

UKBB70 January 2009 Analysis/Survey Report

The January survey asked for views on a range of current issues including credit lines, redundancy/unemployment, training, and new product design. The UKBAB trends questions were also included.

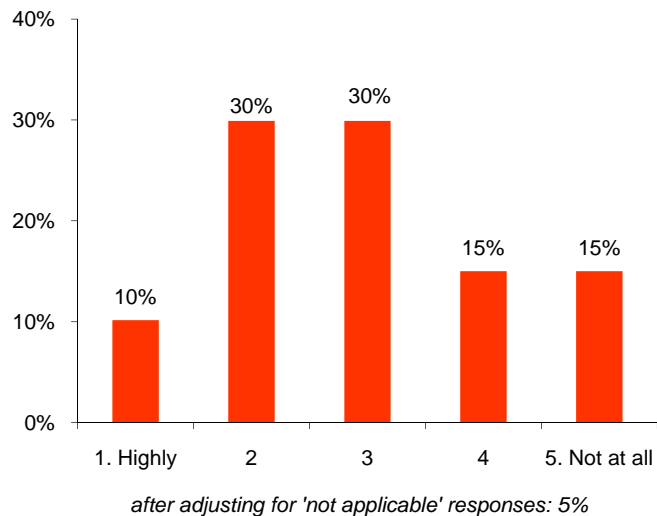
The total number of business advisers taking part in the January survey was 240 and as usual real-time results were published to the website during the course of the survey. This analysis is the outcome of further examination of the results up to 3rd March 2009.

Survey findings

The January UKBAB survey found that 40% of responding advisers are, to a high or reasonably high extent, seeing clients experiencing difficulty specifically from having credit lines cut.

30% said they were not seeing this very much or at all (after adjusting for 'not applicable' responses). A couple of specific comments were received on this question from respondents, one saying that "The situation regarding level of credit - in terms of value - from component and raw material suppliers appears to cause some problems with cash flow." The second observation was that "businesses that depend a lot on contracts are not experiencing many issues with credit."

To what extent are you seeing clients experiencing difficulty specifically because they are having/have had their credit lines cut?

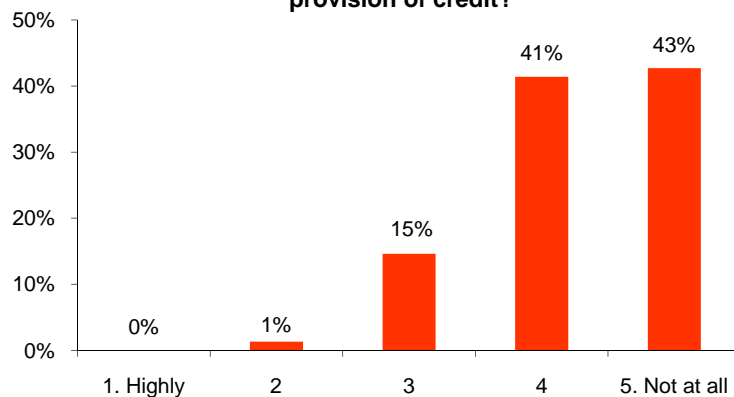


There were three reductions in Bank of England Base Rate in the last quarter of 2008 and this was followed by further cuts on January 8th and February 5th, of ½% each time. With the Base Rate in February at its then lowest historical point (subsequently lowered again on March 5th), panellists were asked about improvements in bank credit support.

In the November 2008 survey panellists were asked if there were signs that banks were becoming more flexible and forthcoming in their provision of credit, to which 71% of respondents said 'No' and only 4% said 'Yes'.

In the January survey the responses were even bleaker: 84% said the extent to which banks are restoring credit provision is very limited or non-existent, while only 1% see improvement to a reasonable extent.

