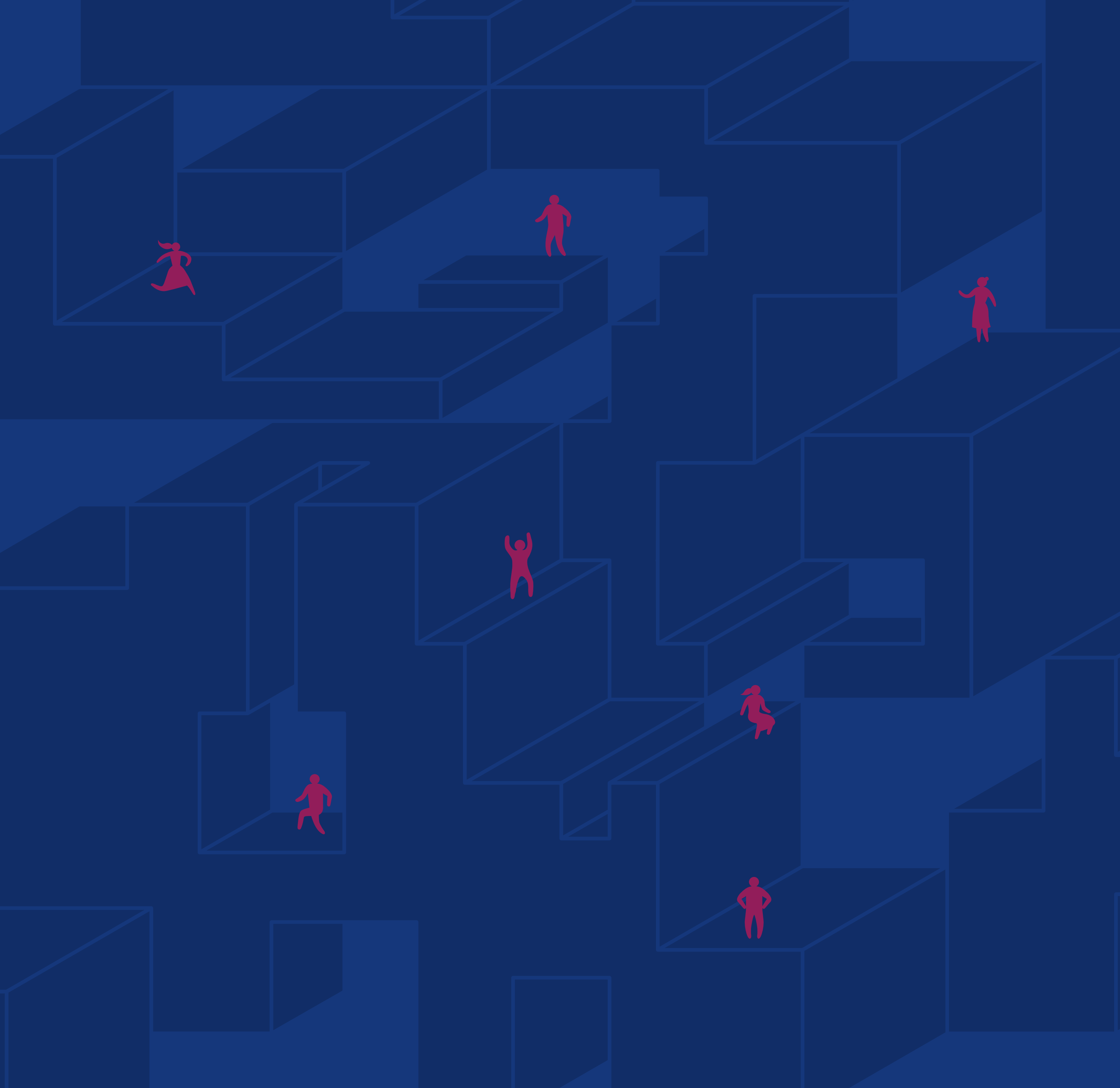
Allied Irish Bank (GB)

THE SINGLE MINDED BUSINESS BANK

vol. 2

Steps to growth

BREAKING BARRIERS



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FOREWORD

Rachel Naughton, Head of AIB (GB) Distribution

We live in interesting times – but for growing businesses that thrive on change, this is a blessing and not a curse.

Breaking Barriers seeks to identify and understand the priorities and perspectives of owner-managed businesses (OMBs) at a time of great uncertainty in the aftermath of Britain's decision to leave the European Union. Our survey of 300 businesses, conducted before the referendum, and a series of conversations with owner–managers in the weeks that followed, uncovers a broadly confident mood. This publication assesses how the prospect of Brexit and other obstacles to growth are affecting these businesses. It also considers how owner–managers are planning to break down the barriers and forge ahead.

Owner–managers – and particularly those outside London and the South East – are surprisingly optimistic about the outlook in the coming months. This tends to confirm our research, which found that, before the vote, 49 per cent said Brexit would be positive and lead to growth. With change comes opportunity, and these agile businesses are now watching, waiting and preparing to seize new markets at home and, in some cases, abroad.

Our report also considers how owner–managers are planning to break through some of the longer-term barriers to growth. Sir Vince Cable, secretary of state for business, innovation and skills in the Coalition Government, urges them to think and plan ahead by investing in improving productivity – despite the threat of a "Brexit recession".

More than a third of owner–managers believe that a shortage of workers with appropriate skills is one of the main hurdles. For others, the threat posed by disruptive new ideas and technologies is a key concern. Surprisingly, competition from North American rather than European rivals is also an issue for more than half of the OMBs we talked to. We offer a menu of simple growth ideas to consider as your business navigates the uncertain times ahead.

We are lucky to work with a wealth of talented and determined business owners from around the country, and we are happy to share some of their inspiring growth stories in this report. At AIB (GB) we listen to our clients and apply our deep experience to find innovative solutions. We look forward to supporting your business as it moves into the next stage of growth.

BREXIT: WHERE NEXT FOR OWNER-MANAGED BUSINESS?

In the weeks after the historic vote to leave the EU, owners–managers are watching, waiting and planning their next steps to growth

On 24 June 2016, owner–managers awoke to a business landscape that had been transformed by the seismic upheaval of the UK's referendum vote to leave the EU.

Overnight, old certainties about trade agreements and the free movement of workers were swept away. By the end of the day, the country was without a prime minister, and sterling had slumped to a 3 year low against the dollar. The events sent shockwaves around the globe, wiping more than $3 trillion from international stock markets.

In the days that followed, business giants Vodafone and Goldman Sachs warned that they could relocate their headquarters out of the UK, the value of commercial property plummeted and a second Scottish independence vote was mooted. In the months and years to come, British OMBs face unprecedented political and economic uncertainty, as Sir Vince Cable discusses on page 18.

Across the country, business owners are now assessing the facts and planning their next steps. Unhampered by large and complex corporate structures, these agile businesses are watching, waiting and preparing to seize fresh opportunities for growth. For some, the weaker pound will unlock new overseas markets. For others, the prospect of new trade agreements could offer a welcome boost. For all, there is a nudge towards finding a new, leaner, and more efficient approach to business.

"Brexit is the new reality," says Rikki Griffiths, AIB (GB)'s regional director for the Midlands, Wales and the South West. "We've been through recession. We've been through austerity. Brexit is no different from other business challenges – it's just wider in scope. With change comes opportunity. We are here to support OMBs and help them prosper."

Some owner–managers are already embracing the challenge, according to Griffiths. Indeed, our survey of 300 businesses, taken from a range of sectors and from across Great Britain shortly before the referendum, reveals that 49 per cent expect a leave vote would be positive and lead to growth. OMBs in the hotels and leisure sector, and in professional services including law and accountancy, are notably upbeat: 66 and 60 per cent respectively say they expect to benefit.

For lawyers, untangling EU employment regulations will undoubtedly boost business, while domestic hoteliers are set to profit from the weaker pound. James Thomas, owner of the Royal Harbour boutique hotel in Ramsgate, Kent, says he has been inundated with inquiries from foreign visitors since the leave vote. "We have experienced nothing like it before," he says.

Workspace, a property company that offers flexible accommodation to OMBs, has reported an increase in demand for office and warehouse space since the EU referendum.

