



**LIFTING THE BARRIERS TO GROWTH
IN UK SMALL BUSINESSES**

The FSB Biennial Membership Survey, 2004

**SOUTH EAST
EXECUTIVE SUMMARY**

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BACKGROUND TO THE STUDY

This report presents the results of the third biennial survey of FSB membership. Responses were received from 18,635 FSB members drawn from all regions of the UK. This summary presents the findings from the 3,699 respondents to the survey from the South East.

This study builds on the two previous FSB biennial survey reports '*Barriers to Survival and Growth in UK Small Firms*' published in 2000 and '*Lifting the Barriers to Growth in UK Small Businesses*' published in 2002.

Many of the issues raised in the two earlier reports are also featured in this study. These include issues relating to small business growth, employment, finance, business advisory services and legislation. Where possible, the results of the three surveys are compared in order to explore changes over time in small business attitudes and in their business environment.

PROFILE OF THE BUSINESSES

The South East region had the highest response rate (19.8%) of all the English regions. Respondents represent a wide range of industry sectors. A fifth (20%) operates in the Retail, Wholesale & Motor Trade sector. The service sectors are also well represented, with 21% of respondents operating in the Business Services sector and a further 7% collectively operating in Financial and Personal Services sectors. The Construction (12%), Manufacturing (9%) and Hotels & Restaurants (5%) sectors are also well represented.

A quarter of respondents have started their business within the previous three years, and nearly a fifth have owned their business between three and five years. This business age profile is notably younger than the previous FSB surveys.

Nearly a third of respondents have owned their business for many years: 18% have owned their business for between 11-20 years and 12% have owned their business for longer than 21 years.

Half operate their business as limited liability companies. Nearly a third (31%) operate as sole traders and 17% as partnerships. In comparison with the two

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previous FSB surveys, there has been a continued increase in the proportion of limited liability companies, and a reduction in sole traders and partnerships.

Respondents are ambitious for business growth. Just under half reported a two year objective of moderate growth and 9% stated that they were pursuing rapid growth. Very few want to either downsize (4%) or close (2%) their business.

The most popular method of achieving business growth is improved sales and marketing abilities (45%). This is an area respondents were keen to improve their skills. Overall, the business growth methods favoured by respondents suggest a concern with increasing their management skills, investing in their business capabilities and controlling costs.

CHARACTERISTICS OF THE BUSINESS OWNERS

The respondents have a mature age profile. Nearly two thirds (65%) were aged over 45, and those aged 65+ years comprise 6% of respondents. Just over 10% are in the youngest age groups (under 21 and 22-34 years).

This year's study has seen a large increase in the number of responses from female-owned businesses. Women business owners are still a minority however; 16% of respondents state that their business is female-owned, 51% state their business is male-owned, and a just under a third (32%) state that their business is male and female owned.

Over a third for respondents (34%) share business ownership with their spouse. Family involvement is strongly related to industry sector; Agriculture and Hotels & Restaurants enterprises are more likely to be co-owned and co-managed with family members.

The home-based business is becoming a key trend among small business owners; over a quarter (27%) of respondents operate their business from their home.

A large majority of respondents (75%) entered business by starting from scratch. Of the remainder, 12% bought a going concern, 5% inherited their business, 3% organised a management buy-out and 2% started through franchising.

MARKETS AND CUSTOMERS

Over a third (36%) specialise in sales that go direct to the consumer. Of the remainder, 11% of respondents identify retailers and wholesalers as their main customers; 9% sell mainly to manufacturers and 8% sell mainly to other non-manufacturing firms. Very few small businesses specialise in selling to local or central government: only 2% of respondents send more than 50% of sales to local government and 1% send more than 50% of sales to central government.

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The SME sector is often characterised as having a high degree of customer dependency. This survey, however, highlights a diversity of experience. Over half report very little customer dependency, in contrast 16% report that they were dependent on one customer for over half of their annual sales.

Customer dependency has been a particular concern for the Manufacturing sector. In this survey, 54% of Manufacturing businesses report that their main customer accounts for less than 25% of annual sales and 26% report that their main customer accounts for between 26-50% of annual sales. Only 2% of Manufacturing businesses are dependent on one customer for 100% of their annual sales.

Most respondents mainly serve local markets. Nearly half (47%) report that the majority of their sales go to local markets, 19% report that their sales go mainly to national UK-wide markets. Very few respondents report high levels of export sales; only 3% cite the EU or other export markets as being their main market destination.

