

## UKBAB71 April 2009 Analysis

The April survey was the second of the quarterly surveys of the UK Business Adviser Barometer. This quarter's survey sought views on a range of current issues including "the green shoots of recovery"; advice sought by clients on hours, pricing, and on selling or transferring their business; a further look at two key issues from in the 1st quarter survey: access to finance and sales/orders; marketing as a way to offset an economic downturn, and 'face to face' time. The UKBAB trends questions were also included.

The total number of business advisers taking part in the April survey was 245 and as usual real-time results were published to the website during the course of the survey. This analysis is the outcome of further examination of the results up to 3<sup>rd</sup> June 2009.

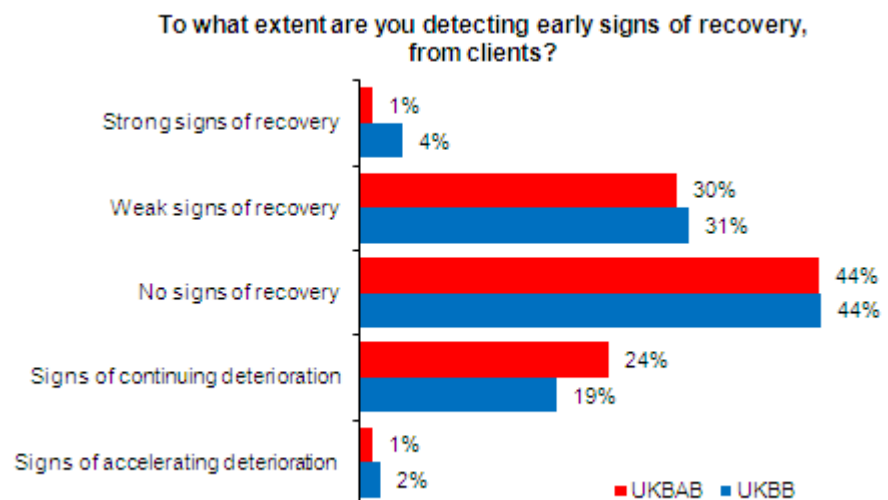
### Survey findings

The UK has now experienced over one and a half years of 'credit crunch' and negative economic indicators, but recently a few commentators have been mentioning "the green shoots of recovery". For example, some have reported a clear pattern of recovery in the housing market and by the beginning of June 09, the FTSE 100 index had recovered by 27% from its 12 month low in early March 09. However, the May monthly analysis of lending from the Bank of England showed that lending by the six leading high street banks to households and businesses fell between March and April. Businesses also reported higher fees and wider spreads when they renewed credit facilities.

Many smaller businesses have had very difficult trading conditions over this period so the first question tested how the trading environment appears to them to be shaping at this present time.

44% of respondents said that they could detect no signs of recovery from clients, but amongst the remainder there was a positive balance: 31% of respondents did report signs of recovery from clients while 25% said that clients still perceive signs of deterioration.

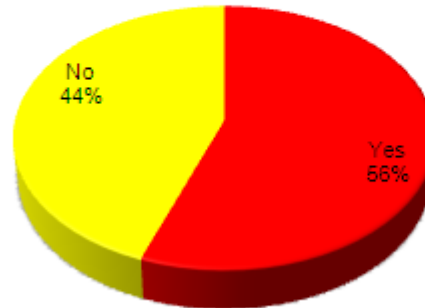
The UK Business Barometer, running in parallel to this survey, asked the same question of its panel of smaller businesses. Results were quite close to the UKBAB results, with 44% noticing no signs of recovery, but 35% seeing signs of recovery while 21% observed signs of deterioration.



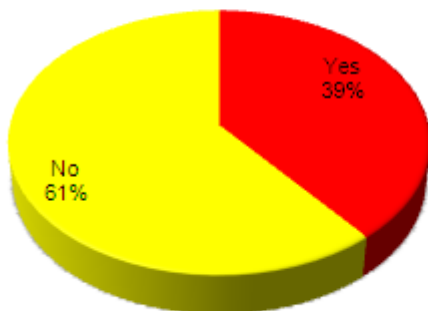
Many businesses are searching for ways to survive the recession while avoiding losing skilled staff and without incurring the costs of redundancy pay. The survey found that 55% of responding business advisers have seen an increase in the number of businesses seeking advice on reducing the number of hours/days worked by staff.

