Entrepreneurship UK 2013/14

Entering a brave new world

Deloitte – Private Markets

Foreword

There is a point in each economic cycle where momentum shifts direction, either up or down. It only happens once or twice a decade and can be a barely noticeable flickering of the compass needle, but it signals an epochal shift in direction and attitudes. Fortunes are won, global brands created, and the world changed on the flicker of that needle.

In this year's survey 429 of the UK's entrepreneurs told us that, for them, the tide has turned. No longer are they playing the survival game, hoarding whatever cash they can, and waiting for the good times to return. Finally, they are riding the wave of good performance and promising outlook.

This is an exciting time to be an entrepreneur in the UK, but it is also a challenging one. Now that survival is not the only game to play, which game do you play? Our survey indicated that entrepreneurs are ready to expand and invest, but they lack the skills to fully exploit the two trends which are defining our time: the emergence of overseas markets and the rise of digital technology.

At Deloitte we have been helping to close this entrepreneurial skills gap, not only through the work we do day in, day out, up and down the country with our clients, but also with the introduction of our Growth Generator Programme designed to support entrepreneurs and private companies on key themes, such as funding for growth, collaborating to win in new markets, the impact of digital Britain and doing the right deal in M&A. Further investment in entrepreneurship is demonstrated with London Business School and the development of **The Deloitte Institute of Innovation & Entrepreneurship**. Alongside an unrivalled programme of education and research, the institute has helped incubate many of the UK's most successful enterprises.

More recently, the Deloitte Social Innovation Pioneers programme has seen us invest over £1m a year in 16 socially innovative businesses. In just the first year, our pioneer cohort reported an average growth in turnover of 45% and 83% have increased employment within their organisations, equating to 80 full-time and 41 part-time roles.

It shows just what can be done with the right advice, the right investment, and the right businesses. What is more it shows what can be done in a short space of time. There is a role for the Government to provide meaningful support to businesses on exporting and financing growth, and to do so without operating on HS2 timeframes.

The message to the UK's entrepreneurs is clear. The time has come to think about growth and investment, and to ensure you have the skills within your organisation to take advantage of new markets and technologies. Yet at the same time it is vital to keep control of the purse strings. Don't over-engineer growth solutions. Test products quickly, try low cost solutions to new markets, take the time to re-build relationships with debt providers as you may still need them, and more than anything else define your strategy, and have faith in it.

We hope that you enjoy reading our findings on how we believe entrepreneurs are entering not only a new time for growth, but a brave new world in a changing business landscape.

Mark Doleman

Mark Doleman
Head of Entrepreneurial Business UK, Deloitte – Private Markets

Expert viewpoint

Theo Paphitis

Probably best-known for his eight years on *Dragons' Den*, Theo Paphitis is one of the UK's most successful entrepreneurs. Beginning his working life as assistant to the tea boy he set up his own company aged just 23 with a Lloyds of London broker. As Chairman of Millwall FC for eight years, he took the club out of administration and also revived the fortunes of notable retail brands such as La Senza Lingerie (UK), Contessa Lingerie, Ryman, Partners the Stationers, Stationery Box and most recently Robert Dyas. In Spring 2011, Paphitis launched lingerie brand, Boux Avenue.

It is about time the UK's entrepreneurs started being more optimistic. The bottom of the market took place a full 12 months ago, and that is when I invested a lot of money. Since then we have seen many companies grow at any impressive rate, and in the 12 months ahead I expect this trend to accelerate further.

We now operate in one of the most competitive tax regimes in the world. There might still be too much bureaucracy but when have entrepreneurs not suffered from too much bureaucracy? I believe that what really holds many entrepreneurs from growing as fast as they could is their reluctance to make acquisitions. Some may not have managed a larger business previously or they lack access to finance so they stick within their comfort zone.

Another limiting factor is a failure to engage with technology. Anyone who believes that digital technology is not relevant or useful to their business is wrong, and their businesses will wither and fail. Technology is the single most important thing that is shaping business. We are witnessing the transformative equivalent of the Industrial Revolution every two years! This is changing the way we live our lives and it is changing the products and services we need. Who would have predicted the rise of Amazon or Google, and which company is next?

The mounting importance of overseas is the other major factor affecting the way we do business in the UK. China might be growing at 8% a year but it's a long way away with a different language and business ethos, so I would advise UK entrepreneurs to look closer to home. You're never going to crack China on a £2k grant from UKTI. Instead, consider the role the UK has played in rebuilding the Middle East in the past two decades and think what need might there be for your products in that fast-growing region.

All of this matters, but what matters in business more than anything else is passion. I could bore you for hours talking about the businesses I run, and I think the mark of every successful entrepreneur is that they put in that legwork. They understand the competition; they know their product and their market inside out; they are completely immersed in the business. For anyone who has that passion, who is open to technology and the changing world economy, and who gets the right advice, there has never been a better time to be an entrepreneur.

Theo is a passionate champion of small businesses. He instigated Small Business Sunday on Twitter, shortened to the hashtag #SBS. Each week, from 5:00pm to 7:30pm, business owners are invited to tweet **@TheoPaphitis**, and include the hashtag #SBS. The best six tweets are re-tweeted every Monday evening at 8.00pm to Theo's following of over 380,000 people. They are also profiled on a dedicated website www.theopaphitissbs.com

Sherry Coutu

Earlier in 2013 Sherry Coutu was awarded a CBE for 'Services to Entrepreneurship'. This was the latest in a series of accolades for the former CEO of Interactive Investor who is now one of the most active angel investors in the UK. In November, TechCrunch ranked her as the best CEO mentor/advisor. In May 2011, she was voted by *Wired* magazine as one of the top ten most influential investors and women.

With a strong focus on the technology sector she has recently invested in educational charity Raspberry Pi and fertility company Duofertility, but she has decades of experience serving companies which range from fast-growth private early stage to public and boards with turnover of more than £ 1bn. In fact, she can proudly claim to have made 45 angel investments in companies now employing up to 9,000 people in 20 countries with a combined turnover of £1.5 billion.

All entrepreneurs are optimistic – necessarily so – but it is statistically unlikely that 64% of them will grow by more than 10% next year. The reality is that a smaller number will grow by much more than that, some by as much as 1000%. We recently surveyed the top tech firms in Cambridge. We found that the top 50 of 1500 grew revenues by 23% – that is more realistic model for future growth.

I am an advocate of organic growth. Mergers and acquisitions have high failure rates with only one in five creating value, so in most cases I advocate focusing on safer organic growth. For example I'm on the board of LinkedIn where almost all growth is organic because customers get such great value. The problem for LinkedIn is that we can barely answer the phones fast enough. We need to recruit to keep up with the demand.

Indeed in the UK the greatest challenge we face is scaling up. Proportional to population we have the same number of start-ups each year as the US, but only half the number of companies in the UK that achieve any scale. That should give pause for thought to anyone who has an interest in UK entrepreneurial success. I believe we have a great tax regime in this country. EIS and Seed EIS have been brilliant. In fact I know entrepreneurs who could operate anywhere in the world but choose to operate here.

So, if I could ask the Government to do one thing to help entrepreneurs it would not be to cut taxes; it would be to make it easier for us to hire skilled overseas workers and bring them to work in the UK. So many businesses face the choice of trying to bring a key person to the UK and it taking nine months and £50,000 or locating them somewhere like Zurich where they can work immediately. Guess which choice most take? That has negative implications for the UK's economy and for the businesses that have skilled workers located in the wrong places around the world.

Overall, though, I believe there are great opportunities for companies to achieve growth. The question of course is which companies will do so? After all 40% of today's economy is powered by companies that did not exist 15 years ago. The UK economy is not yet out of the woods and there will be setbacks ahead, but I firmly believe that in certain markets there are real opportunities to disrupt the status quo and provide added value. The challenge remains to find and then exploit those opportunities.

