



**MOORE**

# ONWARDS AND UPWARDS: COULD DIGITAL TRANSFORMATION BE KEY TO RECOVERY?

The Owner Managed Business view in April 2022





# ONWARDS AND UPWARDS: COULD DIGITAL TRANSFORMATION BE THE KEY TO RECOVERY?

## THE BUSINESS OUTLOOK ON THE YEAR AHEAD

**Every quarter, 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 April 2022 looks at these consistent measures and new issues affecting UK businesses today.**

“Our latest Owner Managed Business (OMB) survey shows that although the proportion of businesses saying they are highly confident in the overall outlook has more than doubled over the past 12 months, business owners are not out of the woods yet. For many, it feels a bit like a case of ‘out of the frying pan into the fire’. Still recovering from COVID, the UK now faces rising costs, inflation, the fallout from Brexit and the war in Ukraine. With 9 out of 10 businesses believing that rising costs will affect profitability this year, business owners are turning their attention to ways they can reduce operating costs and become more efficient.

“With businesses focused on both survival and success this year, business owners are looking to digital solutions to offset rising business costs. More than 9 out of 10 OMB’s (91%) say they are planning some form of digital transformation in the next two years, with time and cost savings and increased flexibility seen as the primary benefits.

“Recruitment remains a major challenge for businesses, but there are some early signs things may be beginning to improve in this area. After what has been an explosive 12 months for the

recruitment market, we may be starting to see some stabilisation with fewer businesses saying they’ve increased their workforce over the past three months (29% compared to 38% in November 2021).

However, with 4 in 10 businesses planning to expand their workforce over the next three months, and more than half of businesses (53%) saying that recruitment has become noticeably more difficult, securing quality candidates in such a competitive market remains difficult.

“Despite the difficulties they face on the road ahead, this survey shows a clear picture of the increasing confidence among UK business owners. While it is likely to continue being an unpredictable year as businesses face the backlash of global issues, time and investment into digital solutions will be paramount for success.”

**Maureen Penfold, Chair of Moore UK**

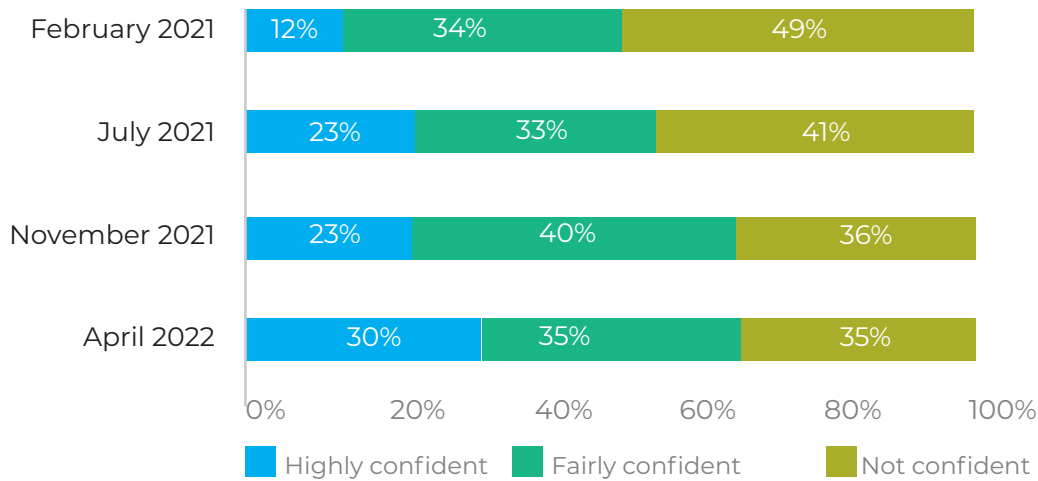


To gather the data for this report we surveyed 517 businesses with turnover between £85k and £30m and in April 2022. Businesses were selected from across all sectors throughout the UK and in proportion regionally in line with ONS statistics for VAT registered and PAYE companies under 249 employees.

