

# GROWING PAINS

Jason Sinclair takes a look at the trends and challenges for the UK's growing businesses

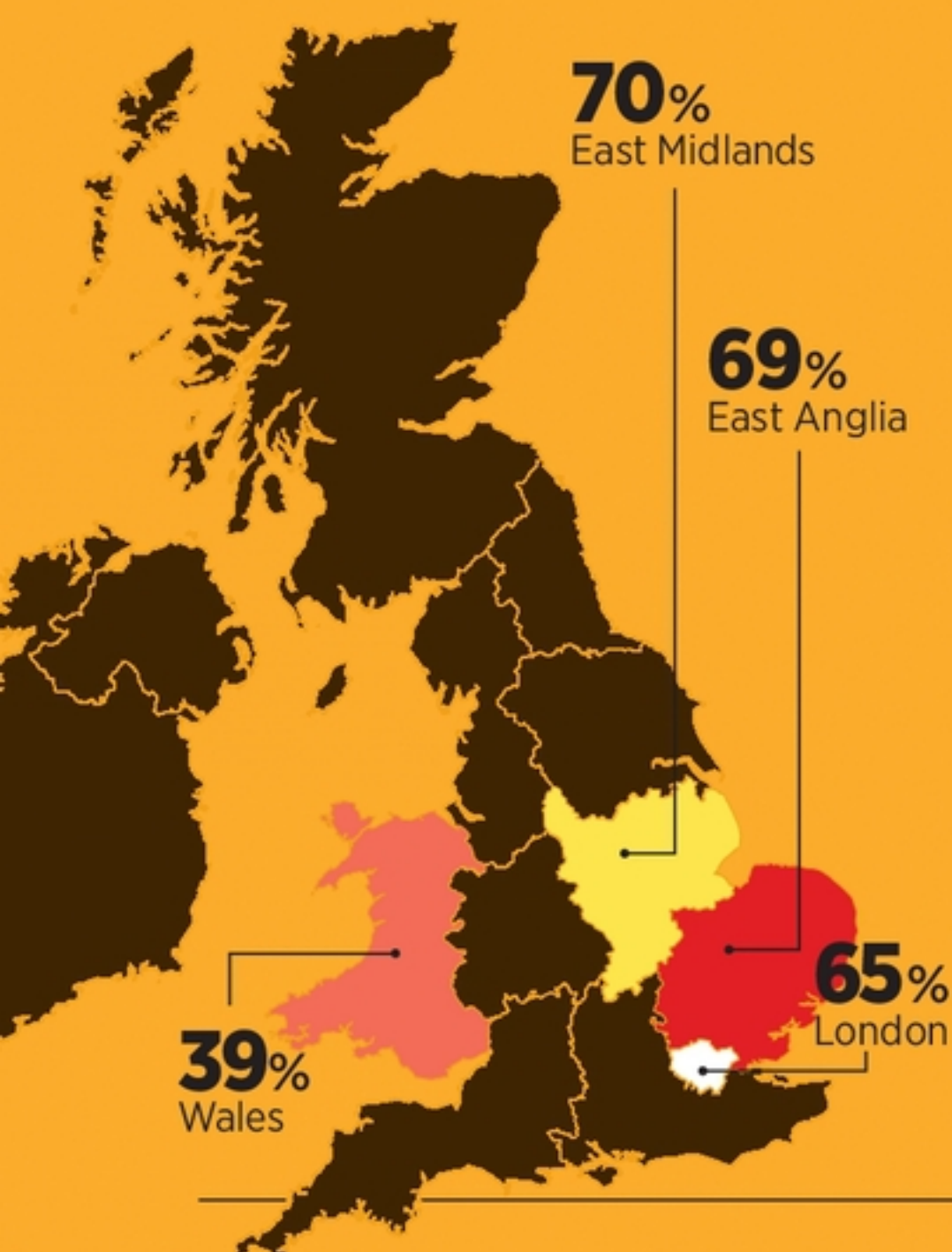
**I**n the current UK economy, there are considerable challenges for SMEs. One major issue is the skills shortage, and this is something many growth company experts try to wrap their heads around. Increased competition to lend to SMEs is another, and it's due to growth in alternative and asset-based finance. The entrepreneurial and investing culture is growing, and it's here to stay.

Albion Ventures' fourth annual growth report gives a fascinating insight into the thinking of CEOs on the challenges they face in delivering the growth that the UK economy craves.



