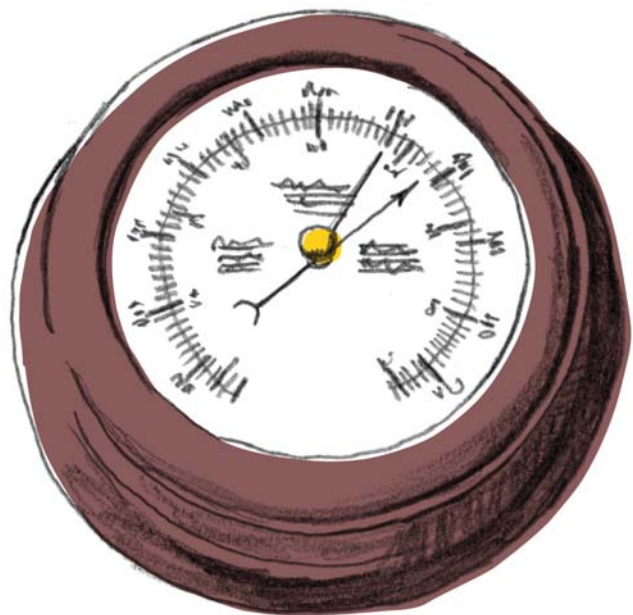


Resilient under pressure

Entrepreneur Insight Survey November 2008



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Ambition undaunted

Are entrepreneurs really a different breed? Results from our first Entrepreneur Insight Survey say emphatically: yes.



UK entrepreneurs and owners are facing some of the toughest economic and business conditions in living memory. This first survey shows that 68% of them are expecting conditions to worsen over the next six months, and most have core concerns about profitability and cashflow. Unsurprisingly, many reported that their business was taking a considerable toll on their personal life.

Yet in the face of the current economic storm, it appears entrepreneurs only harden their ambition and strengthen their resolve to tough it out: close to 7 out of 10 founders and owners remain totally committed “come what may”, while more than three-quarters reported being either as, or more, ambitious for their business than they were six months ago.

In reality, mental toughness can only partially explain the high levels of commitment reported. A proportion of entrepreneurs will have conceded that there are few alternatives but to crack on. Exit aspirations may be re-evaluated in the current climate, due to a lack of debt funding and the gap between the valuation of vendors and

what the market is willing to pay. Nonetheless, we are finding that with the right expertise, relationships and timing, opportunities are still there for strong propositions.

UK business has little option but to move forward and to continue to invest in people, sales, brand and innovation if it is to have a sustainable future, and the results are encouraging in this respect.

Nevertheless, ambition and long-term strategy must be balanced with ‘back to basics’ management of the business, right here and now. In these times, businesses need a sharp picture of their financial and trading position to really understand the financial risks that exist.

While it is true that ‘confidence’ has taken a direct hit in recent months, ‘ambition’ is surely a very different instinct. By creating something out of nothing in uncertain and often harsh environments, driven risk-takers will play a critical role in turning the corner towards recovery in the UK economy.

Alysoun Stewart
Head of Entrepreneurial Advisory, Grant Thornton UK LLP

Executive summary

Grant Thornton's Entrepreneur Insight Survey seeks to understand the perceptions, motivation and intentions of entrepreneurial businesses in the UK (between £5 million and £150 million turnover). The survey of 751 founders and owners was undertaken during a time of the greatest turbulence in the financial sector seen post-war.

- 1 In the eye of the storm:** during the interview period, we witnessed the demise of Lehman Brothers, the biggest one-day fall in share prices on Wall Street in the post-war period, uncertainties around the future of major UK high street banks and the nationalisation of the Bradford and Bingley building society. Although the founders and owners interviewed for this survey were positive about their own resilience, they were clearly realistic, indeed concerned, about the challenges from the wider economy. Close to 7 in 10 expect the economic climate to worsen, leading to widely held concerns about profitability and cashflow management going forward. Three-quarters of respondents said that their business was putting “fair” or “a great deal” of pressure on their personal lives, and close to half felt that their influence over business performance had been diminished in the current climate.
- 2 Sticking power:** despite the gathering storm, 70% said that they were “totally committed, come what may”, which is testament to the sticking power of entrepreneurs. Furthermore, 78% are just as ambitious or more ambitious for their company than they were six months ago. Most owners felt a significant responsibility for the future of their employees, including 68% that felt “very responsible”. Respondents felt that the quality of staff was their single biggest asset, and nearly 6 in 10 felt their employees were “very loyal”.
- 3 Business as usual?:** entrepreneurs are simply ‘getting on with it’ and report that the big decisions on the agenda are centred on building sales and brand in the interests of maintaining competitive advantage, cashflow and profitability. The determination to invest in people and a more sustainable future is quite clear. Investments in recruitment, training, marketing and PR are still widely planned for the next 12 months, partly on the assumption that they will generate ‘more bang for their buck’ in a downturn, leading ultimately to greater competitive advantage.
- 4 Facing the challenge head on:** there is room for some guarded optimism. Despite the realism of responses to the survey, overall, the Grant Thornton Entrepreneur Insight Index yields a modestly positive reading of 112 for this first survey (where 100 would be neutral). The psychology of the entrepreneur must be a factor, but it is more likely that the full effects on the real economy of the economic downturn are yet to come through. As margins are squeezed, and with credit tight, it is likely that there will be some lag in the effects of the financial crisis on entrepreneurs’ predictions of immediate growth prospects.

