

QUARTERLY BUSINESS MONITOR
APRIL TO JUNE 2010
Summary of Findings

1. Executive summary

InterTradelreland has commissioned Perceptive Insight and Oxford Economics to conduct their quarterly business monitor. The objectives for this project are:

- For the business monitor to act as a topical indicator of business confidence, cross-border trade and business activity across the island of Ireland; and
- For the survey results to act as an evidence base on a variety of themes of interest to business and policy makers, themes on which InterTradelreland can build future initiatives.

Approach

Over 1,000 telephone interviews were conducted with business managers on the island of Ireland. The sample was stratified by number of employees, sector and region (Ireland/Northern Ireland) and the data weighted at the overall reporting level to reflect the profile of businesses.

Interviewing took place between 24 June and 23 July 2010.

Business performance

Demand

While 28% of businesses have seen growth in demand for their products and services over the past quarter, 27% say there has been no change and 45% have witnessed a decline.

It is smaller businesses with 10 or fewer employees who appear to be having the hardest time with 46% saying there has been a decline compared with 37% of mid-size and 34% of large-size businesses.

The sectors with the highest percentages experiencing a decline are leisure, hotels and catering (57%), construction (53%) and manufacturing (52%). Those in business services are the least likely to be affected (31% decline).

Analysis by region shows that Southern based businesses have fared worst with 47% seeing a reduction in demand compared with 39% in Northern Ireland (NI).

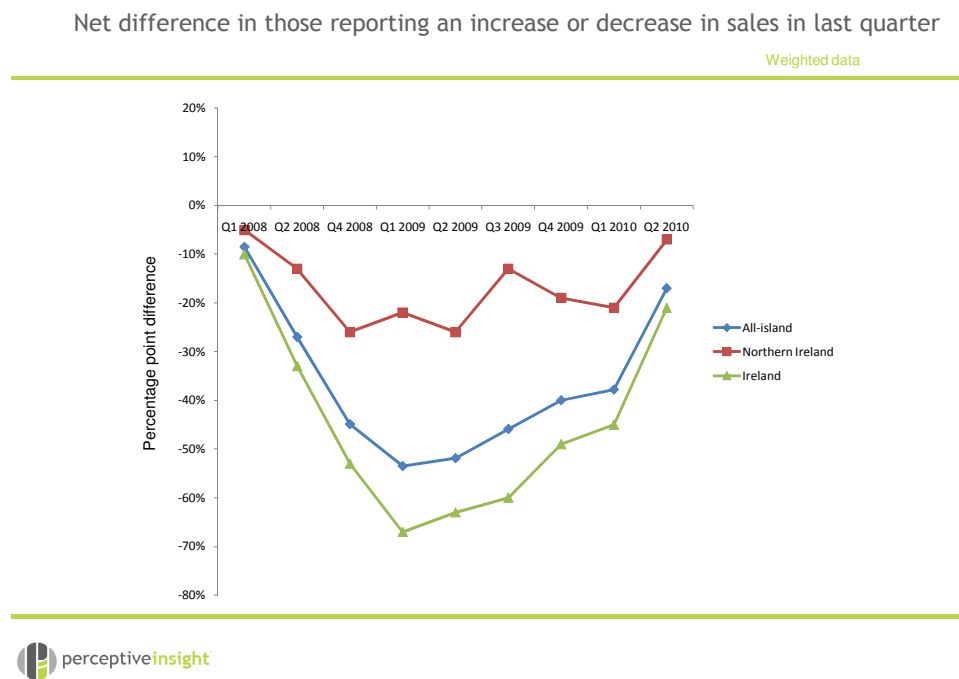
Sales levels

When sales over the past quarter are analysed, it can be seen that they reflect a similar pattern to demand with 43% saying that they have decreased. Again it is the smallest businesses (45%), leisure, hotels and catering (59%), construction (56%) and manufacturing (46%) and those in Ireland (46%) most likely to be affected by reduced sales.

Quarterly trends show that there has been a rise in the percentage of businesses saying that sales have increased (from 15% in Q1 to 26% in Q2) and fewer have experienced a decrease (from 53% in Q1 to 43% in Q2).

Figure 1.1 shows that percentage point difference between those reporting an increase in sales and those saying there has been a decrease.