The parallel UKBB survey found that 32% of the responding smaller businesses have reduced the length of the working week for their staff, due to negative market conditions.

**Have you seen an increase in the number of businesses seeking advice on reducing the number of hours/days worked by staff due to negative market conditions?**



**Have you seen an increase in the number of businesses seeking advice on pricing?**



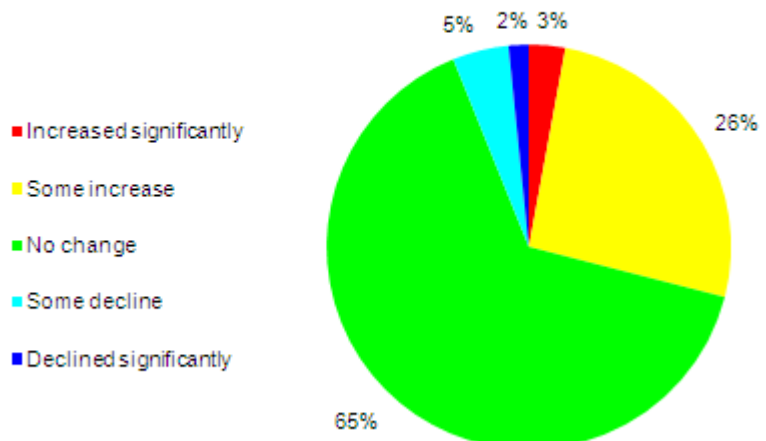
A smaller, although considerable, percentage of respondents have seen an increase in the number of business seeking advice on pricing.

Over half the businesses responding to the UKBB survey reported that suppliers' prices are not reducing but at the same time only 28% of UKBB respondents do not feel compelled to reduce prices.

One comment received from a respondent was that "Existing businesses who have maintained their margins and 'held their nerve' or are trading on quality and service rather than price appear to be retaining their market share".

The option to get out of business is a possibility being explored by some and over the last six months 29% of responding advisers have seen increases in the number of businesses seeking advice on selling or transferring their business, although 65% of respondents have not seen any change.

**Have there been changes in the number of businesses seeking advice on selling or transferring their business in the last six months?**

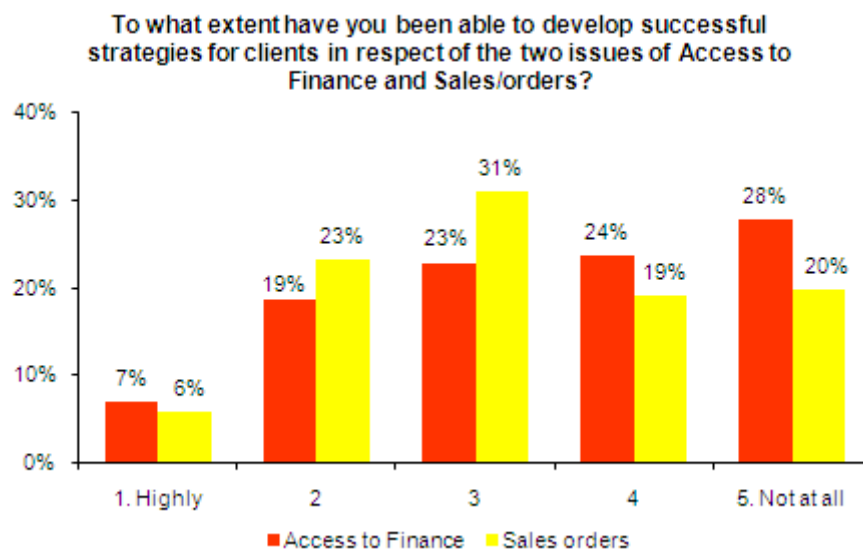


A respondent commented that they had had an increase in the number wishing to buy businesses as a going concern, rather than an increase in the number wishing to sell or transfer their businesses.

In the January UKBAB survey we asked what the key issues raised by clients were currently. The two issues that emerged far ahead of all others were sales/orders and access to finance. Since advice was most regularly sought on these topics, the follow-up question this month focused on whether advisers felt they had been able to develop successful strategies for clients in respect of these two issues.

