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Quarterly Survey of Small Business in Britain

Special topic: mobile and web-based services



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Summary

Despite continuing economic uncertainties, there are some signs of optimism in this quarter's survey, with stronger overall results for sales performance. While employment performance has also improved slightly, two thirds of SMEs continue to report no overall change in the number of people they employ. The state of the economy, and the associated negative impact on demand, remains by far the most commonly reported problem for SMEs, irrespective of size or sector. However, while other types of business problem might be somewhat overshadowed as a result, they are still having a major impact on SME owners and managers. Manufacturing SMEs enjoyed the best sales performance by sector but hotels and restaurants also performed strongly, perhaps reflecting seasonal influences. This result contrasts strongly with the fate of retail firms, which report negative sales and employment balances. SMEs anticipate a stronger overall improvement in sales performance in the first quarter of 2013, as compared to a more stable picture over the previous two quarters. Firms with a turnover above £1 million have positive net sales balances for this period. SMEs in construction, manufacturing, health, education, leisure and other services and retailing all report increased optimism about future sales. Firms in the North East of England, the East Midlands and Yorkshire and the Humber are the most optimistic about sales in the first quarter.

Special topic: mobile and web-based services

This quarter's special report looks at how SMEs are using the many new services that are being offered via the internet and on mobile platforms. Given the continuing rapid dissemination of smartphones, tablets and cloud computing, how are SME owners and managers changing their practices, and what do they see as the main barriers to adopting these new technologies? We examine these issues across a range of core business activities, including: researching new markets, sourcing products, communicating with customers, handling invoices and financial management.

- More than half of respondents (56%) only use personal computers or laptops with static internet access, while a very small minority (2%) only use smartphones or tablet computers with mobile internet access. This leaves just over a third of firms (36%) able to use the internet in both its static and mobile forms.
- The highest reported usage of mobile internet technologies is amongst relatively small firms in the £100,000 to £250,000 band.
- Business services have the highest reported levels of usage of static internet (96%) and are also amongst the highest (43%) for mobile internet.
- The most popular business activities conducted via static internet are 'general communication' with existing customers and suppliers (85%) and checking bank account balances (85%).
- Just over one fifth of respondents (21%) are now using 'cloud-based' providers to run their back office services, a substantial increase in the adoption of this technology compared to the picture two years ago when 8% of respondents reported using these technologies. Cloud-based technologies are being used across the size-range including some of the smallest firms.
- More than a third of respondents with mobile internet access (39%) are using it to check business bank account balances.
- The main obstacle to using static internet for business purposes via PCs and laptops is that people are concerned about the security either of the device or of the internet itself.
- The main obstacle to doing business online using mobile devices is also a concern about security, followed by concerns over privacy issues and limitations of the available technology.

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Mobile and web-based services

This quarter's special report looks at how SMEs are using the many new services that are being offered via the internet and on mobile platforms. Given the continuing rapid dissemination of smartphones, tablets and cloud computing, how are SME owners and managers changing their practices, and what do they see as the main barriers to adopting these new technologies? We examine these issues across a range of core business activities, including: researching new markets, sourcing products, communicating with customers, handling invoices and financial management.

Introduction

The body of evidence on the level and nature of mobile internet use by SMEs remains sketchy. The available statistics are largely found in the 'grey literature' produced within the online communications industry. While this often has the benefit of being timely and in tune with the latest technological advances, it needs to be interpreted with care given the potential for over-simplifying or over-hyping the latest trends. That said, there do appear to be strong signs of continuing rapid growth in online commercial activity. In the last few years, this longer-run trend has been coupled with a more rapid increase in demand for mobile commerce (or 'm-commerce') services. For example, the e-retail trade organisation IMRG and Capgemini's 'e-Retail Sales Index' recorded 17.5% year-on-year growth in December 2012¹. The report estimates that UK consumers spent approximately £78 billion at online retail stores of all sizes during 2012 and that this figure will grow to around £87 billion in the current year. Retail sales through mobile devices (including tablets) also grew strongly in 2012, the total for the year being up by 304% compared to the equivalent figure for 2011. This mobile revolution is of course a global trend, driven by the rapid dissemination of internet-enabled smartphones and tablets and associated applications ('apps') and is opening up many new business opportunities. At the same time, it is perhaps inevitable that the rapid pace of change has created a mismatch between the dramatic growth in demand and the slower pace of technological advance in some small and medium-sized firms. For example, a recent small-scale study found that over three-quarters (76%) of UK SME retailers did not have a mobile commerce website, even though 89% recognised that this was necessary for the continued growth of their business².

The remainder of this special topic is set out as follows. We begin by analysing reported usage of information and computing technologies that have static and mobile internet access. The next section reviews the business activities that SMEs undertake using static internet in the office. This is followed by a parallel review of the activities undertaken via mobile internet. We then consider perceived obstacles to conducting business activities via static and mobile internet before identifying the main conclusions to the study.

¹ E-Retail Sales Index (January 2013) Available at www.imrg.org.uk (accessed 11th April 2013).

² This survey of approximately 300 UK SME retailers was conducted during 2012 by the market research organisation OnePoll (www.onepoll.com) on behalf of MoPowered (www.mopowered.co.uk), a consultancy specialising in m-commerce for retail businesses.

Static and mobile internet use: the current state of play

In the opening questions, respondents were asked to specify which technologies they use to support their businesses. The vast majority (92%) of respondents stated that they make use of technologies that incorporate some form of internet access, though there is a small sub-group who appear to use neither³. More than half (56%) state that they **only** use personal computers (PCs) or laptops with static internet access, while a very small minority (2%) state that they **only** use smartphones or tablet computers with mobile internet access. This leaves just over a third of firms (36%) that are currently in a position to use the internet in both its static and mobile forms in order to run their businesses (Chart 1 and Table 1)⁴.

Chart 1: Use of technologies with static and mobile internet access

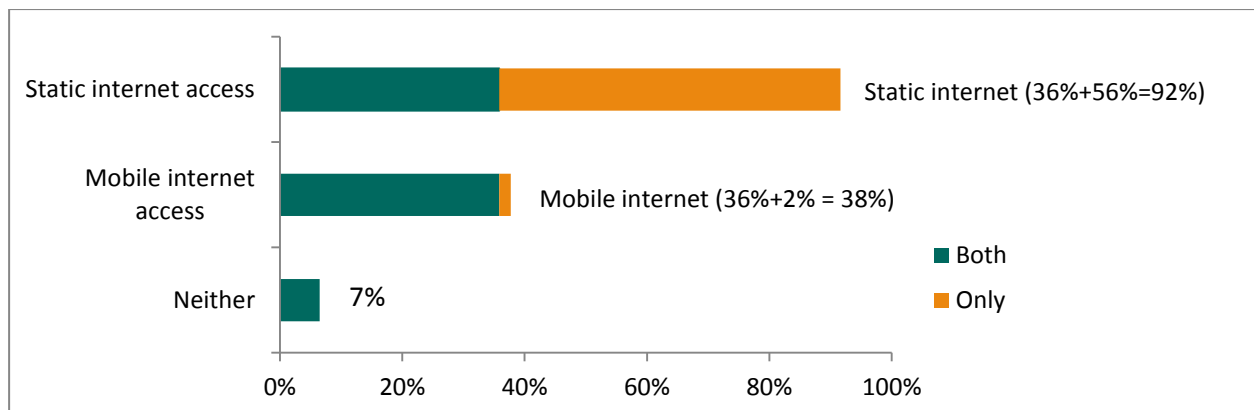


Table 1: Use of technologies with static and mobile internet access

	Yes	No	Sample
Only PC or laptop with static internet access	56%	44%	591
Only smartphone or tablet with mobile internet access	2%	98%	20
Both	36%	64%	380
Neither	7%	93%	69
All (unweighted)			1060

The survey revealed some variations in use of both static internet and mobile internet technologies by size of firm, as well as by industrial sector and region. These differences are summarised in the following three tables. Perhaps unsurprisingly, the vast majority of firms of all sizes report the use of PCs and laptops with static internet access, with lower levels of usage only being evident amongst those in the less than £100,000 turnover band (84% compared to 92% overall). However, it is striking that the highest reported usage of mobile internet technologies is amongst relatively small firms in the £100,000 to £250,000 band (43%), rather than amongst medium-sized firms (Table 2).

³ This sub-group comprises respondents who state that they use ‘neither of these’ technologies and forms of internet access to support their businesses. Most of these respondents (46 out of 69) are micro-businesses with fewer than 10 employees. We consider the explanations provided by this sub-group later in this special topic section, under the headings ‘Obstacles to doing business online’ and ‘Obstacles to doing business via mobile devices’.

⁴ The figures shown in Chart 1 and Table 1 do not add up to 100 due to a small rounding difference.

Table 2: Use of technologies with static and mobile internet access (By turnover band)

	Less than £100,000	£100,000- £249,999	£250,000- £499,999	£500,000- £999,999	£1m- £5m	£5m+	All (unweighted)
Static internet access	84%	92%	92%	94%	95%	94%	92%
Mobile internet access	36%	43%	41%	36%	37%	39%	38%
Neither	12%	7%	4%	5%	4%	6%	7%
Sample size	247	127	118	143	263	161	1060

The figures suggest that there are some sizeable differences in levels of adoption of both static internet and mobile technologies across industry sectors⁵. Business services have the highest reported levels of usage of static internet (96%) and are also amongst the highest (44%) for mobile internet. They are joined as the ‘top three’ leaders for mobile internet use by construction (47%) and manufacturing (44%). At the other end of the scale, hotels and restaurants have some of the lowest levels of use for both static internet (87%) and mobile internet (27%). The other members of the ‘bottom three’ for mobile internet use are transport and storage (30%) and retail (31%) (Table 3).

Table 3: Use of technologies with static and mobile internet access (By industrial sector)

	Static internet access	Mobile internet access	Neither	Sample size
Agriculture, Forestry, Fisheries	96%	35%	0%	23
Business Services	96%	43%	3%	235
Construction	91%	47%	7%	126
Health, Education, Leisure, Other	93%	32%	6%	176
Hotels & Restaurants	87%	27%	7%	71
Manufacturing	91%	44%	6%	124
Retail	91%	31%	8%	128
Transport, Storage & Communication	86%	30%	14%	74
Wholesale	88%	38%	9%	103
All (unweighted)	92%	38%	7%	1060

The regional breakdowns include a few somewhat puzzling variations, which may in part reflect different sectoral make-up of their firm populations. For example, respondents in the East of England report relatively low use of static internet (87%) compared to the UK as a whole, but this is coupled with much higher than average reported use of mobile internet (47%). The West Midlands sample also presents an anomaly, with high reported levels of static internet use (94%) being coupled with a particularly low figure for mobile internet (28%). The data for Wales is based on a relatively small sub-sample (37 firms), so results need to be treated with some caution. However, they suggest that SMEs in the principality have markedly low levels of use of static internet use (76%), while mobile internet use is much closer to the national average (35%) (Table 4).

⁵ The figures for agriculture, forestry and fisheries have been disregarded in this section due to the relatively small size of the relevant sub-sample. However, it is reasonable to assume that many firms in this sector are also making considerable use of both static and mobile internet technologies.

Table 4: Use of technologies with static and mobile internet access (By region)

	Static internet access	Mobile internet access	Neither	Sample size
East Midlands	93%	35%	7%	101
East of England	87%	47%	5%	62
London	91%	37%	8%	147
North East	98%	41%	2%	49
North West	89%	37%	9%	94
Northern Ireland	93%	27%	3%	30
Scotland	89%	32%	7%	84
South East	94%	48%	4%	186
South West	92%	30%	8%	115
Wales	76%	35%	19%	37
West Midlands	94%	28%	5%	78
Yorkshire & the Humber	95%	41%	5%	76
All (unweighted)	92%	38%	7%	1060

Using internet in the office

This section examines the business activities that SMEs undertake using internet services while located in the office. The figures are based on the 92% of respondents who report that they make use of PCs or laptops with static internet access (Chart 2).

