



Business
Distress Index:
Wave 12

*Is it time to be confident
about growth?*

Methodology

BDRC Continental conducted 500 telephone interviews with small, medium and large business owners and Financial Directors between 7th-17th October 2013. Strict quotas are set by size, and softer ones for region and sector. The data is weighted to be representative of all UK businesses with an annual turnover above £50,000. The weights applied are based on the business population data from the Department for Business Innovation and Skills (BIS). The respondent in each case is a senior financial decision maker.

Introduction by Liz Bingham, R3 President

The last edition of the R3 Business Distress Index in September 2013 found tentative signs of optimism beginning to creep back into the UK's business community. Signs of business distress were down – again – while signs of business growth were beginning to inch up.

However, whilst the last survey's results were broadly encouraging, there was still much in the data to temper enthusiasm. Signs of business growth may have been up, but they were still some way off the heights we saw in summer 2012. And, while optimism about the wider economy increased, this failed to translate into businesses expressing confidence about their own fortunes.

These results raised questions about the sustainability of the economic recovery that was beginning to gain momentum: would this recovery be a lasting one if businesses remained pessimistic or unsure about their own prospects? Would the renewed signs of business growth which petered out in 2012, prove to be sustainable?

This latest Business Distress Index goes some way to providing a very positive answer to both questions.

Not only have all our indicators of business growth hit new record-highs, but the data indicate that there is an air of sustainability to business confidence and growth this time around: more businesses say they are planning to expand their business in the next year than those planning a consolidation, and more

businesses say they are moving from a period of contraction to expansion than those that say they are moving in the other direction.

Importantly, economic optimism is beginning to filter through to how businesses feel about their own prospects too: over half of the businesses surveyed feel their own fortunes will improve in the near future.

The results of this survey are very encouraging indeed. After more false starts than many businesses will care to remember, the recent burst of economic good news may well be the 'real deal'.

There are still caveats to the good news though: for example, those businesses currently having the best time tend to be larger businesses based in the South East. It may take a few more surveys demonstrating positive indicators before it could be declared that growth is well and truly 'back' for all businesses.

Nonetheless, this survey is certainly the most encouraging we have seen in the two years the report has been running. After such a prolonged period of doom and gloom, it's very nice to be able to talk about good news for a change.




Liz Bingham, R3 President

Executive summary

1. Planning for growth

- **44% of businesses** said that they **planned to expand** over the coming year, compared to **39%** planning to **consolidate**.
- **15% of the businesses surveyed** plan to move from **consolidation in the last year to expansion in the next**, compared to **12%** moving from **expansion to consolidation**.
- **41% of businesses** said that they **had been expanding** over the last year, compared to **42%** who had been **consolidating**.

2. Growth

- **68% of businesses** reported seeing **one or more indicators of growth**, up from 53% in July 2013.
- Each of R3's growth indicators hit record levels in October 2013. **32% of businesses** reported **expansion**, **42% of businesses** reported an **increase in sales volumes**, another **42%** are **investing in new equipment**, **41%** are **experiencing increased profits**, and **30%** are **experiencing an increased market share**.
- An **unprecedented five out of six growth indicators** have seen **double-digit growth** since the July 2013 survey.



3. Business Distress

- Business distress was up (from July 2013), with **37% of businesses** reporting **one or more signs of distress**. This is the first rise in this figure since November 2012.
- There were small increases in the proportion of **businesses showing decreased profits (23%)**, a **reduction in sales volume (20%)** and **making redundancies (9%)**.
- **Fewer businesses** were regularly using **their maximum overdraft (10%)**, following a rise in the last survey, and the percentage of **businesses whose market share had fallen (11%)** held steady.

4. Optimism and Business Confidence

- A **record 59% of businesses** reported **feeling more optimistic about the economy** than three months ago. This is an **increase of six percentage points on July 2013's 53%**, itself a record.
- **52% of respondents** expected their **business activity to increase** over the next year.

