SOWERBY

CHARTERED ACCOUNTANTS

AUTUMN 2023
NEWSLETTER

BRIDGING THE GAP: THE ART OF GAP ANALYSIS IN BUSINESS

WHEN THE BANK SAYS NO: WHERE TO LOOK FOR ALTERNATIVE BUSINESS FINANCE

BUYING A BUSINESS: ARE YOU PAYING A FAIR PRICE?

"By 'eck - it's a bit nippy!"

Well that's what I expected to be saying at this time of year, but thanks to global climate change most of us have only just put the heating on (albeit under protest)!

Like a lot of local businesses we are in the midst of a busy period leading up to Christmas, both tending to clients and planning for the firm's future, as you will see in this newsletter. I certainly have that feeling of "where did 2023 go?!"

With inflation finally waning and interest rates appearing to have reached their peak, thankfully it seems that we are seeing some signs of stability that should enable businesses to look forward and plan for the future.

In this newsletter we've included insights into some of the key issues businesses are currently facing, together with help and advice for you to move forward into 2024 and beyond. We hope you'll find it useful – if you'd like to discuss any specific challenges or opportunities you're facing, please don't hesitate to get in touch with our fantastic team.

Patrick Scargill

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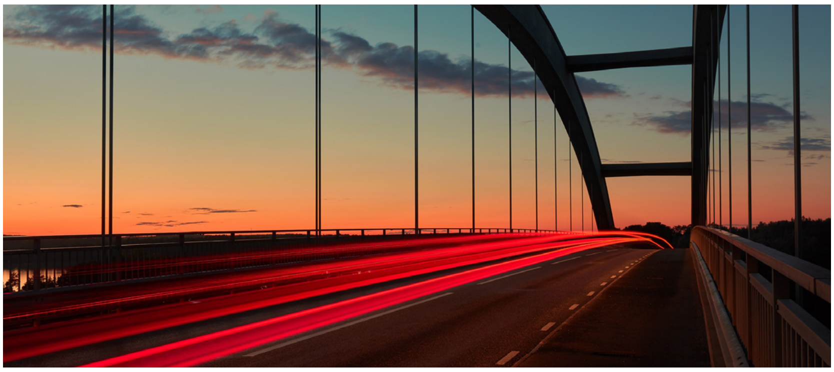

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COMMENT

BRIDGING THE GAP: THE ART OF GAP ANALYSIS IN BUSINESS

Have you ever found yourself wondering if there's more you could be achieving with your business? Perhaps you've sensed that despite all the hard graft, there's something amiss or a potential not fully realised. Enter stage left: gap analysis.

WHAT EXACTLY IS GAP ANALYSIS?

Gap analysis is a strategic tool used by businesses to identify the differences between the current state and a desired future state. By pinpointing these discrepancies, organisations can formulate strategies to bridge the gap, ensuring alignment with their goals and optimising performance.

Consider it your business satnav. You have your starting point and your destination; the 'gap' represents the journey you need to take.

WHY BOTHER WITH GAP ANALYSIS?

Engaging in gap analysis is imperative for organisations as it offers clarity on their current position relative to desired objectives. It provides actionable insights to guide strategic planning, ensuring resources are efficiently allocated towards achieving optimal performance.

THE PILLARS OF EFFECTIVE GAP ANALYSIS

1. Assess the Present – Where Do You Stand?
Start with a candid assessment of your current situation. Delve into the products or services you provide, your target audience, and crucially, the perception stakeholders hold. Those customer feedback forms? Far from mere paperwork, they're invaluable insights.

2. Envision the Future – What's the Goal?
This is where ambition takes the front seat. What is your company's aspiration? Clarity is paramount here. Instead of a broad "We aim to lead the market," hone in on specifics such as, "We aim to secure 30% of the market share within the next two years."

3. Identify the Discrepancies
Position your present state alongside your future aspirations. This will highlight potential gaps, be it in resources, training, or infrastructure.

4. Strategise Solutions
Got the gaps? Now, brainstorm remedies. Solutions might range from bolstering your workforce, ramping up training, or embracing cutting-edge technology.

5. Action the Strategies
With solutions at the ready, it's time for execution. But tread carefully. Change can be tumultuous, and it's imperative to consider its ripple effect across your organisation.

