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Investors scramble to buy into nimble sector

These companies have a variety of ownership structures but form the backbone of the UK economy, reports *Andrew Bounds*

The confidence and can-do attitude of many owners of established private businesses is summed up by Michael Oliver, who founded his company in his garage after being made redundant in the 1970s.

"I've never thought of selling out. Why would I want to work for someone else?" he says, after 36 years in charge of Oliver Valves, which supplies the offshore oil and gas industry

"I compare running a lean, private business to a commando unit," he adds. "A business saddled with private equity investors and external advisers is more like a large regiment — far harder to manage and manoeuvre."

Mr Oliver's own Cheshire-based business might soon be regimental size. It employs 300 people and has annual revenues of almost £100m.

Opening the cash valves: Mr Oliver's products earn almost £100m a year

Private businesses come in all shapes and sizes — from individual or family ownership to private equity, partnerships and employee trusts. All but about 2,000 of Britain's 5.2m businesses are privately owned.

They range from the "Big Four" accountancy firms to Warburtons, the family-owned baker that is Britain's second-most frequently purchased brand after Coca-Cola.

And they are back in fashion. While the stock market was once the destination of choice for a successful business, investors are now eager to buy in to private businesses. In Europe, late-stage investment in the first half of 2015 reached €4.1bn, compared with €2.3bn in the same period of 2014, according to PitchBook, the US research company.

Some investors believe that in a rapidly changing world, private businesses can react more swiftly than listed entities, which are often heavily encumbered by layers of management and accountability.

Technology companies such as the British-owned Shazam, the music recognition app, have been valued at more than $1bn in early stage funding rounds.

Another sign of the growing importance of private businesses is the election this year of Paul Drechsler as president of the CBI, Britain's biggest business lobby.

Apart from Dame Helen Alexander, who held the post soon after leaving the Economist Group in 2008, he is the first private business leader appointed to the role since the mid-1970s. Traditionally, CBI presidents are drawn from large listed companies.

Mr Drechsler is chairman of Bibby Line, a family-owned conglomerate in Liverpool. He says the CBI is right to focus on private companies.

He points out that family businesses employ 9.4m people — equivalent to 40 per cent of private sector employment.

"The percentage of business that comes from new products is 8-9 per cent," he says. "That is three times the rate for business overall. They have a lot of entrepreneurial spirit. Bigger, listed companies often rely on innovations from the sector."

Bibby Line is an example. Still almost entirely owned by the Bibby family, it was founded as a shipping line, but now encompasses a logistics business, asset-based lender and the Costcutter supermarket chain. But Mr Drechsler points out that private businesses continue to face particular and pressing problems. "Capital is a challenge, especially long-term capital."

A survey, Stepping Up, published in August by accountancy firm BDO and the CBI, found that half of medium-sized businesses struggle to secure a loan for longer than five years.

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Whisky a go-go Distillery rocks awards

Winner: Scotland's BenRiach Distillery scooped the High Growth Business of the Year prize at the UK Private Business awards, held in London last night. For a full list of winners and runners-up, and judges' comments, please turn to page 4.

Inside

Brittelstand stymied by lack of growth and skills

Mid-sized companies

Latent capability in the sector may not have been realised, writes *Brian Groom*

John Cridland once described medium-sized companies as the UK's "forgotten army". Four years on, the CBI director-general is blunt about how much further there is to go to build a British version of Germany's *Mittelstand* — its famed cadre of exporting powerhouses.

"They are not quite as forgotten as they used to be, but they are still starved of ammunition, pay and rations," says Mr Cridland, who steps down as head of the employers' organisation in November. "I think there is a latent capability in the British Mittelstand that has not yet been realised."

The CBI defines the sector — the "Brittelstand" — as companies with between £10m and £100m annual turnover. Largely private or family-owned, these businesses represent just 1.8 per cent of companies, but generate nearly a quarter of private-sector revenue and make up 16 per cent of total employment. The CBI believes they could add £20bn to annual economic output by 2020 if their potential were realised.

Fast-growing companies in the £10m-£100m range include BrewDog, the craft brewer, Pure Gym, the gym operator and Notonthehighstreet.com, the online retailer.

Some analysts define the sector more widely as companies with turnover up to £800m, which brings in the likes of Aston Martin, the carmaker, the Pret A Manger sandwich chain and Edinburgh Woollen Mill, the clothing retailer.

Millward Brown, the research agency, says 51 per cent of 200 midsized companies surveyed grew by 10 per cent a year in the past three years. GE Capital found the average UK mid-market company increased revenue by 3.9 per cent last year, almost matching Germany's 4 per cent, but there were indications of slower growth in the coming year.

While mid-market companies can prove resilient in a downturn, they tend to have a conservative attitude to risk, in some cases, a small appetite for international expansion and face difficulties in finding the right external funding.

The government is trying to help the sector, which often complains of being ignored. George Osborne, the chancellor, has abolished stamp duty on buying shares traded on AIM, the alternative investment market. He is also introducing an exemption from withholding tax for interest on private placements.

This year the government launched Help to Grow, a £100m pilot for the British Business Bank to supply loans to companies needing between £500,000 and £2m to achieve their potential. The banks' £2.5bn Business Growth Fund, set up in 2011, makes long-term equity investments of £2m to £10m.

The CBI believes long-term finance is still in short supply and is urging the Treasury to create a Long Term Lending Trust, which would offer tax incentives to savers investing for at least five years. These trusts would offer returns based on yield, instead of capital gain.

Mr Cridland says too many mid-market businesses are "growth sleepers" which "do not have the appetite to grow, because they are not talking to the people who can enthuse them and help them with the consequences of growth".