Levels of usage are high for a wide range of business activities, the most popular being 'general communication' with existing customers and suppliers (85%) and checking bank account balances (85%). More than three quarters of the firms surveyed (79%) are also using the internet to make payments from their business bank accounts, while almost as many are also receiving payments online (73%). Online invoicing seems to be lagging payments, but is still used by two thirds of respondents (66%). In a period of severe cost constraints, it is perhaps unsurprising to see more than half of the firms (55%) using web-based services to compare the costs of utilities, bank accounts and other similar expense items. By contrast, the figure for SMEs using the internet for 'marketing' to new and existing customers (64%) seems relatively low and may suggest that there is scope for a further expansion of online marketing and related consultancy. The very smallest businesses have much lower figures for online marketing (49% of firms in the below £100,000 turnover band), which is likely to reflect the increased importance of face-to-face contact amongst many such firms, and in some cases a lack of relevant resources or capabilities (Table 5).

The rapid growth of cloud computing amongst SMEs, which we first explored in the *Quarterly Survey* in early 2011, is further reinforced by these more recent figures⁶. Just over one fifth of respondents (21%) are now using 'cloud-based' services to run their back office services. This represents a substantial increase in the adoption of this technology as compared to the picture two years ago, when 8% of respondents reported that they were accessing cloud computing services⁷. This figure is also similar across different size bands and may reflect the proliferation of cloud-based provision that is specifically targeted at smaller firms (Table 5).

⁶ The Quarter 1 2011 Quarterly Survey special topic 'ICT, smartphones and cloud computing' is available to download at: www.open.ac.uk/quarterly-survey

⁷ *Ibid.* p.14 (Table 5).

Chart 2: Business activities undertaken using PCs and laptops with static internet access



Table 5: Business activities undertaken using PCs and laptops with static internet access (by turnover band)

	Less than £100,000	£100,000-£249,999	£250,000-£499,999	£500,000-£999,999	£1m-£5m	£5m +	All (unweighted)
Check business bank account balances	76%	80%	88%	82%	90%	90%	85%
General communication with existing customers / suppliers	78%	85%	92%	83%	88%	88%	85%
Make payments from your business bank account	69%	79%	87%	77%	83%	81%	79%
Purchasing goods for your business	68%	78%	80%	71%	79%	71%	74%
Receive payments from customers	63%	72%	79%	67%	81%	77%	73%
Researching / sourcing new products and services	64%	78%	80%	67%	74%	69%	71%
Send invoices to customers	61%	68%	68%	62%	71%	67%	66%
Marketing to existing / new customers	49%	64%	72%	67%	69%	67%	64%
Comparing costs for utilities / bank accounts etc.	51%	56%	62%	49%	57%	59%	55%
Using 'cloud-based' services to run 'back office' functions	23%	20%	28%	14%	19%	26%	21%
Opening new bank/savings accounts/loans for your business	17%	17%	29%	13%	20%	23%	19%
None of these	8%	3%	0%	4%	2%	1%	3%
Sample size (sub-sample)	207	117	108	135	251	152	970

We also asked respondents who used PCs and laptops with static internet access which of these business activities they would **never** consider doing online. The findings suggest that most SMEs are now happy to conduct a wide range of activities via the internet. Responses to this question remain in single figures for most of the activities listed, with the highest of them (for ‘sending invoices to customers’ and ‘comparing costs for utilities, bank accounts etc.’) each accounting for just 6% of respondents. However, there are two notable exceptions. More than a quarter of respondents (28%) state that they would never consider opening new business bank or savings accounts, or taking out business loans, online. In addition, one fifth of firms (21%) say that they would never use cloud-based services to run back office functions (n.b. coincidentally, this is exactly the same figure as was reported earlier for firms that *are* currently using this kind of service (Table 5)).

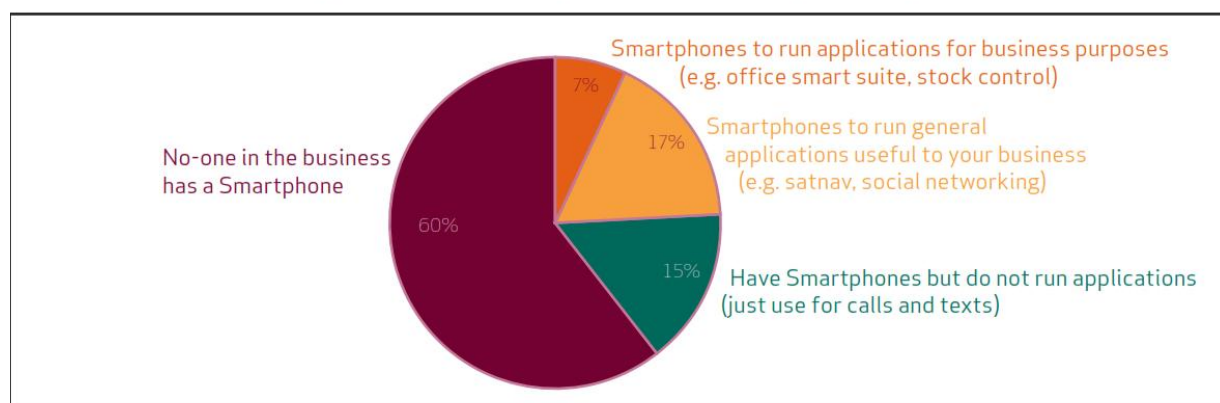
Using smartphones or tablets with mobile internet

This section examines the business activities that SMEs undertake using mobile internet services. The figures are based on the 38% of respondents who report that they make use of smartphones or tablet computers with mobile internet access.

As with cloud computing use, the percentage of SMEs using smartphones for business purposes appears to have grown substantially over the last two years. In our 2011 survey, 39% of respondents stated that they were using smartphones for business purposes⁸. At first sight, this might appear similar to the figure in this survey. However, when the 2011 responses were analysed by type of use, almost half of the businesses with smartphones were just using them for calls and texts (Chart 3). The activities listed in the present survey are not directly comparable with that earlier study, but there is evidence to suggest that a much higher proportion of SMEs are now using smartphones or tablet computers to run applications for business purposes (Chart 4). For example, 39% of those with mobile internet access are now using it to check business bank account balances. This figure represents approximately 15% of all respondents compared to just 7% of respondents to the 2011 survey who were using smartphones to run applications for specific business purposes.

Chart 3: Business activities undertaken using smartphones (Q1 2011 findings (Chart 16))

Chart 16: "Which of the following phrases best describes your current use of Smartphones for your business?"



⁸ *Ibid.* p.14 (Table 5).

Chart 4: Business activities undertaken using smartphones and tablets with mobile internet access



The patterns of mobile internet use across different size bands suggest that these technologies are quite widely dispersed, with few obvious size-related differences in usage. The exception is for the use of cloud-based back office services, which is more prevalent amongst medium-sized firms in the £5m+ band (19%) and those firms in the much smaller size bands of less than £100,000 (21%) and £100,000 to £249,999 (20%) (Table 6).

We also asked respondents who used smartphones and tablet computers with mobile internet access which of these business activities they would *never* consider doing via a mobile device. In comparison with the findings for static internet, there are higher proportions of SMEs that remain resistant to using mobile internet for a range of activities. For example, more than a quarter (27%) think they would never send invoices to customers via a mobile device, compared to just 6% for static internet. However, the differential between static and mobile internet is smaller in other areas. For example, while 30% of respondents state that they would never consider opening new business bank or savings accounts, or taking out business loans via mobile devices, this is only two percentage points higher than the equivalent figure for static internet (28%). The figures for those who would never use mobile devices for cloud-based services to run back office functions are also almost identical for services accessed via static (21%) and mobile (20%) internet (Table 5 and 6).

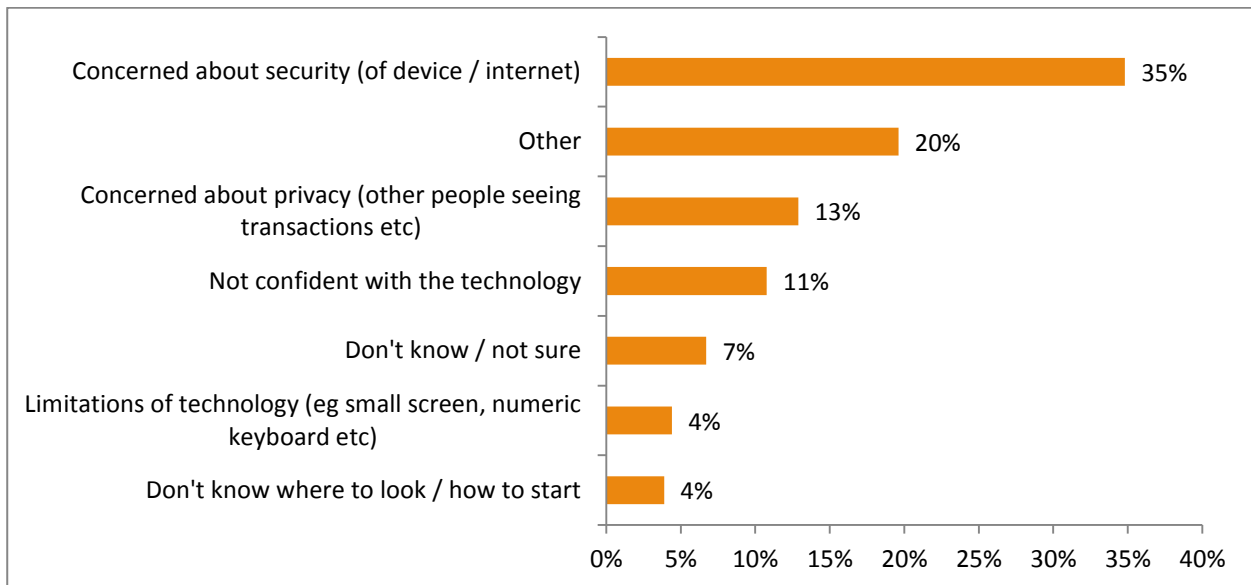
Table 6: Business activities undertaken using smartphones and tablets with mobile internet access (by turnover band)

	Less than £100,000	£100,000- £249,999	£250,000- £499,999	£500,000- £999,999	£1m- £5m	£5m +	All (unwei ghted)
General communication with existing customers / suppliers	80%	92%	81%	87%	80%	83%	83%
Researching / sourcing new products and services	53%	49%	56%	45%	58%	49%	52%
Check business bank account balances	45%	43%	47%	57%	46%	43%	46%
Purchasing goods for your business	41%	51%	35%	34%	34%	40%	39%
Marketing to existing / new customers	36%	31%	44%	23%	38%	47%	36%
Make payments from your business bank account	33%	37%	35%	21%	27%	38%	32%
Comparing costs for utilities / bank accounts etc.	30%	25%	35%	21%	22%	26%	26%
Receive payments from customers	22%	24%	23%	11%	22%	28%	22%
Send invoices to customers	22%	20%	21%	11%	24%	26%	21%
None of these	16%	7%	15%	8%	24%	27%	17%
Using 'cloud-based' services to run 'back office' functions	21%	20%	14%	11%	12%	19%	16%
Opening new bank/savings accounts/loans for your business	5%	6%	7%	6%	7%	9%	7%
Sample size (sub-sample)	76	51	43	47	74	47	338

Obstacles to doing business online

We asked respondents who already used PCs and laptops to access the internet about the major obstacles to doing business online using these technologies (Chart 5). The most commonly stated obstacle is that people are concerned about the security either of the device or of the internet itself (35%). One in five of respondents in this sub-sample identified 'other obstacles' (20%) (n.b. though these obstacles were unspecified, possible factors include uncertainties and potential transaction costs involved in transferring activities from an off-line to an online format). Concern over privacy issues (i.e. other people seeing transactions etc.), is the third most commonly stated obstacle (13%), closely followed by lack of confidence with the technologies, which was an issue for just over one in ten of these respondents (11%).

