IFF Research

SEEDA SOUTH EAST ENGLAND DEVELOPMENT AGENCY
Working for England's World Class Region

South East Business Snapshot Survey – Winter/Spring 2010

Findings for the South East Region

Contents

Executive Summary

- The Winter/Spring 2010 South East Business Snapshot Survey (BSS) shows some signs of economic recovery and stability in the context of the current global economic crisis. At the same time, the survey reveals that challenging conditions persist for the region's businesses.

- Overall performance has remained stable or improved for a majority of businesses (77%) while a fifth (22%) reported worsening performance in the last 3 months. Most businesses attribute deteriorating performance to the current economic conditions.

- Recent investment levels in key business areas have been solid, particularly in marketing and sales, and in staff training, and a clear majority of businesses expect to maintain their future levels of investment.

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Executive Summary

- Recovery and relative improvements are two core themes emerging from analysis of a number of key business metrics, such as volume of output, order books and employment levels. However, many businesses continue to see a negative trend in terms of their profit margins (31%) and cash flow (33%) over the past 3 months, indicating a tough competitive environment.

- Even so, expectations about future business performance are quite positive, with 45% of businesses expecting the business climate to improve and only 10% expecting it to worsen. Two fifths of all firms expect higher volumes of output (43%) and higher levels of domestic orders (40%) in the coming 3 months.

- Businesses have to accommodate a range of cost pressures and report rising energy (51%), raw materials (50%) and transport costs (43%). However, around a quarter of businesses are now confident to pass cost increases on to their customers (27%).

Executive Summary

- Fewer than 10% of businesses have sought additional finance or credit and most of them obtained what they needed. However, there is evidence of employers struggling to access finance due to stricter lending rules imposed by banks. Smaller employers were twice as likely to report greater burdens placed on them by banks compared to larger firms.

- Related to cash flow shortages, two-fifths (44%) of firms reported that their customers delayed payments to them and a third (28%) said they had to delay payments to their suppliers.

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Background and Methodology

Research background

- This report presents the findings of the latest South East Business Snapshot Survey (BSS) for Winter/Spring 2010 conducted amongst businesses in the South East region.
- The research measures business performance on a range of key economic indicators, as well as business confidence. The Business Snapshot Survey is conducted in-between the 6-monthly RDA national Business Survey.
- IFF Research undertook the survey for SEEDA, the Regional Development Agency for the South East.

Survey Design

- The survey fieldwork was carried out in late January / early February 2010. All interviews were carried out via telephone with business respondents in a senior position.

- In order to ensure a representative sample, quotas were set for region, sub-region, business size and sector.

- In total, 601 interviews were conducted for the South East region. The survey results discussed in this report are weighted up to the latest IDBR population counts.

- It should be noted that the methodology employed for this wave of the Business Snapshot Survey differed from previous waves in several respects. In particular:
  - All public, private and voluntary sector employers were within the scope of the current survey (whereas public-sector employers had been excluded previously)
  - Business population counts were established for quota-setting and weighting using the latest IDBR estimates (whilst ABI estimates were used for previous waves of the Business Snapshot Survey)
  - The results of the current Business Snapshot Survey are therefore not directly comparable to the two previous snapshots.

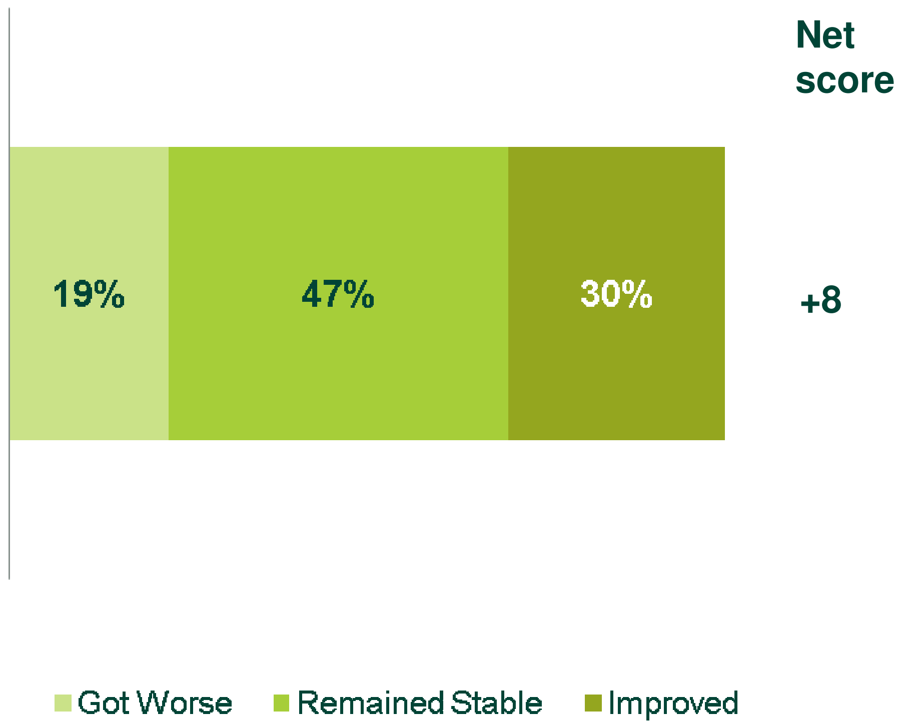
Sample Profile

The below table shows the profile of achieved interviews (unweighted)

		Sizeband			Total
		1 to 9	10 to 49	50+	
SIC03 Sector	A-C	26	22	4	52
	D-E	24	24	25	73
	F	25	25	11	61
	G	39	34	30	103
	H	19	26	22	67
	I	18	17	21	56
	J-K	46	40	28	114
	L-O	25	31	19	75
Total		222	219	160	**601**

Business Performance

Overall performance has remained stable or improved for a majority of businesses (77%)



More businesses reported improving business conditions than worsening conditions, as the net score (+8) indicates. However, a fifth (19%) reported that their performance over the past 3 months has got worse.

Q1. Would you say that, overall, your business performance in the past 3 months has improved, remained stable or got worse?

Base = All (601)

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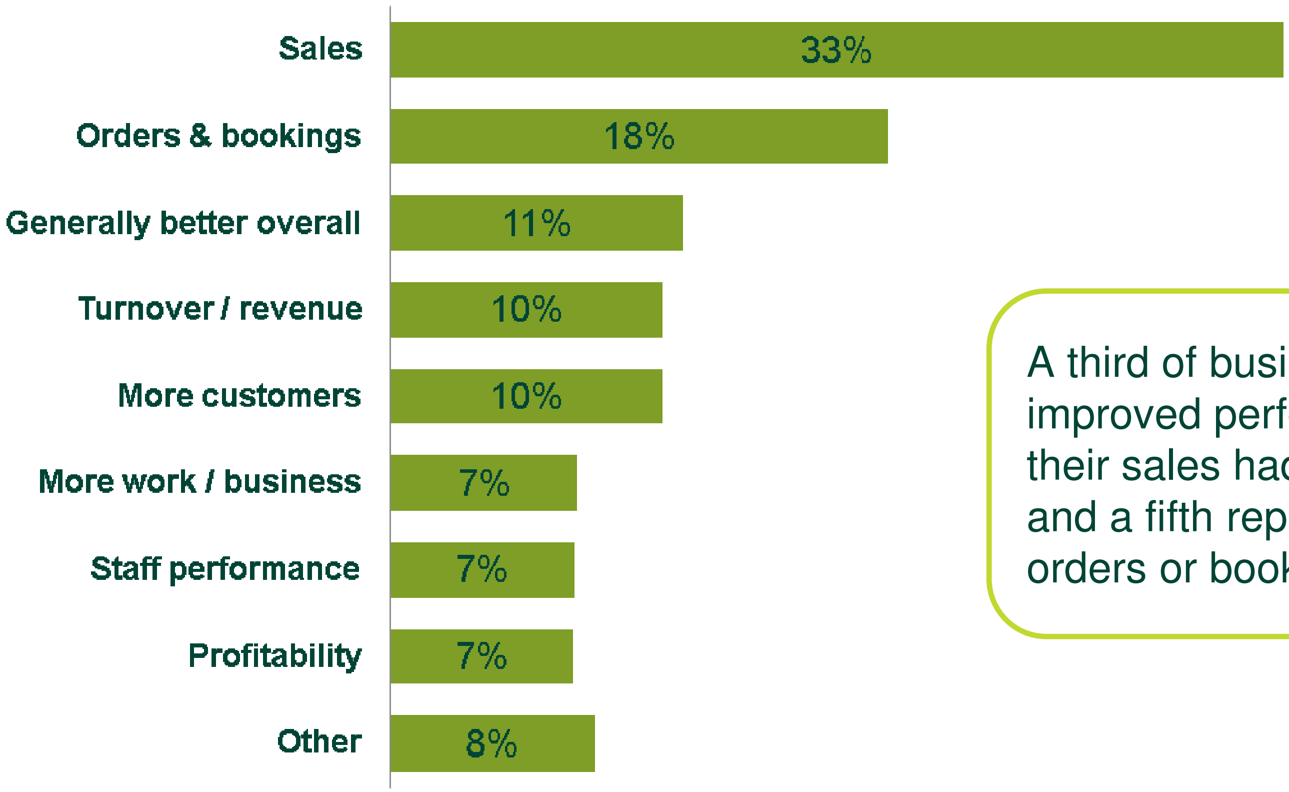
Increased sales and orders/bookings are the most frequently reported improvements to business performance



A third of businesses with improved performance felt that their sales had increased (33%) and a fifth reported increased orders or bookings (18%)

Overall business performance is heavily dependent on trends in Volume of output, Export orders, and Domestic orders, as multivariate analysis demonstrates. These three key areas strongly impact on performance, explaining 65% of the variation of business performance in the multiple regression model.

Q2A. Which aspects of your business's performance have particularly improved or worsened?

Base = All those who thought business performance had got improved (184)

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Businesses in the South East mentioned a variety of aspects that have improved

"More people buying and less competitors as they've all gone bust."

"Turnover and profitability, a general increase in sales."

"In general we have had more customers."

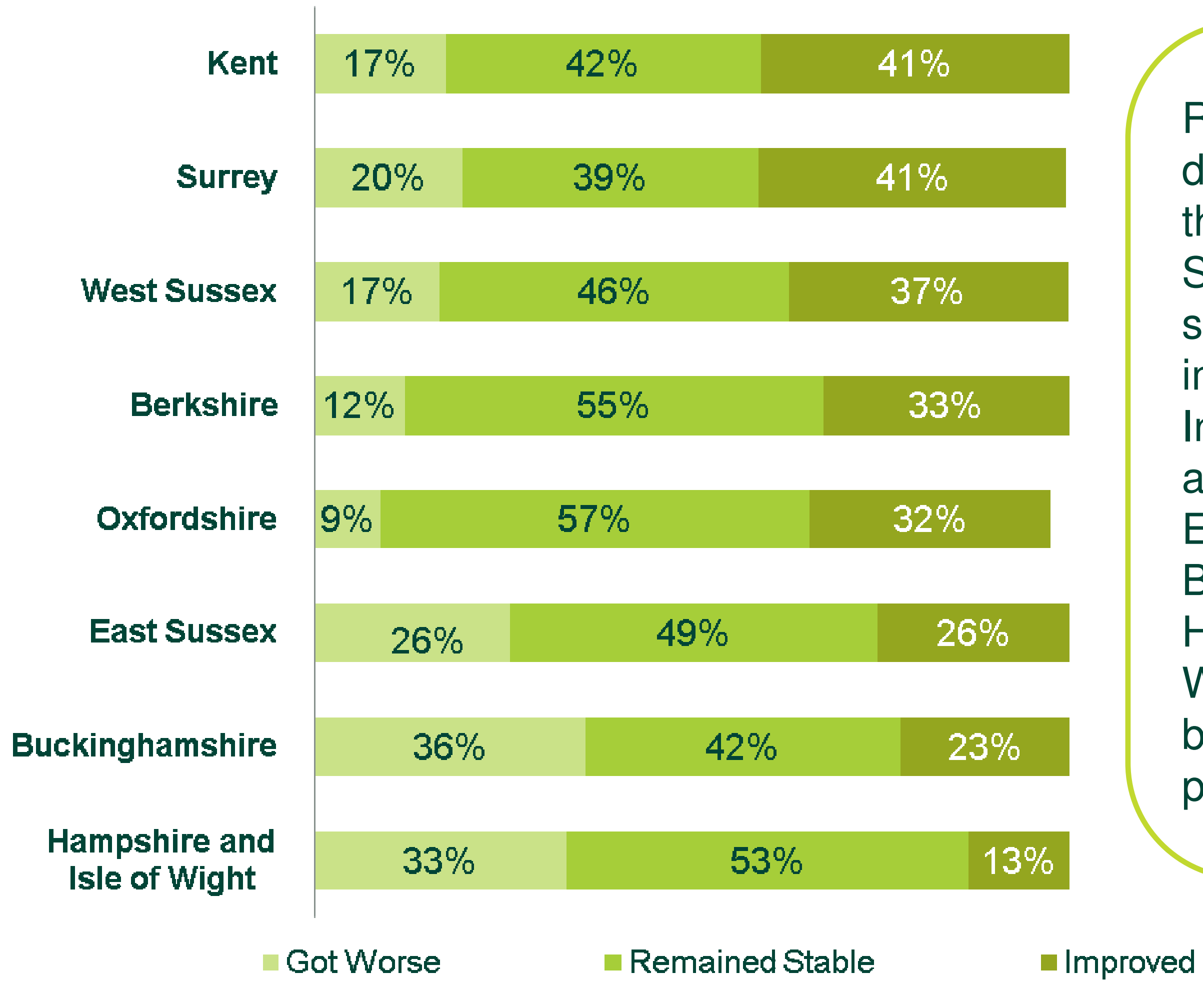
"All aspects."

"The food side of it, sales of food have gone up."

Q2A. Which aspects of your business's performance have particularly improved or worsened?

Base = All those who thought business performance had got improved (184)

There is evidence of economic recovery and stabilisation across all sub-regions, but some are still struggling



Recent business performance differed significantly across the sub-regions, with Kent and Surrey reporting the biggest share of businesses with improved performance (41%). In contrast, between a quarter and a third of businesses in East Sussex, Buckinghamshire and Hampshire and the Isle of Wight reported a poorer business performance in the past 3 months.

Q1. Would you say that, overall, your business performance in the past 3 months has improved, remained stable, or got worse?

