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North-east finance survey 2012

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Citation Details

Citation for the version of the work held in 'OpenAIR@RGU':

ATOROUGH, P., 2012. North-east finance survey 2012. Available from <i>OpenAIR@RGU</i> . [online]. Available from: http://openair.rgu.ac.uk

Citation for the publisher's version:

ATOROUGH, P., 2012. North-east finance survey 2012. Aberdeen: Aberdeen & Grampian Chamber of Commerce.
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Aberdeen & Grampian
Chamber of Commerce

FINANCE network

North-east Finance Survey 2012

Funding Finance
Wealth management
North-east



Aberdeen & Grampian
Chamber of Commerce



ROBERT GORDON
UNIVERSITY • ABERDEEN



Technology Strategy Board
Driving Innovation



Robert Collier
Chief Executive, AGCC

Foreword

Member's needs are at the heart of the work of the Aberdeen & Grampian Chamber of Commerce and, as a result, we have now completed the formation of range of sector-interest groups from within our membership of more than 1,200 organisations allowing us to target specific needs with increasingly tailored services and benefits.

As part of these services, the Chamber is pleased to publish a series of surveys to provide sector specific research on businesses in North-east Scotland; the sixth of which covers finance.

Customer trust and confidence in the North-east's finance sector appears to be recovering, but overall public perception of the sector is still negative according to this survey. Finance businesses continue to struggle to increase their market share as competition has increased and consumers have shown less brand loyalty. The sector is focused on rebuilding confidence, improving lending to SMEs, containing costs through tight controls on staff numbers, and growing market share.

The UK finance sector has had a difficult run in recent times and just as it appeared to have emerged from the global financial crisis, revelations surfaced about some

sector players which created a new source of concern for stakeholders and the wider business community.

In summary, the finance sector in the North-east has performed very well during the period reviewed, but has witnessed stiff intra-sector competition, a persistently negative perception from the public, reductions in staff numbers, and an inability to improve lending activity to small businesses, especially micro businesses.

However, the sector's businesses appear to be aware of the challenges identified and are focused on improving in these areas, with the primary wish in the next 12 months being to improve lending to SMEs.

Bob Collier
Chief Executive



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Your Network.
Your Opportunities.



Contents

Executive Summary.....	4
Introduction.....	6
Sector Profile.....	7
How is business	8
Key issues.....	10
The future.....	14
Conclusions	16



North-east Finance Survey

EXECUTIVE SUMMARY

- Based on the responses received, the main conclusion from this finance sector survey is that the sector is performing very well and continues to have great potential in the North-east in spite of adverse conditions globally, especially in terms of reduced goodwill from customers and the general public. Finance sector businesses in the region are focused on recovering customer confidence and positive public perception in order to retain market share and remain profitable. One of the things being done to achieve this is increasing support for SMEs through favourable lending policies and increased credit.
- Businesses in the sector have been greatly affected by lack of confidence from customers and loss of favourable public perception. This is evidenced by the findings which show that in the past 12 months, the main areas of focus for the sector players have been increasing customer confidence, changing public perception and recovering market share.
- As a result of this focus and concerted sector effort, there has been significant recovery in customer confidence, but this is yet to be witnessed in terms of overall favourable public perception of the sector. However, one of the areas most affected by loss of confidence and favourable perception has been customer loyalty, which is reported to have declined over the past 12 months.
- In spite of the above, finance businesses have remained greatly successful, with nearly 90% stating that they had been more than fairly successful in achieving their objectives, and over 70% stating that their business is currently more profitable compared to the same period 12 months ago.
- It would appear that competition has increased in the sector, resulting in the loss of market share for many businesses. This may be attributable to increased competitive activities from a minority of organisations, reduced market size or the entry of new players in the sector. Nevertheless, turnover and profits increased by a comparatively significant margin above costs, while businesses in the sector also managed to innovate and increase the number of products/services on offer.
- While credit to personal consumers has declined, respondents perceive that there has been a small increase in credit availability for micro businesses, and a significantly larger increase for small/medium businesses. Larger organisations witnessed the greatest increase in credit availability, showing that the smaller



organisations (especially micro businesses) continue to be the most adversely affected by the sector's lending preferences. Even within the sector, the majority of players consider lending to micro businesses to be insufficient.

- It would appear that there is a shortage of suitable skills for the finance sector in North-east Scotland, due to a structural mismatch. 55% of respondents stated that they found it difficult or very difficult to recruit people with the skills they needed. This is in spite of the fact that 54% of respondents stated that they had reduced their workforce. While this may not represent an immediate problem for the whole sector (45% found it easy or very easy to recruit), it may potentially become a problem in the future should the general economy witness significant recovery, given that respondents estimate a future requirement of an 8% increase in the sector's employee numbers.
- The majority of respondents (66%) feel that executive pay in the sector is relatively too high, while at the same time (63%) feel that non-management employee pay is relatively too low. However as many as 29% of respondents feel that the sector's level of executive pay is just about right.
- Employment in the sector is set to increase, but it is significant to note that this employment will be mainly in terms of temporary forms of employment, whereas full time permanent employment is expected to decline.
- Businesses in this sector actively market themselves, with the main source of business being traditional methods of advertising. However social media is also pervasively used and is set to increase in usage.
- Businesses in the sector are active in supporting and promoting careers. The majority of respondents provided some non-mandatory training in the previous year, and activities such as career talks and partnership with local education institutions are common.
- Looking ahead, the sector is very optimistic about the future, with its priorities on improving its image and increasing availability of credit to SMEs.

