

# The Business of Recovery Report

November 2009



Report commissioned by  
HSBC Commercial Banking  
and conducted by  
Dr Rebecca Harding,  
Delta Economics

**Commercial Banking**

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# Introduction



Noel Quinn,  
*UK head of commercial banking HSBC*

The past two years have offered a great many challenges for businesses of all sizes, but for many the biggest battle - and the greatest opportunities - could be yet to come.

Ensuring that you are able to thrive in a recovery is as important as surviving in a downturn. The plans and the processes adopted in the past need to be re-evaluated, reworked and rethought if businesses in the UK are to make the most of 'better' times. As history tells us more businesses will fail in recovery than they do in a downturn. This will be the true test.

Nearly one in four businesses in the UK chooses HSBC. We are opening in excess of 2000 business bank accounts each and every week and expect those numbers to continue to grow in 2010. So we have an obligation to help our customers understand the present and prepare them for the future.

We have undertaken the Business of Recovery report in conjunction with Dr Rebecca Harding of Delta Economics, to get an even better understanding of the kind of businesses sectors and industries that are

beginning to evoke positivity and display signs of recovery in the UK. It is crucial that as a bank, this process continues to evolve so we can support customers effectively.

We have made significant strides to support businesses throughout the most turbulent of financial times, we have made funding of £1 billion available over and above what we would normally lend to SMEs, and we are spending 30% more time with customers to enable them to continue trading.

But we have a responsibility to our customers to not only help them identify 'green shoots' but ensure that they are growing among them. The Business of Recovery Report is another example of the importance we place on understanding the market and demonstrates our commitment to supporting businesses into 2010 and beyond.

# Introduction and key findings



Dr Rebecca Harding,  
*Founder of Delta Economics*

For businesses, banks and consumers alike, the credit crunch and subsequent recession has presented an unrecognisable economic landscape.

There has been long-held speculation that banks have withdrawn the supply of credit, businesses have been denied finance and as a consequence, companies have gone to the wall and this report investigates how true this holds today.

Whilst the challenges faced by business have inherited many guises, this report illustrates that the welcome signs of recovery are drawing ever closer. The evidence suggests that once again, businesses in some of the hardest hit sectors and regions of the UK are looking for finance to fund growth and investment.

Entrepreneurs too are looking for more than money; their new business models depend on access to networks, knowledge and people. They have found flexible ways of working and will not return to more rigid, arguably more expensive, forms of business in the future. They are using technology and advisers to build social, network and human capital as well as finance.

The 'Business of Recovery' report comprises independent research and opinion, as well as data and insight from HSBC. Amongst this independent research, we surveyed 2,121 founders of growth-oriented businesses and found that only 15.3% of companies are looking for finance at the moment but this short-term approach to money may cost them dearly in the future. There are still some lingering concerns around cashflow, access to finance, difficulties in entering international markets and credit profile.

Fewer than 2.5% of businesses are not looking for finance because of the recession meaning that uncertainty is no longer a determining factor for businesses. However, 80% of companies say they are not looking for finance because they have no need for it, while nearly 53% say they are not looking for money because they have put it in themselves.

While there is some demand for finance and this is a reason for optimism, the feel-good factor is by no means ubiquitous. This worrying trend for self-financing, which indicates that short-termism is still a battle yet to be won. Experience from previous recessions teaches us that more companies will go out of business as the economy starts to pick up.

## Introduction and key findings

70% of companies that are looking for finance are looking for working capital but 80% are looking for growth finance and 60% for finance for investment. Younger firms are far more likely to be looking to access finance at the moment and more likely to need it for all purposes except consolidating loans. The need for finance at the moment is greater amongst younger businesses and/or entrepreneurs who are running younger firms.

Over a quarter of all finance and real estate businesses are looking for finance. In part due to the increased stability in the real estate sector and optimism of rising house prices, particularly in the South East. Construction

sector finance is centred on maintaining cash flow and debt consolidation as the real estate sector picks up. Retail is focused on investment finance suggesting that consumer demand is on the rise once again.

What is evident is that banks and businesses will need to continue to work together to create leaner, fitter and more flexible outfits that can thrive in a recovery as they have survived in a downturn. Recession succession planning becomes increasingly important – businesses need to ensure that they have the right kind of access to the right kind of finance – so they have a resource to draw on as the market picks up and to ensure that the recovery remains sustainable.



# The report outline

The report outlines the impact that the recession has had on businesses, arguing that overall business turnovers have, on average, shrunk by 19% in the past year with some sectors and regions particularly severely affected. It argues that the challenges that entrepreneurs have faced over the past 12 months are similar to a year ago, with no marked increase for example, in numbers seeing access to finance as a key business challenge, and that fewer see the macroeconomic climate as a major challenge over the next 12 months.

It goes on to look specifically at access to finance and more general support as this is key to ensuring both that companies survive and that they grow in the future. The majority of entrepreneurs surveyed (84.7%) do not seem to be looking for finance now and this is a pattern echoed by other business surveys. Yet 70% of those trying to access finance across Europe are actually able to, according to the latest European Central Bank survey while the COGS survey shows that over 80% of entrepreneurs who are looking for money are doing so because they are looking for growth finance.

The reasons why entrepreneurs are not borrowing money are as interesting as the reasons why they are borrowing. There is a common perception that banks are not lending money and that the current uncertainties in the market are preventing people from making key

decisions to raise finance. Strikingly, only 17% of the respondents said that the banks were not lending so it wasn't worth trying and only 2.5% said that the recession was preventing them from investing. The majority are not looking for money either because they have no need (80%) or because they have the money themselves (52.6%).

This means that a company with a strong growth plan, a viable business model and a willingness to see appropriate finance as a long-term objective rather than a short-term fix will be able to access finance despite the inevitable caution that is in the market from the supply and the demand side at present. There are differences between older and younger companies, with younger companies and those with smaller turnovers more vulnerable than their larger counterparts.

The report concludes with a view of the future and the role that the founders and managers of small business will play in generating that future. A lot of pressure is placed on the entrepreneurial and small business sector as the "backbone" of UK industry to lead the economy out of recession. Given the "perfect storm" that this segment of industry has experienced – the recession and a credit crunch – these expectations will only be achieved with the right support, finance and advice.

# Overview of the recession: a long and winding road...

The global financial crisis, that began to take hold as early as 2007 and which culminated in the collapse of stock markets around the world in 2008, has generated a global recession that is quite unlike anything that has been seen in the post-war period. The world's "inter-connected vulnerability"<sup>1</sup> has been thrown into sharp relief: a shock which looked initially as though it could be restricted to the financial markets rippled around the world with unprecedented rapidity as a result of the globalisation of the financial and the real economy that had been seen as a source of wealth creation for so long.

The global economy was expected to shrink by 1.4% during 2009 and then to expand in 2010 by 2.5%<sup>2</sup>. This represents an improvement on forecasts given in April 2009, and as Angel Gurría of the Organisation for Economic Cooperation and Development (OECD) points out in a submission to the G20 Summit in Pittsburgh, there are signs that the world economy is stabilising and that output and trade are recovering.<sup>3</sup> By its October 2009 World Economic Outlook, the International Monetary Fund was reporting a return to growth across the world led by the emerging and developing world, especially in Asia.<sup>4</sup> Even so, the implications for jobs, employment and sustainability are likely to be felt for many years to come. The OECD is estimating that some 57 million people will possibly be out of work in 2010 in OECD countries<sup>5</sup> and the International Labour Organisation

is arguing that unemployment could rise by as much as 61 million worldwide, representing 7.4% of the labour force globally by the end of 2009 and a commensurate reduction in productivity of between 1.3% and 2.3%.<sup>5</sup>

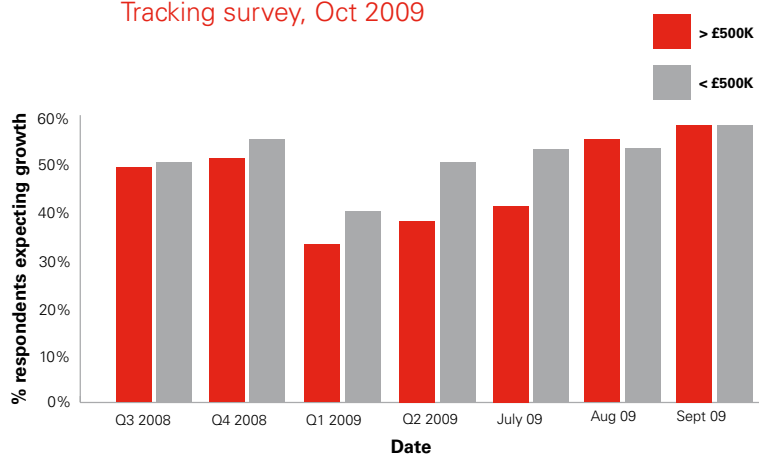
The UK continues to struggle, however, against a backdrop of embryonic recovery elsewhere. Gross Domestic Product (GDP) shrank by 0.4% in the third quarter of 2009 and although this was a slower contraction than in the second quarter (when the reduction was 0.6%), it represents the longest period of sustained contraction in the post-war period. And although organisations like the National Institute for Economic and Social Research (NIESR)<sup>6</sup> and the British Chamber of Commerce<sup>7</sup> are predicting that the economy will grow again in 2010, there is still a long way to go.

