Entrepreneurship UK : 2011/12
Is collaboration the key to success?
Welcome to Entrepreneurship UK : 2011/12, Deloitte’s annual insight into how the UK’s entrepreneurs are feeling and their plans for the future.

This is now our fourth year of collating, analysing and commenting on the views of many of the country’s most successful entrepreneurs in a market and operating environment which continues to test their beliefs. Our economy has taken on a completely different shape and outlook compared to when we first embarked on canvassing the opinions of Britain’s entrepreneurs back in 2007. This year continues to provide interesting information on where we are in terms of the market cycle and the decisions entrepreneurs make on a day-to-day and longer-term strategic basis. Entrepreneurs remain confident in their own ability but less so in other stakeholders in the economy and indeed the macro economic position itself.

In last year’s report we talked about “holding firm” and this year suggests that while entrepreneurs are exercising the same caution found in the rest of the business world, the potential winners are those who look to buck the trend and set a new, more dynamic tone. Entrepreneurial growth would provide a welcome boost to the economy, so should we be concerned by what might be perceived as a slightly pessimistic outlook and a feeling of missed opportunities? With no clear vision being generated by Government and with the seeds of uncertainty planted, are the UK entrepreneurs ready to take up the baton, back themselves and succeed?

At such an important time for entrepreneurial businesses we have again compiled opinions from across the spectrum – from younger to more mature businesses, from manufacturing to media and technology – to provide a comprehensive view of the issues that matter most to those at the coalface.

We hope that you enjoy the report and that it stimulates and challenges your own thinking on the way forward for businesses in these still uncertain times.

Tony Cohen
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Expert viewpoints

Mike Balfour is the founder of Fitness First, the world’s largest Fitness Club operator. He is now Chairman and Founder of The Hideaways Club an equity ownership club specialising in luxury villas and apartments worldwide.

Everyone knows the economy is in a mess, which is why quite correctly the Government has little option other than to materially reduce costs and increase taxes – how else can it pay off excess debt? So if you take that sort of drastic action, how on earth does anyone believe that the economy can grow? Every day we wake up to more gloomy news: another reduced growth forecast; more turmoil; more gloom. This affects every consumer, and their natural reaction is to cut back accordingly, so worsening the situation.

Now, what if the Government had initially stated: ‘there will be no growth whilst we take these drastic actions’. Then on the first sign of positive growth, even 0.1 per cent, there would be jubilation and people would react accordingly. Under-promise and over-deliver; all economies need good news and confidence.

Today the biggest issue entrepreneurs have to deal with is the banks. The world has changed – yes, the Banks will tell you that they are open for business, but it’s very difficult. They are willing to lend too little, the loans are too restrictive and the costs in effecting unnecessary security are too high, and that’s if it gets through those that run the bank – the all powerful credit committees. For years those credit committees were tolerated but not appreciated, by bankers. Now the tables have turned and the credit committees rule the day.

However, in fairness to the banks, I think their model is outdated. Money is in short supply. Therefore if entrepreneurs need it, they should be prepared to pay more for it, although most would not openly admit it. Frankly if your business idea is dependent on whether you borrow at 5% or 10% you need to rethink your proposition. In my view we need to see the banks taking a more flexible approach but being rewarded accordingly. That way we might see a better balance of risk and profit.

Entrepreneurs go where the best opportunities exist. These days it’s emerging markets, and it’s interesting to see more and more entrepreneurs going into overseas markets, especially Asia.

Finally, entrepreneurs need a flexible labour market and here the Government is not responding. Not every idea works. Entrepreneurs need to work in a flexible market and not be held back by laws and restrictions that very much favour the individual rather than the risk taker. I accept that this cannot be a general rule but I think younger companies should be able to apply to opt out from the more restrictive labour laws, and of course employees would be well aware of the type of organisation they would be joining.

It’s going to be a tough few years but those who can prosper now will be very well positioned to benefit from greater growth when it comes. And it will.

Mike Balfour
Daniel Doll Steinberg is CEO & Founder of Tribeka Ltd, a developer of disruptive technology for in store manufacture of entertainment media, working with Carrefour, Fuji, Microsoft, Sony and Tesco in Australia, Europe and USA. Daniel is a member of the European Commission’s Policy Group, is involved in the 2011 Budget Review to improve growth opportunities for businesses, and is an honorary Senior Research Associate, UCL.

