AIB

STEPS TO GROWTH

Strategy

Contents

A new strategy

Mid-sized businesses are leaning on strategy to leverage growth

Rachel Naughton,
Head of Allied Irish Bank (GB)

Brexit presents unique challenges to British businesses. One year after the unexpected outcome to the EU referendum, employers are still trying to come to terms with the implications of the UK's departure from the European Union.

The terms of the departure remain unclear, and are unlikely to be settled for many months. In the meantime, businesses must plan for the future, making decisions on investment, recruitment, marketing and product development – despite deep uncertainty about the economic outlook.

The early signs are that British companies will rise to this challenge. One year after the referendum, business remains resilient in the face of tough economic headwinds. Despite the additional uncertainty caused by an unexpected general election, employers continue to create jobs and to maintain investment, which has helped to mitigate the impact of weaker consumer spending. Flagship manufacturers, including Nissan and Rolls-Royce, have signalled their commitment to the UK, which augurs well for the long term.

This year, Allied Irish Bank (GB)'s Steps to Growth series considers how businesses can prepare, and even prosper, in such an uncertain environment. How can firms leverage controllable factors to maximise growth opportunities and stay one step ahead of the competition? In our three-part series we explore how critical skills and innovation are to business, as Britain seeks new markets beyond the EU. But we begin with strategy, and assess the strategic implications for businesses seeking to navigate uncharted waters.

Our own exclusive survey suggest that UK business leaders believe they have the right strategy to weather the Brexit storm and lay the foundations for long-term, sustainable growth. The survey of 500 UK executives across industry and commerce reveals a high degree of optimism about the future. Some 72 per cent of respondents, across many sectors, believe that leaving the EU will be positive for their business, and will encourage growth. Far from building defences against a possible downturn, British firms remain ambitious, with 87 per cent of respondents saying they want to grow their business.

In Steps to Growth 2017 we share our insights into the dynamic businesses that will help to shape Britain's future, drawn from our survey, our business client relationships and interviews with leading business leaders. We seek to capture the essence of what motivates UK executives in 2017 and hope that we can inspire you to forge your own strategy for success, whatever the future holds.

Enjoy Steps to Growth.

Measuring success

British companies are looking beyond turnover to find new ways to chart their fortunes

All businesses want to turn a profit. For most British companies, turnover is the main measure for growth. In fact, 40 per cent of the executives responding in AIB (GB)'s Steps to Growth 2017 survey report turnover as the only measure they use. Recruitment and hotels and leisure companies are, unsurprisingly, concerned with number of customers. Amount and quality of new hires, extent of exports and reaching new markets also feature heavily.

Of the sectors surveyed, healthcare and manufacturing are the most optimistic. Some 68 per cent of healthcare respondents and 59 per cent of manufacturing respondents anticipate growth of 21–40 per cent over the next five years. The healthcare sector is benefiting from an ageing population and the opportunity to provide cost-saving innovations to the NHS. Some companies in the manufacturing sector are capitalising on the weak pound to boost their order books.

The limits of revenue-counting

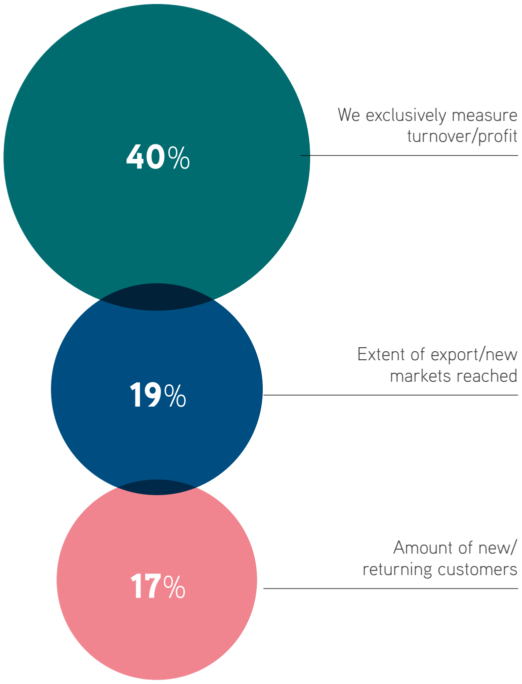
"These days," says Isla Wilson, business growth consultant at Ruby Star Associates, "turnover can be quite an old-fashioned means of measuring business growth. It is often rooted in the assumption that profit remains a near-constant proportion of turnover, and that your business will grow by delivering more of what you do, in roughly the same way."

In a world of global markets, technological innovation and disruptive models, measuring growth exclusively by turnover runs the risk that you will miss opportunities to do more for less, price your product or service based on value, or simply change the way you do business.

"One common pitfall that we see when businesses focus on turnover is that service businesses tend to price projects based on a day rate (which builds in an assumed level of profit)," Wilson explains. "This isn't a bad model in principle, but it can lead to businesses feeling trapped in a cycle where all they can ever do is sell available time in exchange for a capped amount of money. This is a model which can be hard to scale, and

"The key is to find a measure which truly reflects the business you are trying to build"

How do you measure "growth", other than turnover?
Select the top three measures you use.



which can be limited by the availability of the most senior/experienced resources."

It is also easy to lose the link between what something is worth to the market and what it costs you, Wilson adds. "After all, if you get quicker and quicker at delivering something, you may be tempted to reduce price (based on the day-rate model), even though the value of the outcome should remain unchanged."

Another key risk of measuring turnover, says Wilson, is that you don't pay enough attention to profit and simply scale up a model that doesn't generate sufficient returns or makes a loss. This is because, even if you are building a not-for-profit model, you will likely need surplus to reinvest or to build in resilience.

Profit can function as a more useful measure, Wilson advises: "It is useful to give some consideration as to whether you should measure profit as a percentage (which has some of the same pitfalls as using turnover as a key metric) or whether what really matters is the profit expressed as a sum of money (or even the amount of profit retained and reinvested). All the ways to measure growth – workforce, customer numbers, impact, social value, even reduction in hours spent by a key director – are valid in their own ways. The key is to find a measure which truly reflects the business you are trying to build."