1. Planning for growth

- In this Business Distress Index, we asked businesses to look back over the last year and tell us if they had been expanding or consolidating, and which they were planning for the year to come.
- **44% of businesses said that they planned to expand** their business over the coming year, compared to **39% who said that they would be consolidating**.
- Looking back over the last year, **42% of businesses were consolidating**, with **41% expanding**.
- The regional breakdown shows a very mixed picture:
 - **61%¹ of businesses** from both the **West Midlands** and **Wales** (the highest proportions nationally) **said that they were planning to consolidate** in the next year. **Wales had the lowest proportion of businesses (22%) planning to expand** in the next year, whilst **32% of businesses in the West Midlands had gone from expanding last year to planning to consolidate** – the highest percentage of any region by some margin.
 - Meanwhile, **63% of businesses in London** stated that they **planned to expand in the next year**, with a solid **35% planning to move from consolidation to expansion** in the next year.

Liz Bingham comments:

“The past five years have been characterised by a number of false economic dawns: signs of growth in R3’s Business Distress Index or in the official GDP statistics have often been short-lived. This survey suggests things could be different this time around.

A common complaint since the recession has been that businesses lack the confidence – whether in bank lending, government policy, or economic performance – to make long-term investment decisions; this lack of investment itself has helped hold back economic recovery.

What’s particularly significant about this edition of the Business Distress Index is that businesses are now more likely than not to be planning to expand next year.

This is a reversal of the situation over the past year, when more businesses said they had consolidated rather than expanded.

However, it is worth noting that whilst larger businesses and those based in London and the South East are doing well and planning for growth, smaller businesses and those in the regions are slightly less positive. There is the hope that this ‘positivity’ will spread, but this will need to be monitored.

Yet the overall picture is good: the willingness of businesses to begin investing in their long-term future again suggests a level of business confidence that has previously been missing. If this change in attitude can unlock business investment, then that bodes well for the future.”

¹ It is, though, important to note that there is a small sample size so the findings are indicative

1. Planning for growth (continued)

- There is also a mixed picture on a sector basis:
 - **Wholesale (54%), Retail (51%) and Hotels & Catering (51%) all planned to expand in the forthcoming year.** This contrasts sharply with **construction, where just 21% of businesses plan to expand**².
 - **48% of Production businesses and 46% of Financial, Property and Business Services businesses stated that they planned to consolidate in the next year.** 27% of businesses in the **Transport and The Arts**³ sectors planned to consolidate over the next year.
 - **58% of larger businesses (with a turnover of over £1million) plan to expand in the next year** – compared to **42% of smaller businesses (those with a turnover between £50,000 and £1 million).** The largest businesses (those with a turnover in excess of £20 million), showed a very mixed picture: whilst a **solid proportion planned to expand in the next year (55%)**, which compares well with larger and smaller businesses as outlined above, **more very large businesses reported that they planned to move from expansion to consolidation** (24% of businesses reported this, compared with 12% of smaller and 16% of larger businesses).

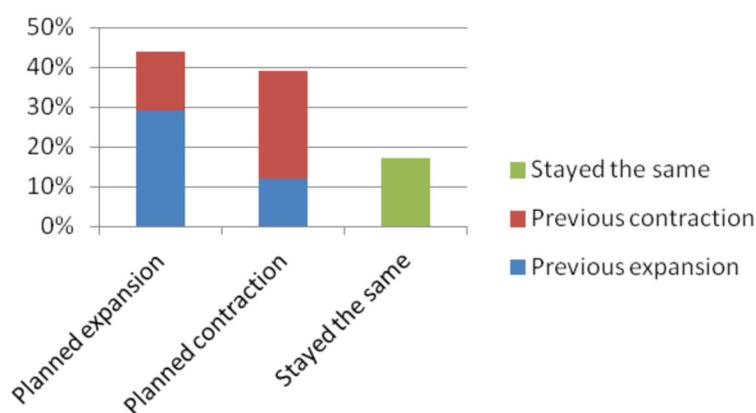


Figure 1 - Business expansion or contraction

² See earlier footnote regarding sample size.