Base = All (601)

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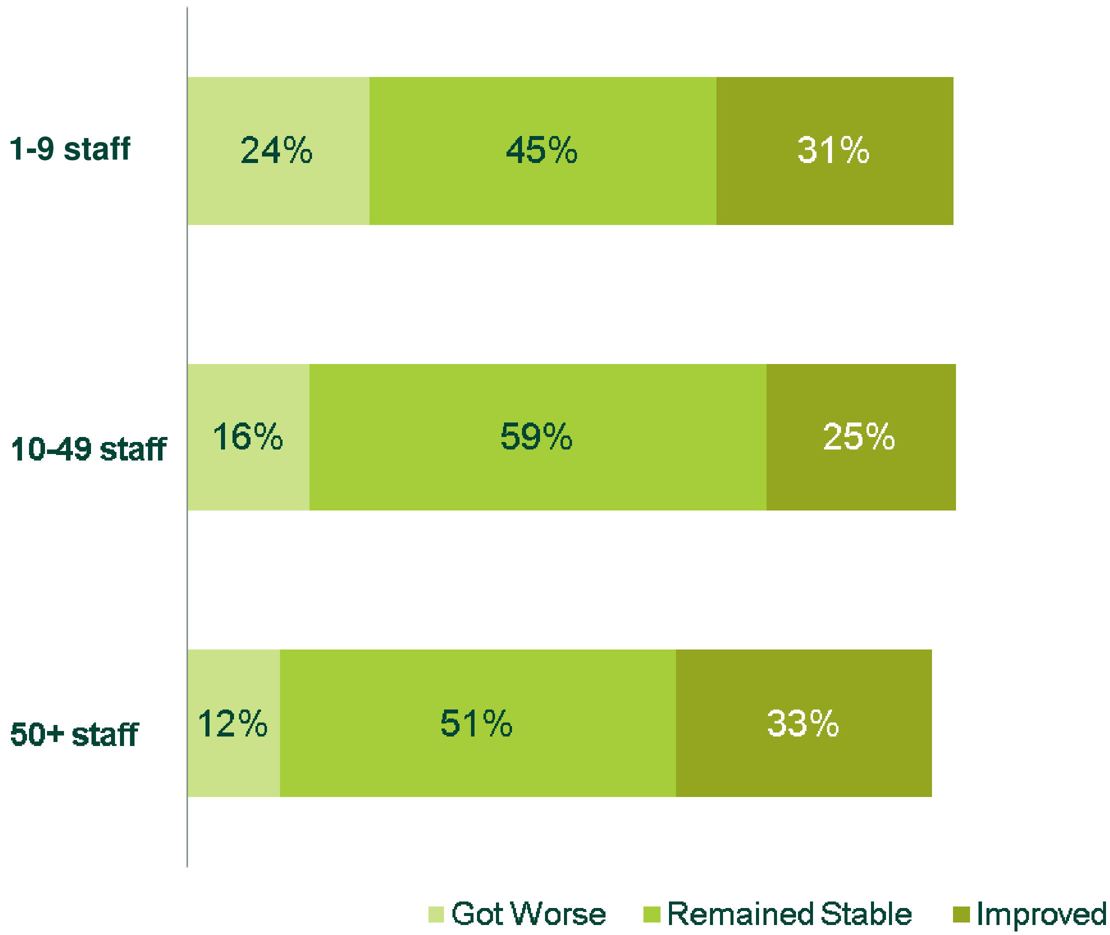
Small businesses (with 1-9 staff) are more likely to report worsening business performance



Small businesses are more likely to report a deteriorating business performance (24%) compared to larger establishments with over 50 staff (12%).

Q1. Would you say that, overall, your business performance in the past 3 months has improved, remained stable or got worse?

Base = All (601)

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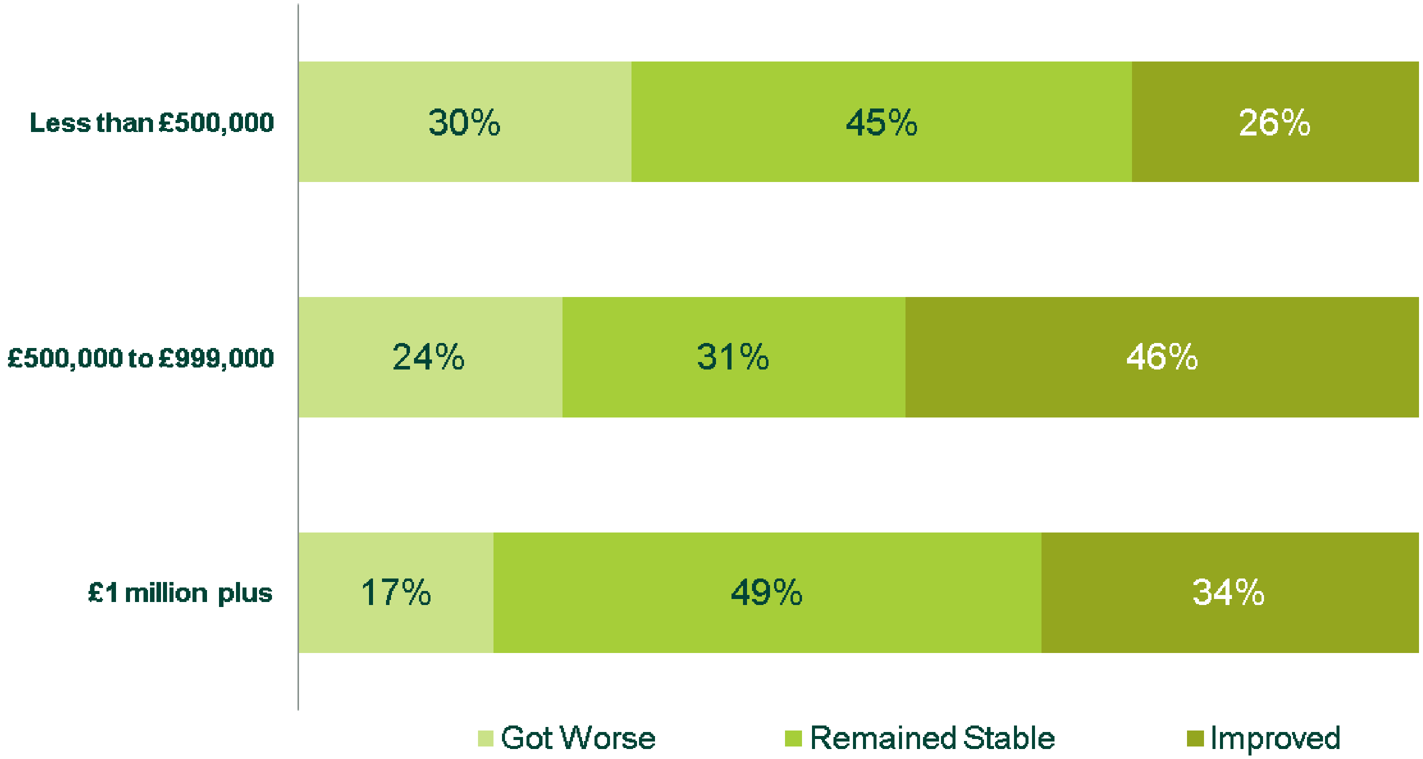
Businesses with a smaller turnover tend to be more negatively affected than those with a larger turnover

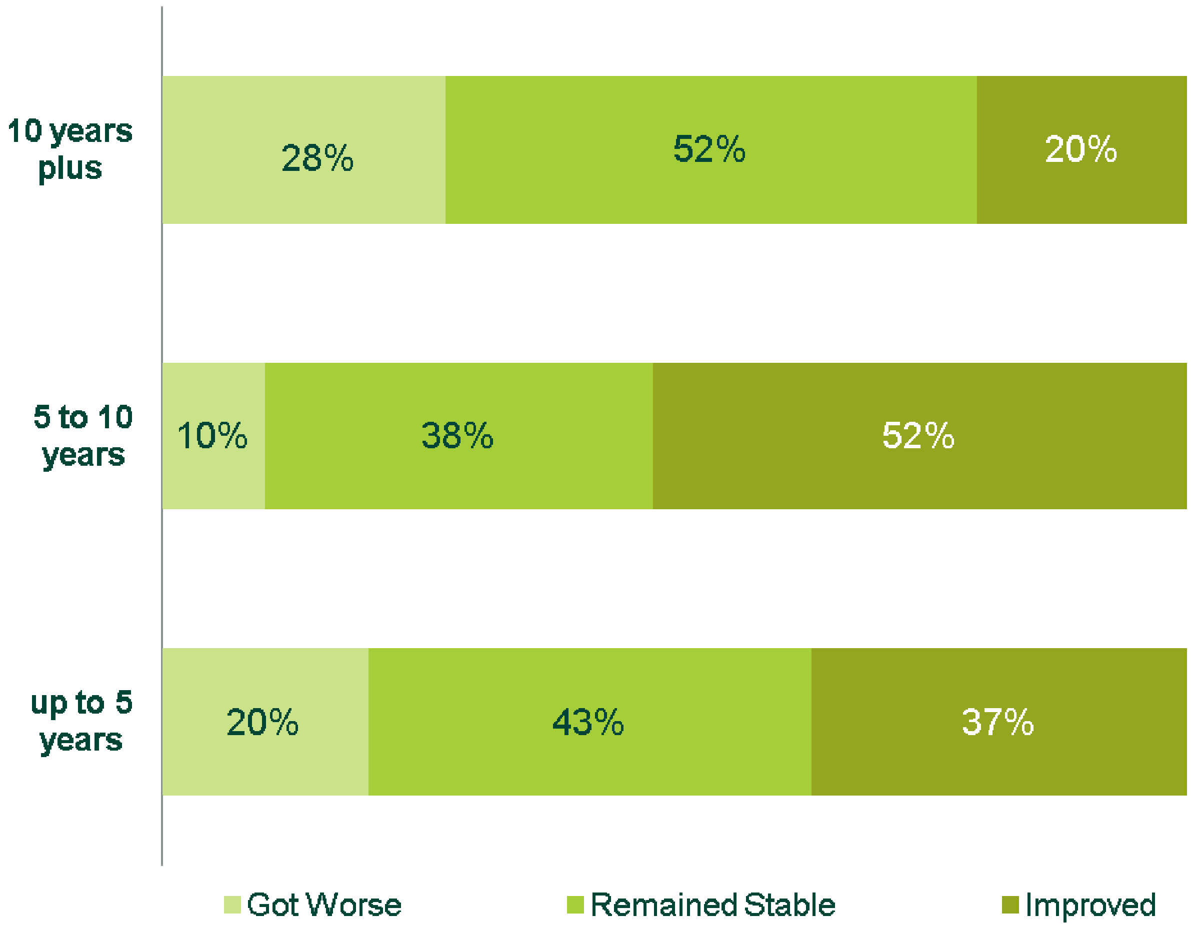


Just under a third (30%) of employers with a turnover below £500,000 reported that their business performance had got worse. The smallest employers were also least likely to report improved business performance (26%).

Q1. Would you say that, overall, your business performance in the past 3 months has improved, remained stable, or got worse?

Base = All (601)

More recently established establishments are more likely to report improved business performance



Two fifths (37%) of establishments in business for fewer than 5 years reported improved performance over the past 3 months. This compares to one fifth (20%) of establishments that are 10 years or older, possibly indicating that older businesses are finding it harder to adapt to the crisis or take advantage of the emerging upturn.

Q1. Would you say that, overall, your business performance in the past 3 months has improved, remained stable, or got worse?

Base = All (601)

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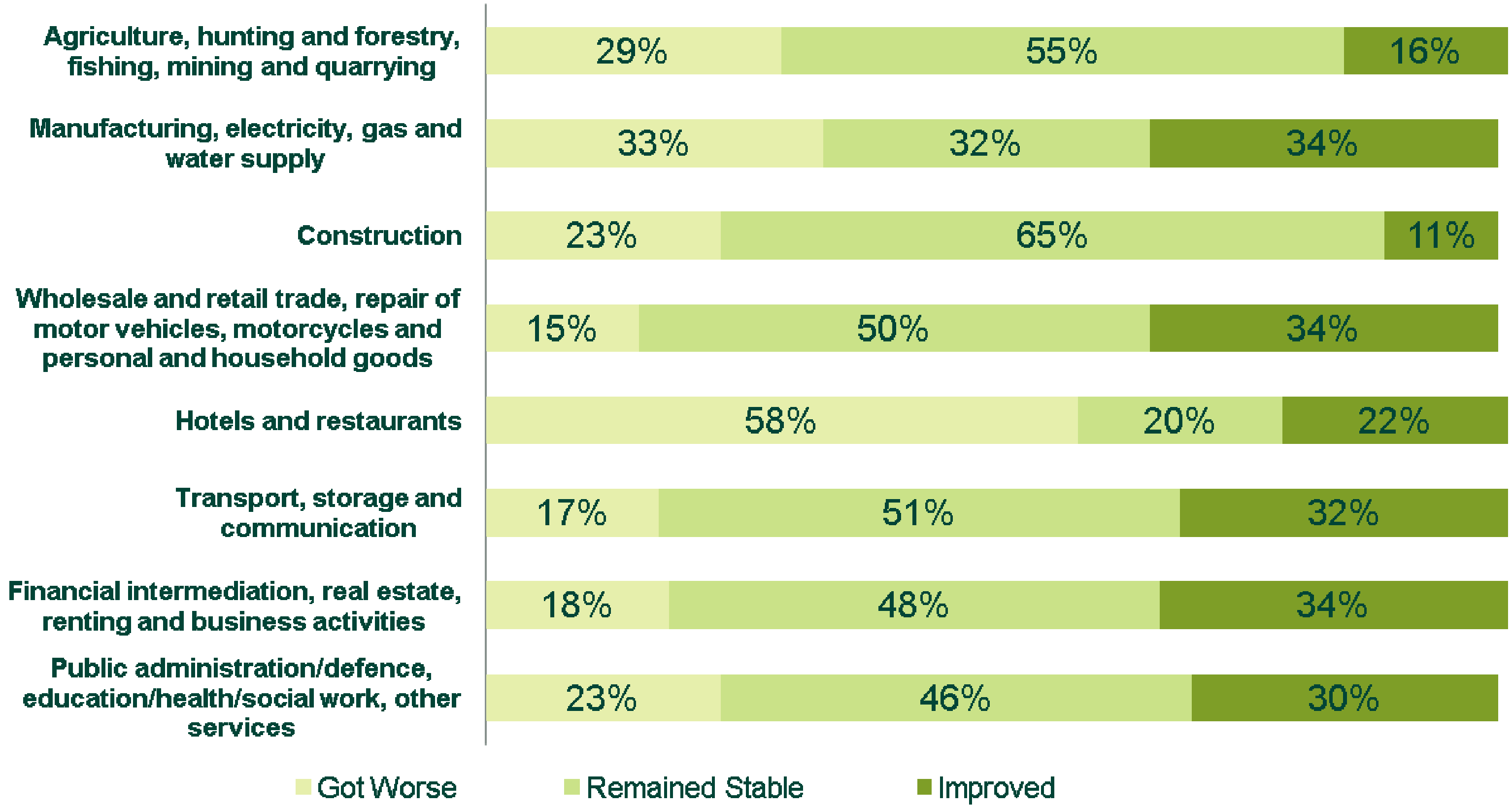
Most sectors experience stable or improving business performance but some continue to face real challenges



More than half (58%) of businesses in the Hotels and restaurants sector reported a worse business performance, as did, to a lesser extent, businesses in Manufacturing, electricity gas and water supply (33%). Business performance in the Construction sector, on the other hand, seems to have stabilised with only a quarter (23%) reporting deteriorating performance, while two thirds (65%) remained stable.

Q1. Would you say that, overall, your business performance in the past 3 months has improved, remained stable, or got worse?

