

Shape up to profit from a fast-changing market

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Attracting investors: Holly Tucker, left, and Sophie Cornish of Notonthehighstreet.com



Controlled growth, backed by a clear business plan and solid financing, delivers success in these uncertain times, says BDO's Alex White

Cutting costs and postponing expansion plans is tempting in turbulent economic times, but it can be wasteful in the long run and change a firm's character with far-reaching consequences. Business involves risk and it demands a determination to succeed, so ambitious firms are pressing ahead with actions to drive controlled growth.

Companies such as those on the Fast Track 100 are investing and innovating to seize opportunities arising from wide-reaching changes in the global market. Some are making acquisitions or looking overseas for new sources of revenue. Many more are developing new products and services. All understand that having finance in place to move quickly in the coming months will be crucial for future success.

Firms that can win investors' confidence with a clear business plan, a willingness to innovate and an outstanding management team, will be in a strong position to respond decisively to opportunities as the international economy evolves and potential customers reassess how and what they buy.

What's more, our latest BDO

Private Equity Survey, published last month, has confirmed that investor appetite for outstanding ventures is still growing and that the pressure to deploy funds in good businesses is intense. More than half of the private-equity managers we polled said they expected to ratchet up investment in 2012. Technology, business services, healthcare and energy are the sectors forecast to receive the most interest, but no sector is excluded.

Our research also suggested that firms supported by private equity were likely to outperform the market. Nearly two thirds of those polled thought they had outpaced their sector while three quarters said they were growing.

These findings are likely to cheer the 20 league-table companies, including Amber Taverns (No 47), restaurant operator Patisserie Valerie (No 52) and online sports retailer Wiggle (No 85), that have kick-started their growth plans by winning backing from private-equity backers, venture capitalists or business angels.

Many league-table firms are already demonstrating the strong competitive advantage that early investment and

growth can deliver. Take Notonthehighstreet.com, the online marketplace at No 9 on the list. Last year the company, which sells unique items handmade or hand-picked by some of Britain's best small creative businesses, secured £7.5m of funding from Index Ventures and Greylark Partners, which joined the existing investors Venrex and Spark.

Support from experienced investors — Index has backed previous Fast Track 100 league-table firms, including Net-a-Porter and Lovefilm — has helped the venture to double its growth rate year-on-year despite a worldwide recession, say Sophie Cornish and Holly Tucker, who co-founded the firm in 2006. Sales have grown from £913,000 in 2007 to £15.1m in 2010. The firm plans to use the additional investment to upgrade its website, expand abroad and support up to 3,200 sellers by 2013.

BDO's research found that almost 40% of private-equity-backed companies are considering bolt-on acquisitions to grow shareholder value prior to an exit. The strategy is also proving popular among league-table firms. This year, at least 14 have attributed their sales

growth to acquisitions. Among them is the No 1 company, pharmaceutical-services provider Clinigen, which has added sales of £17m this year by snapping up rivals and complementary service providers such as Keats Healthcare.

The extra cashflow the Keats deal generated allowed Clinigen to acquire the rights to manufacture and distribute the anti-viral medicine Foscavir from Astra Zeneca. The transaction was the first example of Clinigen's strategy of acquiring medicines that have been sidelined by manufacturers. Over the past year it has reviewed about 4,000 drugs to identify its next targets. Clinigen also manages the distribution and supply of unlicensed drugs, in line with medical guidelines, to named patients with specific requirements. As a result, sales rose an impressive 242% a year, from £875,000 in 2008 to £35m in 2011.

Ambition is vital, but so is careful management in today's market. Quercus Publishing, at No 79, has taken a measured approach to expansion after the international success of Stieg Larsson's bestselling Millennium Trilogy, which helped boost sales from £8.6m in 2007 to £31.8m in 2010. The firm is developing its intellectual-property base, geographical reach and digital publishing operations, according to co-founder Mark Smith.

Over the coming years, private firms such as those on the Fast Track 100 have the ambition and momentum to deliver the growth that will help drive

Britain's economic recovery. As the Fast Track 100 research shows, together, the league-table companies added a total of 4,800 jobs to their payrolls over just the past financial year, a rise of 36%.

With a positive mindset and willingness to take managed risks, business can develop the character needed to succeed in challenging markets and emerge as the long-run winners in their market.

BDO in Britain and member firms around the world support entrepreneurs through a full range of financial advisory services to help businesses adapt to changing conditions and respond to growth opportunities when they arise.

After more than three years of economic turmoil and no immediate end in sight, we are seeing a distinction emerge between companies seeking out growth and those who batten down the hatches waiting for it all to get better.

Our most successful clients are pressing ahead with plans for the future, even if the journey is uncertain, rather than merely reacting to the present. We see this evidenced by the referral activity in our international network, helping companies to raise finance and support in business planning.

The corporate success stories for the next 10 years will come from companies that have the nerve and financial capability to move forward while others risk being left behind.

■ Alex White, a corporate-finance partner at BDO, was talking to Catherine Wheatley