North-east finance survey

Introduction

The Finance Network report provides analysis and discussion of results obtained from a survey of businesses in the finance sector in North-east Scotland. It is part of the series of surveys undertaken by the Aberdeen & Grampian Chamber of Commerce and the Robert Gordon University, Aberdeen, under a Knowledge Transfer Partnership (KTP) sponsored by the Technology Transfer Board and ACSEF.

The aim of the research was to identify the performance, issues and future expectations of respondents from the sector's businesses by asking opinions and facts relating to predefined items and criteria.

The findings in this report are important to anyone that has an interest in the finance sector in North-east Scotland, its performance and potential contributions to the region's economy, as well as its priorities for the future.

The evidence provided here may also serve as a basis for future research, evidence based decision making and policy guidance. The report is divided into sections, with the main sections covering the profile of respondent's, "how's business?" key issues, future expectations and conclusions.

“The findings in this report are important to anyone that has an interest in the finance sector in North-east Scotland, its performance and potential contributions to the region's economy, as well as its priorities for the future.”



Sector profile

F1 shows the breakdown of the type of service or product offered by respondents to the survey, with the most mentioned services being assets and wealth management (17%) and protection (17%), while the least number of responses was obtained from businesses offering debt management (3%).

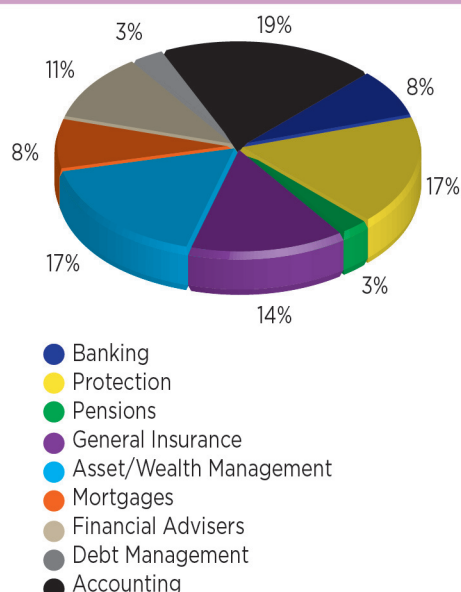
Regarding organisation type (F2), respondents are mainly limited liability companies (33%), followed by public companies (25%) but as many as 20% of respondents are owner-operated businesses. It would appear that there is a significant number of self-employed, owner operated businesses in this sector in North-east Scotland.

Most businesses operate mainly in the whole of the UK (30%), with an equal 28% operating mainly in the whole of North-east Scotland or internationally; 14% operate primarily in Aberdeen City and Shire (F3).

F4 shows that the largest segment of respondents (44%) employs between 10 and 49 people in North-east Scotland, followed by 42% who employ between 1 and 9 people. 6% of respondents employ 250 or more staff.

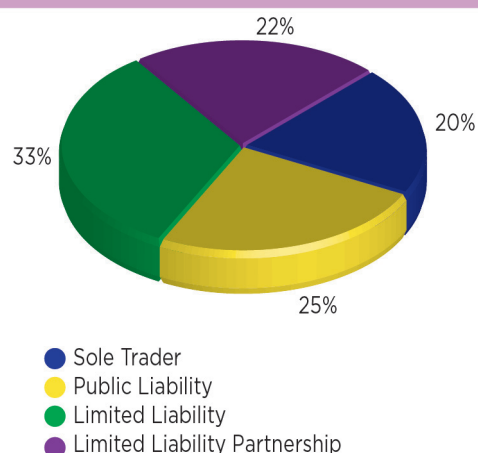
F1.

Q. What is your primary business activity?



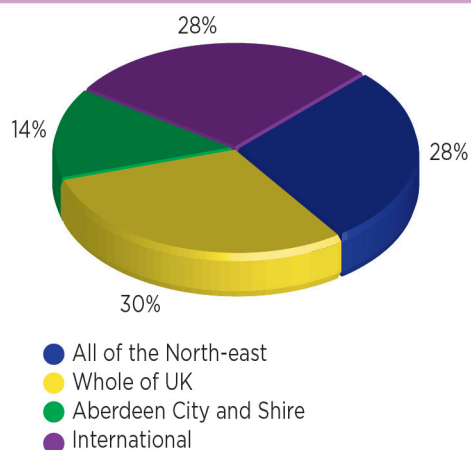
F2.