The UK and worldwide economies are facing difficult times. With huge budget deficits many governments realise the need to encourage growth, whilst simultaneously collecting more taxes and cutting budgets, but often find their hands tied politically. On the corporate side (i) money is tight restricting capital investment, (ii) valuations are low making entrepreneurs less able and willing to raise finance, and (iii) there are several bubbles being created in what are considered safe havens (such as gold, strong brands and London houses) plus a new wave of internet companies, some of which should see their long term values justified.

The engine of growth for an advanced economy is entrepreneurs coupled with successful innovation. These are difficult people to reach and they have many disparate requirements, as the Deloitte Entrepreneurship Survey shows. Despite this, all businesses require consistency, predictability, transparency, and clarity and quality of information and the Government must constantly ensure such an environment exists. The divergent messages from the two sides of the coalition are not inspiring and there is a legitimate feeling that they believe success is somehow slightly nefarious and must be capped for societal good.

Nonetheless the Deloitte Entrepreneurship survey shows ever more entrepreneurs are striving to succeed; but the Government must not forget the devastating “brain drain” of the 1970s. With easier travel, incomparably better communication through the internet, the multicultural make-up of UK based entrepreneurs and with many more places for entrepreneurs to locate themselves, the effects could be even more emphatic this time around.

It also cannot be ignored that the US, which has a strong history of allowing successful entrepreneurs to redeploy their own wealth, has a business angel market orders of magnitude greater than in Europe. This brings much needed experience and funds back into the economy through new entrepreneurs, creating a virtuous circle that is considered one of the key drivers of innovation and growth. It is also a necessary precursor to an efficient VC market.

As a small nation the UK must rely on export. Moreover the greatest innovations require a critical mass that the UK cannot provide alone. Despite its size and wealth, trading across Europe remains difficult due to local regulations and language.

There are many good examples from which the UK can learn but Israel must be one of the best. It has created an innovation economy in less than 3 decades and has many of the same conditions as the UK: multiculturalism, a relatively small population, and freedom of information.

Daniel Doll Steinberg
Keith Willey is an Associate Professor at London Business School, specialising in Entrepreneurship. He chairs Enterprise 100, an investment forum which regularly brings together experienced angel investors with entrepreneurs.

Last year the economy seemed finely balanced between the optimistic and pessimistic points of view but it turned out that the optimists were wrong. As a result many business people have learned tough lessons in the last year about the real quality of their businesses. This Summer we are in Euro-zone turmoil, shop-keepers are sweeping up broken glass left by their local rioters and the employee at a big bank has just gambled away a couple of £billion. There is much more going on that will impinge even more directly on entrepreneurs: Government debt is still growing, equity markets are in retreat and redundancies have become more common in the news.

I believe that what makes this context so important to entrepreneurs is the fact that so many current businesses were born and/or grew up in the previous decade during a huge surge of sustained growth. A surge the like of which we shall not see for a long time. The legacy of that growth no doubt accounts for the robustness of firms during the challenges of the last three years but surely now most business leaders will be thinking of their own plans B, C and D.

Are these entrepreneurs able to pivot to the new environment? It’s certain that any waste or flabbiness in approach has been worked out of the system over the last couple of years. Mere survival is not enough though – it won’t “all be over by Christmas” – there’s a real need to think about strategy and value creation. The very foundations for a business must be tested – is the company satisfying a real and sustainable customer need? Is it profitable enough to support the most demanding investment and lending criteria? Does it attract talent like a magnet in a job market where employees feel that clinging to an existing role trumps all alternatives?

One simple assessment that has to be made is whether the industry is in long term structural growth or decline. An under-funded business in a low growth or declining industry is destined to shrink and disappear unless the moment is seized to break out. Now might be the moment to move over into areas that are longer-term bets. For those firms who can see their industry will still be growing in ten years or more there is still the knotty question of how to position the business during this slower period. With so many competitors adopting a siege mentality there’s a chance to innovate and create real differentiation. One has only to examine the good news stories about firms that are doing well to see that innovation is still rewarded to the extent that observers warn of valuation bubbles. For the majority now is not the time to reap rewards but it is the time to re-evaluate, to prepare winning strategies.

Keith Willey
Executive summary

Some of the wires that connect the various economic factors still remain fused as the legacy of the financial crisis lingers on. Many of the certainties of previous decades have been swept aside and replaced with elements of doubt and mistrust. Setting up, managing and growing an entrepreneurial business has rarely been so challenging. But it has been three years now: shouldn’t entrepreneurs, banks and the government have developed a workable framework for doing business together by now? The absence of such a framework is costing each of them in different ways.

