

Savanta:

Costs up, demand down

- another major crisis
for UK Businesses

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make better decisions



Costs up, demand down

Cost crisis looms

Just when we thought we were in the clear, UK businesses are now menaced by another major crisis after recently recovering from a crippling two years of the COVID-19 pandemic. The rate of inflation is at the highest we've seen in 40 years. Gas prices have more than doubled since May 2022 and transporting products has been challenging to say the least.

Under a huge government support package, energy bills for businesses will be cut by around half their expected level this winter. Shielding businesses from volatile and crippling costs; the scheme will establish wholesale gas and electricity prices for six months starting from 1 October.

Savanta has used two of its flagship surveys to better understand business sentiment on this very important issue.



Savanta's 2022 Business Tracker
A survey amongst 1005 UK businesses in July and 1004 in August



MarketVue Business Banking
from Savanta: A continuous survey of 15,000 financial decision makers in UK businesses and over 10 years of historical data

Note: interviewing was conducted before the government mini-budget and wider support announcements.

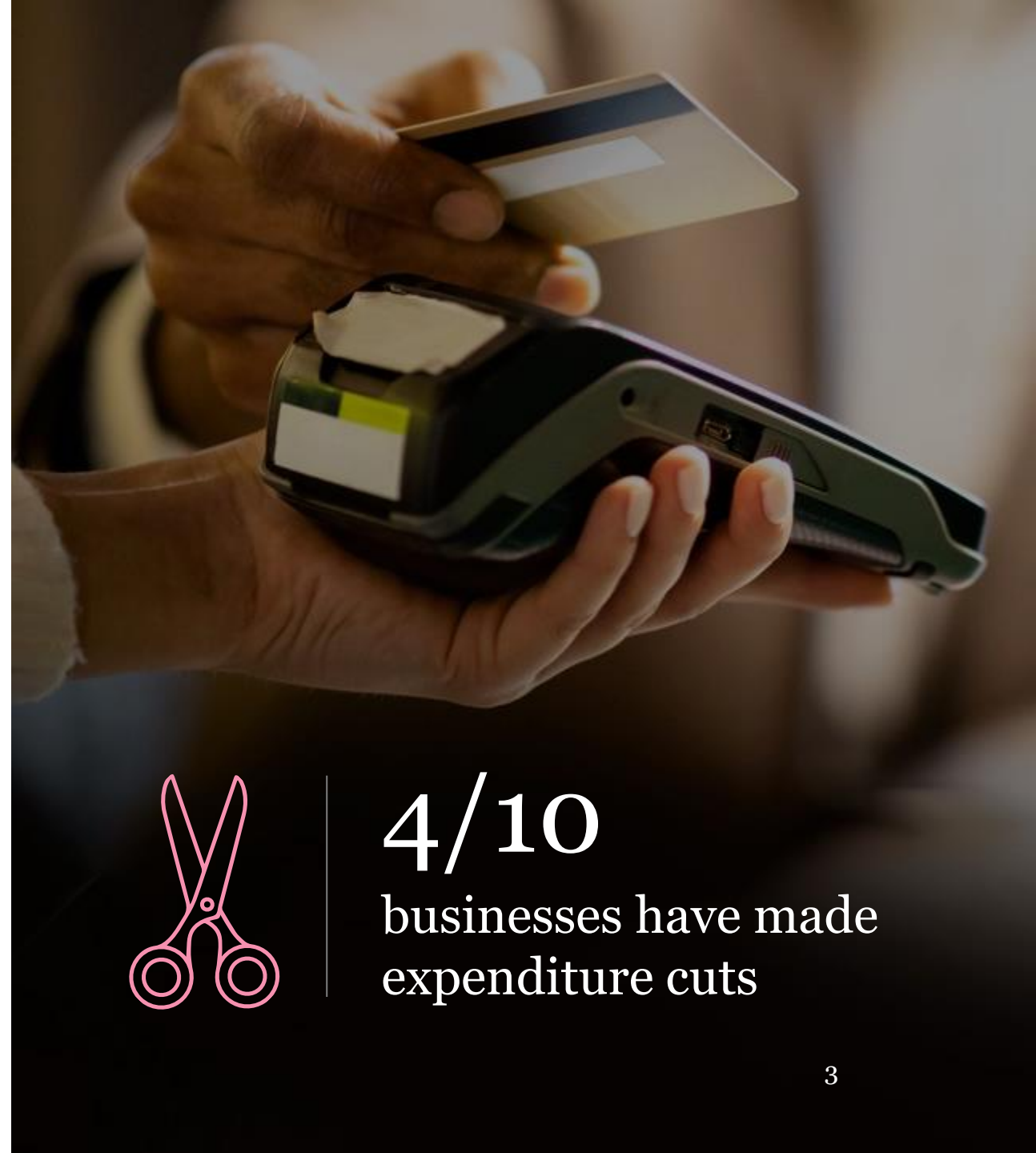
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Cautious spending and cost cutting endemic

Data from the Savanta Business Tracker shows that almost half of UK businesses (47%) are currently spending more cautiously.