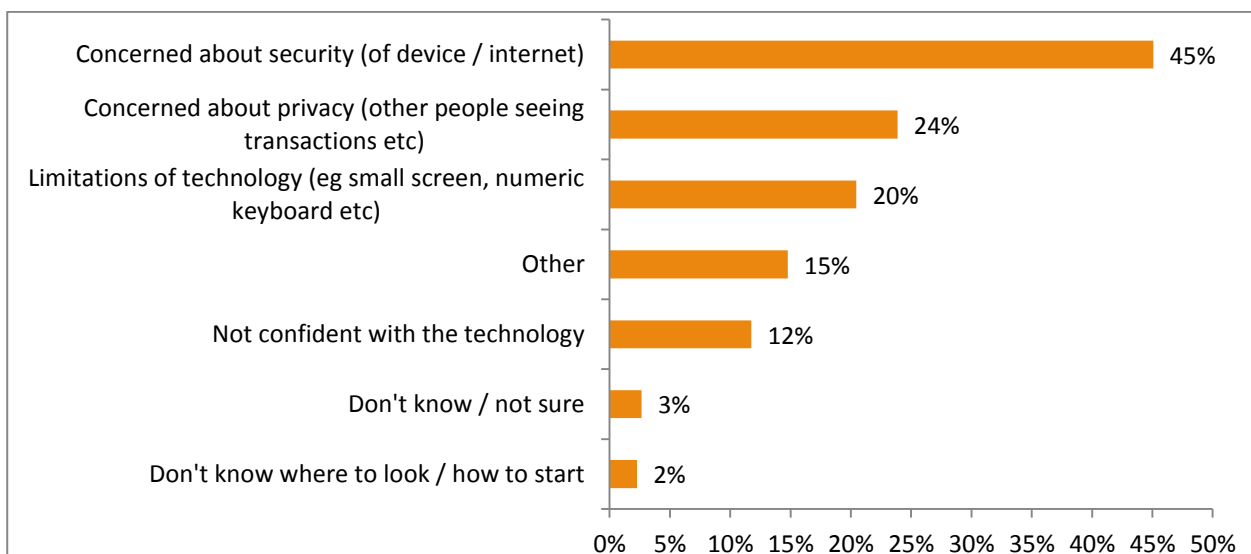
Chart 5: Main perceived obstacles to doing more activities online (static internet use)



Obstacles to doing business via mobile devices

We also asked respondents who already used mobile devices about the major obstacles to doing business online using these technologies (Chart 5). By far the most commonly stated obstacle is again that people are concerned about the security of the device or of the mobile internet (45%). Concern over privacy issues (i.e. other people seeing transactions etc.), is the second most commonly stated obstacle (24%), closely followed by limitations in the available technology such as a small screen or numeric keyboard (20%). A relatively low proportion of these respondents state that lack of confidence with the technology is an obstacle (12%). This may reflect characteristics of the sub-sample, which is based on businesses already using these devices. There may also be some understatement of the scale of this obstacle as people are often reluctant to admit a lack of competence in such cases. There were no strong size-related patterns in relation to these perceived obstacles.

Chart 6: Main perceived obstacles to doing more activities online (mobile internet use)



Conclusions

SMEs are now being offered a wide range of new services via the internet and on mobile platforms. With the continuing rapid dissemination of smartphones, tablets and cloud computing, their owners and managers are developing new ways of doing business in order to survive and grow in an ever-changing online environment. This quarter's special topic has explored the ways in which SME owners and managers are changing their practices, and what they see as the main barriers to adopting these new technologies. We have also produced several case studies to complement these findings, which can be accessed via the *Quarterly Survey* web pages.

As we noted at the outset, the evidence on the level of mobile internet use by SMEs remains somewhat limited, both in scope and depth. It is certainly the case that dramatic changes are underway, driven by the pace of technological innovation in global markets. It also seems likely that m-commerce has distinct characteristics as compared to 'traditional' e-commerce, which are likely to require specially developed applications and working practices⁹. When interpreting the consequences of these developments for SMEs, we still need to be cautious in extrapolating from isolated studies, particularly where these are produced by industry actors with a strong interest in building up this market. Given the importance of these technologies to small and medium-sized businesses, there is a strong case for developing more rigorous and objective research studies. However, producing such work is particularly difficult to achieve in such a technically complex and fast-changing environment. We hope that this short report has shed some new light on these issues for the benefit of SME policy-makers and practitioners.

⁹ See, for example: Nerger, P. (2008) 'Breaking free from "dotcom thinking" in a mobile world.' *International Journal of Mobile Marketing*, 3, 1: 19-22.

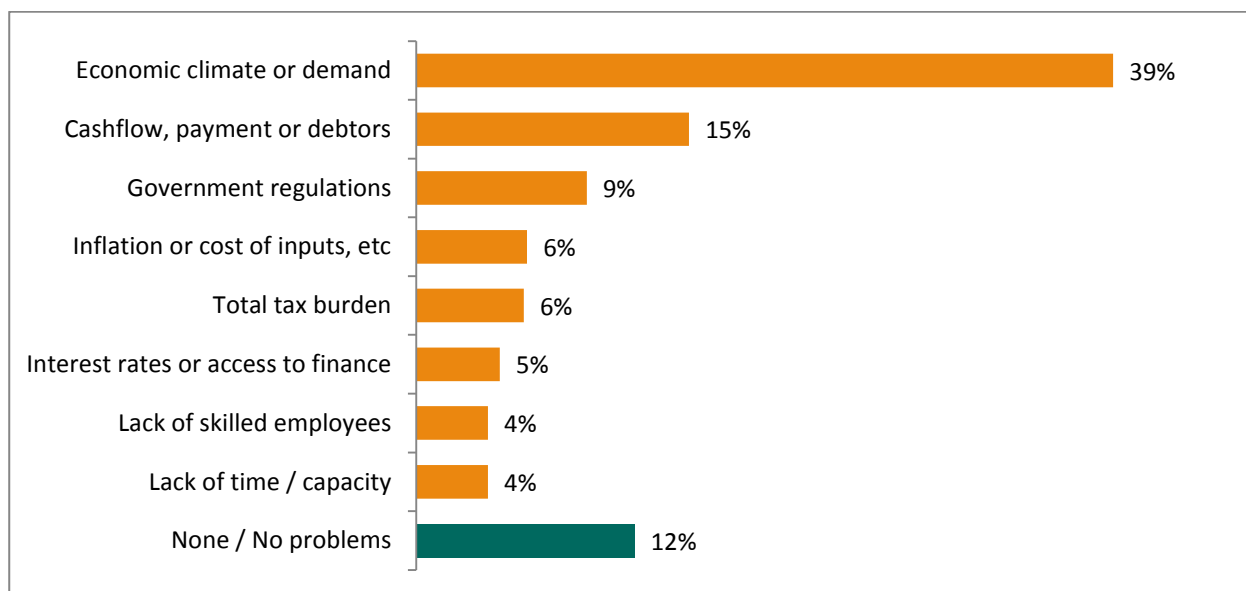
Problems

This question has seen remarkably little change from the previous quarter. The difficult economic climate, along with the associated negative impact on demand, remains by far the most commonly reported problem for SME owners and managers. It has moved slightly further ahead of the next most commonly cited problem, cashflow, payment and debtors. Government regulations retains its third place overall. There is relatively little variation by size, sector or region, albeit with a few notable exceptions.

Economic climate or demand

The economic climate or demand remains at the top of the list of most common problems facing UK SMEs, with more than a third of respondents reporting this as the main problem for their business (39%) (Chart 7) (n.b. this compares to a figure of 39% in Q4 2012, 42% in Q3 2012 and 40% in Q2 2012). It is 24 percentage points above the second ranked problem in our list. While there is relatively little variation in the results by employee numbers (Table 7), it is striking that firms in the £5m+ turnover bracket are far more likely to see economy and demand as their 'top' business problem (50%) compared to the sample as a whole (39%).

Chart 7: Proportion of firms indicating that each problem is the top one facing their business at the moment



Cashflow, payments or debtors

This is the fifth successive quarter when 'cashflow, payments or debtors' has been the second most commonly reported problem (15%), a slightly lower percentage to that recorded in our previous report (17%). SMEs engaged in agriculture, forestry and fisheries (22%), construction (18%) and transport (18%) were most likely to report it as their main problem on this occasion.

Government regulations

Government regulations remains the third most commonly identified ‘top’ problem for UK SMEs, on a percentage basis unchanged from the two previous quarters (9%). Respondents from agriculture, forestry and fisheries (13%), health, education, leisure, other (13%) and retail (12%) sectors most frequently report that Government regulations are currently their main business problem. The cost of implementing new regulations can sometimes become an important issue for SMEs. For example, one of our online respondents, a specialist marketing business, refers to, ‘New layers of admin involved in administering our PAYE system due to new legislation. Effectively we have to do the old year-end PAYE procedure every month’. Another online respondent from a micro-business complains about what he sees as an insurmountable obstacle to gaining the funding needed in order to make reduce energy use: ‘Trying to access government grants and funding for small businesses is a complete nightmare - we are desperately in need of assistance to upgrade the fabric of the building to make it more environmentally friendly and energy efficient. The government legislation means that we have had to spend out £1000 on an EPC [Energy Performance Certificate] which does nothing to help! With only one person running most small businesses there is far too much research and form filling required to get any funding.’

The total tax burden

The percentage of respondents reporting that the total tax burden is the top problem facing their business has fallen slightly (6% compared to 8% in the previous quarter). Taxation remains a particular problem for firms in the hotels and restaurants sector (13%), but this is much lower than the equivalent figure in the previous quarter (24%). Taxation seems is less likely to be the main business problem faced by SMEs in other sectors, the next highest percentages being recorded by wholesale (8%) and construction (7%).

Inflation or cost of inputs

Inflation and the costs associated with running a SME is now in fifth place (6%) alongside the total tax burden. On a sectoral basis, this problem was most pressing for hotels and restaurants (10%), closely followed by retailers, where it was identified by almost one in ten of respondents (9%). In some cases, respondents may see these business problems as overlapping, as indicated by an online respondent whose other main problems (in addition to the economic climate or demand) was identified as: ‘Cost of inputs, particularly business rates and employment taxation.’

Interest rates or access to finance

This was reported as a ‘top problem’ by the same proportion of firms in the previous quarter (5%). While there is still some variability by size of firm, the figures do not suggest a consistent size-related pattern (Table 7). On a sectoral basis, SMEs in the agriculture, forestry and fisheries sector reported the highest figures for interest rates or access to finance (9%), followed by hotels and restaurants (7%). The latest SME Finance Monitor (for Q4 2012) provides a context for the findings in relation to access to finance¹⁰. It reports that, ‘41% of all SMEs reported using any of the specified forms of external finance’ a similar figure to that reported for Q3 2012 (40%) and for the equivalent quarter in 2011 (41%). In addition, ‘5% of SMEs reported that they used to use external finance but no longer do so, and this proportion is increasing slowly over time.’ The SME Finance Monitor found that 10%

¹⁰ *SME Finance Monitor Q4 2012* (March 2013). Available at: <http://www.sme-finance-monitor.co.uk/>

of SMEs rated access to finance as ‘a major obstacle’ to their business¹¹. This was the same proportion reported in in Q4 2011 and represented a slight fall as compared to the previous quarter (13% in Q3 2012).

Lack of time or capacity and lack of skilled employees

Less than one in twenty firms identified these as their main business problems (4%). However, for smaller firms, this can be a major constraint. One of our online respondents – a service business – describes this as a, ‘Lack of time to get all the jobs done to get us where we want to be in terms of growth.’ Firms in agriculture, forestry and fisheries had the highest percentage for lack of time / capacity (13%), but this figure is based on a relatively small sub-sample. Manufacturing and transport were the next highest sectors for lack of time / capacity (7%), while manufacturing was also the sector with the highest figure for lack of skilled employees (7%). However, when interpreting the latter figure it is important to take into account the relatively low frequency of recruitment in many smaller firms. This could lead to problems associated with securing new members of staff being understated (a recent *Quarterly Survey* reports in more detail on issues related to education, training and skills development¹²).

