



## Inflation 2022

### Business Survey

Report of pilot study

October 2022

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#### 1. Purpose:

This document provides feedback from a small feasibility study conducted amongst UK business owners and managers in late September 2022. The objective was to test the feasibility for a larger study which Better Statistics intend to launch, subject to obtaining further funding. We are grateful for the support of [Internet Research Bureau](#) for sponsoring this feasibility study through the use of their [B2B panel](#) to provide the responses.

The commentary below is not intended to represent a report on UK business, rather it is feedback from 121 respondents, of whom 101 fully completed the on-line questionnaire. The respondents reflect a wide range of sizes and activities of business and therefore the results have demonstrated the feasibility of the proposed main survey. Moreover, this feedback report provides valuable insight to the concerns many UK businesses are facing at this time.

#### 2. Summary

Almost all respondents (90%) expressed concern with their experience of inflation, with many of them seeking various ways to alleviate the effects on their business as far as possible. As one respondent expressed it: *“We have switched to more economical plans from our partners & we have assessed what services we can do without to be more economical. We have reduced certain salaries where possible”*

With the result for many companies as stated by one Financial Services manager *“They are having to put their prices up”*. This is particularly the case for respondents from retail businesses.

However, a minority of 20% of respondents had not put prices up for some considerable period since before 2021 and others who do not anticipate needing to do so again until 2024.

	<u># of</u> <u>responses</u>	<u>%</u> <u>responses</u>	<u>%</u> <u>increase</u>
By the end of 2022	50	52%	21%
Next year (2023)	34	35%	21%
Not until 2024	13	13%	12%
Total	97	100%	20%

Nevertheless, most respondents are finding the business environment to be challenging and perhaps unsurprisingly, the main suggestion for action from the Government and /or the Bank of England is to provide some form of financial support to alleviate the difficulties:

*“Give priority to help enterprises with loan problems”*

The proposed main survey will enable detailed analysis of the results to understand how these issues differ by region and type of activity as well as determining the differing effects experienced by those engaged in imports and exports.

### 3. Overview of Results:

#### 3.1. Introduction

A feature of Better Statistics surveys is that we seek to engage the interest of the respondent by asking for their personal comment on the subject of the survey. For that reason the introductory question for this study was:

***Q. Firstly can you briefly explain in your own words how your business is dealing with inflation and the other issues affecting business at this time?***

The answers from three manufacturing organisation indicate the range of difficulties such companies are experiencing:

*“Due to inflation, my organization is now trying to find many raw material suppliers for cooperation and negotiation. The instability of the labour force has also had a great impact on our organization”*

*“As a business we are aware of the implications this will have on our consumers purchasing our products, and the limited disposable income that people will have available. We are looking at ways to reduce the overall cost of our products so we can prevent the unit cost increasing, passing this on to consumers. We are trying to buy materials from different wholesales and to review the manufacturing process.”*

*“Having to absorb inflation increases in terms of cost of raw materials and shipping costs, which impacts the cost of goods and profitability. Unable to pass all increases on to end customers. Having to protect profit from elsewhere in the business. Looking at difference sourcing options as well as manufacturing options to reduce costs.”*

Other responses were equally concerning if less complete in respect of the range of concerns expressed:

*“The business is slowing down as it is hard to find consumers in demand for the products”*

*“Cutting back on consultants and management services and ensuring annual charges increase in line with inflation”*

*“We have switched to more economical plans from our partners & we have assessed what services that we can do without to be more economical. We have reduced certain salaries where possible”*

*“They are having to put their prices up”*



Of course, not all managers are aware of the plans that their organisation may have:

*“I am not aware of the overall strategy but within my area I have raised concerns that with our usual business activity we will not be able to keep within the assigned budgets. This is being escalated to senior managers to review.”*

Equally, not every organisation is experiencing difficulties, depending upon their sector and coverage:

*“I work for local government so question doesn't apply”*

*“Income is substantially protected by virtue of being a regulated industry (water supply); expenditure inflation sees us deliver fewer outputs from our capital programme due to construction costs inflation. Salaries are shielded by a pre-agreed three year salary increase agreement with the unions.”*

*“I work for a large global business which is able to cope with inflationary matters.”*

And one business from the Mining and Quarrying sector is actually benefitting - “Good”

### 3.2 Measuring the effect of inflation on business.

In total 90% of our respondent businesses are reporting some degree of a negative effect.