Q. What is your organisational type?



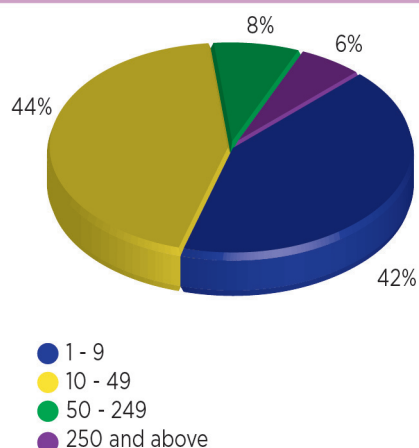
F3.

Q. Which area does your business operate in?



F4.

Q. How many people do you employ in North-east Scotland?



How is business

The finance sector in North-east Scotland appears to be doing very well. Asked how successful they felt they had been at achieving their organisation's objectives (F5), nearly 50% of respondents stated that they had been very successful and 40% stated that they had been fairly successful. Only 11% of respondents were less positive about their level of success in attaining objectives.

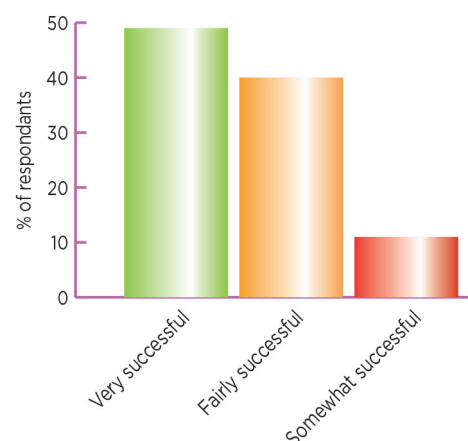
Similarly, for nearly 80% of organisations, a comparison of performance in profitability (F6) shows that business was more profitable at the time of responding than it had been 12 months ago. Nevertheless, over 20% stated that business was less profitable in the current period than it had been 12 months ago.

F7 also shows that finance sector businesses in the region have become more profitable in the past 12 months, with profitability rated the most positive increase, followed by product portfolio and turnover. On the contrary, market share has seen a significant drop for many, perhaps as a result of the increase in the number of competitors; but it would appear that profits have been helped by the relatively low increase in costs in the sector, as compared to increases in costs witnessed in other sectors of the economy.

Finance sector businesses in North-east Scotland have witnessed increased profits in the past 12 months, with nearly 80% stating that they were more profitable now than 12 months ago.

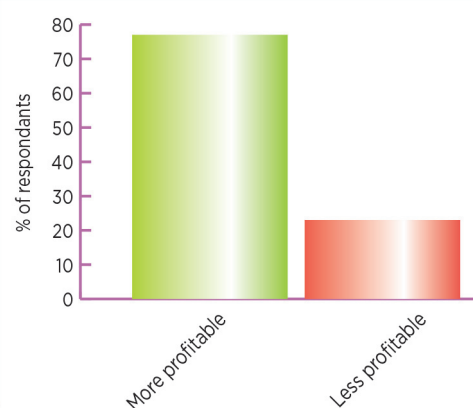
F5.

Q. In the last 12 months, how successful do you feel your organisation has been at achieving its objectives?



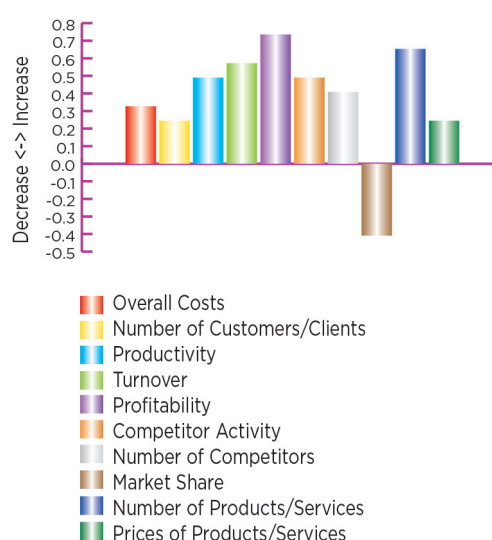
F6.

Q. Compared to the same time 12 months ago, is your business more or less profitable?



F7.

Q. Comparing now to 12 months ago, what has been the change in the following?



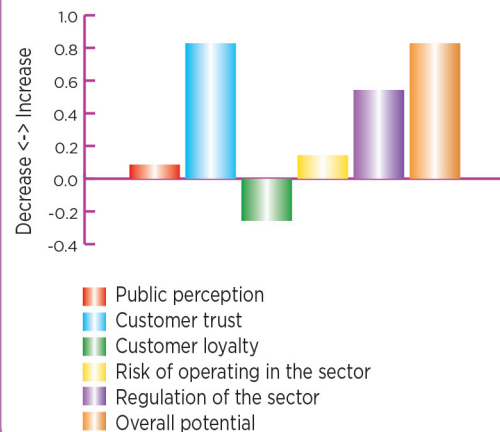
Some issues were specifically identified as having potential impact on present and future viability of the finance sector in North-east Scotland. These issues were initially identified from desk research, and were subsequently discussed in interviews prior to the general survey. The key issues identified and measured were public confidence, customer trust and loyalty, sector risk, regulation and overall future potential of the sector (F8).

