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France

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance[1] of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent. Meanwhile, PHBs in France are more optimistic about 2008 (+35 per cent) than they were about 2007 (+30 per cent).

Levels of optimism have fallen amongst European Union (EU)[2] businesses. This year a balance of +34 per cent of EU businesses are positive about their economy compared to a balance of +46 per cent in 2007. However, levels of optimism vary extensively throughout the EU economies with Denmark recording the highest balance with +74 per cent optimistic, while Spanish PHBs are most pessimistic about their economy over the next year (-5 per cent).

The French economy

Industrial activity in France recovered towards the end of the year while job creation accelerated to 300,000 in 2007, a noticeable improvement on the previous five years. Unemployment fell to 2.1 million in the fourth quarter of 2007, at 7.5 per cent of the workforce, a level last seen in 1983. But this did not prevent business and consumer confidence from deteriorating further pointing to a deterioration in sentiment in both manufacturing and services.

A marginal recovery in household sentiment was seen, but the trend remained negative, with income prospects largely unfavourable. Confidence has been falling since June 2008, with consumers particularly worried about higher cost of living. INSEE's confidence indicator stands close to the trough reached during the suburban riots of 2005. Among confidence components, willingness to purchase has been particularly weak, with accelerating inflation (+2.8 per cent in January 2008) adding to consumer worries. The fourth quarter of 2007 figures highlighted a slowdown in consumer spending growth to 0.5 per cent quarter-on-quarter, while household investment recovered significantly to +1.1 per cent. GDP expanded by 0.3 per cent in the third quarter of 2007, a marked deceleration on the previous period. Net trade again made a negative contribution to GDP growth in the fourth quarter.

The Grant Thornton IBR contact for France is:

Grant Thornton
Frédéric Zeitoun
T +33 (0) 1 56 21 0611

1 the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.
2 for the purposes of IBR, the term 'EU' refers to those EU economies covered by our survey – Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Business expectations/revenue

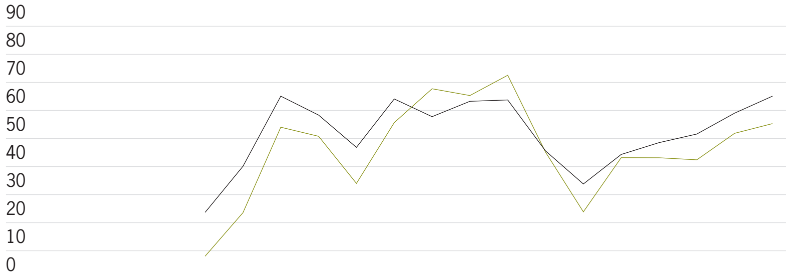
- PHBs in France are slightly more optimistic about revenue prospects (+55 per cent) compared to 2007 (+51 per cent).
- However, optimism levels regarding revenue performance remained below the EU regional average of +65 per cent.
- French businesses are less optimistic about profitability (+23 per cent) than the EU as a whole (+36 per cent), with both figures having fallen by four per cent from 2007.

Employment

- French businesses expect employment growth in 2008 to exceed actual reported employment in 2007, but to remain well below the EU average.
- In 2007, actual French employment growth was marginally lower than expected, with a balance of +17 per cent, but a balance of +15 per cent actually increased employment in this period.
- Actual reported employment growth in France was half the EU average in 2007.

Figure 1: Revenue expectations for France and the European Union average 1993-2008

Percentage balance of businesses indicating optimism against those indicating pessimism

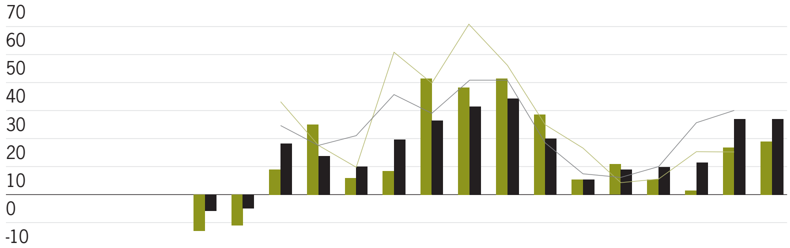


	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08
France	8	23	54	51	35	56	68	66	72	46	24	43	43	42	51	55
European Union	23	40	65	58	47	64	58	63	64	46	33	44	49	51	59	65

