

direction

forward **thinking** for business

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Summer 2011



Looking ahead

Rules of engagement

How to generate loyalty and keep your employees on-side

Risky business

Strategies to manage risk in the age of uncertainty

Tax health check

The tax breaks that could give your business a boost

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In the news



AIM-ing for growth

It's been a rocky year for growth businesses, with economic volatility and political instability denting stockmarket performance worldwide. Yet there's still room for ambitious firms, if this year's Taking Aim survey is anything to go by.

According to the research by Baker Tilly, the UK-based Alternative Investment Market (AIM) outperformed the FTSE 100 in 2010, with AIM up 43 percent overall, buoyed by a year-on-year rise in both activity and valuations.

Energy, mining and commodities were the strongest sectors, but investors felt the overall market had shown

resilience that left it in a strong position for the economic upturn.

The vast majority of firms believe they've benefited from their AIM listing, with access to growth capital a major boon for nearly half of those polled.

Another oft-cited benefit is AIM's light regulatory touch, but the financial crisis has prompted calls to revisit this, and the market has tightened its rules over the past few years.

However, the report found investors and companies broadly positive about the future. Sectors tipped for growth are IT and technology, as well as past performers in mining, oil and gas. www.bakertilly.co.uk/takingaim

Fraud: ensuring you don't get stung

Pensions fraud rarely makes the news, but the evidence of the Baker Tilly Pension Fraud Risk Survey 2011 shows it's a real risk that some pension funds may be unaware of.

While 12 percent of respondents had suffered from fraud in the last 24 months, none of the schemes with fewer than 1,000 members reported any fraud. While this could be good news – fraudsters have chosen not to target small schemes – it could also mean they do not have the resources to detect it.

In 2009 the pensions regulator highlighted that the risk of fraud was higher in an economic downturn. "The figures show that fraud threat in pension schemes is real," said Peter Wilson of the National Fraud Authority. "Creating an anti-fraud culture and raising awareness of fraud might be the most important action managers and trustees can take."

While 85 percent of pension schemes have actively considered the risk of fraud, only 8 percent have a formal risk policy. www.bakertilly.co.uk/pensions

8%
of pension
schemes have a
formal risk
policy



On the agenda

SWEETENERS TURN SOUR

By Joanna Higgins - Deputy Editor



The government has finalised its guidance on the UK Bribery Act, which came into force on July 1 2011.

The Act sets out to make any involvement in bribery – active or passive – illegal and carries the threat of unlimited fines and, for individuals, potential jail time. It also creates a new form of corporate liability for failing to prevent bribery.

The result of growing pressure to address corruption among businesses, the Act applies to UK-registered companies and their employees and third-party agents, as well as to UK citizens – whether they're working for a UK company or not.

As of July, any inducement offered by a British employee or company representative anywhere in the world will be subject to scrutiny – whether it's in Birmingham or Bahrain.

In particular, corporate hospitality comes under the microscope. Inviting existing clients to the Wimbledon final, it could be argued, is relationship-building. But if you are tendering for business and take that company's executives to the World Cup final, it could be construed as a violation.

"You need to exercise a level of judgement and ensure your motivation is clear – did you intend it as an inducement to win business?" said Marcus McCaffrey, Partner at Baker Tilly Forensic Services.

Managers will need to keep a closer eye on expenses claims, while the 'associated persons' clause is another

» You need to exercise a level of judgement – did you intend it as an inducement to win business?

potential minefield – especially for firms using subcontractors such as sales agents, distributors and other representatives. If any individual offers an inducement on your company's behalf, your business could be prosecuted.

The level of influence that person holds in the business will be taken into account – but the determining factor will be how effectively you've applied 'proportionate procedures' in your organisation. "This is the only statutory defence besides being under duress, where life and limb were threatened," said McCaffrey. "And it is negated if there's seen to be senior management collusion or awareness of corruption."

He advises firms to map potential risk areas to determine what would be deemed appropriate to the company's level of risk. They should consider third-party representatives and employee behaviour and educate their workforce on the law, ensuring everyone involved with the business understands it.

The government is keen to stress that common sense will be applied in judging cases – allowances will be made for 'well run companies that experience an isolated incident'. But it also counsels companies to take a 'risk-based approach'. Better safe than sorry.

Where does growth come from? What's your greatest asset?
Should I cut costs or invest in new products and services?
What's the biggest threat to my business?

The roadmap

Baker Tilly asked these questions to the bosses of owner-managed businesses in 2011. Confidence regarding the prospects for their own businesses was buoyant at 59 percent, while just two thirds of this percentage were positive about their sector – only a quarter, however, were enthusiastic about the prospects for their region.

This indicates that in order to flourish, you have to outperform your competitors and your neighbours. It's hardly surprising that the priority for respondents was reducing costs – which half think is important in the next 12 months. This comes ahead of expansion, product development or acquisition.

You also told us that, while you expect increases in sales (44 percent), you're not expecting increases in gross margin (24 percent). In your opinion, your largest prospect for growth is

to take business from failing competitors – this was cited by almost twice as many respondents as any other option.

EFFECTIVE RISK MANAGEMENT

To achieve growth, you need to be prepared for any eventuality. Managing risk in every part of the business – management, staff and sales for example – will be essential to flourish, as we explain in our feature on scenario planning (p10).

The two most important strengths of your businesses, in your opinion, are reputation (mentioned by 85 percent) and your staff, a close second with 83 percent. Other popular responses, both with 82 percent, are the quality of your service and customer relationships.

Your business can be damaged if you don't incentivise your staff effectively. On p6, we look at the best ways to motivate staff when budgets

are tight: how to make share options more effective, and how to build in incentives from pensions regulations.

