

2003 Q3

# NatWest Quarterly Survey of Small Business in Britain



# Acknowledgements

The team responsible for conducting this survey and producing the report thanks the owners and managers of the responding firms for their time and effort in completing the questionnaire for this survey. This report represents their views and experience.

Drawn from a wide range of sources, they reflect the complexity and richness of business life in Britain today. **Additions to the sample from individual small businesses and from business organizations are always welcome.**

It should be noted that the survey is not a panel, nor is it fully random. It continuously recruits new members, in order to reflect the national distribution of small firms; yet it also retains long time respondents, in order to gauge changes over time.

The research team is a small group that is part of a wider network of small firms. Survey design, data processing and analysis of results are provided by Bannock Consulting. Academic and administrative support is provided by the Open University Business School. The team is also able to draw on the wide contacts and expertise of the Institute for Small Business Affairs (ISBA). The team is particularly pleased to acknowledge the generous support provided by NatWest in sponsoring the research, analysis and publication of this report. However, it is important to note that any opinions expressed in this publication are not necessarily those of NatWest.

# Highlights

*Britain's small firms performance has recovered some lost ground in the second quarter of 2003 and confidence about prospects is up. Hotels & restaurants remain most positive, retailers have recovered the most. Small firms seem more reliant than in earlier years on the financial resources of their owner, rather than external sources.*

- After three successive falls, the balance of firms increasing sales over the past year is up, to the level of six months ago. In contrast to the previous quarter, more firms recruited new staff than cut employment and increased than cut investment.
- Small firms are more optimistic about their prospects for the third quarter of this year than about the second. This is unusual for this time of the year and suggests a jump in underlying confidence.
- Consumer spending seems to be recovering and sales performance has risen most for consumer-facing retailers, hotels & restaurants and those in health/education/leisure and other personal services.
- Optimism about prospects has risen most for retailers but hotels & restaurants remain most positive.
- Government regulations and paperwork is the top-ranked problem for businesses with 10 or more employees and is second-ranked overall. The general economic climate remains top for smaller firms and overall.
- Lack of time/capacity and the total tax burden are increasing problems while cashflow/payments/debtors has slipped down the list.
- More than 60% of small firms are owed more by their customers than they owe to their suppliers. Less than one-quarter receive more trade credit than they give.
- Retained earnings are less important than in earlier years. Easily the most common source of equity is the business owner's own or other personal sources (almost three-quarters say this is an equity source).
- Nearly one in ten report that family or friends have an equity stake in the business, but equity owned by other individuals, venture capitalists or trade investors is relatively rare and concentrated on the larger limited companies.
- The proportion of small firms with a bank overdraft continues to slip, from 61% in 1991 to 42% now, though this is still the most common single source of borrowings.
- Loans from the owner, director or proprietor are, in contrast, more common than they were and now used nearly as often as overdrafts (36%). They are the largest single loan for 20% of businesses, overtaking overdrafts (largest for 19%).
- Term loans from banks and mortgages are used less often than in previous years, though the use of credit cards to provide short-term loan finance continues to increase.
- The larger firms in the survey have most often acquired capital to fund growth or invest in equipment, buildings and so on. For the smallest firms, however, the most common requirement for capital is to manage cashflow or bad debts.



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# Survey Details

Questionnaires for this survey were despatched from 6th August 2003 to 2,810 owners and managers of small businesses, 759 by e-mail and the remainder by post.

By the cut-off date of 10th September, a total of 784 completed questionnaires had been received, a response rate of 28%.

Note that where comparisons are made with 'previous 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 Survey**, 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, expectations and problems are split by industrial sector and re-weighted according to the national sectoral small firm distribution, using DTI estimates of total employment by firms with fewer than 50 employees. In earlier surveys results for previous years were re-weighted as DTI estimates for those years became available. To avoid continuous revisions figures are now weighted by the latest figures available (currently 2002) 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. (Between 1989 and 1995 results were weighted by the sectoral distribution of all VAT-registered businesses and prior to 1989 they were unweighted.)

Please note, however, that other breakdowns by industrial sector, region and firm size and the tables in the special topic section use unweighted data and are not seasonally adjusted.

# Survey Details



# Actual Performance

*Following three successive falls, the performance of Britain's small firms has recovered a little lost ground. Consumer spending seems to be driving the improvement as retail performance is less dismal than in the previous quarter and hotels & restaurants are the small firms which have most often increased turnover.*

Chart 1.1 shows that the headline balance of Britain's small firms increasing turnover over the past year has recovered from +9% in the previous quarter to +15%, the same as six months ago. However, it remains well below the +23% at this time last year. This increase was presaged by the rise in the previous quarter in the balance of firms expecting an increase in turnover.

Official figures also show a modest recovery in the growth rate of the economy as a whole. The quarterly rate of GDP growth is estimated to have risen from +0.1% to +0.3% in the second quarter, though this was not sufficient to arrest the decline in the annual rate of growth, which fell from 2.1% to 1.8%.

Chart 1.1 also shows that, in contrast to the previous quarter, those small firms recruiting extra staff in the year to the second quarter of 2003 outnumber those forced to cut jobs (though only by two percentage points).

