence that many businesses are currently in a holding pattern...

- Business growth was identified as the main priority for 23% of respondents while sustaining their business was the priority for 59% and business survival for 11%.
- 68% were either unlikely or very unlikely to make significant capital investment in the next 12 months

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:

Business uncertainty

“As a B2B company, it is clear when businesses are uncertain about the state of the economy and understandably try to make cuts. We saw it with Brexit, Covid and now with the cost of living. I anticipate this uncertainty will continue to slow the growth of our business.”

“Uncertain fiscal policies and high tax burdens will drive a lot of businesses out of the country.”

“The economic climate is proving a real challenge!”

“Inflation is the direct result of monetary policy, over the last 3 years. Print money and you get inflation!”

The need for a better policy and regulatory infrastructure

“Government should not equate self-employed to employed in matters such as NI. The self-employed receive none of the benefits available to employed people.”

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

“The increase in business rates is a significant concern for no noticeable return. If we are also subject to commercial rent increases... it will mean we reconsidering (whether we run our) business in the UK.”

“The postponement of 30 hours free childcare provision to 2025 has not helped our ability to retain staff. With two children under 5 it is uneconomic to stay in full time work and the requirement to then ask for part time hours puts further strain on the business.”

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

“Brexit has destroyed access to capable mobile resource and is a key cause of high inflation increasing base costs for many businesses and therefore driving price rises. These then impact labour and demands for pay increases (not unreasonable in the circumstances). This government is culpable and continues to avoid dealing with the structural issues it has caused. Inflation is not going to ease much any time soon.”

“Continued loss of free access to the EU 27 countries - our nearest and largest (potential) market. There were good reasons to leave the EU but not trade. The Swiss and Norwegian approaches should have been a starting point for a unique UK deal especially as the UK is so highly valued in the EU.”

“Brexit has caused tremendous damage to our EU sales with...export and associated costs plus time delays from order to delivery making us uncompetitive compared to our EU competitors.”

“What are the main challenges? Brexit supply chain issues (all the foreign labour went home), a pandemic and now a war in Ukraine which is also wreaking havoc on certain supply chain sectors and (although it has now settled a bit) energy costs.”

Government incompetence

“Raw material inflationary pressures make maintaining margin difficult...Above all businesses need the confidence to continue investing without having to worry about the next hair brain idea being peddled by a Government Minister with no clue about the realities of running a business and employing people.”

“I'm 61 years old and I will put my business up for sale later this year. Apart from the freehold property I'm not expecting anyone to buy it. Seventy-five jobs are at stake, but the Conservative Government will not care less.”

“The cost of living crisis and the shortage of labour supply is stifling growth. The Government does not appear to have any solutions to these problems or initiatives for growth which is hugely disappointing and feels like economic suicide. The country is on its knees with a lack on investment in vital support services such as the NHS, schools and transport infrastructure. Brexit trade deals promised have not been delivered which also suppresses growth.”

“Rises in costs and taxes and increases in minimum wage levels without productivity increases can only stoke inflation. Raising interest rates will not cure the underlying productivity problem. We need less Government not more.”

Sector specific observations

“We are very lucky in that we work predominantly in the energy sector, so the challenges we face are nothing compared to others. Some of my responses would have been far more pessimistic had this not been the case.”

“The future support for Hill farming is so uncertain that a significant number of farms will not continue to provide goods into the food chain adding to the volume of goods imported and creating more unnecessary inflationary pressures.”

“Our particular business is affected by the fallout from the Grenfell tragedy. The government needs to produce a joined-up policy regarding Building Regulations. Currently no one individual consultant is prepared to sign off and be responsible for the final project implementation. The prevalence of Design and Build type contracts allows this negligence to flourish. If there is an issue all parties blame each other.”

“In my retail horticultural sector I have the extra expense and costs of importing product from Europe. I can't export. Northern Ireland trade is nearly impossible. Peat is to be banned. I cannot get staff. The National Living Wage has gone up by 9.7% and the Government wants modest pay rises. Add on taxation increases, packaging taxes and Government surveys - why would any sane person want to own and run a UK based business?”

Wider challenges to business

“The major challenge is recruitment and also succession planning (so we can maintain the right calibre of team.”

“The ever-increasing demands of new regulatory guidelines and the necessary levels of compliance in industry is becoming extremely time consuming and expensive. There is also little financial support from Government to meet these demands and support the increasing costs.”

“The increased cost of everything we need is now spiralling out of control.”

“SME’s need to look after their workforce who in turn need to have a strong work ethic. Working in partnership is key.”

“Three factors are causing severe difficulties to UK businesses. Brexit (or the failure to negotiate a sensible relationship with the EU). Interest rates being used as an inappropriate tool to control inflation. Government caused inflation through mismanagement of the economy during Covid - i.e. excessive quantitative easing, “free money”, and corrupt PPE (etc) deals.”

“Government needs to put in place proper plans to remove the massive red tape involved in running small businesses - say all those under £10 million turnover.”

“Energy costs for business being fixed at a very high rate with no support will impede and negatively affect anyone with moderate to high energy costs. This needs addressing.”

Conclusions and recommendations for policy makers

Government needs to do more to help owner managed business weather the current economic climate. In particular there is a need to:

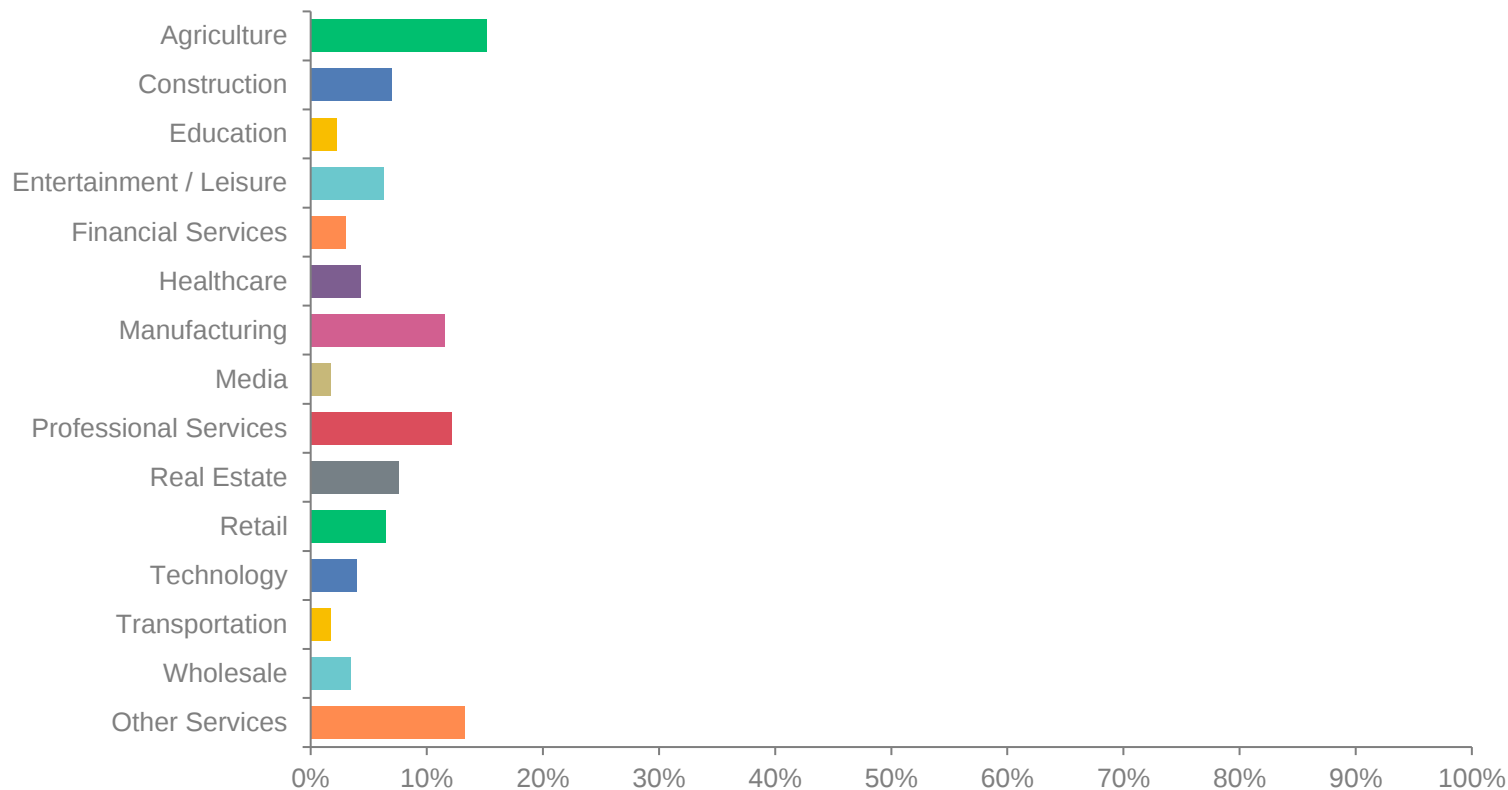
- Demonstrate to the owner managed sector that it takes rising inflation seriously and is not just leaving it to the Bank of England to sort out the problem.
- Identify a series of short-term, stop gap measures to reduce the immediate challenges facing SMEs including revisiting rises in corporation tax, 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 stands ready to play its part and will continue to monitor the landscape for owner managed businesses as well as exercising a strong sector voice on their behalf.

Detailed findings

Q1: How would you classify your business by sector?