They face skills shortages in areas such as professional management and project leadership. Mr Cridland believes organisations such as universities could do more to work with them.

Ian Stuart, HSBC's head of UK commercial banking, says growing companies often face a "trepidation factor". They reach a certain size and the next step may involve significant investment, expanding into new markets or bringing in management. "Sometimes you have just got to put your foot on the ice and go for it," Mr Stuart says.

> A dislike of formal structure stops the UK matching Germany's strength

But, he adds: "I think the foundations are there for these companies to really push on and have a good few years."

Trying to match Germany's performance does not mean copying its model. The Mittelstand has historical roots that make it hard to imitate. Companies are based in strong regional clusters and supported by a banking system, and public policies, attuned to their needs. The UK has different strengths including Californian-style "gazelles", or fast-growth companies, that create a large proportion of new jobs.

"It's very difficult to transfer culture," says Bob Bischof, chairman of the German-British Forum. "In the UK we have a shareholder value model but in Germany the company is there for the stakeholders, including employees."

He says UK midsized companies lack support in areas such as export finance, while a dislike of formal structures stops the UK matching Germany's strength in training and apprenticeships.

Mr Bischof adds: "It would probably be better to try to go by British strengths and use entrepreneurs and support them better with tax write-offs and other stuff, try to make them take a long-term view and support them with better facilities, particularly in exports, rather than trying to copy something built up over generations."

Big businesses keep a close eye on their start-up peers

Incubators Larger companies harvest ideas, talent and edge from fledgling rivals, says *Jonathan Moules*

Fintech in action: inside the east London Barclays Accelerator

The frontage of Wickhams, a department store in east London, is a reminder of the humiliation large companies can face when they ignore their smaller peers.

Designed in the early 1900s as a grand row of neoclassic colonnades, Stepney's "Harrods of the East End" was forced to adopt a gap-tooth façade when it opened, because a jeweller in the middle of the terrace refused to vacate its shop.

Wickhams closed its doors in the 1960s, when the era of independent UK department stores drew to a close. The small jewellery shop, however, continued trading until 1982.

Recently, Barclays took a lease on the upper floors of the Wickhams site. This time, the big company arrived to help small businesses, turning the space into the London Accelerator, with open-plan areas for technology start-ups. The project provides fledgling companies with mentoring and practical help, such as introductions to potential clients.

This model has been adopted by multinational companies around the world. Attempts by a big business to immerse itself in a start-up community allows the larger entity to harvest ideas and build positive links with those nimble companies that might otherwise steal its corporate lunch.

Derek White, chief digital officer at Barclays, oversaw the creation of the Wickhams site and similar projects in Manchester and New York. He talks of "reciprocity" and forging new ways of managing money with mutual support.

"It's connecting large corporates and start-ups in co-creation," he enthuses.

A recent study into innovation centres by the IT services group Capgemini noted that start-ups in such hubs tend to be inherent "risk-seekers", in contrast to their risk-averse parent organisations.

Jerome Buvat, one of the report's authors, claims that the growth of innovation centres in start-up clusters such as London's East End, downtown San Francisco and the former East Berlin are driven by both the threat and the opportunities created by small businesses launching in these often gritty areas.

"If start-ups are only really in your innovation centre to innovate, then the large company will have failed," Mr Buvat says. "A major objective of these centres is to tap into the ecosystem of start-ups — which means venture capital firms and angel investors — as much as the companies."

Leanne Kemp, an Australian entrepreneur, joined Barclays' programme to develop her latest venture, Everledger, which uses bitcoin technology to help insurers track diamonds. One of the biggest benefits of the programme was the connections she made through introductions made by senior Barclays executives, she says: "I had relationships with companies for 15 years in Australia who would not have given us the access Barclays gave to their senior executives, after just a few days."

> Companies link with start-ups that may be out to steal their lunch

Not all innovation centres (often categorised as "accelerators" or "incubators") are explicitly run as places to nurture early stage companies.

Walmart Labs, for instance, is an innovation centre created 15 years ago by the US-based supermarket group as a self-contained division within the larger company. It now employs 2,200 people in four offices in Silicon Valley, and has acquired, rather than backed, 13 small businesses in the past four years.

These purchases were driven by the need to gain access to technologies and talent that Walmart had already identified it needed, rather than a concern that the smaller companies might disrupt it, according to the company.

Walmart says that having that talent internally means it can move faster. It notes that Walmart Labs was created in part in recognition that the traditional way of innovating — getting IT suppliers to adjust software to the retailer's needs — took too much time.

Innovation centres are not the only environment in which creators thrive. Pingit, a mobile payments platform launched by Barclays in 2012, was developed entirely by the bank's internal research and development team.

But not every creative wants to set up operations in such an environment. Stefan Ebner is founder and chief executive of cloud computing business Braintribe, which offers companies document management as an alternative to them paying to install IT systems.

Mr Ebner has built a 75-person operation using his savings, customer revenue and funds from previous ventures; his client list includes Credit Suisse and Johnson & Johnson.

He is about to move his headquarters from Vienna to London to be closer to customers and potential investors, but he has no plans to base himself within a company's innovation centre.

"Most of these big corporates are making start-up investments because they felt forced to do it," he says. "It is not coming out of a real belief, it is just ticking their 'innovation' box."

Evidently, while much progress has been made in the years since the ill-fated expansion of Wickhams in London's East End, distrust of large businesses offering partnerships with small companies still runs deep.

Families find executive talent and drive in female lines

Gender diversity

Across the world, female board members are more evident in family businesses. *Sarah Murray* reports

Some countries have imposed quotas. Many public corporations have invested in expensive diversity programmes. But for family businesses, the answer to achieving a more equitable gender balance on their boards can be simpler: hire female relatives.

