



Survey of European SMEs

CONCERNS AND GROWTH TRENDS



Background to the survey



Eurofactor has carried out a survey of receivables management since 1998. Known as the Eurofactor Barometer, it was originally centred on France, but was expanded on a European scale in 2001.

The Eurofactor Barometer is produced by *CSA*  and analysed by the Economic Research Department of Crédit Agricole SA.

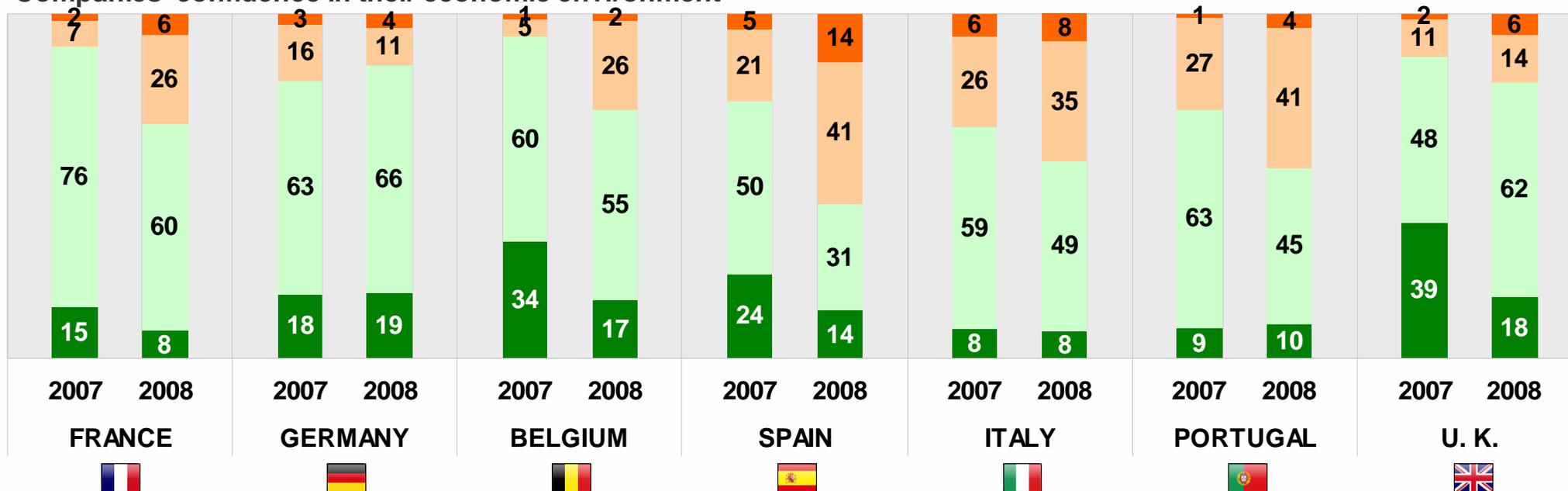
This survey was conducted in October 2008 among 3,000 managers of companies with six to 500 employees in seven European countries (Germany, Belgium, France, Spain, Italy, Portugal and the United Kingdom).

Economic environment



- Only **German** SMEs remain confident (85%)
- **Spanish** companies are the most pessimistic (45%), with a large proportion stating they are “not at all confident” (14%)

Companies' confidence in their economic environment

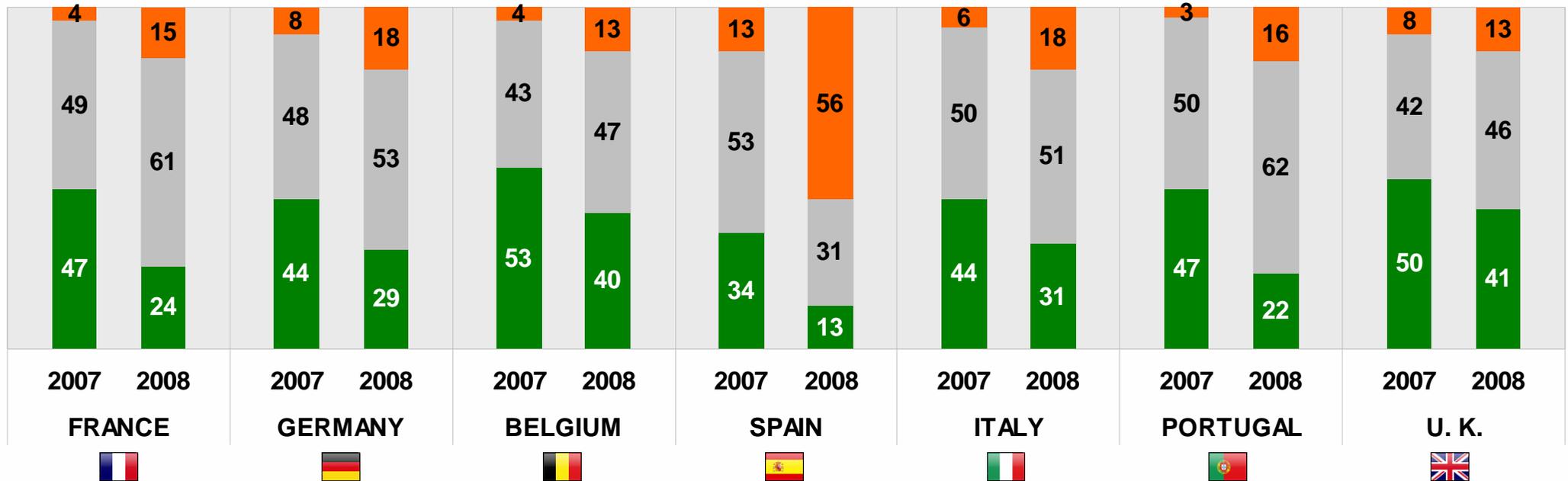


Trends in revenues



- **Belgium** and the **UK** are optimistic, with over 40% expecting an increase in their revenues
- Whereas a majority of **Spanish** companies expect a decrease

