



Hilton-Baird's SME Trends Index

October 2012



Introduction



“THE UK may have exited the recession after the economy expanded by an unexpected 1% during the third quarter of 2012, but businesses across the country are arguably still feeling the pinch.

“Late payment and restricted access to traditional forms of funding remain key features of the still testing climate, with rising fuel prices and low business and consumer confidence putting the cash flows of businesses of all sizes under intense scrutiny.

“Understanding how these challenges evolve over time and what businesses are doing to overcome them is vital to ensuring they can secure tailored support in order to stabilise and, where possible, grow. For this reason, Hilton–Baird Financial Solutions’ biannual SME Trends Index continues to provide valuable insight.

“Now in its third year, the research was conducted during October 2012 and questioned more than 400 business owners and finance directors on their business’s performance and funding habits from the last six months.

“It also looked at their primary concerns for the next six months and the single most important action they believe the Government could take to help their business grow ahead of the Autumn Statement.

“I hope that you find this report both interesting and insightful and I would welcome any feedback or comments you may like to share.

“Finally, a sincere thanks to all who took the time to participate in our research. Your honest feedback in your assessments of the key challenges in today’s economic climate is invaluable in helping us to adapt our offerings in order to best assist the UK’s SME and corporate businesses.”

Evette Orams
Managing Director
Hilton–Baird Financial Solutions

Background to research



HILTON–BAIRD Financial Solutions' research was undertaken among 2,579 owners and finance directors from businesses across a wide variety of sectors, regions and sizes in order to provide a representative sample of the UK's SMEs.

To date, we have conducted five waves of research:

- Wave 1: November 2010 (717 respondents)
- Wave 2: March & April 2011 (576 respondents)
- Wave 3: October 2011 (417 respondents)
- Wave 4: April 2012 (454 respondents)
- Wave 5: October 2012 (415 respondents)

The results provide a snapshot of the evolving and current business sentiment and a fascinating opportunity to establish a graphic picture of business trends.

Key findings



THE financial health of the UK's businesses improved for the third successive wave during the six months to October 2012, with the overall Business Health Index – which looks at a range of factors including turnover, profitability, Crown arrears and bad debt levels to calculate a score for each business – rising to its highest level since our survey began in November 2010.

However, the proportion of respondents expecting their business to expand over the next six months fell to 33% in October 2012 from an all-time high of 39% in April 2012.

Generating and winning new business remains the primary concern for businesses over the next six months (33%), with managing cash flow (18%) replacing the rising cost of materials and fuel (16%) as the second biggest concern.

The majority suggested that various tax cuts were the single most important action the Government could take to help their businesses grow (59%). This figure comprised those hoping for a reduction in VAT (30%), Corporation Tax (15%) and Income Tax (14%). The introduction of new

Government funding initiatives was the most important action the coalition could take for 16% of respondents.

The uncertainty surrounding the future of the economy was most believed to be contributing to the ongoing lack of business and consumer confidence (67%). Falling disposable income (46%), negative media coverage (45%), the ongoing eurozone crisis (44%) and a lack of available funding (43%) were also key factors.

A significant decrease is noted in the proportion of businesses using bank overdrafts in the six months to October 2012, with only 37% of respondents using them in this period compared to 47% in the six months to April 2012.

