

## UKBB 120 November 2008 Analysis

The November survey looked at debit and credit issues facing smaller business at this time of economic slowdown. Changes in turnover, employment, investment and prices were also investigated, also the impact of foreign workers departing from the UK.

### About the respondents

The UK Business Barometer surveys the people running small and medium size businesses. In the November 2008 survey, 119 respondents were drawn with the following population characteristics:

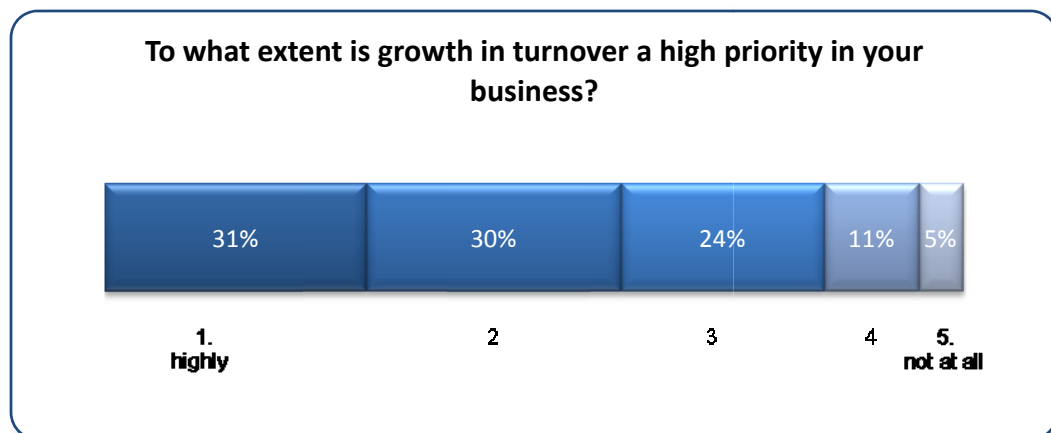
Sector			
Production & Manufacturing	Distribution	Services	Total
19.3%	8.4%	72.3%	100%

Turnover (£)			
< 1M	1M - 3M	> 3M	Total
66.4%	18.5%	15.1%	100%

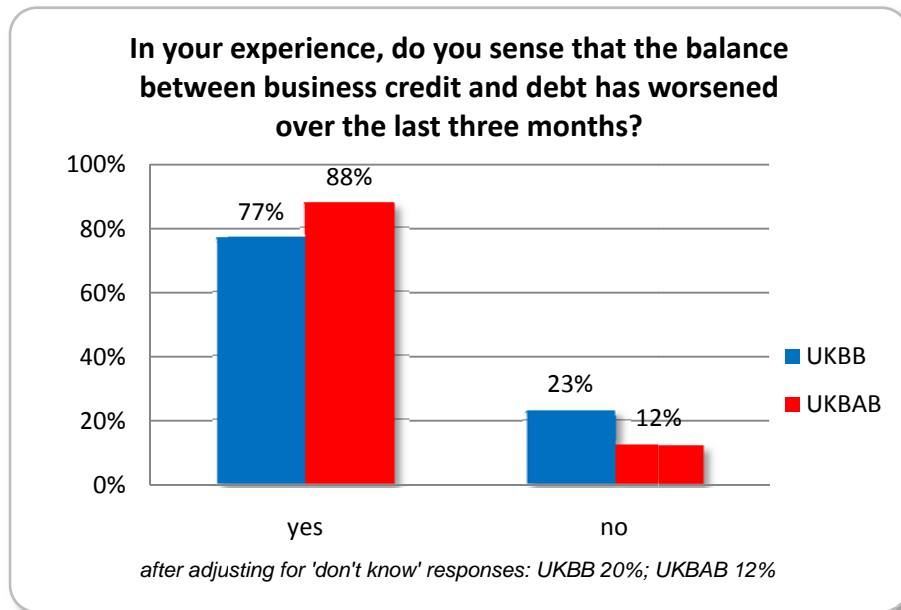
Number of Full-time Employees					
1-10	11-20	21-50	51-100	100+	Total
59.7%	24.4%	6.7%	3.4%	5.9%	100%