On average, respondents indicated that the level of trust from their customers had risen in the past 12 months, as a result of which respondents consider the sector's potential to have also improved significantly. However, overall public confidence in the sector shows little positive change, and reduced consumer loyalty indicates that customers search around for good offers rather than remain loyal to a specific provider.

Respondents were asked to self-rate in terms of satisfaction with their performance on pre-identified objectives. This measure is intended to gauge businesses' assessment of their own performance in relation to common business objectives that were identified during the pre-survey interviews. F9 shows that averaged across respondents, the objective that was rated as most satisfying was the number of products/services that the sector provided during the period.

F8.

Q. In your opinion, how have the following changed in the past 12 months?



F9.

Q. Rate your level of satisfaction with your performance in the following areas over the past 12 months.



“Consumers' confidence in their provider appears to have increased significantly over the past 12 months, as indicated by the change in customer trust reported by survey respondents. However the sector still has work to do in regaining positive public perception.”



Key issues

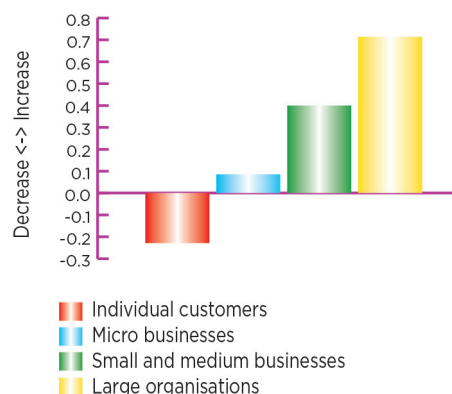
Lending

Previous sector surveys by Aberdeen & Grampian Chamber of Commerce highlighted a common issue with accessing finance and credit, especially among micro and small businesses. As a result, a sector view was sought from respondents regarding availability of credit to the various customer groups as well as the sufficiency of current lending policies to these clusters. F10 shows that over the past 12 months, respondents considered lending to individuals to have decreased, while lending to micro businesses was considered to have increased slightly.

Lending to SME businesses also improved, while the largest increase was in lending to large organisations. It would appear that efforts by government and other stakeholders to stimulate lending to small businesses have started to show results in the region but lending to micro businesses is not meeting expectations. F11 enquires about the sufficiency of current lending to the various business types (in terms of size), and again, most respondents agree that lending to micro businesses is insufficient, while at the same time, most agree that lending to larger organisations is sufficient.

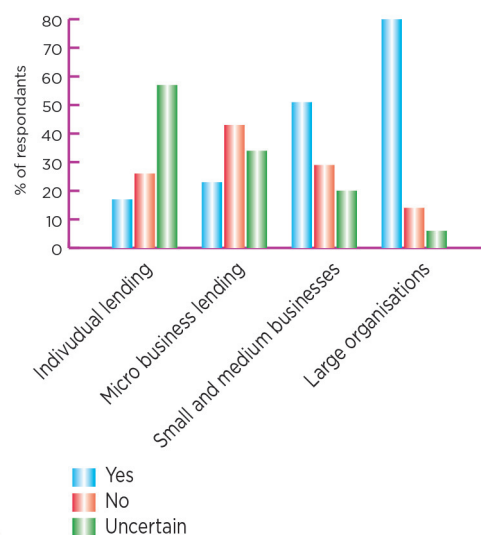
F10.

Q. In the past 12 months, how has the availability of credit changed for the following?



F11.

Q. Do you feel that current finance sector lending to the following types of customers is sufficient?



Overall, lending to small and medium enterprises increased marginally, but lending to micro businesses is still below expectations.

Skills and employment.

The finance sector is one of the most important employers of labour in North-east Scotland. However, F12 shows that employment in the sector has witnessed a significant reduction, with about one in two businesses stating that they had decreased the number of employees.

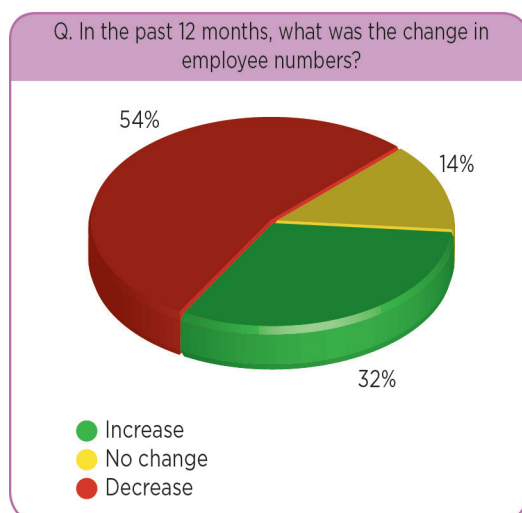
Only 32% of respondents stated that they had increased staff numbers, while 14% stated that there had been no change in numbers. Those that employed in the past 12 months were further asked to indicate the degree of ease or difficulty they had experienced in finding people with the required skills.

