



# Outlook for Growth

A GE Commercial Finance research report into the 2007 growth outlook for small and medium sized firms based in England, Germany and France



GE imagination at work

# Forward

In an ever changing world sustaining growth is far from easy. Whilst increased globalisation, shifting consumer behaviour, regulatory change, technological advancement and environmental considerations are providing an exciting world of opportunity, they also present potential pitfalls for today's businesses.

At the forefront of these challenges are the owners and managers of established small and medium sized enterprises (SMEs)\*. These individuals run over 200,000 businesses in the UK accounting for in excess of a fifth private sector of employment. In short their success is vital to our future economic well being.

With the importance of these firms in mind this report explores the outlook for growth amongst these businesses and compares their views with the views of their counterparts in France and Germany.

Encouragingly our research indicates that firms across England continue to be optimistic about their future growth prospects, more so than their European counterparts. On the whole they are continuing to prioritise expansion into new markets, building their employees capabilities and keeping an eye on costs – factors that will be important to their success.

Underpinning these business priorities with the right forms of investment is also critical, which is why at GE we believe the best funding solutions are best delivered by business.

As one of the worlds leading companies, with expertise in sectors ranging from healthcare to plastics, we always approach our funding solutions for SMEs with their business objectives in mind.

**John Jenkins**

**CEO, GE Commercial Finance, Business Finance**

\* According to the Department of Trade and Industry the definition of a small firm is a businesses with 0 –49 employees. For medium businesses it is 50 – 249 employees. For the purposes of this research we excluded micro firms (employing 0-9 employees) from our definition of SME. Whilst these micro firms make up in excess of 90% of the number of all businesses they are highly transient. It is small and medium firms which provide greater stability of employment.

## The Research Headlines

- Small and Medium sized Enterprises in England are significantly more optimistic about their 12 month growth outlook than their counterparts in France and Germany
- M&A remains high on the growth agenda for English firms with 7% naming it as a top priority for the 12 months ahead
- Professional and financial firms have the most positive growth outlook whilst firms in retail and leisure are least positive about their growth prospects over the next 12 months
- Economic conditions, increased competition and regulatory burdens are the biggest potential constraints on growth. The tax burden also features, but fewer firms see this as a constraint than in France and Germany
- Motivating staff and finding new staff features highly in the top business priorities for the year. Taking costs out of the business is a priority but features more frequently in the top priorities of French businesses
- Businesses in Greater London and the North East have most positive growth outlook whilst those in East Midlands and East Anglia are least confident about their growth prospects

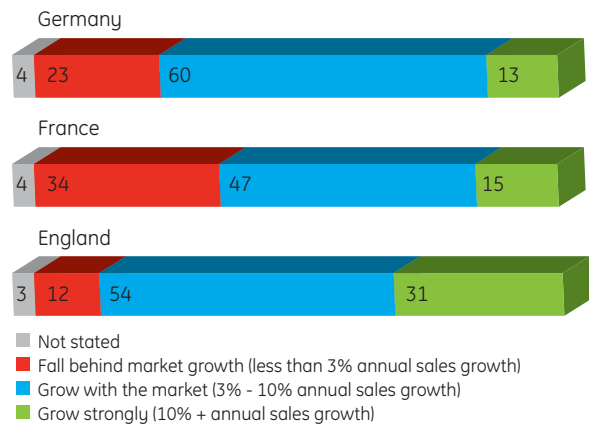
## The Research

GE Commercial Finance commissioned an independent market research company, the Survey Shop, to interview 400 owner managers of SMEs (owner/managed businesses with between 10 and 250 employees) based in England and 100 SME owner managers based in France and Germany respectively. The research was conducted anonymously by phone during August 2006

## English Growth Prospects Exceed France and Germany

Despite the latest interest rate and fuel price rises small and medium firms in England have the most positive outlook for growth across the main economies of Europe. The latest GE research indicates that around a third of the English small and middle market firms (31%) are confident that their sales growth over the next 12 months will be well in excess of 10%. This compares with only 13% of firms in Germany and 15% of firms in France expecting to see these growth rates (See chart 1).

Chart 1 – Forecast Sales Growth For The Next 12 Months



Also on a positive note only 12% of firms think that they will fall behind the growth in their markets compared with over a third (34%) in France and around a quarter in Germany (23%).

