

UKBB 118 July 2008 Analysis

The July 2008 survey focused on the impact on smaller businesses of the rise in fuel prices and the impending rise in energy costs; passing through price increases to customers, stock levels, software packages for anti-virus and anti-spyware and questions on growth, skills shortages, lack of finance and low market demand.

About the respondents

The UK Business Barometer surveys the people running small and medium size businesses. In the July 2008 survey, 110 respondents were drawn with the following population characteristics:

Sector			
Production & Manufacturing	Distribution	Services	Total
21.8%	10.0%	68.2%	100%

Turnover (£)			
< 1M	1M - 3M	> 3M	Total
68.2%	16.4%	15.5%	100%

Number of Full-time Employees					
1-10	11-20	21-50	51-100	100+	Total
60.9%	23.6%	7.3%	3.6%	4.5%	100%

Survey findings

Recent weeks have seen rapid increases in fuel prices. Commercial transport has seen bulk fuel prices rising by over 30% in the last 12 months, while pump prices for diesel at the beginning of August 2008 were up by 37% and unleaded petrol by 24% compared with August 2007.

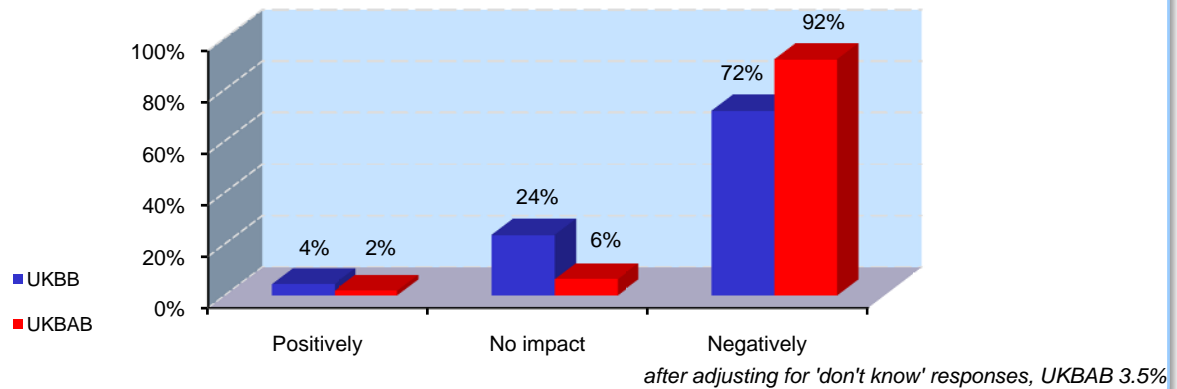
The increase in fuel prices is not bad news for all businesses: 4% of UKBB respondents said that the increases had a positive or strongly positive impact on their businesses and 24% said there was no impact from the increases. The remaining 72% have experienced a negative or strongly negative effect.

One of the respondents for whom increased fuel prices is good news explains: "Increased fuel costs (are) good for our business. Our field service customers need our productivity software more to minimise their journeys."

However, another respondent commented "the increase in fuel and the current credit crunch has had a detrimental effect on our customers who in turn are not looking to expand their businesses, which has a knock on effect to our business. There is definitely an underlying current of "lets not spend just in case it all gets worse".

2% of business advisers responding to the parallel UKBAB survey said that their clients businesses were positively affected, but 92% said that clients businesses were slightly or strongly negatively affected. Only 6% thought there would be no impact on their clients' businesses.

UKBB: To what extent has the increase in fuel prices impacted upon your business?
UKBAB: To what extent has the increase in fuel prices impacted upon your clients' businesses?