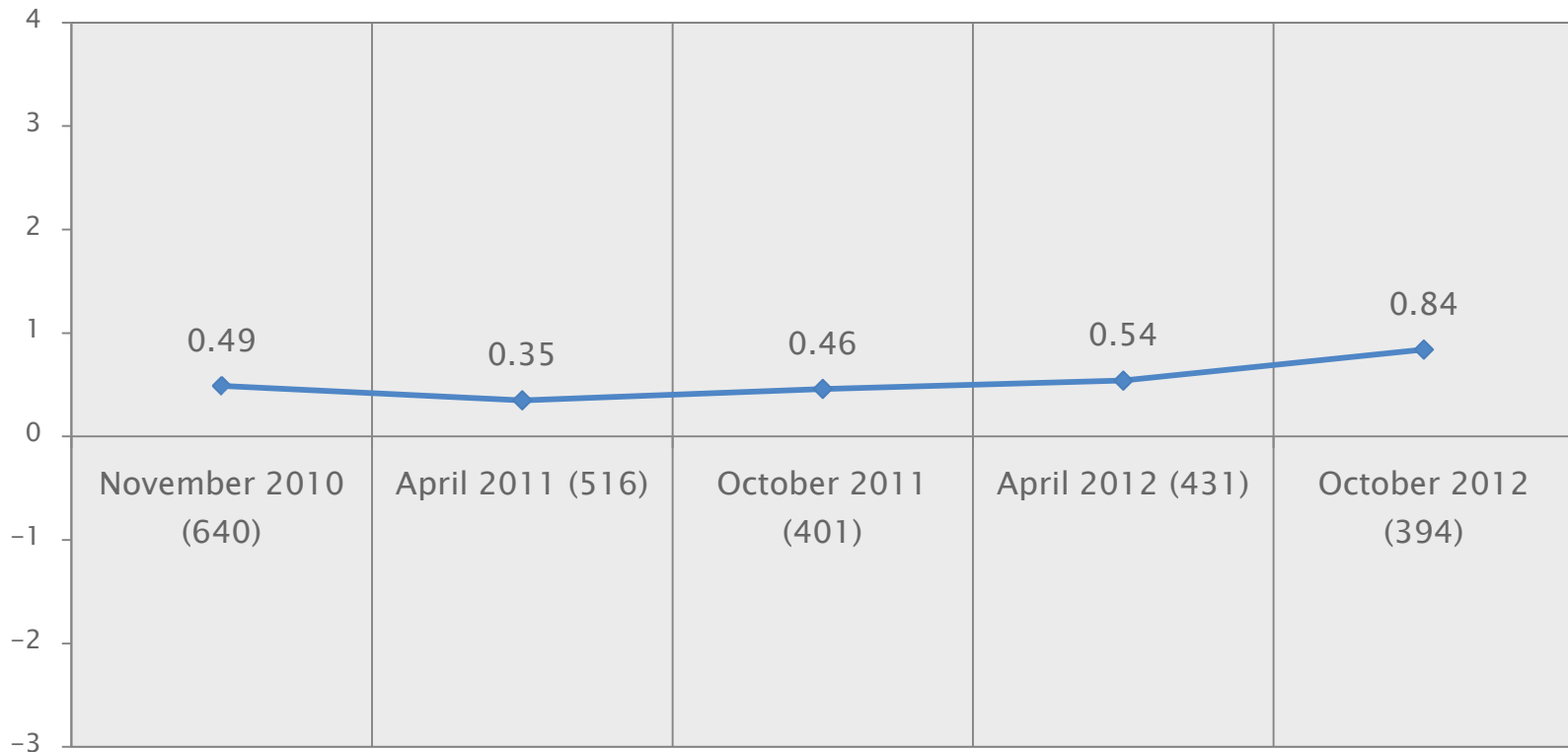
There was an increase in the proportion of businesses using their existing cash flow over the same period (48%), and a fall in the proportion using business credit cards (44%). Meanwhile, invoice finance and asset finance facilities are each used by 21% following respective six-monthly increases of 3% and 1%.

Business Health Index



THE Business Health Index¹, which uses a range of factors such as turnover, profitability, operating costs and bad debts to calculate a true reflection of the financial health of UK businesses, rose in October 2012 to its highest level since our survey began in November 2010.

This Index has now increased for three successive waves of research, with companies turning over more than £3 million (1.95) and asset finance users (1.47) significantly outperforming other businesses.