There are tentative signs that confidence in the economy is returning even if actual economic performance has yet to follow. For example, 58% of businesses according to the HSBC-Continental survey conducted in September 2009, are now expecting some growth with 17% of larger firms (turnovers greater than £500,000) expecting growth of more than 20% and 25% of smaller firms (turnovers of less than £500,000) expecting growth of more than 20%. This is illustrated in Figure 1.

# Overview of the recession: a long and winding road...

**Figure 1**  
**Growth Expectations, Q3 2008 end Q3 2009**

Source: HSBC-Continental Commercial Benchmark Tracking survey, Oct 2009



Alongside this, the Department for Business, Innovation and Skills published its last Business Barometer survey in July 2009<sup>8</sup> and found that over the next 12 months some 21% of SMEs expected to be employing more people and 28% expected to have higher turnovers. Although 44% had seen their turnovers contract in the past 12 months, 85% of the respondents to that survey said that they were still expecting to be in business in 12 months' time. Alongside this, the Challenges and Opportunities for Growth and Sustainability survey outlined below finds that founders of growth businesses expect their turnovers, on average to grow by 36% on where they are now over the next three years.

*"Since August we have seen the first twitching of the kitchen curtain. People are looking to see if it's safe to come out and many who have scaled back are beginning to scale up again."*

Yvonne Bear, HSBC, regional commercial director, South

## Moving in the right direction

It would be wrong to think that the next steps are going to be easy. It would diminish the struggle that SMEs and entrepreneurs have been through over the past two years to overcome the ravages of the downturn. Many small businesses have fundamentally changed their business models to ensure that they do survive by:

- ▶ Tightening cashflow
- ▶ Reducing costs
- ▶ Drawing on their own resources to ensure their businesses stay afloat
- ▶ Scaling back levels of debt
- ▶ Restructuring to make them leaner and fitter once the downturn is over
- ▶ Developing networks and using bartering as a way of keeping costs low and building up social and network capital during the downturn
- ▶ Investing in long-term environmental sustainability (partly as a response to changes in regulations)
- ▶ Building the business through relationships and networks to act as a springboard to monetising it as the recession becomes an upturn.

# Overview of the recession: a long and winding road...

Interviews conducted with HSBC's network of regional commercial directors provided the insight that some businesses are behaving like domestic customers. They are cutting back on everything and even the wealthiest aren't having holidays. Seeing the world's largest companies falter has influenced everyone. So everyone is seen to be struggling and even if the impact is not evenly spread across sectors and business types, it does appear that people are imposing tighter conditions on themselves making themselves leaner and fitter for a post-crisis world.

Ironically, this in itself limits the speed with which the economy will recover. According to Glen Collins, the Head of Advisory Services at ACCA, small businesses are climbing out of recession but the recovery will be difficult.<sup>9</sup> Businesses will, in his words, "go to the wall" as the recovery starts: even the most profitable companies will chase revenue and turnover growth thereby starving themselves of the cashflow they need to recover and meet demand as output picks up. Paradoxically, companies which are profitable might use up cash in the form of deposits, dividends to directors and shareholders and critically, time, which will mean that financing growth becomes harder:

*"People are holding on at the moment, and there have been fewer bankruptcies than we were expecting. Businesses are better prepared and their business models are tighter but experience tells you that there will be insolvencies as the recovery kicks in."*

Mark Tilleray, HSBC regional commercial director, North West

The latest statistics from the Government's Insolvency Service suggest that one in 120 active companies (0.8%) went into liquidation in the 12 months up to July 2009. Seasonally adjusted, insolvencies increased by 2.9% in the second quarter of 2009 and by 39.1% on the same period a year ago. This is illustrated in Figure 2.

**Figure 2**  
**Business liquidations 2008-2009**

Source: Government Insolvency Service 2009<sup>10</sup>

	Number	Change on previous quarter	Change on previous year
Compulsory liquidations	1,340	-6.8	+8.7
Creditors voluntary liquidations	3,635	+2.9	+56.8
Total	3,635	+2.9	+39.1%

# Overview of the recession: a long and winding road...

The largest increases in year-on-year compulsory insolvencies were in Construction (30%), Manufacturing (30%) and Real Estate (33%).

Companies are beginning to re-stock and investment and growth spending is beginning to re-emerge. But some businesses that have exhausted their own assets will not be able to make the climb back; if they get orders now, they may not be able to expand quickly enough to deliver and the fact that insolvencies appear to be increasing more rapidly suggests that we might already be seeing this happen.

Yet the small business and entrepreneurial base has changed. It is leaner and it is more flexible; the youngest and the smallest companies are now using business models that will be sustainable over the long term and many are using the advice from their networks of bank relationship managers, accountants and legal advisers, other entrepreneurs and mentors as resources for growing their businesses as this report demonstrates.



# The real impact of the recession on small businesses

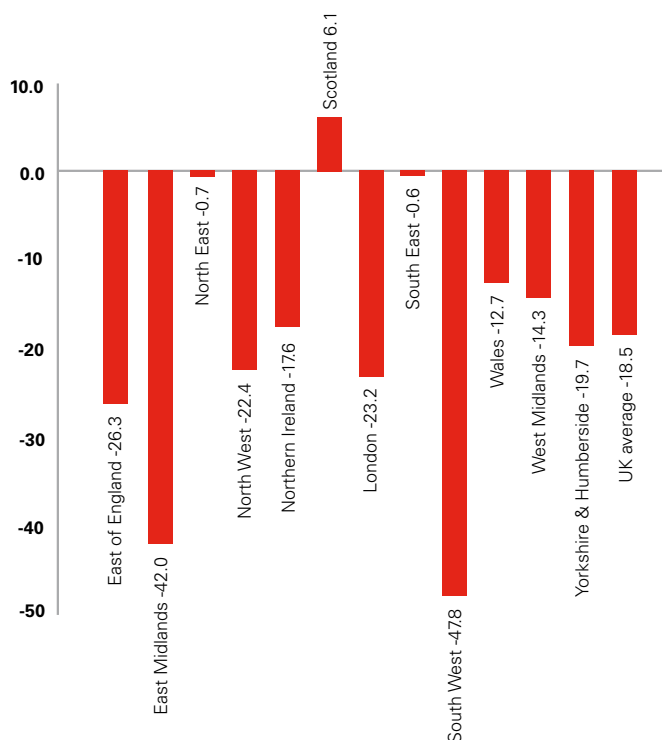
The small business sector's struggle over the period of the credit crunch and the subsequent recession has been used by politicians and lobby groups alike to characterise the severity of the crisis on ordinary people. The crisis did not originate in the SME sector yet the sector has been particularly badly hit as access to credit has tightened. Surveys have consistently suggested that SMEs have found it harder to access finance as their own clients have been squeezed, loans to key sectors have been tightened and the costs of finance have increased across the UK.<sup>11</sup>

The results from the 2009 Delta Economics Challenges and Growth Survey (COGS) suggest that turnover is the biggest single casualty of the recession.<sup>12</sup> This was evident from the start of the surveying process when an expected two thirds of the sample who had agreed in 2008 to take part in the survey again could not be contacted because they had gone out of business or because their turnover had dropped below the £250,000 lower sampling threshold. In order to ensure that we were looking at a representative sample of the 1,800 companies that were surveyed in 2008, we dropped the turnover requirements and some 16% of the recall sample had turnovers in 2009 that were below £250,000.

As is shown in Figure 3, between 2008 and 2009 average turnovers have dropped across the UK by an average of 19%. Interestingly, the North East and the South East have turnovers that are similar to last year while turnovers in Scotland have grown.

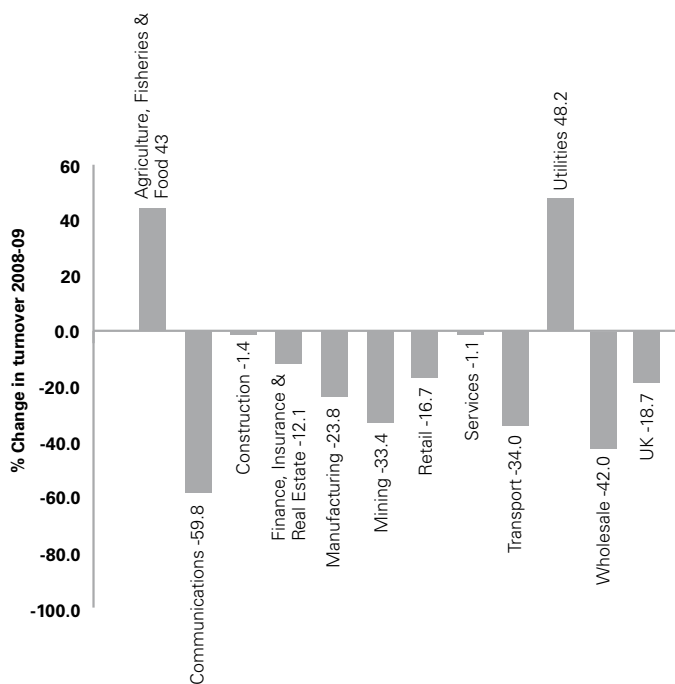
**Figure 3**  
**Turnover in last year of trading by region (2008-2009, in £)**