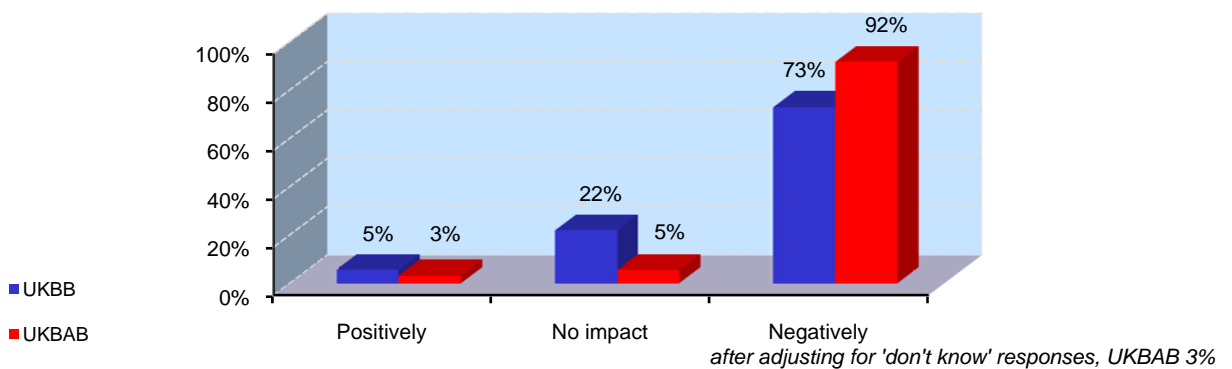


As well as increased fuel prices, energy price rises have increased the pressure even further on smaller business owners; average prices have risen 38% in 2008 with a resultant 'negative' or 'strongly negative' effect reported by 73 per cent of UKBB respondents.

5% of UKBB respondents said that the increases will have a positive or strongly positive impact on their businesses and 22% said there is not likely to be any impact from the increases.

3% of business advisers responding to the parallel UKBAB survey said that their clients businesses will be positively affected, but 92% said that clients businesses will be slightly or strongly negatively affected. Only 5% thought there would be no impact on their clients' businesses.

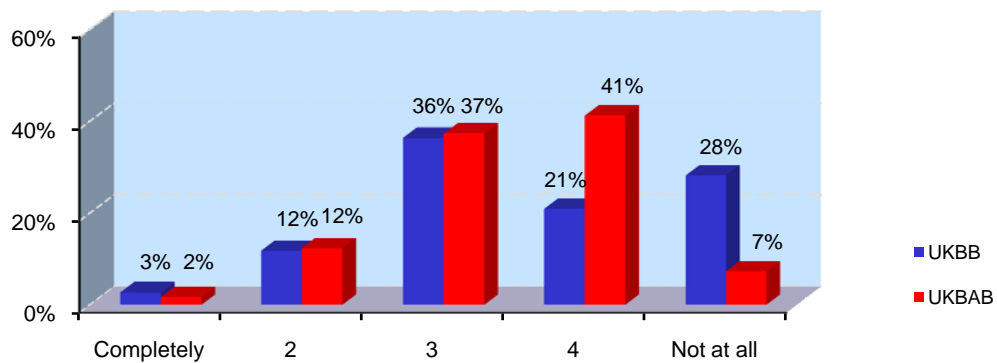
UKBB: To what extent will the expected increase in energy prices impact upon your business?
UKBAB: To what extent will the expected increase in energy prices impact upon your clients' businesses?



A major factor on the 72%/73% experiencing or expecting negative impacts on their businesses is finding difficulty in passing on increases in fuel and energy costs to customers. This negatively affected group comprised 83% of the 49% of UKBB respondents who said they cannot pass on price increases to customers at all or to a very limited extent. Only 3% are able to pass through such price increases completely.

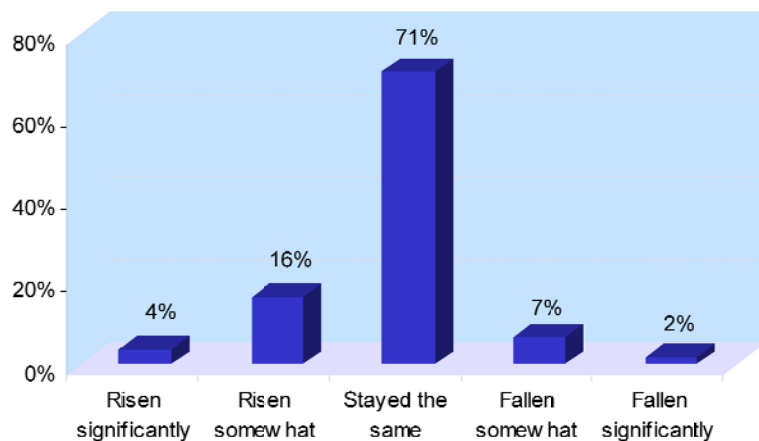
Respondents to the parallel survey of business advisers, the UKBAB, generally thought that some of the price increases could be passed through to customers by their clients, although 7% thought no increases could be passed on.

UKBB: To what extent are you able to pass on increases in fuel and energy costs to your customers?
UKBAB: To what extent are clients able to pass on increases in fuel and energy costs to their customers?



20% of UKBB respondents say that stocks of finished goods have risen either significantly or somewhat, compared to a year ago, although for 71% of respondents, stocks are level with a year ago and 9% found that stocks have fallen either somewhat or significantly.

