

Graydon UK and the Forum of Private Business (FPB)
Research: financial advice and smaller businesses

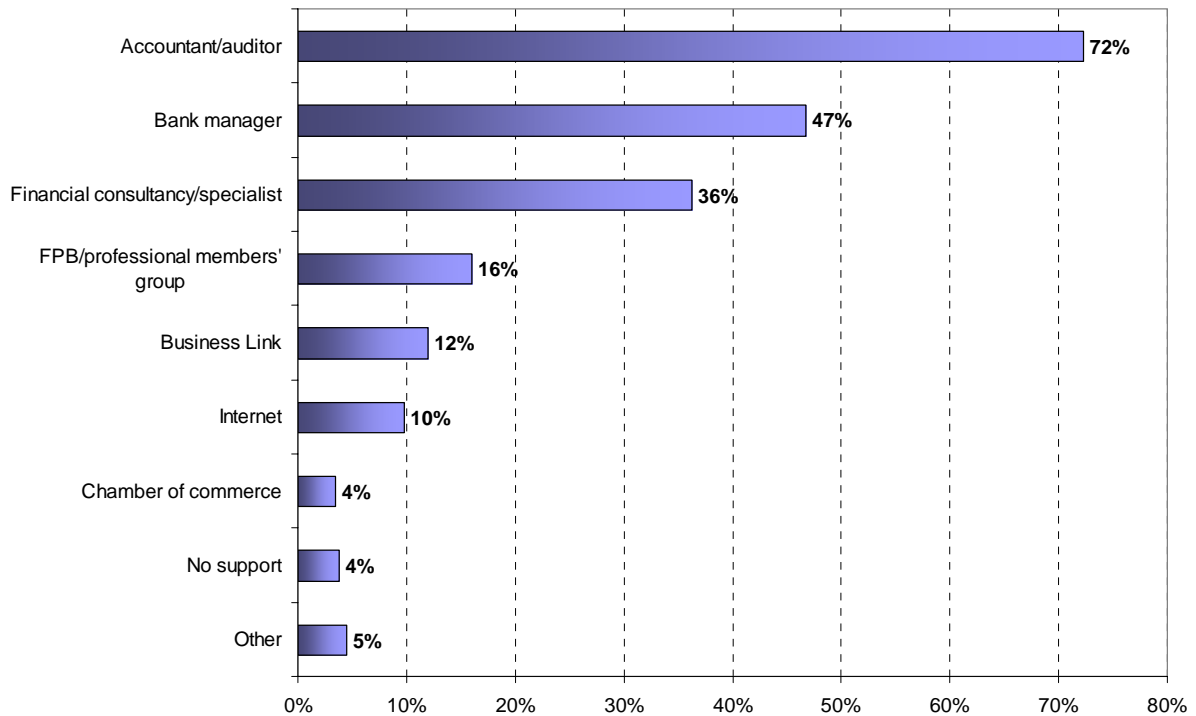
Overview

Responses from 400 small and medium-sized businesses were analysed to determine the current usage and quality of financial advice for such firms. The research was undertaken in October 2008, against the background of an uncertain economic climate.

Executive summary

- Accountants were identified as the key providers of financial advice for small businesses, particularly in the day-to-day process of developing respondents' businesses. Many of the business-owners surveyed had used the same accountants for a number of years and, as such, were trusted to provide sound and relevant advice for their businesses.
- Quality of advice from bank managers varied considerably. Some respondents were very happy with the advice provided by their bank managers, but there was concern about the high turnover of advisers, the fact that advisers were effectively the best salespeople in the branch and that some were not even old enough to remember the last recession.
- Although the majority of respondents stated that they only sought advice on financial matters when they felt that they needed it, anecdotal evidence suggests that, when an organisation is proactive in providing financial advice, it is greatly appreciated by business-owners. One respondent said he wished he had been contacted last year by an adviser from the bank as the support he received recently was so useful.
- Key gaps in the provision of financial advice were identified by the very smallest employers (those with fewer than five staff) and those who only sought financial advice from banks, rather than a combination of advisers.
- Businesses reporting the highest levels of satisfaction with financial advice were those who had sought advice on a more frequent basis. Those who rarely or never received financial advice indicated that the advice they had received had been unsatisfactory.
- Age of the adviser has become important, as many business-owners will have less trust in those under the age of 35, as they would not have been in employment during the last recession.