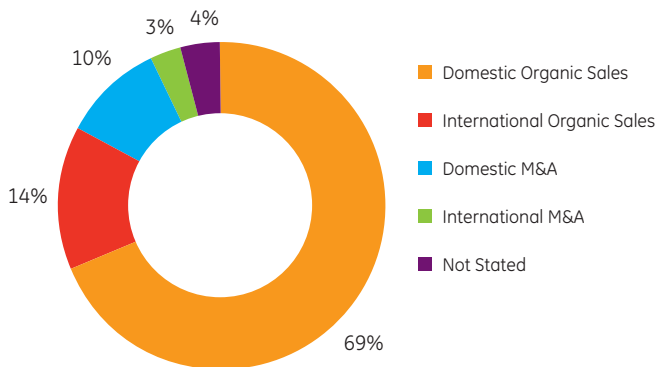
Despite fragile consumer confidence these results indicate a continued level of confidence amongst English SME firms which should provide a solid platform for overall economic growth in 2007.

### “M&A still high on the growth agenda”

The level of M&A activity in the marketplace shows no sign of slowing as 7% English SMEs indicate that they expect to be engaged in M&A activity over the coming 12 months. Domestic acquisitions are expected to deliver 10% of overall anticipated sales growth whilst a further 3% of sales growth is expected to come from international mergers and acquisitions. This compares with only 4% of anticipated French sales growth expected to come from both domestic and international M&A activity.

The dependency of English firms on the fortunes of the UK economy remains high with over two thirds of anticipated sales growth expected to come from organic domestic sales (See chart 2). Only 14% of anticipated sales growth is expected to come from organic sales overseas. In France the overseas focus is much higher with 22% of anticipated sales growth expected to come from international sales.

Chart 2 – Sources of anticipated sales growth over the next 12 months

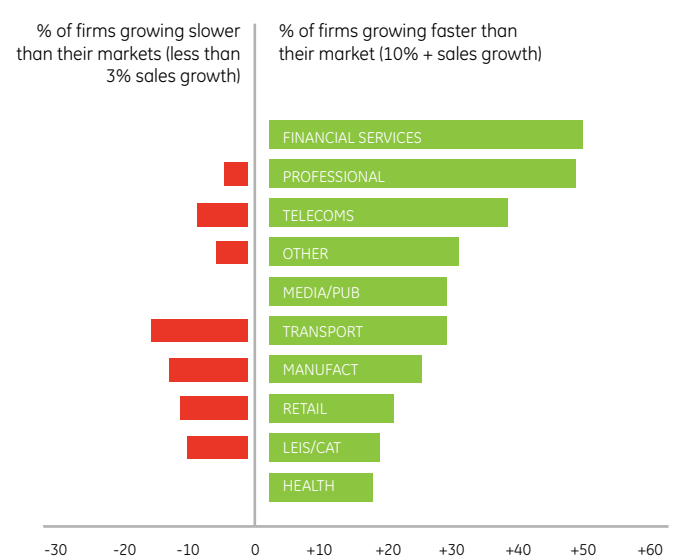


### “Professional services and financial services lead the charge”

The strong performance of the financial and professional sectors shows no sign of abating as over 50% of SME firms operating in these sectors across England say that their businesses will grow strongly (10%+ annual sales growth) over the next 12 months (See Chart 3). These growth expectations are underpinned by a strong contribution from the UK economy with three quarters of the expected growth expected to come from domestic organic sales. There are number of factors which may go to explain this continued optimism including increased buoyancy in the retail and commercial property markets, merger and acquisition activity and the growth in recruitment.

Within these sectors domestic M&A is expected to contribute a further 14% of growth for professional firms and 17% for financial services firms. This focus on M&A is borne out by one in five of firms in these sectors saying that this activity is one of their top three business priorities over the next 12 months.

Chart 3 – Sector Breakdown Of Growth Expectations



By way of contrast the challenging times experienced in the retail, leisure and catering industries over the last year shows no real sign of significant improvement as consumer spending is held back by the high debt burden, higher interest rates and increased fuel costs. As a consequence less than a quarter of firms in these sectors expect to grow strongly, whilst over one in ten of these firms expect to grow more slowly than the markets they compete in.

Manufacturing firms remain cautiously optimistic with 29% of firms saying that they expect to grow strongly (10%+ increase in sales growth), 53% expecting to grow at the same rate as the market and 15% saying that they expect to grow at less than 3%.

The most internationally growth orientated firms are in the media and publishing sectors reflecting the current strength of UK creative industries. Firms in these sectors say that around 28% of their expected growth in the next twelve months will come from organic overseas sales. This is double the national average for SMEs overall. In addition firms in these sectors also expect to generate nearly a tenth (8%) of their growth from international mergers and acquisitions.

## “Economic conditions and increased competition biggest growth constraints”

Despite a stable economic outlook SMEs in England put economic conditions (57%) as one of their top three growth constraints (See chart 4). This is followed closely by increased competition (56%) and the burden of regulation (49%). The focus on regulation is on a par with Germany where 52% of firms put this in their top three but interestingly higher than France where only 35% name it as a constraint.