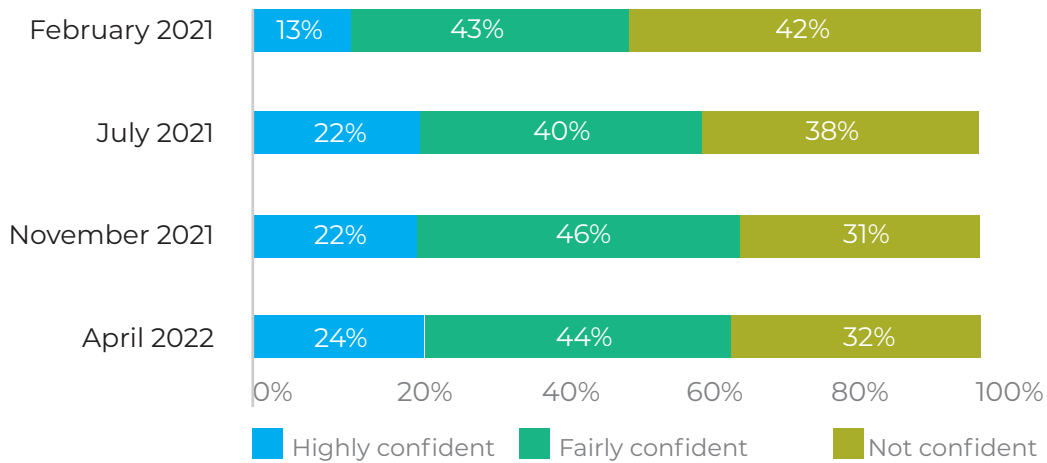
# BUSINESS CONFIDENCE DOUBLES IN 12 MONTHS

The positive news is that the proportion of businesses saying they are highly confident about the general outlook has more than doubled in the past 12 months with 30% of OMBs saying they are highly confident in April 2022 compared to just 13% in February 2021. But although an increasing number of business owners are confident in their recovery, more than a third of businesses (35%) remain pessimistic about the general outlook for the coming year.

## Confidence in general outlook



## Confidence in meeting revenue targets



*"I think we'll do pretty well, things are going really well for us."*

# REVENUE GROWTH EXPECTED, BUT LIKELY TO BE AFFECTED BY RISING COSTS

On average, businesses are expecting their revenue to grow by 27% in 2022. Larger businesses (those with turnover above £1m) are anticipating higher levels of growth, (average 30%) with smaller businesses expecting a more modest 24% growth on average. With smaller firms being more susceptible to economic factors, these figures will perhaps come at no surprise.

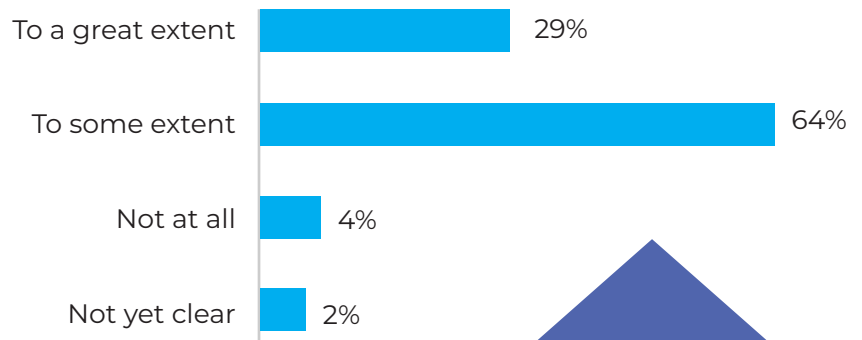
Positively the number of businesses anticipating their revenue to fall in 2022 compared to 2021 has dropped – just 15% of business owners expect revenue to fall this year, compared to 40% of business owners surveyed in February 2021.

## Anticipated revenue change in 2022

|   |      |
|---|------|
| Larger companies (turnover above £1m)   | +30% |
| Smaller businesses (turnover below £1m) | +24% |
| Average                                 | +27% |

However, the picture isn't all rosy. More than 9 out of 10 business owners believe that rising costs will have an impact on their profitability in 2022.