F13 shows that for 45% of respondents, this had been easy or very easy, whereas 43% reported that in spite of reported redundancies in the sector, finding and recruiting people with the desired skills had been a difficult task, and 12% stated that this had been very difficult.

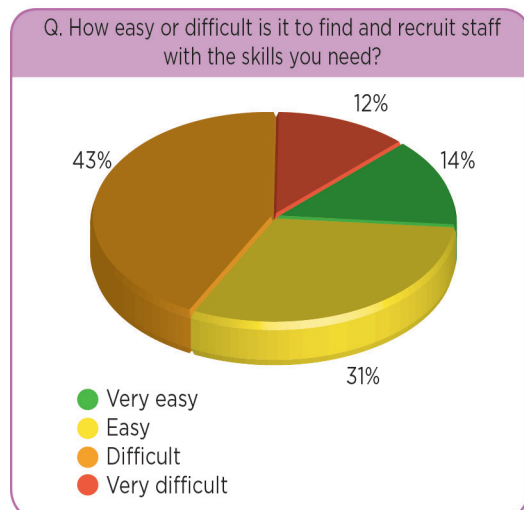
Respondents were asked to indicate the trend in recruitment for the next 12 months, including trends in types of employment. F14 shows that the overall change in employment will be positive - based on average respondents' ratings.

However, this positive change will be purely accounted for by increases in part-time and non-permanent working (for example through agency and contracts). This is because full time employment in the sector is expected to continue to decline over the next 12 months.

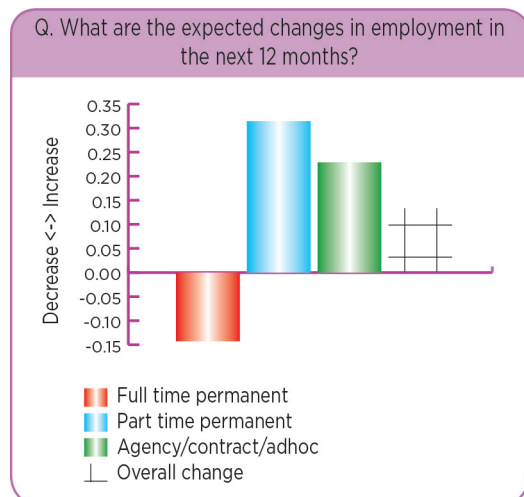
F12.



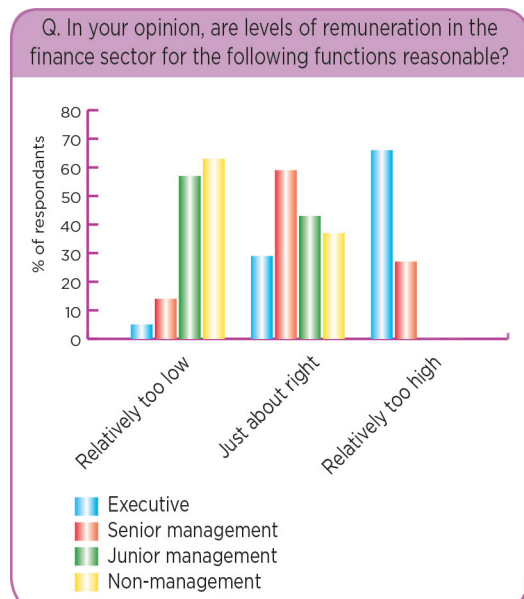
F13.



F14.



F15.



Respondents were asked to give an opinion about remuneration levels in the sector, according to employee categories. F15 shows that over 60% of respondents feel that remuneration for non-management employees is relatively too low, while on the other hand 66% feel that executive remuneration is relatively too high. This result shows that the sector itself is concerned about the balance of rewards for employees.

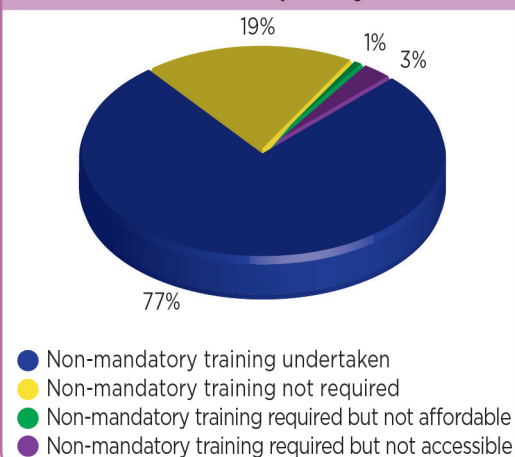
F16 shows that the sector invests strongly in employee training. Over 75% of respondents invested in non-mandatory staff training in the past 12 months, while 19% stated that non-mandatory training was not required. 4% could either not access or not afford non-mandatory training. The level of non-mandatory training reported is one of the highest of any sectors previously surveyed in the region during the current research round. The results shown in F17 reflect the above findings as they show that over 60% of respondents reinvest more than 10% of their income in training. Another 28% of respondents said that they spend between 5% and 10% of their income on training.