Billy MacLeod, AIB (GB)'s regional director for Scotland, has also noted an uptick in activity. "In the short term we are seeing opportunistic transactions. Assets are being realised, particularly in the hotel, tourism and property sectors," he says.

John Nolan, chairman of the Construction Industry Council, a trade organisation, says sentiment is much more positive outside the capital than within it. "There is a sharp difference of opinion between London-based financial services firms and smaller regional businesses," he says. Nolan's own business, a Birmingham civil and construction engineering consultancy, has seen a 50 per cent increase in enquiries since 23 June, and of these, half are from overseas.

Griffiths agrees. "Eight out of ten businesses we spoke to in Bristol, Cardiff and Birmingham before the vote were positive about Brexit – although in London it was a different story."

Even in Scotland, where voters elected to remain, the mood among OMBs is far from despairing. "The political issues need to be resolved, but in Scotland our clients were surprised rather than disappointed," MacLeod says.

In London and the South East, however, the mood is rather more subdued, according to Mark Medd, the bank's regional director for London North and West. "Right now it's business as usual," he says.

For a handful of clients in the construction industry, potential restrictions on the free movement of labour could be an issue. "Some of our customers are heavily reliant on European labour to make their businesses cost-effective, so they are thinking hard about the possible impact of Brexit" Medd says.

In the months ahead, OMBs will be working to find and exploit any positive angles to the decision to quit the EU. Take Sargasso & Grey, a fledgling online retailer that sells stiletto shoes in wider fittings. Most of its stock is manufactured in and imported from Spain, where production costs are relatively low, although bespoke items are made in London where the business is based.

"Trading with Spain has been really easy for me until now." says the company's owner, Katie Owen. "I do everything via email and there is no tax to pay". "Obviously it's not a good time to be making online payments to Europe. And I'm worried the transaction process will become less straightforward. But on the positive side, the weak pound means I'm getting more orders from Germany, Denmark and Sweden."

The European Union and British Union flags fly outside Europe House in London, May 2016

For many years, the proportion of OMBs selling goods and services abroad has remained relatively low at around a fifth, according to the Federation of Small Businesses (FSB), a lobbying organisation. Some 84 per cent of the OMBs we surveyed said none of their revenue comes from the EU, and a further 10 per cent make less than a quarter of sales in Europe. But like Sargasso & Grey, more are expected to take advantage of a dip in the value of sterling to seek growth overseas. Indeed, a further 21 per cent are now considering exporting, according to research published by the FSB in July.

"Small businesses that export are more likely to survive, grow and innovate. But in addition to more traditional barriers such as language and foreign exchange, businesses are having to deal with a rapidly changing export landscape," says Martin McTague, the FSB's national policy director.

Our own survey results indicate that OMBs would like more help to reach new overseas markets. When asked what are the most effective ways in which the Government could help OMBs grow over the next three years, a third say it should negotiate favourable trade agreements. A further 22 per cent say it should provide better information about foreign market opportunities and conditions, while 18 per cent say it should expand export credit schemes.

For any OMB planning to export for the first time, it is important to secure a payment plan that takes account of currency fluctuations and delivery times. "Financing methods should be part of any negotiation," says Griffiths.

Business organisations continue to lobby the Government to support OMBs as they adjust to market changes. "Many businesses are still working through exactly what a vote to leave may mean for them, but in the meantime are getting on with providing stability and jobs in their communities," says the CBI's director-

"In addition to more traditional barriers such as language and foreign exchange, businesses are having to deal with a rapidly changing export landscape"

Martin McTague, national policy director at FSB

> **As many OMBs are discovering, the flip side of cheaper exports is dearer imports and higher prices along the supply chain**

general, Carolyn Fairbairn. "To support this goal, businesses want the Government to focus on domestic priorities, while setting a clear plan and timetable for the [Brexit] negotiations." On page 14, we set out some practical steps for boosting export success.

Dealing effectively with long-term uncertainty surrounding the future of trade agreements and the value of sterling will be crucial in the coming months, according to MacLeod. As many OMBs are discovering, the flip side of cheaper exports is dearer imports and higher prices along the supply chain.

"We have already taken a large hit on imported products – costs which we won't get back," says Jess Penny, general manager of Chesterfield-based crane manufacturer Penny Hydraulics. The day after the referendum, the company completed the purchase of equipment at a price that had risen by £8,585 overnight, thanks to sterling's depreciation.

Penny and other OMBs must now ponder whether their margins can absorb higher costs – or whether their customers. "Passing on cost increases is always difficult," MacLeod says. "We advise OMBs to secure their supply chain by concentrating on exceptional service, making sure client relationships are strong and putting alternatives in place."

One of the most persuasive business arguments for leaving the EU was the promise of lighter business regulation. Indeed, 54 per cent of the OMBs we polled say that cutting red tape would be among the most effective ways in which the Government could promote growth. But with Brexit negotiations unlikely to start until next year, there is little chance of early gains. "The business community has little to get excited about in the short term," says Phil Ridley, managing partner at Newcastle law firm Sintons. Sir Vince Cable discusses the issue of red tape on page 18.

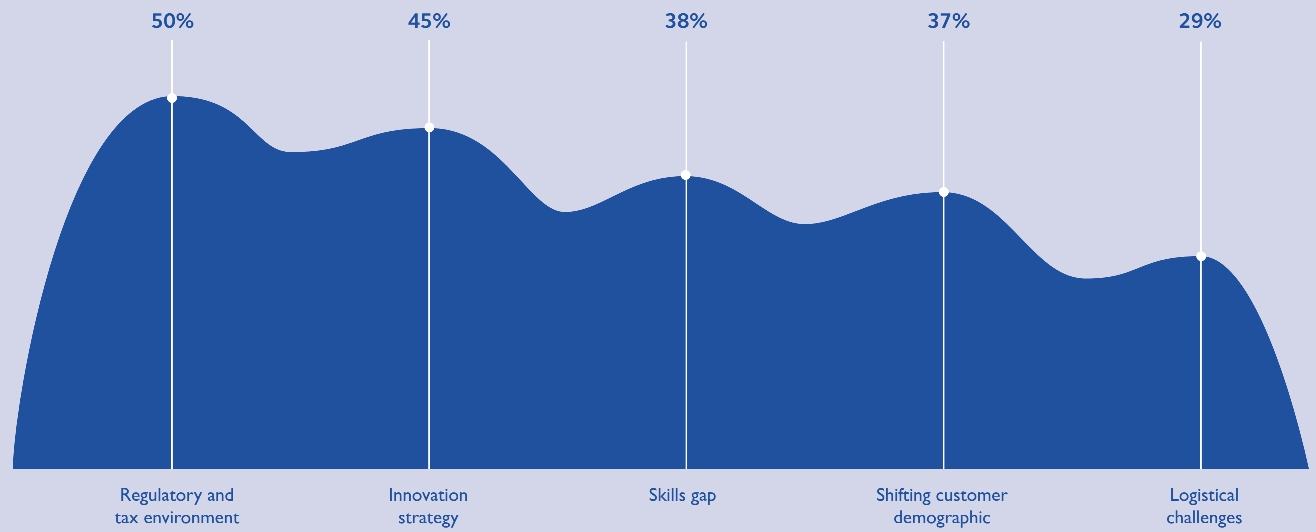
Our survey also reveals that cost reduction via better operating efficiency, and broadening the customer base, were among the most popular strategies for future growth, selected by 65 and 49 per cent of respondents respectively. But for now many will prefer to watch and wait. "Owner–managers will want to see what the leave vote means, when Article 50 will be triggered, and what will be the impact on their business," says Medd.

"The map of the world is going to change – but the UK is still a great place to do business," says MacLeod. "And it will remain that way regardless."

Houses of Parliament and Westminster Bridge

OMBs' MAIN BARRIERS TO GROWTH

Source: AIB Steps to Growth 2016 survey



THE RIVALS ON YOUR DOORSTEP

Home-grown competition poses the biggest threat to expansion, according to owner–managers

The forces of globalisation – from free-trade agreements to online buying and selling – are exposing OMB to unprecedented overseas competition.