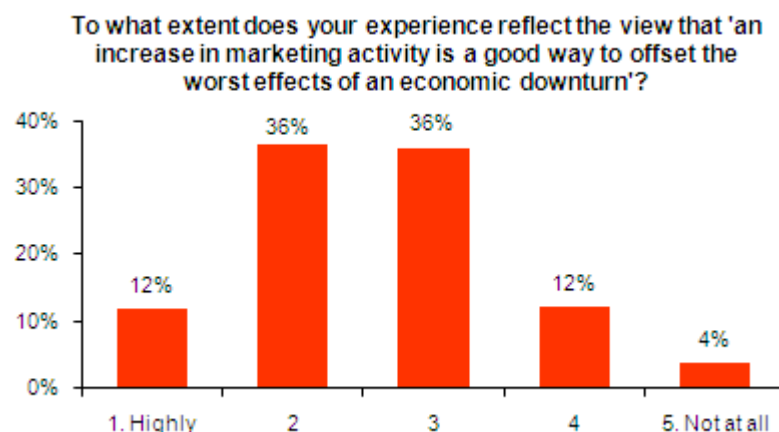
On access to finance, 26% felt they developed successful strategies to a high or reasonably high extent although 52% responded with 'not at all' or scarcely (response level 4).

On sales/orders, 29% felt they developed successful strategies to a high or reasonably high extent although 39% responded with 'not at all' or scarcely (response level 4).

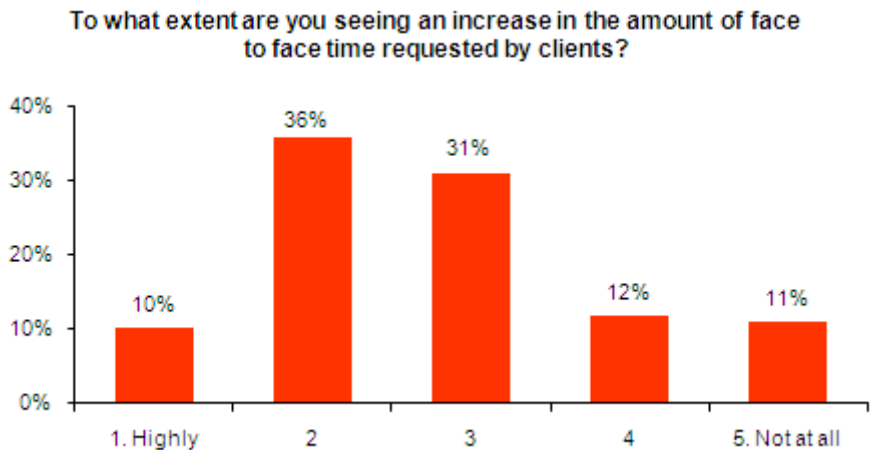


The perceived wisdom is that an increase in marketing activity is a good way to offset the worst effects of an economic downturn. 48% of respondents endorse this view to a high or reasonably high extent and two respondents sent in specific comments on increasing marketing activity for smaller businesses:

- “The current downturn is taking place against a backdrop of significantly improved marketing & promotional tools, than available during the last one. Indeed many cost-effective options open to clients today, were simply not conceived of, last time around. E.g. web-hosted CRM, free hosted template-based surveys, podcasts, RSS, etc.”.... “It's more a question of 'smarter' marketing activity, than necessarily 'increased'”.
- “Trying to increase marketing activity is difficult for SME's as it costs money...”