Entrepreneurs
The entrepreneurial sector is often cited by the media and politicians as being the engine room for the recovery of the UK economy. Entrepreneurs, by their nature, are ambitious and seek to achieve growth even within a testing climate. However, while business owners may have been hampered by new regulation and difficult financing conditions, perhaps they have not made the most of the available opportunities. Government incentives and assistance have not been consistently seized over the past 12 months and there is seemingly a failure to engage with stakeholders and local communities. Emerging opportunities such as those offered by the 2012 Olympic Games could certainly be better exploited.

Banks
Banks, for their part, do not always make sufficient effort to understand and accommodate entrepreneurial businesses. This sector is a real growth engine even if it poses, at an individual company level, more risk. Many respondents to the survey are critical of the response of banks to the economic and business environment and their perceived intransigence. Business owners often despair that bank relationship managers agree to provide funding but credit committees then turn off the tap. “There are lots of promises, but no delivery on those promises,” says one entrepreneur. “The head offices are not allowing the branch managers to make decisions.” Banks have their own problems for sure, but a dose of enlightened self-interest – seeing things from their customers’ viewpoint – could be beneficial for them.

Government
The government has recognised its obligation to stimulate the economy in general and growing businesses in particular in the wake of the downturn. But somehow, despite the many initiatives announced, it appears to have failed to get its messages across. Many business owners are unaware of the various types of assistance on offer and, as a result, do not feel that the government fosters an entrepreneurial culture in the UK. The government’s attempts to bring down national debt levels partly depend on it finding a way to get its messages and offers of assistance to growing businesses, and helping them to flourish.

So why is each grouping in this triumvirate missing valuable opportunities? Perhaps they are too preoccupied by the considerable challenges they face to see the bigger picture, and yet part of the solution is close at hand. By getting closer to entrepreneurs, the government can help nurture successful businesses and thereby stimulate the economy and raise tax revenues. With a little more time, patience and understanding, banks can lend to businesses that may, if successful, drive the economy forward and become loyal and profitable customers. By opening their eyes to a greater array of external factors and influences, businesses can learn to interact better with both government and banks and seize opportunities as they arise.

At the moment, these key protagonists in this economic drama have all got room for improvement. The good news is, if they can raise their game and co-operate, they will all win – as will the overall economy.
Entrepreneurs start to look towards Asia for growth

Despite the continuing uncertainty, many entrepreneurs are broadening their business horizons. In last year’s survey, the UK market was the clear favourite in terms of new markets to enter. That focus is now shifting: whereas nearly 70 per cent of owners of smaller businesses saw the UK as their best opportunity for growth last year, that figure has shrunk to 59 per cent this year.

There is also less planned exposure by companies to US markets, and only 12 per cent of owners of larger businesses in the survey believe the North America region offers the best growth opportunity over the next three years, down from 17 per cent in 2010.

The rapid increase in GDP in the BRIC countries over the last decade or so, and the opening up of those markets to foreign competitors, has enticed a number of entrepreneurs to focus on those countries. Says one: “Increased population and greater prosperity in the BRIC countries will continue to drive the world economy and can only be good for our products in the longer term.”
However, overall, there is little increased appetite to do business in some of the BRIC countries. In fact, not a single company in the survey believes Brazil represents its best growth opportunity and none of the smaller companies surveyed believe Russia is the promised land.

Asia, including India and China, is stirring the imagination of business owners. Asia now represents better growth opportunities for small companies than the US. While just 7.65 per cent of owners of smaller entrepreneurial businesses see the US as their prime market for future growth, 16 per cent view Asia as the best route for expansion.

This is a shift from last year where perceived challenges, additional costs and risks were discouraging entrepreneurs from this market. Perhaps there is now more trust and reliability in Asia, which alongside a growing economy and the difficulties facing the UK and western markets, has led to this change in attitude.

Keith Willey observed: "Britain has attracted investment from the BRIC countries and buys goods there, but our government is worried that businesses aren’t taking advantage of the export opportunities that come with the associated trade agreements. However, companies with knowledge-based or high value-added propositions will find a ready market. What we haven’t been able to survey but does get raised as an issue in terms of doing business in Asia is the reliability of local legal systems and business practices. People ask what more might be done to make sure contracts are honoured, intellectual property is protected and invoices are paid in those countries. Clearly the massive growth opportunity has led some people to work through those issues to their satisfaction while others hesitate – perhaps unnecessarily.”

“Clearly the massive growth opportunity has led some people to work through those issues to their satisfaction while others hesitate – perhaps unnecessarily.”