Most strikingly, the balance of firms investing more during the past quarter than in the same quarter of 2002 has jumped from the dismal -11% in the previous quarter to +7%. Hopefully this suggests small firms have some confidence in their medium-term prospects and are expanding capacity, rather than just making up for the past few quarters when they were cutting investment.

Chart 1.1: Percentage balance of respondents reporting an increase in sales, employment, investment or selling prices (weighted figures)

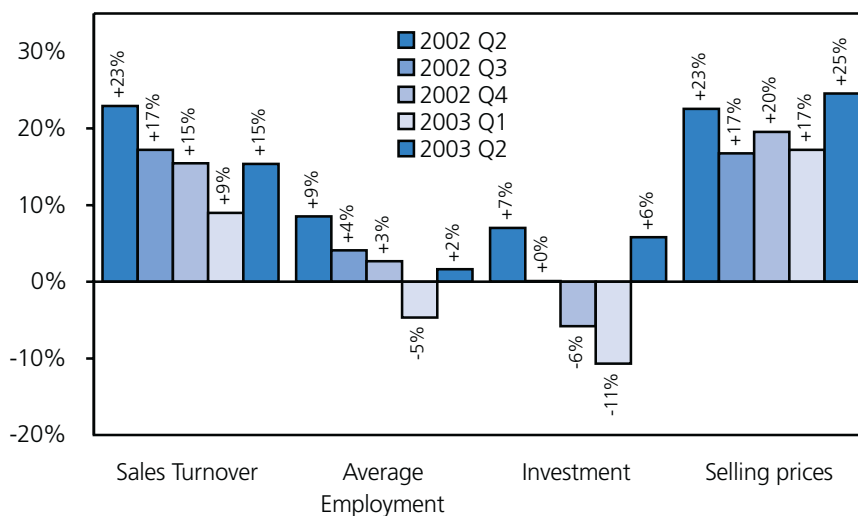


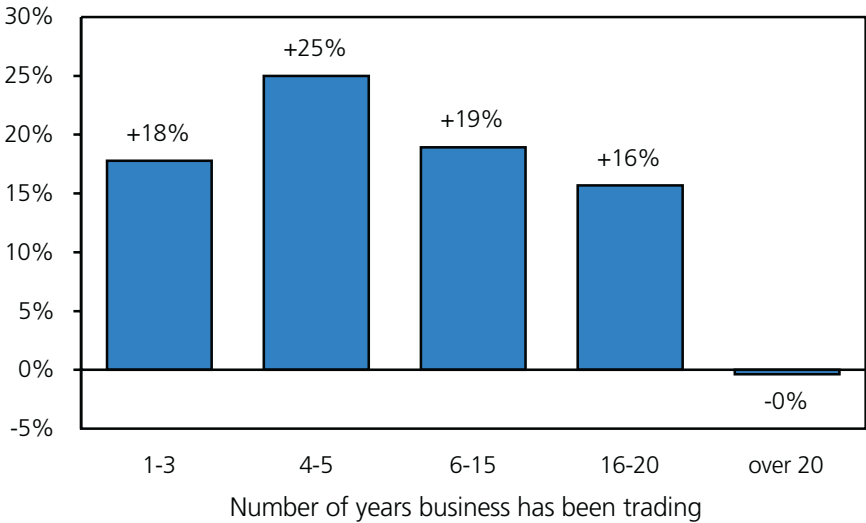
Table 1.1: Change over past year in sales, employment, investment and selling prices (weighted figures)

Change over past year (2003Q2 on 2002Q2) in:	Up	Down	Same	No response	Balance
Sales Turnover	48%	33%	18%	1%	+15%
Average Employment	19%	18%	59%	4%	+2%
Investment	24%	18%	54%	4%	+6%
Selling prices	37%	12%	48%	3%	+25%

A balance of +25% of small firms report that they increased their average selling prices over the past year - so far the highest balance ever seen for this question.

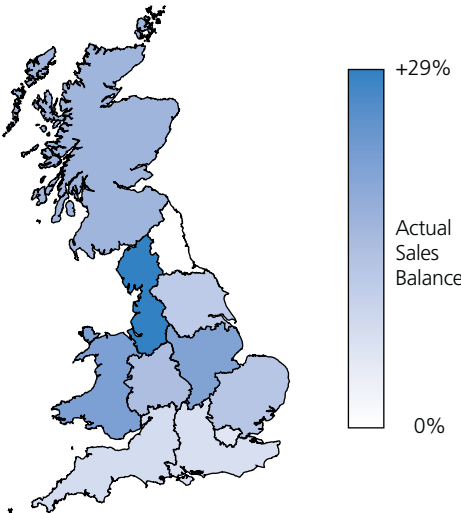
Chart 1.2 shows that the oldest firms in this survey still do not seem to be taking advantage of the improvements in the small firm climate. Slightly more of those established for more than 20 years saw their turnover fall during the past year than saw it rise. Their younger counterparts, however, on balance reported reasonably robust sales growth.