Source: Delta Economics/COGS study 2008 and 2009<sup>13</sup>



# The real impact of the recession on small businesses

**Figure 4**  
**Turnover in last year of trading by sector (2008-2009)**



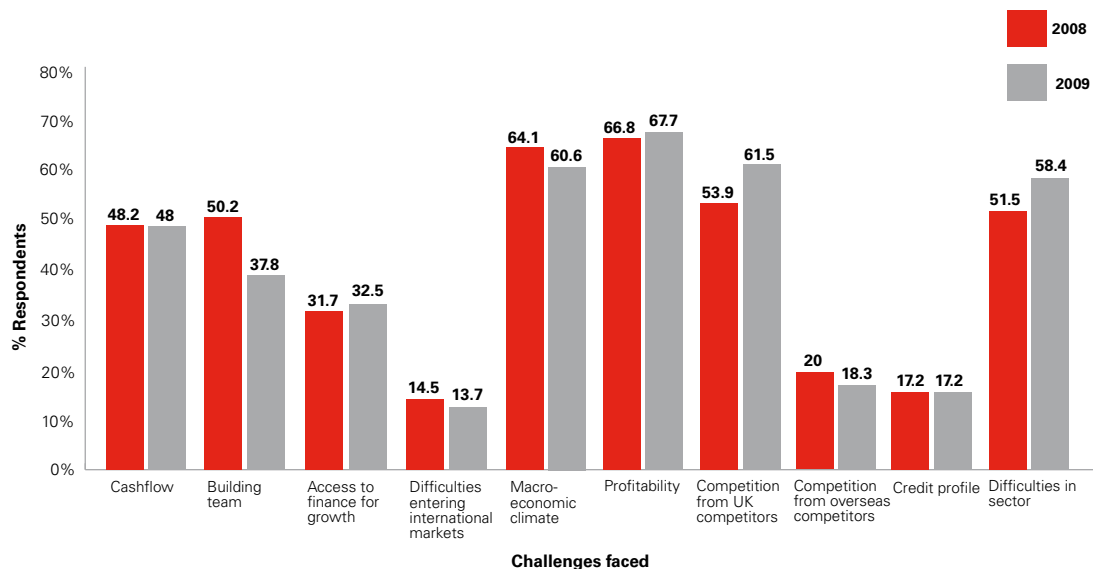
There are some interesting points to draw out of Figure 4:

- ▶ Agriculture, Fisheries and Food companies' turnovers have increased by 43%. Although numbers in the sample are very small, this increase is substantial and suggests that in 2008 turnovers were still being affected by the aftermath of the 2007 Foot and Mouth crisis but have subsequently recovered.
- ▶ Utility incomes appear to have increased substantially but the number of companies in the sample has reduced by a factor of nine. In other words, there could have been some consolidation in the industry that has made the turnovers of a smaller number of companies correspondingly higher
- ▶ There has been a reduction of 1.4% in turnovers in the construction industry, but again, a high level of attrition: from 175 companies in the survey in 2008 to 105 in 2009
- ▶ The 24% reduction in turnovers in Manufacturing, the 34% reduction in turnovers in Transportation and the 17% reduction in Retail are all symptomatic of reduced consumer demand in the wake of the credit crisis.

# The real impact of the recession on small businesses

**Figure 5**  
**The challenges facing entrepreneurs 2008 and 2009**

Source: Delta Economics/COGS study



As in 2008, profitability is the major concern of entrepreneurs surveyed. This is illustrated in Figure 5:

- ▶ Concerns around cashflow, access to finance, difficulties in entering international markets and credit profile are very similar in 2009 compared to how they were in 2008.
- ▶ Respondents are less concerned about the macroeconomic climate in 2009 compared to 2008. This corroborates the picture painted above of more general confidence in the business community.
- ▶ Tough trading conditions are reflected in the fact that respondents are experiencing more competition from UK competitors and more general difficulties in their sectors.

All in all, the impact of the recession has been felt hardest in terms of reduced turnovers across the UK. The concerns of companies reflect just how tight the conditions in their markets are, with 68% citing profitability in the sector, 62% citing increased competition and nearly 58% citing difficulties in the sector as key challenges they face over the next 12 months as we emerge from the recession.

And while the leaner, fitter businesses that were emerging from the recession are more capable of surviving, there was nevertheless a general feeling that, in the words of one professional advisor, “the last 12 months have been the toughest professional advisors and businesses have faced.”

# Kick-starting the business of recovery

Banks have been heavily criticised for not lending during the downturn. This section looks at patterns and trends in lending and the requirements for finance. The British Bankers Association report a 4% increase in lending at the end of August and data and interviews suggests:

- ▶ July and August 2009 showed a mild pick-up in commercial lending although it is still below the same period 12 months ago
- ▶ There are 9% fewer start-up businesses than a year ago
- ▶ There have been slight increases in finance for working capital (overdrafts, invoice finance and trade finance) but levels are still below where they were a year ago
- ▶ There is no evidence of a gap between what is being demanded and what is being supplied in the market place but there is evidence of a slump in demand for finance. But there has been an increase in the demand for finance and advice since September 2009

The fact that demand is weak for commercial credit is not unique to the UK. For example, the ECB's Flashbarometer survey<sup>13</sup> found that more than half of the entrepreneurs surveyed were not expecting a major change in their requirements for finance over the next year and the UK's Department for Business Innovation and Skills' survey in July found that only 17% had sought finance in the last six months.

Additional insights reveal:

- ▶ 71.5% of companies are not expecting to change their borrowing requirements over the next year, although smaller companies with turnovers of less than £500k do look slightly more likely to increase their borrowing over the next 12 months (up to 12% from 8%)
- ▶ There is still a lack of confidence about whether or not banks will lend to companies but even so, nearly two thirds think that their bank is likely to agree to extending their facilities
- ▶ Alongside this, the survey also recorded increases in September in terms of satisfaction with their finance available compared to the previous two months.

# Kick-starting the business of recovery

**Figure 6 illustrates that only 15.3% of all entrepreneurs are looking for finance at present.**

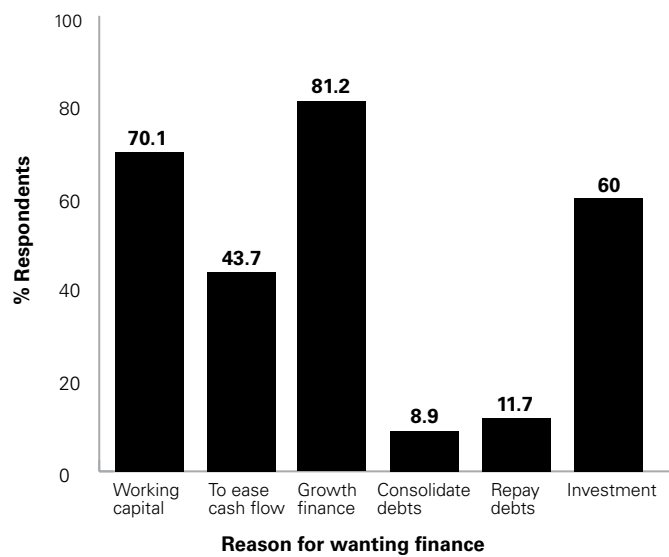
**% actively seeking finance by region**  
Source: Delta Economics/COGS Study 2009



Figure 7 shows the reasons why company founders are looking for finance at present. By far and away the largest numbers were looking for finance for growth (81.2%), working capital (70.1%) and investment (60%) with debt consolidation or debt repayment being relatively unimportant at 8.9% and 11.7% respectively.

**Figure 7**  
**Reasons for wanting finance (UK)**

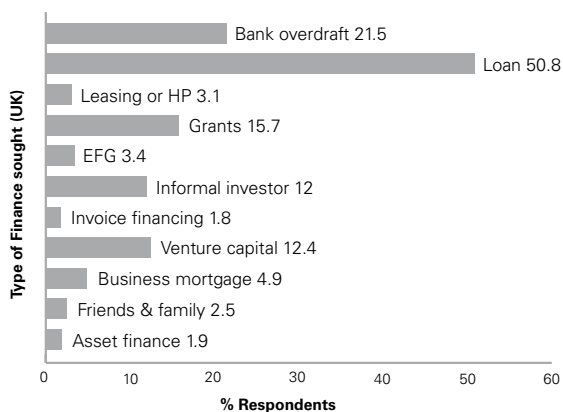
Source: Delta Economics/COGS Study 2009



The most important form of finance for the entrepreneurial sector is bank loans (50.8%) followed by bank overdrafts (21.5%). Figure 8 illustrates this. Interestingly, other measures to ease cashflow, such as invoice financing and asset finance remain relatively small compared to other forms of finance. Some 15.7% of company founders had sought grant finance while 12% and 12.4% respectively were looking for informal investment or venture capital.

# Kick-starting the business of recovery

**Figure 8**  
**Types of finance sought (UK)**  
Source: Delta Economics/COGS Study 2009



Finally, it is interesting to look at the reasons why companies are not looking for finance and this is illustrated in Figure 9 for the whole of the UK. The results illustrates a couple of key points:

- ▶ There is a dominant sense that people do not need the money – less than 20% say it is because the banks aren't lending, 80% say they don't need the money and nearly 53% say they have put the money in themselves
- ▶ The recession does not seem an important reason for not obtaining finance.

These findings concur with evidence from HSBC's regional commercial network of experts, who report that small businesses are not looking to obtain finance at present. This is not because they are never going to want to need finance, but instead because they are either tightening their belts or they are running down their own resources.