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



*"I would like to think we can move forward even with the difficulties we all face with regard to inflation."*

*"Unfortunately, our aspirations will not be what was previously hoped for. Instead of reaching for our goals, we perceive now we're on a mission to weather the storm of rising costs."*

*"Costs will be rising which we can't pass on to customers, so margins drop."*



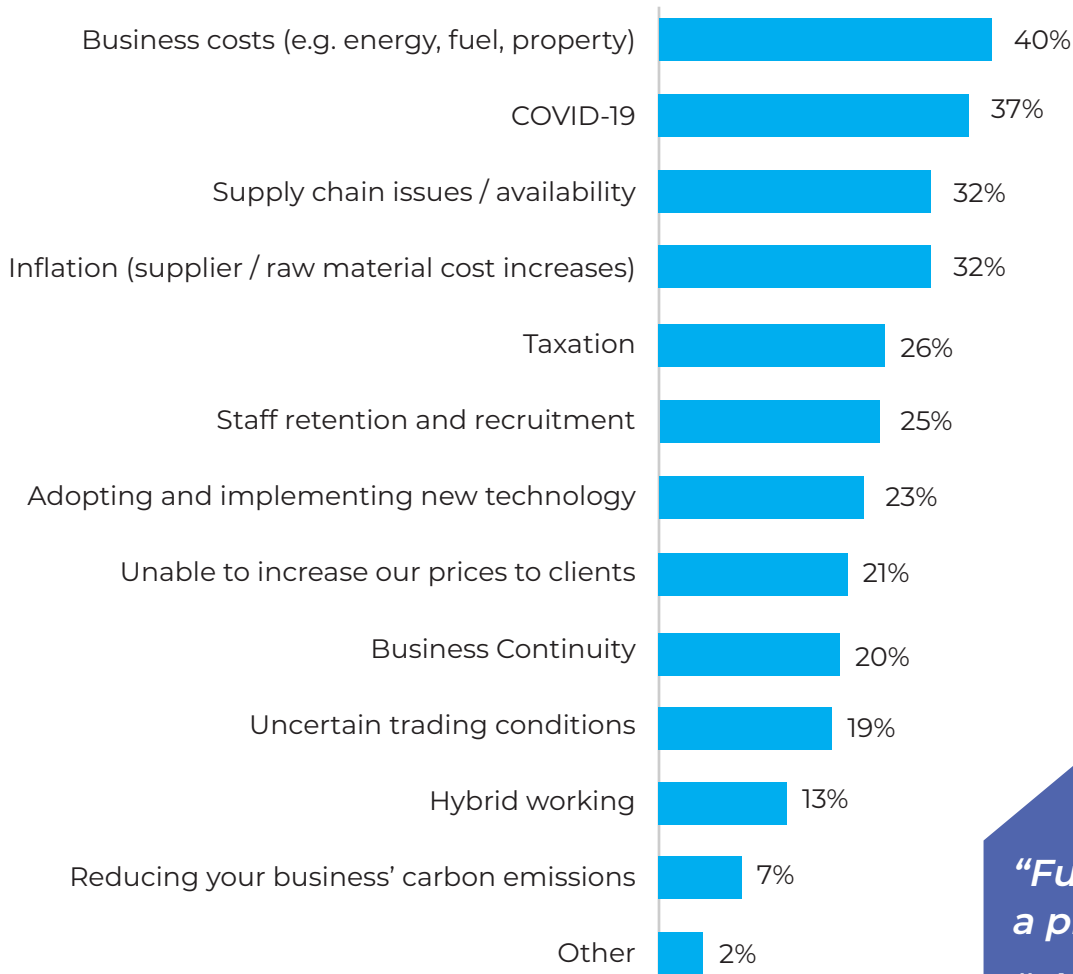
# BUSINESS CHALLENGES IN 2022

Business costs and inflation are high on the agenda this year, with supply chain issues and continued interruptions from COVID continuing to be a challenge.

We asked business owners what they see as the three biggest challenges facing their businesses over the next three months. Unsurprisingly, rising business costs are seen as key challenge for many (40%).

Despite the lifting of all restrictions, the coronavirus pandemic continues to cause problems for UK businesses, with more than a third (37%) citing COVID as a challenge for the next three months.