With regard to career development activities, F18 shows that 37% of respondents mainly give career talks and presentations, 31% utilise links with a local university, and 21% have established links with local schools and colleges. Only 4% of respondents stated that they provide apprenticeships, indicating that as a generalised reflection this sector is not strongly modelled on the apprenticeship route to career building. However, 3% of respondents stated that they do not undertake any of the activities identified.

“Although net employment is set to increase, permanent full time employment will drop and be replaced instead by part-time and agency employment.”

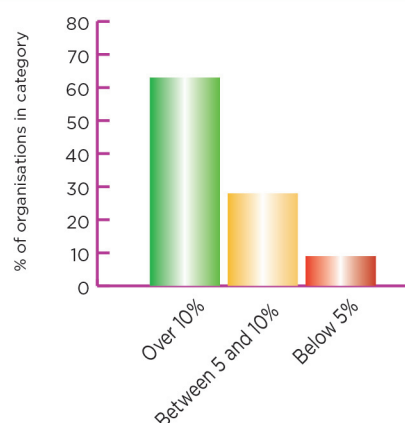
F16.

Q. In the past 12 months, did you invest in non-mandatory training?



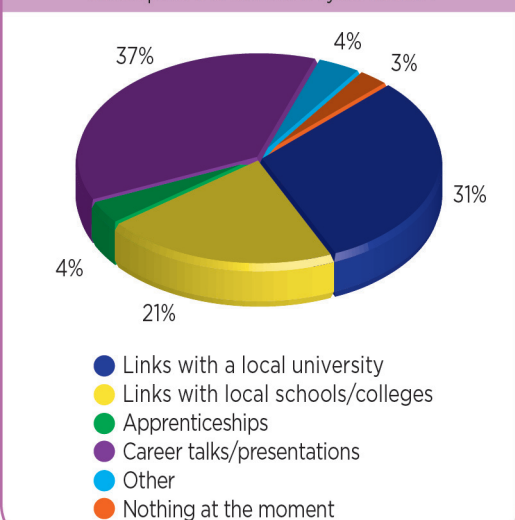
F17.

Q. What is the estimated percentage of your income spent on training annually?



F18.

Q. How do you currently engage with the development of careers in your sector?



Marketing and promotion

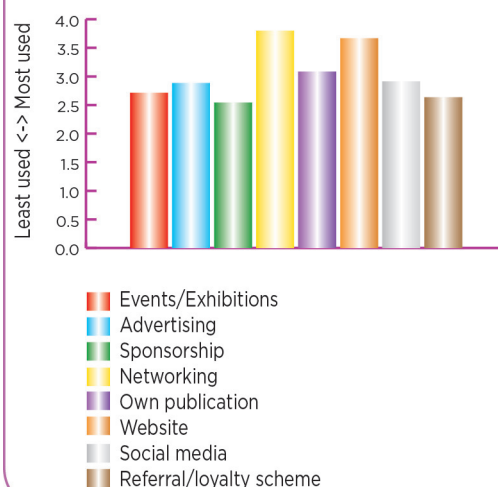
Respondents were asked to rate their use of identified methods in marketing and promoting their business and its services/products. F19a shows that in general, there is a varied mix in the preferred methods, but the most rated marketing activity was networking, followed by the use of websites to generate business. Conversely, the least used means of marketing is sponsorship.

Nevertheless, traditional advertising remains the main source of business for most organisations. F19b shows that the highest sources of business in terms of marketing method are advertising, networking and website, in that order.

Compared to other sectors surveyed in the region, the finance sector appears to be highly active in the use of social media for marketing, based on respondent's ratings. An estimation of current and expected future use (F20) shows that social media marketing will grow significantly in the sector as more users migrate from occasional use to more frequent use and dependency.

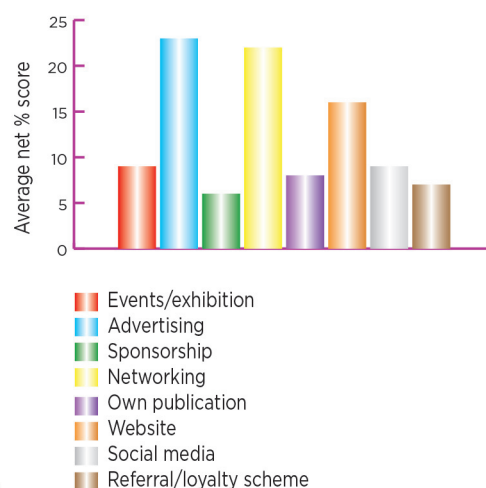
F19a.