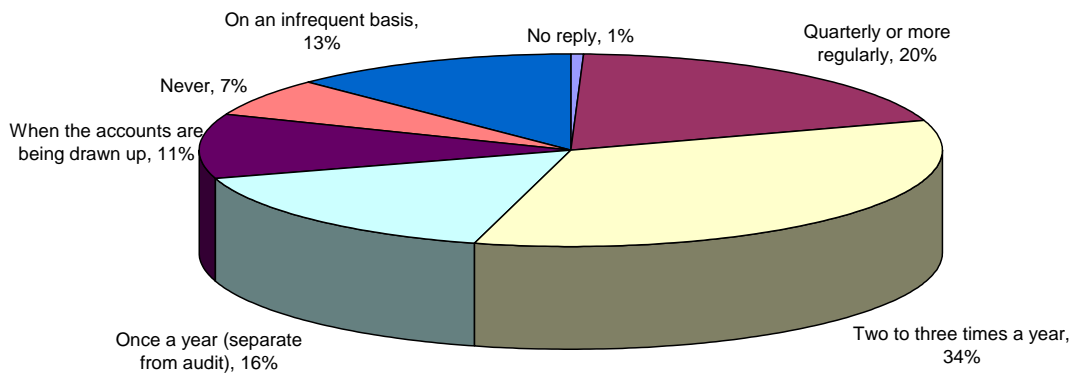
Who small and medium-sized businesses consult for financial advice



- 72% of owners of small and medium-sized businesses said that would consult their accountants for financial advice, 48% their bank managers and 36% financial specialists.
- Owners of firms considered to be most endangered by the current financial situation, such as those in retail and construction, were more likely to consult their bank managers for advice, indicating that industries which are perceived as risky are having to check with banks to see if they are credit worthy.
- The term 'financial specialists' includes wealth managers and independent financial advisers (IFAs), whose advice may be sought because funding for business expansion often comes from owner-managers themselves, who have built up a surplus of cash in more prosperous times.
- 'Other' was made up predominantly of friends, family and other local businesses.
- Respondents were not given the option of 'would not seek support'; however, 15 business-owners stated that they would not seek financial advice as their finances did not warrant it.