Base = All (601)

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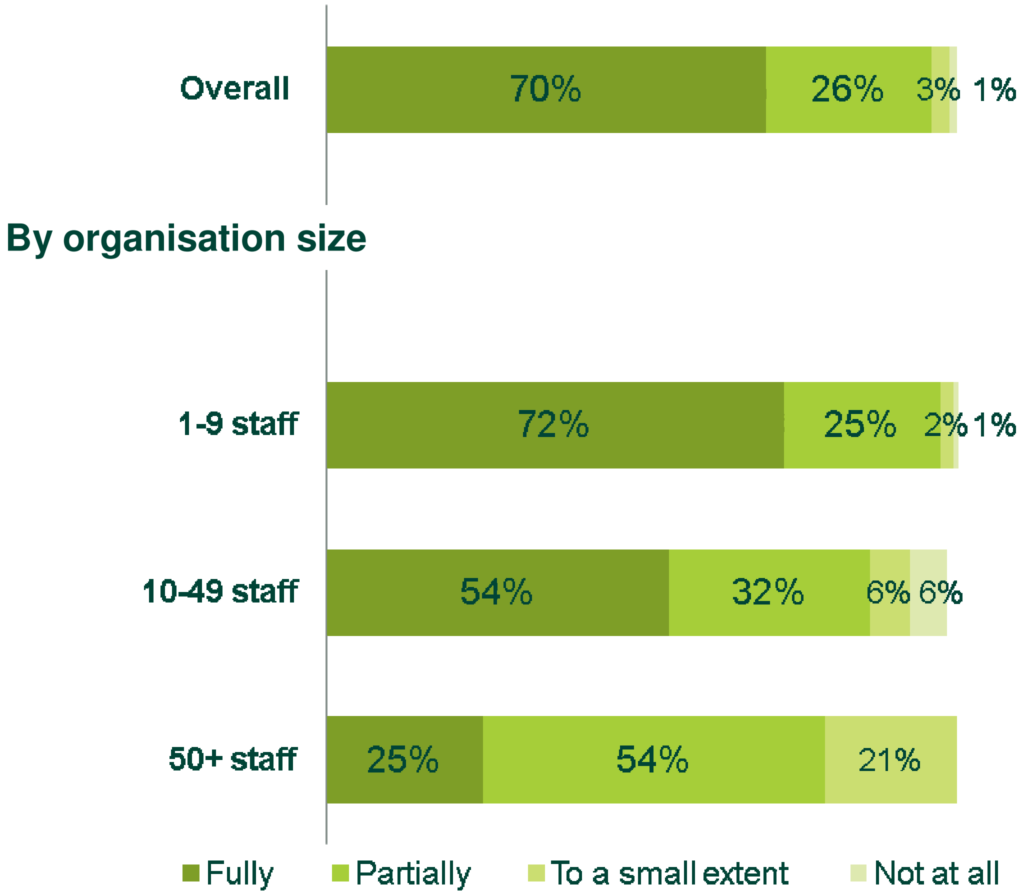
A vast majority of businesses with worsening performance attribute this to the economic downturn

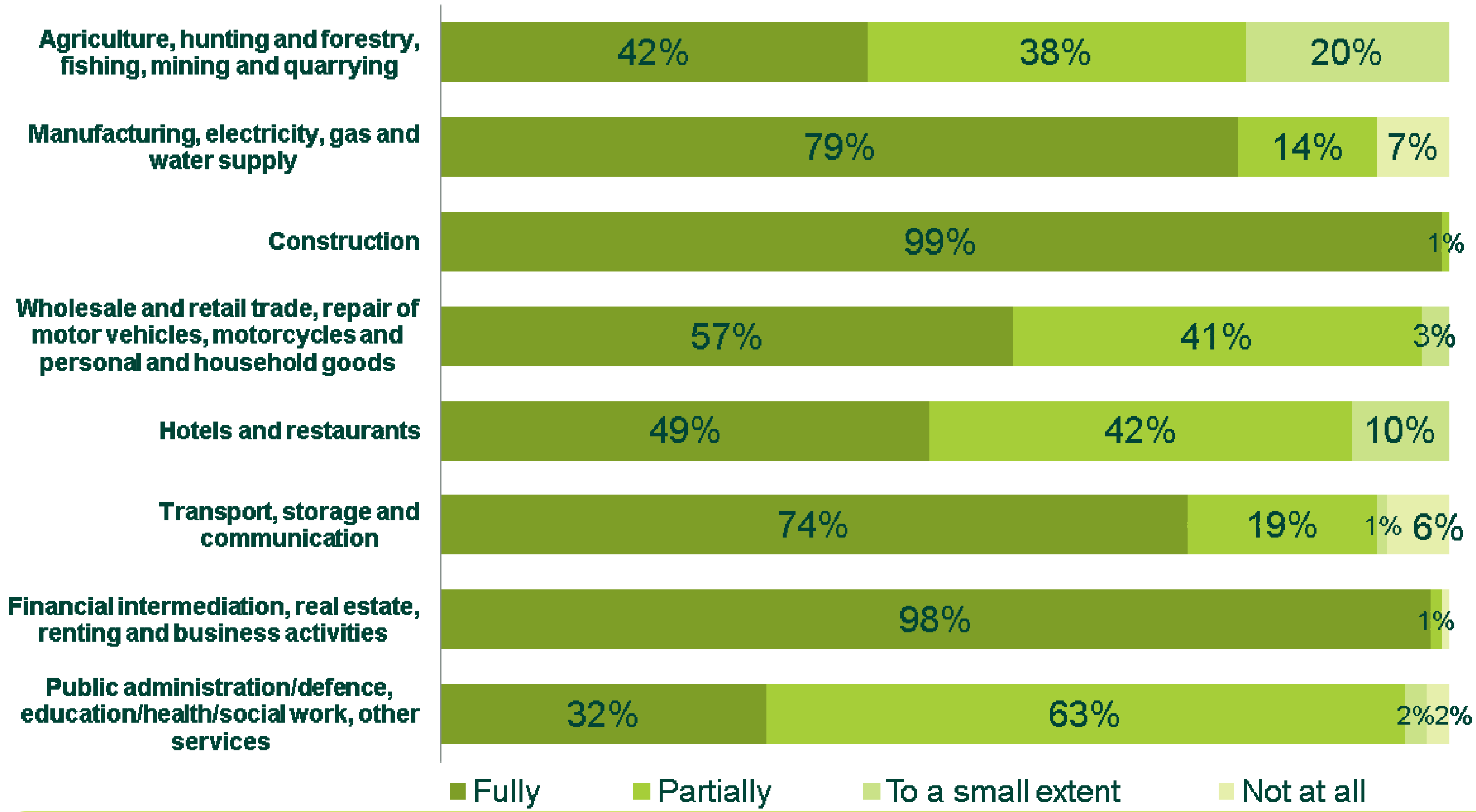


A high proportion of businesses (70%) attribute their poor performance to the economic downturn. This view is most widely held among smaller businesses.

Q2. To what extent do you attribute this specifically to the current economic conditions affecting the UK?

Base = All those who thought business performance had got worse (118)

The effect of the economic downturn on business performance is felt across all sectors



Firms in the Construction (99%) and Financial and Business Services sectors (98%) attribute their recent poor business performance almost entirely to the current economic conditions.

Q2. To what extent do you attribute this specifically to the current economic conditions affecting the UK? Base = All those who thought business performance had got worse (118)

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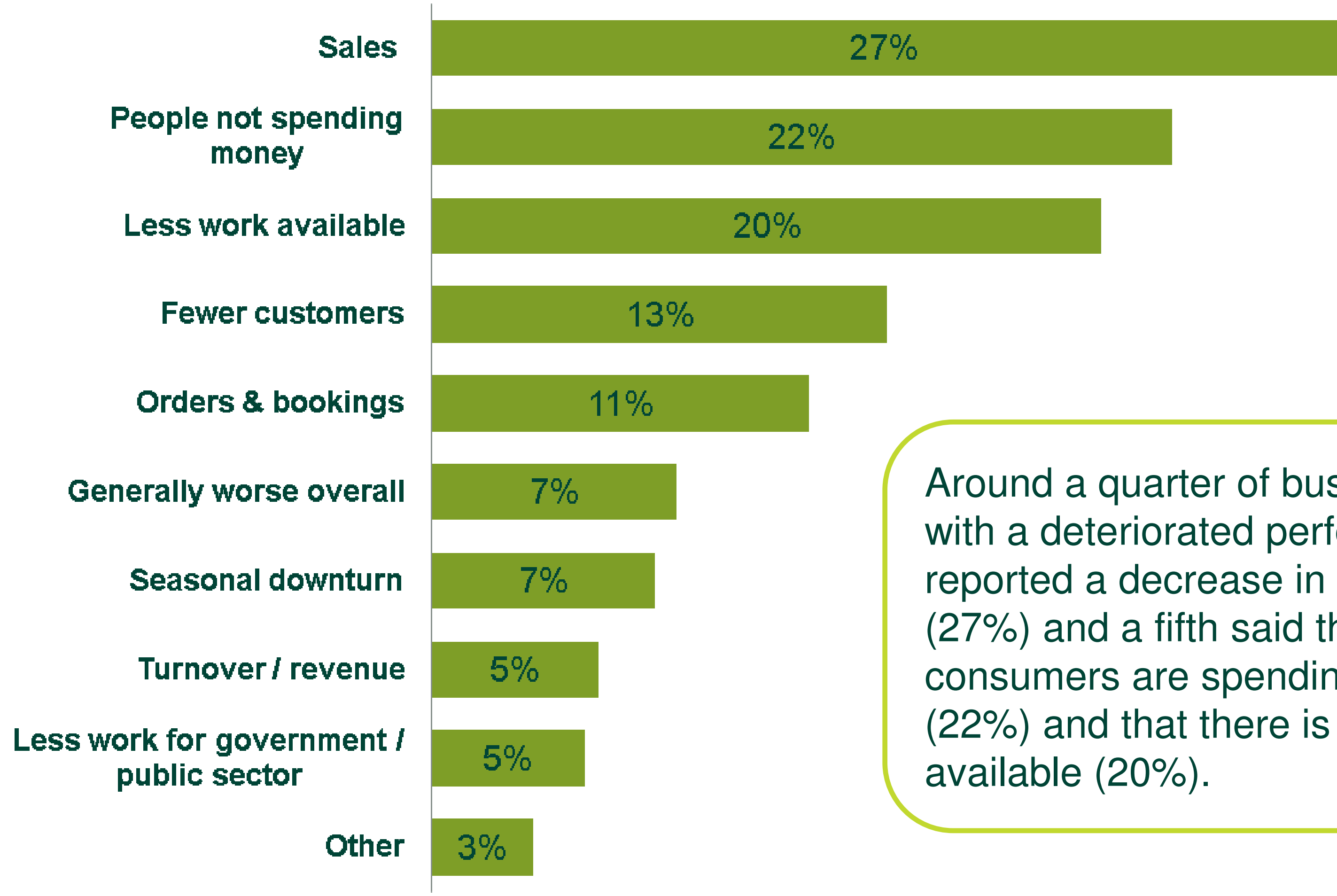
Businesses with declining performance report that sales and consumer confidence are down



Around a quarter of businesses with a deteriorated performance reported a decrease in sales (27%) and a fifth said that consumers are spending less (22%) and that there is less work available (20%).

Q2A. Which aspects of your business's performance have particularly improved or worsened?

Base = All those who thought business performance had improved (184)

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Businesses across the South East report a range of aspects that have deteriorated

"Overall takings have gone down, there are fewer people on the high street – it's like a ghost town."

"Lack of new customers and also a lack of repeat customers."

"People are just not spending money."

"The retail side has suffered as people just aren't prepared to spend money."

"Shortage of work, a reduction in the marketplace, size of contracts have reduced."

Q2A. Which aspects of your business's performance have particularly improved or worsened?

Base = All those who thought business performance had got worse (118)

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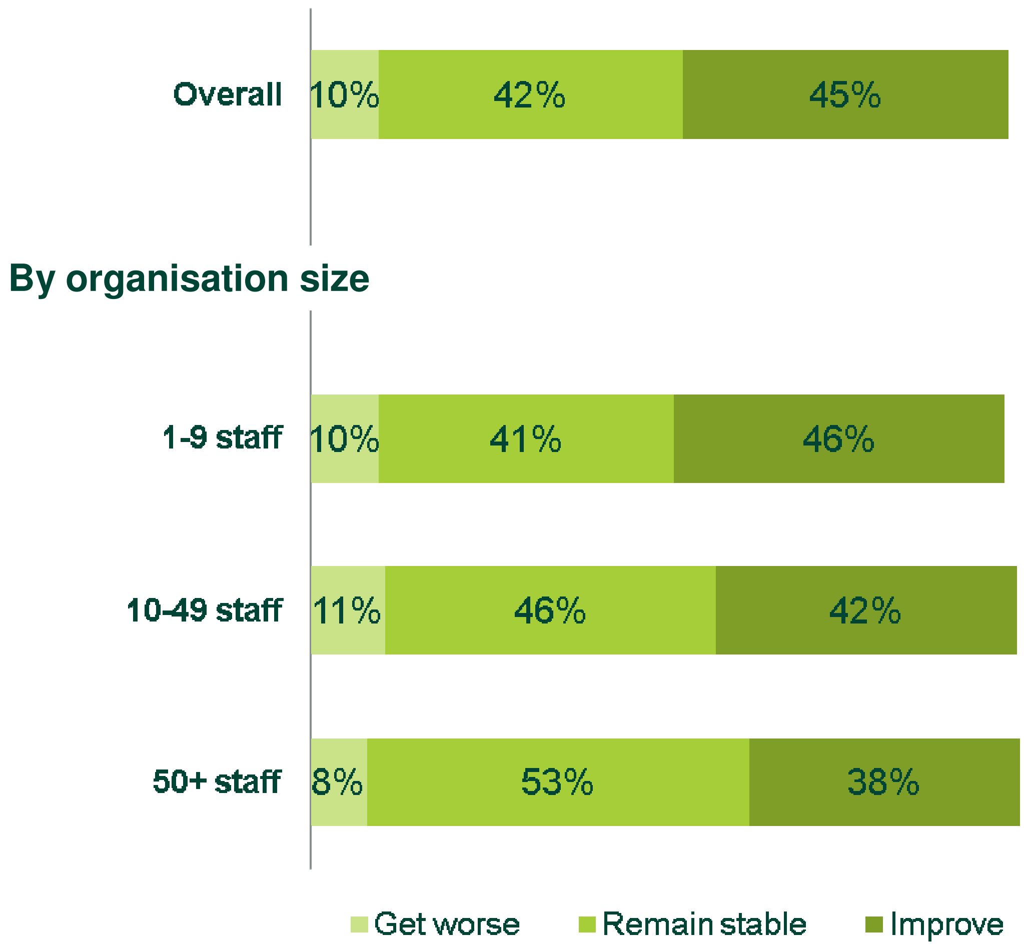
At the same time, businesses are more optimistic about the future business climate



Encouragingly, a sizeable proportion (45%) of all businesses expect their business conditions to improve. However, this optimism is less pronounced among the largest employers (38%).

Q3. Over the next 3 months, do you expect the business climate in which your business operates to generally improve, remain stable, or get worse?

Base = All (601)

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There is evidence in all sectors of businesses expecting conditions to stabilise or to improve

Optimism about the future is particularly prevalent among Hotels and Restaurants, where approaching two thirds of businesses expect conditions to improve (63%), as well as amongst businesses in Manufacturing and Electricity, Gas and Water Supply (60%). Positive expectations about the future business climate are largely driven by anticipated improvements in terms of domestic and export orders, and cash flow, as multiple regression analysis shows.

Q3. Over the next 3 months, do you expect the business climate in which your business operates to generally improve, remain stable, or get worse? Base = All (601)

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Business Trends

The negative trend for profit margins and cash flow continues but exports and output are stabilising

	Higher	Same	Lower	Net score Winter/Spring 2010
Domestic orders	21%	34%	24%	-3
Export orders	5%	7%	2%	+3
Numbers employed	9%	74%	14%	-5
Volume of output	26%	41%	23%	+3
Prices charged to customers	15%	66%	17%	-2
Staff costs	13%	72%	14%	-1
Profit margins	20%	41%	31%	-11
Cash in the business (cash flow)	14%	43%	33%	-19
Not applicable / Don't know answers are not shown in the table				

Reflecting the effects of the financial crisis, there are more businesses reporting lower profit margins (31%) and poorer cash flow (33%) than those that reported higher levels. Employment numbers have also deteriorated in this quarter. At the same time, there is a net surplus of businesses reporting higher levels of export orders (5%) and volumes of output (3%).

