

UKBAB67 July 2008 Analysis

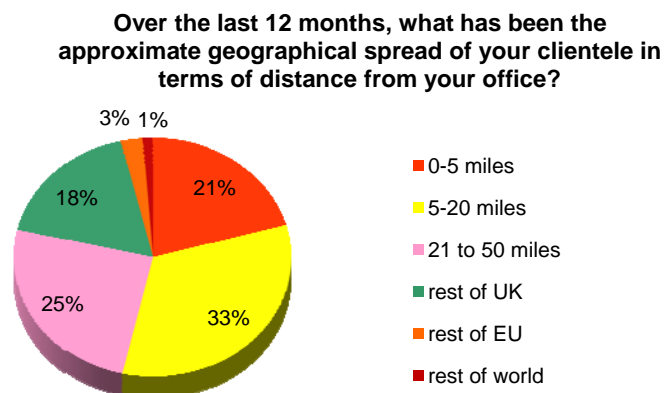
The July survey of UK Business Advisers asked questions on clientele in terms of geographical spread and years trading, the impact of the rise in fuel prices and the impending rise in energy costs upon clients, passing on price increases, stock levels and software packages for anti-virus and anti-spyware. The UKBAB trends questions were also included.

The total number of respondents taking part in the July survey was 235 and as usual real-time results were published to the website. This analysis is the outcome of further more detailed examination of those results.

Participation in the survey came from all regions of the UK.

<u>Totals by Region</u>		
East of England	24	10.2%
East Midlands	25	10.6%
London	30	12.8%
North East	10	4.3%
Northern Ireland	8	3.4%
North West	25	10.6%
Scotland	12	5.1%
South East	32	13.6%
South West	23	9.8%
Wales	9	3.8%
West Midlands	16	6.8%
Yorkshire & Humberside	20	8.5%
Channel Islands	1	0.4%
Total	235	100.0%

UKBAB panellists include advisers with skills and professions ranging from Accountants to Management Consultants as well as those who became advisers after experience at senior level in successful companies. Many work in conjunction with Business Links, which is regionally organised. Panellists were asked to provide a percentage split of client numbers across ranges of distances from their workplace. Averages of the results are shown in the chart on the right, revealing that, inter alia, an average 22% of clients are based more than 50 miles from their business advisers, but over half are within 20 miles of their advisers.



Over the last 12 months, what has the spread of your clientele been in terms of the number of years they have been trading?



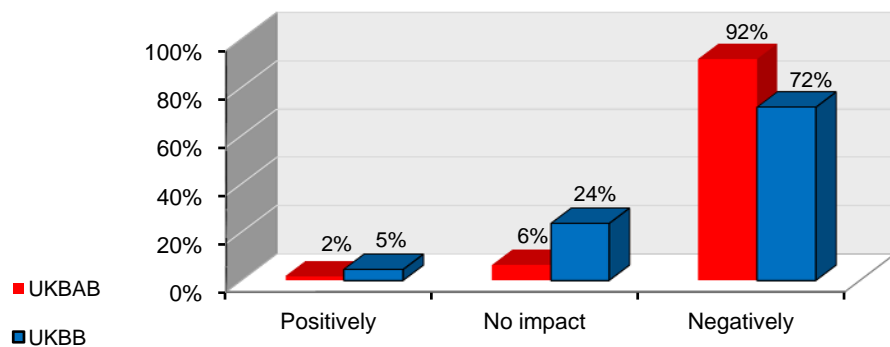
The length of time clients have been trading is very variable – clients are not predominantly start-ups or mature businesses, but encompass both these and durations in-between.

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, although both decreased later in the month.

The increase in fuel prices is not bad news for all businesses: 2% of business advisers 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.

Just under 5% of UKBB respondents responding to the parallel UKBB survey said that the increases had a positive or strongly positive impact on their businesses and nearly 24% said there was no impact from the increases. The remaining 72% have experienced a negative or strongly negative effect.

