



The business people – an extension to your team

## Economy Watch Report - October 2010

Economy Watch is a panel of 358 businesses set up by the Forum of Private Business to report monthly on changes to key areas of their business at a crucial time in the economy. This is the sixth report of the 'Economy Watch' panel. The research will run from February to November 2010, with the February questionnaire providing a baseline for future reports. The fieldwork for the baseline was undertaken between 22 February and 1 March. The first update was undertaken between 22 March and 31 March and the fieldwork for the April report was undertaken between 21 and 28 April. The fieldwork for the May report was undertaken between 24 May and 2 June. The July research was undertaken between 8 and 15 July, to allow companies to digest the implications of the Emergency Budget on 22 June.

The fieldwork for the October report was undertaken between 9 and 18 October to provide a final report before the Comprehensive Spending Review (CSR) on 20 October.

### Summary

Confidence	Confidence has dropped noticeably, despite improved business performance. A number of respondents felt this is down to the anticipated impact of the CSR.
Business growth	40% of businesses have seen a noticeable increase in turnover and orders, but few have seen growth in profits. Around 15% are concentrating on survival.
Business investment and support needs	Businesses are looking more at new product development than previously, however the major need is an increased focus on economic stability.
Employment	Employment has seen strong growth, in some sectors such as transport, retail and wholesale this is due to the run up to Christmas.
Finance	Businesses are not seeing any increase in finance for growth but other lending has remained fairly stable. Overdrafts continue to be reduced (often with the agreement of the owner). A few businesses are reporting positive impacts on their business due to invoice discounting.
Late payment	Late payment has increased, with 30% reporting an increase. This is not all bad as some report that late payment has increased as invoicing has gone up. Late payment is being passed along the supply chain and business owners are as worried about their suppliers as in February.

## Supporting data

### Confidence

40% of businesses are confident that their business will grow in the next six months, and 17% pessimistic. Confidence has polarised since the summer and many businesses are more pessimistic as they have seen the negative publicity around the Comprehensive Spending Review having an detrimental impact on consumer confidence.

**Figure 1: Confidence of Economy Watch Panel**

	Feb-10	Mar-10	Apr-10	May-10	Jul-10	Oct-10
Very confident	12%	9%	6%	2%	8%	7%
Confident	32%	30%	38%	42%	27%	33%
Not very confident	34%	43%	44%	41%	45%	41%
Pessimistic	12%	11%	6%	8%	8%	12%
Very pessimistic	4%	2%	3%	4%	2%	5%
Do not know	5%	5%	4%	3%	11%	2%
Confidence score	0.36*	0.32*	0.38*	0.29*	0.32*	0.24*

\*The confidence score is created by using a score of +2 for very confident, +1 for confident, -1 for pessimistic and -2 for very pessimistic, divided by the total number of respondents.

Around 40% of businesses have seen improved financial performance over the last month; however 25% are seeing a clear decline in turnover or profitability. General costs of doing business have increased with finance, taxation etc increasing alongside late payment. Investment on machinery has reduced but there is a continued focus on sales and marketing.

**Figure 2: Indicators for October 2010**

	Increase	Stay the same	Decrease	Current balance
Orders	39%	37%	24%	15%
Turnover	41%	34%	25%	16%
Profitability	32%	38%	30%	2%
Cost of finance	5%	92%	3%	3%
Amount of money on deposit	21%	40%	40%	-19%
Late payment	30%	63%	7%	22%
Other cash flow difficulties	20%	69%	10%	10%
Investment in machinery and equipment	17%	64%	19%	-2%
Investment in sales and marketing	29%	63%	8%	22%
Training for existing staff	17%	65%	17%	0%
Cost of doing business (excluding tax)	44%	55%	2%	42%
Taxation burden	31%	69%	0%	31%

Historically the increase in orders seen in July has transferred into turnover, a dramatic return to late payment and the continued high cost of doing business means that the rise in turnover has not been accompanied with a similar increase in profitability. For a few businesses the increase in late payment is partly positive as some businesses have been able to send out more invoices, however some owners report that this has been passed on through the supply chain.

