

UKBAB69 November 2008 Analysis

The November survey took Business Advisers' views on, amongst other things, growth in turnover as a high priority, the balance between business credit and debt, cutting of credit lines, provision of credit, advising on how to deal with a recession, the weakening pound and foreign workers heading home.

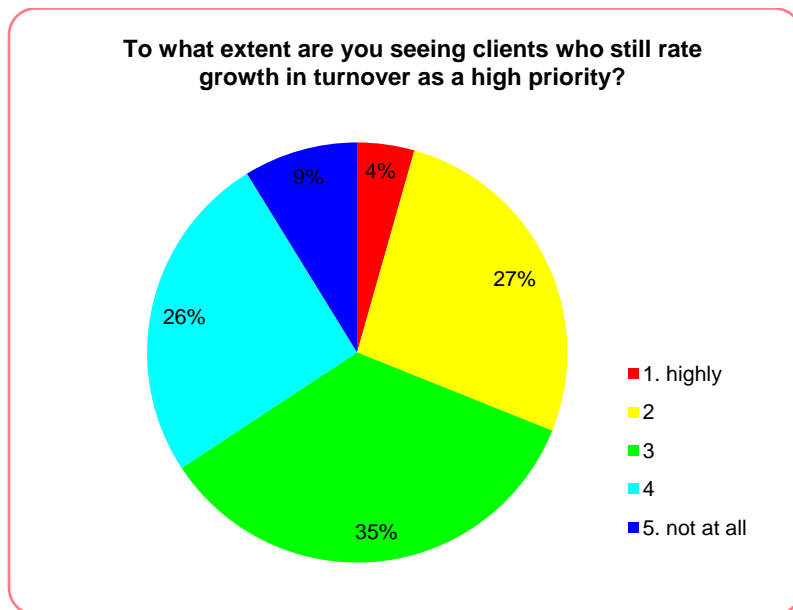
The total number of business advisers taking part in the September survey was 251 and as usual real-time results were published to the website during the course of the survey. This analysis is the outcome of further examination of those results.

Survey findings

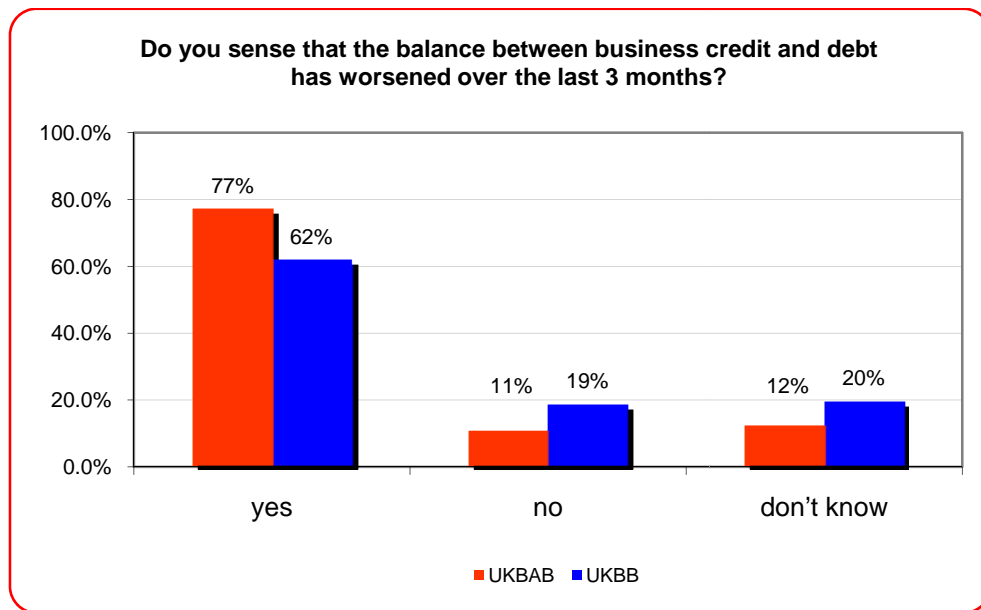
With the downturn in the UK economy beginning to bite, achieving positive net growth may be less of a target for businesses at the moment, rather than simply aiming to survive.