Keith Willey

Keith is Adjunct Associate Professor of Strategy and Entrepreneurship at London Business School (LBS) and formerly Executive Director of the School's Foundation for Entrepreneurial Management. His work at London Business School focuses on entrepreneurship, venture capital, managing growth, technology ventures, strategy and organisation development. Keith's main activity outside LBS is helping entrepreneurs to build, buy and sell ventures.

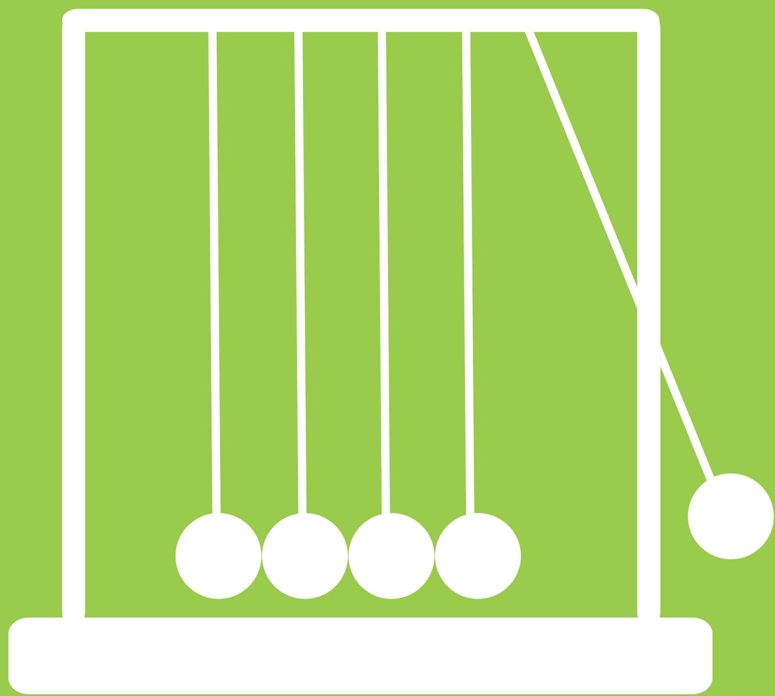
It seemed like recovery would never come – indeed some commentators said we'd have to wait much longer. Our featured entrepreneurs have put their fingers on the imperative for everyone to recognise this turning point and grasp the opportunities now presented to entrepreneurs. To this I would add the recommendation to ensure that lessons have been learned from the past 5-6 years. Hopefully you are experiencing rapid growth now, preferably in double digits, high double digits. If you are not then perhaps the rising tide will not lift your boat by much at all. To put it another way, this time around you will still have to work hard for growth because more than likely your markets and industry have moved on substantially since the last cycle. Have you taken this new breathing space to review whether you've really got a potential success on your hands?

Take newspapers for example – everyone knows that they were hit hard by the recent drop in advertising spend but the transition from print to digital consumption means those revenues are not coming back. The rule of thumb there will be to divide the old print revenue figure by 100 and then see if you can still run a profitable online business. We've all seen the impact of recession on the high street, again exacerbated by the move to online shopping even for categories such as furniture which will retain bricks and mortar operations. So the hard question for many businesses is whether in these improving economic conditions they really have a competitive or up to date offering or even better – is it innovative?

As the recession took hold London Business School established the **Deloitte Institute for Innovation and Entrepreneurship** to develop and share knowledge for successful business growth. Of course Entrepreneurship and Innovation are two different topics both of which are being advanced by the Institute, but the most interesting businesses are ones where these two topics collide. At that nexus we see businesses that create new markets, new industries or radically disrupt old ones. As well as undertaking research, the Institute funds new business incubation and is spawning some exciting new businesses. Most of these are bringing a fresh twist to well-established sectors, taking advantage of the sluggish incumbents, but others really are doing something revolutionary in their sector.

It's remarkable to see a new venture start with a blank sheet of paper and perhaps this moment of reflection and creativity is the essence of what established businesses need to recreate when forming their own growth plans. Congratulations! You made it through the bad times – now you need to consider how you're going to thrive in the good times.

Executive summary



Greater optimism replaces gloomy outlook

Six years ago when we introduced our Entrepreneurship UK survey the UK economy had just fallen overboard. The world's financial markets were floundering, the housing market was sinking fast, and it was the beginning of the longest and deepest recession since the Second World War. Today the world is a very different place. The UK economy has climbed out of the murky waters of recession, has changed the ship's captain and crew, and is now shaking itself off and looking to the bright, sunlit shores ahead.

During those six years we have seen the attitudes and concerns of entrepreneurs shift markedly. Throughout, they have been resilient in the face of adversity. This year's results tell us that they are now more optimistic than they have been for several years. They are starting to get their mojo back and, perhaps for the first time since we began the survey, there is some excitement about the future.

Many of them have enjoyed a good 12 months with 83% growing turnover, and a particularly impressive 14% adding more than half to their turnover. What is more, almost twice as many have grown their margins as have shrunk them.

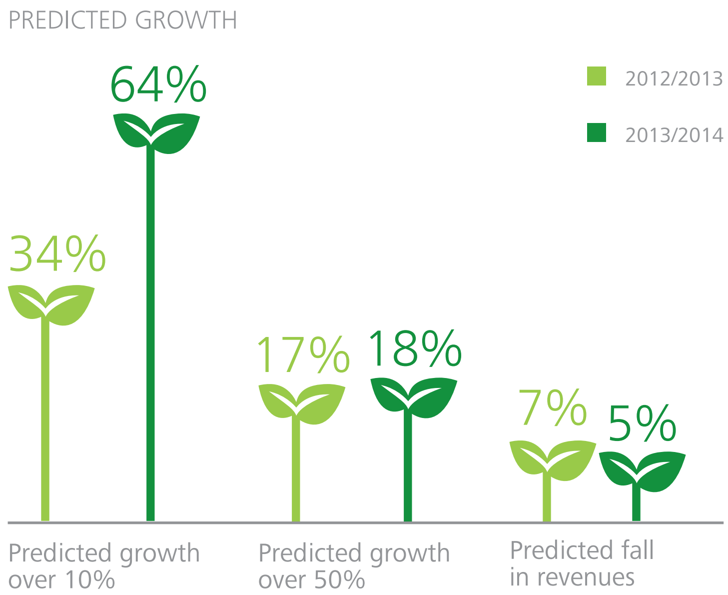
Looking ahead, our respondents have a clear view of the likely view of the UK's economic performance with 88% anticipating growth of up to 2%. The British Chamber of Commerce recently upgraded its GDP growth forecast from 0.9% to 1.3% for 2013, from 1.9% to 2.2% in 2014, and from 2.4% to 2.5% for 2015.

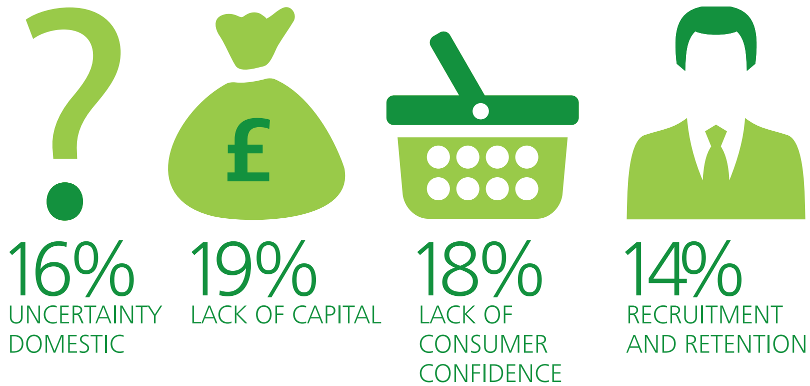
"We have seen a range of economic indicators pointing to an upturn so rising optimism among entrepreneurs is no real surprise," says Deloitte's Ian Stewart, Chief Economist. "There is still risk in the system, but ultra-low interest rates and large-scale quantitative easing are feeding through to the economy with significant positive effect. Coupled with further strengthening in the financial system and a quieting of the euro crisis this provides the most positive economic backdrop in more than two years."