Larger businesses (£1m+ revenue) appear to be the most cautious (53%) compared to smaller businesses (up to £1m revenue) (43%).

Overall, 4 in 10 businesses have made expenditure cuts, with 13% saying they have cut a significant amount. Whilst larger businesses say they are being more cautious, it is smaller businesses that are making more significant cuts (15% vs 10% for larger businesses).

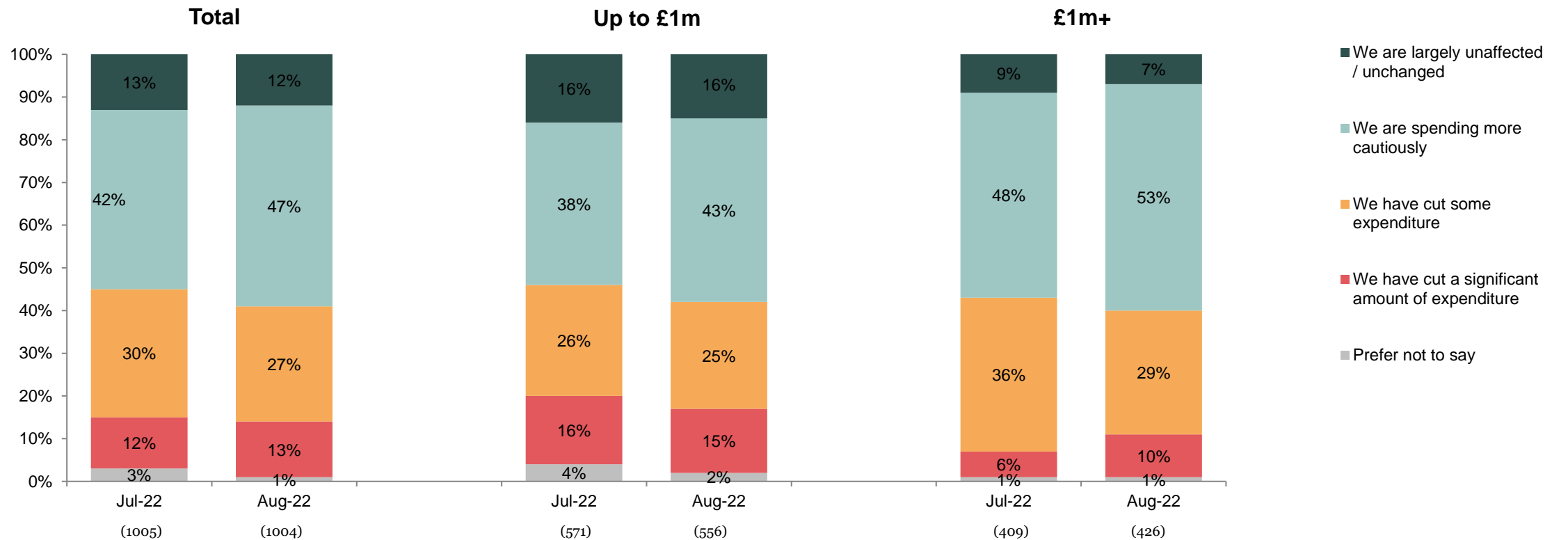


4/10
businesses have made
expenditure cuts

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Current business circumstance

Thinking about increases in business costs and inflation, which of these phrases comes closest to describing your business's current circumstance?



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SALE**
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**EVERYTHING
MUST GO**

Cutbacks predicted to continue

When asked how they expect any further changes in costs and inflation to affect their business in 6 months, 42% of businesses said they will still be spending more cautiously, with larger businesses more likely to do so (46%).

Overall, 45% expected to make further expenditure cuts, with 15% expecting these to be significant.