1 In the eye of the storm

“There is a real issue because of the lack of credit for entrepreneurial firms out there. Big deals are increasingly difficult to get through and everyone is affected by the debt crisis in banks. Entrepreneurs will be finding it much tougher to get cash and, because of that, much harder to trade. Expect to see more insolvencies.”

Keith Arundale
Independent Venture Capital Consultant and
member of the 'Director' magazine Entrepreneurs Panel

This first Grant Thornton survey of the founders and owners of the UK's entrepreneurial businesses is set against a background of economic and financial turmoil. Share prices have plummeted following the collapse of Lehman Brothers and the 'bursting' of a debt 'bubble' that has been expanding for the last 15 years. In turn, this has spun a web of interdependencies between banks, investors and businesses across the world unlike anything seen in any other era of economic activity.

We have yet to understand fully exactly how the financial services crisis will affect the entrepreneurial companies which are the backbone of British industry. However, the first quarter of negative economic growth heralds a period of downturn that will be exacerbated by the lack of credit available to households and to businesses.

For entrepreneurs, founders and owners of businesses, the main challenges will be twofold: first, continuing to maintain cashflow and profitability against a background of weak consumer demand and general economic uncertainty; second, to enable expansion and growth by raising finance and investment. The downturn in confidence in financial markets makes this latter aspect seem particularly severe since it will affect the availability of credit to firms and will affect investor exit routes. We have already seen a major decline in the initial public offerings (IPO) markets in the UK and the US and the shortage of debt will only be alleviated once banks start to lend to one another again.

The survey was conducted during some of the most severe weeks of the financial turbulence (18 August – 30 September) and reflects the opinions of the respondents at that point. Responses are remarkable for their consistency across sectors, regions and turnover brackets.

68% expect the economic climate to worsen over the next six months

1 In the eye of the storm

Key events during research period

22 August – ONS announces UK economy is at a standstill

30 August – Alistair Darling warns the economy faces its worst crisis in 60 years and that the downturn would be “profound and long lasting”

2 September – HM Treasury announces a rise in stamp duty exemption to £175,000 for one year

2 September – OECD announces that the UK will be in recession by the end of the next two quarters

5 September – The FTSE sees its sharpest weekly fall since 2002

7 September – US mortgage lenders, Fannie Mae and Freddie Mac are bailed out by the US Government

15 September – Lehman Brothers files for Chapter 11 bankruptcy protection

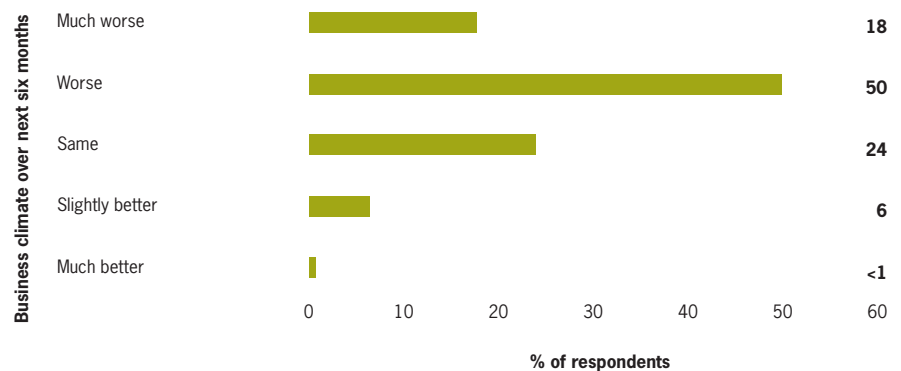
17 September – The US Federal Reserve announces an \$85 billion rescue package for insurers, AIG

18 September – Lloyds TSB announces that it is to merge with HBOS in what was seen to be a rescue takeover

25 September – Washington Mutual becomes the largest US bank to fail as it is closed down and sold to JPMorgan Chase

29 September – Bradford & Bingley is nationalised

Exhibit 1 – Views on economic prospects over the next six months



Economic storm set to deepen

UK founders and businesses are ‘in the eye of the storm’ and clearly see the economic context as deteriorating:

- 68% of them expect the economic climate to worsen over the next six months, but, interestingly, do not see the threats coming from abroad
- 48% of those interviewed felt that globalisation and internationalisation would present the same threat as now, while 23% reported that it would be slightly or much less of a threat.

Founders and owners are realistic about the economic environment they find themselves in and know that it will affect them and their companies. The recession will impact on entrepreneurs in different ways, depending upon a number of factors including the extent to which their business is leveraged. Those with high levels of debt, for example, are likely to suffer more from the current financial crisis than those who have grown organically.

“Grant Thornton has expressed a concern for some months now about the effect that the restrictions in mortgage lending will have upon the availability of capital to support the survival and development of entrepreneurial business.”

