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MAKING IT HUMANLY POSSIBLE

# Funding your business

Researched and authorised by Pitmans LLP in partnership with the Thames Valley Business Magazine

Report prepared in January 2012 by:  
Patrick Long, Partner, Banking & Finance



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## Executive Summary

- Over 80% of Thames Valley businesses feel well supported and understood by their funders. 30% also rated their funders as excellent
- Macro economic factors are seen as the greatest barrier to business growth, not the availability of cash or lending by banks
- Thames Valley businesses drive down borrowing, funding their daily operations from existing cash resources. 33% of all businesses are investing in growth, people development and corporate acquisitions to enable a strong performance when macro forces improve market conditions
- Business leaders believe debt is effectively managed and do not anticipate the failure of debtors to impact upon their business performance
- Business leaders expect the UK economy will remain fragile throughout 2012
- By contrast over half of all business leaders expect steady growth in their business during a challenging 2012
- Thames Valley businesses in particular bullishly view 2012 as a year of growth (65%) whilst those outside the region anticipate a slow to moderate year
- Thames Valley businesses remain loyal to funders during economic uncertainties.

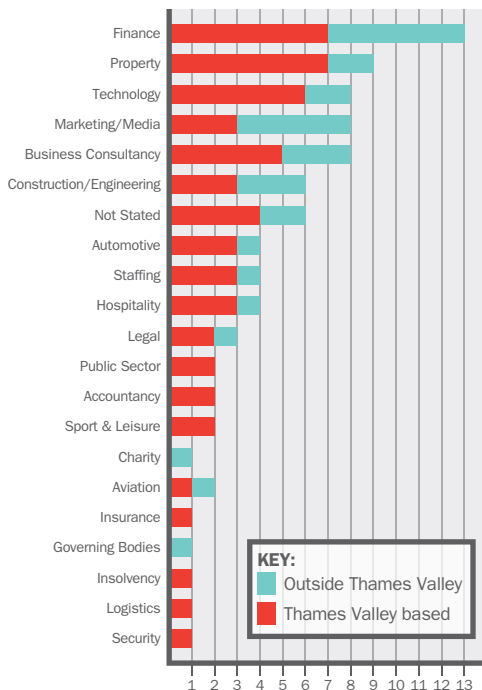
# Part 1: Summary Report

Pitmans LLP undertook a survey to assess the business conditions in the Thames Valley to which 86 businesses responded. This report summarises their responses and is valid to 16 December 2011.

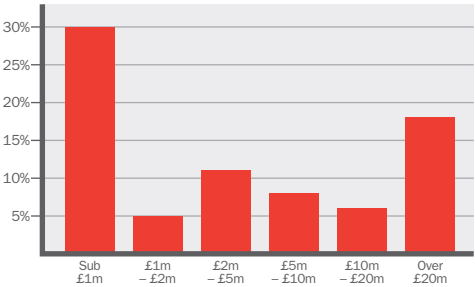
Respondents by geographical split:

- The survey was primarily completed by Thames Valley based businesses, representing a wide variety of sectors across the region
- Unless otherwise stated, results mentioned include those from all survey respondents.

Geographical split of respondents by sector:



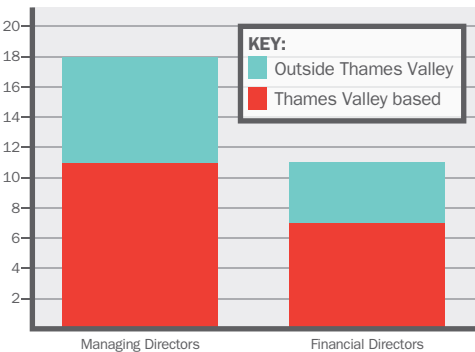
### Respondents by company turnover:



- 74% of respondents declared their turnover. Companies with under £1m and over £20m turnover were dominant in survey respondents.

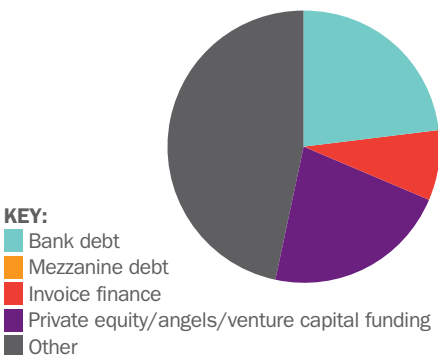
### Respondents by title:

- 35% of survey respondents were Managing Directors or CEOs
- A further 23% were Directors
- The remaining 42% of survey respondents comprised HR, Finance and other management level positions
- 61% of MDs and 64% of FDs were based in the Thames Valley.