Keith Willey

Deloitte insight:
It is encouraging to see UK entrepreneurs seeking growth in Asia. However, it continues to be vital that all aspects of tax and regulation are considered. Exposure to additional unnecessary tax and penalties could easily happen, and missed reliefs may prove very costly, so seeking appropriate professional advice and guidance may help with this.
Entrepreneurs are famously bullish about prospects for their own companies. This perhaps reflects the fact that a healthy dose of optimism is indispensable to cope with the ups and downs of running a growing business.

As the above shows, while 14 per cent of companies significantly outperformed their revenue growth forecasts over the last year, 16 per cent significantly underperformed expectations. The best performers were life sciences companies, of which 22 per cent significantly outperformed, and manufacturing, where 20 per cent beat their revenue forecasts by 5 per cent or more. Manufacturers performed well despite dismal employment data from the sector and a downbeat outlook last year by many economists. The weakened pound undoubtedly helped to boost sales to overseas buyers.

Struggling sectors include private equity, in which a third of firms significantly underperformed as refinancing routes were closed off. Energy, infrastructure and utilities also failed to meet expectations, as did many consumer businesses amid a retrenchment in spending.

Entrepreneurs in these sectors were clearly too optimistic about any economic recovery and about their own business outlook. In fact, overall, 90 per cent of business owners believed they would increase revenues, but in the end only 50 per cent did.

This year, expectations are even higher, with 92 per cent of entrepreneurs anticipating positive revenue growth over the next 12 months. A sixth of them even see an eye-popping three-fold growth in revenues by 2014. While this could be from a low base it would certainly seem to reflect a healthy degree of optimism among the entrepreneurial community.
Growth is much more likely to be achieved organically than in the recent past. The main growth route of 42 per cent of smaller companies over the next year will be organic compared to just 18 per cent last year. They are less likely to create strategic alliances, enter new markets or develop new products and services than last year. This could be because they have already worked out their strategies after three years of recession and are now concentrating on executing those strategies by using the cash they have accumulated on their balance sheets.

“Sentiment about growth seems so fragile these days one hardly dares comment for fear of being out of step with developments” Keith Willey noted. “There’s a case, though, for believing that the positivity noted above might be well founded – most businesses have seen enough false dawns to recognise real growth when they see it. There is also an element of survivor bias – although we have not seen the expected rush of insolvencies, many businesses have realised that “what doesn’t kill you makes you stronger”. Tough questions about costs and market position have been asked and answered in recent years, whereas the boom years raised fewer questions about competitiveness.”
A lack of knowledge of competitors – a concern that emerged from last year’s survey – has still not been rectified by many business owners over the last year. Just 38 per cent of larger companies and 32 per cent of smaller companies have good knowledge of the activities and strategies of their competitors. The good news is there are many readily-available tools to redress this deficiency and improve sales and marketing techniques, as well as product development.

Deloitte insight:
Successful entrepreneurship requires a positive outlook, but caution is required given the economic conditions. It’s encouraging that a high proportion of businesses have met or exceeded forecasts, which demonstrates how well the entrepreneurs know their business and market. The growth predicted by those surveyed this year continues to demonstrate how optimistic entrepreneurs can be.
Stormy markets cloud exit plans

The decision to exit a business is usually based on more factors than the owner simply hitting retirement age. A rise – or fall – in the value of the business, growing business complexity, the economic environment, family dynamics, lifestyle and health are among factors that entrepreneurs take into account. Just over a quarter of entrepreneurs have no exit plans at all.

The continuing impact of the economic downturn has changed the perceptions of nearly 30 per cent of entrepreneurs. This is an increase on last year, perhaps reflecting the realisation that recovery is still some way off and that stagnation may be entrenched.

The growing uncertainty is reflected in the comments made by entrepreneurs in the survey. “Where would you put the cash currently?” asks one. “A sale of the business would not generate enough capital to maintain the standard of living I require,” says another.

Just over a fifth of business owners will sell up when a target value is achieved, while 11 per cent will exit when a price-earnings multiple is achieved. Where an exit is planned, the results were similar to last year, with trade sales being preferred by 44 per cent of owners, and management buyouts a distant second preference at 7.7 per cent.

Since its introduction, the limit for entrepreneurs relief has increased from £1million to £10million, to encourage entrepreneurship. At this stage it is difficult to tell, whether a serial entrepreneur will find this a big enough incentive when the £10million limit is for a life time.

“One can take two views on the routes to exit – the textbook version and the here-and-now version. The former allows an entrepreneur to take stock, assess a range of options and form a considered view on them. But when M&A volumes are down, most businesses have to fall back on hard graft and wait for something to turn up. A fortunate few have compelling stories for a trade buyer but these sales are usually the result of careful positioning over a number of years and not as opportunistic as they might appear.”