## What are the biggest challenges for your business over the next three months?



*“Fuel cost is going to be a problem.”*

*“I believe it will not be a very profitable year as the cost of everything has gone up and I will be lucky to break even.”*

*“We will need to reduce overhead expenses to compensate for higher electricity and gas charges.”*

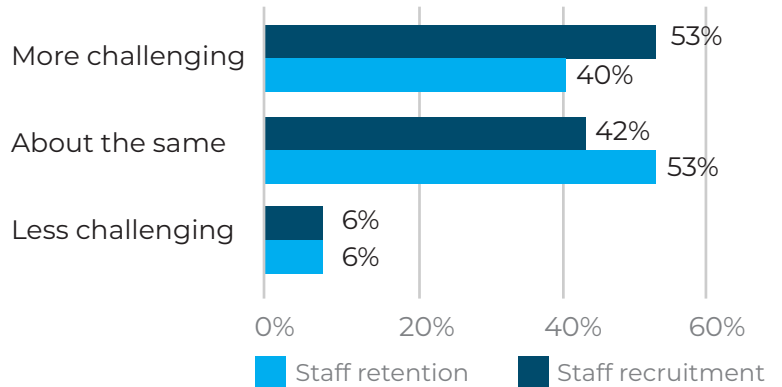


# RECRUITMENT AND RETENTION OF STAFF REMAINS CHALLENGING – PARTICULARLY FOR LARGER BUSINESSES

Hiring and retaining staff has been difficult for many, with more than half of all business owners (53%) noting that recruitment has become more challenging in the past six months.

## Thinking about staff recruitment and retention compared to six months ago, to what level has each become more or less challenging?

Larger businesses, (those with turnover of more than £1m), are finding recruitment is more of a challenge than smaller businesses. Almost six out of 10 larger businesses (59%) said recruitment and retention is more challenging than six months ago compared to 47% of small businesses. A third of larger businesses (30%) said that staff retention and recruitment was a key challenge for the next three months compared to just a fifth (20%) of small businesses.

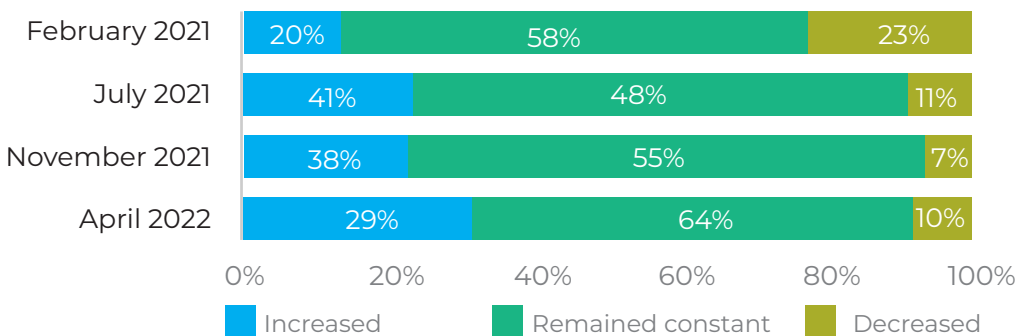


Almost half of large businesses (44%) said they were expecting to increase their workforce in the next three months compared to just over a third (34%) of small businesses. Fewer than 10% of all businesses said they are expecting their workforce to decrease over the next three months.

## Signs of stability on the horizon

There is some indication that the recruitment market is beginning to stabilise, with fewer businesses saying they've increased their workforce over the past three months in the April survey (29%) compared to 38% in November 2021 and 41% in July 2021.

## Over the past three months, has your workforce...



Although these figures could be an early indication that recruitment will be less competitive in the next few months, it's clear that the challenge facing employers is not yet over. In a highly competitive market, businesses will need to put their people first, to stand out as an employer of choice.