**Q. Which of these statements most closely describes the effect of inflation on your business:**

<u>Statement</u>	<u># of responses</u>	<u>%</u>
<u>It is already having a serious adverse effect</u>	36	30
<u>It is having some negative effect but not really serious</u>	72	60
<u>It's not really having any effect at present</u>	12	10
<u>Our business is benefiting from inflation</u>	1	1
<u>Total</u>	121	100

Looking at the different activities of the respondent companies, a majority of those from the retail sector were experiencing serious difficulties; with some of those in business services also having problems.

Unsurprisingly, given the increased complexity associated with manufacturing operations, only one of the 27 respondents from that sector claimed that inflation was having no effect on their business. However, only one respondent from manufacturing claimed that inflation is having a serious effect.

Unfortunately the hospitality sector is not well represented in the sample, so anecdotal evidence of difficulties in that sector are not confirmed by this pilot study.

	<u>It is already having a serious adverse effect</u>	<u>It is having a negative effect but not really serious</u>	<u>It's not really having any effect at present</u>	<u>Our business is benefiting from inflation</u>	<u>Total Responses</u>
<u>Business, Financial and Other Services</u>	12	14	8	0	34
<u>Utility and Public Services</u>	5	15	2	0	22
<u>Manufacturing</u>	1	25	1	0	27
<u>Retail</u>	12	7			19
<u>Other - Transport/agriculture/Construction/Mining/Quarrying</u>	6	11	1	1	19
<b><u>Total</u></b>	<b>36</b>	<b>72</b>	<b>12</b>	<b>1</b>	<b>121</b>

Many of the respondents engaged in manufacturing were from larger companies and the analysis by size of company evidenced that proportionately fewer larger companies claimed to experience **serious adverse effects** from inflation, possibly because their size provides better opportunities for management to deal with the issues that inflation creates. The table by size of business below shows that only 12% of those companies with over 1,000 employees are experiencing serious adverse effects compared with 31% of those with up to 1,000 staff.

	<u>Size of Company</u>				<u>N/S</u>	<u>Total</u>
	<u>1 to 20</u>	<u>21-100</u>	<u>101-1000</u>	<u>1001+</u>		
It is already having a serious adverse effect	8	8	11	4	5	36
It is having some negative effect but not really serious	11	14	17	27	3	72
It's not really having any effect at present	3	0	5	2	2	12
Our business is benefiting from inflation	0	1	0	0		1
<b>Total</b>	<b>22</b>	<b>23</b>	<b>33</b>	<b>33</b>	<b>9</b>	<b>121</b>

### 3.3 The effects of inflation in context:

The following questions were then asked to identify those issues having the most effect on business performance.

***Q. Now please indicate which of these specific issues apart from inflation are presently affecting your business performance (please code all that apply)***

With the list of issues and the count of responses as follows:

<u>Issue</u>	<u># of responses</u>	<u>%</u>
Covid-19	57	48%
Interest Rates	50	42%
Supply chain problems	49	41%
Lack of demand	43	36%
Shortage of skilled workers	37	31%
War in Ukraine	36	30%
Availability of Raw Materials	33	28%
Cash flow difficulties	33	28%
Effects of Brexit	32	27%
Exchange Rate Changes	31	26%
Lack of quality broadband	19	16%
Computer and IT issues	19	16%
Shortage of unskilled workers	16	13%
Other (please state)	3	3%

This was followed by a similar question, but including the following aspects of increased costs in the list:

- Cost of Staff
- Cost of Fuel
- Cost of Raw Materials
- Transport Costs

**Q. Now, including the direct effects of increased costs on your business, please identify the 3 items causing the business most difficulty.**

