



**MOORE**

# **STUNTED GROWTH: HOW RISING COSTS AND RECRUITMENT WOES ARE CHOKING BUSINESS EXPANSION**

**The Owner Managed Business View in March 2023**





## THE BUSINESS OUTLOOK ON THE YEAR AHEAD

**Twice a year we ask business leaders across the country to share their aspirations for the next six months and track business confidence.**

**Our latest Owner Managed Business (OMB) survey carried out in March 2023 looks at these consistent measures as well as new issues affecting UK businesses today.**

Our latest survey findings show that 67% of OMB's surveyed are highly or fairly confident about the general outlook for the year ahead, but whilst it seems that OMB's are gradually recovering from the economic fallout caused by the pandemic, many businesses are still struggling to remain profitable, with smaller OMB's being hit hardest.

A major reason for profitability struggles is the sharp rise in business costs with 40% of OMB's saying that this is going to pose a significant business challenge this year, with rising interest rates and inflation also causing concern. For smaller businesses (those with turnover below £1m per annum), cash-flow and liquidity is becoming more of a problem.

Struggles recruiting and retaining staff have certainly not gone away, with almost a quarter saying this is a significant challenge. Difficulties recruiting are impacting on OMB's' ability to meet growth targets, with almost a quarter having to turn down opportunities for new work as a result.

In the Spring Budget, the Government announced a slew of reforms (including the introduction of returnerships, changes to the pension threshold and free childcare), all aimed at getting people to stay in work or get back to work.

And while larger businesses say these measures will make a difference, smaller businesses are less optimistic about the impact of these reforms.

Overall, confidence in the UK Government remains low, with only 6% of OMB's saying they are highly confident in the Government's ability to deliver economic growth in 2023.

As we continue to emerge from the pandemic, what may have felt like temporary changes for some businesses three years ago (such as the introduction of hybrid working) have become permanent arrangements. For many OMB's, hybrid working brings significant benefits, such as a better work-life balance for employees and reduced costs for business owners. However, the normalisation of hybrid working presents new challenges, particularly when it comes to working collaboratively and training and developing staff.

Businesses will need to be proactive in addressing these challenges to remain competitive and successful in the months ahead.

### Maureen Penfold, Chair of Moore UK

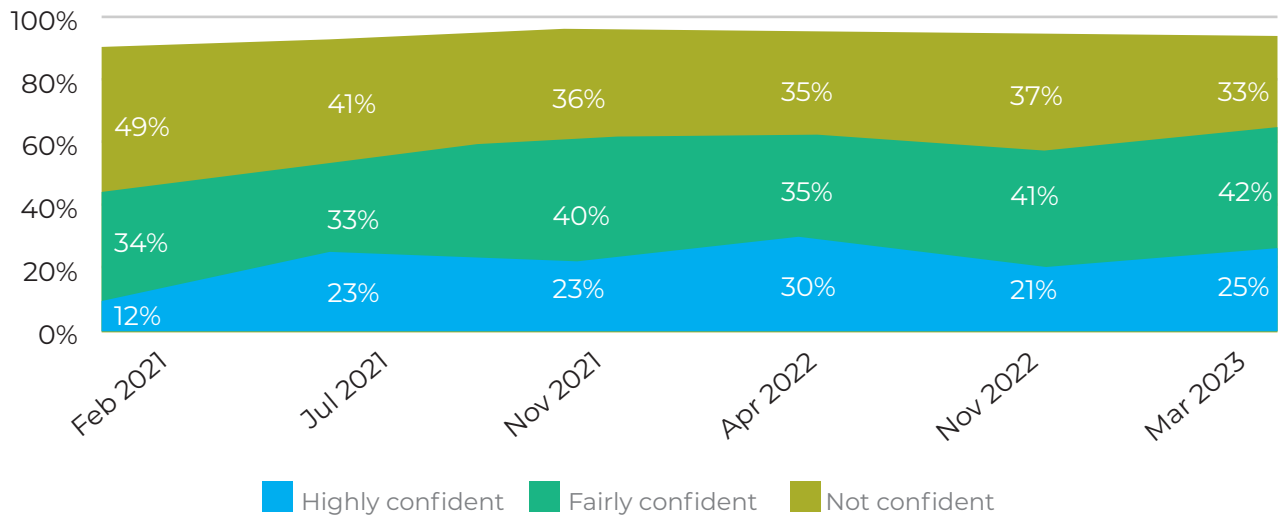


To gather the data for this report we surveyed 501 businesses with turnover between £85k and £30m in March 2023. Businesses were selected from across all sectors throughout the UK and in proportion regionally in line with ONS statistics for VAT registered and PAYE companies under 249 employees.

# OVERALL BUSINESS CONFIDENCE BOUNCES BACK SLIGHTLY

Business confidence has started to rise once again having dropped at the end of 2022. 67% of business owners say they are highly or fairly confident about the general outlook for the year ahead with a third of businesses (33%) remaining pessimistic about the general outlook.

