

FEBRUARY 2010 EDITION — REPORTING ON FINDINGS FROM QUARTER 1 - JANUARY 2010

The Barometer Project

Developed in The University of Nottingham Institute for Enterprise and Innovation (UNIEI), UKBB and UKBAB are on-line surveys operating in parallel with each other collecting the views of both businesses and advisers on a wide range of subjects.

Surveys are open to anyone active in either of the two 'communities' and allow a comparison of their views on the same issues, thereby providing a useful indication to government of how policies and other government measures are impacting upon businesses.

To view current and previous analyses documents and for further information, please visit the UK Business Adviser Barometer at:

www.ukbab.ac

and/or the UK Business Barometer at:

www.ukbb.ac

Alternatively, contact

admin@ukbb.ac

Welcome to the report on the 1ST quarter survey of the Barometer Project for 2010. A total of 308 panellists responded to the UKBAB and UKBB questionnaires; included here is a full analysis of the UKBAB findings together with a selection of panellists' comments.

A list of questions for each of the two surveys is given below.

UK Business Adviser Barometer – Q1 2010

1. Anyone looking to set up or expand a business should wait till after the general election, entrepreneur Theo Paphitis has warned. Mr Paphitis, of Dragons' Den fame, said that entrepreneurs should "not take a gamble" because the UK is "in no man's land" and politicians will not say what they're going to do about the economy. To what extent do you agree with this view?
2. In general, taking a medium term view, to what extent do you think that the adverse weather conditions at the start of the year will affect clients businesses?
3. When asked by your clients how best to deal with cash flow problems, assuming all the following factors to be relevant, which of them would be your most common initial response?
4. To what extent do your clients experience difficulties when making cash flow projections?
5. To what extent do your clients rely upon accurate cash flow projections when managing their cash flow?
6. 'Through enterprise education, we're encouraging young people to be entrepreneurial and to consider self-employment. To what extent do you feel that the current business support infrastructure is relevant to their needs?'
7. The internet is regarded by the under-25s as integral to the development of their businesses. To what extent would you feel comfortable advising under-25s on the use of modern integrated technology?

Plus the five regular trends questions.

UK Business Barometer - Q1 2010

1. "We would like to take the views of the 2010 panel on various questions about internet usage.
 2. Anyone looking to set up or expand a business should wait till after the general election, entrepreneur Theo Paphitis has warned. Mr Paphitis, of Dragons' Den fame, said that entrepreneurs should "not take a gamble" because the UK is "in no man's land" and politicians will not say what they're going to do about the economy. To what extent do you agree with this view?
 3. How common is it, when advertising non graduate vacancies, for graduates to apply?
 4. Taking a medium term view, to what extent do you think that the adverse weather conditions at the start of the year will affect your business?
 5. Faced with short term cash flow difficulties where would you look first to improve your cash position?
 6. To what extent do you experience difficulties when making cash flow projections?
 7. To what extent do you rely upon accurate cash flow projections when managing your cash flow?
- Plus the five regular questions asked with a view to revealing trends in growth, skills, finance, and market demand as they apply to your business.

UKBAB74 January 2010 Analysis

The UK Business Adviser Barometer seeks to shed light on how advisers perceive that smaller businesses are coping with the current state of the economy and provides information to enable the designers and implementers of business support policy to be more effectively informed. Questions are focused on topical issues and the survey is deliberately kept short, but additional comment on problems facing business is invited as part of the survey submission and is reported within the analysis.

This 2010 first quarter survey seeks your views on holding back on expansion ideas until after the election, the business impact of adverse weather conditions, short term cash flow difficulties, cash flow projections, advising the under 25s plus the UKBAB trends questions.

About the respondents

UKBAB panellists are all business advisers but they come from a wide variety of skill bases, including one or more of the following areas of expertise:

Accountancy	Business Planning
Finance	ICT
Legal	Manufacturing Processes
Marketing	Quality
Sales and Purchasing	Workforce Development

The total number of business advisers taking part in the January survey was 195 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 received up to 10th February 2010.

Survey Findings

During a recent interview on BBC 'Working Lunch', Theo Paphitis, of 'Dragons' Den' fame, said that entrepreneurs should "not take a gamble" because the UK is "in no man's land" and "politicians will not say what they're going to do about the economy". He advises people to "take their time". We asked participants in the UKBAB survey and also those who participated in the UKBB (smaller businesses) survey whether they thought people should wait until after the General Election before starting up or expanding a business.