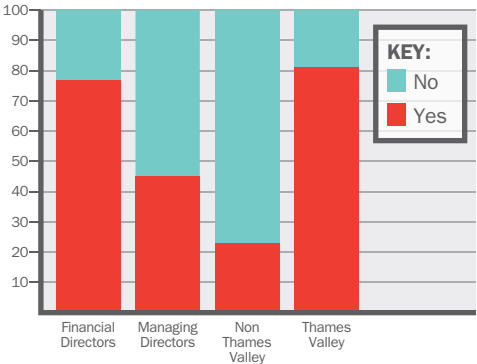
## Part 2: Funding your business

How do you fund your business? (Respondents were asked to select all that applied)



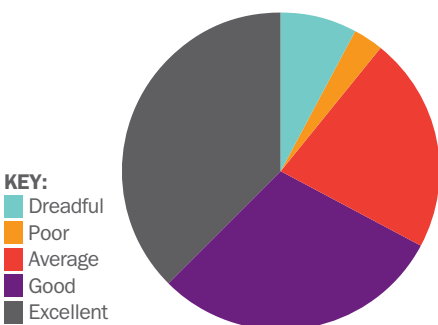
- 42% of survey respondents said that their businesses are funded through Bank Debt, Private Equity, Venture Capital and Invoice Finance
- 53% selected Other suggesting that they draw from existing savings or receive funding from friends or family
- None said that they used Mezzanine Debt to fund their business, suggesting perhaps a lack of awareness of this option.

## Do your funders understand your business?



- A significant proportion of respondents felt their funders understood their business
- 81% of Thames Valley based firms felt that their funder understood their business whilst only 23% of businesses outside the Thames Valley agreed with this
- 80% of Thames Valley based MDs believe their business is understood by their funders.

How helpful has your funder been in supporting your business in the last year?



- Over 80% of survey respondents believed their funder was supportive of their needs
- 55% of all FDs stated their funders were excellent
- 33% of total survey respondents rated their funder as excellent
- 15% of survey respondents from outside the Thames Valley suggested their funders were dreadful
- Approximately 8% of all survey respondents felt their funder was dreadful
- None of the survey respondents who were FDs felt their funders were dreadful or poor.



**Thames Valley businesses are well supported by their funders**



Is a lack of debt finance restricting your ability to grow your business?

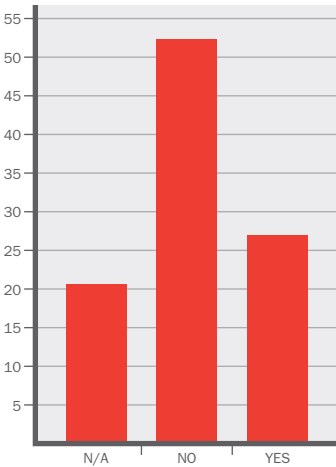
- Overwhelmingly, survey respondents stated that debt finance was not stifling their business growth
- Only 22% of survey respondents felt that debt finance was limiting their growth prospects
- 20% of all respondents have voluntarily sought alternative sources of finance
- 81% have remained with their existing source(s) of finance over the past 12 months. This suggests that relationships are strong with suppliers, or that there is a reluctance to move during this period of economic uncertainty.



**Market conditions, customers and other macro economic factors are stifling business performance – not the availability of cash.**

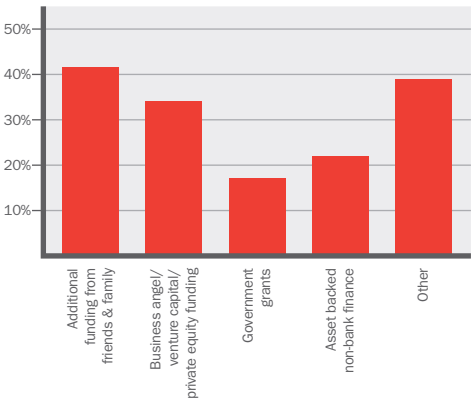


Are you planning on increasing your borrowing in the next three years?



- Only 27% of respondents stated that their businesses will be increasing borrowing over the next 3 years
- 52% of all survey respondents stated they would not increase their level of borrowing. When related to the responses around cash flow this suggests an aversion to increasing the debt risk and that reinvestment from cash would fund growth in the coming year.

