



BRIGHTER BUSINESS REPORT

SMALL BUSINESS INSIGHTS 2016



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ABOUT OPUS ENERGY

As the UK's leading independent business energy supplier, we're in tune with the needs of businesses, especially SMEs. We take time to listen to our customers because we want to know what challenges they're facing and opportunities they see.

This is why, no matter what the size of our customers' business, we set the highest standards in terms of customer service, pricing and product offering. We want to make sure that our customers can focus their time and attention on running their business.

With awards to our name and 275,000 customers, Opus Energy is here to help power small and medium sized businesses all over the UK, partnering with them to help them achieve their goals.

For more information, visit:

opusenergy.com and
brighterbusiness.co.uk



FOREWORD

Welcome to the 2016 Brighter Business Report – a continuation from Opus Energy's Business Boost Report conducted in 2014.

As the leading independent supplier of energy to businesses in the UK, we know the growing pains SMEs experience, and our Brighter Business Report aims to shine a light on what it's like to be a smaller business in the current economic and political climate. The potential effects of the Brexit referendum vote can't be ignored - the sharp decline in the value of the pound and the initial drops in the FTSE 250 illustrate just how quickly businesses can feel the impact of economic uncertainty.

We surveyed 500 SME decision makers to find out whether the referendum results had impacted their outlook. The results showed them to be unbuoyed, with 72% stating that their confidence was either unchanged or increased. Encouragingly, nearly two-thirds of the respondents say that they expect to grow their business by up to 20% in the next two years.

SMEs are the lifeblood of our country, fostering creativity and innovation. They make up 99.3% of all private businesses in the UK, and with a combined annual turnover of £1.8 trillion, account

for 47% of all private sector turnover in the economy¹. From the start-ups operating from the dining room table, to the local sandwich shop or the medium-sized business branching out to its third premises, SMEs represent 99% of businesses in every major industry sector. There can be no doubt that they play a crucial role in the overall growth of the nation.

This report conveys what SME decision makers are feeling, and how they're powering their businesses forward.

Louise Boland

Managing Director, Opus Energy

¹ Department for Business, Innovation & Skills, Business Population Estimates 2015, 14 October 2015 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/467443/bpe_2015_statistical_release.pdf)

EXECUTIVE SUMMARY

With the number of SMEs growing annually, employing over 15 million people and comprising 99.3% of all private sector businesses, we wanted to truly understand the perspectives of the decision makers.

Our findings are based on a survey of 500 SME decision makers in July 2016, conducted in partnership with market research agency Atomik.

Business growth and impact

Growth is expected, both in terms of income and headcount.

61%

of decision makers expect the income of their business to increase in the next two years...



...and are predicting growth of up to

20%



Nearly
one-
third

of respondents said they feel more confident about their business now than they did before the EU referendum

Growth

will shift
from organic
growth
to new
business wins

Headcount growth and impact



59% are expecting to increase their headcount



20% say a more skilled workforce will be the main boost to growth

Getting advice



70% of decision makers said they were confident to discuss their finances with their bank

80%

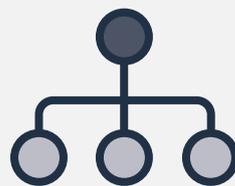
consult with their immediate network for advice



16%



16% of business owners who have used external finance say they relied on family or friends to come up with the money



Nearly two-thirds

of decision makers give the credit for growing their business to the people that work there



STATE OF THE NATION FOR SMEs

SECTION ONE

At a glance

Given the initial market reaction to the Brexit outcome, surprisingly, the results of the survey show UK SMEs have a very positive and confident outlook. In fact, SME decision makers predict that their business will increase over the next two years, both in terms of income and headcount.

This confidence is also translating to how SME decision makers are running their businesses, as on average they only consult two others for professional advice, namely accountants or colleagues. Whilst this may change when it becomes clear what a post-Brexit environment actually entails, for now SMEs are making business plans without bringing in a large number of external advisors.

The EU referendum: how SMEs have reacted

Despite the economic uncertainty around the EU referendum, many SME decision makers remain undeterred:

- 29% of respondents said they feel more confident now about their business than they did before the EU referendum
- 43% said they didn't think their confidence in their business had changed since the EU referendum
- 22% said they felt a lot less confident about their business than before the EU referendum.