Q4A. Excluding seasonal variations, what has been the trend during the past 3 months for each of the following...?

Base = All (601) Net scores are derived from subtracting those who responded with 'lower' from those who said 'higher'.

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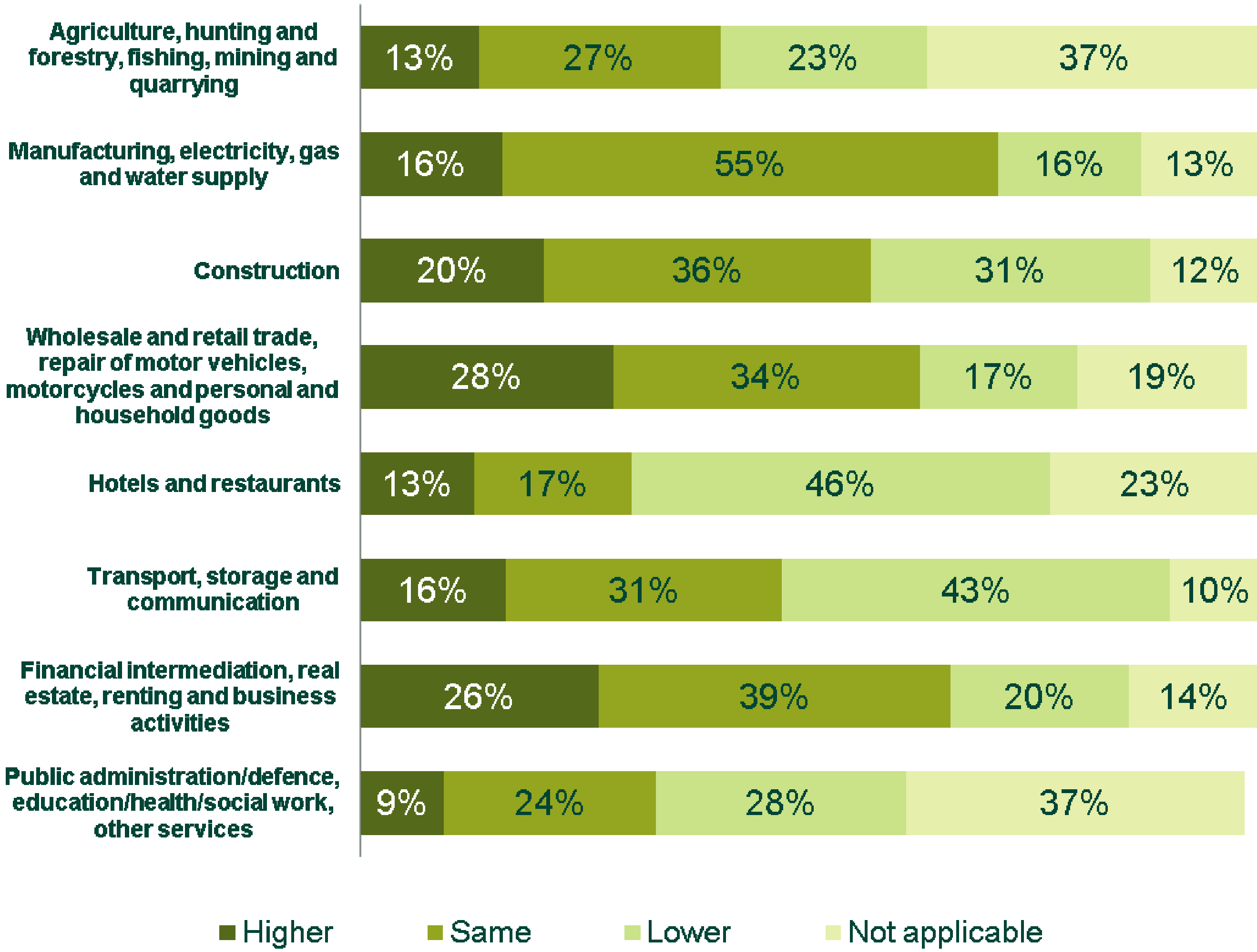
The net balance for domestic orders has been negative for all but two industry sectors



More businesses are reporting lower domestic order levels than higher levels in the past 3 months. However, the Financial and business services (+7%) and Wholesale and retail trade (+11%) sectors report a positive net balance.

Q4A. Excluding seasonal variations, what has been the trend during the past 3 months for each of the following...? Domestic orders.

Base = All (601)

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Reflecting the overall optimism, more businesses are expecting higher levels of activity in all business areas

	Higher	Same	Lower	Net score Winter/Spring 2010
Domestic orders	40%	35%	7%	+33
Export orders	8%	5%	2%	+6
Numbers employed	17%	75%	6%	+11
Volume of output	43%	39%	10%	+33
Prices charged to customers	15%	76%	5%	+10
Staff costs	22%	70%	6%	+16
Profit margins	32%	45%	17%	+15
Cash in the business (cash flow)	31%	43%	16%	+15

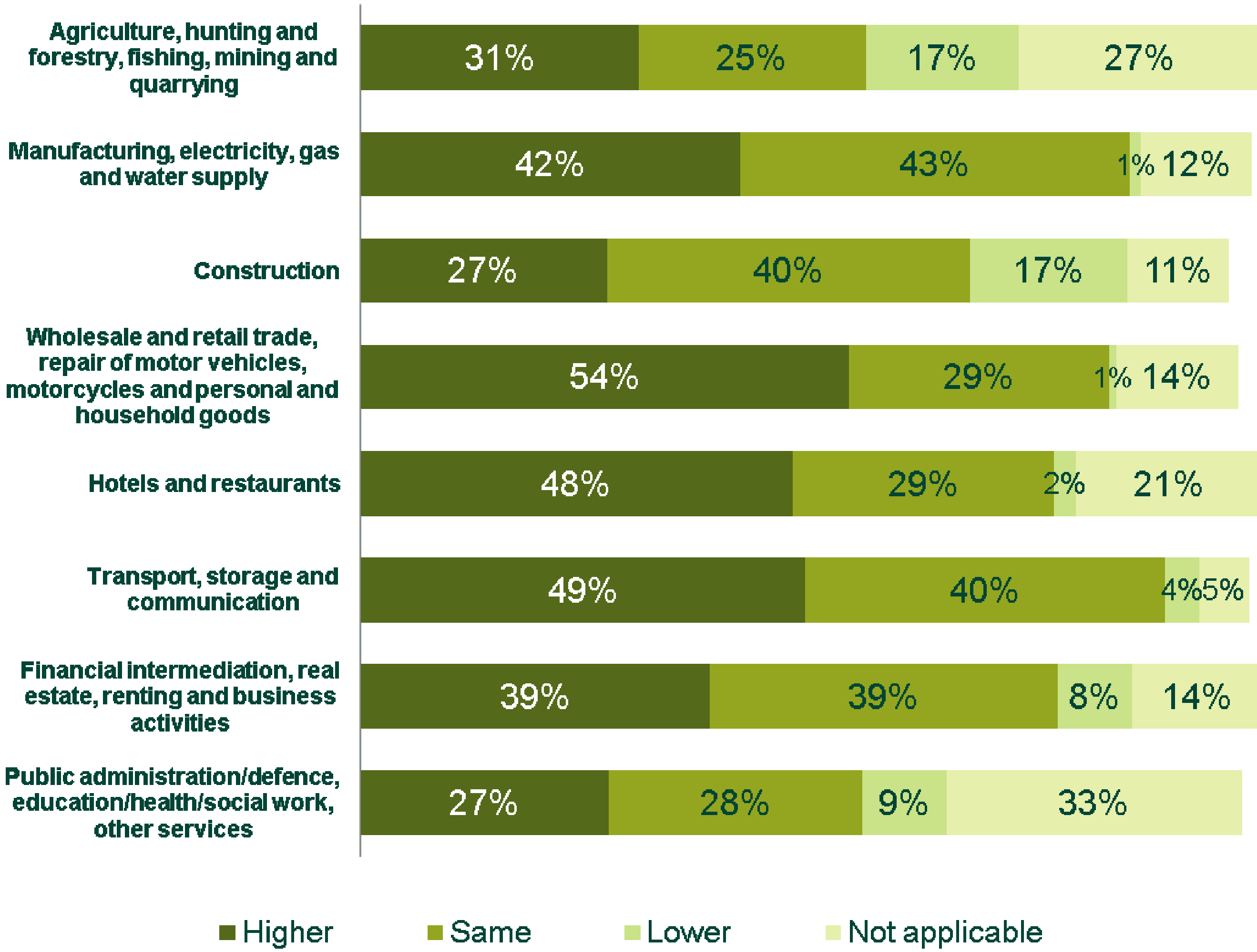
Not applicable / Don’t know answers are not shown in the table

There are encouraging signs of growing business confidence about the coming 3 months, despite the recent challenges in many areas. Output and domestic orders are anticipated to increase for two-fifths of businesses (43% and 40%), which may be related to businesses’ bullish expectations regarding increased profit margins (32%) and prices charged to customers (15%)

Q4B. And now thinking about the next 3 months, what are the expected trends for...?

Base = All (601) Net scores are derived from subtracting those who responded with 'lower' from those who said 'higher'

Expectations about future levels of domestic orders are optimistic in all industry sectors



There is a positive net balance in all industry sectors indicating that more employers expect higher, rather than lower levels of domestic orders in the future. Businesses in Construction still appear to be relatively more cautions in terms of their future expectations.

Q4B. And now thinking about the next 3 months, what are the expected trends for...? Domestic orders.

Base = All (601)

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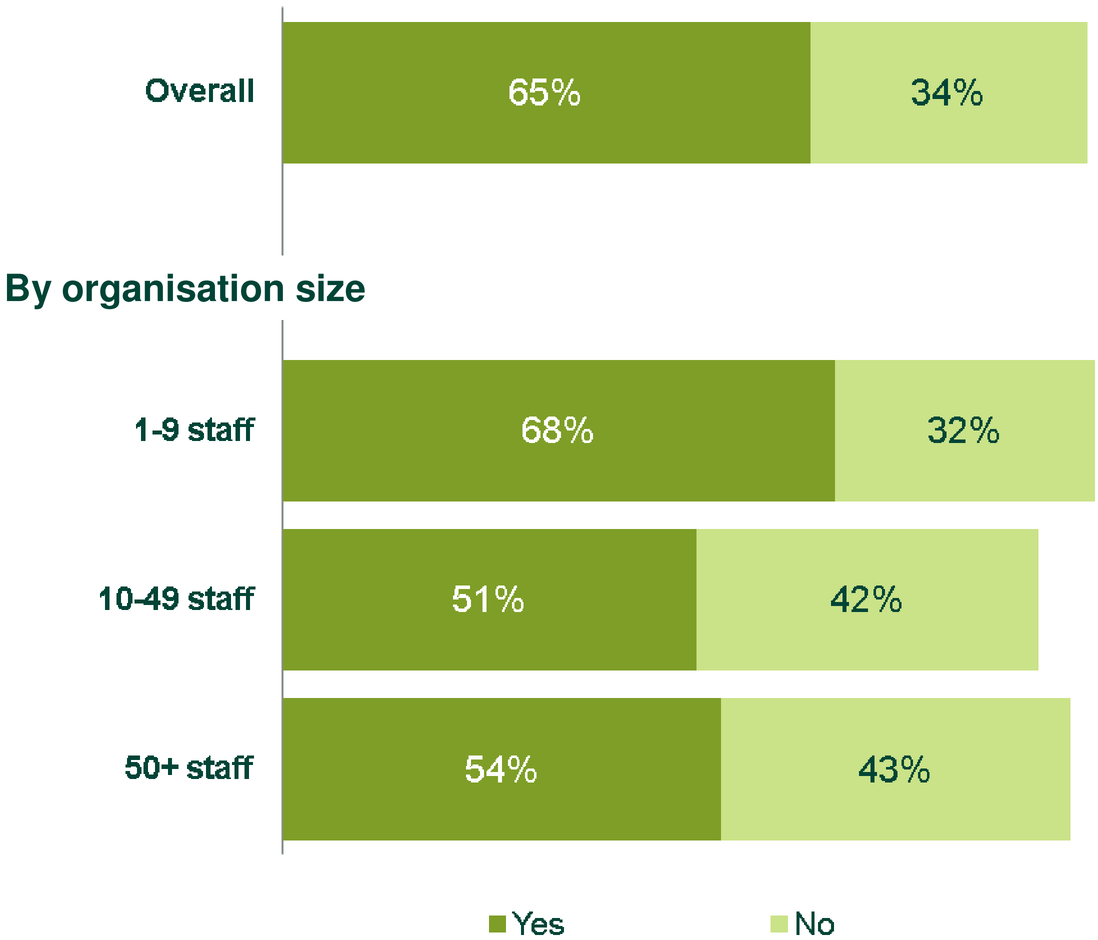
Current output levels are below capacity for many businesses, particularly smaller organisations

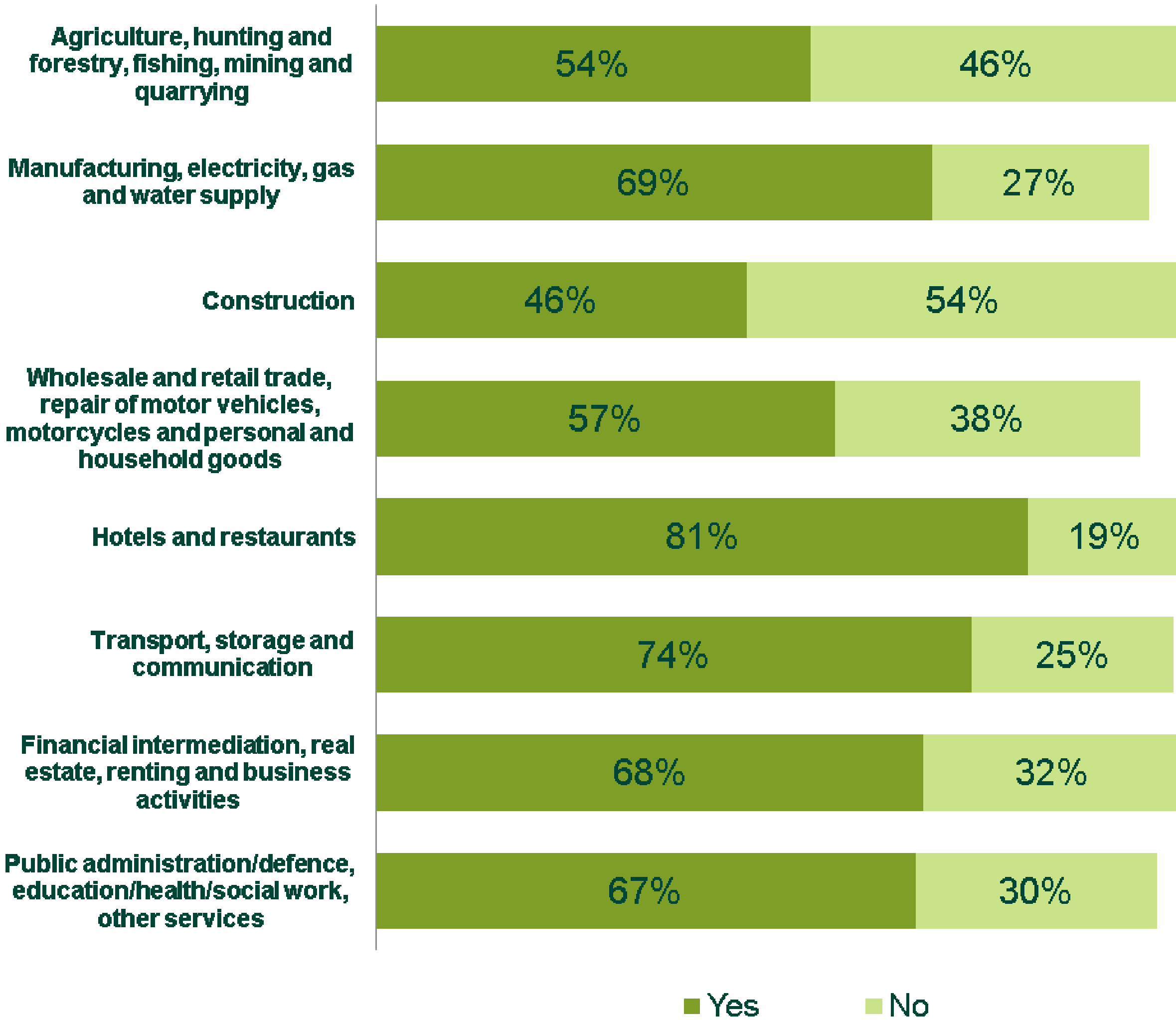


Two thirds of businesses (65%) report that they are working below a full rate of operation. Small businesses with fewer than 10 employees are most likely to report output levels below capacity (68%).