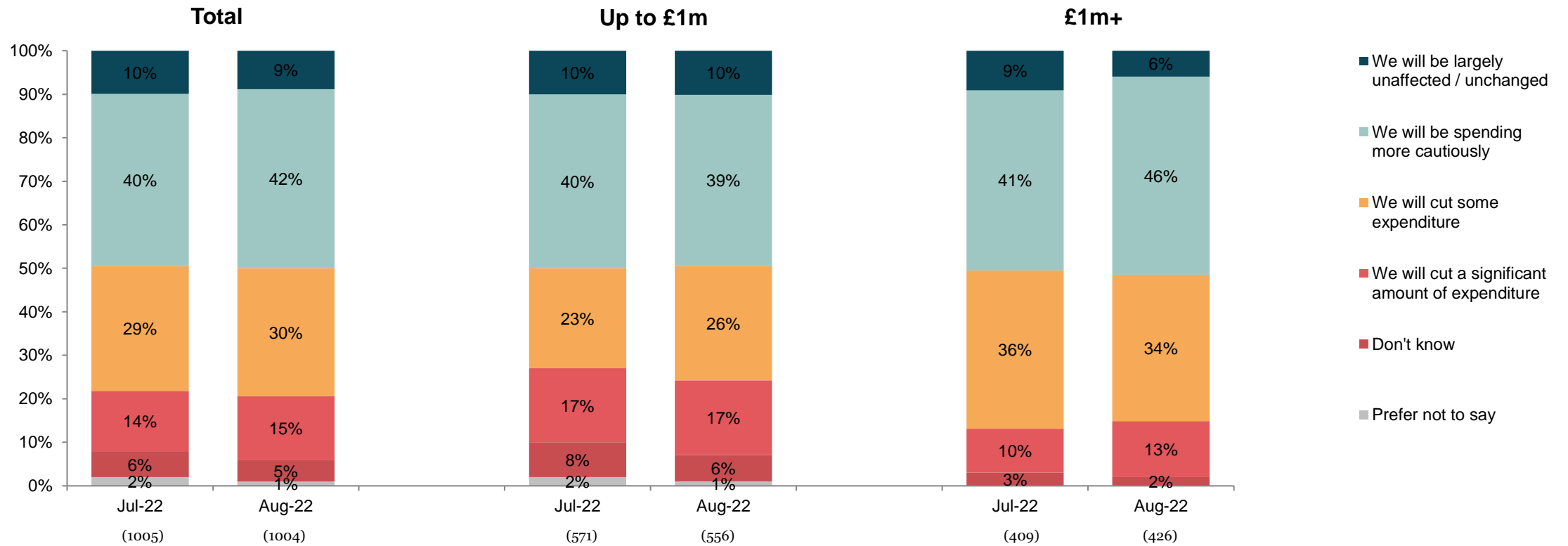
Almost 1 in 2 larger businesses said they would be cutting back further on expenditure overall (47%) with 13% predicting to cut a significant amount. The picture is similar for smaller businesses, but a lower proportion overall expect to make cuts (43%) and a higher proportion expect to be cutting back significantly (17%).


Notably, with the newly announced government support package, perhaps business owners shall reconsider if (and to what extent) these measures are necessary.

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Predicted business circumstance in 6 months

And how do you expect any further changes in costs and inflation to affect your business in 6 months' time?





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The decline in customer demand

Most businesses (55%) have seen demand from their customers decline since the rise in business costs and the cost-of-living crisis. This decline in demand appears to be increasing (52% July to 55% August) and is affecting smaller businesses more (58% vs 52% larger businesses).

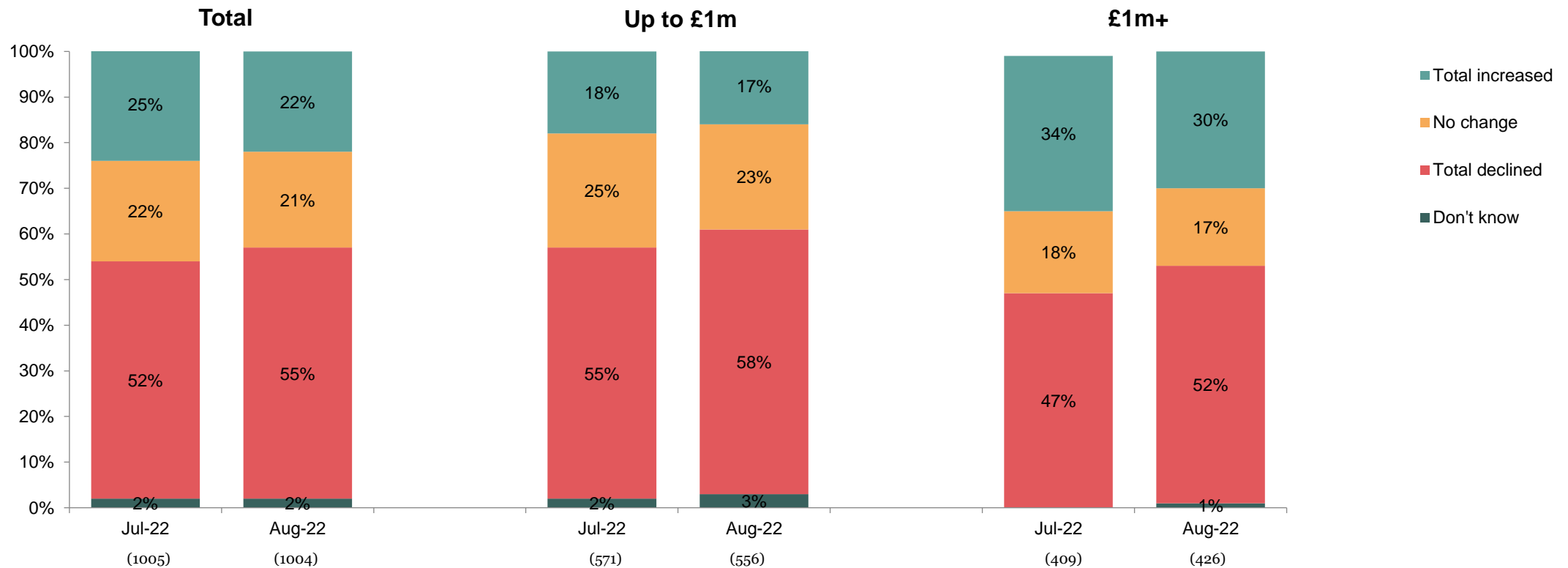
Interestingly, 1 in 5 businesses (22%) have seen an increase in demand and this is notably higher amongst larger businesses where some 3 in 10 note customer demand to have increased (30% vs 17% smaller businesses).