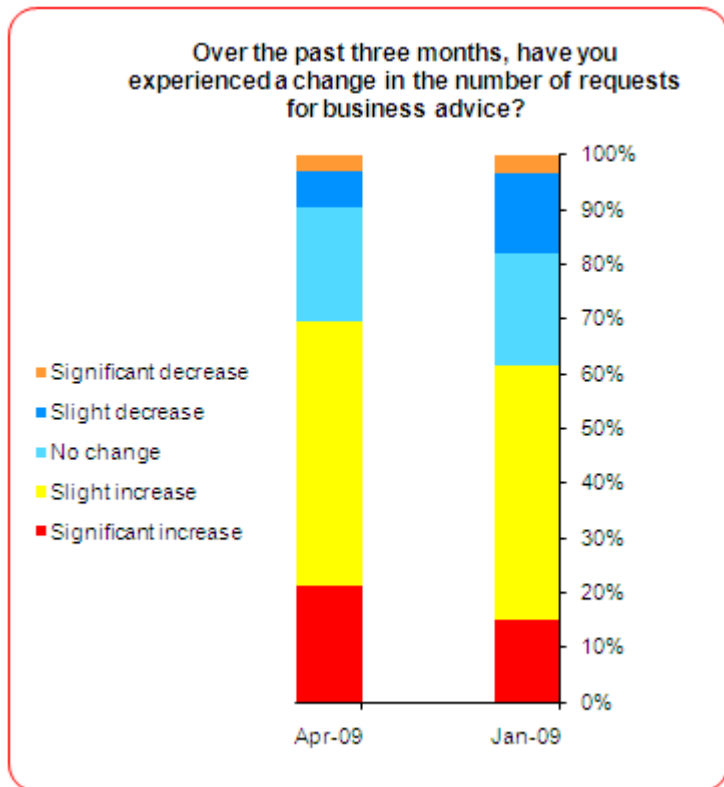
Direct and specific business advice is obtainable in many different forms e.g. over the internet, by telephone, by letter or email or face to face. At this time 46% of respondents say that they are experiencing increases in the amount of face to face time requested by clients to a high or fairly extent but 21% say this is not at all or only slightly their experience.



**Trends Questions**

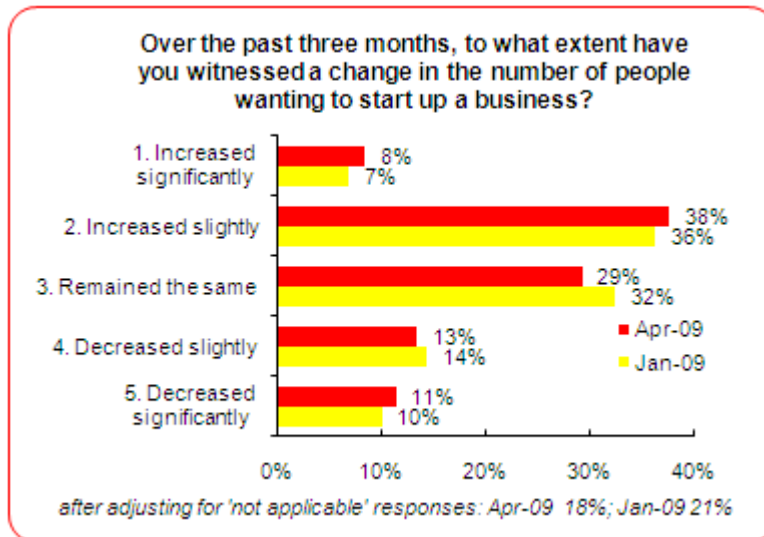
The indicator of changes in numbers of clients seeking business advice over the past 3 months increased by a further 6% compared with the three months to January 2009. 21% of respondents reported no change in numbers.

The number of advisers experiencing increases in enquiries continued to outpace the number experiencing decreases in enquiries, by 60% in the three months to April compared with 43% in the three months to January.