Yet what is particularly striking in our research is that while GDP forecasts continue to rise, entrepreneurs are confident they can outperform even these more optimistic projections. 64% expect to grow by more than 10%, 18% expect to grow by more than 50%, while only 5% expect turnover to fall. Forecasts for growth exceeding 10% is nearly double compared to last year's forecasts.

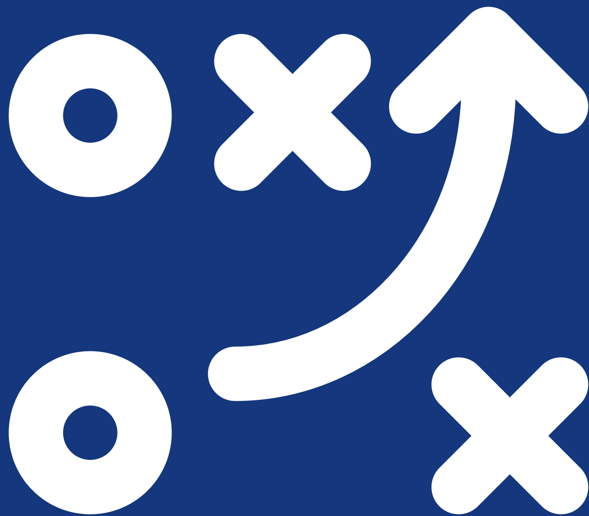
To some extent this reflects the optimism we should expect from entrepreneurs. Yet, it is also rooted in genuine shifts in the business environment. Notably, compared to previous years when lack of access to finance was a major obstacle standing in path of growth, the 2012/2013 survey painted a brighter picture of the funding options available to entrepreneurs. Indeed in this year's report we saw a much broader spread of obstacles to growth; only 19% of respondents cited a lack of capital as their primary obstacle to growth with almost the same concerned about lack of consumer confidence. Only 16% remained concerned about the uncertain domestic environment and 14% were concerned about recruitment and retention of quality staff.

"In many ways this is a reversion to the norm with entrepreneurs facing a range of obstacles, rather than continually running up against a lack of finance," says Doleman. "It is an exciting time, but one in which entrepreneurs must make vital and difficult decisions. Our survey highlighted the areas posing the greatest dilemmas for entrepreneurs, and also pointed to some of the solutions that will see yesterday's surviving small business become tomorrow's entrepreneurial success story."





Turning the corner – making decisions for growth

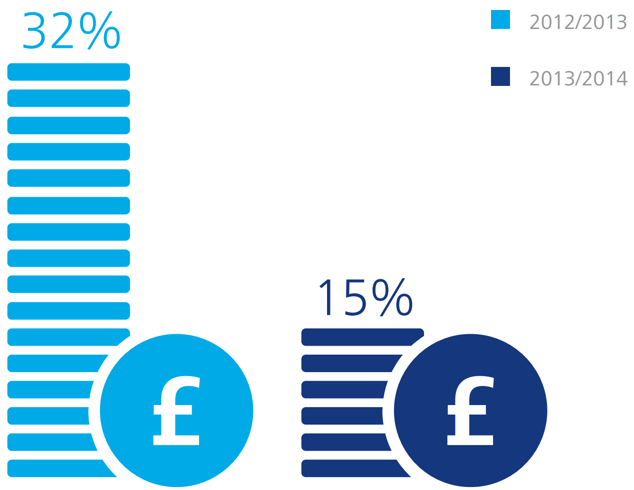


Despite a more positive turn, this is also an important time for entrepreneurs. As Stewart puts it: "The last five years have been all about survival and building up cash; now is the time to think about investment." Indeed the decisions made in the next 12 months will to a very great extent determine who are the success stories of the next five to ten years and who are the also-rans.

Entrepreneurs are keen to grow and critical to their success, they believe they can do so. Many also believe they now have the cash reserves in place to enable them to do so. In fact our survey indicated that entrepreneurs' cash reserves are stronger than they have been for some years with 56% planning to fund growth from cash from business profits and only 16% are looking to finance themselves over the next twelve months from bank finance.

Further signs of recovery is that the number of entrepreneurs actively stockpiling cash reserves for recovery has seen a substantial drop from 32% last year to only 15%. Those who are monitoring their cash position daily has also declined by 11%. However, despite these generally positive signs of economic recovery, the number of companies who reported to be struggling and experiencing severe difficulty has remained the same.

COMPANIES ACTIVELY STOCKPILING CASH FOR GROWTH UPON RECOVERY

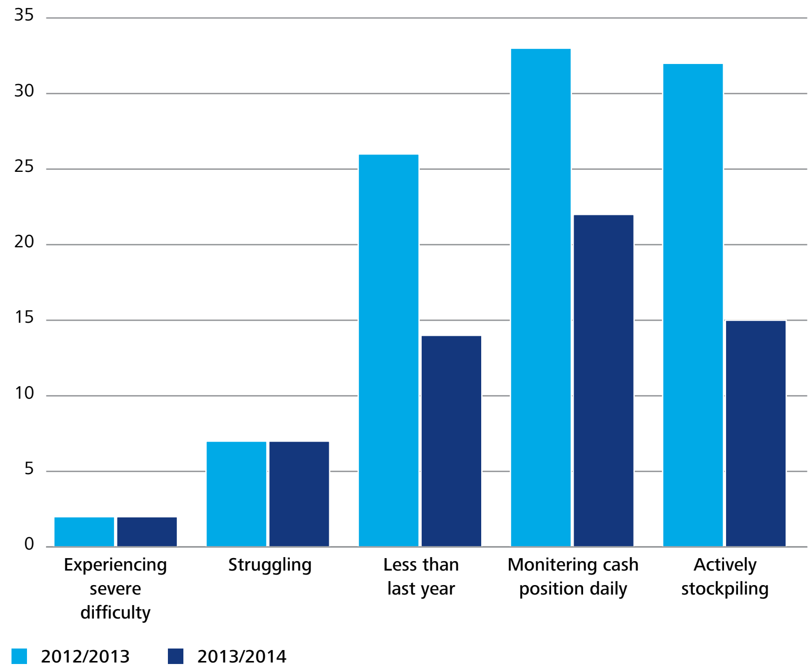


Last year, respondents who were actively stockpiling cash cited their reasons for doing so to "To provide a platform for future growth and investment" and "Because we do not trust the current environment and our sales can drop overnight like they did before". For some time entrepreneurs have been reluctant to invest, fearful of spending money before the recovery had fully taken root. A decrease of 17% of those who are actively stockpiling cash, aligned to 40% of respondents seeking to invest indicates that sentiment is beginning to change for the better.

Even if the appetite and the capability exist there seems to be a degree of conservatism around where to invest. The main growth strategy of 49% of respondents is organic growth. Good news in the survey is that 15% see new product development as the main route to growth and 14% see export as their primary growth strategy. However, Keith Willey suggests that this weight towards organic growth may be evidence of potentially growth limiting caution.

