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accountants

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SPECIAL  
**BLOG**  
EDITION

**Welcome to the latest Winter edition of our Newsletter.**



In this edition we have decided to share some of the articles that have featured on our Blog; a link to which is at the foot of the page.

We have chosen ones on Interest Rates, Working with Family, and Drivers of Business Value. The Blog though covers a mix of topics such as these, but also the occasional opinion piece, or something more eclectic.

At the end of last year, we celebrated our 18th year in business. It was lovely to have so many people attend and to catch up with clients and friends. We have shared some pictures on page 3.

Finally, and as always we have included key dates and information.

**Adrian Barker** Managing Director

#### Inside this edition

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Our website blog is available  
at [www.cbslgroup.com/blog](http://www.cbslgroup.com/blog)  
or scan this QR code to  
view on your smartphone.



# Our online Blog

## Working in Harmony with your Family

At CBSL Accountants we work closely with our clients – including helping some of our family-owned businesses deal with the challenges that arise from working with your nearest and dearest.

It is particularly common when talking to clients about succession planning between generations, or if siblings are in a business together, they have different thoughts about what they want to do next... to continue or retire?... Pass on to the next generation? Or sell to a third party?

It is extremely easy to go into business and give shares away, but much harder when things have gone wrong, to decide how to deal with the fallout and disagreements that might arise.

According to the Institute for Family Business, two thirds of UK businesses are family owned – that's 4.8 million in total – employing around 12.2 million people in the UK and generating over a quarter of UK GDP. So, what are our 5 top tips to working in harmony in your family business:

**1. Communication** – regular planned meetings to discuss business matters gives family members the opportunity to make decisions together and to prevent work discussions infringing on family time together. And as mentioned with succession, the number of companies that have neither ownership nor management succession plans is surprisingly high (60% and 75% respectively - not having both 90%).

**2. Set roles** – identifying your family members' strengths and weaknesses is key to allocating suitable roles and highlighting where external support and advice is required.

**3. Get it in writing** – as with any business it is important to set boundaries and terms whilst everyone is in agreement so that should disputes arise further down the line there is a clear way to resolve matters.

**4. Strong values** – the longest lasting family businesses have a clear set of strong values that the family take pride in upholding and passing on to future generations.

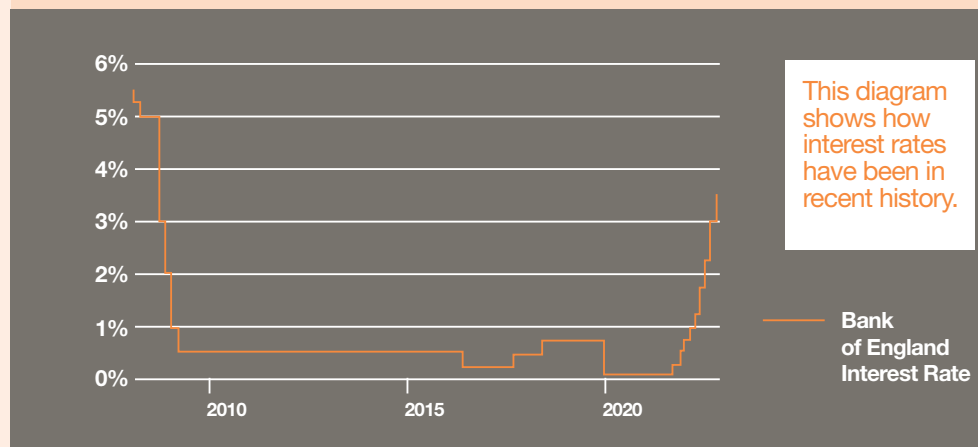
**5. Work with the younger generations** – whilst the business values bind the generations together, the most successful businesses also embrace changes in their business environment, often propelled by the passions and ideas of the younger generations to move the business forward.

## Interest Rates

Interest rates have a bearing on all of us. Inflation has, as we all know been a huge danger to the economy. At the time of writing, inflation is 9.3%, and the next update will be in 18 January 2023. I confess I have no idea whether this will increase or decrease, but frankly care more what the direction of travel will be over the next 12 months, which has to be downwards.

Let's for a minute imagine that you are the Prime Minister: you are going to give five pledges, would you make sure that you were pretty confident about the first on your list? I know I would, and to recap Rishi Sunak's first on his list was, to halve inflation. He therefore has it in his mind as an odds-on certainty. It is his Constitution Hill to win the Champion Hurdle at Cheltenham (should he enter –'He' being Constitution Hill, though Rishi has a good build for a jockey).

This means, that after the next few months there will be no need for interest rates to increase.



Moreover, whilst not officially and technically in a recession most of us believe that the economy is far from raging ahead, and believe it is in decline. Given that there are lags from the effect of interest rate increase, I would hope that the MPC might not be too aggressive in future increases, lest they go too far.