Table 7: Proportion indicating each problem is the top one, by number of employees

	0	1-4	5-9	10-19	20-49	50-250	All
Economic climate or demand	38%	37%	33%	42%	36%	42%	39%
Cashflow, payment or debtors	11%	14%	15%	20%	16%	13%	15%
None / No problems	10%	11%	13%	9%	14%	15%	12%
Government regulations	7%	11%	10%	11%	4%	11%	9%
Total tax burden	10%	6%	8%	3%	8%	3%	6%
Inflation or cost of inputs, etc	9%	6%	7%	4%	7%	5%	6%
Interest rates or access to finance	3%	6%	6%	3%	5%	4%	5%
Lack of time/capacity	5%	7%	5%	3%	4%	1%	4%
Lack of skilled employees	7%	1%	3%	5%	6%	5%	4%
Sample size	88	238	157	175	154	243	1060

¹¹ The SME Finance Monitor figure of 10% is based on a question which asks respondents to rate the extent to which each of a number of factors were perceived as obstacles to them running the business as they would wish in the next 12 months, using a 1 to 10 scale. Ratings of 8-10 were classed as a ‘major obstacle’. By contrast, 5% of respondents in our survey identified ‘interest rates or access to finance’ as ‘the top problem’ facing their business.

¹² *Quarterly Survey of Small Business in Britain*, Q3 2012. Special topic: education, training and skills development. Available at: www.open.ac.uk/quarterly-survey

Business stock & activity index

Chart 8: Mainstream businesses in England and Wales, starts closures & net change, (thousands), four quarter moving averages, Source: Business Economics, Barclays

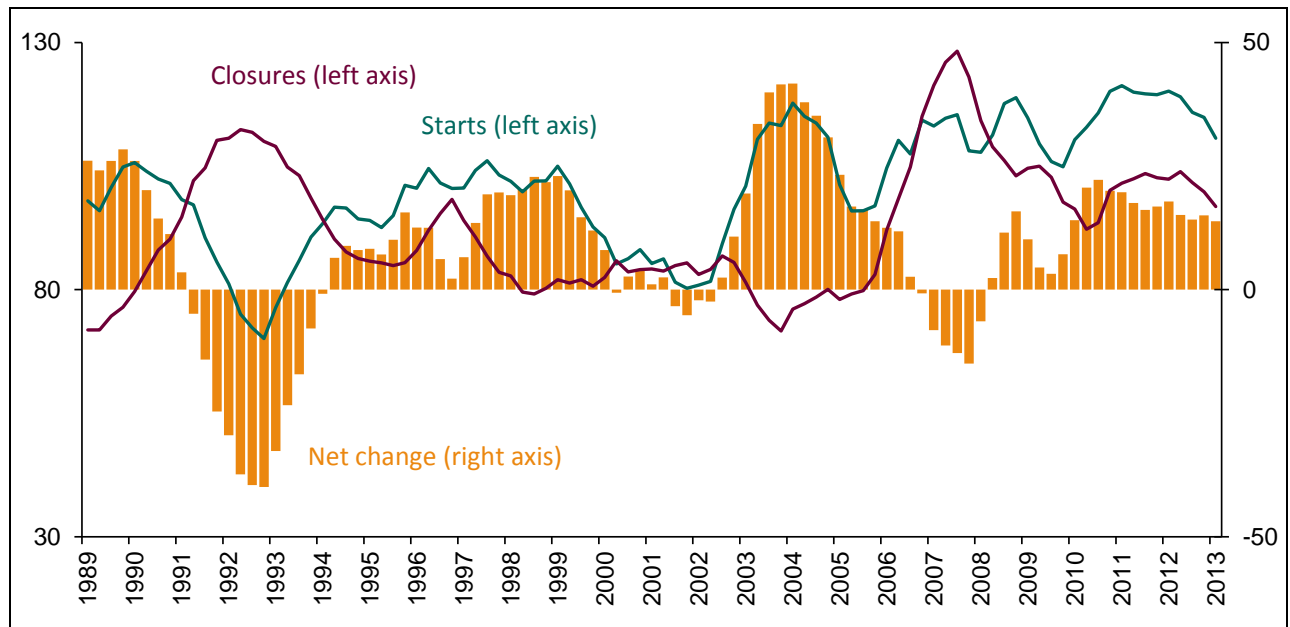


Chart 8 shows Barclays' estimates of the number of 'mainstream' businesses, based on the number of business accounts held with them and an estimate of their market share. The figures suggest that there have been net increases in the stock of businesses in every quarter for the last five years. The rate of business starts in this period has been consistently higher than that for business closures. Though the stock of businesses continued to grow strongly during 2012, there has been a marked tailing off in the rate of business starts and of closures in this period. The latest ONS labour market statistics, published in April 2013, also point to a slow-down in the previous growth trend in self-employment. The ONS estimates the number of self-employed people in the UK in the period December 2012 to February 2013 at 4.20 million; this represents a slight decline of 2,000 over the previous quarter (n.b. seasonally adjusted figures)¹³.

¹³ Labour Market Statistics, April 2013 (17th April 2013), Office for National Statistics. Available at: http://www.ons.gov.uk/ons/dcp171778_305051.pdf (n.b. this ONS release includes revisions to estimates of workforce jobs that extend back to the start of this series in 1959).

Chart 9: Barclays Small Business Activity Index vs GDP growth (latest quarter on corresponding quarter previous year)

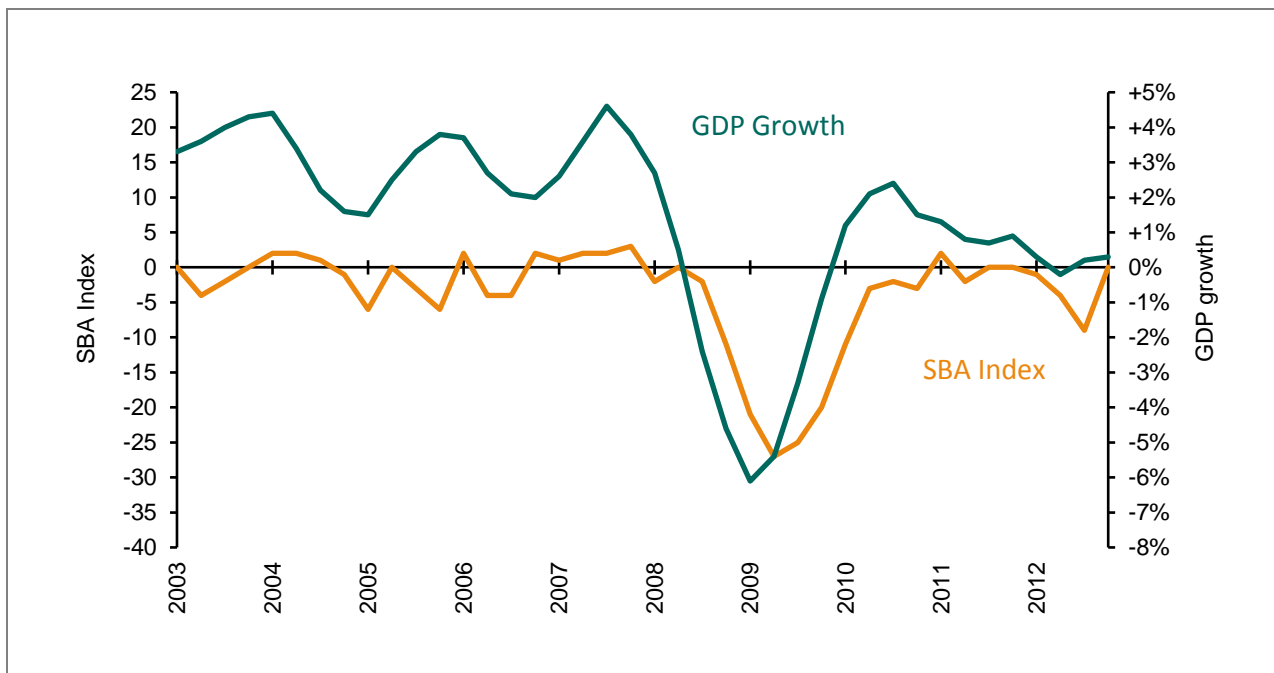


Chart 9 shows the **Barclays Small Business Activity Index ('SBA Index')**, derived from the banking activity of over 200,000 small firms¹⁴. The SBA Index has remained relatively stable since early 2010, rather than rising and subsequently falling in a broadly similar pattern to the GDP growth rate for the same period. For the fourth quarter of 2012, the SBA Index rose from -9 to 0, while the change in GDP compared to the same quarter in the previous year rose from 0.2% to 0.3%.

¹⁴ Data in this section relates to Q4 2012 (see previous footnote for details). Sources: SBA Index supplied courtesy of the Business Economics & Research Team, Barclays. UK GDP change data obtained from the Office for National Statistics (ONS), available at: www.ons.gov.uk, IHYR, GDP, quarter on quarter of previous year, CVM. Second Estimate of GDP Q4 2012 (27th February 2013). GDP estimates are revised by the ONS on a regular basis. Chart 9 includes revisions made following publication of the previous Quarterly Survey (2012 Q4) report

Performance

The positive net sales balances reported throughout 2012 have continued into 2013, with the latest results suggesting a modest overall improvement in sales performance. While employment performance has also improved slightly, two thirds of SMEs continue to report no overall change in the number of people they employ. Manufacturing SMEs enjoyed the best sales performance by sector but hotels and restaurants also performed strongly, perhaps reflecting seasonal influences. This result contrasts strongly with fate of retail firms, which report negative sales and employment balances.

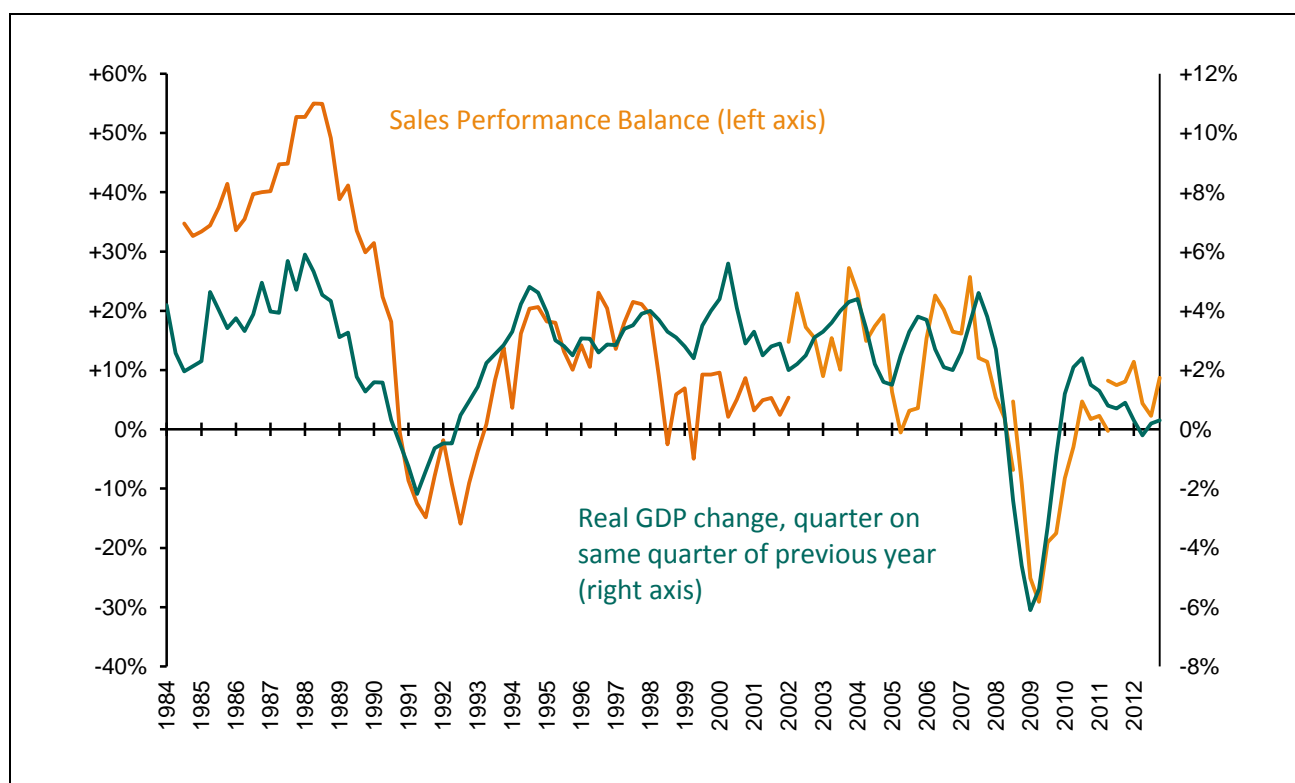
Sales performance: overview

The latest results indicate a modest overall improvement in net sales balances (+9% compared to +2% for the previous quarter). There have been small changes in the underlying figures over the last three surveys (Table 8 and Chart 10), with a slight increase in the percentage of firms experiencing an increase in sales (up to 37% compared to 32% in the previous quarter) while the percentage suffering a decline in sales has fallen slightly (down to 28% compared to 30% in the two preceding quarters). This has resulted in a seven percentage point increase in the latest net sales balance, which now stands at +9% (compared to +2% in the previous report). However, while this result is encouraging, it does not quite match the equivalent figure for 2012 (a net sales balance of +11%, which was recorded in Q1 2012).