Answered: 527 Skipped: 5



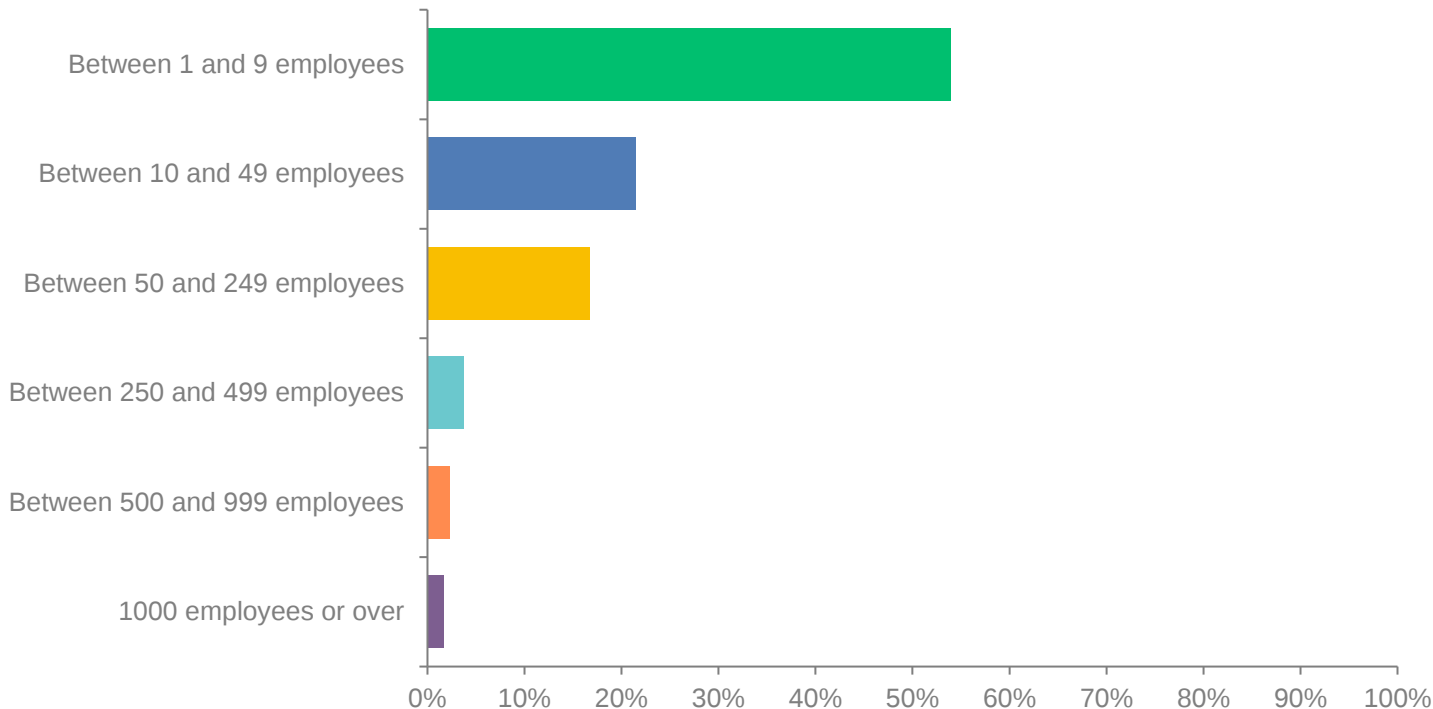
Q1: How would you classify your business by sector?

Answered: 527 Skipped: 5

ANSWER CHOICES	RESPONSES	
Agriculture	15.18%	80
Construction	7.02%	37
Education	2.28%	12
Entertainment / Leisure	6.26%	33
Financial Services	3.04%	16
Healthcare	4.36%	23
Manufacturing	11.57%	61
Media	1.71%	9
Professional Services	12.14%	64
Real Estate	7.59%	40
Retail	6.45%	34
Technology	3.98%	21
Transportation	1.71%	9
Wholesale	3.42%	18
Other Services	13.28%	70
TOTAL		527

Q2: What size is your business?

Answered: 526 Skipped: 6



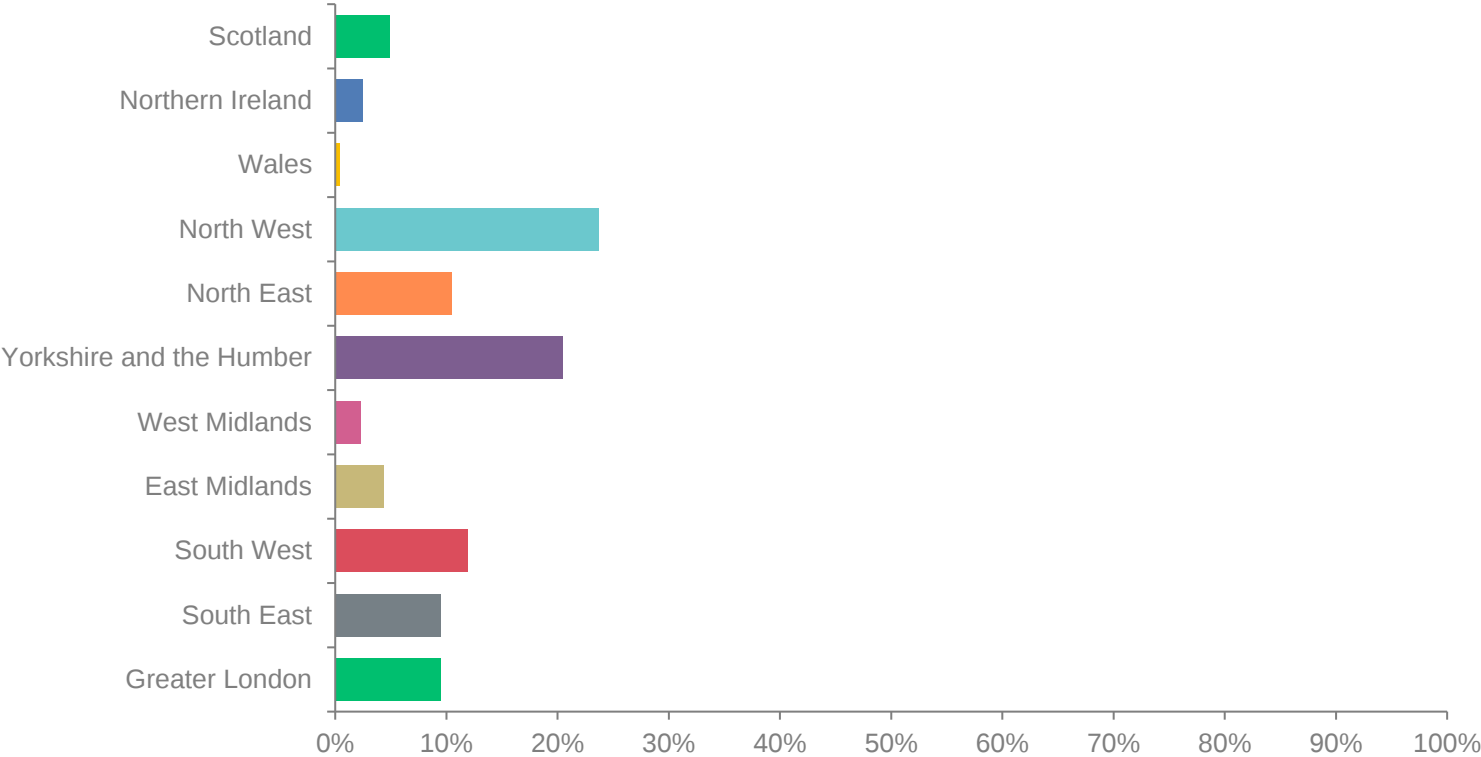
Q2: What size is your business?

Answered: 526 Skipped: 6

ANSWER CHOICES	RESPONSES	
Between 1 and 9 employees	53.99%	284
Between 10 and 49 employees	21.48%	113
Between 50 and 249 employees	16.73%	88
Between 250 and 499 employees	3.80%	20
Between 500 and 999 employees	2.28%	12
1000 employees or over	1.71%	9
TOTAL		526

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

Answered: 527 Skipped: 5



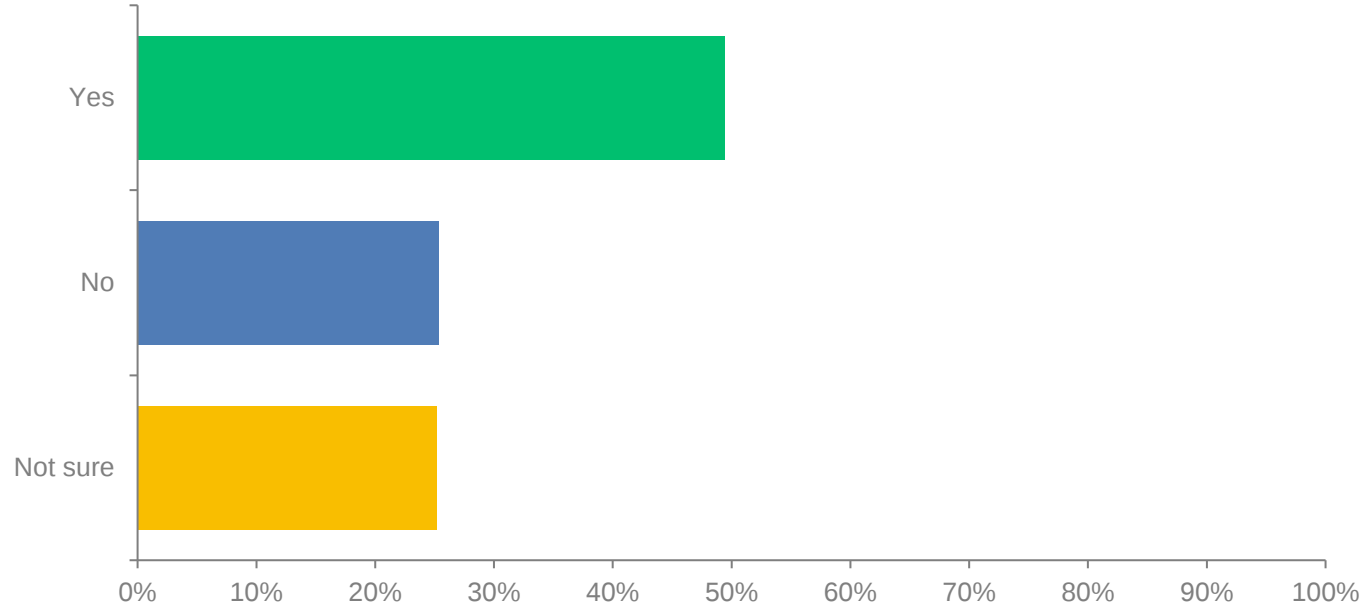
Q3: In which region of the UK are you headquartered?