This largely positive effect may seem unexpected, given how many larger, more established businesses have been reporting otherwise.

29% of respondents said they feel more confident now about their business than they did before the EU referendum.

Likely, this reaction stems from SME's focus on working within the confines of the UK borders. The Department for Business Innovation & Skills estimates that less than 10% of all small and medium sized businesses export directly to the EU, and only a further 15% are involved in EU exporting supply chains². This makes it easier for SMEs to embrace a new trading landscape, possibly less restricted by EU red tape, enabling them to continue with a 'business as usual' mentality.

SME growth: optimistic or conservative?

Between 2014 and 2015, SME turnover experienced a year on year growth of 12.5%³. Our research indicated that this positive trend is expected to continue, both in terms of income and headcount. Nearly

two-thirds expect to grow the income of their business over the next two years by up to 20%, with 14% expecting even greater growth.

However, with 11% forecasting no growth, not everyone is feeling positive and a certain caution remains around income growth.

In terms of business operations, optimism is strong about hiring opportunities, with employment opportunities increasing over the next two years.

- A fifth of SME decision makers are anticipating recruiting more than 10% of their current head count over the next two years
- A further 39% expect staff growth of 10% or under
- Almost two-fifths of decision makers are not expecting to hire in the next two years

² Department for Business Innovation & Skills, BIS Estimate of the Proportion of UK SMEs in the Supply Chain of Exporters: Methodology Note, May 2016 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524847/bis-16-230-smes-supply-chains-exporters.pdf)

³ Department for Business, Innovation & Skills, Business Population Estimates 2015, 14 October 2015 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/467443/bpe_2015_statistical_release.pdf)

- Just 4% of respondents say they will have to cut staff.

With SMEs predicting income growth, this hiring requirement is not unexpected. However, the interesting figure is the circa 40% who have no intention of hiring in the next two years. This indicates that SMEs are either hiring only when the business desperately needs it (such as capacity being too low), or that SMEs are hiring well in advance. Whatever the case is, there is a hesitance, which may be a further hint of a slight cautiousness around growth expectations. This is critical for the UK's unemployment rate as SMEs accounted for 85% of net jobs created between 2008 and 2013⁴.

Anatomy of a SME decision maker

Whilst access to finance or cashflow is usually portrayed as a common problem in the media, SME decision makers within our report painted a different picture:

- Over half of business owners (52%) say they have not needed to use external financing to grow their own business
- 70% of decision makers said they were confident of having financial discussions with banks, with only a fifth saying they weren't
- Among those that have used external finance, more than a third (36%) used a bank loan

70% of decision makers said they were confident of having financial discussions with banks, with only a fifth saying they weren't.

⁴ Anyadike-Danes, M, "Firm Dynamics and Job Creation in the UK" ERC White Paper No.6, April 2013

- 16% of business owners who have used external finance say they relied on family or friends to come up with the money.

Between the declining pound and the potential changes in our trade relationship with the EU, the UK may look to its own SMEs to help fill the gaps on products and services that had previously been imported. Having a variety of finance options, such as new programmes like the British Business Bank's Help to Grow scheme, available for small businesses across the country will be crucial.

When asked who they turn to for advice, SME decision makers rely heavily on their support network, in fact:

- 26% say they would consult with accountants

- A quarter also say they would consult with their colleagues
- Around a fifth (21%) rely on their family or partner
- 20% of business decision makers don't consult with anyone else when running their business.

Labour of love

One inconsistent aspect of running a SME was seen in how decision makers were paid, and how often.

- 40% of business decision makers said they have not paid themselves on at least one occasion in the past two years for the sake of the business

40% of business decision makers said they have not paid themselves on at least one occasion in the past two years for the sake of the business.

- 14% of those who have not paid themselves at some point say this has only happened once in the past two years
- More than half (52%) said they had not paid themselves a wage on between two and seven occasions
- A fifth (19%) said they had not paid themselves on 11 or more occasions (nearly half of the time) in the past two years.

While it's not unexpected for SME leaders to sacrifice their pay occasionally for the good of the business, there are signs that they are in fact going unpaid for significant amounts of time. Especially as some SME owners are not taking a salary for an average seven out of 24 months.