Yet every one of the owner–managers who took part in our survey says domestic firms are the biggest threat to their business, regardless of the size of their organisation or the sector in which they operate.

Surprisingly, 54 per cent of respondents perceive North American organisations as the next most serious danger. Just 41 per cent identify European rivals as a major threat.

"Many British owner-managed businesses appear to regard EU organisations as effectively domestic competition," says Mark Medd, AIB (GB)'s regional manager for London North and West. "Of course, their outlook may change in the coming months as Brexit plans begin to take shape."

Manufacturing, waste management and construction businesses are most likely to perceive themselves at risk from North American competitors, our survey finds. In these sectors, 68, 58 and 57 per cent of OMBs respectively regard transatlantic businesses as a serious threat in their existing markets.

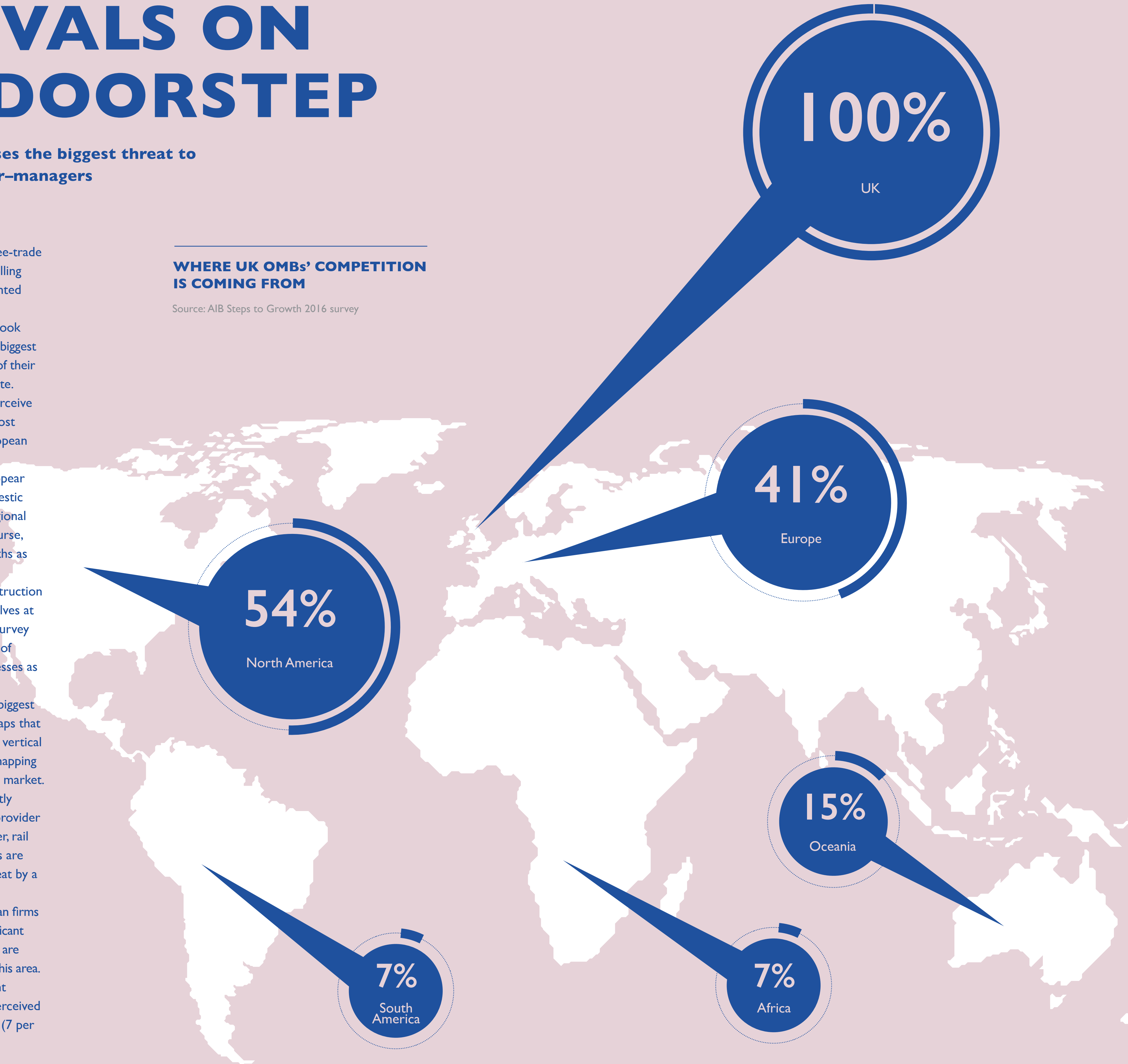
Large new market entrants are seen as the biggest threat by two fifths of OMBs, suggesting perhaps that owner–managers are concerned about either vertical integration by competitors or foreign firms snapping up British businesses to gain a foothold in the market. For example, US investor First Reserve recently acquired Morrison Utility Services, a leading provider of infrastructure services to Britain's gas, water, rail and telecoms networks. Large, existing players are considered to pose the main competitive threat by a further 31 per cent.

Surprisingly, only 22 per cent of OMBs say Asian firms – including low-cost Chinese rivals – are a significant threat, although almost a third of manufacturers are concerned about the impact on business from this area.

Regions which are not regarded as significant competition for OMBs are Africa, (which is perceived as a threat by just 7 per cent), South America (7 per cent) and Oceania (15 per cent).

WHERE UK OMBs' COMPETITION IS COMING FROM

Source: AIB Steps to Growth 2016 survey



CASE STUDY / MANAGEMENT BUY-IN

COMPANY NAME: China & Co Props Hire
BUSINESS: Leasing kitchenware for photography and films
MANAGEMENT BUY-IN: 2016
LOCATION: Acton, London W3
OWNER–MANAGERS: Nick Lees and Liz Belton
RELATIONSHIP WITH AIB SINCE: 2016

Earlier this year Nick Lees quit his consultancy job with a large energy company to become the owner–manager of China & Co, which hires out kitchenware, cutlery, linen and table tops for advertising and publishing shoots.

Lees and his wife Liz Belton, a stylist and long-standing client of China & Co, completed the management buy-in using savings, equity funding from a private investor, and a debt facility from AIB (GB).

"When our previous bank pulled out at the last minute, AIB (GB) stepped in with a new deal," says Lees, who paid in the region of £1.5 million for the business. "It would have been an uphill struggle to complete the transaction with a high-street bank."

The pair are already planning to expand the venture, which operates from a huge warehouse in West London and had been trading for two decades under the previous owners.

"Our aim is to drive down supplier costs, boost footfall, and perhaps take more space for a photography studio," Lees says.

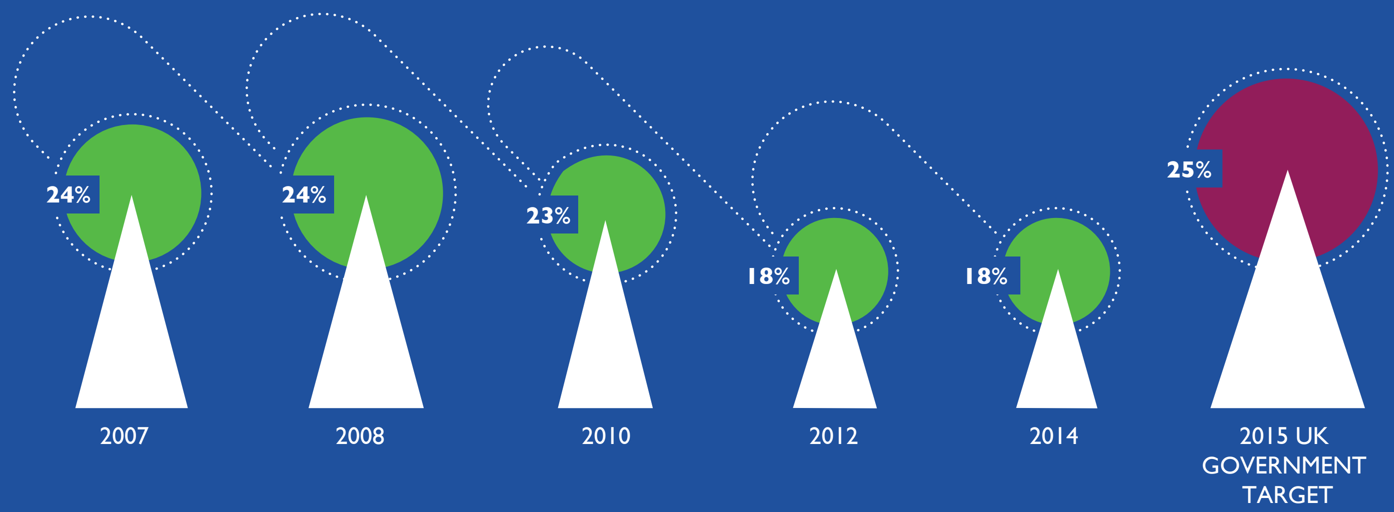
"As a former customer, Liz understands exactly what clients want. Service is important. People spend a long time in the building and we like to look after them."