Chart 1.2: Percentage balance of respondents reporting an increase in sales over past year - by age of business



# Performance: Comparison Across Regions

Chart 1.3: Percentage balance of respondents reporting an increase in sales over past year - by region



Small firms in the North West of England continue to report improved performance and now have the highest balance seeing sales and investment rise over the past year. However, they remain the region where the greatest balance had to cut employment over the past year. Those in London and the South East remain, as in

the previous quarter, among the least likely to report an improvement in sales, though the least positive in this survey are now small firms in the North East of England, where as many report a fall in sales as report an increase (this was predicted, as firms there were the least optimistic three months ago).

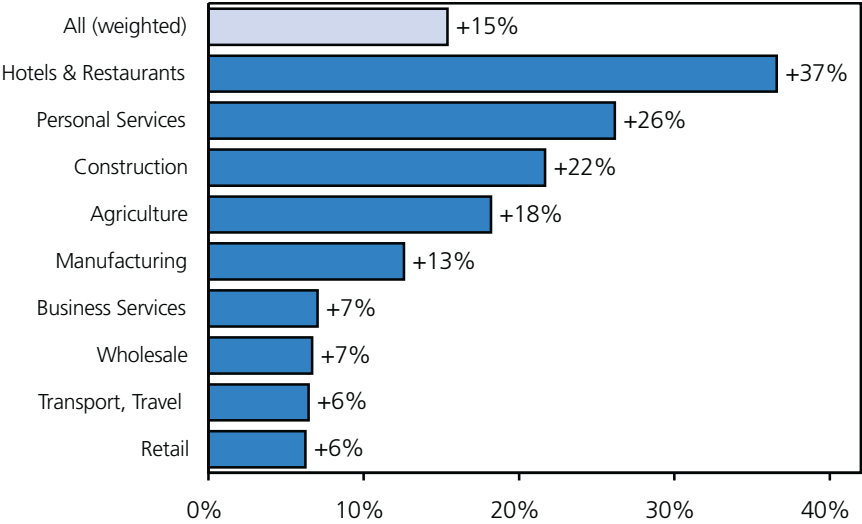
Table 1.2: Change over past year in sales, employment, investment and selling prices by region

	Sales Turnover	Average Employment	Investment	Selling prices	Sample
North East	+0%	+0%	+15%	+15%	20
North West	+29%	-4%	+17%	+6%	69
Yorkshire & the Humber	+12%	+0%	+17%	+8%	52
East Midlands	+21%	+8%	-4%	+29%	48
West Midlands	+14%	-1%	+6%	+17%	69
East of England	+13%	-2%	+6%	+23%	111
London	+6%	-1%	+1%	+6%	72
South East	+7%	+2%	+6%	+18%	158
South West	+8%	+3%	+2%	+24%	89
Wales	+21%	+0%	+7%	+36%	28
Scotland	+16%	+5%	+10%	+36%	61



# Performance: Comparison Across Business Sectors

Chart 1.4: Percentage balance of respondents reporting an increase in sales over past year - by sector



In the previous quarter small firms in the hotels & restaurants sector were, by some margin, the most likely to expect their turnover to increase during the second quarter of 2003 (compared with the first quarter). These expectations seem largely to have been fulfilled. Chart 1.4 shows that this is the sector where the greatest balance of firms had higher sales in the second quarter of 2003 than in the same quarter of 2002. As in the previous quarter, hoteliers and restaurateurs are the most likely to have increased their selling prices over the past year (over half have done so). Many of these firms will have slashed prices in late 2001 and early 2002 when the tourism industry was particularly depressed. In recent months they appear to have been attempting to restore their profit margins.

Preliminary official statistics also suggest strong growth in the first quarter in the hotels & restaurants sector, along with retailing. Official figures for retail sales show a pick-up in the second quarter of 2003 after they stalled in the first quarter. While small retailers in this survey are among the least positive, the balance for these firms has shown the biggest increase of all sectors, rising from -15% in the previous quarter to +6% now. Nevertheless, it still appears that the small retailers taking part in this survey are not experiencing as much sales growth as supermarkets and other large retailers.

Small firms in the health/education/leisure and other personal services sector have, on balance, reported good sales growth over the past twelve months.

Table 1.3: Change over past year in sales, employment, investment and selling prices by sector

	Sales Turnover	Average Employment	Investment	Selling prices	Sample
Agriculture, Forestry, Fisheries	+18%	+18%	+27%	+23%	22
Manufacturing	+13%	+0%	+11%	+11%	151
Transport, Travel	+6%	-13%	-10%	+3%	31
Construction	+22%	+12%	-3%	+40%	60
Wholesale	+7%	-15%	+5%	+22%	60
Retail	+6%	+1%	-1%	+11%	112
Hotels & Restaurants	+37%	+15%	+2%	+54%	41
Business Services	+7%	+2%	+13%	+12%	242
Personal Services	+26%	-5%	+6%	+45%	65

These consumer-facing businesses (hotels & restaurants, retail and personal services) are the sectors where the balances reporting an increase in sales have risen most compared with the previous quarter.

The manufacturing and business service sectors both report slightly better sales growth than in the previous quarter.