Table 8: Change over past year in sales turnover, compared with previous survey (weighted figures)

	Up	Same	Down	Balance
Q1 2013 report: (comparing 2012 Q4 on 2011 Q4)	37%	36%	28%	+9%
Q4 2012 report: (comparing 2012 Q3 on 2011 Q3)	32%	38%	30%	+2%
Q3 2012 report: (comparing 2012 Q2 on 2011 Q2)	35%	35%	30%	+5%

Chart 10: Percentage balance of respondents reporting an increase in sales over past year, compared with change in real GDP¹⁵



Employment performance: overview

The overall net employment balance is once again slightly positive (+1%) having dipped into negative territory (-3%) in the previous quarter. The proportion of respondents reporting an increase in employment (17%) is now marginally higher than those reporting a decline (16%). However, there is also a continuation of the longstanding pattern of two thirds of SMEs (66%) reporting that net employment balances are unchanged over the past year (Table 9).

Table 9: Change over past year in employment, compared with previous survey (weighted figures)

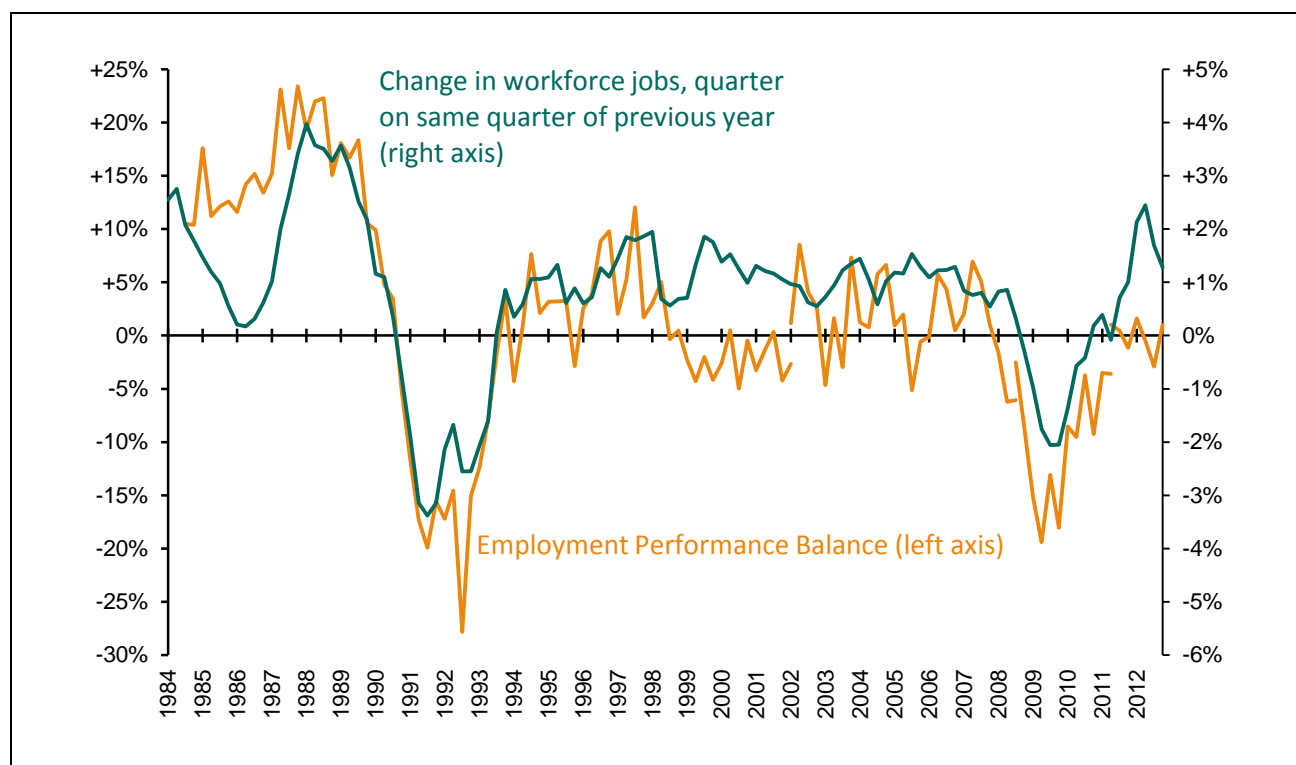
	Up	Same	Down	Balance
Q1 2013 report: (comparing 20Q4 on 2011 Q4)	17%	66%	16%	+1%
Q4 2012 report: (comparing 2012 Q3 on 2011 Q3)	16%	65%	19%	-3%
Q3 2012 report: (comparing 2012 Q2 on 2011 Q2)	17%	66%	17%	0%

In the previous report, we noted that ONS Labour Market Statistics – a broad measure of change in workforce jobs – had been giving a more positive employment picture than our own employment balance. Any continuation of this trend might be seen as evidence that a gap was opening up between the employment performance of SMEs and that of other organisations in the economy,

¹⁵ Enlargements and consequent changes in composition of the sample led to breaks in the series in 2002, 2008 and earlier in 2011. More details can be found in Vol 18(2), Vol 24(4) and Vol 27(3) of this survey. GDP change data is from www.ons.gov.uk, IHYR (pre-1988 calculated as change in YBEZ), GDP, quarter on quarter of previous year, CVM. Second Estimate of GDP Q4 2012 (27th February 2013). GDP estimates are revised by the ONS on a regular basis.

including larger firms. However, the relevant ONS data series has now been revised (April 2013) and the latest figures show that this gap has narrowed somewhat in the most recent quarter (Chart 11).

Chart 11: Percentage balance of respondents reporting an increase in employment over past year, compared with change in jobs¹⁶



Other SME Surveys

This section reviews other SME surveys that were conducted in the period covered in this report. They paint a broadly similar picture to our own survey, with indications of modest improvements in business performance towards the end of 2012, tempered by some notable sectoral differences and variations across the UK nations and regions.

As we have already noted in the Business Stock and Activity Index section, the latest **Barclays Small Business Activity (SBA) Index**, which is derived from the banking activity of over 200,000 small firms is 0 (zero) for Q4 2012, up from -9 in the previous quarter (Chart 9). This indicator is supported by three of the main surveys that report on the recent performance of small and medium-sized firms, though it is also worth noting that, as we have indicated in this report, the overall figures mask considerable variability between the experiences of individual firms. The **Federation of Small Businesses' Voice of Small Business Index**¹⁷ which surveyed 2,686 people in the first quarter of 2013 reported that small firms' confidence levels had recovered, to +6.3 (an improvement on the Q4 2012 index figure of -5.6). However, the sectoral breakdowns differ. Financial and business services firms remain the most optimistic about the business environment, while retailers and manufacturers expect conditions to deteriorate. The **British Chambers of Commerce (BCC) Quarterly**

¹⁶ Labour Market Statistics, April 2013 (17th April 2013), Office for National Statistics. Available at: http://www.ons.gov.uk/ons/dcp171778_305051.pdf. Note revisions to estimates of workforce jobs were made back to the start of this series in 1959 and have been incorporated into the graph.

¹⁷ FSB Voice of Small Business Index, Q1 2013. Available at: <http://www.fsb.org.uk/small-business-index>

Economic Survey¹⁸ reported further improvements in key balances in its most recent report, which was released on 2nd April 2013. For example, the BCC's manufacturing balance for home deliveries rose 4 points to +12% (n.b. equal to the highest level recorded in the period since Q2 2011). In addition, manufacturers' home orders were up 11 points, to +14%, the highest since Q4 2010). The BCC's balance of balance of manufacturing firms planning to increase investment in plant and machinery rose 3 points to +14%, the best level since Q1 2012. The most recent **CBI Quarterly SME Trends Survey**¹⁹ ran during the period 13th December 2012 to 9th January 2013 and was based on 347 respondents. Its findings suggest a more negative performance by SMEs over the final quarter. The survey reported that total new orders fell slightly (-5%), for the second quarter running. This result was due to a combination of falls in domestic orders (-6%) and export orders (-9%). However, the CBI also notes that both of these performance measures declined at a slower pace than the previous quarter (domestic orders by -11%, and exports orders by -21%).

The **English Business Survey**²⁰ is still classed as 'experimental official statistics' and advises against comparisons across months. The survey uses balance statistics but they are not directly comparable to the other data reported in this section, or to the findings of the other SME surveys reviewed in this section. For example, it is based on individual workplaces rather than firms (though as the latest EBS quarterly statistical bulletin points out, 97% of enterprises are based on a single workplace)²¹. In addition, the EBS comparisons are to the preceding quarter, rather than to the equivalent quarter in the previous year, and it excludes non-registered businesses. The EBS identifies an overall decline in reported performance across all businesses during the final quarter of 2012, in contrast to the modest improvement identified in the *Quarterly Survey*. The EBS statistical bulletin states that, 'The proportion of businesses in England reporting output being higher than it was three months earlier was 35% in December's survey, this compares to 45% in November's survey which was the highest since the survey began.' By contrast, EBS findings on employment performance appear to echo our own results in this survey. The EBS bulletin states that, 'Employment is relatively stable, with the majority of businesses reporting employment levels remaining the same in December as in September. However, more businesses reported employment to have increased than reported it to have fallen.' The EBS researchers also note important size-related differences in performance, when measured in terms of the number of employees at the workplace. They found that those with 250 or more employees were most likely to report that output had increased (42%) and least likely to report that output was lower (16%), giving a net balance of +26%. This contrasted starkly with the result for micro businesses with 1 to 9 employees, where, 'an estimated 29% reported higher output compared to 41% reporting lower output', giving a net balance of -12%. Micro businesses were the only size band in the EBS that reported a negative balance over the last quarter²².

¹⁸ British Chambers of Commerce Quarterly Economic Survey, Q1 2013. Available at: http://www.britishchambers.org.uk/assets/downloads/policy_reports_2013/Summary.pdf

¹⁹ CBI SME Trends Survey, Q4 2012. Available at: <http://www.cbi.org.uk/business-issues/economic-intelligence/economic-intelligence-content/sme-trends/>

²⁰ English Business Survey, December 2012 Statistical Release (28th February 2013). Available at: <http://https://www.gov.uk/government/publications/english-business-survey-statistical-release-december-2012>

²¹ *Ibid.* p.1.

²² *Ibid.* p.5.

Performance: comparison across size bands

In findings that are echoed by the EBS results summarised in the previous section, the UK's smallest firms continue to report a worse performance than their relatively larger counterparts (Charts 12 and 13). Firms in the £100,000 to £249,999 band have fared particularly badly over this period; their negative net sales balance of -12% contrasts with one of -7% in the previous report. This survey also suggests a stronger performance by medium-sized firms. While the net sales balance for firms in the £5m+ range has declined somewhat (+17% compared to +22% in the previous survey), firms in the £500,000 to £999,999 turnover bracket appear to have bounced back (+16% compared to -10% in the previous survey), while the strongest sales performance over the quarter was recorded by firms in the £1m-£5m band (24%).