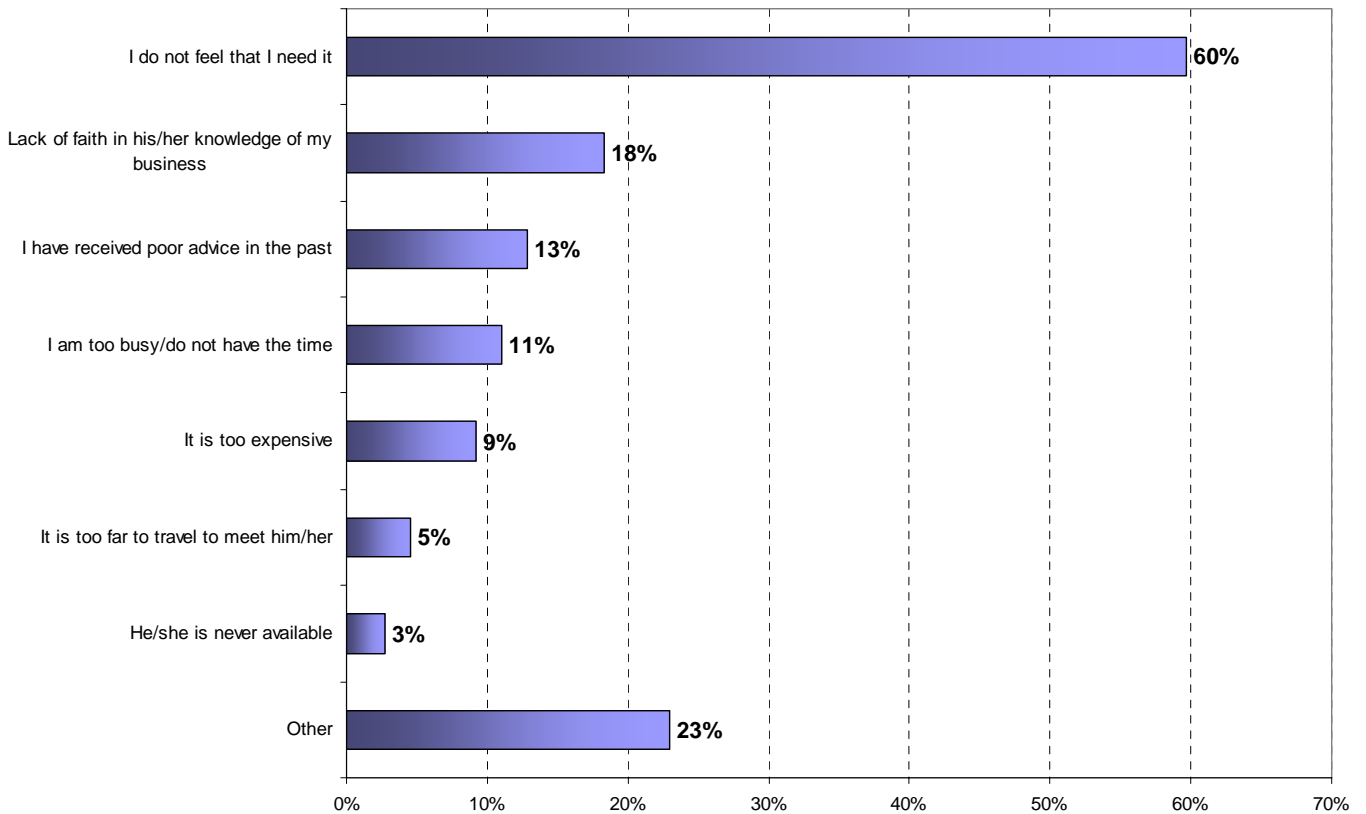
The figures broadly follow those from the banking industry research group in 2007, which showed that accountants were the main source of financial advice (31%) for small and medium-sized firms, with bank managers (11%) the other key contributor. One in three firms had received no advice during this period.

How often respondents seek professional advice



- One in three businesses seeks external advice on financial matters a couple of times a year.
- One in five businesses seeks external professional advice each quarter, though a similar number would not typically seek external advice in any given year.
- Businesses with more than 50 employees were more likely to seek support regularly, whilst those in business for more than 10 years were least likely to look for advice more regularly than just on an annual basis.