## OPTIMISM IN GROWTH IN 2016

The percentage of SMEs in each region that are optimistic. Those based in the East Midlands, East Anglia and London displayed the greatest confidence about 2017; those in Wales the lowest:



## CONFIDENCE RETURNING

# 73%

OF SMEs SURVEYED EXPECT GROWTH OVER THE NEXT TWO YEARS, COMPARED TO 60% IN THE 2015 SURVEY

"The SME sector is naturally resilient and optimistic, and that is reflected in the findings of our 2016 report. You really have to be optimistic if you're running a company, you cannot be gloomy. I think that is quite an important factor of what it means to be running an SME," says Reeve.

"Entrepreneurs find a way," says ICON Corporate Finance's CEO Alan Bristow. "These companies are led by some great people who have created businesses out of nothing and have had to deal with all sorts of challenging conditions. They will continue to do that. It's Darwin's law out there, and the best of them will continue to not only survive, but they will also thrive. I've seen different market conditions come and go, and there's been some tough periods companies have had to battle through. But they've done it before and they'll do it again. I have no worries about that."

"At some level the entrepreneurs being interviewed are all about growth, and in terms of general sentiment these people are still pretty confident," says Grant Thornton partner and head of corporate finance Andy Morgan. "Unless you're particularly exposed to the vagaries of the exchange rate, overall entrepreneurs still see market opportunities, and feel there's plenty of business out there to be going after."

## BRITAIN NEEDS TALENT

# 50%

OF SMEs WITH MORE THAN FIVE EMPLOYEES ARE LOOKING TO INCREASE STAFF LEVELS IN THE NEXT TWO YEARS

For the first time in the four years of the Albion report being published, red tape is not the top concern of SMEs with more

than five employees (it is still the second concern, however). Finding skilled staff now heads the list.

"As we see in the report, the number one problem is companies struggling to recruit the right people," says Bristow. "Companies are hiring. They have positions to fill and they're filling them for the right reasons - they've got growth, revenues are up and they are investing in their business - but hands on deck are hard to find." Bristow says there is no quick fix to the skills shortage: "One solution has been a healthy recruitment of people from overseas. But it is not easy to recruit - companies are scouring the country for the right quality of people. Accessing and attaining the right talent is important for so many sectors in the UK and in the coming years it is essential that we do not shoot ourselves in the foot in this regard."

Published in November, the survey underpinning the report was carried out in July, well before Theresa May was appointed prime minister. A key concern since the Brexit vote has been business's ability to recruit skilled staff. New entries to the list of concerns are political uncertainty at number four, and the decision to leave the EU further down the list. Morgan suggests these two combined could be the number one concern if they were considered as a single category.

But how can the skills shortage be addressed? "It's a major issue that starts with whether we are bringing school leavers and graduates through with the necessary skills," says Morgan. "There are short-term imbalances that are exacerbated in various areas of the country."

"Scaling up depends on access to talent. There's a huge weight of entrepreneurial activity in London fintech because you bring together a combination of three things: capital, people with the right skills and the end market. That whole ecosystem drives growth. I don't see that changing immediately, but if one of the core pillars is whittled down it might have a longer-term effect."

Reeve expands on how the issue is averted: "Skills that enable us to compete in a fast-changing and increasingly competitive world are in short supply, just at the time when political and social changes are creating multiple uncertainties. Skilled labour is a product of education. Not constricting universities in tight red tape, including immigration red tape, is vital."

"The shortage of skilled staff is clearly a problem of success rather than failure, showing that the growth pressures on the economy are at the most sophisticated end of the skills scale."

**ACCESS TO FINANCE****5%**

OF SMEs WITH MORE THAN FIVE EMPLOYEES  
HAD TRIED AND FAILED TO RAISE FINANCE  
(31% IN THE MANUFACTURING SECTOR)

One finding to be welcomed is the decrease in worries about access to finance – this has been notable over the history of the reports, moving from third four years ago, to sixth last year, to 13th now in the list of barriers for SMEs with more than five employees.

“Financing still remains pretty challenging for a lot of companies, but there has been a loosening up with the banks,” says Bristow. “I think the hurdles ▶

“Companies are scouring the country for the right quality of people”

Alan Bristow,  
CEO, ICON





are higher, but it results in more quality lending to quality businesses.”