Figure 1.1: Changes in quarterly sales



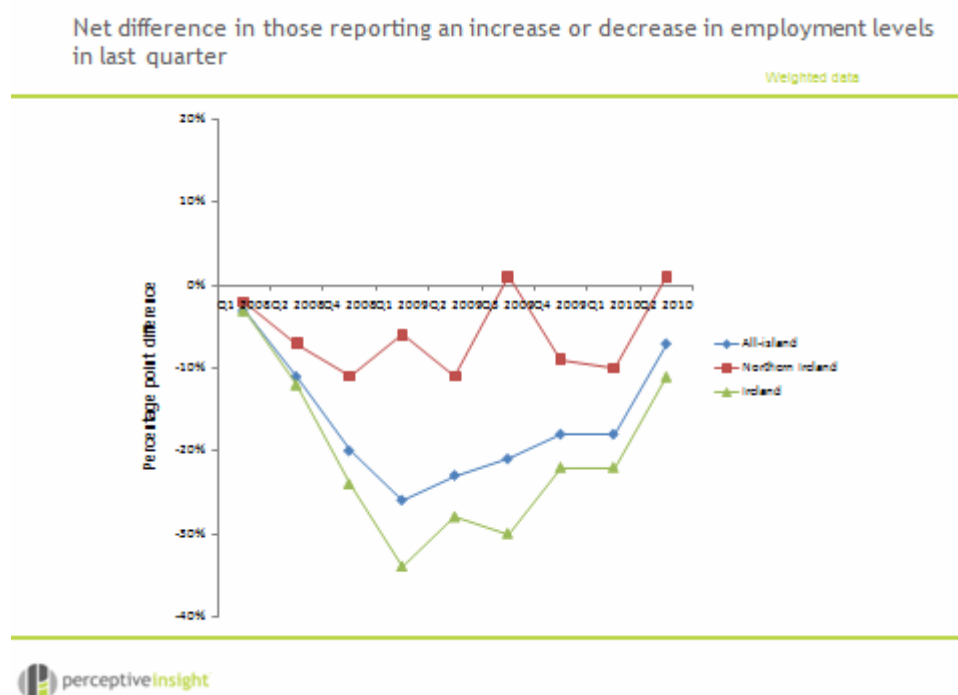
Employment levels

While 8% report that they have taken on new employees in the last quarter, 15% say they have made a reduction in staffing levels. The construction sector appears to be hardest hit with 30% saying they have reduced numbers and only 2% making an increase. Regional analysis shows that those based in Ireland are more likely to have reduced their levels of employment (17%) compared with NI based companies (11%).

Quarterly trends in employment levels show some positive movement with the numbers hiring increasing from 6% in Q1 to 8% in Q2, while those reducing numbers has declined from 24% to 15% over the same time period.

Figure 1.2 shows the percentage point net difference in those reporting an increase and those saying these has been a decrease in employment levels for their business.

Figure 1.2: Changes in quarterly employment levels



Pricing

At an all-island level almost half (49%) say that they have decreased their prices in the past 3 to 6 months, while just 13% have felt able to increase them. This is slightly more than the 8% who increased them in Q1.

While 27% of NI businesses have increased prices 22% have decreased them, with the balance maintaining prices at their current levels. The corresponding figures for Ireland are 7% who have made an increase and 60% who have reduced them.

Business outlook

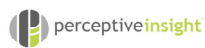
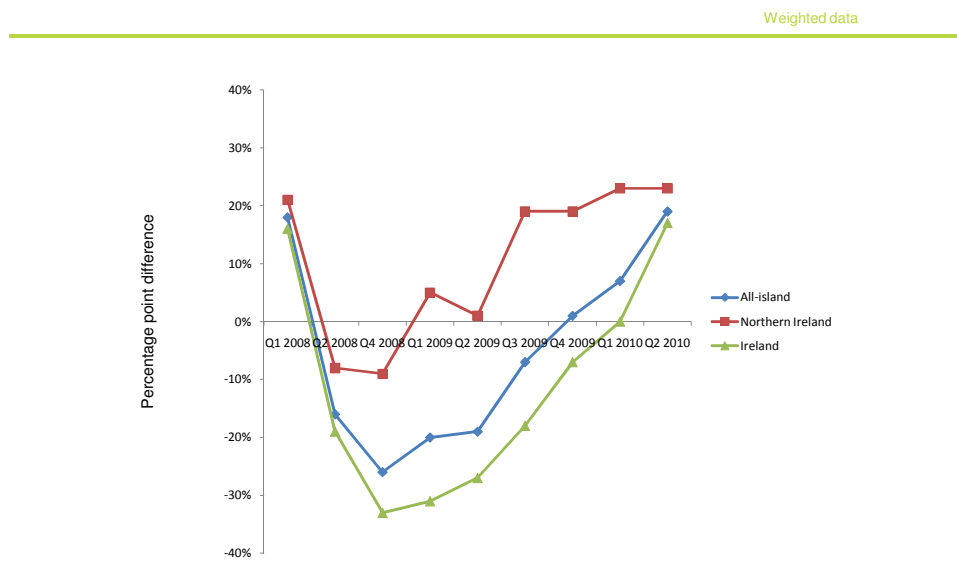
Sales levels

Looking forward over the next 12 months 38% of businesses are optimistic that their level of sales will increase, with 19% expecting a decrease. Large and mid-size businesses are more positive than smaller enterprises, as are those who operate in business services. Those based in NI are slightly more positive than Southern companies with 41% expecting an increase compared with 37% in Ireland.