³ See earlier footnote regarding sample size.

2. Growth

- **68% of businesses reported experiencing one or more indicators of growth.** This is an increase of **fifteen percentage points from July 2013** and twenty-one since our survey in March this year.
- In the last eighteen months, **all five indicators have increased by double digits**, and **four of the five have increased by double digits from our survey in November 2012.**
- All five growth indicators have now reached record high levels.
- The percentage of **businesses investing in new equipment rose from July 2013's 32% by ten percentage points to 42%.**
- Similarly, there was a significant increase in **businesses reporting expansion, to 32% (from 25% in July 2013).** This is **the highest result recorded since it was first included** as an indicator in September 2011.
- There has been a **significant increase in the percentage of businesses reporting increased sales volumes, rising to 42% in October from 27% in July 2013.**
- The percentage of businesses **reporting increased market share was nearly doubled from 15% in March 2012 and 16% in July 2013 to 30% in October 2013.**

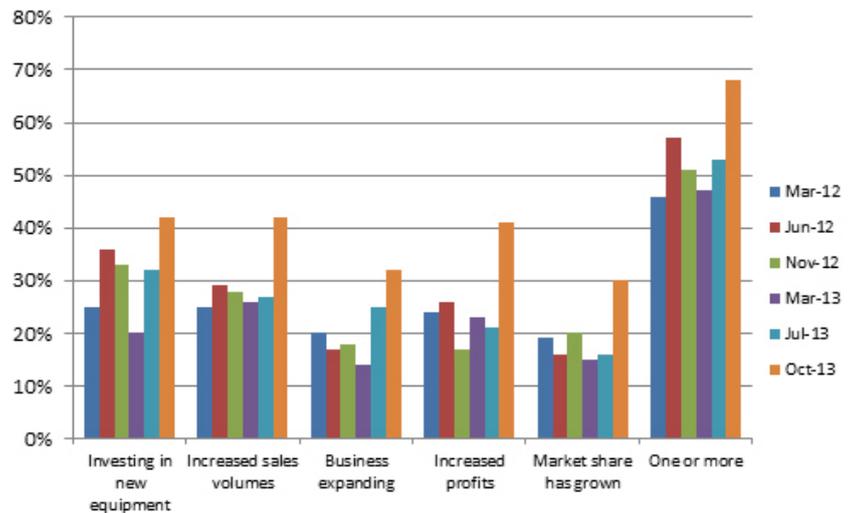


Figure 2 - Business growth indicators

Liz Bingham comments:

“In the last Business Distress Index, we asked whether early signs of growth would be repeated in this survey, and noted that our growth indicators were still below where they had been in June 2012. This survey provides a pretty emphatic response to both those concerns.

Not only have the growth indicators continued to rise, but all growth indicators are at record levels; five out of six growth indicators have seen almost unprecedented double-digit growth since the last survey.

This is very encouraging – especially when compared to the patchy signs of improvements in previous surveys – but it is important not to get carried away: a repeat showing of similar levels of growth indicators would be needed in the next survey to show that this survey's data are not one-offs.”

2. Growth (continued)

- **41% of respondent businesses reported an increase in profits** in this survey, **an increase of 20 percentage points** compared to July 2013.
- Regionally, **the East Midlands had the highest proportion of businesses showing one or more indicators of growth (84%)**. However, **the neighbouring West Midlands had the smallest proportion of businesses showing one or more growth indicators (53%)⁴**.
- The **production sector showed the most signs of growth**, with **86% of businesses reporting one or more growth indicators**. In comparison, only **44% of businesses in the construction** sector had experienced one or more growth indicators⁵.
- Larger businesses continue to exhibit stronger positive indicators than smaller

businesses, although the gap has remained steady since July 2013. **85% of larger businesses** (those with a turnover of over £1 million) **reported experiencing at least one positive indicator in October compared with 70% in July 2013**, an increase of 15 percentage points. Likewise, the percentage of **smaller businesses** (those with a turnover of £50,000 to £1 million) **reporting at least one growth indicator has risen by 15 percentage points, from 51% of businesses in July 2013 to 66% in October 2013**.