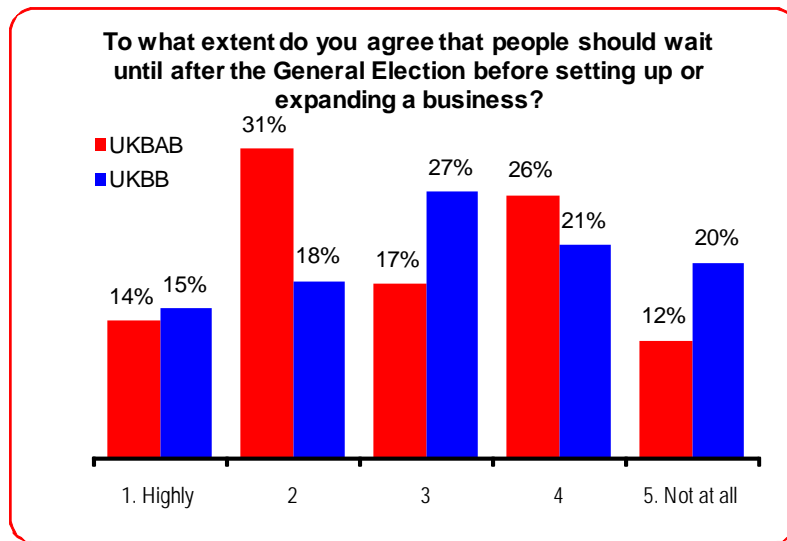
There was no consensus on this. Amongst the business adviser community 45% agree highly or reasonably highly that it would be better to wait, but 38% disagree either totally or to some extent. Amongst the smaller business community (UKBB respondents) 33% agree highly or reasonably highly that it would be better to wait, but 41% disagree either totally or to some extent.

Respondents were invited to add their personal views on this question and a total of 122 across the two surveys did so (they can be viewed on the Survey results page: and www.ukbab.ac/ui/commentsBAB74.aspx and www.ukbb.ac/ui/commentsBB125.aspx).

The majority of comments encouraged those with a robust business model and a well researched market to go ahead, many stating that there is no ideal time to start a business and starting up at a time of general election always adds uncertainty to a number of business areas. Some responses considered what sector the new business might be in and how the finance might be provided and some pointed out that there are existing supports such as grants available now which are due to cease after March 2010. Some individual comments made more generally were more supportive of Mr Paphitis:

- These are uncertain times. They will get more uncertain as the election approaches.
- Britain is in a dire economic position, and government debt is so large that any attempt to repay it is going to cause universal financial hardship. There are also huge unfunded public sector pension liabilities that will have to be

met from current income. There is nothing in the rule book to deal with this unprecedented mismanagement of the economy by the present Labour government. Consequently, cash is king, and expansion plans should be put on hold.

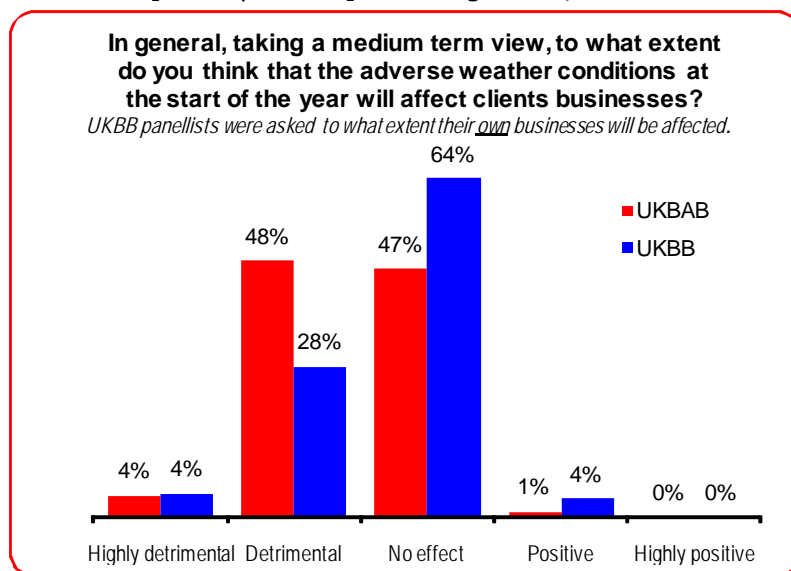


During the second half of December and the first half of January the UK experienced very cold temperatures and heavy snowfalls, with consequent disruption to travel, school and workplace operations in many locations. Average rainfall in December was 4% above the 30 year average, while January saw the average temperature at its coldest since 1987.