Answered: 527 Skipped: 5

ANSWER CHOICES	RESPONSES	
Scotland	4.93%	26
Northern Ireland	2.47%	13
Wales	0.38%	2
North West	23.72%	125
North East	10.44%	55
Yorkshire and the Humber	20.49%	108
West Midlands	2.28%	12
East Midlands	4.36%	23
South West	11.95%	63
South East	9.49%	50
Greater London	9.49%	50
TOTAL		527

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

Answered: 528 Skipped: 4



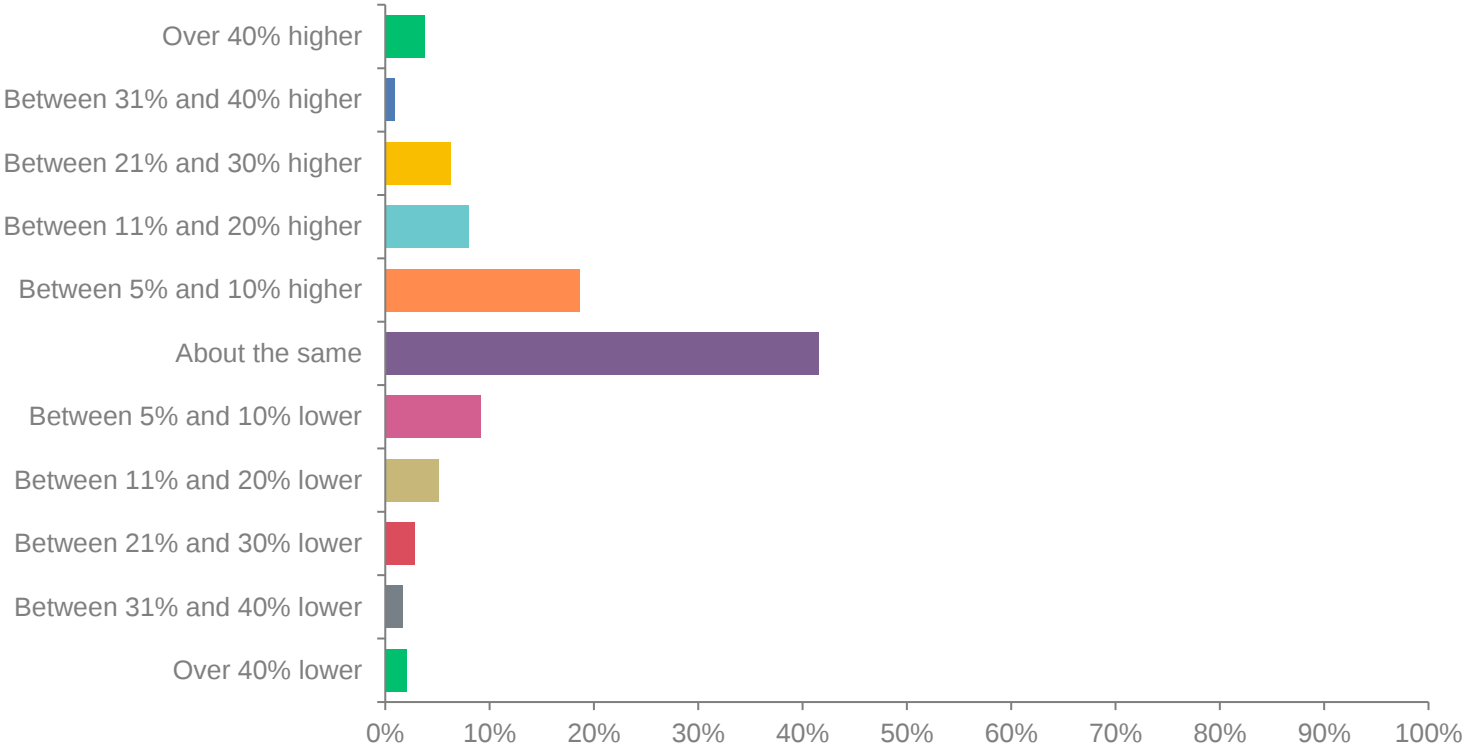
Q4: Do you feel your business is fundamentally in better shape for the challenges of the future now compared to 12 months ago?

Answered: 528 Skipped: 4

ANSWER CHOICES	RESPONSES	
Yes	49.43%	261
No	25.38%	134
Not sure	25.19%	133
TOTAL		528

Q5: What do you anticipate your turnover to be in 2023 relative to last year?

Answered: 527 Skipped: 5



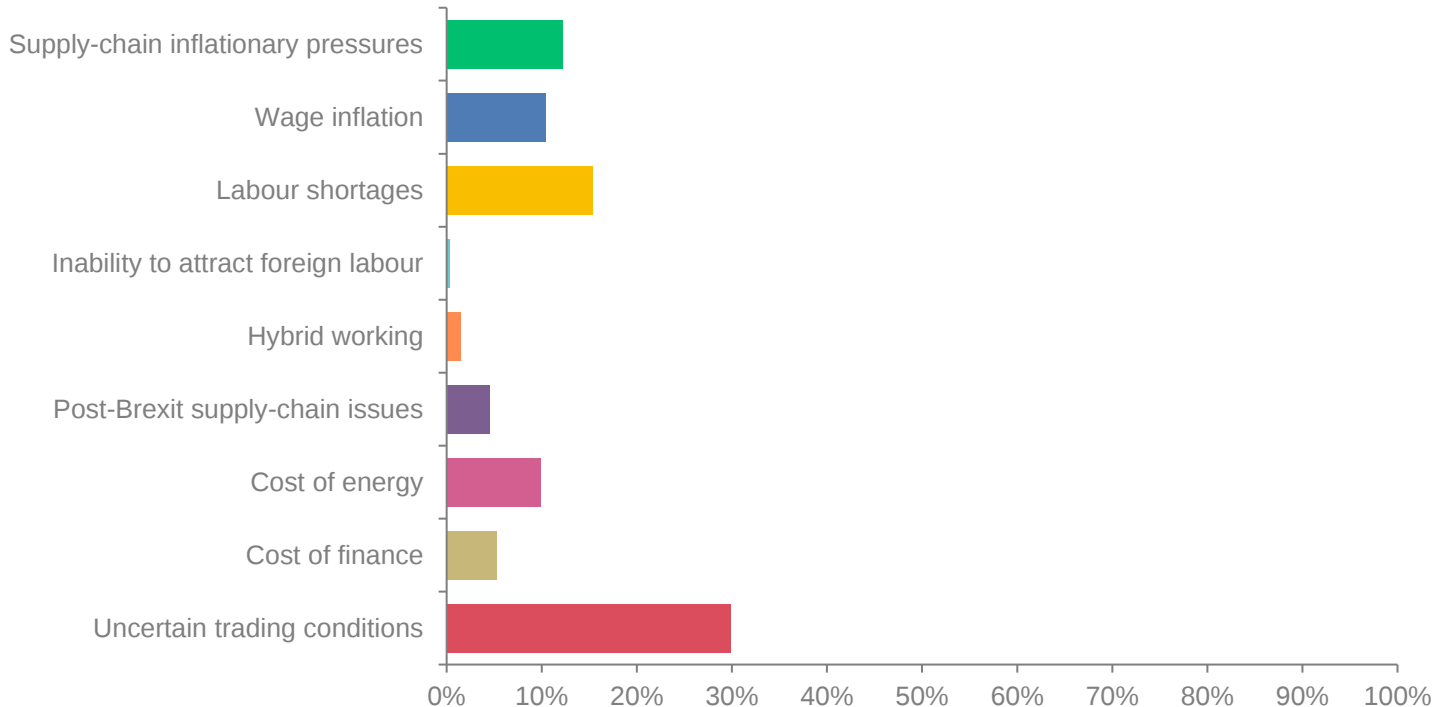
Q5: What do you anticipate your turnover to be in 2023 relative to last year?

Answered: 527 Skipped: 5

ANSWER CHOICES	RESPONSES	
Over 40% higher	3.80%	20
Between 31% and 40% higher	0.95%	5
Between 21% and 30% higher	6.26%	33
Between 11% and 20% higher	7.97%	42
Between 5% and 10% higher	18.60%	98
About the same	41.56%	219
Between 5% and 10% lower	9.11%	48
Between 11% and 20% lower	5.12%	27
Between 21% and 30% lower	2.85%	15
Between 31% and 40% lower	1.71%	9
Over 40% lower	2.09%	11
TOTAL		527

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

Answered: 471 Skipped: 61



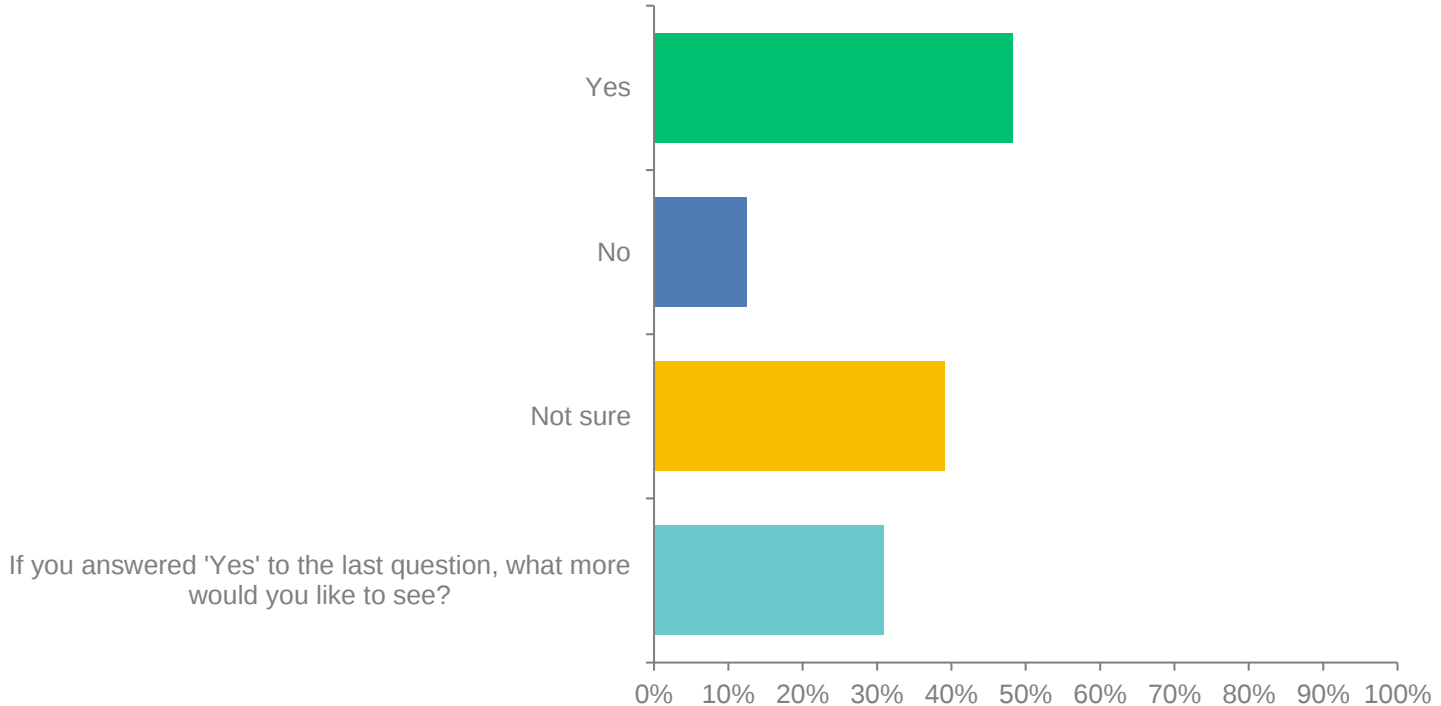
Q6: What is the biggest challenge you face in the current economic climate?