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



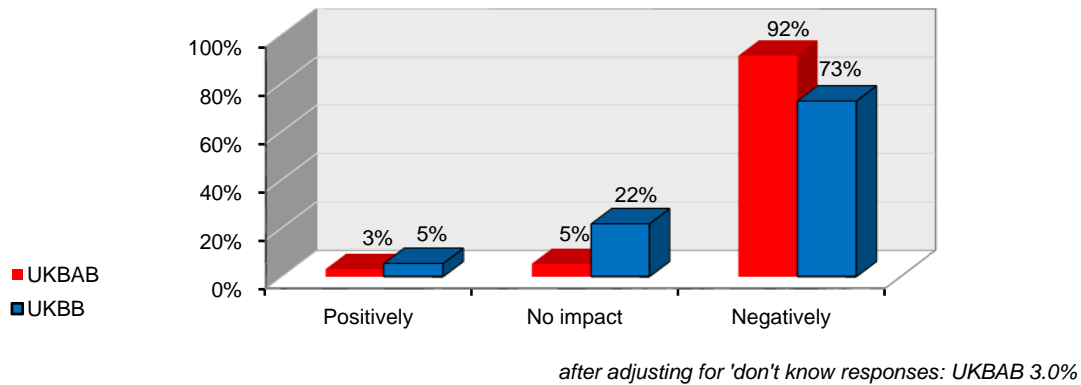
after adjusting for 'don't know' responses: UKBAB 3.5%

As well as increased fuel prices, there have already been announcements about impending and immediate energy price increases. EDF announced the raising of gas prices by 22% and electricity prices by 17% in late July for domestic and small business customers, and British Gas owner Centrica said it is raising gas prices by a record 35% and electricity prices by 9% with immediate effect. More companies have followed.

3% of UKBAB respondents 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.

5% of smaller businesses responding to the parallel UKBB survey 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. As with fuel price increases, the vast majority, 73% expect a negative or strongly negative effect.

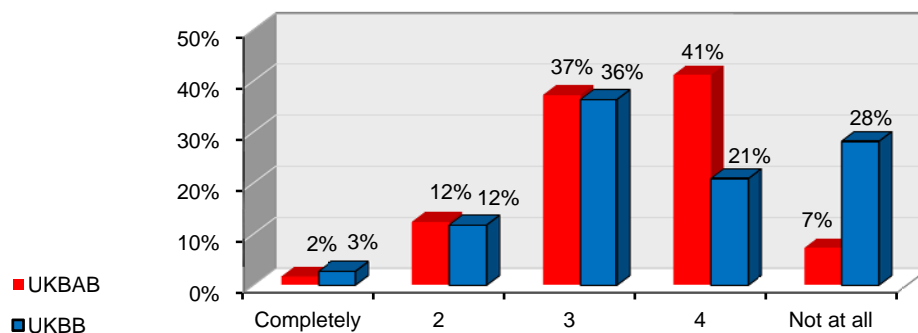
UKBAB: To what extent will the expected increase in energy prices impact upon your clients' businesses?
UKBB: To what extent will the expected increase in energy prices impact upon your business?



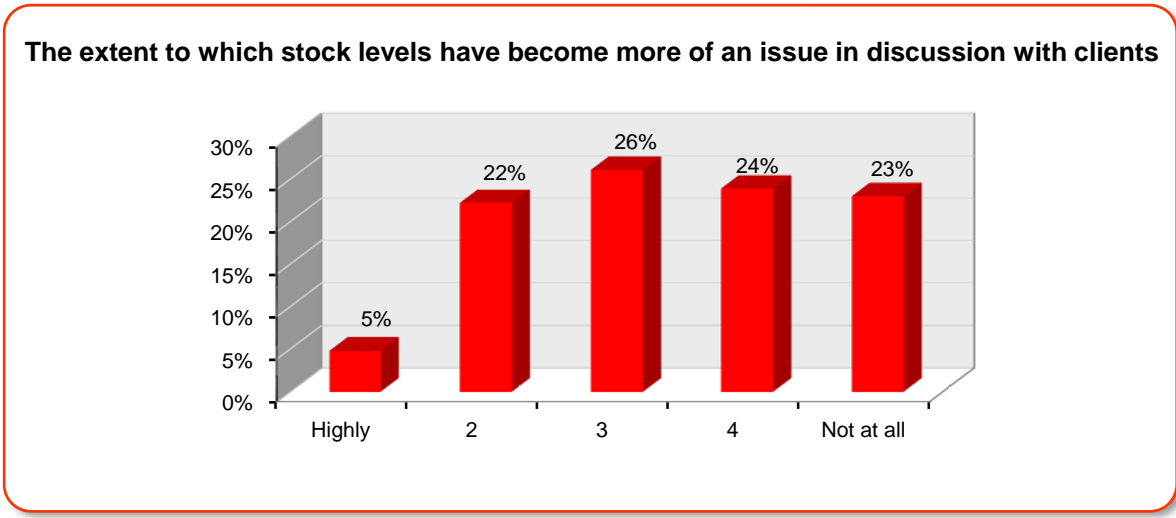
Respondents to the UKBAB survey generally thought that some of the price increases could be passed through to customers by their clients, although only 2% thought that price increases could be passed through completely and just 7% thought no increases could be passed on. Individual comments made by respondents reflected the different experiences businesses are going through at the present time: one commented that the responses to this question vary hugely depending on the type of (clients) business. Another respondent said "Although my clients face an uphill struggle against increasing costs with little opportunity to pass these on, they maintain a high degree of optimism for the future" while another said "Over the last three months, a significant number of my clients are deferring spend on consultancy, training, and marketing as a result of the increases in fuel and energy costs".