"Survival skills are an essential part of the entrepreneur's profile and as we look back on the last few years of a difficult economy many of the survivors can rightly congratulate themselves for staying the course," says Keith Willey. "Can these same entrepreneurs reap the good times presaged by an improving economic outlook though? The entrepreneurial scene is haunted by what venture capitalists call the living dead – the companies that survive bad times but fail to grow in the good."

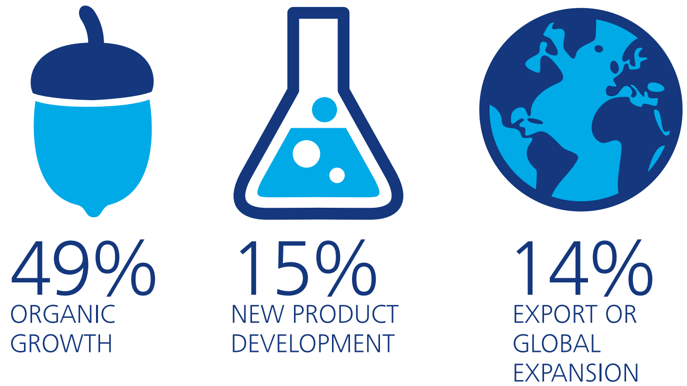
What is your current cash position?



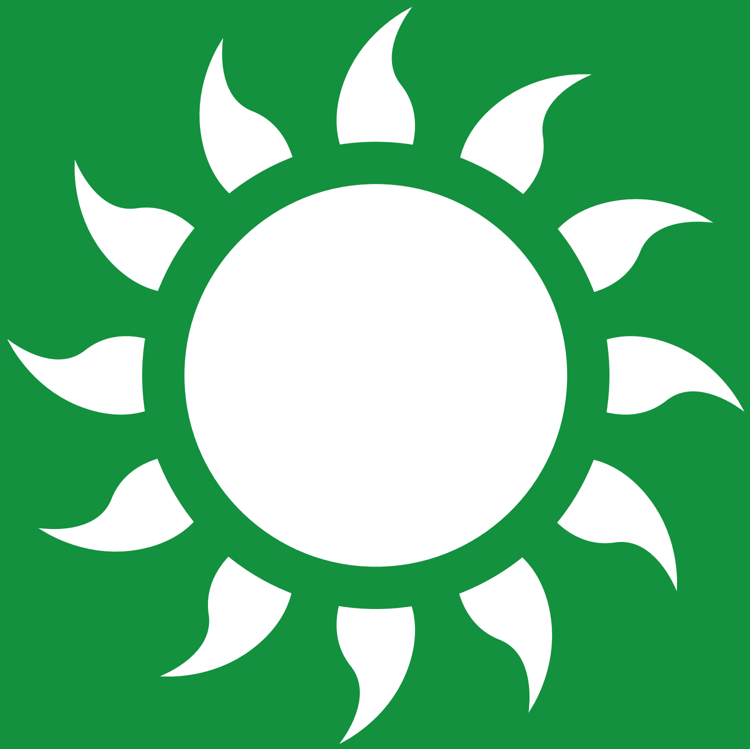
He continues: "Every leader has to ask whether they have an inherently scale able business and whether they can capture real value. All too many will now find themselves lacking the growth mindset, perhaps with the wrong business model for scale, possibly with margins that have been sacrificed in order to survive and market offerings that speak to 2008 rather than 2013. It's time to call the changes and make sure to get on the next wave of growth not the last one."

Another recent Deloitte report this time from the M&A Perspectives team offered a clear suggestion on how to make that next step out of safe organic growth. 23% of the companies surveyed in 'Restarting the SMEs engine' had used M&A in the past ten years, acquiring a total of 106 companies with disclosed deal values of almost £3 billion. With the UK's SMEs struggling to achieve organic growth, M&A offers an opportunity for companies to boost revenues, grow market share, capture greater efficiency savings and expand their offerings to clients. Indeed, this report makes it clear that M&A need not be the prerogative of just the largest firms; it can and should be a means of stimulating and increasing growth for companies of all sizes.

Before looking in more detail at the ways those entrepreneurs are, and could be, stimulating that growth, it is worth bearing in mind the importance of establishing solid delivery mechanisms. "Entrepreneurs tend to be focused on product and customers, and they often forget about delivery," says Jas Sahota, Partner in Restructuring Services. "Too many over-spend on sales and marketing without putting in place the proper systems and people to ensure the demand is met and customers are satisfied. Failure to do this results in a betrayal of the brand promise and a short-lived enterprise. Get this right and you lay the foundations of long-term success."



The distant, sunlit shore – new export opportunities



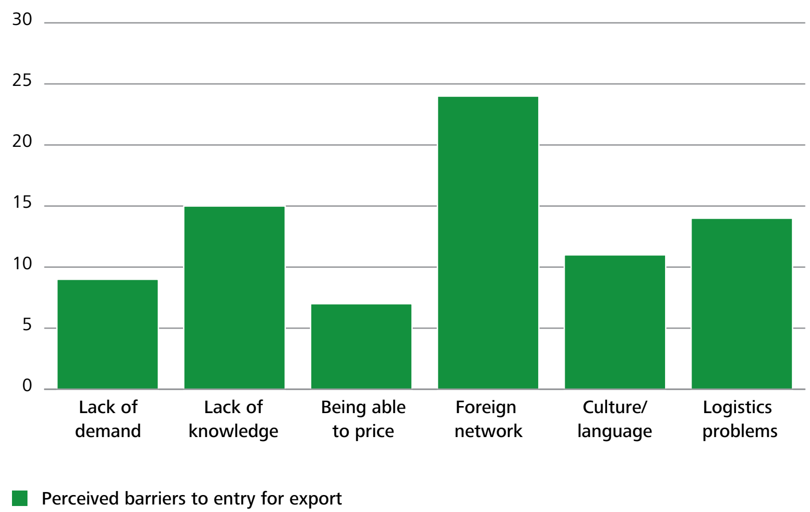
In 2011 32% of UK GDP came from export, up from 30% in 2010 and just 25% in 2004. In 2011 32% of UK GDP came from export, up from 30% in 2010 and just 25% in 2004. Increasingly, UK plc is speaking to consumers in all parts of the globe.

However, despite a combination of the weak pound and a consumer economy mired in recession leading more and more UK companies to look overseas for customers, our respondents are still exercising caution with regard to export and particularly where emerging markets are concerned in favour of more traditional and 'safe' markets like Europe or North America. Only 4% of our respondents export to the BRIC countries with no real change year on year. Surprisingly, 60% still see the UK as the best place for growth followed by North America 15%, and Western Europe 7%. Asked about barriers to new markets, 31% regarded a lack of knowledge of foreign markets to be the biggest barrier with 21% having concerns about how to establish foreign networks. 14% registered concerns about differences in languages or culture.

In a competitive market, businesses should not ignore the global opportunity. Kate McCarthy, Insight Manager, puts it: "We live in a world that is becoming more and more globalised with each day that passes. That presents UK entrepreneurs with a simple choice: either go and compete with companies in emerging economies or sit and wait for companies from emerging markets to come and compete in your home territory."

This year's report revealed a continuing recognition of the importance of Europe to UK entrepreneurs. 46% viewed Europe as a major export destination, and when asked to comment on the EU only 8% could see any benefit to leaving it. Nigel Farage's UKIP may be making inroads in the electoral map of Great Britain, but our survey suggests that it is still some way from persuading the wealth generators of Britain of the case for withdrawal from the EU.

Perceived barriers to new market entry



North America is another important market for our respondents with 34% seeing it as an export destination. While Asia and China as a whole was marked as important by 30% of respondents, China itself is less appealing with only 9% showing an interest. This is a result partly of reduced enthusiasm for the BRIC countries, and partly of a recognition that doing business in China is difficult. It requires a significant investment of time in building relationships and networks.