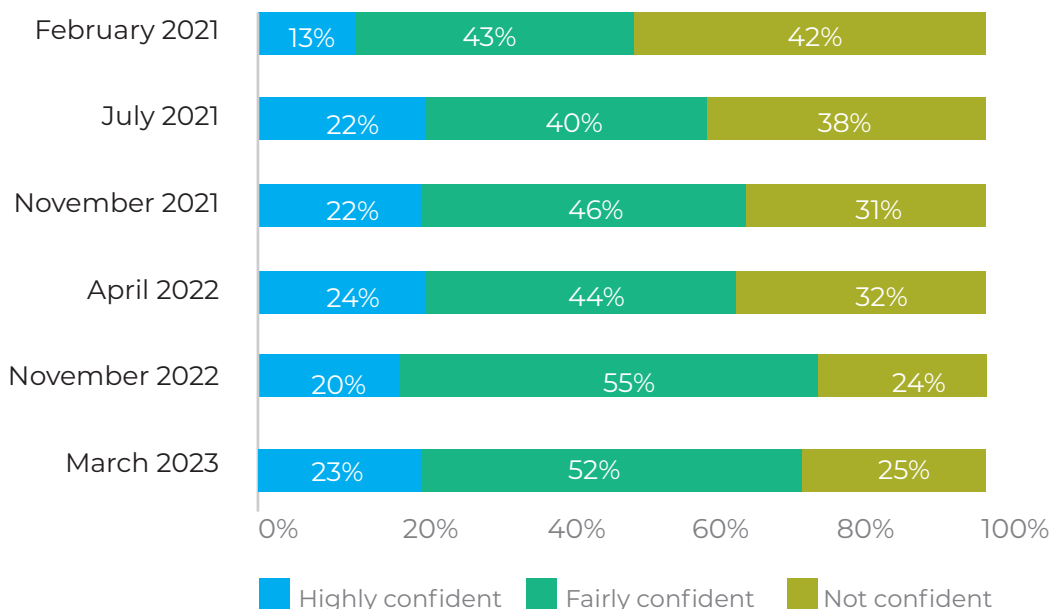
## Confidence in the general outlook for the year ahead



# CONFIDENCE IN MEETING REVENUE TARGETS REMAINS UNDER PRESSURE

Less than a quarter of businesses surveyed (23%) say they are highly confident of meeting their revenue targets this year (although this is up slightly from 20% in November 2022.) A quarter are not confident at all about meeting targets this year.

## Confident in meeting revenue target

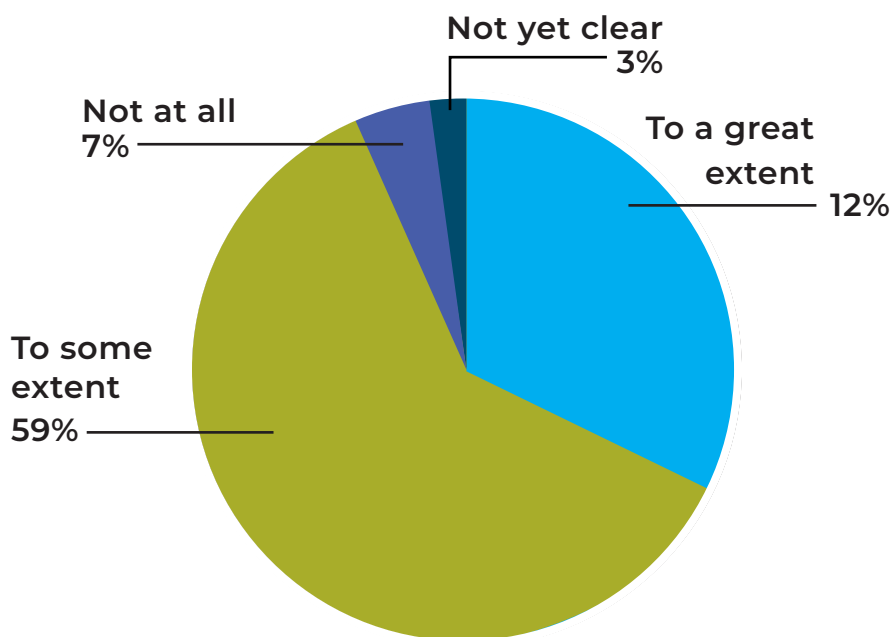




## RISING BUSINESS COSTS CONTINUE TO HAVE AN IMPACT ON PROFITABILITY

Increasing costs are continuing to have an impact on business growth, with 9 out of 10 businesses saying rising costs will impact profitability.