Source: Grant Thornton IBR 2008

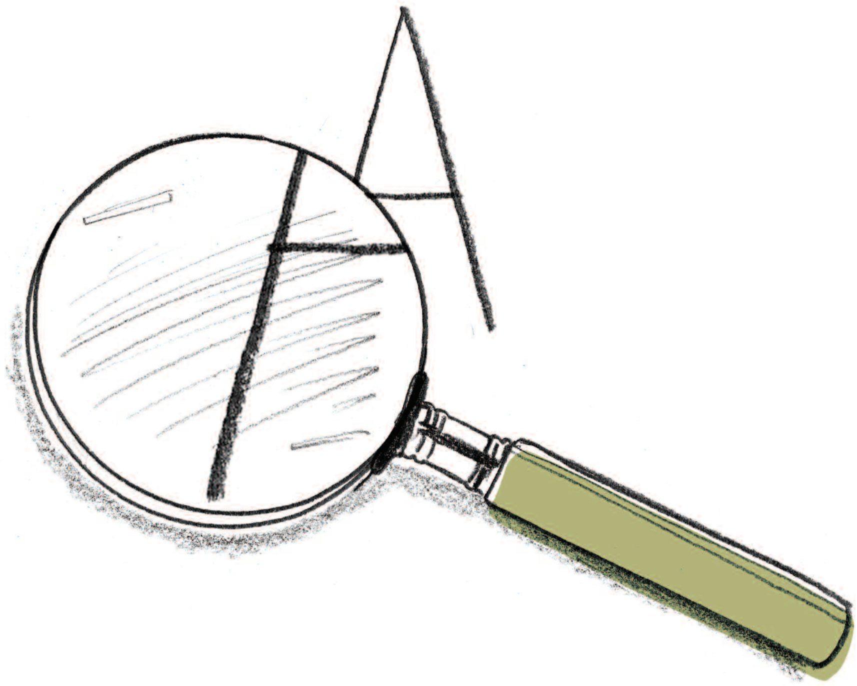
Figure 2: Employment history of France and the European Union average 1993-2008

Percentage balance of businesses indicating optimism against those indicating pessimism



	93*	94*	95	96	97	98	99	00	01	02	03	04	05	06	07	08**
Expected France	-13	-11	9	25	6	8	42	38	42	29	5	11	5	2	17	19
Expected EU	-6	-5	18	14	10	20	26	32	34	20	5	9	10	12	27	27
Actual France	–	–	33	17	10	51	40	61	46	25	17	4	5	15	15	–
Actual EU	–	–	24	17	21	36	29	41	41	18	7	6	10	25	30	–

*no data available
**2008 data will be documented in IBR 2009
Source: Grant Thornton IBR 2008