Yet, it may be short-sighted of UK entrepreneurs to neglect this opportunity. After all, by 2020 57% of urban Chinese consumers will be able to afford a car and small luxury goods – a six-fold increase on the number today. Perhaps UK entrepreneurs should be investing time and money now to tap into this market.

Earlier this year, as part of UK Futures, Deloitte published 'Winning in growth markets – Developing collaborative ecosystems for success' which highlighted "the unprecedented growth of the new middle class outside western economies will arguably be the most powerful economic trend in the coming decades" with the economic expansion of India, China and others. This report revealed that researching those who have been successful in entering these growth markets a common characteristic has been "a purposeful approach to building and maintaining local ecosystems". This approach has allowed companies to "overcome the difficulties of expanding into these markets, mitigating risk while bridging cultural differences, and managing geographical and political complexities."

Wherever they invest, one thing is clear, entrepreneurs need to build ecosystems.

UKFutures

UK Futures
Deloitte UK has created "UK Futures, a multi-year programme to assess and facilitate how business can drive UK growth. The aim of this strategic initiative is to identify the key opportunities and challenges facing British business and articulate the key interventions that would enable these businesses to both create and capture value in the changing global landscape.

Doing business with the Chinese

Cahal Dowds is Vice Chairman of Deloitte UK and Head of Private Markets & Advisory Corporate Finance. He has recently advised on the sale of the luxury yacht firm Sunseeker International from a consortium led by FL Partners to the leading Chinese conglomerate, Dalian Wanda Group. He believes we will see more deals like this in the years ahead. Chinese outbound M&A activity has increased sharply since 2004, with deal volumes growing by almost 25% per annum. In addition, the Chinese view the UK as one of the most attractive countries in which to transact. Yet he stresses the importance of understanding the specifics of doing business with the Chinese and offers these tips for success.

Alex Thompson, a Senior Manager from Deloitte who spent six months secondment in China, has observed that many UK businesses choose to set up a Chinese company with a local partner and offers this caution; "While this can avoid many of the difficulties those going it alone face, it does raise the issue of IP protection. Is your IP protection valid in China or do you run the risk of your partner taking your IP?"

For more information: The China Factor: A guide to doing business in China

My experience – Cahal Dowds, Head of Private Markets

1. Don't expect it to happen quickly. The Chinese believe in gradualism; it is very easy to have a positive meeting but very challenging to achieve a positive outcome. Deadlines may be a well observed custom in Western business culture, but in China, deadlines have no meaningful effect and can often be ignored. The pace of the negotiations will be largely set by them. Patience and tenacity are key.

2. Don't try to do business remotely. Face to face meetings are the only way to make progress. Build the relationship first, then business will follow.

3. I cannot emphasise how important it is to have a "Chinese" team member at meetings to help with translation and make sure both what you say is translated correctly but also to pick up and understand nuances and cultural aspects discussed by the other side in their own language.

One thing is clear when entering new markets like China, it is important to be well informed:

1. Use local employees, a local partner or professional advisers to help navigate the bureaucracy, business culture and local customs.

2. Ensure you have an awareness of the regulatory environment and the limitations these could place on your business.

3. Consider how to take money in and out of China to avoid cash becoming "trapped."

4. Seek professional advice up front (re taxation, IP protection, etc.) to avoid getting into difficulties.

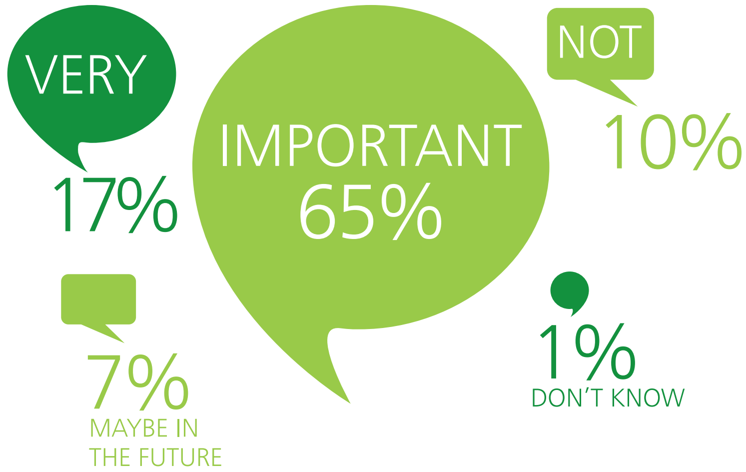
5. Adjust your expectations: in China "everything is possible, but nothing is easy"!

The brave new world – new digital technologies

It was a surprising to discover that 37% of respondents believe that social media is not relevant for their business. Of those who do use social media, 76% are using it for advertising, marketing and PR, with only 6% for recruitment and customer relations respectively. It still seems as though there is much that can be done to embrace the opportunities available from living in a connected world.

"Technology can allow real-time interaction with customers and suppliers, it can open up a global customer base, it can massively reduce reporting timeframes, and the emerging field of analytics can provide game-changing insights," comments Mark Doleman. Many businesses are failing to embrace developments in technology because of a mistaken belief that digital means Facebook and Twitter. There is so much more to it than that and it is significant mistake to believe it is neither relevant nor useful."

HOW IMPORTANT IS SOCIAL MEDIA TO YOUR BUSINESS?



Case study: Greys of Ely

Greys of Ely is a third-generation family owned coach company in Ely, Cambridgeshire. It owns 30 vehicles, employs 45 staff, and has a turnover of £1.5m. 38% of its business is home-to-school journey contracted to Cambridgeshire County Council and the remaining 62% is private hire to the likes of groups of schoolchildren on trips to London, groups of executives at large local businesses like Deloitte, and sports teams.

"We have always believed in the potential of digital technology to give us an advantage over the competition," says Richard Grey, MD. "We're on our third generation website, but it is our investments in vehicle tracking and onboard wifi that have really set us apart and helped our business grow."

In 2009 the company first placed tracking devices on its vehicles and allowed customers to view vehicle progression its website. "It was introduced to us as a technology that could help with driver compliance and fuel efficiency, but our first reaction was that customers would love it," says Grey.

He adds: "We were right. The third most popular page on our website is the tracking page. We get emails from parents saying how grateful they were for it when their child was late back from a trip and had forgotten their mobile phone. One customer who sells battlefield tours to schools even includes in his pitch the fact that he uses our vehicles with their tracking devices."

Grey is certain they have made worthwhile investments which have played an important role in growing the company turnover by 50% since 2009. He will shortly introduce a new vehicle tracking system which will offer two-way communications with the driver, tracking information on driving performance and behaviour, and information on vehicle maintenance.

He concludes: "Our business might not seem like one where digital technology is all that relevant, but our experience proves what can be done by looking outside your own sector for fresh ideas, and by looking not just at how the competition do things today, but at how you can beat them by doing things differently tomorrow."

Claire Wood, Marketing Director in Deloitte Analytics, agrees. "Some entrepreneurs may be out of their comfort zone and perhaps afraid of the unknown," she says. "There is so much that can be done that to even begin feels overwhelming. On top of this, digital technologies are so ubiquitous that many people – especially the non-digital natives – are afraid to admit ignorance and ask how it can be made relevant to them."

She has seen first hand how data analytics can transform a business. Analytics in business is taking data from any source, and analysing it to get an answer to a specific question. She gives an example of how it can work: "We worked for one firm, giving them an aggregate view of the journeys it was making, and showing them how they could cut transport costs by 25%. At first they refused to believe it, but we were presenting them with the hard facts. Where in the past decisions might have been made by guesswork, or accepting the opinion of the highest-paid person in the room, data analytics changes all that – it gives entrepreneurs the information they need to make decisions based purely on facts."