Analysis of the quarterly trends show a positive increase in the percentages expecting their sales to increase, from 30% in Q1 to 38% in Q2. Those expecting sales to decrease is down slightly from 23% in Q1 to 19% in Q2. Figure 1.3 shows the percentage point net difference between those expecting sales to increase and those predicting a decrease.

Figure 1.3: Outlook for quarterly sales levels

Net difference in those predicting an increase or decrease in sales in next quarter

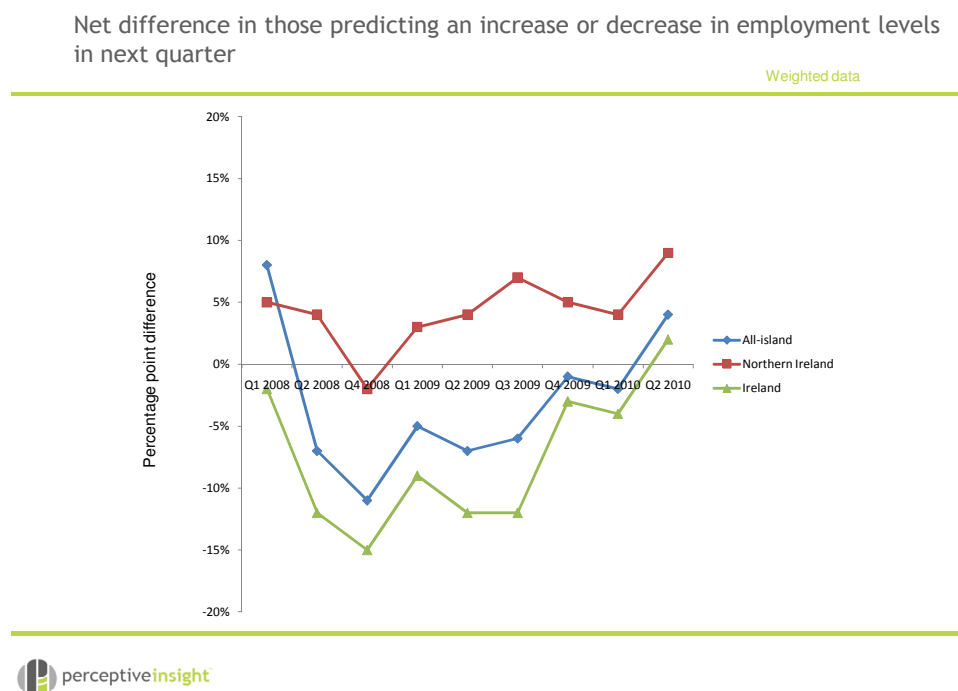


Employment levels

In terms of employment levels more businesses expect to take on new staff (14%) rather than let them go (10%). While large and mid-size companies are more likely to be hiring than small companies they are also more likely to be planning to reduce numbers. Again it is the business services sector that is most likely to be planning for growth and NI based companies are more positive than Southern businesses about future employment levels.

Quarterly trends show that for the first time since Q1 2008 there is a net gain in the percentages planning to recruit versus the percentages planning to reduce numbers (+4 percentage points) (Figure 1.4).

Figure 1.4: Outlook for quarterly employment levels



Pricing

Analysis by region shows that NI companies are more confident that the market can sustain a price increase with 30% saying they expect to put prices up in the next year compared with 7% in Ireland.

The business environment

Cross-border and export activity

Just three in ten of those surveyed say that they export outside their jurisdiction of either NI or Ireland. The sectors most likely to export are manufacturing and business services. Not surprisingly larger businesses are much more likely to be exporters (72%) than either mid-size (51%) or small businesses (26%).

A higher percentage of NI based companies (39%) say they export than Irish businesses (25%). In terms of cross-border trade 32% of NI companies sell to Ireland while 18% of southern based companies trade northwards.

Reliance on public sector sales

In light of the proposed cuts to public sector spending businesses were asked about their direct dependence on the public sector for sales. While seven in ten do not sell to this sector, 15% say it accounts for up to ten percent of their sales and 12% have sales of more than ten percent. While small businesses are less likely to sell to the public sector they are also more likely to have more than 25% of their sales from this area compared to either mid-

or large size companies. Dependence on the public sector for sales is similar both north and south.

Business costs

It is interesting to note the percentage of businesses that do not have a budget for key activities including marketing and advertising (17%), IT (29%), research and development (56%), training (39%) and recruitment (49%). However, this should be set in the context that 62% do not have a formal business plan. Of those that do have budgets a higher percentage is planning to increase their spending rather than reduce it, in all areas apart from training. While 5% plan to increase their training budget, 15% expect this cost to decrease.