**Figure 3: Historical indicators**

	Current balance	July balance	May balance	April balance	March balance	Expectations for 2010*
Orders	15%	19%	5%	10%	25%	n/a
Turnover	16%	8%	-3%	18%	11%	42%
Profitability	2%	8%	-15%	1%	-6%	28%
Cost of finance	3%	14%	0%	4%	4%	17%
Amount of money on deposit	-19%	6%	-27%	-12%	-21%	n/a
Late payment	22%	11%	9%	25%	21%	2%
Other cash flow difficulties	10%	11%	12%	5%	8%	
Investment in machinery and equipment	-2%	2%	8%	4%	-4%	9%
Investment in sales and marketing	22%	13%	6%	13%	18%	28%
Training for existing staff	0%	-3%	11%	7%	5%	-0%
Cost of doing business (excluding tax)	42%	48%	35%	33%	41%	52%
Taxation burden	31%	22%	21%	16%	23%	60%

\* Businesses in February were asked their expectations overall for 2010, rather than the last month.

Access to finance has deteriorated still further as some businesses have seen overdrafts cut (in some cases with no detrimental impact) or been refused finance for growth.

**Figure 4: Access to finance**

	Mar-10	Apr-10	May-10	Jul-10	Oct-10
Improved	6%	3%	3%	1%	4%
Deteriorated	13%	13%	4%	15%	21%
No change	63%	66%	75%	67%	56%
Not relevant	18%	15%	16%	17%	19%

Funding for depreciating assets such as vehicles and machinery in particular have been affected. Around 1% of business owners saw a literal deterioration in access to finance as they feel their bank manager is avoiding them or not answering their calls. Increases in charges were also considered by some businesses to have reduced the access to affordable finance. One business did see a considerable increase in lending as new ownership meant the business was able to get a loan in excess of £250,000.

## Business priorities and needs

In total 18% of businesses mentioned the likely cuts from the comprehensive spending review, with many mentioned that the continued negative media coverage was impacting on consumer and business confidence, a slightly smaller proportion saw this as an issue of an element of stabilising the economy and one organisation saw it as a funding issue. Business development internally, through exporting, marketing, customer satisfaction, innovation and increased training has increased to historically high levels. Specific industry incentives dropped overall, however these were almost entirely related to the housing and construction industry.

**Figure 5: Factors that would help their business to grow**

	Feb-10	Mar-10	Apr-10	May-10	Jul-10	Oct-10
Business/consumer confidence	23%	24%	26%	29%	26%	28%
Stabilising/improvement in the economy	26%	25%	21%	20%	18%	26%
Specific industry incentives	8%	12%	10%	11%	8%	4%
Better tax regime	3%	6%	8%	8%	3%	<1%
Cash flow issues	3%	9%	8%	3%	2%	7%
Finance issues	12%	6%	10%	3%	6%	11%
Internal business development	22%	26%	24%	18%	15%	29%
Reduced costs	6%	10%	7%	8%	4%	1%
Training/recruitment	2%	4%	11%	3%	2%	4%
Currency issues	n/a	n/a	n/a	4%	2%	3%

The biggest priority for businesses remains increase sales and turnover, however compared to February there has been a significant increase in those prioritising a stable business environment. 4% more businesses are prioritising cost reductions as the continued uncertainty in the business climate has a debilitating effect on their organisation.

**Figure 6: Biggest priority for the business**

	Feb 2010	Oct 2010
Increasing sales/turnover	61%	46%
Reducing costs	13%	17%
Reducing time away from business development	1%	<1%
Having a stable business environment	25%	37%

Businesses are looking to concentrate on introducing new products or services and looking to increase customer satisfaction in order to retain their customer base. Although more businesses are prioritising cost cutting (Figure 6) the actual number intending to take this more defensive route has reduced. This indicates that confidence in a recovery is starting to become established in some quarters, however there is a significant minority of businesses looking simply to survive.