*"We're looking to go completely digital and to adopt hybrid working because it's easier to find people who are willing to work from home."*

# DIGITAL TRANSFORMATION

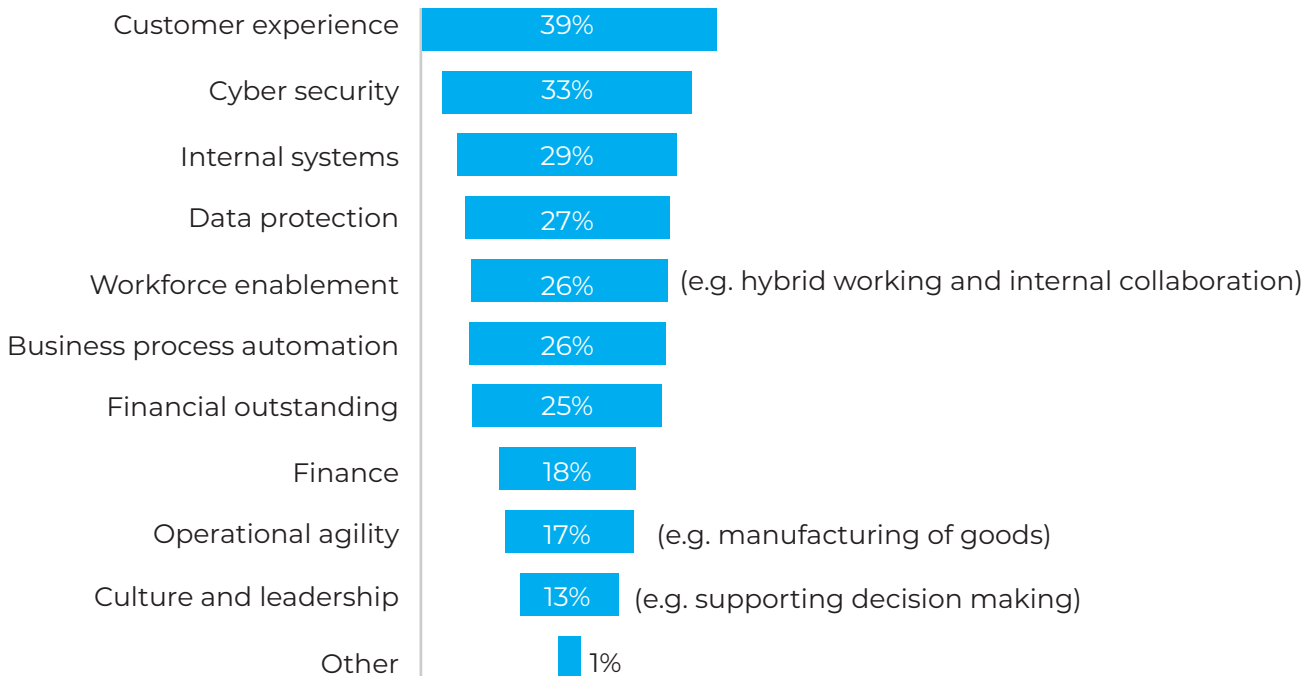
More than nine out of 10 businesses (91%) said they had implemented some form of digital transformation within their business in the past two years, which was likely accelerated by the pandemic and the expansion of remote working.

Improving the customer experience and improving cyber security were the most common areas where businesses had adopted digital solutions. Larger businesses are more likely to have focused on cyber security than small businesses. (39% vs 28% respectively.)

Smaller businesses are less likely to have carried out any form of digital transformation