To give just one example of this in action, in August 2013 retailer New Look saw its first quarter EBITDA jump by 13.1% as group like-for-likes rose 0.3% despite the unseasonable weather in the April to June period.

Chief Executive Anders Kristiansen reported that the analytics work it had done with Deloitte Analytics had allowed it to understand the merchandising needs of individual stores, ensure it had "the right stock in the right store", and so reduce the volume of markdowns by 25% over the period.

Private equity investor SVG, which has a 27% holding in New Look, recently upped the value of its stake, which two years ago it wrote down to zero. It has re-valued the stake at £10m. Speaking to Retail Week in August 2013, SVG chief executive Lynn Fordham said: "Despite the tough economic environment and pretty extreme weather conditions, New Look's earnings improved strongly last year mainly through cost-cutting and better margins thanks to fewer sales markdowns."

Digital privacy – an untapped opportunity?

Recently, Deloitte conducted its Data Nation report which looks into the attitudes of the UK public to organisations that hold data about them. Its findings pointed to a significant and largely untapped opportunity for entrepreneurs.

"Consumers lack confidence in the ability of companies to handle their data correctly," says Harvey Lewis, Research Director and author of the report. "The only ones they trust are those that very clearly explain to them how they will use their data. In this sense we believe that data privacy can be seen as a new currency."

He points to social networks aimed at children as good examples of companies that do this well. "Details on data use are prominent and clear," he explains. "If they are not then children won't read them and their parents won't allow them near the site. These organisations are right at the sharp end of data privacy but there is much that every entrepreneur can learn from them."

He concludes: "Our research revealed that there is a gap in the market for companies to provide clear and accessible information on data privacy. Older businesspeople in particular are struggling to engage with this opportunity, but those that do embrace it and act will reap the benefits."

A slow thaw – engaging with banks

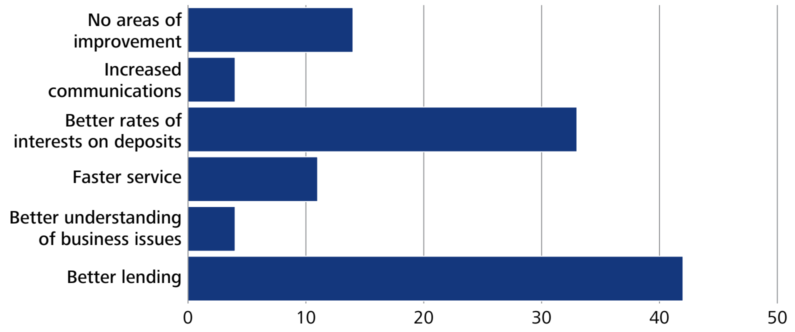
As we have seen finding new export markets and using digital technologies are important routes to growth, but both require significant finance. Traditionally entrepreneurs have gone to banks for funding but there are signs this may be changing.

We have already seen how entrepreneurs have spent the past few years building up their cash reserves. It comes then as little surprise to see that 36% expect to use these reserves to finance growth. Only 9.5% expect to take out a bank loan and 7.2% will use an overdraft.

This year 39% of our respondents told us they see the banks as primarily a deposit taker; a mere 31% see it as a lender. When it comes to ways to improve 45% want better lending terms, 18% want better rates of interest on deposits, 11% wanted a faster service, while 14% believe there are no areas of improvement required.

Back in 2008 only 10% saw banks as the best source of growth finance, so in the past five years we there has been little softening in the relationship between banks and their small business customers. To some extent this is a function of a perceived lack of willingness to lend. Only 19% of respondents believe banks are more willing to lend than they were this time last year and 40% say there has been no change.

Banks: What would you do to improve?



A BIS-commissioned report by the National Institute of Economic and Social Research in February 2013 supported this view. It concluded: "Overall, we suggest that the research is indicative of a shortage of finance for SMEs, reflecting banks' attitudes to risk and their own pressures to deliver combined with banks' market power in the SME sector. Although demand is also probably subdued, there is a high level of discouragement from application for lending as well as high rejection rates and margins on credit after controlling for risk."

Yet it is perhaps the 25% of our respondents who told us they do not use banks that should worry the banks the most. Banks may have funds available to lend to businesses, and they may be loosening the criteria by which they spend, but the simple fact is that entrepreneurs remember seeing peers have lines of credit withdrawn overnight and they have no intention of leaving themselves so exposed to the whims of bank managers.

On a more positive note, at the end of August Mark Carney, Governor of the Bank of England, announced an easing of its credit controls. Banks with a capital base equal to 7% of their risk-weighted assets will be eligible to take advantage of the new scheme, which the Bank of England reckons could eventually unlock £90bn of lending. "Every pound in liquid assets is one that can be used in the economy," he said in a speech in Nottingham. Mr Carney said the decision to "relax" the Bank's strict liquidity requirements came as a result of the repair work done on banks' balance sheets.

If money is starting to come through the banking system then it is vital that entrepreneurs begin to engage with banks and access those funds.

Investment for entrepreneurs – exploring alternatives

In the meantime we are seeing a growing number of entrepreneurs look for more innovative forms of finance. At the National Investment Summit on 3rd July 2013 Deloitte and the UK Business Angels Association (UKBAA) released a joint report entitled "Taking the Pulse of the Angel Market". It looked at 262 deals worth £137 million between April 2012 and March 2013 and revealed a glaring need for greater understanding among entrepreneurs of how to successfully attract angel investment.

Jenny Tooth, Chief Executive of the UK Business Angels Association (UKBAA) says: "Entrepreneurs can waste a lot of time by going down the wrong finance route. Going to a bank is usually fruitless before a company is generating revenue. Entrepreneurs at this early stage may use grant providers, or crowdfunders to further develop the concept, whilst those companies with growth ambitions may be suitable for equity finance from angel investors."

25%
DO NOT USE BANKS AT ALL

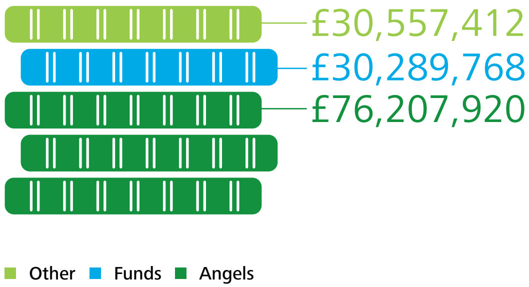
Indeed she believes that there is currently around £850m-£1bn of angel investment in the UK entrepreneurial market, around three times as much as there is venture capital money. Angels are attractive to entrepreneurs since they not only bring investment typically from £50,000 to as much as £1.5 million, when operating as syndicates – but also because they bring expertise and contacts. The right angel can revolutionise a business.

We are seeing a number of online funding options emerge to cater for this surging demand for alternative business funding. "Organisations like MarketInvoice, Funding Circle and Urica are presenting a number of interesting options for the entrepreneurs who are savvy enough to seek them out," says Tim Armstrong, Director of Public Policy at Deloitte, who recently spent 15 months on secondment to the BIS working on the Breedon Review and the formation of the Business Bank. "In the US alternative funding has been the norm for 60 years – here in the UK we are just getting started."

Finally, the arrival of the Business Bank may provide another funding opportunity for UK entrepreneurs. Whilst the design is still being finalised, we understand that it will have three arms: firstly, it will consolidate all existing Government funding schemes for small businesses; secondly, it will provide wholesale funding to SME lenders; and thirdly, it will encourage alternative investors to lend to small businesses by matching private sector money in funds targeted at small business. The Business Bank has the potential to ensure that there's always an alternative to bank finance for credit-worthy SMEs.