31% of UKBAB respondents said that they are, to a high or relatively high extent, seeing clients who still rate turnover growth as a high priority, but 34% say that they are only seeing such clients to a low extent or not at all.

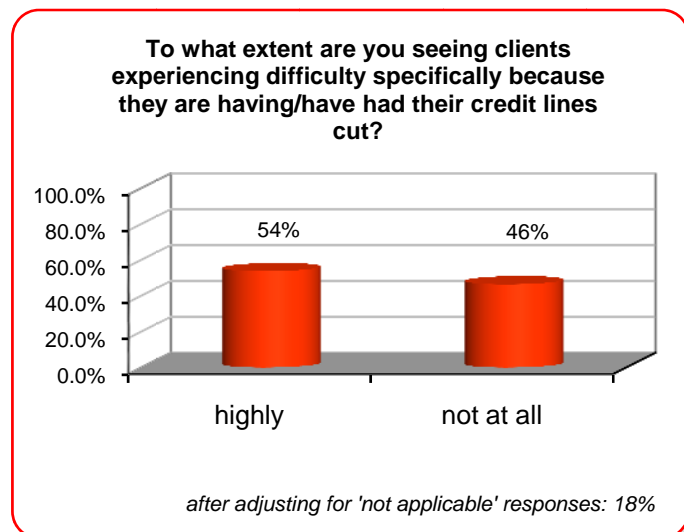
The parallel survey of smaller businesses, the UKBB, found that a large minority of the responding smaller businesses are indeed prioritising elsewhere currently. 61% of UKBB respondents said that growth in turnover is a high or relatively high priority for their businesses, while 16% said that turnover 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 in the parallel UKBB survey of smaller businesses. 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.

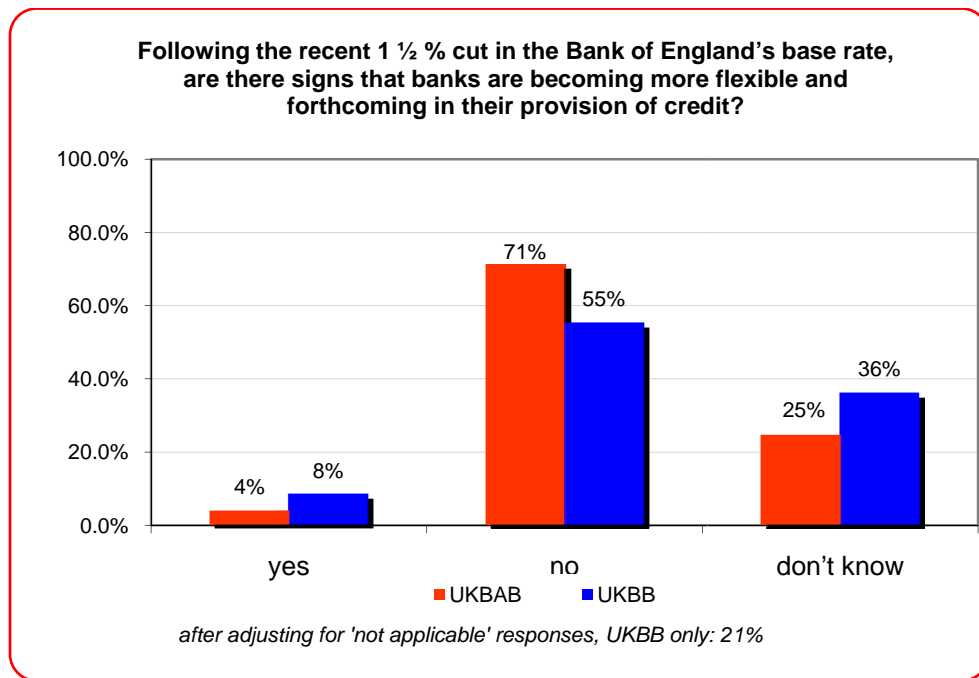


The November UKBAB survey found that 54% of responding advisers are, to a high extent, seeing clients experiencing difficulty from having credit lines cut, while 46% said they were not seeing this at all (after adjusting for 'not applicable' responses). This situation will continue to be monitored in future surveys since in early December some banks have pledged to maintain overdraft limits and margins at existing levels and/or not make demands for immediate repayment of loans by withdrawing existing facilities.