**To what extent are rising business costs likely to impact your profitability?**



*"I definitely want to expand my business but there are challenges for the business regarding inflation and energy costs."*

*"I just want to continue with the business and battle the rising costs and weather the upcoming financial storm."*

*"We want to keep going as long as we can afford to if energy prices don't go up anymore."*

*"Remaining afloat would be good, honestly the outlook is too bleak to hope for any better."*

*"Our hope is to survive in a country ruined by government dogma and stupidity."*

*"We hope to survive to the next election, when sense returns and we get a government (any flavour) with a mandate to deal with the real economic issues that are preventing businesses from thriving."*

# BIGGEST CHALLENGES IN THE NEXT THREE MONTHS

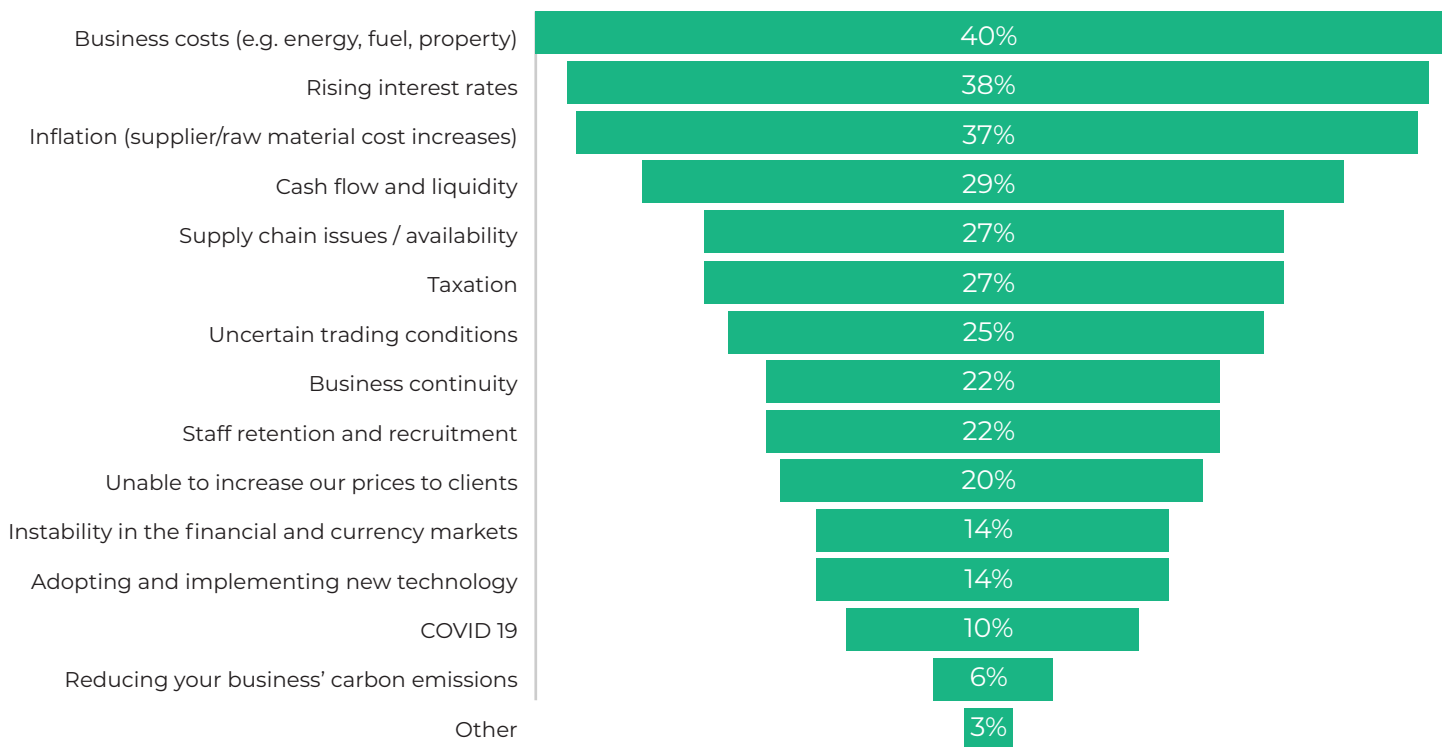
The top three challenges remain unchanged from the previous survey carried out in November 2022.

1.	<b>Business costs</b> (e.g. energy and fuel prices)	40%	This has increased slightly from 37% in November
2.	<b>Rising interest rates</b>	38%	
3.	<b>Inflation</b> (supplier/raw material cost increases)	37%	

## CASH FLOW AND LIQUIDITY BECOMING MORE OF A CHALLENGE – PARTICULARLY FOR SMALL BUSINESSES

Cashflow and liquidity are becoming a bigger issue for businesses as the cost-of-living crisis begins to bite. Almost a third of businesses (29%) say cashflow is a challenge up 6% from November 2022. Smaller businesses (those with turnover below £1m) are more likely to be struggling with cashflow than larger OMB's (34% compared to 24%).