Answered: 471 Skipped: 61

ANSWER CHOICES	RESPONSES	
Supply-chain inflationary pressures	12.17%	64
Wage inflation	10.46%	55
Labour shortages	15.40%	81
Inability to attract foreign labour	0.38%	2
Hybrid working	1.52%	8
Post-Brexit supply-chain issues	4.56%	24
Cost of energy	9.89%	52
Cost of finance	5.32%	28
Uncertain trading conditions	29.85%	157
TOTAL		471

Q7: Could the UK government be doing more to help tackle inflation?

Answered: 529 Skipped: 3



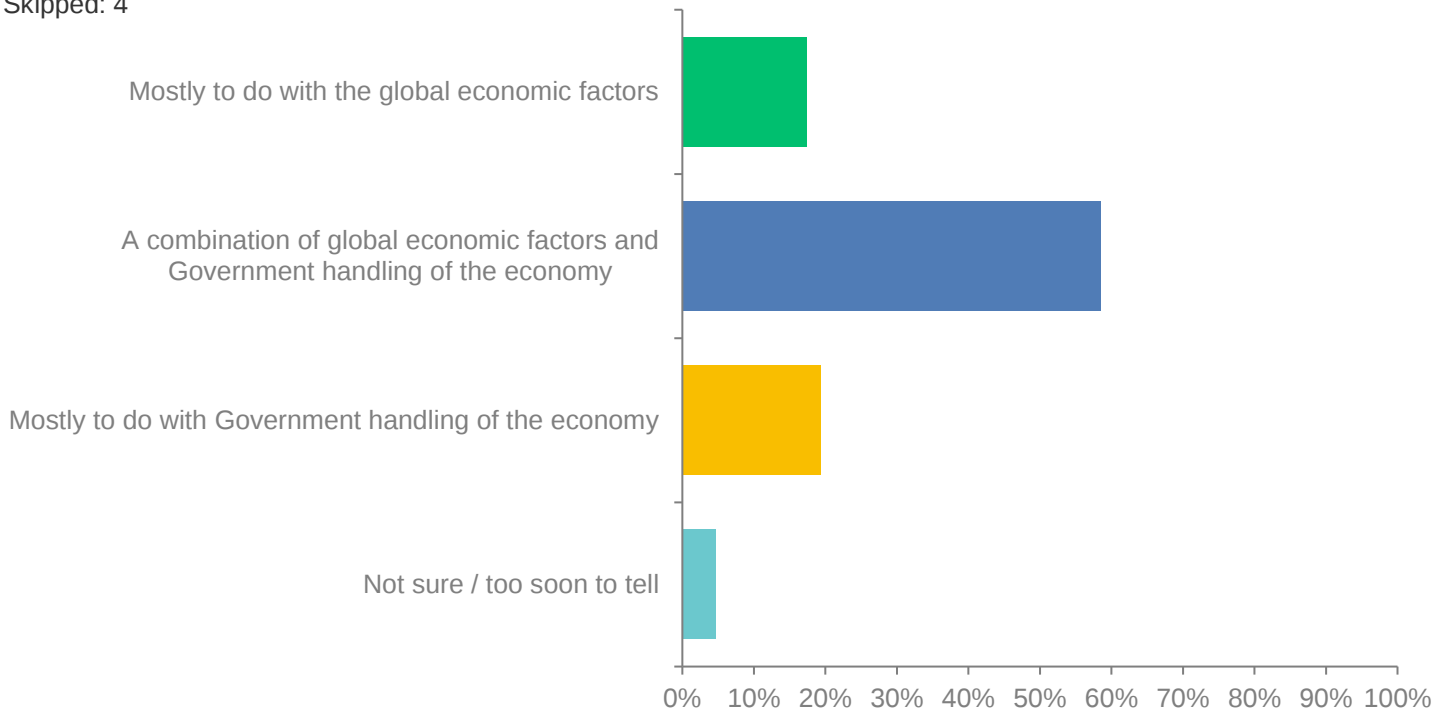
Q7: Could the UK government be doing more to help tackle inflation?

Answered: 529 Skipped: 3

ANSWER CHOICES	RESPONSES	
Yes	48.20%	255
No	12.48%	66
Not sure	39.13%	207
If you answered 'Yes' to the last question, what more would you like to see?	30.81%	163
TOTAL		691

Q8: Where would you locate the cause of the current, challenging economic climate between global economic factors and Government handling of the economy?

Answered: 528 Skipped: 4



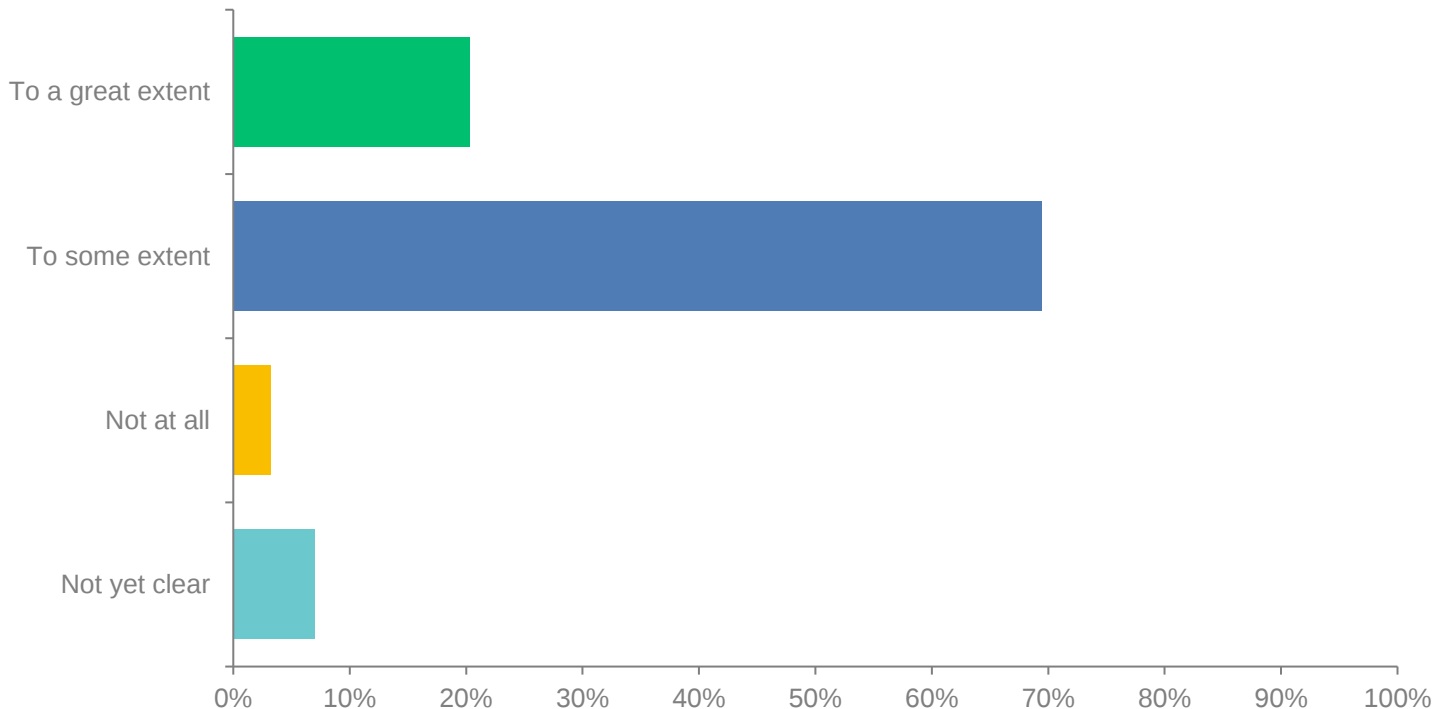
Q8: Where would you locate the cause of the current, challenging economic climate between global economic factors and Government handling of the economy?

Answered: 528 Skipped: 4

ANSWER CHOICES	RESPONSES	
Mostly to do with the global economic factors	17.42%	92
A combination of global economic factors and Government handling of the economy	58.52%	309
Mostly to do with Government handling of the economy	19.32%	102
Not sure / too soon to tell	4.73%	25
TOTAL		528

Q9: Do you anticipate that labour costs will rise in the next 12 months?