CASE STUDY

Engaging your workforce to boost productivity

Peakon is an employee-engagement software that automatically collects employee feedback, analyses it, and then delivers insights. The company has around 45 staff, having grown from just four last year. Yaniv Mazor, Peakon's VP for growth says: "We've gone from a small office to investing £1.4 million in a new office and we should be at 100 by the end of the year."

The company measures its own staff satisfaction rigorously compared with most other companies, using weekly electronic feedback. "These questions people can answer on the way to work on a Monday morning," Mazor explains. "This then feeds on to the people-analytic desk so they can see ongoing changes."

He says, for example: "One of our biggest pain points was the lack of office space as we are hiring more people and growing. The management and the board worked really hard to understand that pain point; the speed of change can only happen effectively with this communication."

Peakon's surveys contain 14 elements, including how fulfilled staff feel on a daily basis, how much personal growth they see and how much collaboration there is. Then the company measures how this is affecting overall productivity, along with an employee net promoter score (eNPS) – a measurement that builds on the established net promoter score system – allowing the company a snapshot of loyalty and engagement.

The company also recently introduced an open salary model. "It was a sensitive topic," says Mazor. "From the moment we introduced it there were issues. But it took two weeks to fine-tune it. We couldn't have done it this way in a conventional system."

This all, says Mazor, produces a growth narrative: "We have the assumption that productivity ties in to turnover. A more engaged workforce will produce more."

British BUSINESS AMBITION

UK businesses still thinking big, despite the uncertain outlook

The business climate might be uncertain and the skills market set to alter dramatically. Yet AIB (GB)'s Steps to Growth 2017 survey shows that British firms are ambitious, with 87 per cent of respondents saying they want to grow their business.

Manufacturing appears the most ambitious sector, with 100 per cent of respondents saying that they want to grow. This breaks down as 73 per cent saying they have a strong appetite for growth and a plan in place to make that happen. The remaining 27 per cent are open to growth but don't have a plan.

According to data from CIPS (the Chartered Institute of Procurement and Supply), UK manufacturing growth hit a three-year high in April. British businesses reported higher demand from clients in North America, Europe, Africa and Brazil, with the weaker pound keeping British products competitive.

Strategy and skills

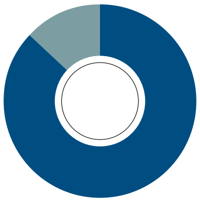
Of the manufacturing companies in the AIB (GB) survey, 59 per cent expect their turnover to increase by 21–40 per cent in the next five years. But this is dependent on a strong strategy from government, says Ann Watson, chief executive of Semta, the UK Sector Skills Council for Science, Engineering and Manufacturing Technologies. "The strategy needs to include strong, high-value exporting sectors like advanced manufacturing and engineering [AME] to succeed. We are already well placed as a potential global powerhouse in new battery technologies that will be crucial for future growth. A strong AME sector can also help to solve Britain's productivity problem, with our higher-than-average GVA [gross value added] and turnover per employee."

Research from EngineeringUK says the country needs 1.8 million more engineers and technically qualified people by 2025. "Skills are the crucial component for success in UK AME but we're currently struggling with skills shortages," Watson confirms. "We're equipped and keen to help businesses in our sector grow their skills base as a way of growing their business. We know the appetite is there and that companies are actively looking for the right people. Last year over 72,000 job advertisements were posted for design engineers – more than the total number currently in employment."

Organisations such as Semta are supporting engineering and manufacturing businesses by providing leadership in areas such as industrial digitisation and new technologies, as well as focused research such as its Engineering Skills for the Future report on diversity.

Busy times for healthcare

Healthcare is the second most ambitious sector, with 98 per cent of survey respondents saying that they want to grow. Of these, 89 per cent say they have a strong appetite for growth and a plan in place to make that happen, with 9 per cent saying they are open to growth but don't have a plan.



87%

of british businesses say they want to grow.

One company confident of growth is Ingenica Solutions, which provides IT services to the healthcare sector in the areas of supply chain, procurement, inventory management and data management. "We identified a gap in the market for systems in the back office," explains Nicola Hall, Ingenica's managing director. "The government has cottoned on to the fact it doesn't have enough procurement data and it can't easily track and trace products. As budgets diminish, the NHS is looking to cut costs where it can and companies like Ingenica are well placed to serve this need.

"We see a great opportunity to grow on the back of government initiatives and also meet the needs of healthcare suppliers. Healthcare is always a challenge but if you're in the right place at the right time with the right solution then that can make you fairly optimistic." Ingenica also has plans to move geographically, Hall adds. "There are lots of government initiatives so we're trying to get into the space in time for the rush."