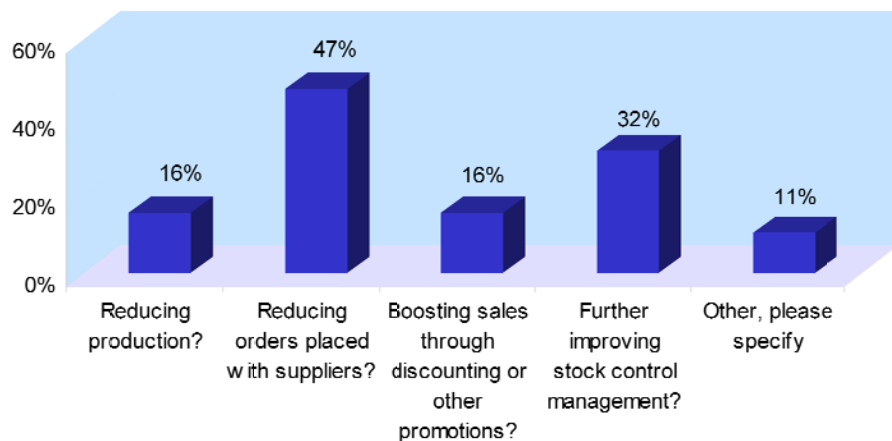
What has happened to your stocks of finished goods relative to sales, compared to this time last year?



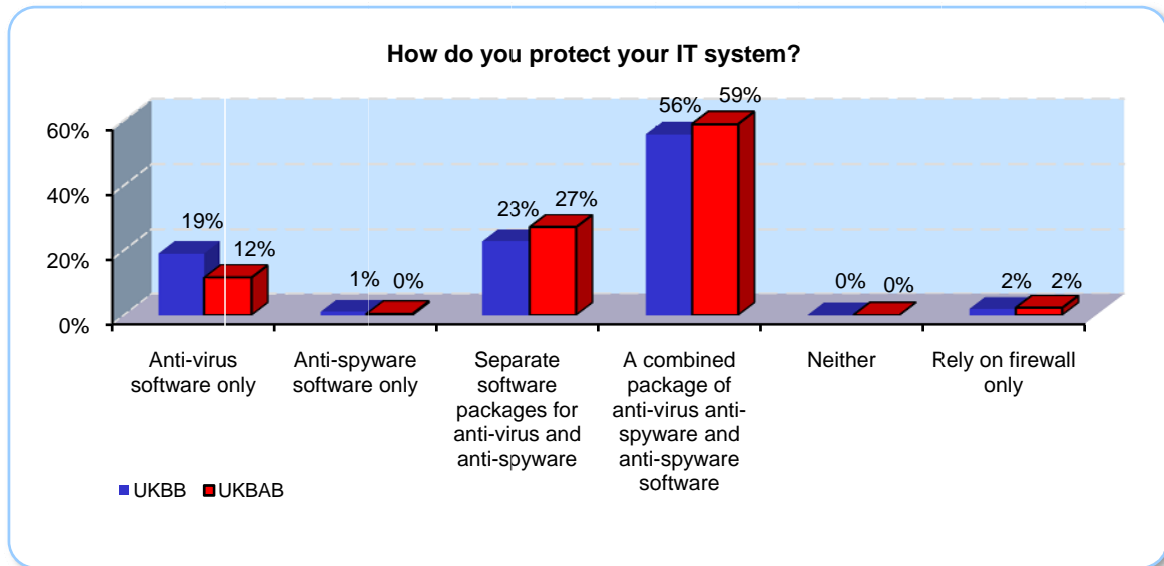
Asked if they consider their current level of stocks is too high, 19% of respondents said 'Yes'.

Of these, 47% said that they would reduce orders from suppliers and 32% said that they would tighten up on stock control management, in order to reduce stock levels.