Keith Willey
An interesting footnote to the analysis of exit intentions is that men plan to exit businesses earlier than women. Nearly half of men believe they will cut ties to their business in the next five years compared with just 30 per cent of women. The reasons are not explained by comments in the survey but it is possible that on average female entrepreneurs are younger and therefore need to grow their businesses for longer before arranging a sale. Or it could just be that male entrepreneurs are more bullish about the growth of their businesses and the consequent exit possibilities. A case of over-optimism or rational exuberance – time will tell.

**Deloitte insight:**
At a time of uncertainty it is expected to see entrepreneurs taking stock of their business and focussing on the key objectives to reaching their target value. Over the previous decade, reaching a desired position with revenue or profit growth, or even product development, tended to be the key area of focus, and from there the appropriate exit value then followed.

However, times have changed as there are fewer opportunities currently available. Those deals we have seen have either been opportunistic, or where management have spent a significant proportion of time, developing a distinctive market, managing the expectations of that market and focussing earlier on building relationships with the right purchaser.
Pay to play: capital sought for growth

At last entrepreneurs are looking to the future and the relative economic stasis of the last three years could be ending. Many have accepted that economic conditions may not improve materially for some time and have decided to go ahead with expansion plans anyway. The number of smaller business owners looking to raise new capital as their main strategic priority has consequently doubled from last year, with three times as many larger businesses as last year seeking new capital.

This capital will be used aggressively to increase revenues. For most business owners’ expansion into new markets and introducing new products and services will be the prevailing priorities for the year ahead. These are closely followed by improving productivity and increasing cashflow.

Stuart Henderson, the Partner leading UK Biotechnology for Deloitte, observed “This is a classic entrepreneurial response to tough times. Figure 8 says they are putting their faith in themselves and their businesses and that they are not reliant on anyone else for cash. How are they going to generate that cash? By doing what entrepreneurs do; taking control of their own destiny – pushing into new markets; with new products; produced more efficiently.
In terms of working capital for growing companies, the banks are starting to return to the fray. Last year, just 5 per cent of working capital was expected to come from banks, but that expectation has risen this year to 17.5 per cent. Banks will also provide a fifth of all development capital over the next year, according to business owners. However, 75 per cent of entrepreneurs expect the main source of working capital over the next 12 months to come from the business itself.

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<th>Source of Cash</th>
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<td>Angel investors &amp; venture capital</td>
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<td>Enterprise Finance Guarantee Scheme</td>
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<td>Private Equity</td>
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After this year, cash generated from the business remained as the leading source of cash for a business at 75% (2010 - 81%). It would appear that the opportunities provided by the Enterprise Finance Guarantee Scheme, designed to make funding easier for growing companies, have not been seized by many business owners. Nearly a third of the larger businesses surveyed admitted they don’t know what the scheme is, and 40 per cent of smaller businesses believe it doesn’t apply to them.

There is a surprising lack of awareness about the scheme, despite it having been made more accessible since it was launched. This also extends to Enterprise Zones, designed to provide assistance to growing businesses. Some business owners, however, did not know about them at all and very few actually took advantage of them.

Deloitte insight:
Cash levels have improved and management of cash has been given more priority and attention. However, we still see opportunities being missed. Salary sacrifice incentive schemes, better working capital management, and renegotiation of loans are just a few ways in which we have seen significant cash benefits being obtained.
Cautious optimism tempered with a strong dose of realism

It is not easy to extrapolate from the responses to this survey exactly how entrepreneurs are feeling at the moment. That’s probably because they are unsure themselves. On the one hand, they wish to raise cash and expand their franchises, on the other they are worried about maintaining sufficient cash to see them through any further sharp contraction in demand.

About 42 per cent still describe their attitude to cash as “stockpiling”, for instance. This is slightly down from last year, but still represents a conservative position. About the same number as last year (slightly less than 5 per cent) are struggling to stay afloat at all.

Figure 9. Which best describes your current cash position?

What will end the uncertainty and convince businesses to devote more of their spare cash to growth rather than retain it as insurance against a multitude of potential rainy days? Keith Willey remarked “The banks perhaps have their own reasons to hang back until their incentives or business models change. They are crucial to entrepreneurial growth. Government has to make cuts. So will entrepreneurs dash forward way out in front of everybody else? Probably not until they know banks are on board for the journey.”