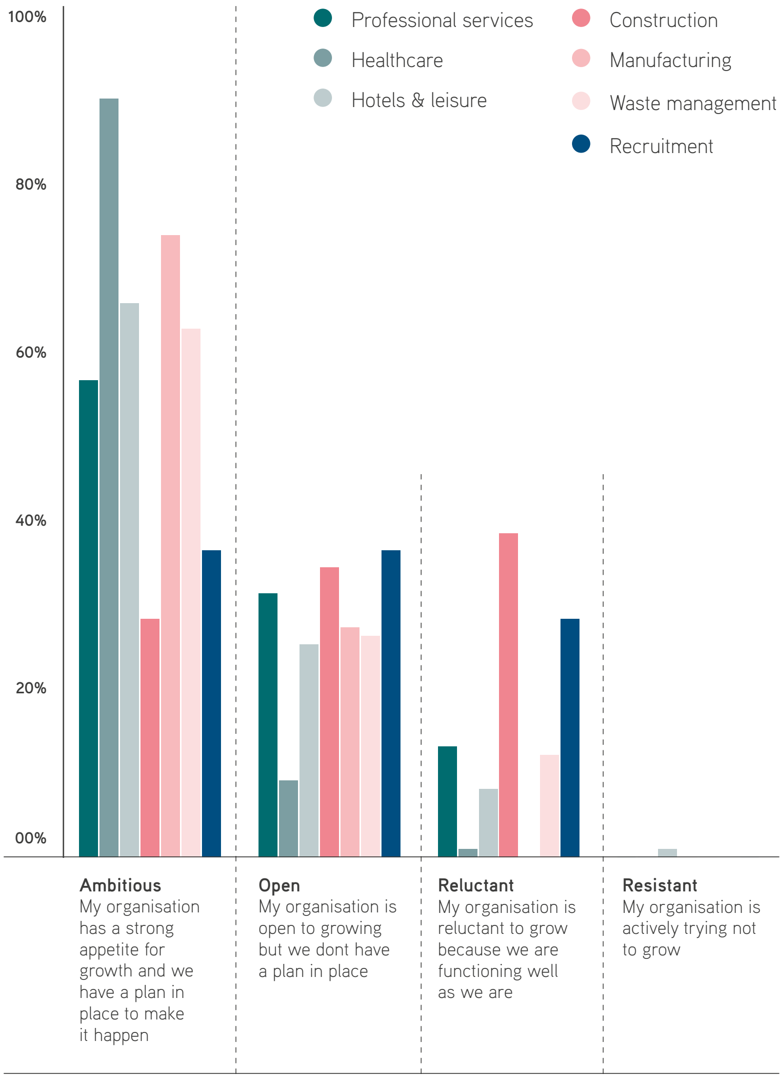
Other firms, like Cambridge-based Healthera, provider of digital solutions for patients to manage and reorder medication, also talk positively about public sector opportunities. "There's a lot of support from the government to help companies like ours," explains Healthera's CEO Quintus Liu. "NHS England has made a callout to private companies in the industry for solutions that can potentially help the NHS relieve pressure in accident-and-emergency hospitalisaiton. We were one of five companies given £1 million to help develop these solutions."

The company now serves 70 pharmacies, with another 80 lined up, and more than 3,000 patients. "We have national chains in the pipeline and lots of growth plans," Liu explains. Crucial to this growth, he says, is "a great relationship with people in the EU. Our board has two members from the EU and our next market is going to be the Netherlands. We aim to bring more solutions before Brexit actually happens and help maintain the UK's presence in the EU. Globalisation is essential for our growth."

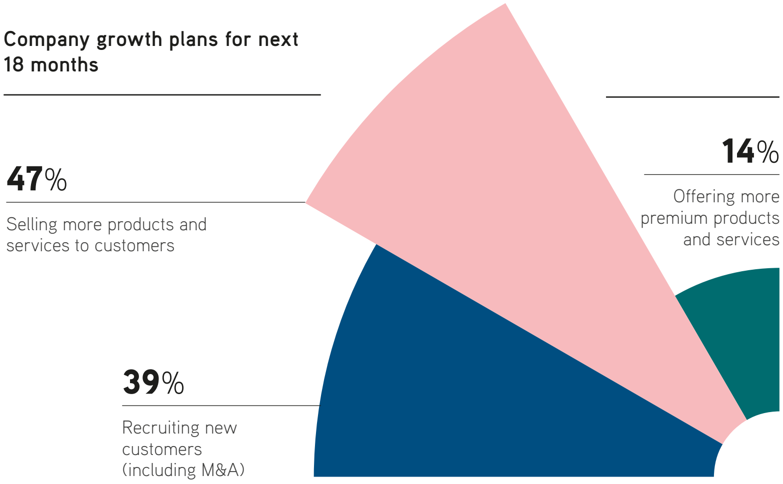
In these uncertain times, the ambition of the UK's mid-sized companies will be key to driving the UK's overall growth.

"59% of manufacturing companies expect their turnover to increase by 21–40% in the next five years"

Sector attitudes to growth
Which of the following statements best describe your company's attitude to growth?