The recruitment of family members — as well as women from outside the family — is having an impact on the gender diversity of family-owned business boards.

Among these companies, 55 per cent have at least one woman on their board, according to recent research by EY, the consultancy. This compares with the global figure of just 12.7 per cent at the end of 2013.

The research — which was based on a survey of 525 of the world's largest family businesses in the world's top 21 markets — also found that on 8 per cent of family business boards, at least half the members were women.

While many non-family businesses would look with envy at these figures, not all the factors behind the propensity of family businesses to favour female board membership can be replicated by publicly listed companies.

For a start, by its very nature, a family business is made up of relatives — both male and female. And both boys and girls tend to be immersed in the operations of the company from an early age.

"The conversation starts around the breakfast table when they are very young," says Mark Hastings, director-general of the Institute for Family Business. "So they are very much aware that they're part of a family business."

And when all members of a family are involved, the female members can provide ready-made role models, something many argue is important when it comes to encouraging women to become leaders.

As greater numbers of women take on leadership roles in family businesses, this appears to encourage others to follow, according to EY. In its research, 41 per cent said that in the past three years they had seen an increase in the interest of female family members who wanted to be involved in the business. That figure rose to 72 per cent in India, 59 per cent in Spain and 58 per cent in South Korea.

Wider benefits: Carrie Hall

However, while family ties clearly play a big role in the promotion of women in these businesses, other factors lie behind their ability to increase gender diversity. "It's not just women family members but also non-family women," says Carrie Hall, family business leader for the Americas at EY. "Not only do [family businesses] believe in the value of women family members, they are also looking more broadly."

In fact, family businesses often look to women when wanting to add the views of an outsider to their board through the non-executive directors they select.

"It's about being diplomatic but firm and being able to read the situation. It requires a bit more fingertip feeling of the room and being able to say things that are uncomfortable," says Lucy Marcus, founder and chief executive of Marcus Venture Consulting. "And women do very well in those circumstances."

Moreover, as for other privately held businesses, the freedom from shareholder demands for short-term profitability mean family businesses tend to take a longer-term view when developing their business strategy.

A long-term approach allows them to spend time developing the professional skills of the young women they want to promote within the business.

This can be a more successful way of increasing gender diversity than other approaches, says Ms Hall.

"A company trying to reach diversity goals more quickly might promote women when they aren't ready, with bad results," she says.

Mr Hastings argues that non-family companies could learn lessons from their family-owned peers.

"Start identifying women's talent in the business at a very early stage," he advises. "And it's not about suddenly saying we need more women in the boardroom. It's about finding the talent in the workforce regardless of who they are."

The strategy also appears to have a positive impact on the bottom line. In the EY research, a correlation emerged between the desire among family companies to have women as part of their leadership teams, their long-term outlook and their profitability.

"This study has shown that having more women being groomed for executive-level positions leads to higher growth targets," says Ms Hall.

Profitability aside, Ms Marcus, who has advised many family companies, recommends the experience to women.

"On a family board, everything is heightened and the relationships are stronger," she says. "And sitting on the board of a family business is wonderful because there's a sense of ownership."

Investors scramble to buy into nimble sector

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It can be tough for a private business to find experienced managers, so more could be done to promote the sector, Mr Dreschler adds. "It is a fantastic sector to work in."

The CBI is hoping to encourage a British "Mittelstand" — the German privately owned companies that form the backbone of the country's economy and export success (*see story, left*).

The government's British Business Bank, meanwhile, has invested £2.3bn in smaller businesses. The big private banks have formed the Business Growth Fund, which takes long-term equity stakes in growing companies.

The biggest peer-to-peer lenders have lent a cumulative £3.2bn since 2005. However, net lending to SMEs by members of the Peer to Peer Finance Association fell from £78m in the second quarter of 2014 to £67m a year later.

More and more private companies are issuing retail bonds for direct sale to private investors . The UK Bond Network is an online platform that allows sophisticated private investors to buy them. It has raised £6m so far.

Chris Maule, its founder, says it scrutinises issuers and can run auctions to decide the interest rate on the bond. It has 800 investors, who each have to invest at least £5,000. "I would have done more deals, but we make sure we pick the right companies," he says.

Pemberton Asset Management raised €550m in six months for its direct lending fund, with pension provider Legal & General among the investors.

Pemberton provided a seven-year loan to Daisy Group, a telecommunications and IT services provider, to allow it to delist from Aim. Symon Drake-Brockman, chief executive, says: "We firmly believe that asset managers and institutional investors will become increasingly important in providing long-term capital to mid-market and growth companies.

"In the current low interest rate environment, real money investors such as pension funds, family offices and insurers are actively looking for ways to diversify their investments, match their liabilities and generate higher yields."

Private investors can also use the tax-friendly Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) to take equity stakes in start-ups. In 2013-14, 2,710 companies raised a record £1.5bn through the EIS scheme. This was up from £1bn the year before, while £164m was raised through SEIS — almost double the previous year.

But Mr Deacon of accountancy firm BDO, who worked on the Stepping Up report, says as the UK economy recovers, companies need money to hire staff and pay for machinery to meet greater numbers of orders. Many turn to asset-based lenders, who advance money against equipment or unpaid invoices.

The Asset Based Finance Association (ABFA), the body that represents the industry in the UK, said in June that a record £4.2bn is now secured against physical assets, up 9 per cent on a year ago. Overall asset based lending was up more than 6 per cent to £19.3bn.

Jeff Longhurst, chief executive of ABFA, says: "Borrowing against hard assets is one of the innovative forms of alternative finance that has really gone mainstream in the last couple of years.