“Entrepreneurs have been cited at the highest levels of government as being the potential saviours of the economy. The problem is that nobody is going to lead if they think others won’t follow or, worse, if they’re headed in the other direction.”

Keith Willey
The entrepreneurs perspective on the UK economy reveals widespread concern. Just 26 per cent are confident that the UK economy would meet the Bank of England forecast growth rate of 1.7 per cent. Their scepticism has already been justified, as growth forecasts were downgraded just after this survey closed.

Concerns over the weakened economy and its potential impact on employment, sales and corporate taxes, have not been widely acted upon though. Two-thirds of business owners will not change how they manage their tax affairs, for example. However, many of them could act more in terms of restructuring personal incentives and pensions, for example, to potentially reduce the tax impact.

Richard Crane, Partner at Deloitte, observed, “The media love the bad news story – this survey shows that most businesses are actually performing satisfactorily in perhaps a long term dull economy. The challenge comes in assessing the outlook in the light of so many large uncertainties primarily from overseas but which could impact demand in the UK. Business owners really need to challenge themselves how they are changing to become better than the rest and their likelihood and commitment to develop sustainable competitive advantage. If they are not going to put their money where their mouth is, then do preserve cash or possibly better still look for an exit via a sale or joint venture – remember the old maxim that if you are not going forward you are going backwards.”

Nevertheless, sentiment is not overwhelmingly negative. Nearly half the male entrepreneurs in the survey say sentiment among customers and business associates is positive, and this rises to 73 per cent among female respondents. This does not necessarily mean that entrepreneurial businesses see a happy ending for the world and UK economies, but that small, fast-moving companies can often take advantage of changing environments whether the environment is benign or hostile.

If they adjust their sights and take advantage of all the opportunities offered by markets and via official channels, growth businesses can push their way out of the economic gloom and position themselves in the vanguard of economic recovery.
Better lending terms remain the biggest ask

Ever since the credit crunch and the subsequent financial crisis reduced funding options for businesses, owners and managers have been impatiently waiting for a return to “normal” lending conditions. That does not necessarily mean a reversion to the ultra-loose credit environment of the years immediately preceding 2007, but to conditions where businesses with reasonable growth and cashflow expectations can achieve appropriate levels of funding at a sensible price.

The wheel now seems to be turning, albeit slowly. Nearly two-thirds of entrepreneurs say banks have met their business needs over the last year. While 30 per cent of owners of smaller businesses report that only some of their needs have been met by their banks, only slightly more than a tenth of entrepreneurs say “virtually none” of their needs are being met.

While smaller businesses in the survey are slightly less satisfied by banks overall, there does appear to be an improvement in the relationship between banks and entrepreneurs. For the relationship to improve still further, business owners say they would like to see better lending terms, improved advice on cashflow and lending products, more networking opportunities and an enhancement to online support tools.

In fact, some 214 out of the 474 entrepreneurs surveyed wished for better lending terms, and less than 30 per cent have noticed an improvement in their bank’s willingness to lend or offer better lending terms.

Figure 11. In what area would you like your bank to be more helpful to your business?

This disappointment is reflected in comments offered by respondents, which reveal that some of the problems of the last three or four years remain stubbornly in place. One respondent writes: “The security required by banks and other financial institutions at present is disproportionate to the level of lending, making it difficult to obtain funds needed.” Another comments, “They are always looking for a reason not to finance, rather than the reverse.”

So while as a group, entrepreneurs feel better served by banks than in the last few years, frustrations remain for a large minority. In last year’s survey, more than half of business owners believed a double dip was likely in 2011. Certainly, 2011 has been a very difficult year and a return to full-blown recession is possible, which could once again sour the relationship between entrepreneurial companies and their banks.
The links between government and business have always been tenuous. This is how it should be in a capitalist democracy: one (the government) facilitates the activities of the other (the private sector) and derives a benefit (higher tax revenues, lower unemployment) as a result. The relationship need not be a particularly close one. In fact, many entrepreneurs prefer to do business in an environment where the hand of the state is virtually invisible and bureaucracy is at a minimum.

However, in times of economic distress, government can provide assistance and advice that can help companies navigate temporary difficulties. The government recognises that any widespread failure in entrepreneurial businesses would be damaging to the economy and has introduced a number of measures to help the sector.

StartUp Britain, for instance, was launched in March 2011 to stimulate an “enterprise-led” recovery. It includes providing help with services and marketing, broadband and mentoring support, as well as discounts on insurance and free training. Yet 30 per cent of entrepreneurs in the survey claim not to have heard of the initiative despite the accompanying media campaign.