Respondents' main competitive strengths are the reputation of the business, product or service quality and their specialised expertise or products. Main competitive weaknesses are distribution channels, cost and selling price.

Most respondents perceive low levels of dynamism in their competitive environment. Only 11% report rapid rates of new businesses entering their market, 12% report rapid rates of new product or service introductions in their industry sector, and 9% report rapid rates of new product or service introduction in their own business.

FINANCE

Almost three-quarters of respondents report sales of £500,000 or less, while only 9% have sales in excess of £1m.

One-third of respondents have other sources of income in addition to that which is generated from the business. The largest category of additional income derives from multiple business ownership, or portfolio entrepreneurship, (20%). Business owners with income from residential (12%) or commercial (12%) property are also significant. One in ten respondents have income from a pension.

Over half (56%) report increases in sales volume in the previous financial year, while 26% report decreases. These results compare favourably with the FSB 2002 study, when 51% of respondents reported increases sales volume.

Nearly half of the businesses in the survey also report an increase in their profitability during the past financial year, with the proportion reporting an

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increase (47%) substantially exceeding the proportion reporting a decline in profitability (29%).

Comparing the use of financial sources over the three FSB biennial surveys (2000, 2002, 2004) there has been a shift away from overdraft financing, a significant decline in the proportion of businesses using personal sources of finance (for example, own savings, second mortgage, redundancy, family and friends) and a drop in the proportion of businesses using bank loans. Only supplier credit and credit card debt have been utilised by similar proportions of businesses over the three surveys.

Respondents cited two main reasons for switching banks in the past two years: to avoid or reduce bank charges and the poor quality of service received. Other frequently cited reasons are the search for better terms and poor quality of advice received.

The main reason for not switching banks is satisfaction with the services provided (47%). More specific responses include the competence of the bank staff (cited by 20%), the banks location (19%), reliability of the bank in meeting the businesses' financing needs (19%). A substantial proportion (28%) believes there is 'no real difference between banks' and, by implication, would not expect to derive any benefits from switching.

TRAINING

Businesses have found it much more difficult to recruit skilled workers than unskilled workers. However, difficulties vary between industry sectors. Difficulties in recruiting skilled workers are most often reported by businesses in Health & Social Work (54%), Manufacturing (45%), Transport & Communications (43%), Construction (41%), Education (41%) and Hotels & Restaurants (38%). Many of the industries that have encountered difficulties in recruiting skilled workers also reported difficulties in recruiting unskilled workers. This was the case for Hotels & Restaurants (33%), Health & Social Work (29%) and Manufacturing (23%).

The key skills where businesses report the greatest dissatisfaction are with advanced IT skills (12%), sales and marketing skills (12%) and foreign languages (11%). Conversely, relatively few businesses were dissatisfied with the numeracy (4%), literacy (5%) skills of their workers, customer service skills (3%) and communication skills (6%).

Only 40% of business owners report that they undertook formal staff training on a regular basis, with a further 22% undertaking formal training occasionally and 29% not undertaking any formal training at all.

Businesses in the Mining & Quarrying (50%), Retail, Wholesale & Motor Trade (40%) and Manufacturing (39%) sectors are the most likely to report that they have done no formal training in the past year, even though these

industries are amongst the most affected by skills shortages. The industries with the highest proportion of businesses undertaking regular training are Agriculture, Forestry & Fishing (50%), Hotels & Restaurants (48%), Business Services (46%) and Construction (41%).

The single biggest barrier to training is cost, cited as a barrier by 51% of businesses. Other factors are related to lost staff time (37%), lack of relevance of the courses that are available (36%), the timing of courses (34%), the lack of funding (23%) and the distance from the place of training (23%).

E-COMMERCE

More than 80% of respondents were connected to the Internet with 31% of these connected via ADSL. A quarter of respondents stated that they had been connected to the Internet via Broadband for less than a year.

The main use of the Internet was for respondents to e-mail customers and suppliers (76%). However, a substantial proportion also use the Internet for purchasing (42%) and file transfers (38%).

Over half (54%) of the businesses had their own website. However, these are used primarily as an electronic catalogue. Only a minority of businesses have the facility for on-line ordering, after sales service, support or payment by customers, or delivery of digital goods or services.

Given this rather limited involvement in e-commerce, it is not surprising that many businesses with a web site report that no benefits have accrued. Nevertheless, one in five businesses report attracting new UK customers and just over one in ten report attracting new overseas customers as a result of their web presence.

