

86% of our survey panel want to see a reduction in the burden National Insurance places on their business. Rises in NI place specific hardships on smaller businesses and can serve to stifle growth.



The Tenon Forum is an independent think tank made up of leading entrepreneurs from the UK's small and medium-sized business community. It has been set up by Tenon, the leading national providers of business services and advice, in the belief that it is in everyone's interest for SMEs to have vigorous and positive representation.

The Tenon Forum Think Tank meets to analyse issues arising from a regular survey, a substantial piece of research carried out by NOP World, the UK's leading specialist business-to-business research agency. A report based on the research and the Think Tank's commentary – including constructive recommendations for change – is then published.

The research explores key issues facing entrepreneurs in the UK today. This fifth report is based on research conducted by NOP World in September 2004. They interviewed 500 MDs, FDs and other senior directors of small and medium businesses – firms with between 5 and 499 employees. The survey covers all business sectors across the whole of England, Scotland and Wales and the results have been weighted to provide a representative sample of the British economy.

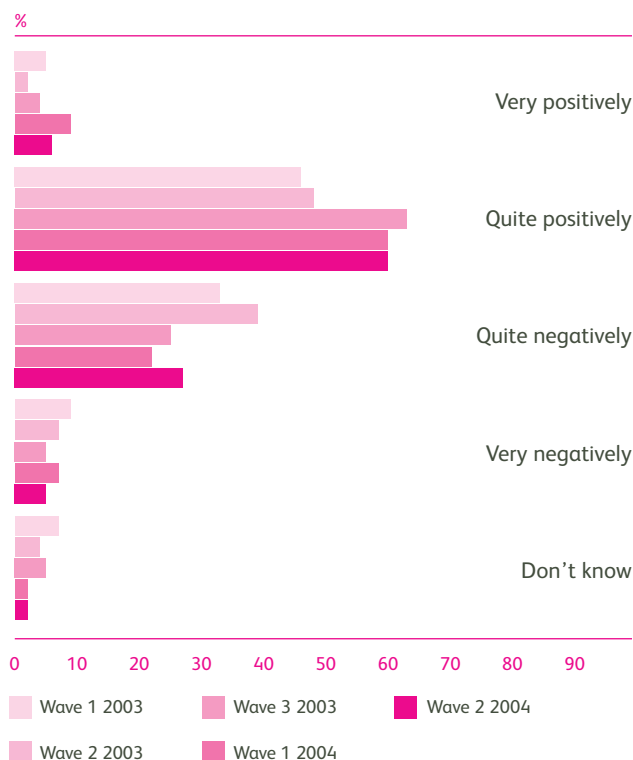
the members of the Tenon Forum Think Tank are:

David Edwards	Chief Executive	Rust Services Group
Trevor Ellis	Managing Director	C.S Ellis (Group) Limited
James Goddard	Managing Director	The JJ Group
Richard Kennett	Director of Business Services	Tenon
Steve Noble	Partner	Publicity Matters
John Pragnell	Managing Director	Camtec Electronics Limited
Peter Sechiari	Chairman	ACM Shipping
Nick Sohail	Business Development Director	Eden Brown Recruitment, Training & Consultancy
Jolyon Stonehouse	Regional Managing Director, South West	Tenon – CHAIR
Martin Williams	Managing Director	European Business Solutions

the outlook for entrepreneurial Britain

Confidence among SMEs in the economic outlook may have reached a plateau and we could be seeing the first signs of a downward turn. Although two thirds (66%) of those surveyed said they felt positive about the impact of the wider UK business environment on SME prospects for the next 12 months – broadly in line with results for the last two periods – there is a sense that, while things are OK, they may be about to fall.

1. How positively do you view the impact of the wider UK business environment on the prospects for small and medium businesses for the next 12 months?



Our think tank members considered why there might be a tailing off in confidence in the economic outlook, particularly when most felt positive about their own business prospects. Indeed, this is reflected in the still buoyant results across all SMEs for levels of optimism about their prospects in the coming year (see overleaf).