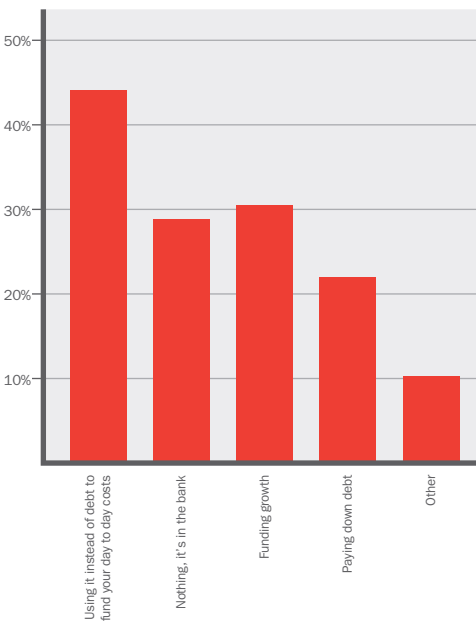
Which sources of finance would you consider beyond those offered traditionally by banks?  
(Respondents were invited to select all that applied)



- Of survey respondents, an overwhelming number of MDs would seek alternative sources of finance, whereas only 30% of FDs would consider this
- More than half of all respondents would consider alternative sources
- 42% of all respondents, mainly small businesses, would borrow from friends and family to support their business
- 39% of survey respondents would seek 'other' alternative sources of finance
- 34% of survey respondents would invite interest from business angels, venture capitalists and private equity funding.

## Part 3: Cash Flow

What are you doing with your cash at present?  
(Respondents were asked to select all that applied)



**Thames Valley businesses are driving down debt and managing operational costs with cash**



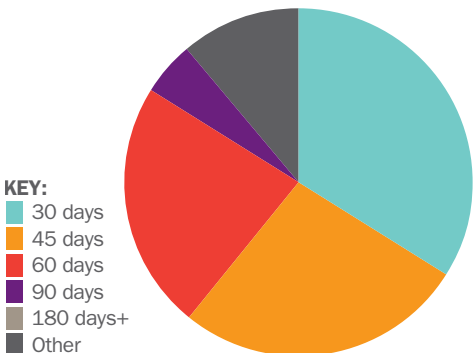
- Over 66% of respondents within the Thames Valley said that they are using existing cash to fund their daily operations
- 43% of all survey respondents are managing the daily running costs with cash and are trying to avoid incurring further debt
- However, 30% of all respondents are saving cash whilst a further 33% are investing in future growth
- 11% of respondents are investing their cash in people development, acquisitions and funding charitable trusts.

#### Attitudes to Cash Flow:

- When reviewing responses from FDs, most are spreading the load by paying down debt (36%), funding growth (36%) and using debt to fund daily operations (28%)
- 66% of MDs are favouring the use of cash to avoid extending debt whilst limiting investment in future growth.

## Part 4: Debt Recovery

How do you manage your debt collection?



- 34% of respondents operate on a 30 day credit collection period
- 27% manage their debt on a 45 day basis
- 23% operate on a 60 day debt collection timeframe
- 5% of respondents operate on a 90 day debt collection period
- None of the respondents practised a 180 day collection period.

Management of debt collection:

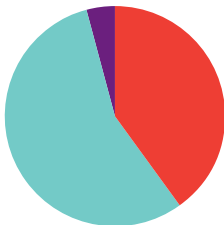
- 90% of respondents manage debt collection within their business
- 74% of survey respondents do not believe debt collection is a growing concern
- Only 13% of respondents employ external debt collectors to manage debt.



**The vast majority of respondents manage debt collection within their organisation**



How much of a risk do you see non-payment of your debts being attributable to the insolvency or failure of your customers in the next 12 months?



**KEY:**

- Unchanged
- Greater than in previous years
- Massive

- Approximately 40% of respondents felt that there is a greater risk that their customers will be unable to clear outstanding debts and that this will impact upon their liquidity
- 56% of respondents believe the level of risk will remain constant in 2012 in relation to non-payment by clients.

Is debt a growing concern?

- 70% of Thames Valley based respondents stated that debt was not a growing concern for their business
- 33% of firms based outside the Thames Valley suggested debt was a growing concern
- The vast majority of survey respondents who are MDs rate debt collection as a low priority, while FDs were more evenly split demonstrating their more cautious approach to debt management.

**Most businesses believe they already manage debt collection efficiently and effectively**

## Part 5: Outlook

What is your outlook for the UK economy over the next 12 months?