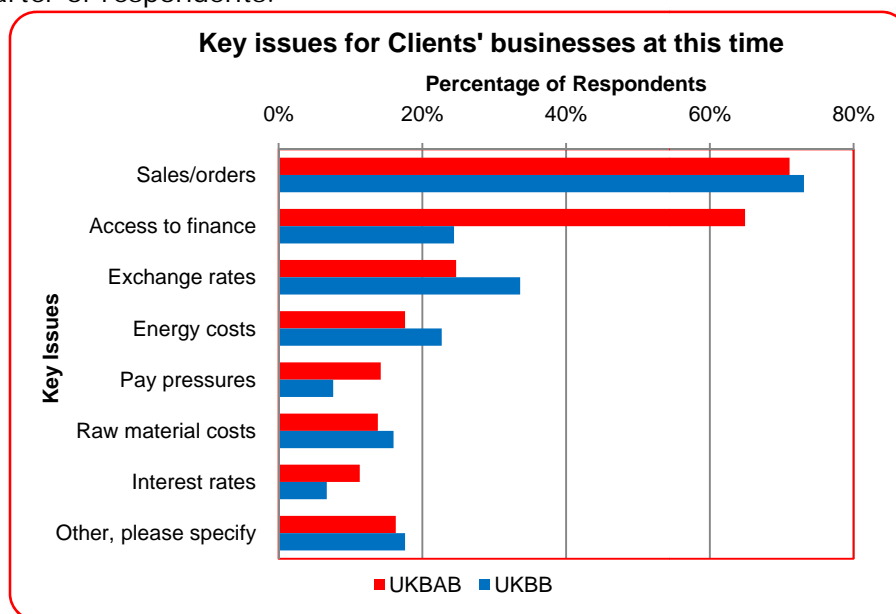
To what extent are you seeing signs that banks are becoming more flexible and forthcoming in their provision of credit?



Among comments received in response to this question were the following:

- Govt policy doing nothing to assist small businesses whatsoever. Banks' continuing refusal to lend will seriously exacerbate the recession and cause numerous good companies to fail. PM and Chancellor clearly not concerned about this sector.
- Business is suffering through lack of credit and the refusal of banks to fund 'start-ups'. Overdrafts have been curtailed and loans called in. Without cash liquidity more and more businesses will fail. The banks caused the present problem with the economy and they are making it worse by their refusal to fund sound enterprises.
- Notwithstanding all government talk of making finance more accessible to SME's, banks and other lending institutions have tightened their eligibility criteria instead of making it easier.
- Banks standard terms and conditions have always been onerous for credit and overdrafts. They are refusing to adjust these at all even now. Banks are also lowering their automatic tolerances on bank balances - all of my clients have had letters generated claiming unauthorised overdrafts when no such facility has been used. Clearly for most banks they will simply collect their letter fee, while clients are getting fed up complaining. Most clients do not get interest on balances and are having to keep higher "floats" in current accounts accordingly. The rhetoric and the reality are miles apart - especially for smaller businesses.

We asked panellists what the key issues are that are raised by clients seeking advice at this time. 71% of respondents chose Sales/orders, with the next highest concern, access to finance, chosen by 63% of respondents. These two issues were of concern to far more respondents than the next highest ranking which was exchange rates, chosen by one quarter of respondents.