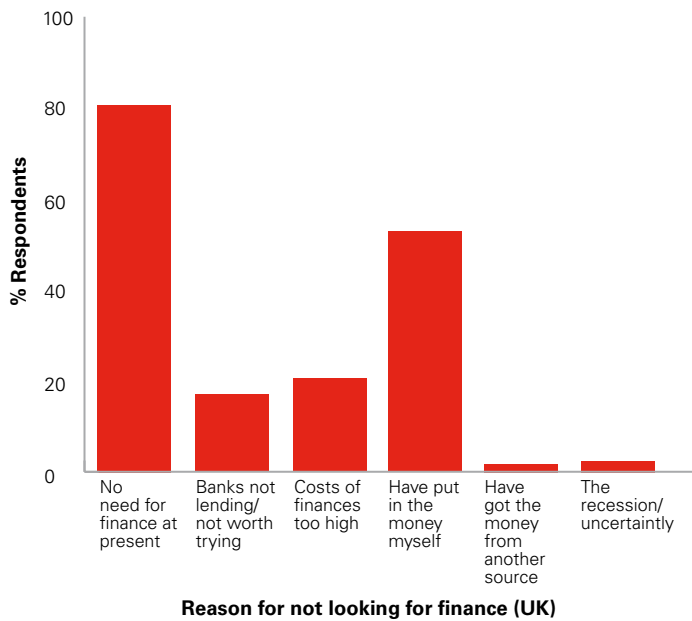
This is at the heart of the problem in re-building the trust relationship between banks and businesses.

*"Customers are being conservative and not taking risks. It's interesting how many businesses took steps to protect themselves 14-18 months ago. Now that businesses have gone through this process they are ready to talk about long term business planning."*

Carol Bagnald, HSBC Regional Commercial Director, London

# Kick-starting the business of recovery

**Figure 9**  
**Reasons why finance is not being sought (UK)**  
Source: Delta Economics/COGS Study 2009



As this section has shown, there is resource on the supply side but it is not being utilised by small businesses. While 32.5% say that access to finance is a key challenge in the 12 months ahead, only 15.3% are actually demanding it at the moment. There is a chance that those companies who are not currently trying to access finance at the moment are running down their finances and hence are likely to run out of cash. In the words of one, regional commercial director *“We will see businesses go bust where they don’t need to.”*



# Different types of business have different needs

The impact of the recession has been unpredictable. There have been companies within sectors which have failed while the majority have fared well. The critical success factor, according to the broader interviews conducted for this research, seems to be the business model. Those companies, irrespective of sector, which have done well are those who have had a sustainable model which allows a flexible response to the peaks and troughs of demand and the challenges of cash flow, the model also builds future thinking into the planning process through networking, conversations about trends with suppliers and customers alike, and strong, long term relationships with advisers.

*“The business model is the key element. Those businesses that have taken a long term perspective have been relatively conservative, have kept their costs under control and have not been looking to increase their debt.”*  
Susan Rowand, HSBC area commercial director, North Scotland

## Age of Business

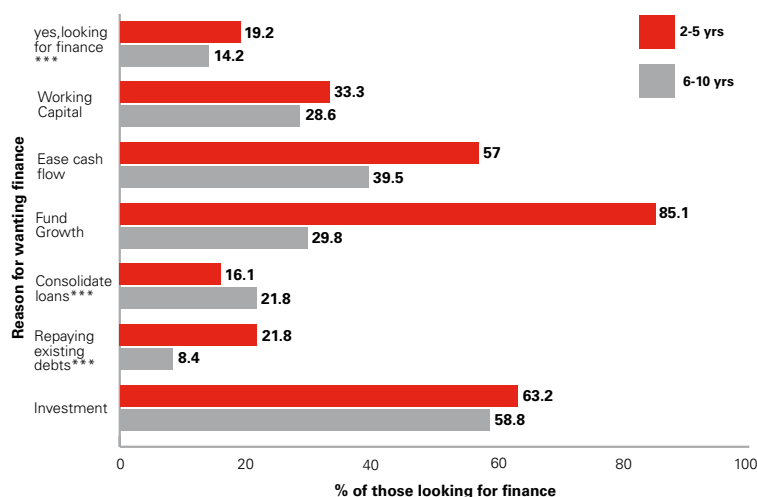
Perhaps emphasising the importance of the sustainable business model, there does seem to be a marked difference between younger companies and older companies, as illustrated in Figure 10. According to one business adviser, *“Unless an entrepreneur has got the thinking right from the outset, built relationships into their model, stayed flexible to respond to immediate challenges and kept costs low, they have simply not got through the last twelve months.”*

Other experts were of a similar view, arguing that companies that have kept their sights on the long term have done better. *“It’s like learning to ski,”* said one. *“If you keep your eyes on the mountain, you get down there safely. But if you look at the bumps along the way, you’ve had it.”*

Figure 10 shows:

- ▶ Younger firms are far more likely to be looking to access finance at the moment and more likely to need it for all purposes except consolidating loans.

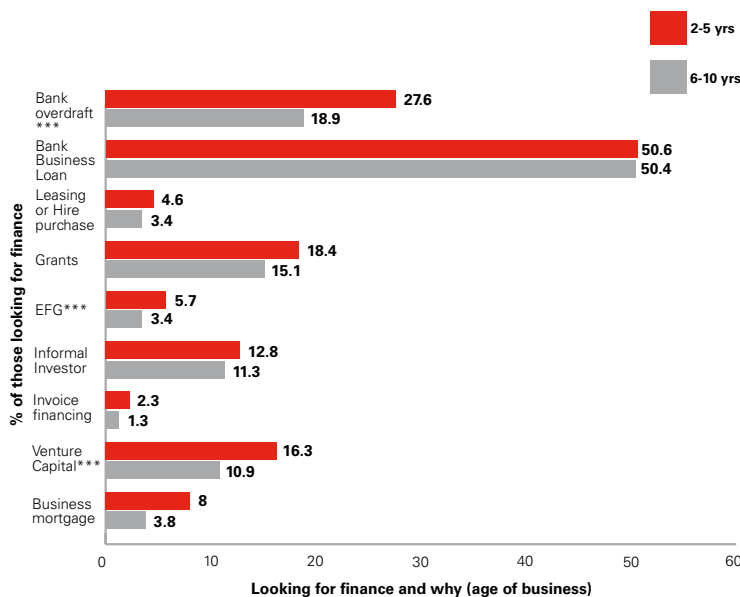
**Figure 10**  
**Reasons for accessing finance by age of firm**  
\*\*\*statistically significant at 1% level  
Source: Delta Economics/COGS Study 2009



# Different types of business have different needs

The reasons why companies are looking for finance, again by age of the business, suggest that smaller companies may be less focused in the way they look for money, arguably because they are more focused on the short term issues of survival rather than the long term issues of sustainability. This is illustrated in Figure 11.

**Figure 11**  
**Types of finance sought by age of business**  
 Source: Delta Economics/COGS Study 2009



\*\*\* equals differences between 2-5 years and 6-10 years are significant at the 1% level

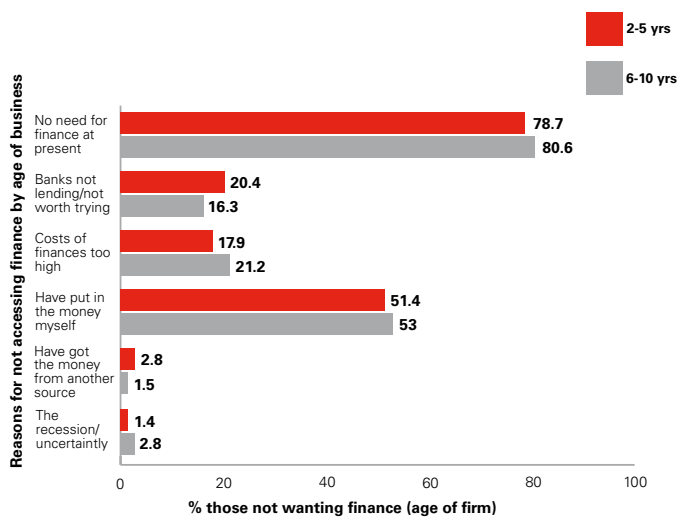
Entrepreneurs who are running companies that are five years old or less are looking to a wider set of alternative sources of finance and although overdrafts and loans still dominate, they are significantly more likely to try venture capital, the Enterprise Finance Guarantee Scheme and grants than older companies.

Similarly, as illustrated in Figure 12, although the patterns for not needing finance are similar, older firms are more likely to have put in the money themselves, consider the cost of finance too high and to have no need for finance when compared to companies that have been running for less time. This is simply a function of experience: older companies have had more time to build up reserves and management expertise while younger companies are still working on their viability.

# Different types of business have different needs

**Figure 12**  
**Reasons for not accessing finance by age of business**

Source: Delta Economics/COGS Study 2009



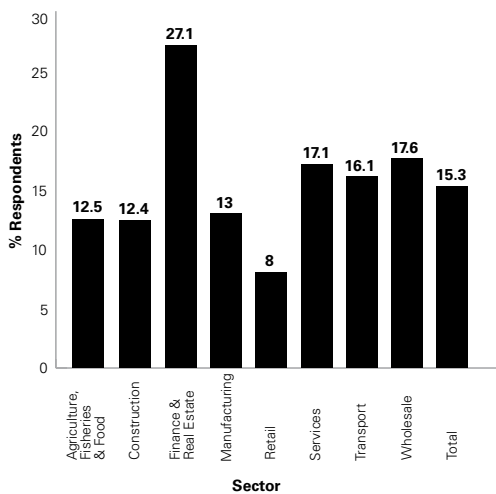
## Sector finance

The financial options available to businesses in some sectors have been limited by the recession, yet these are precisely the sectors that have suffered the most: Real Estate, Construction, Retail, Mining and Manufacturing in particular. Figure 13 looks at whether or not companies are looking for finance by sector. The differences between sectors are statistically significant; Real Estate and Finance are the sectors most likely to be looking for finance now.

