

## UKBB 123 July 2009 Analysis

The UK Business Barometer reports on how smaller businesses are coping with the current state of the economy. Questions are focused on topical issues and additional comments on problems facing businesses are invited and reported within the analysis.

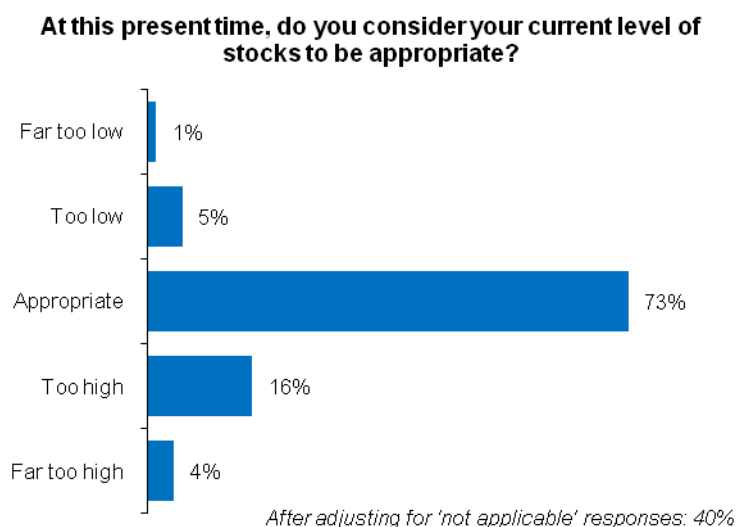
In our last survey (April 2009), we picked up on whether the 'green shoots of recovery' were beginning to appear. Over half of our panel did not think so, and when the preliminary estimate GDP figures for the second quarter (April – June 09) were published in late July, it provided some confirmation of this. Output in the UK economy had fallen by 0.8% in the second quarter, and by 5.6% compared to a year ago.

This quarter's survey sought views on a range of current issues including stocks, external debt financing, credit management procedures, the internet in the present recession, adopting a more innovative mindset, working with neighbouring/like-minded businesses, and customers/suppliers from outside the UK. The UKBB trends questions were also included.

### Survey Findings

The Bank of England, in its Agents' summary of business conditions, July 2009 stated that "There were widespread reports that the pace of de-stocking had slowed. An increasing number of contacts had now unwound any excess inventories."

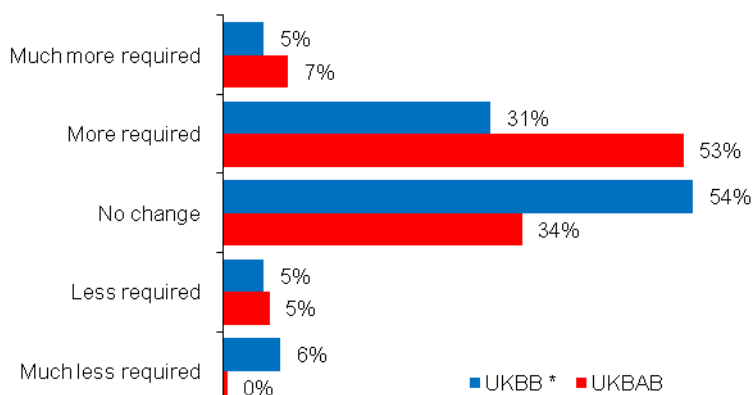
The UKBB July survey asked the smaller businesses who make up our panel whether they now think their current level of stocks is too high, too low or about right. The vast majority (73%) of those for whom this is a relevant issue said their stock level is appropriate at this present time, but 20% thought their stocks were either too high or far too high.



The UK banking sector is now beginning to report results for the first half of 2009. Many businesses are still finding a lack of availability of credit and the tough conditions experienced over the last two years have made an impact on the way many businesses seek financial resources.

36% of UKBB respondents now require more debt financing from banks than prior to the recession, while 11% actually need less. The UKBB survey runs in parallel with the UKBAB – a quarterly survey of Business Advisers, and 60% of the respondents to the UKBAB say that clients require more debt financing from banks as a consequence of the recession.

