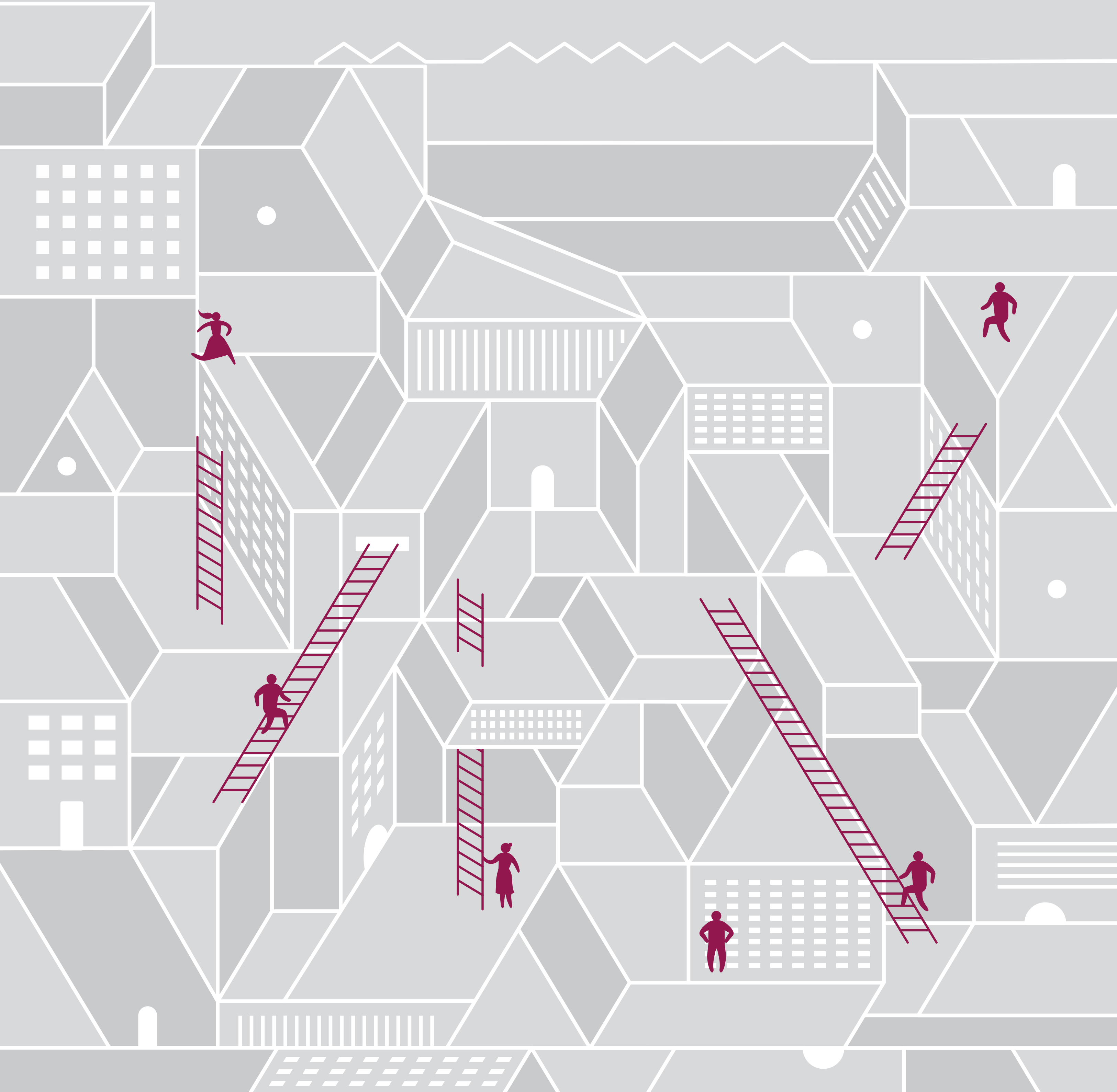
Allied Irish Bank (GB)

THE SINGLE MINDED BUSINESS BANK

vol. 1

Steps to Growth

AMBITION



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Steps to Growth

A M B I T I O N

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FOREWORD

Brendan O'Connor
Managing Director AIB Group (UK) Plc

Owner-managed businesses are the engine of the British economy, creating wealth and jobs across all sectors and regions. Together they account for almost half of the nation's private-sector employment and contribute around £750 billion to our GDP. Their health and growth is vital for our long-term prosperity.

Our second series of biannual reports seeks to identify and understand the priorities and perspectives of these businesses at a time of great uncertainty in the run-up to the EU Referendum on 23 June. This first volume uncovers not only how confident owner-managers feel about the future, but how they measure and finance plans for growth.

More than two thirds of the businesses we spoke to believe they will be in a stronger financial position this time next year. A third have a clear strategy for achieving growth, while another third expect to be more opportunistic, creating new products and services in response to changing demand, or seizing market share where they can. For more than a quarter of the businesses we spoke to, an increase in revenue is the single most important measure of growth, followed by market share, number of customers and then profits.

Businesses across all sectors are planning to take on more staff in the coming year, reflecting optimism about the future. Almost half are likely to invest in capital projects, such as new software or production capabilities, to improve productivity. Indeed, prioritising efficiency over expansion to create a lean, streamlined organisation is how almost two thirds of businesses expect to pursue growth between now and the end of the decade.

British businesses have a global reputation for creativity and innovation, from our technology and engineering to our fashion and video gaming. So it is encouraging to discover that more than three quarters of businesses plan to maintain their edge by investing in research and development.

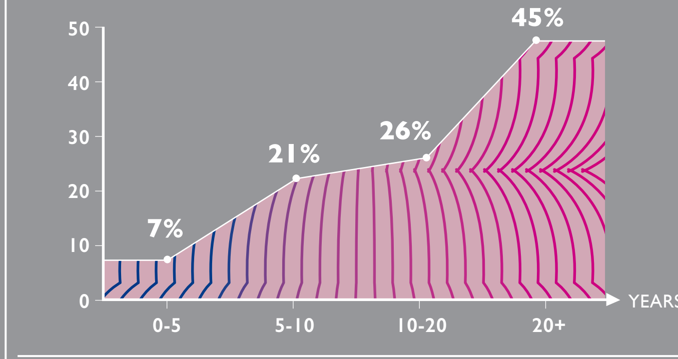
Our report uncovers how business-owners are becoming more open to partnering with alternative finance providers. We are lucky to work with a wealth of talented and determined business owners, and we are happy to share some of their inspiring growth stories in this report.

At Allied Irish Bank (GB) we believe our commitment to building strong, lasting relationships with all our clients helps us provide outstanding service. We look forward to supporting your ambitions.

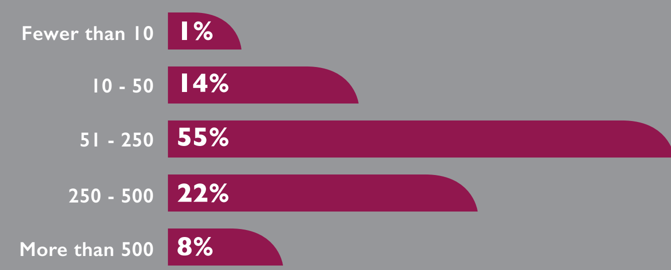
DEMOGRAPHIC

We spoke to 300 owner-managed businesses, from a range of sectors and geographical regions, about their growth ambitions over the next 12 months.