From a business perspective, this looks like a missed opportunity for entrepreneurs to lean on the considerable pooled resources that only governments can call on.

“I don’t believe entrepreneurs are attracted by tax incentives. Sure, it helps, but much more important is the market, the opportunity and of course the availability of investment cash. However it’s a different matter attracting investors – their incentives are important and to a degree the Government is reacting positively.”

Mike Balfour
Similarly, while 22 per cent of entrepreneurs have submitted an R&D tax relief claim in the last three years and find the scheme useful, more than 12 per cent have not heard of the relief at all. A further 46 per cent believe the scheme is not applicable to their business. On closer examination some may find that the relief is wider than they perhaps had envisaged.

Figure 13. Has your business submitted a Research and Development tax relief claim in the past three years and how useful is the scheme to your business?

A small proportion of respondents have tried to use the scheme but have not found it useful. HMRC has the right to challenge individual claims and this can occasionally lead to a long and costly claim process, but they are now working with companies to improve this.

In our experience companies with well prepared and organised claims find the process relatively easy. It is key when preparing R&D tax relief claims that the company’s technical staff are involved in identifying the projects and the expenses.

A new “patent box” tax regime, to be introduced in 2013, will charge tax on profits derived from patent income at 10 per cent instead of at the standard corporation tax rate. Entrepreneurs are divided about whether this move will encourage activities that commercialise UK innovation, with around 18 per cent who are not aware of the new regime at all, reflecting the lack of communication which seems to exist between the government and entrepreneurs.

Deloitte insight:

*It may not be solely a communication issue, but companies not actually understanding the relevance of each opportunity to them. Many companies would be surprised at the availability of R&D tax relief, and should not just dismiss the opportunity simply because they are not an obvious technology company.*
Some businesses are wary of applying for patents, fearing the process could alert rivals to technological and procedural competitive advantages. One entrepreneur notes: “Many small UK companies only have enough money to patent their technology in the UK and Europe, but by publishing their patent they allow larger predatory companies around the world to read their patent and publish similar patents very quickly, thereby losing the small company’s technology edge in other markets.”

Ignorance or misunderstanding of government measures is not just confined to incentives but to obligations. The IFRS accounting regime, for instance, was introduced as far back as 2002 for large companies and yet 18 per cent of entrepreneurs are not aware that SMEs will be transitioning to the new accounting regime in the next two or three years. In addition, over a quarter are not prepared for it, so in total 43 per cent of entrepreneurial businesses are not in a position to respond to the demands of IFRS.
Given the apparent lack of communication and understanding of governmental and regulatory measures, it is hardly surprising then that many entrepreneurs feel the government does not necessarily have their best interests at heart. Asked whether UK business culture encourages entrepreneurs, just 41 per cent agree. One commented: “I would like to know whether entrepreneurs and small business investors are valued by society and how are we going to get the school leavers better prepared to work and wanting to go into business.”

While the regulatory framework was reckoned by a majority of business owners to support entrepreneurs, a vocal minority still feels that they are being stymied by bureaucracy. As one says: “Red tape must be cut in the country.” Meanwhile, another noted that employment laws have not kept pace with the now-entrenched economic malaise, saying: “Government needs to make it easier to fire or lay-off staff – currently it is too risky to create jobs if the business is likely to be sailing close to the wind financially.” In other words, smaller businesses would like increased flexibility in order to operate more efficiently in the current market. Their strength is their nimbleness and creativity, and they need to be able to employ a full range of tools to enhance these strengths.

Figure 16. The regulatory and taxation framework in the UK encourages and supports entrepreneurs, and I believe that the Government’s commitment to promote enterprise in the UK is genuine. To what extent do you agree with this statement?
London 2012 Olympic and Paralympic Games

One of the biggest surprises in the survey was that businesses are not yet recognising or planning for the benefits of the London 2012 Olympic and Paralympic games. More than three-quarters of entrepreneurs believe the event will have no impact on demand for their goods and services and, even in London, 71 per cent of owners of businesses based there, believe there will be no positive effect.

Heather Hancock, Lead Partner for London 2012 at Deloitte, commented: “We know from Sydney, Beijing and Vancouver that businesses tend to underestimate the sheer breadth and scale of the impact of the Olympic and Paralympic Games, and this survey suggests it could happen again – despite the huge opportunity. Visa’s recent research into the economic impact of the Games predicts a £5.1 billion boost to UK economy, with consumer spending expected to hit £750 million. Companies large and small should be planning now to take advantage of increased demand and new customers – for instance through new or improved marketing.”