However, Mr Deacon points out that asset-based lending is seen as a panacea for funding the recovery, but argues that it is not. "It is very easy and quick to get. It is difficult to get out of," he says.

But Mr Oliver remains unconvinced. "There has always been the option of taking on debt or external equity investors. But you only grow a business within the constraints of cash and people — many companies overextend themselves, run out of cash and fail."

800	€550m
The number of investors signed up to the UK Bond Network	Amount raised in six months by Pemberton direct lending fund

Beware the pitch from equity's cheerleaders

COLUMN
Jonathan Guthrie

Equity markets are theatres of capitalism. At the New York Stock Exchange, the boss of a big business that is floating gets to ring the opening bell as trading starts. Distraught investors in Shanghai stocks are a visual shorthand for the media when reporting Chinese economic wobbles. In the UK, the share price performance of consumer-facing companies is watched intently, even as rises and falls in bond prices remain a niche interest.

But the sound and fury surrounding quoted shares signifies less than one might imagine. Equities are on the back foot. Private business owners must therefore dispassionately consider floating their companies, however enthusiastically investment bankers pitch the idea. Fees of up to 7 per cent in the US and 3 per cent in the UK encourage professional advisers to downplay the disadvantages.

Public equities have been undergoing a long-run contraction. In the US, the value of shares repurchased by corporates through buybacks has consistently exceeded the value of issuance. The running total, according to statistics from Dealogic, was $1.9tn between 2010 and the year to date.

Evidence of this for the UK is a little harder to extract. But when the value of shares removed from the market through takeovers is added to the sum, it is evident that in most years, more equity is retired by value than is issued.

"The gold base is growing faster than the equity base," remarks Robert Buckland, global equity strategist at Citi, who coined the word "de-equitisation" in the early Noughties to describe the imbalance between issuance and cancellation.

The phenomenon raises an existential problem for professionals whose livelihood depends on equities. What is the point of a form of capital that appears to be in permanent decline?

From the point of view of many chief financial officers, shares simply aren't very efficient. In most developed economies, interest is paid out before tax, while dividends are deducted afterwards. Leverage, if kept at sensible levels, should impose less of a strain than a "progressive" dividend policy — meaning payouts that rise steadily year upon year.

Shareholders, meanwhile, clamour for the buybacks that shrink companies' equity bases. Critics say these purchases are too often conducted at market peaks — few businesses have the discipline of UK retailer Next, which imposes strict hurdle rates on its buybacks.

The other truism is that stock repurchases raise earnings artificially, without contributing to underlying growth as capital expenditure might.

The buyback trend has been fuelled in recent years by the ability of corporates to raise debt at rock-bottom interest rates. Stronger US growth means the era of cheap money could be grinding to an end, albeit with that process prolonged by China's economic woes. The question is whether "the cult of the equity", as it was termed by Alastair Ross Goobey, an influential British investor, will then be in a position to make a comeback.

There is a "supplementary", as analysts describe one more question than they are officially allowed to ask in an earnings call with a chief executive. If equities enjoy a revival as a form of capital among quoted businesses, what are the incentives for privately-held companies to abandon that status?

The theatricality of equities has its downsides; quoted shares are volatile. When a business is struggling, they fall and investors may kick out the chief executive. But the hive mind of the market gives a solidity to pricing that transactions in unquoted shares inevitably lack. Unless big synergies are available, acquirers typically buy private companies at a 20-30 per cent discount to prices for quoted businesses.

Doing business can be easier for a big quoted company than a big private one. Suppliers, customers and debt investors are reassured by the scrutiny and standards imposed by a listing.

The rarely used but useful corollary of recruiting a coachload of rear-seat drivers is that shareholders can be called on for a cash injection with very few strings attached in an emergency.

Chief executives also seem to like the attention that comes with a stock market quote — not that such people are egotistical. Heaven forbid.

Bosses of Silicon Valley tech companies, such as Travis Kalanick at Uber, can eat their cake and still have it. They need not float for their every move to be pored over by fanboys and geek girls. They can raise equity at eye-watering multiples from venture capitalists.

"Equity is supposed to be for people with romantic ideals and long-term time horizons," says Mr Buckland at Citi, "but financing is taking place off-market in Silicon Valley."

If equity has any real social value, it is when it has an appetite for the new, the untested, the project that is seen as more likely to go horribly wrong rather than stunningly right — except when viewed through the rose-tinted goggles of the entrepreneur.

If equity has been losing ground to debt, it is partly because stock markets have become too hidebound, too yield-driven and too intolerant of mavericks.

But an equalisation of the tax treatment of debt and equity is needed to help revive the cult of equity, too.

Persuading talent to join the sector remains tough

Recruitment Finding and retaining skilled staff is a problem for mid-sized businesses. By *Chris Tighe*

Training: private companies must think strategically — Oli Scarff/Getty Images

From attracting scientists and engineers with rare specialist knowledge to finding motivated young people with good communication and timekeeping skills, UK employers are focused on the "war for talent".

The challenge cuts across businesses of all types but can be acute for small and midsized companies which are likely to lack financial and human resources — and the profile — of plcs.

Finding and retaining skilled staff is a problem for UK businesses, but a coherent approach to tackling it has proved challenging. David Nash, senior policy adviser at the Federation of Small Businesses, says his organisation has identified 790 different publicly backed business support schemes at local and national level in the UK, many of them with a skills-related element.

"Having so many different schemes, you find a situation where there is lots of duplication in the system and take-up is really variable," he says.