PROFIT NOT LOSS

The survey highlighted that businesses consider profitability to be the main indicator of growth. With gross margins not expected to rise, that means the immediate future will see no let-up in the attention you pay to the cost of doing business. Our tax health check (p14) outlines the tax incentives that the government has provided to stimulate investment.

In this issue we look at one of the most vulnerable sectors in the downturn: the hotel, restaurant and leisure business (p12). Exceptional performance in front of the customer does not always translate into financial success. We examine what steps the successful firms in this sector are taking to stay ahead, and the hidden dangers that may trip you up.

EXIT STRATEGIES

At some point, most owner-managers want to realise the financial rewards of their business. According to the survey, 61 percent want to sell up – in whole or in part – in the next 10 years. In order to do this, you need to find an exit path, and in the past two years the route to the exit, whether via a trade sale (15 percent of you are considering one today), private equity investment (9 percent) or IPO (6 percent) has been hard to find. Our guide (p8) sets out what you need to know to gain the best return for your hard work.

The experiences of the past have taught us that none of us can predict the future with absolute confidence. What we can do is prepare for every contingency, and this issue of *Direction* has been created to help you do that. The full results from the survey can be read at www.bakertilly.co.uk/direction. ■

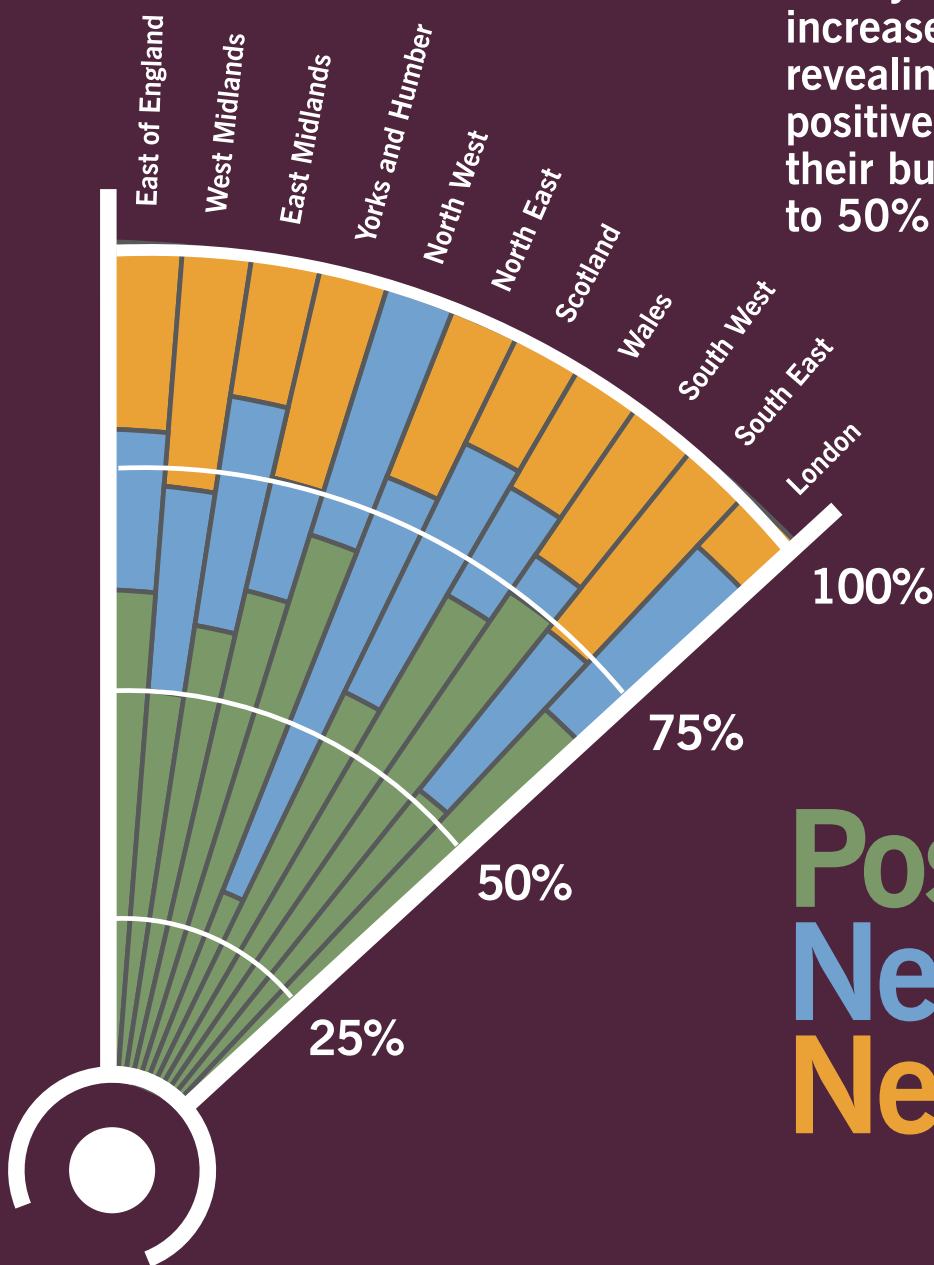


Business outlook by geographical region



Over the next 12 months, how confident are you in the prospects for your business? Base 276

Optimism among our survey respondents has increased, with 59% revealing 'very' or 'quite' positive sentiments about their business compared to 50% in 2010.



