

# The Future of the UK

The UK Business Economy and its Outlook



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## UK Business Overview

- a. The number of Value Added Tax (VAT) and/or Pay-As-You-Earn (PAYE) businesses in the UK continued to grow to 2.67 million in March 2017 compared with 2.55 million in March 2016, which is consistent with the performance of the broader UK economy.
- b. The number of companies and public corporations has continued to rise and represents 70.7% of total UK businesses, which has offset a gradual fall in sole proprietors and partnerships.
- c. The largest industry group is professional, scientific and technical, making up 17.9% of all registered businesses in the UK.
- d. London remained the region with the largest number of businesses, representing 18.9% of the UK total.

Table 1 highlights the number of PAYE and VAT registered businesses operating within the UK up to 2017 and what sectors their relevant sectors.

**Table 1: Number of Value Added Tax (VAT) and/or Pay-As-You-Earn businesses by broad industry group, UK, 2015 to 2017:**

	<i>Count given to the nearest thousand</i>					
	2015	%	2016	%	2017	%
<b>Agriculture, forestry and fishing</b>	147	6.0	148	5.8	148	5.5
<b>Production</b>	142	5.8	146	5.7	149	5.6
<b>Mining, quarrying and utilities</b>	12	0.5	13	0.5	14	0.5
<b>Manufacturing</b>	130	5.3	133	5.2	135	5.1
<b>Construction</b>	284	11.6	302	11.8	320	12.0
<b>Wholesale and retail; repair of motor vehicles</b>	369	15.0	370	14.5	375	14.1
<b>Motor trades</b>	72	2.9	73	2.9	75	2.8
<b>Wholesale</b>	104	4.3	104	4.1	103	3.9
<b>Retail</b>	192	7.9	192	7.5	197	7.4

Transport and storage (inc. postal)	83	3.4	93	3.6	109	4.1
Accommodation and food services	146	6.0	148	5.8	150	5.6
Information and communication	193	7.9	207	8.1	217	8.1
Finance and insurance	49	2.0	52	2.1	56	2.1
Property	88	3.6	91	3.6	93	3.5
Professional, scientific and technical	436	17.8	459	18.0	479	17.9
Business administration and support services	194	7.9	208	8.2	228	8.6
Public administration and defence	7	0.3	7	0.3	7	0.3
Education	40	1.7	42	1.6	48	1.8
Health	106	4.3	113	4.4	120	4.5
Arts, entertainment, recreation and other services	166	6.8	168	6.6	169	6.3
<b>TOTAL</b>	<b>2,449</b>	<b>100</b>	<b>2,555</b>	<b>100</b>	<b>2,669</b>	<b>100</b>

As is seen in Table 1, the industry that made up the largest share of PAYE and VAT registered businesses in the UK is Professional, Scientific and Technical industry sector. In 2017, this sector made up 17.9% of the UK business market with around 479,000 businesses. Coming in second to this is wholesale and retail; repair of motor vehicles, with a 14.1% market share and 375,000 businesses across the country. Using the most up to date data obtained from the Office of National Statistics, it emerged that the number of UK business

births increase from 383,000 in 2015 to 414,000 in 2016. Therefore, representing a birth rate of 14.6% compared with a rate of 14.3% in 2015. At the same time the number of births were increasing, it was also found that the number of deaths had increased from 283,000 to 328,000 between 2015 and 2016. This represented a death rate of 11.6% in 2016 compared with a rate of 10.5% in 2015. Thus seemingly revealing that the more businesses were born the more were demised



*The more businesses were started the more businesses have ceased functioning*

Table 2: Rates of Birth vs. Death of UK Businesses, 2011 to 2016:					
<i>Counts given to the nearest thousand</i>					
	Active	Births		Deaths	
	Count	Count	Rate (%)	Count	Rate (%)
2011	2,343	261	11.2	230	9.8
2012	2,373	270	11.4	252	10.6
2013	2,449	346	14.1	237	9.7
2014	2,551	351	13.7	246	9.7
2015	2,699	383	14.3	283	10.5
2016	2,834	414	14.6	328	11.6

Those figures explained in the previous paragraph are further highlighted in Table 2, showing UK's business birth and death. The growth is from 2,343,000 in 2011 to 2,834,000 in 2016, with the births and deaths growing in a similar fashion.