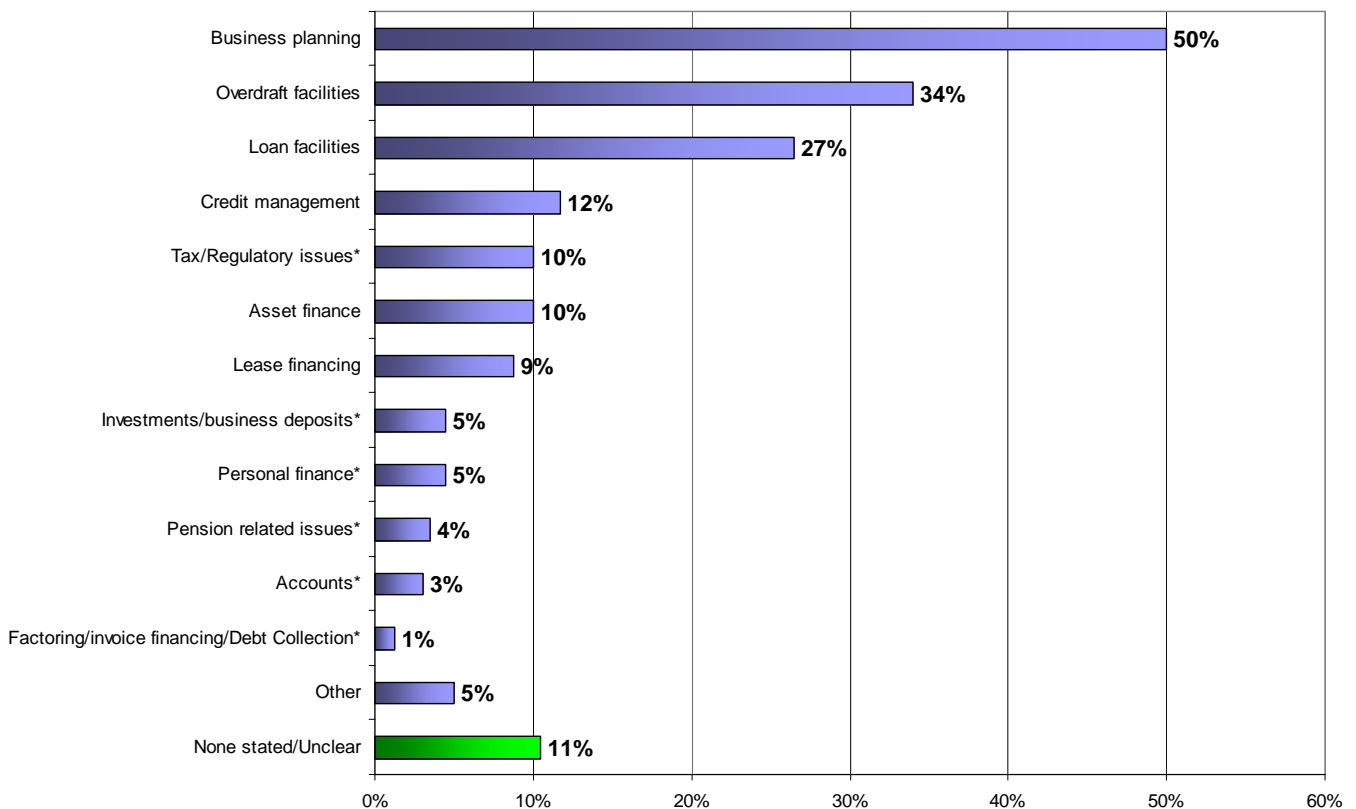
Reasons respondents do not consult accountants or bank managers more frequently



- Closer analysis of the results shows that just over one in three respondents claimed not to consult their accountants or bank managers more regularly than once a year.

- A high proportion of businesses did not answer this question. Many of these claimed to only receive financial advice when their accounts were being drawn up, suggesting that this was perceived as being regular support for their businesses rather than professional financial advice.
- Respondents generally felt that they did not need support on financial matters. This was particularly true of business-owners who had survived the last recession, who had a perception that the potential advisers had not.
- Availability of advice was not directly an issue, but some respondents did mention that the high turnover of advisers meant that advice was not as accessible as it could have been.
- Time was more of a key issue for construction companies, whose owners were typically on-site during normal office hours. It was also cited as an issue for recently established businesses, whose owners had not got into a routine of accessing financial advice.
- The other reasons cited were that respondents themselves were experts; that they used other experts, such as financial planners; that their banks did not come to them to offer support; that there was no proof of the quality of advice; and that the advice they received was on an informal basis only.

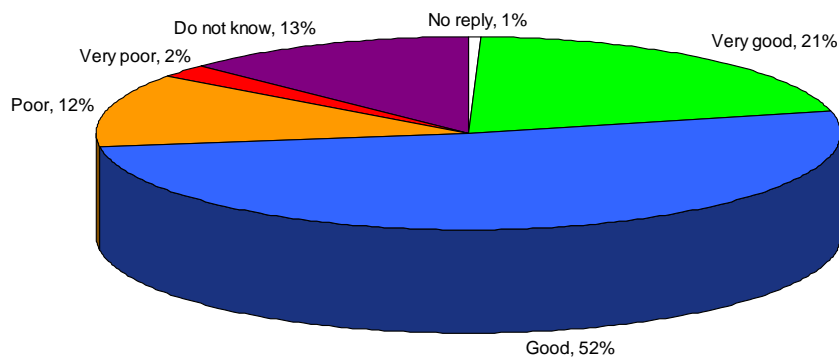
Matters on which respondents usually seek professional financial advice