Trends in revenues

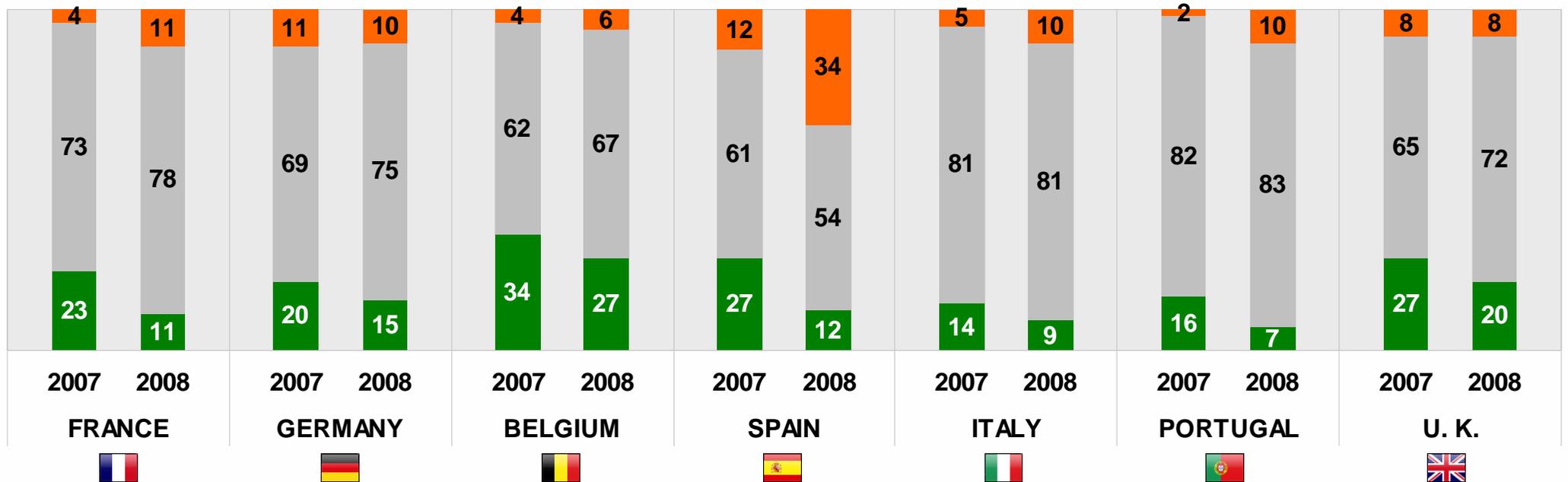


Trends in the salaried workforce



- Few business managers are considering reducing their workforce in 2009
- Except in **Spain**, where it is expected to contract in 34% of companies
- The employment trend seems positive in **Belgium** (21-point net positive opinion)

Trends in salaried workforce

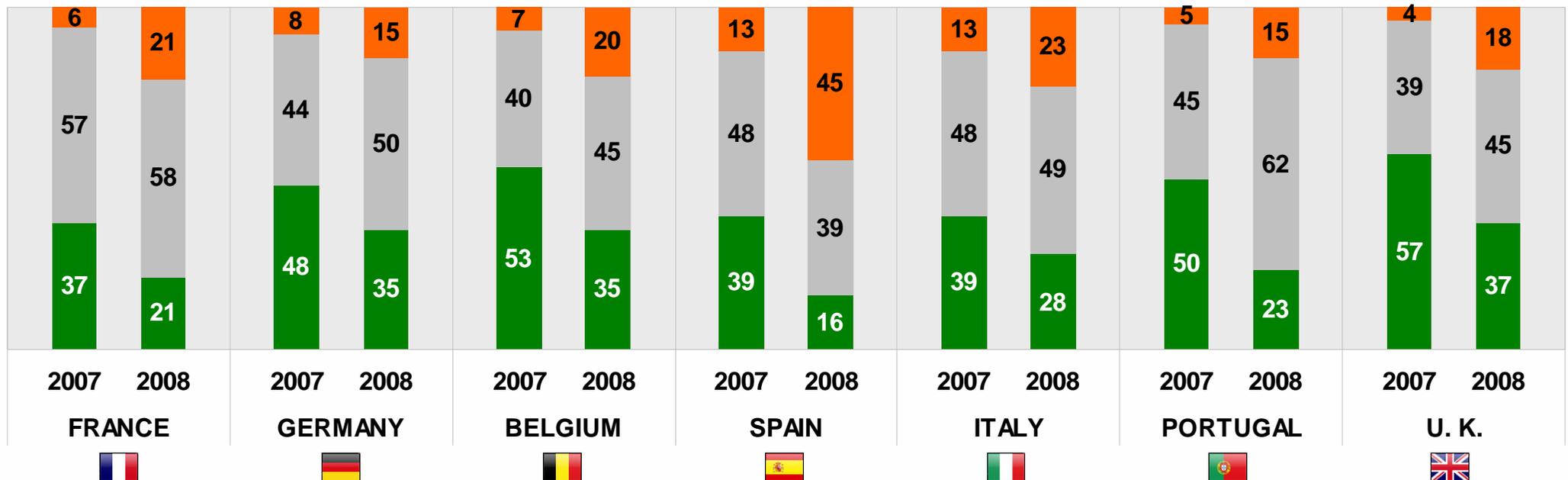


Trends in profitability



- Lower growth in profitability is expected in all countries
- The highest confidence is found in the **UK, Germany** and **Belgium**, where the balance remains positive
- Companies in **Spain** expect their profitability to decrease on average