This appears to be driven by certain industry sectors; IT, technology and communications (30%), business, financial & professional services (28%) and public services (25%) and is more significant within London (33%) and the Northeast (43%).

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Change in customer demand

Since late 2021 and the start of rising business costs and the cost of living crisis, to what extent, if at all, have you seen demand from your customers change?



Price increases from suppliers

Very worryingly, 6 in 10 (60%) businesses said supplier prices had increased and this appears to be growing.

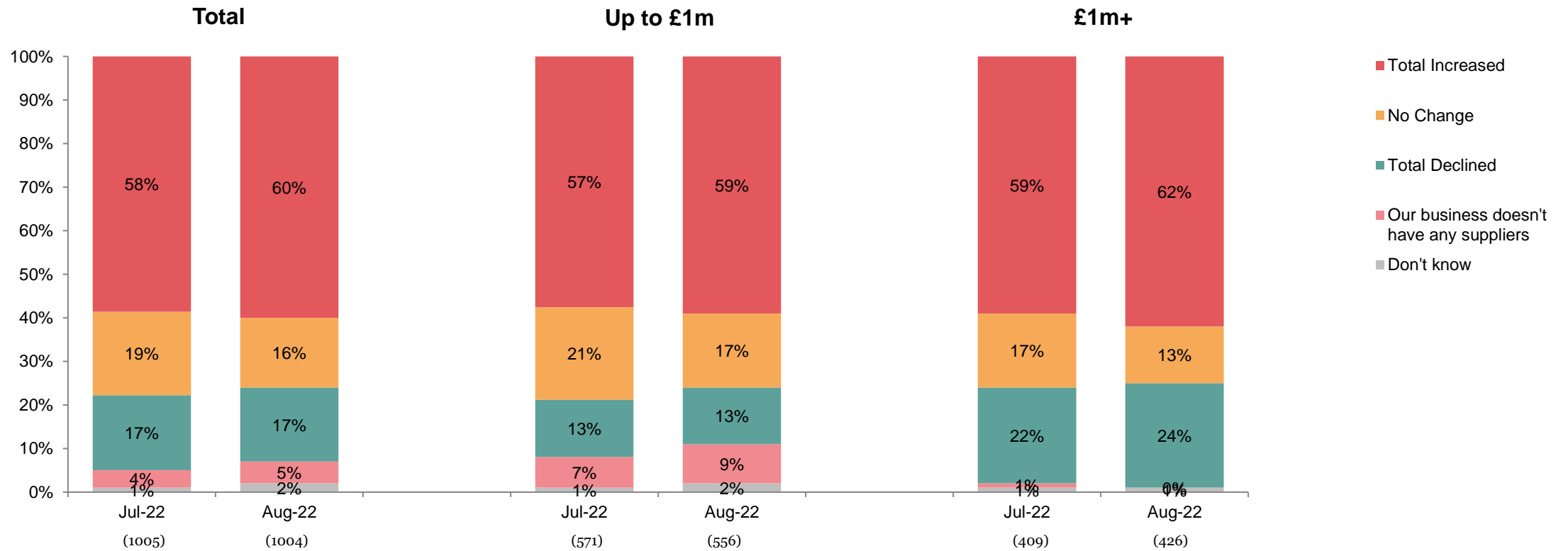
Interestingly some 17% said prices had declined. Higher revenue businesses were more likely to claim this with 1 in 4 (24%) saying prices have declined compared to just 13% for smaller businesses. This may be as a result of the greater bargaining power these larger businesses enjoy.

Sectors such as IT, technology and communications (24%) and Industry (i.e. agriculture, manufacturing, construction) (21%) have benefitted the most.

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Change in supplier prices

And to what extent, if at all, have your suppliers changed the prices they charge to you?



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Cost crisis predicted to peak by the end of 2023

Most businesses (63%) predict the peak in rising business costs and the cost-of-living crisis by the end of 2023. 72% of larger businesses think the crisis will have peaked by then compared to only 59% of smaller businesses.