¹ See Appendix for an explanation of how the Business Health Index is calculated
Base: 2,382 (all answering questions 1 & 2)

Business confidence

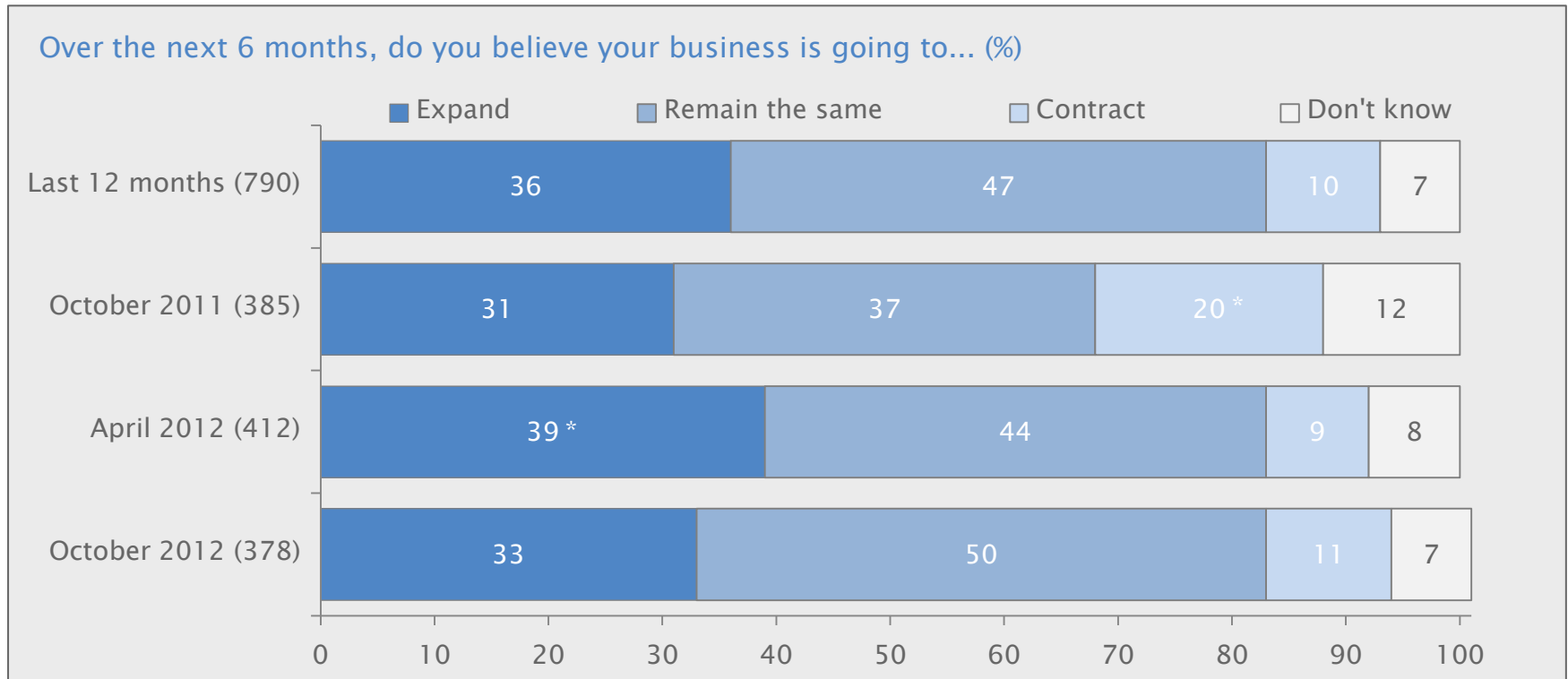


THERE was a six-monthly decrease in the proportion of respondents expecting their business to expand in the next six months.

One in three businesses surveyed in October 2012 anticipate growth in the next six months (33%),

down from an all-time high of 39% in April 2012.

Asset finance users were the most optimistic about their business's prospects for the months ahead, with 46% expecting their business to expand in the next six months.



* Significantly different from the total score at 1% significance level
Base: 1,175 (all)

Business concerns



GENERATING and winning new business remained the primary concern for the next six months amongst respondents in October 2012, as reported by 33%.

Managing cash flow (18%) overtook the rising cost of fuel and materials (16%) as the second biggest concern, with 12% saying their main concern was related to their customers taking too long to pay.

