

SME Knowledge Network - Business Confidence

Final quarter 2009

'Firms tighten their belts and work within their resources but many anticipate growth even in these tough times'

'Micro businesses are the most optimistic about sales and turnover and the most likely to invest'

'Bradford comes out on top in training and development'

Economic and Competitive Environment Index (+17)

If we take the overall index score of +17 at face value, the overall economic and competitive environment does not look favourable over the next six months. At least it is positive. However, on closer analysis perhaps the situation is a little rosier than is at first apparent. This overall Index score is markedly influenced by a particularly high score of +42 indicating that many firms believe that the competitive environment will get worse. When we separate out Bradford based respondents they provide us with an Index score of +33 against a Leeds Index level of +46, showing that Leeds expects competitive pressures to pose greater problems than for Bradford based business. This positive score has large negative impact on the overall Index score. 71% of large firms felt this most acutely believing competitive pressures would increase. In small firms on the whole they felt that things would stay roughly the same, though a very large minority believed increases in the competitive environment will ensue over the next six months. In this situation one might not anticipate a Company Growth Index score of +47 showing that a significant number of firms in the survey anticipate that even though the competitive environment will get worse and the economic environment in general (Economic Situation Index +27) will remain poor, they feel that they can steer the business to

Index Explained

The Index is based on a survey conducted by the **SME Knowledge Network** and **Financial Leeds** each quarter. The survey asks business people various questions where answers are based around the idea of variations on less, same or more in six months time. Index scores are calculated by taking the balance of percentages of respondents who state more or less. This means that Index scores have upper and lower bounds of +/- 100. In aggregating sub indices to create top level index figures we average the base indices, some are reversed, e.g. perception of levels of competition as this is generally assumed not to be a positive thing. This creates an Index score that focuses on change in levels, positive or negative and allows us over time to see trends in and predictions of what is happening inside the business environment, how business on the whole is relating to and dealing with the economic situation around them.

growth. Moreover, there would seem to be more positive sentiment around growth from Bradford based business than Leeds with index scores of +50 and +31 respectively. Similarly, more businesses in Bradford expect the Economic situation to improve – Index score of +31 for Bradford and only +18 for Leeds. These Index figures are both, however, low. Overall confidence in the business environment is strongest in micro business, once separated out the Index level micro business stands at +46.

Economic and Competitive Environment	+17
Competitive pressures in your industry	+42
The economic situation in your industry	+27
Your company's level of growth	+47
Overall business confidence in your sector	+36

Income and Expenditure Index (+27)

Indices around Income and Expenditure echo the sentiment felt about survival in the competitive environment. Sales and Turnover show Index levels of +58 and +52 respectively (more than 50% of firms surveyed), clearly, firms believe that even given the current challenges they have fighting chance of not just surviving but actually thriving. The Profitability Index figure is low at +34, in real terms this is shaped by 21% of respondents who believe that profitability will decrease, actually 55% of respondents believed profitability would increase. Bradford based businesses are less optimistic about profitability than those in Leeds. Bradford’s Index for Profitability is at +20 for Leeds based business this figures is +33.

The belief that they can manage their way to success in the current environment probably has something to do with tight control of or a fall in expenditure on Marketing (Index level +14) and Research and Development (Index level +1). Indeed, many respondents believed expenditure on these areas would remain the same, in both cases about 20% said Investment would actually decline. R&D Expenditure in Leeds based companies shows negative Index figures at -16 and Marketing Expenditure at -17. In Bradford these two figures are +8 and +30 respectively. The difference between Leeds and Bradford here may be due to the preponderance of large companies in Leeds. Large companies show Index figures in the order of -43, whereas micro, small and medium sized business show +33, +6 and +8 respectively. This is one of the few areas where large firms differ markedly from the their SME counterparts. An other area where this is true is that large business do expect their product and service process to fall over the coming six months.

About a third of respondents (34%) anticipated that Wages and Salaries (Index level +27) would increase, while 59% believed they would stay the same. Only about 7% suggested there would be a decline. Perhaps this is indicative that businesses have learnt from previous crises that one needs to look

after your Human Resource. Only around 12% of respondents suggested, for example, that there would be a fall in expenditure on staff training (Index Level +19). When Bradford based businesses are separated out they show an Index figure of +22 against Leeds business at +3 for expenditure on staff training. There are more businesses in Bradford that expect increased expenditure on staff training than expect expenditure in that area to fall.

Across all income and expenditure fronts micro businesses appear the most buoyant both in terms of turnover and sales increases and in terms of expenditure. Indeed micro business more than anyone else anticipate increased spend on marketing. For micro business this is also true of staff training, product and service prices and research and development expenditure. Profitability and Expenditure expectations over the next six months appear to be the worst in small businesses as opposed to micro, medium and large businesses.

Income and Expenditure	+27
Sales	+58
Turnover	+52
Profitability (pre-tax profits)	+32
Research and Development Expenditure	+1
Marketing Expenditure	+14
Wages and Salaries	+27
Staff Training	+19
Your product/service prices on average	+12

Investment Index (+10)

The Investment Index overall is low. Not surprisingly investment in property sits at an Index level of -6, where more business believed there would be a continued decline in property investment than believed it would increase, 78%, however, believed it would stay the same. Investment in Plant and Equipment follows a very similar path. All expectations for increases in investment are low. The largest Index Level being Investment in Hardware (+22) and Software (+22). The most pessimistic about investment in this area were the small business respondents who were the only size categories to have negative investment levels for Investment in hardware, software and E-commerce.