Chart 12: Percentage balance reporting an increase in sales over past year by turnover size band

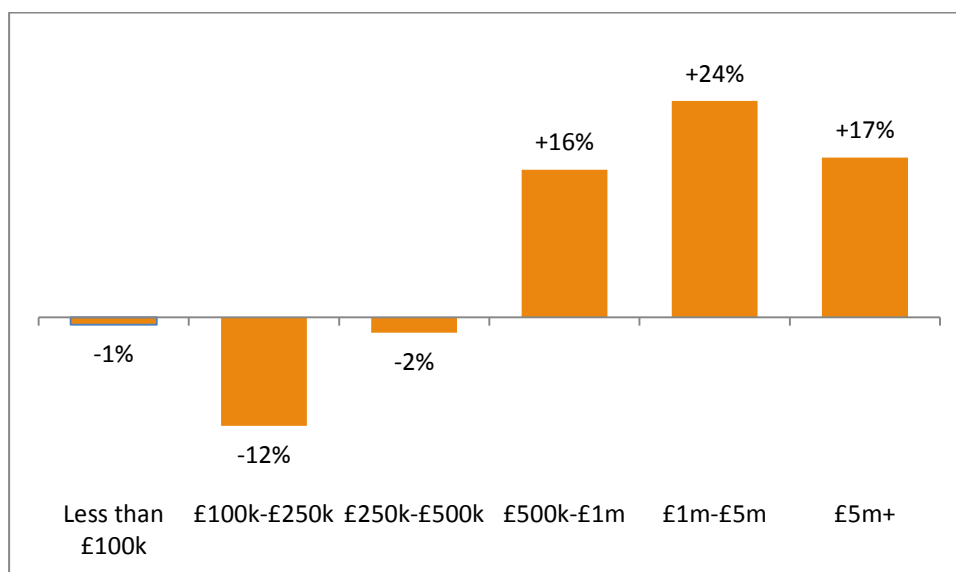
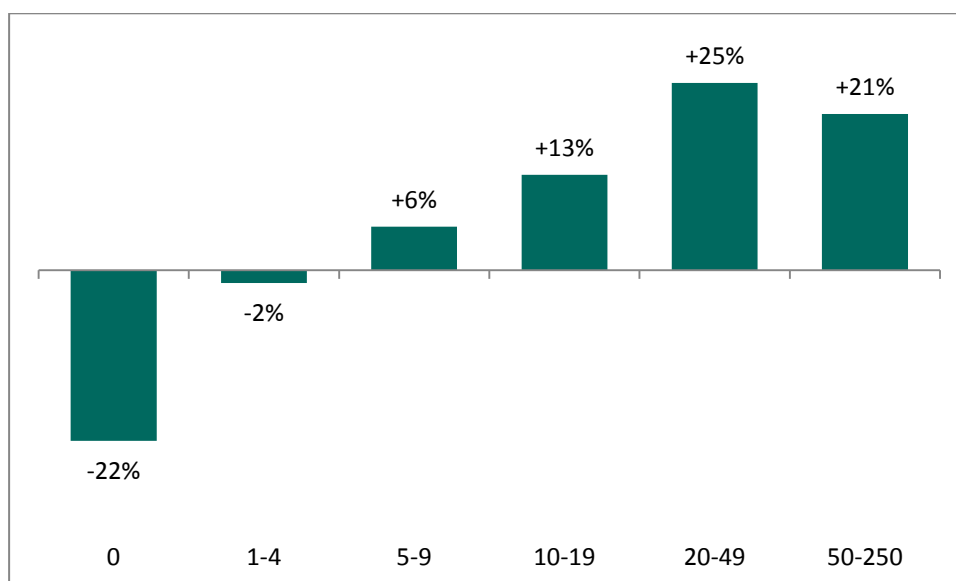


Chart 13: Percentage balance reporting an increase in sales over past year by number of employees



The size-related differences in sales performance are also reflected in our measure of employment performance (Table 10). Firms in the £250,000 to £499,999 band report the most negative employment balances, with 24% having reduced their average employment over the preceding 12 months and only 9% having increased it, creating a net balance of -14%. The employment balances were positive for firms with a turnover in excess of £500,000. The strongest performance is seen amongst firms in the £5m+ turnover band (+7%), though the proportion of respondents reporting an increase in average employment over the past year (22%) is the same amongst firms in the adjacent size band (£1m-5m).

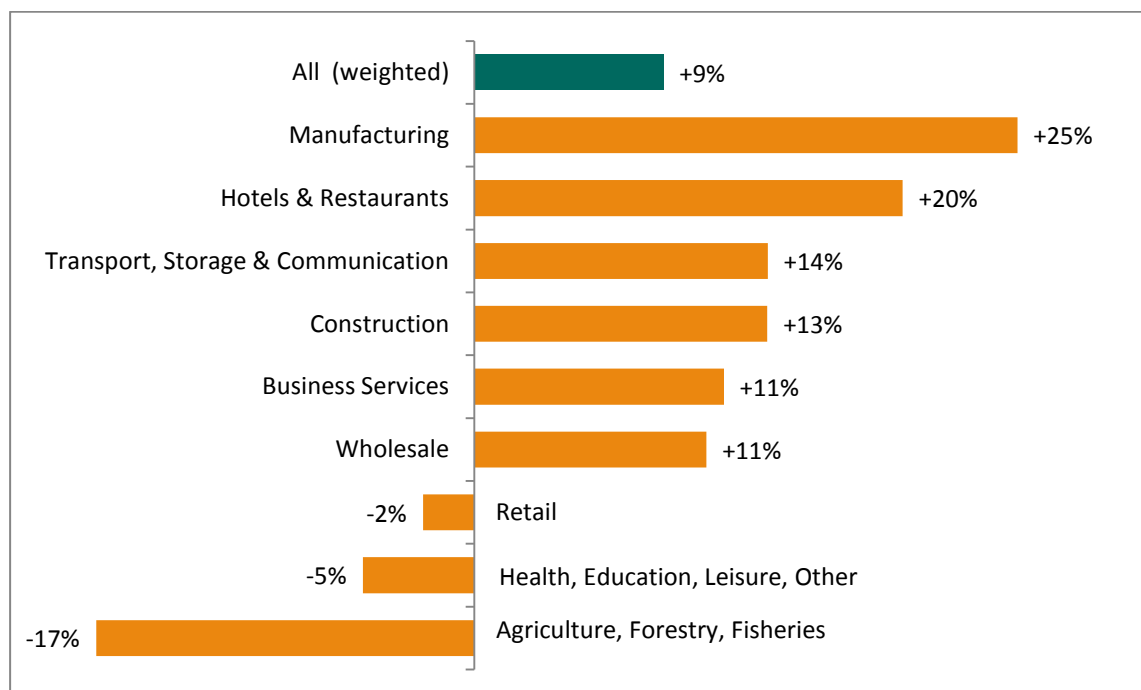
Table 10: Percentage balances for average employment over past year by turnover size band

	Less than £100,000	£100,000- £249,999	£250,000- £499,999	£500,000- £999,999	£1m-£5m	£5m+	All
Up	15%	14%	9%	20%	22%	22%	18%
Same	70%	74%	67%	64%	62%	64%	66%
Down	16%	12%	24%	15%	17%	14%	16%
Net Balance	-1%	+2%	-14%	+5%	+5%	+7%	+1%
Sample size	247	127	118	143	263	161	1060

Performance: comparison across sectors

We have again seen some striking differences in the sectoral breakdown as compared to those for the previous quarter (Chart 14). As noted last time, the results for agriculture, forestry and fisheries need to be treated with caution due to the relatively small size of this sub-sample. While industry conditions may be somewhat volatile, its leap from the bottom to the top of the rankings – and back again – over the last three quarters must be partly a product of sampling differences. The net sales balance for manufacturing, a much larger sector in terms of respondents, has recovered from the figure recorded in the previous report (+25% compared to +2% in Q4 2012 and +12% in Q3 2012). The performance of SMEs in the retail sector has improved slightly (-2% compared to -9% previously), perhaps reflecting some gains in the end-of-year trading period. The wholesale sector has also recovered (+11% compared to +6% previously). However, it is important to keep these figures in context. The poorest performance this quarter (excluding agriculture, forestry and fisheries) is for health, education, leisure and other services (-5%), but the net sales balance indicator has produced much weaker results in the recent past (e.g. the balance for manufacturing fell to -40% at the beginning of 2009).

Chart 14: Percentage balance of respondents reporting an increase in sales over past year, by sector



Analysis of the latest employment balances does not indicate that any sectors are performing particularly strongly in terms of job creation (Table 11). Transport, storage & communication (+11%), manufacturing (+8%), and health, education, leisure, other (+7%) appear to be the brightest sectors. By contrast, the continued positive sales performance recorded by construction SMEs (+13% in the most recent quarter and +6% in the previous period) is not reflected in the sector's employment performance, which remains negative (-9% compared to -15% in the previous quarter).

Table 11: Change over past year in sales and employment, by sector

	Sales Turnover	Average Employment	Sample
Agriculture, Forestry, Fisheries	-17%	-4%	23
Manufacturing	+25%	+8%	124
Transport, Storage & Communication	+14%	+11%	74
Construction	+13%	-9%	126
Wholesale	+11%	+1%	103
Retail	-2%	-2%	128
Hotels & Restaurants	+20%	-4%	71
Business Services	+11%	0%	235
Health, Education, Leisure, Other	-5%	+7%	176
All (weighted by sector)	+9%	+1%	1060

Performance: comparison across regions

This quarter has seen considerable variability in regional SME performances, as measured by the net sales and net employment balances of our respondents (Table 9). SMEs in the East Midlands have again recorded a positive net sales balance, similar to that achieved in the previous quarter (+23% compared to +26% previously). Yorkshire and the Humber has seen a substantial improvement (+20% compared to -5% previously) as have SMEs in Wales (+22% compared to +7% previously). London saw a recovery following a strong decline in sales performance in the previous quarter (+11% in Q1 2013, compared to -14% in Q4 2012 and +9% in Q3 2012). The North East remains positive overall (+14% compared to +16% previously) as does the South West of England (+10% compared to +5% previously). Scotland looks to have weakened overall (-1% in Q1 2013, compared to +3% in Q4 2012 and -7% in Q3 2012), while the relatively small sub-sample of SMEs in Northern Ireland continues to report a weak sales performance but with some improvement over the previous quarter (-10% compared to -15% previously).

The picture for employment by region is generally weaker than that for sales performance. Respondents in Scotland and Northern Ireland²³ were the only ones reporting a combination of negative net sales balances and net employment balances. However, despite for the most part having relatively strong sales performances this quarter, SMEs in the following nations and regions also reported negative net employment balances: North East (-6%), Yorkshire and the Humber (-4%), the West Midlands (-6%), the East of England (-3%) and Wales (-5%) (Table 12).

Table 12: Change over past year in sales and employment, by region

	Sales Turnover	Average Employment	Sample
North East	+14%	-6%	49
North West	+10%	+7%	94
Yorkshire & the Humber	+20%	-4%	76
East Midlands	+23%	+7%	101
West Midlands	+3%	-6%	78
East of England	+3%	-3%	62
London	+11%	+7%	147
South East	+2%	+2%	186
South West	+10%	+5%	115
Wales	+22%	-5%	37
Scotland	-1%	-4%	84
Northern Ireland	-10%	-7%	30
All (weighted by sector)	+9%	+1%	1060

²³ The figures for Northern Ireland need to be treated with caution given the relatively small size of the relevant sub-sample.

Prospects

SMEs anticipate a stronger overall improvement in sales performance in the first quarter of 2013, as compared to a more stable picture over the previous two quarters. Firms with a turnover above £1 million have positive net sales balances for this period. SMEs in construction, manufacturing and health, education, leisure and other services all report increased optimism about future sales. Firms in the North East, the East Midlands and Yorkshire and the Humber are the most optimistic about sales in the first quarter. Firms in London, a region that reported improved sales and employment performance in this survey, are also much more optimistic about their prospects.

There has been a noticeable improvement in SMEs' expectations regarding their sales' performance in the first quarter. This follows two quarters in which the prospects figures were largely unchanged. More than one third of firms (35%) expect their sales to rise in the period (up from 33% the previous report), less than a quarter of firms (22%) expect them to fall (down from 25% last time). The net balance figure for this quarter is therefore up by five percentage points (13%) (Table 13)²⁴. This almost brings the prospects balance back to the levels seen earlier in 2012 (+14% in Q2 2012).