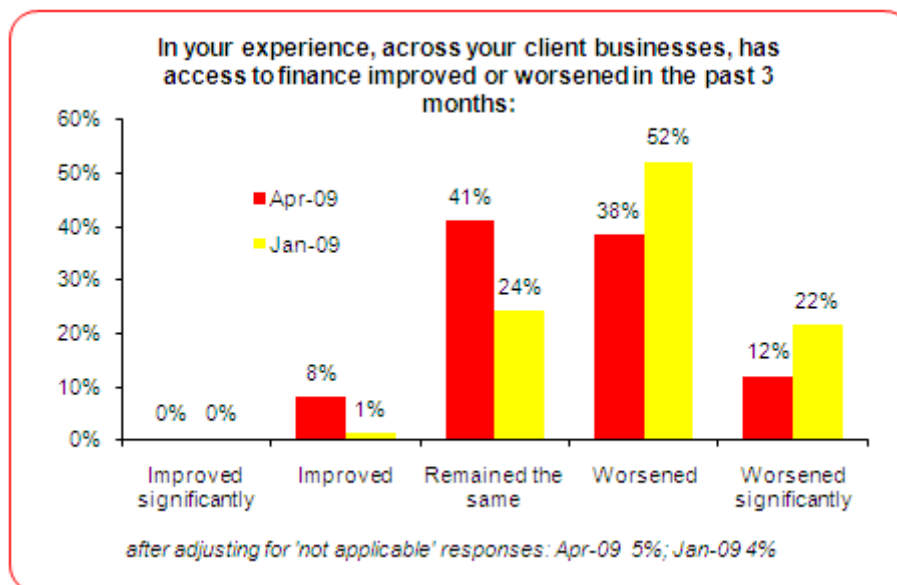


The average of the results for the three month period to April 2009 for the number of people wanting to start a business, increased from January 09 by just 1.3% (following an 18% increase from September 08 to January 09).

The balance between the percentage witnessing significant or slight increases and those witnessing significant or slight decreases in the number of people wanting to start a business moved from +19% in January 09 to +21% in April 09, although one respondent said that changes within Business Link in one region have significantly reduced the number of enquiries from pre-start businesses.

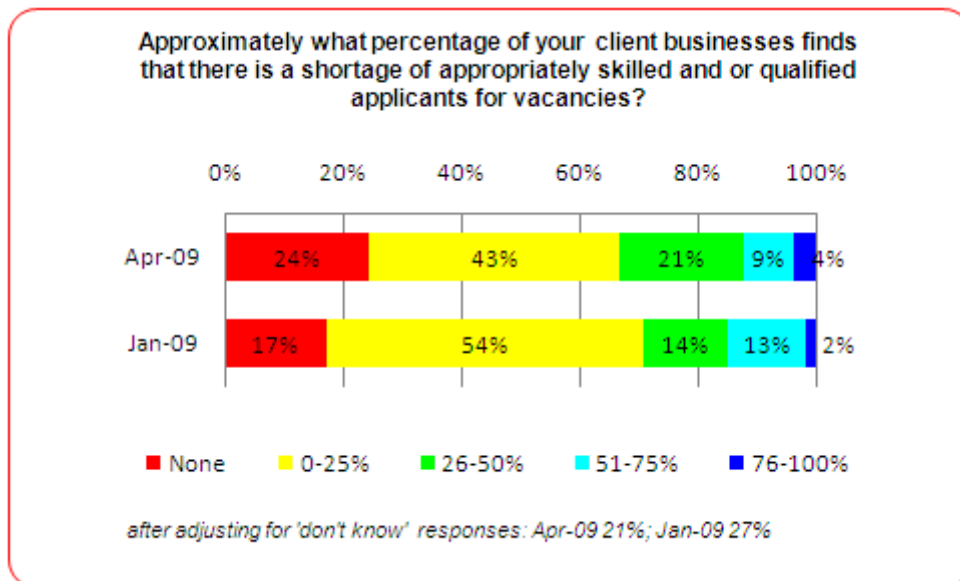


The index measure of clients' ability to gain access to finance recovered significant ground between January and April, increasing by 19%. The balance between the percentage whose clients' ability to gain access to finance has improved or improved significantly and those whose clients' ability to gain access to finance worsened or worsened significantly also improved, from -72% in January 2009 to -42% in April 2009, although most of the difference between the two results from a large increase the number of respondents who say that access to finance has stayed the same for their clients over the period.



There was little change in the shortages of appropriately skilled or qualified applicants for vacancies between the January 09 and April 09 surveys.