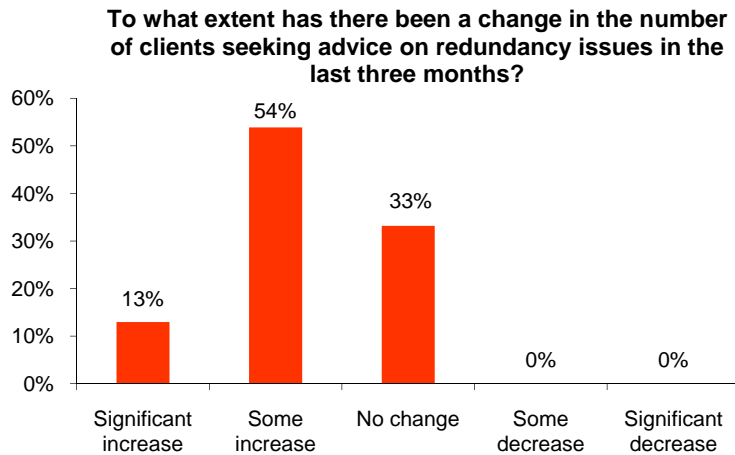


Responses to 'Other please specify' included the following issues: - cash flow from delayed payments, red tape - e.g. health & safety, equal opportunities etc, customers reducing their level of purchasing, business strategy, grants, personnel issues mainly redundancy, credit control, ability to pay for goods and services upfront or in advance, tax, recession, getting ready for the downturn, start-up assistance, IT, internet, web, 'where is the help from government?', workforce development, company structure, internal controls, strategic planning (in the light of changing circumstances).

Results were compared with those from the UK Business Barometer run in parallel with

this survey. UKBB panellists were asked to identify the key issues for their businesses at this time. Sales/orders again emerged top of the list with 73%, greatly outdistancing the next highest concern, exchange rates, which was chosen by 34% of respondents. Access to finance was chosen by nearly one quarter of respondents.

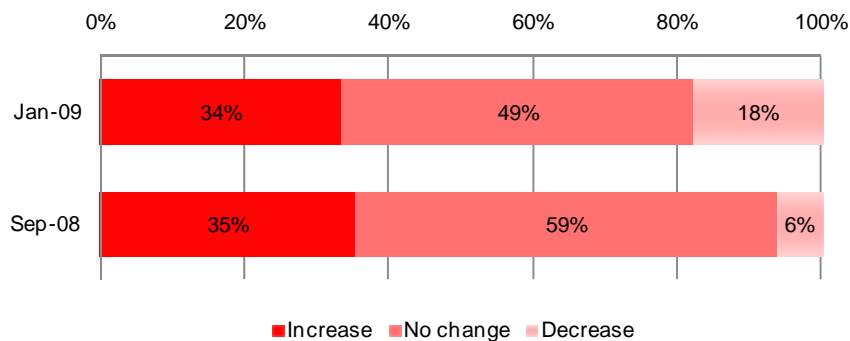
67% of respondents, after adjusting for 'not applicable' responses, say there has been either a significant increase or some increase in the number of clients seeking advice on redundancy issues in the last three months. The remainder said there was no change.



after adjusting for 'not applicable' responses: 19%

In September 2008 35% of respondents said there had been an increase over the previous three months in the number of people wanting to start a business because of redundancy or unemployment, and again this January 34% said there had been an increase over the previous three months. However in January 18% reported reductions in numbers, compared with 6% reporting reductions in last September's survey.

Has there been a change in the number of people wanting to start a business as a result of redundancy/ unemployment in the last three months?



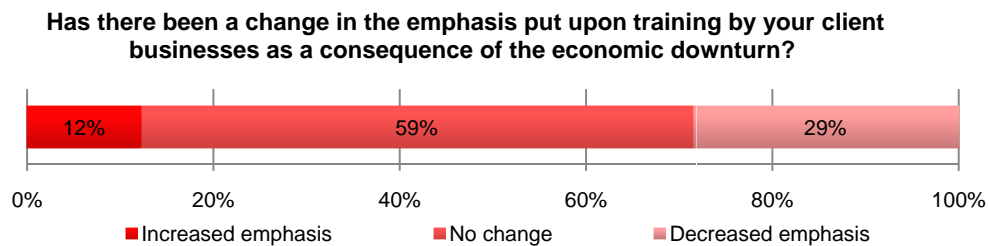
after adjusting for 'not applicable' responses: Jan-09 21%; Sep-08 34%

One respondent, whose clients are mostly in financial services, said "business start-ups are primarily following on from redundancies where individuals are resorting to the contract market." Another said "we've seen a rise in necessity entrepreneurs as they have no other employment alternatives. These are low value starts which have increased."