Alysoun Stewart

Head of Entrepreneurial Advisory, Grant Thornton UK LLP

Of particular concern to some of the smaller companies in the survey might be the decline in the housing market and constraints on credit facilities, since capital invested in entrepreneurial businesses frequently comes from borrowing against the home in the first instance.

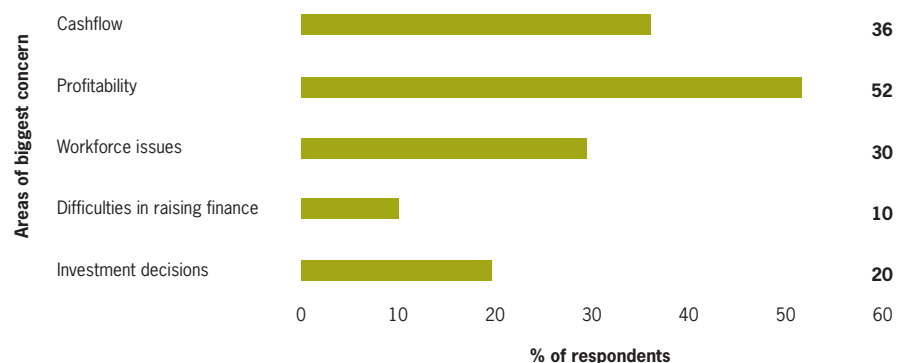
This is reinforced by the survey:

- 75% of respondents said that their business was putting “fair” or a “great deal” of pressure on their personal lives
- 49% of respondents said that the current climate was affecting their business “slightly” or “very” negatively
- 23% were not performing as well as they had expected
- 49% felt that their capacity to influence business performance had been removed to some degree by the economic conditions.

Profit concerns

Irrespective of sector, region or turnover, cashflow (36%) and profitability (52%) were reported as the most important immediate concerns for entrepreneurs. Of the 30% that answered that workforce issues were important, some 12% said that recruitment difficulties emanating from a lack of skills were keeping them awake at night.

Exhibit 2 – Respondents' key concerns for their business at the moment



Longer-term growth and sustainability will rely on robust cashflows, effective recruitment, and access to growth finance or investment will clearly present a challenge as times get tougher.

Some 89% of respondents are expecting cashflow management to get worse or stay the same, 42% are expecting the capacity to raise finance to get harder and 33% the ability to attract investment harder. Evident from Exhibit 3 is that conditions around the financial side of business growth and sustainability are likely to get harder.

Although recruitment looks as though it might become easier, this could well be because of more availability in the labour market of skilled workers – potentially from larger numbers of workers being made redundant.

The worsening climate is obviously worrying UK business founders and owners. Every day, stories are emerging that banks are reining in loans and re-pricing overdrafts. It is much more difficult to get loans based on cashflow forecasts, and the fact that big deals are not happening reinforces the idea that investors and lenders are at best cautious and at worst not investing at all. This is having an effect on liquidity and although there may be start-up finance in the form of angel investments, growth capital for businesses in the £3 million – £7 million turnover range is difficult to source.

Exhibit 3 – Perspective on long-term sustainability and growth environment

	Much harder	Slightly harder	Same	Easier	Much easier
Ease of recruitment	5	10	26	35	20
Cashflow management	15	29	45	9	1
Capacity to raise growth finance	14	28	27	8	3
Ability to attract investment	11	22	21	6	2

Summary

Although the founders and owners interviewed for this survey were positive about their own resilience, they were clearly realistic, indeed concerned, about the challenges from the wider economy. While there does appear to be a lag effect, there are fundamental concerns about profitability and cashflow management.

One entrepreneur reported that cashflow would be key in getting the entrepreneurial segment of the UK economy through the next 18 months: “Everything is tighter now and people are really chasing for invoice payments. You have no option but to do the same.”

“The banks are less willing to lend and there is strong evidence that they are re-pricing debt and introducing more robust covenants. All of this points to a current funding environment which is very poor for business. As yet it is unclear whether this reality has really bitten or whether government intervention will free up the market.”

David Brooks
Head of M&A, Grant Thornton



2 Sticking power

7 out of 10 founders and owners remain “Totally committed, come what may”

“Entrepreneurs are so positive. Their spirits are incredibly positive and confident: the bulldog spirit is alive and well, especially at the moment. It’s hard not to see the environment for entrepreneurs and investors as exciting.”

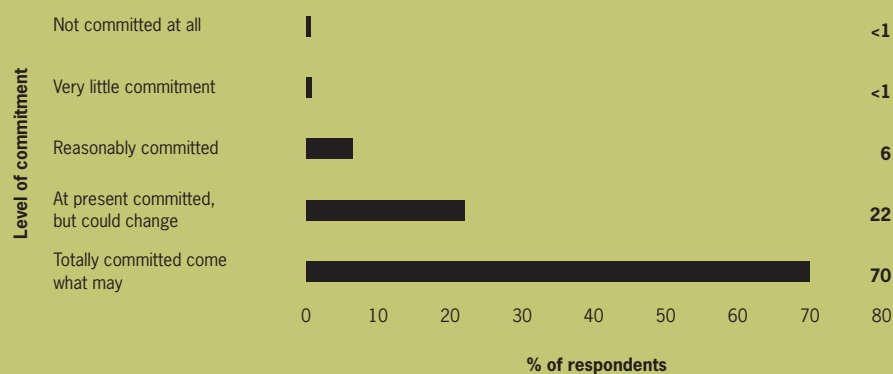
Bill Morrow
CEO, Angels’ Den and member of the ‘Director’ magazine
Entrepreneurs Panel

The management values of founders and owners reinforce the belief that Britain’s small and medium sized businesses are geared to future sustainability rather than towards the shorter-term challenges of dealing with the current economic climate.