* Option not provided, but were frequent answers in the 'other' category

- 50% of respondents sought external professional financial advice for business planning, to ensure that the financial stability was there for their businesses.
- Financial products, such as overdrafts and commercial loans, were the next most cited reasons for small-business-owners seeking financial advice. According to the most recent report into finance, commissioned by the Department for Business, Enterprise and Regulatory Reform, 42% of businesses used an overdraft facility in 2007 and 19% used commercial loans. Based on these levels of usage, there has been an increased interest in loans, in particular, over the last year.
- One in ten specified compliance with VAT, PAYE and other regulatory issues, even though this was not offered as an option. This could be construed as being part of business planning, but the need for businesses to cite it separately illustrates the increasing burden of regulation on smaller firms.

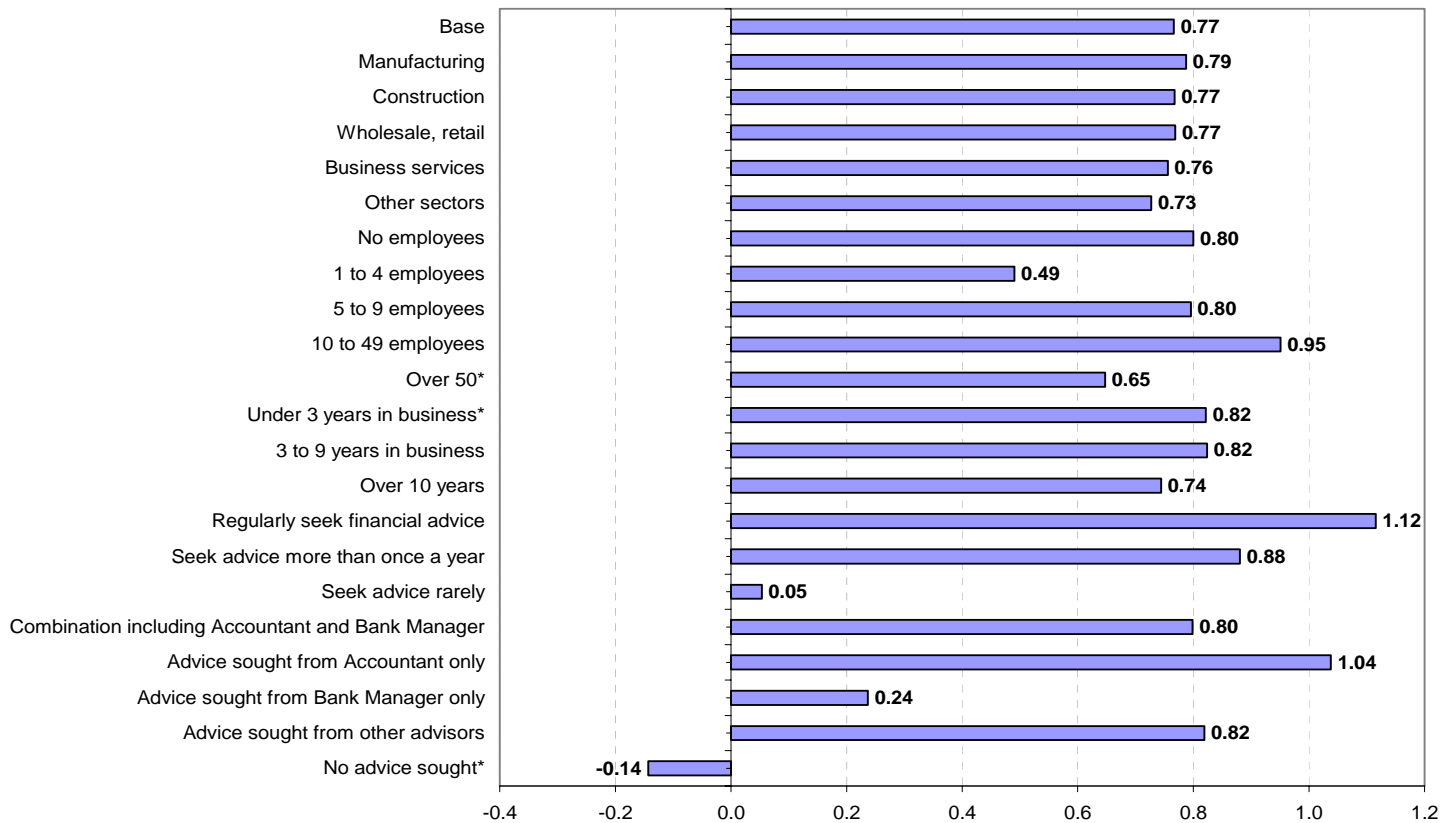
Rating of the quality of financial advice received by small-business-owners