<u>Issue</u>	<u># of responses</u>	<u>%</u>
Cost of Staff	40	34%
Supply chain problems	38	32%
Cost of Fuel	33	28%
Cost of Raw Materials	32	27%
Availability of Raw Materials	28	24%
Covid-19	27	23%
Lack of demand	26	22%
Transport Costs	23	19%
Shortage of skilled workers	20	17%
Exchange Rate Changes	19	16%
War in Ukraine	19	16%
Effects of Brexit	16	13%
Computer and IT issues	15	13%
Interest Rates	13	11%
Cash flow difficulties	11	9%
Lack of quality broadband	10	8%
Shortage of unskilled workers	8	7%
Other costs (please state)	3	3%

So, from being the top concern at Q3, **Covid-19** drops to number 5 when consideration includes the various cost issues, with **Cost of Staff** replacing Covid-19 as the highest concern of respondents. In total 71% of respondents selected one or other of the ‘cost issues’ as within their top three concerns, implying that issues other than cost were more important for a total of 29% of respondents.

For the main survey we propose to proceed with Question 4 and to drop Question 3.

### 3.4. What do respondents expect from Government and the Bank of England?

The following two questions provided the opportunity for respondents to further express their own opinions directly:

**Q. What, if anything, do you think the Government should be doing to assist your business at this time?**

In the main, respondent answers suggested one or other form of financial support, particularly with energy costs:

- “Assisting with energy costs”
- “The government should call on banks to lend at special interest rates”
- “Make it easier to get a loan”
- “Bring back bounce back loans”
- “Reduce interest on loans”
- “Helping us with energy price rises”
- “By providing financial assistance to help us”



There were, however, some other ideas expressed as to the action the government should take:

- “Stimulate economic growth”*
- “Helping to control inflation and costs”*
- “Lower taxes”*
- “Improve broadband quality”*

**Q. And the Bank of England; what do you think they should be doing to help?**

A few respondents were keen that the bank should be aggressive with interest rate rises to curb inflation:

- “The current policy has not moved fast enough to get ahead of inflation which is now threatening to persist for a good deal longer than many would assume or have expected”*
- “Bank of England should be raising interest rates further”*
- “Increase interest rates”*
- “Raise base rate”*

However, the majority of respondents were more concerned that the Bank should actually reduce interest rates and generally assist with the financial difficulties many businesses respondents were faced with:

- “Cutting interest rates”*
- “Give priority to help enterprises with loan problems”*
- “Make it easier to get a loan”*
- “Increase the amount of credit available to businesses”*
- “Provide interest-free loans”*
- “Give businesses cheap access to credit”*
- “Banks lend money at low interest rates during special periods”*



A more thoughtful response, suggesting the reasoning behind easing interest rates was:

- “This is a supply side crisis - raising interest rates is counter-productive - keep interest rates at their previous 'pre-crisis' level”*

For the main survey Better Statistics proposes to replace the above two questions with a short question sequence to include other potential sources of influence on inflation – see 2.7 below.

**3.5 The effects of inflation on the prices charged by respondent businesses**

A central objective of the research programme is to identify the effects of inflation on the prices recently charged by respondent businesses and their expectation for future prices.

So we firstly asked the 17 businesses involved in the retail sector: **Many retail businesses are having to change their prices frequently. Is that the case with your business?**

- 14 of the 17 replied ‘yes’.

All respondents including the three retailers not frequently changing their prices, were then asked: **Q. When did your business last raise their prices?**

	<u># of responses</u>	<u>%</u>
Before 2020	19	20%
2020	9	9%
2021	26	27%
Jan to March 2022	14	14%
April - June 2022	22	23%
More recently	7	7%
Total	97	100%

**Q. And by roughly what % was the increase?**

The majority of price increases were within the range 5% to 20%, with some indication that businesses who rarely raise their prices tend to make lower increases. A conclusion that appears to be confirmed by the following questions concerning future price increases, although the sample size is too small for the detailed analysis necessary to draw any specific conclusions.

The future pricing questions were: **Q. when would you expect to next increase the prices you charge?** and **Q. by roughly what % is that increase likely to be?**

Yielding the following results:

	<u># of responses</u>	<u>% responses</u>	<u>% increase</u>
By the end of 2022	50	52%	21%
Next year (2023)	34	35%	21%
Not until 2024	13	13%	12%
Total	97	100%	20%

The final questions on the subject of price increases was for those 14 retailers who have changed prices frequently. They were asked: **Q. What % increase would you say you have you put through so far this year overall?** and **Q. What is your best guess at the likely increase for the rest of this year?**

Again, the sample is too small to merit any analysis of these questions but they have indicated that the price questions can be used in the main survey with very minor modifications.