Small construction firms continue to report increased sales, though the balance for this sector is a little down on the +27% in the previous quarter, when they were the most positive sector.

The sales balances of small firms in the transport, travel, storage and communication sector and those in wholesaling are markedly lower than in the previous quarter, though in both cases those reporting an increase in sales still outnumber those reporting a fall.

The balance of small agricultural firms with higher sales in the past quarter than a year ago is a little down on the previous quarter, but this currently remains one of the more positive sectors. This is the sector where the greatest balance of firms has increased employment and investment over the past year. After a very difficult few years for the agricultural sector these are perhaps signs of a modest recovery in fortunes.

## Performance: Comparison Across Size Bands

Table 1.4: Change over past year in sales, employment, investment and selling prices by turnover

Annual turnover (excluding VAT)	Sales Turnover	Average Employment	Investment	Selling prices	Sample
Less than £50,000	-14%	-8%	-3%	+13%	133
£50,000-£99,999	+20%	-4%	+5%	+26%	117
£100,000-£249,999	-11%	-3%	-8%	+18%	157
£250,000-£499,999	+29%	+6%	+16%	+28%	117
£500,000-£999,999	+28%	+10%	+25%	+19%	110
£1m+	+34%	+10%	+15%	+15%	142

Tables 1.4 and 1.5 and Charts 1.5 and 1.6 show that, as has been the case for some years, the relatively larger firms taking part in the survey have generally had more success than the smallest firms in increasing their sales.

The picture is clearest when analysed by employment size band. Chart 1.6 shows that of the firms where just the proprietor or partners work on their own more have seen their sales fall over the past year than have managed to increase them. For those with only one or two employees, those with increased sales only just outnumber those with falling sales. In contrast, a majority of those firms with five or more employees have seen their sales rise over the past year. This pattern seems likely to continue as those with fewer than five employees have, on balance, cut their investment over the past year, suggesting little confidence in medium-term prospects.

Table 1.5: Change over past year in sales, employment, investment and selling prices by employees

Number of employees (not including proprietor/partners)	Sales Turnover	Average Employment	Investment	Selling prices	Sample
0	-22%	-9%	-4%	+10%	102
1-2	+2%	-12%	-2%	+18%	181
3-4	+1%	+2%	-5%	+13%	107
5-9	+24%	+7%	+9%	+22%	158
10-19	+24%	+9%	+28%	+28%	109
20+	+43%	+14%	+20%	+22%	122



Chart 1.5: Percentage balance of respondents reporting an increase in sales over past year - by turnover size band

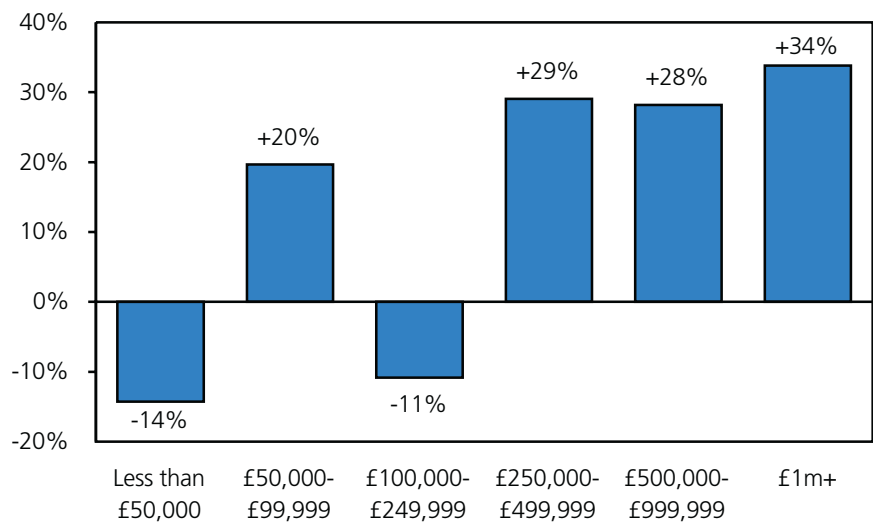
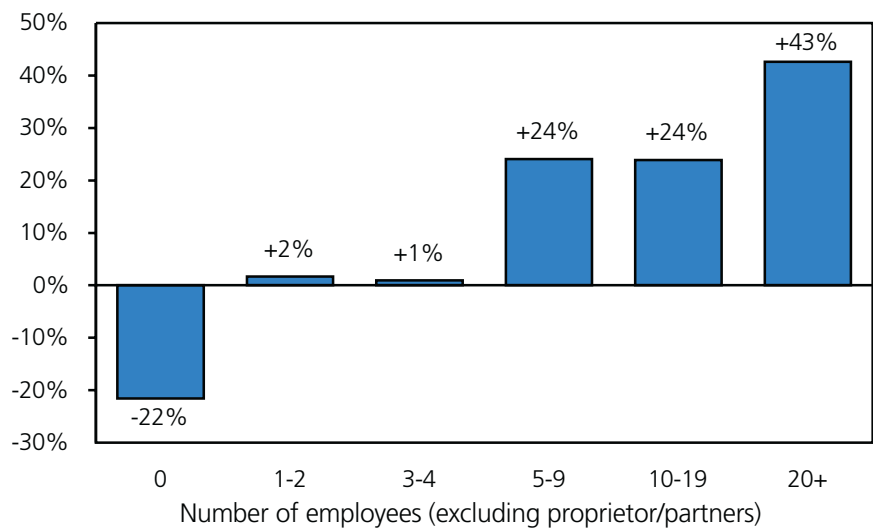


