

Snapshot of a recession

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(PhysOrg.com) -- A revealing snapshot of the effect of the downturn in the UK economy on the small business sector has been uncovered by an online survey produced by The University of Nottingham Institute for Enterprise and Innovation (UNIEI).

Many SMEs are feeling the pinch, as the gap between business credit and debt widens, non-paying customers create concerns over cash flow and little help is forthcoming from banks despite recent cuts to interest rates, according to responses to the UK Business Barometer (UKBB) and its sister survey, the UK Business Advisers Barometer (UKBAB).

The latest results of the survey, conducted in November 2008, show that more than three-quarters (77 per cent) of the 119 respondents questioned believed that the balance between business credit and debt has worsened over the previous quarter. A higher number of business advisers (88 per cent) also believed this to be the case.

As the recession begins to bite, more and more businesses may be forced to abandon their targets of achieving net growth just to fight to survive. A large minority of small businesses (16 per cent) admitted in the survey that plans for growth were less of a priority. A further 60 per cent revealed, somewhat worryingly, that their business was owed more by customers than it owed to suppliers — a clear cause for concern when cash flow and credit lines are being squeezed.

The November survey was conducted shortly after the Bank of England reduced its Base Rate for the second time in as many months, which was

intended to encourage high street banks to restore provision of credit to businesses and householders. However, after adjusting for 'not applicable' responses, more than half of the panellists (55 per cent) said there was no sign of their bank becoming more flexible or forthcoming in its provision of credit, an opinion borne out by 71 per cent of business advisers.

In line with national statistics, responding businesses are reporting weaker performance over the last six months. Third quarter sales showed a negative balance of four per cent between those reporting increases and those reporting decreases compared to the same period for 2007, and the current quarter is expected to show an even greater negative balance of nine per cent compared with the third quarter for 2008.

The November survey asked whether in the current climate businesses are more likely to seek business advice. While only a minority of businesses agreed that they would (25 per cent after adjusting for 'not applicable' responses), the UKBAB survey revealed that more than half of the business advisers (52 per cent) had seen an increase in their number of clients from mid August to mid-November.

The UKBB survey also revealed the degree to which small businesses rely on migrant workers. Since 2004, when eight new countries joined the European Union, more than 750,000 east and central European workers have taken jobs in the UK. However, recent research shows that the credit crunch has seen many foreign workers returning to their own countries. Asked how this new trend was likely to affect their business, after adjusting for 'not applicable' responses, almost one-quarter (23 per cent) said it was likely to result in a loss of sales. Just over one-fifth (21 per cent) could foresee increased costs, one in 10 expected unfilled vacancies and 12 per cent thought they would experience disruption to their supplies.

The UKBB and UKBAB online surveys, run on a bi-monthly basis, pose a number of topical questions in a bid to uncover the key issues affecting the small business market. Operating over the web means that results can be rapidly generated and the surveys have unique software that enables results to be processed and posted on their respective websites immediately they arrive.

More information, including results and analyses, can be found on the web at www.ukbb.ac and www.ukbab.ac. Businesses and advisers wishing to contribute as panellists on the project should visit the appropriate Business Barometer website to register.

Provided by University of Nottingham

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