In the face of the current economic storm, it appears entrepreneurs only harden their ambition and strengthen their resolve to tough it out: close to 7 out of 10 founders and owners remain “totally committed, come what may”, while more than three-quarters reported being either as, or more, ambitious for their business than they were six months ago.

Of course, this is partly because entrepreneurs are inherently positive people with a great desire to create personal wealth and make a difference. Quite apart from the economic context, entrepreneurs will see opportunities in any situation and work to achieve their long-term vision for their firm. This is the dominant psychology of the entrepreneur.

Exhibit 4 – Respondents’ level of commitment to their business



2 Sticking power

Making their mark

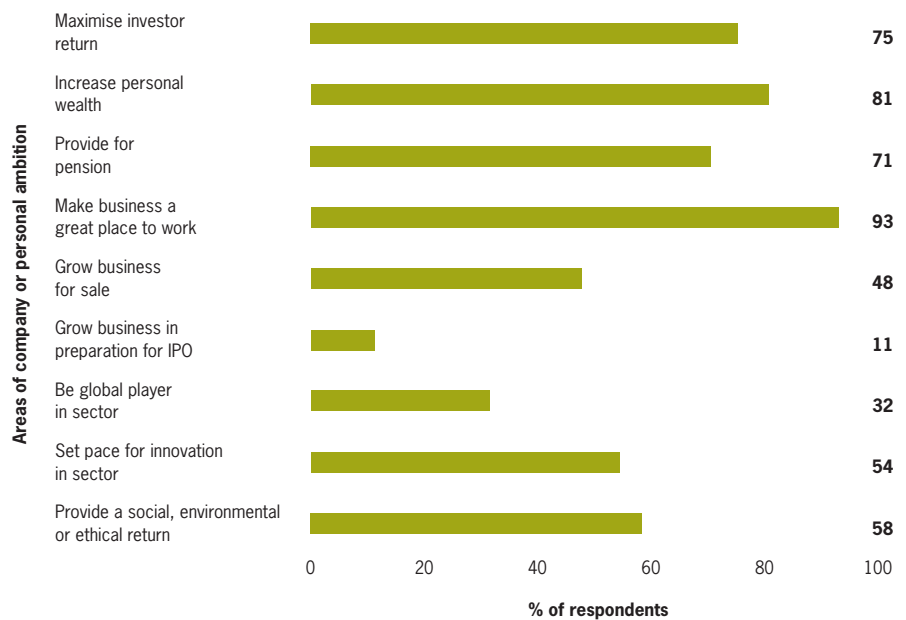
Major ambitions that respondents to the survey had for themselves were to provide return for their investors (75%), to increase their personal wealth (81%) and to provide for their own pensions in the future (71%). These were dominant personal goals, irrespective of size of firm, region or sector.

However, it was the ‘softer’ aspects of creating a sustainable business that were the key drivers and motivations for the firm. Some 93% of respondents wanted to make their business a great place to work, 32% wanted to be a global player in their sector, 54% to set the pace for innovation in their sector and 58% to provide a social, environmental or ethical return on investment (Exhibit 5).

“Entrepreneurs are driven by the desire to create personal wealth and by the desire to leave a legacy – the ‘great place to work’, the making a mark on the global stage and the reputation for innovation are all part of the latter. They have egos and self-belief. Their motivation to start the business will have been to make money and create wealth for themselves, fuelled by a belief in their ability to succeed. The business is very personal to them – think of it like a parent/child relationship.”

Alysoun Stewart
Head of Entrepreneurial Advisory, Grant Thornton UK LLP

Exhibit 5 – Major ambitions for founder/owner and their business



Exit aspirations

Although nearly 48% of companies were preparing for sale at some point, there were some important sectoral differences. For example, respondents were more likely to answer positively to this question in the healthcare (58%) and media and technology (64%) sectors, which are both undergoing significant consolidation at the moment. Media and technology firms were also significantly more likely than those in any other sector to be preparing their company for IPO (18%).

In reality, many entrepreneurs will have conceded that there are few alternatives but to crack on, as exit aspirations may have been re-evaluated in the current climate. Our latest analysis of mergers and acquisitions in the mid-market suggests that activity is at its lowest level for 15 years; a direct result of the lack of available debt funding and the gap between the valuations of vendors and what the market is willing to pay.

Private equity investors are increasingly adopting a 'wait and see' approach, as they hold tight for better economic conditions to realise more attractive returns. And a significant relaxation in the lending environment and improved investor confidence will be needed to see more private companies listing on growth markets such as AIM.