Positive
Neutral
Negative

If there's one thing business leaders have learned from the past economic downturns, it's the danger of cutting headcount. "After the last recession, employers got their fingers burned. They cut too many people and lost ground when the upturn came," says David Heaton, a Partner at Baker Tilly's Employer Consulting Group. During the recent economic crisis, firms worked much harder to

offer a range of incentives based on seniority. "It's rare today to see solely cash as an incentive," says Fidler. Share options are one way of attracting high-calibre senior executives without too much initial outlay. "It's a good move to align staff with shareholder interests, because this gets them thinking like shareholders," says Mark Collins, Head of the Employer Consulting Group at Baker Tilly.

good on paper," says Fidler. Heaton agrees, advising: "Talk and listen to employees to find out what options will suit them." Ideally, employee incentives will have a tax advantage, but employers should also be pragmatic regarding the 'little things'. Research by consultancy McKinsey found that recognition of employees by business leaders, support for their work and the opportunity to lead projects could be

Rules of engagement

Enlightened business leaders already know the value of an engaged workforce. The challenge now is to identify the incentives that will attract and retain the most talented people

retain people, offering unpaid leave, shorter working weeks or other arrangements to try to avoid out-and-out redundancy. "Businesses are increasingly looking for more innovative ways to generate loyalty and keep their staff on-side," says Lesley Fidler, Associate Director of Baker Tilly's Employer Consulting Group. Companies that have engagement programmes in place have reported a 50 percent rise in employee retention and customer satisfaction, according to research by Melcrum. To keep costs down, many are combining financial rewards with more flexible working options to ensure individuals feel both valued and accountable. Forward-thinking smaller businesses with 50 to 100 employees now

Pensions, too, can boost loyalty. "Over-40s will think very carefully about leaving companies if they are in a beneficial scheme," says Collins. Currently, salary sacrifice options are taking over from final salary and defined benefit pension schemes. Companies are also increasingly proving their commitment to their staff through flexible benefit schemes. This may involve offering employees the chance to exchange holiday for pay, subsidised bike purchase, gym membership discounts, or interest-free loans for travel. "There's no one-size-fits-all solution and companies should be cautious about selecting benefits that look

as effective as cash rewards. So it pays to allow some leeway in teambuilding. The cost of taking your team out for a thank-you lunch, for example, could be outweighed by the enthusiasm and camaraderie it engenders. While such 'intangibles' can be hard to define in terms of return on investment, a well-managed business will be able to match this spend to some kind of benefit. HR and finance can speak regularly and compare data. Have customer complaints dropped since the company started buying staff breakfast, for example? Beyond financial incentives and flexible benefits, it's training and



GETTING ENGAGED IN FOUR STEPS

- 1 Create an open culture by eliminating silos:** Offer opportunities for staff to work outside their sphere and to share ideas across the company. Social networking is a great, low-cost way of encouraging contributions. Consultancy firm *Best Practices* recommends creating cross-functional teams below board-level.
- 2 Listen to employees:** Conduct a satisfaction survey and follow up with manager-led discussions with teams and individuals.
- 3 Make it a manager's job:** *Best Practices* found that 75 percent of high-performing organisations make managers accountable for employee engagement.
- 4 Communicate:** Monitor employees' performance and give them regular strategic updates.

image: Corbis images

career development that matter most to employees. The more a company can offer staff, the longer it will keep them, especially among twentysomething 'Millennials', who tend to look beyond their current job to the next opportunity.

"Consider the shape of employees' CVs," says Heaton. "Think about providing different roles within the business – or international secondments that allow people to broaden their experience."

Informed employers are also wise to the mutual benefits of flexible working arrangements and increasingly build in 'carer' days, too, for employees with aging parents, as well as children.

Non-financial 'incentives' are another way of saying thank you,

but can often be the most powerful in determining productivity and performance. Creating a culture of trust and courtesy may encourage people to go that extra mile, according to Heaton. Giving employees a sense that they are contributing to a greater goal is essential.

"Engagement doesn't just come down to pound notes. It's about providing adequate resources, interesting work, a nice office," adds Fidler. "Ultimately, you need to be realistic about employee loyalty. People will leave – and you want some employee turnover. But you want people to move on for positive reasons, not because they're fleeing a bad boss. It's about dealing with people as people, not as ciphers." ■

» Previously, employers got their fingers burned. They cut too many people and lost ground when the upturn came

THE PAYBACK

Did you know incentives can improve engagement?

The International Society for Performance Improvement's 2010 research demonstrates the link between engaged employees and bottom-line performance.

A programme that runs for a year or more can improve business performance by an average of 44 percent. The longer the programme is in place, the more improvement a business can realise.

Individuals improve their productivity by 27 percent if motivated by incentives. When they are used to encourage 'thinking smarter', performance increases by 26 percent.

Incentives that reward people on meeting or exceeding a specific goal are most effective.

Source: Incentive Research Foundation



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Planning your

You may not be ready to leave your business just yet, but it pays to plan ahead. So here are four options:

INITIAL PUBLIC OFFERING

Selling shares in part of your business on the public markets

WHO'S IT FOR? Businesses that need to raise money for growth, create a currency (shares) for future acquisitions or to incentivise employees.

WHAT THEY WANT Your attractiveness depends on the potential return for investors, and that means growth potential and profitability.

WHAT WILL IT COST? For small businesses, advisory fees will be between £150,000 and £350,000, plus application fees and commission on new money raised, according to the Institute of Directors (IoD).

WHAT ARE THE CHANCES? There were only three IPOs on the London Stock Exchange in the first three quarters of 2009, but never fewer than 10 in any quarter since. **The final quarter of 2010 saw 23 IPOs, according to the Baker Tilly Capital Markets Updates published in March 2011.**

PROS Can raise cash to accelerate the growth and development of your business, and it will raise your profile.

CONS The IPO, and the investor relations that will be an essential part of it, are expensive and time consuming.

Exit route: Initial public offering
Company: Cambria Automobiles
Sector: Automotive
Baker Tilly contact: Diane Gwilliam

CASE STUDY

One of the UK's fastest growing motor dealerships, Cambria Automobiles, successfully listed on AIM in April 2010 with three key goals in mind: to raise its public profile, gain access to future development capital, and attract a wider shareholder base. Baker Tilly's Capital Markets team acted as reporting accounts in the £50 million flotation, covering detailed financial due diligence, reporting on the historical results and reviewing working capital.