# Different types of business have different needs

**Figure 13**  
**Sectoral differences in financing needs**

Source: Delta Economics/COGS Study 2009



The fact that Real Estate is so much more likely to be looking for finance could suggest that the sector has been strapped for cash for much of the last two years and resources are still tight. Indeed, interviews suggested that many Real Estate related service businesses have struggled to survive as a result of this. However, given evidence over the past few months that property prices are beginning to increase might mean that Real Estate companies are increasingly looking to grow.

Figure 14 looks at the reasons why companies are seeking finance by sector and illustrates that growth is indeed the strongest reason.



# Reasons why finance is sought by sector

**Figure 14**  
Reasons why finance is sought by sector  
Source: Delta Economics/COGS Study 2009

	Construction	Finance & Real estate	Manufacturing	Retail	Services	Transport	Wholesale	Total
Reasons for looking for finance								
Working capital	92.3	73.9	77.4	70.4	58.3	79.3	78.7	70.1
To fund cash flow	69.2	40.9	48.4	33.3	32.6	51.7	58.1	44.0
Growth	71.4	82.6	61.3	88.9	83.3	79.3	85.5	81.3
To consolidate existing loans	23.1	8.7	12.9	18.5	6.8	3.3	9.7	9.2
To pay off debt	23.1	18.2	9.7	18.5	9.8	6.7	13.1	11.7
Investment	61.5	47.8	58.1	65.4	66.7	40.0	55.7	60.2

**Figure 15**  
Sources of finance sought by sector  
Source: Delta Economics/COGS Study 2009

	Construction	Finance & Real estate	Manufacturing	Retail	Services	Transport	Wholesale	Total
No need for money at present	38.5	4.3	19.4	18.5	16.7	20.7	29.5	21.1
Business Loans	58.8	56.5	45.2	66.7	48.5	36.7	60.7	50.6
Leasing or hire purchase	0.0	4.3	3.2	0.0	4.5	0.0	3.3	3.1
Grants	7.7	30.4	29.0	11.1	17.4	16.7	6.5	16.3
Enterprise Finance Guarantee	0.0	0.0	6.5	3.8	4.5	3.3	3.3	3.7
Business Angel	7.7	4.5	16.1	3.7	13.6	23.3	9.8	12.0
Invoice financing/factoring	0.0	0.0	3.2	0.0	1.5	0.0	3.3	1.5
Venture Capital	15.4	8.7	19.4	15.4	14.4	13.3	6.5	12.6
Business mortgages	7.7	0.0	0.0	3.7	8.3	3.3	3.3	4.9
Friends & family	0.0	0.0	3.2	0.0	5.3	0.0	3.2	3.1
Asset based finance	0.0	0.0	0.0	0.0	2.3	6.9	0.0	1.5

# Reasons why finance is sought by sector

**Figure 16**  
**Reasons why finance is not sought by sector**

Source: Delta Economics/COGS Study 2009

	Construction	Finance & Real estate	Manufacturing	Retail	Services	Transport	Wholesale	Total
No need for money at present	79.3	75.8	76.7	83.9	79.6	<b>85.3</b>	56.7	80.2
Not worth trying because banks aren't lending	15.2	40.3	17.4	12.5	17.7	14.1	17.9	17.0
Cost of finance too high	20.7	34.4	22.8	18.0	16.3	16.7	31.1	20.5
Have put in the money myself	64.1	37.1	54.9	<b>56.3</b>	52.3	44.6	51.9	52.7
Secured the money from elsewhere	1.1	0.0	1.9	3.9	1.7	0.6	1.0	1.8
Recession and uncertainty in the market	3.3	0.0	<b>3.9</b>	1.6	3.8	0.6	1.1	2.4

While it is not possible to suggest a trend from one year of data there are some interesting differences by sector in terms of why and how money is being sought:

- ▶ The construction sector is most likely to be looking for money to cover working capital, cash flow, to consolidate finances and pay off debts, suggesting that the sector has been through substantial difficulties but is anticipating growth. Interviews suggested that there are more inquiries coming through for advice and financial support from construction companies at present which may reflect the trend already noted in the Finance and Real Estate sector.
- ▶ Retail is the most likely sector to be looking for growth finance, followed closely by a general service sector grouping. This suggests that consumer demand is picking up which is having a spillover effect on demand for services by companies as they seek to meet this demand.
- ▶ The service sector is most likely to be looking for money for investment. Since this is reflective of latent growth in other sectors, this is an encouraging bell-weather for growth in the future.
- ▶ Manufacturing businesses are most likely to be seeking a range of finance (overdrafts, grants, venture capital, Enterprise Finance Guarantee and factoring).

# Different types of business have different needs

The emerging confidence in key sectors is reflected in the areas for which they are looking for finance. For example, manufacturing companies are looking for finance to see themselves through the recession and to grow beyond while Retail and Finance are looking for money to grow suggesting that they are seeing an expansion in core consumer demand. The underlying message is that companies are beginning to look for growth and investment finance in some of the sectors that have been hardest hit by the downturn. This is illustrated in Figure 15.

## International Businesses

Small companies across the world appear to be approaching the crisis in a similar way. They are not taking risks, not borrowing, and trying not to let their workforces go in the interests of being ready to resume growth once market conditions pick up. The UK is no different in this. Research for this report in selected countries does suggest that companies are not investing in training or innovation to the extent that they were, and while they are still investing in environmentally-friendly measures, these are part of long term cost reduction or regulatory compliance strategies rather than a desire to operate on a more comprehensively sustainable basis. Sustainability at the moment is couched in economic terms across the world.

The recession and financial crisis spread virally across the world not least because of the inter-dependency of the global economy. This has made entrepreneurs uncertain about investing in markets abroad when, paradoxically, according to interviews, *“it is in*

*overseas markets where the real opportunities exist.”* Experts cited Africa, Brazil and Asia as key potential markets and argued that Information and Communications technologies actually made doing business abroad comparatively cheap and easy. One business support agent argued that the businesses with the most growth potential were the ones building international outreach into their plans from the outset. The caution with which small companies are approaching this area is reflected in their finance requirements, as illustrated in Figure 17.

While 98% of the COGS sample had their main market in the UK, there were substantial numbers that also had markets abroad. For simplicity these have been categorized into broad groups: the UK, the rest of Europe, North America and Asia.

**Figure 17**  
**Reasons for accessing finance by location**  
Source: Delta Economics/COGS Study 2009

	UK	EU	N. America	Asia
Yes, looking for finance now	15.1	13.8	11.9	13.1
<b>Reasons for looking for finance</b>				
To provide working capital	71.5	65.1	54.5	54.2
To ease cash flow	45.2	49.4	27.3	33.3
To finance growth	82.4	77.9	87.9	73.9
To consolidate lending	9.6	7.0	6.1	4.2
To pay off debts	12.5	11.6	3.0	4.2
To finance investment	59.0	61.6	69.7	87.5

# Different types of business have different needs

Companies looking for money to finance working capital are more likely to have their predominant market in the UK while companies looking for growth finance are more likely to also have markets in North America. Companies most likely to be looking for finance for investment purposes also have large markets in Asia.

The reasons for not accessing finance are illustrated in Figure 18 by location.

**Figure 18**  
**Reasons for not accessing finance by location**

Source: Delta Economics/COGS Study 2009

	UK	EU	N. America	Asia
No need for finance	80.2	76.2	79.6	81.1
Banks not lending	16.9	19.7	20.8	22.6
Cost of finance too high	20.3	20.5	13.0	23.3
Have put in the money myself	52.4	61.5	59.6	73.0
Have found the money from another source	1.8	1.5	1.2	0.6
The recession/uncertainties in the market	2.6	2.4	3.7	0.0

Generally, the patterns are very similar irrespective of market but there are three highlights from the table:

- ▶ Companies with markets in Asia are the least likely to be looking for finance and the most likely to say that banks aren't lending at the moment
- ▶ Companies with core markets in Europe are the least likely to say that they don't need money.
- ▶ Companies with core markets in the US are most likely to say that the recession is a factor although as with elsewhere in the report, the numbers citing this as a reason for not accessing finance are very small.

As technology enables cheaper and easier access to markets abroad, or indeed allows companies to set up on a global basis from the outset, building an international dimension into business planning becomes in the view of experts, a necessity rather than a "nice to have." Demand for finance is still low for financing international business, but this may be because of inherent uncertainties as we come out of the downturn. As testimony to this, where companies are looking for money, it does seem to be for investment and growth outside of Europe.