Answered: 527 Skipped: 5



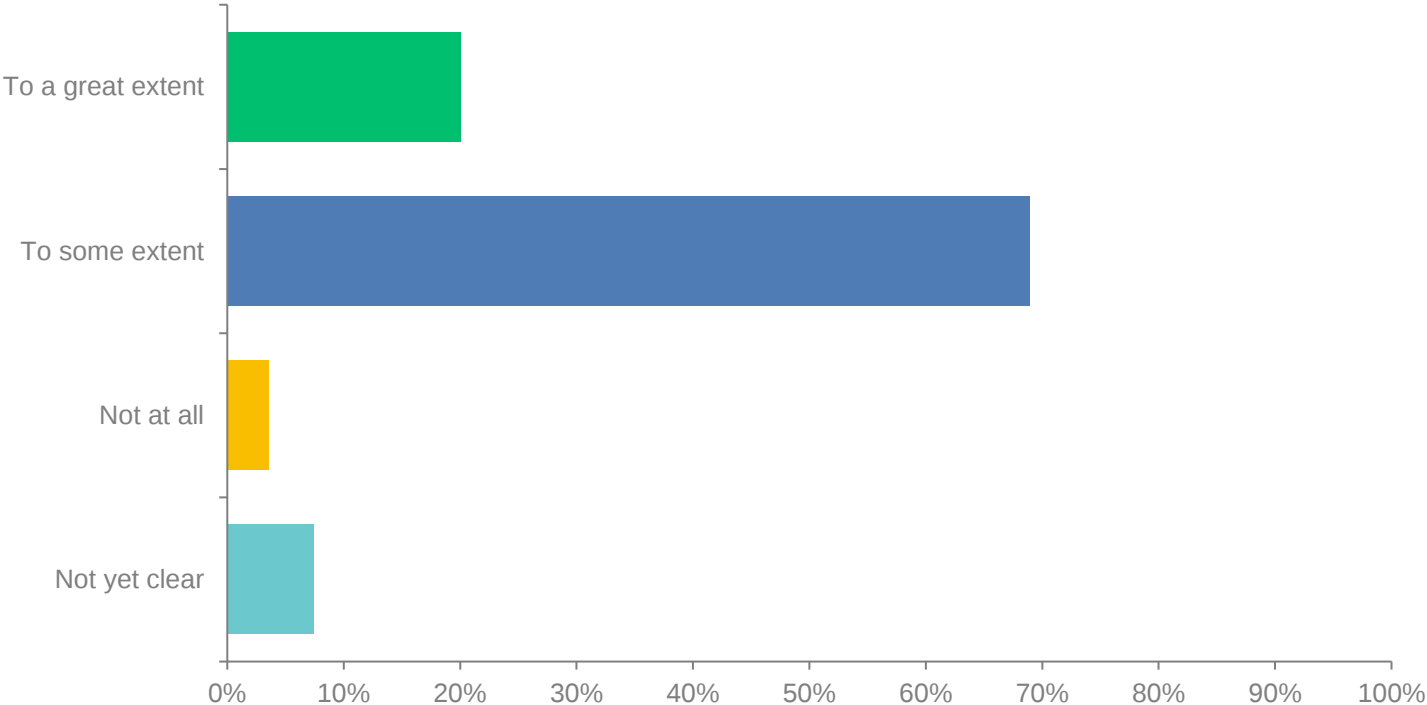
Q9: Do you anticipate that labour costs will rise in the next 12 months?

Answered: 527 Skipped: 5

ANSWER CHOICES	RESPONSES	
To a great extent	20.30%	107
To some extent	69.45%	366
Not at all	3.23%	17
Not yet clear	7.02%	37
TOTAL		527

Q10: Do you anticipate supply-chain costs will rise in the next 12 months?

Answered: 528 Skipped: 4



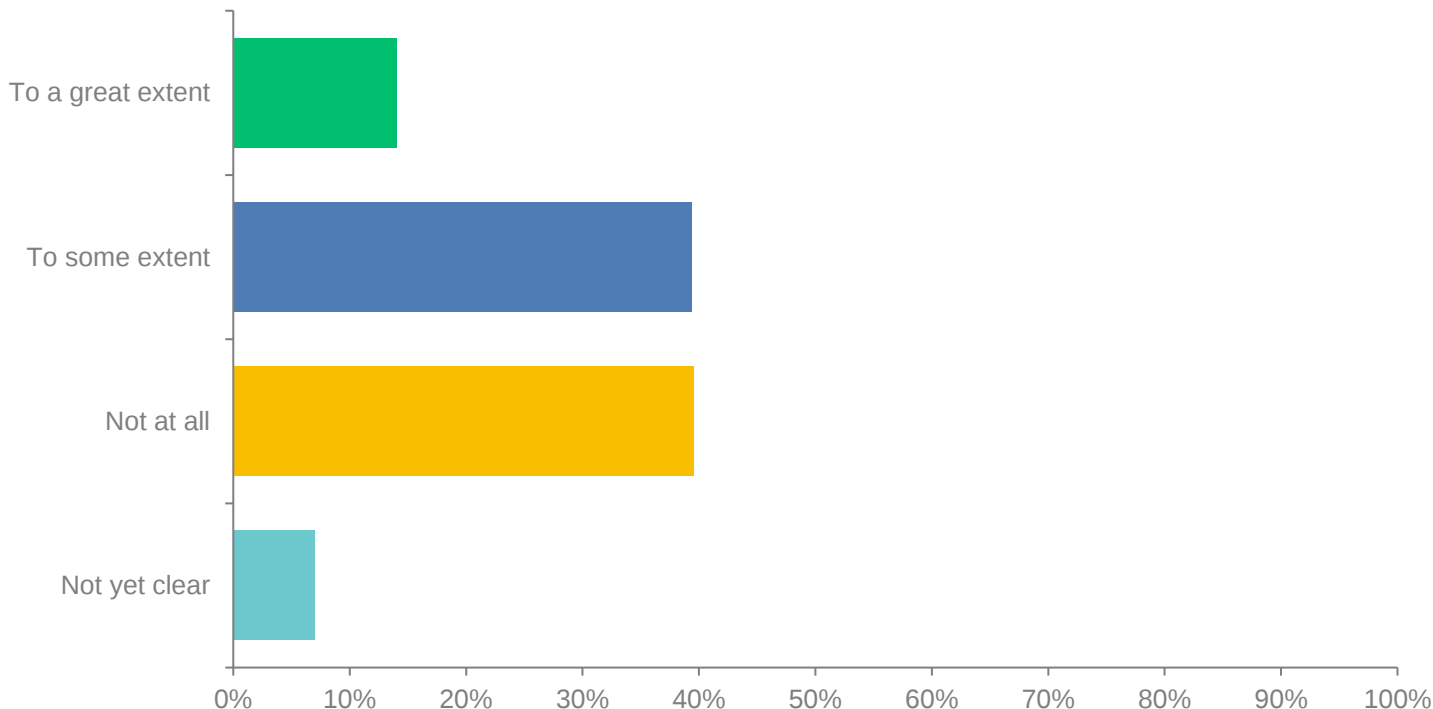
Q10: Do you anticipate supply-chain costs will rise in the next 12 months?

Answered: 528 Skipped: 4

ANSWER CHOICES	RESPONSES	
To a great extent	20.08%	106
To some extent	68.94%	364
Not at all	3.60%	19
Not yet clear	7.39%	39
TOTAL		528

Q11: Compared to 12 months ago to what extent are energy costs impeding your ability to deliver?

Answered: 528 Skipped: 4



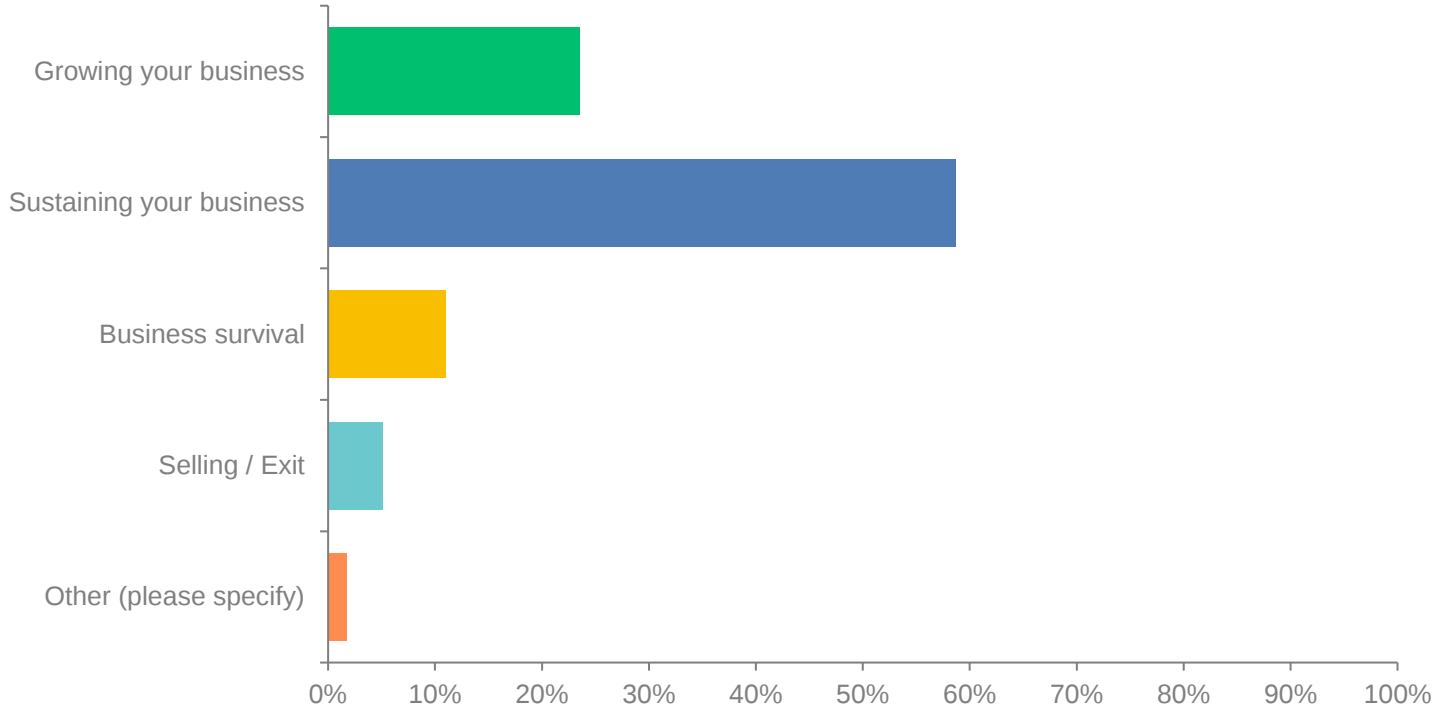
Q11: Compared to 12 months ago to what extent are energy costs impeding your ability to deliver?