⁴ See earlier footnote regarding sample size.

⁵ See earlier footnote regarding sample size.

3. Business distress

- Overall the **proportion of businesses showing one or more sign of distress was 37%**, up two percentage points since July 2013. However, it is still down from the proportion in March 2013 (40%) and well down on the 53% reporting one or more signs of distress in June 2012.
- **One in five businesses (20%) reported a reduction in sales volume**, a rise of one percentage point from July 2013.
- **10% of businesses stated that they had been regularly using their maximum overdraft in October**. This represents a fall of two percentage points from July 2013.
- The proportion of **businesses needing to make redundancies rose slightly to 9%**, from 7% in July 2013, but is still below the 10% recorded in November 2012.
- The proportion of **businesses recording a fall in market share**, however, remains steady at 11%, following a steady fall from March 2012.

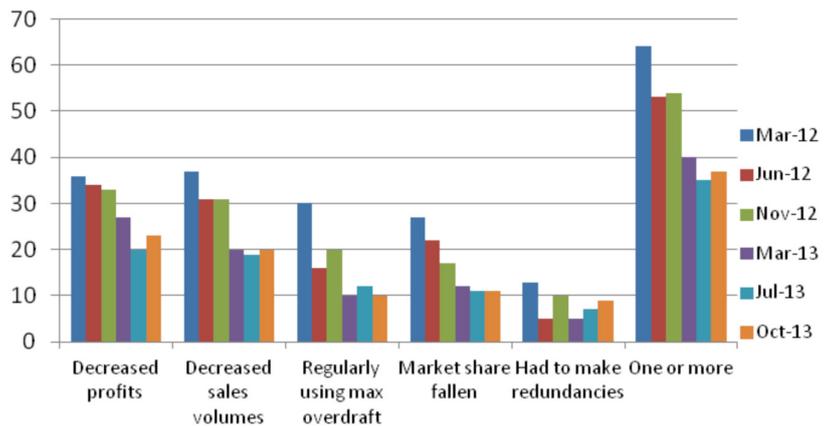


Figure 3 - Business Distress Indicators

“The share of businesses reporting some form of stress has climbed very slightly from the last survey; but this is not necessarily unexpected, nor a cause for alarm.

Overall, there is still very much a downward trend in stress levels – 37% of businesses report at least one sign of business distress, 27 percentage points down from the 64% in March 2012 – while increasing stress levels may actually chime with a return to sustained economic growth.

In the early stages of a sustained recovery, businesses will often begin to find things becoming tougher rather than easier: creditors become more confident in pursuing debts; the results of under-investment during a recession are exposed; while increased demand can put pressure on cash flow, supply chains, or business models.

As long as these signs of stress are carefully and proactively managed by those businesses affected, there is no reason why business and economic growth should be undermined.”

3. Business distress (continued)

- Since July 2013, the proportion of **businesses with a turnover of more than £1 million experiencing one or more sign of distress has increased slightly to 30% (from 29% in July and March 2013)**. The proportion of **businesses with a turnover of under £1 million experiencing one or more sign of distress**, however, has **risen four percentage points to 39%**.
- **A greater proportion of larger businesses** (turnover over £1 million) **have had to make redundancies; 12% compared to 8% of smaller businesses**. These figures are just a small rise from the numbers recorded in July 2013 (11% of larger businesses; 7% of smaller businesses).



