

## Executive summary

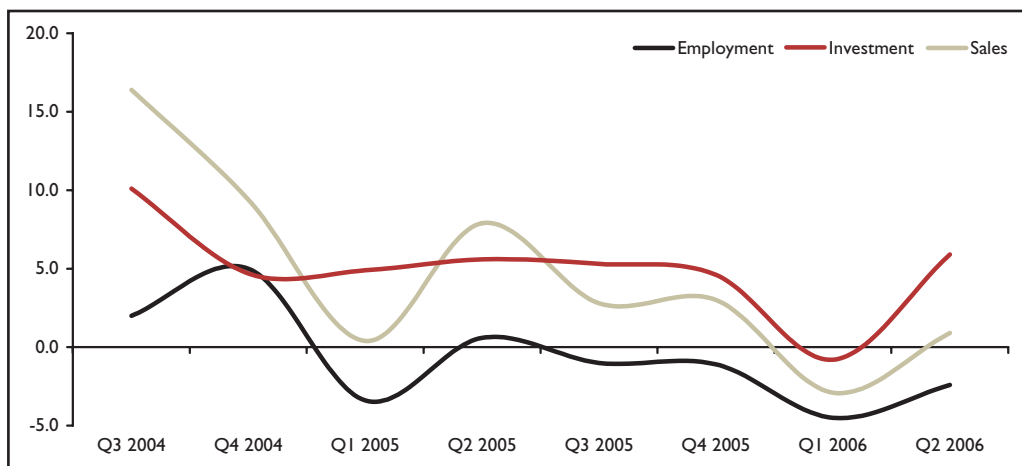
This report, based on a survey of micro, small and medium-sized businesses across all the regions of the UK, covers all the major industrial and commercial sectors. It demonstrates contemporary trends in the performance of smaller businesses in the UK during Q2 2006.

## Economic background

The UK economy grew at its fastest rate in two years in the second quarter of 2006, driven by buoyant retailing. GDP rose by 0.8%, topping forecasts for 0.7%. The annual rate picked up to 2.6%, its strongest in 1½ years, from the 2.3% expected. But the manufacturing sector is still lagging behind other sectors, with the manufacturing output index dropping by 0.9 points.

## Growth headlines

Figure 1. Trend in net difference of sales, employment and investment (%)



The performance of **small** businesses in the UK in Q2 2006 indicates a stable trading environment, although opportunities for employment growth appear to be limited. Around a third of all businesses reported sales growth, although this is offset by a similar proportion that have experienced sales decline. Investment in this quarter is at its most optimistic since the end of 2004.

**Micro** businesses continue to perform less well in comparison to **small** businesses, with a negative net difference in sales and employment. Those businesses located in Scotland appear to be doing relatively better than those in the rest of the UK.

Growth in sales, at 34%, employment, at 13%, and investment, at 22%, is up slightly from Q1 2006 (sales 33%, employment 11% and investment 16%), although, in each instance, it is down on the previous 12 months (sales 40%, employment 17% and investment 22%).

The proportion of businesses experiencing decline in sales, employment and investment is, in each case, slightly lower, although year-on-year is about the same. The trend in net difference shows a general, if very slow, decline in sales and employment, with a slight upturn for the most recent quarter, while the net difference in investment is at its highest point since Q3 2004. The negative net difference in employment remains for the fourth successive quarter, although the sales net difference is again positive.

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Our aim in this report is to provide new information on the issues that affect the smaller business sector in the UK.

Our survey examines growth and the barriers to growth, building on longitudinal data stretching back over 20 years.

This particular issue also looks at access to finance.

Recent Quarterly Surveys have looked at:

- Retirement planning
- Portfolio entrepreneurs and the tendency to sell
- The impact of late payment
- Flexible working and the smaller business

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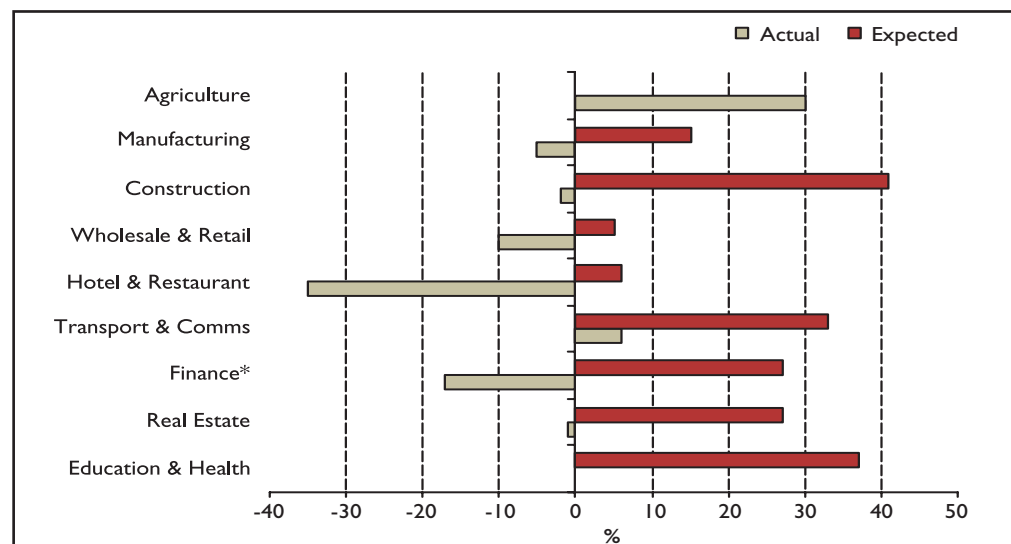
THE UNIVERSITY of LIVERPOOL  
MANAGEMENT SCHOOL