Table 3 shows a deep dive based on the births and deaths of businesses across specific industry categories.

**Table 3: Rates of Birth vs. Death of UK Businesses by Sector in 2016:**

<i>Counts given to the nearest thousand</i>					
	Active	Births		Deaths	
	Count	Count	Rate (%)	Count	Rate (%)
<b>Business administration and support services</b>	278	64	23.1	43	15.4
<b>Transport &amp; storage (inc. postal)</b>	119	27	23	13	10.9
<b>Education</b>	48	9	19.8	4	9.1
<b>Professional; scientific &amp; technical</b>	548	86	15.7	62	11.3
<b>Accommodation &amp; food services</b>	176	26	14.7	24	13.7
<b>Construction</b>	358	52	14.4	40	11.1
<b>Information &amp; communication</b>	243	34	13.8	27	11.1
<b>Health</b>	131	17	12.8	12	9.1
<b>Finance &amp; insurance</b>	45	6	12.5	8	17
<b>Retail</b>	221	27	12.3	23	10.5
<b>Property</b>	111	13	11.5	17	15.2
<b>Production</b>	169	18	10.9	18	10.8
<b>Motor trades</b>	83	9	10.4	7	8.7
<b>Arts; entertainment; recreation and other services</b>	188	17	9	18	9.5
<b>Wholesale</b>	116	10	8.4	12	10.3
<b>Total</b>	2,834	415	14.6	328	11.6

Highest Rate of  
Business Birth  
in 2016  
23.1%

From Table 3, we see broad industry categories outlined.

The highest rates of business births in 2016, which originated from the Business Administration and Support category with 64,000 births, a birth rate of 23.1%. The second-highest rate occurred in Transport and Storage at 27,000 births and a rate of 23.0%, compared with 20.3% in 2015.

It must be noted though, that the category with high birth rate and comparatively low death

rate was the Education sector which grew at 19.8% but experienced a death rate of 9.1%.

Moreover, when analysing the broader industry categories based on the count of business births, the Professional, Scientific & Technical category saw the highest births at 86,000 in 2016. Of this count, the sub-sector with the highest contribution was management consultancies, which made up 36,000 of the 86,000 in 2016.

Table 4: Rates of Birth vs. Death of UK Businesses by Region in 2016:

	<i>Counts given to the nearest thousand</i>				
	Active	Births		Deaths	
	Count	Count	Rate (%)	Count	Rate (%)
North East	74	10	13.7	9	11.5
North West	277	42	15.2	32	11.7
Yorkshire and The Humber	196	27	13.9	22	11.3
East Midlands	183	25	13.4	19	10.6
West Midlands	224	35	15.5	24	10.8
East	288	45	15.8	30	10.4
London	585	102	17.5	82	14.0
South East	438	56	12.8	48	11.1
South West	234	32	13.6	24	10.2
Wales	98	12	12.3	10	10.5
Scotland	178	22	12.5	21	11.8
Northern Ireland	58	6	10.2	5	9.2
<b>Total</b>	<b>2,834</b>	<b>414</b>	<b>14.6</b>	<b>328</b>	<b>11.6</b>

The business count as well as birth and death rates by geographical location, is laid out in Table 4. Here we see that London had the highest business birth rate at 17.5%. London had the highest business count in 2016, with 585,000 businesses active in greater London. Second to London was the South East of England with a total business count of 438,000 and a total of 56,000 business births in 2016.



*Only one in every ten businesses started in the UK reaches their 10<sup>th</sup> birthday*

## Reasons for Failure and Success

In the previous section, we saw numerous businesses being born annually. Nonetheless, a great deal of businesses fail. Statistics show that only 1 in 10 businesses reach their 10<sup>th</sup> anniversary. Why is this? Why are a large number of businesses dying regularly in the UK? In some cases the number of businesses started in a sector are undermined by the sheer closures recorded.