Sources of capital, based on analysis of 262 angel deals in 2012/13

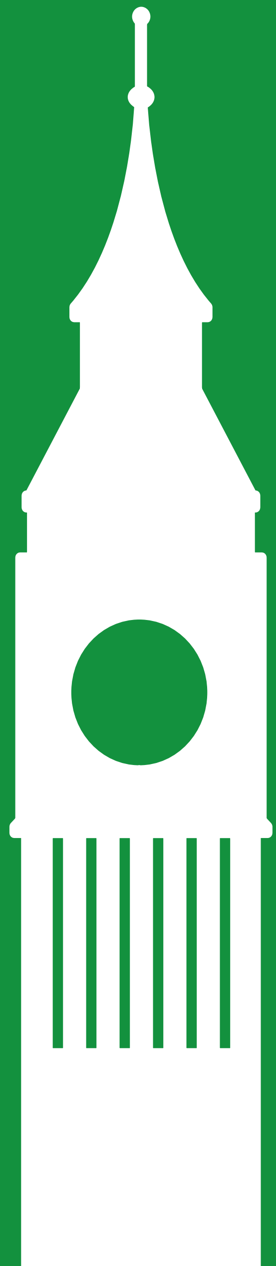
Total amount invested £140m



While this is all promising, as anyone who has ever seen an episode of Dragons' Den knows, getting an angel on board is far from easy. They are very selective about where they invest their hard-earned cash (or their "children's inheritance" as one Dragon is famous for saying"). "Very often the idea of giving away equity is alien to an entrepreneur," says Chris Eastman, Assistant Director: Corporate Finance at Deloitte. "Their company is their baby, something they've lived and breathed for years. They don't want to give any away."

He continues: "Even those who overcome that obstacle can encounter practical difficulties. The finances of a family-run business often need a great deal of upgrading before they can be presented to a potential investor. The investor will need to be convinced by the management team, the track record of growth, the market opportunity, and the strength of the defensive strategy."

The role of Government



Is there more Government can do to support entrepreneurs?

With the 2013 Budget announcement of a £2,000 credit on Employers' NIC, the Government has looked to assist entrepreneurial businesses with the cost of employing people in line with one of the main policy recommendations we put forward in last years' 2012/13 report.

Last year respondents indicated that PAYE, NIC and VAT were the three greatest burdens to their business. This change was welcomed by respondents to our latest survey, however 60% felt that more could be done to assist entrepreneurial businesses. So, what more can the Government do to encourage entrepreneurial growth? In the US, companies with fewer than 50 employees created 45% percent of the 188,000 new jobs in June 2013, according to a recently released ADP National Employment Report and the percentage of jobs created by small companies continues to grow.

Private businesses make up the majority of the UK economy, and hold the greatest potential for further growth in jobs and output. "There is now a clear cross-party consensus on the importance of entrepreneurs for economic growth," notes Ian Stewart, Chief Economist. "Politicians of almost all persuasion agree that the recovery cannot be led by Government or consumer spending so it will have to be business growth, and it is small businesses that will lead that growth. That is why the Government operates so many tax incentives for entrepreneurs."

60%

FELT THAT MORE COULD BE DONE TO ASSIST ENTREPRENEURIAL BUSINESSES. SO, WHAT MORE CAN THE GOVERNMENT DO TO ENCOURAGE ENTREPRENEURIAL GROWTH?

Yet our survey would suggest that a quarter of entrepreneurs surveyed remain startlingly unaware of Government approved tax and lending schemes. Tim Armstrong is not altogether surprised. "It has been a frustration within Government for many years that it has been forbidden to carve out a proportion of a funding budget to promote Government led schemes," he says. "So funds have sat unallocated because too few know about them. It is therefore encouraging that the Business Bank will have a dedicated marketing budget."

Tax incentives to consider

David Cobb, Partner at Deloitte, outlines five tax incentives that his team has helped entrepreneurs to take advantage of in the past few months:

1. R&D tax relief

Small and Medium sized companies can claim an enhanced tax deduction of 225% of their qualifying spend on research and development. If the company has losses, a payable credit equal to £24.75 for every £100 of qualifying spend can be claimed. This incentive has been around for over thirteen years and provides an extremely useful boost to cash flow but too often companies engage in qualifying research and development without realising that it is eligible for this relief. The key aspect is not the outcome but the technological challenges that had to be overcome and if there is sufficient uncertainty, the work may be eligible.

2. EIS

An individual investor can claim up to 30% income tax relief on an investment of up to £1m in a company that has gross assets of no more than £15m before the investment.

Five recommendations for Government

1. Make sure that the Business Bank is 'entrepreneur-friendly'
2. Further reduce the cost of taking on staff
3. Encourage talent recruitment from overseas
4. Develop ecosystems that SMEs can access to enter new markets
5. Promote export finance

Furthermore, if the investor holds their shares for more than three years, on a sale of their share at a gain, there should be no capital gains tax payable. This provides a significant incentive to angel investors in relatively small but growing companies and is something that such businesses should be aware of when seeking to raise funds.

3. Seed EIS

For smaller companies an investor can claim up to 50% tax relief on an investment of up to £100,000. This is available for investments in a company that has gross assets of no more than £200,000 before the investment, has fewer than 25 staff, and has been trading for less than two years. Qualifying companies can raise up to a maximum of £150,000 in total utilising this relief. Furthermore, if the investor holds their shares for more than three years when they realise the investment it attracts no capital gains tax.

4. Patent Box

Companies are taxed at only 10% on profits that are derived from a technology that is patented in the EU or European Economic Area. This is a relatively new relief which was introduced in April 2013 and is designed to keep intellectual property in the UK. We are already seeing many entrepreneurs start to benefit from it.

5. Enterprise Management Incentive Scheme

This enables companies with fewer than 250 employees and gross assets of no more than £30,000,000, which carry on a trade wholly or mainly in the UK to effectively incentivise and retain key employees with the grant of EMI options. Where the employees exercise and sell their shares, and a 12 month period has elapsed between grant of the option and sale of shares, then the disposal should be eligible for Entrepreneur's Relief (with a tax rate of 10% on at least a proportion of the gain).

Case study: Alberto Lopez, Founder & Chief Executive, Alva

It was after spending 15 years in the business intelligence sector in various senior roles that Alberto Lopez, met former Chief Technology Officer of law firm Clifford Chance and Alastair Pickering, a media analysis expert. The three got talking and result was Alva, a reputation business intelligence firm that developed a technology platform that enables corporates to analyse their reputation and understand how sector or company events affect that reputation. It harvests content every two to three minutes from media coverage, analyst reports, social media, surveys, and other publicly available information.

Lopez spent a year incubating the business before launching it in March 2010. Much of that time was spent building a business plan and recruiting the core team who would appeal to investors. "The core team have been incentivised with shares in the company using the EMI scheme," says Lopez. "It enables us to keep costs low in these early years, and it will be extremely good for those with the share options."

In April 2010 he gained £625,000 funding from a venture capital firm and three angels. The investors used the EIS scheme too. Lopez says: "This investment round gave us the means to develop a prototype of the service and invest in demand generation. During this development phase we spent around £1m developing the technology so using the R&D tax relief we saved around £150,000."

Lopez reports that the business has begun to really take off in the past 18 months. Alva is used by 25% of the FTSE100 and they are maintaining a steady client acquisition, with plans to move to the US market in 2014. Turnover is currently £1.5m a year and the business became profitable at the end of 2012. In 2011 the business was shortlisted for the MBA Entrepreneurship Award and in 2013 the business was shortlisted as Young Company of the Year.