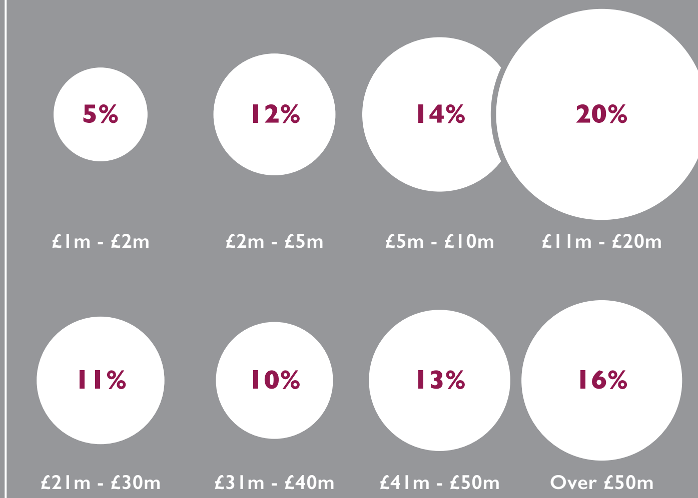
AGE OF COMPANY



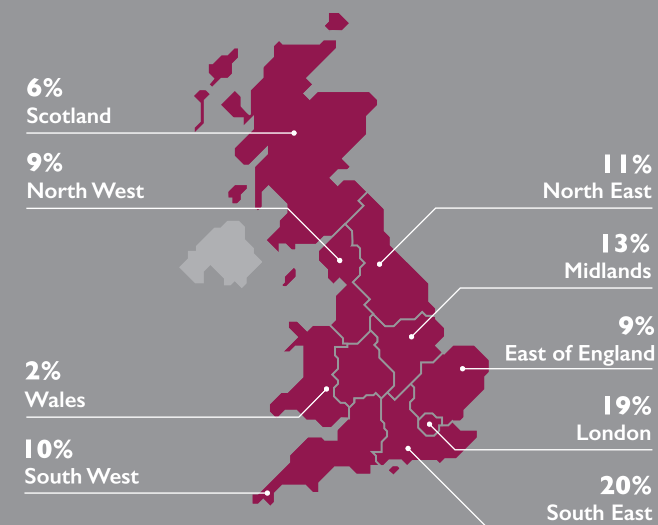
NUMBER OF EMPLOYEES



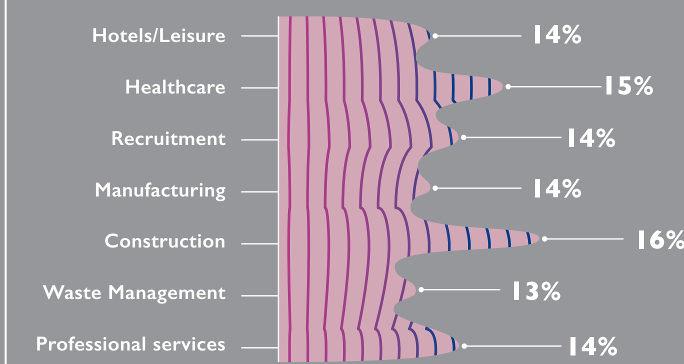
ANNUAL TURNOVER



LOCATION



PRIMARY SECTOR



JOB ROLE

CONFIDENCE BAROMETER

Despite economic slowdown and uncertainty over the outcome of the EU Referendum, owner-managed businesses (OMBs) are optimistic about their growth prospects for the next 12 months

The best is yet to come: that is the message from owner-managers who have set their sights on building financial strength and market share in the coming year. Our survey of 300 OMBs, taken from a range of sectors and from across Great Britain, found that a combination of innovation, cost-cutting and new customers will deliver growth and prosperity in the next 12 months.

Overall, 35% said they would be in a stronger financial position with an increased market share, another 38% said they would simply be financially healthier, while 24% said there would be no change. Just 3% said they would be worse off than today.

Unsurprisingly, early-stage OMBs that are less than five years old are particularly optimistic: 64% said their best years are in the future, compared to 44% of established companies with more than 20 years of trading history.

This bullish outlook is particularly welcome given slowing economic growth both at home and in China, a relatively weak pound, concerns about the timing of a future rise in borrowing costs – and of course the EU Referendum on 23 June.

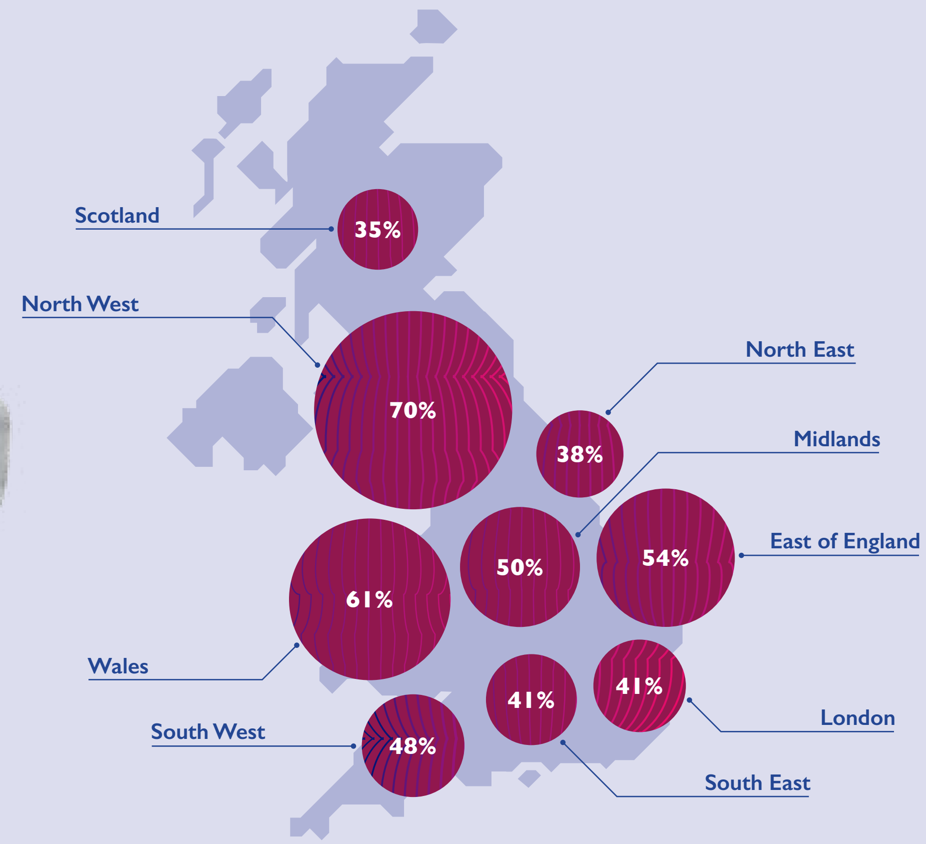
"Change and uncertainty have led to a period of cautious investment, but there is an underlying resilience among these businesses which is very encouraging," says Billy MacLeod, Allied Irish Bank (GB)'s Regional Director for Scotland.

Companies in the North West, the home of expanding overseas investors such as AstraZeneca and Vauxhall General Motors, are especially optimistic: 70% say their best days are still to come – by far the highest proportion of the companies we surveyed.

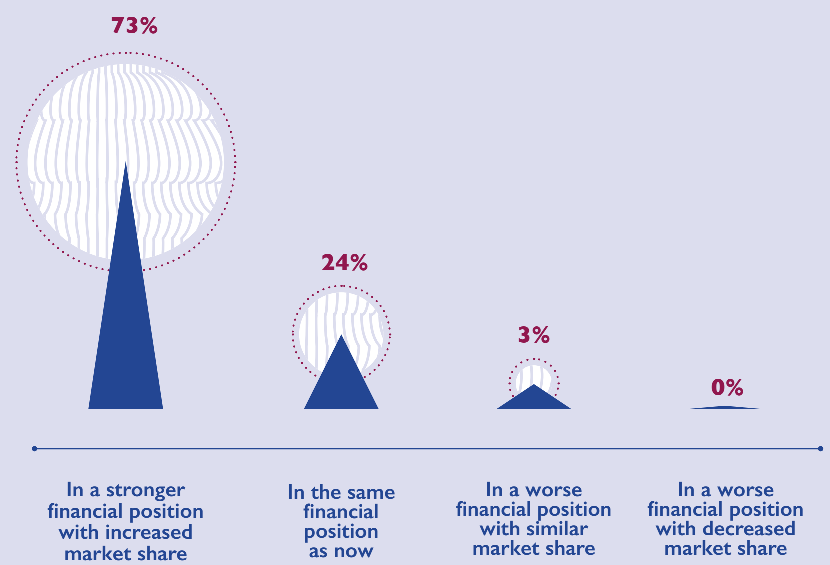
"The area has started to benefit as investors widen their horizons from London and Edinburgh and start to look at micro investments in other cities," MacLeod says.