**Extent to which there has been a change in the requirement for external debt financing from banks (including overdraft) or other sources**



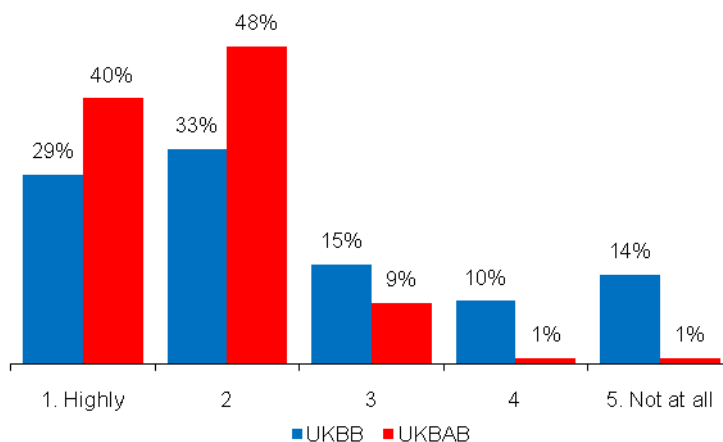
\* After adjusting for UKBB 'not applicable' responses: 14%

One panellist observed "I am seeing signs of banks raising interest rates and charges on loan facilities (without good reason other than profit motives) and particularly invoice discounting where they are reducing the days of debt they cover." Another contributor commented "Banks are still not lending money [...]".

The effect of tighter financial conditions, for 62% of respondents, has been to force them to monitor financial and credit management procedures much more closely. A further 25% of respondents have also increased checks, but to a lesser extent.

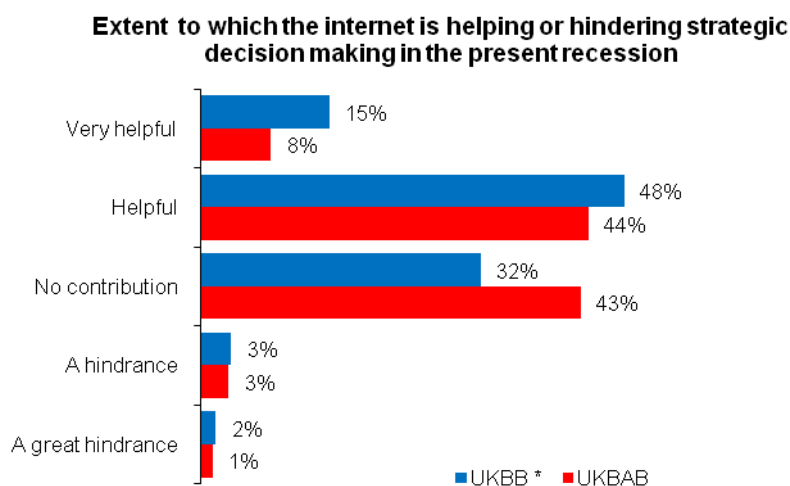
Panellists of the UKBAB were asked to what extent their clients have been forced to monitor their financial and credit management procedures more closely. 88% of Business Adviser respondents said this had happened to a high extent, or to a reasonably high extent.

**Extent to which tighter financial conditions have forced closer monitoring of financial and credit management procedures**



A majority of both UKBB and UKBAB respondents feel that the internet has been helpful in strategic decision taking during this recession. 63% of UKBB respondents say it has been helpful or very helpful, and 52% of UKBAB respondents agree. Only 5% of UKBB and 4% of UKBAB respondents think the internet is a hindrance.