Trends in profitability

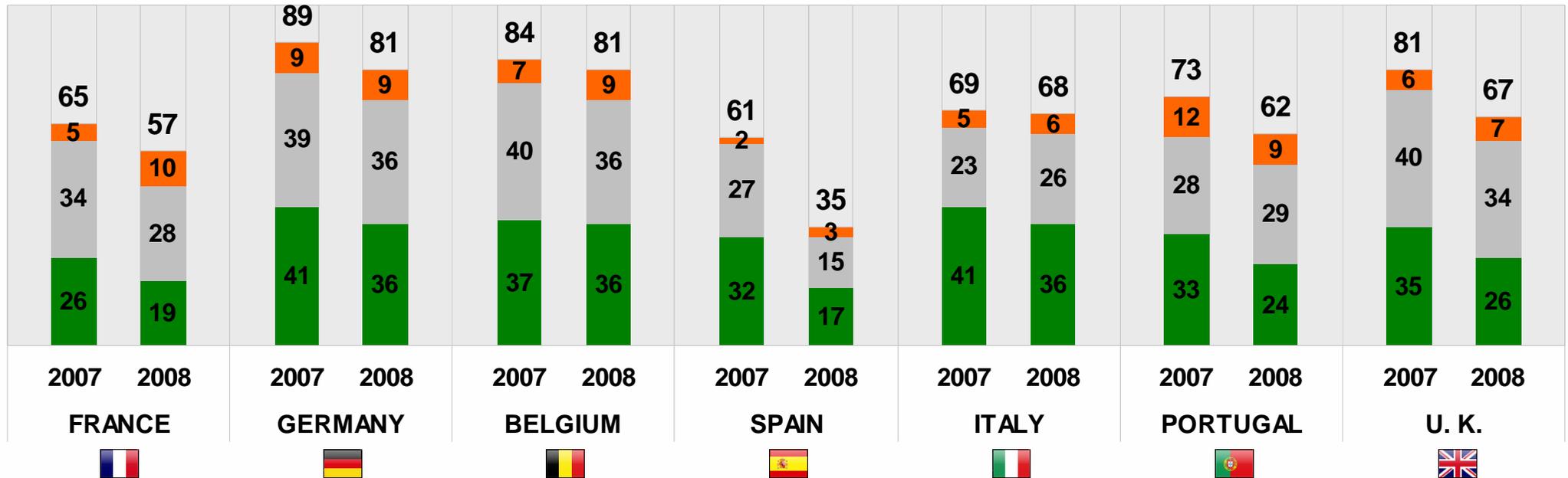


Investments



- The investment outlook is slowing in all countries
- Investment is nevertheless expected to hold up well in **Germany** and **Belgium**
- It is expected to contract sharply in **Spain** and more moderately in **France**

Planned investment expenditure in the next 12 months



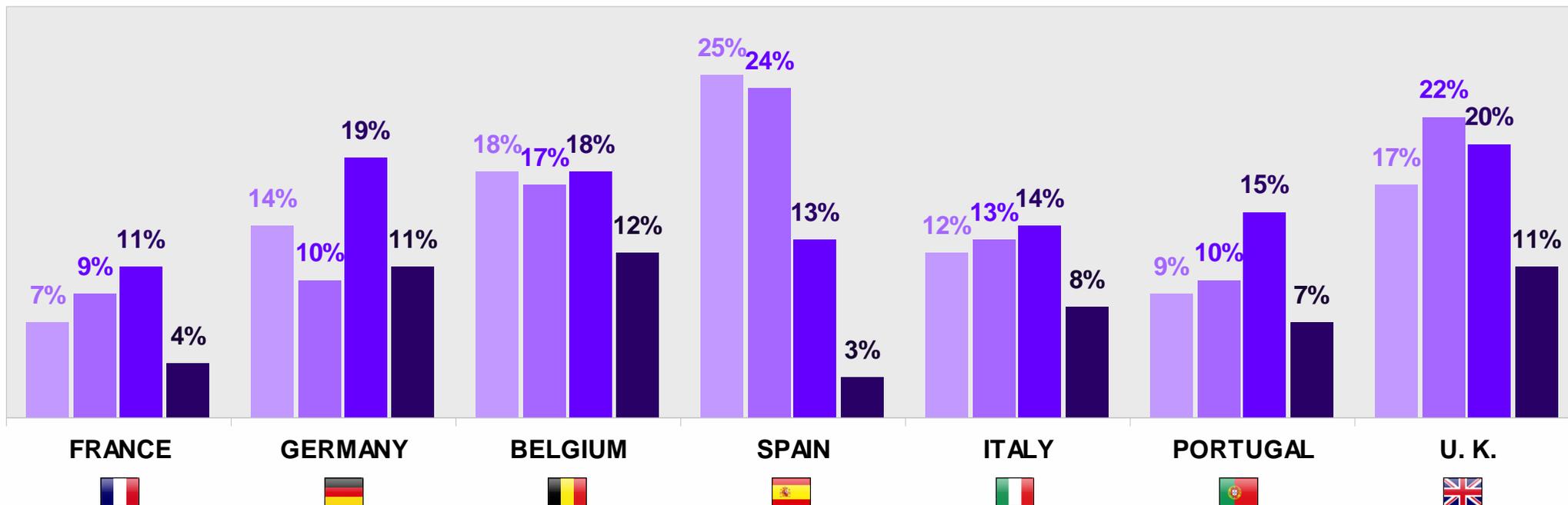
Eurofactor Growth Indicator *



- The growth outlook is holding up best in **Belgium, Germany** and the **UK**
- Pessimism is most marked in **Spain** (which had the highest index two years ago) and in **France**