### Economic Outlook

- Only 3% of survey respondents believe the UK economy will begin to recover in 2012
- 97% of respondents believe the UK economy will plateau or shrink over the next 12 months.

### Business Outlook

- 55% of survey respondents anticipate that their business will enjoy steady growth in 2012
- 15% of respondents have predicted a period of strong growth throughout 2012
- Only 10% are bracing themselves for a contraction in their own business' performance.



**Bullish business leaders optimistic in 2012:**  
– difficult trading conditions to continue  
– steady growth for their organisations



### **Outlook forecast by geographical location:**

- Over 60% of respondents from the Thames Valley anticipate steady growth in their business, contrasting starkly with businesses outside the Thames Valley (38%)
- 23% of respondents outside of the Thames Valley anticipate a contraction of the economy over the next 12 months; whereas Thames Valley based businesses take a more optimistic stance (6%).

### **Outlook forecast by Managing Directors:**

- Over half of survey respondents who are MDs believe the UK economy will remain fragile and challenging over the next 12 months
- 66% of respondents who are MDs said their businesses will enjoy steady growth over the same period.

### **Outlook forecast by Financial Directors:**

- 66% of survey respondents who are FDs stated that the UK economy will remain fragile and challenging for the next 12 months
- Only 30% of survey respondents who are FDs anticipate a contraction in their business over the same period.

# Key Contacts



**Christopher Avery**

Managing Partner

T: +44 (0) 118 957 0224

E: [cavery@pitmans.com](mailto:cavery@pitmans.com)



**Patrick Long**

Partner, Banking & Finance

T: +44 (0) 118 957 0488

E: [plong@pitmans.com](mailto:plong@pitmans.com)



**Jim Meechan**

Consultant, Banking & Finance

T: +44 (0) 118 957 0220

E: [jmeechan@pitmans.com](mailto:jmeechan@pitmans.com)



**Andrew Peddie**

Partner, Corporate

T: +44 (0) 118 957 0321

E: [apeddie@pitmans.com](mailto:apeddie@pitmans.com)



**Adam Dowdney**

Partner, Corporate

T: +44 (0) 118 957 0574

E: [adowdney@pitmans.com](mailto:adowdney@pitmans.com)



**Stephanie Perry**

Partner, Corporate

T: +44 (0) 118 957 0432

E: [sperry@pitmans.com](mailto:sperry@pitmans.com)

Pitmans LLP  
47 Castle Street  
Reading  
Berkshire, RG1 7SR



**Daniel Jacob**

Partner, Corporate

T: +44 (0) 20 7634 4653

E: [djacob@pitmans.com](mailto:djacob@pitmans.com)



**Philip Weaver**

Partner, Corporate

T: +44 (0) 118 957 0441

E: [pweaver@pitmans.com](mailto:pweaver@pitmans.com)



**Donna Goddard**

Director

Debt Recovery

T: +44 (0) 118 957 0507

E: [dgoddard@pitmans.com](mailto:dgoddard@pitmans.com)



**Suzanne Brooker**

Partner

Insolvency & Restructuring

T: +44 (0) 118 957 0516

E: [sbrooker@pitmans.com](mailto:sbrooker@pitmans.com)



**Nicola Kirk**

Partner

Insolvency & Restructuring

T: +44 (0) 118 957 0226

E: [nkirk@pitmans.com](mailto:nkirk@pitmans.com)



**Denise Fawcett**

Partner

Insolvency & Restructuring

T: +44 (0) 20 7634 4642

E: [dfawcett@pitmans.com](mailto:dfawcett@pitmans.com)

e: [poppy@pitmans.com](mailto:poppy@pitmans.com)

t: 0118 957 0224

w: [www.pitmans.com](http://www.pitmans.com)

If you could wish for one thing in the next budget which would have a positive impact on your business what would you ask for?

“Greater support for SMEs”

“Reduction in VAT and tax relief for smaller businesses”

“Charges on Banks who do not lend”

“Investment in infrastructure including schools, hospitals and roads”

“Improved R&D tax allowances”

“A feeling that the government knew what it was doing”

“Stimulus for new jobs and tax relief on employee skills training”

“Ease planning regulation”

“Easier access to loan guarantee scheme”

“Extension of Entrepreneurs Tax Relief”

“National Insurance holiday on new employees”

“The Government to stop the Post Office and its partially owned Banks offering products that normal businesses cannot compete with.”