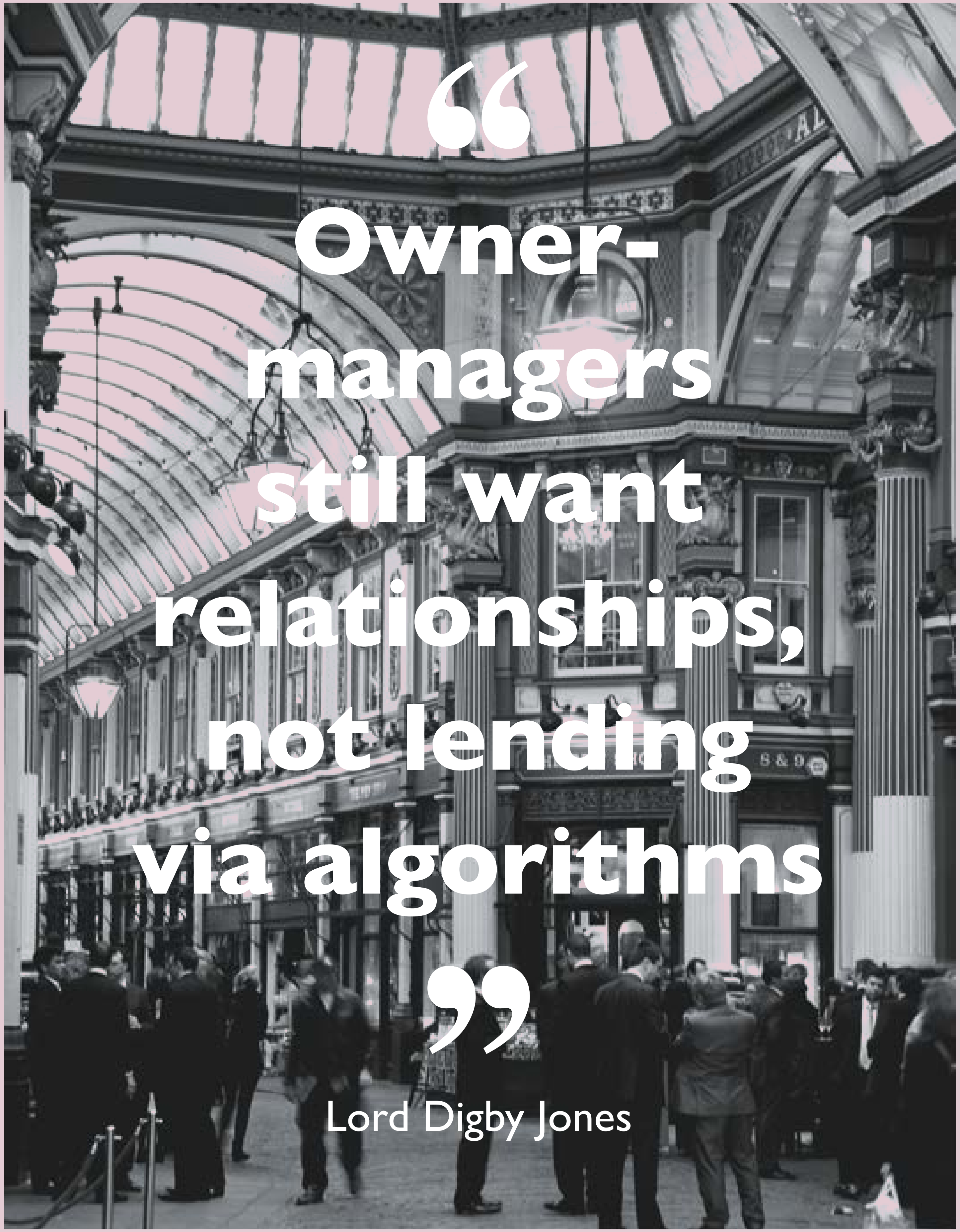
Owner-managers in two bellwether sectors, recruitment and construction, are especially positive about the future: 74% and 61% respectively said their best years are still ahead. For now, the confidence barometer is set fair.

% OF OMBs WHO BELIEVE THE BEST DAYS OF THEIR BUSINESS ARE AHEAD OF THEM FROM ACROSS THE UK



WHERE UK OMBs EXPECT TO BE IN A YEAR'S TIME





“INVESTING IN TRAINING IS THE PATH TO PRODUCTIVITY”


Lord Digby Jones

LORD DIGBY JONES, champion of owner-managed businesses, talks about business optimism, innovation - and the consequences of a vote to ‘leave’ in June’s EU Referendum

Q: Why should OMBs be optimistic, given the widening trade gap and disappointing Q1 economic growth figures?

A: Our owner-managed businesses are part of a global economy. Very often they are part of a supply chain that is selling to companies around the world, not just to Europe - and that is good news. In recent years they have taken advantage of low unemployment, low interest rates and low inflation to train workers, invest in better kit and get themselves in great shape for the future.

Q: How would you assess the state of OMBs in London and the regions?

A: London is unique: it’s the capital of the world. But our regions are also ahead of the game. The presence of big international success stories such as Jaguar Land Rover, Airbus and Nissan – and some of the best universities in the world – has supported innovation and knowledge transfer, and boosted morale.

Q: Many OMBs see the EU Referendum as a barrier to growth. What might the consequences be of a vote to ‘leave’?

A: There has been an economic slowdown and a reluctance to invest thanks to ‘Project Fear’, the suggestion that leaving the EU will somehow lead to World War Three. But if we vote to leave, it won’t be Armageddon, or even recession. It will just be tricky for a while as we negotiate new trade terms. Investors have already discounted any downturn in growth.

Q: Many OMBs are planning to hire in the coming year – but do we have enough skilled workers?

A: We have high employment in the UK, but we also have a productivity issue because we don’t train our people. Contrast this with France, which has an unemployment rate double the UK’s, but where the workforce is very productive. OMBs should be investing in training to improve productivity.

Q: Our research found that more OMBs plan to grow by cutting costs rather than by expanding their customer base. Does this surprise you?

A: It was ever thus – there are always costs to cut. But it’s important to look ahead. Skilling people up and investing in training is the path to productivity.

Q: Where do you see innovation coming from?

A: Innovation is not just having an idea, but taking it to market and making money. It’s about applying your skills and making your product a commercial success. In the UK we have world-class innovation in healthcare, such as stem cell therapies, in the green sector with energy-efficient products, and of course in the digital economy.

Q: What are your thoughts on the availability of debt finance for OMBs?

A: The financial crash changed things forever: we can’t expect OMBs to trust High Street banks ever again. Now there’s more choice from new challengers and other sources of working capital including invoice discounting. Owner-managers still want relationships, not lending via algorithms.

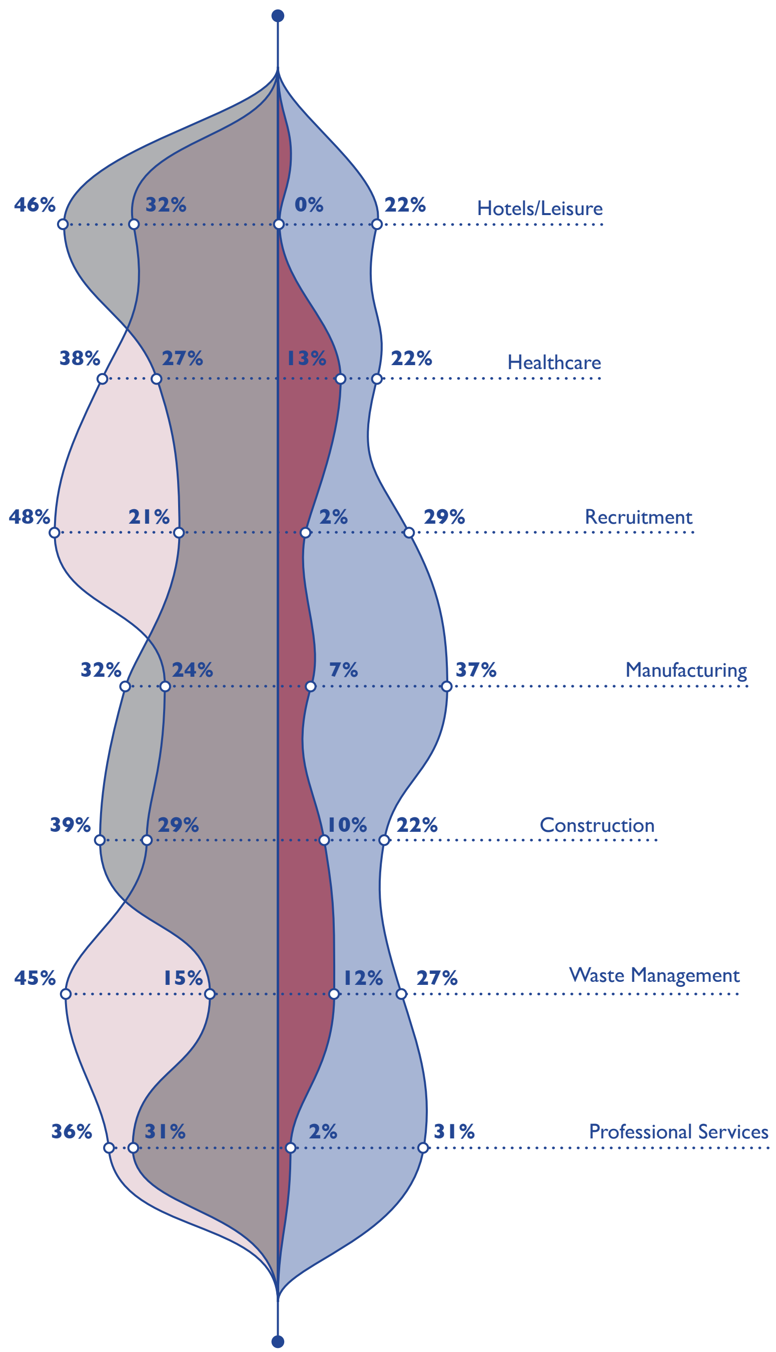
THE AMBITION INDEX
Measuring attitudes to growth