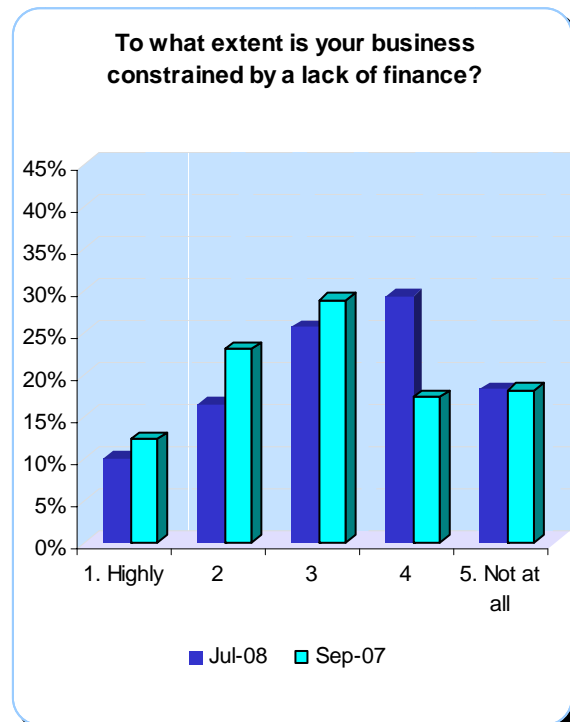
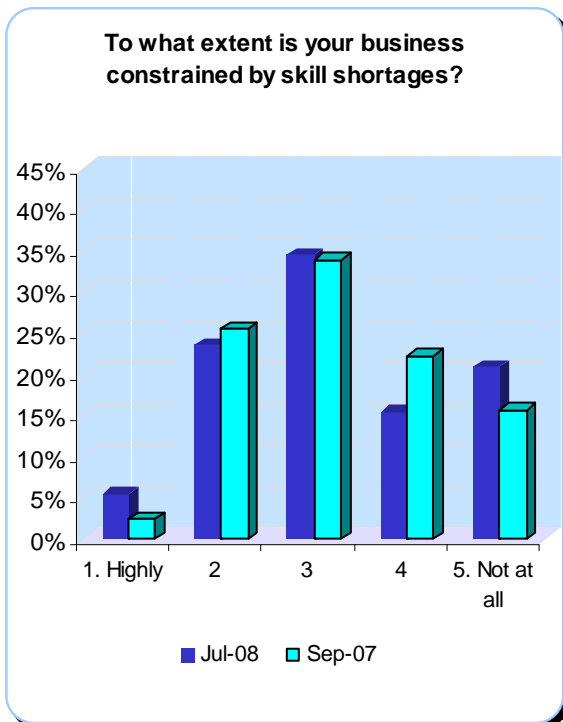
Do you expect to reduce your stocks to a more normal level by ... (tick as many as applicable)



27% of Business advisers responding to the UKBAB survey said that stock levels have become more of an issue for their clients as a consequence of the recent financial crisis. Computer spyware is now reckoned to be more dangerous to businesses than computer viruses, and yet 22% of respondents to the UKBB and 14% of respondents to the UKBAB only have one component of protection: i.e. they have anti-virus or anti-spyware software or rely on their firewall. Software combining anti-virus and anti-spyware functionality is the most popular form of protection, with 56% of UKBB respondents and 59% of UKBAB respondents using this type, while close to one quarter of both groups uses separate packages for each.



The five 'trends' questions investigate the major influences on progress of UKBB respondents, in terms of skill shortages, shortage of finance and market demand, together with looking at recent and expected short term growth.



UKBB respondents are roughly divided into three nearly equal groups, with a little under one third saying their businesses are constrained by skill shortages to a high or somewhat high level, close to one third effectively saying that business constraint due to skill shortage is present but not acute, and over one third saying that skill shortages are not constraining their businesses very much, if at all.

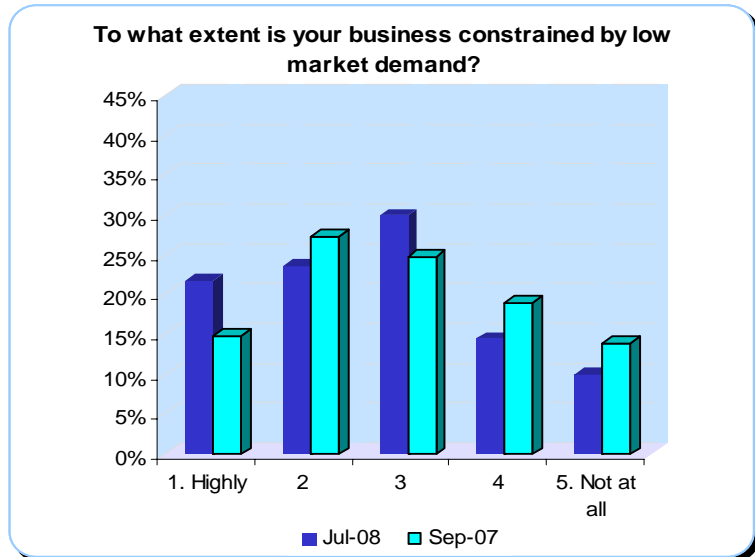
This result is relatively close to with last September, when this question was last put, although this time around a higher percentage says their businesses are not at all constrained by skill shortages.

In terms of business constraint due to lack of finance, there has been a more perceptible change. A higher percentage is saying that lack of finance is not constraining their businesses at all or not much, pulling the average response down by 8% to 2.71 from 2.94.