A major factor for the 72%/73% of UKBB respondents 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 48% 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.

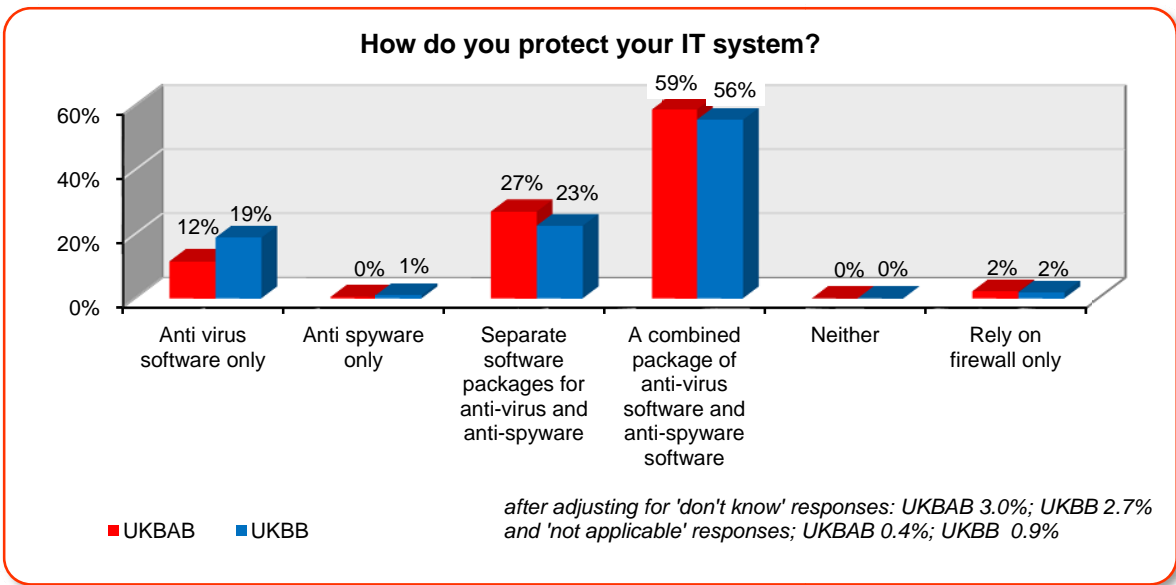
UKBAB: To what extent are clients able to pass on increases in fuel and energy costs to their customers?
UKBB: To what extent are you able to pass on increases in fuel and energy costs to your customers?



27% of respondents report that the financial crisis has caused stock levels to become much more of an issue in discussions with their clients, although 47% say that this hasn't happened, or only at a low level.