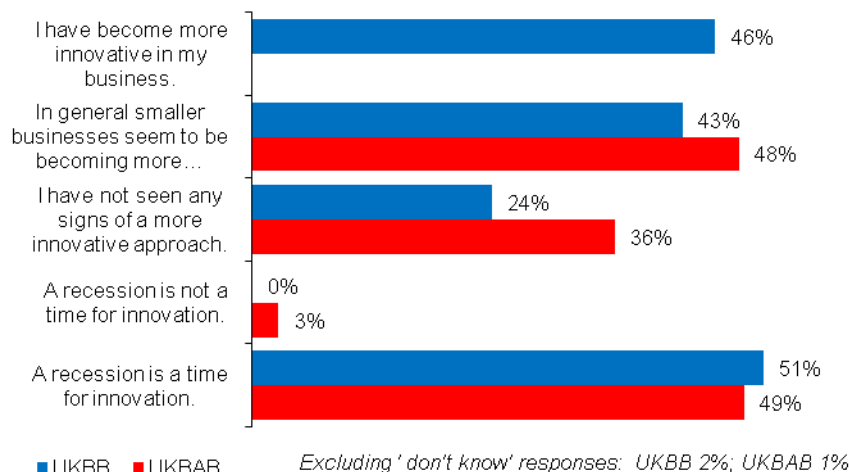
An illustration of how the internet has helped one business was provided through a comment submitted: “[...] we are a start-up company and have only just launched our website ....We have had to finance this business ourselves but once we had our prototype product out there we [were] picked up by the ELDS [East London Design Show] which has numerous grants from EEC which can help support and keep us moving forward in the market place. Our grant is for 3 years. So our feelings are that if we hadn't started we would never have been found.”



*\* After adjusting for UKBB 'not applicable' responses: 8%*

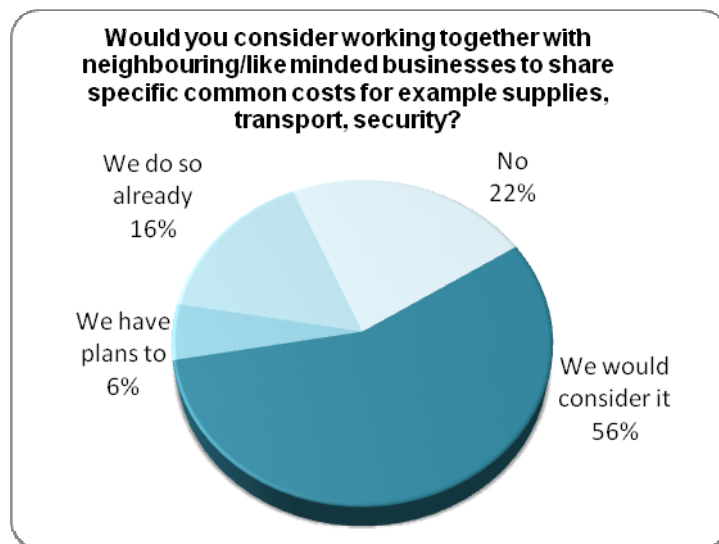
Many sources of wisdom and advice have offered views on the opportunity for innovation provided by the recession. “The need to adopt a more innovative mindset may be greater in a recession in terms of products, processes, how we do things and with whom we deal.” In this context, the survey asked whether individual businesses have become more innovative, whether they thought other smaller businesses were becoming more innovative, and whether they thought a recession is an appropriate time for innovation.

Results were encouraging: 46% of respondents confirmed that their businesses had become more innovative, 43% thought in general smaller businesses seem to be becoming more innovative and 51% believe that a recession is a time for innovation. “innovate or die surely. no excuse to not do so” commented one contributor.



Among the business advisers who responded to the UKBAB, 48% said that smaller businesses generally seem to be becoming more innovative, and 49% thought that a recession is a time for innovation.

At this time businesses are under more pressure to keep costs low and to reduce them where possible. In addition environmental concerns are leading to searches for reductions in energy usage. Out of the companies responding to the UKBB, only 23% would not consider working together with neighbouring or like-minded businesses to share specific common costs. It was encouraging to find that 22% either do this already or have plans to do so and that the remaining 55% would consider it. One obstacle shown up by

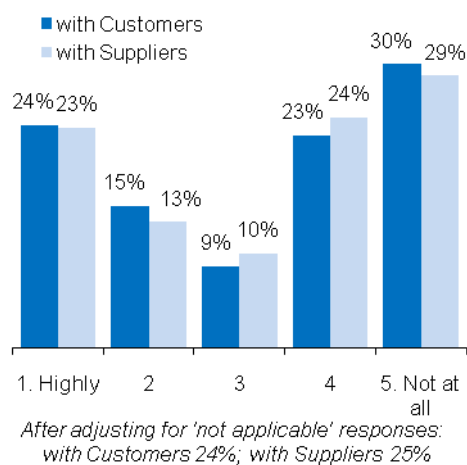


this question was the observation that "...because of certification needed for waste, you can't combine waste, [to] save transport costs and carbon emissions." Advisers answering the UKBAB survey were asked how open their client businesses are to considerations of working together with other businesses in this way. Over 30% said that clients are receptive to such involvement to a high or relatively high extent, whilst 12% responded with 'not at all'.