However, it is also visible from Table 4 that the region with the highest business death rate was also London at 14%, followed by Scotland with a rate of 11.8%. This made London the region with the highest number of births and deaths, at 102,000 and 82,000 respectively. On the other end of the spectrum Northern Ireland was the region with the lowest death rate, only at 9.2%.

There are multiple reasons for these businesses failing, which cover factors such as changing customer markets, increasing business rates and stronger competition. Therefore, what are businesses doing to mitigate against failure? How can they improve the likelihood for success? Analysts have isolated some factors which can influence the success or failure of businesses in the UK and globally; some of which are listed :



### Case Study: Powa Technologies

A failed business can be classed as a venture that trades for a time but due to some difficulty loses money and eventually shuts down. Powa Technologies was a UK Mobile Commerce unicorn once valued at £1.27bn at its peak in 2014. The company's CEO, Dan Wagner a prolific tech entrepreneur was the brains behind the tech firm. Powa had three products, including a mobile payments app called PowaTag that allowed users to make purchases of anything by scanning QR codes, audio waves, TV adverts and even pictures of the products. Despite receiving \$176.3 million in aggregate funding, the company was unable to generate enough sales while burning through funds with expensive offices and aggressive expansion. The administrators were called in February 2016.



## Failures

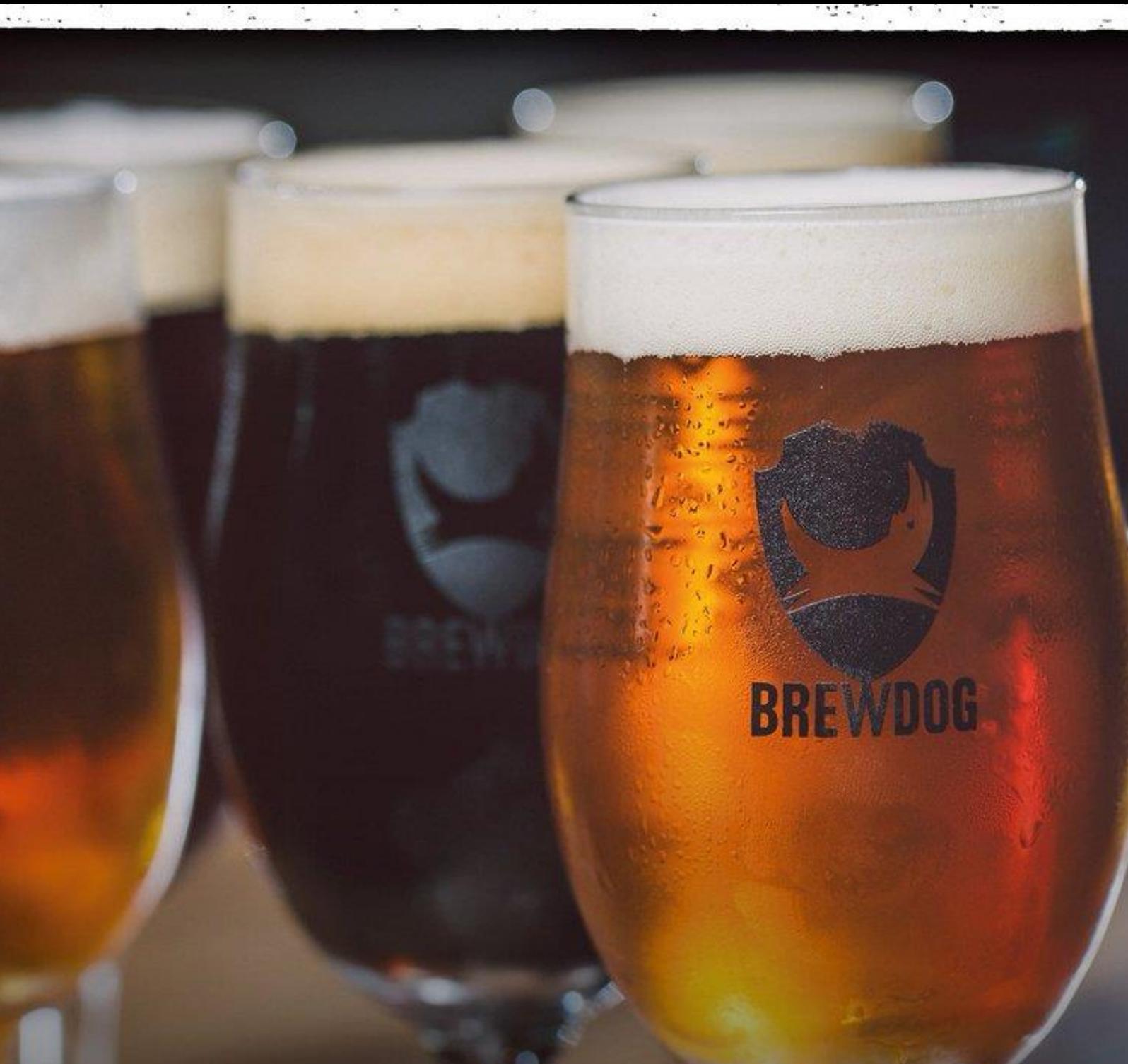
- a. A prevalent cause for failure is poor planning. Often it is a case that businesses fail because they have not produced sufficient plans for the future especially taking the changing market into consideration. A thorough business plan would outline the plans for the business over a minimum of the next 12 month period, highlighting any potential key areas in the business' success.
- b. Another reason a number of businesses fail is an over reliance on singular large businesses for revenue. With smaller businesses, taking on larger clients, often means they may lack the sufficient capacity to handle other much smaller companies. The offshoot of which is a complacent approach to marketing as well as output. However, in case a big client leaves, these businesses are often left in a sticky situation with no source of revenue.
- c. Leadership is a fundamental aspect to a business' success. However, it is often the case that business owners get caught up in irrelevant day-to-day tasks, which reduce their focus on the bigger picture. Founder/Owners find it hard to delegate and in very extreme scenarios micromanage their employees. The transition from little or no employees to multiple employees may be the cause of a business failure. Owners and managers cannot underestimate
- d. One of the ultimate reasons for businesses failing in their infancy is as a result of a lack of cash. Access to continuing cash flow is fundamental. This is why plans are very important. They provide a basis as to the capital needs of the business, which would allow for contingency plans to be formulated. It is therefore vital that any small business has a plan and adequate cash flow.