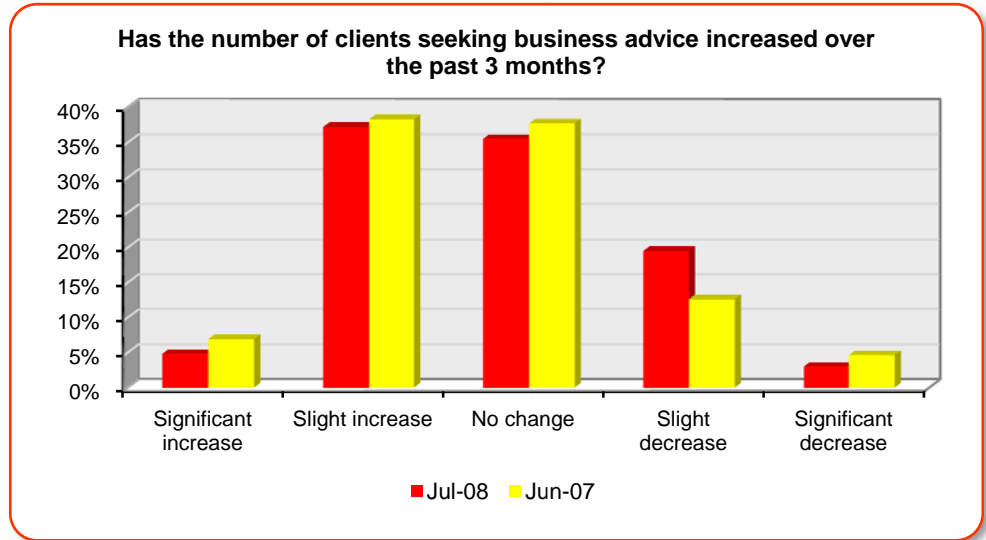
Computer spyware is now reckoned to be more dangerous to businesses than computer viruses, and yet 14% of respondents to the UKBAB and 22% of respondents to the UKBB only have one component of protection: i.e. they have anti-virus or anti-spyware software or rely on their firewall. Software combining anti-virus and anti-spyware functionality is the most popular form of protection, with 59% of UKBAB respondents and 56% of UKBB 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 UKBAB respondents' clients, in terms of numbers seeking business advice, recent interest levels in starting a business, access to finance, skills shortages amongst clients' recruits and estimated likelihood of ceasing trading.

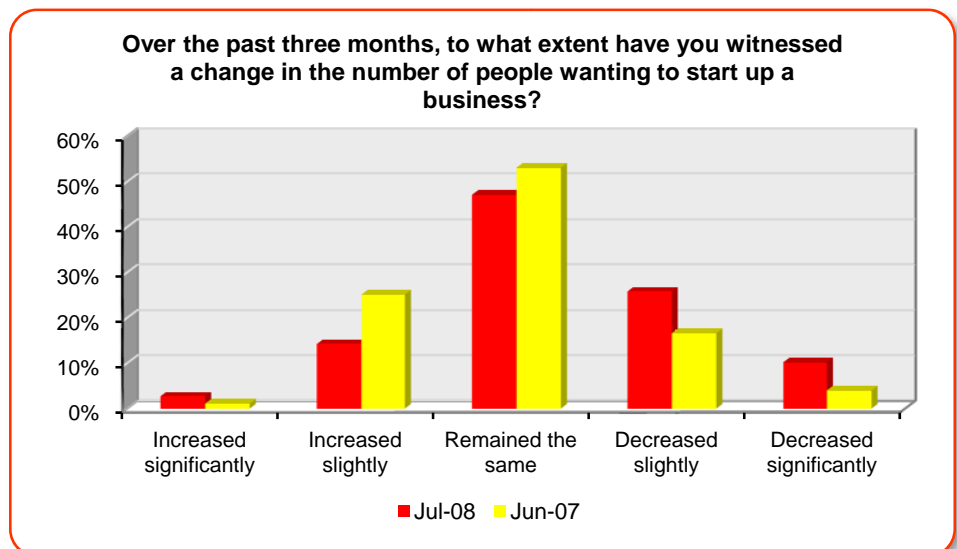
The average number of clients seeking business advice decreased in the three months to July 2008

compared with the three months to June 2007, by almost 3% although 36% reported no change. The number of advisers experiencing increases in enquiries continued to outpace the number experiencing decreases in enquiries.



The average of the July 2008 three month period results for the number of people wanting to start a business decreased from the June 2007 position by nearly 10%. 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 has moved from +5.6% in June 2007 to -19.1% in July 2008.