"OUR SURVEY INDICATES THAT IT IS STILL AN EXCITING TIME FOR UK SMES, WITH BOTH HIRING AND GROWTH OPPORTUNITIES POSSIBLE."

– **LOUISE BOLAND**

MANAGING DIRECTOR, OPUS ENERGY

LOUISE BOLAND ON THE STATE OF THE NATION'S SMEs:

The decision to Brexit surprised many and had an undeniable short term impact on the economy and our political establishment. Whilst we have subsequently seen the economy bounce back and the FTSE 250 recover and surpass pre-Brexit levels, we were keen to see if this same optimism carried through to our nation's SMEs.

Fortunately, our survey indicates that it is still an exciting time for UK SMEs, with both hiring and growth opportunities possible. This optimism is tempered with some amount of caution, with more than a third citing economic uncertainty as a barrier to growth, so it should be no surprise that SME decision makers are ensuring that additional investment in product development and headcount is done appropriately and only when necessary.

It is also encouraging to see SME decision makers leading from the front, retaining their confidence in making decisions on their own, whilst being able to lean on trusted sources when needed. Leading is as much about stepping up as it is about listening and gathering input from the team of people around you.

Certainly it is no accident that nearly two-thirds credited their employees for their growth and success. Engaging and empowering the people you work with gets results and drives efficiencies as it pushes people to innovate. Whilst setting parameters is necessary, letting employees take ownership of tasks end to end leads to self-actualisation and engagement with the role.

With over 750 employees at Opus Energy, we know how people really make a business, in terms of skills, dedication and attitudes. And it is our employees that make customers return time and again. Especially in uncertain times such as these, when the overall economic outlook is less than rosy, businesses that get this part of the puzzle right have the greatest chance of success.



VIEW FROM THE TOP

Whilst the EU referendum did cause a blip in confidence, I am not surprised to see confidence recovering. In reality, nothing will change day to day for the next few years, allowing us to go on as normal and the wheels of industry to keep turning.

One aspect that does surprise me is the estimate of 20% growth over two years. I think this estimate is conservative, as with the strength of the UK economy and its creativity and innovation, this gives our SMEs the edge over the international competition. We grew 15% last year, so I would expect SMEs to be aiming nearer 30% growth over the next couple of years.

SME decision makers need to have confidence in their abilities and those of others to achieve good growth. Whilst they have the greatest self-confidence, they also have the greatest self-doubt, taking advice from others on growth strategies and opportunities could open doors not previously available to them.

Timon Colegrove

CEO, Hunts

A SME printing firm based in Oxfordshire

RELATED ADVICE



8 mistakes that prove how not to start a start-up

Even the most successful entrepreneurs have had their share of failure. Learn from some of these start-ups' stories and remember: if at first you don't succeed. [Click here to read more.](#)



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Your business is on the up, but how do you measure its trajectory? This guide determines a few ways you can track growth, from business KPIs to employee retention. [Click here to read more.](#)



What to ask when considering a small business acquisition

Acquisitions are an exciting way to accelerate growth, but they're not straightforward. Make sure you've got the basics covered with this checklist. [Click here to read more.](#)



The 4 corners you need to support a fantastic team culture

The success of a business relies on a successful team – start from the bottom up by building the best workplace culture you can. [Click here to read more.](#)

A close-up, shallow depth-of-field photograph of a person's hands. One hand is holding a white smartphone, and the other is resting on a laptop keyboard. The background is blurred, showing a desk with papers and a green folder. The overall tone is professional and modern.

BUSINESS AS USUAL

SECTION TWO

At a glance

SMEs are also looking at staff productivity to grow their businesses. This is especially true amongst bigger businesses, with over 100 people. Exporting is also another trend identified; again this is more prevalent for bigger businesses, perhaps to those looking to open up a new market for their more established products. Trade is important to Britain's small businesses with currently 10.3% of Britain's small businesses directly exporting⁵.

SME growth

Growth is a necessity for businesses, with 47% of SMEs currently focusing on organic means to grow their business.

However, they are confident that over the next two years this reliance will shift to new business wins (38% to 40% in two years' time). These figures emphasise the long term plans that SMEs currently employ of organic growth first rather than a too much too soon or through acquisition mentality.

We also asked about barriers to growth.