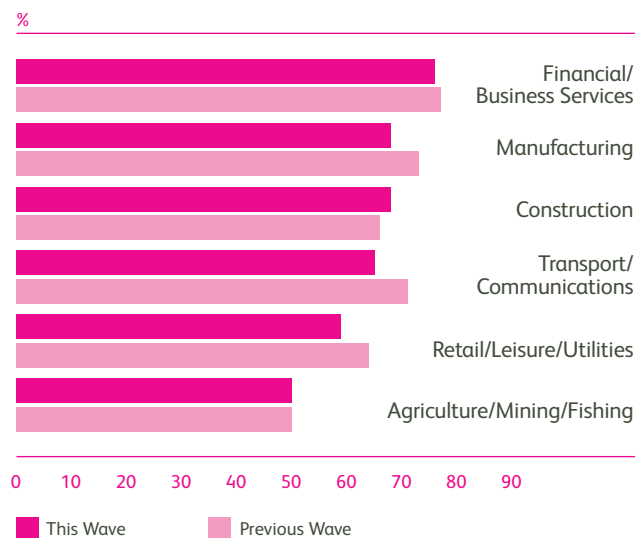
‘confidence among SMEs in the economic outlook may have reached a plateau.’

Political considerations, such as the fact that two of the world’s major economies, the USA and the UK, have pending elections; and the increasing scepticism around Government pronouncements as a result of the situation in Iraq – may be making it more difficult for businesses to translate the confidence they have in their own businesses into similar confidence in the national picture.

The confidence of the entrepreneurs who run Britain’s SMEs is also more likely to be affected by personal financial considerations – the precarious state of their pension fund or the stagnating value of their home – than those running larger businesses. This too may lead towards a view that this latest survey represents the end of a high-point in entrepreneurial confidence for this cycle.

There are some sector specific issues too. An increasing hardening of fuel prices is placing pressure on distribution businesses and those reliant on them. This manifests itself in our survey with a drop in the number of businesses in the Transport and Communications sectors feeling positive about the impact of the economic environment on SME business prospects from 71% to 65%.

1.1 Percentage of businesses rating the UK business environment as quite positive or very positive. By sector.

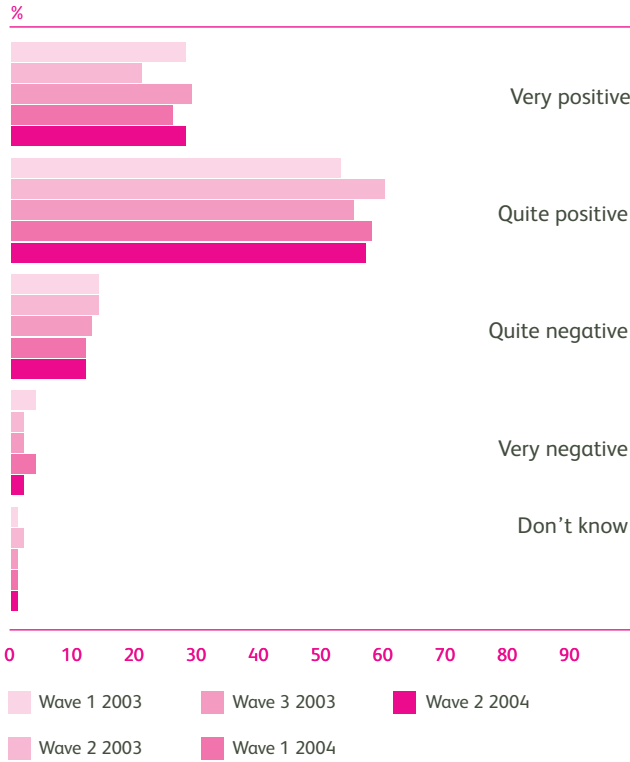


More worrying too is the fact that confidence in the Retail, Leisure and Utilities sectors – where our survey group is most likely to be affected by falling consumer confidence – is now lower than in all other sectors apart from the perennially unconfident Agriculture, Mining and Fisheries. We have seen the proportion of SMEs with a positive outlook in Retail, Leisure and Utilities drop from 72% in Autumn 2003 to 64% in Spring 2004 and 59% in Autumn 2004. This is particularly worrying in the Retail sector as the survey was carried out during the final planning stages for the critical Christmas period. If this reflects their understanding of the state of consumer confidence and spending patterns, then the outlook does not look good for the economy as a whole.

‘if [the retail results] reflect their understanding of the state of consumer confidence... then the outlook does not look good.’

Entrepreneurs are nothing if not confident in their own abilities, and this is once again reflected in the difference between the positive outlook they have for their own business prospects compared with that they have for the overall economic outlook.