Table 13: Expected change in sales turnover compared with same quarter last year (weighted figures)

	Up	Same	Down	Balance
Q1 2013 report: (comparing 2013 Q1 on 2012 Q1)	35%	42%	22%	+13%
Q4 2012 report: (comparing 2012 Q4 on 2011 Q4)	33%	42%	25%	+8%
Q3 2012 report: (comparing 2012 Q3 on 2011 Q3)	33%	41%	26%	+8%

The first quarter has also seen a modest improvement in the employment prospects figures. While the percentage of firms expecting average employment to increase is largely unchanged from the figures for the two preceding quarters, there has been a three percentage point drop in the proportion of firms expecting net employment to decline (12% compared to 15% previously). As a consequence, the net balance is slightly more positive (+4% compared to +1% previously) (Table 14), though expectations remain some way behind those for future changes in sales turnover.

Table 14: Expected change in average employment compared with same quarter last year (weighted figures)

	Up	Same	Down	Balance
Q1 2013 report: (comparing 2013 Q1 on 2012 Q1)	16%	72%	12%	+4%
Q4 2012 report: (comparing 2012 Q4 on 2011 Q4)	16%	69%	15%	+1%
Q3 2012 report: (comparing 2012 Q3 on 2011 Q3)	15%	72%	13%	+2%

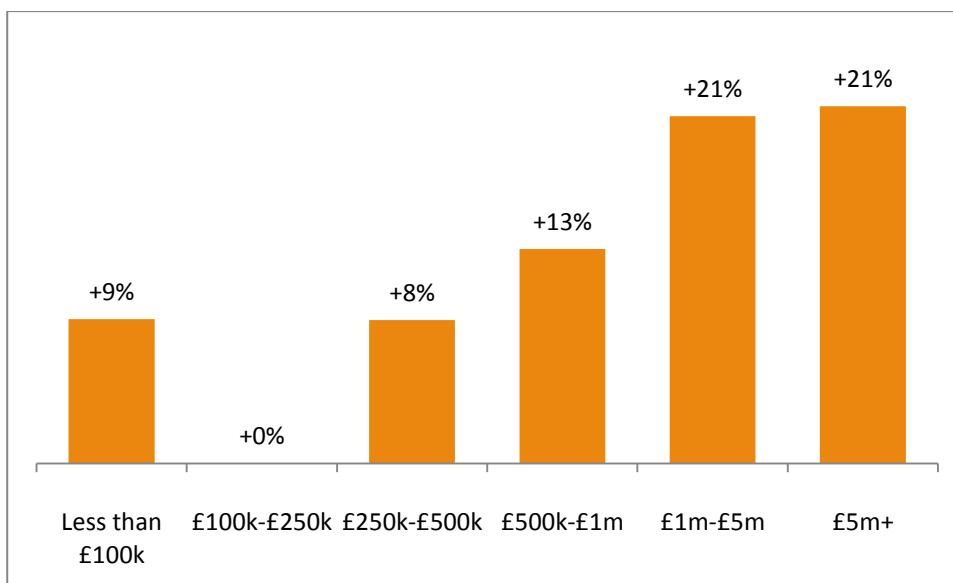
²⁴ Note: in Table 13 the net sales balance for Q3 2012 is the result of rounding in the calculations.

In this survey, we also asked our online respondents about their expectations for investment in the quarter. Of this smaller sub-sample (total: 178 responses), just over a half (54%) expected no change, while 26% expected to increase investment and 21% expected it to fall in the period. This produced a positive net balance for investment expectations (+5%).

Prospects: comparison across size bands

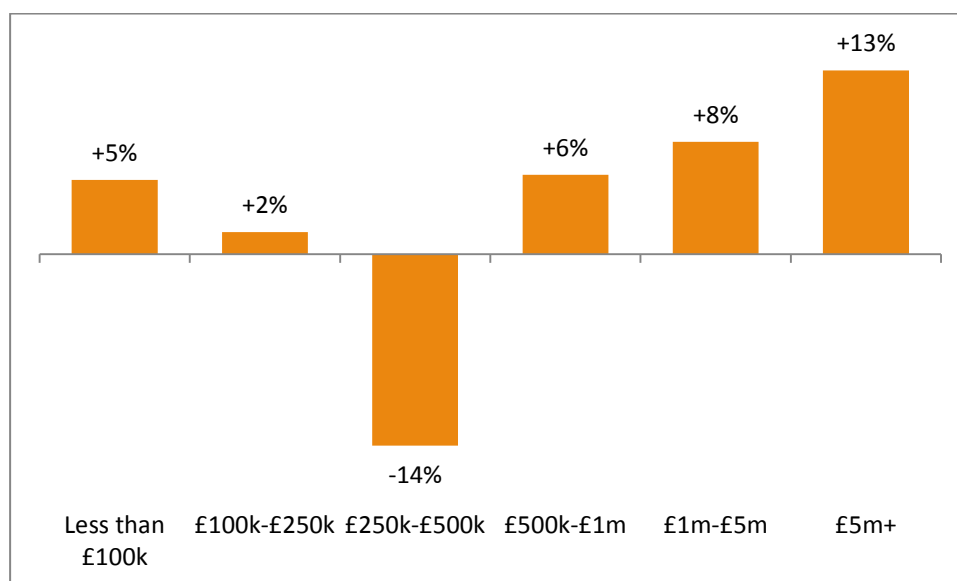
Amongst the UK's diverse SME population, medium-sized firms are much more optimistic about their prospects for sales growth in the next quarter, compared to their relatively smaller counterparts. Firms with a turnover above £1 million have positive net sales balances for this period (+21%). These results represent a decline for those in the £5m+ band, which recorded a particularly strong balance (+30%) in the previous quarter. However, for firms in the next size band (£1m to £5m), it marks an improvement on the figure reported for Q4 2012 (+15%) (Chart 15). Respondents in smaller firms tend to be less optimistic, with those in the £100,000 to £249,999 band having the lowest net sales balance (zero). However, for the very smallest businesses in the sub-£100,000 turnover band, there are some signs of increasing optimism, with the net balance increasing to +9% compared to -4% in the previous report (Chart 15).

Chart 15: Percentage balance expecting an increase in sales over past year by turnover size band



We have already noted that SME expectations regarding average employment are generally lower than those for sales turnover (Table 13 and Table 14). These differences are also apparent when the employment prospects figure is broken down by firm size (Chart 16). There is still a fairly clear divide between the lack of employment prospects amongst firms with an annual turnover below £500,000, and the more encouraging picture painted by relatively larger firms. The strongest net employment balance (+13%) is reported by firms in the £5m+ turnover band (up from +8% in the previous quarter). In this survey, the weakest balance is found amongst firms in the £250,000 to £499,999 band (-14%) down from +1% in the previous quarter. As was seen in the case of sales prospects (Chart 15), the very smallest firms appear more optimistic about the employment prospects this quarter, with the balance for those in the sub-£100,000 turnover band improving by six percentage points (+5% compared to -1% previously).

Chart 16: Percentage balance expecting an increase in average employment over past year by turnover size band



Prospects: comparison across sectors

This breakdown suggests considerable differences in the sentiments expressed by SMEs in different industry sectors (Chart 17 and Table 15). This is coupled with some large changes for particular sectors, as compared to the figures reported in Q4 2012. If we exclude agriculture, forestry and fisheries²⁵, there are still four sectors with changes of more than ten percentage points over the previous quarter. The net sales balance for construction is up by 16 percentage points (+18% compared to +2% in the previous report). Manufacturing has seen a 15 percentage point rise (+32% compared to +17% in Q4 2012 and +8% in the preceding quarter), while health, education, leisure and other services SMEs report increased optimism about future sales with an 9 percentage point rise (+15% compared to +6% previously). At the other end of the scale, SMEs in the retail sector have become more optimistic about sales' prospects (+9% compared to -6% in the last quarter), an improvement that is matched by their views on employment prospects in the sector (+4% compared to -4% previously).

²⁵ See the Performance section of this report, where recent volatility has been identified as a possible result of the relatively small sub-sample for this sector giving rise to sampling-related differences.

Chart 17: Percentage balance expecting an increase in sales over past year by sector

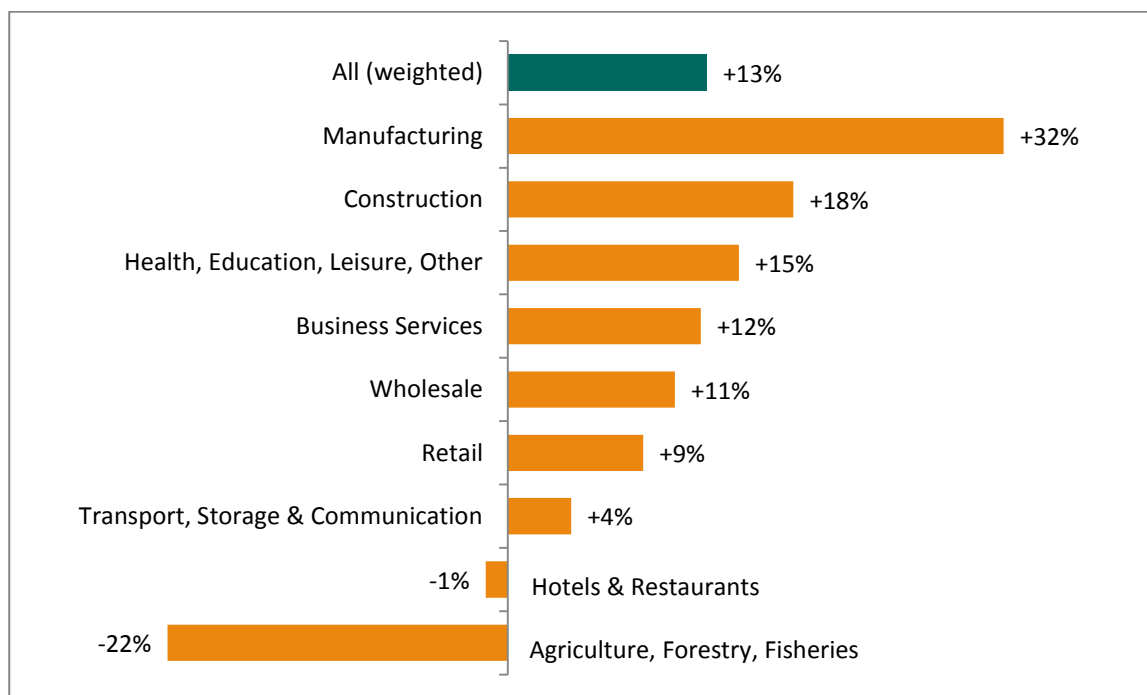


Table 15: Expected change current quarter over year in sales and employment by sector

	Sales Turnover	Average Employment	Sample
Agriculture, Forestry, Fisheries	-22%	-26%	23
Manufacturing	+32%	+9%	123
Transport, Storage & Communication	+4%	+8%	74
Construction	+18%	+8%	126
Wholesale	+11%	0%	103
Retail	+9%	+4%	127
Hotels & Restaurants	-1%	-10%	71
Business Services	+12%	+5%	235
Health, Education, Leisure, Other	+15%	+11%	176
All (weighted by sector)	+13%	+4%	1060

Prospects: comparison across regions

As noted in the previous report, expectations for sales and employment tend to vary markedly by region (Table 16), with the figures sometimes, but not always, approximating to those reported in the Performance section. Respondents in most regions are more optimistic about both sales and employment prospects as compared the equivalent findings for Q4 2012. The main exception is Scotland, where negative balances (-1% for sales and -5% for employment) tend to echo the figures for performance. By contrast, the zero balances for SMEs in Northern Ireland suggest greater

optimism when compared to the negative balances reported for performance in the first quarter²⁶. Overall, firms in the North East of England, the East Midlands and Yorkshire and the Humber are the most optimistic about their sales prospects. Firms in London, a region that reported improved sales and employment performance in this survey (Table 12), are also much more optimistic about their prospects for the New Year (i.e. there has been a 30 percentage point increase in sales balance, up from -14% to +16%, and a 17 percentage point increase in the employment balance, up from -7% to +10%).