Answered: 528 Skipped: 4

ANSWER CHOICES	RESPONSES	
To a great extent	14.02%	74
To some extent	39.39%	208
Not at all	39.58%	209
Not yet clear	7.01%	37
TOTAL		528

Q12: What is likely to be your main priority over the next 3-6 months?

Answered: 528 Skipped: 4



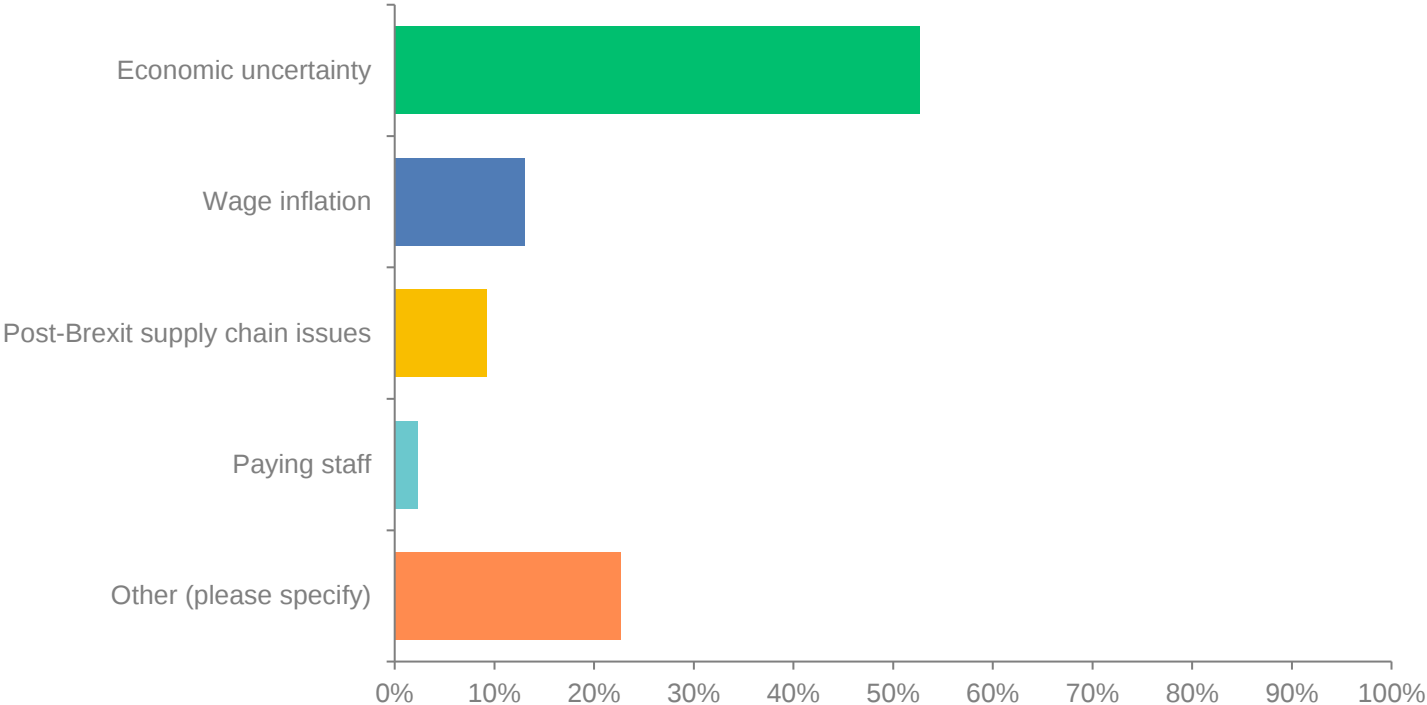
Q12: What is likely to be your main priority over the next 3-6 months?

Answered: 528 Skipped: 4

ANSWER CHOICES	RESPONSES	
Growing your business	23.48%	124
Sustaining your business	58.71%	310
Business survival	10.98%	58
Selling / Exit	5.11%	27
Other (please specify)	1.70%	9
TOTAL		528

Q13: What has caused the most challenge to your business over the last 12 months?

Answered: 528 Skipped: 4



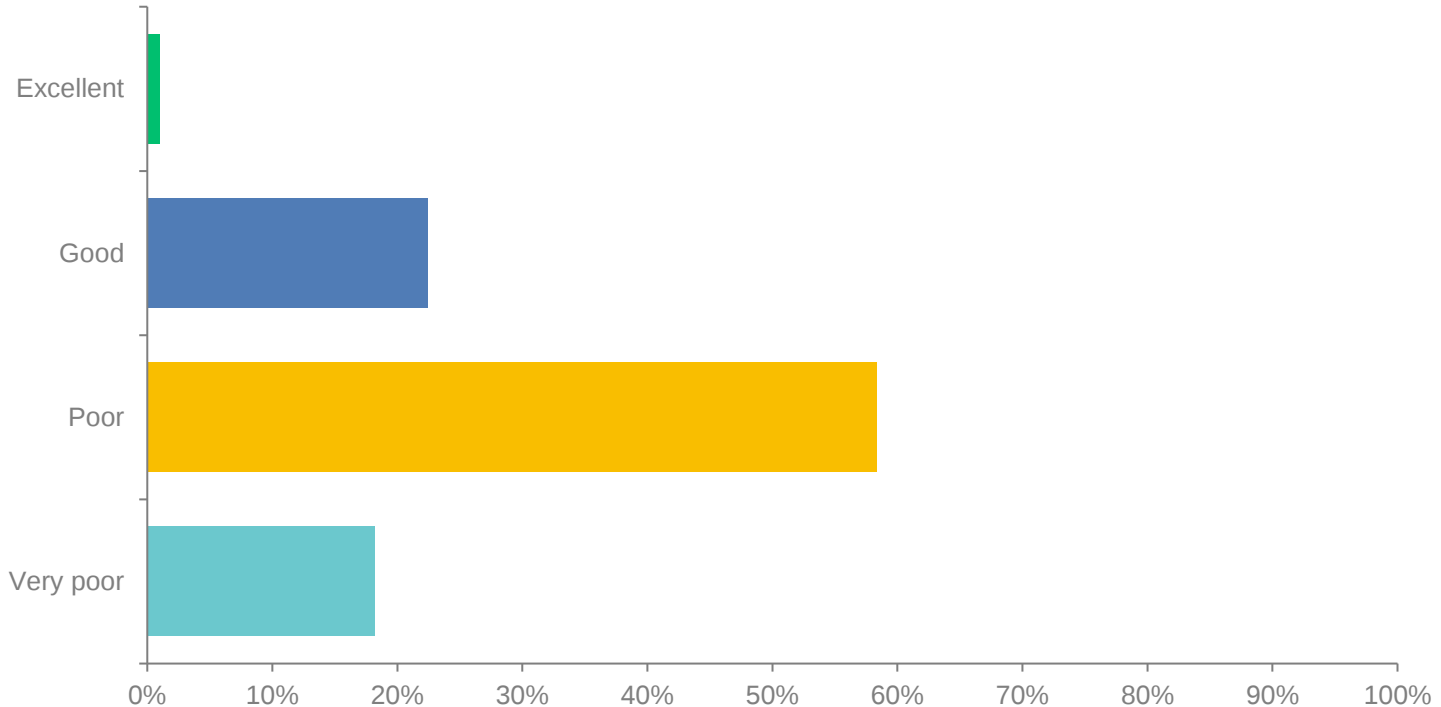
Q13: What has caused the most challenge to your business over the last 12 months?

Answered: 528 Skipped: 4

ANSWER CHOICES	RESPONSES	
Economic uncertainty	52.65%	278
Wage inflation	13.07%	69
Post-Brexit supply chain issues	9.28%	49
Paying staff	2.27%	12
Other (please specify)	22.73%	120
TOTAL		528

Q14: How would you rate current government support to the owner managed sector?

Answered: 521 Skipped: 11



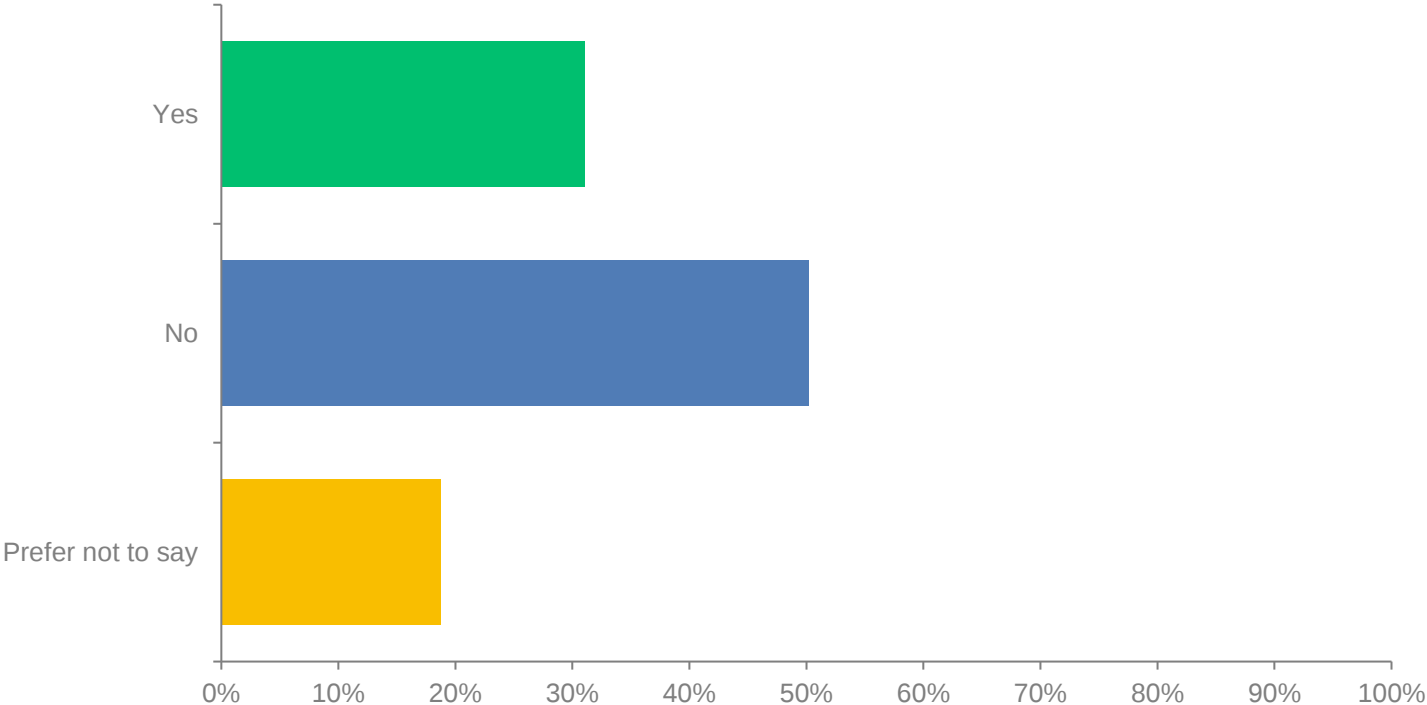
Q14: How would you rate current government support to the owner managed sector?