Despite these problems, 47% of respondents think that in the medium term the poor conditions will have no effect on their clients' businesses, although 52% fear that there will be a detrimental or highly detrimental impact.

One respondent added the comment "[This question] is too generic; will affect some sectors and not others, some geographic areas more than others. Insurance policy premiums I'm sure will rise, hence "detrimental" answer."

Smaller businesses who responded to the UKBB are more optimistic. Although nearly one third, 32%, fear that there will be a detrimental or highly detrimental impact on their businesses, nearly two thirds, 64% think that the poor weather conditions will have no effect.



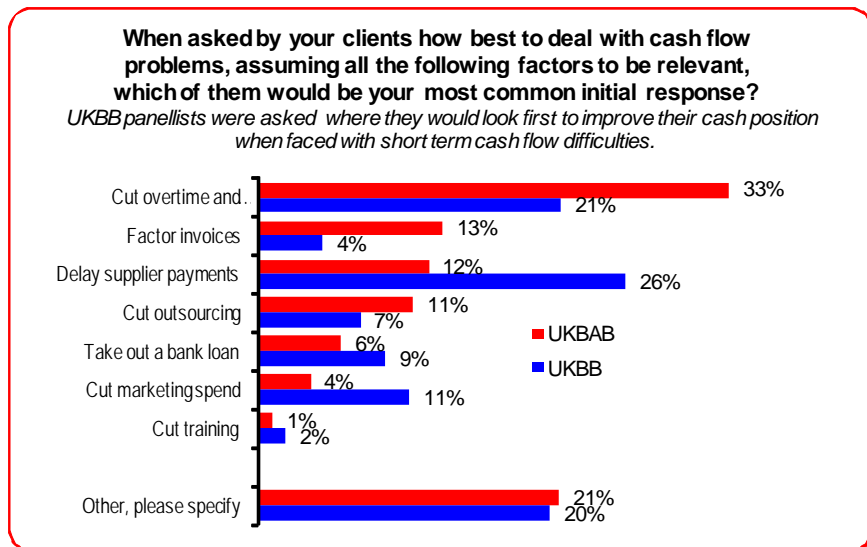
Short-term Cash Flow Problems

Insolvency statistics have been regularly making the headlines over the last year. The number of UK companies going into liquidation over the whole of 2009 was the highest since 1993, but provisional fourth quarter figures were down 3% on Q4 2008. An often quoted maxim is "Cashflow is the lifeblood of any business". Over the last year, even more advice has been offered to smaller businesses by media commentators and government offices as well as professional business advisers, on how to manage cash flow problems, particularly since access to finance has become very limited and very expensive.

The UKBAB survey of business advisers asked what response they would most commonly

give initially when asked by clients how to best deal with cash flow problems. One third would advise cutting overtime and temporary staff first, 13% would advise clients to factor invoices and 12% would advise clients to delay payments to suppliers.

Amongst the 21% who would choose something other than the seven areas offered, around one third would advise chasing debts more vigorously. Other ideas offered included: reducing outgoings generally, increasing/targeting selling, negotiating payment terms/prices with suppliers, improving operational efficiency, asking staff



to help, reducing Directors' costs, increasing prices, combinations of the seven listed areas, taking loans instead of overdrafts. Several said it would depend on the problem or what drives the cash flow.

A respondent commented "[This] was the most difficult to answer as the advice I would offer would depend on the situation of the individual client and could range from trying to renegotiate lines of credit, consolidating debt and reviewing all overheads. Even if I recommended cutting marketing it would be after reviewing the marketing strategy and identifying what generated new and repeat business for them."