**Figure 7: Plans for business development**

	Referendum	Economy watch	
	Sept 2009	Feb 2010	Oct 2010
None - we will remain as we are	30%	12%	11%
Introduce new products or services	38%	48%	55%
Target new customers in the UK	52%	57%	64%
Start or increase exports of products and services	12%	15%	14%
Try to sell more to current customer base	47%	65%	63%
Review/cut costs	48%	46%	39%
Concentrate on cash flow	47%	35%	36%
Improve customer satisfaction	45%	41%	46%

Despite the negative publicity about the cuts and one organisation feeling that its future was being determined without any consultation, around half of businesses feel that the current coalition Government is doing a good or excellent job.

15% of businesses are looking to retain judgement until after the CSR, however many are prepared to give the Government the benefit of the doubt.

**Figure 8: The Coalitions handling of the economy**

	Oct 2010
Excellent	7%
Good	42%
Fair	28%
Poor/Very poor	8%
Do not know	15%

## Business support

These figures have returned to historical levels of support required or just over 17%.

**Figure 9: Support needed:**

	Feb-10	Mar-10	Apr-10	May-10	Jul-10	Oct - 10
Yes	17%	16%	15%	16%	24%	18%
-support is available	15%	6%	6%	6%	5%	7%
-support may not be available	2%	11%*	9%	10%	19%	11%
No	64%	69%	56%	69%	43%	66%
Do not know	18%	15%	19%	15%	19%	16%

\*Do not know option added and taken as not evidence the support may not be readily available

Again, finance was the key type of business support wanted by panel members. Just over 50% of these businesses felt that the support may not be available at all.

**Figure 10: Business support required over the next month**

	Percentage of sample	Proportion believing that this support is not readily available
Finance	9%	60%
- Finance for growth	4%	50%
- Cash flow / bridging finance	3%	71%
New product development	2%	33%
Website design	3%	45%
Other marketing	4%	30%
Specialist advice	1%	70%

Many businesses were uncertain as to whether the support was currently available rather than believing that it did not exist and a number had not investigated the matter fully.

## Business investment

Investment in product and process development has increased significantly, whilst anticipated investment in machinery and equipment has remained the same despite financial constraints, with businesses looking at other ways to pay for necessary repairs and equipment.

**Figure 11: Anticipated business investment to develop the business**

	Mar-10	Apr-10	May-10	Jul-10	Oct-10
None	24%	32%	29%	32%	29%
Machinery and equipment	18%	14%	21%	21%	21%
Sales and marketing	54%	45%	53%	56%	45%
Upgrading property	13%	12%	17%	8%	13%
Product and process development	25%	19%	17%	17%	36%
Training	n/a	22%	27%	27%	25%
Do not know	6%	n/a	n/a	n/a	n/a

Anticipated investment in sales and marketing has reduced, however some businesses have already focused resources in this area.

## Employment

Total employee numbers have risen, with strong growth seen in employee numbers. Some of these increases are seasonal as businesses report taking on temporary staff for the run up to Christmas.

**Figure 12: Changes in employee numbers**

	Feb 2009	Feb-10	Mar-10	Apr-10	May-10	Jul-10	Oct-10
Total employee numbers	5129	4922	4919	4908	4889	4902	4974
Change	-	-207	-3	-11	-19	13	72
Vacancies	n/a	n/a	36	57	39	71	125
Redundancies	n/a	n/a	13	24	21	15	30

## Supply chain

Supply chain concerns have not changed significantly, with 30% of business still concerned about the viability of their suppliers. Customers are less of an issue - this may be due to a greater financial vigilance by businesses or more effective use of services such as invoice finance.