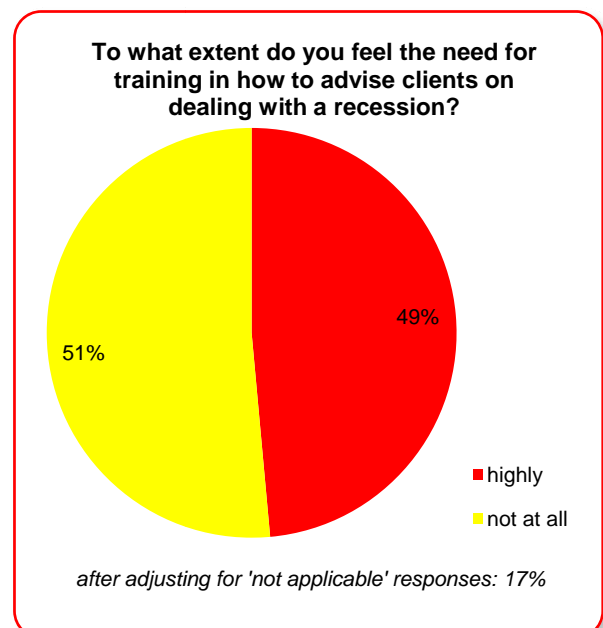
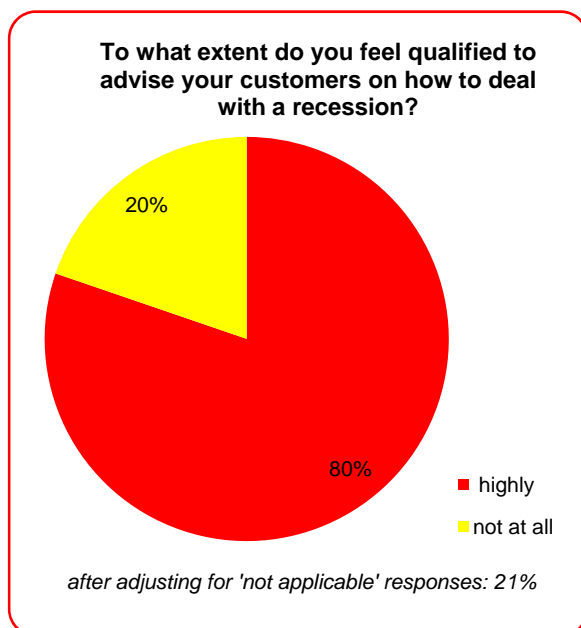


Between September and December 2008 the Bank of England reduced its Base Rate three times: by ½% on October 8th, by 1½% on November 6th and by 1% on December 4th. This survey went out shortly after the second reduction, which was intended to encourage high street banks to restore provision of credit to businesses and households. Panellists were asked about improvements in bank credit support following the November base rate cut. 71% of respondents said 'No' and only 4% said 'Yes'.

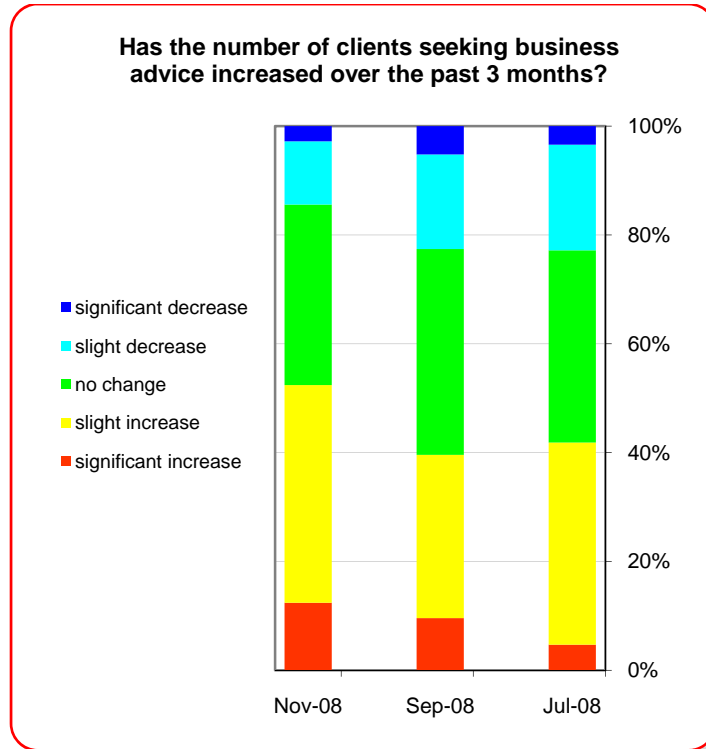
In the parallel UKBB survey, smaller businesses were asked if their own banks were becoming more flexible and forthcoming in their provision of credit. After adjusting for 'not applicable' responses, over half the respondents (55%) said there were no signs of increased flexibility or cooperation from their banks, although 9% said they had experienced this.