An open letter to the press from the UK Commission for Employment and Skills in late October 2008 added to calls from the government to employers to sustain or even increase their investment in employee training, to increase chances of survival through the recession and to aid rapid recovery and growth when the economy begins to emerge from it.

59% of respondents to this survey say that they don't think their client businesses have changed their emphasis on training because of the economic downturn, and 12% say

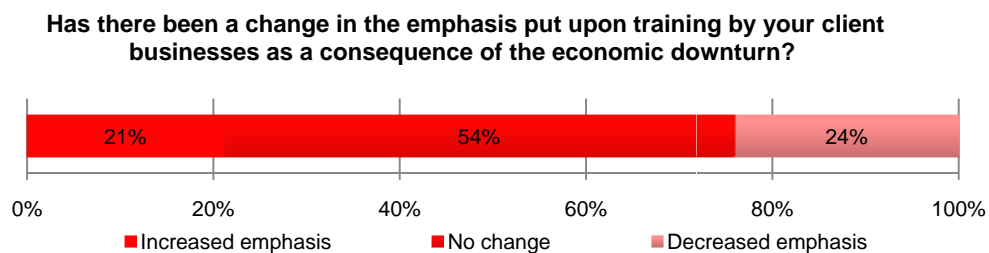
that clients are giving more emphasis to training, while 24% believe clients to have decreased it.



A contributor commented on this topic that “interest in training remains strong. However, the ability/willingness to pay for training or even to pay for it upfront when the business will be able to claim all or some of the training costs back through grant aid is having a significant effect in the willingness of some sectors to see money leave their accounts for even a short period of time. Therefore the drop in the willingness to undertake training and development in some sectors is marked but it is linked to financial considerations not the value placed on the benefits of training and development.”

Another comment received on this was “Non SME clients are in some cases prepared to facilitate further training for staff on short-time working but if the government would consider support by way of paid training days (or some contribution as for SME's), or contributions to short hours, this would encourage and assist many more Corporate businesses to do the same

The CBI and Business Link have both recommended that smaller businesses should look at diversification as a means of surviving the recession. However, only 21% of respondents think that their clients are increasing their emphasis on new product development as a response to the economic downturn and 55% think there is no change amongst their clients, while 24% think clients are putting less emphasis on it.