With the growth in alternative finance providers and the continued steady, if unspectacular, growth in asset-based finance, there is increased competition to lend to SMEs. Morgan says there is a growing amount of venture debt product coming through, giving more choice: “And at the smaller end there is a lot more private capital being invested in earlier stage businesses, so that entrepreneurial and investing culture is growing in the UK, and it’s here to stay.”

“And on the equity and venture funding side there are significant amounts of funds around, but it does depend where you are on the growth cycle,” adds Bristow. “If you have a £10m-turnover business, you have plenty of choices. If you’re early-stage, it is challenging. But funding generally has got easier.”

Morgan backs this up: “At the level being surveyed, the interesting aspect is that there is probably more capital available than there are good quality opportunities to put it into. There are more varied sources of capital available, so you are not just reliant on banks or VC with the growth in private investing and the tax breaks that go along with that. There’s more of an ecosystem than there was two or three years ago. And in a world where returns from other forms of investment have got lower, that means people are looking for yield and exposure to capital growth, so that creates opportunities for people in the SME world



“Whether you are ‘in’ or ‘out’, Brexit has changed things. Scottish companies are the most concerned, and London companies are the second most”

**Patrick Reeve, managing partner, Albion Ventures**

to find sources of alternative finance.”

Has it filled the infamous equity gap that has been talked about for years? “Not necessarily,” says Morgan. “But directionally there’s more opportunity there, and more of a push on lending and more bank flexibility. But the reason finance had dropped down as a concern may be also that some of the political and big picture issues have moved up.”

**REFERENDUM FALLOUT**

**54%**

OF CEOS UNDER 35 BELIEVE BREXIT WILL HINDER THEIR ACCESS TO NEW MARKETS

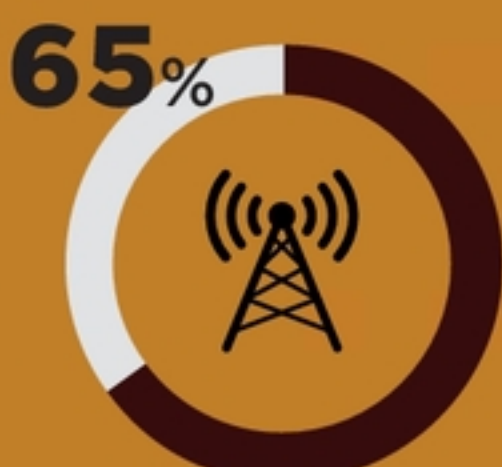
“Whether you are ‘in’ or ‘out’, Brexit has changed things. Scottish companies are the most concerned, and London companies are the second most,” says Reeve. The fear perhaps reflects the demographic split between those voting to remain and those voting to leave – overall just 6% see Brexit as a specific barrier to growth. However, the under-35s are those most likely to be looking to expand into Europe or overseas – 59% versus 37% overall. “When all of this translates into supply of skilled labour, it’s the IT sector and London that are particularly worried,” says Reeve.

As it is, the concern of finding skilled staff also has a considerable Brexit texture to it. “Even without Brexit there was a problem over finding skilled staff,” says Morgan. “Access to skilled people – particularly in the area of the tech market I advise in – has been top one or two on people’s lists for quite some time. The concern about that is exacerbated post-Brexit. There are lots of assurances going on, but nobody really knows what the outcome is going to be. The skills problem has been ‘solved’ to an extent over the last few years because of migration flows, and if we didn’t have EU nationals over here then a lot of growth businesses would grind to a halt.” ■

**SMEs CONFIDENCE OF GROWTH BY SECTOR**



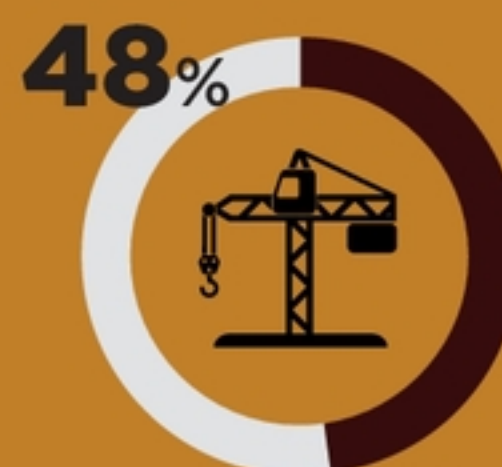
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