Chart 1.6: Percentage balance of respondents reporting an increase in sales over past year - by number of employees



# Expectations

*Britain's small firms are more optimistic about their immediate prospects - unusual for this time of year and suggesting a significant increase in confidence. Hotels & restaurants remains the most optimistic sector, but retailers show the biggest improvement since the previous quarter.*

42% of Britain's small firms, more than in the previous survey, expect their turnover to be higher in the current quarter (the third quarter of 2003) than it was in the previous quarter. The proportion expecting their turnover to fall is unchanged at 26%. The balance expecting an increase is therefore +16%, up from +13% in the previous quarter (Chart 2.1).

Although only a modest increase, the balance usually falls at this time of the year. This is the first time in fourteen years that small firms have been more optimistic about their turnover prospects for the third quarter of the year than they were about the second quarter. This suggests a significant improvement in underlying confidence, though this should be tempered by noting that the balance now remains lower than at this time last year (Chart 2.1).

Chart 2.1: Percentage balance of respondents expecting an increase in sales, employment, investment or selling prices (weighted figures)

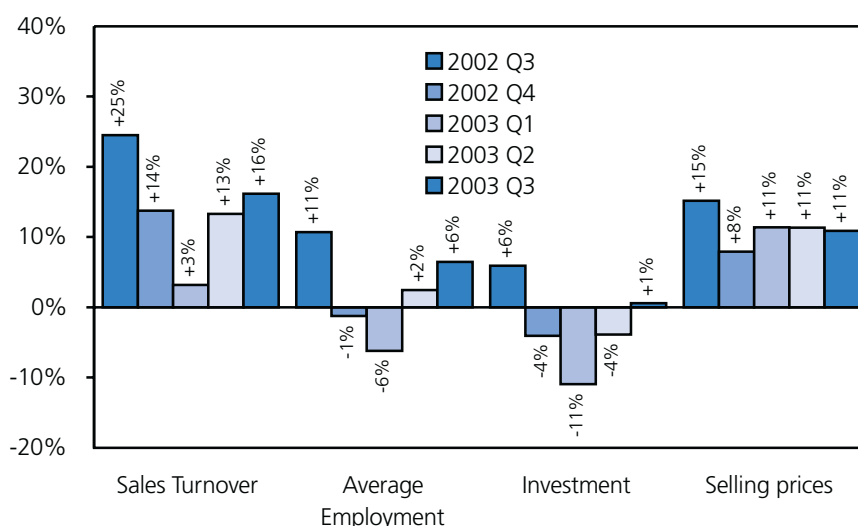




Table 2.1: Expected change over current quarter in sales, employment, investment and selling prices (weighted figures)

Expected change over current quarter (2003Q3 on 2003Q2) in:	Up	Down	Same	No response	Balance
Sales Turnover	42%	26%	31%	1%	+16%
Average Employment	17%	11%	69%	3%	+6%
Investment	18%	17%	62%	3%	+1%
Selling prices	21%	10%	66%	3%	+11%

More small firms than in the previous quarter also expect to increase the number of people they employ during the current quarter, the balance up from +2% to +6%. In the previous quarter those intending to cut investment outnumbered those intending to increase it. This time, slightly more intend to increase than cut investment. In both of these cases, however, the balance remains lower than at this time last year.

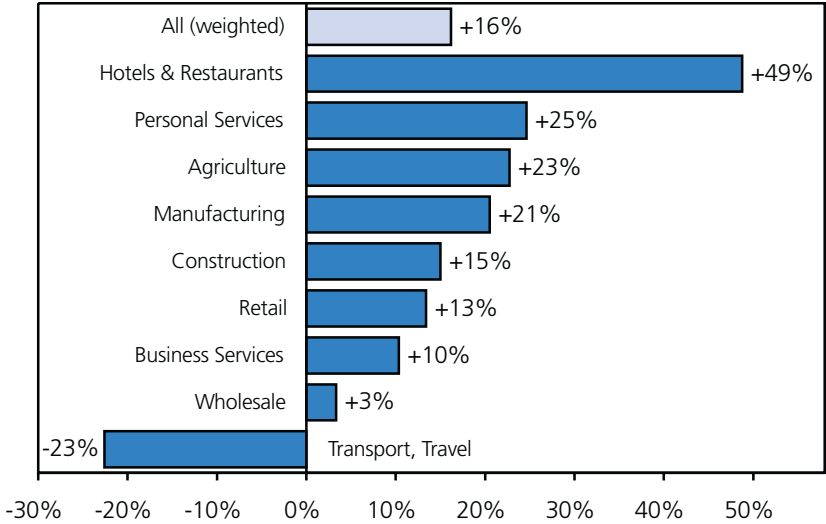
Although seeming to believe they have improved prospects, small firms do not particularly seem to be seizing on the opportunity to increase prices. The balance expecting to raise their average selling prices during the current quarter has been practically unchanged for the past three quarters.