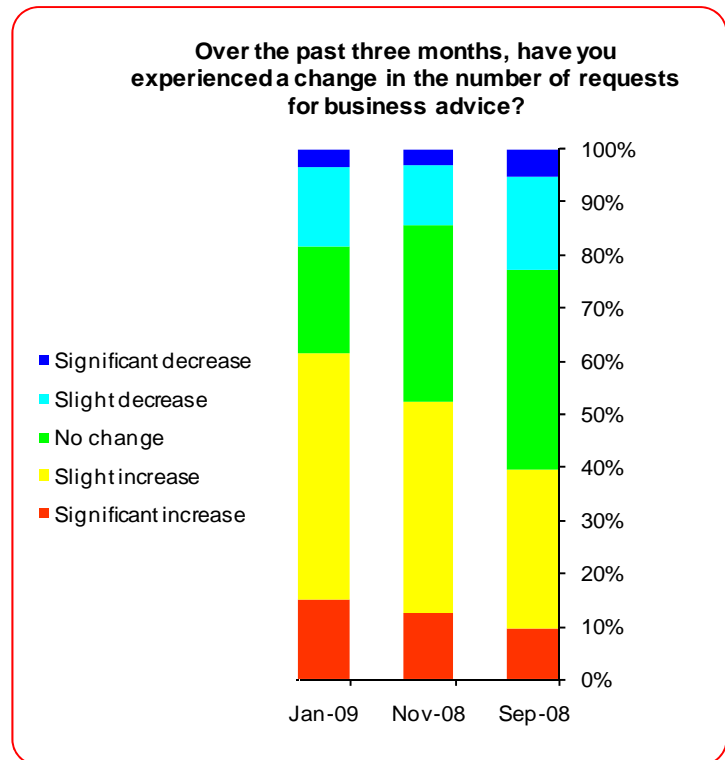


A respondent summed up his response to this question as follows: “Access to finance may be an issue, but some business clients have placed new product developments on hold. This is because their customers are asking for extended terms. This is making the financing of the business more difficult. In the cases I have come across they have the finance to contain this. However, the drain on cash flow by a new product development programme on top of this is too risky.”

Trends Questions

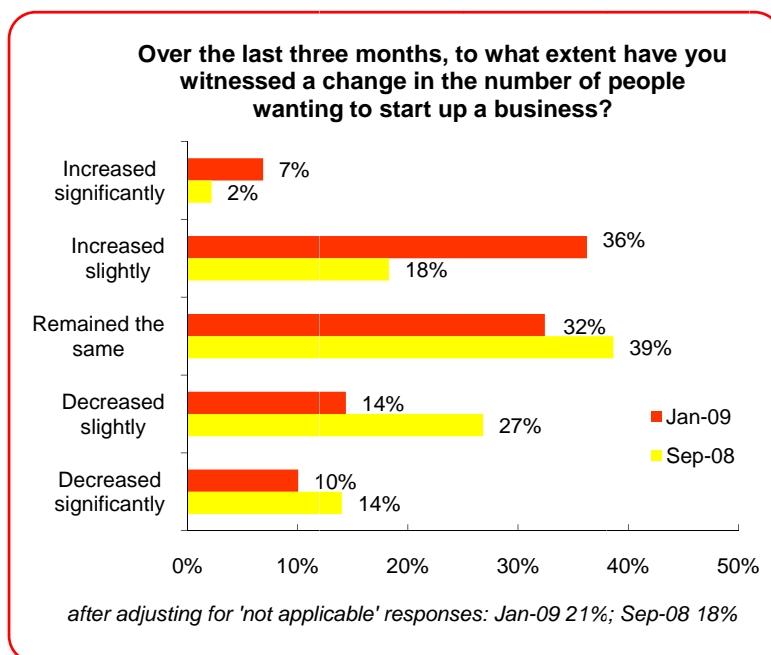
The indicator of changes in numbers of clients seeking business advice over the past 3 months increased by 2% compared with the three months to November 2008. 20% of respondents reported no change in numbers.

The number of advisers experiencing increases in enquiries continued to outpace the number experiencing decreases in enquiries, by 43% in the three months to January compared with 38% in the three months to November.



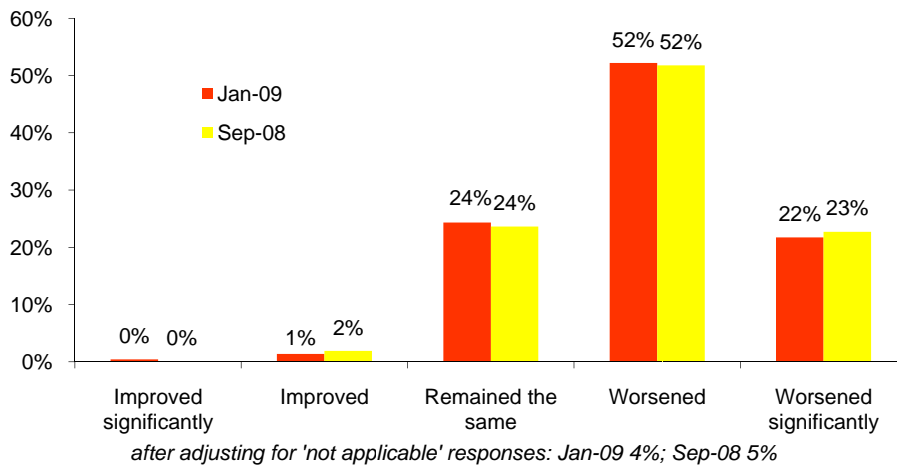
The average, of the three month period to January 2009 results for the number of people wanting to start a business, increased from September 08 by 18% (following a 2% decrease from July 08 to September 08) but this will include some seasonal variation.