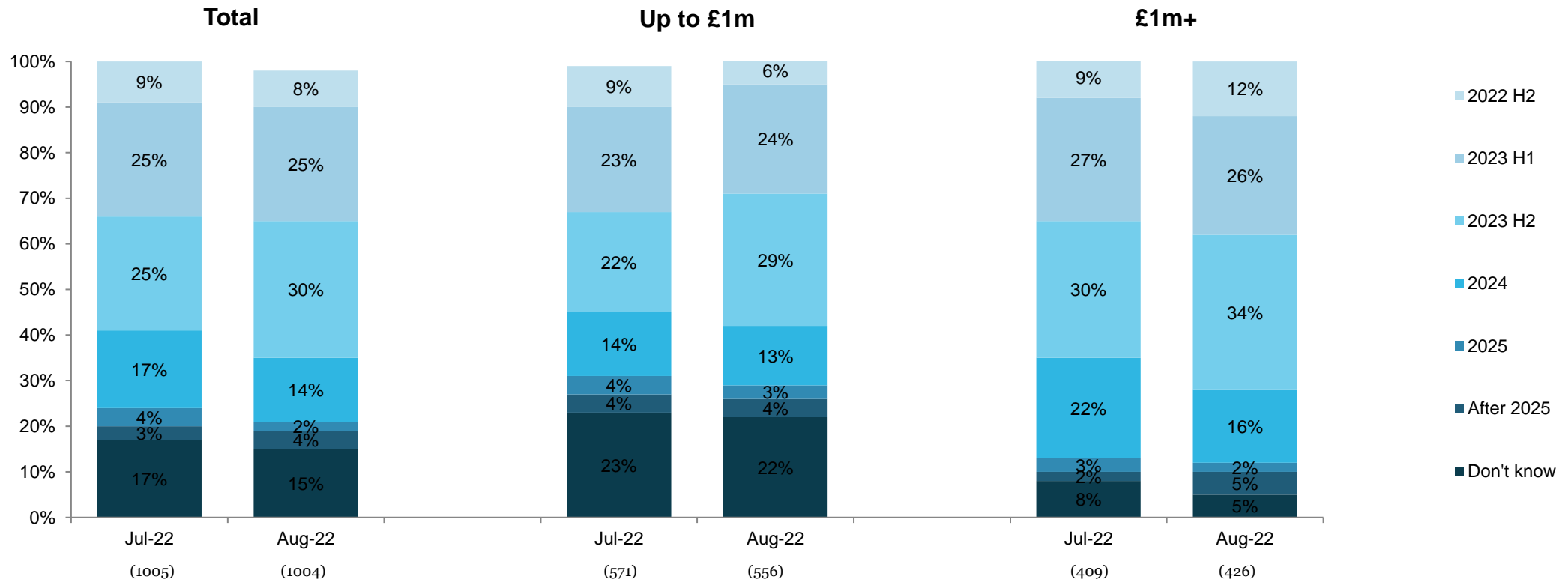
Rather than being more positive, there is more uncertainty amongst smaller businesses, with 1 in 5 (22%) saying they don't know when the crisis will resolve.



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Predicted peak in business costs and overall cost crisis

When do you think rising business costs and the cost of living crisis will peak?



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Energy and fuel price increases are the biggest concerns

Not surprisingly considering the current economic crisis, energy (68%) and fuel (66%) price increases are by far the greatest concerns for businesses.

Larger businesses (£1m+) are particularly concerned over these increases (73% energy & 77% fuel), but they also have other major concerns.

7 in 10 (71%) are concerned about staff/wages. With a large workforce to support, will this mean businesses may have to make redundancies and staff cutbacks in the run-up to Christmas.

Raw materials (59%), importing stock (46%) and exporting goods (28%) are also bigger concerns for larger businesses, with possible impact on their international trading in the next 6 months.

Cost concerns vary regionally and by industry sector

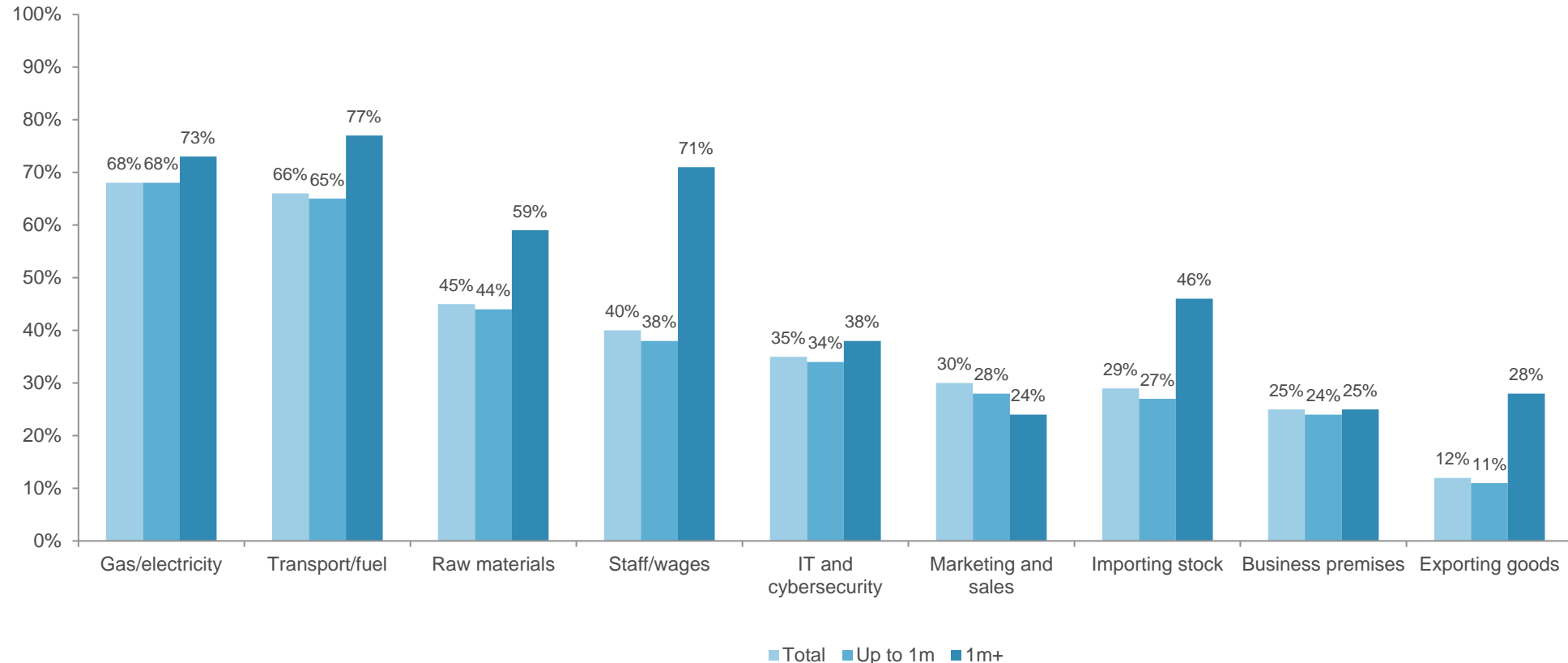
Whilst over two thirds of GB businesses are concerned with energy and fuel rises, it's the Midlands, North and Scotland where these concerns are greatest (7 in 10).