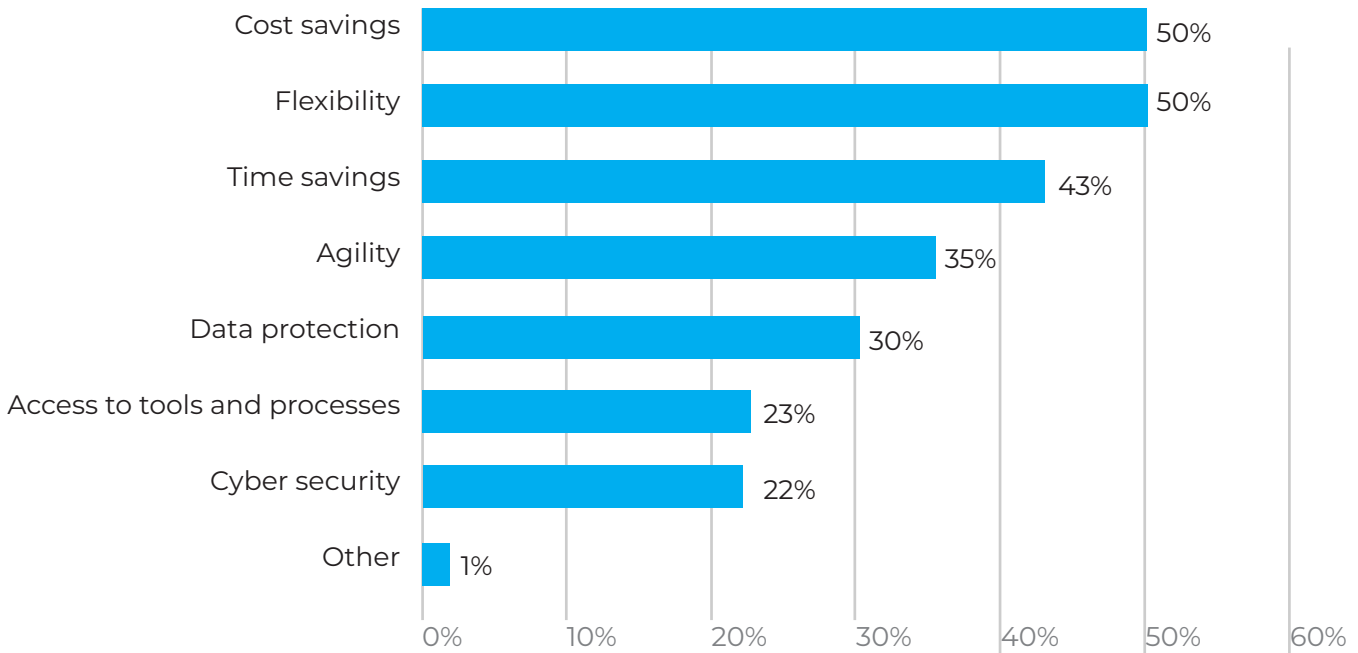
Almost a fifth (16%) of small businesses said they had not implemented any kind of digital transformation in the past two years compared with just 3% of large businesses.