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 -20% in September 08 to +19% in January 09, although one respondent said that within higher value starts (100K+) they have seen a drop in numbers.



The index measure of clients' ability to gain access to finance showed a small improvement between September 2008 and January 2009, of 0.2%. 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 also improved very slightly from -72.6% in September 2008 to -72.1% in January 2009, confirming the findings of the question on provision of credit by the banking sector earlier in this survey. However, some perspective to this may have been provided by a comment received: Although access to funds has increased, that is only in the last week or so, prior to that it was significantly worse, hence the apparent discrepancy (*in the responses*) between questions 1 and 10.

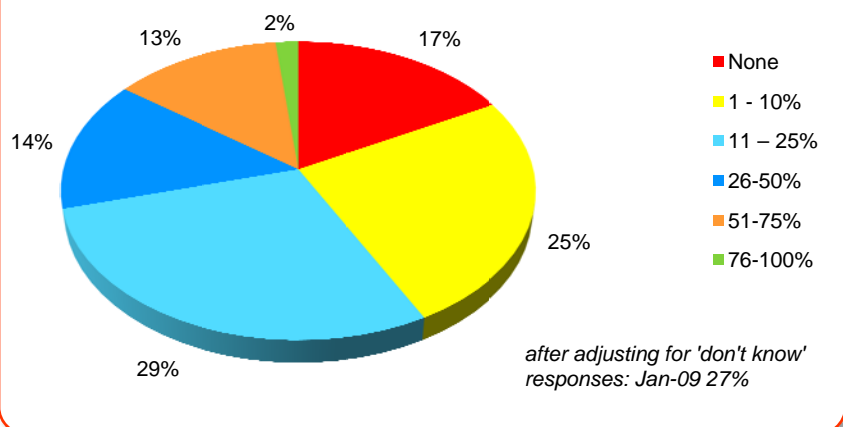
In your experience, across your client businesses, has access to finance improved or worsened in the past 3 months?



Shortages of appropriately skilled or qualified applicants for vacancies continued to decrease between the September 08 and January 09 surveys.

In the September 08 survey, the average percentage of clients experiencing shortages of appropriately skilled applicants was 36%. The January 09 survey found this to have decreased to 24% although one respondent has found that "there has been a marked decrease in the availability of staff with IT skills in the last few months."

Approximately what percentage of your client businesses find that there is a shortage of appropriately skilled and or qualified applicants for vacancies?



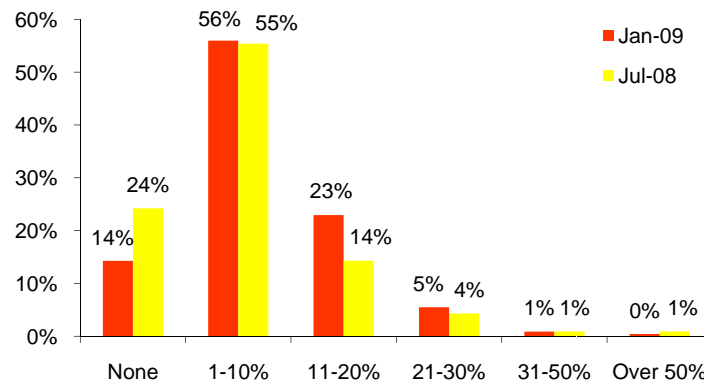
In the January 2009 results, Advisers were even more pessimistic about the continuance of their clients trading over the next year with the index increasing by a further 18% from July 08 results, following an increase of 14% between June 07 and July 08.