### What are the biggest challenges to your business in the next 3 months?



Rising business costs are the biggest challenge for small businesses (those with turnover below £1m), with half (50%) ranking this as a key challenge for the next three months compared to just 31% of larger firms. In contrast, rising interest rates are the biggest challenge for larger businesses (those with turnover above £1m), with 48% saying this was a challenge compared to 27% of small businesses.

*“Our focus is on cash management. Cash is king after all.”*

*“Our goal is to manage cashflow amidst rising running costs.”*

*“We hope we can overcome rising costs and cashflow issues to recover a decent profit for the year.”*

## LARGER BUSINESSES STRUGGLING WITH RECRUITMENT AND RETENTION OF STAFF

One in five businesses (22%) say staff retention and recruitment is a significant challenge. Larger businesses are more likely to be struggling in this area, with a third (30%) of large businesses saying recruitment and retention is a challenge compared to just 13% of small businesses.

*“We hope to keep our staff and see morale increase which could in turn lead to greater profitability.” “Staff recruitment is our main priority as well as retaining current staff.”*

*“There is a lot of competition out there and a lot of companies wanting to take on staff, and so it’s hard to keep them.”*

*“Recruitment is seriously required in our industry.”*

*“Hospitality staff are hard to come by but it would be nice to have some permanent staff in that area.”*

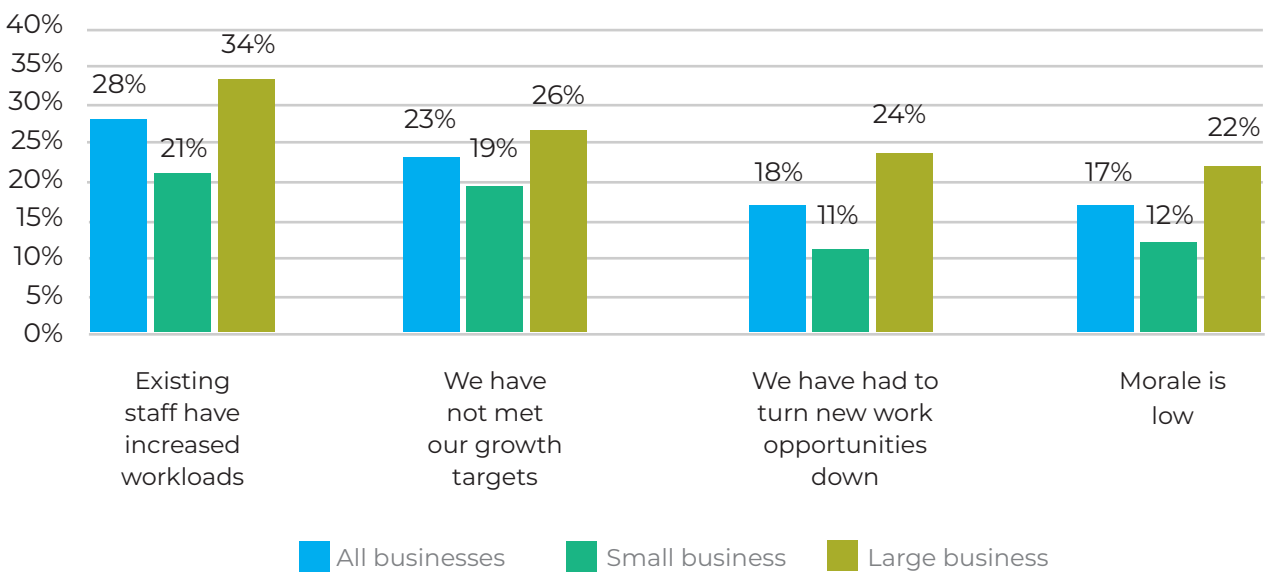


# DIFFICULTIES RECRUITING AND RETAINING STAFF ARE HAVING A SIGNIFICANT IMPACT ON BUSINESSES

Almost a third (28%) say existing staff have had to increase their workloads, and more than 1 in 5 (23%) haven't met their growth targets as a result.

Almost one in five of all businesses have had to turn new work opportunities down due to difficulties recruiting and retaining staff, and this number is highest for larger businesses, with almost a quarter having to turn down work.