Despite the uncertain climate, Lees and Belton are relishing the challenge of growing their own business. "The buck stops here – but it feels good to be master of my own destiny."

THE UK'S BUSINESS LANDSCAPE

PROPORTION OF SMEs EXPORTING

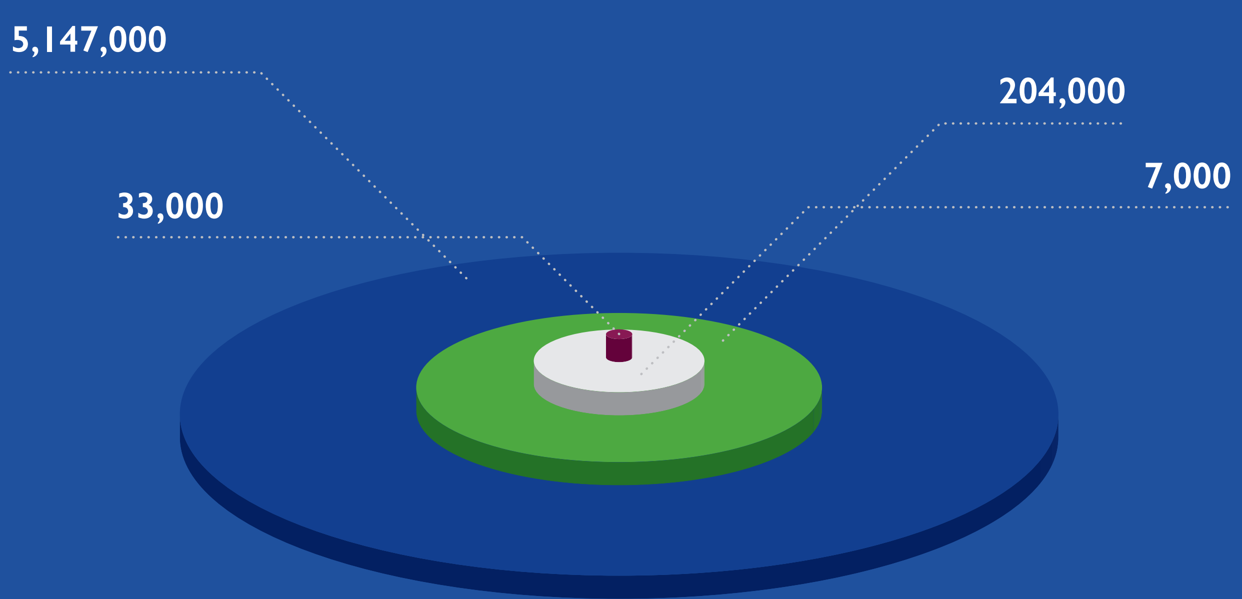
Source: BIS Small Business Survey 2014



NUMBER OF UK BUSINESSES IN 2015

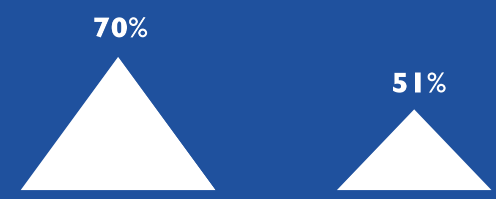
Source: BIS, Business Population Estimates 2015
(numbers rounded to the nearest 100)

- Micro business, 0–9 employees, £673bn turnover
- Small business, 10–49 employees, £543bn turnover
- Medium business, 50–249 employees, £538bn turnover
- Large business, 250+ Employees, £1,956bn turnover



ROLE OF INNOVATION AT THE FIRM LEVEL AND NATIONAL LEVEL

Source: BIS Annual Innovation Report 2014

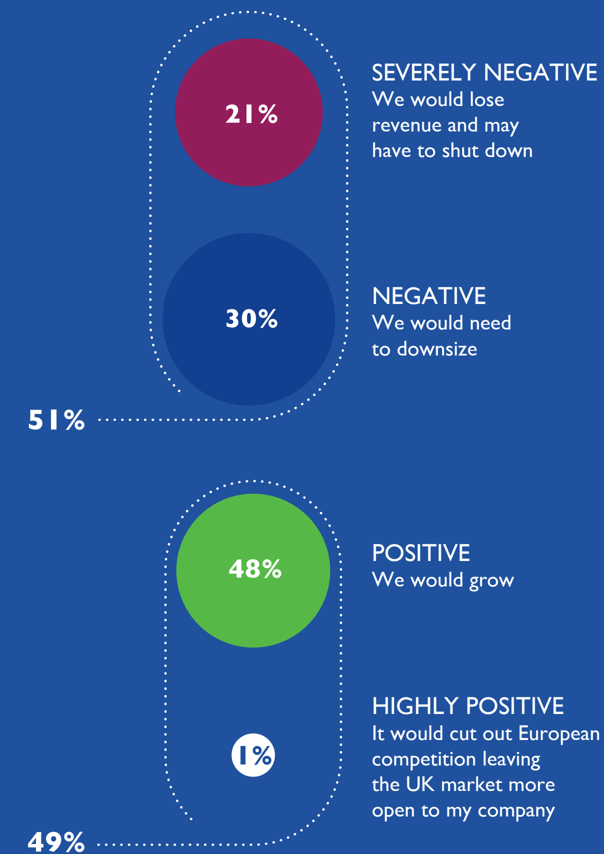


Innovation accounts for 70% of UK's long-term economic growth

Innovation accounts for 51% of labour productivity growth

OMBS' PERCEPTION ABOUT HOW BREXIT WOULD AFFECT THEIR BUSINESS (PRE-23 JUNE 2016)

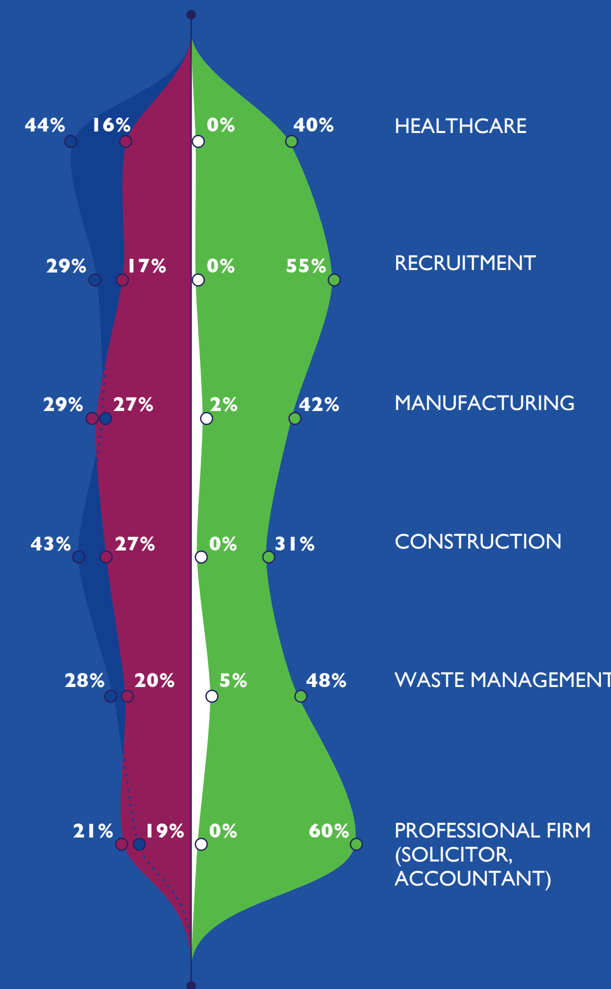
Source: AIB Steps to Growth 2016 survey



HOW SPECIFIC SECTORS PERCEIVED BREXIT WOULD AFFECT THEM (PRE-23 JUNE 2016)

Source: AIB Steps to Growth 2016 survey

- SEVERELY NEGATIVE
  We would lose revenue and may have to shut down
- NEGATIVE
  We would need to downsize
- POSITIVE
  We would grow
- HIGHLY POSITIVE
  It would cut out European competition leaving the UK market more open to my company



FIVE STEPS TO GROWTH

Even experienced owner managers can benefit from revising the basic building blocks of business expansion

1

FIND NEW CUSTOMERS AT HOME

Relying on too few clients can leave your business vulnerable during uncertain times.