After adjusting for 'don't know' responses, 14% of Advisers consider that none of their clients will close over the next year, but 56% thought that up to 10% of their clients might cease trading. There was a 9% increase in the expected higher numbers (over 11%) of business cessations: 30% in January 09, compared with 20% in July 2008.

Comments received relating to this question included:

- Manufacturing has been worst hit by the Government Policy. It will take a long time to recover if the firms stay in business. My core clients are medium size firms, most of who export and generate wealth for the country.
- (from a respondent, most of whose clients are in Financial Services): Answer 12 is related to some businesses ceasing trading completely, but mostly moving out of specific markets.

What proportion of your clients' businesses will have ceased trading in the next 12 months as a result of the problems that they confront?



after adjusting for 'don't know' responses: Jan-09 9%

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.

- Clients and potential clients are hunkering down if not even hiding.
- There appears to be a significant decrease in business level confidence although people appear able to weather the poor level of business implications by making statements such as "we take each day as it comes".
- There is a very serious loss of business confidence, due to sharp down turn in sales and lack of working capital support from the banks.
- From my contact with clients I do not see a lack of finance or credit as the problem. Most of my clients are not asking for loans or credit at present because of fear that they will not be able to service the loans. I do not see the problems at present as being connected to the banks but to the level of confidence about the future. Everyone accepts that there are going to be difficulties for some time to come. However, most have not had direct problems yet but fear that they will occur. They are unsure about the nature or source of these problems and have no idea when they will end. That uncertainty seems to me to be the main difficulty for most businesses at present.

- The media is making the issue worse. They only want the bad story, we have tried to tell them good stories of new job creation and they do not want to know.
- The scientific community has not changed at all; it is within the building trade and marketing sector that I have seen the most changes.
- The experience of businesses outside of retail, banking and construction is nowhere near as bad as reported in the media.
- Any clients working for the automotive sector have experienced a steep decline in orders. "Falling off a cliff" is the common phrase
- Some clients in engineering/manufacturing are doing very well. Others involved with government, infrastructure and housing have seen order books diminish to zero with contracts suspended for an interminable period. Several have had redundancies.
- The client base here has been selected for an innovative approach to their service or process, no specific sectors. Many have seen the present climate offering opportunities such as recruitment of good staff laid off by larger firms, ability to undercut major competitors more likely to win business and great equipment/asset cash purchasing opportunities as values fall. The media are looking for big job loss stories, overlooking that SMEs and micro-businesses provide most of the jobs growth and small numbers that will never hit headlines.
- I have quite a specialised client mix who are quite isolated from current turmoil
- Main issues are cash flow planning and preparing for a bad economic downturn in 2009 when cash flow is expected to come under great strain.
- I find there is a great gap between the topics on which clients would like help and grant support, to enable them to implement the improvements and the topics on which grant support is available. As a result improvements which could be made in manufacturing industry are not made! In the meantime taxpayer funded bodies are pumping out their propaganda on what a fine job they are doing for the country, the funds keep flowing from the taxpayer and those in these bodies can keep their jobs. It is high time that the efficiency of this process was looked at in a very searching way!
- I have been contacted by a number of clients with good basic businesses, but who are beginning to suffer from lower demand. They need funding to cover the cost of support, but the government funding facilities are far too complex. The voucher system is ridiculous and is discouraging clients from vital support.
- Welsh Assembly Government policy changes of late have left clients and providers utterly confused!! To access support, small businesses have to go through a tendering process, guided by one of an army of recently recruited Relationship Managers!!!
- Peter Mandelson needs to promote the MAS (*Manufacturing Advisory Service*) scheme when he is on national television.
- Confusion reigns, especially around the Government's New Loan Guarantee Scheme. The Banks have no clear directive as of 3rd Feb 09. Experienced business people only want to meet with Accredited Business Advisers & they are finding evidence to that end difficult to secure!