Last 12 months: % biggest concern for next six months		Oct '11 (391)	Apr '12 (419)	Oct '12 (384)	Variance
Generating & winning new business	33	34	33	33	↔
Rising material / fuel costs	18	16	20	16	↓
Managing cash flow	17	17	16	18	↑
Customers taking too long to pay	13	10	14	12	↓
Inability to access funding	7	11	7	7	↔
Rising inflation	3	4	2	3	↑
Rising interest rates	1	2	1	1	↔
Other	3	4	3	4	↑
No concerns	3	3	2	4	↑
Don't know	1	0	0	1	↑

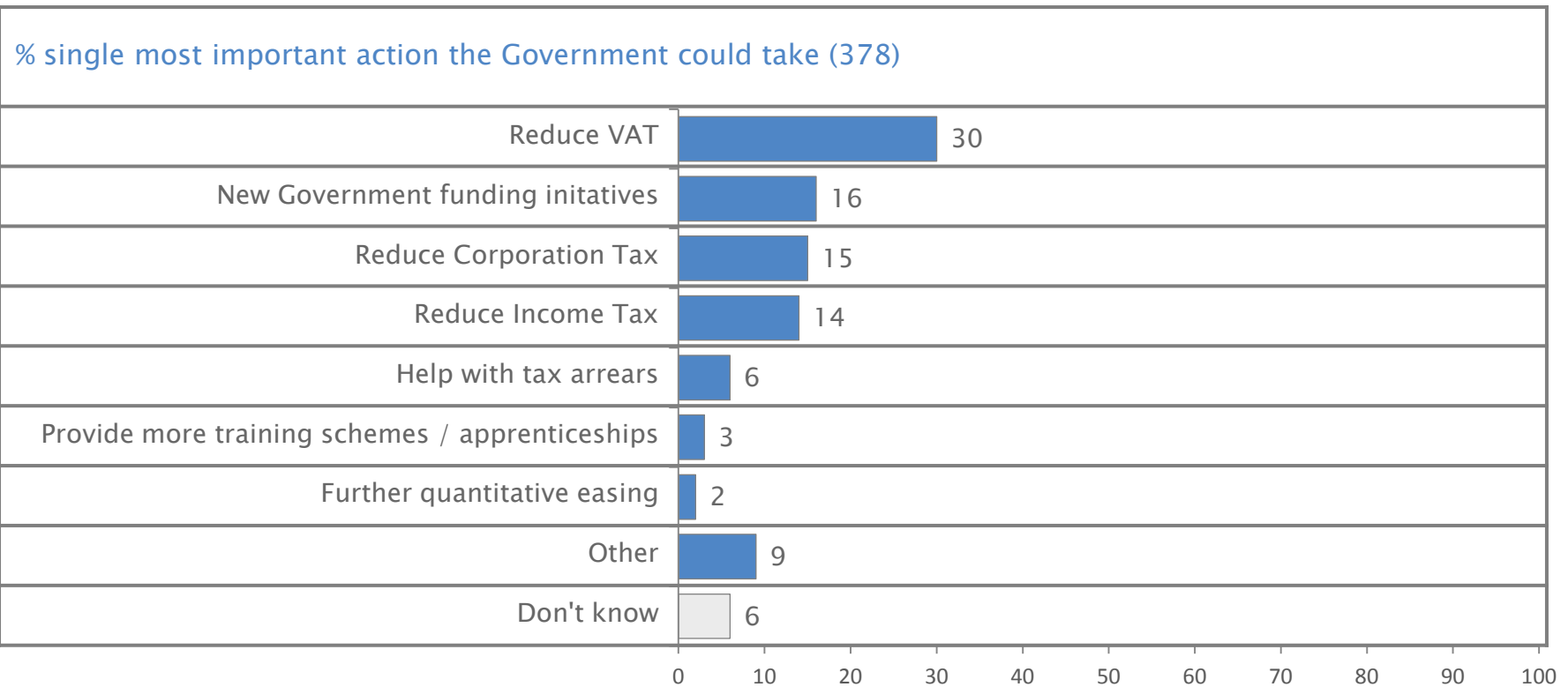
Base: 1,194 (all)

Most important Government action



ALMOST one in three businesses said that a reduction in VAT would be the most important action the Government could take to help their business grow (30%).