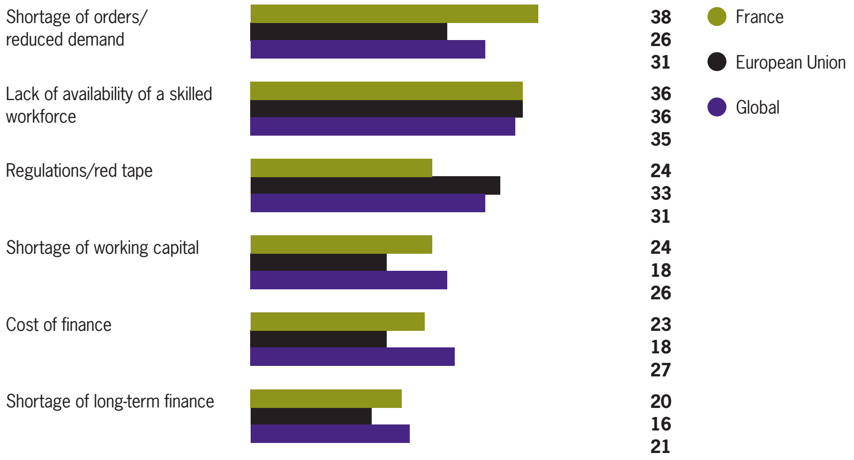
Constraints

- Shortage of orders/reduced demand is viewed as the major constraint on expansion for PHBs in France, up from 32 per cent in 2007 to 38 per cent in 2008.
- The availability of a skilled workforce is viewed as the second largest constraint, up from 26 per cent in 2007 to 36 in per cent in 2008.
- Regulations/red tape are a constraint for less than one quarter of PHBs in France as opposed to one-third of all EU businesses.

Emerging markets

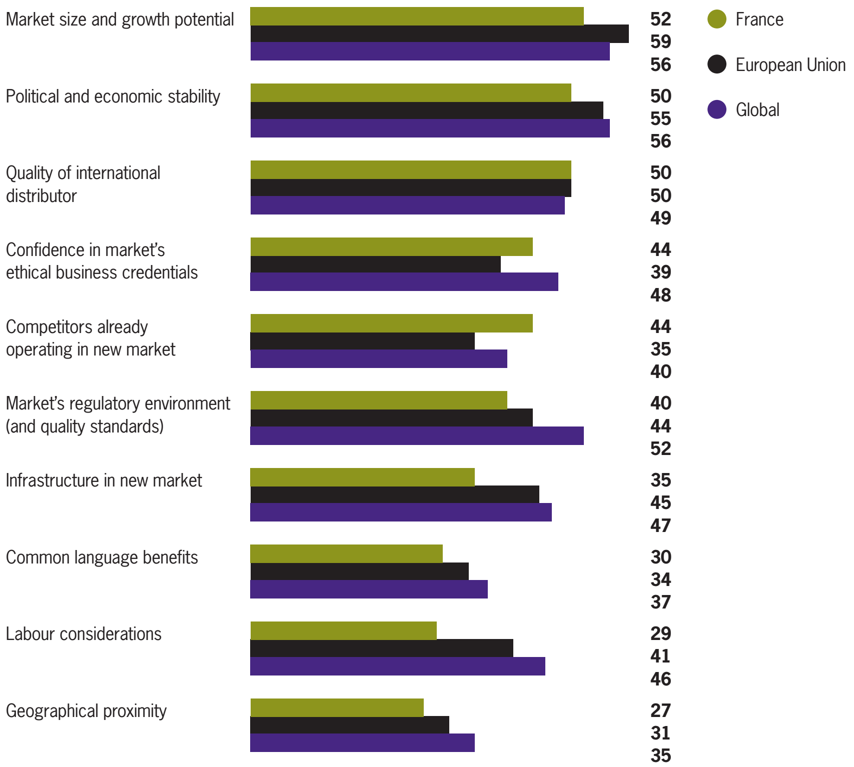
- The most important factor to French businesses when determining whether to invest internationally, as is the same globally, is market size and growth potential, cited by 52 per cent of PHBs in France.
- The number of French businesses which export (57 per cent) is up by six per cent from 2007 and is higher than both the EU (53 per cent) and global (39 per cent) averages.
- 60 per cent of PHBs in France import, this is greater than the global (39 per cent) and EU (57 per cent) averages.
- 56 per cent PHBs in the France see their primary competition coming from international sources.