It has been reported that the recent downturn has seen the spreading of economic activities across national borders with businesses shifting into international markets. The UKBB asked smaller businesses "To what extent do you engage with customers/suppliers from outside the UK?" and the parallel UKBAB asked business advisers "To what extent have you seen a growth in such internationalisation amongst your clients in terms of engaging with more customers outside the UK or more suppliers outside the UK?"

39% of UKBB respondents said they engage with customers from outside the UK to a high or relatively high extent, while 30% have no non-UK customers. 36% of respondents engage with non-UK suppliers to a high or relatively high extent, while 29% do not take supplies from outside the UK.

**Extent to which UKBB respondents engage with customers/suppliers from outside the UK**

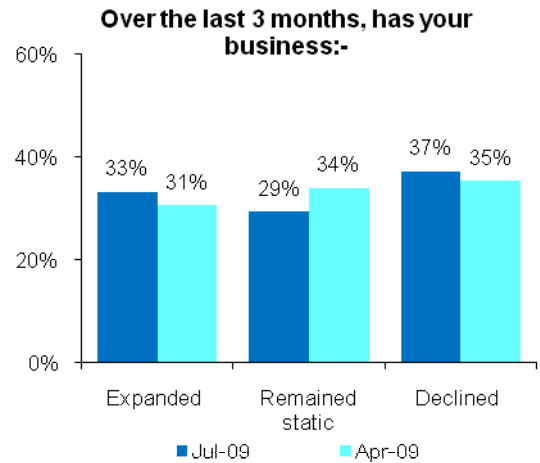


**Extent to which UKBAB respondents have seen a growth in internationalisation amongst their clients in terms of engaging with more customers outside the UK or more suppliers outside the UK**

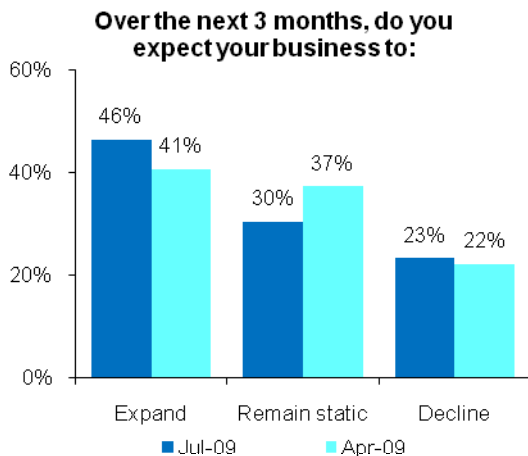
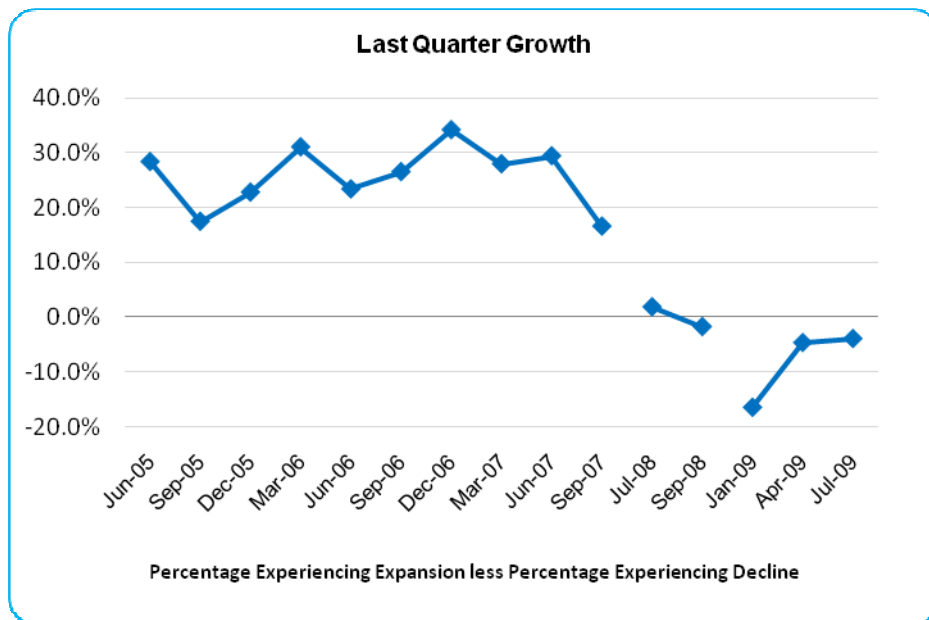


