FPB Economy watch

This is the first report of the FPB's "Economy watch". This panel of 358 businesses will report monthly on changes to key areas of their business at a crucial time in the economy.

Specifically the research looks at

- Business confidence
- Business growth
- Employment and business support needs
- Underlying financial health

The research will run from February to September with the February questionnaire providing a baseline for future reports. The fieldwork for the baseline was undertaken between 22nd February and the 1st March.

Summary

Businesses appear slightly less confident than they did in December, but the evidence is that 44% are confident or very confident that their business will grow and 56% expect their turnover to increase.

Business owners are focussing more on increasing sales, particularly to their current customer base. Just 13% are concentrating on reducing costs. Many businesses are preparing for sustained growth by website updates, employment of sales staff and increased investment in marketing campaigns.

60% of businesses expect the general cost of business to go up this year with 76% expecting an increase in the taxation and 25% expecting the cost of finance to increase. The panel indicate that employment prospects will remain relatively limited.

Much of the optimism is based on the hope of a recovering economy and increase business and consumer confidence. Political, economic and currency stability were also important with a proportion of businesses suffering from the weak pound. The difficulty for businesses in terms of planning is indicated by the fact that almost 1 in 5 businesses are uncertain about the support they may want in the next month.

Businesses currently have a relatively high level of debt, but the low base rate has made the cost of finance to be relatively affordable with 80% stating that it was affordable. However even those who felt it was affordable, were concerned that when economic growth becomes more sustainable the cost of borrowing is likely to increase.

Supporting Data

Confidence

44% of businesses are confident that their business will grow in 2010 with 16% pessimistic.

Figure 1: Confidence of Economy Watch Panel

	February 2010
Very confident	12%
Confident	32%
Not very confident	34%
Pessimistic	12%
Very pessimistic	4%
Do not know	5%
Confidence score	0.36*

*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.

56% of businesses expect their turnover to increase in 2010, this is lower than other figures anticipating turnover growth. It compares to 67% expecting to grow according to the FPB/Graydon research(1) in December and the most recent figures by the Department for Business Innovation and Skills (BIS)(2) indicating 63% of smaller employers anticipating growth. This may be due to a real reduction in confidence caused by other European countries dipping back into recession or it may show a greater caution of experienced business owners who remember the 1990 recession.

Figure 2: Panel Expectations for 2010

	Increase significantly	Increase	Stay the same	Decrease	Decrease significantly	Balance
Turnover	14%	42%	27%	13%	1%	42%
Profitability	10%	40%	26%	17%	4%	28%
Cost of finance	3%	22%	58%	8%	<1%	17%
Cash flow difficulties	1%	20%	58%	15%	3%	2%
Investment in machinery and equipment	2%	25%	46%	10%	8%	9%
Investment in sales and marketing	3%	36%	44%	6%	6%	28%
Training for existing staff	1%	13%	68%	8%	6%	-0.3%
Recruitment of new staff	1%	12%	54%	11%	11%	-9%
Cost of doing business	5%	55%	31%	8%	<1%	52%
Taxation burden	12%	55%	23%	5%	1%	60%

Businesses expect that the cost of finance, taxation and the general cost of business will rise in 2010, yet around 50% of businesses expect an increase in profits.

Only the recruitment of new staff is anticipated to reduce as business owners are working under capacity. Anecdotal evidence indicates that the doubling of the increase to National Insurance contributions has made owners increasingly wary of political usage of this and other “stealth tax”.

Worryingly a greater number of business owners expect cash flow difficulties to worsen over the next 12 months than expect it to increase.

Business growth

There has been a noticeable reduction in businesses continuing in the same ways as many have growth strategies. Other statistically significant changes are the increase in businesses looking to sell more to the current customer base and the proportion of businesses looking to concentrate of cash flow.