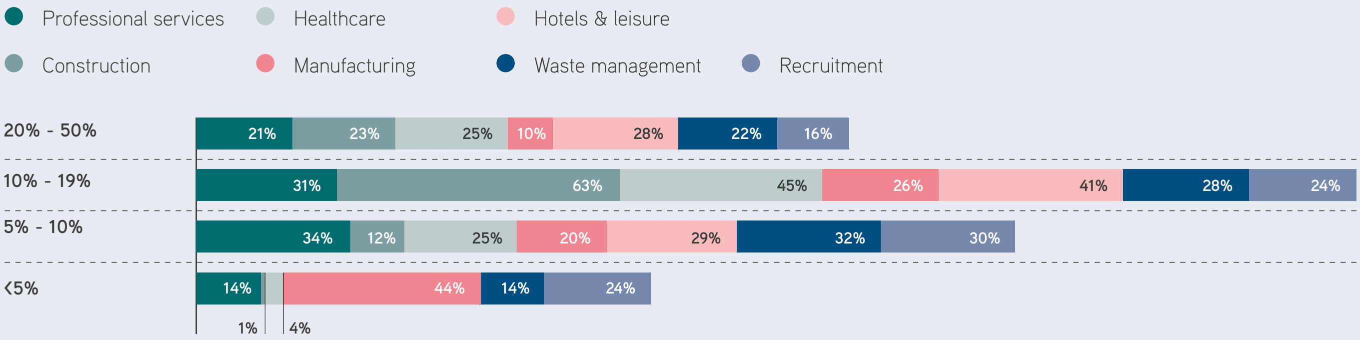
Company growth plans for next 18 months



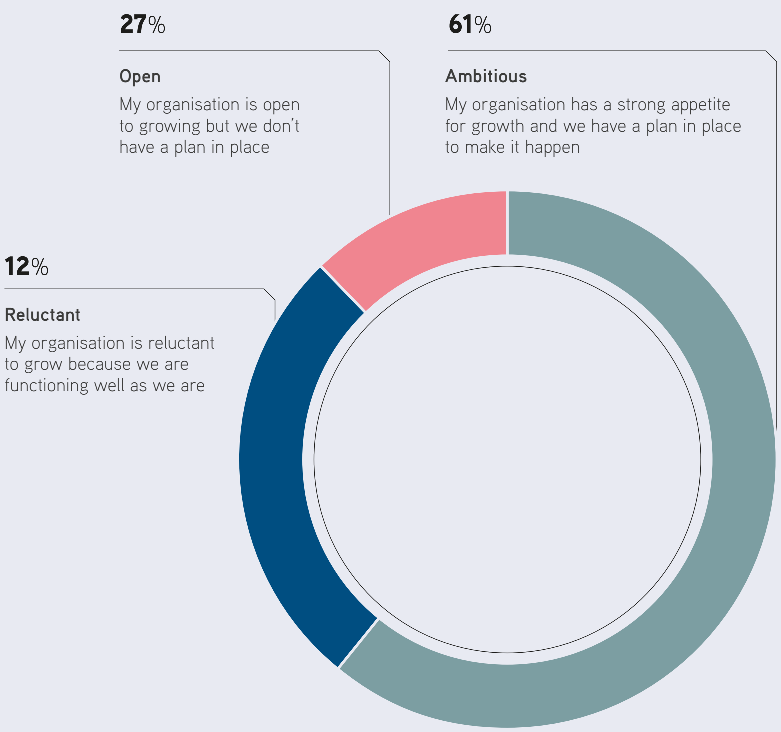
Strategy in numbers

Mid-sized companies are planning for years of growth

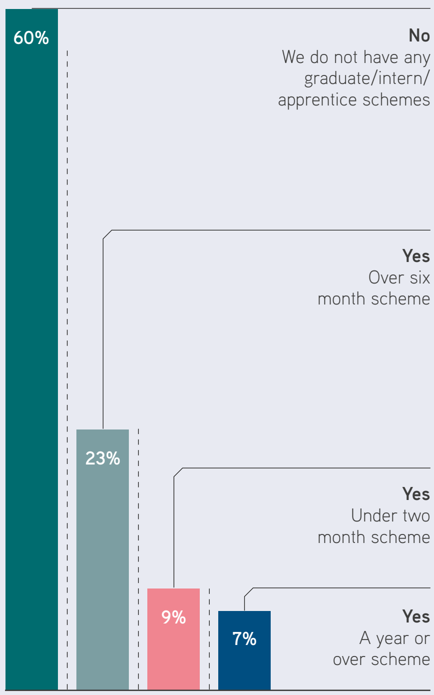
Expected headcount growth by sector
By how much do you anticipate your headcount will grow in the next two years?

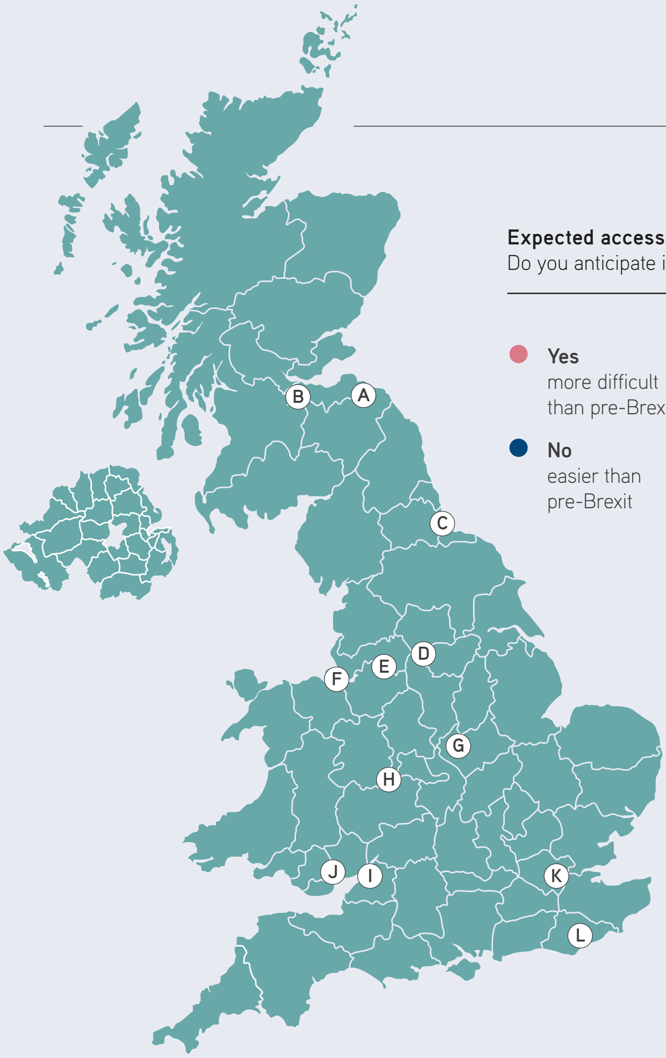


Attitudes towards growth
Which of the following statements best describe your company's attitude to growth?

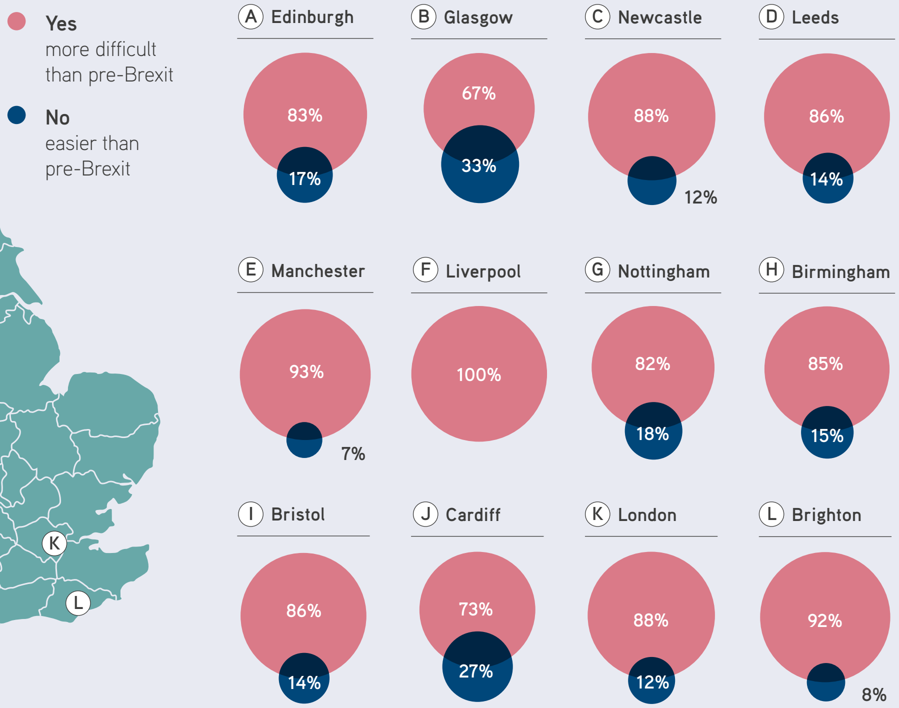


Do you run a scheme for graduates/interns/apprentices?
Please specify if it's for graduates, interns or apprentices