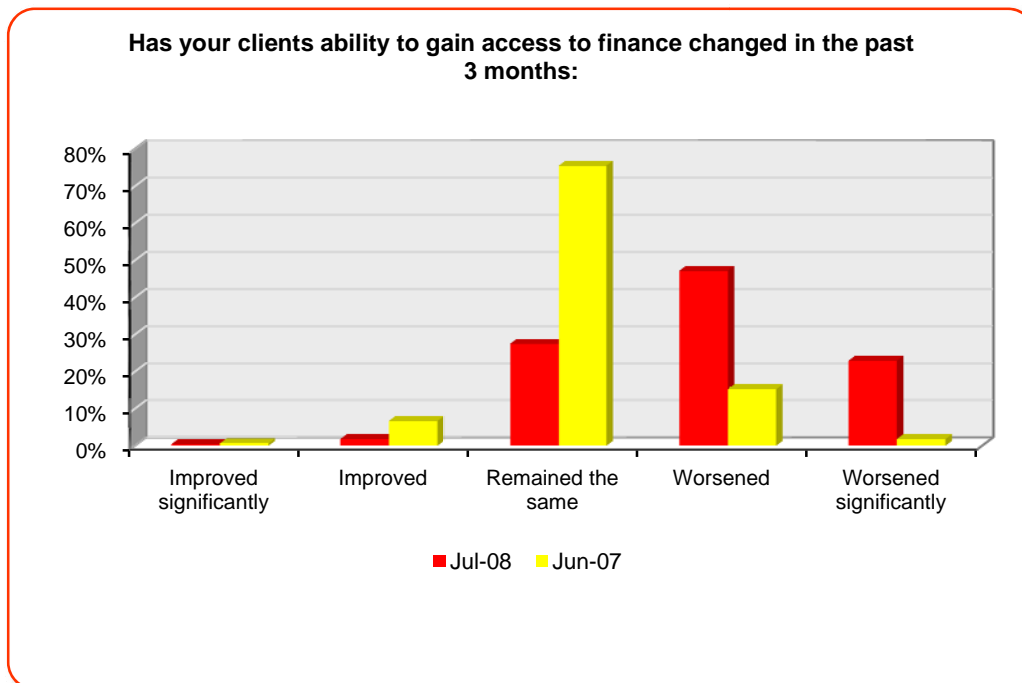
The experience of one respondent is that "there is a total lack of confidence. I have been used to receiving 5/6 business plans per week for start-ups and expansion. I went 8 weeks in May/June without one single business plan". He goes on to say that a number of advisers and intermediaries have just given up work as the work is no longer there.



This view contrasts with another comment: "I have seen a lot of estate agents wanting to start new businesses recently."

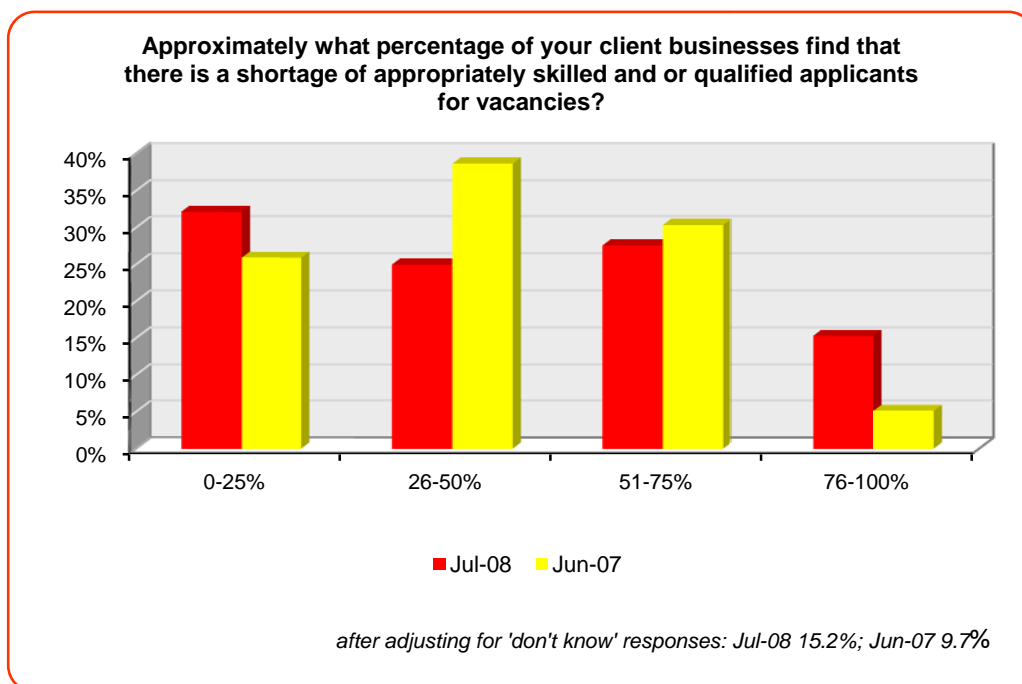
A third contributor observed that in relation to both this and the preceding question, he and his colleagues always observe a down-turn in start-up activity in the run-in to the summer holidays.