6. Monitor and Adapt
The business landscape is ever-evolving. Thus, continuous evaluation of your strategies is essential. Check if they're driving you closer to your objectives and tweak as and when necessary.

DIGGING DEEPER: TYPES OF GAP ANALYSIS

Market Gap Analysis:
Here's where you uncover unmet consumer needs in the market. Spotting a demand that's not catered to? That's a golden opportunity.

Strategic Gap Analysis:
Think of this as your organisation's performance evaluation. How have you stacked up against strategic targets or competitors?

Financial Gap Analysis:
As straightforward as it sounds. Examine financial metrics and see how they fare against industry standards.

Operational Gap Analysis:
A deep dive into process efficiency. Does each process contribute value?

IN CONCLUSION

Gap analysis isn't mere corporate jargon. It's a tangible tool that, when employed judiciously, can steer your business towards sustained success and innovation. Whenever there's a feeling of a misstep or an unrealised potential in your business manoeuvre, remember to bridge that divide! And if you're seeking partners on this journey of strategic optimisation, Sowerby are ready to assist, bringing decades of expertise and a commitment to fostering business excellence.

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BUSINESS

WHEN THE BANK SAYS NO: WHERE TO LOOK FOR ALTERNATIVE BUSINESS FINANCE

ALTERNATIVE BUSINESS FINANCE

If you've found that the high street banks are saying no, there are other options available for you to raise finance. Whether you are starting a new business or expanding your current business, it's an exciting time! However, one of the most significant challenges that you may face is securing the initial funds required to get your business off the ground and propel it to the heights of greatness, or for the expansion of your existing business into new areas or markets.

Securing funding for your startup or expansion plans can be a time-consuming and often daunting process and typically takes 3 or 4 months. There are various options available to raise alternate funds and in this article we will look at the pros and cons of two of the most common ones:

1. Venture Capitalists; and
2. Angel Investors.

Before embarking on the journey to secure funding for your business, it's crucial to understand the differences between various types of funding and the types of investors involved. Armed with this knowledge you'll be able to make informed decisions that will set your business on the path to success.

WHO ARE VENTURE CAPITALISTS?

Venture Capitalists (VCs) play a pivotal role in financing startups during their mid-stage growth phase when substantial funding is required to manage cash flow effectively. VCs typically have teams of analysts who assess potential investments and actively engage in managing the businesses they invest in through board representation.

VCs source their funds from various entities, including pension funds, insurance companies, and high-net-worth individuals. What sets VCs apart is their appetite for risk, making them more inclined toward unconventional investment avenues like startups, rather than traditional investments such as stocks.

PROS AND CONS OF WORKING WITH VCS:

Pros:

1. VCs offer substantial funding, normally ranging from £250k - £5m, reducing the need to seek financing elsewhere.
2. They are more inclined to take risks on early-stage businesses, providing crucial support.
3. VCs bring resources and expertise beyond financial backing.
4. Unlike traditional loans, venture capital does not require regular repayments.
5. VCs aim to exit investments in 5-7 years, providing long-term support.

Cons:

1. The approval process for VC funding can be challenging, with low acceptance rates.
2. Founders may need to give up a significant portion of equity.

3. Long-term commitment and loss of control can be drawbacks.
4. The true cost of equity becomes apparent upon exit.
5. Shareholders may vote to replace the founders if expected results are not achieved.

WHO ARE ANGEL INVESTORS?

Angel Investors are wealthy individuals who invest in new businesses for long-term profit potential. Typically they invest between £10,000 to £250,000, and make relatively fewer investments. They often provide funds in exchange for equity ownership or convertible debt.

Angel investors come from various backgrounds, including retirees, athletes, and entrepreneurs. Angel investors primarily invest in early-stage startups and have more flexibility in their investment decisions compared to institutions. They provide critical capital when founders need it most, often without the need for a proven financial track record. Unlike venture capitalists

ANGEL INVESTORS PROS AND CONS:

Pros:

1. Angel financing is available during the critical seed stage.
2. It doesn't require a proven financial history or personal collateral.
3. Angel investors provide more flexibility and adaptability.
4. Angel investors typically do not seek board representation.
5. Angel investors often bring networking, mentorship and connections.