Whilst 37% of respondents said there were none, a positive in itself, other decision makers cited the following problem areas:

- Tax regulation (24%), employment regulations (22%) and health and safety (20%) are the main concerns for decision makers.

37% of respondents said that there were no barriers to growth.

⁵ CBI Report, Why Britain's Exporting Firms Are an Important Part of the EU Debate, January 2016 <http://www.cbi.org.uk/business-issues/uk-and-the-european-union/eu-business-facts/why-britain-s-exporting-firms-are-an-important-part-of-the-eu-debate-cbi-pdf/>

Recruitment proposition

No business can operate without a team. And whilst an encouraging two in five (42%) said they have no HR worries at all, SME decision makers did identify some HR problem areas for their business.

- A fifth (20%) identified staff retention as the biggest HR worry for them
- 16% said paying staff was their biggest worry
- 15% said recruiting staff locally is their biggest worry.

The ongoing skills shortage is well documented, with 49% of SMEs suffering skill gaps⁶. It seems that retaining staff is also an issue for SMEs. With the

cost of replacing employees coming in at an average of £30,000⁷, SMEs stand to lose out with employees leaving. Smaller businesses, especially start-ups, are simply unable to entice or retain talent when competing with more established businesses who can afford to pay more. This could also impact regional recruitment, with businesses in more rural areas struggling to recruit for niche posts.

However, a sentiment that shone through was that SMEs do rely on their people. Nearly two-thirds of decision makers give the credit for growing their business to the people that work there; either themselves, their team, or a combination of the two.

⁶ Department for Business & Innovation Skills, Digital Skills for the UK Economy, January 2016 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/492889/DCMSDigitalSkillsReportJan2016.pdf

⁷ Article: More than £30k to replace member of staff, report finds, 24 Feb 2014 <http://www.recruiter.co.uk/news/2014/02/more-than-30k-to-replace-member-of-staff-report-finds/>

"ACTING ON OPPORTUNITY IS KEY, WHEN EXCEPTIONAL PEOPLE COME UP, YOU HAVE TO GRAB THEM. BUSINESSES NEED TO BE AGILE AND ABLE TO INCLUDE UNFORECASTED ADDITIONS. YOU CAN'T AFFORD TO LOSE THEM"

- **TIMON COLEGROVE**

CEO, HUNTS

TIMON COLEGROVE, CEO, HUNTS

On hiring:

SME recruitment is difficult as business is so fast-paced, plans are often out of date as soon as they're completed. SMEs are run on intuition and while you can forecast what you will need in six months, it's hard to predict what you'll need in two years as it changes so rapidly.

Acting on opportunity is key, when exceptional people come up, you have to grab them. Businesses need to be agile and able to include unforecasted additions. You can't afford to lose them.

On regional recruitment:

I can understand why regional recruitment is difficult. Working in Oxfordshire, we often experience this problem. Only 0.6% of Oxfordshire's population is on some type of employment benefit (job seekers allowance for instance) so its hard to find available talent. SMEs need people in transition to provide progression opportunities, otherwise no one will develop in their careers. We have also been affected by the skills shortage, and now have a serious emphasis on apprenticeships, recruiting on attitude and training on aptitude.

On HR:

I have a passion for happiness in my workplace, I disagree with the term 'work / life balance'. It should be rephrased as 'work / home balance', as I believe if you enjoy what you do, it should enhance your life. The two are interlinked. To retain talent, SMEs need to create a happy, respectful workplace. We've found that holding the company responsible to respond to colleague requests works well, as it empowers colleagues to make recommendations that will help improve the business and enable them to flourish.

Business success relies on people, and their happiness delivers great results. If SMEs look after their colleagues they will look after the customers. I believe few businesses actually have a USP, the people provide the differentiation.