Access to Finance is another measure showing a marked fall since June 2007. 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 has worsened or worsened significantly has moved from -9.7% in June 2007 to -67.9% in July 2008 and the index average has decreased by 27.5%.



The index of the number of Advisers' clients finding that there is a shortage of appropriately skilled and/or qualified labour increased by 7% during the three months to July 2008, compared with an increase of 12% during the second quarter of 2007.

One respondent believes that "the idea of a shortage in a market economy over the medium term is a false statement. If they pay more, which is what I encourage them to do for good people with the right skills, the shortage for them disappears"

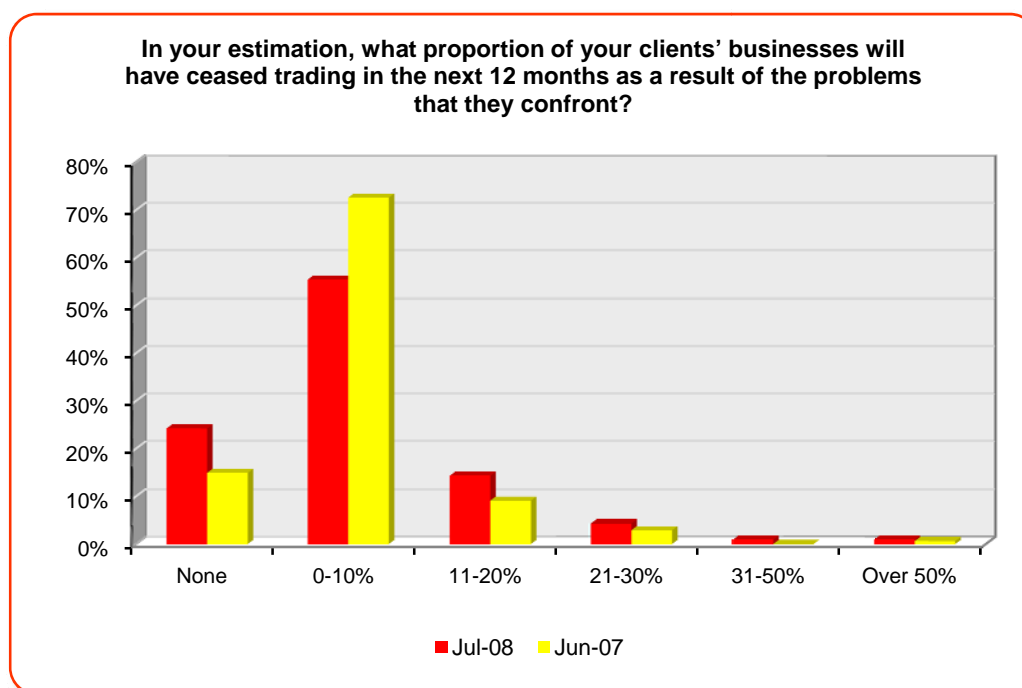


In the July 2008 results, Advisers were more pessimistic about the continuance of their clients trading over the next year with the index increasing by 14%, compared with a decrease of 4% in the June quarter 2007..

Although 24% of Advisers consider that none of their clients will close over the next year, 55% thought that up to 10% of their clients might cease trading compared with 73% in June 2007. There was an increase in the expected higher numbers (over 11%) of business cessations: 20% in July 2008, compared with 13% in June 2007.

