

Executive summary

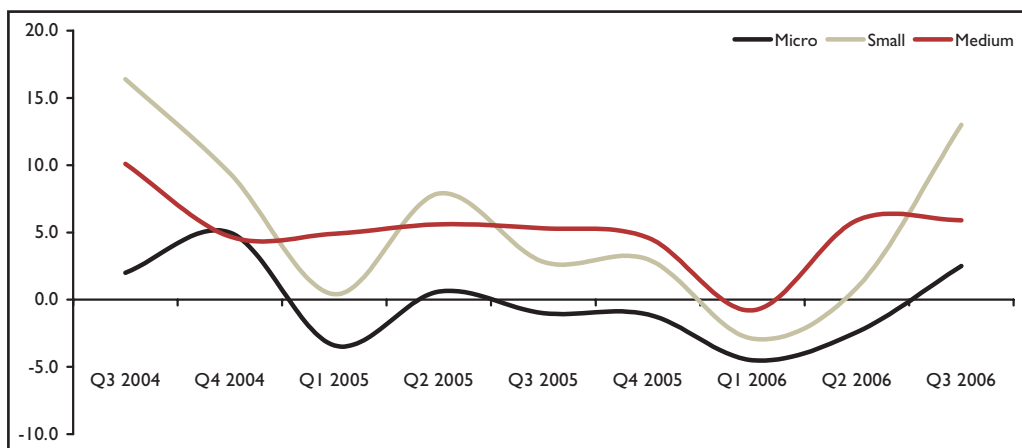
The SBRT survey is one of the largest regular surveys of smaller business in the UK. It covers **micro, small** and **medium-sized** businesses across all UK regions and all the major industrial and commercial sectors. It provides a snapshot of trends in the performance of smaller businesses during Q3 2006.

Economic background

In Q3 2006, the UK economy grew by 0.7%, which is on a par with the previous three quarters. The year-on-year rate rose to 2.8%, led by robust service sector growth of 3.4%. After weakness in 2005, manufacturing output has risen 2.3% from the low point in Q4 2005. Retail sales staged a strong recovery in Q2, but growth eased off in late summer. Investment figures (to Q2 2006) show strong growth in public and non-manufacturing business; investment in Q2 on Q1, and in Q2 2005 was partly offset by falls in capital spending in manufacturing. Businesses and households have faced steep increases in energy prices.

Growth headlines

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



The trading environment has shown a marked improvement, with sales and employment up, and investment stable in Q3 2006. On balance, this was the best sales performance since Q3 2004. The employment trend has turned mildly positive, whilst the investment recovery seen in Q2 has held steady.

Micro businesses continue to perform less well than **small** businesses, but sales and investment growth have shown a modest recovery. However, there are marginally more **micro** businesses saying employment is down than up. For the **small** businesses, sales have picked up strongly and employment is stable, though investment growth has fallen.

In Q3, 39% of **small** businesses reported growth in sales, 17% growth in employment, and 22% higher investment. This is up on Q2 (sales 34%, employment 13%, investment 22%) and on Q3 2005 (sales 36%, employment 15%, investment 20%).

The greatest change has been the drop in the proportion of **small** businesses experiencing a decline in sales, from one-third in Q2 2006 and Q3 2005 to just above a quarter in Q3 2006.

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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 banking services for overseas payments.