32% **Ambitious** / My organisation has a strong appetite for growth and we have a plan in place to make it happen

34% **Open** / My organisation is open to growing but we don't have a plan in place

27% **Reluctant** / My organisation is reluctant to grow because we are functioning well as we are

7% **Resistant** / My organisation is actively trying not to grow



LOOKING FORWARD TO GROWTH

London leads the regions when it comes to expansion plans – and recruitment is edging ahead of other sectors

Economic uncertainty and the looming EU Referendum are no barriers to planning for growth. Almost a third of owner-managed businesses (32%) have a clear strategy for achieving expansion in the coming year, while another third (34%) expect to seize opportunities as they arrive. Just 27% are content to carry on exactly as they are.

Businesses in the capital are strikingly ambitious: 51% have both a strong appetite for growth and a plan in place to make it happen. In Scotland that figure falls to just 12%, although 53% describe themselves as 'open to growth'.

"Opportunistic is a state of mind for some businesses," says Billy MacLeod, Allied Irish Bank (GB)'s Regional Director for Scotland. "They identify what they are good at - and do it often."

In the Midlands, 30% of OMBs said they were reluctant to grow because they were already functioning well. For those in the region that suffered during the 2008-09 recession and its aftermath, simple consolidation may be an attractive option.

"This is surprising," says Rikki Griffiths, the bank's Regional Director for the Midlands, Wales and the South West. "Birmingham is enjoying a huge renaissance with the arrival of HS2 headquarters and the redevelopment of the Paradise area of the city centre."

A small minority of OMBs are actively resistant to growth, notably in the East of England where 14% are avoiding expansion.

Businesses in recruitment (48%), and in the hotels and leisure sector (46%), are planning to grow in the coming year. Waste management businesses appear to be more opportunistic: 45% are open to growth but only 15% have a plan, possibly reflecting the impact of changing regulation. Surprisingly, 13% of healthcare OMBs reported that they were resisting growth – the biggest proportion in any of the sectors covered.

More than half of early-stage businesses less than five years old had both ambitions and plans, against just 26% of those that had been trading for two decades or more.

CASE STUDY
Latis Homes

COMPANY NAME: Latis Homes

BUSINESS: Housebuilder

INCORPORATED: 2011

LOCATION: London

CHIEF EXECUTIVE: Robert Luck

TURNOVER: £12 million

RELATIONSHIP SINCE: 2015

Latis Homes is a market disruptor with a strong appetite for growth. The company designs and builds sustainable homes with an emphasis on craftsmanship and modern construction techniques.

"We want to become one of the nation's largest housebuilders in the next five to ten years," says Robert Luck, who co-founded the business with fellow architect Krishan Pattni.

A typical Latis property is constructed from a timber kit that speeds assembly and saves waste. It incorporates solar panels, LED lighting and wireless energy management systems that allow homeowners to control heating and lighting remotely.

At a time when affordable new residential property is in short supply, energy-efficient, easy-maintenance homes have enormous appeal. "We are different because we offer design-led, sustainable homes at sensible prices," Luck says. "Technology moves quickly so we collaborate with innovative companies to find the best design solutions."

Until recently the company has focused on smaller sites in the South East, but it has just won consent to build a 267-home community in Chatham, Kent.

The company, which employs 32 staff, has banked with Allied Irish Bank (GB) for 18 months. "The bank had a very pragmatic approach. They took the time to meet us personally and they have a can-do attitude."

> **"We want to become one of the nation's largest housebuilders in the next five to ten years"**
>
> *Robert Luck, CEO, Latis Group*

ALTERNATIVE FINANCE GOES MAINSTREAM

High Street banks are losing ground as owner-managed businesses look elsewhere for growth finance

The lending landscape – and owner-managers' attitudes to borrowing – have changed forever in the years since the financial crash of 2008.

New sources of alternative finance including equity crowd-funding websites and peer-to-peer lenders, some backed by the government, have emerged to support ambitious start-up businesses, alongside challenger banks with a particular focus on business lending. Although net bank lending increased for four consecutive quarters last year, according to the British Business Bank, alternative finance business lending rose 75% to £12.6 billion over the same period.

Less than half of the businesses we surveyed (45%) planned to finance future growth with traditional bank funding. As Lord Digby Jones points out on page seven, owner-managers' trust in High Street lenders has been eroded.

"Faith in the Big Banks has been undermined because the service they offer has become so impersonal," says Mark Medd, Allied Irish Bank (GB)'s Regional Director for London North and West.

Our survey shows that OMBs – especially start-ups and early-stage ventures - are open to partnering with alternative finance providers. Some 55% of businesses launched in the past five years are planning to approach either crowd-funding websites or angel investors to fund their growth.

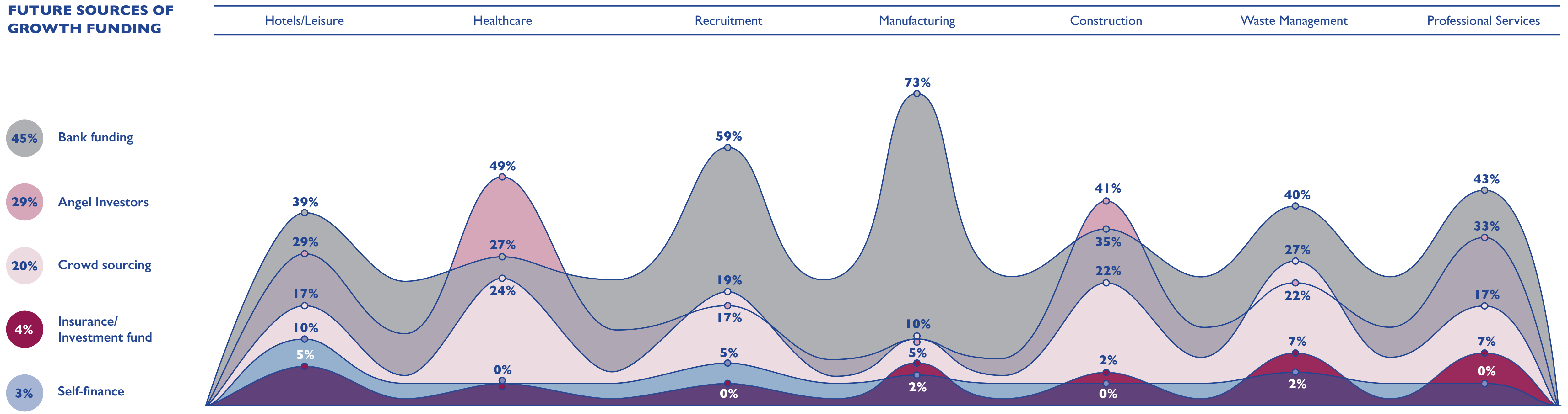
Businesses in healthcare (49%) and construction (41%) are most likely to seek equity partners, suggesting ambitious growth plans and strong networking skills. By contrast, just 10% of manufacturing firms will seek angel investors, while 73% will rely on bank funding, hinting at a more traditional approach.

