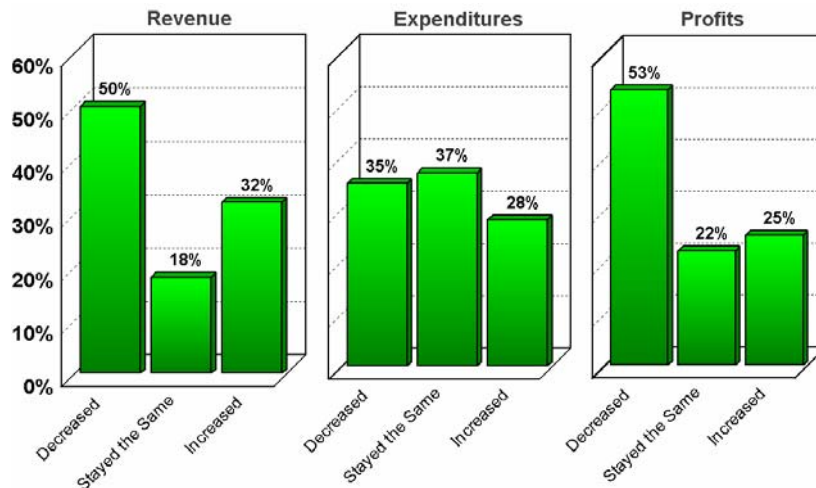


O'Neil Associates | ASBA  
**ARIZONA ECONOMIC INDICATORS MONITOR**

Quarter 4, 2008

**Revenues, Expenditures, Profits, Marketing, and Advertising:  
Arizona Businesses Respond to Economic Downturn**

**Decreasing Revenues Driving Profits Down**



The O'Neil Associates/ASBA Arizona Economic Indicators Monitor asked small business owners about the revenues, expenditures, and profits of their businesses over the past 12 months. This quarter, small businesses reported that their profits were more likely to have decreased (53%) than increased (25%).

The primary and obvious cause for a decrease in profits was a decrease in revenues. Fifty percent (50%) of Arizona businesses reported a decrease in revenues compared to only 32% who reported an increase. This decrease in revenue was only partially handled by a decrease in expenditures. Thirty-five percent (35%) reported a decrease in expenditures, compared to only 28% who reported an increase.

**Why These Surveys Matter**

Our stock markets have been battered. Housing prices have plummeted. Banks are afraid to lend. Consumers have pulled back on their spending. And businesses are reluctant to hire. All told, more "wealth" has been lost in the last year than in any in human history.

An incoming Presidential administration proposes to spend unprecedented sums primarily to inspire confidence in the resilience of the economy.

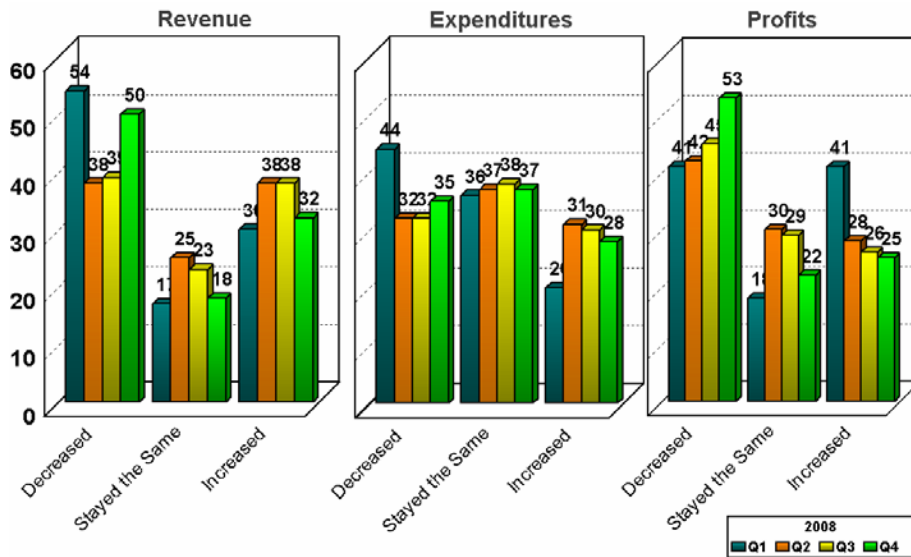
Whether or not it works will depend almost exclusively in whether it is successful in inspiring that confidence. Should that confidence return, all of the negative impacts described in the first paragraph will be reversed.

The significance of the Arizona Economic Indicators Monitor is that it measures precisely the perceptions that will ultimately drive our economy up or down.