The latest European Family Business Barometer from KPMG and European Family Businesses, whose UK body is the Institute for Family Business, reports that, despite a general increase in optimism about prospects, UK respondents in particular expressed deep concerns about their abilities to attract and retain skilled workers. The report, to be published on October 9, shows that 56 per cent of family business leaders in the UK voiced worries about this, compared to a European average of 33 per cent. In the UK, it was the number one issue.

Gary Deans, KPMG's UK head of family business, says that to tackle this, family businesses must address negatives in how they may be perceived; potential recruits may see them as conservative, even nepotistic. "They need to set out the positives," he advises. These can include willingness to take a long-term view, to be good corporate citizens and to embrace local autonomy. Examples from Scotland to the south-west of England include Baxters, the food company, and Clarks, the shoemaker.

"They have a commitment to their communities and the workforce which is commendable," says Mr Deans.

He adds; "We recognise that family business ownership structures can make competing to recruit, select and retain exceptional individuals a particular issue. Some may need to focus on developing motivational offers for the very best employees."

Among small and medium-sized companies, fears of poaching, of cost and of the relevance of the training available are among the main constraints affecting skills, says Mr Nash of the FSB. While some SMEs are very good at developing employees' technical skills, worries about poaching — the risk that employees with enhanced skills will then defect to other employers — combine with practical and financial difficulties to deter many others.

"They tend to look at recruiting in rather than developing skills," he says. "Part of the challenge is getting small firms to think more strategically about investing in their people."

For the growing numbers of UK self-employed, improving their own skills is a problem, too. "When you are running a business, how do you develop yourself?" asks Ted Salmon, north-east regional chairman of the FSB, who is a self-employed marketing consultant.

> 'Family businesses may be perceived as conservative, and even nepotistic'

Current government reforms of apprenticeship funding, making them more employer-led, have the FSB's support, although it has voiced concern about added burdens on businesses and the need to safeguard quality.

While funding of adult training remains complex, one vital contribution which private companies make to skills is on-the-job learning. In small companies in particular, says Mr Nash, employees may be exposed to many different aspects of the business and acquire new skills as they do so, benefiting both individuals and their employers.

The benefit of real business experience is also an aspect of one of the UK's longest running skills-related schemes — Knowledge Transfer Partnerships. Set up 40 years ago and part-funded today by Innovate UK, the government agency, these place graduates now studying for masters or PhDs in businesses, to work on strategic projects.

Costing an average of £60,000 for a company to host a graduate for up to two years, the partnerships are not for everybody. But Renown Engineering in north-east England shows the potential.

Two Northumbria University graduates who came in via KTPs to implement a business and marketing strategy and new product development capability helped boost annual sales from £11m to £15m and increase profits. They became company employees.

Full of potential — but held back

COLUMN
Sajid Javid

The UK is home to more businesses than at any point in history. The private sector now comprises around 5.2m companies, official statistics showed last year.

When politicians and the media talk about "the private sector", they are usually thinking of the corporate titans of the stock market. But the truth is that of those 5.2m British companies, only around 2,000 are publicly listed — the vast majority are in private hands.

Most are small, many are tiny, but there's no shortage of household names: Brompton Bicycle, Motorpoint, and Butterfly Twists will be familiar to many, while it has taken Tangle Teezer less than a decade to go from *Dragons' Den* reject to an international brand worth an estimated £65m.

Family-owned businesses employ 9.4m people, pay £102bn in tax and generate revenues in excess of £1tn. It is a serious sector of the economy, and we overlook its needs at our peril.

The private business sector covers a huge range of companies, but whether they are making folding bicycles or folding ballet pumps, whether they are a kitchen-table start-up or a centuries-old family enterprise, anyone running a private business faces a similar set of challenges.

You are more exposed to the ups and downs of the economy. A new product line could expand the business if it works, or bring it crashing down if it fails. One late payment from a major client can wreak havoc with your cash flow. Expert advice is hard to come by and, even if you have got a great idea, finance from sceptical banks can be hard won.

Britain's private businesses are full of potential, but surveys consistently show them being held back by problems such as a shortage of skills, difficulties in accessing finance, a lack of marketing and the high cost of premises.

In 21st century Britain none of these challenges should be insurmountable. And that is why the government is taking real action to help.

Not by picking winners or deciding which companies are worthy of support.

Not by assuming that Whitehall knows best or telling people how they should be running their companies.

But by listening to business leaders, responding to them, and creating the environment they need in order to thrive.

So we are making it easier for businesses to access finance. British Business Bank programmes are already supporting £2.3bn of finance to 40,000 smaller businesses.

The Start-Up Loans programme has provided entrepreneurs with more than 30,000 loans worth well over £155m, kick-starting the next generation of private companies.

And we are increasing permanently the Annual Investment Allowance from January 2016, so private businesses can spend more on the equipment they need to expand. We are also reducing the cost of doing businesses. We have cut corporation tax, so businesses can invest more money in continued success. We have introduced a new employer national insurance contribution allowance, lifting 450,000 employers out of NICs altogether. And we have put a 2 per cent cap on increases in business rates.

Of course, no business can succeed if it does not have a skilled workforce. That is why we helped create 2m new apprenticeships in the last parliament — and why we are planning to create 3m more between now and 2020.

Apprenticeships allow employers to develop the talent of tomorrow, while providing young people with a real job and a real wage. And, from next April, we are abolishing employer national insurance contributions on apprentices under the age of 25, making it easier than ever to take one on.

We are rolling out Growth Hubs across the country, helping business leaders access support where and when they need it most.

The Business Growth Service has brought together a huge range of advice and expertise in one place. UK Trade and Investment is pulling out all the stops to help British businesses of all shapes and sizes access new markets overseas.