TRADE SALE

Selling your company to another business for a negotiated price

WHO'S IT FOR? Those who want to hand over complete control of their business in a competitive market, or want an exit in the near future.

WHAT THEY WANT A complementary business at the right price with an existing market that can expand their revenue and customer base.

WHAT WILL IT COST? Fees should be linked to the price you achieve, and depend on a successful transaction. As your valuation may be higher than the buyer's, **it's wise to invest in commissioning your own due diligence.**

PROS A strategic buyer may pay more than private equity investors, and you can potentially protect the structure of the company you have built.

CONS The tough negotiations can adversely affect your business, and you will have to make a complete exit or potentially be prepared to work for one of your main rivals. Plus the long-term future for your business and staff can be uncertain.

WHAT ARE THE CHANCES? Despite the downturn, **there are businesses on the market looking for the right business and the right price.**

Exit route: Trade sale
Company: Paragon
Sector: Business consultancy
Baker Tilly contact: Rob Donaldson

CASE STUDY

Professional services giant PricewaterhouseCoopers (PwC) bought Paragon Consulting Group, an international provider of performance management services to large corporates, in November 2009. The business was considered an excellent fit for PwC's Advisory consulting business. Baker Tilly's M&A and Private Equity team successfully completed the sale, and had advised Paragon through its rapid growth phase in becoming a global business.



PRIVATE EQUITY

Seeking investment from a firm of private equity investors

WHO'S IT FOR? Private equity investors can creatively structure a deal to take a stake and ease cash flow problems.

WHAT THEY WANT Only exceptional businesses will be considered, so be prepared for tough questions. PE firms value strong management, growth and exit potential. Firms with succession plans, defensible niches, a broad spread of business and loyal customers will be in their sights.

WHAT WILL IT COST?

Prepare by investing in professional advice that matches investors to businesses to help accelerate the process and pay for consultation to ensure your business is investment-ready.

WHAT ARE THE CHANCES? Worldwide, there's almost \$1 trillion of uninvested private equity capital, according to research by Bain & Company, and so private equity firms are keen to invest in the right opportunities.

PROS Investors often offer management expertise to drive growth. You can potentially take cash now, as part of the investment, and take cash later, on a successful exit.

CONS You'll have to work hard to get your business in the right condition to attract interest, and they may want you to stay on for a specified period.

Exit route: Private equity-backed management buyout

Company: Kerridge Commercial

Sector: Software

Baker Tilly contact: Dave McCulloch

Senior staff at Kerridge Commercial Systems completed a management buyout of the financial software business from ADP in April 2010, taking the company into private ownership with the help of a £9 million investment from NVM Private Equity. The management team took the private equity route to be able to take full advantage of the company's market leading position and develop an international presence. The Transaction Services team at Baker Tilly provided financial due diligence for the deal.

CASE STUDY

EMPLOYEE OWNERSHIP

Selling your company, in whole or in part to your employees

WHO'S IT FOR? Those who want to leave a 'legacy' behind, keeping the company independent and leaving its future in the hands of a loyal employee base.

WHAT THEY WANT

Employee expectations as to ownership returns are likely to be undefined. Arguably, their primary concern is certainty over future job security.

WHAT WILL IT COST?

Key areas of cost will be in raising finance to fund the employee purchase (principally secured against the assets of the company itself), and the interaction with employees as to what it means for them (external consultancy input recommended).

PROS Very much in vogue with the Government's promotion of employee ownership and the 'inspiration' and success of the John Lewis Partnership model. A great opportunity to leave a legacy behind.

CONS A big question is whether you will receive the best price for your business. There are added complexities in the transition to employee ownership and the implementation of new governance structures.

WHAT ARE THE CHANCES?

Difficult in the current economic climate. Much will depend on the asset base of the company itself and whether it provides adequate security for would-be lenders.