Q. Rate the following by how much you use each means to market and promote your business.



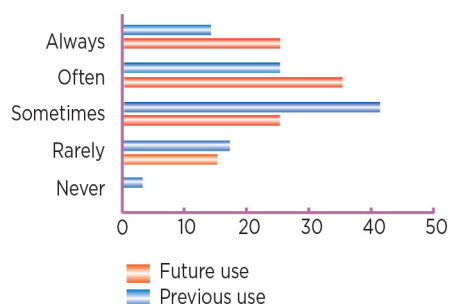
F19b.

Q. What percentage of your business is generated through each of the following?



F20.

Q. In the past 12 months how often did you use social media to engage with your customers?
Q. In the future, how often do you intend to use social media to engage with your customers?



“Traditional advertising remains the main source of business for organisations in the sector. However, the sector is set to witness increased use of social media for marketing.”

The future

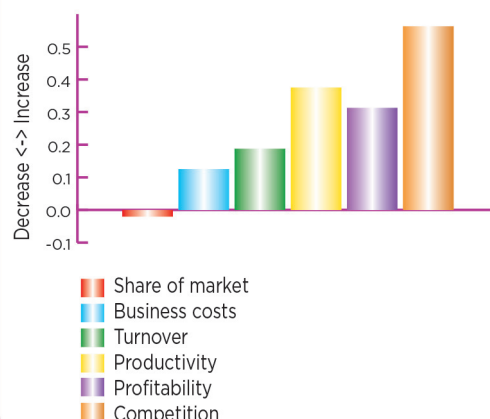
Looking at the future, the finance sector in North-east Scotland appears to be generally optimistic and positive, based on responses from survey participants. On most criteria, respondents expect a positive performance and improvement. For example, F21 shows that whereas the greatest increase in the next 12 months is expected to be in the area of competition and competitor activity (leading to a potential drop in share-of-market), respondents nevertheless expect significant increases in turnover and profitability, mainly as a result of keeping cost increases to a minimum. Compared to other sectors that have been surveyed, the finance sector appears to be the most optimistic about its ability to control and manage costs.

In F22, respondents' rating of criteria relevant to the level of importance to achieving future business objectives is presented. It would appear that public perception and client confidence and trust are the most important criteria to this end. A positive perception of the sector is therefore considered as essential in ensuring that businesses' objectives can be met in the next 12 months.

“Businesses in the finance sector expect to focus on recovering positive public perception, recovering market share and increasing lending to SMEs.”

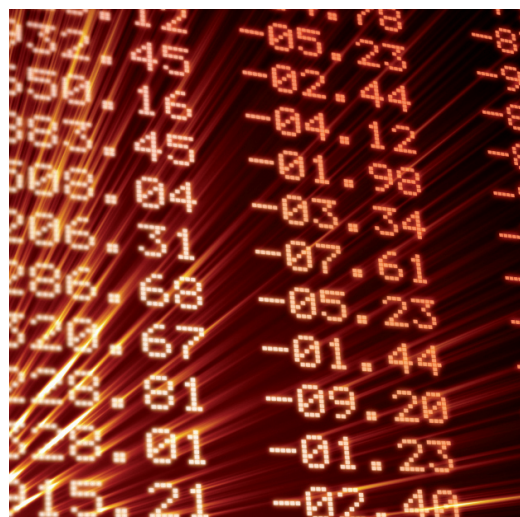
F21.

Q. What are the expected trends for the following?



F22.

Q. Rate the following according to the level of importance to your business objectives in the next 12 months.

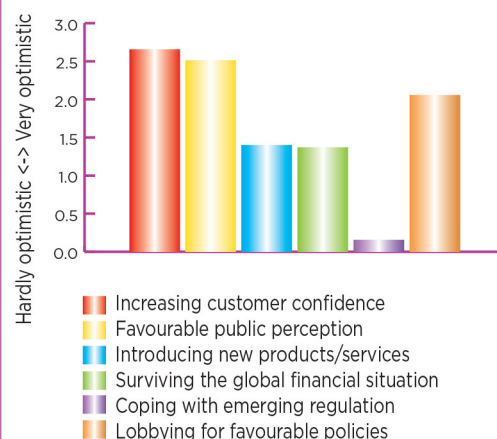


Asked to rate their level of optimism for the next 12 months, respondents were highly optimistic about the future (F23). They strongly expect to achieve their overall objectives, particularly in terms of remaining profitable; at the same time there is a measure of optimism about actually increasing profits and reducing costs.

F24 represents respondents' views on issues that the finance sector should collectively focus on in the next 12 months. On average the most important area of focus, based on percentage rating, is lending to SMEs. Clearly, the sector considers current lending activity to this sector of the economy to be below expectation; hence this has received the highest average rating as a future focus issue. A second area of focus is raising customers' confidence in the sector's business. Other areas rated highly are gaining favourable public perception and surviving the global financial situation.

F23.

Q. How optimistic are you about the following?



F24.