### Survey findings

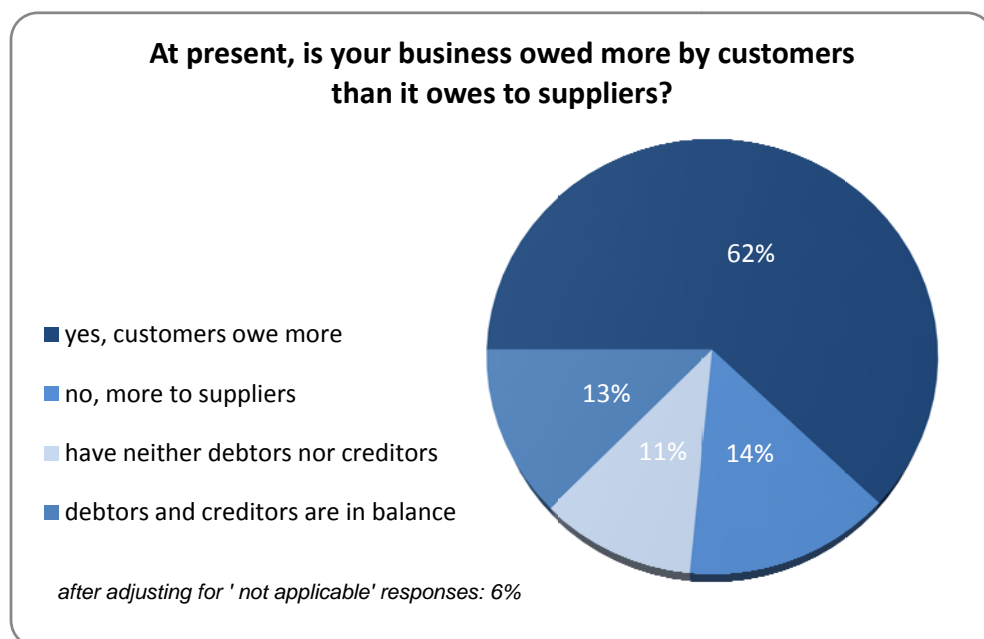
With the downturn in the UK economy beginning to bite, achieving positive net growth may be less of a target for businesses at the moment, rather than simply aiming to survive. The November UKBB survey opened with a question, the responses to which indicated that a large minority of smaller businesses are indeed prioritising elsewhere currently. 61% said that growth in turnover is a high or relatively high priority for their businesses, while 16% said that turnover growth is not at all, or a low, priority and 24% expressed a midway viewpoint.