- 73% of owners surveyed felt that the financial advice that they received was good or very good, with just 14% stating that it was poor or very poor.
- 13% of respondents stated that they did not know about the quality of financial advice as they had not received any recently.

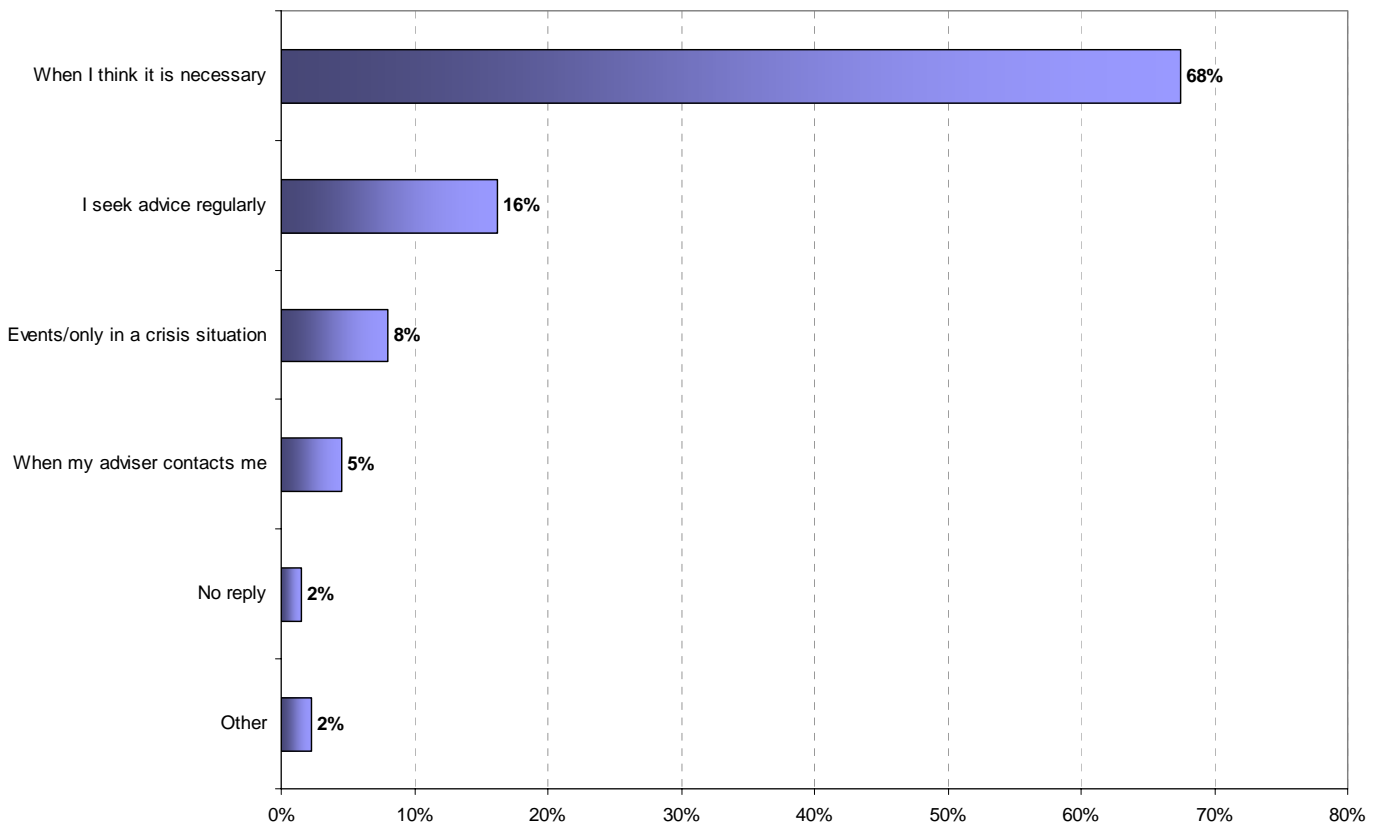
Using a scoring system of +2 for very good, +1 for good, -1 for poor and -2 for very poor, it is possible to analyse the satisfaction with financial advice on a variety of criteria. This is shown in the chart below, where the mean score was 0.77. A score of 1 implies that the financial advice was good, whilst 0 means that the advice was neither good nor poor.