Comments received on this question included:

- The number of long established transport companies closing or reducing units on the road is very alarming, as these are the backbone of the logistical industry in this country
- The last few weeks has seen a number of my clients cease trading or make redundancies - property development, sales of financial products and construction
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- One commentator said that (answering) this question is more complex and needs to include consideration of a range of factors, including the capacity and technical skills of the business owners/leaders.



Quite a few advisers took the opportunity to add general comments to their survey responses, several offering their perspective on the economic situation (Views expressed are those of individual panellists and may not represent those of the University):

- It's still early in the economic downturn. If you ask these questions again in 6 months time answers might be more pessimistic. Many of my clients are very nervous and taking steps to cut costs including redundancies
- The full impact of the current problems has not yet been seen. Clients are absorbing most of the additional costs at the moment but that can't go on. There is an increasing pressure on wage increases also and with banks having cut off almost completely, new lending or increases in facilities, the number of business failures will increase dramatically towards the

end of the year.

Profits have been significantly dented throughout most sectors - that will lead to lower tax revenues and more problems for the Government. To allow any breathing space for the economy, the Government must apply pressure to the banks to grant mortgages to first time buyers (a mortgage broker client can't even get mortgages where the parents are prepared to pay the 20% deposit!). The banks have also contributed much to the sudden stop felt by the economy because they are increasing margins on all their products and are "managing out" up to 40% of their commercial clients over the next 3 months. If all the banks take the same view, these businesses will fold. The banks and their shareholders should feel the pain of the banks' poor lending decisions rather than the whole economy. As far as I am concerned the banks are running the country at the moment with the decisions they are making: Government needs to take back control.

- Survey that is to the point. I operate at the SME end of the market and I can tell you that trading is becoming very difficult and should be taken on board by the government. Believe me there is very little help from the banks or government. In fact the Inland Revenue are becoming tougher.
- Trading conditions for the majority of businesses are likely to get significantly tougher over the next 12 months. Inflationary pressures will increase and government ability to provide funding will decrease. Oil and food prices will take liquidity out of the economy; borrowing will be more difficult making cash for spending short for many individuals. There will be plenty of bargains for those with cash.
- There is a danger of the media both TV radio and newspapers of talking us into a recession. They seem to take delight in bringing us more bad news and very often the statistics they quote are questionable in the least and of ego without challenge
- Most clients and contacts are battering down the hatches. Few are taking on any fresh commitments. All are horrified at the Government's attitude to those who create wealth and the increasing burden of regulation and costs which are laid on business.
- So far the credit crunch has not fully impacted the "real economy". However over the next 12 months I think that this is really going to bite and we may see banks cutting and reducing funding and overdraft facilities
- I deal with business finance enquiries at Business Link in SW. Not sure that full impact of the economic downturn has been felt yet by businesses. Have not seen a major increase in companies in distress yet!

Some comments provided ideas and/or criticism of the political environment:

- The frightening number of children aged 16 who cannot hold a civilized, clearly spoken conversation with adults at interview, and many who have no intent on working and who seem to think they will be "pop stars" or "actors" (mainly experienced in deprived areas from working with Young Enterprise) is absolutely shocking and desperately needs addressing. There is definitely no discipline being installed at either parental (second generation benefit claimants being the perpetrators) or teachers (through too much red tape for the latter) level within these areas. I am very much in favour of "conscripted" community service for all those not entering work full time (but not for Armed Services shortages having experienced the current poor levels of some recruits at this age previously), A levels or apprenticeships but feel the government does not have the capacity to keep check on their movements.
- Rural areas are just as much in need of business and infrastructure support funding than deprived areas, a large proportion of the wealthy live in these areas, set up small businesses and later invest in the more cost effective nearby deprived towns - keep them happy
- It's about time we had a government that could see further than next weeks headline. We are advising our clients to vote for regime change if they want to stay in business

- In a previous survey I suggested the treasury could use the fact that road fuel is highly taxed in the UK to mitigate the price rises by reducing the tax to make the effect tax revenue neutral. I note there is now some political support for this but amongst the opposition only at present.
- There is the strong view that the government have overspent and no cash relief can be given in taxes to the business community. A severe mishandling of the country's finances for over 10 years.
- It seems the tax burden under Labour has doubled over the past ten years and now there is little profit retained on my clients' operations. Now they find that any slight setback is enough to wreck their business