Cons:

1. Founders may need to give up a significant equity stake.
2. The risk of startup failure can result in losses for angel investors.
3. Finding the right angel investor can be challenging.
4. Less formality may lead to misunderstandings without proper documentation.
5. Investors may exert pressure to meet objectives quickly.

Both angel investors and venture capitalists take risks, but they differ in their investment approaches. Angel investors prefer early-stage startups, while venture capitalists focus on established businesses. Understanding these differences is crucial when seeking funding.

INVESTMENT DURATION:

Angel investors may wait for several years for returns, while venture capitalists operate on an 8-12-year fund horizon.

KEY SIMILARITIES AND DIFFERENCES BETWEEN ANGEL INVESTORS AND VENTURE CAPITALISTS:

Both angel investors and venture capitalists invest money in exchange for equity ownership. They often have extensive networks and business experience to offer. However, they differ in their investment focus, approach, and source of funds.

Need help?
Securing the right funding for your business is crucial for its success. Should you wish to find out more about Venture Capitalists or Angel Investors for your business, please contact us and we will work with you and help turn you dreams into reality and navigate the complex world of business financing with confidence.

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ADVICE & BEST PRACTICE

BUYING A BUSINESS: ARE YOU PAYING A FAIR PRICE?

Buying another company can be a risky business, but also brings exciting opportunities – so how do you make sure you know what you're getting into, and that you pay a fair price?

'Due diligence' is the process of identifying a business' assets and liabilities, and evaluating its commercial potential. In a nutshell, it is this process which will bring to light any risks associated with the purchase of the business in question, including whether the price you have agreed is a fair price. If you pay too much this may prevent you from being able to add further value to the business and reduce your chance of success; equally, underestimating the value of a business could result in a missed opportunity to acquire a business with real potential.

In this article, we will explore various elements of conducting due diligence and highlight its importance in the acquisition process.

Before we get into the detail though, it's worth noting that there are several advantages to using independent advisors to undertake the due diligence work:

- Objective evaluation: Independent appraisers provide an unbiased assessment of the business
- Professional expertise: Independent advisors bring specialised knowledge and experience
- Risk and opportunity identification: Appraisals help identify potential risks and opportunities
- Validation of financial statements: Independent appraisals validate the accuracy of financial statements on which valuations are often based
- Legal compliance: In some cases, legal requirements necessitate independent appraisals

WHAT ARE THE KEY ELEMENTS OF DUE DILIGENCE?

1. Thorough review of the financial statements
Financial statements, including the income statement, balance sheet, and cash flow statement, are critical tools for understanding a company's financial health and performance. Analysing these statements helps buyers determine profitability, liquidity, and overall financial well-being.

As part of this review key financial indicators will be used for an assessment of the company's financial condition and overall performance. These will include:

- Revenue growth: A successful business demonstrates consistent revenue growth over time
- Profit margins: High profit margins indicate a company's ability to generate profits; a comparison of gross margin to net margin allows understanding of the key cost drivers in the business
- Return on Investment (ROI): A high ROI reflects strong returns on investments within the business
- Debt-to-equity ratio: This ratio reveals the company's reliance on debt financing
- Cash flow: Healthy cash flow indicates financial stability and liquidity

During financial statement analysis, it's essential to watch out for common red flags that may indicate underlying issues. Some more common examples of these as follows:

- Unusual accounting practices: Irregular or unusual accounting practices may signal financial reporting problems, for example, modifications to accounting policies or aggressive revenue recognition
- Deteriorating revenue or profit margins: A continuous decrease in revenue or profit margins may indicate ongoing issues which will ultimately impact profitability
- High debt or liabilities: Excessive debt can pose challenges in meeting future financial obligations
- Overstated assets or understated liabilities: These issues can misrepresent a company's financial status
- Unexplained fluctuations: Sudden changes in financial metrics may indicate reporting inconsistencies

Identifying these red flags helps buyers make informed decisions about a business's value and whether additional due diligence may be required.