Follow these reports and you will know a lot about what to expect from the economy.

## Changes Over Time

When we compare the revenues, expenditures, and profits over the four quarters of 2008, we note that in Q1 revenue on balance was decreasing, remained flat for Q2 and Q3, and in Q4 returned to a downward direction.



In Q1 2008, profits were flat because businesses were able to cut expenditures in an amount consistent with the revenue decrease. Since then, however, they have not been able to cut expenditures at a rate sufficient to keep up with decreasing revenues. As a result, the 41% who reported increased profits in Q1 dropped dramatically in Q2 to 28%, 26% in Q3,

and 25% this quarter. As a result, the proportion with decreased profits (53%) this quarter exceeded those with increased profits (25%) by a substantial margin.

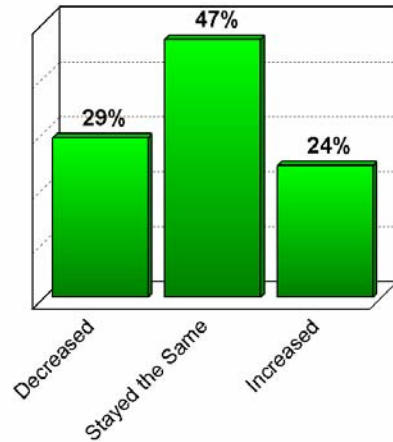
According to the poll's director, Dr. Michael O'Neil:

*“This looks to us like a fairly typical pattern in a declining economy. On the front end of an economic downturn (as was evident in Q1 of this year), businesses are able to maintain their profits by cutting expenditures. As the economic situation deteriorates further, however, there is a limit to how much expenditures can be cut. The figures for Q2, Q3, and Q4 reflect the patterns that occur when we are further into an economic downturn and businesses now tend to report that overall profits are down.”*

## Marketing and Advertising Expenditures

In Q4, we asked a new question. This one asked businesses to report what changes they had made in marketing and advertising expenditures. In general, many marketing and advertising firms suggest that an economic downturn is a particularly good time to increase, rather than decrease, marketing and advertising expenditures (of course, these firms have a vested interest in making this argument). Notwithstanding that, there is merit to the argument to increase advertising and marketing outreach when other firms may be cutting back. So we asked this question to determine how Arizona businesses are balancing these objectives.

*In response to the economic turnaround, has your company's marketing and advertising expenditures increased, decreased, or stayed the same?*



What we found was a net modest decrease in marketing and advertising expenditures. While 29% reported decreased marketing and advertising expenditures, this was almost matched by the 24% who reported that they increased such expenditures. The net effect of this indicates a very modest cut in advertising and marketing expenditures.

According to Dr. Michael O'Neil, the Arizona Economic Indicators Monitor director, *"This pattern suggests to me that Arizona small businesses are struggling to maintain their advertising and marketing expenditures in a down economy. It remains to be seen, however, how long they will be able to keep up this level of spending given the battering their profits have taken. I think the current figures reflect a desire to hang on, but for many there may be a limit to how long they can continue to do so."*

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*These results are taken from the Q4 O'Neil Associates/ASBA Arizona Economic Indicators Monitor. This project provides insights to support business leaders in companies of all sizes to make key economic decisions, as well as sharing small business attitudes on major political issues. O'Neil Associates, a national public opinion research firm based in Tempe, sent surveys to ASBA's membership of 3,000 small businesses across the state as it did at the end of Q1, Q2, and Q3 2008. The survey covered a wide range of economic issues, including business performance, revenue and job growth, and overall business confidence ratings. Results provide insights into the perceptions of business owners on the economic health and vitality of the Arizona economy. Based on 285 responses, the survey has a margin of error (at the 95% confidence level) of approximately +/-6%.*  
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**Results of this survey may be cited freely with the proviso that they be cited as the "O'Neil Associates/ASBA Arizona Economic Indicators Monitor"**

The O'Neil Associates/ASBA Arizona Economic Indicators Monitor is made possible by a cooperative effort of

- **O'Neil Associates**, a national public opinion research firm based in Tempe, has done over 1700 public opinion and marketing research projects since 1981. These include surveys and focus group projects for a wide array of businesses throughout the country.
- **ASBA**, the Arizona Small Business Association, is the leading voice for small businesses in the State of Arizona.

For a complete copy of all **O'Neil Associates/ASBA Arizona Economic Indicators Monitor** reports released to date, as well as opinion research reports on an array of other topics visit <http://www.oneilresearch.com/publicdomain> or click on the banner below.



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