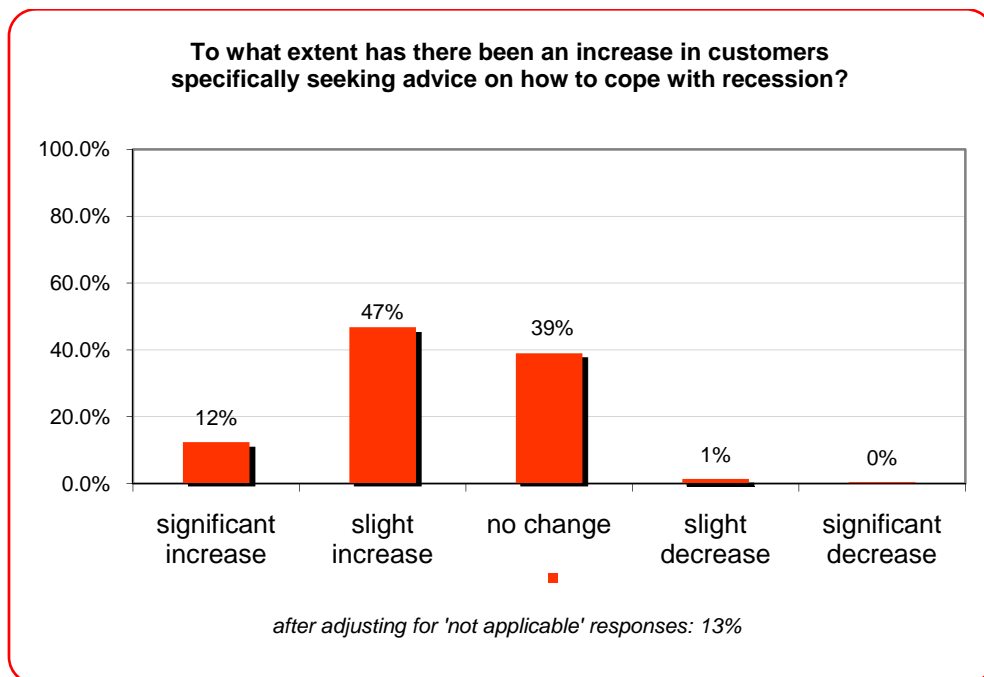
80% of respondents feel that they are highly qualified to advise clients on how to deal with a recession but nevertheless, 49% feel the need, to a high extent, for training in this area, after adjusting for 'not applicable' responses.