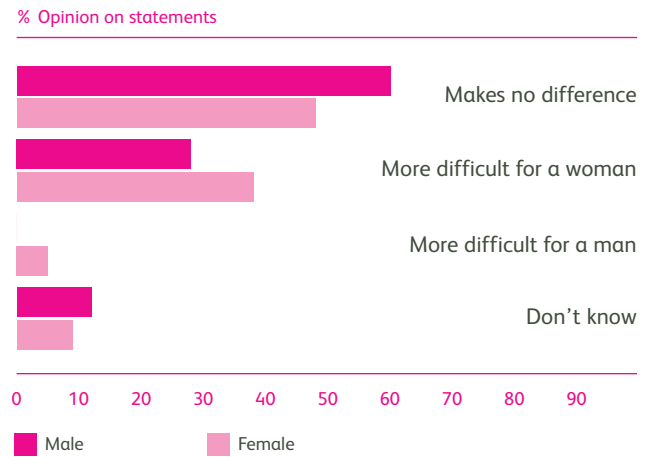
2. How optimistic are you about your business prospects for the next 12 months?



One reason for this perception may be that time spent out of the workforce for maternity leave and childcare may make it more difficult for women to get back to a position where they are able to take over or set up a business. That said, in many family-run SMEs, it is the wife who runs the business even where her role is not formally recognised.

Women, perhaps not surprisingly, see more difficulties here than men.

3.1 In your opinion is it more difficult for a man or a woman to run or set up a business? By gender.



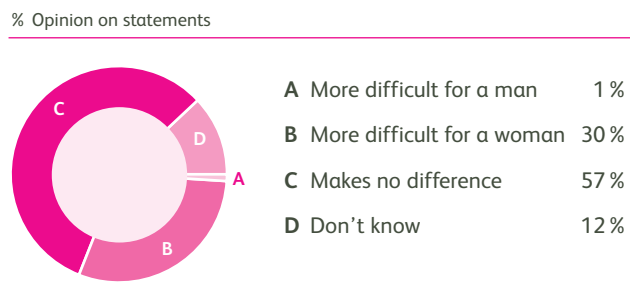
Nearly 40% of all women surveyed (and 100 of our 500-strong panel are women) believed setting up or running a business was more difficult for a woman than a man, compared to just under 30% of men.

Issues facing SMEs

women in business

Nearly a third of our survey panel believe that it is more difficult for a woman to run or set up a business.

3. In your opinion is it more difficult for a man or a woman to run or set up a business?



‘nearly a third... believe that it is more difficult for a woman to run or set up a business.’

There may be positive signs here though too. Undoubtedly the situation is healthier than 20 or even 10 years ago, and it is likely it will be even better in 10 years time. That said, there is no reason for complacency. If the UK as a nation believes in the benefits of encouraging enterprise, it makes sense to ensure that all members of society – men and women – feel equally able to be enterprising.

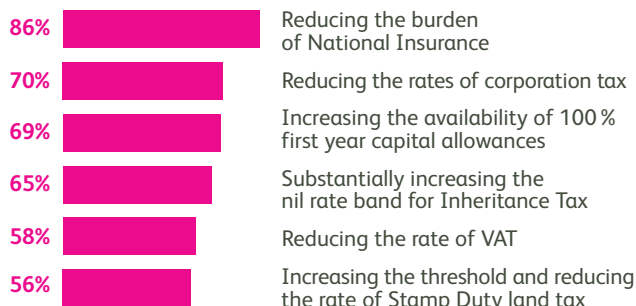
Simple initiatives – such as support networks for women entrepreneurs, and a wider spread of female entrepreneur role-models in popular TV dramas – could make substantial inroads into improving the situation many women feel they face.

key tax priorities for business

We asked our panel what they would like to see in the next general election manifestos in relation to tax.

4. Which of the following do you consider to be the key tax priorities for business, that you would want to see included in general election manifestos?

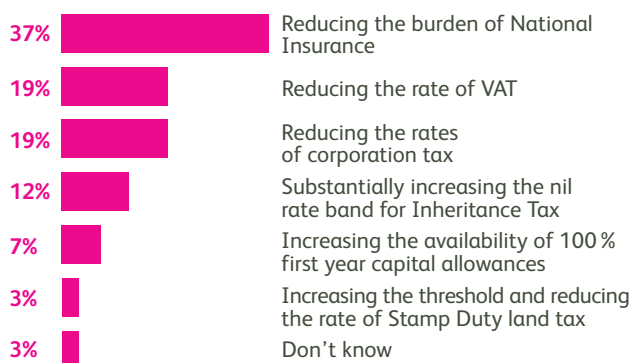
% Opinion on statements



The clear message from the entrepreneurial community is that they want to see a reduction in the burden National Insurance (NI) places on their business. A reduction in VAT is understandably more popular in the Retail, Leisure and Utilities sector, where 28% cited it as their would-be top priority, slightly ahead of the 27% of the sector, who chose a NI reduction. But in the Manufacturing sector – where international demand for raw materials is placing ever-increasing pressure on margins, a full 50% of those surveyed want a reduction in NI before any other tax consideration.