# Expectations: Comparison Across Business Sectors

Chart 2.2: Percentage balance of respondents expecting an increase in sales over current quarter - by sector



The recovery in the small hotels & restaurants sector seems to be continuing apace. As in the previous quarter, these firms remain much more optimistic about their turnover prospects for the third quarter than firms in other sectors (Chart 2.2). They are in fact a little less optimistic than they were in the previous survey about the second quarter (the balance is a few percentage points lower) but remain much more positive than the other sectors. The balance is higher than at this time last year (the only sector other than agriculture where this is the case). Hoteliers and restaurateurs are also those most likely to expect to employ extra people during the third quarter and most likely to hope to increase their average selling prices (Table 2.2).

However, they have gone from being one of the most positive to one of the most negative in terms of investment intentions, perhaps suggesting that they do not see this recent improvement in fortunes continuing into the medium-term.

Mirroring their improved performance over the past year, small firms in the health/education/leisure and other personal services sector are more positive about their sales prospects for the third quarter of 2003 than they were about the second quarter and this is now the second most positive sector in terms of sales.



Table 2.2: Expected change over quarter in sales, employment, investment and selling prices by sector

	Sales Turnover	Average Employment	Investment	Selling prices	Sample
Agriculture, Forestry, Fisheries	+23%	+9%	+18%	+5%	22
Manufacturing	+21%	+7%	+5%	+3%	151
Transport, Travel	-23%	-13%	-13%	-10%	31
Construction	+15%	+7%	+3%	+15%	60
Wholesale	+3%	+3%	-5%	-3%	60
Retail	+13%	+6%	-7%	+3%	112
Hotels & Restaurants	+49%	+20%	-10%	+29%	41
Business Services	+10%	+6%	+0%	+10%	242
Personal Services	+25%	+8%	+8%	+26%	65

Agricultural firms remain quite positive. The balance expecting an increase in turnover is down just a few percentage points since the previous quarter and they are much more positive than at this stage last year (when the balance expecting an increase in sales was only +3%). This is also the sector where the greatest proportion of small firms expect to invest more during the third quarter than they did in the second quarter.

The balance of small manufacturers expecting an increase in sales during the third quarter is exactly the same as it was one year ago.

The (relatively few) transport, travel, storage and communication firms taking part in our survey are much more pessimistic about their immediate prospects than they were in the previous quarter and at this time last year.

The biggest improvement since the previous quarter is in retail, where the balance has risen from -9% to +13%, though because the increase was from such a low base this remains one of the least optimistic sectors. The balance remains lower than at this time last year.

## Expectations: Comparison Across Size Bands

Table 2.3: Expected change in sales, employment, investment and selling prices by turnover size band

Annual turnover (excluding VAT)	Sales Turnover	Average Employment	Investment	Selling prices	Sample
Less than £50,000	+3%	-5%	-13%	+5%	133
£50,000-£99,999	+4%	+1%	-3%	+15%	117
£100,000-£249,999	-2%	+5%	-10%	+9%	157
£250,000-£499,999	+33%	+8%	+5%	+10%	117
£500,000-£999,999	+27%	+17%	+5%	+4%	110
£1m+	+29%	+13%	+17%	+6%	142

Tables and Charts 2.3 and 2.4 show a division between the smallest firms and relatively larger firms taking part in the survey which is, if anything, greater than in the previous quarter.

Firms with a turnover below £250,000 are, on balance, much less optimistic about their sales prospects than their larger counterparts. Those with fewer than three employees expect, on balance, a fall in their turnover and employment, while firms with more employees expect, on balance, their growth to continue during the current quarter.

Table 2.4: Expected change in sales, employment, investment and selling prices by employee size band

Number of employees (not including proprietor/partners)	Sales Turnover	Average Employment	Investment	Selling prices	Sample
0	-5%	-5%	-13%	+5%	102
1-2	-6%	-6%	-8%	+4%	181
3-4	+12%	+14%	-4%	+11%	107
5-9	+28%	+7%	+2%	+12%	158
10-19	+26%	+15%	+6%	+3%	109
20+	+39%	+17%	+19%	+15%	122





Chart 2.3: Percentage balance of respondents expecting an increase in sales, by turnover size band