Q. What issues should the finance sector focus on in the next 12 months?



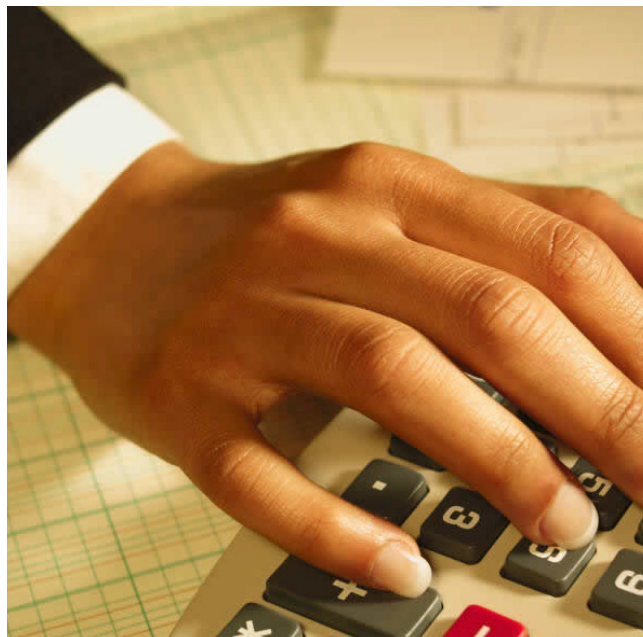
“The sector's businesses are highly positive about the future and are very optimistic about achieving most objectives for the next 12 months.”



Conclusions

“North-east Scotland’s finance sector is focused on improving lending to SMEs and recovering client and public confidence in its activities.”

- Businesses in the sector have been greatly affected by lack of confidence from customers and loss of favourable public perception. This is evidenced by the findings which show that in the past 12 months, the main areas of focus for the sector players have been increasing customer confidence, changing public perception and recovering market share.
- As a result of this focus and concerted sector effort, there has been significant recovery in customer confidence but this is yet to be witnessed in terms of overall favourable public perception of the sector. However, one of the areas most affected by loss of confidence and favourable perception has been customer loyalty, which is reported to have declined over the past 12 months.
- In spite of the above, finance businesses have remained successful, with nearly 90% stating that they had been more than fairly successful in achieving their objectives and over 70% stating that their business is currently more profitable compared to the same period 12 months ago.
- It would appear that competition has increased in the sector, resulting in the loss of market share for many businesses. This may be attributable to increased competitive activities from a minority of organisations or the entry of new players in the sector, and has led to an urgent need for individual business to differentiate in a crowded market place. Nevertheless, turnover and profits increased by a comparatively significant margin above costs, while businesses in the sector also managed to innovate and increase the number of products/services on offer.



- While credit to personal consumers has declined, respondents perceive that there has been a small increase in credit availability for micro businesses, and a significantly larger increase for small/medium business. Larger organisations witnessed the greatest increase in credit availability, showing that the smaller organisations (especially micro businesses) continue to be the most adversely affected by the sector's lending preferences. Even within the sector, the majority of players consider lending to micro businesses to be insufficient.
- It would appear that there is a shortage of suitable skills for the finance sector in North-east Scotland, due to a structural mismatch. 55% of respondents stated that they found it difficult or very difficult to recruit people with the skills they needed. This is in spite of the fact that 54% of respondents stated that they had reduced their workforce. While this may not represent an immediate problem for the whole sector (45% found it easy or very easy to recruit), it may potentially become a problem in the future should the general economy witness significant recovery, given that respondents estimate a future requirement of an 8% increase in the sector's employee numbers. The majority of respondents (66%) feel that executive pay in the sector is relatively too high, while at the same time (63%) feel that non-management employee pay is relatively too low. However as many as 29% of respondents feel that the sector's level of executive pay is "just about right".
- The sector invests strongly in training its people. Over 75% of respondents in the sector stated that they had provided non-mandatory training in the past 12 months, while more than 605 stated that their budget for training was above 10% of income. In addition, the sectors' businesses undertake a variety of activities to promote and encourage careers, including making career presentations and exploiting links with local education providers and providers.

- Traditional avenues for marketing are strongly exploited, with a high usage of networking and advertising. However new forms of marketing like websites and social media have also become important, with social media use set to increase in the future.
- For the future, the sector's businesses expect to perform well on key criteria, and are generally very optimistic about their prospects. However, there is expected to be stiff competition leading to challenges in increasing market share. It may therefore be ever more important for businesses to focus on increasing patronage from existing customers. This can be done through increasing confidence, trust and a positive perception. For this reason, respondents consider this to be one of important focus for the future.
- The most important area of focus for the future should be lending to small and medium businesses. Clearly, respondents are of the opinion that current lending to this group is inadequate and should be improved. By focus on increasing lending to SMEs the finance sector can contribute immensely to the North-east's economic future, given the reported levels of SME activity in the region. At the same time, the finance sector will benefit from commercial and public relation dividends arising from this activity.

In summary, the finance sector in the North-east has performed very well during the period reviewed, but has witnessed stiff intra-sector competition, a persistent low level of positive perception from the public, and an inability to improve lending activity to small businesses, especially micro businesses. However, the sector's businesses are aware of the challenges identified, and are focused on improving in these areas, with the primary wish in the next 12 months being to improve lending to SMEs.



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