> You are more exposed to the ups and downs of the economy — one late payment can wreak havoc

And then there is the Enterprise Bill, which started its passage through parliament last month. The bill will cement the UK's position as the best place in Europe to start and grow a business. It will make it easier for small businesses to resolve disputes, reward entrepreneurship and generate jobs.

It is not just good news for the companies. Private businesses have a phenomenal record of getting involved with their communities, making a positive contribution that goes way beyond creating employment and delivering services.

So, as government support helps businesses to become stronger, they in turn can do more to support others.

Private businesses are the lifeblood of the British economy and a vital part of British society, driving growth, creating wealth, and improving the lives of millions of people. They deserve both our respect and our support.

Sajid Javid is secretary of state for business, innovation and skills

Brompton: a British private-business success story

British-made hovercraft ride crest of a wave

Case study

Griffon, the UK's only maker of commercial hovercraft, exports 95 per cent of its production. By *Clare Dowdy*

Inside a drab building on the south coast of England, a 20-strong team is building the latest version of a marine vessel once seen piloted by James Bond as he fled a hail of bullets in the 2002 film *Die Another Day*.

The two hovercraft have been commissioned at a cost of £10m and incorporate design and technology developed for use by security forces chasing real-life waterborne criminals. They may have a whiff of the action hero about them, but these two hovercraft are destined for a less hair-raising existence — they will be used to carry passengers on the four-mile journey between Portsmouth and the Isle of Wight.

The vehicles' manufacturer, Griffon Hoverwork, is a privately owned company and the UK's only maker of commercial hovercraft. It is one of two main companies globally that produce the craft. Their rival is Textron, a US manufacturer that supplies that country's navy with big craft costing about £50m apiece. Griffon's range of craft may be physically smaller — and sell at up to £11m each — but the company is world leader by volume.

Griffon exports up to 95 per cent of its craft, still made according to principles devised by the late Sir Christopher Cockerell in the 1950s. The company has deep roots — some of its 140 staff (headcount rises to 280 at peak production times) worked on the hovercraft in its early days.

Since 2008, when two small UK hovercraft businesses were bought by Bland Group, a privately owned group, and merged into Griffon Hoverwork, about £3.5m has been invested in research and development.

80% Proportion of Griffon's output bought by security forces

£3.5m Amount invested in research and development since 2008

The hovercraft's amphibious and versatile nature makes it highly suited to the activities of security services around the world, for example, in the Niger delta. Adrian Went, managing director of Griffon, made a recent trip to discuss using the craft in a mangrove swamp, where there are plans to extract natural gas. "Hovercraft could bring in equipment and materials," Mr Went says.

Some 80 per cent of Griffon's output is put to work by the security forces of governments around the world. Colombian and Peruvian marines use hovercraft in counter-narcotic activities. Small, nippy versions can zoom along the Amazon in pursuit of criminals.

In northern Canada, passenger craft serve an Inuit community operating on the water, or ice, of a river that freezes. Other customers include the British Royal Marines, the Swedish coastguard and Lithuania's border police.

The technology behind such operations is being honed in Griffon's research and development department, where staff have backgrounds from nuclear submarine design to aeronautics and mechanical engineering. But finding new recruits can be difficult.

"We get some excellent practical engineers from the new universities with great vocational skills in computer aided design," Mr Went says.

"But engineering graduates from the top universities, who could become our future thought leaders, like to either go to the big-name companies or depart engineering to become management consultants, accountants and the like." Griffon would be a good start for an ambitious graduate who wants to become an engineering entrepreneur, he believes.

This is a niche sector, and for a small, private company, developing new markets is a slow process. "It's very volatile," says Mr Went. Turnover in 2013 was £34m, but fell to £17m the next year. It will be even lower this year, he says, but adds: "We have some strong prospects."

Mr Went, who spent 22 years as a British army officer, foresees opportunities arising from improved living standards in the developing world and the effects of climate change. Hovercraft do not need the costly investment of a port, instead, plastic matting is placed on the beach. And, as the ice cap melts, shipping lanes open up in the Northwest Passage around the north of the Americas and the Russian land mass.

"Hovercraft are an ideal coastal patrol and rescue service that could access those shipping lanes regardless of ice conditions," he says.

Until then, Griffon must persuade potential customers, many with little experience of hovercraft, "that there's a cheaper, better way of doing things than dredging or consolidating land or using a helicopter", Mr Went says.

Recognition for strong engine of UK economy

Winners 2015 Awards celebrate the dynamic, the profitable and the innovative. By *Meimei Qin* and *Nisha Dillon*

With more than 2,000 nominations, the UK Private Business Awards have continued to grow. This year, they attracted almost double the number of entries achieved in 2014.

Now five years old, the awards were set up at a time of economic uncertainty to recognise outstanding privately owned businesses in the UK. There are 10 different categories, allowing the judges to focus on enterprises of different sizes and approach.

"Private business is a major engine of the UK economy, driving growth, jobs and wealth creation. We need to celebrate this," says Charlie Hoffman, managing director at HSBC Private Bank (UK), who led the judging panel.

Previous winners in various categories include Dyson, the manufacturer of household appliances; BrewDog, a Scottish craft beer company, and Euromonitor, the London-based market intelligence firm.

"The sector often doesn't receive the recognition or coverage commensurate to its economic and social contribution. These awards and the related publicity go some way to addressing this," says Ruby Parmar, a partner at PwC who served on the judging panel.

Private Business of the Year
Winner: *Usborne Publishing*
Shortlisted: Argus Media; BrewDog; Kelway

Mr Hoffman says the flagship award is always hard to choose, but this year was particularly difficult. "You have to be the best of the best," says Mr Hoffman. "Yet who can ignore Peter Usborne?"