## Success:

- a. One of the biggest influencers of success for start-ups and small businesses is the company's vision. It is important that the business has a CEO that has a clear understanding of the company's mission and is very decisive in his approach to achieving this. However, it is most important that they are able to take control of present business events whilst keeping this long-term objective in mind.
- b. However, unless the product / service is brought to the market in a fast and efficient manner, the business may struggle to gain sufficient custom. This especially is the case with the rapid rate of development in technology, so the faster a start-up can produce its service or product, the better chance it has in delivering to customers. This is because start-ups and early stage businesses are still competing with larger and established corporations. Therefore, if the business is able to get its product to the market first, it has a much higher chance of success.
- c. As is the case with a number of scenarios in the business world, it's not what you know, it's who you know. Therefore, networking is an essential element and is often a key source of a business' first clients, investors and mentors.
- d. A successful business must also adopt a certain degree of flexibility within its business model. This is because successful businesses are open to change and are able to adopt new approaches, which is seen as essential in this modern day with continuous technological advances.
- e. Starting up a business is not like a traditional employment role, and therefore requires huge amounts of dedication and perseverance. This dedication must also transcend into the employees work culture, providing the business with loyalty and support in its drive towards its mission.
- f. As has been mentioned, businesses often require a large flow of capital and cash is therefore very important. As a result, a successful business would know how to effectively gain access to capital through investors. This will provide the business with a base for a successful establishment.