The BoE measure money supply: specifically, growth in the money supply, which peaked in early 2021 at a little over 15%. This is a marker of inflation, and interest rate increases follow as we saw later in 2021. Given that the annual growth in money supply is now down to its levels throughout 2013 to 2016, assuming it stays there, the BoE should see that as an indication not to keep increasing interest rates, and then eventually reduce them: certainly not increase.

*Then there is a raft of other indicators.*

- Companies are being reticent to offer inflation level pay rises.
- Energy costs have hopefully peaked... at least for households. As an aside there are dangerously high levels still to impact on some businesses, since some will have hedged for several years, and so the effects of increased costs will still be unwinding for some.
- Finally, mortgage approvals are plummeting. At the end of 2022 they were just 30% of the level they had been throughout Spring and Summer 2022. Most professionals in the property sector believe that house prices will fall in 2023... by around 8%.

What do we do with all this? Well, the start of the year is when business owners use their new budgets... that could be for the calendar years 2023, or (since many companies have a March year end) for the 12 months beginning 1 April 2023.

If you have borrowing costs, or are considering investment in CAPEX, or other purpose, perhaps you should use a base rate of 4-4.5% plus bank margin. As regards price increases, that will depend on the ability to raise those with customers.

Supply into retailers aside with which pricing is a notoriously difficult issue, most businesses expect to have increases from their suppliers. However, even major retailers know that they will have to accept higher costs from suppliers. Food inflation for example is currently at variously, 13.3%, 14.3%, 16.5% depending on whom you ask and the precise period (the last two are from the ONS). Food producers, fresh or processed should not be working on the status quo.

# Our 18th Birthday

Thanks to everyone who attended our annual drinks event on Thursday 24th November 2022...

We celebrated our 18th birthday at Glou Glou Wine Bar & Shop, 17a Castle Gates, Shrewsbury SY1 2AB.

**We had a great turnout – please look out for news on this year’s drinks event later this year.**



Glou Glou



Rob & Carol Johnson



Rachel Davenport & Jeremy Jagger



Grainne Walters & Paul Roberts



Paul & Helen Riley, Jenny Beaumont



John Dorsley, Julian Liddiatt & Adrian Barker



Patricia Baila, Clare Heighway-Jones & Judy Bourne



Mark North & Pete White



Adrian Barker & Brian Boyd

## Drivers of Business Value

It is essential that business owners who are considering an exit in the next few years have the fundamental drivers of value in good order. Will there still be buyers if you would like to sell your company? Quite simply, yes there will, because growth is by far the best method to grow quickly if an acquirer's core business is sound.

Moreover, there are still substantial funds held in Private Equity ready for investment in the right companies: that said PE investors will look to make larger investments, so a company with EBITDA(\*) of less than £1m is unlikely to attract PE investment. Private Equity also like senior management team to stay largely in place to ensure the business plan is delivered and they get to realise their investment in say 5 years' time.

**So, what are the drivers of value?** It is hard to distil to just a couple of points, but is essentially what does your business look like now, in the eyes of a potential buyer, and what will it look like in 3, 4, 5 years' time?

**Currently:** This may include having a strong management team that is not reliant upon its owners.

Customers are likely to be recurring and have been with you for a number of years. Importantly, customer concentration will be low: if your biggest customer accounts for more than say 10% of total annual sales, a buyer might consider there to be a risk of reduced future profits if that customer were to be lost.

A good team & loyal customers, will together with the reputation you have built up over a number of years add value. Together they will have helped you create a positive and reliable trend in sales but more importantly profit.

**Prospects:** Will include having a good business plan supported wherever possible (since this will not apply to all businesses) a strong order book. If your business is not based on projects, then having recurring sound customers as described above is essential. The profit trends above will be supported by forecasts that show how profits will continue to grow in the future.

The industry/sector you are in is also important. You will know, better than I, if there have been competitors of yours bought by bigger ones. If that is the case then with the above points in place, what is going on in your sector might have a bearing on what value you will receive.

But timing is generally out of your control - you may just hit lucky in marketing your company at the same time that a buyer is looking to acquire. But some aspects of timing are within your control. For example, it isn't usually a good idea, to market the business for sale during the summer holidays or over the Christmas period – people just aren't there to see it, and if they are, their mind may be elsewhere and so the marketing effort could be wasted.

Linked to timing is the industry that you are in: operating in a 'nice' industry. There is not a lot you can do about the sector you are in, but if you foresee developments that you do not like, you could choose to exit in advance of those developments happening or consider how you can reposition your business to protect against them.

A buyer might have a strong strategic reason to acquire you, which might be to get into your geographical area or to steal a march on a competitor: In such cases we have seen some buyers offer double what the second closest bidder offered. A lot of this is luck.

At the start of the year, it is time to reflect on how you see your business, and your involvement with it. If you would like to discuss the value of your company, or what can be done to increase its profits and value please get in touch.

## Updates and Reminders

### Personal Tax

You should receive a notice if you are required to file a tax return for 2022/23 shortly after 5th April; second payment on account for 2022/23 tax year is due by 31st July.

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Look out for our latest **updates for business** on our regular emails and blog posts. If you haven't already signed up for them please let us know and we'll make sure you get them.