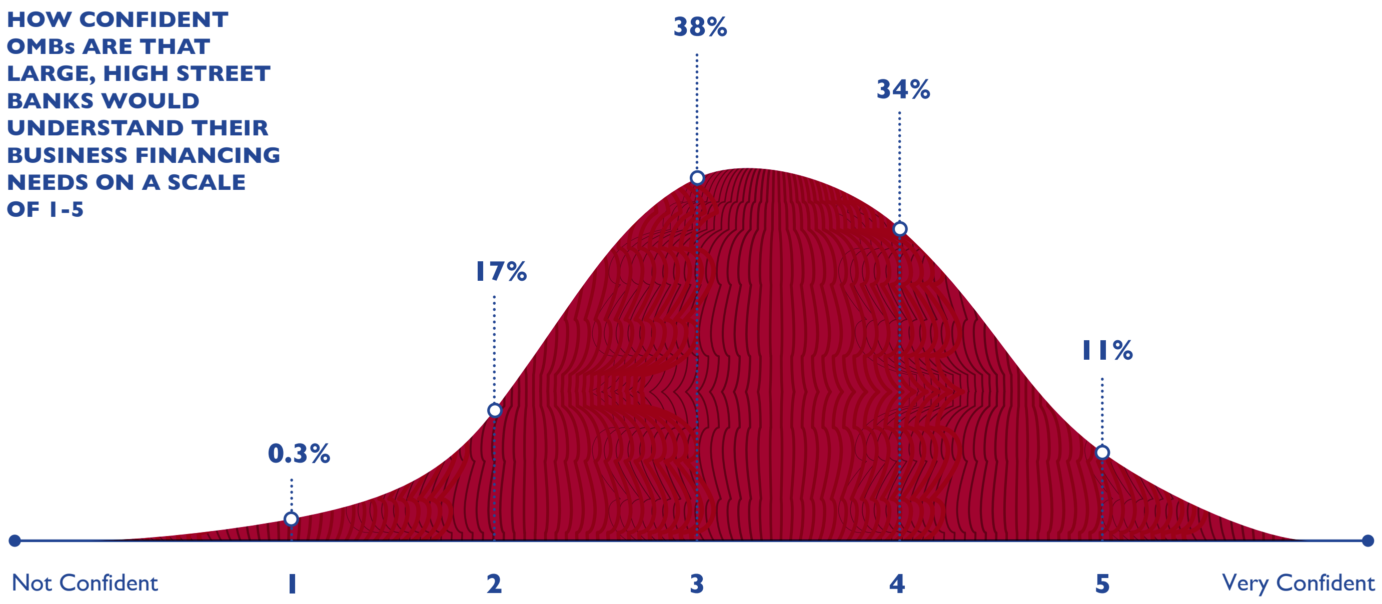
Surprisingly, 20% of OMBs will attempt to raise money through crowd-sourcing websites, which promise both speed and convenience. Peer-to-peer lending websites are particularly suitable for businesses that supply colourful, engaging or ethical goods and services with mass appeal.

Hotels and leisure businesses are most likely to finance growth from retained profits: 10% said they would self-fund their expansion, more than twice the proportion in recruitment.

> **"Faith in the Big Banks has been undermined because the service they offer has become so impersonal"**
>
> *Mark Medd, Regional Director London North & West at Allied Irish Bank (GB)*

FUTURE SOURCES OF GROWTH FUNDING





GROWING BUSINESSES WANT ADVISERS THEY CAN TRUST

Mis-selling and low lending volumes in recent years means many OMBs now have little confidence in High Street banks

Eight years after the collapse of Lehman Brothers sparked a global financial crisis, businesses are still profoundly wary of forming a relationship with the High Street banks.

Less than half of OMBs (45%) said they were confident or very confident that big banks would understand their business financing needs. Some 17% were not at all confident of being understood.

"Business-owners want relationship banking: they want advisers who understand their business and who can connect them to opportunities instead of just selling them products," said Rikki Griffiths, Allied Irish Bank (GB)'s Regional Director for the Midlands, Wales and the South West.

Earlier this year, Allied Irish Bank (GB) scooped the title for 'Best Service from a Business Bank' at the Business Moneyfacts Awards for the third year in a row. Last year the bank's new business lending rose 57% to £1.6 billion. "High Street banks are constantly changing their staff - but we don't do that. We deliver the tailored service that local businesses need."

Concerns about banking fees, the Payment Protection Insurance mis-selling scandal and the sheer difficulty of securing a loan at a competitive rate from the biggest banks have undermined trust in the Big Four banks, according to Griffiths. Interest rates on loans to owner-managed businesses have fallen slightly since the start of 2013, according to the Bank of England's *Credit Conditions Review* for the first quarter of 2016, yet demand for credit remains subdued.

Meanwhile, a new breed of online challenger banks, licenced in the past couple of years, is untainted by the financial crash – yet they have yet to fully establish both their product offer and long-term reliability. The confidence gap is especially evident in the healthcare and waste management sectors, where 22% were not at all prepared to trust the Big Four. The most positive sectors were recruitment and manufacturing, where 57% and 52% respectively were confident or very confident.

OMBs that have been trading for fewer than five years are most likely to have the strongest reaction to traditional lenders, reflecting perhaps their early success – or otherwise – in securing finance.

"We don't seek to take maximum profits from a single transaction but rather to work together over the lifetime of the relationship as businesses grow and develop," Griffiths says.

CASE STUDY

Sustainable Drainage Systems

COMPANY NAME: Sustainable Drainage Systems

BUSINESS: Designs and manufactures systems to capture water and prevent flooding in urban areas

FOUNDED: 2002

LOCATION: Biddisham, Somerset

OWNER: Patrick Cullen

RELATIONSHIP SINCE: 2007

Patrick Cullen, founder and owner of Sustainable Drainage Systems, has a straightforward business philosophy that has helped him triple turnover and employment at his business in less than a decade. "We are a debt-free, cash-rich business that reinvests profits to develop new products," he says. "But we have not had to sacrifice growth to keep debt off the balance sheet."

It is an outlook shared by his relationship managers at Allied Irish (GB). "They gave us a decent overdraft when we needed it but they have also encouraged us to be prudent and not load up on debt. They focus on the customer and develop a really good personal relationship – which works for me because I am a face-to-face person."

The business, which employs around 100 staff to design and build systems for capturing, collecting and storing flood-water in developed areas, expects to increase turnover from £30 million to £50 million in the next five years.

Demand for the systems has been boosted by climate change and over-development both at home and in Europe, the United States and even Saudi Arabia where flash-floods are increasingly common. "We spent a long time developing a market that did not exist previously," Cullen says. "Now clients want to work with us because we are an innovative company offering cost-effective solutions."

> **"We spent years knocking on doors. Now clients want to work with us because we are an innovative company offering cost-effective solutions"**
>
> *Patrick Cullen, founder and owner, Sustainable Drainage Systems*

GROWTH AGENTS

Owner-managed businesses will make the most of growth opportunities by taking on new staff in the next 12 months – but what about productivity?

An expanding payroll is a sign of good corporate health. Our survey found that in the coming year OMBs anticipate hiring staff to pursue new ventures in fresh markets. But there is also evidence that they will be investing in new management systems and technology to squeeze extra productivity from their current employees.

Overall, 82% expect to make new hires, of which 20% expect to grow by between a quarter and a half of their existing workforce, and 9% by more than half.

"This is a very high figure, reflecting the fact that we are coming out of recession," says Rikki Griffiths, Allied Irish Bank (GB)'s Regional Director for the Midlands, Wales and the South West.

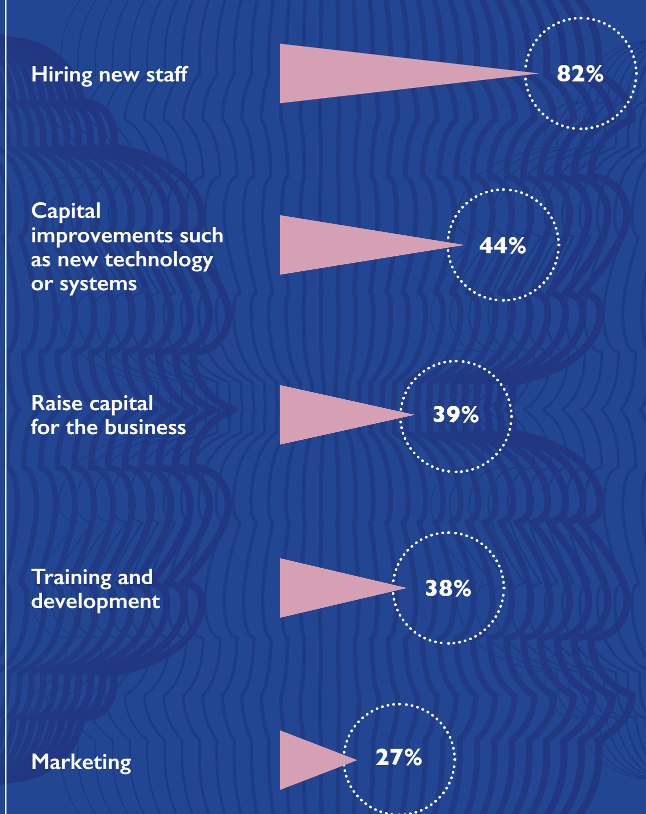
Encouragingly, 16% are likely or very likely to open new locations or offices. More businesses in Scotland and the South West plan to expand rapidly than anywhere else in Britain, demonstrating that job creation is not confined to the capital. Here, 18% and 17% of OMBs respectively expect to increase their payroll by more than half in the next 12 months alone.