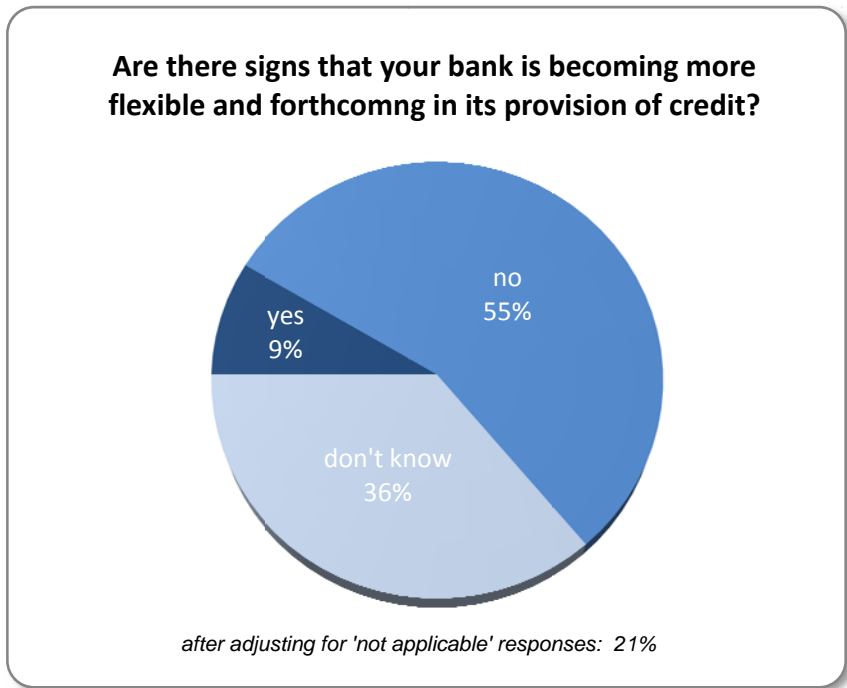
There has been much media and business organisation coverage about the difficulties being experienced by business, particularly smaller businesses, due to reduction of available credit and increases in late payments. Panellists were asked to consider whether, from their experiences, they sensed that the balance between business credit and debt has worsened over the last three months. The same question was asked of business advisers in the parallel UKBAB survey. Comparing the two sets of very positive responses, a larger proportion of the business adviser respondents think that the balance has worsened over the last three months (approximately September - November 2008) than amongst the smaller business respondents.



At the level of individual businesses, around 60% of respondents have customers owing them more than they owe to suppliers – a clear cause for concern when cash flow and credit lines are being squeezed. However, nearly one quarter of respondents either have no debtors or creditors, or have a balance between debtors and creditors.



Between September and December 2008 the Bank of England reduced its Base Rate three times: by ½% on October 8<sup>th</sup>, by 1½% on November 6<sup>th</sup> and by 1% on December 4<sup>th</sup>. This survey went out shortly after the second reduction, which was intended to encourage high street banks to restore provision of credit to businesses and households. Panellists were asked about improvements in bank credit support following the November base rate cut. After adjusting for 'not applicable' responses, over half the respondents said there were no signs of increased flexibility or cooperation from their banks, although 9% said they had experienced this.



In the parallel UKBAB survey, business advisers were asked if banks generally were becoming more flexible and forthcoming in their provision of credit. 71% of respondents said 'No' and only 4% said 'Yes'.

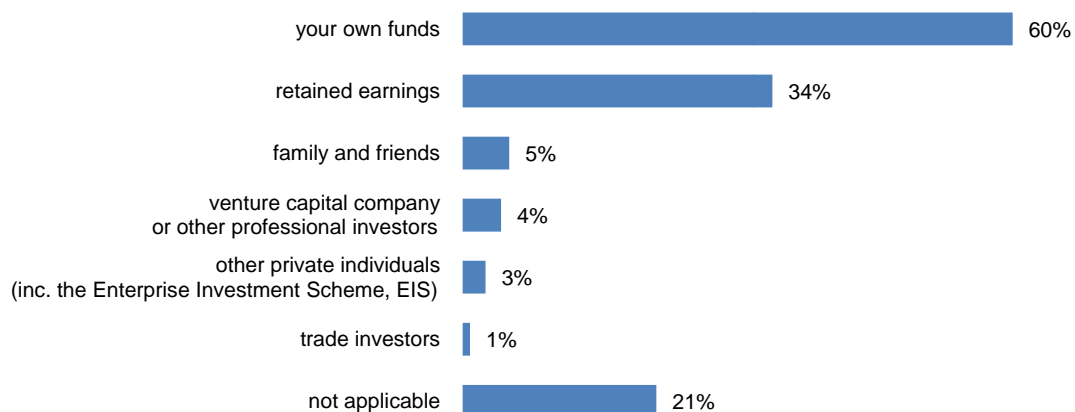
### Sources of Capital

Sources of capital were examined, looking separately at equity funding and loan funding.

The maximum number of equity sources, indicated by 4% of individual respondents, was three while 20% have two sources and 55% have a single equity source. Of those with a single source, 68% is from their own funds while 25% is from retained earnings.