Answered: 521 Skipped: 11

ANSWER CHOICES	RESPONSES	
Excellent	0.96%	5
Good	22.46%	117
Poor	58.35%	304
Very poor	18.23%	95
TOTAL		521

Q15: Do you believe a change of Government would be good for business?

Answered: 528 Skipped: 4



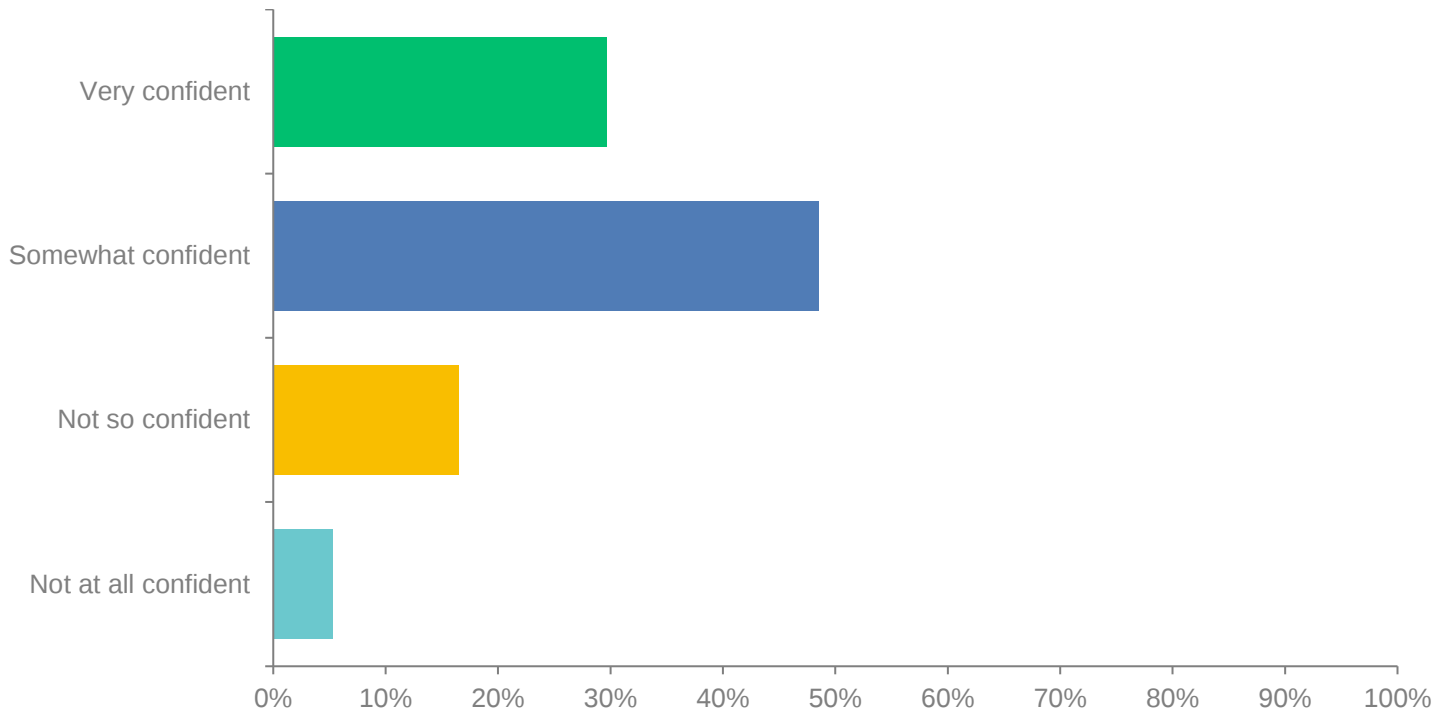
Q15: Do you believe a change of Government would be good for business?

Answered: 528 Skipped: 4

ANSWER CHOICES	RESPONSES	
Yes	31.06%	164
No	50.19%	265
Prefer not to say	18.75%	99
TOTAL		528

Q16: How confident are you that your business will be able to cope with further interest rate rises over the next 12 months?

Answered: 526 Skipped: 6



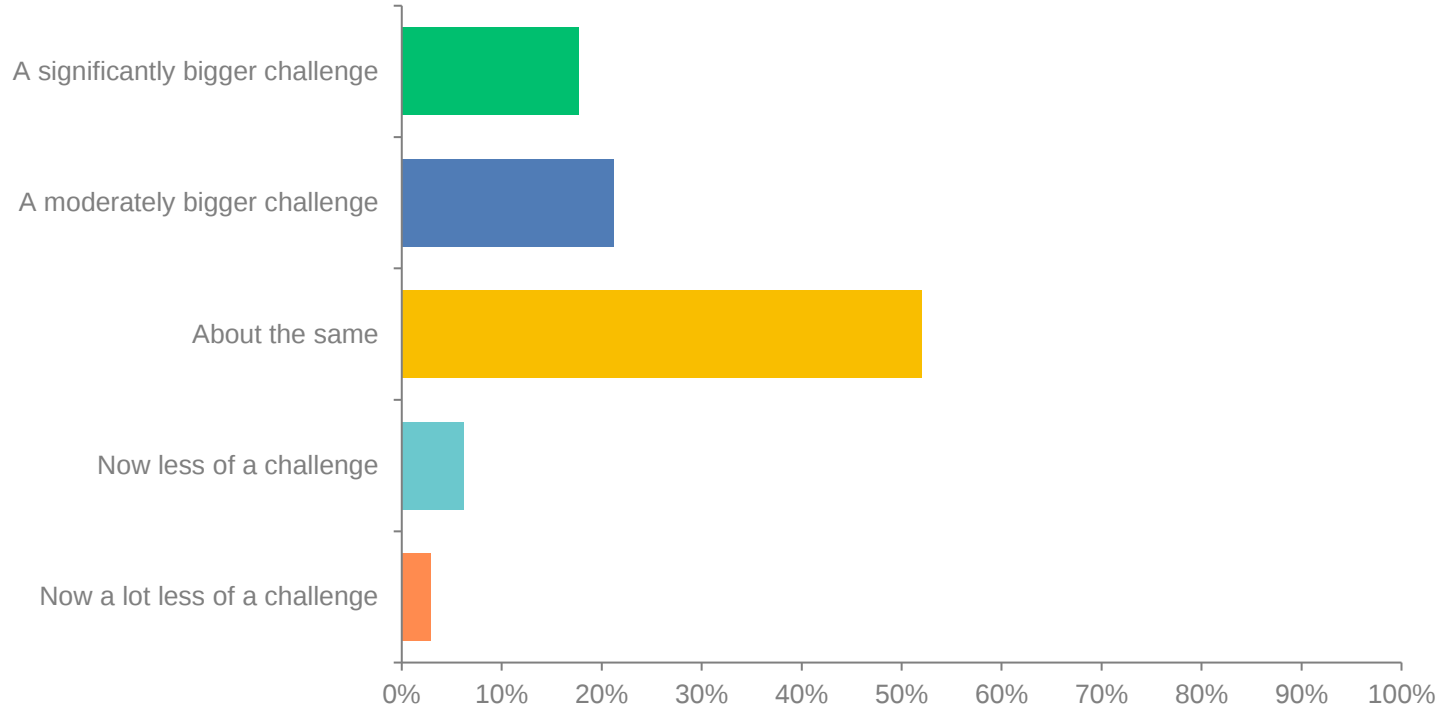
Q16: How confident are you that your business will be able to cope with further interest rate rises over the next 12 months?

Answered: 526 Skipped: 6

ANSWER CHOICES	RESPONSES	
Very confident	29.66%	156
Somewhat confident	48.48%	255
Not so confident	16.54%	87
Not at all confident	5.32%	28
TOTAL		526

Q17: How big a challenge is staff recruitment and retention compared to 12 months ago?