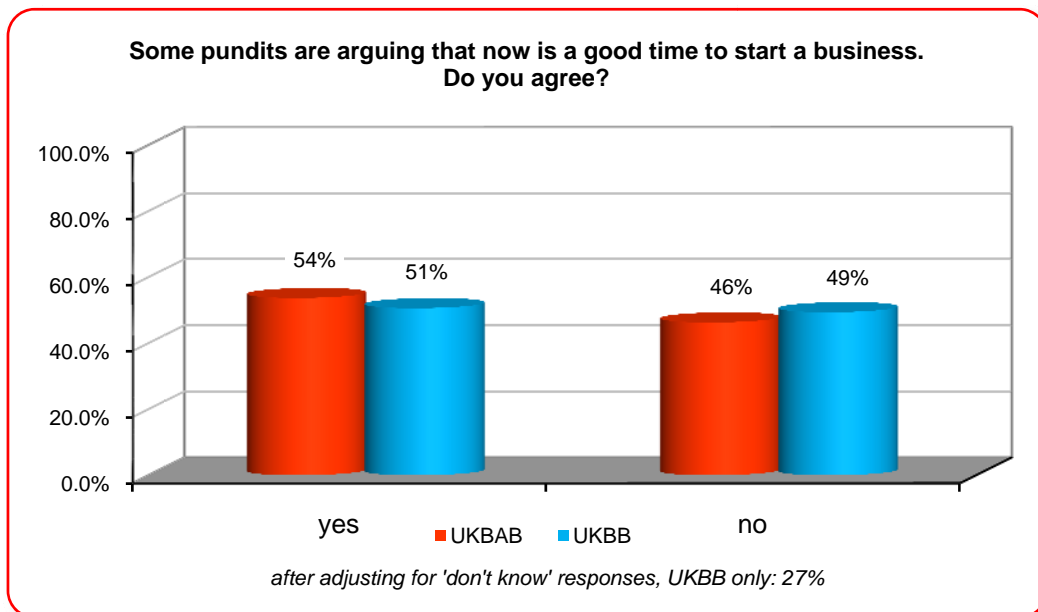
The indicator of changes in numbers of clients seeking business advice over the past 3 months increased by 8% compared with the three months to September 2008. 33% of respondents reported no change in numbers. The number of advisers experiencing increases in enquiries continued to outpace the number experiencing decreases in enquiries, by 38% in the three months to November compared with by 17% in the three months to September.



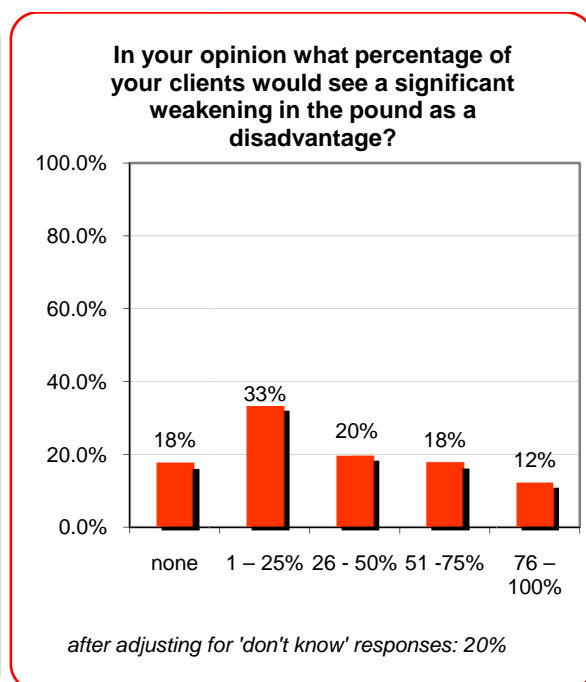
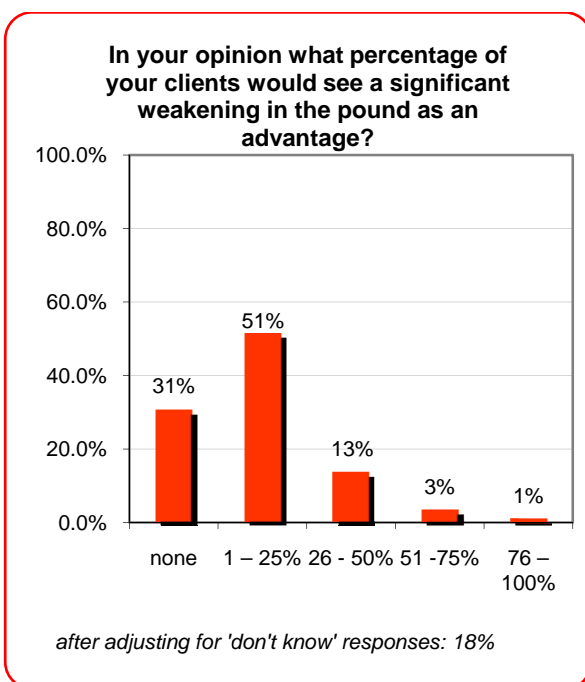
After adjusting for 'not applicable' responses, 69% of respondents say that there has been an increase in customers specifically seeking advice on how to cope with recession, while only 1% say there has been a decrease.



Amongst the business advisers responding to the UKBAB, 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 UKBB survey of smaller businesses and the split was even closer.