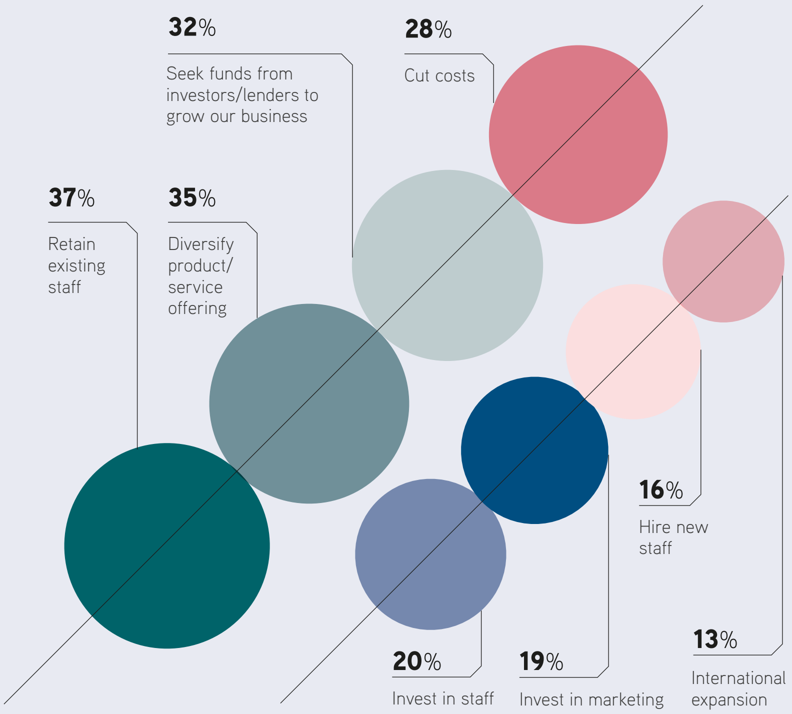




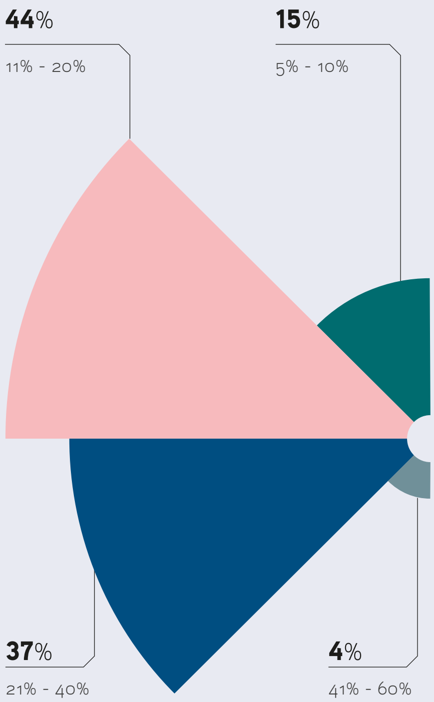
Expected access to capital post-Brexit by city
Do you anticipate it being more difficult to access capital post-Brexit?



Top priorities for the next 12 months
Top two activities selected



Predicted turnover increase in the next five years
Total respondents and by sector



MEDIUM-SIZED BUSINESSES REGROUP IN THE FACE OF Brexit

UK executives at mid-size firms see life outside the EU opening new doors to growth

Brexit has presented British companies with unprecedented challenges. Yet even as they await the terms of our departure from the European Union, business leaders display a remarkable determination to succeed, whatever the outcome.

Our own survey of business leaders suggests that they remain optimistic about a future outside the European Union, despite current economic headwinds. We asked 500 executives across seven business sectors to share their outlook. We found that almost three out of four believe that Brexit will be good for their business, and for the economy as a whole. Almost 90 per cent are making plans to grow their business. Despite an apparently uncertain outlook, employers told us that they are investing for the future, developing new systems and products, recruiting the most promising talent, and expanding their marketing initiatives.

Reasons to be cheerful?

There are several, interconnected reasons why this might be. In the first instance, this is the generation of chief executive and senior managers whose experience is rooted in the financial crisis of a decade ago. They have worked through one of the biggest shocks to the banking system and a deep recession, and have come out the other side. To them, Brexit is just another challenge.

Businesses that weathered that financial storm are lean and mean. They are financially robust and managed prudently, as if the next crisis might just be around the corner. Plans for expansion are conservative, based on forward orders that are nailed down. New start-ups understand that this is the environment in which they must compete to survive, and are forged in the same image.

It also should not be underestimated that Britain is still a good place to do business. The UK is one of the world's largest economies, with a market of 65 million people. Despite the Brexit shock, many foreign investors still see Britain as a safe haven, with high levels of security and low crime rates, and a robust, independent judiciary.