Answered: 519 Skipped: 13



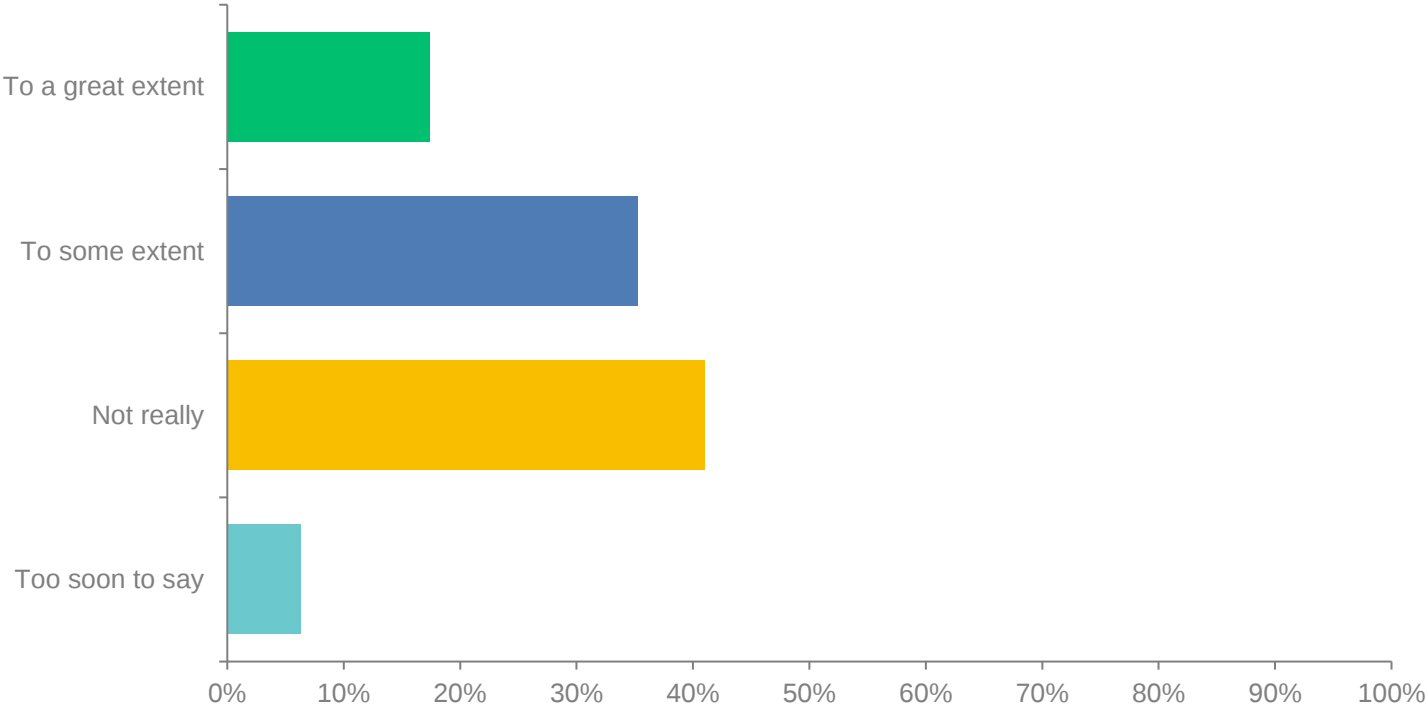
Q17: How big a challenge is staff recruitment and retention compared to 12 months ago?

Answered: 519 Skipped: 13

ANSWER CHOICES	RESPONSES	
A significantly bigger challenge	17.73%	92
A moderately bigger challenge	21.19%	110
About the same	52.02%	270
Now less of a challenge	6.17%	32
Now a lot less of a challenge	2.89%	15
TOTAL		519

Q18: To what extent will increases in corporation tax impede your ability to grow?

Answered: 522 Skipped: 10



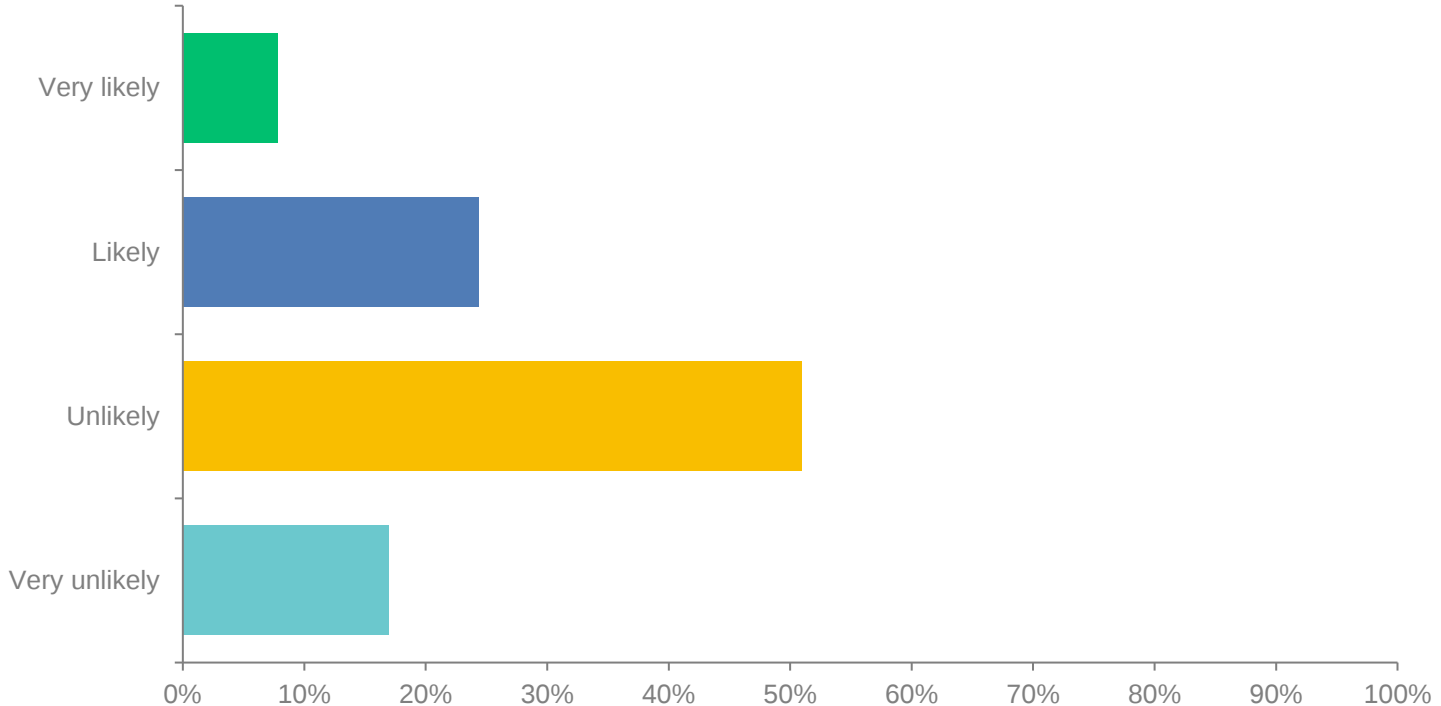
Q18: To what extent will increases in corporation tax impede your ability to grow?

Answered: 522 Skipped: 10

ANSWER CHOICES	RESPONSES	
To a great extent	17.43%	91
To some extent	35.25%	184
Not really	41.00%	214
Too soon to say	6.32%	33
TOTAL		522

Q19: How likely are you to make significant capital investment in your business over the next 12 months?

Answered: 526 Skipped: 6



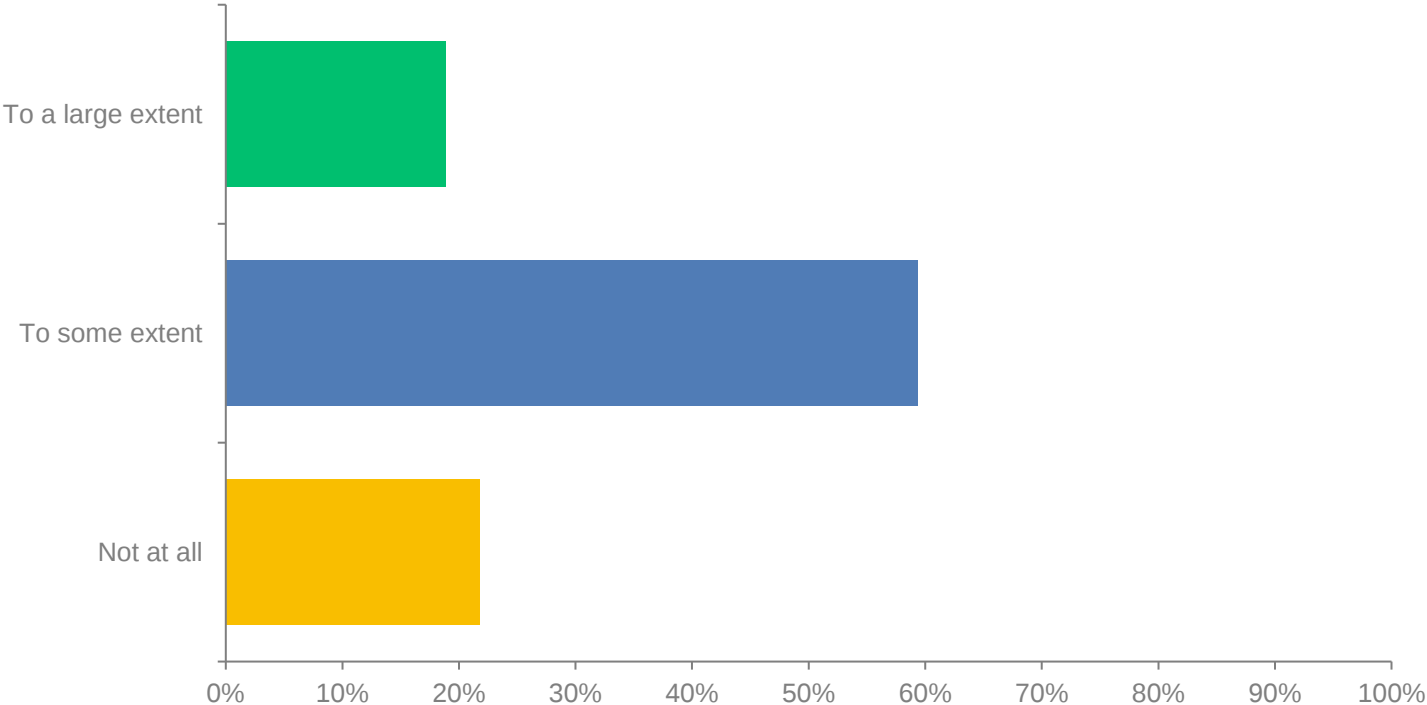
Q19: How likely are you to make significant capital investment in your business over the next 12 months?

Answered: 526 Skipped: 6

ANSWER CHOICES	RESPONSES	
Very likely	7.79%	41
Likely	24.33%	128
Unlikely	50.95%	268
Very unlikely	16.92%	89
TOTAL		526

Q20: To what extent do you rely on your accountant or auditor to provide you with additional business advice and support?

Answered: 529 Skipped: 3



Q20: To what extent do you rely on your accountant or auditor to provide you with additional business advice and support?

Answered: 529 Skipped: 3

ANSWER CHOICES	RESPONSES	
To a large extent	18.90%	100
To some extent	59.36%	314
Not at all	21.74%	115
TOTAL		529



**For more information on
this survey please contact:**

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