Arguably of more concern though, is that more than half of small businesses in London expect no impact on business operations – the kind of situation we discovered when we surveyed larger businesses of over 500 people around this time last year. Since then there has been a marked shift among that business community, with 95 per cent now saying that they will assess the impact of the Games.
Entrepreneurship UK: 2011/12
Is collaboration the key to success?

4.87%
6.33%
3.16%
6.08%
2.19%
1.70%
0.97%
74.70%

Deloitte insight:
There is already a lot of information out there though – in particular the Olympic Delivery Authority’s ‘Keep on Running’ campaign and TfL’s ‘Travel Advice for Business’ resources. We would encourage business owners to assess the impacts and opportunities, which will very much depend on their sector and location, and then plan accordingly.

Rick Cudworth, Partner for Games Readiness at Deloitte, commented: “The level of awareness of the impact of London 2012 among small businesses appears to be low. With less than a year to go to the Games, the clock is ticking and planning needs to start now. For small businesses, supplies, transport, travel and staff availability will be critical considerations. There will be three million additional journeys on the busiest day of the Games, whilst transport and logistics restrictions will be in place throughout the Games period, which extends for several weeks. Creative and switched-on businesses can benefit from landmark events such as London 2012 and it is to be hoped that more of them take advantage of the opportunity before the Games formally open in July 2012.

Likewise, businesses – and smaller companies in particular – can increase their visibility and enhance their brands through engagement with local communities. Again, there are indications more can be achieved in this respect. Nearly 200 out of the 474 entrepreneurs that responded to the survey have no involvement in community investment programmes. Over 100 have no intention of ever doing so. This is undoubtedly a missed opportunity to engage with potential customers, workers and suppliers. While 120 business owners are to be praised for encouraging their employees to give to charity, this does not necessarily create a positive feedback loop that could help the business.
Government economic measures well-judged so far

The government is not solely focused on efforts to stimulate the small business sector. It is also embroiled in a titanic struggle to balance its books amid an unprecedented global sovereign debt crisis. In particular, it is trying to increase tax revenues – and thereby reduce national debt – through a variety of financial measures such as reducing capital projects, raising VAT and cutting its wage bill and pensions.

It seems to have got the balance about right given that only 22 per cent of entrepreneurs say tax-raising and cost-saving measures have had a significant negative effect on their businesses to date. This is not a negligible number, but equally does not represent a disaster for entrepreneurial businesses. Nearly a third say there has been no negative impact whatsoever. A caveat here though: this finding perhaps reflects that fiscal retrenchment has impacted public sector in the first instance, and that the trickle down effect to the private sector is only just starting to have a negative influence on demand.

On the other hand, nearly half of business owners believe there will actually be benefits accruing from the fiscal squeeze. These include an enhanced environment for hiring staff, reduced input costs and a reduction of the role of the state in the economy. For switched-on entrepreneurs, any changes in the wider business environment can represent an opportunity.

Similarly, the increase in VAT from 17.5 per cent to 20 per cent at the start of 2011 has not had deleterious ramifications. Nearly half of business owners have passed on the extra cost without suffering a fall in demand for their products and services. A number of owners decided to absorb the cost, but just a tenth of businesses overall were negatively impacted by the VAT rise.

Keith Willey, an entrepreneur himself, noted “The businesses most concerned by VAT rises are those that are consumer-facing or not too far removed from the end-consumer in the value chain. However, back up the value chain, B2B sales are less impacted because customers can net off VAT. The question for business leaders with regards VAT is whether pricing is transparent to customers and whether price is the base for competition in their market. Most growing businesses lack the scale and scope to be able to undercut larger players, so have already figured out that they have simply got to be faster, have a better product or service, or be more responsive. The VAT rise ought to confirm the power of their differentiation strategy. Of course, there are always entrepreneurial firms winning sales based on low price because they are running with minimum overheads and have lower profit ambitions than bigger players. This might be the moment that approach runs out of road. Regardless of their individual competitive position, business leaders like consistency in taxes, and VAT is an easier way for the Chancellor to boost revenues than direct taxation.”
Overall, the government decisions to increase VAT and institute other fiscal retrenchment can be seen as largely positive for the country as a whole given that business has not substantially suffered and that the fiscal tightening has stabilised the economy and allowed the UK to continue to borrow in the sovereign debt markets.

Deloitte insight:
Government are genuinely committed to helping entrepreneurs, and will facilitate this help through tax and legislative breaks. However, they [Government] are not going to be able to create demand and make the market. They will be there to help make change easier, and therefore help SMEs make more of the opportunities ahead.
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