Growth indicator

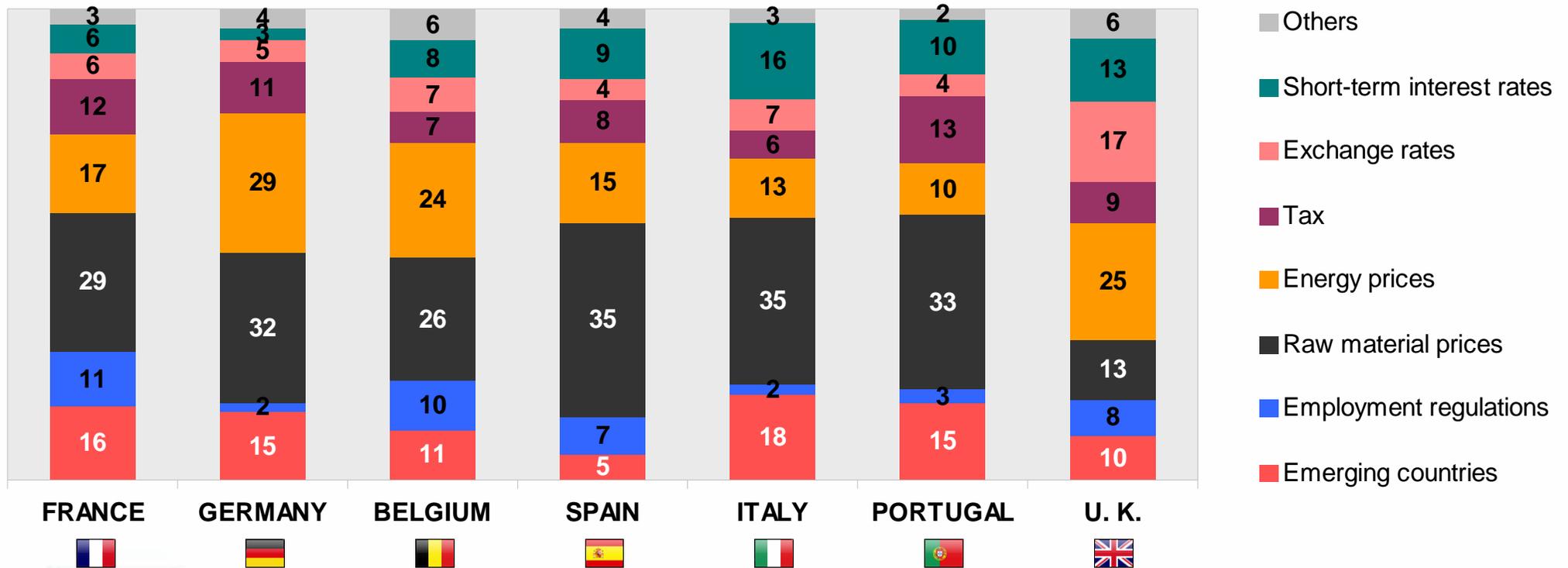
2005 2006 2007 2008



Companies' concerns

- European companies are primarily concerned about prices of **raw materials**, followed generally by **competition from emerging countries**
- The **exchange rate** ranks second in the UK, whose currency lost a quarter of its value against the euro in 2008

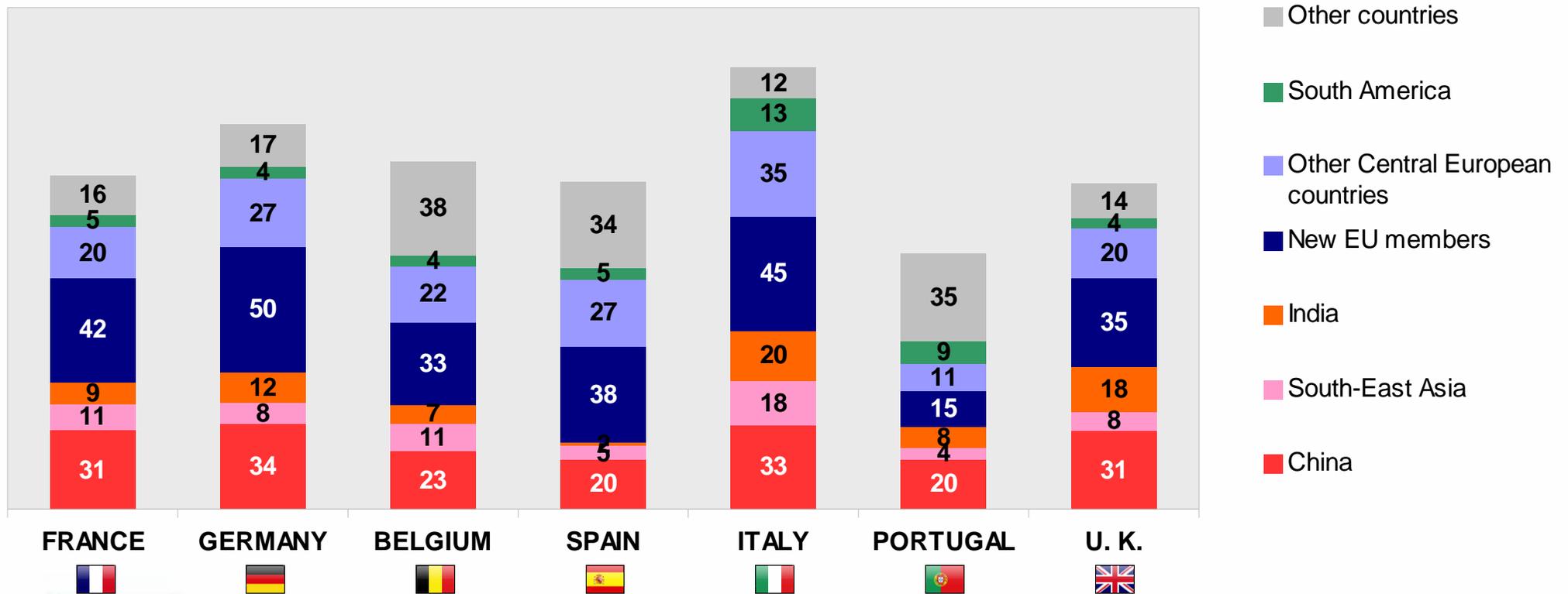
Companies' main concerns



Countries representing an opportunity

- The **new members of the European Union** represent the biggest opportunity for the surveyed countries as a whole
- **India** emerges as an opportunity for the **UK**, naturally, but also for **Italy**