A further 16% would most like new Government funding initiatives to be introduced, with a reduction in Corporation Tax (15%) and Income Tax (14%) also important for many.



Base: 378 (all)

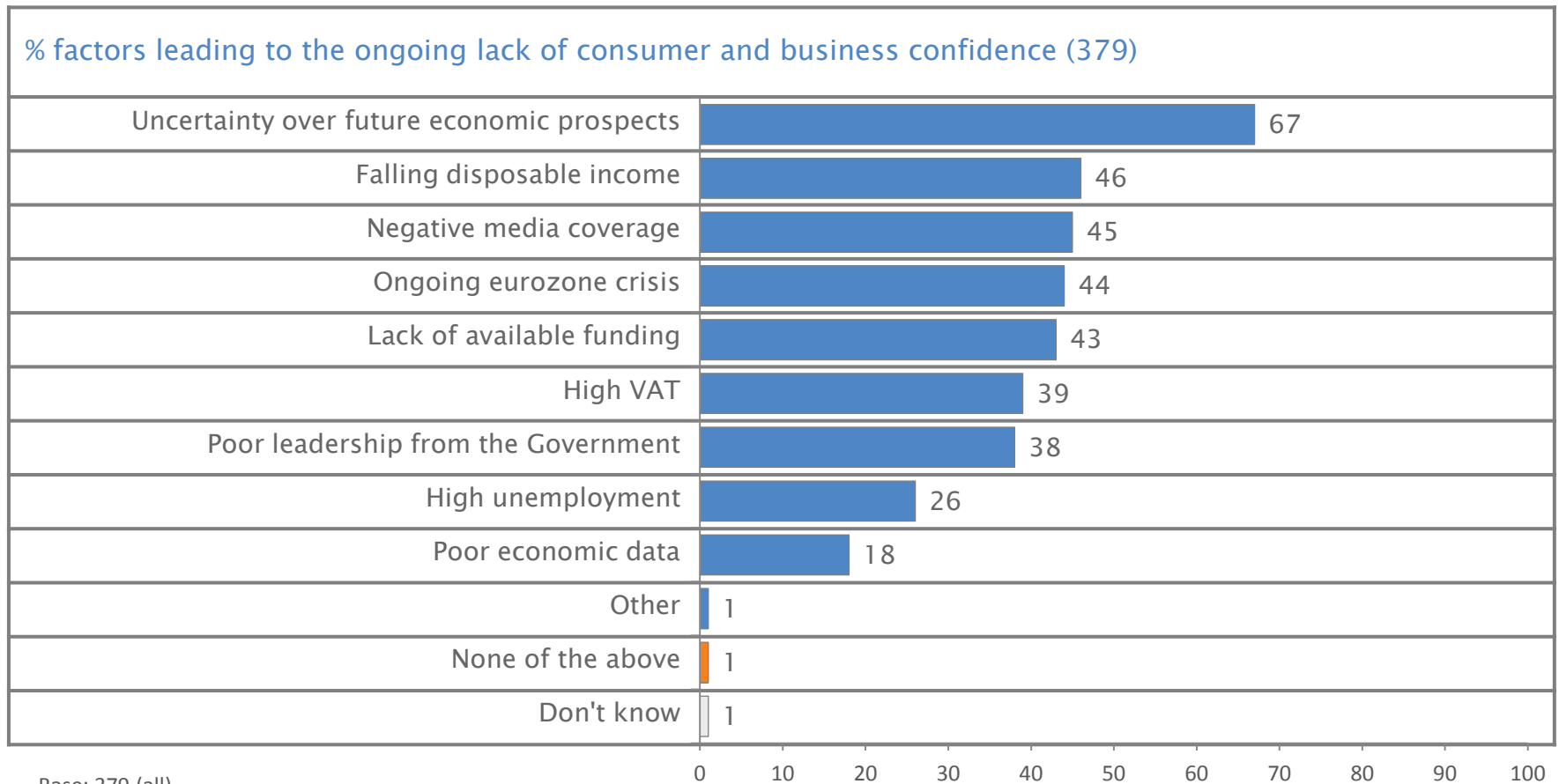
Factors leading to low confidence



TWO-THIRDS of respondents believe that the uncertainty over the future economic prospects of the UK is leading to the ongoing lack of consumer and business confidence (67%).