**Figure 13: Concerns with the supply chain**

	Feb 2010	Oct 2010
Yes, with my suppliers and customers	23%	13%
Yes, with my suppliers	7%	17%
Yes, with my customers	20%	19%
No concerns	43%	45%
Do not know	6%	4%

The chart indicates that late payment rather than bad debt is the main cash flow issue at the moment.

## Underlying financial information

The majority of the statistics are financial. Economy Watch panel members reported earning £112,400 per employee or £102,100 if the employers are included in these figures. The 2008 BIS data on the size and structure of the UK economy would give an equivalent figure of just over £117,000. This is however due to the reduction in staff rather than any improvement in turnover.

Figure 8 indicates that late payment has improved slightly for businesses as a number of large outstanding contracts have been paid and some business have seen better debt collection achieve results. Many business owners do still resent the time spent chasing invoices rather than increasing turnover.

**Figure 14: Key financial indicators**

	Annual total	July 2010 monthly total	Change on last month	Proportion of turnover
Turnover	£558,885,250	£49,580,650	£483,200	100%
Overdraft facilities	£13,156,300	£1,077,100	-£21,000	2.35%
Loans	£68,968,020	£5,629,900	-£128,000	12.34%
Capital tied up in late payment	n/a	£18,596,400	£587,000	37.51%
Money reserve	£15,584,100	n/a	-£64,500	2.79%

Although there is significant latent demand, there has in fact been a reduction in lending to a small proportion of businesses. Some reductions in overdraft facilities had been agreed with organisations beforehand and had no impact at all although others reported that they would like this increased. The reduction in loans since July has been masked by one single loan of more than £250,000, however the figure includes a similar figure for businesses that have been unable to access finance for growth.

**Figure 15: Demand for finance**

	October monthly lending
Overdrafts	-21,000
Loans	-128,100
Other (leasing, factoring, credit cards)	-38,300 <sup>1</sup>
Anticipated requirement each month from external sources <sup>2</sup>	1,057,000

<sup>1</sup> Excludes improvement access to finance by better debt collection possibly due to invoice financing

<sup>2</sup> Demand for external finance in 2010 divided by 12 to give a monthly figure

The majority of 'other' was leasing, although one company did state that banks have put the onus of credit card disputes onto the business and this is responsible for a credit card loss of almost £10,000.

## Cost of finance

Around 70% of businesses still feel that finance is affordable, although this has dropped from 85% in April. The main reason for this is lack of business profitability rather than any significant change in underlying costs of loans. However charges have increased significantly between April and July, with 55% of businesses seeing an increase in bank charges in the 12 months to July.

**Figure 16: Affordability of finance**

	<b>February</b>	<b>March</b>	<b>April</b>	<b>October</b>
Very affordable	11%	10%	11%	13%
Affordable	70%	68%	74%	57%
Unaffordable	8%	9%	8%	10%
Very unaffordable	2%	1%	2%	4%
Do not know	9%	12%	11%	16%

There has been a slight increase in the cost of loans, whilst some overdrafts have seen considerable increases in the cost of the facility. One large loan is predominantly responsible for the increase in the cost of credit, with the business happy to accept this cost.

**Figure 17: Comparison of the cost of credit with the Forum's Economic Downturn Panel**

	<b>Economy Watch</b>						<b>Economic Downturn Panel</b>
	<b>Feb-10</b>	<b>Mar-10</b>	<b>Apr-10</b>	<b>May-10</b>	<b>Jul-10</b>	<b>Oct-10</b>	<b>Sep-09</b>
Cost of overdraft lending	5.7%	5.7%	5.8%	5.8%	5.8%	5.8%	6.5%
Cost of secured lending	4.4%	4.4%	4.4%	4.4%	4.5%	4.6%	6.8%
Cost of unsecured lending	11.5%	11.6%	11.6%	11.8%	11.8%	12.1%	
Cost of loans from directors etc.	1.4%	1.4%	1.8%	1.8%	1.8%	1.8%	n/a