4. Optimism and business confidence

Economic Optimism

- In the latest survey, **59% of respondents reported that they felt more optimistic about the economy** than three months ago. This is **up six percentage points from July 2013 (53%)**
- The proportion of businesses **pessimistic about the economy has fallen by six percentage points since July 2013 to 15% of businesses.**
- **Larger businesses (with a turnover over £1 million) were more likely to be optimistic** than smaller businesses (with a turnover of £50,000 to £1 million): **66% of larger businesses** compared with **58% of smaller businesses.**

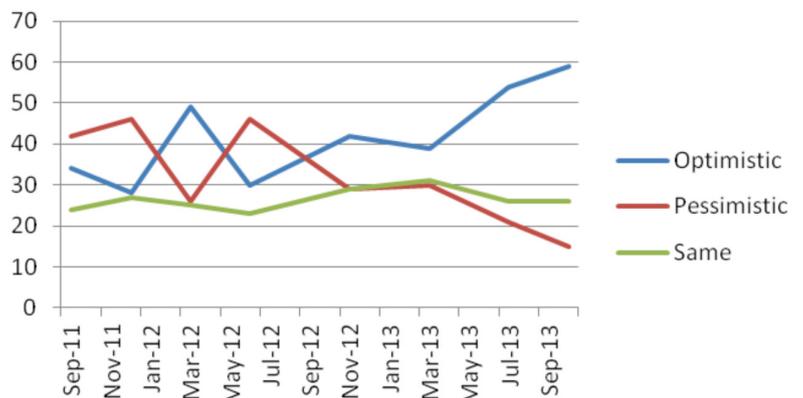


Figure 5 – Business optimism on economy

Business confidence

- In the latest survey, **52% of respondents expected their business' activity to increase** over the next year, compared to **43% in July 2013** – an increase of nine percentage points.
- **6% of businesses expect business activity to decrease** over the next year whilst **41% expect it to stay at the same level.** Whilst the percentages of businesses expecting business activity to decrease remains broadly similar between July 2013 (7%) and October 2013 (6%), there has been a **nine percentage point reduction in those businesses who believe that business activity will remain the same.**
- **Larger businesses (with a turnover over £1 million) were more likely to expect increased activity than smaller businesses (with a turnover of £50,000 to £1 million): by a margin of 62% (larger businesses) to 50% (smaller businesses).**

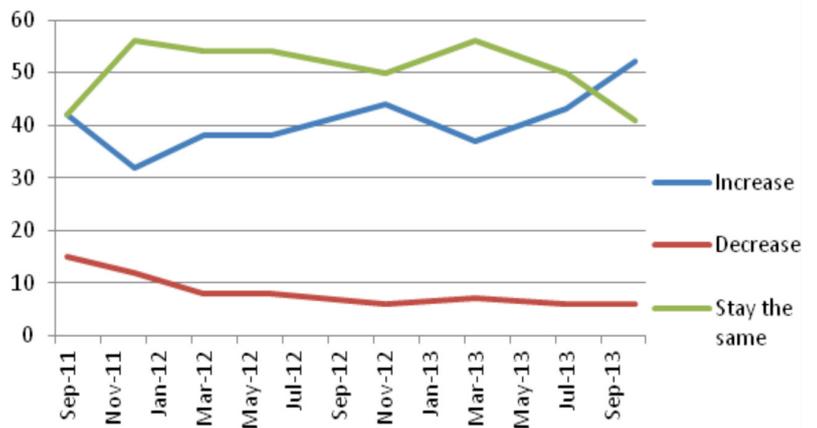


Figure 6 – Own Business Confidence

5. Conclusion

Liz Bingham concludes:

“Good news has been particularly hard to come by in the last five years, to such an extent that when good news does appear the assumption is that it is an outlier. The fact is, this is the second Business Distress Index in a row to have shown improvements in both the financial health of British businesses and confidence in the economy in general. It might be time – at last – to start believing the good news.

Still, it is important to avoid complacency. Not all businesses are thriving and the picture from region to region is somewhat mixed. There is still some way to go for businesses looking to make up for ground lost over the last five years.

It is also worth bearing in mind that external economic shocks, whether from the Eurozone or elsewhere, could yet knock the recovery off course.

A more broad-based improvement in businesses' fortunes – whether speaking geographically or in terms of business size or sector – would be very welcome next time around.

Caveats aside, this latest Business Distress Index makes for very encouraging reading, and bodes well for 2014.”



About R3:

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