# Different types of business have different needs

## Regions

Whilst the UK is slow to come out of recession, interviewees have suggested that London and the South East are leading the way in terms of business recovery and performance. It's been a tough couple of years in trading terms and the route through to recovery is likely to be very difficult. This is reflected in the survey data:

- ▶ Although London appears to be bouncing back, average turnover has shrunk by 28% between 2008 and 2009. This is not as large a drop in average turnover as the East Midlands, which saw a drop of 40% or the South West, which saw a drop of 48%.
- ▶ The regions where most entrepreneurs are likely to want to access finance are the East of England (20.5%) and the North East (20.8%). Yorkshire is the region where entrepreneurs are least likely to be looking for finance at present (11.7%).
- ▶ The South West region has the most respondents looking for finance for working capital and growth but least likely to be looking for finance to ease cash flow
- ▶ The East of England has one of the highest numbers of respondents looking for money for investment
- ▶ The South East is the region with the largest numbers looking for money to ease cash flow, and the lowest numbers looking for money for investment
- ▶ Wales has one of the highest numbers of respondents looking for money for investment
- ▶ The West Midlands has the lowest number of respondents looking for working capital, and the highest number looking to pay off debts
- ▶ The East Midlands has the lowest number of respondents looking to pay off debts
- ▶ Scotland also has a low number of respondents looking to pay off debts
- ▶ London has the second highest number of respondents looking for growth finance but the lowest looking for money to consolidate.

In all regions, the largest reason for seeking finance was either for investment or growth, again suggesting a substantial underlying optimism in markets across the UK. Where regions such as the West Midlands or the South East have businesses looking to pay off debts or to provide working capital it also suggests that some of the issues of the past two years have been addressed and that the regions' businesses are now looking forward. The fact that entrepreneurs across the UK are, on average, expecting a 36% growth in their turnover over the next three years is testimony to how strong this renewed confidence is.

# Maintaining the business of recovery

Managing profitability and staying competitive are only part of the set of challenges that businesses face and HSBC's regional commercial network of experts were keen to stress that profitability can be damaged if too strong a focus is simply placed on keeping afloat rather than on long term development. They highlighted a number of lessons for guiding their clients that have arisen over the last two years:

- ▶ Making sure the business model is correct for the market, lean and appropriately conservative. Finance has been constrained but with a viable business it is still available, even for the smallest businesses
- ▶ Balancing this caution against risk and moving into new areas, especially taking advantage of international markets on the back of sound business planning and advice
- ▶ Taking the long view and working in partnership with the client as a trusted adviser providing access to networks and support services, beyond the immediate requirements of finance.

Companies that will get through the recession are those that face trouble 'head on', and speak regularly with their bank rather than letting challenges fester. Of course, it is not always possible to help, but they stressed that talking early made it a lot easier to head problems off at the pass.



This research has highlighted the difficulties that companies and their advisers have faced over the past year. A recent survey by the Economist Intelligence Unit on behalf of the Association of Chartered Certified Accountants (ACCA) found that 44% of SMEs worldwide say that the recession has dented their capacity to move into new markets, particularly abroad.<sup>14</sup> However, the survey goes on to say that businesses are increasingly looking to their banks for advice. The expert interviews for this research suggest that there are more people beginning to look for advisory services that cover social and network capital (access to networks, skills and potential clients) and knowledge capital (linking to the research and ideas base) as well as advice on business planning and finance.

# Maintaining the business of recovery

Turnovers have fallen, almost across the board, and demand for finance to cover any short-term recession induced fall in revenues has all but disappeared. While those businesses which are asking for money want to grow and invest, the fact that finance is a challenge for 33% of small businesses but only sought by 15% of businesses represents a concerning demand-side gap.

Businesses have not found the last two years easy: the lack of credit insurance has limited the extent to which they have been able to control their revenues and they have built strict cash flow management systems as a result. There are more companies wanting to take a few more steps now however, and many are exploring international markets as a result. The data provided in this report suggest that there is scope for investment in overseas markets. Yet the caution that small businesses are still exhibiting threatens the pace of recovery, especially if the gap between finance as an issue and actually trying to access finance cannot be closed.

There are ways in which the market can be helped further: the Government needs to put in place measures that provide insurance to cover client non-payments, especially in overseas markets for example, and the core way

of getting through the crisis is for business and professional advisers to keep talking. Interestingly, the survey found that 31% of entrepreneurs consult their bank when they start but, after two years or longer of being in business, this falls off to 27%. Perhaps this is illustrative of a broader problem: small businesses may not be using the most obvious resources to help them grow as effectively as they could.

The recession, like every downturn before it, has provided opportunities to shake up the way we do business. It would be disingenuous to suggest that the change has been easy. Yet the resourcefulness of entrepreneurs to dig deep defines the businesses that have survived. They have adapted their business models by building flexibility and nimbleness through networking, bartering, internationalisation from the outset and long term partnerships with their advisers, especially in finance.

Small businesses increasingly use a range of different advisers for support and sometimes need advice on accessing markets and customers more than they need advice on accessing finance. It is no longer enough for an entrepreneur to go to a bank expecting it to provide cash at a low cost; instead the entrepreneur should be looking at the additional services, or the added value that the bank can provide.

# The business of recovery in Scotland

Scotland's small business sector has fared well during the recession. Average turnovers have grown, particularly amongst companies that have been established for more than five years, and business founders expect their turnovers to grow by 40% over the next three years, which is the highest in the UK, and similar to London.

However, some sectors in Scotland such as real estate, leisure, oil and gas and retail have suffered, particularly if they were the main beneficiaries of the pre-crisis cash-rich society.

Scotland's business base is more international than is average for the UK with higher numbers of businesses with markets in Europe and nearly double the UK average with markets in Asia. This represents a real growth opportunity for the country.

Some businesses may be suspicious of banks at the moment, not least because of a perception that fees have increased. Yet when businesses work with their bank, they are able to get away from the debate on credit and start talking about the sustainability of their business and future plans.

## Key Facts for Scotland

HSBC and Delta Economics conducted a survey of 2,121 business founders with turnovers of above £200,000 up to £20 million that were less than 10 years old to see what they thought of their growth prospects. The survey was conducted between August and October 2009. These are the results for the 154 companies in Scotland.

<b>Average Turnover 2009</b>	<b>Scotland: £1.42m</b>			
<b>Percentage Change in Turnover, 2008-9</b>	<b>Scotland: 6.1%</b>			
Companies 2-5 years old	-41%			
Companies 6-10 years old	+25%			
<b>% all Companies with International markets</b>	<b>UK</b>	<b>EU</b>	<b>N. America</b>	<b>Asia</b>
<b>Scotland</b>	91.6	32.5	13.0	16.9
<b>UK</b>	98.8	29.4	13.1	8.6
<b>Average amount need to start business</b>	<b>£93,075</b>			
<b>Percentage invested by the founder</b>	<b>61%</b>			
<b>Percentage looking for finance now</b>	<b>12.4%</b>			
<b>Main reason for looking for finance</b>	<b>74% looking for working capital</b>			
<b>Average percentage turnover growth expected over next three years</b>	<b>Scotland: 40%;</b> UK average expected growth: 36%			

# The business of recovery in Wales

The Welsh economy is reliant on the health of many smaller family businesses, and is suffering from a general lack of economic and business confidence. Businesses are delaying investments, yet the money is there for businesses that approach the bank in a constructive way looking to build their business through long term planning rather than short term loans. Just 10% of Welsh businesses are looking for money compared to 15% in the UK as a whole.

Because businesses in Wales are generally smaller, they tend to have lower exposure to international markets than the UK as a whole, operating predominantly in domestic markets.

Although older businesses (older than five years) have seen a drop in turnovers of 19% (average for the UK) the youngest businesses (2-5 years) have seen turnovers increase by 8%. This suggests that there is a buoyant embryonic growth sector in Wales that is building through the downturn.

The key to success, is that the relationship with a business bank has to be long term and honest. Banks and broader agencies, such as trade bodies and Business Links should also be stressing that, if a company talks through its business with its bank, there is more that can be done to help the business through difficult times.

83% of companies in Wales looking for support at the moment are looking for investment finance. Of those who are not looking for financial support, 82% say it is

because they do not need it and 59% say it is because they have the money themselves. This adds to a sense that companies in Wales are boot-strapping rather than looking to a growth-oriented future.

## Key Facts for Wales

HSBC and Delta Economics conducted a survey of 2,121 business founders with turnovers of above £200,000 up to £20 million that were less than 10 years old to see what they thought of their growth prospects. The survey was conducted between August and October 2009. These are the results for the companies in Wales.

<b>Average Turnover 2009</b>	<b>£1.15m</b>			
<b>Percentage Change in Turnover, 2008-9</b>	<b>12.7%</b>			
Companies 2-5 years old	+8%			
Companies 6-10 years old	-19%			
<b>% all Companies with International markets</b>	<b>UK</b>	<b>EU</b>	<b>N. America</b>	<b>Asia</b>
<b>Wales</b>	100.0%	25.0%	7.6%	2.2%
<b>UK</b>	97.1%	29.4%	13.1%	8.6%
<b>Average amount need to start business</b>	<b>£128,483</b>			
<b>Percentage invested by the founder</b>	<b>70%</b>			
<b>Percentage looking for finance now</b>	<b>10.6%</b>			
<b>Main reason for looking for finance</b>	<b>83% looking to finance investment</b>			
<b>Average percentage turnover growth expected over next three years</b>	<b>Wales: 30%; UK average expected growth: 36%</b>			

# The business of recovery in Central and Eastern England

The last two years has seen more businesses experience stressful conditions than in previous years in the central and eastern regions of England. Many of these businesses, particularly the younger ones, have not experienced trading in a recession and, therefore, have had little experience of dealing with these challenging conditions.