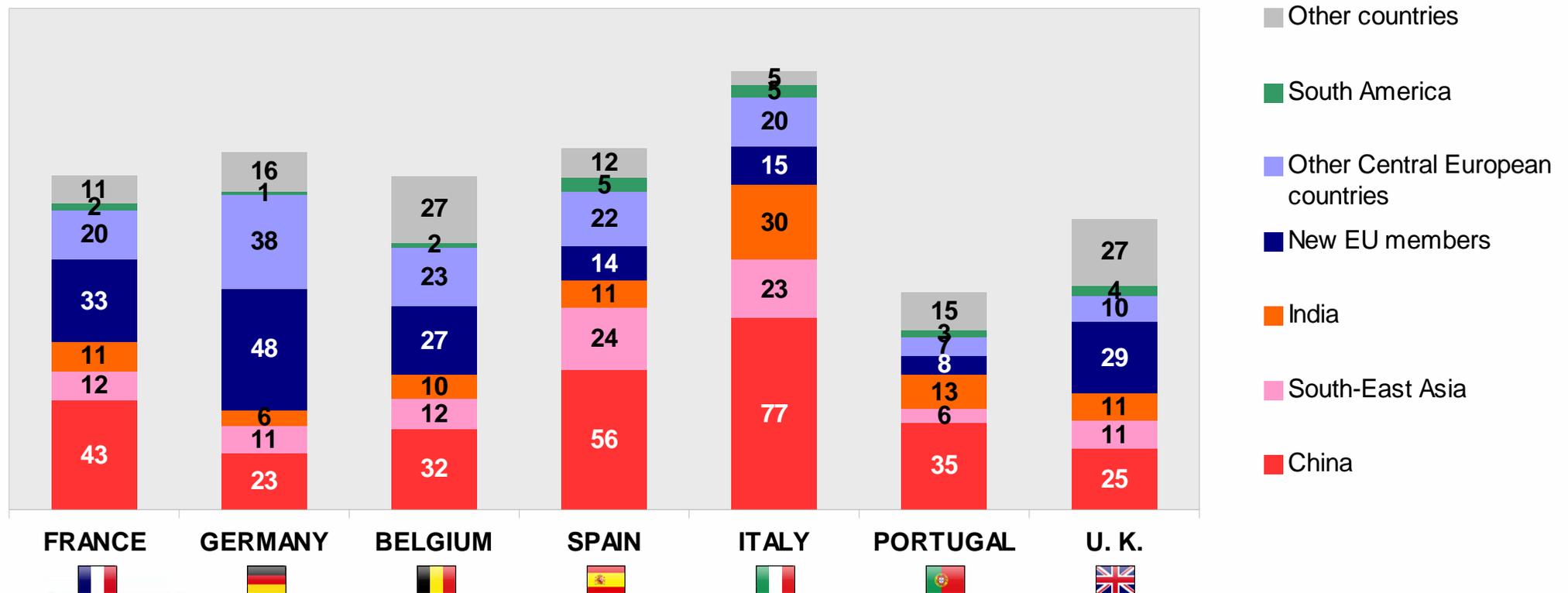
Emerging countries which most represent an opportunity *(two possible answers)*



Countries representing a threat

- Companies are very sensitive to competition from **China**, particularly in southern Europe ($\frac{3}{4}$ in **Italy**)
- **Spain** is the only country for which the number of countries representing a threat (average of 1.44) exceeds the number representing an opportunity (1.30)

Emerging countries which most represent a threat (two possible answers)



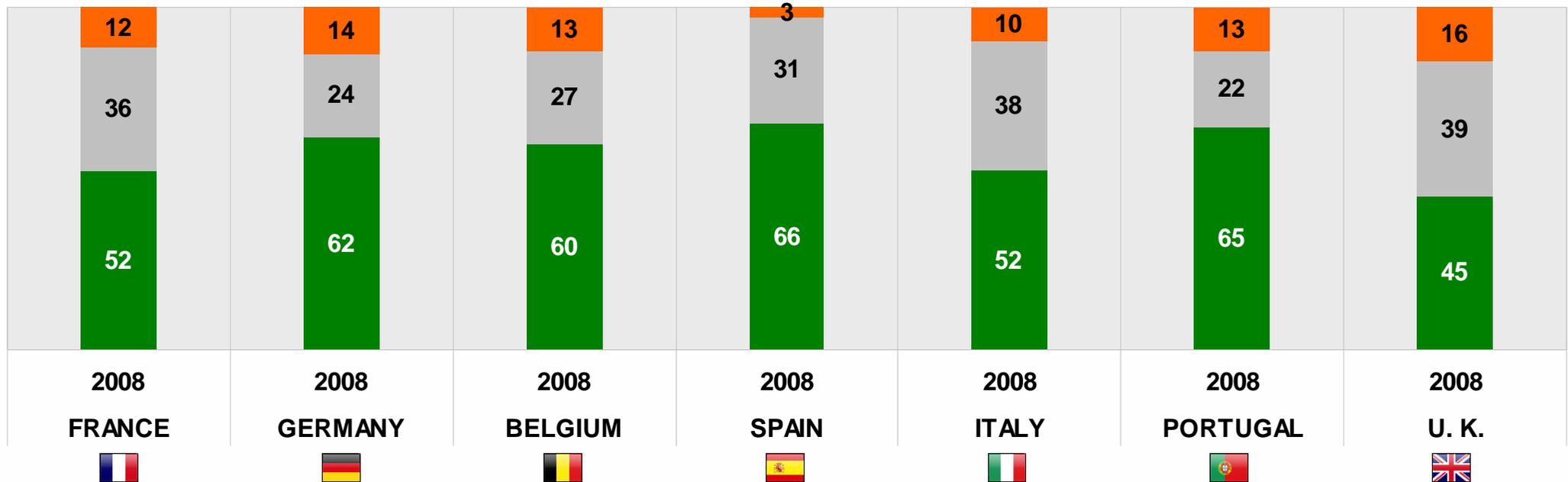
Assessment of inflation



- Two-thirds of **Spanish** and **Portuguese** companies expect inflation to increase in 2009
- By contrast, over half of **UK** companies expect inflation in their country to stabilise or even decrease