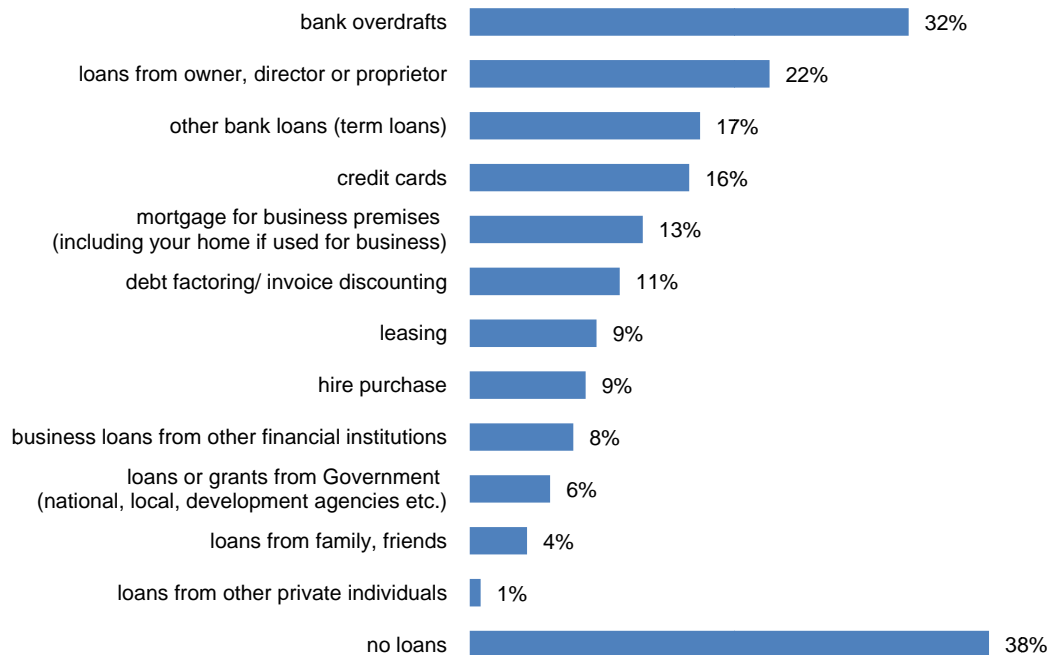
60% of all respondents have their own funds invested in their businesses and 34% of all respondents' businesses have retained earnings in their balance sheets.

### **Sources of capital attributable to equity**



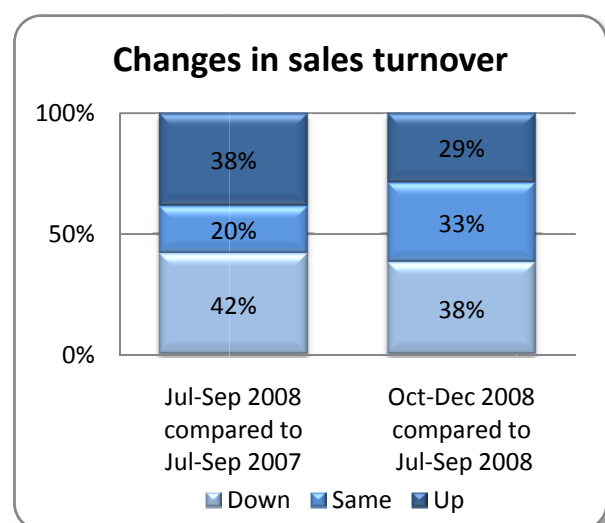
In terms of loans, 38% have two or more types of loan credit, 38% have no loans of any kind (not even a business credit card) and 24% have only one loan source. One third of the 32% of respondents with bank overdrafts also had other bank loans (term loans).