Chart 4 – SME Top Three Constraints on Growth

CONSTRAINTS ON GROWTH	FIRMS IN ENGLAND	FIRMS IN FRANCE	FIRMS IN GERMANY
Economic conditions	57%	60%	42%
Increased competition	56%	61%	37%
Burden of Regulation	49%	35%	52%
Tax burden	32%	57%	52%
Lack of skilled employees	27%	31%	24%
Lack of available investment	12%	19%	9%
High borrowing costs	8%	13%	24%
Poor transport infrastructure	7%	8%	12%
Technological obsolescence	7%	3%	9%

Taxation is named as a constraint for nearly a third (32%) of firms in England. Whilst this represents a significant proportion, both firms in France and Germany are more concerned about tax with 57% and 52% put it in their top three respectively.

Lack of skilled employees remains a top constraint for growth for 27% of firms with this being even more acute in manufacturing with over 34% putting this in their top three constraints (See Chart 5).

On a positive note the current low levels of interest rates in the UK means that only 8% put the cost of borrowing in their top three constraints. This compares with 13% in France and 24% in Germany. One exception is the transportation sector where nearly one in five name it as a barrier for growth. Firms in transportation are also more likely to put lack of available investment in their top three with 19% naming it as a constraint. On the whole, however, the general liquidity of the financial markets means that availability of funding is not named as a big issue with only 12% putting it as a possible barrier for growth.

The need for a cost effective transportation system is of particular importance to firms operating in retail, leisure, catering and haulage with over one in ten of firms in these sectors naming this as a barrier for growth.

Chart 5 – Industry Sector Growth Constraints

CONSTRAINTS ON GROWTH	National Average	Manufacturing	Retail Services	Financial	Leisure/Catering	Media/Pub	Telecoms Services	Profess.	Transport	Health-care
Economic conditions	57%	55%	60%	50%	47%	67%	70%	58%	63%	60%
Increased competition	56%	52%	58%	45%	51%	75%	80%	67%	67%	60%
Burden of Regulation	49%	50%	49%	70%	51%	25%	40%	50%	19%	80%
Tax burden	32%	31%	25%	45%	41%	25%	20%	38%	44%	20%
Lack of skilled employees	27%	34%	18%	25%	16%	25%	10%	25%	19%	33%
Lack of available investment	12%	10%	11%	5%	8%	8%	40%	13%	19%	7%
High borrowing costs	8%	7%	9%	5%	6%	0%	0%	13%	19%	7%
Poor transport infrastructure	7%	6%	11%	0%	14%	0%	0%	4%	11%	0%
Technological obsolescence	7%	6%	7%	20%	4%	0%	10%	4%	11%	0%

## “People feature highly in top business priorities for the year”

Outside of focusing on winning new business employees feature highly in the top business priorities for the next 12 months, highlighting the importance of getting, retaining and motivating good people to ensue success. 39% of SME owners/managers put motivating their staff in their top three priorities whilst 30% put finding staff on their top three list. The sector with the biggest motivational challenges is telecoms, where a massive 60% name this as a priority. Leisure and catering follow closely behind at 53%.

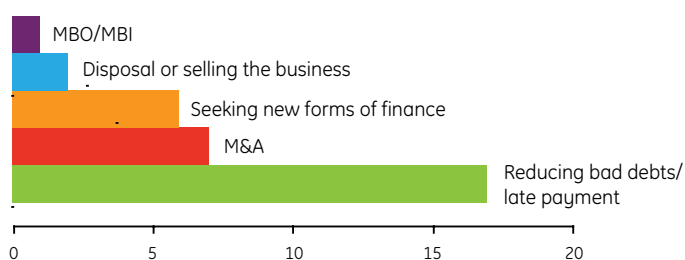
The sectors with the largest proportion of businesses putting the challenge of hiring new people in their top priorities are healthcare (60%), telecoms (50%) and financial services (40%).

Financial challenges also feature highly in the list of priorities for next year. Top of the list is dealing with late payment and bad debts. Nearly one in five businesses (17%) say that this an issue they need to address. Transportation businesses in particular are concerned about this issue with over a quarter citing in their top three business priorities to address.

In terms of restructuring (See chart 6) 7% of businesses intend to focus on M&A, 2% on disposals and a further 1% on initiating a management buyout/buyin. Some notable highlights in the restructuring arena are that over one in five firms in the financial and professional sectors expect to engage in M&A, 6% of firms in leisure and catering put MBO/MBI as a top priority and 7% of transportation firms intend to focus on disposals.