Exit route: Transfer to employee ownership

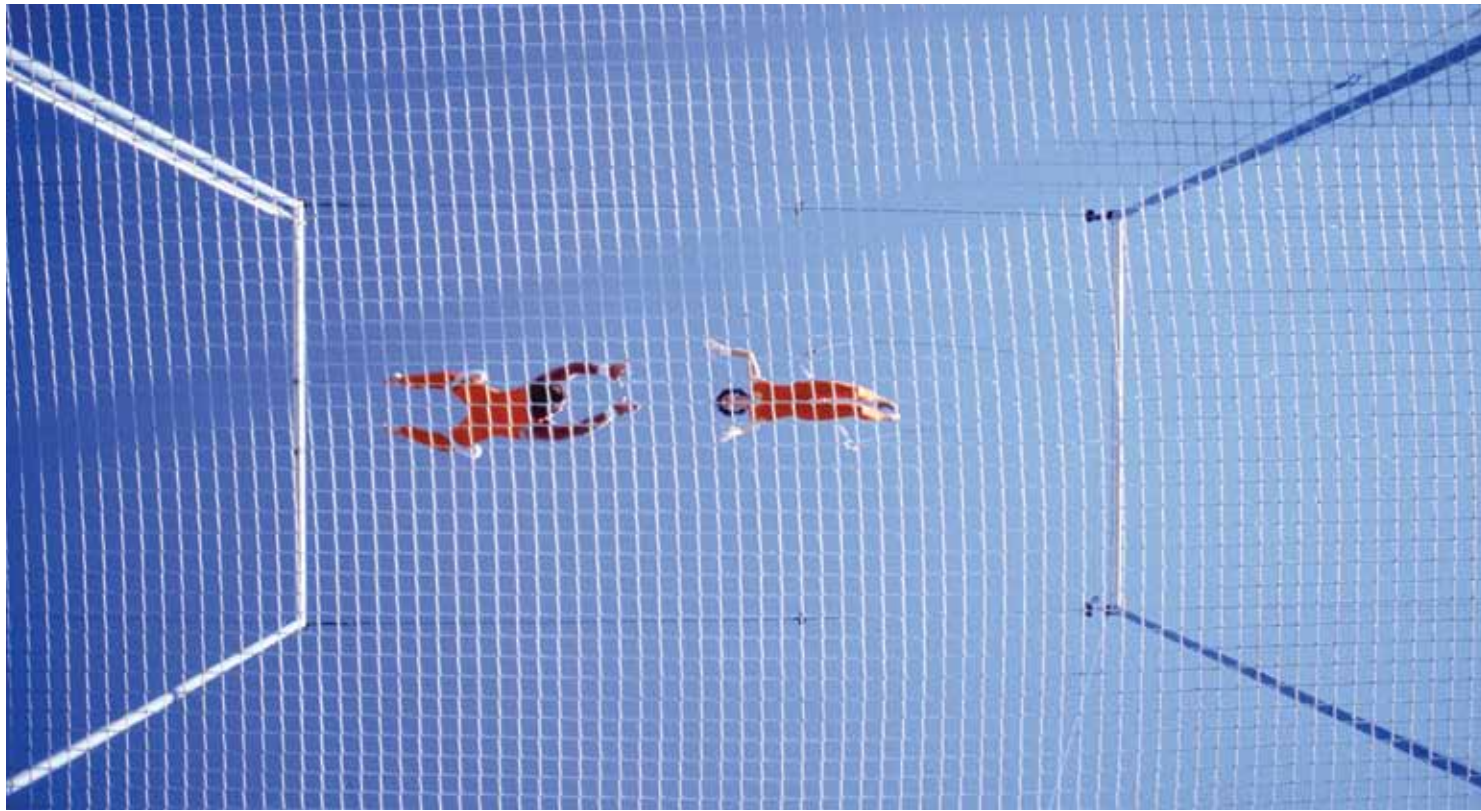
Company: AG Parfett & Sons

Sector: Wholesale distribution

Baker Tilly contact: Colin Abrahams

The business had been in the hands of the Parfett family from its inception and they were considering an appropriate succession strategy. Their pride in the £250 million turnover business they had created, the desire to keep it independent and the inspiration of the John Lewis model led them to embark on a two-stage strategy for the transfer of ownership to an employee ownership trust. The strong asset base helped to secure the required funding. With the right advisers the company made a smooth transition to employee ownership.

CASE STUDY



Thinking ahead

As economic uncertainty becomes the norm, companies are looking for more imaginative ways to manage risk. Perhaps it's time scenario planning made a comeback?

How many in the financial industry, even among those who saw the downturn forming, considered in detail its impact on employment, the economy, the NHS, financial services regulation?

Yet risk management is an essential element of running a business. Already, this year has been so fraught with landscape-changing socio-political events and natural disasters that Wall Street wags talk of 'Black Swan fatigue'.

Smaller UK businesses that may have been insulated from fluctuations in the yen or a freeze in world cocoa supply are likely to find themselves having to factor such issues into their planning, along with myriad questions surrounding the UK's own economic prospects. If the financial crisis failed to make risk management a priority, then surely

the continued uncertainty plaguing domestic and global markets will.

For many boards, 'thinking the unthinkable' is now a daily necessity, and one that may call for a more sophisticated style of risk management. Scenario planning is one option, a technique made famous at Royal Dutch Shell in the 1960s and 1970s.

In scenario planning, executives create scenarios around specific issues facing the business. Each is effectively a story, a detailed picture of one possible future and how the business will respond to it. "We would definitely advocate that businesses consider several potential

future scenarios," says Mark Taylor, Business Process Improvement Partner at Baker Tilly. "While single-track budgeting has its uses, the danger of having just one forecast for the future is that there's always a 'worse case' around the corner."

Scenario planning allows you to imagine some of those cases in the context of your company. It is also inherently forward-looking. While traditional financial models tend to use historic data to predict the future, scenarios operate in the realm of 'what if', combining predetermined elements – or 'knowns' – with uncertainties, which can often reveal hitherto unforeseen threats – and opportunities.

» Effective scenario planning is about trying to join up all the various elements to create a more complete picture

TAKING A STEP BACK

Often considered the preserve of the biggest businesses, Mark Harwood, Head of Risk and Corporate Governance at Baker Tilly, sees scenarios as a valuable tool for owner-managed concerns. "The natural inclination for small business leaders is to get their heads down. But it's great to step back and think about the bigger issues the business is facing."

He recommends taking a day off site and even bringing in a facilitator to provide objective guidance: "I used to be cynical about facilitated sessions, until one meeting with three manufacturing bosses revealed that each had a different idea of where they wanted the business to go. Looking at risks and what you want to achieve often identifies issues that are 'bubbling under'."

Finding the best set of indicators is vital to ensure scenarios are relevant. While they are imagined, they must be rooted in accurate management information, such as budgeting and demand forecasting, current cash flow and workforce output, or qualitative data based on conversations with the sales force.

Diversity of input is key: managers should gather views from a range of stakeholders. "It requires a joined-up approach from the top team, not unilateral decision-making," says Taylor. "Financial departments need to speak to key sales and operations colleagues – effective scenario planning is about joining up all the elements to create a more complete picture."

Harwood also suggests looking outside the business, getting together with peers or with non-competing companies to gain even more varied opinions about your industry's future.

HOW IT WORKS

Once a company has gathered up perspectives and potential issues, it's then possible to draw up stories about them – exploring the implications of,

say, a change in technology. Since having an endless number of scenarios is pointless, the best ones need to be selected based on their importance and the likelihood they could happen.