Falling disposable income (46%), negative media coverage (45%), the ongoing eurozone crisis (44%) and a lack of available funding (43%) were also significant factors.

% factors leading to the ongoing lack of consumer and business confidence (379)



Base: 379 (all)

Routes to finance



Last 12 months: % types of finance currently used by business		Oct '11 (395)	Apr '12 (424)	Oct '12 (387)	Variance
Business credit cards	48	49	51	44	↓
Existing cash flow	46	51	45	48	↑
Bank overdraft	42	48	47	37*	↓
Bank loans	24	24	25	23	↓
Asset finance (including HP & Leasing)	21	23	20	21	↑
Invoice finance (Factoring & ID)	19	17	18	21	↑
Personal credit cards	16	18	18	15	↓
Loans from family & friends	12	20*	13	11	↓
Credit insurance	7	7	7	6	↓
Government schemes	4	3	4	4	↔
Venture capital funding	2	2	1	2	↑
Export finance	1	0	1	1	↔
Other	2	3	2	2	↔
None of the above	8	7	7	8	↑
Don't know	2	0	2	3	↑

* Significantly different from the total score at 1% significance level
Base: 1,206 (all)

About Hilton–Baird



AS the UK's leading independent commercial finance broker, Hilton–Baird Financial Solutions specialises in identifying the exact funding needs of businesses and matching them with suitable funding providers in the UK and overseas.

Hilton–Baird's independent status has enabled the company to foster strong relationships with more than 70 dedicated lenders, ranging from major banking groups through to smaller boutique funders. This objective approach and market expertise delivers real benefits for clients, enabling the right business solution to be sourced and ensuring that Hilton–Baird always delivers positive and innovative financial solutions allied to exact business requirements.

Established in 1997, Hilton–Baird Financial Solutions has helped in excess of 5,500 businesses in this time. It is part of the Hilton–Baird Group, one of the UK's leading independent business finance groups consisting of a team of 50 professionals with expertise in all aspects of commercial fundraising and risk management across a wide range of industries and sectors.

The emphasis Hilton–Baird places on delivery of a tailored service that meets all of our clients' needs is central to its business proposition and has played a large role in the company's growing success. As a member of the Asset Based Finance Association (ABFA), Finance and Leasing Association (FLA) and the National Association of Commercial Finance Brokers (NACFB), the company maintains the highest service standards at all times.

Hilton–Baird also recognises that its highly trained team is its true strength and is fully committed to supporting them, creating a vibrant working environment with a team that is dedicated to delivering beyond expectations.

Appendix



1 The Business Health Index incorporates the answers from two questions for each respondent:

Q1 Over the last 6 months, what shift have you seen in the following...			
	Increased	Decreased	Other
Bounced cheques from your debtors	-1	+1	0
Level of bad debts	-1	+1	0
VAT arrears	-1	+1	0
PAYE arrears	-1	+1	0
Profitability of your business	+1	-1	0
Turnover of your business	+1	-1	0
Q2 In the last 6 months, what activities has your business undertaken...			
	Yes	No	
Won new contracts	+1	0	
Entered new markets	+1	0	
Launched new products	+1	0	
Increased number of employees	+1	0	
Reduced number of employees	-1	0	
Closed or contracted premises	-1	0	

Best score: +10

(e.g. a company has grown and increased its profitability whilst reducing debt and/or VAT/PAYE arrears)

Worst score: -8

(e.g. a company has contracted in size and its profits decreased but debt and/or VAT/PAYE arrears increased)

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