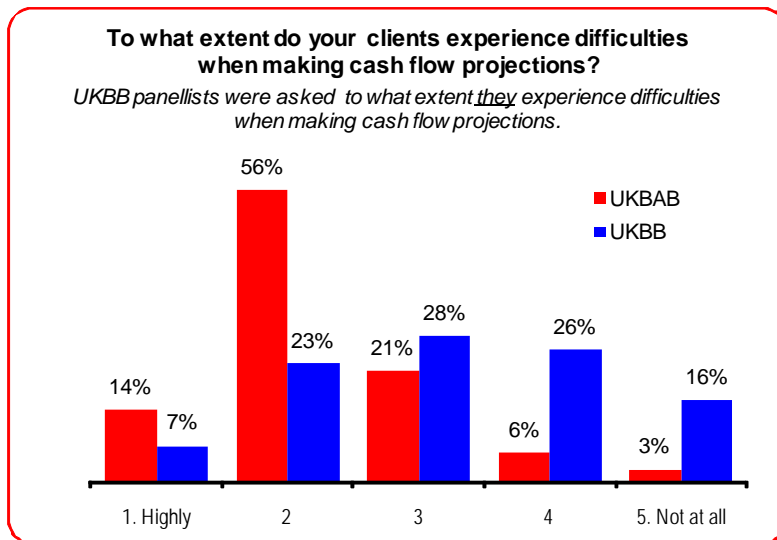
Another comment received said "all the comments [response choices] are negative , no options to be more positive regarding generation of cash flow in the business. There are many positive courses of action that can be generated in a business before taking some of those routes. Is the glass half full or half empty?????"

The UKBB survey asked panellists where they would look first to improve their cash position if they were faced with short term cash difficulties. Over a quarter of UKBB respondents said that their first move would be to delay payments to suppliers. 21% say that they would first cut overtime and temporary staff, and 11% would first cut expenditure on marketing.

20% of UKBB respondents would choose something other than the seven areas offered. Of these, around one quarter would look to borrow from their personal finances, their family or other company directors. Some would conclude that short term cash difficulties meant that their business was failing. Other approaches included: increase marketing spend, more vigorous chasing of debts, seeking an overdraft, reducing outgoings generally, drawing on reserves, reducing stock.

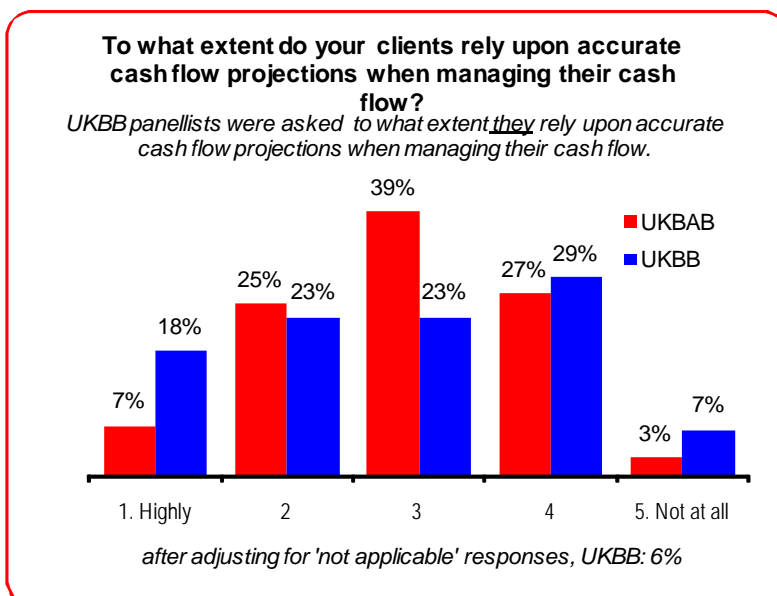
Asked about problems experienced by clients when making cash flow projections, 70% of UKBAB respondents think their clients have difficulties to a high or fairly high extent but only 30% of UKBB respondents admit to experiencing difficulties to a high or fairly high degree.

A UKBAB respondent commented "most micro businesses work on current cash flow not on projections despite being advised to plan ahead."



When asked to what extent their clients relied upon accurate cash flow projections when managing their cash flows, 32% of UKBAB respondents said 'highly' or reasonably highly (category 2) while 30% said 'not at all' or not much (category 4).

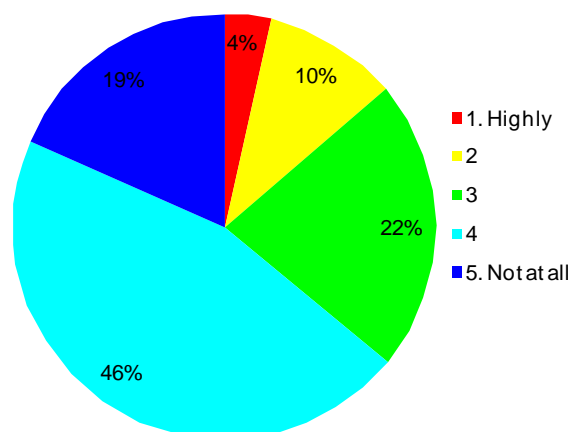
Smaller businesses were asked how much they rely on accurate cash flow projections for cash flow management. 41% of respondents said they rely on them to a high or reasonably high extent but 36% rely on them very little or not at all.