In this relatively low interest rate, liquid funding market seeking new forms of finance remains a lower priority for most firms with only 6% saying that they see it as a top priority over the next twelve months.

Chart 6 – Top restructuring priorities



% of firms with restructuring challenges in their top three business priorities.

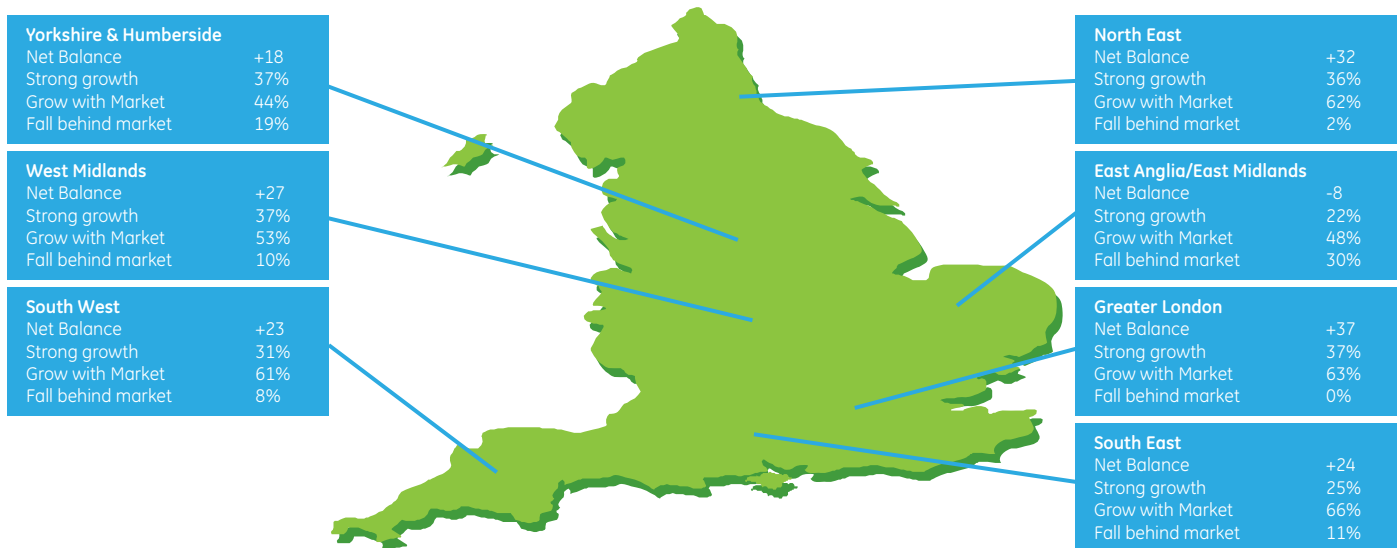


Chart 7 – Regional Growth Outlook

**“Greater London and the North East have most optimistic outlook”**

Whilst the overall outlook for growth across England is positive there are significant variations across regions (See Chart 7)

**Greater London**

On the back of a stronger financial markets, rising house prices businesses in Greater London are the most optimistic in England with highest proportion of high growth firms (37% of firms expect to grow at more than 10% in the next 12 months) and no businesses in the region expecting to grow slower than the markets they compete in (less than 3%).

Top business priorities for businesses in this region are winning new business (77%) taking the cost out of the business (40%) and finding new staff (30%). In addition businesses in London are most likely to be investing in new operating systems with 26% naming this as a top priority compared with 19% nationally.

Biggest constraining factors on growth include economic conditions (79%) increased competition (60%) and the burden of regulations (42%). Despite having the most aggressive growth outlook businesses in the region are the least concerned about finding skilled employees with just 14% naming this as a big constraint compared with 27% of businesses nationally.

**East Anglia/ East Midlands**

By way of contrast the outlook for growth in East Anglia/ East Midlands is the weakest across England with 30% of firms forecasting less than 3% growth in their sales over the next 12 months compared with only 12% across England as a whole. Encouragingly 22% expect to grow strongly (10% + increase in turnover).

Over the next 12 months the top business priorities for firms in these regions are winning new business (83%), taking the cost out of their businesses (48%) and motivating staff (35%). Interestingly nearly double the proportion of businesses across the region (13%) put possible mergers and acquisitions as one of their top three business priorities compared with the national average.

The biggest constraining factors on growth include economic conditions (63%), increased competition (59%) and the burden of regulation (43%).

**North East**

Second only to London the North East is the most optimistic across England in terms of expected growth with 36% of companies expecting to grow sales by in excess of 10% and only 2% of businesses expecting to grow more slowly than the market (3% sales growth).