Construct a clear, precise picture of your ideal customer: it's easier to find them when you know who you are looking for.

Consider running a focus group to discover how you could improve, or what it would take to persuade potential customers to switch to your goods or services. Ask your customers to make referrals. They have friends and colleagues who are like them.

Make headlines to increase awareness: improve your profile by putting yourself forward in the media as an industry expert. Alternatively, invest in advertising or direct marketing and always follow up new leads.

2

SEEK NEW MARKETS ABROAD

With sterling relatively weak, now is a good time to consider exporting. But generating overseas sales takes time and energy: it is important to understand customer demand, competitors, regulations and the business culture in your target territory.

Speak to other owner–managers, join exporting clubs and visit trade shows to build up a picture of the market. The UK Trade and Investment Passport to Export scheme can also help.

Think about whether you might want to sell via a distributor or a sales agent – or even open an office abroad. Discuss finance with your relationship manager, who can advise about financing to cover expansion costs and currency hedging to lock into a given exchange rate.

3

MONITOR CASH FLOW

Cash is the key to survival: it keeps your business in business. Plot income, including sales and tax rebates, against outgoings such as wages, PAYE, supplier payments and utility bills over a defined period such as a quarter.

Consider how differences in the payment terms you give your customers, and those you receive from your suppliers, might affect cash flow. Have a system for chasing late payments, and make sure you stick to it. For example, include the date when bills are due on all your invoices.

Talk to your relationship manager as soon as you think that cash might be running short. They can advise on whether solutions such as invoice discounting or credit insurance might work for your business.

“Assess the strengths and weaknesses of your management team: in uncertain times it is important that they can make the right decisions quickly”

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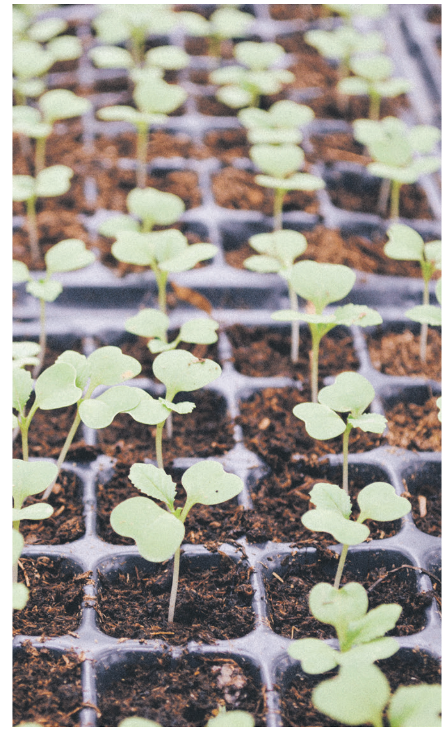


PLAN FOR GROWTH AND MEASURE PROGRESS

Successful owner–managers have a vision of what they want to achieve and a plan to get them there. Review and refine your business aims and objectives each year: some owner–managers find they can be distracted by a constant stream of new ideas.

Monitor key performance indicators that are relevant for your organisation's size and sector, such as order fulfilment time or number of returning customers. Spotting and fixing potential problems can make the difference between growth and failure.

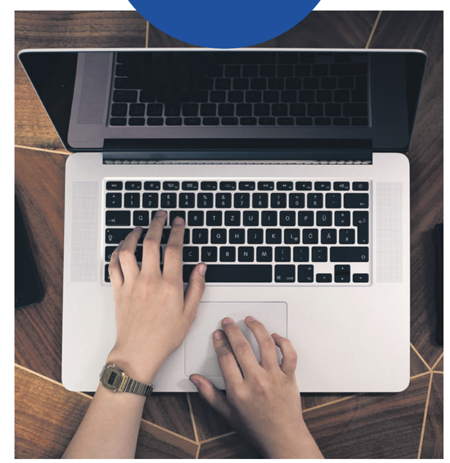
Set SMART (specific, measurable, achievable, realistic and time-bound) performance targets to inspire and motivate staff. Finally, assess the strengths and weaknesses of your management team: in uncertain times it is important that they can make the right decisions quickly.

5

COLLABORATE AND COMMUNICATE

Competing for business is crucial, but sometimes collaboration can be just as effective at delivering growth. Partner with another OMB to pitch for business or take on a large contract. Team up to share office space or manufacturing premises. Promote a complementary service in return for the same favour. Just make sure expectations are clear and the agreement is in writing. Invest time in relationships with your key stakeholders.

Technology – from FaceTime and Skype to Twitter and Facebook – has made communicating with staff and clients both easier and more affordable. Tell them your ideas for growth and ask for suggestions and feedback. Give your relationship manager regular business updates: they can support your growth plans and help when things go wrong.



DISRUPTING THE DISRUPTORS

Uber and Airbnb have transformed the hospitality market. But owner–managers are fighting back against the game-changing start-ups that have become big business

What happens when the disruptors start to dominate the market? How should owner–managers respond when innovative newcomers transform their market and change the rules of engagement?

That is the challenge facing traditional businesses that are confronted by the rapid growth of the "sharing economy", in which consumers use online technology to exchange goods, skills and other useful resources directly with their peers.

In less than a decade, Airbnb, the website for people wanting to rent their spare room to travellers, and Uber, which uses a phone app to link drivers with people looking for lifts, have grown from Silicon Valley start-ups to global businesses that have completely changed the travel and hospitality market. In Britain, the "collaborative consumption" movement is reaching into many new sectors: commuters can hunt for a car space at JustPark, while professionals with lengthy to-do lists can browse TaskRabbit for local people with time on their hands.

But agile OMBs are already finding ways to outmanoeuvre the disruptors. Take Royal Cars and 001 Taxis, two of the largest cab companies in Oxford. When their owners discovered that Uber was planning to launch in the city, they decided to merge their companies to create economies of scale.

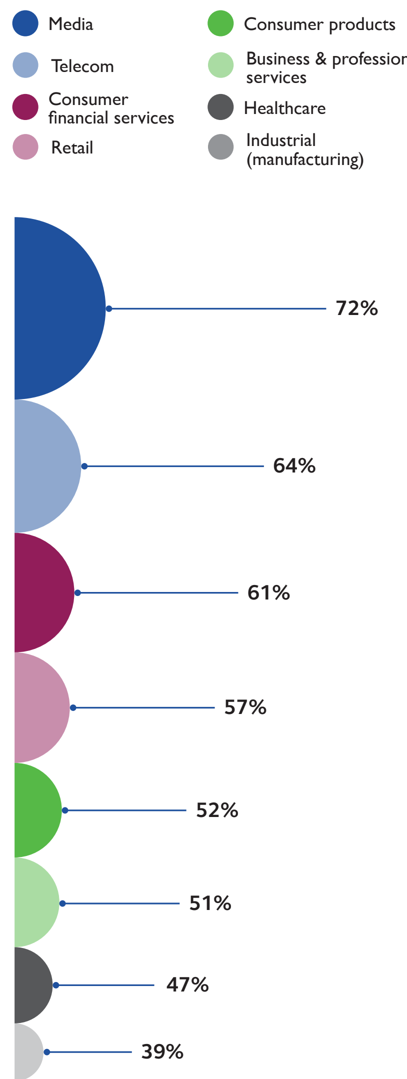
"[Uber's] goal is to close down all the other companies, and they would have disrupted the system that has been in place for many years," says managing director of Royal Cars, Niaz Mohammed.