The results are plain to see. Turnover in the region's entrepreneurial business sector has reduced by 26% overall with a particularly severe drop amongst younger businesses. The environment has been particularly challenging because of the combined effects of the credit crunch and the recession, which has affected many sectors in the region, especially haulage and retail. It has also had an effect on professional services companies, like legal practices and on the Real Estate sector.

Companies have had to improve efficiency and cut costs and, in some cases, have made redundancies. The businesses that have streamlined costs and business models have consequently made themselves more flexible and efficient – a position that ensures they are better prepared for economic recovery. The result is that many businesses may have survived even though their turnovers are down.

But if turnovers are reduced, there is a real need to keep talking to professional advisers and the banks even if the company itself does not think it wants money at the moment. Those companies that have not survived are those that have experienced the most difficulties and have not taken effective and timely action.

Although the companies in the region are not expecting their turnovers to grow as rapidly as for the UK as a whole over the next three years, HSBC is building its presence in networking events and with clients to ensure that where people do want to discuss how to grow, they will be able to build a long term relationship with a trusted adviser.

## Key Facts for central and eastern England

HSBC and Delta Economics conducted a survey of 2,121 business founders with turnovers of above £200,000 up to £20 million that were less than 10 years old to see what they thought of their growth prospects. The survey was conducted between August and October 2009. These are the results for the 100 companies in central and eastern England.

<b>Average Turnover 2009</b>	<b>£1.13m</b>			
<b>Percentage Change in Turnover, 2008-9</b>	<b>-26%</b>			
Companies 2-5 years old	-30%			
Companies 6-10 years old	-8%			
<b>% all Companies with International markets</b>	<b>UK</b>	<b>EU</b>	<b>N. America</b>	<b>Asia</b>
<b>East UK</b>	97.6%	35.4%	14.5%	4.8%
	97.1%	29.4%	13.1%	8.6%
<b>Average amount need to start business</b>	<b>£146,991</b>			
<b>Percentage invested by the founder</b>	<b>63%</b>			
<b>Percentage looking for finance now</b>	<b>20.5%</b>			
<b>Main reason for looking for finance</b>	<b>82% looking to finance investment</b>			
<b>Average percentage turnover growth expected over next three years</b>	<b>East: 30%; UK average expected growth: 36%</b>			

# The business of recovery in London

London, and in particular the City and the West End, were at the epicentre of the crisis that hit the financial markets in 2008. Yet the impact on the small business sector has been mixed. For instance the fashion and textile industry is at the heart of the London business scene, and many firms within operating within these industries have bucked the trend and shown real resilience. The unparalleled success of London Fashion Week has provided further support from these types of businesses and firmly established London as market leader emerging with a real strength internationally.

We are also seeing some businesses in the construction sector start to invest for expansion. Recovery is just around the corner.

- ▶ The willingness of small and large companies alike to look seriously at their business models and use the downturn as an opportunity to make these fit for purpose. In particular cost and debt structures, the client base, overseas markets and flexibility
- ▶ Long-term relationships between businesses and professional advisers, especially banks, to smooth their path through the crisis
- ▶ The fact that London's businesses have markets not just in the UK but increasingly abroad as well.

While many companies are making impressive headway into the recovery, London has suffered along with the rest of the UK during the recession. Small business average turnovers are down by 23% and have had a tougher ride than the larger end of the market. Interestingly, though, in London younger firms have not seen



as big a reduction in turnover as their counterparts in the rest of the UK.

One reason for this might be the fact that London does have a very international business base and this is increasing. Smaller businesses in particular are more flexible and using online resources to build international markets and profile from the outset.

16% of London's small businesses are looking for money at the moment and for 80% of them, this money is for growth. While the crisis may have started in London, it looks like London is also leading the way out!

# The business of recovery in London

## Key Facts for London

HSBC and Delta Economics conducted a survey of 2,121 business founders with turnovers of above £200,000 up to £20 million that were less than 10 years old to see what they thought of their growth prospects. The survey was conducted between August and October 2009. These are the results for the 417 companies in London.

<b>Average Turnover 2009</b>	<b>£1.17m</b>			
<b>Percentage Change in Turnover, 2008-9</b>	<b>-23%</b>			
Companies 2-5 years old	-12%			
Companies 6-10 years old	-26%			
<b>% all Companies with International markets</b>	<b>UK</b>	<b>EU</b>	<b>N. America</b>	<b>Asia</b>
<b>London UK</b>	94% 97.1%	376% 29.4%	17.7% 13.1%	12.5% 8.6%
<b>Average amount need to start business</b>	<b>£98,761</b>			
<b>Percentage invested by the founder</b>	<b>76%</b>			
<b>Percentage looking for finance now</b>	<b>16%</b>			
<b>Main reason for looking for finance</b>	<b>80% looking to finance investment</b>			
<b>Average percentage turnover growth expected over next three years</b>	<b>London : 40%;</b> UK average expected growth: 36%			



# The business of recovery in the Midlands

The region is renowned for its manufacturing and despite difficulties; much of the sector remains buoyant. This is driving innovation and new businesses in the region as a whole. However many new firms - especially those set up as lifestyle businesses - have not experienced a downturn before, and it has made them vulnerable. These businesses have needed, and continue to need, support from professional advisers and their banks to get them through. Although sometimes the guidance they need is about accessing new markets rather than accessing finance.

This is evident in the data where the younger businesses in the West Midlands region have seen a 19% reduction in turnover. It is the East Midlands that has been worst hit in terms of turnover, however. The heavy incidence of manufacturing and engineering businesses across the West Midlands, particularly supplying the motor industry and connected to the motor supply chain, will have been negatively impacted by difficult business conditions.

There are a broad range of sectors and types of business represented across the region and this means that there are success stories, even in a downturn. The one thing that businesses have in common is that they have taken the long view and worked with their bank to build trust and support over time.

Interestingly, the numbers looking for finance in the region are about average for the UK and expectations of growth are higher than average for the UK. These are clear signs of returning confidence.

## Key Facts for the Midlands

HSBC and Delta Economics conducted a survey of 2,121 business founders with turnovers of above £200,000 up to £20 million that were less than 10 years old to see what they thought of their growth prospects. The survey was conducted between August and October 2009. These are the results for the 154 companies in the Midlands.

<b>Average Turnover 2009</b>	<b>East Midlands: £1.09m</b> <b>West Midlands: £1.20m</b>			
<b>Percentage Change in Turnover, 2008-9</b>	<b>East Midlands: -42%</b> <b>West Midlands: -14.3%</b>			
	<b>East Midlands</b>		<b>West Midlands</b>	
	Companies 2-5 years old	-29%	Companies 6-10 years old	-19%
<b>% all Companies with International markets</b>	<b>UK</b>	<b>EU</b>	<b>N. America</b>	<b>Asia</b>
<b>East Midlands</b>	97.9	18.8	2.1	4.9
<b>West Midlands</b>	98.3	29.1	11.1	5.1
<b>UK</b>	97.1	29.4%	13.1%	8.6
	<b>East Midlands</b>		<b>West Midlands</b>	
<b>Average amount need to start business</b>	<b>£89,418</b>		<b>£127,058</b>	
<b>Percentage invested by the founder</b>	<b>69%</b>		<b>69%</b>	
<b>Percentage looking for finance now</b>	<b>15.3%</b>		<b>16.2%</b>	
<b>Main reason for looking for finance</b>	<b>91% looking for growth</b>		<b>78.9% looking for growth</b>	
<b>Average percentage turnover growth expected over next three years</b>	<b>EM 40%; WM: 37%</b> UK average expected growth: 36%			

# The business of recovery in the North East and Yorkshire

Businesses in the North East and Yorkshire have fared better than most over the last 12 months. Overall turnover has shrunk marginally (by 0.7%) and companies older than six years have actually grown by 15%. Over 20% of businesses in the North East are looking for finance now, predominantly for investment, and while this is much higher than for Yorkshire, it does suggest that the region as a whole is showing signs of emerging from the recession.

However a combination of business cash flow, accompanied by a deep unease about increasing levels of indebtedness when turnover growth prospects are limited, has had an impact on the extent to which business owners have sought finance to help them through the crisis. Businesses have taken the time to restructure and become leaner and fitter and the growth of the older businesses signals the success of these strategies. Businesses are beginning to turn to their banks for advice on driving their business forward over the long term. This is exactly the type of support that will ensure that they get support for sustainable growth.

The signs are that the market is picking up and although there may be a dip after Christmas, or even after the next election, confidence does seem to be building in the region's economy.

## Key Facts for the North East

HSBC and Delta Economics conducted a survey of 2,121 business founders with turnovers of above £200,000 up to £20 million that were less than 10 years old to see what they thought of their growth prospects. The survey was conducted between August and October 2009. These are the results for the 500 companies in the North East.