## What areas of your business have you digitally transformed in the last two years?



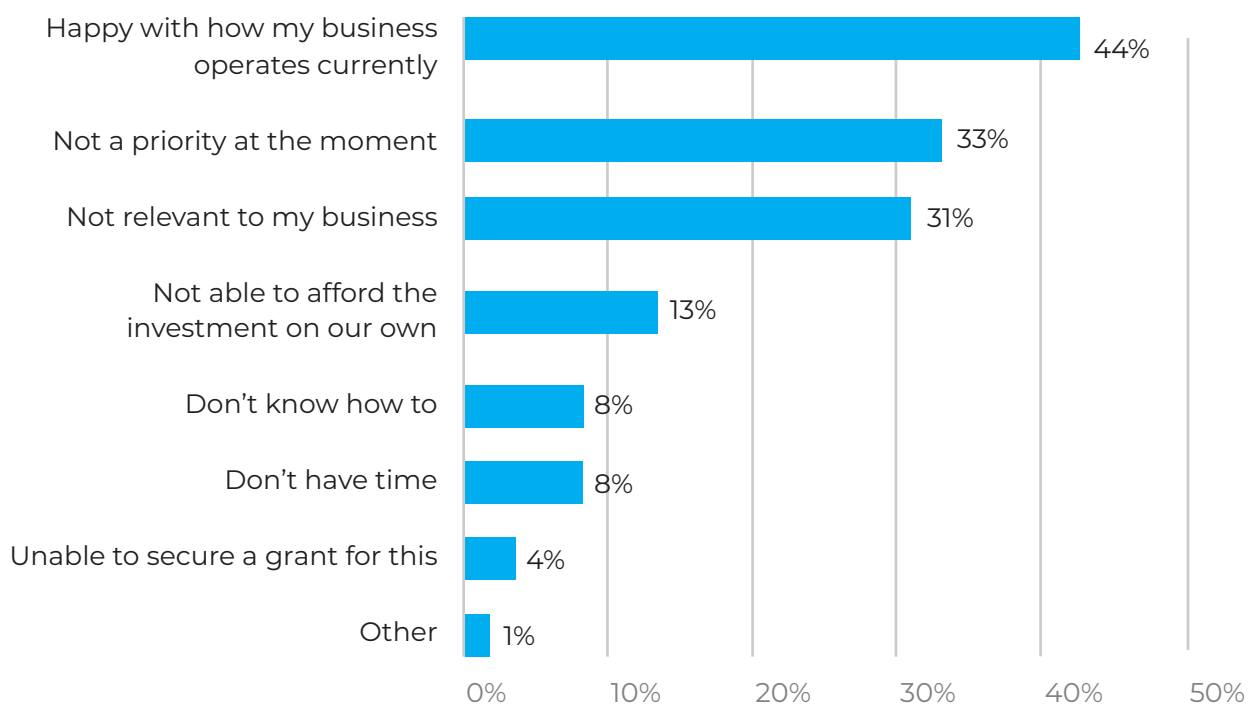
# DIGITAL TRANSFORMATION IS DELIVERING COST SAVINGS AND INCREASED FLEXIBILITY

**What do you see as the key benefits of your digital transformation over the past two years?**



The biggest benefits of digital transformation are cost savings, flexibility and time savings. Those who have not implemented any form of digital transformation over the past two years are almost entirely small businesses (i.e. those with turnover under £1m). The top reason for not acting were 'happy with how my business operates currently' (44%) and 'not a priority at the moment'. Just over a third (31%) said that digital transformation wasn't relevant to their business.