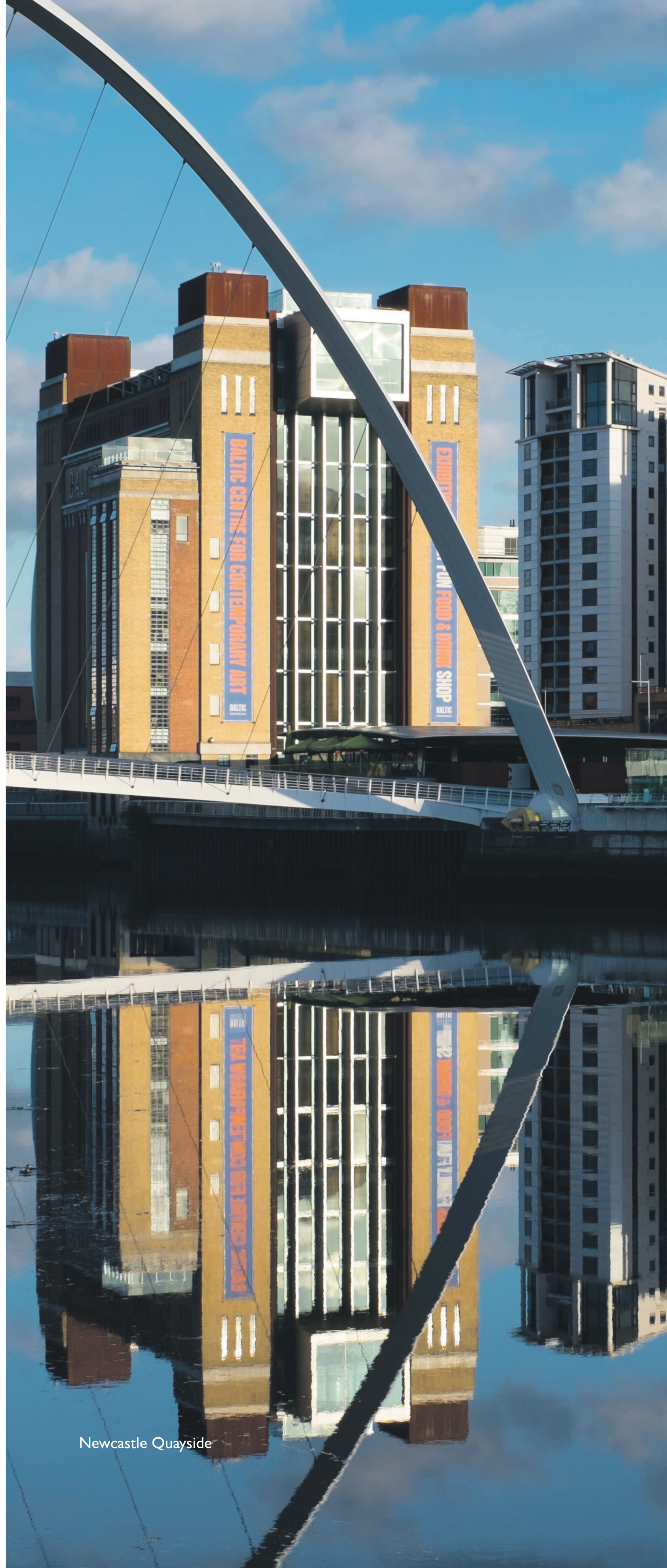
With the costs they saved, the new partners have launched their own app that allows customers to order and then track the location of the car they have booked. They have also invested in a number of cost-efficient hybrid cars. In July the city's taxi companies and licensed drivers celebrated when the city council turned down Uber's application for an operating licence. "It's great news for us and our customers," Mohammed says.

> "Agile OMBs are already finding ways to outmanoeuvre the disruptors"

EXECUTIVES WHO ANTICIPATE MODERATE OR MASSIVE DIGITAL DISRUPTION IN THE NEXT 12 MONTHS, BY INDUSTRY

Source: Digital Pulse 2015, Russell Reynolds Associates





Newcastle Quayside

CASE STUDY

COMPANY NAME: John N Dunn Group
BUSINESS: Plumbing and electrical contractors to the housing industry
RESTRUCTURED: 2007
LOCATION: Wallsend, Tyne and Wear
CHAIRMAN: Stephen Bilclough
RELATIONSHIP WITH AIB SINCE: 2016

As a supplier of services to residential property developers, third-generation family business John N Dunn is among the first to feel fluctuations in economic confidence. The company, which counts Bellway, Taylor Wimpey and Persimmon among its clients, has been expanding steadily following a sharp contraction during the last recession.

"The aftermath of Northern Rock was a scary time for us because no one knew how long the pain would last. But we got through and now we are on the up again," says chairman Stephen Bilclough.

As well as shrinking the payroll and closing two offices, the company consolidated a number of divisions. Annual turnover, which had peaked at £52 million, fell to £20 million before bouncing back to an expected £30–36 million next year. "Taking out costs has made us more competitive," Bilclough says.

The group is also investing in new skills: this year it has taken on 39 apprentices. "As one of the larger contractors, we believe we have a responsibility to train the next generation, he adds."

Earlier this year the company's property rental arm, Norham Holdings, switched to AIB (GB). "It's like going back to the good old days of banking: we have a really supportive relationship which makes a refreshing change."

Looking ahead, Bilclough believes the decision to leave the EU will not be bad for business. "There is still such a shortage of housing that as long as homebuyers can still secure a mortgage, I'm cautiously optimistic."

PATIENT, LONG-TERM CAPITAL WILL BUILD GROWTH

Sir Vince Cable, secretary of state for business, innovation and skills in the Coalition Government, talks about the consequences of Brexit – and the recipe for future economic growth

Do you think the vote to leave the EU has taken our business leaders by surprise?
Yes. I attended a number of business events in the run-up to the vote and whatever their personal feelings, most business leaders thought we would remain. But they are also pragmatic, and since the vote I've been surprised by how quickly their mindset has changed. They are already starting to look for new opportunities.

Brexit has implications for trade, free movement of workers, and for business confidence. What should owner–managers be expecting in the coming months?
The big shock to the economy that we expected has in fact been rather more modest. The Bank of England had a plan, and it acted quickly to inject a large amount of liquidity into the system. Also, some of the uncertainty had already been priced into the markets. Few small businesses are involved in international trade, which is why their attitude towards Brexit was more ambiguous than that of larger companies. We can expect a slowdown in consumer spending and a shrinking economy.

What is your economic forecast for the longer term?
The next two or three years will be a period of radical negative uncertainty. We don't know how our relationship with the EU will evolve. The housing market has taken a hit and by next spring we could well be in a Brexit recession. Any freezing of investment is bound to affect productivity and growth. Perhaps in eight to ten years everything will have adjusted but there are tough times ahead.

Much has been made of how Brexit will ease the burden of business regulation. Should OMBs expect to see a reduction in red tape?
Personally, I don't believe they should. Planning is the most serious burden and that is entirely home made. During my time in government I was responsible for a lot of social regulation, including more flexible working and shared parental leave. Given the events surrounding [Sports Direct founder] Mike Ashley and Sir Philip Green, the mood is to tighten business regulation, rather than to relax it.

In the aftermath of the financial crisis you took steps to make the big high street banks increase their small-business lending. Do you think they offer enough support today?
No, although I think access to credit has slipped down the worry list for some smaller businesses. A couple of the big banks have made a push to increase their lending, but the remainder are still quite reluctant. The emergence of challenger banks and peer-to-peer lenders is bringing some much-needed competition.

You set up the British Business Bank to give OMBs access to alternative finance after the banking crisis. How do you see its role after the leave vote?
Now it has an even bigger job to do, especially if the high street banks disengage with higher-risk businesses. Too many people have overlooked the Business Growth Fund, a £3 billion fund which has done a brilliant job so far, offering a mix of loan and equity funding to medium-sized firms. It offers the patient, long-term capital that we need to build growth.