Top business priorities for businesses in this region are winning new business (83%), taking the cost out of the business (45%) and finding new staff (32%). In addition, reducing bad debts is more of a priority for businesses in the region than across the rest of the country as a whole with 26% naming it as a top priority.

Whilst the burden of regulation (53%), increased competition (51%) and economic conditions (47%) are named as the biggest constraining factors, businesses in the region are nearly twice as likely than their UK counterparts to name poor transport infrastructure as a constraint (13% compared with 7% nationally).

**North West**

Firms in the North West are towards the bottom of the regional growth league with only 25% of firms expecting to grow sales in excess of 10% over the next 12 months and 11% of firms expecting to grow slower than their markets overall (less than 3% sales growth).

Top business priorities for businesses in this region are winning new business (73%), motivating staff (At 51% is nearly double that of the North East) and taking the cost out of the business (36%).

The biggest constraints on growth are increased competition (60%), economic conditions (47%) and the burden of regulation (44%). Interestingly the availability of skilled staff is seen as less of a constraint with only 16% of businesses naming it as a constraint compared with 27% of businesses nationally.

## South East

As the powerhouse of the UK economy it is concerning that firms in this region are less positive than the UK overall when it comes to growth. Only 25% of firms in the region expect to grow sales by in excess of 10% (compared with 31% nationally) and 11% expect to grow slower than the market overall.

Staff issues predominate more for businesses in the South East, with motivating staff (45%) and finding new staff (36%) featuring in the top three business priorities alongside winning new business (75%). Businesses in the region also have the most international outlook with 28% putting international expansion at their top priorities compared with just 19% of firms nationally.

In addition 38% (27% nationally) of firms name lack of skilled staff as one of their biggest constraints on the growth of their business. Other constraining factors are increased competition (57%), economic conditions (55%) and burden of regulation (45%).

## South West

In terms of the growth outlook over the next 12 months the South West is one of the more positive, 56% of companies foreseeing growth within the market of between 3% and 10%, and an additional 31% expecting a higher rate of growth at 10%.

The South West tops the league in terms of needing to motivate their employees with 58% naming staff motivation in their top three business priorities alongside winning new business (79%) and taking the cost out of the business (44%). Business in the region are also more concerned about reducing the burden of regulation with 28% stating it as a top business priority compared with 15% nationally.

Biggest constraining factors on growth include the burden of regulation (62%), increased competition (56%) and economic conditions (52%).

## West Midlands

In contrast with their neighbours in the East Midlands, companies in the West Midlands are much more optimistic about their growth prospects with one of the highest proportions of firms (37%) expecting to grow strongly (compared with 22% in the East Midlands and 31% nationally).

People are seen critical to meeting these growth aspirations with motivating staff (46%) and finding new staff (37%) forming two of the top three business priorities for next year alongside winning new business (83%). Companies in the region are also more likely to be focusing on sorting out their pension schemes with 10% naming this as a top business priority (5% nationally).

The biggest constraining factors on growth are economic conditions (67%), increased competition (62%) and burden of regulation (52%).

## Yorkshire and Humberside

This region has the biggest spread of winners and losers in England with one of the highest proportions of fast growth businesses (37% expect to grow at more than 10% compared with 31% nationally) and slow growth businesses (19% expect to grow slower than the market overall compared with 12% nationally).

Top business priorities for businesses in this region are winning new business (85%), finding new staff (35%) and taking the cost out of the business (29%). In addition 6% of businesses in the region put disposing part or all of their business as a top priority, which is three times the national average.

The biggest constraining factors on growth are economic conditions (48%), the burden of regulation (46%) and increased competition (40%).

## GE Commercial Finance – Helping SMEs Grow

GE Commercial Finance, Business Finance is a leading independent finance provider for SMEs and Corporates based in the UK. Being part of world's leading industrial businesses, Business Finance is able to bring a creative business approach to funding solutions ranging from day to day working capital requirements to major initiatives such as MBOs, MBIs, corporate restructures, acquisitions, plant investment and development into new markets.

GE Commercial Finance, Business Finance can create funding options based on a combination of debtors, finished stock, plant and machinery, unencumbered land and buildings, historic and projected cash flow and even the value of a brand.

### About GE Commercial Finance

GE Commercial Finance is the business-to-business finance unit of General Electric. With deep industry expertise and lending, leasing and financing services of every kind, GE Commercial Finance plays a key role in helping its customers grow. Conducting business in 35 countries, GE Commercial Finance has assets of over US\$206 billion and is headquartered in Norwalk, Connecticut, USA.

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