Professional services firms, including lawyers and accountants, and hotel and leisure businesses, are the most bullish: 38% and 17% respectively predict a rise of more than 50% in staff numbers, perhaps in anticipation of a vote to leave the EU.

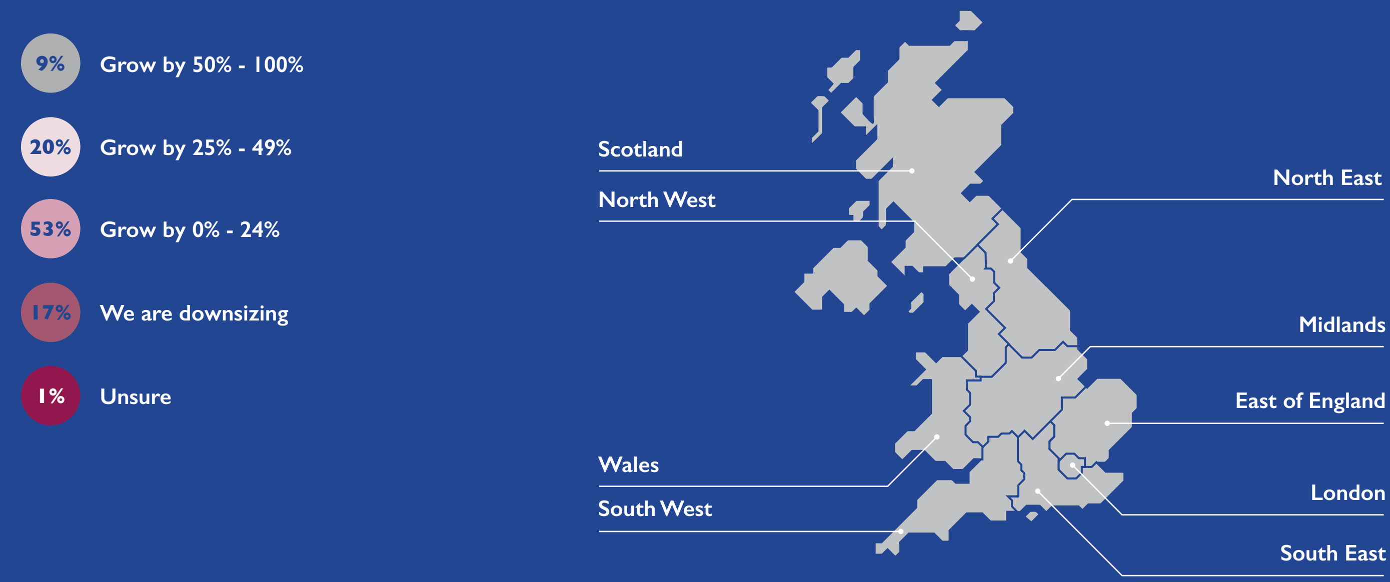
By contrast, 17% expect to downsize in the coming year, including 37% of construction companies and 24% of manufacturers. Yet it is possible that plans to shrink the workforce are tied to future improvements in productivity: 44% of OMBs said they are likely or very likely to invest in capital improvements such as new technology or systems in the next 12 months.

What's more, only 5% of businesses said that job creation is the most important measure of growth. Many more consider total revenue (28%), market share (24%), number of customers (23%) and profit (17%) to be the crucial measure of progress. As Lord Digby Jones points out on page seven, what's important is not how many staff, but what they do.

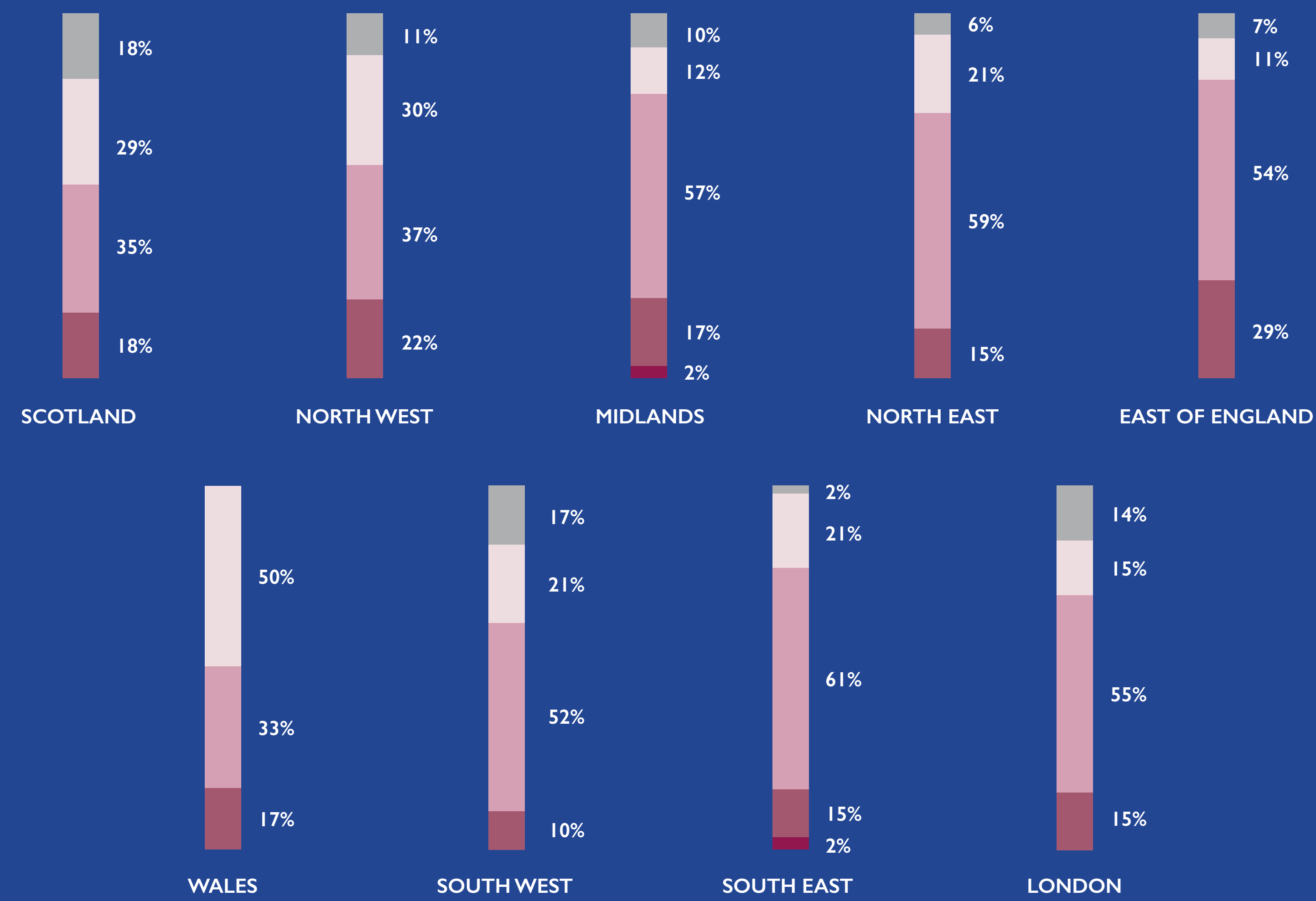
ACTIVITIES THAT OMBs ARE PLANNING ON INVESTING IN OVER THE NEXT YEAR



REGIONAL JOB CREATION: ESTIMATED GROWTH IN WORKFORCE



REGIONAL BREAKDOWN



PLANNING TO ACHIEVE GROWTH

Surprisingly, efficiency not expansion is the number-one growth strategy for owner-managed businesses in the next three years

Creating a leaner, more efficient business by eliminating unnecessary overheads and cutting waste is how almost two thirds of OMBs expect to pursue growth between now and the end of the decade.

Some 65% of businesses, including 70% of the waste management OMBs polled, said that cost reduction was one of their primary goals in the pursuit of healthier profits, perhaps reflecting uncertainty about economic and trading conditions after the EU Referendum on 23 June. For many, cutting operating costs might involve investing in more efficient logistics or software systems - or more simply, by reducing payroll or raw materials costs.

Expanding the customer base, for example through increased spending on marketing, is favoured by almost half of OMBs, including 55% of those in recruitment.