Q5. Is your present level of output below capacity, that's to say are you working below a full rate of operation?

Base = All (601)

Most industry sectors report working below their capacity, except Construction



Hotels and restaurants report the largest share of businesses working below capacity (81%) clearly reflecting the trend of poor overall business performance in this sector. By contrast, a slight majority of businesses in Construction say they are not working below capacity (54%).

Q5. Is your present level of output below capacity, that's to say are you working below a full rate of operation? Base = All (601)

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Business Investment

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Recent investment levels are solid and increasing in many business areas

	Higher	Same	Lower	Net score Winter/Spring 2010
Buildings	9%	45%	12%	-3
Plant and machinery	14%	44%	15%	-1
Product and process development	14%	46%	7%	+7
Marketing and sales	33%	38%	15%	+18
Training and retraining	17%	62%	10%	+7
On balance, overall investment in the business	29%	48%	15%	+14

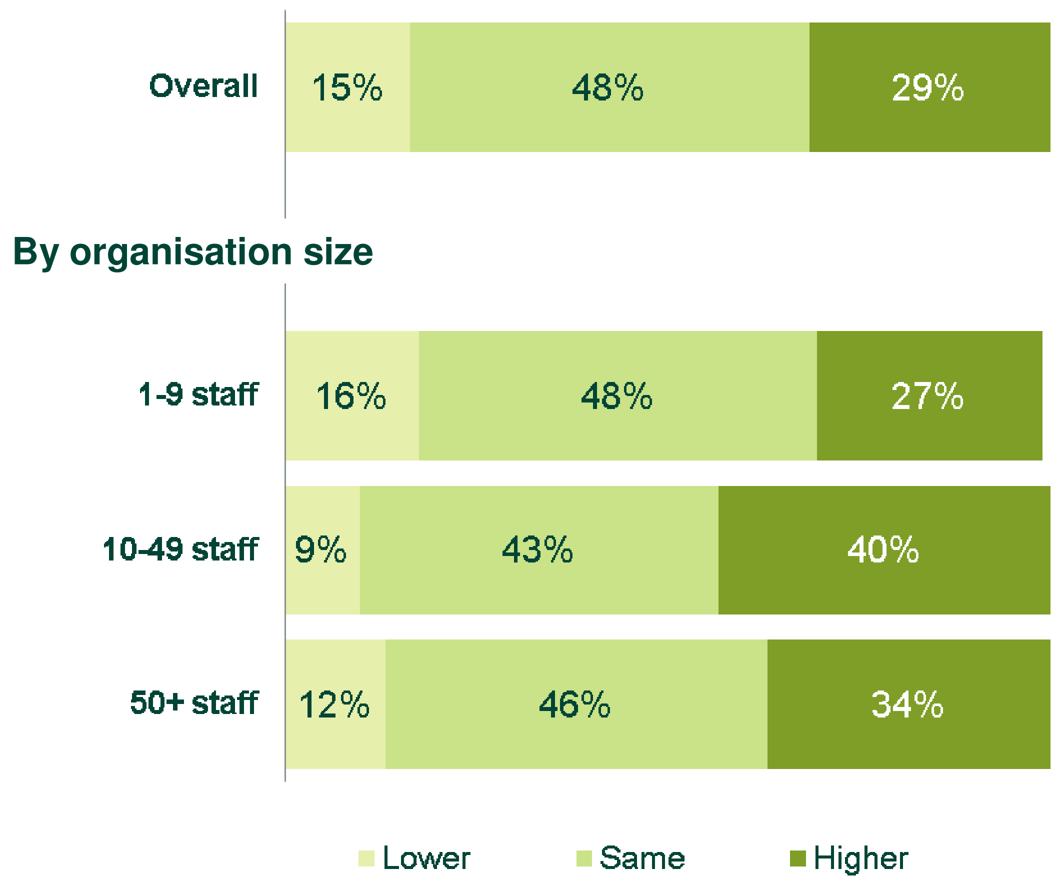
Not applicable / Don't know answers are not shown in the table

A third of businesses reported higher overall investment levels (29%) and investment in marketing and sales (33%), while only a minority reported lower investment levels in any key business area. Investment trends have a relatively weak impact on overall performance in the multiple regression model, with *external* factors playing a much greater role in determining performance.

Q6A. What has been the trend during the past 3 months in relation to your investment in each of the following...?

Base = All (601)

Recent overall levels of business investment are strong and growing, especially among larger organisations



Indicating improved business confidence, a high proportion of firms are reporting the same (48%) or higher (29%) overall investment. Sites with 10+ staff were more likely to increase their overall investment.

Q6A. What has been the trend during the past 3 months in relation to your investment in each of the following...? Overall investment in the business.

Base = All (601)

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Future investment trends indicate sustained levels of investment, bar capital expenditure

	Higher	Same	Lower	Net score Winter/Spring 2010
Buildings	10%	55%	9%	+1
Plant and machinery	17%	48%	7%	+10
Product and process development	20%	43%	4%	+16
Marketing and sales	32%	48%	8%	+24
Training and retraining	26%	59%	4%	+22
On balance, overall investment in the business	34%	50%	8%	+26

Not applicable / Don't know answers are not shown in the table

A third of employers expect to invest more into their business overall (34%) and in marketing and sales (32%), and a further quarter plan to invest more in training (26%) which is an encouraging indication of long term confidence. Future plans for capital expenditure seem more modest.

Q6B. Thinking about the next 3 months what are the expected trend in relation to your investment in each of the following...?

Base = All (601)

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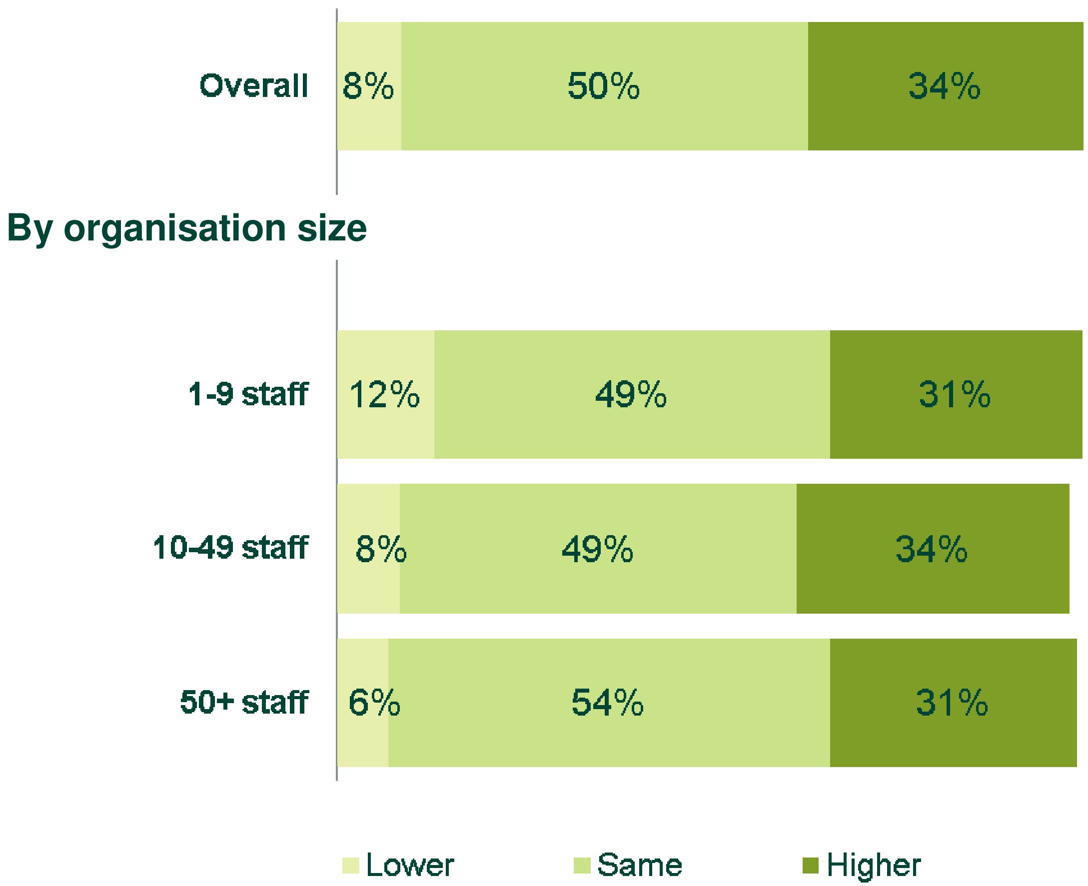
Future investment plans are more optimistic than previously



A third (34%) of businesses expected increased overall investment in the next 3 months. Confidence levels about future investment were roughly even across different business sizes.

Q6A. What has been the trend during the past 3 months in relation to your investment in each of the following...? Overall investment in the business.

Base = All (446)

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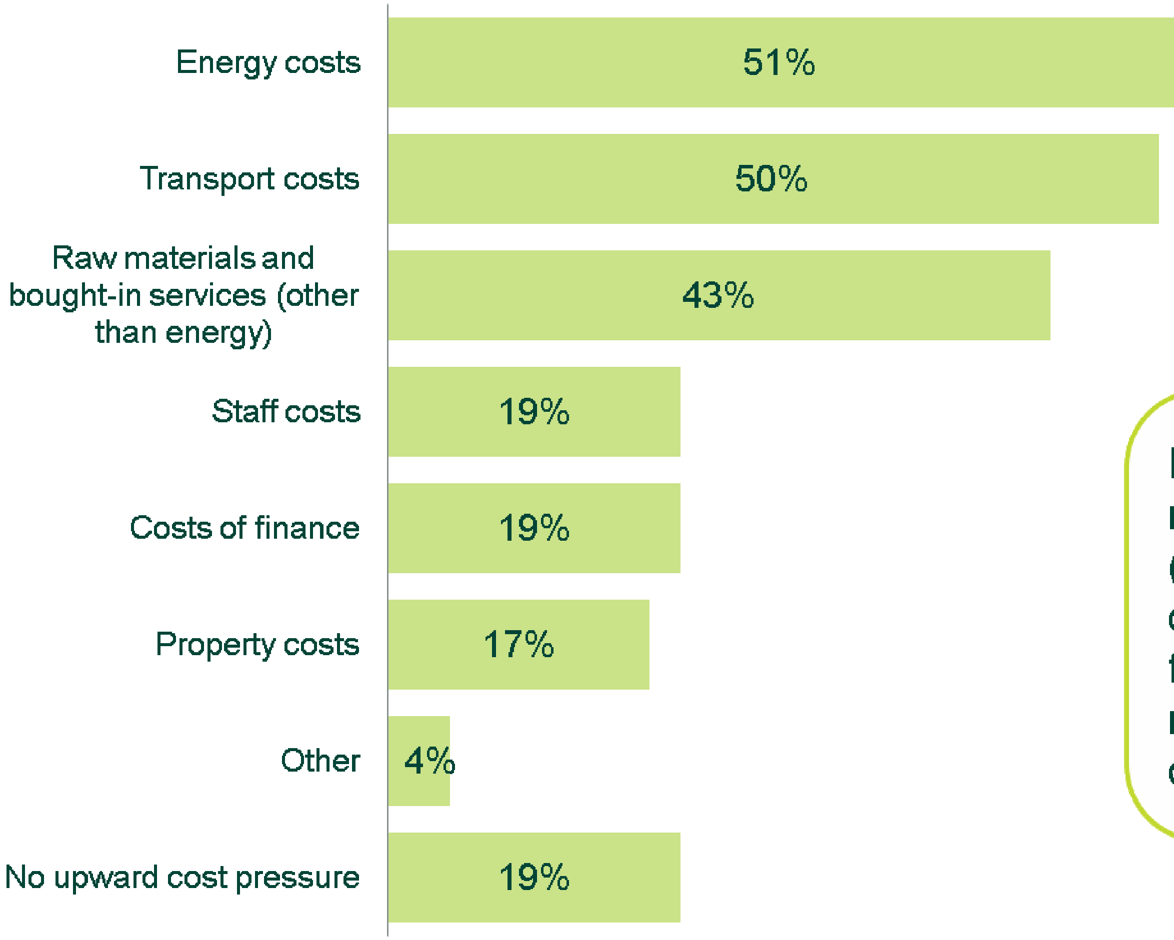
Changes in External Costs

Rising energy, transport and raw material costs are driving up the cost pressures for many firms