Growth over the previous three months and the next three months

The balance of growth amongst UKBB respondents over the last quarter was again negative, by 4%, close to the April 2009 survey result. Over one third experienced rapid change in the period: 15% of respondents expanded by more than 5% and 19% declined by more than 5%. One respondent commented that they are in manufacturing and the level of decline percentage is very large. They also said that most of their customers are suggesting around 30% decline.



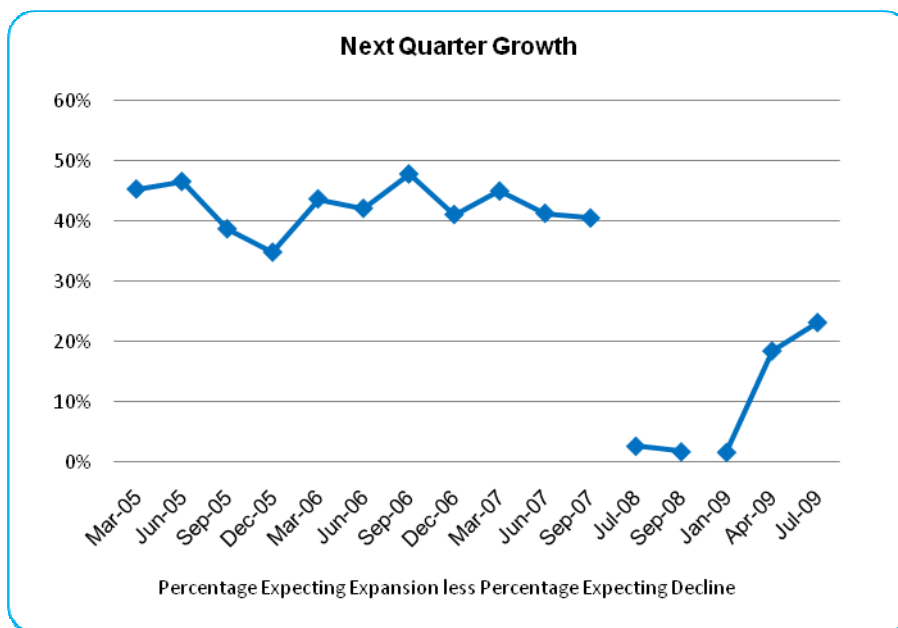
The results from 2008 onwards still contrast sharply with previous results, first tipping into negative growth in the September 08 survey.



For expected next quarter growth, the balance is more strongly positive than in April, with 46% expecting to expand while 23% expect to decline. The balance is a positive 23%, compared to +18% in April.