Figure 3: Largest constraints on growth for French businesses compared to the European Union and the global average
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment
Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

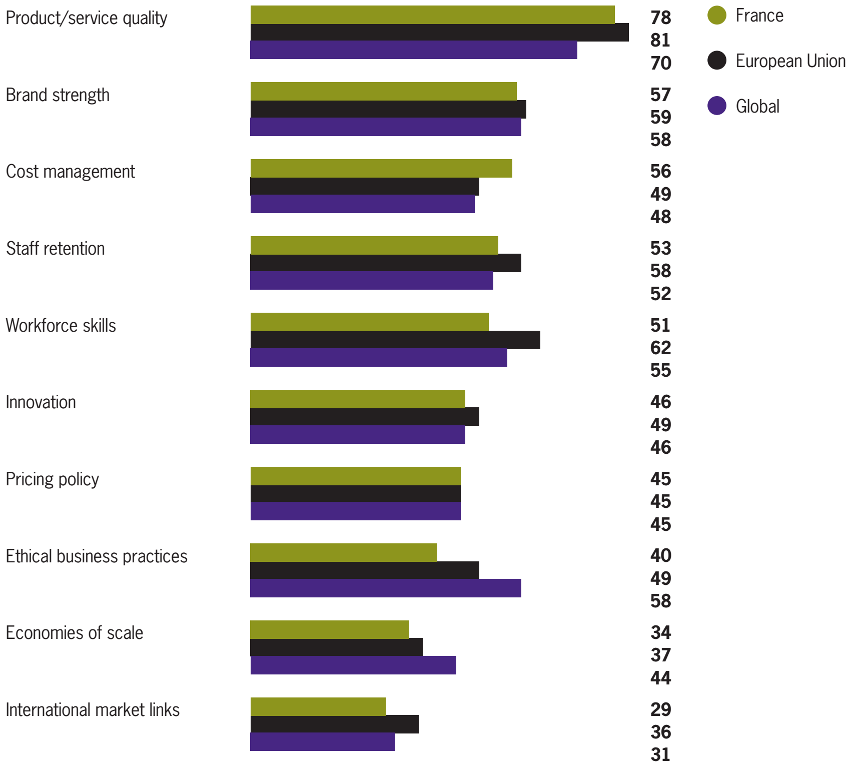
Competitiveness

- French PHBs see their greatest source of competitive advantage as product service quality (78 per cent), as is true of EU (81 per cent) and global (70 per cent) businesses.
- Similarly to EU (59 per cent) and global (58 per cent) businesses the second most important source of competitive advantage for French businesses is brand strength.
- Ethical business practices are cited by 58 per cent of businesses globally but by only by 40 per cent of French businesses.

Corporate social responsibility (CSR)

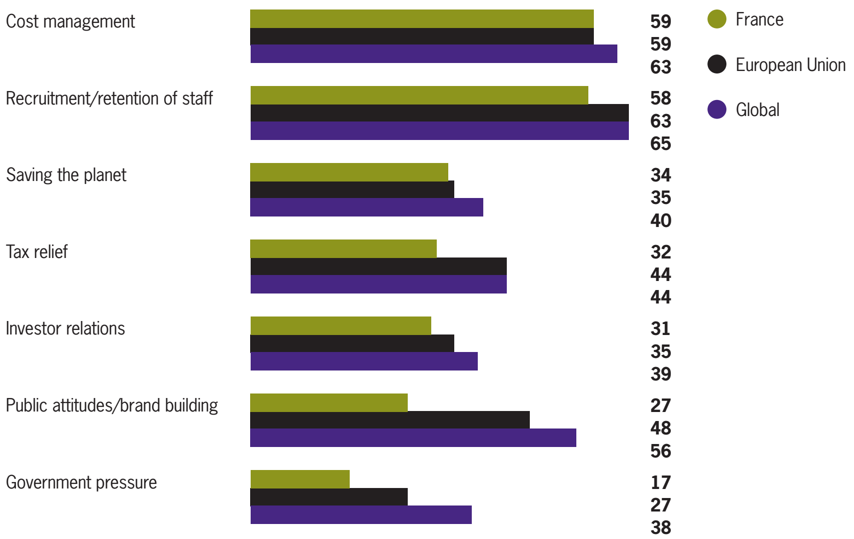
- Cost management is viewed as the biggest driver towards more ethical practices by PHBs in France, whilst only 17 per cent cite government pressure as opposed to 38 per cent globally.
- 81 per cent of PHBs in France have improved waste management in the past year, as opposed to 71 per cent of EU businesses as a whole, and just 59 per cent of businesses globally.
- 42 per cent of PHBs in France have incorporated their policies in to a written CSR document, compared to 56 per cent of businesses globally.