RELATED ADVICE



The government support your small business is missing out on

You could be accessing finance and resources that you didn't even know existed. All you have to do is ask (and use the handy tool outlined in this article). **Click here to read more.**



Train your staff and save money with these 11 pointers

No money to hire new staff? No worries. Equip your team with the skills to self-improve, and reap the benefits for your business. **Click here to read more.**



How to tell when you have an exceptional employee on your hands

The ability to spot a gold star amongst your staff force can be the difference between staying stagnant and growing exponentially. Learn what to look for here. **Click here to read more.**



How to make your employees love you from day one

Staff turnover is costly, whereas staff retention pays back dividends. Allow loyalty to grow organically through proper engagement from the moment they start. **Click here to read more.**



WHAT THE FUTURE HOLDS

SECTION THREE

At a glance

Predicting what the future looks like for small businesses is difficult, as circumstances can change vastly in six months, let alone two years. For example, the UK tax system is extremely complicated, and with larger businesses able to employ specialists, SMEs could be disadvantaged by not keeping up with legislation⁸.

However, there were some very interesting views on where SMEs see their business going over the next couple of years, and what would restrict their growth.

Current barriers

More than a third of decision makers (36%) cited economic uncertainty among their main barriers to growth at the present time.

This was in addition to competition (30%) and cashflow (17%). Other blockers included:

- Taxation (16%), and political red tape (16%)
- Only 4% are concerned about their business's lack of digital knowledge affecting growth.

It is encouraging to see that over a fifth of SMEs don't believe there are any barriers to growth, and this is perhaps leading to the confident growth predictions of 20%. For those businesses worried about the economy and competition, only time will tell how or if these businesses are affected. But keeping up with any changes to legislation can be key.

36% cited economic uncertainty among their main barriers to growth at the present time.

The boost SMEs are looking for

We're all looking for the magic genie in the lamp, but for SMEs, it may be simpler than you think to boost their business.

A third of decision makers (33%) said exploiting new markets will be the single biggest boost to their company growth in the next two years. Research has found that innovation and expansion to international markets are fundamental drivers boosting productivity among UK SMEs.

Estimates suggesting an improvement in exporting alone would add £1.15 billion to annual gross value-added⁹. This was complemented by 20% saying a more skilled workforce would help them, and 17% citing favourable government schemes, in areas such as taxation. With growth of the UK private sector over the summer steady at 8%¹⁰, the business community will be looking to the Autumn Statement to set the economic path for the latter part of 2016 and into 2017.

⁹ Economic and Social Research Council, Shaping Society, Boosting UK productivity with SME growth, May 2016 <http://www.esrc.ac.uk/news-events-and-publications/evidence-briefings/boosting-uk-productivity-with-sme-growth/>

¹⁰ Article: UK economy sees modest growth over summer, September 2016 <http://smallbusiness.co.uk/uk-economy-sees-modest-growth-summer-2534096/>

TIMON COLEGROVE, CEO, HUNTS

On the future:

The biggest barrier to growth we have experienced is trying to grow our company's systems and procedures in line with performance. Whilst you can grow turnover and customers quickly, you can't double office space or machinery overnight. This can only be achieved via acquisition, but many small businesses are simply not in the position to take this aggressive approach. Therefore, SMEs need to learn to be lean and grow their systems, equipment, space and capacity organically.

It's encouraging to see SMEs looking outside their current markets, as globalisation brings peace and economic integration. Our two biggest clients are American, and we've therefore opened up our business to new markets without even thinking about it. If interest is there, why not work with businesses in other countries?

I hope that the government continues to create conditions for businesses that helps them thrive. Instead of bogging small businesses down with levies and tax returns, let them get on with what they do best. Businesses enable people not only to survive, but flourish. Therefore, removing the shackles will only have a positive, long-term effect.

CONCLUSION

We are delighted to see how many SMEs are confident about their businesses, both now and in the future. The next two years will almost certainly usher in changes to how we do business with the rest of the world. Our nation's SMEs will play a very important role in making sure that our economy weathers the changes, and we're sure we're not alone when we say that we look forward to their continued success.

Here at Opus Energy, we know that starting and growing a business is difficult. Over the years, we have also encountered some of the problems that the decision makers in our survey identified: determining the best path to growth, hiring skilled labour and getting access to finance. By shining a light on them here in this report, we hope we can enable SMEs to learn and plan ahead.

For more advice and information for SMEs, please visit our Brighter Business hub. We continue to add new and insightful content there, using both internal and external experts, to help SMEs stay at the forefront of industry knowledge and enable them to move forward at a pace their business deserves.

For anyone wishing to contact Opus Energy about this report, please get in touch via:

brighterbusiness@opusenergy.com