Low market demand is constraining surveyed businesses more than during autumn last year. The average for this increased by 7% since last September, and the percentage whose businesses are highly constrained by low market demand has increased from 15% to 22%.

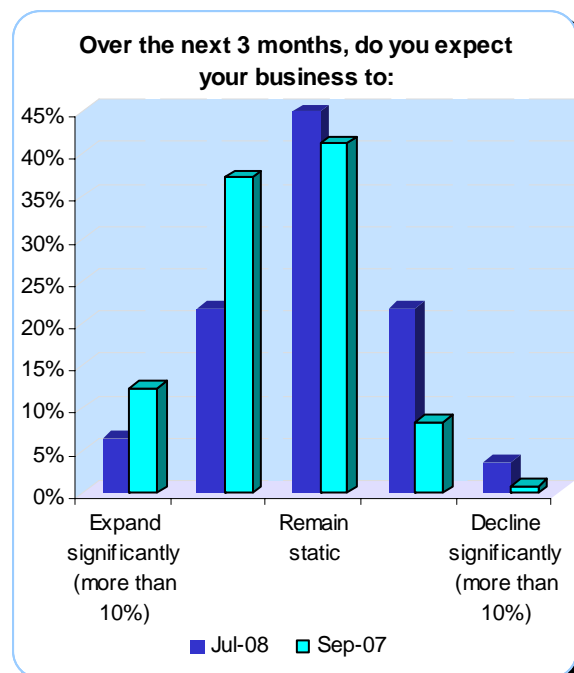
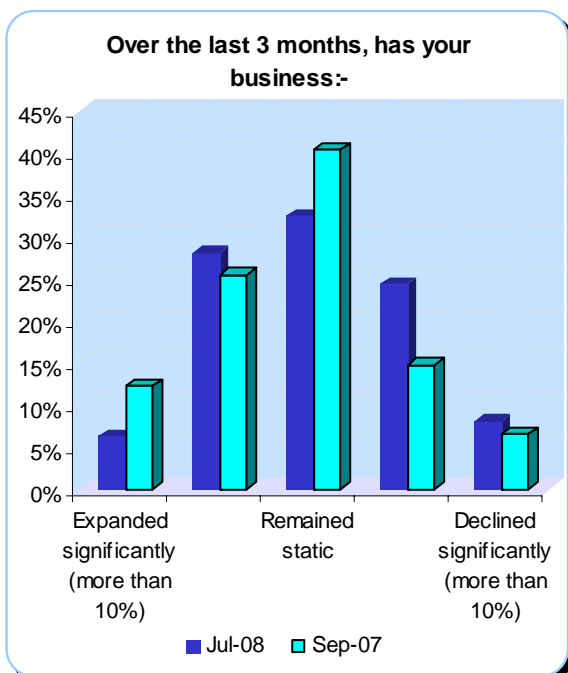
Comparing these three attributes, it is clear that skills shortages and shortage of finance are not issues at present for respondents, while low market demand is an issue. The balance of responses between High/somewhat high and Not at all/very little is negative for

constraint due to both skills shortages and lack of finance (-7.3% and -21.1% respectively) while the balance for constraint due to low market demand is more positive (20.9%) than in September 2007 (9.2%). Furthermore, whilst the balance on constraint due to skill shortages has slightly increased since last September (from -9.9%) the balance on constraint due to lack of finance has moved noticeably, (from -0.1%).



The average growth rate over the last quarter from UKBB respondents has decreased by 7% compared to the September 2007 survey. The balance between those who reported positive growth and those who reported negative growth has changed from +16.5% last September to just 1.9% in July 2008.

Respondents clearly fear there is worse to come, with a decrease of 13% in the average expectation for the next three months compared to the September 2007 survey, and an even more marked deterioration in the balance figure, from 40.5% last September to 2.8% this July.



Some respondents took the opportunity to contribute general comments on the economic situation and what they view as contributory factors (Views expressed are those of individual panellists and may not represent those of the University):

- More and more businesses in SME sector are suffering from direct and indirect taxation, red tape and lack of support. Business Link could provide very real support to maintain business growth but with introduction of IDB model, something BL advisers and BL customers are clearly against, the assistance that can be given is severely restricted. Government, and those that direct BL activity, have little or no idea of the needs of small businesses and the real issues they face. I have never had so many enquiries from technology businesses looking to move
- As far as we are concerned at this stage the only negativity is coming from the media who dramatise and over emphasise any negative news related to the economy. We need responsible reporting.
- HMRC is charging a fee of £95 for complying with Money Laundering !this is a tax will be deducted from my profits
- Given the way the government acts I see a very dark future in this country