# SCOTLAND'S CRAFT BEER



Brewdog the Craft Beer Company, established in 2007 and now employs 500 staff as well as operating in 42 bars globally. They now produces around 2.2 million bottles and 400,000 cans a month.

## Consumer Spending Habits

Chart 1: Percentage of Consumers that Agree with the Below Statements



Chart 1 above outlines the percentage share of consumers that agree with the defined statements. Of those questioned in this research by Statista in 2016, it was found that over 81% of all respondents agreed with the statement that they would look at products in store and then subsequently search for this product online in efforts to find it at a better price. After this it is found that around 52% of respondents tended to recurrently use the same retailers upon successful custom.

The same data further illustrated that the most popular day for browsing online and doing shopping was Sunday and the least popular day was Friday. The internet is not the only way people shop, as people still visit their local high street about the same amount as they did the previous year. When researching

products, people who want to buy electrical items do so over 50% of the time via online shops. This number is significantly less for people who shop for clothes, with only 30% browsing online prior to in-store shopping.

In terms of general household spending, a report was released by the Office of National Statistics that focused on spending of this type in 2016/17. This report highlighted that the average households weekly spend was £536.80. Once inflation was taken into account, this worked out to around £5.90 more per week than in 2016. Resulting in the most expensive year since 2006, and not far off the peak spend in 2005. These figures are created through the analysis of household spend across the country, which provides the ONS with a set of average figures.

It was found that, of all of the weekly household expenses, the four categories that amounted to over 50% of the total average household spend were food, housing and fuel, transport and recreation. Following a similar trend, it was

further found that all of the four categories average household spend had increased when comparing them to 2016 figures. The breakdown of these four categories can be highlighted within the following points:



**Transport is the top spend at £79.70.**



**The UK hit a total of £73.50 on holidays, tickets, subscriptions, pets and other recreational purchases**



**Housing (though not mortgage payments or Council Tax), fuel and power are third biggest costs, coming in at £73.50 a week.**



**Meat and fish make up a quarter of the UK's £58.00 spend on food.**

Aside from these top four categories, other key influencers on the average household spend included spend on restaurants and eating out and household goods and services. The average spend on these two categories was £50.10 and £39.23, respectively.

When analysing the average household spend geographically, London unsurprisingly was the area in the UK with the highest average weekly spend. It was found in 2017 that Londoners

have an average weekly spend of £643.70, which was closely followed by the South East of England with an average weekly household spend of £632.20. This demonstrates a £206 per week gap between the highest average weekly household spend in London and the lowest average weekly spend of £437 in the North East. Once again, not too far behind the North East, with one of the lowest weekly average household spends is Wales at £458.70.

### Geographical Trends:

- a. The areas of Scotland, Wales, Northern Ireland, the North, West Midlands and London, reportedly spent below the UK's average of £63.10 per week on recreational and cultural activities.
- b. Welsh and East Midlanders spend the least on eating and drinking out and hotels.
- c. Families in the South East and Northern Ireland spend the most on a food shop at £63 a week. That's £6 more than the UK average and nearly £14 more than people in the North East and Yorkshire.
- d. Those in the Midlands spend the least on clothing and footwear, £3 less than the national average of £22.60.

Statistics further confirmed the highest contributors towards the growth in consumer spending were housing costs, which contributed 0.108%, and recreational costs (0.093%) as of Q4 2017. Other factors that contributed towards consumer spending

growth during Q4 of 2017 included: transport (0.088%), Miscellaneous (0.053%), Food and non-alcoholic beverages (0.007%), among a number of other categories of lesser significance.

### Trends:

#### Ocean Plastics



A trend that has become apparent over the years in 2017/2018 has been the clear push towards environmental sustainability in businesses within the UK and across Europe. This has therefore had a major impact upon both consumers and businesses. Big players such as Adidas and Proctor & Gamble recently engineered what they call 'Ocean Plastic' products. They are items made completely

from 100% recycled plastics that are cleaned from the oceans around the world. Adidas' new Ultra Boost trainers is in this range. While P&G hair care products sold in bottles made from ocean plastics, as well as their Fairy Ocean washing up liquid feature in this range.