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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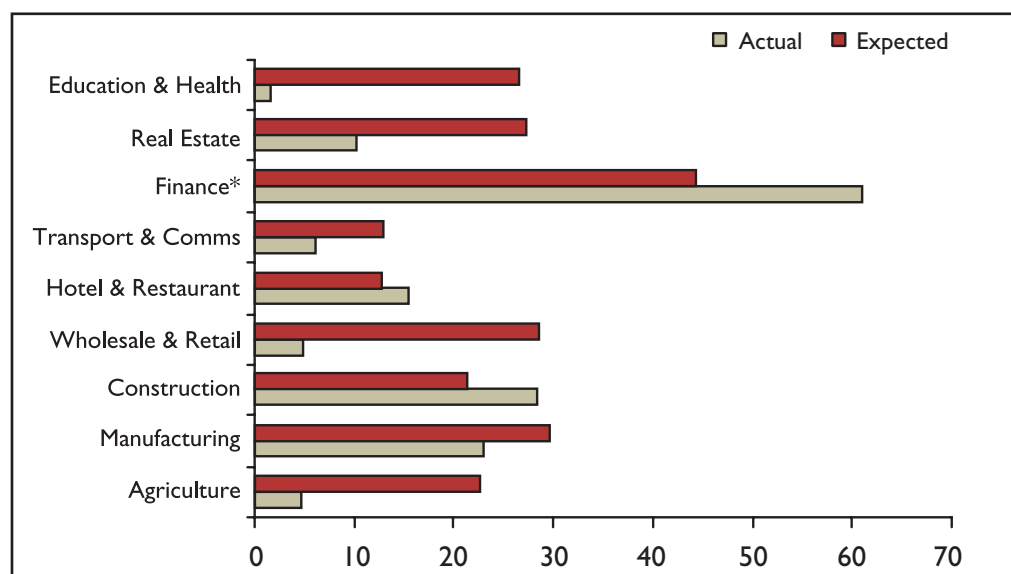
In association with



The net difference between higher and lower sales has jumped from near balance to 13%. After four quarters in negative territory, the employment balance has picked up to +3%. The investment net difference is unchanged at +6%.

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.

In Q3 2006, the sectors with the strongest sales balances were construction, manufacturing, and hotel and restaurant, though the latter has a seasonal pattern and is just below the level of one year ago. Manufacturing performance was the best for two years. Wholesale and retail, and transport and communications reported the lowest growth rates, due perhaps to the hot summer.

Considerably more **small** manufacturing businesses have increased employment than have reduced it. This is the best result for two years, a period when most quarters have seen manufacturing employment fall. After strong increases in employment in real estate and business services in the first half of 2006, growth has slowed significantly in Q3. In the hotel and restaurant sector, many more **small** firms have cut employment than have increased it.

There was better performance in investment, particularly in manufacturing and construction, building on good figures in Q2. But in transport and communications, 10% more firms had reduced investment than increased it.

Regional growth headlines

Around half of small businesses in Scotland, Yorkshire & Humberside, the Eastern region and the West Midlands recorded growth in sales. But when the proportions experiencing declines in sales are taken into account, Scotland and the West Midlands were the most buoyant; the latter after a year of poor results. Less than a quarter of small firms in the North East and Northern Ireland reported sales up, and nearly 40% sales down.

Employment growth in the East Midlands and the South West was particularly strong, but jobs continue to be lost in the West Midlands and the North East in particular. Elsewhere, the employment balance was mildly positive, apart from the Eastern and South East regions, where a small decline was reported.

Investment is lower on balance in both the North East and Wales, but higher elsewhere, especially in the Midlands and Northern Ireland.

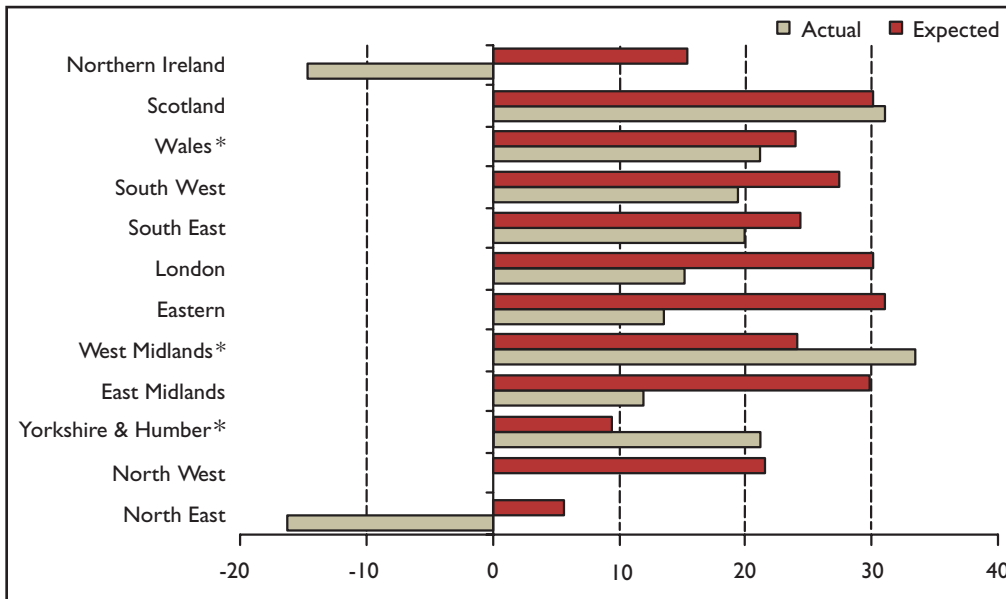
“The Government must stop the taxation of smaller businesses. If we can’t create wealth, who can?”