Figure 5: Main sources of competitive advantage for French businesses compared to the European Union and the global average
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for French businesses compared to the European Union and the global average
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



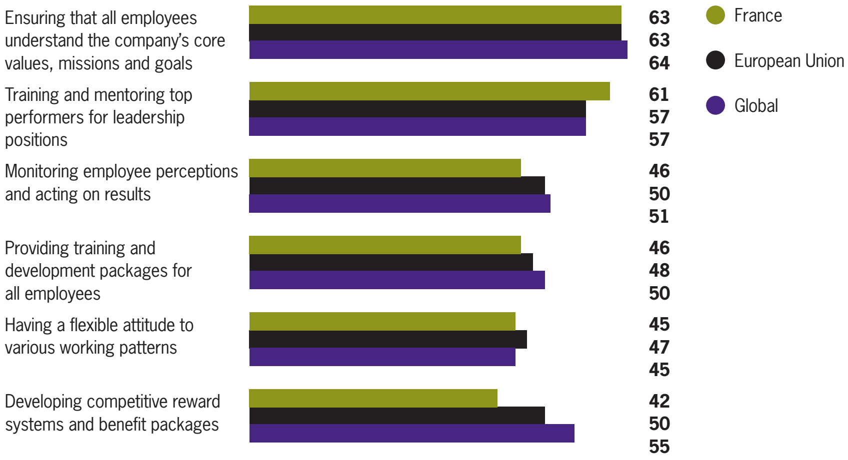
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of PHBs in France more focused on retention that they were one year ago is 38 per cent, up from 21 per cent in 2005. Over the same period the EU and global business averages have risen from 30 per cent to 52 per cent, and from 44 per cent to 59 per cent respectively.
- Similarly to businesses in the EU and globally, around two-thirds of PHBs in France ensure that all employees understand the company's core values, mission and goals to aid recruitment and retention.
- Cited by 48 per cent of French businesses, the increased workload for remaining staff is viewed as the major problem staff retention issues have caused.
- It is costing 76 per cent of PHBs in France significantly more to pay their staff than it was 12 months ago, above both the EU (58 per cent) and global (63 per cent) averages.

Figure 7: Usage of recruitment and retention tools for French businesses compared to the European Union and the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the French economy

Activity in France is expected to slow during the first half of 2008, hampered by a world slowdown but also by weaker domestic demand. Business investment is expected to slow as tighter credit conditions weigh on investment plans and the euro's appreciation hurts competitiveness. Self-financing for investment is particularly low in France (contrary to the United States) and business credit largely comes from the banking system (85 per cent for Europe as a whole). As a result, credit tightening is bound to impact French business investment significantly this year. The expected slowdown in world demand will also lead to French businesses amending investment plans for 2008 and possibly 2009.

Deterioration in household confidence and rising interest rates (credit tightening not being an issue at this stage yet) should also have a negative impact on consumer spending growth, which is expected to slow to 1.8 per cent this year. Improving labour market conditions should allow consumers to recover some bargaining power on wages. However, rising inflation is expected to counter-balance any potential progress on income.

When combined with an expected slowdown in the residential market, this makes for quite a downbeat picture for the economy this year and next, with GDP falling below potential. Net job creation should slow significantly in 2008, to 160,000 from 300,000 in 2007, as higher productivity gains are expected to compensate for deteriorating competitiveness.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Mainland China
Denmark
France
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Philippines
Poland
Russia
Singapore
South Africa
Spain
Sweden
Taiwan
Thailand
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