

# BUSINESS SURVEY 2014

## Financially strong, energy-conscious, location-sensitive

### Summary

#### Financing situation

Companies were able to bolster their financial strength again in the past year, with the turnaround in economic activity resulting in higher profits. Equity ratios evolved positively as well. At the same time, investment activity contracted for the second year in succession. Against this backdrop, the financing situation of companies is better than ever. Both large and small companies even have a better assessment of the financing climate than in the boom years prior to the 2008/2009 crisis. The easier access to external funds applies both for investment financing as well as for working capital and order financing. The fact that the current financial strength of many companies means they are now less dependent on bank loans than before, most likely contributed to the positive evaluation of the financing climate. However, young and small companies are more frequently reporting difficulties gaining access to credit. Severe restrictions – such as problems providing sufficient collateral or rejected loan applications – are still mostly found among these two groups of companies. The results in detail:

1. The financing situation of companies has improved again over the last twelve months. The ratio of companies finding it more difficult to borrow money fell by 4 percentage points to 18% compared to the previous year. The ratio of companies finding borrowing easier remained the same (9%).
2. Small companies (turnover of less than EUR 1 million) report difficulties with credit access almost four times as often as businesses with turnover in excess of EUR 50 million (28%). Young companies (established no more than six years ago) are also affected, with 24% indicating increased difficulties borrowing money. Small and young companies still have structural problems with access to credit.
3. The main causes of difficulty in accessing credit are an increased demand for information from lending institutions (project documentation requirements, the disclosure of business figures and business strategies and the requirement for a higher level of loan collateral (almost 80% in each case). Among lending institutions there is a generally high sensitivity to risk with (almost) all customer groups. The only exception are small companies, which are primarily reporting higher collateral requirements.

4. Problems obtaining any credit whatsoever were cited by 47 % of the firms as the reason for the more difficult access to credit, slightly more frequently than in the previous year. The proportion of small companies (up to EUR 1 million turnover) indicating they have problems in general in obtaining a loan is 60 %, almost seven times higher than companies whose annual turnover exceeds EUR 50 million. Among young companies reporting difficulties in borrowing, the proportion indicating this as the reason is as high as 69 %.
5. The favourable financing climate is based on positive changes in the key financial figures. Returns on sales are up slightly, with 33 % of the companies surveyed reporting an improvement in their return on sales (+2 percentage points compared to the previous year). Only 25 % report a decline (-3 percentage points compared to the previous year).
6. Equity ratios remain positive, with a net balance of 26 points. For comparison, this is down by 3 points on the previous year's figure.
7. Credit ratings have improved to a smaller extent, with the net balance down one point to 14 balance points.
8. Of the companies planning to invest, 44 % have applied for a loan for this purpose. One in every five such companies were denied their loan request. The decline of 5 percentage points underscores the favourable situation with respect to accessing credit at present. Loan applications from small companies (with an annual turnover of less than EUR 1 million) and young businesses are, respectively, five and six times as likely to be denied as applications from large companies with an annual turnover in excess of EUR 50 million. However, it should be emphasised that the gap between large companies on the one hand and small and young enterprises on the other has narrowed significantly.
9. In terms of working capital and order financing, own funds are by far the most important source of financing (mentioned as "important" in 73 % of cases). Credit lines and current account overdrafts (56 %), supplier loans (36 %) and down payments from customers (33 %) lag significantly behind.
10. 40 % of companies state that working capital and order financing are easy to obtain, with only 18 % describing access to such funds as difficult. Here too, small and young companies rate their access much more negatively than other companies.

### **Investments in energy-efficiency**

The German government initialized the turnaround in energy policy with the purpose of achieving a sustainable energy supply. However, investments in the efficient use of energy not only make a significant contribution to achieving the ambitious climate protection goals, they are also another element in securing Germany's international competitiveness and thus its position as a place to do business.

Companies are progressing well with implementing energy and climate policy goals. Many enterprises are already pushing ahead with energy-efficiency measures, but there is still significant untapped potential. Progress is being hampered by the short repayment periods generally required of companies for investments. This explains why energy-saving investments with longer capital commitments are frequently not implemented, despite the favourable interest rates on the invested capital. Moreover, information deficits and financing difficulties constitute major barriers to investments. The results in detail:

11. 49% of the companies have implemented measures in the last three years to reduce energy costs or increase energy-efficiency, or are currently rolling out such measures. For 18% of the companies, measures have been planned but not yet implemented. The firms mainly active in this context are larger companies, accounting for shares of 71% (measures implemented / being implemented) and 20% (measures planned).
12. Information deficits hinder energy-efficiency measures. Almost one quarter of the companies concede that a lack of know-how regarding savings opportunities prevent them from implementing measures. 17% of the companies have not even explored possible measures yet. Almost one third of the companies do not have the right personnel to draw up and implement energy-efficiency measures.
13. The lack of financing prevents 29% of the companies from making investments to boost energy-efficiency. For small and young companies, difficulties with financing are the second most common problem cited. The biggest problem with implementing energy-efficiency measures is the expectation that energy-saving measures will pay off quickly (55%).

### **Evaluation of region as a place to do business**

The regional environment is extremely important for business success. At the same time, regions benefit from the economic success of companies established there. Relevant location factors must be identified and evaluated to drive the development of a business location forward.

Companies have different opinions on which location factors are supportive for their region and which make a business location attractive. It is pleasing that the majority of the companies are positive about their business location. Labour market conditions, infrastructure and cooperation with others on the market are crucial in terms of business location quality. Cost factors are usually what companies are most negative about, but this generally has no impact on satisfaction with their region as a business location. The results in detail:

14. 60 % of companies are satisfied with their region as a place to do business. Large companies are more satisfied than small businesses. Companies in Baden-Württemberg, Berlin, Hamburg, Hesse and Bavaria gave the most positive assessments of conditions in their region.
15. The appeal of a location is primarily dependent on the availability of skilled employees (priority 1) and the quality of transport infrastructure (priority 2). Networking opportunities are also important: proximity to suppliers and customers (priority 4), collaboration with other companies (priority 5) as well as collaboration with local authorities (priority 7) and banks (priority 9) play a crucial role in the quality of a location.
16. By contrast, most of the cost factors – such as wages, water supply and disposal, waste disposal as well as local taxes and levies – have no influence on the assessments about where companies do business. The one exception here is energy costs (priority 6). This underlines the high importance companies attribute to energy costs.

The survey was conducted for the thirteenth time among companies of all sizes, industries, legal forms and regions. A total of 26 specialist trade and regional business associations took part in the survey, which was conducted within a short period in the first quarter of 2014.