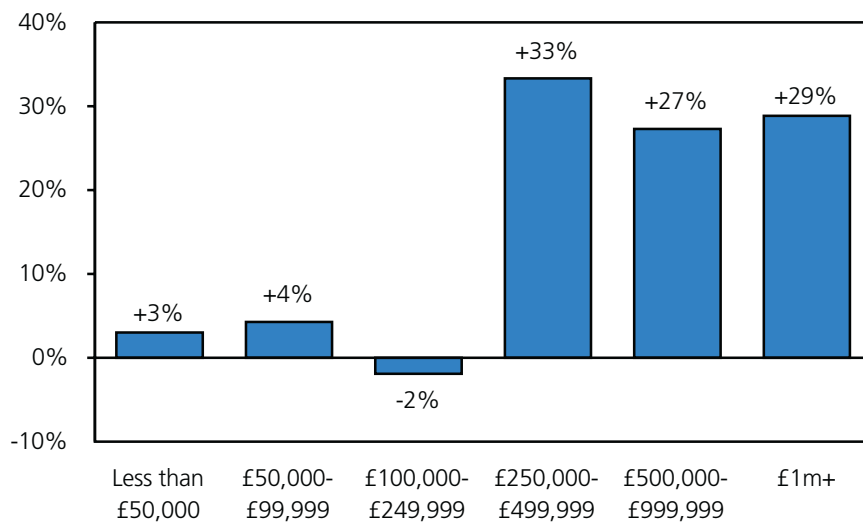
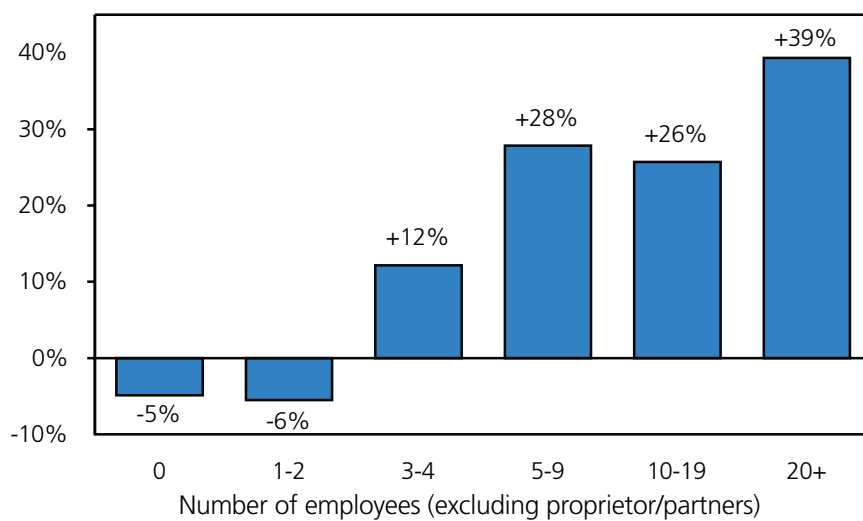


Chart 2.4: Percentage balance of respondents expecting an increase in sales, by employee size band



## Expectations: Comparison Across Regions

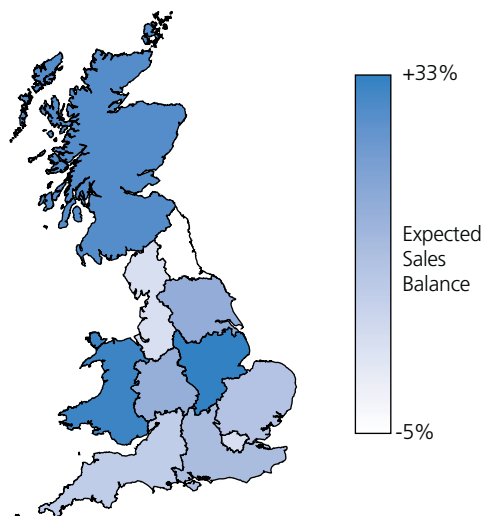
Table 2.5: Expected change over current quarter in sales, employment, investment and selling prices - by region

	Sales Turnover	Average Employment	Investment	Selling prices	Sample
North East	-5%	+0%	-5%	-5%	20
North West	+4%	+4%	-3%	-3%	69
Yorkshire & the Humber	+19%	+8%	+6%	+12%	52
East Midlands	+33%	+2%	+2%	+13%	48
West Midlands	+19%	+13%	+6%	+9%	69
East of England	+13%	+9%	-5%	+3%	111
London	+4%	+4%	-4%	+6%	72
South East	+15%	+6%	+1%	+8%	158
South West	+10%	+4%	-2%	+11%	89
Wales	+32%	+18%	+14%	+21%	28
Scotland	+30%	-2%	+2%	+21%	61

Optimism about sales prospects for the current quarter has once again (as in the previous quarter) risen sharply in Wales and from being the most pessimistic region six months ago they are now, along with the East Midlands and Scotland, one of the most optimistic. Wales is also

the most optimistic region about employment prospects and investment intentions. The North East remains the region most pessimistic about immediate sales prospects.