Although cost increases are a concern for all industry sectors, production, wholesale and retail/repair of motor vehicles and accommodation/food services feel they will be affected the most.

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Business concerns for type of cost increase

Are increases to the following types of cost a big concern to your business this year? Yes summary (excluding DK)



Businesses plan to pass on price increases to customers



To combat the crisis, businesses plan to carry out a number of actions.

Increasing their prices and passing these on to their customers is the number one action businesses plan this year (73%). This differs by size of business with larger businesses much more likely to increase their prices than smaller businesses; 83% vs 73%. This is very worrying for both businesses and consumers alike.

Almost half (47%) will also review/change suppliers and a third (30%) plan to use their business reserve/contingency money.

Larger businesses are more likely than smaller businesses to plan to review/change suppliers (63% vs 45%) and use their reserves (37% vs 31%).

Worryingly, 1 in 9 larger businesses plan to take action by reducing their workforce/make people redundant, a bleak outlook for

employees. How will this affect the UK unemployment rate which currently is at its lowest for nearly 50 years?

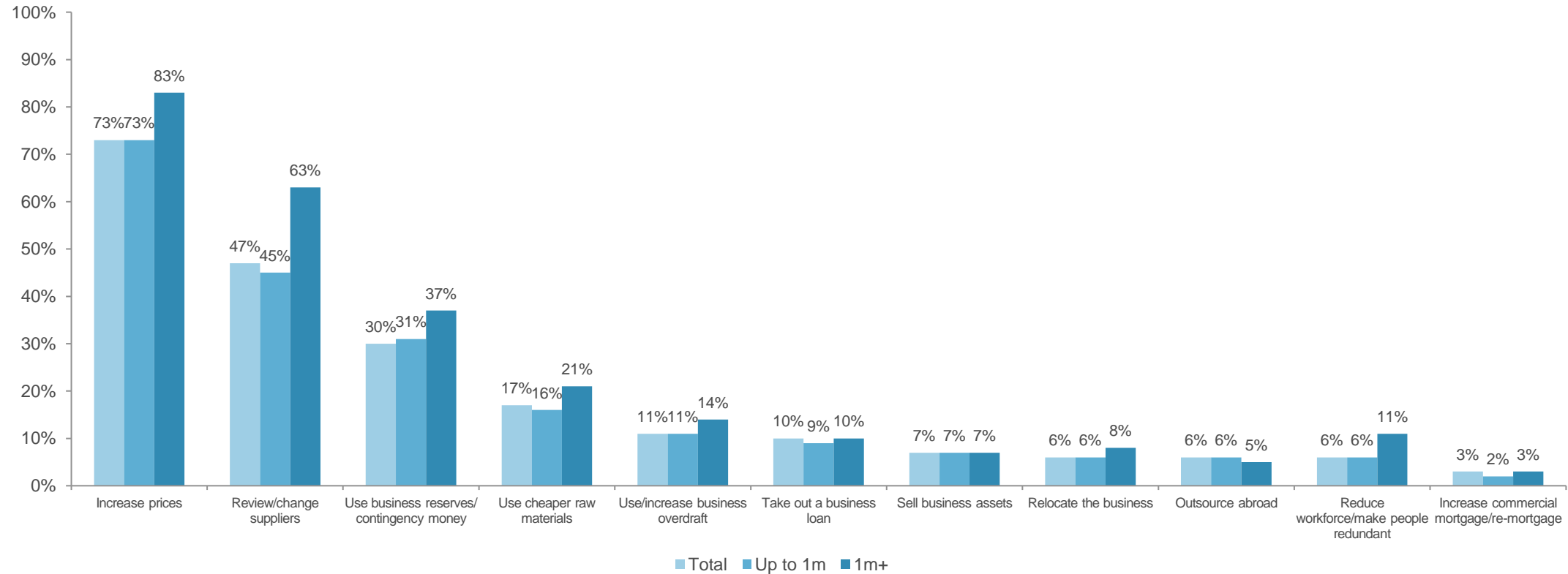
Regionally, there is little differentiation in plans, however in London 1 in 10 plan to relocate the business and 11% plan to outsource abroad.