Productivity in Britain remains 30 per cent below the US, France and Germany, according to government figures. Why is this the case?
I'm cautious about international comparisons because it depends on what exactly is being measured. In Britain, we have been very successful at getting people into work, but they are often part-time or low-paid jobs. Our industrial strategy must have more of an emphasis on improving innovation, and skills.

What can OMBs do to improve productivity?
Think longer term – which can be hard, because there is a lot of pressure to focus on short-term issues.

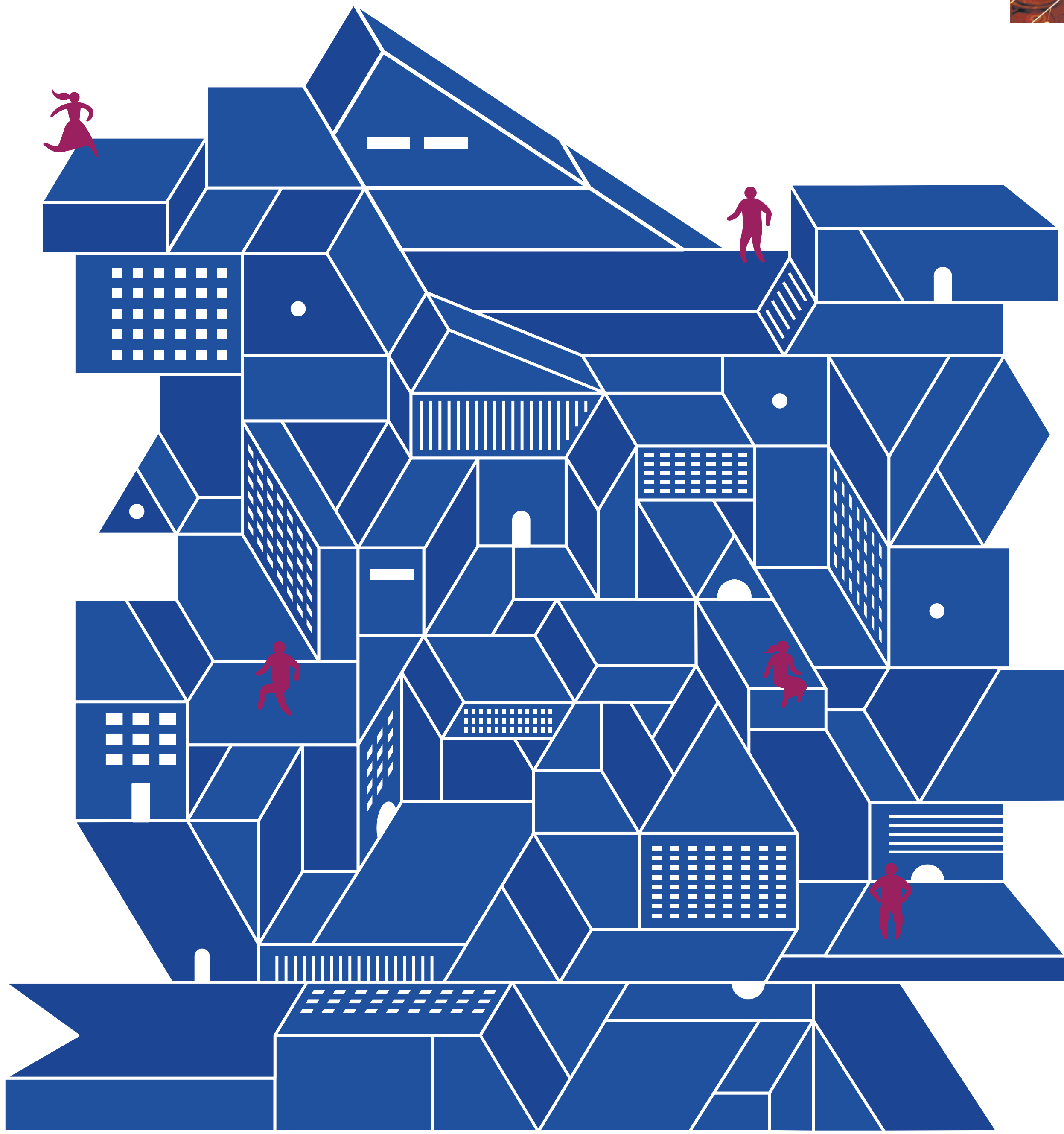
You championed apprenticeships – what would you say to an owner–manager who was considering hiring one for the first time?
I understand why they don't want to get involved: training an apprentice can be a distraction and there is the worry they will be poached. But things are beginning to change and not all promising school-leavers are being funnelled to university. It's an investment in productivity. The apprenticeship levy [which comes into force in April 2017] is an incentive to get involved.

What is the overall message of your latest book, *After the Storm*?
We are still suffering from the consequences of the banking crisis in 2008 and we should not imagine structural issues, such as the housing market, industrial strategy and the need for banking reform, have gone away. Brexit adds another layer of difficulty. We are still dependent on the adrenalin of cheap money – and that can't last forever.

Sir Vince Cable was the MP for Twickenham from 1997 to 2015 and served as secretary of state for business, innovation and skills from 2010 to 2015. His latest book, *After the Storm: The World Economy & Britain's Economic Future*, is published by Atlantic Books

TRAINING AND RETAINING STAFF IS THE KEY TO GROWTH

A shortage of skilled workers is a concern for many, but apprenticeships and employee incentives can help bridge the gap



Owner-managed businesses are working hard to attract and retain talent in a global economy where workers are mobile, and corporate pay and benefits are high.

Our survey reveals that 38 per cent of OMBs consider a shortage of workers with appropriate skills is one of the main barriers to growth. The issue is especially acute among businesses with fewer than ten staff, where two thirds cite the skills gap as a key concern. In the construction industry, which relies heavily on European labour, 49 per cent of respondents consider it an important issue. Some 43 per cent of waste management businesses and 40 per cent of healthcare owner–managers, who also tend to employ overseas staff, also cite skills as a concern.

"Owner managers need to set their business apart by offering staff incentives, such as equity participation or flexible working," says Mark Medd, AIB (GB)'s regional director of London North and West. "The most successful talent hunters are partnering with universities, schools or business incubators to make themselves known to potential employees."

In April 2017 the Government will introduce the apprenticeship levy, which aims to fund three million apprenticeships in the UK by 2020. For some OMBs, apprenticeships are already proving a popular path towards training and retaining staff. Take Nicola Fleury, who owns and operates four KidzRus day nurseries in the North West. She currently has seven apprentices on the payroll, who study with local training providers while learning practical skills on the job.

"We offer a bespoke training package which we feel we can nurture new employees and teach them our own ethos," say Fleury. "Staff retention is very important to the growth of the business because it offers consistency for both children and parents."

Some OMBs have expressed concern that a vote to leave the EU could worsen the skills gap by reducing the number of educated EU migrants in Britain. Yet Brexit could also accelerate the movement of talented domestic workers overseas, according to some experts. The number of UK jobseekers looking abroad – and especially in the US, Canada and Ireland – more than doubled in the days following the EU referendum, according to the recruitment website Indeed. "In a post-Brexit global war for talent, Britain's loss would be others' gain," says the company's economist Mariano Mamertino.

Making staff feel valued is crucial. "Encourage them to show flair and participate in developing new ideas," says Medd. "Entrepreneurial employees are good for business growth."

CASE STUDY

COMPANY NAME: Minstrell Recruitment
BUSINESS: Recruitment consultants to the construction, rail and facilities-management industries
FOUNDED: 2007
LOCATION: Manchester
OWNERS: Andrew Parish and Mark Hagan
RELATIONSHIP WITH AIB SINCE: 2015

Civil engineers, rail and construction workers, facilities managers: Minstrell Recruitment fills a huge variety of vacancies for leading companies around Britain.

Since its launch the business has supplied staff for major building projects including the Manchester Metrolink extension, Heathrow Terminal 5 and the Shard in London.