## To what extent have challenges with recruiting and retaining staff impacted your business?



*"We hope to increase turnover by reducing costs."*

*"We're going to cut costs by taking virtual offices."*

*"I will try to generate more money by streamlining my business and cutting back on unnecessary staff."*

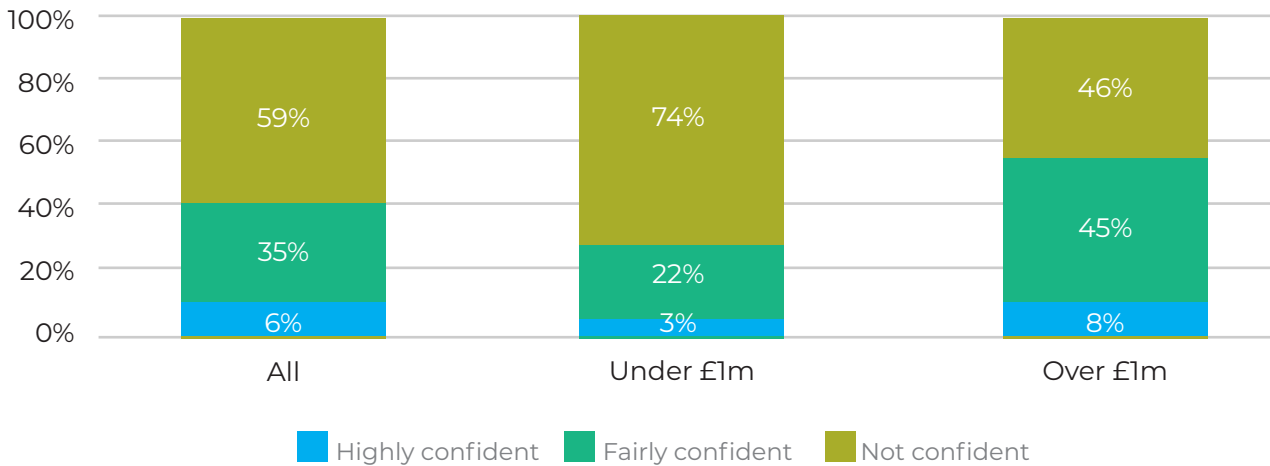


# LITTLE CONFIDENCE IN GOVERNMENT GROWTH PLANS

Following on from the Chancellor’s Spring Budget, widely touted as ‘Budget for Growth’, only 6% of business owners are highly confident in the Government’s ability to deliver economic growth in the next 12 months.

Larger businesses (turnover above £1m) are more confident than smaller businesses. Only 25% of small businesses are confident in the Government compared to 53% of larger OMB's.

## Following the recent Budget, how confident are you in the UK Government delivering economic growth in the next 12 months?



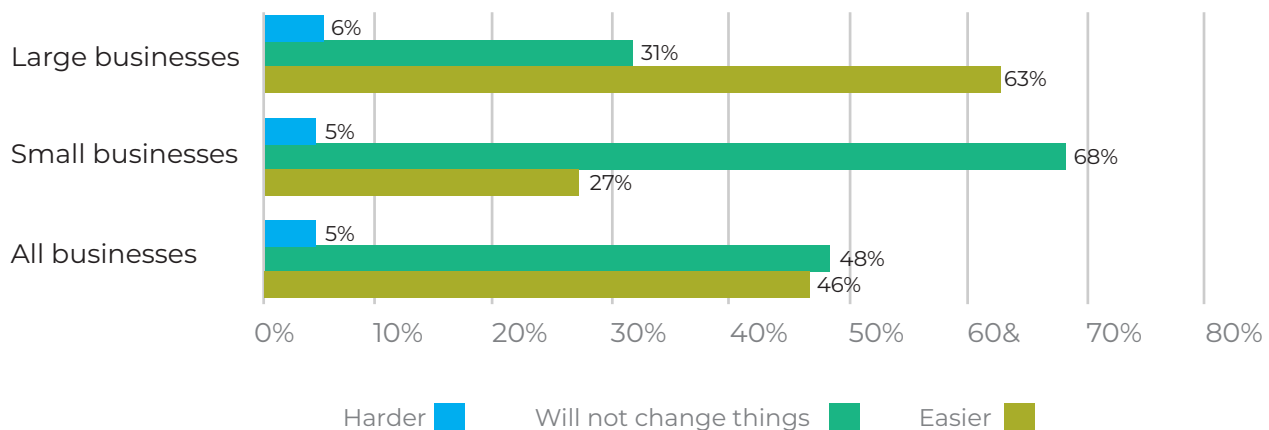
# REFORMS AIMED AT GETTING PEOPLE BACK TO WORK WILL HAVE A BIGGER IMPACT ON LARGER BUSINESSES

During the Budget, Chancellor Jeremy Hunt announced major reforms aimed at getting people into work and to remove the barriers that stop those who want to work from working. These included the introduction of returnerships, changes to the pension threshold, and free childcare places.

Almost half of business owners (48%) say they think the measures announced will help to recruit and retain teams.

The measures are more likely to positively impact larger businesses (with turnover above £1m) than smaller businesses. 68% of small businesses believe the reforms will not change things for them, in comparison to 63% of larger businesses who say the changes will make it easier to recruit and retain people.

## Will the introduction of new measures in the UK budget designed to get people back to work make it easier or harder for your business to recruit and retain staff?