In association with



## Sectoral growth headlines

Figure 2. Sales: net balances by sector



\* A lower number of survey responses from this sector means the results should be treated with caution.

Sales growth in manufacturing, construction, and wholesale and retail was recorded at above 30%, whilst in transport and communications, and real estate, including business services, it was around 40%. However, in each of these sectors, other than transport and communications, there were proportionately more businesses reporting sales decline during Q2 2006.

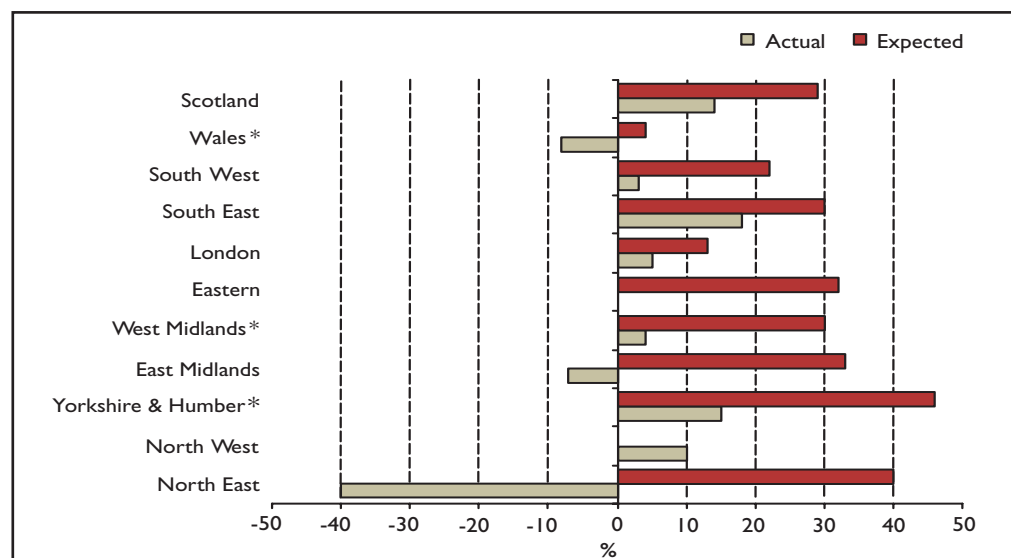
One in five real estate businesses recorded employment growth. There is a negative net difference for those businesses in manufacturing, construction, wholesale and retail, and transport and communications.

There was better performance in investment. Nearly a third of manufacturing businesses said investment increased in Q2 2006, which is in contrast to the national picture, but may reflect the greater versatility of smaller businesses to react more quickly to market trends.

More businesses in the sectors of construction, wholesale and retail, and real estate said investment was up than those that recorded investment as being down. This confirms the view that the upturn in Q2 2006 was more retail-led.

## Regional growth headlines

Figure 3. Sales: net balances by region



\* A lower number of survey responses from this region means the results should be treated with caution.

*“Trade is getting increasingly harder due to supermarket growth.”*

*Comment from survey respondent*

*“European legislation is stifling small businesses – the trend will be for SMEs to employ fewer people. The EU is becoming less and less competitive.”*

*Comment from survey respondent*

By region, Scotland has the highest proportion of businesses recording sales growth, with almost half reporting this to be the case. A third of businesses in this region reported sales decline in Q2 2006, with nearly 21% remaining static.

In the South East, nearly 40% of businesses reported sales as being up, and 38% in the North West. In Wales, 24% of respondents reported increasing sales, but over a third of London businesses reported declining sales, as opposed to less than 40% reporting growth.

More businesses in Scotland and in the Eastern region reported employment increases rather than reductions. In the North West, London and Wales, more businesses reported numbers of jobs declining rather than increasing.

Investment was up in the North West, Eastern region, South East, South West, Wales and Scotland, where, in all cases, more businesses reported this to be the case.

## Main barriers to growth

In terms of frequency, taxation (including National Insurance), at 65%, and employment regulations, at 53%, continue to score highest, with business rates third, at 51%. Late payment (35%), insurance (30%), banks and finance (29%), and the economic climate (28%) continue to form the next set of issues concerning owner-managers. In terms of the most pressing business challenge, the three concerns of taxation (including National Insurance), employment regulations and business rates are the main priorities.