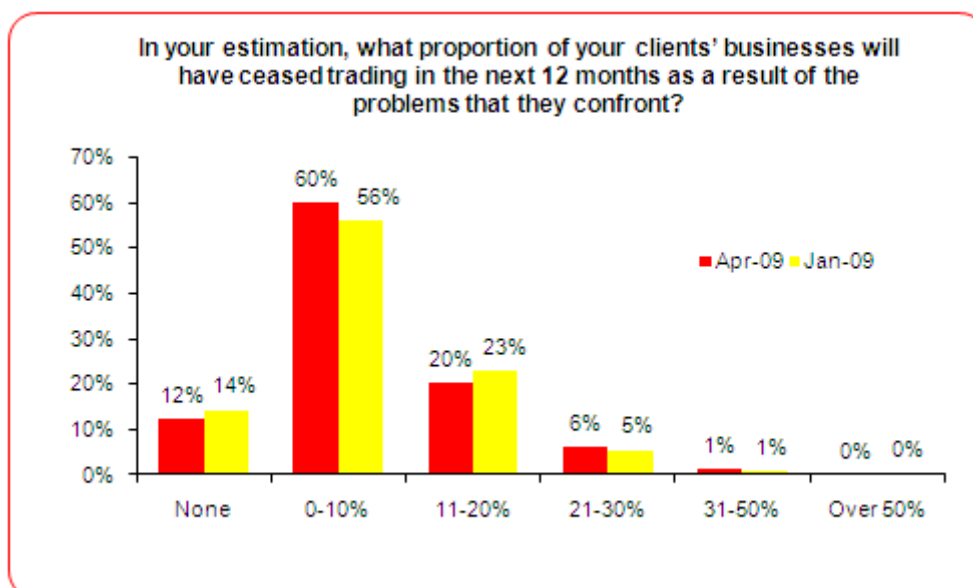
In the January 09 survey, the average percentage of clients experiencing shortages of appropriately skilled applicants was 22% and it remained at that level in April 09.



In the April 2009 results, Advisers were still pessimistic about the continuance of their clients trading over the next year. The index dropped a little by 1% from the January results, following an increase of 18% between July 08 and January 09.

12% of Advisers consider that none of their clients will close over the next year, but 60% thought that up to 10% of their clients might cease trading. There was a 2% drop in the expected higher numbers (over 11%) of business cessations: 28% in April 09, compared with 30% in January.

One contributor commented: "A lot of businesses have been surviving by using the surpluses and reserves they have built up over many years. They have now cut costs including staff and are looking to survive. If sales do not improve over the next 6 months to a year, these businesses will have no more reserves to draw on and will fail



**Listed below are some of the more general personal views supplied in feedback received from respondents to Survey BAB 70 January 2009. Views expressed are those of individual panellists and may not represent those of the University.**

- A proliferation of Government schemes has confused matters and created an atmosphere of panic. E.g. the Ent Fin Guarantee need not have been created; better to tweak the Small Firms Loan Guarantee scheme and re-launch it.
- Access to credit, either business loans or secure overdrafts, from banks [especially ones funded by the government] is very, very difficult. Banks are not being helpful and are curtailing credit which has detrimental effect on business, especially SME's.
- Access to Finance is a major problem. Banks have been funded by Government to assist SMEs but they have 'tightened' their Lending Criteria making it virtually impossible to get assistance. Leaving the Banks to make their own interpretation of The Enterprise Finance Guarantee Scheme was a mistake. HSBC in particular do not appear to use this scheme for < £25K as they try to utilise CCA. This amount is the most asked for sum by my clients and they are unable to obtain approval
- Banks are reported to be not interested in helping start-ups and are not helping many established businesses. In the latter case even with EFG and WC schemes.
- Business Link changes in the north east have had a significant effect in reducing the number of enquiries from pre start businesses and being able to offer a service to clients
- Euro to sterling exchange rate is helpful for some exporters.
- Generally clients are finding an improvement in trading conditions.
- Government policy continues to talk a good game but no actual substance, HMRC continues to penalise small businesses and look to levy penalties where possible to raise funds. much trumpeted bank loan/finance availability non existent in reality.
- I find it difficult to answer this questionnaire, as the number of firms which are actually seeking advice and support is less now that Government support is drying up, but this does not seem to upset the continuing growth of bureaucrats and 'officers' in the system.
- I had hoped that the Budget would have reflected the Governments intention to cut public sector spending and increase efficiency in order to minimise tax increases - essential to pay off the national debt. Unfortunately it appears that not only are taxes rising but so is public spending. I feel that Mr Darling isn't in touch with reality, he seems to think that because he needs money, the money will appear. My clients and I know all too well that isn't the case. My gut feeling is that this Budget will result in short term tax increases but this will fall away as people ability to earn / spend and pay taxes diminishes as unemployment rises. What will inevitably (also) increase is a black market which will deliver no tax to the Gov.
- I work mainly with greater than profit enterprises and third sector based companies - my experience and responses reflect this.
- IT Contract rates continue to fall dramatically echoing the 2001 .com crash. Consultancies continue to lay off staff whilst at the same time targeting experienced contractors with generous salaries.
- Late payments are a big issue
- Little understanding by banks on the EFG scheme and certainly small businesses do not understand that it only covers security for good sound business propositions and not an

answer for poor businesses seeking cash.