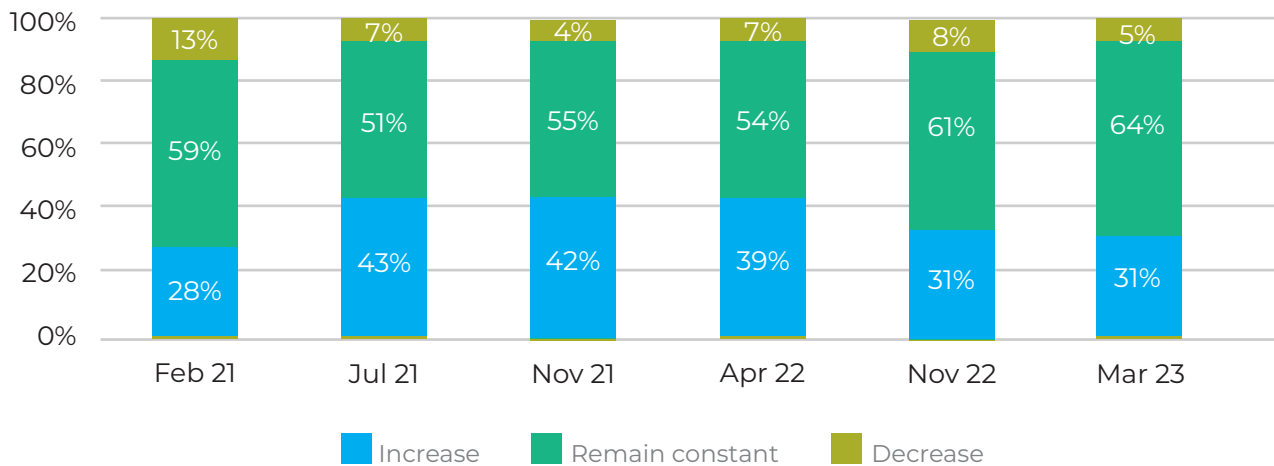




# BUSINESSES LESS LIKELY TO RECRUIT THAN THEY WERE THIS TIME LAST YEAR

We're still seeing the impact of rising business costs on recruitment, with fewer businesses planning on taking on new staff than at this time last year. Only a third of businesses (31%) say they are planning to increase their workforce in the next three months, compared to 39% in April 2022 before the cost-of-living crisis took hold.

**Over the next 3 months, do you expect your workforce to...**



*"We would like to bring in more staff in the second half of the year but this will depend on business performance."*

*"We are looking to retain profits and as many jobs as possible."*

*"Our aim is to control costs to maintain profits so we can continue with the same number of staff."*

# HYBRID WORKING: A DOUBLE-EDGED SWORD FOR EMPLOYEES?

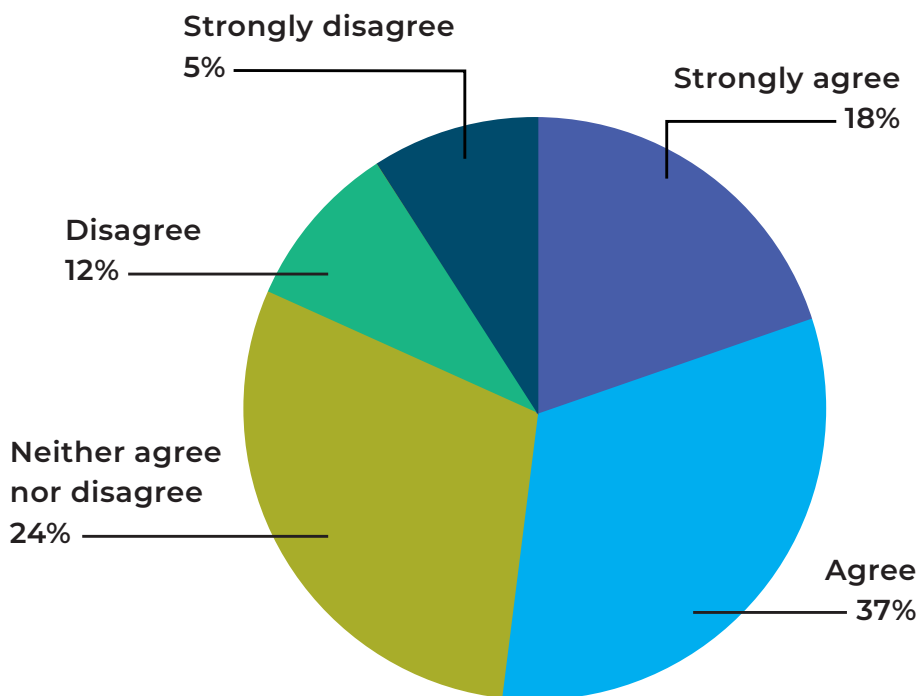
Overall, more than half (55%) of businesses agree that hybrid working benefits their business, however for many it's not practical due to the nature of the work that they do.

Large businesses were more likely to support hybrid working (61% agree) compared to smaller businesses (49% agree).