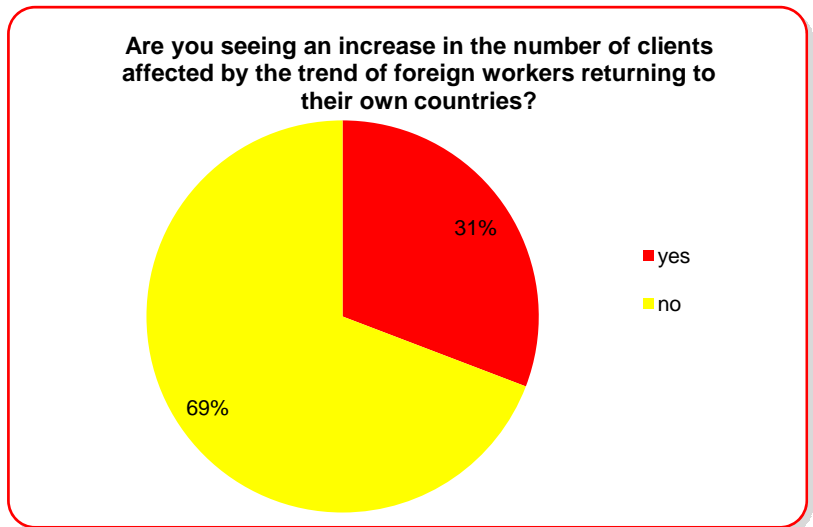
The UK has had a net deficit in its balance of trade with the rest of the world for the last 17 years, perpetuated and encouraged by factors such as the strong pound/dollar exchange rate, relatively high growth, particularly the rate of increase in consumer spending (which tends to suck in imports) and the long term decline in manufacturing. Although recent economic shocks have reversed several of these factors - the rapid decline in the strength of the pound, together with weakening in house prices and consumer spending alongside lower growth, the long term decline in manufacturing continues. Only 4% of responding business advisers think that the weakening pound will be advantageous to their clients, while 30% see the falling pound as a disadvantage to over 50% of their clients.



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.

31% of UKBAB respondents say that they are finding an increase in the number of clients affected by foreign workers withdrawing from the labour pool.

In the parallel survey of smaller business, the UKBB, panellists 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 BAB 69 November 2008

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

People from ethnic minority background feel they are pushed around by the red tape/ regulators of Local and Central Government, getting from bad to worse in recession.

There has been a very sharp deterioration in business in the last 3/4 weeks

Q9 [Some pundits are arguing that now is a good time to start a business. Do you agree?]- In reality, substantially dependent upon Funding type and longevity available, plus the particular market targeted.

My views are coloured by one client who has had his overdraft reduced from £42k to zero and factoring stopped and started and stopped again as well as not covering the risk for the amounts he wanted for major customers and in the case of 2 retailers, Woolworth and Debenhams being unwilling to cover any risk at all.

For question 5 the answer is somewhere in between ie having some confidence of giving advice in a recession rather than none.

Over the last fifteen years business owners have just sat back and the work has come through the door. Yes there are significant slow downs for some but those who are out selling and promoting their businesses are doing well. This is a good time to get out there and find your markets. Sharpen your pencils and use the resources you have to make a difference to your business.

The BBC and other press and tv coverage is creating the self fulfilling prophecy of the downturn and reducing confidence in the marketplace. My message to clients is to turn the TV off and get on with the work! Sell your way out.

I started a business in one recession (70's) and traded through the next 2, but I do think the current scenario, while similar in some respects, is quite different in others. You always have something to learn, although I don't know whether I would define this as a 'training need' as much as appreciating an opportunity to hear others' views and perspectives. Smaller clients have more flexibility and are able to respond quickly to change. However, the general feeling among clients is that it will be after Christmas when the real effects/implications start to hit home and we are in for a bumpy ride ahead.

General impression is that the recession, particularly as a result of poor Government Policy, is worse than is being stated publically and will last longer.

A year ago, we saw a regular flow of eastern Europeans considering setting up businesses in the UK - all the usual- motor mechanics, hairdressers etc, many of whom were very well qualified. In the last few months, we have seen a reduction of Eastern Europeans and a slight increase in African ethnic Portuguese.

Most people I speak to think the problem will be next year, rather than this year.

We are seeing an increase in foreign workers wanting to set up their own business.