Little appreciation on how important up to date management accounts is by the small business community. They are expecting too much of the banks against inadequate information.

- My experience shows banks are not increasing their lending pattern it is in fact getting worse and it is also becoming more difficult to access the Enterprise Loan Funds giving start up businesses a marked disadvantage.
- One client has a creditors meeting next week, including me as a creditor another has had 3 county court judgements against for late / non payment
- Re: Q6, the current downturn is taking place against a backdrop of significantly improved marketing & promotional tools, than available during the last one. Indeed many cost-effective options open to clients today, were simply not conceived of, last time around. E.g. web-hosted CRM, free hosted template-based surveys, podcasts, RSS, etc.

Consequently it's something of a vague question to answer properly (for the responses to provide any meaningful data). It's more a question of 'smarter' marketing activity, than necessarily 'increased'. By that I infer promotion/marketing/advertising budgets (at the risk of being labelled pedantic, they're all different activities) may remain the same as pre-downturn, but put to better use than previously.

- Small business needs less change of regulations, not more, legislation such as health and safety and employment law have become so complicated that they are simply ignored or staff are not being employed, even the MOD prefers to use umbrella companies rather than deal with employment legislation. The whole system has become a disaster which will be followed by more knee jerk legislation that no one can understand or apply in practical situations. Unfortunately this causes disadvantage to those that seek to comply. The whole world has gone topsy turvy and we need a return to old values such as old fashioned bank managers that knew what they were looking at, so lending was an informed decision not made by a computer based on the number of bounced cheques. These disasters were just waiting to happen any half wit could have told the government, if they would have listened. I am afraid there is a lot worse to come, the green shoots of recovery statements are the last attempts of politically correct management speak, for "we are in the shit but if we remain positive and ignore the problem it will go away".
- The Real Help Government campaign has been of no value from reaction from businesses I have met. Its glossy appearance makes it appear that something is happening, but its content is of little practical value. The Government has now asked Business Link to deliver intensive business assists on the phone in one hour, so it can increase the numbers claimed. Businesses respond much better to face to face contact and old fashioned mentoring, giving them advice when they need it.
- The Welsh Assembly's recent "launch" of FS4B, and the lack of focus associated therewith, has served only to confuse clients about what is available: at a time when the need to know that help is there for them, and easily accessible.
- There remains strong interest in business start-ups in my main area of work - Hastings and St Leonards. Existing businesses who have maintained their margins and 'held their nerve' or are trading on quality and service rather than price appear to be retaining their market share.

Current conditions are making those planning to start a business look longer and plan better which, in the long run, should show through positively in survival rates.

- This survey is not really applicable to my role, many of the responses are an opinion rather than gleaned from actual performance, hence the response to Q5.

- Trying to increase marketing activity is difficult for SME's as it costs money. Normally a business would go to their bank and increase their overdraft to fund a marketing campaign, there is no sign that the banks are inclined to help businesses, in fact my experience in the South West London area is that ALL banks are curtailing their loans to businesses. One bank manager told me that his HO had specifically forbid any loans, or increased overdrafts and he was not to finance 'start-ups' even if it was matched funding.
- UK needs a significant change in the way it is governed
- We are seeing some divergence between the information we are getting from our own surveys of the businesses we work with and the anecdotal evidence from them which is more positive. Bank commercial lending in this area is up around 22% compared to the same period last year. there is a marked shift of many businesses into international markets and we are advising that international trade should be part of a long term strategy not a short term stop gap.
- With regard to question 10, we find that banks are beginning to lend against sound business propositions as opposed to earlier when they would lend against almost anything!
- With regard to question 10. I believe there has been a slight increase in the amount of funding streams available to SME's. However, accessing this finance is so difficult (due to the bureaucracy involved in trying to access funding) that many businesses give up trying.

With regard to question 12. My company specialises in helping new start-ups. The fact that they access our services doesn't necessarily mean that they will go away and start their business immediately. They may not start at all or there may be a period of research before they start; it is difficult therefore to measure how many of our clients will have 'ceased' trading in the next 12 months so the answer given was a pure guess.