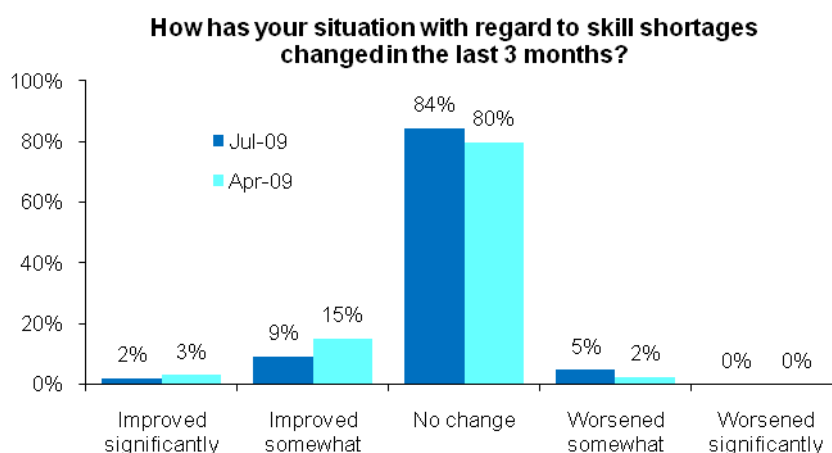
Several respondents expect to see lower growth over the next three months due to seasonal summer effects, but one contributor expects their business to grow by considerably more than 100% and another by 50%

Expectations are again well up on the three surveys preceding April 09 which contrasted so markedly with expectations found in surveys up to the end of 2007.



The final set of three trends questions all yielded results very close to those found in April 2009.

84% of respondents to this survey said that the skills shortage situation in their own business had not changed in the last three months but only 11% reported an improvement in their position compared with 18% in April, while 5% said that their situation had worsened over the last three months.

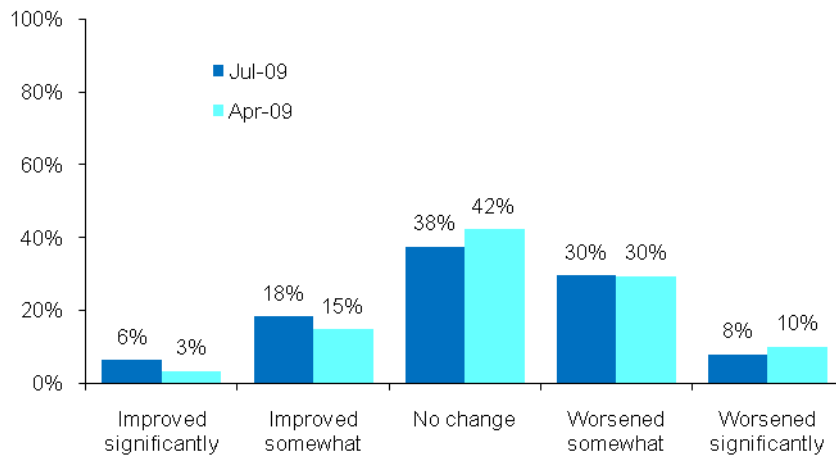


*After adjusting for 'not applicable' responses: Jul-09 13%; Apr-09 6%*

38% of respondents say that their situation with regard to low market demand has worsened during the last three months, although 24% have experienced an improvement. 38% have had no change. This is more encouraging result than in April when 40% said that market demand had worsened and only 18% had seen an improvement.

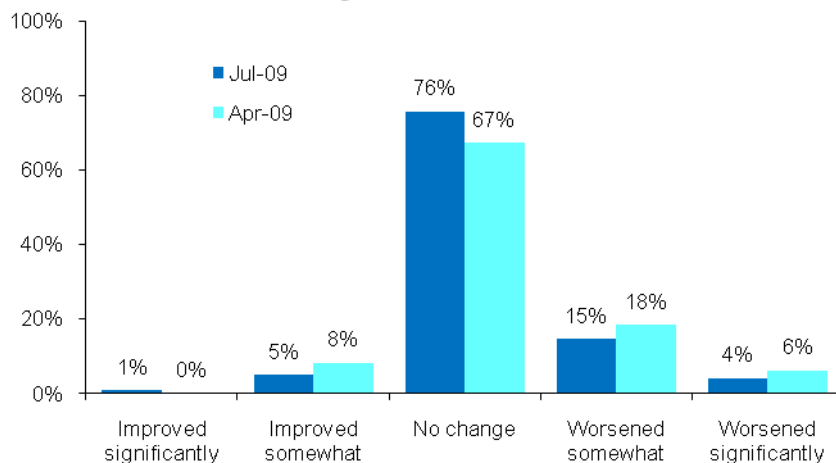
A number of comments were received on this topic. One business, highly dependent on holiday periods, is finding that bookings are very low indeed this year. In a contrary direction, an independent garage is seeing an upturn in work and sales, more so than during the last three recessions. Three businesses commented on the impact on their businesses made by public sector contracts, one very positive, one starting to suffer some changes and one very apprehensive about what may happen over the next six months.