Clients are hunkering down in panic and pessimism.

Banks and Government could make far more appropriate use of the Government Guaranteed Loan Scheme.

It is small business that will drive us out of recession, not huge multinationals that run at a loss were it not for state sponsored creative accounting; these organisations should not be bailed out, but left to die a natural death. We are also plagued by highly paid advisors that don't know how to do anything, e.g. business link. Whole industries have sprung up based on ridiculous legislation unfortunately there are precious few real business's to support all this expense on red tape. HMRC have added to the problems in recent years by their aggressive and unsympathetic pursuit of legitimate business while ignoring the criminal element. Government has no idea of the full extent of the shadow economy and has no resources to deal with it. Just like the last recession any fool could have seen this coming. Still the British tax payer voted for this so now should not complain. No doubt the perceived solution will be more unworkable legislation that most will ignore as usual. Could the UK already be Bankrupt! Wait for the effect on property prices caused by rates on empty property charged to landlords who cannot find tenants, no one can be this stupid so it must be deliberate, perhaps Tesco's should pay for the empty property rates having been influential in the demise of small business.

Customers are taking much longer to settle their debts.

The economy has been in recession for the last year but the Government has been less than honest and I would think that it would be about 2 years before we recover to an acceptable level again. We have not reached the tip of the iceberg yet....so keep your seat belts on!

Would like to qualify answer to q 9: it would depend on the sector being considered!

As an employment rights/hr advisor I am seeing an increased number of clients needing advice with redundancy procedures as a result of the recession.

The return of foreign workers has opened opportunities for small construction & service businesses to offer sub-contracting services.

The unavailability of credit from the banks is playing a very serious part in the downturn of SME's. Cash Flow is vital to avoid bankruptcies, and many clients are suffering because their customer's are not paying them.

Start-ups are also suffering with the banks unwilling to risk lending [unless at usury rates] and the government's Loan Guarantee Scheme is a joke with no banks giving loans, even with good Business Plans.

The priority for most of the businesses I work with is simply to survive this period and use this time to prepare for the recovery. As long as their customers stay in business and can afford to pay them so their cash flow is maintained then they feel they have a better opportunity for the future as their weaker competition dies. However, many of them are really angry that although the banks are getting significant Govt support little of that is filtering through to them. The manufacturing companies appear to be left to wither and die, further prompting the transfer of jobs and skills overseas to the developing economies. They fear that they are being significantly disadvantaged for when the recovery emerges. VAT reductions of 2.5% is insignificant for most.

Q6 [To what extent do you feel the need for training in how to advise clients on dealing with a recession?] I don't think formal training is the answer. The environment is too uncertain. However, in a team situation the training is by way of sharing expertise and opinions and can be flexible - a sort of "in house on the job" training.

It can be a good time to start if you have a good plan are very optimistic and forceful in sales and marketing and can take advantage of the low interest rates.

In Wales, re-structuring of business support by WAG has caused confusion and reduction in both quality and level of support offered. The focus on growth at the expense of support for indigenous, stable business is a major deterrent to those seeking our advice. They feel unloved!!

Q9 [Some pundits are arguing that now is a good time to start a business. Do you agree?] : Much depends upon what business they are thinking of going into.

Very difficult situation for all businesses, would like to see more promotion of the MAS scheme [Manufacturing Advisory Service] which is ideal for SME's to obtain help.

At present my perception is that most of my clients are worried about the possible effects of a recession rather than being actually affected by it yet.

The media is putting fear into my clients, that is not ready there.

Because of where we are in the budgeting cycle for most big firms / organisations / government with budgets for 2009 being set for January or April and all but the most essential investment projects being canned, the next 2 (two) years will be hell!!

No new investment ahead of 2010 and very little then - the pressure cooker will start to hiss again in 2011 but will not come up to full operating pressure until late 2011 / 2012.

Batten down the hatches.....

Most of my clients are expanding their businesses at this time.

Senior executives are fearful, resulting in risk aversion and postponement of anything other than cost based initiatives. Sad really

Regarding the qualifications for advising on recession this is a very uncertain world we are living in and to say one is qualified is effectively saying you can give some degree of certainty in your advice. This would be tricky and quite dangerous. Yes you can give people options but to specifically advise I feel is unwise.