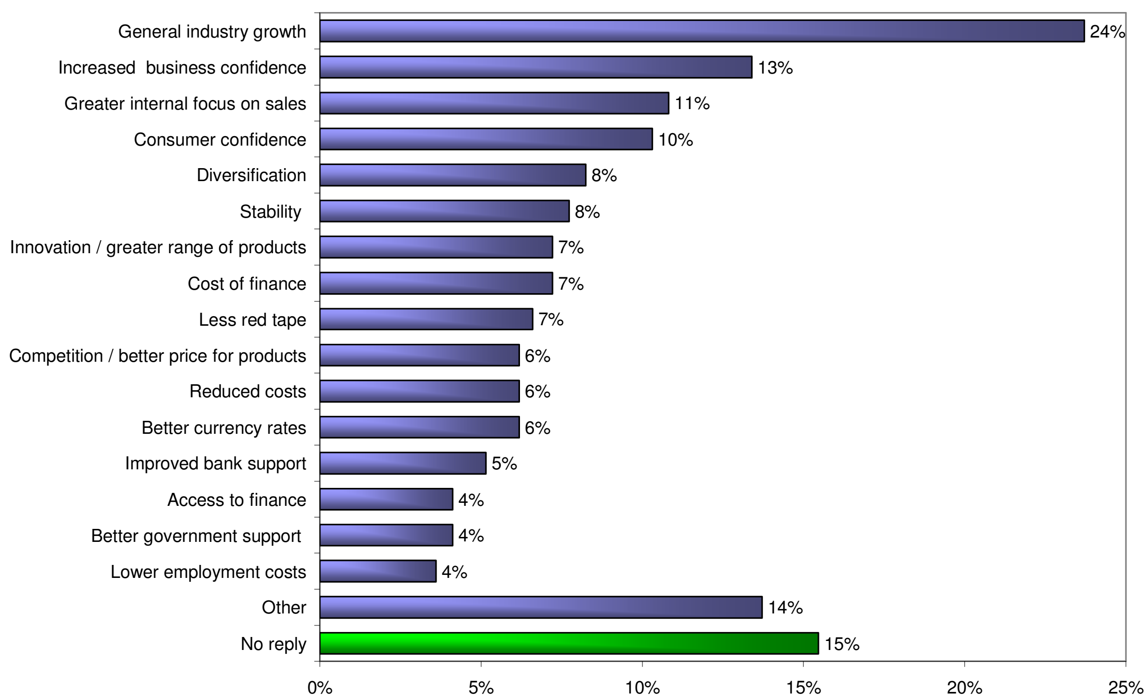
Figure 3: Ways businesses are looking to develop their business

	Referendum 189[3] Sept 2009	Economy watch Feb 2010
None - we will remain as we are	30%	12%
Introduce new products or services	38%	48%
Target new customers in the UK	52%	57%
Start or increase exports of products and services	12%	15%
Try to sell more to current customer base	47%	65%
Review/cut costs	48%	46%
Concentrate on cash flow	47%	35%
Improve customer satisfaction	45%	41%

Business priorities and needs

Businesses currently need increased business and consumer confidence and a improvement in the economy leading to greater spending in their sector. 27% of businesses concentrated on what they were doing internally to help the business grow as confidence and the economy improve.

Figure 4: Factors that would help their business to grow



1 in 4 businesses have prioritised a period of stability as key for their business, with anecdotal evidence indicating that some owners are waiting until after the next election before deciding on their future strategy.

Figure 5: Priority for panel members

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

61% are focussing on a more aggressive business strategy of increasing sales, 13% are more defensive focussing on continuing to reduce costs. 1% of business owners want to reduce time spent away from the business, indicating capacity issues.

Business support

17% anticipate needed in the coming month, with 64% stating that they intended to be self sufficient. More importantly 18% were uncertain indicating the importance of a stable business environment.

The main types of support required were finance, website development, other sales and marketing, process improvement and training. Only finance was felt to be unavailable.