Assessment of inflation

NEW QUESTION IN 2008



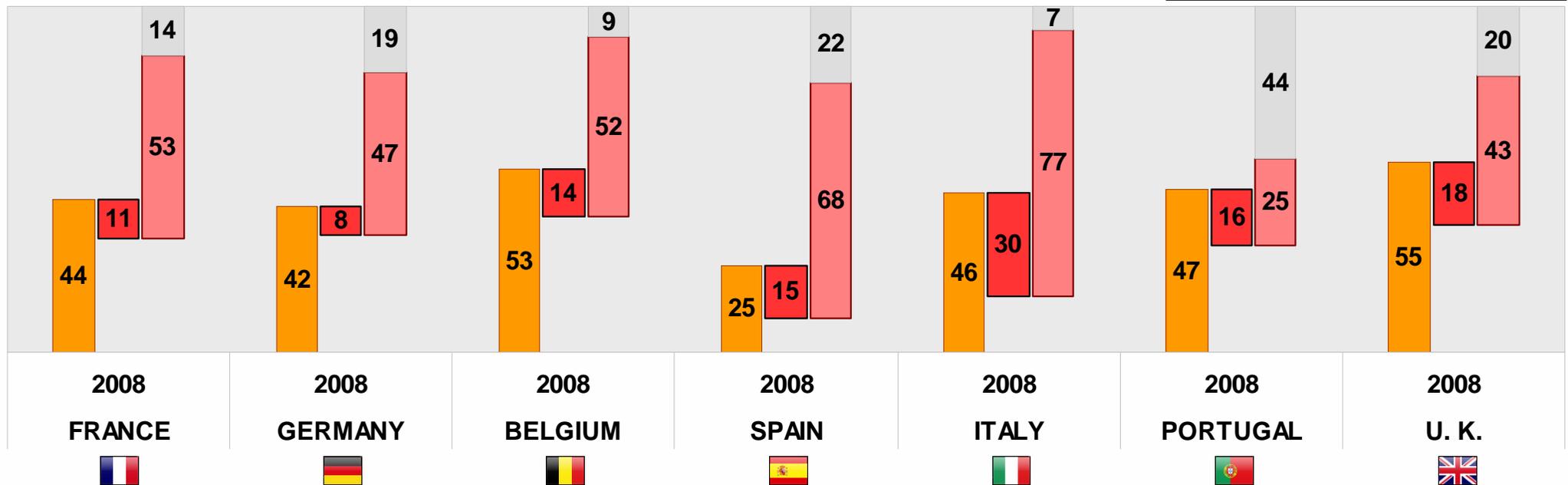
Strategy for dealing with inflation



- Although expecting a sharp surge in inflation, 75% of **Spanish** SMEs will try not to increase their prices in 2009
- It is in **Italy** that margins may contract most (78% of SMEs)

Company's strategy for dealing with inflation

NEW QUESTION IN 2008

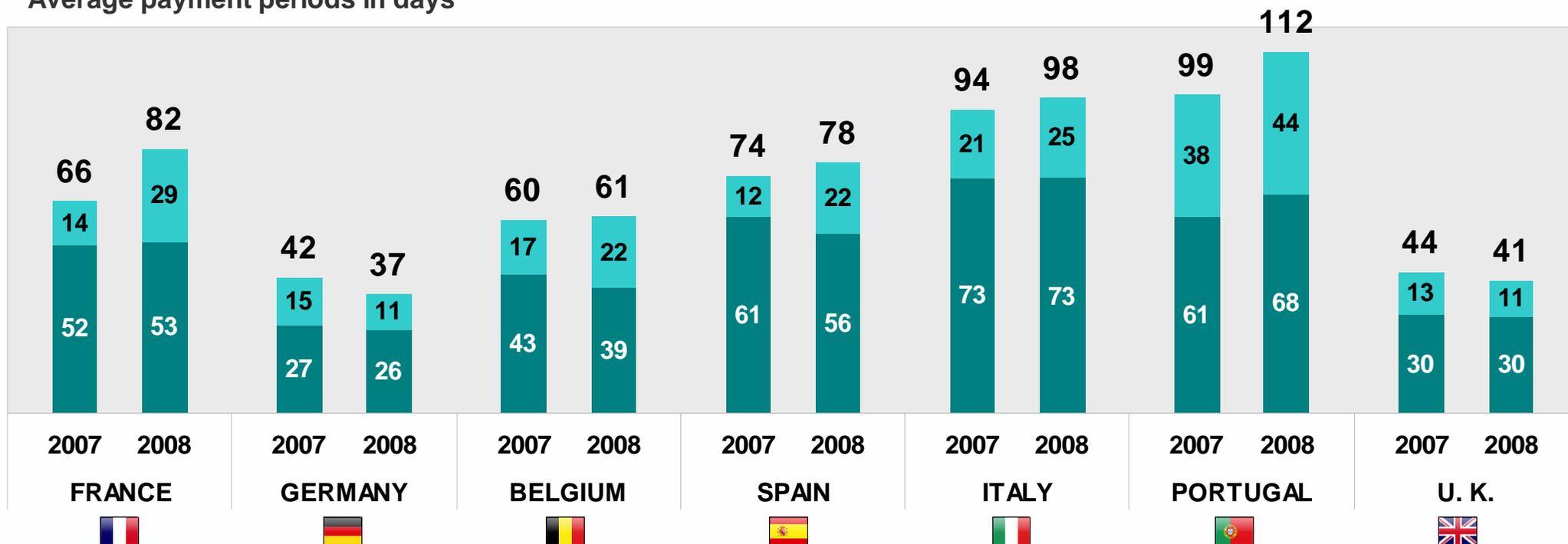


Payment periods



- Payment periods are shortest in **Germany** and the **UK**, longest in **Portugal** and **Italy** (around 3 months)
- Payment delays are getting worse in **France** and **Portugal**