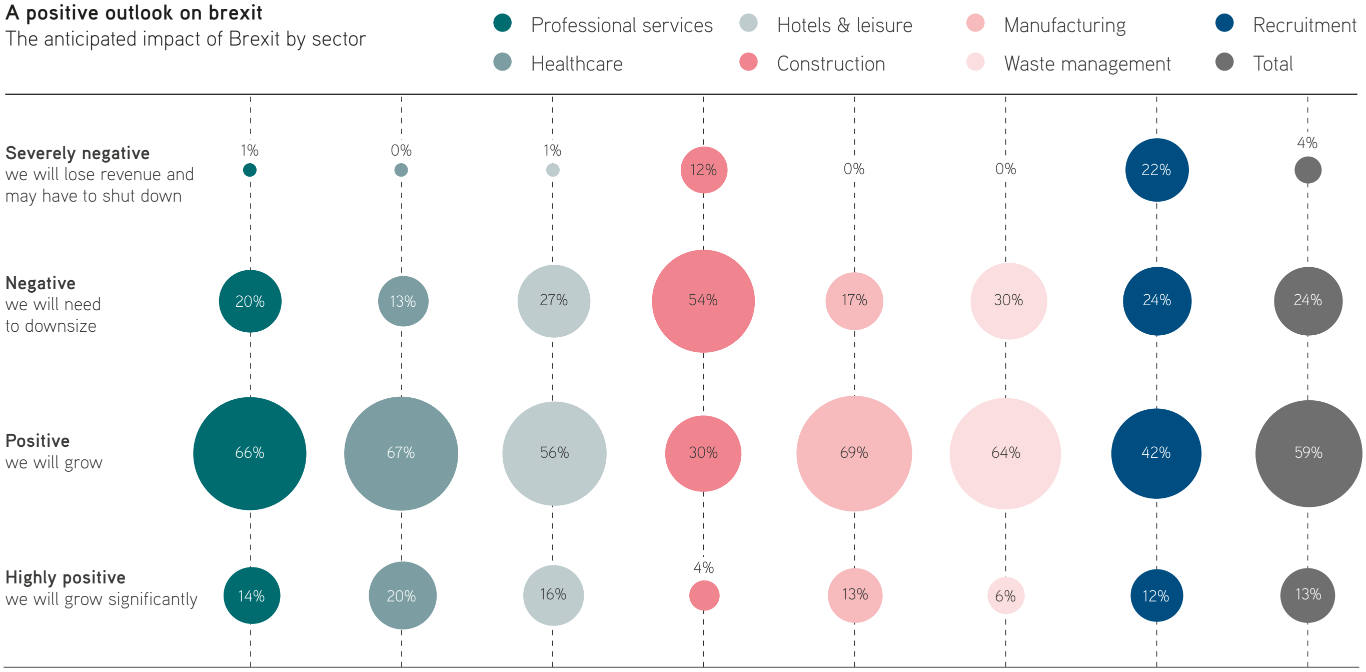
It has a highly skilled and flexible workforce, unbound by the most onerous EU regulation. British business has a strong record for innovation and product development, and of working in partnership with firms from all over the world.

Foreign demand

The fall in the value of the pound in the aftermath of Brexit has enhanced the competitiveness of British firms selling overseas. Made in GB is becoming synonymous with value for money, as well as high quality. Where British goods were once priced out of

> **"Despite the Brexit shock, many foreign investors still see Britain as a safe haven"**

A positive outlook on brexit
The anticipated impact of Brexit by sector



the most competitive sectors, they are now winning market share. This is critical, at a time when our trading partners in the EU, the US and Asia are also enjoying a period of economic recovery.

The cheaper pound is also a boon for foreign visitors. More tourists are coming to the UK, and they have more money to spend when they are here. This is great news for the hospitality industry and for retailers, and Britain's high streets and town centres are really feeling the benefit.

Office Space in Town, which provides serviced offices in London, Edinburgh and Cardiff, has seen strong demand from international business since Brexit. "Despite short-term uncertainty, the long-term outlook for the commercial property sector remains robust," says Giles Fuchs, the firm's co-founder and chief executive. "Importantly, the drop in sterling has encouraged inflow of foreign capital into the UK, particularly from the Middle East and Asia, driving demand across the UK commercial property sector."

The healthcare sector has a particularly buoyant outlook, and is investing in technology and people. Dr Bayju Thakar, co-founder and director of online GP service Doctor Care Anywhere, says international investors continue to demonstrate strong interest in the UK. "British businesses are resilient and already we are adapting to a changing market and identifying ways to address the challenges posed by Brexit. For example, as Brits in Europe prepare for life without the European health and insurance card, we are increasing our work with international health and travel insurers to ensure travellers and expats have affordable and convenient healthcare solutions in Europe."

For some, business as usual

Restauranteur David Page, the driving force behind The Real Greek and Franco Manca chains, was against Brexit. But his business has enjoyed good growth in recent months, giving confidence to continue with a programme of restaurant openings over the next few months. "All our businesses are at the value-for-money end of the market, which is always more resilient in a downturn. That doesn't mean to say that it will be plain sailing, but the eating-out market continues to grow, and we are looking ahead with confidence.

"For us it is about choosing the right locations, controlling costs and giving punters what they want. The strategy doesn't change because we are in or out of the EU."

72%

of all respondents foresee Brexit being positive for their business

OPINION

Britain's mid-sized machine

James Hurley, Enterprise editor of The Times, weighs in on the economic importance of the UK's mid-sized businesses

Large companies get the column inches and political access. Small companies benefit from patronage from policymakers and well-earned praise for their hard work and risk-taking. So where does that leave those stuck in the middle?

Sadly, the needs and indeed successes of Britain's mid-sized companies are all too often simply overlooked. It's a curious state of affairs given their contribution to the economy.

A modest army

Big business is generally a net destroyer of jobs in the long run, as it seeks cost savings from established business models to improve shareholder returns.

It is well known that the vast majority of new jobs are created by smaller companies. But what is said less often is that it's not the combined strength of hundreds of thousands of these smaller companies that makes the biggest difference.

In the 12 months to February 2017, mid-sized businesses created 780,000 new jobs, more than smaller businesses (135,000) and FTSE 350 companies (320,000) combined, according to research conducted by BDO, the accountants.

Only 30,000 medium-sized companies, or 1.5 per cent of all UK businesses, contributed a third of all UK turnover. Separate research by GE Capital has shown these businesses employ more than a third of the country's workforce.

In short, a modest army of middle-sized companies, like the 500 C-suites surveyed for AIB (GB)'s Steps to Growth 2017 survey, quietly helps provide Britain's economic engine.