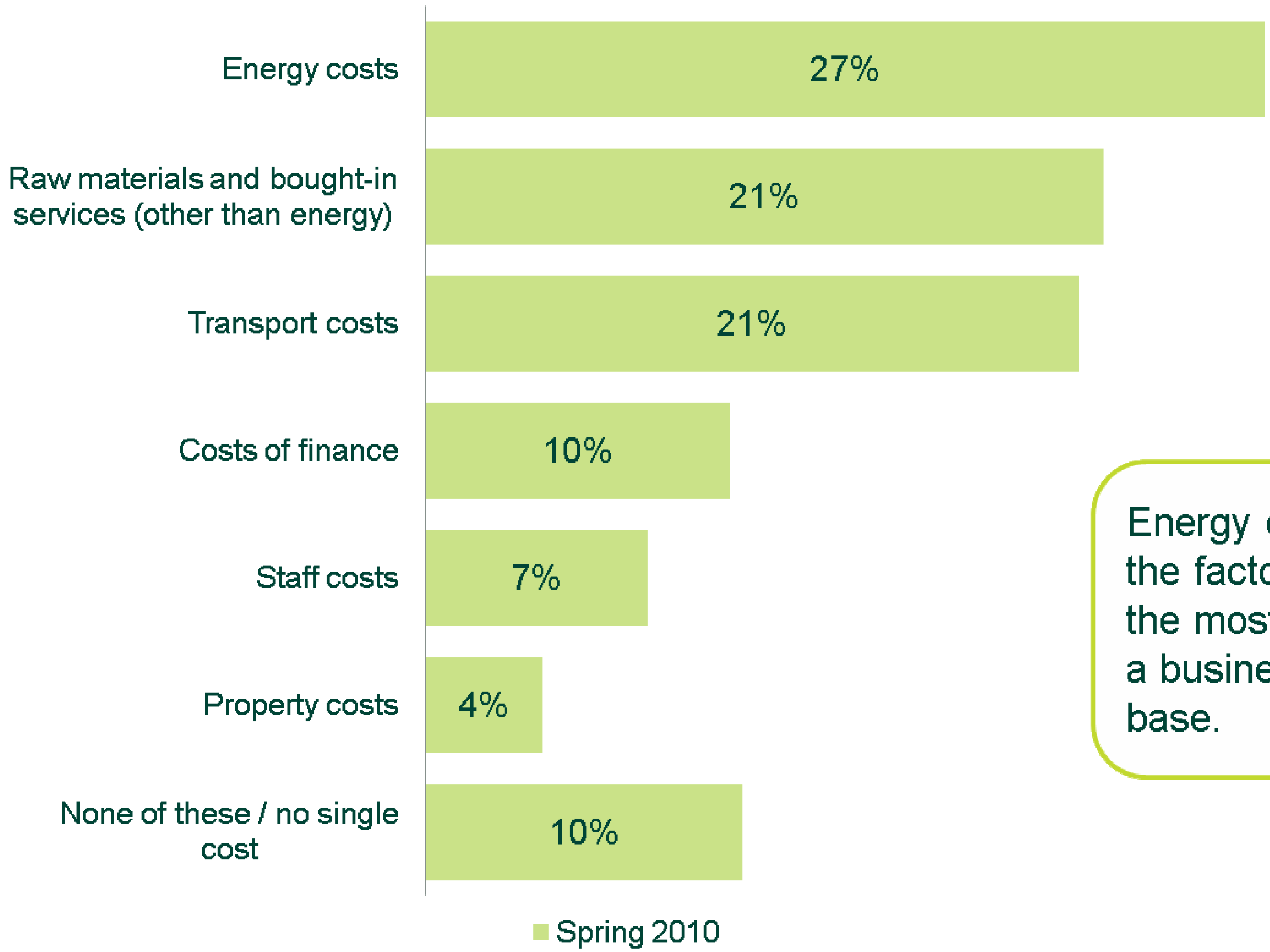


Half of all employers reported rising energy (51%) and transport costs (50%) and two fifths (43%) saw their raw materials increase in cost.

Q7A. Which of the following costs have increased for your business over the past 3 months...?

Base = All (601)

Energy costs are the single most significant cost pressure on businesses

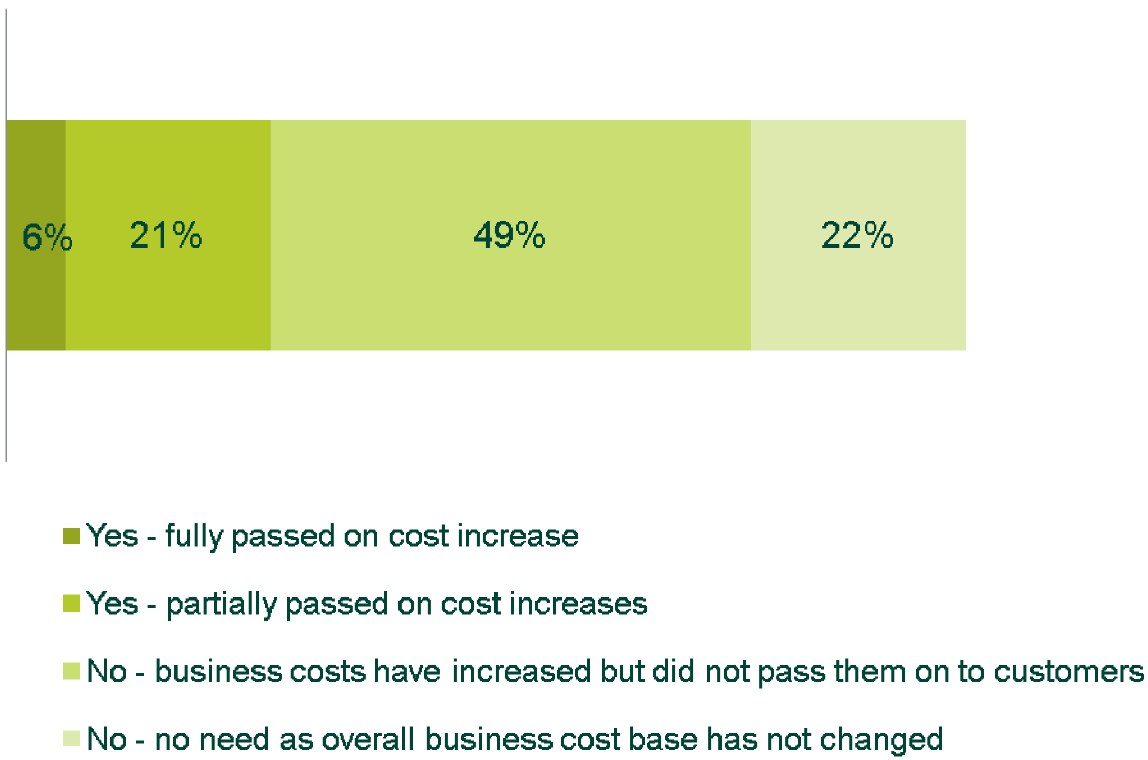


Energy costs are reported as the factor which has placed the most upward pressure on a businesses' overall cost base.

Q7B. Which of these costs, if any, have placed the most upward pressure on your overall cost base?

Base = All businesses where more than one cost has increased (469)

A quarter (27%) of businesses are passing cost increases on to their customers



Q8. Have you passed on any increases in costs to your customers over the past 3 months?

Base = All respondents where any cost area has increased (473)

Financial Conditions and Resources

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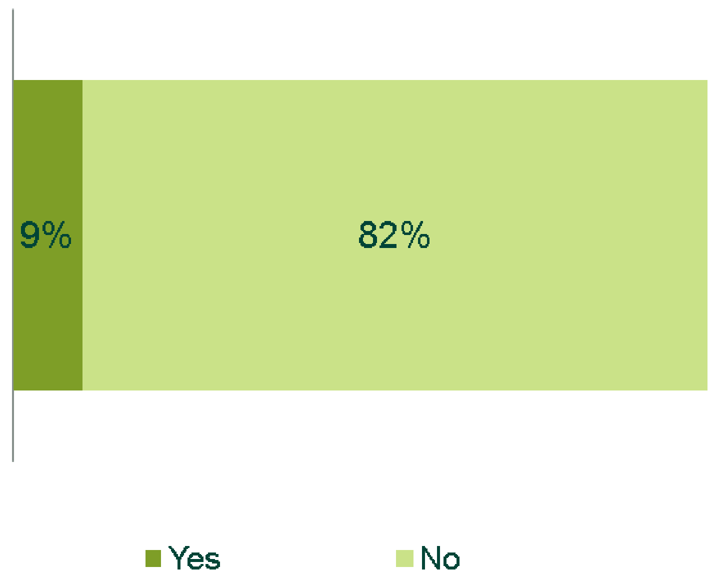
The proportion of businesses seeking additional finance or credit is relatively low

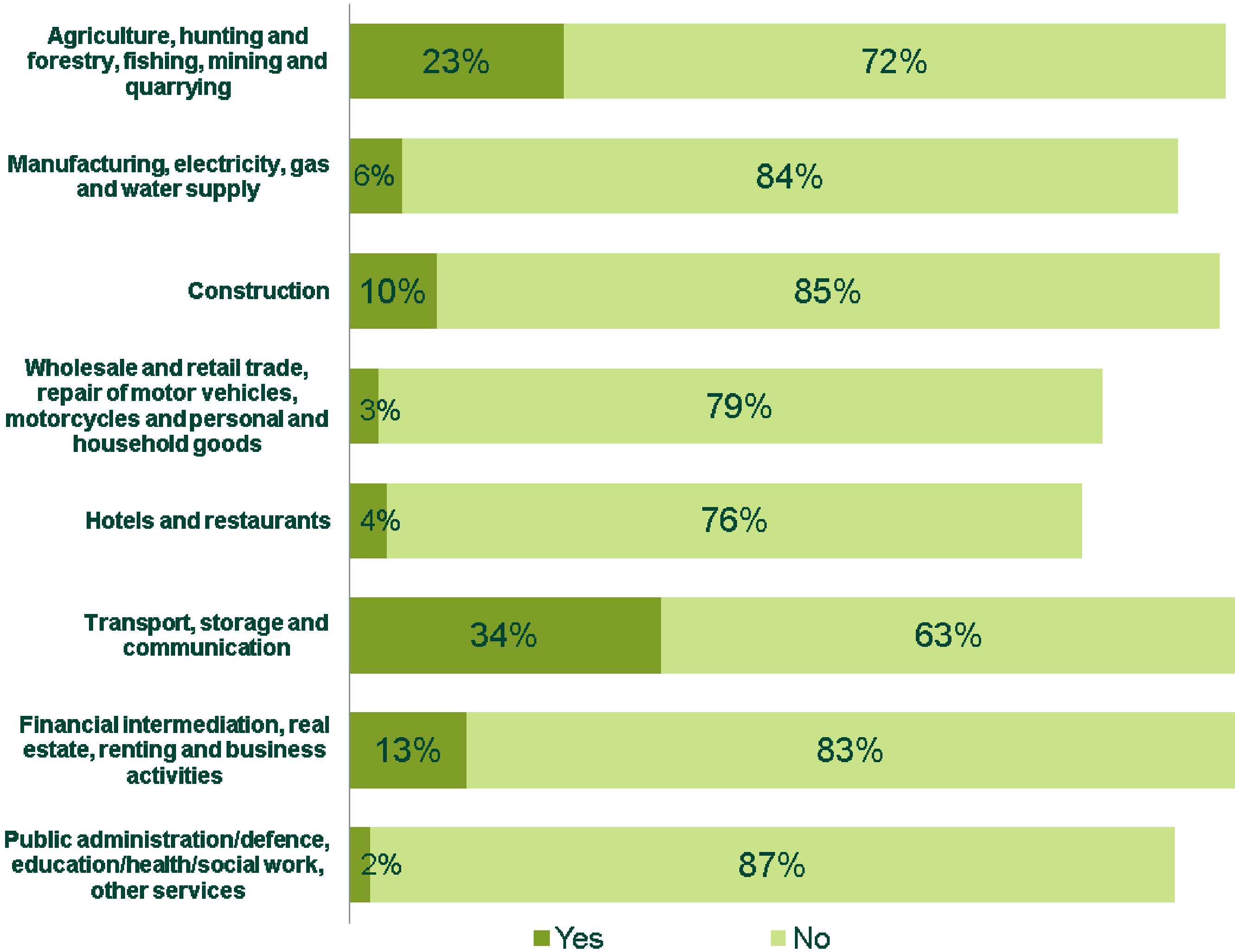


Just 9% of businesses reported having sought new finance or new lines of credit. There are few differences by size of business. Around half (53%) of those seeking finance reported lower cash flow in the past 3 months.

Q9. Have you sought new finance or new lines of credit for your business in the past 3 months?

Base = All (601)

Businesses in two sectors were more likely to seek additional finance or credit



A third (34%) of businesses in Transport, storage and communication, and a quarter (23%) in Agriculture, hunting and forestry, fishing, mining and quarrying reported having sought additional finance or credit.

Q9. have you sought new finance or new lines of credit for your business in the last 3 months?

Base = All (601)

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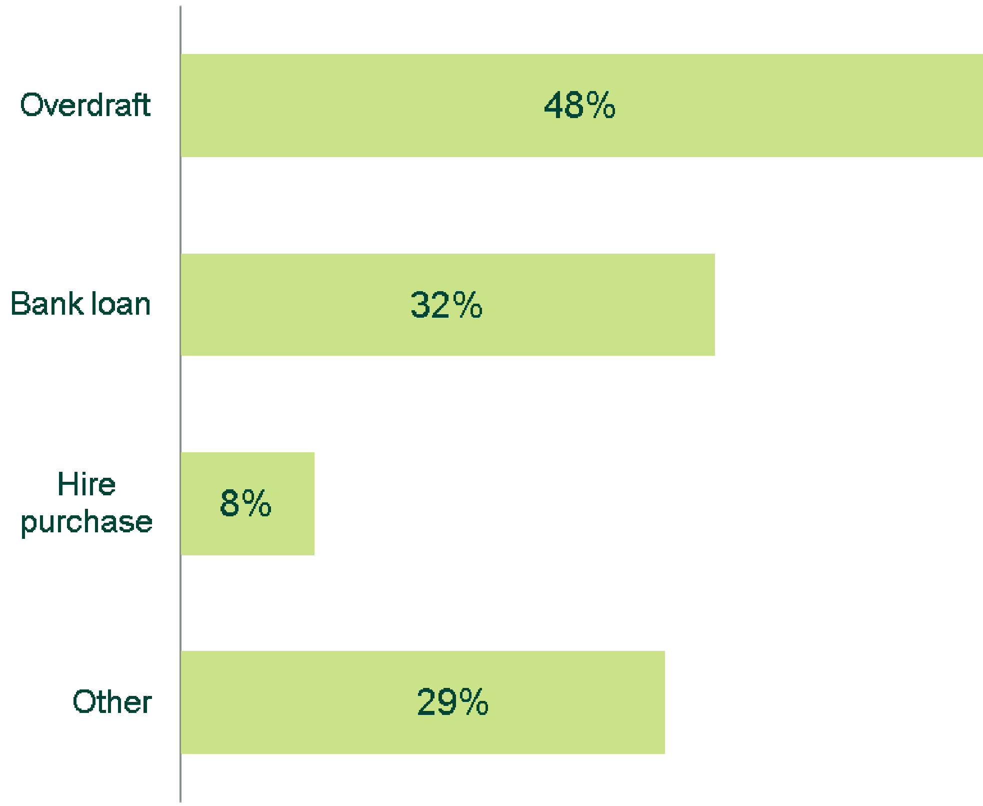
Businesses primarily use overdrafts and bank loans in order to access additional finance

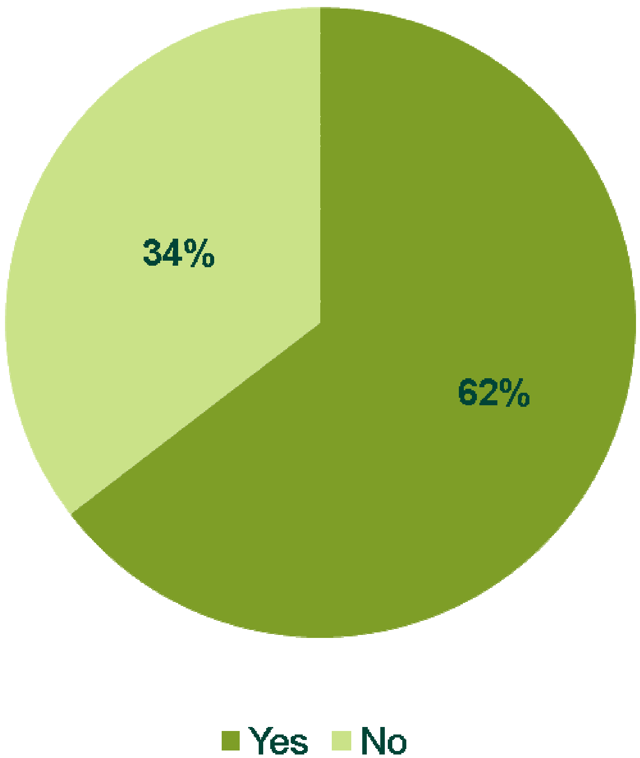


Almost half (48%)of businesses who sought additional finance used overdrafts and a third (32%) accessed bank loans in order to secure new lines of credit

Q9A. Were you seeking a bank loan, overdraft, or another form of finance or credit?