Harwood suggests including scenario 'check-ins' as a regular part of management or board meetings, to assess where you are against the company's strategy and risk plans.

"It's not enough to check your risks annually. Things in the real world move more frequently," he says.

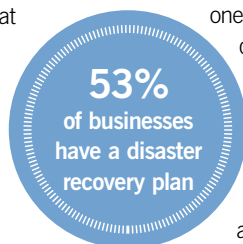
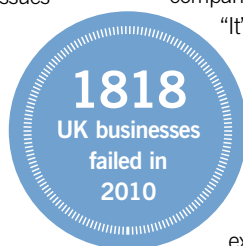
Scenarios must also be rooted in relevant business issues. At board level, for example, what if the CEO departs with short notice? How would investors respond? Is there a way of dispersing key knowledge so one person's loss is less of a disaster? Does the business need to create an advisory board? And so on.

Regulatory and industry changes can be tougher for scenario planning, but also more valuable, and highlight the value of scenarios in combating complacency. For example, in failing to respond to the smartphone revolution led by the iPhone, Nokia went from a market-leader to one whose future is still uncertain.

It's not just for doomsday scenarios. It can be used to consider how businesses might respond to opportunities, too. "What if one of your key competitors goes out of business – would you be ready to take advantage?" asks Taylor.

Don't confuse strategies with scenarios. "Imagine you're steering a sailboat. If the wind changes, you need to change tack. But you're still heading in the same direction," says Harwood.

The best businesses already use scenario thinking, to stimulate innovation and knowledge sharing throughout the organisation, but there must be a consideration of available resources. "There's no perfect approach – after all, you can't predict everything," concludes Taylor. "There has to be a balance between time invested and what is practical for the business." ■



Back to basics

Organisations need to do the basics if they are to be fit for growth in the future. Here are some of the fundamentals every business needs to monitor:

CASH FLOW: Emerging from a recession can be just as difficult for smaller companies as survival through it: payment times will still be stretched, yet demand may require re-stocking. "Knowing where the pinch points are is vital," says Mark Harwood, Head of Risk and Corporate Governance at Baker Tilly. "It's important to put together dynamic cash flow models that run on a daily basis, but are flexible and vary over time."

SOURCES OF FINANCE: Consider your banking relationship: what's your game plan if financing dries up? Harwood recommends having another banking relationship 'up your sleeve' and counsels companies to explore other sources of funding – angel, venture capital, asset-based or being more creative about getting cash from customers.

DEMAND: Keep an eye on your order book by considering the following questions –

- How far out can you see demand?
- If demand falls, what actions do you need to take to address its effects on your cost base?
- Where are your customers going? Do you need to tweak your offering to fit changing demands?

MANAGEMENT INFORMATION: Companies must ensure they have timely, relevant data. Use sharing technology such as wikis or customer relationship management systems to ensure information is accessible to those that need it.

LONG-TERM STRATEGY: When was the last time you revisited your business plan: is it fit for purpose? The current economic volatility may require a rethink. Now may be the time to acquire a business instead of going for organic growth.

MORALE: Employee engagement post-recession can flag, particularly if the company had to cut jobs. Ensure your culture encourages opportunities and promotes fairness – see page 6 for more ways to generate loyalty.



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Also featured

Mark Harwood, Head of Risk and Corporate Governance



No time to take it easy

The UK hospitality sector may be basking in the afterglow of the Royal Wedding, but the rest of the year could prove rocky. The biggest winners will be those who combine good housekeeping with an entrepreneurial approach

image: Getty images

The UK's pubs, restaurants and hotels may be on a high following the Royal Wedding – and how successfully they took advantage of the opportunities afforded by the long weekend will be a test, according to Peter Cooper, Partner at Baker Tilly Restructuring and Recovery. “It’ll show up the need to be agile,” he says. “It will also put some fat on the bone for what could be a tougher second half of the year.”

In other words, the challenges facing the hospitality industry are far from over. This is borne out by economic forecasts, which yo-yo from optimistic one month to pessimistic the next. The sector is particularly vulnerable to rising commodity and fuel costs, and hemmed in by higher VAT, lower consumer spending, inflation and price pressure, not to mention a three percent drop in overseas visitors, according to February 2011 VisitBritain figures.

“The general uncertainty is such that people are trading down. Rather than spending £70 on a night out, it’s more likely to be £40 now,” says Cooper. Pubs are feeling the pinch as cheap booze from supermarkets vies with rental costs to make life that much tougher.

Industry polarisation, too, is accelerating. Value propositions are thriving, particularly in the hotel sector. So too are high-end operators. But while bigger chains such as Pizza Express can respond by launching special offers, smaller firms are being squeezed on all sides. Without the economies of scale, they are vulnerable unless they make their business models more resilient.

There may be a geographic impact, too, such as in the north of England, where public sector job cuts will affect a larger proportion of the community. Plus investors are more cautious. London nightspot the Buddha Bar’s directors couldn’t save the business

when backers withdrew funding last year, while award-winning country hotel Solberge Hall has struggled to raise money to undertake much-needed refurbishment. “We have all the potential for a perfect storm,” admits Cooper, “but government policy won’t allow the worst to happen.”

In fact, this may be keeping firms alive unnaturally. “There are ‘zombie’ companies that probably should have gone out of business. It’s unclear how long they can survive,” says Kirsty Sandwell, Partner of the M&A and Private Equity team at Baker Tilly.

Business tourist numbers are up 8% on last year

BRIGHT SPOTS

But the sector also has bright spots. According to VisitBritain, business tourist numbers are up eight percent on last year, and non-EU visitor numbers are rising again. There are also some great rental deals for companies with spare capital to invest. And there are success stories.



A West London outlet for London-based Mexican food chain Chilango, 'has queues around the block', and established value chains such as Subway and Dominoes are thriving.