### Sources of capital attributable to loans



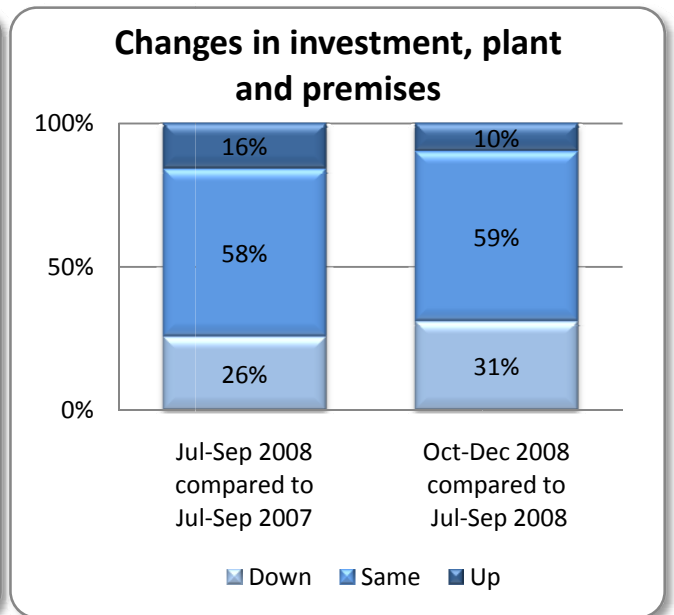
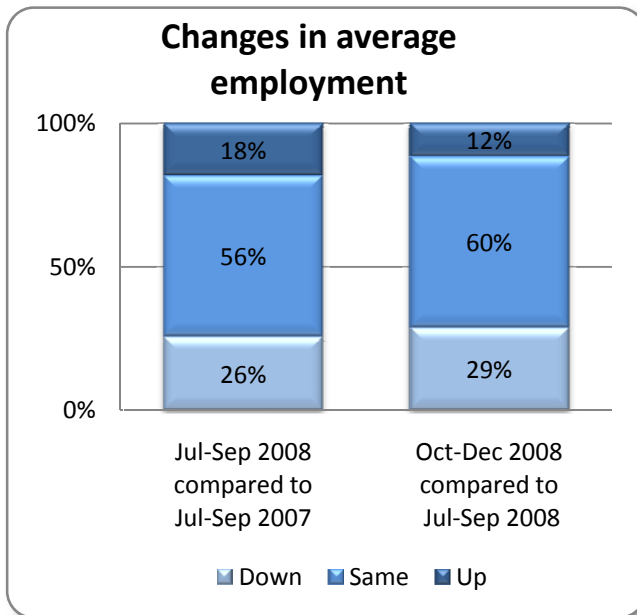
### Performance Indicators

In line with national statistics, responding businesses are reporting weaker performance over the last six months. Third quarter sales show a negative balance of 4% between those reporting increases and those reporting decreases compared to the same period of the 2007, and the current quarter is expected to show an even greater negative balance of 9% compared to the third quarter 2008, after adjusting for 'not applicable' responses.



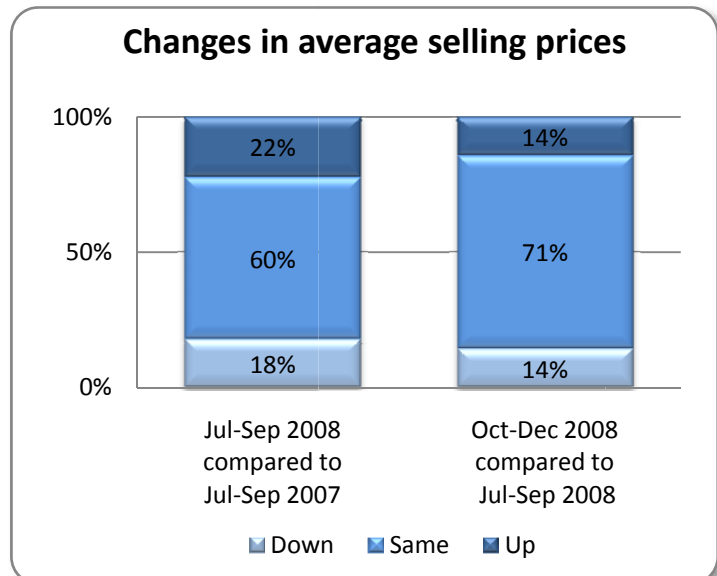
The balances for average employment, and investment in plant, equipment and premises were also negative and worsening over the comparable periods:

<b>Balances (Up% - Down%)</b>	<b>Jul – Sep 2008 on 2007</b>	<b>Oct – Dec on Jul – Sep 2008</b>
Average employment	-8%	-17%
Investment in plant, equipment and premises	-10%	-21%

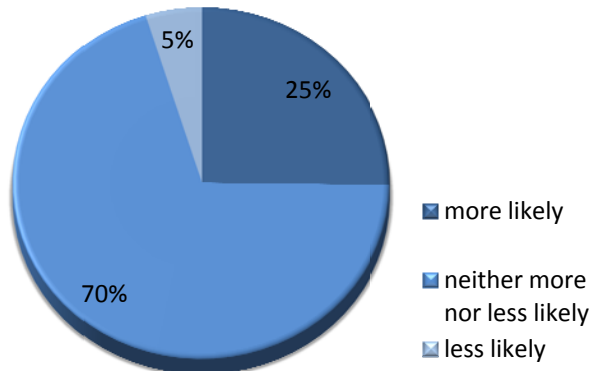


All the above are after adjusting for 'not applicable' responses

The balance in average selling prices indicated the trend towards deflation that is becoming evident in the rest of the economy, with equal percentages of firms increasing and decreasing average prices in the most recent period, following net increases of 4% between raised and lowered average prices over the 12 months ending in Q3 2008, after adjusting for 'not applicable' responses.



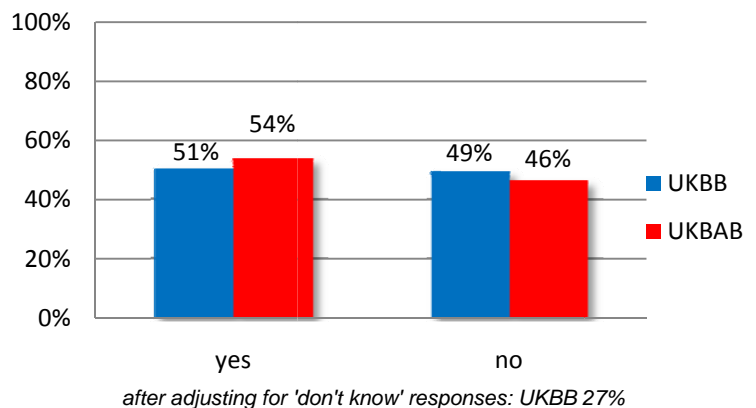
**Are you more or less likely to take business advice because of the current economic difficulties?**



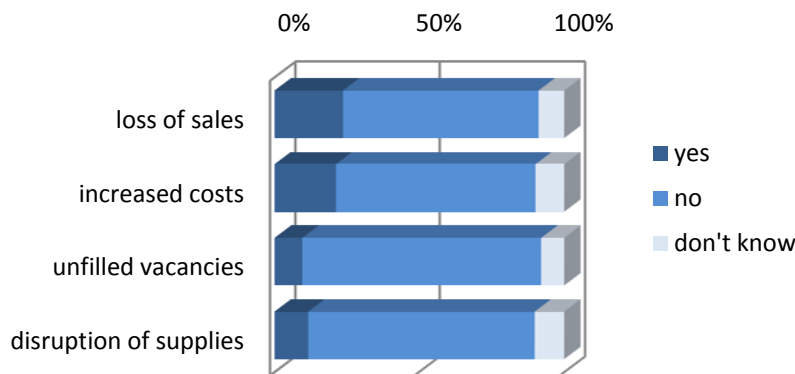
In the parallel survey of Business Advisers, 52% of respondents report that they have experienced an increase in the number of clients seeking business advice over the last three months (approximately mid-August to mid-November). However, only a minority of respondents to the UKBB (25% after adjusting for 'not applicable' responses) say they are more likely to take business advice because of the current economic difficulties.