However, acquisition opportunities continue to exist for strong propositions, and there is no shortage of strong corporates keeping an eye out for bargains. There will also be entrepreneurs that are looking for quick exits rather than trading through a more difficult economic period. But many entrepreneurs are adopting a pragmatic approach and are getting on with the job of retaining and building value in their businesses.

"There is a notable 'flight to quality' with banks being much more selective about their lending generally and specifically for M&A deals. While some banks will look at good opportunities, it is looking like Q1 2009 or later before credit will start to flow. By then, the gap between vendor expectations and the market should have narrowed further, which should act as a stimulus to levels of deal activity."

Keith Mitchell
National Managing Partner, Corporate Finance,
Grant Thornton



“It is even more important now that the investments made in people are harnessed through appropriate organisation structures, processes and reward mechanisms that align behaviours with the achievement of business strategy.”

Alysoun Stewart

Head of Entrepreneurial Advisory, Grant Thornton UK LLP

People are the greatest asset

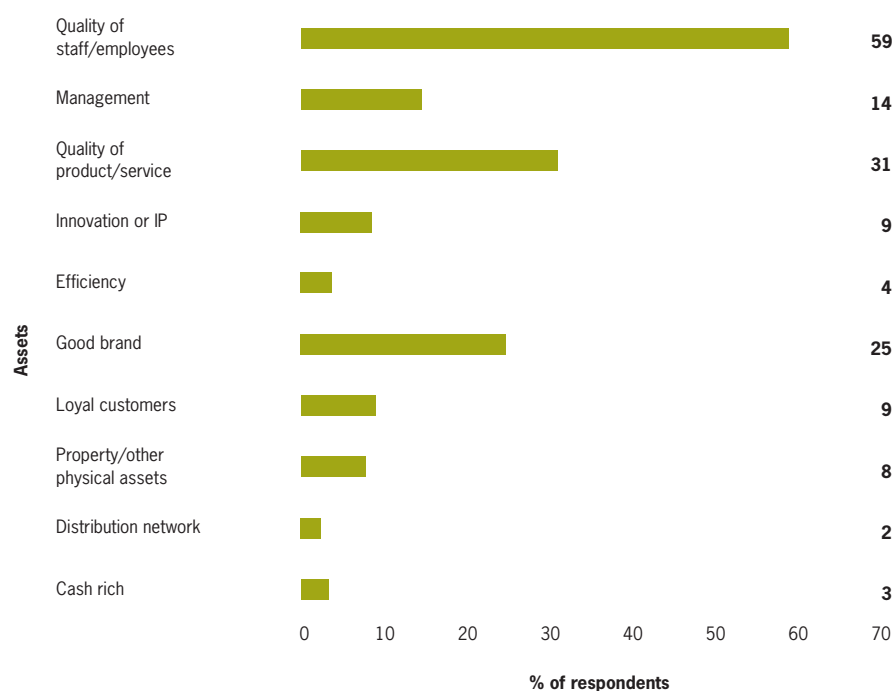
The people within the business and the relationships between them will have a strong bearing on the ability of a business to tough it out: 59% of respondents felt that the quality of staff and employees was their single biggest asset. This was significantly more important than any other area (Exhibit 6) including intellectual property (9%), quality of product (31%) and brand (25%). Over 90% acknowledge that the primary source of competitive advantage is their people.

Most (98%) owners felt a significant level of responsibility for the future of their employees, including 68% that felt “very responsible”. Examining whether this responsibility worked both ways, the research found that 97% of those surveyed felt their staff were loyal, including 57% that viewed their people as “very loyal”. These responses did not differ significantly by sector, region or turnover.

Summary

The determination of UK business founders and owners to invest in their people and long-term future rather than to firefight through an economic downturn is quite clear. Some natural attrition will occur as founders and owners move on or retire, but the fact that 70% said that they would stay with their company “come what may” is testament to the sticking power of this group of people. In the words of one: “When times get tough, you batten down the hatches and make sure you succeed: your ambition strengthens. What other option do you have?”