3.6 The effect of Internet Trading.

We considered it to be of interest to investigate the possibility that the amount of internet trading might influence a business experience of inflation and therefore included the following questions:

**Q. Are you able to conduct any of your business over the web?**

<u>Use Internet for sales</u>	<u># of responses</u>	<u>%</u>
Yes	101	86
No	17	14
<b>Total Responses</b>	<b>118</b>	<b>100</b>

**Q. If yes: Is that by order through your own website, special trading websites or simply by email? (code all that apply)**

<u>Use Internet for sales</u>	<u># of responses</u>	<u>%</u>
<u>Through</u>		
- Own website	74	74
- Trading Website(s)	40	40
- Email trading	24	24
- Other (please state)	3	3
<b>Total Using Internet</b>	<b>101</b>	<b>100</b>

**Q. What percentage of the turnover of your business is sold over the web?**

In 5 cases all their trading was conducted over the web and for the remainder the proportion varied from 10% to 95%. However it is event that a substantial proportion of business does not use the internet to conduct their business transactions.

The sample size is too small to undertake any detailed analysis of the resultant data although the following table provides some indication that those involved with internet trading may be less likely to be concerned with inflation:

Proportion of sales turnover sold over the web:

For those experiencing at least some negative effects of inflation - 35%  
 Those not really experiencing any negative effects of inflation - 51%

There were a number of other questions asked which we have not analysed in full because the sample size is insufficient to merit detailed analysis. The main survey will, however, provide details of any important difference in experience by region, activity and size of company, as well as identifying any direct effects of involvement in international trade.

### 3.7 Classification questions:

The respondents were asked to provide further details of their company and a few personal details as summarised below:

Gender:

	<u># Responses</u>	<u>%</u>
Male	80	73%
Female	30	27%
<b>Total</b>	<b>110</b>	<b>100%</b>

Age:

	<u># Responses</u>	<u>%</u>
18-34	40	36%
35-54	54	49%
55-70	16	15%
<b>Total</b>	<b>110</b>	<b>100%</b>

**Q. Can you confirm that your business is UK owned?** Yes – 98% (Other US and Italian owned)

**Q. What is the main bank you use? and Q. How satisfied are you with the support your bank has given you over the past 2 years or so?**



	<u>Very satisfied</u>	<u>Fairly satisfied</u>	<u>Not satisfied</u>	<u>Not been with the bank that long</u>	<u>We've not needed support</u>	<u>Total Responses</u>
Barclays	9	11	1	0	1	22
HSBC	12	9	0	0	1	22
Bank of Scotland	10	6	1	0	0	17
NatWest	5	1	4	0	2	12
Lloyds Banking Group	3	5	1	0	0	9
Co-operative Bank	2	4	1	0	1	8
Halifax	4	1	1	0	1	7
Other	5	2	1	3	3	14
<b>Total</b>	<b>50</b>	<b>39</b>	<b>10</b>	<b>3</b>	<b>9</b>	<b>113</b>

Type of Location:

	<u># Responses</u>	<u>%</u>
The sole location for the business	55	50%
Head Office	44	40%
A branch location	12	11%
<b>Total</b>	<b>111</b>	<b>100%</b>

Type of Organisation:

	<u># responses</u>	<u>%</u>
Limited Company	46	41%
National or local Government	10	9%
Partnership	8	7%
PLC	10	9%
Sole trader	33	30%
Other (Charity etc)	4	4%
<b>Total</b>	<b>111</b>	<b>100%</b>

Involved In overseas trade:

	<u># responses</u>	<u>%</u>
Yes, international trade	64	59%
<u>Of which:</u>		
Both import and Export	44	40%
Export only	14	13%
Import only	6	6%
No international trade	45	41%
<b>Total</b>	<b>109</b>	<b>100%</b>