Amongst the smaller businesses responding to the UKBB, there was a fairly even split between those agreeing that now is good time to start a new business and those who disagree. The same question was asked in the parallel UKBAB survey of business advisers and again the split was fairly close.

**Some pundits think that now is a good time to start a business. Do you agree?**



**Effects on businesses of departures of foreign workers**



Since 2004, when 8 new countries joined the European Union, more than 750,000 east and central European workers have taken jobs in the UK. But recent research shows that as the UK economy shows signs of slowing and shrinking, foreign workers are returning to their own countries. Panelists were asked how, if at all, this new trend is likely to affect their businesses. After adjusting for 'not applicable' responses, 23%

said it was likely to result in loss of sales, 21% could foresee increased costs, 10% expect unfilled vacancies and 12% think that they will experience a disruption of supplies.

**Listed below are some of the personal views supplied in feedback received from respondents to Survey BB 120 November 2008  
Views expressed are those of individual panellists and may not represent those of the University.**

Those people at the sharp end of business have been saying that a recession was imminent. What a pity the so-called brains and politicians took so long to realise it!

In the last 8 weeks orders for the automotive and capital goods sector have dropped very significantly

UK is better than Europe, apart from Switzerland

Turnover is a high priority, but profit is even higher.

Q10. [Time to start a business] - Depends on the type of business. Starting an estate agents business might not be a good idea, but starting up a plumbing business may be.

Re. Q10 [Time to start a business] - It would depend upon the business idea as to whether now would be a good time to start. There will always be business opportunities regardless of the economic climate.

The banks seem to be tightening their credit even further - a NatWest manager says I now spend all my time telling good prospects that they have been turned down by our credit people.

The switch by factoring companies to use LIBOR\* as their base rate means borrowing costs have gone up after the last rate cut.

\* LIBOR - London Inter-Bank Offered Rate. The rate at which international banks lend to each other. Libor, which is effectively a measure of the credit crunch, is calculated every business day in 10 currencies and 15 time spans, ranging from overnight to one-year based on the level at which banks have been lending to each other. It is set and announced at around 11am in the UK. Operating since the mid-1980s, it normally sits marginally higher than the central bank rate. It helps dictate the level at which lenders set rates on new mortgage deals.

There will be an increasing number of companies closing, international trade is slowing.

The fault is entirely manufactured by the banks that created the mess we are in and now refuse to work with letters of credit. The banks should be held to account for the entire mess they have put us in.

The Credit crunch can be managed by businesses if they focus on the important managing their customer base and suppliers by being more flexible and working in conjunction with both areas.

Panic is not going to help and I advise my clients to write a priority list that should be sensible, workable, achievable and take some of the stress out of the situation. Having defined the [above], ask for help and support.

Last question is particularly interesting. [Recent research shows that as the UK economy shows signs of slowing and shrinking, foreign workers are heading home. How, if at all, is this trend likely to affect your business?] We manufacture corrugated products for industry but also supply a small (but significant) amount of polythene products which we buy in. Out of our 3 main suppliers, 2 have ceased trading and the remaining 3rd has become increasingly "difficult" to deal with. So, disruption to supply IS a very real problem in some areas.

This is the beginning of a depression. So the government aim of getting everyone to spend more will only put the UK economy into a longer recovery than it needs to, if it kept control of its finances.

Someone who starts a business now will have to work hard to succeed but will be very resilient and find the going much easier when the recession is over - especially when compared to those who have

only operated a business when times were good. Expectations are possibly more realistic right now