Mean score for the quality of financial advice



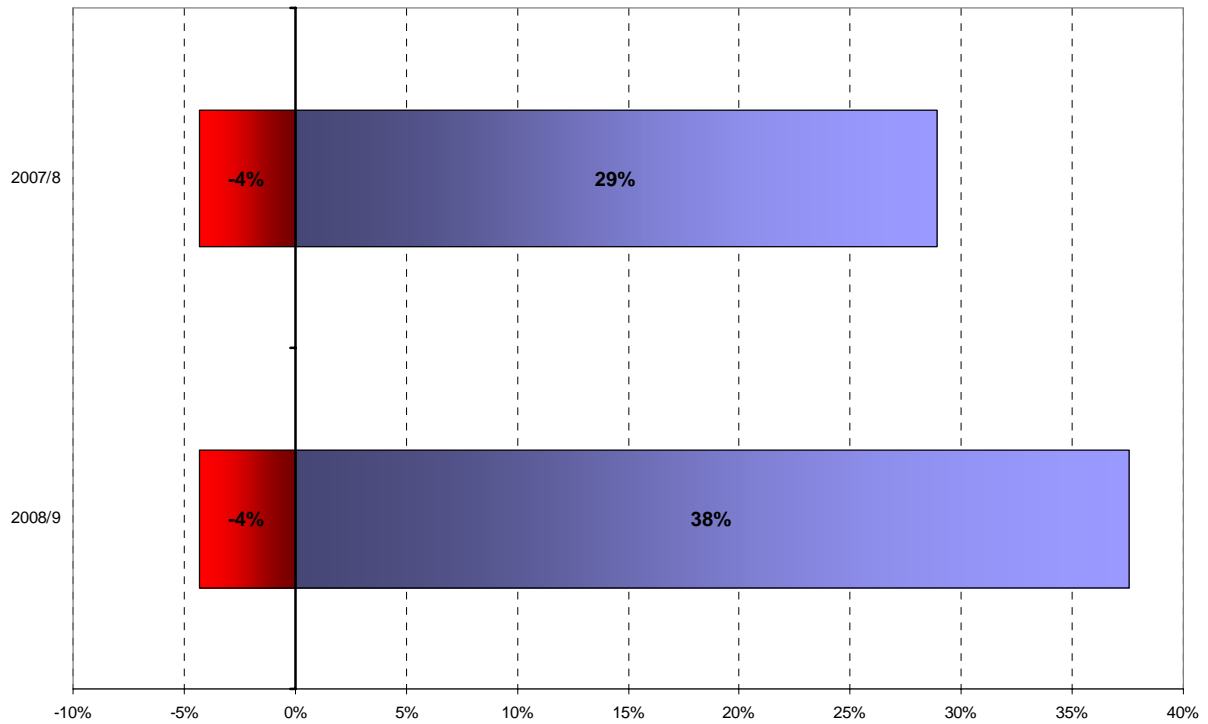
- There were no significant variances in the perception of quality of financial advice from businesses in different sectors.
- The smallest businesses surveyed and those with more than 50 employees were most likely to rate financial advice received as being below the overall average.
- Owners of established businesses were less likely to score the advice that they received highly, particularly those who had survived the last recession.
- The more regularly advice was sought, the more highly it was rated.
- Those who received advice from their accountants only rated the quality of advice higher than those who received advice from bank managers only, or a combination of bank managers and accountants. This indicates that the advice received from bank managers was rated lower than the advice from accountants.
- Advice from bank managers was rated as relatively poor; however, this may be due to the recent negative media stories or the quality of the products they currently provide.