**How has your situation with regard to low market demand changed in the last 3 months?**



76% of respondents say that their situation with regard to lack of finance has stayed the same over the last three months, but 19% have found that it has worsened for them compared with 24% in April, and only 6% have perceived an improvement compared with 8% in April.

**How has your situation with regard to lack of finance changed in the last 3 months?**



Listed below are some of the personal views supplied in feedback received from respondents to Survey BB 123 July 2009.

Views expressed are those of individual panellists and may not represent those of the University.

Question	Comment
2	Banks are still not lending money. We have doubled our sales (with a corresponding increase in profit) and have forward orders representing a further 25% increase for our next financial year. We have £250,000 in our Bank Account...and yet [names of banks supplied] all decline a 70 % mortgage on a £217,000 (reduced from £330,000 18 months ago) NEW office building (1773 sq feet). What do we have to do to borrow money?
3	I am seeing signs of banks raising interest rates and charges on loan facilities (without good reason other than profit motives) and particularly invoice discounting where they are reducing the days of debt they cover.
6	Yes we have [worked with other businesses to share specific common costs] for legal overheads like H&S first aiders and waste costs. but because of certification needed for waste you can't combine waste and save transport costs and carbon emissions.
10	Lack of finance has never been a problem - There should have been a 'Not Applicable' choice here

8/12	We are in manufacturing so the changes are greater in terms of decline the levels in the report are not significant [to us]. Most of our customers are suggesting a decline of near 30%.
11	Being a boarding kennels, end May to mid-September is my high season, so it is actually the only time of year when my expenses are noticeably less than my gross income.  Normally, during this period I can retain up to £15,000 to spend on development. This year I shall be fortunate if it is £5,000, clearly reflecting the drastic reduction in the number of animal nights sold.
11	We have an independent garage, which usually sees an upturn in work and sales during a recession. This one has been better than the last 3.
11	Government spending and payment within 10 days are having a very positive effect.
11	The big unknown is what is going on in the public sector - will the cuts impact on their purchasing or not? As the latest date for the next general election is also getting ever nearer, public sector policy makers seem to be dithering more, as they try to fathom how changes may impact on them. In six months time, this could be particularly critical to my business.
12	Next 3 months includes the summer holiday period when business generally drops anyway.
12	Over the next 3 months seasonal effects will increase the decline in business volume.
12	I expect my business to grow by considerably more than 100%, maybe even 300% - How am I supposed to indicate that?
12	we expect to expand by 50%.
General	Overall, the financial questions are about reducing costs. What about some questions around growing sales and gross profits.  All my clients have been shown they are severely undercharging - me too, probably!
General	The business I run is a small Nottingham-based (Beeston) community newspaper, and many of the questions (for example, international customers/suppliers) aren't relevant.
General	The business world we left at the beginning of the recession is history and a new world, much more competitive, will appear once the recovery takes hold. Managers and owners of SMEs will need to develop higher level leadership skills, become more creative and innovative in this new world in order to grow and prosper in the future.
General	The government spend money in the wrong areas. For example they are expanding the train to gain brokers but capping budgets so there is no one for the brokers to refer to.

## About the respondents

The UK Business Barometer surveys the people running small and medium size businesses. This analysis is based on submissions to the July 2009 Survey, made up to 11<sup>th</sup> August 2009. 126 respondents were drawn with the following population characteristics:

<b>Sector</b>			
Production & Manufacturing	Distribution	Services	Total
31.0%	13.5%	55.6%	100.0%

<b>Turnover (£)</b>			
< 1M	1M - 3M	> 3M	Total
68.3%	15.1%	16.7%	100.0%

<b>Number of Full-time Employees</b>					
1-10	11-20	21-50	51-100	100+	Total
64.3%	13.5%	15.1%	3.2%	4.0%	100.0%