Employment

Total employee numbers has dropped by 4% over the last year and around 8% of businesses have reduced their working hours. In addition there were 487 owners, partners etc

However 14% of businesses have seen an increased in employment creating an additional 120 jobs

Figure 6: Changes in employee numbers 2009/2010

	Feb 2009	Feb 2010
Total employee numbers	5129	4922
Change	-	-207
% increased employees	-	14%
% decreased employees	-	23%
% no change in employment	-	63%
- % reduced hours of employees	-	8%

The figure provides an annual indicator, however it under-represents the number of employees made redundant as many smaller firms had already made employees redundant in the autumn and winter of 2008.

Underlying financial information

The majority of the information collected for this baseline was financial as financial indicators provide some of the key parameters for understanding the scale and nature of any recovery.

Nature of finance used

Comparing the panel against the results for the Banking Industry Group survey[4] there is a far higher proportion of businesses that have accessed loans from directors, friends and family. Taking into account that the panel is predominantly established businesses it is unsurprising that the proportions with overdraft facilities are significantly higher than the historical figures.

Figure 7: Usage of external finance

	Economy Watch	Banking Industry Group Report [4]	
	2010	2007	2004
Unsecured business loans	8%	7%	24%
Secured business loans	26%	19%	
Overdraft facilities	62%	42%	53%
Hire purchase and leasing	36%	18%	27%
Invoice discounting and finance	6%	3%	4%
Credit card usage	52%	43%	53%
Equity finance	1%	1%	3%
Credit from supply chain	37%	n/a	n/a
Loans from directors, friends and family	31%	10%	6%

Key financial statistics

The majority of the statistics are financial. Economy watch panel members reported earning £102,700 per person. The 2008 BIS data[5] would give an equivalent figure of just over £117,000.

Figure 8: Key financial indicators

	Total	Proportion of turnover	Monthly figures
Turnover	£555,605,000	100.0%	£46,300,417
Overdraft facilities	£13,085,600	2.4%	£1,090,467
Secured loans	£64,843,900	11.7%	£5,403,658
Unsecured loans	£1,487,200	0.3%	£123,933
Loans from directors, friends or family	£2,890,000	0.5%	£240,833
Capital tied up in late payment	£187,125,100	33.7%	£15,593,758
Annualised cost of late payment (at 11.5%)	£21,519,387	3.9%	£1,793,282
Money reserve	£16,163,000	2.9%	£1,346,917

Comparison of debt between panel members and micro businesses (those with less than £1 million turnover) shows that the money that panel members have slightly higher lending ratios compared to their turnover.

Supply chain issues

43% of businesses had no concerns about their supply chain, with a similar proportion having concerns about the customers and 30% having worries over their suppliers. Lack of confidence, particularly among clients that were also SMEs was a major concern. Businesses were also concerned about customers paying late, preferring cheaper imports or using their comparative size to the detriment of the business. Business are also concerned with suppliers going under, giving them less credit or reducing the range or level of stock.

Figure 9: Concerns for their supply chain

	Feb-10
Yes with my suppliers and customers	23%
Yes with my suppliers	7%
Yes with my customers	20%
No concerns	43%
Do not know	6%

BACS latest annual survey(6) gives an indication that late payment has increased over the last few months.

Figure 10: Comparison with late payment data

	Economy watch	Comparison	Source
Monthly late payment	£43,800	£28,000	Bacs June 2009 (6)
Proportion affected	84%	59%	BIS September 2009 (2)

Panel members indicate a level closer to the Bacs average of £35,000 in June 2008. The proportion affected is much higher in Economy Watch and may be due to the way in which the question was phrased. 24% of businesses reported that 75% to 99% of their clients (by value) paid on time, indicating that 61% felt it was a significant issue for their business.

Credit compared to turnover

Panel members also report to have significantly lower proportions of money on deposit or in reserve than is indicated in the BBA figures(7), this may however be due to a different perception on what money is included as on deposit, 51% of businesses reporting that they have no money in reserve for any business expansion.