Advising the Under-25s

Through enterprise education in schools, colleges and universities, we're encouraging young people, more than ever, to be entrepreneurial and to consider self-employment and business start-up as career options.

To what extent do you feel that the current business support infrastructure is relevant to the needs of entrepreneurial young people?’



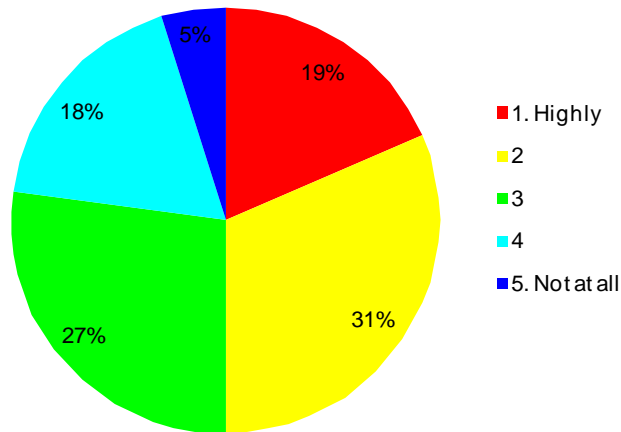
Although courses are up and running in many educational establishments, only a minority of respondents to the January UKBAB survey feel that the current business support structure is well geared to the needs of entrepreneurial young people – only 14% are highly or relatively highly convinced while 65% think the reverse is true.

There were some individual comments from respondents on this topic:

- [This question] is interesting. I would have phrased it slightly differently, focusing on how useful the current business support infrastructure is to their needs.
- I believe there is good government training and public sector support, but private industry is very difficult to engage, unless contacts are already established. Business mentoring should be provided more formally to assist young entrepreneurs to provide greater support for obtaining business experience as well as an opportunity to pitch and present.
- I'm MD of an endorsed education sector training provider, delivering enterprise learning, social enterprise and economic wellbeing in schools for years, so very aware of business support infrastructure. There are numerous organisations and tiers from the commercial side and mirrored from the academic side. Both infrastructures need radical overhaul and there is a definite culture clash between the two. However, the commercial side edges relevance of support. Teachers are hamstrung by a system designed to churn out a labour force for big business, as the curriculum is designed by big business. Too many academics just do not grasp that brilliant business owners, entrepreneurs and innovators do not thrive and cannot be developed in an academic setting. The kids with dyslexia, ADD, etc make the best of real enterprise. Academically strong kids make good careers for themselves. In secondary education especially, education business support does not adequately engage businesspeople keen to make a difference.
- Regarding business education those taking the training have usually virtually no experience of running a business, the main value of such classes is to raise this as a possible and reasonable ambition

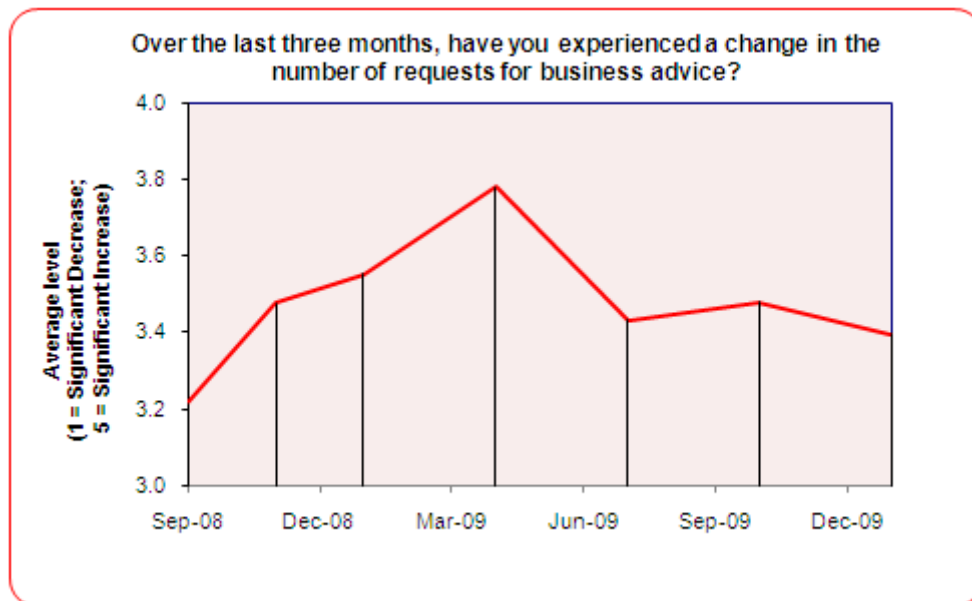
The internet is regarded by the under-25s as a key source of enterprise information and advice – and integral to the development of many of their businesses. Panellists were asked about advising under-25s on the use of modern integrated technology in their businesses. Half of all respondents feel highly or relatively highly comfortable with this, although nearly one quarter are not at all or not very happy about it.