Exhibit 6 – Biggest single asset possessed by company



3 Business as usual?

Building sales and brand is the biggest decision on the agenda

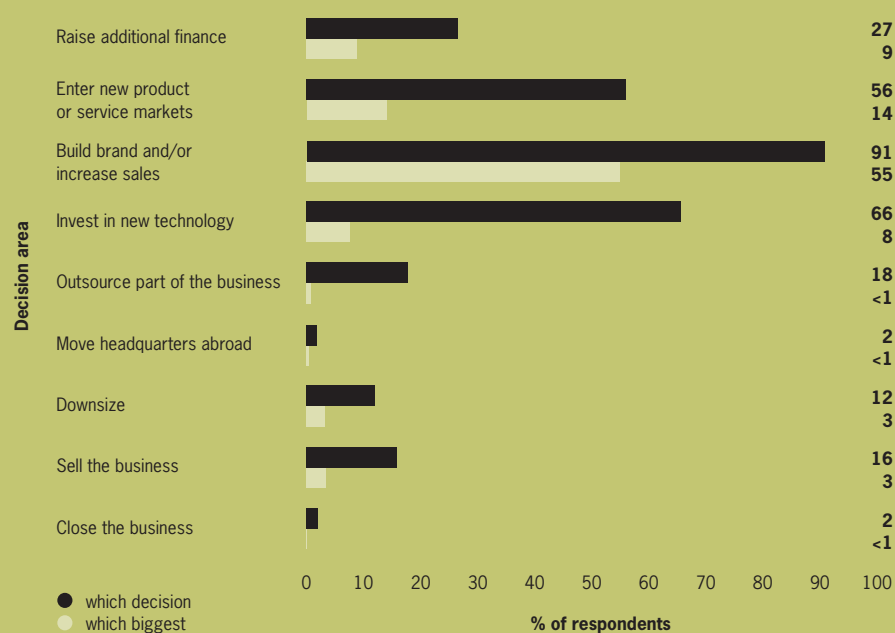
“Every £1 that I spend now is worth £2 being spent in the good times in terms of the competitive advantage it gives us. If everyone is cutting back and we are increasing our investment (of course the assumption is that I am investing in the right stuff) then it stands to reason that this is the case. The financial benefit will be at its highest when the market turns up again and we will have the capacity and technology to respond quickest.”

Simon Bittcliffe
 Founder and CEO, Webmart and member of the 'Director' magazine Entrepreneurs Panel

Clearly the climate is having an impact on the decisions that companies are making, and the big decisions facing founders and owners of entrepreneurial companies are predominantly centred on ensuring the future sustainability of the business. Perhaps surprisingly, a comparatively small percentage (27%) were concerned about raising finance (of whom 9% said that it was their biggest concern). Although this number seems low, Grant Thornton believes that it could become a much more prominent issue for entrepreneurs if the wheels of finance slow any further.

The dominant set of decisions, however, appeared to be around building brand or sales: nearly 91% responded that this was a business decision currently being faced and 55% said it was their biggest decision at present (Exhibit 7). This is a logical response to the current situation, as sustaining and growing the business will be dependent upon increasing market share in difficult trading conditions. Raising finance will only be a concern to those for whom it is a necessity. Brand strength is a key source of competitive advantage as well as a major value driver in the business.

Exhibit 7 – Key decisions currently faced and single biggest decisions



“It’s clear that for many entrepreneurs, the challenge of effective brand development is elusive, yet a well developed brand proposition drives margin as well as sales.”

Steve Everhard
 Director, Entrepreneurial Advisory, Grant Thornton

Entrepreneurs are problem-solvers and fixers. The majority (99%) of respondents felt that they were “very well” or “well equipped” to make these decisions, reinforcing the fact that the entrepreneurial spirit is alive and well amongst the sample. Their personal characteristics mean that they will find a way through any situation with varying degrees of bullishness.

One commented: “A lot will depend on levels of debt at the moment. If you have no debt, you will be optimistic and see opportunities. We have no debt – so we are really confident in our capacity to make decisions.”

“This finding flies in the face of much of our anecdotal knowledge. The businesses we are talking to are actually struggling to know which are the right decisions to take at the moment. The reality is that in such a volatile and uncertain trading climate the focus has to be on making the best decisions possible with the information available now, and having the flexibility to adjust as circumstances change, rather than trying to seek out the ‘right answer’, which may or may not exist.”