Base = All businesses that sought finance (70)

A majority of businesses are successful in securing additional finance



Over three in five businesses (62%) reported that they were successful in obtaining the additional finance they sought. Those who were unable to secure new credit most frequently said that banks were unwilling to lend money.

Q10. Did you successfully obtain the finance you were seeking?

Base = All businesses that sought finance (70)

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At the same time, some businesses were struggling to secure additional finance from their banks

"The way the government has set up the lending criteria under the new schemes has made banks wary of lending money."

"The bank turned us down saying that they are not lending to our sector at the moment."

"Banks are just refusing to lend."

Q11. What problems, if any, did you have in accessing this finance?

Base = All that encountered problems seeking finance (19)

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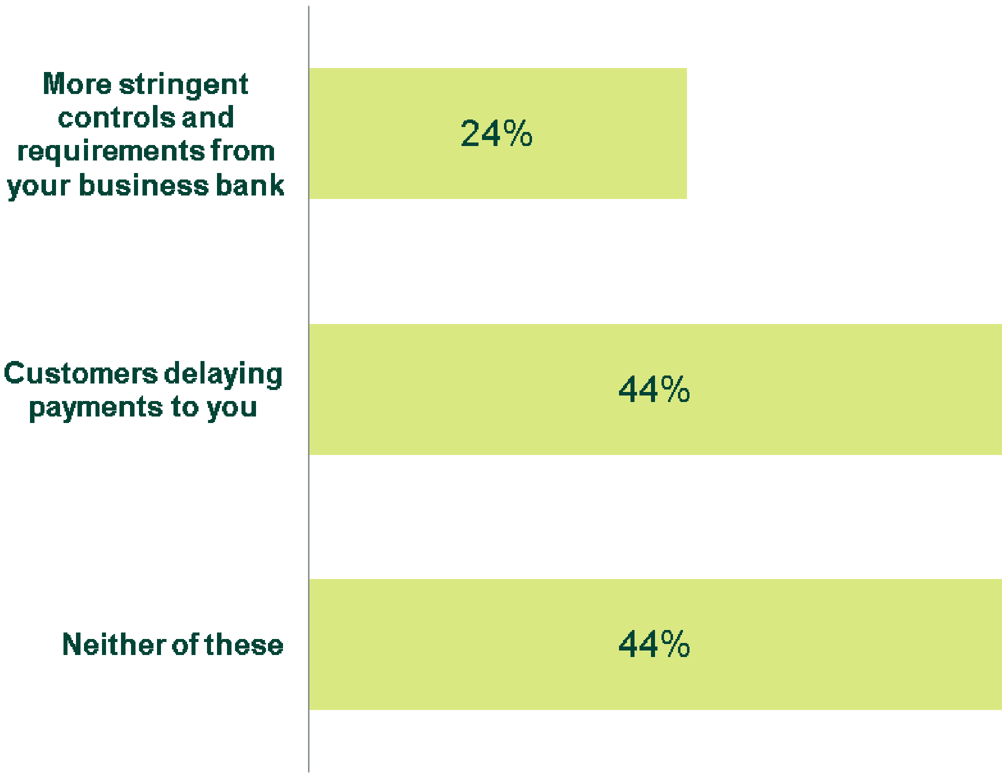
A sizeable proportion of businesses are reporting issues with payments and cash flow



A quarter (24%) felt that banks are imposing more stringent controls and requirements, and two fifths (44%) reported that their customers are delaying payments.

Q12. Over the past 3 months, has your business experienced either of the following...?

Base = All (601)

Smaller employers are particularly likely to delay payments to their suppliers

More than a quarter (28%) of businesses reported they had to delay payments to their own suppliers – this was far less common among larger businesses (10%) employing 50 staff or more.

Q13. Have you found it necessary to delay payments to your own suppliers over the past 3 months?

Base = All (601)

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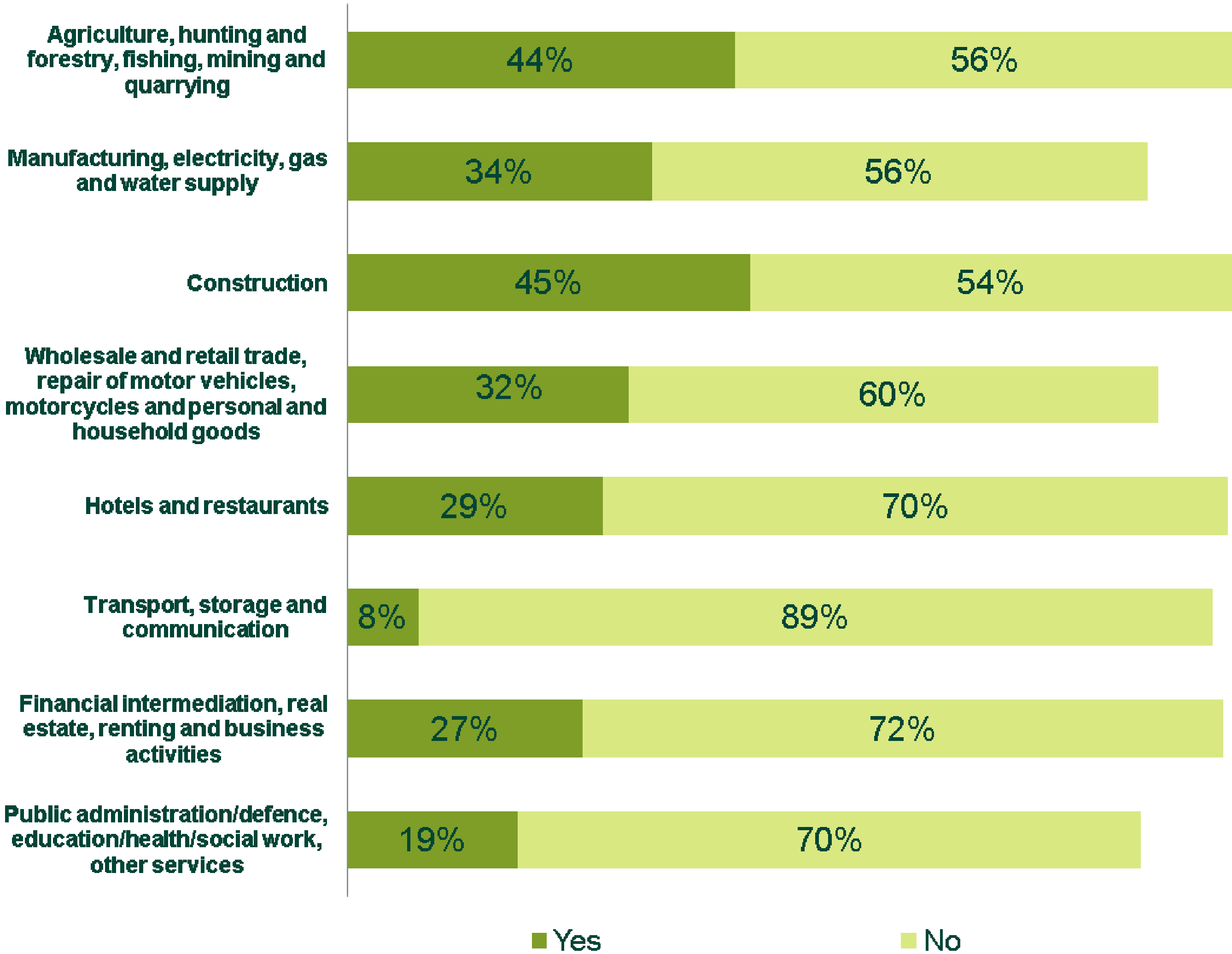
Delayed payments to suppliers are particularly prevalent within the Primary and the Construction sector



More than two fifths of businesses in Construction (45%) and in Agriculture, hunting and forestry, fishing, mining and quarrying (44%) report they had to delay payments to their own suppliers.

Q13. Have you found it necessary to delay payments to your own suppliers over the past 3 months?

Base = All (601)

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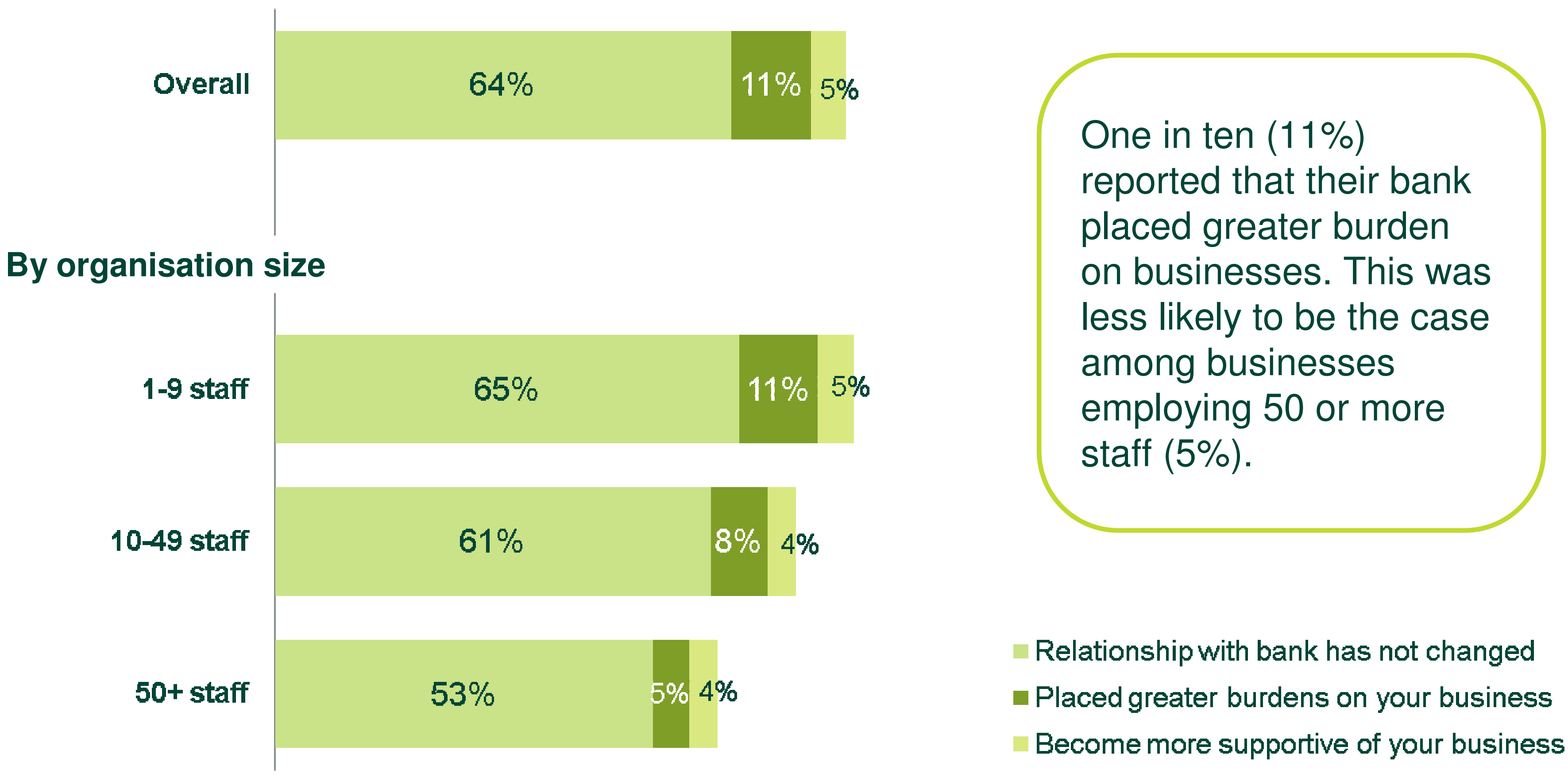
More businesses report banks placing greater burdens upon them than banks becoming more supportive



One in ten (11%) reported that their bank placed greater burden on businesses. This was less likely to be the case among businesses employing 50 or more staff (5%).

Q14. Thinking now about your relationship with your bank, would you say that over the past 3 months your bank has generally...?

Base = All (601)

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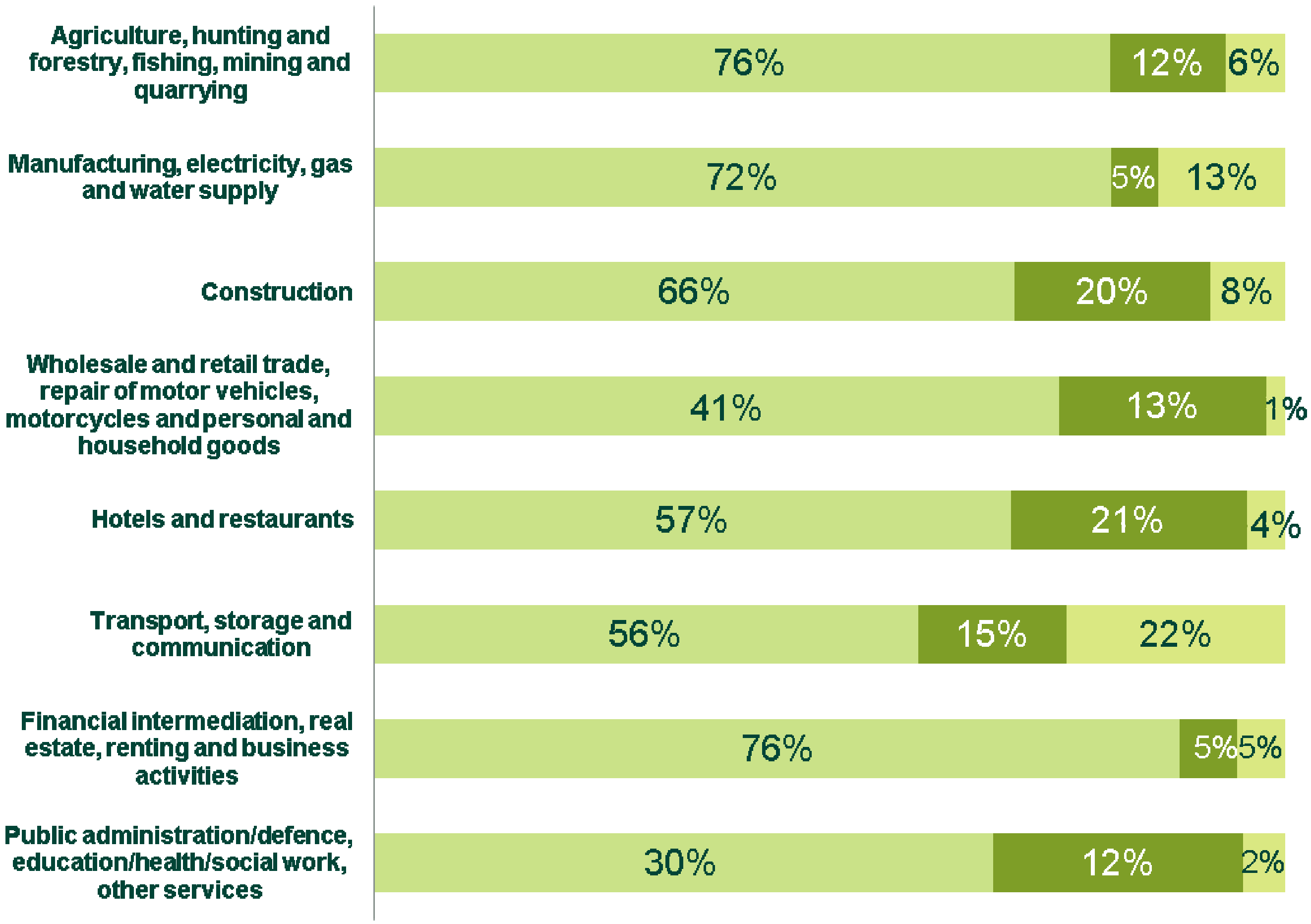
Businesses' relationship with their bank varies considerably by industry sector



Firms in Construction (20%) and in Hotels and Restaurants (21%) were significantly more likely to report their banks having increased burdens.