To what extent would you feel comfortable advising under-25s on the use of modern integrated technology in their business?



Trends Questions

The indicator of changes in numbers of clients seeking business advice over the past 3 months dropped back by 2% compared with a 1% increase over the previous three months to October 2009. 40% 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 34% in the three months to January compared with 40% in the three months to October.

A contributor commented "Encourage business owners to seek advice on the basis it is good to talk and two heads are often better than one. Doing so often improves the current status and future outlook of a business".

The average of the results for the three month period to October 2009 for the number of people wanting to start a business, slipped back by 8.5% between October 09 and January 2010, having increased between July and October 09 by 7%.

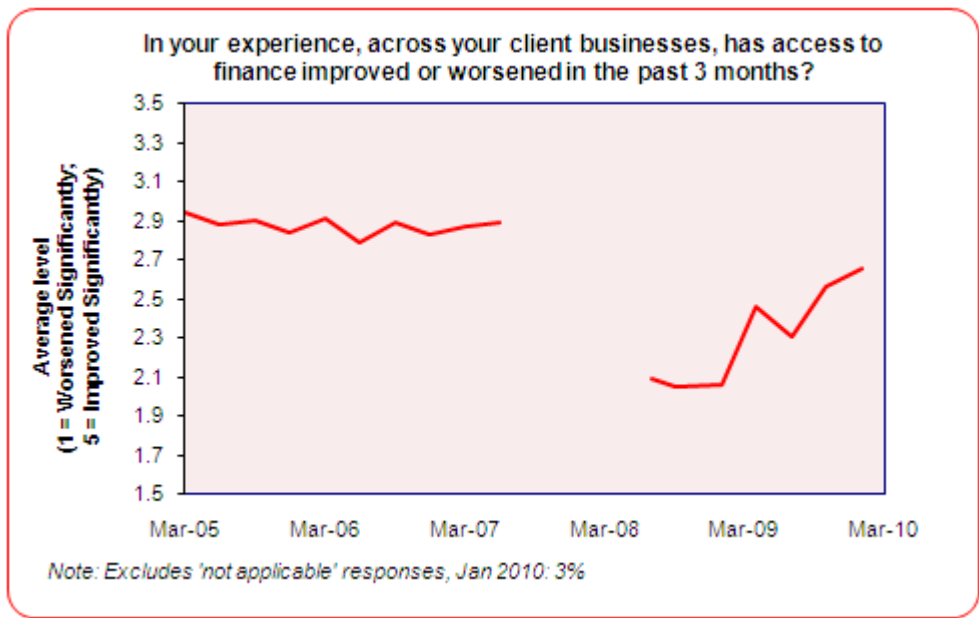
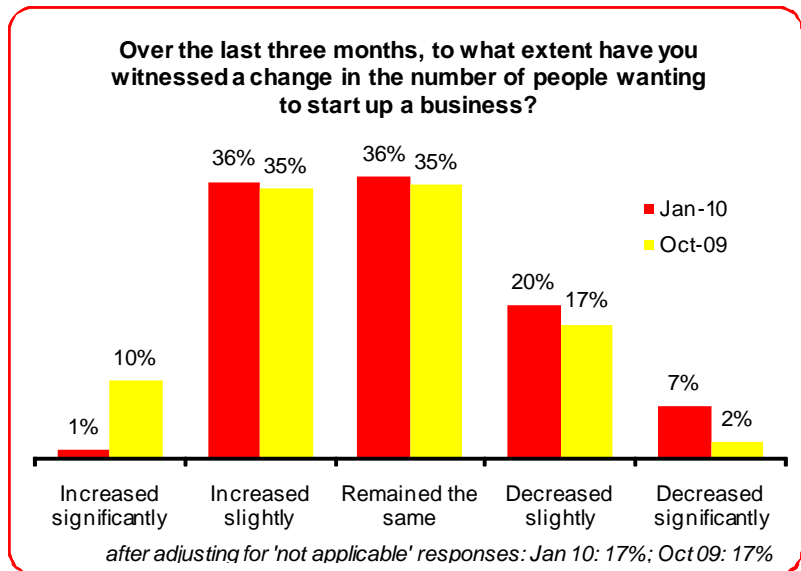
The balance, which tends to be volatile, between the percentage witnessing significant or slight increases and those witnessing significant or slight decreases in the number of people wanting to start a business moved from +25% in October 2009 to +10% in January 2010.