## The benefits of hybrid working mentioned by business owners include:

- Increased staff morale due to a better work life balance and a reduction in commuting times;
- Savings on business operating costs including office space, electricity and water;
- Providing a larger pool to recruit from;
- Boosting Environmental, Social and Governance (ESG) credentials

## Hybrid working benefits my business



*“Keeps the business energy costs lower when staff work from home.”*

*“I have been able to hire three staff members in the past year for whom hybrid working was a non-negotiable ask during recruitment.”*

*“Hybrid working allows us to recruit from a larger pool of candidates as location is less important.”*

# THE DOWNSIDES TO HYBRID WORKING

When we asked OMB's 'Why do you think hybrid working does not benefit your business?', common themes appeared around lack of productivity due to distractions at home, and many OMB's felt the pressure of teams being able to work collaboratively when not all in the same location.

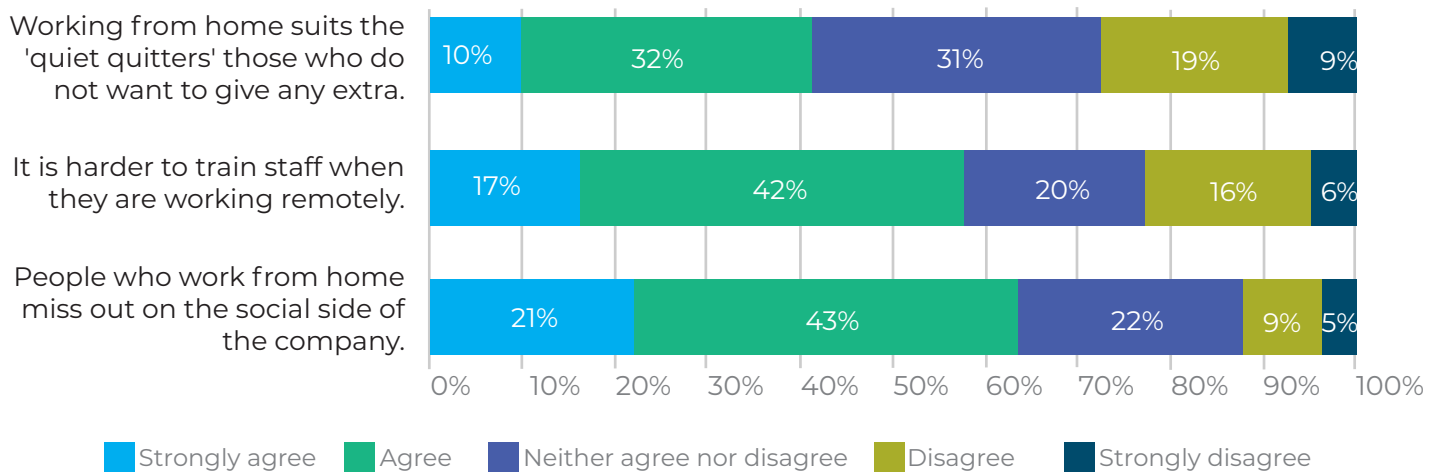
We asked all OMB's taking part in the survey whether they agreed with a series of statements in relation to hybrid working.

More than two-thirds of businesses (64%) say that homeworkers miss out on the social side of being in the workplace, and, despite more than half of businesses agreeing that hybrid working benefits their business, more than half (58%) say it's harder to train staff when they're working remotely.

More than four in 10 business owners (42%) feel that working from home suits the quiet quitters – i.e., those who do not want to give any extra.

More than half (58%) agree that it is fair to reduce benefits for those who work from home, and more than a third (34%) of business owners say that those in the workplace every day should receive a higher pay increase and package than hybrid workers.