Much of this is down to strong management. The symptoms of a struggling business are often the same, says Sandwell: no clear strategy, low morale, skills gaps in the team and an inability to keep pace with market changes. To combat this, companies need to ensure they get the basics right – that their operation is running smoothly and they maintain 'good housekeeping'. This means ensuring minimal waste on the supply side,

EMBRACING TECHNOLOGY

The restaurant sector also needs to wake up to new ways of getting people through the door via mobile devices, according to Sandwell. "One company I spoke to gets 30 percent of its business through a mobile device and that proportion is only going to grow," she says.

These tools – social media and smartphone apps – are a boon for the industry, especially for smaller

» The Royal Wedding will have been good preparation for the 2012 Olympics, offering businesses a chance to be entrepreneurial

staying on top of tax, and keeping staff shifts and energy use efficient.


Beyond that, it's about innovation. "You've got to be ready to embrace opportunities and make offers. The Royal Wedding will have been good preparation for the 2012 Olympics, offering businesses a chance to be entrepreneurial," says Sandwell.

Cultivating loyalty and improving service will be key. In the hotel trade, this may require training employees to meet the more demanding service expectations of overseas visitors. "Even if people are trading down, lift your offering up, as Premier hotel chain has done," says Cooper. "Middle-ground operators should also consider moving up to cater for high-end customers or down to the value end."

firms. US-based Mexican and Korean food cart Kogi famously used Twitter to attract worldwide recognition, and among hoteliers, "it's absolutely essential" to be on sites such as Hotels.com or Tripadvisor, says Cooper. Meanwhile, deal sites such as Groupon and Living Social offer another way to attract new customers.

Ultimately, it's about being agile. It's up to senior management to ensure back-office operations are lean enough to allow the business to respond to sudden changes in demand. Tough markets can paralyse inexperienced managers, says Cooper: "Managers have a tendency to talk the talk, but they need to take the time to assess where they want to be, how they will get there and then take action." ■

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Also featured

Peter Cooper
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CASE STUDY: Revival of the fittest

Small hoteliers and restaurateurs need a strategy that can adapt to whatever an uncertain market throws at them



The increasingly polarised hospitality market can leave even profitable operations without the means to survive. Maypole Group, a small pub and hotel

group, is a case in point. The business had been making an operational profit, but other costs, such as maintaining a listing on the Alternative Investment Market (AIM), were eating it away.

Brought in as administrators in October 2010 following the directors' unsuccessful attempts to raise additional funding, Baker Tilly Restructuring and Recovery managed to save Maypole. The administrators identified that, for a small group, the costs

involved with maintaining an AIM listing can often outweigh the benefits it can bring. The business was delisted, while a number of prospective financial and trade buyers were targeted. In March 2011, all six UK sites were sold to celebrity chef Marco Pierre White, saving 200 jobs.

According to Baker Tilly Restructuring and Recovery, the symptoms of a struggling business are usually obvious. The key to saving a company is to diagnose – and treat – the underlying cause. Partner Peter Cooper urges companies to consider four key areas when formulating their strategy:

Product: Is it clearly defined and something the consumer wants? Does the

management team set clear goals that are shared with the sales teams?

Platform: Can the business support the management team's objectives or is it under financial pressure? How effectively can the managers predict and address customer demands?

Delivery: Does the business deliver great customer service? Are employees engaged? Does the sales and marketing plan deliver the right amount of business?

Continuity: Is there a system for measuring progress? Good quality management information is vital – it allows decision-makers to assess the fundamentals.

With hopes for the economic recovery resting on the shoulders of small businesses, is the government offering the right tax incentives to help them grow?

companies, tax on profits is now 20 percent. Corporation tax, though still higher (26 percent from 1 April 2011), is being reduced over the long term by the Government, and will be cut to 23 percent on 1 April 2014.

that means relief claimed on assets for up to eight years will be available when they are sold or scrapped. On the one hand, this accelerates tax relief. On the other, it means more detailed record keeping.

LONG-TERM TAX ON SMALL BUSINESSES HELD

The bad news: This means that small companies will eventually be in a less competitive position compared to their corporate rivals – not least if the UK adopts a standard rate of 20 percent some time in the next parliament.

DOING BUSINESS OVERSEAS

The rule of thumb: The Government does not want to tax business done overseas. The interim Controlled Foreign Company reforms, effective from 1 January 2011, (and which will lead to permanent reforms in 2012) exempt foreign branch profits from UK income tax. But beware, smaller

Tax health check

The Chancellor of the Exchequer's mantra, repeated many times since he came to office, is to create "the most competitive tax system in the G20". That's not easy when there's so little to give away. "The Government is under constraint," says Vincent Wood, a Tax Partner at Baker Tilly. "It's a reasonable objective, but in the short term it has no chance of achieving it."

This year's Budget was signalled as one for growth, but many incentives are balanced or deferred. For owner-managed businesses, it delivered some incentives and some disappointments in 2011. Wood examines the key decisions taken by the Chancellor and discusses whether they will have positive or negative effects on your business:

"Large businesses are getting a reduction from 28 percent to 23 percent in five years, and smaller businesses are getting 1 percent and

companies will be excluded from the scheme if they have a branch based in a location with a double tax treaty with the UK.

» Smaller firms are getting a one percent reduction in corporation tax and that's it. So larger businesses are being favoured

that's it. So larger businesses at the moment are being favoured," warns Wood. The UK remains in the middle of European Union rates.



LESS FAVOURABLE ALLOWANCES

Give and take: The Chancellor gives with one hand, but takes with another through less favourable allowances. For example, a reduction in the investment allowance (£25,000, not £100,000) and the general rate of capital allowances (18 percent in the main pool, a reduction of 2 percent, and 8 percent in the special pool, the result of a similar reduction).