Within the accommodation & food services sector where not only energy prices, but also food prices are hitting hard, almost 9 in 10 (89%) say they plan to increase prices, 44% plan to use business reserves and over a third plan on using use cheaper raw materials (36%). This sector is also more likely than the average to increase business overdraft, take out a loan, sell business assets and reduce workforce/make people redundant. It's a real fight for survival.

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Actions businesses plan to take to deal with rising costs

And do you plan to take any of the following actions this year to deal with cost increases? Yes summary (excluding DK)



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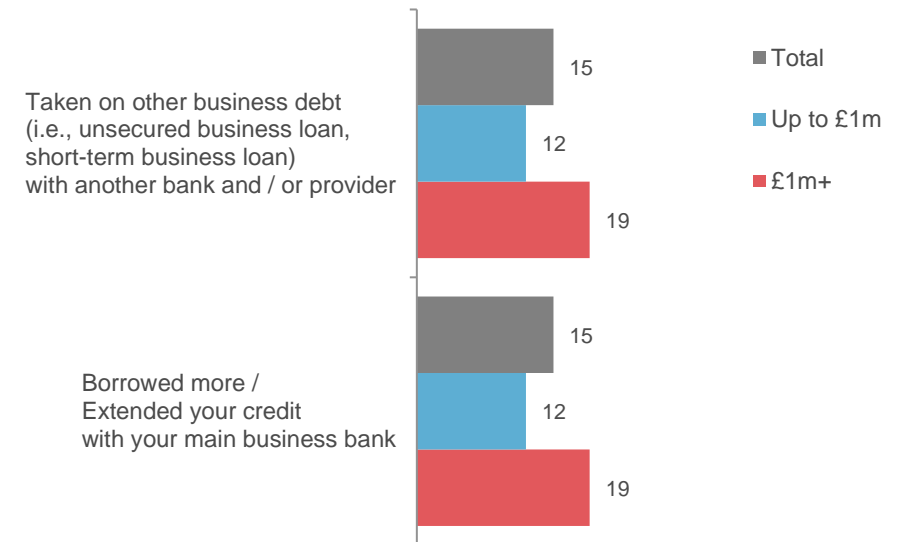
Businesses have borrowed more in response to the crisis

15% of businesses have reacted to the rising cost crisis by taking on more debt or borrowing more/extending credit with their main business bank.

Larger businesses are more likely to have done so (19% vs 12%) – perhaps this is due to a difficulty in accessing lending amongst smaller businesses or a fear of sinking too far into debt.

Banking decisions taken due to cost of living crisis

Which of the following responses, if any, has your business taken as result of the rising costs and the cost of living crisis?



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Only a minority feel their Bank is doing enough to support their business during this crisis

Whilst, overall, 1 in 3 businesses (32%) agree their bank is doing enough to support them, 29% disagree, with a positive rating falling over time.

Around a third (34%) can't decide either way and it's the smaller businesses who are more likely to feel this way (38% vs 29% larger businesses) and with 7 % (vs 1%) just not knowing.

Larger businesses are more likely to feel they are getting enough support from their bank with over 4 in 10 (43%) agreeing, though positivity appears to be waning.

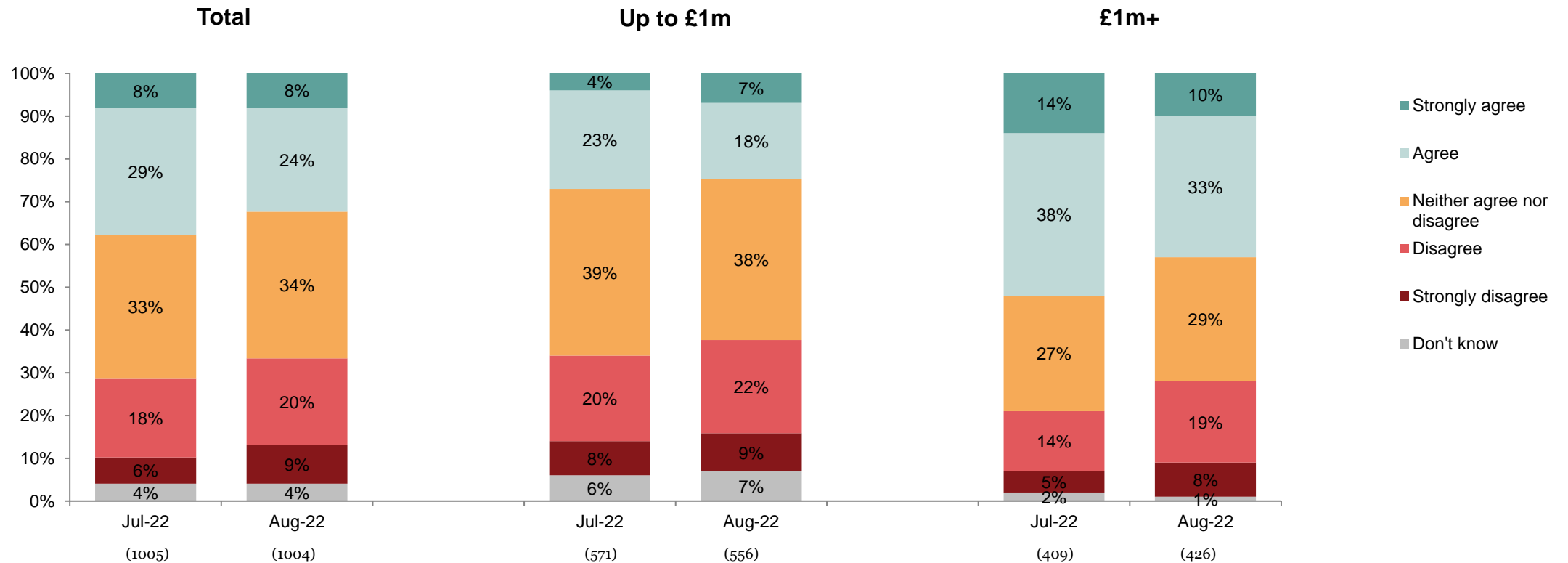
It's likely the difference in feeling by business size is a factor of larger businesses receiving more regular contact with a relationship manager.