4.1 And of these key tax priorities for business, which ONE do you consider to be the most important, that you would want to see included in general election manifestos?

% Opinion on statements



The overall focus on NI is understandable given sustained media coverage of the increases, but rises in NI place specific hardships on smaller businesses and can serve to stifle growth. Smaller firms are more exposed to fluctuations in cash flow, so a growing monthly NI bill can make it difficult – or too often impossible – to hold on to staff during leaner trading periods. Letting them go makes it more difficult for the smaller business to grow again when trading improves.

Our think tank also expressed the view that businesses want to see the results of what they are getting in return for increased taxes, echoing individual taxpayers' calls for signs of improvement in health or education provision.

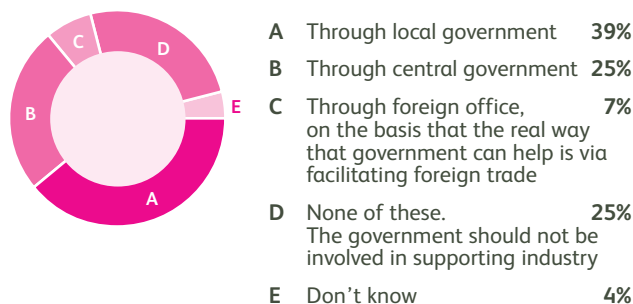
'rises in NI place specific hardships on smaller businesses.'

government support for industry

Given the current political debate over the best deployment of Government resources to help industry, we asked our entrepreneurial research panel what form of support they would prefer.

5. Following the Tories' announcement that they would cut 4,000 jobs at the DTI, which one of the following options best describes how you would want the government to organise support for industry?

% Opinion on statements



A quarter of our survey didn't want Government to be involved in supporting industry at all. These tend to be the larger SMEs – the figure for 'no Government involvement' rises from the average 25% to 34% for firms employing between 200 and 499 staff.

'a quarter of our survey didn't want Government to be involved in supporting industry.'

Nearly two fifths of those surveyed, however, believed support for industry is best organised at a local level. A key area for public assistance for industry, according to the think tank, should be in supporting export, where the embassy infrastructure should combine with sector specific and on-the-ground expertise to help SMEs break into other markets.

'a key area for public assistance for industry... should be in supporting export.'

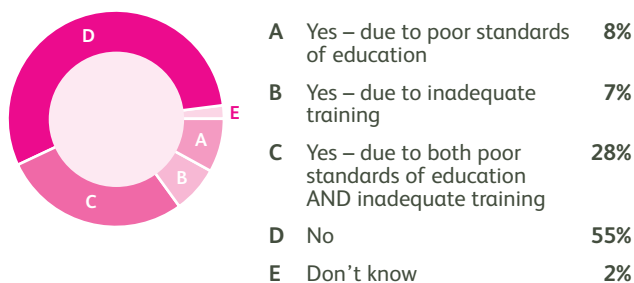
Given the preference for local government-based support for industry favoured by the research panel, the think tank explored ideas for increasing confidence in the advice and support offered by Business Links. Two ideas were raised as ways of encouraging successful entrepreneurs to help growing businesses: one, to offer taper relief benefits to people who sell their businesses and then become a Business Link adviser; two, to switch existing enterprise support budgets to help fund non-exec directors for SMEs.

recruitment

A worryingly high 43 % of our survey find poor education, poor training or both are preventing them from recruiting the quality of staff they need.

6. In your business, do you have difficulty in recruiting good quality staff due to poor standards of education and inadequate training?

% Opinion on statements



Having said that, over half (55 %) of SMEs believe they can find the right quality staff, and our think tank believes that SMEs can offer many benefits to employees that larger organisations find more difficult to provide. SMEs often find it easier to offer more flexibility to staff than larger firms tied into more bureaucratic structures. SME employees are certainly more likely to be exposed to decision-making responsibility at an earlier stage in their careers; may well be offered faster-moving work and more exciting challenges; and have the ability to have a more tangible and visible impact on the success of the business in which they work.