Key business issues

A number of interlinked issues are competing for the top spot in terms of their impact on business. They include cashflow, a reduction in demand, rising costs of overheads, rising energy costs and business and consumer confidence. As might be expected in the current climate and given the low percentage who are recruiting, difficulty recruiting and lack of appropriate skills in the workforce are much less of an issue than they would have been previously.

Impact of the economic downturn

Just 4% of businesses say that the economic downturn has had a positive impact on their business while 6% believe it has had no impact at all. However 38% report it has had a moderate adverse impact and 51% have been severely affected. The percentage saying that the downturn has had a severe impact has increased from 37% in Q1 to 51% in Q2. Those based in Ireland are much more likely to have been severely affected (61%) compared with NI businesses (30%).

In terms of profitability 28% of businesses report that they have not been able to remain profitable in the past 12 months. This issue has affected 16% of NI business and 33% of Irish businesses.

As a consequence of the economic downturn, 38% report that customers have requested longer payment terms, 59% lower prices and 58% discounts. These requests are much more likely to have been made to those based in Ireland compared to NI companies.

Innovation

Current and planned innovation activities

In terms of innovative activities those most popular among businesses are improving products or services, improving processes and undertaking new marketing or branding. Three in ten businesses have introduced new or significantly improved products or services in the last twelve months with a further 21% planning to do so in the next year. Twenty three percent have altered their processes and 16% are planning to do so. Two in ten have undergone changes in their marketing or brand and 15% have plans for this activity.

Availability of commercial skills to drive innovation

When quizzed on the availability of a range of commercial skills within their company, the aspects most likely to be rated as good were commercial, managerial and technical skills. Businesses were less confident in their marketing, creative and entrepreneurial skills. These 'less tangible' skills are perhaps more difficult to define, recruit and measure than the 'more tangible' commercial, technical and managerial skills.

Access to finance

Sources of finance

Eighteen percent of businesses have approached a bank or finance house in the last three to six months to seek loans or credit. Large (29%) and mid-size businesses (30%) are more likely to have done so than smaller enterprises (17%).

Twenty eight percent report that they were unsuccessful in their attempt to gain finance with smaller businesses more likely to have been refused (30%) than either mid-size (22%) or large businesses (13%). Also those based in NI were less successful (33%) than their counterparts in Ireland (26%).

And finally...

Who are the most recognised entrepreneurs on the island?

Top of the list is Micheal O'Leary, head of Ryanair, well known for being outspoken and for his innovative and sometimes controversial business model. Twenty eight percent nominated him within the survey. In second place, with 25% of responses, is Sean Quinn who most recently has been in the headlines because of the difficulties being experienced in the Quinn empire. Others include Denis O'Brien (7%), Bill Cullen (3%) and JP McManus (3%). It should be noted also that 18% had difficulty naming any entrepreneur.

Conclusions

The key points to highlight from the quarter 2 2010 survey include the following:

- There is some positive movement in terms of sales and employment levels compared with previous quarters. Also a higher percentage of businesses than previously are predicting increased sales and employment levels. However, it appears that it is only now that businesses are recognising the full impact that the recession has had on their business with a significant increase in the percentage reporting that it has had a severe adverse impact.
- The sectoral results are as would be expected and correlate with the wider economic indicators. The construction and leisure, hotel and catering sectors continue to feel the impact of the downturn most, with business services fairing better than other sectors.
- While it is concerning that 16% of NI firms struggled to remain profitable last year it is much more so for southern based businesses with one third reporting that they were not profitable.

- With 62% of businesses reporting that they do not have a formal business plan, the question must be asked as to whether they have a strategy to take them through the economic downturn. While there is evidence of cost cutting, through wage freezes and cuts, reduced hours and redundancies etc, the lack of planning and budgeting evidenced in the survey suggests that many businesses are reacting to adverse conditions rather than being proactive in planning and tackling the issues head on.
- Public sector exposure, in terms of direct sales, appears to be significant and is high in certain sectors including construction and other services.
- Again cashflow is among a range of issues impacting on business, including a reduction in demand, rising costs of overheads, rising energy costs and business and consumer confidence. However, it appears that the public sector is making little contribution to help with cashflow issues with just 5% saying that payment has speeded up from this type of
- Businesses have a poor view of the support available for innovation. While many have or plan to undertake activities that are classed as innovative, 27% have no plans to keep their business up-to-date.
- The majority of businesses are receiving finance if they ask for it. Interestingly businesses in Ireland are more likely to have been successful in securing finance than NI based businesses. However, the results do not show those who have been put-off from asking for finance due to a perception that it will not be available. Also no account has been taken of the cost of finance and whether this has had an impact those seeking assistance from banks. This is an area to follow up in subsequent surveys.