"It costs time and money to break into new markets. It's far easier to improve the bottom line by cutting costs," says Rikki Griffiths, Allied Irish Bank (GB)'s Regional Director for the Midlands, Wales and the South West.

Yet Griffiths observes that this does not reflect his recent experience with clients, who appear keen to diversify their products and service offerings, or to explore new geographical markets, either to create new and profitable revenue streams or to escape stagnant demand at home.

For example, YC Sports, an established family business that owns three sportswear and school uniform stores in Cardiff, has recently launched an online operation with support from Allied Irish Bank (GB). The website which allows clients to customise their kit, reaches a significantly larger market.

Some 42% of manufacturers want to diversify, while the same proportion of healthcare OMBs plan to grow by deepening relationships with existing clients over the next three years.

"Investment in equipment and capital assets shrunk to a very low level during the last recession," Griffiths says. "So now we are finally seeing businesses that want to expand."

> **"65% of OMBs are planning on becoming more efficient in the next three years to cut down costs"**

HOW OMBs PLAN ON IMPLEMENTING THEIR GROWTH STRATEGIES OVER THE NEXT THREE YEARS

	Total	Hotels/Leisure	Healthcare	Recruitment	Manufacturing	Construction	Waste Management	Professional firm (solicitor, accountant)
Cost reduction via better operating efficiency	65%	63%	64%	59%	68%	67%	70%	62%
Expansion of the customer base	49%	54%	44%	55%	44%	51%	47%	50%
Diversification of product/service portfolio	32%	29%	22%	31%	42%	39%	25%	36%
Tapping into new geographic markets	22%	22%	27%	19%	22%	22%	20%	24%
Further development of existing relationships	31%	32%	42%	36%	24%	20%	37%	29%

CASE STUDY
Sintons LLP

COMPANY NAME: Sintons LLP

BUSINESS: Full-service law firm specialising in family, business, insurance litigation, healthcare and personal injury law

FOUNDED: 1896

LOCATION: Newcastle

OWNER: The Partners

RELATIONSHIP SINCE: 1996

Law firm Sintons has evolved and adapted to serve clients in the North East and beyond through more than a century of legal, financial and social upheaval.

A change in legislation governing the payment of legal fees for personal injury claims has cut the profitability of this work and encouraged the partnership to diversify into new sectors and regions. Over the past 15 years Sintons has brought a renewed focus to clients in healthcare and with leading insurers beyond the North East.

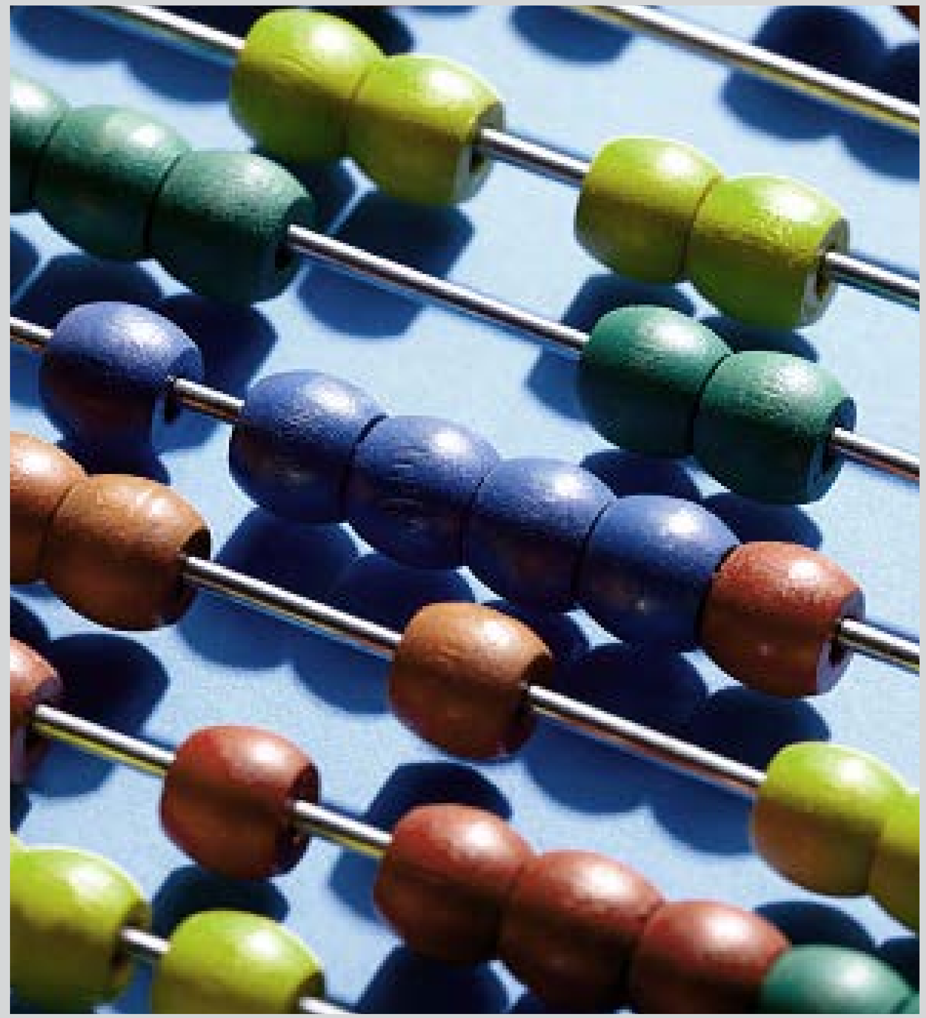
"We have grown through recommendation and through the selective hiring of highly regarded new partners," says Practice Director Phil Ridley.

The partnership also advises Newcastle's thriving hotels and leisure sector, strong retailers and our world-class universities.

Sintons has supportive ties with regional managers at Allied Irish Bank (GB). "We have a lot of clients' funds moving through our accounts so I speak to the bank most days," says Ridley.

"I like to think of them as colleagues. It's a very close, less formal relationship than I've had with High Street banks in my previous roles."

The partnership takes care update the bank on its finances. "Banks don't like surprises, so we keep them involved with a detailed update every six months," he says.



> **"We have grown through recommendation and through the selective hiring of outstanding new partners"**

Phil Ridley,
Practice Director at Sintons LLP

INNOVATING FOR GROWTH

Innovation is crucial for long-term business success, and OMBs across all sectors are striving for significant change

THE ROLE OF INNOVATION BY COMPANY SIZE
(measured by annual turnover)

Important
Moderately important
Not important

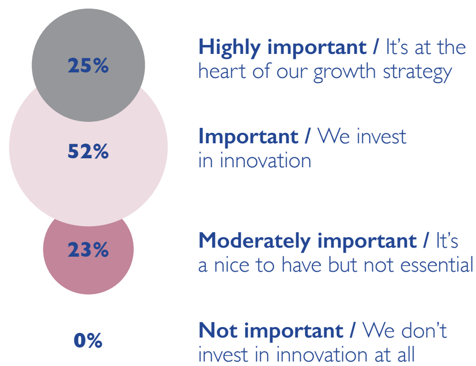
British business has an outstanding reputation for innovation. Our car and aerospace manufacturers, our technology and pharmaceutical businesses, our creative industries – from fashion to music, animation, video gaming and film – make a vital contribution to the national economy.

Yet innovation is more than just a bright idea. It involves taking an invention and transforming it into goods or services for which customers will pay. Entrepreneurs and business-owners might claim to be innovative, but without significant change it is just another business buzz-word.

What's more, businesses that fail to innovate risk being overtaken according to Mark Medd, Regional Director of London North & West at Allied Irish Bank (GB). To demonstrate that point, Medd points to a number of failures in the high street where it is widely believed that retailers have failed because of their inability to transform their product ranges or their route to market – their websites – to meet the ever changing preferences and demands of their consumer customers.

Encouragingly, 77% of the business-owners we surveyed said that innovation was either at the heart of their growth strategy or crucial enough to receive investment. None admitted that it was not at all important.

THE ROLE OF INNOVATION IN OMBS' BUSINESS STRATEGY:



Innovation is particularly vital in the manufacturing and recruitment sectors, with 90% and 81% of OMBs respectively saying it is important. For businesses that design and make products for an international market, the value of new merchandise or faster, more efficient production techniques is clear. For recruitment businesses trading in an era of historic employment, new methods of reaching potential clients may become paramount.

Unsurprisingly, nimble, smaller businesses, which have the flexibility to change and adapt, were especially focused on innovation. Some 93% of OMBs with a turnover of £1 million to £2 million, and 100% of those with fewer than ten staff, said it was important, against just 65% of those with a turnover above £50m and 72% with more than 500 employees. By contrast, there was surprisingly little variation by age of business: the importance of innovation was constant at around 75% regardless of how long the business had been trading.