RELIEF ON ASSETS

Benefits and drawbacks: As part of the rebalancing effort, the short life asset regime has been extended, and

ENTERPRISE INVESTMENT SCHEME

Risky relief: The Government has extended tax relief for the Enterprise Investment Scheme (EIS), up from 20 percent to 30 percent from April 2011. The EIS is designed to help smaller, higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those business. What's more, venture capital trusts, investment schemes where investors can achieve tax relief for investing in risk-taking growth businesses, will attract more tax relief. In 2012, there will also be a five-fold increase in how much you can raise annually from EIS investment, to £10



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SHORT-TERM TAX CUTS

The good news: The incentive that small to medium-sized businesses value most, tax cuts, were the headlines for this Budget. Baker Tilly's survey of small businesses shows that 62% of businesses felt the cut of 1 percent in fuel duty will have no impact to them. For small

million, while more companies will qualify under the scheme.

DELAYED WAR ON RED TAPE

The big disappointment: The long-anticipated war on red tape, in order to simplify the tax regime for small businesses, hasn't started yet. "There has been some cutting out of superfluous sections, but it's dwarfed by all the sections coming in," Wood says. "The Government is doing little to address the quagmire of legislation smaller businesses have to deal with. It's getting harder and harder for taxes to comply with tax regulation."

In April 2011, EIS tax relief increased from 20% to 30%

DISGUISED REMUNERATION

The overreaction: One area of administration in which small to medium-sized business may suffer is the in tightening of the anti-avoidance provisions, a new set of regulations on 'disguised remuneration'. The provisions that the Government is introducing to curtail this activity will affect the tax planning of a number of businesses engaged in legitimate activity. While some of these regulations are certain to be amended, some planning will be necessary if you do not want to fall foul of the new regulations.

ENTERPRISE ZONES

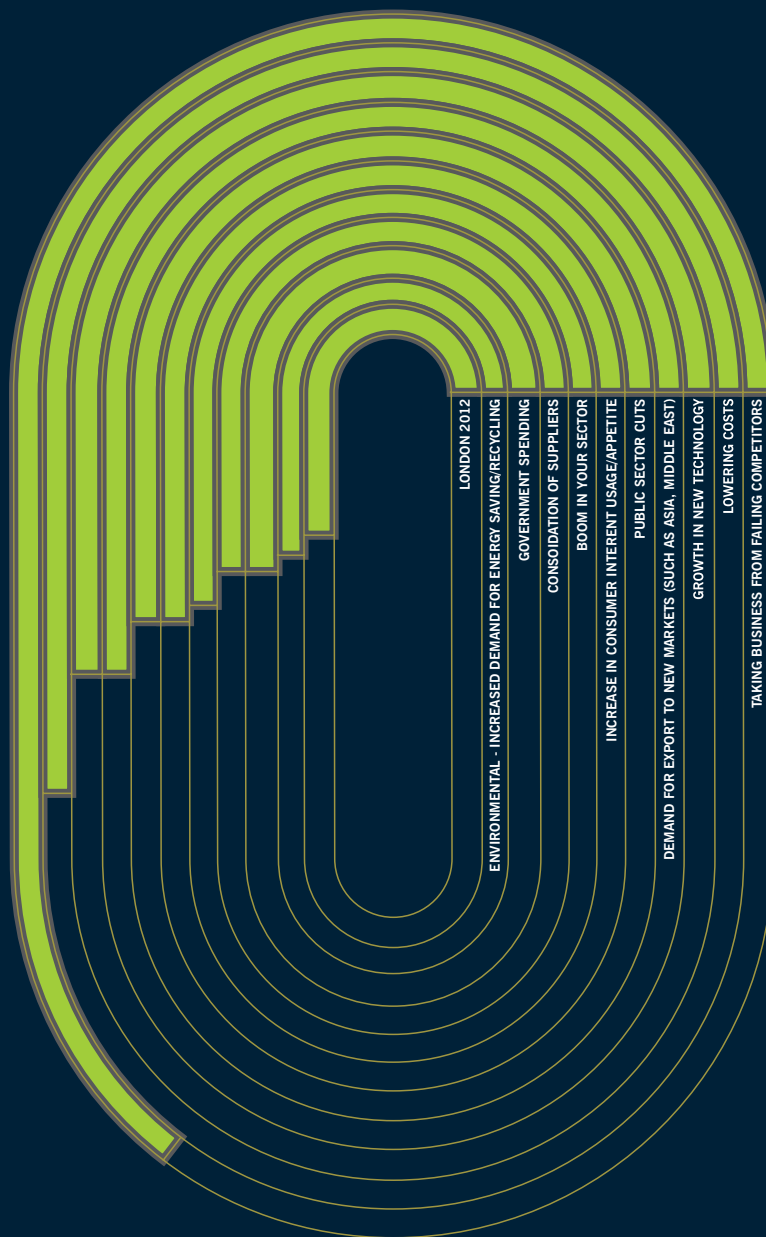
An incentive too far: The Government has created 21 new enterprise zones. If you wish to set up in these areas, your business will enjoy low levels of regulation, less tax and exemption from business rates. This means that, on the face of it, they represent a tax incentive for businesses that wish to grow – and 10 of these zones have been created already.

However, Baker Tilly's survey shows that only nine percent of owner-managed businesses think the zones will make a positive difference in the next year. The problem appears to be, as Wood points out, that many of the zones will simply be too far away from small businesses' existing customers. ■

So, where do you think the big opportunities lie in 2012?

Where is your business right now and how are you set up for the next 12 months?

Building a fitter and leaner business by attracting and retaining key people, managing risk, and utilising the tax incentives available to you, all play an important part seizing the opportunities you identified. And ultimately, if you keep the roadmap clear next year, your goals will be achieved.



» 42%

Looking to pick up business from failing competitors



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