For those businesses that achieve on-line sales, these typically account for less than 10% of their overall sales turnover.

The main barriers to developing their e-commerce capabilities are the perceived reluctance of customers to switch to e-commerce and the perception that e-commerce will not benefit their business. Cost is also a major barrier, with 22% inhibited by the high costs involved in developing a web site and 18% concerned about the high cost of maintaining a web site. Other significant barriers are technology failures (17%) and the lack of technical and web skills among their employees (16%).

BUSINESS ADVICE AND SERVICES

Accountants remain the most frequently used source of business advice; three quarters of respondents have consulted an accountant within the

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previous year. Other sources of business advice are much less used. A majority (60%) of respondents were satisfied with advice from accountants.

Respondents who have used government funded business support services in the past year rated their levels of satisfaction over five different criteria. Overall, 7% of users are satisfied with the usefulness of business advice, 7% with the quality of business advisors, 6% with the relevance of their products / services, and 5% with the cost of their products / services and advisors' understanding of their business.

Given the high levels of non-usage reported in all three of the FSB biennial surveys, this year's survey sought to determine the reasons why the majority of small businesses do not use government funded business support services. The major causes are lack of awareness of their services (28%) and inappropriate for their business (25%). Other reasons for non-usage suggest that respondents are aware of services, but either reluctant to use them or excluded from support.

Satisfaction with local authority services varies substantially according to the type of service provided. Overall, respondents demonstrate low levels of satisfaction across the range of local authority services and consistently higher levels of dissatisfaction. However, a majority of respondents report that these services are not relevant, did not respond to the questions or returned a neutral response.

Greater satisfaction is reported for the availability of recycling facilities (13%), although fewer respondents were satisfied with the cost of these facilities (6%). Nearly a third (31%) are dissatisfied with council refuse / license charges and 29% are dissatisfied with local authority consultation with small businesses.

Satisfaction with transport issues was measured across eight separate items that included road networks and infrastructure, parking, tax and fuel costs and local transport planning. Dissatisfaction is highest for fuel costs, parking and road infrastructure (local roads and repair).

LEGISLATION, REGULATIONS

Very few respondents report satisfaction with any of the items relating to legislation (volume, complexity, rate of change, interpretation and enforcement of legislation). Levels of dissatisfaction were greatest for the complexity (60%), volume (58%) and the rate of change of legislation (56%).

With regard to the anticipated effect of current business issues and directives, only 2% expect changes in parental leave to be positive, while 32% anticipate negative effects. Similarly, 2% expect the working time directive (losing the 48 hour working week) to be positive, while 21% believe it will be negative. A

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higher proportion (11%) expects a flexible retirement to be positive, while just 9% report negative effects.

The increase in National Insurance contributions is believed to be negative by 65%, while only 2% report positive effects. Increased insurance premiums incur the highest proportion of negative effect responses (72%) and the lowest proportion of neutral responses (8%).

Compliance with the Disability Discrimination Act is anticipated to bring positive effects by 3% of respondents, but negative effects by 19%. In total, 14% report that they have made adjustments to comply with this legislation and 20% report that their premises are already compliant. A large proportion 46% have not made adjustments and a further 12% are unaware of the requirements.

THE INCIDENCE AND COST OF CRIME

The most frequent crimes are vehicle damage and vandalism, experienced by 25% and 24% of businesses respectively. Over one in ten businesses has been a victim of burglary, graffiti or shoplifting. Many other crimes, such as credit card fraud, robbery and vehicle theft have been experienced by more than 5% of businesses.

It is generally believed that many business owners do not report crimes committed against them. As a consequence, official crime statistics may under-report the true incidence of business related crime. Moreover, the willingness to report crime varies according to the nature of the crime itself. The consequence is that official statistics may under-report the most common types of crime. Both aspects of under-reporting are confirmed in this survey. Indeed, of all the crimes reported by respondents in this survey, only burglary, robbery and vehicle theft are fairly consistently reported to the police. Most businesses do not report relatively minor crimes, such as graffiti and shoplifting.

For a very large proportion of businesses the cost of crime is either relatively small or negligible as detailed in this slide. Only 2% of respondents report that they have experienced costs associated with crime that exceeded £10,000.

For most businesses, the main costs of crime arise from the need to take greater crime prevention measures, notably security alarms 34%, security systems 15% and CCTV 13%. However only 3% of businesses have chosen the low cost option of establishing or joining a Business Watch scheme.