Two in five **micro** businesses stated taxation to be their main challenge, with a further 10% citing business rates and a slightly lower proportion citing late payment or the current economic climate as most problematic. In the **small** business category, the main concern was employment regulations, with 22% citing this aspect. A further 14% believed taxation to be their main challenge, while 13% cited late payment.

## Cross border trade

This survey shows that 34% of smaller businesses trade overseas. Since Q3 2004, this figure has ranged from 31% to 40%, although there is some difference based on size of business. About 30% of **micro** businesses trade overseas, compared with 39% of **small** businesses and nearly half of **medium-sized** businesses.

Of those involved in cross border trade, 39% of **micro** businesses reported that they only export, while 24% stated they only import, and 38% said they both import and export. In the **small** business category, 62% stated they import and export, 23% import only and 15% export only.

Consistently, those businesses that trade overseas have a recorded sales performance better than those that do not. In addition, expectations about future sales are higher for those businesses that trade overseas in comparison to their counterparts that do not. This must have implications for policy, as encouragement to trade across borders does suggest that it leads to an improvement in performance.

## Female entrepreneurs

Around 7% of all responses came from a business that was led solely by a woman. 46% had both men and women as joint owner-managers. The remaining 47% of businesses were led solely by a male owner-manager.

Since the decline recorded in Q1 2005, slow improved performance of female-led businesses is shown across the three indicators with a net difference of 9 for sales, 7 for employment and 4 for investment. This increase is similar to that shown for all businesses.

For female-led businesses, it was anticipated that performance would dip this quarter, and this did not actually occur, although both sales and investment was expected to continue in a slow decline. Expectations on employment are, again, positive.

*“The inconsistency of the Chancellor of the Exchequer with regard to taxation worries us a lot.”*

*Comment from survey respondent*

*“Health & safety and employment law rules and requirements are growing so fast, it is becoming a full-time job.”*

*Comment from survey respondent*

### The SBRT regularly consults with:

- more than 5,000 businesses
- 503 politicians
- 32 academics
- 5 business representative bodies

### The SBRT is:

one organisation – educating and influencing those who impact upon smaller businesses

### Key objectives

The SBRT enhances the understanding of major issues for smaller businesses in the UK and beyond, by:

- Working with sponsors to complete important research on the concerns of smaller businesses
- Providing current and easily understandable facts and trends on smaller businesses
- Disseminating information about smaller businesses to parliament, government, the media and educational institutions

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For Q2 2006, 34% of female-led businesses took part in some form of cross border trade, slightly higher than male-led businesses, which is up from the previous quarter but less than the figures captured 12 months earlier.

## Access to finance

Seven out of ten businesses had recently applied for finance. Of those, nearly half used an overdraft facility and a further 44% utilised a loan arrangement. Fewer than 1% used a venture capitalist. The largest proportion of applicants, some 55%, had sought finance during the last year, with 35% doing so within the last six months.

Almost 37% of **micro** businesses sought a loan for additional finance, in comparison with 56% of **small** businesses. In contrast, 57% of **micro** businesses used their overdraft facility to access finance, while a lesser figure of 38% of **small** businesses used this facility. This may well indicate further difference in respect of cash flow, the impact from late payment and the size of the loan or overdraft required.

96% of all businesses were, in fact, able to satisfy their request for additional finance, 7% of **micro** businesses were unsuccessful compared to only 1% of **small** businesses.

For the rate of interest by size of business, the mean figure was 6.2% for **micro** businesses, 5.25% for **small** businesses and 5.8% for **medium-sized** businesses. These figures imply that **small** businesses are able to negotiate a slightly lower level of interest rate than **micro** businesses.

Over half of businesses felt that obtaining additional finance was fairly easy, while only 6% felt it was very difficult.

Personal security was more common for **micro** businesses, with 30% stating this, compared to the 16% of **small** businesses. Much more common for the **small** business was business security to secure additional finance, where nearly half of all responses stated this to be the case, compared to 28% of **micro** businesses.

## Expectations for the next quarter

Nearly 40% of all businesses expect sales to increase during Q3 2006, with approximately 20% believing sales will fall. There is a positive outlook in respect of employment, where 15% of all businesses anticipate job growth and only 11% expect a decrease.

17% of all businesses expect to increase investment, compared with 12% who feel they will reduce their levels of investment over the next quarter.

To request a copy of the Quarterly Survey in full (in pdf format), please contact the SBRT on **01565 626029**, send an email to [info@sbrt.co.uk](mailto:info@sbrt.co.uk) or visit [www.sbrt.co.uk](http://www.sbrt.co.uk).

*“The UK’s four million smaller firms contribute 50% of the nation’s private sector turnover and employ two thirds of the private sector workforce...”*

*Smaller businesses are the true backbone of our economy”.*