 **32%** agree their bank is doing enough

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Business Bank support during cost crisis

Our business bank is doing enough to help support our business during rising business costs and the cost of living crisis: To what extent do you agree or disagree with the following statements about rising business costs and the cost of living crisis?



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Will the Government support package be enough?



If the cost crisis isn't over before the end of 2023, as the majority predicted, how will businesses cope once the government's six-month energy support package runs out? Organisations are left hoping that the promised three-month review with an option to extend support for "vulnerable businesses" will provide the safety net they need.

Energy prices are likely to remain high meaning businesses will require support for a longer period to protect jobs and remain competitive.

Described by critics as knee-jerk and short-term, this government package might at least buy time for businesses until a long-term restructuring of the energy supply market is possible.

But businesses can't stand still and wait to see what happens, and they are already putting their own action plans in place.

Will the newly announced plans with measures designed to tackle the energy and cost-of-living crisis, and a range of policies and tax cuts aimed at stimulating economic growth, be the further support businesses need?

Only time will tell.

The Savanta UK Business Tracker

A streamlined monthly tracker of Small Business Owners and Directors and Business Decision Makers at Mid Large Companies.

For more information about our new UK Business Tracker please download our rate card.

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Savanta's MarketVue Business Banking

Based on a continuous survey of 15,000 financial decision-makers in UK businesses and 10 years of historical data, MarketVue Business Banking is a highly reliable and detailed monitor of how banks are perceived by business customers.

It is designed as a complete market overview covering market share, trends, brand health and customer experience to inform business strategy and provide tactical feedback for action planning. Interviewing is conducted continuously among a UK representative sample from start-ups, SMEs up to major corporates throughout the year and data/insight is delivered to clients every quarter.

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Savanta is a fast-growing data, market research and advisory company. With five global offices and 500+ staff, we inform and inspire our clients through powerful data, empowering technology and high-impact consulting. All designed to help our clients make better decisions and achieve faster progress.

Savanta offers clients a full range of intelligence services, including:

- Data collection and analysis – access to consumer, business, wealth & youth respondents globally through a proprietary technology platform
- Research and Insight – tailored solutions built using specialists from Savanta's Industry and Methodology Practices
- Proprietary tech & products – instantly access digital intelligence about markets, brands and customers. It's our own technology. And it's fast and flexible.

Meet the team



Stephen Palmer

EVP, Financial Services

Stephen has 25 years' research experience across financial services and tech and leads the financial services team at Savanta. Prior to Savanta, Stephen was Head of Insight at Kantar Financial Services & Technology and responsible for delivering customer experience, brand and segmentation research. Stephen is a certified member of the MRS and has sat on the standards board.

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Helen Davey

Associate Director, Financial Services

Helen has more than 20 years' research experience having previously worked for Public Attitude Surveys (PAS), Infratest Burke/NFO and TNS and has worked in the MarketVue Business Banking team for the past 6 years. She has considerable experience in managing large scale complicated multi-client research for major blue chip clients.

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Sue Lewis

Senior Director, Financial Services

Sue has over 30 years' market research experience, including six years' experience client side (in the healthcare sector at BUPA and in business banking at Barclays, where she was a senior market research manager). Before joining Barclays, Sue was previously an associate director at City Research. Sue has a BSc (Hons) degree in Sociology from the University of Southampton and is a certified member of the MRS (CMRS).

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Matt Mann

Director, Business

Matthew is a quantitative and qualitative researcher with 10 plus years of research experience spanning the business to business (B2B) and business to consumer (B2c) industries. Throughout his career, he has built-up significant experience in successfully leading the delivery of brand tracking projects for a diverse range of companies (small to large, start-ups to 'bellwethers'/ industry leading brands) across a wide range of industry sectors.

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