Q13. Would you say that over the past 3 months your bank has generally...?

Base = All (601)

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Business Profile

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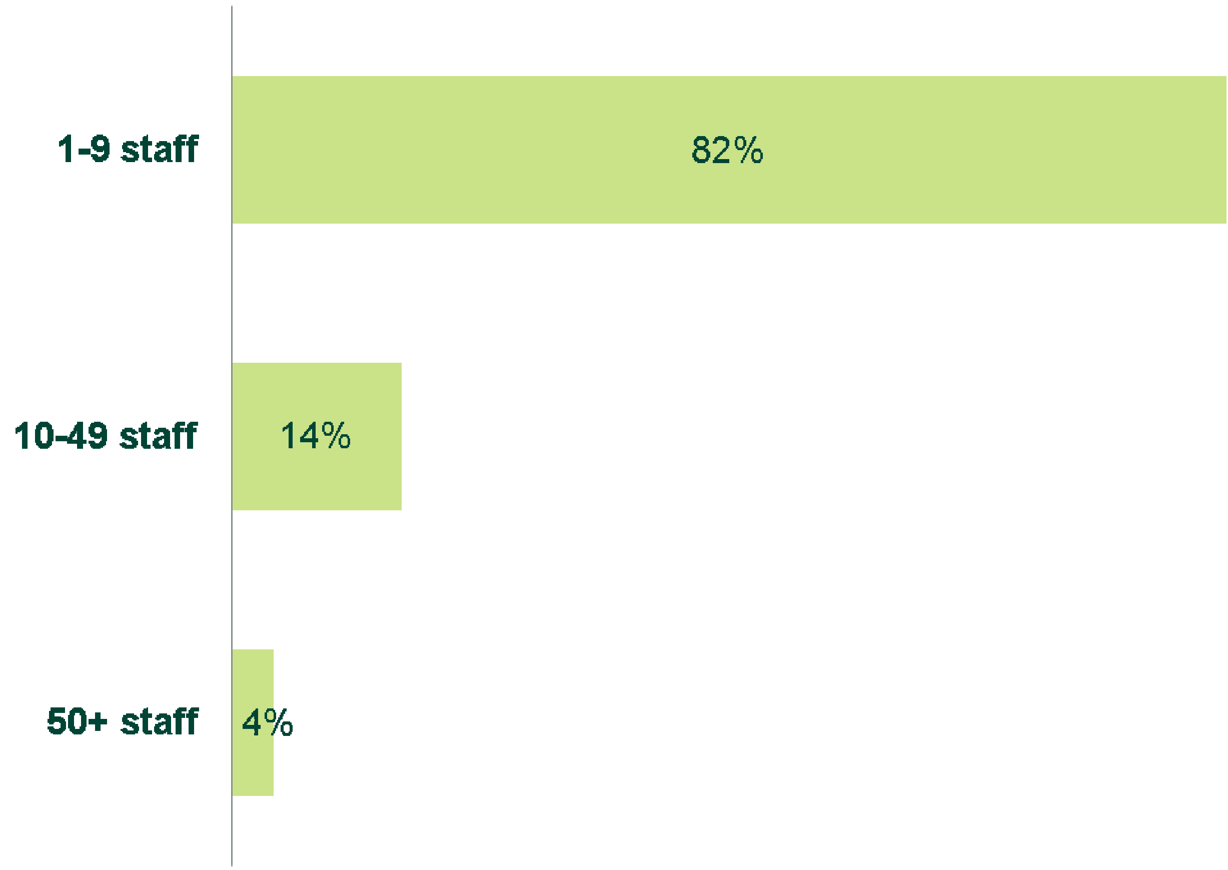
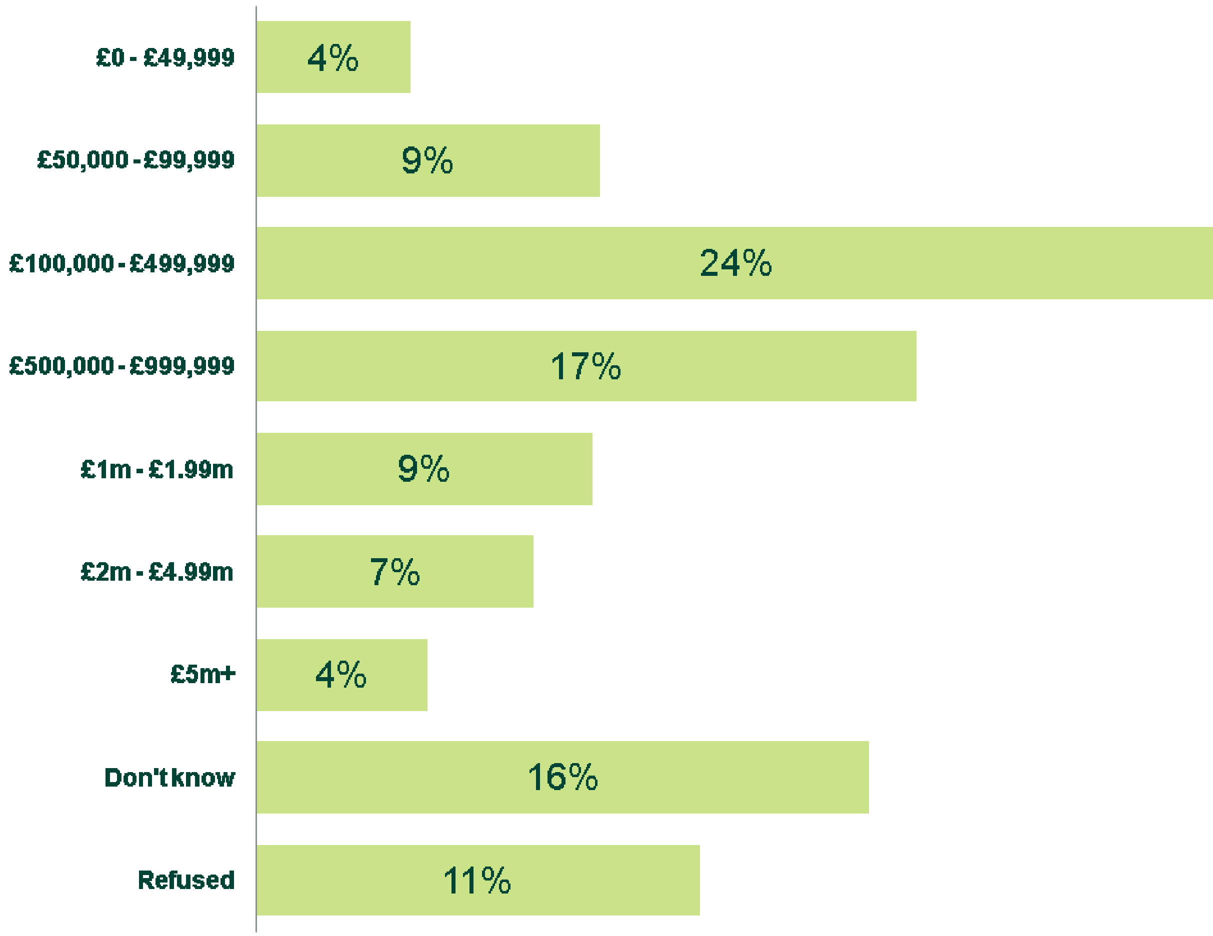
Size of businesses



S3. How many employees are there at this workplace?

Base = All (601)

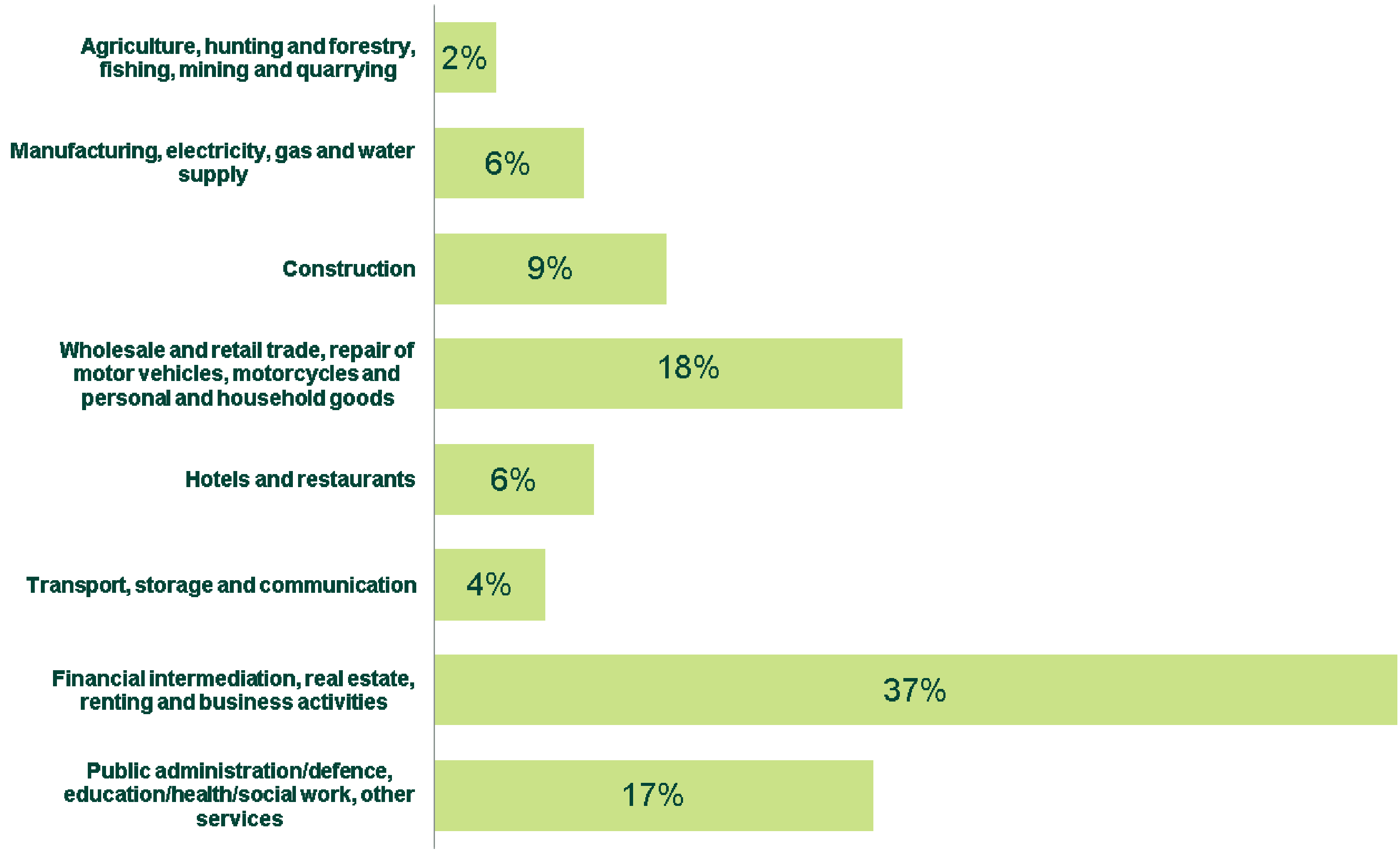
Turnover of businesses



Q18. What is your annual turnover at this site?

Base = All (601)

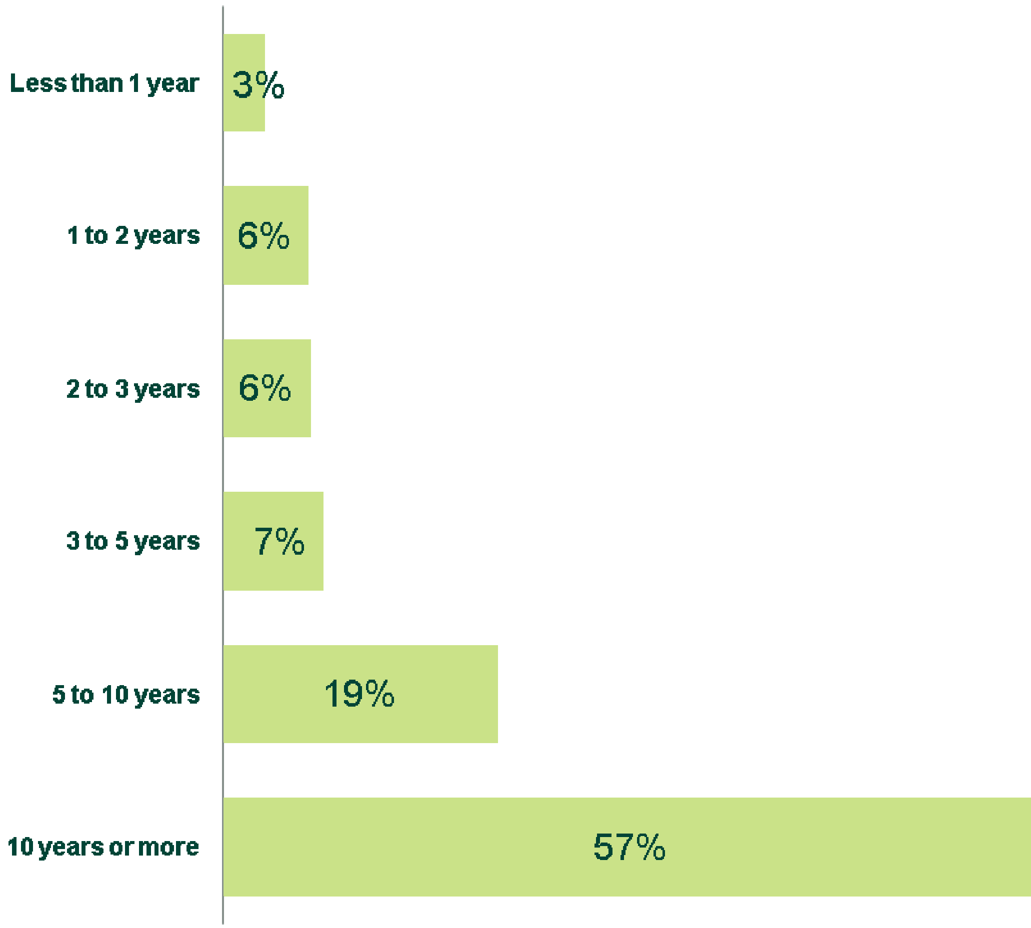
Sector of businesses



S5. What is the main business activity at this establishment?

Base = All (601)

Age of businesses



Q17. Approximately how long has your business been in operation for?

Base = All (601)

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