Despite their huge contribution to the UK's economy, the BDO report concluded that these companies tend to fall into a "policy and profile" gap, "too big to benefit from government initiatives aimed at small

"A modest army of middle-sized companies, like the 500 C-suites surveyed for AIB (GB)'s Steps to Growth 2017 survey, quietly helps provide Britain's economic engine"

firms but too small to win the attention that FTSE firms command from the media and policymakers".

The recent Conservative manifesto, for example, had measures concerning large organisations, and plenty of promises of targeted interventions to help the smallest companies too, with issues including business rates, winning government contracts and selling their wares overseas.

There was nothing specifically aimed at mid-sized businesses, however.

Despite the lack of assistance, those running medium-sized businesses appear to be performing remarkably well on the whole.

In the year to April 2017, they grew more quickly than their German, French, Spanish and Italian counterparts. They expanded their turnover by almost 4 per cent, compared to only 1 per cent in Germany, the country where mid-sized, or "Mittelstand", organisations are famous for providing the nation's economic engine room.

Room for improvement

Yet, despite the winning performance of many mid-sized companies who have just been left to get on with the job, the lack of support for, and acknowledgement of, their efforts is at best a missed opportunity. At worst, it risks damaging our economic prospects.

It must also be asked how much more employment and wealth medium-sized companies could create if they were given better conditions. The UK has the second-largest mid-market in Europe, with a bias towards manufacturing and a tendency towards being located outside London.

However, there are obvious areas where there is room for improvement. Productivity tends to be weak. Among some there is a reluctance to export and invest, while others complain about difficulty in accessing the skilled workers they need to grow.

There is likely to be plenty of untapped potential in family-owned and managed companies that could be turned into growth champions if their management could be professionalised.

Policies such as making it easier to list on growth equity markets and more generous tax breaks for manufacturers who invest in machinery would also help.

The door for providing more official support of this sort may already be ajar. Back in 2011, the then Coalition government acknowledged that supporting 10,000 companies with sales of between £25 million and £500 million could prove transformational.

George Osborne, chancellor at the time, acknowledged that support for companies is too polarised between the small and the very large. Yet little came from those good intentions.

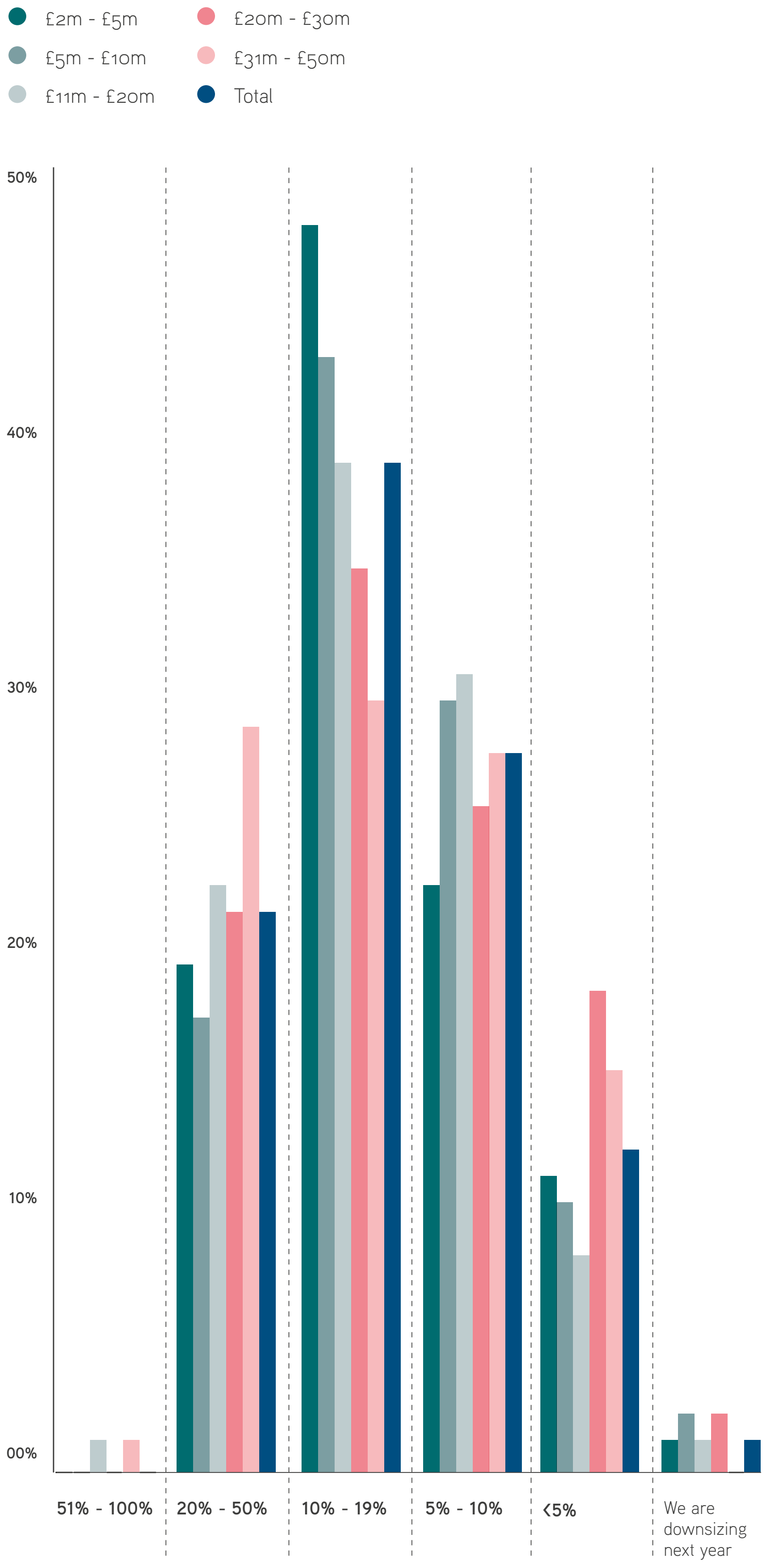
If the next government wishes to make a success of a rebooted industrial strategy, and reduce the nation's reliance on the capital and its financiers, it needs to start getting behind those in the middle.