"Our business model is sustainable because the big infrastructure schemes we target tend to be less affected by the economic cycle," says director Mark Hagan. Turnover at the business has increased from £12 million to a forecast £20 million this year.

"Client relationships are a key factor to success," he says. "They come back because they know we will supply reliable and capable personnel."

Hagan is well placed to assess the impact of potential restrictions to the free movement of workers after Brexit. In the North, the business places large numbers of eastern European workers in relatively low-paid jobs, while in the South East it is domestic workers who tend to fill the higher-earning, managerial roles. "I can't see much changing in the South East, but there may be more of an impact in the North," he says.

Minstrell has had a funding facility with AIB (GB) for around 18 months. "They have been very supportive and keen to work with us," Hagan says. "I deal with seasoned professionals who want to help us: it's like going back to the good old days of banking where people knew their bank manager."

VIEW FROM THE TOP

How confident should owner–managers be feeling about the economic outlook over the coming months? This is what the experts are saying

“There is a real risk that sterling will depreciate even further, which could benefit the UK’s visitor economy and small exporters, but could also affect prices, inflation and investment. Medium-term forecasts indicate a slowing of the economy. We urge the Bank of England and the new prime minister to carefully assess the effects of the interest rate cut and do all in their power to boost economic confidence and growth”

Mike Cherry, national chairman at the Federation of Small Businesses

“Even though they think their organisations are still fundamentally sound, business leaders are worried about what the next few months hold for the UK economy… The UK badly needs an injection of confidence to prevent general concerns turning into lots of individual decisions to stop hiring and investing”

Simon Walker, director general of the Institute of Directors

“To an extent we’re seeing a return to business as usual. But we’re also seeing businesses adapting and realigning to our new environment. Many are adjusting their foreign exchange budget rate where their business model allows for it, but others may need to weather another cycle before they can readjust and make new hedging decisions”

Loyd Odey, head of customer treasury services, AIB (GB)

“It is vitally important UK business has some idea of how it will be able to trade with its closest trading partners and not slip back to the time before the 1970s when the UK was restricted by high tariffs”

Sir Richard Branson, talking to the New European newspaper

“I have committed myself to doing whatever I can in parliament to salvage the best possible relationship with the EU post Brexit. We need to protect access to the single market for manufactured goods, and we need the best possible deal on services. The most difficult sector to protect will be the financial services sector”

Margot James, small business minister, from her website

“The big shock to the economy that we expected has in fact been rather more modest. The Bank of England had a plan, and it acted quickly to inject a large amount of liquidity into the system… The next two or three years will be a period of radical negative uncertainty”

Vince Cable, secretary of state for business, innovation and skills in the Coalition Government

“The combination of a rate cut and more quantitative easing should be a shot in the arm for business and consumer confidence, lowering borrowing costs and keeping liquidity flowing through the economy”

Rain Newton-Smith, chief economist, CBI

COMPANY NAME: Monachyle Mhor
BUSINESS: Hospitality
FOUNDED: 1991
LOCATION: Lochearnhead, Perthshire
OWNERS: Tom Lewis and family
RELATIONSHIP WITH AIB SINCE: 2016

Since his parents opened Monachyle Mhor boutique hotel and restaurant in the Loch Lomond & The Trossachs National Park, Tom Lewis has grown the family hospitality business organically – and successfully.

Over the past decade, Lewis, his wife, his siblings and their partners have added a number of new ventures to their portfolio. Today they have a second, budget hotel; a fish-and-chip restaurant and takeaway; a bakery; and a food truck that caters for outdoor events. All are supplied with fresh, organic produce from the family farm and gardens.

They have also converted a showman's caravan and a former ferry waiting room to provide extra lodging in the grounds of the hotel with spectacular views of the mountains. "Customers seem to really like alternative-style accommodation and it's a growth sector," says Lewis. "We are dipping our toe in the water, but so far the reaction has been very good."

Lewis is keenly aware that the hotel sector is being disrupted by Airbnb and other peer-to-peer websites. "Competition is a good thing: we are confident that we have a distinct offer," he says. "You stay in a hotel for outstanding service and that is what we provide."

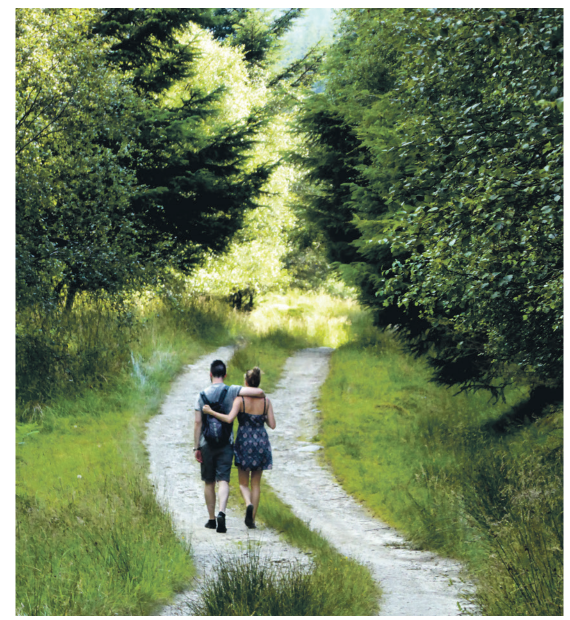
At the same time the family has been careful to keep outlay down. "We had a small capital budget to renovate [budget hotel] Mhor 84 so everything is painted white."

The business is perfectly positioned for future growth, according to Lewis, "Our parents have retired and we have carried out a complete financial and management restructuring." Now they have switched to banking with AIB (GB). "They understood us and they believed in us – and that is important."

"Competition is a good thing: we are confident that we have a distinct offer"

Tom Lewis, owner of Monachyle Mhor

Monachyle Mhor photos by Nina Äikäs



OPINION

CBI
THE VOICE OF BUSINESS

CBI Director for Innovation, Tom Thackray

As the UK seeks to forge a new relationship with the world, raising the productivity of our economy has never been more important. It is productivity growth that will help spread prosperity across the UK and drive our economy through the uncertain times ahead.

The success of the UK's fastest-growing firms will be vital in achieving this goal. Scale-up companies added almost £60 billion to the UK economy from 2010–13. And, in 2013, just 4 per cent of fast-growing companies were responsible for nearly 20 per cent of productivity growth in the UK economy – a truly remarkable statistic. Highly productive firms are twice as common within the scale-up community. Put simply, what matters to growth companies matters for the UK economy as a whole.

For growth companies of all sectors to succeed, it's crucial we maintain the principle of openness in the UK economy. Access to the single market and the European workforce will be two of the most important aspects of future negotiations between the new UK Government and the European Union.

Meanwhile, there is much that can be done within the domestic agenda – particularly around skills. The apprenticeship levy remains both an opportunity and a concern – the Department for Education, with its new and expanded remit, will need to give serious consideration to the levy's current design and timetable.

Businesses have a vital role to play in building the skills of the UK workforce. The increasing demand for higher-skilled people must be met by a willingness of firms to narrow the chasm between education and the workplace. And on this there is welcome progress across the country. More businesses are supporting schools, offering careers advice and investing in workplace training. But firms need to continue demonstrating their commitment.

Elsewhere, the CBI has been vocal in urging the Government to take action on key infrastructure decisions, such as HS2 and aviation capacity. The recent green light for expansion at City Airport sends a positive signal, though making a decision on a new runway in the South East remains an urgent priority.

Innovation will also be critical, and in the uncertain times ahead we need to encourage investment in new technologies. It will come as no secret to readers that the UK lags behind its international peers on research and development spending, which is vital for innovation. Raising our combined government and business R&D spend to 3 per cent of GDP by 2020, coupled with exploring greater export opportunities, will help to fill the order books of growth companies. And maintaining access to finance will help them invest to take advantage of such opportunities.

Making progress in these areas will give our growth firms the best possible environment in which to thrive, by driving productivity and helping to create an economy that works for everyone.

We face challenging times ahead – but there are opportunities as well. The UK remains a vibrant and open nation, and one of the best countries in the world to do business. Now is the time to take advantage of opportunities for productivity growth to make it even better.

City Airport, London

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