Alysoun Stewart
 Head of Entrepreneurial Advisory, Grant Thornton UK LLP

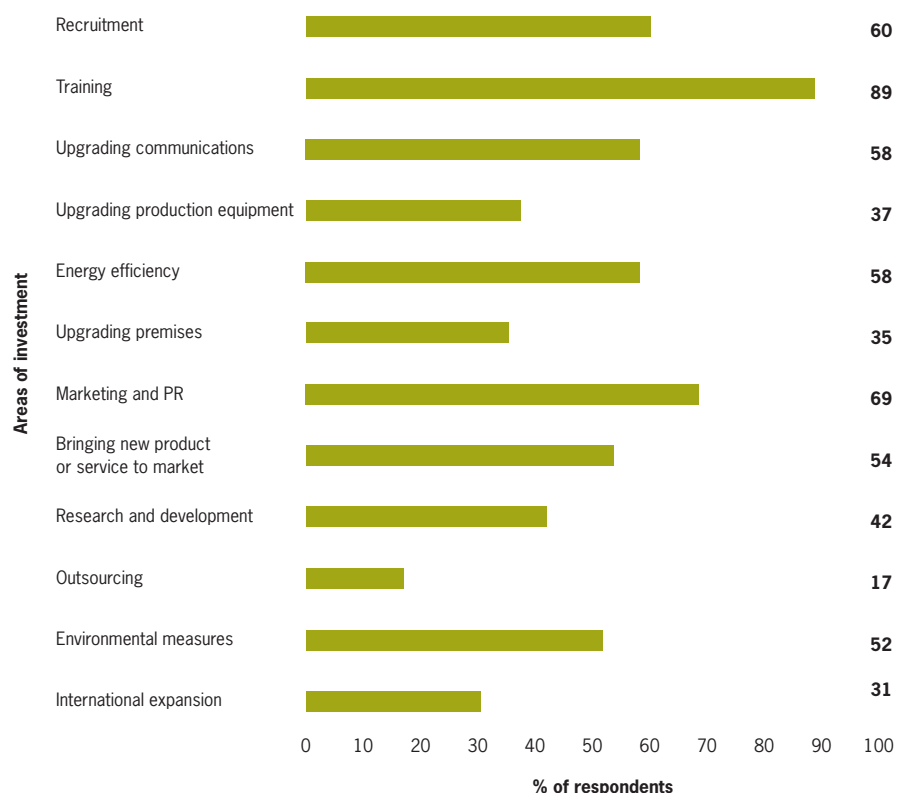
Investing in people

Recruitment, training and marketing and PR are widely planned areas of investment for respondents over the next 12 months (Exhibit 8). Some 89% were expecting to invest in training, 60% in recruitment, reflecting the pre-eminent importance to these businesses of quality people, and 69% in marketing and PR to support the decisions to build sales and brand. Energy efficiency (58%) and

environmental measures (nearly 52%) were also important, and some capital expenditure of this type can benefit from significant tax relief.

It is interesting that marketing and PR, often considered to be discretionary spend, should remain high on the agenda – but this is entirely consistent with the strategic focus on brand and sales and the need to increase market share at the expense of competitors.

Exhibit 8 – Investment areas over the next 12 months



“This is a good environment to snap the right people up, as long as they fit the longer-term strategy. One MD I have spoken to recently said that he felt he was paying a 30% discount to the market value on key recruits.”

Steve Everhard

Director, Entrepreneurial Advisory, Grant Thornton

These findings reflect entrepreneurial caution in terms of where they make their investments – quality people are important in any business, but the success of an entrepreneurial business necessarily relies on a far smaller body of people and therefore weak links will have a commensurately greater impact.

As one entrepreneur argued: “People are vital to any business and people with the right skills are easier to get hold of and priced more reasonably than before. If you have cash, which is really the only thing that works, you can reward them well.”

The sector with the strongest investment patterns was media and technology. Respondents in this sector were more likely to say that they were investing in:

- training (93%)
- marketing and PR (86%)
- new products and services (80%)
- recruitment (79%)
- research and development (63%)
- international expansion (46%)
- outsourcing (28%).

Manufacturing companies were also strongly investing in training (91%), environmental measures (60%) and international expansion (45%).

The property and construction sector respondents were more likely to be investing in environmental measures than any other sector (68%).

Exhibit 9 – How prices, costs and market share will change over the next six months

	Substantial decrease	Slight decrease	Same	Slight increase	Substantial increase
Prices	3	16	46	27	6
Costs	3	10	25	46	14
Market share	2	9	46	34	6

Rising costs

Costs are predicted to rise either slightly (46%) or substantially (14%), but these increases in costs are not expected to be passed on to the consumer in the form of higher prices, with only 27% expecting a slight increase and 6% expecting a substantial increase. A likely effect of this, of course, will be to squeeze profit margins while these pressures are working through and, as the respondents were confident about market share, it even suggests that some aggressive pricing strategies are being planned to maintain sales volumes.

Summary

The survey results give little reason to suggest that the owners and founders of small businesses are changing their ambitions or investment patterns in the light of the current economic crisis. The founders’ concerns and decisions are centred around building sales in the interests of maintaining cashflow and profitability, while investment patterns appear to be focused on long-term sustainability rather than short-term firefighting.

As one entrepreneur said: “We have to be geared to the long term: it’s exciting and it’s the only way of ensuring our survival!” This is a reflection of the extent to which personal and business agendas and aspirations are inextricably bound together in entrepreneurial businesses – entrepreneurs have to be geared to the long term because of the level of their own emotional and financial capital tied up in the business – there is no escape hatch.



Pictured: **Steve Everhard**

4 Facing the challenge head on

The full effects on the real economy of the economic downturn are yet to be felt

Rather like the novice skier at the top of a black run, UK business stands at the top of a slippery and steep downward slope with an uncertain end point. Our respondents were concerned, but realistic about the downward pressures that have gripped the UK, and global, economy over the past few months. Their margins will be squeezed and their cashflow management key to ensuring their survival.

But like the skier, the only way of getting safely down to the bottom of the black run is to focus ahead, to lean into the skis and to see the end point rather than the pitfalls along the way. Encouragingly, the UK's business founders and owners are still prioritising the development of their workforces through investments in recruitment and training.

Many of the responses covered above are likely to be cyclical and influenced by the current economic climate. By tracking responses every six months, Grant Thornton will be able to monitor the effects of economic upturns and downturns in the UK and beyond and, potentially, predict where major changes in prices, costs, workforce size and financial climate are likely to emerge. To do this effectively, an index has been constructed to measure this over time.