60%

of businesses with revenue of £11-50m have a strong appetite for growth and a plan in place to make it happen

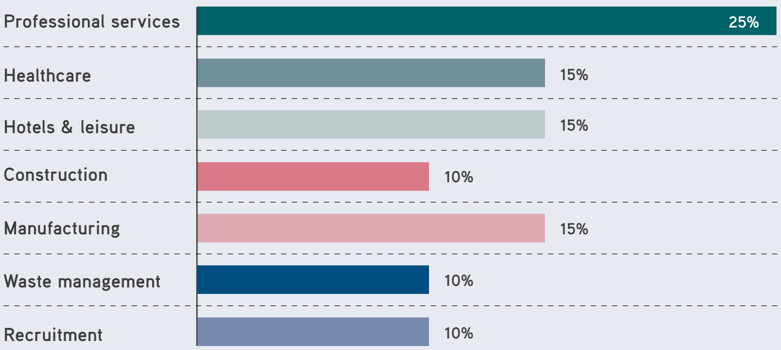
Expected headcount growth by company size

By how much do you anticipate your headcount will grow in the next two years?

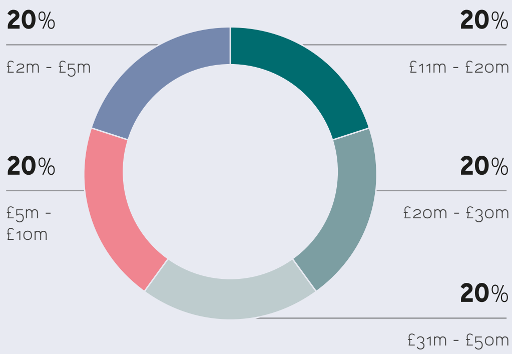


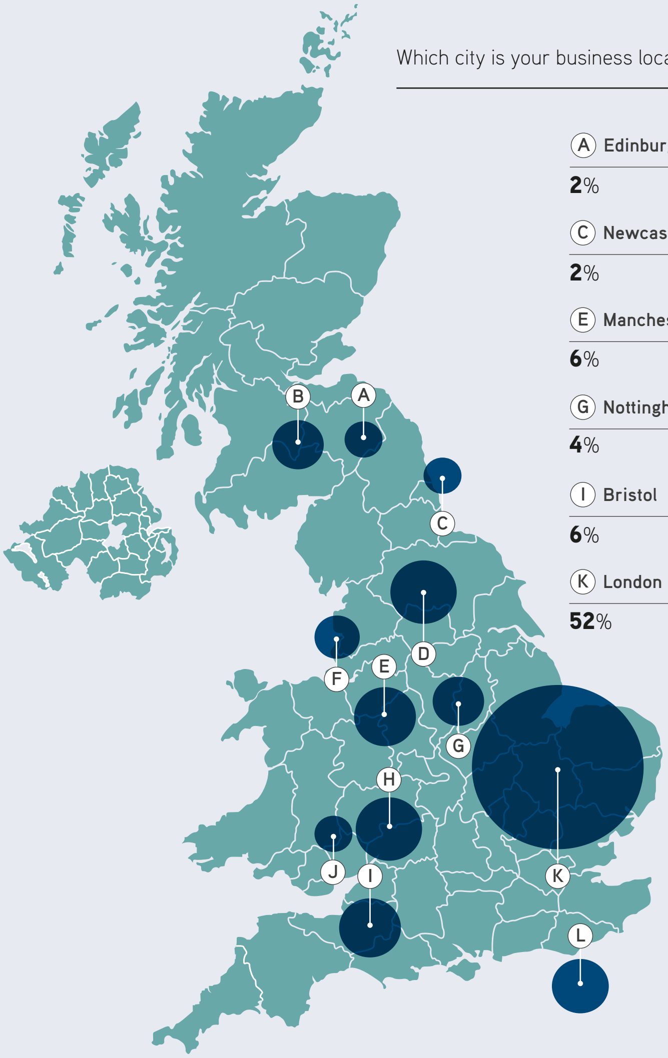
Demographic

Which sector do you operate in?



What is your company's turnover in the last financial year?

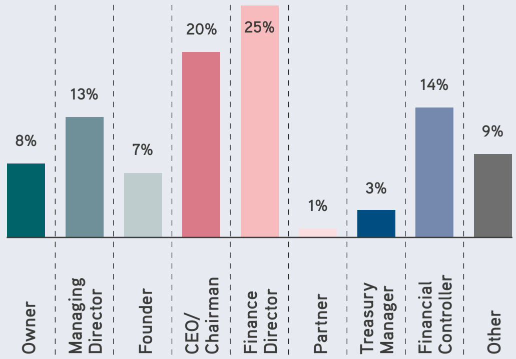




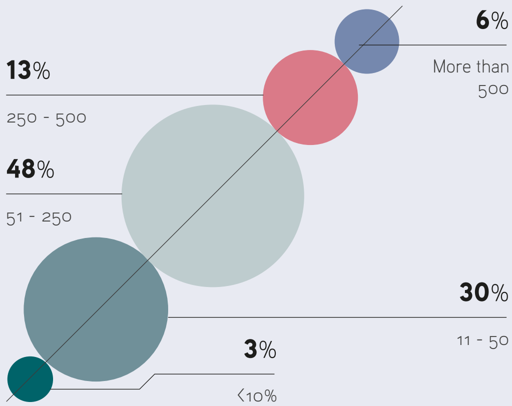
Which city is your business located nearest?

(A) Edinburgh 2%	(B) Glasgow 4%
(C) Newcastle 2%	(D) Leeds 7%
(E) Manchester 6%	(F) Liverpool 3%
(G) Nottingham 4%	(H) Birmingham 7%
(I) Bristol 6%	(J) Cardiff 2%
(K) London 52%	(L) Brighton 5%

What is your role?



What is the approximate current headcount of your company?



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