Overall, micro business were the most positive about investment, even in micro business the Property Index once separated out, only reached the dizzy heights of +2. The overall Investment Index for micro businesses was +19 across all indices, for large firms this levels was 0. Investment Index levels for small business were -11 while for medium sized business the Index was positive +11. Even in working capital

terms micro business maintained the highest Index levels of +30 compared to the lowest of -8 from large business.

Investment Index	+13
Property	-6
Plant and Equipment (excluding IT related)	+6
IT Hardware	+22
IT Software	+22
E-Commerce	+19
Working Capital	+17

Finance Index (-4)

All Finance Indices reflect very tight control of the purse strings perhaps as a part of a strategy not just to get through the recession but to take hold of opportunities for growth through managing existing resources. 82% of companies said their reliance on overdraft would not change or increase. Around 50% of respondents believed their profitability wouldn't change but around 37% believed it would increase. Surprisingly at this time, the Index figure for reliance on Grant Funding is +1. Only 17% anticipated this would actually increase. It seems that most businesses, as suggested by Income and Expenditure aim to draw finance from additional sales while in survival mode and also hope to growth through this mechanism, perhaps through focusing on existing markets and customers more effectively. About a quarter of all business respondents suggested that Interest Rates would rise in the coming six months, the majority 70% of businesses believed they would remain the same.

Return on capital employed is positive in all size categories of business with the exception of medium sized business where its stands at -28, this is 82 Index points lower than large business (Index level +54) and 46 Index points lower than micro businesses (Index level +18). Only micro business and large business show positive Index levels for gross profit margins (+37 and +39 respectively). Small and medium sized business have negative Index figures for gross profit margin (-26 and -5). In the next six months more small businesses and medium sized businesses expect to see gross profit decrease rather than increase.

The strongest anticipated declines in expected levels of debt over the coming six months are from larger businesses, with index figures generally thirty points lower than any other size of firm.

Finance Index	-4
Bank Overdraft	-5
Level of Long Term Debt	-15
Level of Medium Term Debt	-11
Level of Short Term Debt	-11
Use of HP	-8
Gearing Level (long and short term debt/shares +reserves)	-2
Return on Capital Employed (profit before interest & tax/capital employed)	+12
Gross Profit Margin (sales-cost of sales/sales x 100)	+21
Grant Funding	+1
Interest Rates	+24

Skills and Employment Index (+8)

The Skills and Employment Index again suggests that companies are focusing on best use of their existing resources. There are low level Index figures in every subcomponent of the Skills and Employment Index. Raw data suggests most business expect the situation to remain the same over the coming six months. To note though, Hard to Fill vacancies are expected on the whole to fall, presumably because the job seeking pool has deepened. It is not anticipated that skills gaps or shortages will increase in any significant way. Differences, however, are apparent between Leeds and Bradford. Leeds businesses suggest (-11) that there will be a decline in skills gaps in the firm, Bradford based businesses suggest even though the figure is very low that there may be an increase in skills gaps within the firm (+16). In real terms this means that 8% of Leeds based respondents believe there will be an increase in firms skills gaps, whereas in Bradford the figure is 28%. This could be related to the greater perception of growth opportunity by Bradford based business and their intentions to invest expenditure in that belief. This would present businesses with a nice problem to have - skills gaps related to growth opportunity. In respect of general skill shortages Leeds based business seems to suggest with an Index score of -15 that there will be a decline in skills shortages. Bradford business seems to suggest that there will be a slight increase in skills shortages (+17), though the figure is small.

Large and Medium sized firms are most likely to increase total levels of employees, with Index levels of +36 and +33 respectively, small (+11) and micro (+14) businesses were much lower. Though these Index levels are not high underlying raw data shows that only about 10% of companies actually expect employment levels to decline over the next six months. The majority of these are medium sized

businesses (45%), though on the whole (54%) medium sized businesses expect to increase employment. There are more people in medium sized business and large businesses that expect decreases in casual employment. This shows up more clearly too when we look at the regional picture, the index figure in Leeds shows a quite clear indication of falls in casual employment in six months time (-23) whereas in Bradford the figure is positive in terms of increasing casual employment (+8).

There is a suggestion that firms will be increasing training and development in the coming six months though the index figure is in fact fairly low. When we look at it on a regional basis Leeds based business reveal a minus figure implying that there is a balance of people who believe less money will be spent on training and development in six months time – in Bradford on the other hand the index is positive at +31 implying almost a third of business people expect to see an increase in spend on training and development. Perhaps this is also related to a greater perception of coming Skills Gaps in six months time, again, evidence that businesses are developing and working with what they know – developing their existing resources.

Skills and Employment Index	+8
Total Employees	+21
PT Staff	+10
Full Time Staff	+16
Casual Staff	-2
People undertaking training and development	+15
Skills Shortages	+3
Vacancies	+8
'Hard to Fill' vacancies	-13
Skills Gaps (inside your firm)	+2

Owen Whitehouse, Associate Director, SME Knowledge, Bradford University School of Management.

e-mail: o.whitehouse@bradford.ac.uk

Dave Allbuary, Research and Policy Manager, Financial Leeds.

E-mail: Dave.Allbuary@financialleeds.com