Comment from survey respondent

“If running costs don’t go down, small businesses will not survive. We struggle, working all hours, just to pay bills.”

Comment from survey respondent

Figure 3. Sales: net balances by region



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

Future growth

Expectation of future performance is strongly positive. **Micro** businesses expected sales to grow further in Q4 2006, and employment and investment to recover slightly. Stable growth in sales and investment were anticipated by the **small** businesses, with employment higher.

Manufacturing, wholesale and retail, and real estate are the most optimistic sectors. Manufacturing has turned round from being the most pessimistic sector in Q3 2005 to the most optimistic in Q3 2006. Growth prospects look weakest for the hotel and restaurant sector, and transport and communications. Employment prospects are strongest in construction, and education and health, buoyed by public sector spending. The outlook for investment is good for education and health, manufacturing and construction, but negative for the hotel and restaurant sector, and transport and communications.

All UK regions expected increased sales on balance. The East Midlands, the East, London and Scotland are the most optimistic, the North East and Yorkshire & Humberside most pessimistic. On employment, more regions expected an increase than a decline, though the reverse is true in the West Midlands and Wales. However, West Midlands and Wales are the most optimistic on investment prospects, with the North East and Yorkshire & Humberside slightly pessimistic on balance.

Main barriers to growth

Taxation (including National Insurance) was selected by 60% of owner-managers as a barrier to growth, followed by employment regulations (55%) and business rates (47%).

The top four key priorities for businesses were taxation, late payment and bad debt, business rates and employment regulations.

The main barriers to growth vary markedly between the different sizes of business. Whilst tax (including National Insurance) is the most pressing concern for both **micro** and **small** businesses, employment regulations are equally important for **small** firms, and late payment/bad debt the second priority for **micro** businesses.

“The absence of experienced and skilled labour, and the cost of training, including lost working time, seriously constrains our business from expanding.”

Comment from survey respondent

“We battle with cash flow, due to poor payment by our customers and high bank charges.”

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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Female entrepreneurs

Over 12% of responses came from female-led businesses. A further 42% were mixed-gender partnerships and 46% were led by a male owner-manager.

In Q3 2006, the performance of female-led businesses dipped, with the balance between gains and losses in sales, employment and investment all lower, and for employment and investment it was slightly negative. However, there is greater optimism expressed for Q4 for sales and investment, though not for employment.

In the larger sample of female-led businesses this quarter, 18% trade across borders, compared to just below 30% for joint- and male-led businesses. This may reflect the firm size and sector profile of female-led businesses, and apparent seasonal factors.

Cross-border trade

In Q3 2006, just over one-quarter of all smaller businesses trade across borders; 23% of **micro** businesses, 33% of **small** businesses and 36% of **medium-sized** businesses.

This survey confirms that those businesses that trade overseas tend to show consistently higher growth in sales than those that trade only in the UK.

Banking services for overseas payments

The theme for this quarter was the quality, cost and timeliness of banking services to **micro** and **small** businesses that engage in cross-border trade.

Nearly 30% of **micro** and **small** businesses were not satisfied with the quality of service, describing it as poor or very poor. The length of time taken to process transactions was a major problem for many businesses. Whilst foreign currency transactions typically took 3 days, 40% took longer, pushing the average to more than 7.5 days. Costs, too, were a concern for more than a quarter of **small** businesses.

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 or visit 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”.