Analysts have forecasted ocean plastics doubling in the next decade at its current growth rate. This trend in upcycling ocean plastics expected to become wide spread, even among SMEs. Businesses of all sizes will begin

to make significant efforts to incorporate features of sustainability into their business models.

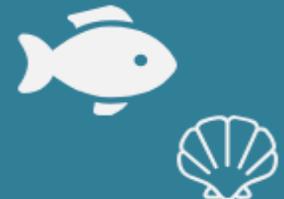
While sustainability is gaining ground, most of the changes made have been regulatory. The UK government in recently passed laws required a reduction in the use of plastic microbeads in health and beauty products. Although a convenient ingredient, they were however contributing to the pollution of our oceans. Over 680 tonnes of microbeads were reportedly used in the UK annually.



61% of Sea Turtles are found to have plastic within their digestive tracts.



There are 261 different species of sea bird that have been found to have plastic in their digestive tracts.



One third of the fish and shellfish that humans consume have ingested plastics

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## Outlook

### Brexit Britain

In the UK's referendum vote to decide whether to remain in or leave the European Union, the UK has voted to leave the European Union. It is scheduled to depart at 11pm UK time on Friday



29 March, 2019. As of now, the UK and the EU have provisionally agreed upon three separate divorce agreements, what will happen to the Northern Ireland Boarder, as well as what will happen to British citizens living elsewhere in the EU and EU citizens living in the UK. After these provisional agreements were made, alongside agreements for a 21 month transition period, the Brexit negotiations have now moved on to future relationships. The transition period from March 2019 to December 2020 has been put in place to allow for the division to run smoothly.

This will provide the UK with the ability to finalise any agreements and relationships that

have begun. The effect on businesses has been hailed as positive by some and detrimental by others. It would be difficult to clearly isolate the pros and cons for businesses in the UK. The advise so far is that business owners should prepare for the worst case scenario.

During this transition period it will be the case that free movement around the EU in both cases would be acceptable. However, there are no guarantees as to what may happen in current negotiations, but it is hoped that agreements can be made within the six months prior to 2018.

#### Key Dates:

**12 June 2018:** EU Withdrawal Bill votes in Commons

**28 June 2018:** EU summit may include Northern Ireland border discussion

**18 October 2018:** The key EU summit. Both sides hope to agree outline of future relations to allow time for UK parliament and EU members to ratify deal by Brexit day

**13 December 2018:** EU summit. If deal not done by October, this is the fall back option if the two sides still want to reach agreement. Commons and Lords vote on withdrawal treaty - MPs could reject the deal but it's not clear what would happen if that is the case (Implementation bill pending)

**29 March 2019:** As things stand, deal or no deal, Brexit is due to happen at 11pm UK time

**31 December 2020:** If all goes to plan a transition period will then last until midnight on this date

So far, decisions on what will happen with future relationships between the UK and EU are very much up in the air. However, these agreements could have serious implications on a number of economic factors. Some of these factors would include : Travel and migration, import and export, working, regulations and policy.



The position of the UK post Brexit remains uncertain. Businesses must prepare for the worst case scenario

Trade policies are the factors that have been of most concern to businesses within the UK. After Brexit, the UK would have to formulate and agree upon its own trade deals with other countries. This means that tariffs and quotas could be made applicable to imports and exports to certain areas. However, upon leaving the EU, the UK would become a member of the World Trade Organisation in its own right. This

would provide non-discriminatory requirements for member countries. Thus preventing the EU from placing tariffs on the UK- a discriminatory act. However, Brexit has already started having some negative effects on the business economy as a number of large corporations have relocated their headquarters to mainland Europe and the Republic of Ireland.

## Conclusion

In conclusion, the future of business in the UK is promising, although there are severe challenges ahead. Business owners and managers with the foresight who make

adequate preparations and take advantage of the changes would be at the top no doubt. More than ever, a premium approach to successful business practices is required.

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