Conclusion

Growth is just around the corner and the decisions that businesses make now will affect whether or not they lead that growth or watch it pass them by.

As we climb out of the downturn, the world we find ourselves in is very different to the one of five years ago. The digital revolution continues. Embracing it can help grow revenue by bringing customers closer, streamlining the business to increase efficiency and reduce costs. While failure to move with the times may mean that perfectly viably businesses could be threatened by competitors who have embraced improved processes and can offer more competitive services to their customers.

Entrepreneurs recognise these changes and act – gathering expert advice, building support ecosystems, and making astute investments – will reap the benefits in the years ahead.

Our message to government is that now is the time to provide meaningful support to businesses; measures which aids the ability to export and expand globally; finance for growth and continue to cut red tape.

Our message to entrepreneurs is:

- Ensure your team and business model is set for growth
- Be alert, nimble and responsive, don't over engineer
- Collaborate to win in new markets – create your own ecosystems
- Re-build relationships with debt providers as you may still need them
- Digital technology is here to stay – embrace it

Good times are on the horizon, but entrepreneurs are entering a brave new world.

How I made it
David Spencer

David Spencer Percival is the MD of London-based Spencer Ogden Energy, a recruitment firm set up in 2010 to service the growing demand for talent in the oil, gas and renewable energy markets. He was one of the founders behind Huntress Group, the IT recruitment firm, which he founded. It grew to a £100m turnover in eight years and then sold two weeks before the collapse of Lehman Brothers. In the energy market he saw an opportunity to disrupt a staid and static market that was failing to deliver to its customers. With his firm now turning over £50m from nine offices in London, Aberdeen, Glasgow, Houston, Calgary, Dubai, Hong Kong and Singapore, he is already making significant inroads. And he believes this is just the beginning.

It is encouraging to see so much optimism in this year's report, but it is not surprising. Businesses need to be growing at least 10% a year or they are shrinking. The official rate of inflation might be under 3% but the inflation rate for anyone earning more than around £60,000 a year – when you factor in rising property prices, emerging new must-have consumer technologies, and so on – is more like 10% a year. So, entrepreneurs need to run ever faster to keep ahead of that rising tide.

We are certainly achieving that at Spencer Ogden Energy. Already our growth is outstripping what I achieved with Huntress. Some of that is certainly down to the fact that we have a strong offer in a market that is ready for change, but that can only take you so far. You need to make the right decision in key areas. One of those areas is technology and it amazes me to see so many respondents to this year's survey appear to dismiss the relevance of technology to their businesses. Having a cloud-based front-end has been central to our firm's success. It was expensive to do, and risky because it had never been done before, but clients love it and it enables many operational efficiencies. I think there are few sectors for which it is entirely irrelevant. Today's technology is a once-in a lifetime opportunity and to miss it is folly.

It was less surprising to see only 9% of respondents viewing China as a priority export market. It's a tough place to do business. We have a Hong Kong office but have to wait three years before we are granted a Wholly Owned Foreign Enterprise (WOFE) license. Many technology firms have been stung by sharing IP with their local partners, and there is certainly a sense in which Chinese people only buy from other Chinese people, so I would counsel approaching China with caution. The 9% who are keen on it are probably mostly luxury brands.

Tax is always a burden, and if I look at this month's Employer's NIC, I am paying £119,000. The £2,000 allowance in this year's Budget is irrelevant to me. With the Employer's NIC tax, over a year I could open three offices and employ an extra 50 people.

On finances, for me and I think for many entrepreneurs, one of the greatest challenges has always been managing cash flow. It is crucial for a small business and especially one that is growing as fast as mine have done. It can be terrifying to see your costs spiralling, and unless you are on top of your debtor book, applying yourself to achieve the balance between hounding for payments and remaining on good terms with clients before you know it you find yourself unable to pay salaries. I think it is a major reason why so many businesses prefer to stay small.

I was fortunate to have backing from Sir Peter Ogden, the man who founded Computacenter. I knew him from my Huntress days and he was keen to invest with me, but even then we had to prove ourselves. We launched right in the teeth of the recession and his wealth had fallen, with his shares in computa center alone going from £600m to £20m. It might have now risen to £300m, but in 2008-09 no one was handing out money easily. He advanced his investment quarter by quarter only on the back of us delivering to plan.

Using technology, picking the right markets, managing cash flow and getting investment are all important, but perhaps the greatest reason we were able to meet those targets quarter by quarter was that we got the right people. In any business, but especially in one like ours, success depends on finding the best people and then getting the best from them. You need to be honest and upfront with them, you need to give them a clear structure and discipline, and you need to show them what they can achieve through sheer hard work.

How I made it
Huub Design on reaching £1m turnover in two years

"There are 48 wetsuit brands in the EU and a further 32 in the US," says Dean Jackson, MD of Derby-based Huub Design. "So, when I got an inkling I was about to lose my job working for one of those wetsuit manufacturers starting to think how I could launch a new one into the market probably wasn't the most sensible first thought. But it was my first thought and I went with it."

He has had astonishing success in a very short amount of time, selling £500,000 in his first year of trading and now being on track for £1.1m in his second. He is also set to turn in a net profit of more than £100,000. It is the sort of success that every fledgling entrepreneur lies awake dreaming of. So, how did he do it?

"First and foremost we got the product right," he says. "All the leading wetsuit brands make extravagant claims about the technical properties of their products but I felt they lacked evidence-based grounding, so I got the industry's leading scientist Professor Huub Toussaint and freestyle stroke experts SWIMSMOOTH to join my team, and took my idea to the banks. After all, the testing we needed to do is expensive."

Jackson received the stonewall response that will be familiar to anyone who has ever approached a bank with a business idea where the product and sales have yet to be realised. He was feeling despondent until a chance conversation set him back on the right path. "I do triathlons myself and I was just chatting with a fellow competitor after an event," explains Jackson.

"He was wondering why I had performed so much worse that when last raced against me. I don't him about all the troubles I was having, and it just so happened that I was talking to Mark Doleman, Head of Entrepreneurial Business at Deloitte. He instantly saw the potential in my idea, and put me in touch with Tom Mawhood of local angel investment syndicate, Turning Point."

Jackson met with Mawhood two days later and within days he was in front of a panel of a dozen investors pitching his idea. He felt the pitch went terribly but got the call with an offer of £25,000 investment to develop and test the product with the promise that if he then persuaded an Olympian to wear it and pulled in orders of more than £200,000, they would put in a further £100,000. He has eight weeks to do it all.

Remarkably he did it, with not just any Olympian wearing it, but the Brownlee brothers who achieved worldwide recognition with their inspiring gold and bronze triathlon feats at London 2012. Since then he has been running the business from his garage and building sales at an impressive rate.

Jackson describes some of the ways he has achieved this: "We have put our faith in small retailers, trusting them to recognise the quality of the product and not reduce price. We have made good use of social media and there is now an active community that calls itself the Huubsters. We have benefitted from the Derbyshire Development Fund which is allowing us to move into a warehouse in Derby and to scale up to 11 staff over the next three years. Despite it all we have still needed to rely on Calvertons invoice financing and short term loans from our investors."

He concludes with this advice: "If you want investment get your plan right. Mine was 34 pages long with detailed cash flow forecasts, competitor analysis, and sales and marketing tactics. Get the best advice, and never under-estimate just what might come out of a casual conversation with an acquaintance. And finally, remember that whatever you do, no matter how well you prepare, cash flow will always hit you round the head. Buy a helmet!"

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The message to the UK's entrepreneurs is clear. The time has come to think about growth and investment, and to ensure you have the skills within your organisation to take advantage of new markets and technologies.

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Designed and produced by The Creative Studio at Deloitte, London. 29973A