2. In depth review of the business
Other areas of the business will be considered to get a complete picture of the company's operations as well as its financial performance. This will include:

- Legal and compliance review: Any licences, contracts and permits as well as a consideration of any claims against the company
- Intellectual property searches: Confirm any trademarks, patents and copyrights are fully protected
- Customer and supplier contracts: Including the terms and conditions to ensure any potential risks are identified
- Employee contracts: Check that these comply with rules and regulations, and consider if any non-compete clauses are in place which could form a risk should there be any key employees
- Review of operational processes: An insight into where efficiencies could be made as well as any potential problem areas
- Marketing and sales: The company's marketing approach and risks to reputation

3. Industry research and its importance:
Researching the industry in which the company operates is essential for understanding market dynamics, competition levels, and growth potential. When considering an acquisition it is important to:

- Identify potential risks and opportunities: For example, changes in consumer tastes, developing technologies and growth in the industry and as to whether these are opportunities or threats
- Market trends: Research into the market for the various product lines as well as gaps in the market which could be exploited
- Understand the competitive landscape: Who has market share of the industry to assess the company's position within the sector
- Benchmarking: Industry benchmarks for financial performance may be available; buyers can compare financial performance to industry averages and use this information to assess the purchased business's potential for growth

NEGOTIATION

Independent assessment findings from the work undertaken above serve as an unbiased opinion on both the current position of the business and future opportunities.

The buyer can use the findings from the due diligence process to bargain for a lower purchase price if they think the company is overvalued. This will ensure they do not overpay for the business based on both its current performance and potential growth.

CONCLUSION

Thorough due diligence is vital when acquiring a business, and should include a comprehensive review of financial statements, market research, and other risk factors. Collaborating with specialists, such as accountants and solicitors, will help you make well-informed decisions and avoid costly mistakes. It is importance to approach the assessment process with an open mind, considering various viewpoints and review techniques, to ensure a fair purchase price and a successful acquisition.

If you'd like to discuss this further, please contact your relationship partner or one of the Sowerby team.

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WHAT'S HAPPENING AT SOWERBY...

TEAM UPDATE

We've had a busy summer recruiting five new team members and we'd like to welcome them to the team.

Sarah Wragg joined Sowerby in August 2023 as Director of Owner Managed Businesses. Having worked previously in both Practice and Industry, Sarah brings a wealth of knowledge as she has had hands on experience of both sides of the table. Sarah qualified and worked for 17 years at a Top 10 Accountancy firm in the UK, focusing predominantly on SME's. Sarah then moved to industry for 7 years before joining Sowerby. Her passion is helping and supporting clients through both the good and challenging times.

Adam Welbourne also joined us in August as Audit Director, having gained experience from both practice and industry. Adam enjoys helping his clients to achieve their business aims and embodies the Sowerby ethos of large company expertise delivered with a personal touch.

Nicole Dixon joined in September as Tax Senior Executive. Being CTA qualified she has spent several years working with a variety of different clients after starting her tax journey straight from sixth form.

Dominic Judd joined us in June as Tax Trainee and is currently studying for his AAT.

Sinem Ozer joined us in September as a Trainee Accountant after leaving the University of Hull with a first class honours degree in Accounting. After spending her placement year with Sowerby, Sinem returned to start her career and complete her accountancy qualifications.

Pictured from left to right:
Seated – Nicole Dixon, Adam Welbourne
Standing - Sinem Ozer, Dominic Judd, Sarah Wragg

TOTAL WARRIOR

At the start of July our team completed the Total Warrior challenge in Leeds. They raised an amazing £1370 for the East Yorkshire Foodbank, which will go towards helping people struggling with the cost of living in the area. Well done to all who took part from Team Sowerby and thank you to everyone who sponsored them.

SUMMER BBQ

The team also had a fabulous time at our Summer Family BBQ, which we held at Tickton Grange in August. It was a great opportunity to meet everyone's families and socialise outside of work.

Unfortunately, the weather wasn't on our side and the main event was held indoors (it's amazing where you can fit a bouncy castle and a surf simulator!). But everyone had a great time, and hopefully the sun will be shining next year!

CHARITY 'AFTERNOON TEA'

In August we joined in with Breast Cancer Now's Afternoon Tea fundraiser. We have some amazing bakers in the team and were treated to a fantastic selection of treats. The team at Goole also held their own event and in total we raised £157.50.

If you'd like to keep up to date with Sowerby news, you can find us on LinkedIn, Twitter, Instagram and Facebook.

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