A respondent made the following comment which has relevance to this question: "...The volume casualties [*made redundant*] in this recession are bankers

and estate agents. These people simply do not huddle around braziers with banners - they do not even claim the dole usually as the process is so complex, demeaning and irrelevant to people with their qualifications. They are more likely to set up on their own and do anything to keep going - I don't know, but I'd bet the number of business start ups is rising fast currently. ..."

Having improved by 11% in the three months between July and October, the index measure of clients' ability to gain access to finance improved by 13% between October and January. 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 was again less negative, improving from -30% in October 2009 to -26% in January 2010..

The level of the index is moving up towards levels experienced before the onset of the 'credit crunch' but despite this contributors to the UKBAB are still observing very difficult times for their clients.



Comments on this topic included:

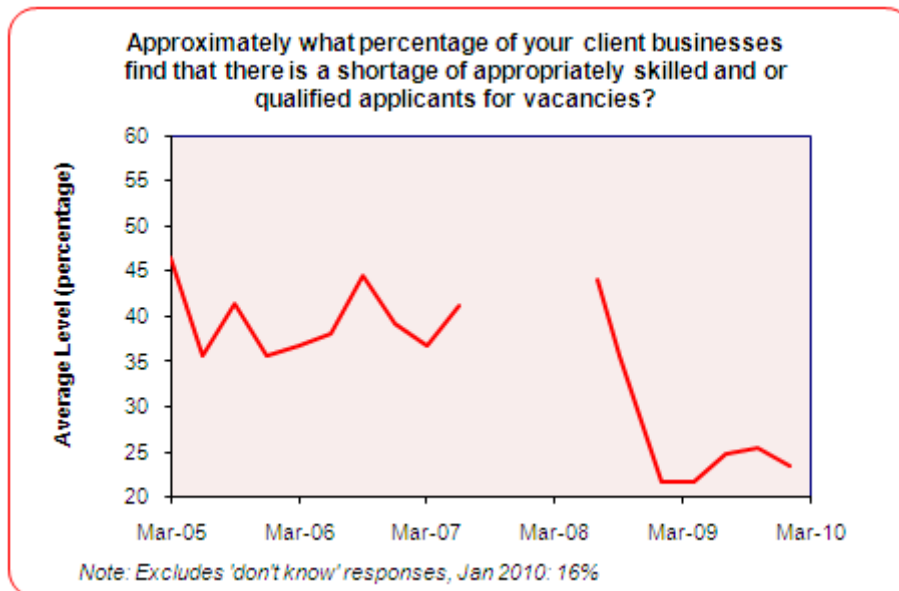
- The banks are only lending in highly favourable (to them) situations and then seeking cast-iron guarantees. They say otherwise, but the reality on the ground is a lending drought.
- Cash is the lubricant of the economy, until there is a significant easing, by the banks, on lending to business there will be not improvement in the business cycle
- Access to finance is still a major problem, especially for SME's in Scotland. Companies that are prepared to look at alternative revenue streams, in particular the business advantages of using social media to target customers are showing good signs of growth.

- Many SME clients of mine have done everything in the last 12-18 months to improve their financial mgt, but at the end of the day if the customers have gone away for a long time I can't see how they can continue.

In the January 2010 survey, the average overall percentage of clients experiencing shortages of appropriately skilled applicants was 23% down from October 2%. Over the last year the average level of clients' firms' skill shortages has remained in the 20% - 25% bracket, contrasting strongly with the previous range up to September 2008 of 35% - 45%.