**Which of these are reasons why you have not digitally transformed your business in the past two years?**



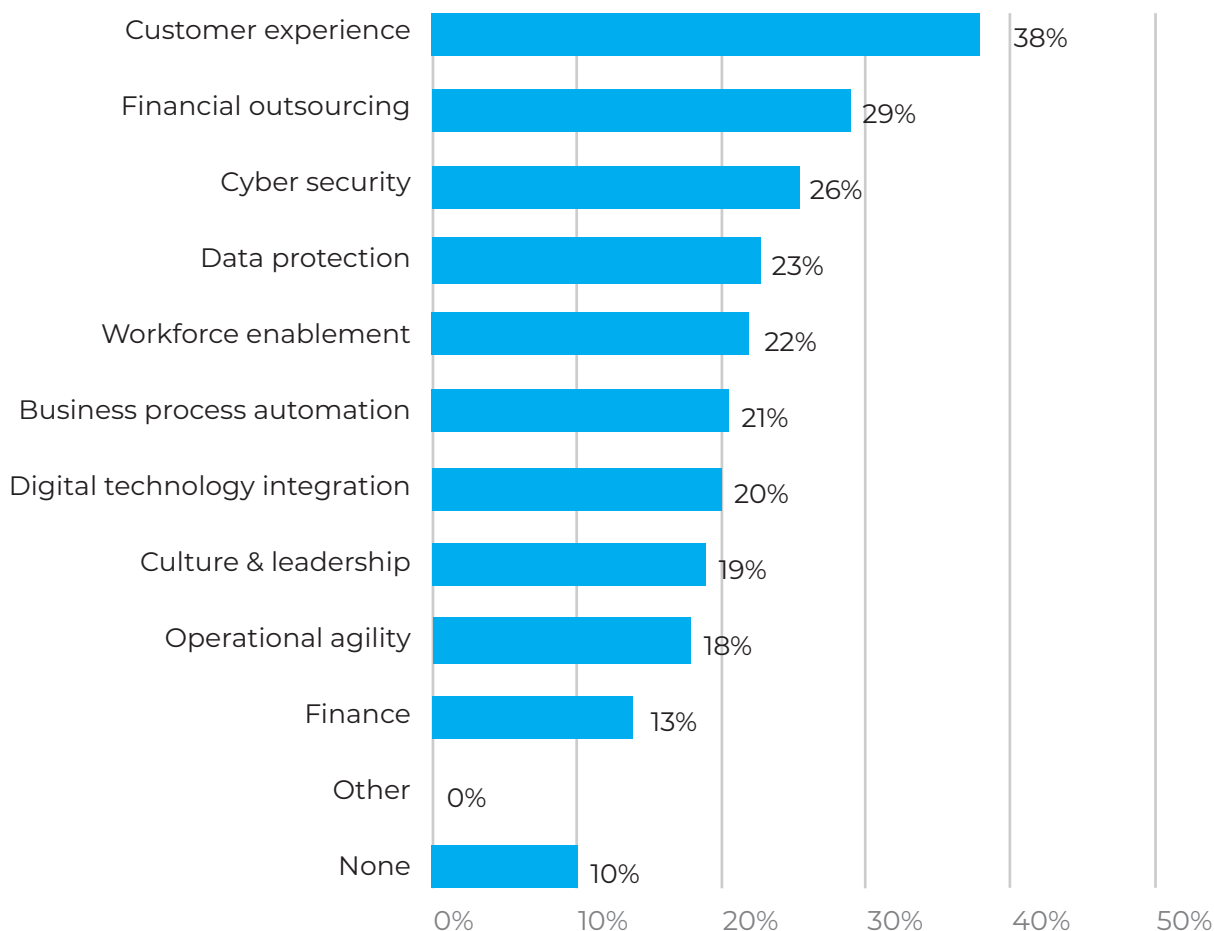


# INVESTMENT IN DIGITAL TECHNOLOGY LIKELY TO BE AT THE FOREFRONT OF BUSINESS SURVIVAL IN 2022

Businesses see digital transformation as an ongoing journey rather than a one-off. 90% of businesses said they planned to carry out some form of digital transformation over the next two years.

Further improving the customer experience and financial outsourcing are the two areas businesses are most likely to be focusing on in future (with 38% and 29% of businesses planning to improve these respectively), followed by improving cyber security (26%) and data protection (23%).

## What areas of your business do you plan to digitally transform or further transform in the next two years?



Only one in 10 business owners are not planning any digital transformation over the next two years. The reasons given for this were varied, ranging from not being able to see a need for it, to not having the necessary funds or resources. Others are planning to retire within the next few years so aren't planning to invest in the business.

Again, smaller businesses (those with turnover below £1m) are less likely to be planning future digital transformation. 13% of small businesses say they have nothing planned in the next two years compared to just 6% of large businesses.

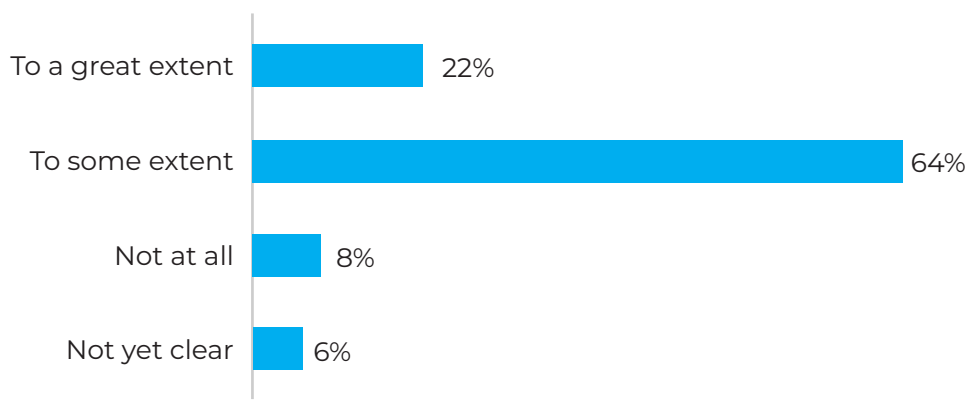
*"We are diversifying across two distinct sectors (agriculture, and software), and plan to sell on a digital market place."*

# RISING COSTS WILL IMPACT ON FUTURE DIGITAL TRANSFORMATION

## Rising costs will impact on future digital transformation

Nearly nine out of 10 businesses (86%) say rising costs will have an impact on future digital transformation – but it's likely that digital and technological initiatives will be developed at an even faster pace rather than being put on hold. With new technologies delivering both cost and time savings, digital transformation will help to offset rising business costs, and could prove to be the solution businesses need to survive.

## To what extent do you believe that rising costs will impact your business' future digital transformation plans in the next 1-2 years?



*"We are aiming to move at least 40% of our business processes online."*

*"We want to offer more hybrid working and a more digital platform for our customers to increase our business sales and market share."*

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