Table 16: Expected change current quarter over year in sales and employment by region

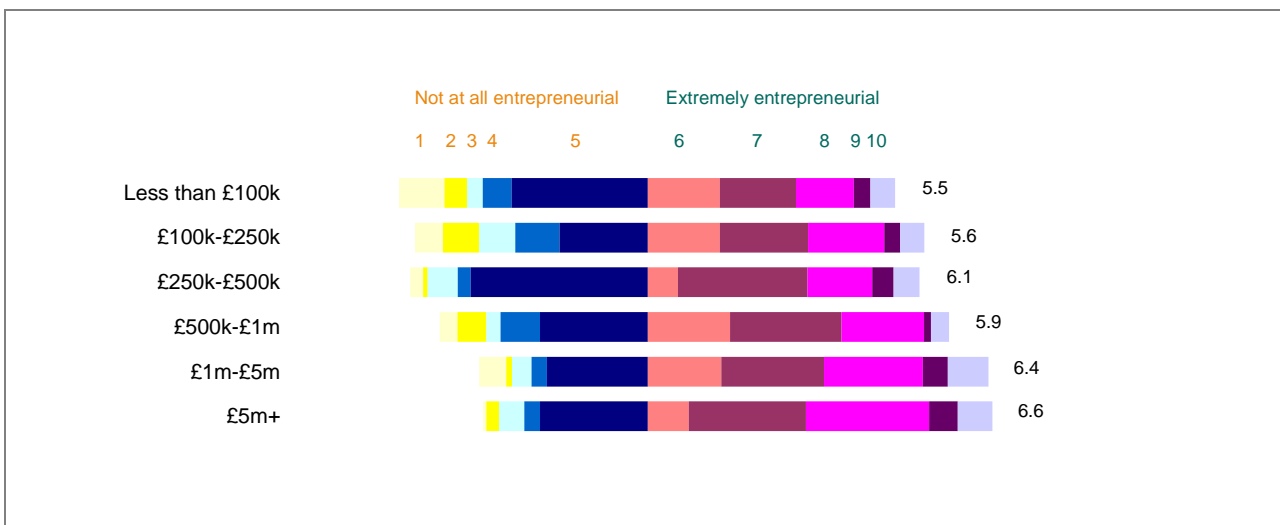
	Sales Turnover	Average Employment	Sample
North East	+24%	+8%	49
North West	+14%	+4%	93
Yorkshire & the Humber	+17%	+4%	75
East Midlands	+19%	+10%	101
West Midlands	+12%	-4%	78
East of England	+8%	+3%	62
London	+16%	+10%	147
South East	+11%	+9%	186
South West	+13%	+4%	115
Wales	+16%	-5%	37
Scotland	-1%	-5%	84
Northern Ireland	0%	0%	30
All (weighted by sector)	+13%	+4%	1060

²⁶ The figures for Northern Ireland need to be treated with caution given the relatively small size of the relevant sub-sample.

Entrepreneurial index

Larger firms tend to view themselves as more entrepreneurial. These self-reported measures also vary by region and sector. The most entrepreneurial firms report the best performance over the past year and are more optimistic about prospects for the current quarter.

Chart 18: “Entrepreneurial firms are more competitive, growth-minded and innovative than other firms. Where would you put your firm on a scale of 1 to 10?”



Respondents are asked to rate their firm on an entrepreneurial scale, where 1 is not at all entrepreneurial and 10 is extremely entrepreneurial. Entrepreneurial firms are defined as being more competitive, growth-minded and innovative than other firms. Firms which rate themselves as entrepreneurial tend to be larger than their non-entrepreneurial counterparts, perhaps reflecting their stronger growth-orientation. Business owners with an annual turnover of less than £100,000 rate themselves on average 5.5 on the entrepreneurial scale, while those with a turnover of more than £5 million rate themselves as 6.6 (Chart 18). These differences are relatively stable over time. For example, the equivalent figures in Quarter 1 2012 were 5.4 and 6.8. Firms which rate themselves higher on the entrepreneurial scale tend to report better sales performance and are more optimistic about their immediate prospects. In this survey, the ‘least entrepreneurial’ firms (those rating themselves from 1 to 3) have seen sales fall in the year to the third quarter but expect a rise in the fourth quarter compared to a year earlier (sales performance balance -4% and sales prospects balance +7%). The ‘most entrepreneurial’ firms (those rating themselves from 8 to 10) have seen sales rise and expect this to continue (sales performance balance +24% and a sales prospects balance of +24%).

How the survey is carried out

This is the 114th survey completed since the series began in 1984. Firms that respond to the survey are drawn from a wide range of sources. They reflect the complexity and richness of business life in Britain today. It should be noted that the survey is not a panel, nor is it fully random. It continuously recruits new members to reflect the national distribution of small firms; yet it also retains long time respondents to gauge changes over time.

In this survey, our regular online respondents (owners and managers of small businesses who had previously volunteered to take part) were supplemented by telephone interviews of owners and other senior managers of small businesses, carried out by BDRC Continental²⁷. The link to the online questionnaire was emailed to 1,259 regular respondents on 22nd January 2013 and a reminder email sent to non-respondents on 11th February 2013. In total, 180 of these regular participants responded. Telephone interviews were carried out in two waves. Between the 10th and 22nd January 2013, 440 telephone interviews were carried out. Between the 4th and 12th February 2013, a further 440 firms were interviewed. The total number of responses was therefore 1,060.

The telephone respondents do not include firms with a turnover below £50,000. Few of the online respondents have more than 50 employees (96% of responses from the 50-250 employee size band are from telephone respondents). The telephone respondents include more firms established since 2006 than the regular online respondents. There are a higher proportion of telephone respondents in health, education, leisure & other but lower proportions in manufacturing and business services. There are also this time slightly higher proportions in Scotland, Northern Ireland and East Midlands and a lower proportion in the North West and South East. (n.b. where comparisons are made with 'earlier surveys', these refer to Volumes 1 to 18 of the NatWest/SBRT *Quarterly Survey of Small Business in Britain*).

Following the well-established practice of the CBI in its Industrial Trends Survey²⁸, a summary statistic, the balance, is used to monitor the responses to key questions. The balance is the percentage of respondents replying 'up' minus the percentage replying 'down' (we ignore, for this purpose, the percentage replying 'same').

The key balances for the questions on performance and prospects are split by industrial sector and re-weighted according to the national sectoral SME distribution, using BIS (Department for Business, Innovation and Skills) estimates of total employment by firms with fewer than 250 employees. In earlier surveys results for previous years were re-weighted as estimates for those years became available. To avoid continuous revisions figures are now weighted by the latest figures available (currently 2012) and not revised. The aim of the weighting is to ensure that the results are as representative as possible of the business population in Britain (n.b. from 1995 to the second survey of 2011, results were weighted by the sectoral distribution of employment in firms with fewer than 50 employees. Between 1989 and 1995 results were weighted by the sectoral distribution of all VAT registered businesses and prior to 1989 they were unweighted). Other breakdowns by industrial sector, region and firm size and the tables on problems and in the special topic section use unweighted data and are not seasonally adjusted.

²⁷ BDRC Business Omnibus, further details available at: <http://www.continentalresearch.com/business-omnibus/>

²⁸ <http://www.cbi.org.uk/business-issues/economy/business-surveys/industrial-trends-survey/>

APPENDIX

In tables by number of employees, we have adopted the BIS definition of a firm with no employees. This is where a self-employed sole proprietor or partners work on their own with no employees or where a limited company has a single employee director. Note that a firm with one sole proprietor and one employee is counted as a one employee firm, but a company with two employees is counted as a two employee firm.

The survey reports in each issue on changes in sales and employment and on the ranking of most important problems experienced by small firms. In addition, Barclays Bank provides its latest estimates of small business closures and starts and their Small Business Activity Index. In addition, each issue covers one or more special topics, designed to contribute to knowledge about small business in Britain. A full set of historical tables is available on request, please contact enterprise@open.ac.uk.

In Quarter 2 2012, we took the opportunity to revise some of our regular questions. From that date, the 'Problems' question asks for the single most important problem, rather than the top three, and offers slightly fewer options. Our 'Performance' and 'Prospects' sections now concentrate on sales and employment; we no longer ask about changes in prices on a regular basis, though we continue to ask our online respondents about changes in investment activity. Lastly, our 'Prospects' question now asks about changes between the current quarter and the equivalent quarter last year, rather than with the previous quarter. This enables us to look at expected changes unaffected by seasonal variation and to compare more easily with actual performance.

Quarterly Survey 2013 Q1

Please click in the appropriate circles and boxes or fill in the blanks. If you have any problems with, or queries about, this form, please email us at enterprise@open.ac.uk or call Julie Sullivan on 01908 655831.

1 What is the legal status of your business?

- Private (limited) company
- Self-employed sole trader/sole proprietorship
- Partnership
- PLC
- Other

2 Including yourself, how many people work in the business, including both full and part-time workers?

3a How many years have you been running a business?

3b How many years has your present business been trading?

4 Please describe in a few words the precise nature of your business:

5 Entrepreneurial firms are more competitive, growth-minded and innovative than other firms.
Where would you put your firm on a scale of 1 to 10?

6 Which of the following do you currently use to support your business?

- PC or laptop with static internet access
- Smartphone or tablet computer with mobile access
- Neither of these

7 Which, if any, of the following activities do you undertake using the internet in the office

- Check business bank account balances
- Marketing to existing / new customers
- Send invoices to customers
- Researching / sourcing new products and services
- Receive payments from customers
- Comparing the costs for utilities / bank accounts etc.
- General communication with existing customers / suppliers
- Purchasing goods for your business account
- Using 'cloud-based' services to run 'back office' functions
- Opening new bank / savings accounts / loans for your business
- None of these

9 Which, if any, of the following activities do you NEVER consider doing online? Options as above

11 What puts you off doing more of these activities online?

- Not confident with technology
- Concerned about security (of device / internet)
- Other (specify)
- Limitations of technology (e.g. small screen, numeric keyboard etc)
- Concerned about privacy (other people seeing transactions etc)
- Don't know / not sure

8 Which, if any, of the following activities do you undertake via mobile access from a smartphone or tablet? Options as for static internet access

10 Which, if any, of the following activities do you NEVER consider doing online? Options as for static internet access

12 What puts you off doing more of these activities online? Options as for static internet access

10 In which of the following ranges is your firm's annual turnover (excluding VAT):

- Less than £50,000
- £250,000 - £499,999
- £5m - £10m
- £50,000 - £99,999
- £500,000 - £999,999
- £10m - £20m
- £100,000 - £249,999
- £1m - £5m
- over £20m

The next three questions ask how your sales turnover, average employment and investment (in plant, equipment and premises) in the past quarter compared with the same quarter last year.

11a Was your sales turnover in October to December 2012 compared with October to December 2011:

Up Same Down

11b Was your average employment in October to December 2012 compared with October to December 2011:

Up Same Down

11c Was your investment in October to December 2012 compared with October to December 2011:

Up Same Down

The next three questions ask how you expect your sales turnover, average employment and investment (in plant, equipment and premises) will have changed in the current quarter compared with the same quarter last year.

12a Expected sales turnover in January to March 2012 compared with January to March 2011:

Up Same Down

12b Expected average employment in January to March 2012 compared with January to March 2011:

Up Same Down

12c Expected investment in January to March 2012 compared with January to March 2011:

Up Same Down

13 Which, if any, of the following is the TOP problem facing your business at the moment?

- Economic climate or demand
- Cashflow, payments or debtors
- Lack of time/capacity
- Interest rates or access to finance
- Government regulations
- The total tax burden
- Inflation or cost of inputs, etc
- Lack of skilled employees

14 What other major problems does your business face at the moment?

15 Please indicate the sex of the owner(s) of the business:

- Male
- Female
- Joint Male/Female ownership

16 Please enter your Business Postcode:

17 Please enter any comments you have on the issues raised in this questionnaire:

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