The overall value of the Grant Thornton Entrepreneur Insight Index (GTEII) for the whole of the UK is 112, which suggests that the founders and owners of entrepreneurial businesses in the UK during August and September 2008 were actually modestly positive about the economy and its net effects on their business:

- There are no significant differences in the index by turnover
- Experience seems to have a significant and positive effect on confidence: the GTEII for those who had not set up a business was 111 but for those who had was 114
- Food (114), media and technology (114), professional practices (114) and freight, transport and logistics (118) were the most positive sectors
- Property and construction (107) and healthcare (108) were the least positive sectors
- Respondents in the East Midlands were significantly more confident (123) compared to respondents in Bristol (107), East Anglia (106) and Scotland (109)
- Confidence about longer-term growth and sustainability was significantly higher than other UK regions in Leeds, London and the south-east and the East Midlands. Bristol and East Anglia were the regions with the least confidence about longer-term growth and sustainability
- There were no significant differences in either the longer-term growth and competitiveness or general confidence indices by sector, turnover or experience

Given the ‘entrepreneurial psychology’ referred to in this report, it is not surprising that the index is modestly positive, even in the current climate. In the words of one entrepreneur: “Everyone wants a deal at the moment: people will make a lot of money in the current climate. It’s a good time to be talking to people and a good time to seize opportunities.” While there is less money around, and while conditions are tighter, it is still possible to access growth finance, but investors are more likely to ‘wait and see’ before they make a decision. A noticeable feature of the landscape at present is the focus on high quality deals; against this background it is reassuring that the entrepreneurs in this survey were looking to build value rather than build debt.

Even so, the full effects on the real economy of the economic downturn are yet to be felt, and historic patterns suggest that it will be next year when the impact really bites. Margins are being squeezed now and credit is tight, but there is some lag in the effects of the financial crisis. There is some suggestion

that this could be ameliorated if the government were to take action to stimulate interbank lending and reduce red tape in entrepreneurial businesses. More than 70% of the respondents felt that restoring the taper on capital gains tax (CGT) relief would ease the situation and 54% were in favour of improving conditions around the government’s Small Firms Loan Guarantee Scheme to make it more widely accessible. Three-quarters (75%) thought the government should streamline business support.

But as recession takes its grip, this will have an inevitable impact on the entrepreneurial businesses of the UK, and where current plans to shed workers or reduce investment may be limited, this will change as credit dries up and demand conditions worsen. For now, however, the entrepreneurial spirit appears to be undampened by the expectation of recession, but this may be as much to do with the characteristics of entrepreneurs as with the economic climate.

“I do think that it is important to draw a distinction between ‘ambition’ and ‘confidence’. There is no shortage of ambition: that is what characterises an entrepreneur – that drive, that belief and passion for what they are doing and that determination to reap the benefits of the investment that they’ve made. But this sits alongside real anxiety about the impact of the economic downturn and about the challenges of the uncertainties in the market.”

Alysoun Stewart

Head of Entrepreneurial Advisory, Grant Thornton UK LLP



Appendix

Survey method

A telephone survey of 751 founders and owners of small and medium sized businesses was conducted between 18 August and 30 September.

Over a quarter of the 751 founders and owners interviewed (28%) had set up a business before. Of these 35% had set up one business and 52% had set up more than one business, while 40% owned part of their previous business.

Just over 20% of the sample was of companies with turnovers of £5 million but less than £10 million. 34% were from companies of £10 million but less than £26 million; 20% were of companies with turnovers of between £26 million and £50.99 million; 11% of companies between £51 million and £100.99 million with the remainder (13%) between £101 million and £150 million. 95% were private limited companies and 4% partnerships.

Quotas were applied sectorally and regionally, but the final results were weighted to provide an accurate picture of the UK as a whole.

Index methodology

Questions were asked in three distinct groups:

- Economic and business conditions compared to six months ago (impact of economic environment on business decisions, predictions of changes in the economic health of the country over the next twelve months)
- Business decisions and performance compared to six months ago (prices, costs, sales, market share, turnover and size of workforce)
- Longer-term business growth and sustainability (ease of recruitment, cashflow management, capacity to raise external growth finance and ability to attract investment)

For each of these groups, respondents were asked to rank their responses on a scale of 1–5 (Likert Scale). This created a mean response for the questions in each group. The two broad business decisions groups were added together and based to 100 to create a ‘total business confidence’ index. The economic group of questions was also based to 100 to create an economic index. These two indices were added together to create the overall Grant Thornton Entrepreneur Insight Index (GTEII) (also based to 100, where 100 is entirely neutral – ie no business or economic effects).

The Grant Thornton Entrepreneur Insight Survey was conducted by Delta Economics and IFF Research.

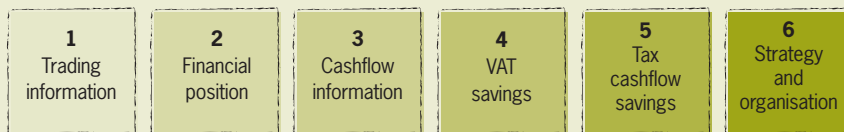
Contacts

Further information

'Back to basics' business appraisal

As the economy enters a period of uncertainty and likely recession, it is clear from the results of this survey that entrepreneurial businesses need to be on top of their trading and financial positions.

By investigating the areas outlined below, we can begin to understand the needs and risks of the business, with a view to helping you through these turbulent times.



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