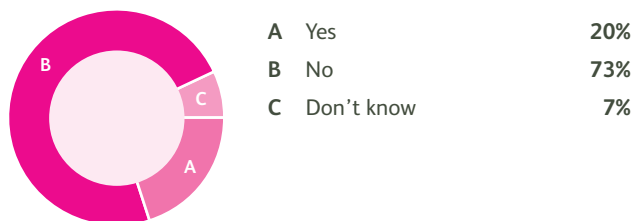
‘SMEs can offer many benefits to employees that larger organisations find more difficult to provide.’

is the UK really a tax-efficient location?

Nearly three-quarters of our survey challenged the Government’s picture of the UK as a tax-efficient location, as painted to inward investors.

7. The UK is being promoted by the government as a tax-efficient location for international trade. In your opinion, does this match the reality for your business?

% Opinion on statements



There is clearly some difference here between perception and reality. The UK remains, relatively speaking, a low-tax location. The Government perhaps needs to make more of the UK’s tax-efficient position, not only to encourage inward investment but also to encourage home-grown entrepreneurial activity. Greater transparency over the tax situation and the tax-take on businesses – and over how and where tax revenue is spent in relation to business – might encourage more SMEs to see the UK as a tax-efficient place to do business.

Tenon Forum – Top 10 Tips

1. Stay confident in your own abilities.
2. Female entrepreneurs can consider joining or setting up women-only support networks.
3. Include NI bills in cash flow forecasting.
4. Explore what support is available from RDAs or Business Link, particularly in relation to export markets.
5. Consider appointing a non-exec director.
6. Remember the advantages a smaller company can offer potential recruits, such as a more flexible work:life balance...
7. ...or greater responsibility....
8. ...or a bigger impact on business success.
9. Talk to other entrepreneurs – you're not alone.
10. Find advisers who can understand what you want to achieve.

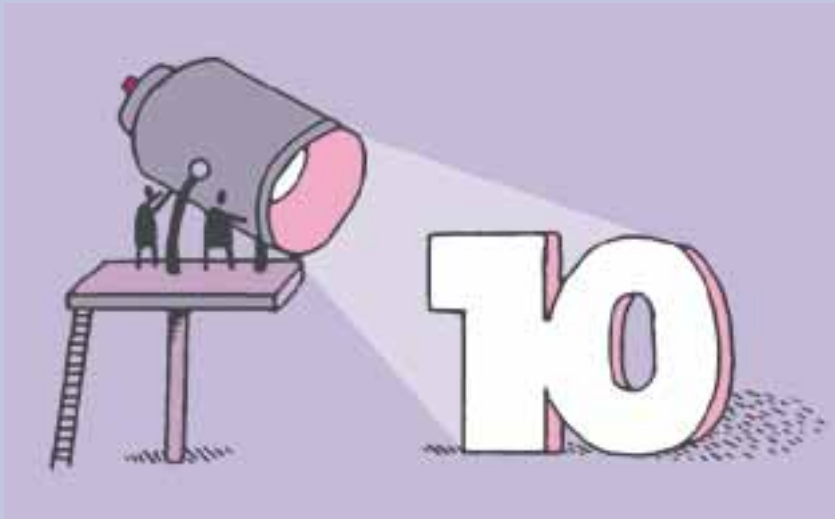
about Tenon

Tenon is a leading national provider of business services and advice to owner-managed and private businesses. We are expert in protecting and enhancing the wealth of our clients, enabling them to achieve their ambitions.

our range of services includes:

- > Business services
- > Corporate finance
- > Recovery
- > Financial services
- > Outsourcing
- > Tax
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www.tenongroup.com



Tenon offices:

Aberdeen	+44 (0) 1224 584900
Bacup	+44 (0) 1706 355505
Basingstoke	+44 (0) 1256 370370
Brighton	+44 (0) 1273 725566
Chelmsford	+44 (0) 1245 455444
Chorley	+44 (0) 1257 518000
Edinburgh	+44 (0) 131 557 4455
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Isle of Man	+44 (0) 1624 695560
Kirkcaldy	+44 (0) 1592 263212
Leicester	+44 (0) 116 222 1101
London	
Baker Street	+44 (0) 20 7935 5566
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Southampton	+44 (0) 23 8064 6464
Sunderland	+44 (0) 191 511 5000
Windsor	+44 (0) 1753 754400
Yeovil	+44 (0) 1935 426181

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