Average payment periods in days



53 Theoretical due date + 29 Payment delay = 82 Total period

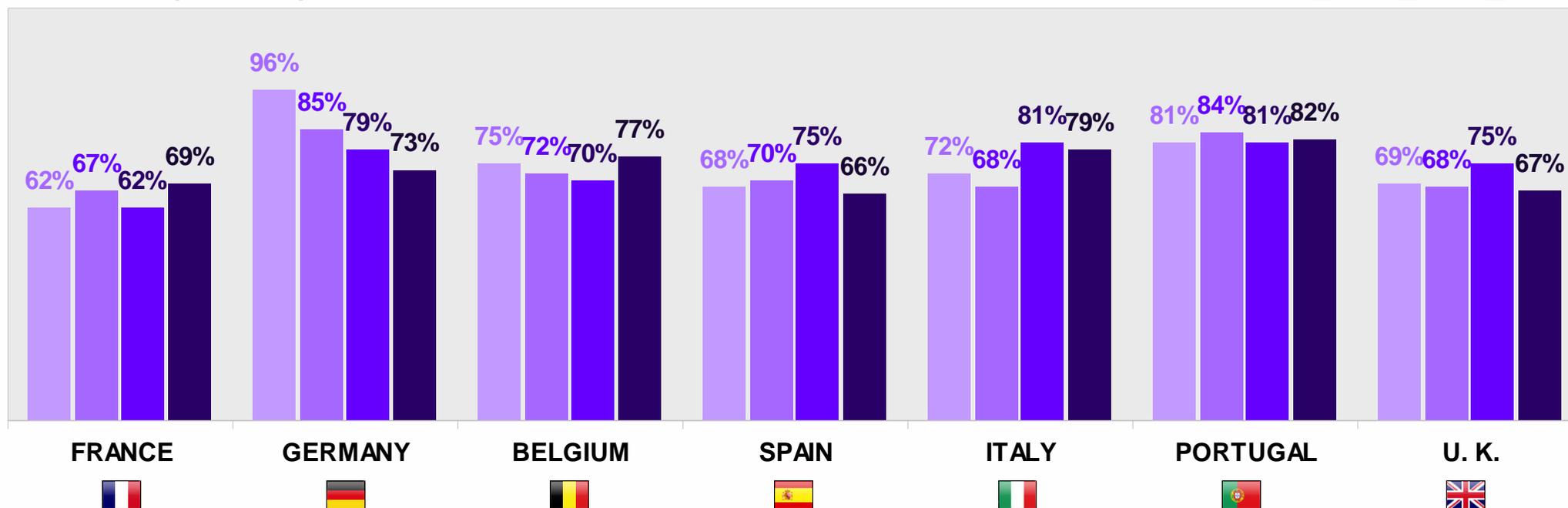
Bad debts



- Two-thirds of European companies are exposed to the risk of bad debts
- Among these companies, bad debts represent between 0.7% (**France**) and 1.5% (**Italy**) of revenues

Rate of companies exposed to bad debts

2005 2006 2007 2008



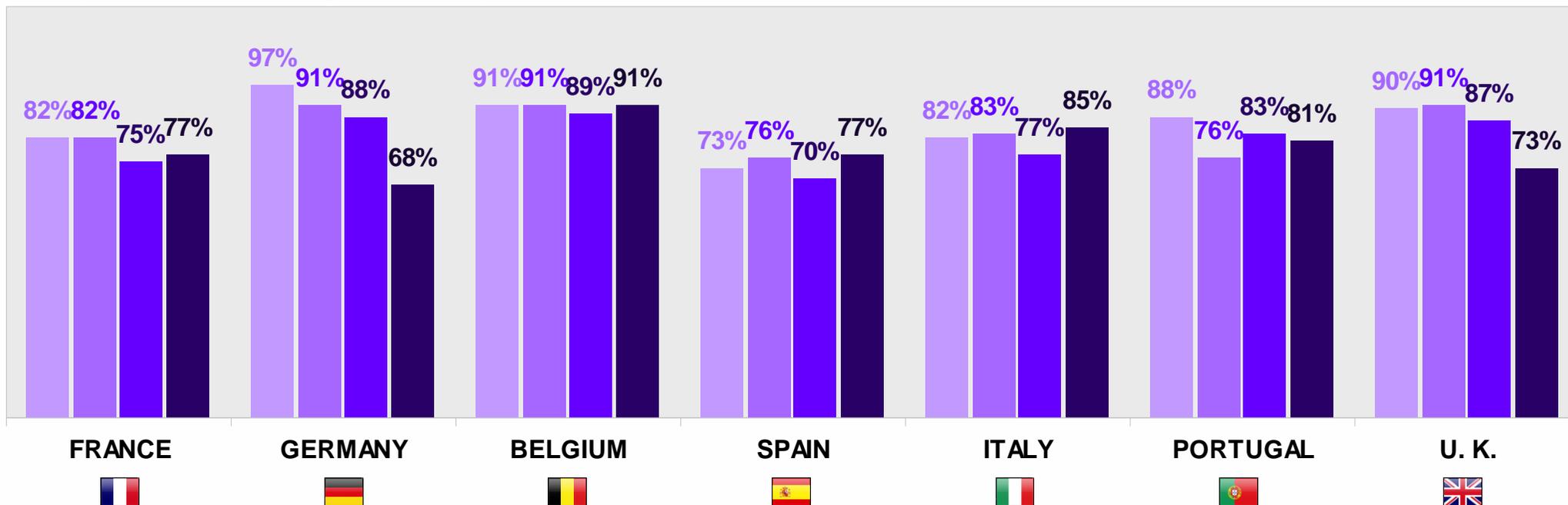
Collection



- In **Belgium**, 9 out of 10 SMEs commence procedures, compared to 7 in **Germany**
- The times at which procedures are commenced range from 28 (**Spain**) to 50 (**Portugal**) days after the due date