Figure 11: Comparison of credit/turnover figures with BIS/BBA data

	Economy Watch	Comparable statistics	Source for comparators
Turnover	100%	100%	BIS SME statistics 2008 with deflator(5)
Term loans	12%	7%	BBA figures Jan 2009 (7)
Overdraft facilities	2%	1%	
Money on deposit	3%	8%	
Loans from directors etc	1%	n/a	n/a

Cost of finance

Of those who had burrowed, 80% found the current rates to be affordable, mainly due to the low base rate, 10% found the current rates to be unaffordable, with just under 1% saying that the rates were unaffordable. 9% were uncertain due to the expected increase in interest rates once the economy begins to show signs of a sustained recovery.

Compared to the last economic downturn panel the interest rates on lending is lower, with overdraft facilities costing 6%, secured lending as 4.4% and unsecured lending at 12%. A number of businesses reported having to pay over 20% for unsecured lending.

Figure 12: Comparison of the cost of credit with the FPB's Economic Downturn Panel

	Economy Watch	Economic Downturn Panel [8]
	Feb 2010	Sept 2009
Cost of overdraft lending	5.7%	6.5%
Cost of secured lending	4.4%	6.8%
Cost of unsecured lending	11.5%	
Cost of loans from directors etc.	1.4%	n/a

Loans from directors, friends and family tended to be interest free or based on inflation, a handful were in the 5-8% range indicating commercial rates.

Security for loans

26% of businesses had secure loans. The main type of security required was a property as over two thirds of business provided this type of asset to secure a lower rate of interest. 48% of business owners provided personal guarantees

Figure 13: Security provided by businesses with secured loans

	% of those accessing secure loans
Personal guarantee	48%
Commercial property	44%
Residential property	30%
Debtor book	19%
Machinery and equipment	11%
Other commercial assets	15%

Future financial needs.

Plans for this year indicate that businesses are looking for an additional 18% of external funding from banks and alternative sources to meet their plans for 2010. Panel members are looking to reinvest around £1.3 million from internal sources equivalent around 45% of the money that they have in reserve.

Figure 14: Anticipated funding needed in 2010 compared to FPB/Graydon research

	Economy Watch Feb 2010	FPB/Graydon Dec 2009[1]
Total required lending	13,870,000	383,780,000
Average (mean) per company	38,000	51,000
Internal	3,600	7,905
Internal %	9.5%	15.5%
External	34,400	43,095

30% of businesses have additional security that they are prepared to use for additional funding and 13% are uncertain whether they are prepared to provide additional security.

The comparison with the FPB/Graydon(1) figures are misleading in some senses as there was a higher proportion of larger businesses that skewed the results. The average for micro businesses was £23,000 and for smaller businesses was £67,700, since 98% of the businesses on this panel are small or micro businesses this indicates a similar levels of anticipated capital required as in December.

Other sources of information

(1) Parry T and Skaljak G, Finance and Credit Management, FPB/Graydon January 2010 (report available on request)
(2) BIS, SME Business Barometer, September 2009, http://www.berr.gov.uk/files/file54062.doc, November 2009.
(3) Parry T, Referendum 189 Preparing for Growth, http://www.fpb.org/page/104/Referendum.htm FPB November 2009.
(4) Cosh A, Financing UK Small and Medium-sized Enterprises, CBR 2007.
(5) BIS, SME statistics 2008 data, http://stats.berr.gov.uk/ed/sme BERR 2009
(6) Bacs, Press release “British Business bear late payment burden of £30 billion” http://www.bacs.co.uk/Bacs/Press/PressReleases/2009/Pages/Britishbusinessesbearlatepaymentburdenof£30billion.aspx, Bacs June 2009
(7) Dooks D, small business figures from the high street banks January 2010, http://www.bba.org.uk/bba/jsp/polopoly.jsp?d=467&a=15461 March 2010.
(8) Parry T, Economic Downturn Panel http://www.fpb.org/images/PDFs/research/FPB%20Economic%20Downturn%20Panel%20Report%20-September.pdf FPB September 2009