Mr Usborne, 78, has led Usborne Publishing for more than 40 years. The company has become the UK's largest independent children's book publisher by sales. From baby books to young adult novels, there are now more than 2,600 Usborne books in print in the UK.

"The decision to nurture in-house editors and designers has been a very successful strategy for Usborne over the years," says Anna Howorth, marketing and publicity manager.

The company has retained copyright on the vast majority of its books, allowing it to maximise and reinvest profits. Turnover increased from £40.3m in 2011 to £50.5m in 2014.

CEO of the Year
Winner: *Phil Doye*, Kelway
Shortlisted: Will Butler-Adams — Brompton Bicycle; Tom Joule — Joules; Colin Stevens — Better Bathrooms (UK)

Established in 1990, Kelway provides IT services to more than 130 countries from four international hubs. Kelway supplies many big name brands such as Dell, Microsoft and HP.

"Kelway, arguably the UK's leading supplier of IT solutions and services, has had extraordinary revenue and profit growth driven by the CEO Phil Doye," says Mr Hoffman.

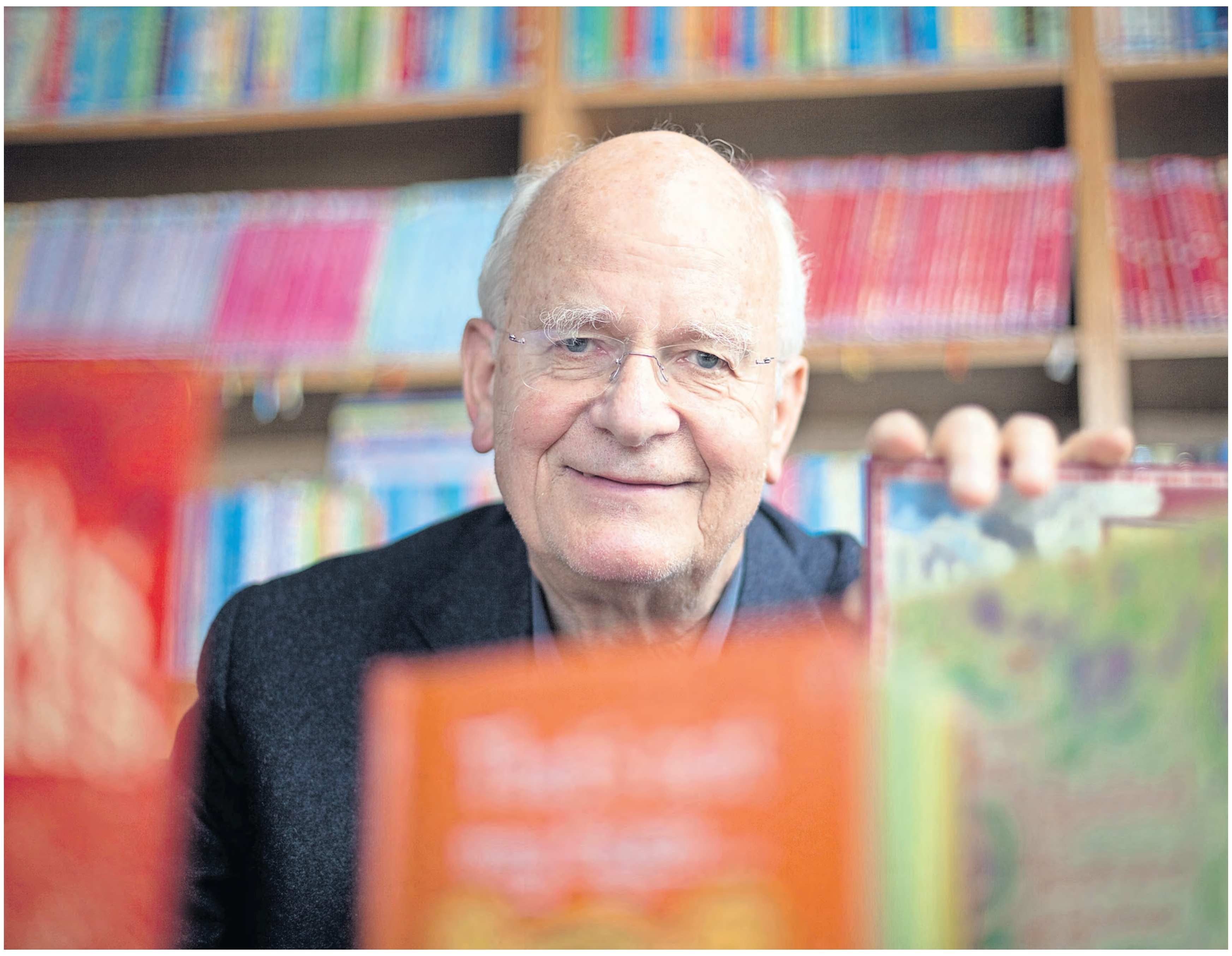
In August, CDW, the US IT solutions group that owned 35 per cent of Kelway, bought the remaining 65 per cent stake. The acquisition makes Kelway part of a group with a large international reach. CDW's net sales for the 12 months to the end of June 2015 were almost $12.4bn.

High Growth Business of the Year
Winner: *BenRiach Distillery*
Shortlisted: Bullitt Group; First Utility; Motorpoint

BenRiach Distillery's impressive growth caught the judges' attention. The company was established in 2004 when it purchased the distillery from Chivas. Marketed as a boutique single malt whisky, the brand quickly established a global following. In 2008 it acquired GlenDronach Distillery from Chivas. A bottling facility was purchased in 2010 and the company added Glenglassaugh Distillery to its portfolio in 2013.