Companies commencing collection procedures

2005 2006 2007 2008



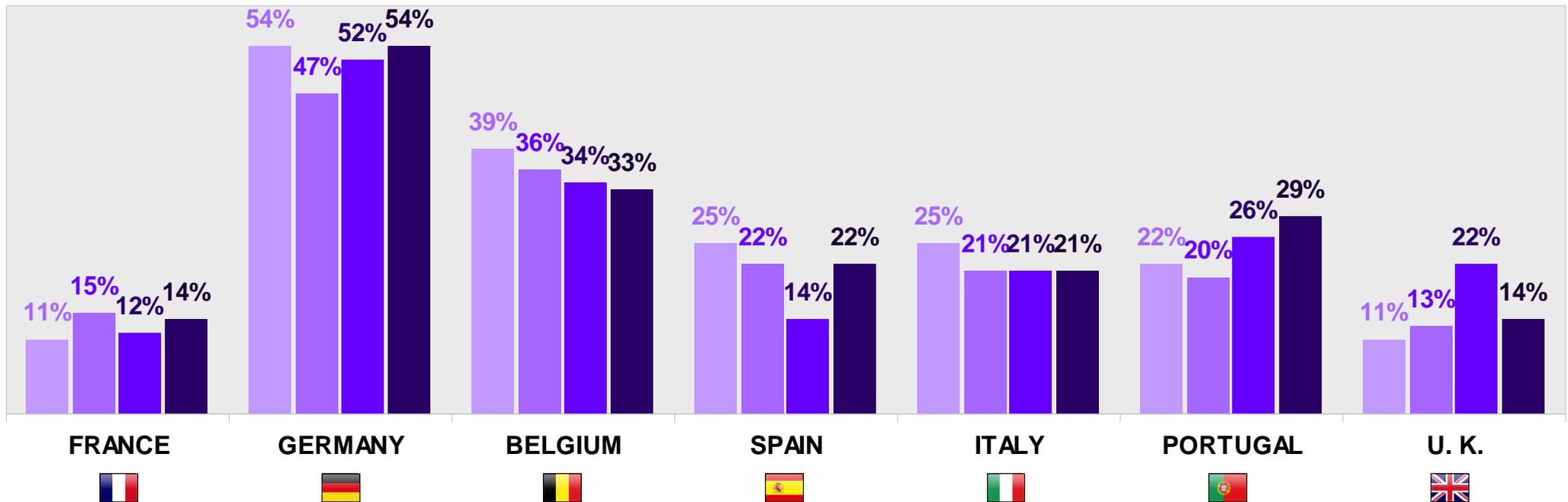
Interest on late payment



- Half of **German** companies and one-third of **Belgian** companies charge interest on late payment
- In **France** and the **UK**, it is charged by only one company in seven.

Companies charging interest on late payment

2005 2006 2007 2008

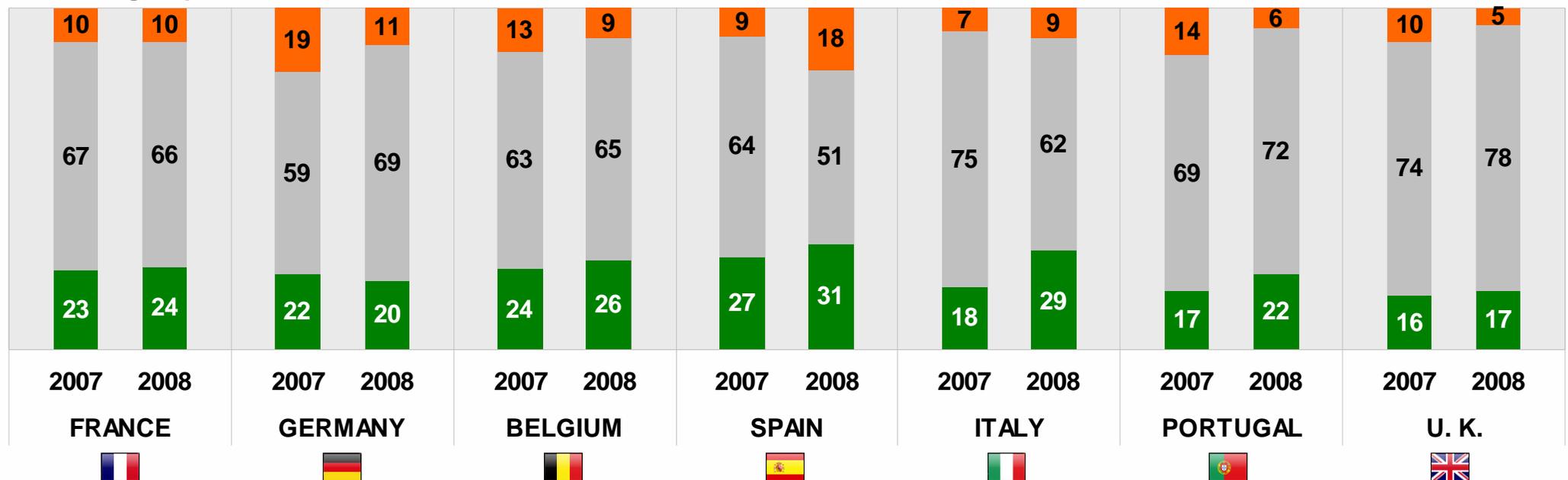


Financing requirements, cash



- SMEs' financing requirements are expected to increase in the surveyed countries as a whole (positive balances of 'Increases' and 'Decreases')
- Particularly in **Italy** (balance of 20 points), **Belgium** (17) and **Portugal** (16)

Financing requirements



Summary



According to this seventh edition of the Eurofactor Barometer, business managers expect a contraction of activity in Europe in 2009:

- **The number of managers expressing confidence in their economic environment has declined sharply in practically all countries**
- **Investment, the main driver of eurozone growth in the last three years, looks set to weaken**
- **This slowdown is expected to be more marked in capacity investment, due to the state of the global economy, than in productivity investment, with European companies concerned about competition from emerging countries**
- **The situation varies greatly between the countries: Spanish business managers expect a deterioration in both revenues and profitability, whereas German managers remain relatively optimistic with regard to the overall outlook for 2009**