## Hybrid working explored: How much do you agree with the following statements?

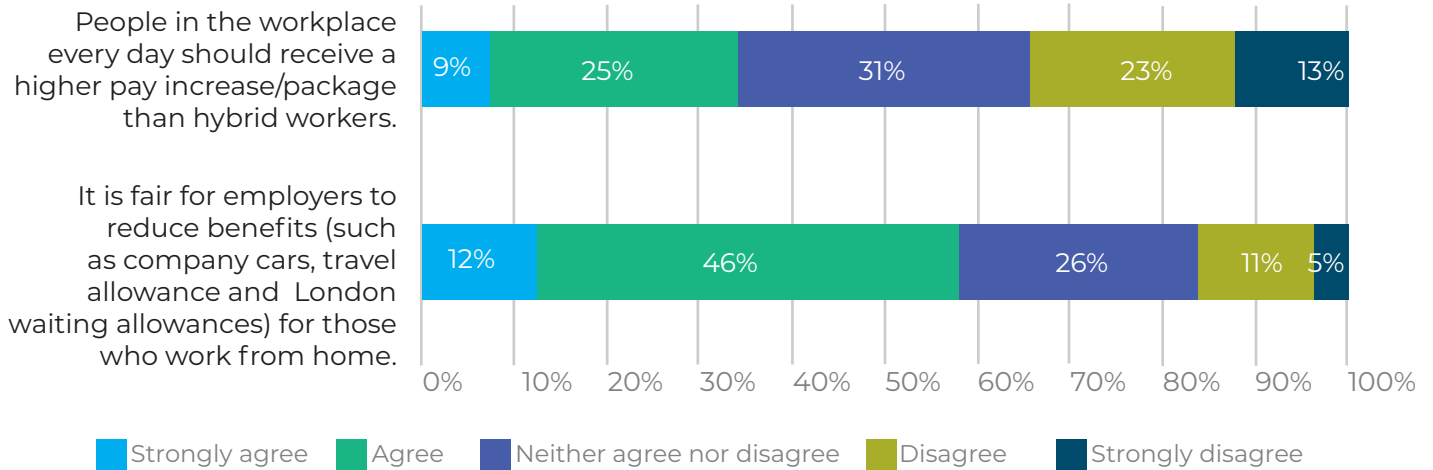


*"Staff salaries go further when they don't have to pay for commuting/lunch out meaning we are under less pressure to raise them."*

*"I can pay less for people working from home."*

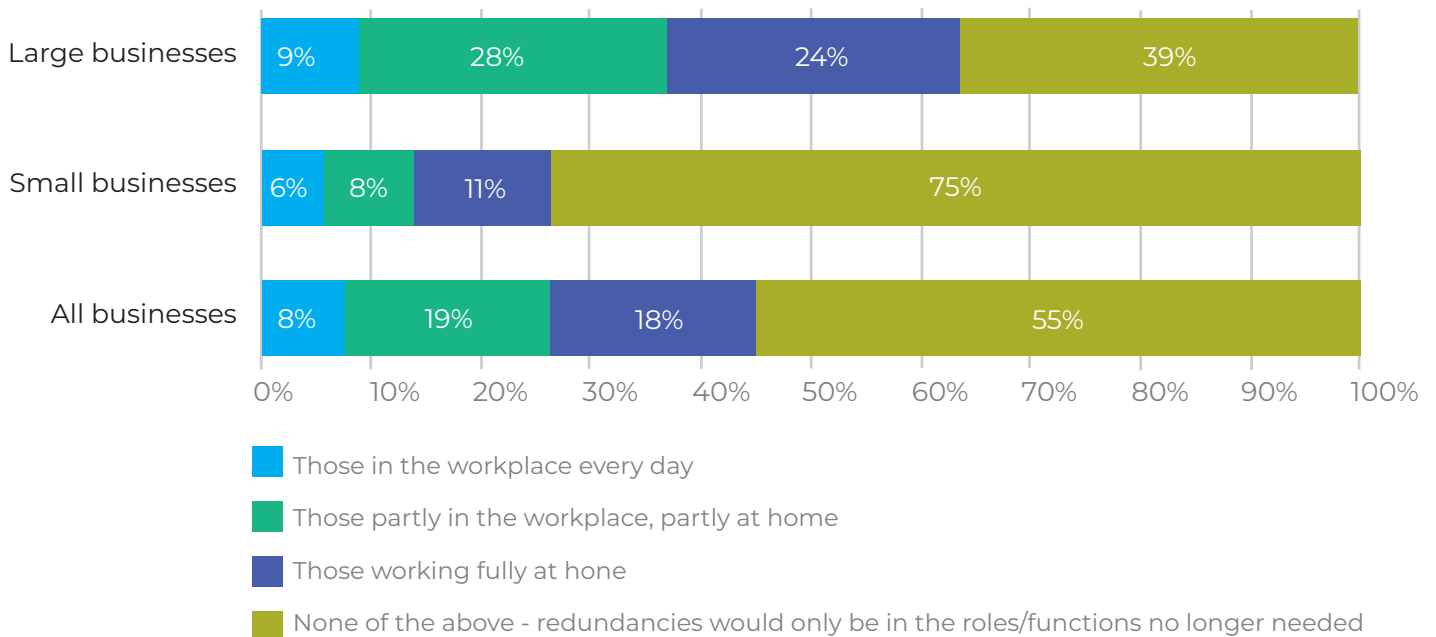
*"Not putting pressure on our staff to come to the office is a perk they might not find at other agencies meaning it increases our retention."*

## Hybrid working explored: How much do you agree with the following statements?



Most worryingly for home and hybrid workers, 37% of all business owners would make staff in these roles redundant if they had to make redundancies this year. And those in homeworking and hybrid roles at larger firms are even more at risk with more than half (53%) of larger businesses (over £1m turnover) saying they are more likely to make redundancies in these roles than those working permanently in the office.

## If you had to make redundancies in 2023, which type of role are you more likely to make those redundancies in?



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