CASE STUDY
Westbase Technology

COMPANY NAME: Westbase Technology
BUSINESS: Wireless Network Distributor
FOUNDED: 1988
LOCATION: Caldicott, Monmouthshire
MANAGING DIRECTOR: Sacha Kakad
RELATIONSHIP SINCE: 2013

Seeking out innovative new clients at home and overseas has fuelled rapid growth at Westbase Technology, an established business that distributes the kit that companies need for wireless connectivity in the workplace and on the road.

Supplying cutting-edge 4G mobile network capabilities, and paying close attention to the needs of end-users, has helped the business acquire customers across a range of sectors from retail to healthcare.

"Companies are turning to technology to transform the way they do business – and our job is to help them," says Managing Director Sacha Kakad.

Clients in transport, utilities and construction in particular are powering growth. Companies with fleet vehicles want to improve efficiency by giving drivers and field engineers the ability to log miles and receive information about the next job while on the move. Construction site managers want connectivity without waiting for wires to be laid.

"Instead of printing plans every day it is all updated on mobile devices, which saves time and paper," Kakad says.

Westbase, which employs 25 staff, has been banking with Allied Irish (GB) for three years.

"As our business expanded we needed a more flexible approach. Ultimately, Allied Irish enabled us to undertake new business ventures and expand our European footprint."

> **"As our business expanded we needed a more flexible approach... Allied Irish Bank (GB) enabled us to undertake new business ventures"**
>
> *Sacha Kakad, Managing Director, Westbase Technology*

MEASURING GROWTH IN A CHANGING MARKET

What are the key indicators that businesses monitor to check they are heading for growth?

What gets measured gets managed, according to the old adage. That is why it is so crucial for OMBs and their backers to keep track of growth metrics, from the number of employees on the payroll to cash flow and sales by region.

Surprisingly, a surge in total revenue is the most important measure of growth for 28% of businesses, followed by increases in market share (24%) and in numbers of customers (23%). Revenue appears particularly important for OMBs in leisure, recruitment and waste management. Overall, just 17% of OMBs rank profit as the key growth metric.

"Revenue is an important component of any assessment, but the investment of that revenue dictates the level and structure of borrowings available to further grow the business," says Billy MacLeod, Allied Irish Bank (GB)'s Regional Director for Scotland.

Indeed, for many of the bank's own clients, profits are the most important measure since they can be reinvested in research and development to promote further growth. As Lord Digby Jones points out on page seven, putting funds into training and modern equipment paves the way to productivity. In fact, our figures reveal that growth in profit tends to become a more significant outcome measure as annual turnover grows, up to around £20 million.

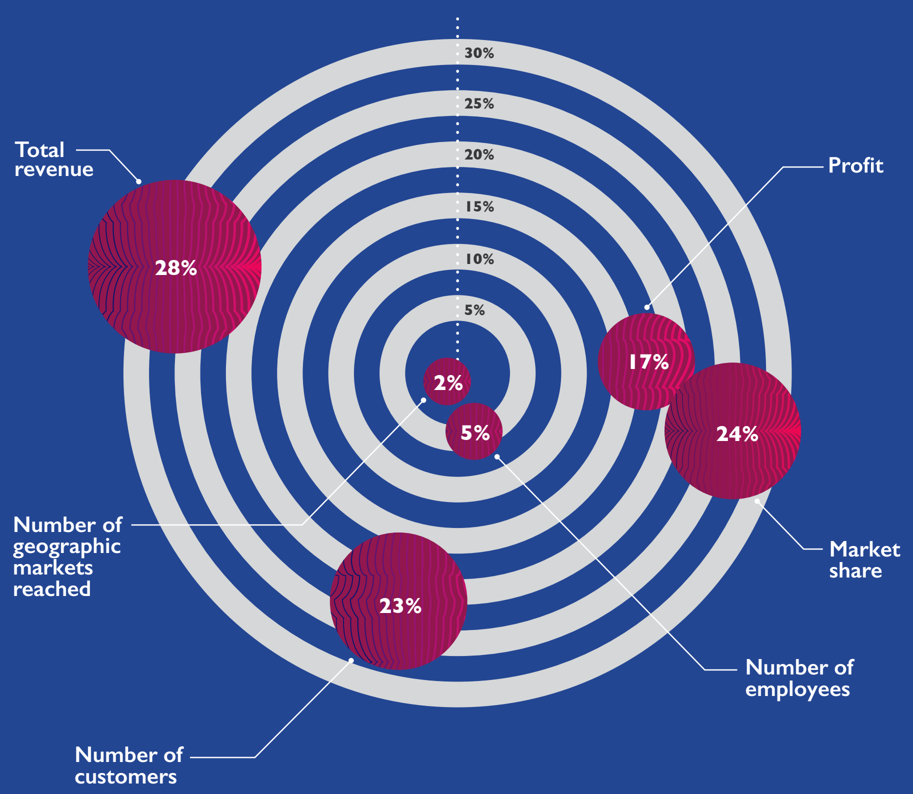
For large OMBs with sales of more than £50 million, and for young businesses less than five years old, market share becomes the most important growth metric, at 33% and 36% respectively. Market share is also by far the most important indicator of growth for healthcare businesses. This might be because parts of the sector such as residential care-home operators are consolidating, thanks to the availability of inexpensive capital.

"The younger and the bigger the business, the more we would expect to talk about the size of the market place. We would also be very interested in how the business is generating cash," MacLeod says.

For most backers, including Allied Irish Bank (GB), cash flow is a very important indicator of health. "We spend more time assessing the ability to service borrowings than the security we may have to fall back on," says MacLeod. "That will include the strength of the balance sheet and the utilisation of cash from profitable operations."

Growth in the number of geographical areas reached appears important only for manufacturing businesses, suggesting that they are more likely than other sectors to have an eye on export markets.

MOST IMPORTANT MEASURES OF GROWTH



"It is crucial for OMBs and their backers to keep track of growth metrics"

MID-SIZED BUSINESSES HOLD THE KEY TO ECONOMIC GROWTH

Boosting productivity among ambitious MSBs could drive job creation and lead to greater prosperity, explains Chris Cassley from the Confederation of British Industry (CBI)

Establishing how medium-sized businesses (MSBs) can raise their productivity, increase output and unlock new growth is crucial to the future success of the UK economy. But why has this proved such a conundrum for many firms in the UK? What does it say about our ability to compete internationally?

The UK's productivity growth rate is 17% below the G7 average – and there is no silver bullet intervention that can quickly reverse that trend. But we know that collectively the UK's 3,000 scale-up MSBs contributed £59 billion to the UK economy between 2010 and 2013, making the difference between recession and recovery. Encouraging more businesses to be ambitious will help the UK on its path to prosperity.

MSBs make up only 2% of UK business but are in fact responsible for one in six jobs and generate nearly a quarter of private sector revenue – they should be celebrated and supported. And investment in new technologies and machinery, management and leadership skills, and effective use of capital have emerged as important factors which impact on productivity growth.

The Government published its own plan aimed at increasing productivity back in 2015. Sir Charlie Mayfield, Chair of John Lewis plc, was given the task to lead the project, bringing businesses together to learn from each other and discuss how to improve productivity.

This year's CBI MSB Summit will explore the challenges growing firms face in raising productivity, and will highlight the practical steps they can take to increase output. Sir Charlie Mayfield, Business Minister Anna Soubry and a host of leading MSBs will share their insights about the key issues facing firms, including:

- **Staying innovative in a growing business**
  What steps MSBs have taken to become more innovative and the barriers to making these types of investments
- **Providing finance for mid-sized firms**
  What options companies should consider before accessing a new form of finance, as well as the benefits and challenges firms face when working with different finance providers
- **Building an international business**
  Understand what is holding back companies from growth and expansion and why the export opportunity should be embraced
- **Training a productive workforce**
  The changes and challenges faced as the UK's system for training apprentices undergoes a fundamental shift, and the benefits and opportunities that building skills can bring to the UK workforce

Building on these pillars of growth is a key focus of the CBI's mid-market agenda. Improving productivity will not happen overnight – rebalancing the economy will only be possible through companies and businesses working together and with Government to meet the challenge and unlock growth.

Chris Cassley is the CBI's MSB Policy Adviser

The CBI MSB Summit is taking place on 7 July in Central London. To book your place, please visit news.cbi.org.uk/events/msb-summit-2016

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