This category asked companies to supply compound annual growth rates for the three most recent years of trading. BenRiach reported turnover in 2011 of £20.2m, which grew to £25.3m in 2012 (at a compound annual growth rate of 25.3 per cent), to £35.3m in 2013 (39.4 per cent) and £41.6m in 2014 (17.7 per cent).

"Single Malt whisky is in a golden period," says Alan Gilchrist, BenRiach's finance controller.



Peter Usborne of book publisher Usborne (above); Cheryl Williams of Yorkshire Wildlife Park (below)
Vicki Couchman

Rising Star of the Year
Winner: *Emoderation*
Shortlisted: Butterfly Twists; Metcalfe's Food Company; The Knowledge Academy

Emoderation, a social media management agency, was founded in 2002 — before Facebook and Twitter. The company now manages clients' online reputations 24 hours a day in more than 50 languages for brands including Oreo, Toyota and Lego.

The company's model — a central account management team with local specialists — is one of its advantages. "We don't have to open new offices each time we go into a new market," says Tamara Littleton, chief executive and founder. "It makes us much more agile."

Revenue rose from just over £3m at the end of March in 2011, to nearly £9.5m at the same point in 2015.

Technology Innovation of the Year
Winner: *Vision RT*
Shortlisted: 11 Health & Technology; AnTech; GBUK Enteral

Vision RT provides technology for use during radiotherapy. It highlighted its system AlignRT to the judges, which detects small movements in real time, and substantially reduces risks to patients. The technology means the radiographer or therapist can stop treatment as soon as a patient moves, and recommence when they are back in the correct position — crucial for using modern radiotherapy, which relies on fewer but higher doses of radiation.

"Vision RT is experiencing significant sales growth," says Norman Smith, chief executive. In the financial year ending July 31, 2014, the company sold over 80 systems and turned over £9.4m. In the last financial year, Vision RT shipped over 200 systems, and turnover almost doubled.

Private Businesswoman of the Year
Winner: *Cheryl Williams*, Yorkshire Wildlife Park
Shortlisted: Susan Barratt — Natures Way Foods; Joanne Smith — The Consulting Consortium; Abi Wright — Spabreaks.com

Cheryl Williams is one of the lucky few who turned their childhood hobby into a private business. Yorkshire Wildlife Park had 556,000 visitors in 2014 and a turnover of £7.8m. The park made headlines last year for its attempts to save Marius, a giraffe who was euthanased at Copenhagen zoo.

"I am quite used to being the only woman or being in the minority on a committee, council or board. But to be honest, I don't even notice," says Ms Williams. "My motivation to succeed is to keep going towards the original vision of creating a different world for visitors to see and engage with animals."

Family Business of the Year
Winner: *Kolak Snack Foods*
Shortlisted: Abraham Moon & Sons; Boodles; Frank Roberts & Sons;

Founded by Ashok Lakhani and his brother Bharat in 1984, Kolak Snack Foods is a UK manufacturer of snacks and crisps. It sells to supermarkets in the own-label market including Asda, Waitrose and Marks and Spencer. Although it employs more than 1,000, Kolak calls itself as a family business with family values. Ashok's son Rikin is now managing director.

"Family businesses with multi-generational members again appeared to drive success by taking decisions with a longer-term horizon. This is true patient capital," says Mr Hoffman.

International Business of the Year
Winner: *Tangle Teezer*
Shortlisted: Brompton Bicycle; Gripple; Peak Scientific Holdings

Shaun Pulfrey, founder of Tangle Teezer, was turned down on Dragons' Den, a UK TV series in which budding entrepreneurs pitch ideas to millionaire investors. He proved them wrong and built a huge international business.

"Whoever knew how much everyone needed a Tangle Teezer hairbrush?," says Mr Hoffman, adding: "One brush is now sold every three seconds."

Tangle Teezer, which produces brushes that allow users to comb hair without pulling, turned a profit in its second year. It now holds about 30 patents worldwide, and has its eyes on global growth. "Long hair that tangles easily isn't limited to any one country" says Matthew Lumb, chief executive.

It exports to 70 countries and at April 2015, over 80 per cent of its revenues were generated outside the UK.

Social Enterprise Business of the Year
Winner: *Glencraft (Aberdeen)*
Shortlisted: Carecall NI; Shared Interest Society; Student@Home

Glencraft is an Aberdeen-based employer of disabled people that manufactures high-quality mattresses, divans and furniture. The company was founded in 1843, when it was known as "The Blind Asylum", according to Duncan Skinner, chairman. It has supplied beds to four generations of the royal family at Balmoral as well as to premium hotels such as Gleneagles.

It is a registered charity that has turned around its fortunes since it emerged from liquidation in April 2010. Revenue has increased from £675,000 in 2011 to £1.2m in 2014.

As a non-profit organisation focused on social responsibility it employs 45 people, 80 per cent of whom are disabled or disadvantaged.

Emerging Entrepreneur of the Year
Winner: *Alice Hall née Blackie* — Pink Boutique
Shortlisted: Imran Akram — Asons Solicitors; Lee Biggins — CV Library; Mike Wilson — Ecosse Subsea Systems

Pink Boutique founders Julie and Alice Blackie (now Alice Hall) launched their clothes business from a living room. The days of storing their stock on Ikea shelving are over, with the fast fashion retailer generating revenue of £1.4m in 2014, up from £565,000 in 2013, its first year of trading.

"Alice Blackie along with her mum Julie invested £45 each to buy a pack of dresses from a wholesaler in London," says Mr Hoffman, leader of the judging panel. "She sold them on eBay and then bought two boxes, then four, then eight. Now three years later she has a 30,000 sq ft warehouse, employs 50 staff and ships 2,000 dresses a day."

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