What prompts respondents to seek financial advice



- As businesses grow larger, they are likely to seek financial advice more regularly.
- Businesses with more than 50 employees were more likely to seek support based on external events, such as problems caused by market conditions. This is because they are more likely to have an internal accountant and would only need supplemental advice on key issues, such as compliance.
- Bank managers were more likely than other professional advisers to approach small and medium-sized business-owners to offer advice. Some businesses praised this proactive approach, but for other business-owners this illustrated their orientation towards sales rather than advice.
- Firms in high risk sectors (businesses under 3 years old, retail, hotels and restaurants, construction) were also more likely to seek advice more regularly. In a small number of cases, this was due to the conditions of invoice financing or factoring.

Usage of financial advice in last 12 months and anticipated usage in next 6 months



- SMEs anticipate more financial advice will be required in the next 12 months compared to the last 12 months, indicating that they are expecting market conditions to, if anything, get worse.
- Those who used other advisors such as the FPB or other membership organisations or business link were the most likely to have received additional support in the last 12 months and are most likely to increase the amount of support they receive in the next 12 months.

Current and predicted frequency of usage of financial advice

	Last 12 months			Next 12 months			
	Base	Increased	Decreased	Stayed the same	Expected increase	Expected decrease	Expected to stay same
Quarterly or more regularly	19%	36%	1%	63%	51%	4%	45%
2 to 3 times a year	35%	42%	4%	54%	47%	4%	48%
Once a year (separate from audit)	16%	23%	3%	74%	31%	2%	68%
Only when the accounts are being drawn up	11%	19%	5%	77%	28%	7%	65%
Never	7%	0%	12%	88%	4%	8%	88%
Do not know/on an infrequent basis	13%	14%	6%	80%	27%	4%	69%
Base	392	113	17	262	148	17	227

- Small and medium-sized businesses fall into two groups; those who have received support more than two to three times a year and those who receive support less frequently. Businesses in the former category have received more support in the last 12 months than they would usually and this trend is expected to continue over the next year.

Profiling

The profiling provided shows that the sample responds to the profile of the small-business employer rather than UK businesses in general. Consequently, construction is slightly under-reported, as the overwhelming majority of businesses in this sector are self-employed contractors. Wholesale, retail and repair formed a considerable section of the sample, as did manufacturing. These are sectors that have fewer self-employed businesses in comparison to other sectors of the economy.

Industry type

	UK		Sample	
Total	4.68m		400	
No reply	-		1%	4
Manufacturing	11%		20%	80
Construction or utilities	21%		11%	44
Wholesale, retail and repair	12%		27%	108
Hotels and restaurants	3%		4%	17
Transport, storage and communication	6%		5%	21
Business services	24%		22%	86
Education and health	9%		6%	22
Personal services	11%		5%	18

The majority of businesses making up the UK economy are self-employed people; however, the FPB tends to cater for the small-business employer and this is shown in the size break below.

Size of business

	UK		Sample	
Total	4.68m		400	
No reply	-		1%	2
None, it is just me	74%		9%	35
Fewer than 5 employees	17%		26%	104
5 to 9 employees	4%		25%	99
10 to 49 employees	4%		36%	143
50 employees or more	1%		4%	17

About the partners

Graydon UK

Graydon UK is one of the leading database information providers specialising in credit risk management and risk assessed marketing lists. The company helps clients reduce the uncertainty of doing business by providing a complete, differentiated and high-quality package of credit risk management services.

Graydon provides access to credit information and reports on companies in more than 130 countries worldwide. The Graydon group is owned by Atradius, Coface and Euler Hermes, three of Europe's leading credit insurance organisations. www.graydon.co.uk

Forum of Private Business (FPB)

The FPB is a business support organisation, established in 1977. It represents 25,000 UK-based private businesses, which employ more than 600,000 people.

The FPB is funded by its members. It offers a range of products and services aimed at saving money for members and providing practical help with all aspects of running a smaller business. It also lobbies on its members' behalf for fair treatment by decision-makers in the UK and in Europe. www.fpb.org

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