<b>Average Turnover 2009</b>	<b>North East: £1.35m</b>			
	<b>Yorkshire and Humberside: £1.22m</b>			
<b>Percentage Change in Turnover, 2008-9</b>	<b>North East: -0.7%</b>			
	<b>Yorkshire and Humberside: -19.7%</b>			
	<b>North East</b>		<b>Yorkshire &amp; Humberside</b>	
Companies 2-5 years old	-28.4%		-50%	
Companies 6-10 years old	+15.1%		-19%	
<b>% all Companies with International markets</b>	<b>UK</b>	<b>EU</b>	<b>N. America</b>	<b>Asia</b>
<b>North East</b>	100.0	20.8	7.5	5.7
<b>Yorkshire</b>	98.8	28.7	13.1	8.8
<b>UK</b>		29.4%	13.1%	8.6
	<b>North East</b>		<b>Yorkshire &amp; Humberside</b>	
<b>Average amount need to start business</b>	<b>£187,893</b>		<b>£60,685</b>	
<b>Percentage invested by the founder</b>	<b>64%</b>		<b>67%</b>	
<b>Percentage looking for finance now</b>	<b>20.8%</b>		<b>11.7%</b>	
<b>Main reason for looking for finance</b>	<b>81% to finance growth</b>		<b>70% to finance growth &amp; investment</b>	
<b>Average percentage turnover growth expected over next three years</b>	<b>NE 34%; Yorks: 34%</b>			
	UK average expected growth: 36%			

# The business of recovery in the North West

Nobody predicted how severe the recession was going to be and the North West has certainly suffered. Turnovers have been badly affected generally, although there does appear to be a vibrant base in the younger business sector in the North West.

The success of the region in managing its way through the downturn is due to the capacity of small businesses to learn from past experience where they can, and where they can't, to build flexible and lean business models from the outset. In addition, the banks have supported businesses, not just on finance, but on business planning too.

Demand for finance in the region is low at just 16.7%. However, this is slightly higher than for the UK as a whole and most of that is to fund above average turnover growth expectations.

International markets in the North West are smaller than the UK average. This is a real opportunity for the region in the future.

## Key Facts for the North West

HSBC and Delta Economics conducted a survey of 2,121 business founders with turnovers of above £200,000 up to £20 million that were less than 10 years old to see what they thought of their growth prospects. The survey was conducted between August and October 2009. These are the results for the 500 companies in the North West.

<b>Average Turnover 2009</b>	<b>£1.36m</b>			
<b>Percentage Change in Turnover, 2008-9</b>	<b>-22.4%</b>			
Companies 2-5 years old	+3.5%			
Companies 6-10 years old	-30%			
<b>% all Companies with International markets</b>	<b>UK</b>	<b>EU</b>	<b>N. America</b>	<b>Asia</b>
<b>North West</b>	97.8%	25.8%	12.2%	7.0%
<b>UK</b>	98.8%	29.4%	13.1%	8.6%
<b>Average amount need to start business</b>	<b>£111,606</b>			
<b>Percentage invested by the founder</b>	<b>70%</b>			
<b>Percentage looking for finance now</b>	<b>16.7%</b>			
<b>Main reason for looking for finance</b>	<b>84% looking to finance investment</b>			
<b>Average percentage turnover growth expected over next three years</b>	<b>NW: 37%;</b> UK average expected growth: 36%			

# The business of recovery in the South

Trading conditions have been tough in the South during the recession but most of the region's businesses have continued to trade. Asset volumes and turnovers have reduced and demand for finance has slumped across all sectors, although Construction, Leisure and Retail have been particularly badly hit. Just 12.9% of companies are looking for finance now which is below the UK average. 83% of the region's entrepreneurs who are not looking for money say that they don't need it and 61% say that they have put in the money themselves.

Alongside this the small business sector went into "frozen mode". Costs were cut, overheads reduced and companies held on to their core staff through short-term contracts rather than by reducing headcount. Younger and smaller companies have suffered particularly, but interestingly, the older companies in the region have actually grown over the past 12 months in terms of turnover.

The positive signs of recovery are due to several things, not least of which is the willingness of the region's businesses to review their business models and make them leaner and more flexible in order to survive.

Critical things are:

- ▶ Keeping talking: success in the region has been down to strong trust-based and long term relationships between businesses and professional advisers
- ▶ Strong international markets: the region has benefited from the international focus of its business base

- ▶ Fewer risks have been taken: as the recession has bitten, entrepreneurs and small businesses have behaved as cautiously as banks to ensure that their focus is on sustainability and survival.

The next 6-12 months will be characterised by steady growth rather than risky growth. Investment spending is already beginning to happen and businesses are beginning to restock to deal with an expected growth in demand as it occurs. How enduring this growth will be will depend entirely on the extent to which businesses will be able to expand to meet the challenges of a more buoyant market. This is about getting the right money in place at the right time.

<b>Average Turnover 2009</b>	<b>£1.37m</b>			
<b>Percentage Change in Turnover, 2008-9</b>	<b>-0.6%</b>			
Companies 2-5 years old	-10%			
Companies 6-10 years old	+2%			
<b>% all Companies with International markets</b>	<b>UK</b>	<b>EU</b>	<b>N. America</b>	<b>Asia</b>
<b>South East UK</b>	98.3%	31.3%	18.7%	9.5%
	97.1%	29.4%	13.1%	8.6%
<b>Average amount need to start business</b>	<b>£121,555</b>			
<b>Percentage invested by the founder</b>	<b>73%</b>			
<b>Percentage looking for finance now</b>	<b>12.9%</b>			
<b>Main reason for looking for finance</b>	<b>78% looking to finance growth</b>			
<b>Average percentage turnover growth expected over next three years</b>	<b>SE: 36%;</b> UK average expected growth: 36%			

# The business of recovery in the South West

The South West is a wealthy region and is often characterised as having a large number of people who have left the City to set up independent businesses in a beautiful part of the world. Companies tend to be smaller and UK focused, although entrepreneurs put slightly more of their own money in than is average for the UK. The dominant sector in the region is leisure which has been badly hit by the downturn in the real estate sector and, as a result, the recession has hit many of the region's businesses hard, especially those younger firms that perhaps have not established their business model firmly.

The region's growth in the future will be determined by the speed with which the market for business loans can be re-established. At the moment, demand for finance is low and much of it is to finance working capital because:

- ▶ Inventories are at their lowest ever levels
- ▶ Many companies in the region could go for another six months to a year without investing
- ▶ Businesses are reducing their overall levels of debt in order to reduce their own vulnerability.

This, of course, makes them stronger in a post recession world yet businesses in the region are generally being cautious. They have tightened up their cashflow management and made their business models more sustainable in order to reduce overall levels of risk. Expected turnover growth over the next three years is 34% on its current levels.

Restoring confidence will be vital. This region's small and younger businesses have seen their turnovers collapse yet the leisure industry will pick up and be more vibrant and, when this happens, the business base will be leaner and more flexible.

## Key Facts for the South West

HSBC and Delta Economics conducted a survey of 2,121 business founders with turnovers of above £200,000 up to £20 million that were less than 10 years old to see what they thought of their growth prospects. The survey was conducted between August and October 2009. These are the results for the 204 companies in the South West.

<b>Average Turnover 2009</b>	<b>£945,000</b>			
<b>Percentage Change in Turnover, 2008-9</b>	<b>-47%</b>			
Companies 2-5 years old	-67%			
Companies 6-10 years old	-34%			
<b>% all Companies with International markets</b>	<b>UK</b>	<b>EU</b>	<b>N. America</b>	<b>Asia</b>
<b>South West UK</b>	98.0% 97.1%	21.7% 29.4%	11.3% 13.1%	5.9% 8.6%
<b>Average amount need to start business</b>	<b>£75,616</b>			
<b>Percentage invested by the founder</b>	<b>72%</b>			
<b>Percentage looking for finance now</b>	<b>16.7%</b>			
<b>Main reason for looking for finance</b>	<b>88% Working capital</b>			
<b>Average percentage turnover growth expected over next three years</b>	<b>SW expected turnover growth: 34%</b> UK average expected growth: 36%			

# Methodology

## **This report is based on:**

- ▶ Documentary and published evidence on the recession and entrepreneurial responses to it
- ▶ HSBC customer and lending data
- ▶ Interviews with all of HSBC's regional commercial directors, covering all regions of the UK (except Northern Ireland) to establish some of the key features of the recession and its aftermath
- ▶ Analysis of a bespoke survey of 2,121 founders of growth-oriented businesses in the UK as part of Delta Economics' Challenges and Opportunities for Growth and Sustainability (COGS) Study. This is the largest and most recent survey of its kind. These founders had established businesses that were less than ten years old but had achieved turnovers of up to £20million. HSBC sponsored specific questions on access to finance. The survey was conducted between August and mid-October 2009 and compared with the previous COGS survey conducted 12 months earlier which was completed in association with HSBC
- ▶ Qualitative interviews with 30 small business experts.



# Index

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8. <http://www.berr.gov.uk/files/file53003.doc>
9. <http://www.is4profit.com/small-business-news/20091021-small-businesses-climbing-out-of-recession.html>
10. <http://www.insolvency.gov.uk/otherinformation/statistics/200908/index.htm> The unadjusted figure for insolvencies was 5,055 in the second quarter of 2009.
11. The Federation of Small Business is suggesting that although 40% of small businesses cited access to finance as an issue in 2008, by June 2009 the figure was only 25% suggesting some easing in the situation. <http://www.fsb.org.uk/News.aspx?loc=pressroom&rec=5406>
12. This result is consistent with the latest Department for Business, Innovation and Skills survey and with the European Central Bank/European Commission survey of 9,000 businesses across Europe.
13. The European Central Bank (ECB) survey of SME's Access to Finance across the EU. These figures are from number 271, September 2009
14. ACCA (2009): Access to Finance for the Small and Medium Sized Enterprise Sector, Evidence and Conclusions," October 2009 in conjunction with the Economist Intelligence Unit

# Further information

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