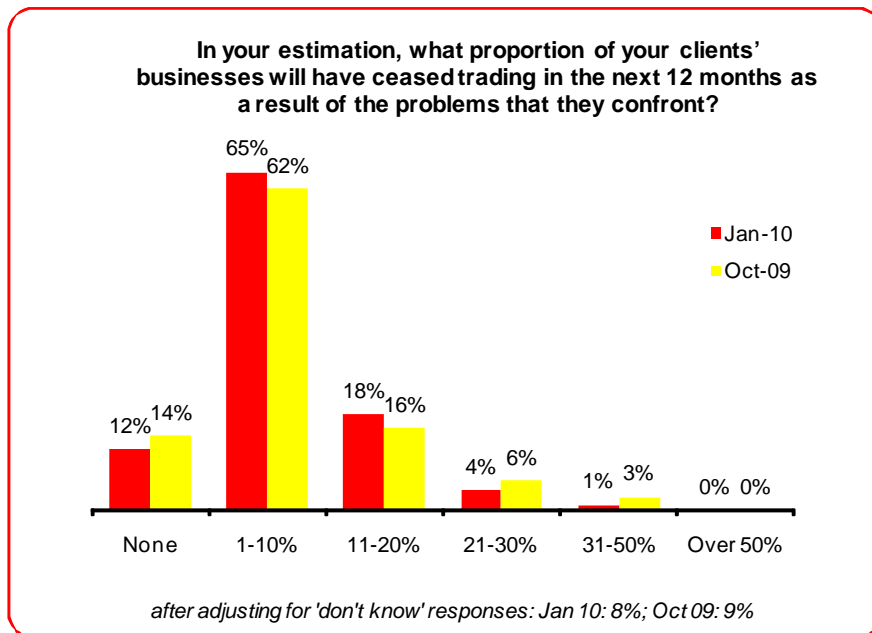
Where there are vacancies for particular skills it seems that clients are still finding difficulties in filling them. One respondent said "...it seems that it is still increasingly difficult to find staff (particularly younger staff) who have the requisite trade skills for small businesses. It seems even more difficult to find staff who are willing to learn via apprentice schemes" but another commented "On the contrary each job has an excess of suitably qualified applicants."

Another aspect pointed out by a contributor was "Recruitment of staff is often a problem as a result of the employer being unwilling to pay above what they believe is the going rate for the job, despite a shortage of skilled operators in the market place." A different viewpoint was expressed by a contributor: "...Any talk of a skills shortage is rubbish! We have an attitude shortage perhaps but there are too many (over)skilled people out there dying for a job. We have an entrepreneur shortage that's for sure....".



There has been a small reduction in the average percentage of clients that respondents expect to cease trading over the next 12 months compared to October 2009, down from 7.9% to 7.4%.

This looks optimistic when compared to figures for the UK from the Office for National Statistics Statistical Bulletin: Business Demography 2008, published November 2009 which said that "in 2008 there were provisionally 219,000 business deaths, a death rate of 9.4 per cent." A note of greater gloom emerged from amongst the respondents with the comment "I believe that more businesses go under when the economy is coming out of recession than when it is in recession. We haven't seen the worst of it yet."



Other Feedback

Listed below are some of the more general personal views supplied in feedback received from respondents to Survey BAB 74 January 2010.

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

- Dedicated support for graduate businesses not adequately promoted(Wales)
- it is still a very difficult period of recession, and this government is not doing anything to assist anybody but themselves!
- Accessing international markets and the business opportunities of the Olympics 2012 (also the Commonwealth Games in Glasgow 2014)are key to UK companies future success
- thank you for carrying out these surveys. It is very important for independent business advisors / consultants like myself to have a voice.
- The last 3 months have taken in Christmas and the New Year plus the severe weather conditions which have returned again.
- Government action is not keeping redundancies down. The 750-850k increase is almost entirely due to students coming onto the frozen job market. The volume casualties in this recession are bankers and estate agents. These people simply do not huddle around braziers with banners - they do not even claim the dole usually as the process is so complex, demeaning and irrelevant to people with their qualifications. They are more likely to set up on their own and do anything to keep going - I don't know, but I'd bet the number of business start ups is rising fast currently. While interest rates are low and the property market is ticking over at best we remain in a "phoney recession". Highly mortgaged public sector employees are having a ball, for example. None of this is rocket science, but no-one is being honest about it.
- Business Link seems more out of touch than ever and I don't know what the RDAs think they are doing to support the regional economies. Best thing is to sweep the whole business support apparatus away, as Doug Richards is saying this week, and focus instead on less bureaucracy and a more positive attitude to business.