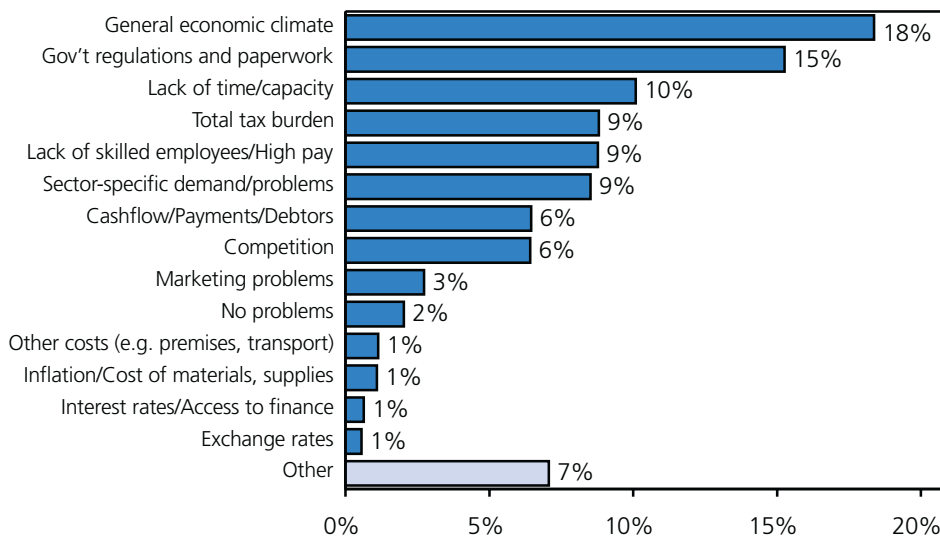
Chart 2.5: Percentage balance for the expected change in sales - by region



# Problems

*After dipping in the previous quarter, government regulations is back up to second-ranked problem overall and top-ranked for those with 10 or more employees. The general economic climate remains the top-ranked problem overall. Cashflow/payments/debtors has slipped from second to seventh place.*

Chart 3.1: Proportion indicating each as the single most important problem facing their business today - weighted by sector



Respondents were asked to select, from a list of fourteen, the most important problem facing their business on that day. Many firms face multiple problems, but we focus in this question on the single most important problem at the time.

## General economic climate

Chart 3.1 shows that the top-ranked problem remains the general economic climate, as it has been now for the past year. Table 3.1 (overleaf) shows that the proportion indicating that this is the single most

important problem facing their business is down from 21% in the previous quarter.

This is currently the top-ranked problem for firms in all sectors except agriculture, construction and hotels & restaurants. In the previous quarter the general economic climate was the top-ranked problem for firms of all sizes, but Table 3.2 (on page 21) shows that in this survey (as six months ago) the smallest firms taking part in the survey more often than the relatively larger firms report that this is the single most important problem facing their business.



Table 3.1: Most important problem, current survey compared with recent quarters

	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3
General economic climate	13%	16%	20%	21%	18%
Gov't regulations and paperwork	16%	15%	14%	10%	15%
Lack of time/capacity	9%	9%	8%	9%	10%
Total tax burden	6%	6%	7%	6%	9%
Lack of skilled employees/High pay	11%	10%	6%	9%	9%
Sector-specific demand/problems	7%	7%	8%	8%	9%
Cashflow/Payments/Debtors	11%	9%	9%	11%	6%
Competition	7%	7%	9%	7%	6%
Marketing problems	4%	4%	4%	4%	3%
No problems	2%	2%	2%	2%	2%
Other costs (e.g. premises, transport)	1%	2%	1%	1%	1%
Inflation/Cost of materials, supplies	0%	1%	0%	1%	1%
Interest rates/Access to finance	1%	1%	1%	1%	1%
Exchange rates	1%	1%	1%	1%	1%
Other	11%	8%	9%	8%	7%

### Government regulations and paperwork

Table 3.2 shows that a greater proportion of firms with 10 or more employees report that government regulations and paperwork is the most important problem facing their business than blame the general economic climate. Overall, the proportion of all small firms indicating that government regulations is their biggest problem has risen from 10% to 15%, lifting it from third to second place in the ranking of problems.

As is generally the case, this is a particular problem for agricultural firms (for which it is the top-ranked problem) and those in construction. Unusually, retailers in this survey also often (18%) say that this is the biggest problem facing their business at the moment.

### Lack of time/capacity

For the second survey in a row the proportion of small firms saying that the biggest problem facing their business is a lack of time/capacity has increased by one percentage point and this has moved up the rankings, this time to third place (Table 3.1).

Firms in agriculture, business and personal services and hotels & restaurants more often than those in other sectors report that this is their biggest problem. While some firms are clearly struggling to find business, others have perhaps been caught out by an upturn in their sectors and are suffering due to the cutbacks in employment and investment which they have recently made.

Table 3.2: Most important problem, by employee size band (number of employees, excluding proprietor/partners)

	0	1-2	3-4	5-9	10-19	20+
General economic climate	27%	20%	23%	18%	16%	15%
Gov't regulations and paperwork	8%	17%	12%	11%	19%	22%
Lack of time/capacity	13%	9%	12%	10%	9%	7%
Total tax burden	10%	5%	7%	10%	7%	7%
Lack of skilled employees/High pay	1%	4%	6%	11%	11%	13%
Sector-specific demand/problems	8%	11%	8%	9%	7%	8%
Cashflow/Payments/Debtors	5%	7%	9%	6%	10%	7%
Competition	7%	7%	7%	9%	6%	6%
Marketing problems	7%	2%	3%	5%	1%	2%
No problems	2%	5%	2%	2%	2%	0%
Other costs (e.g. premises, transport)	3%	2%	2%	0%	2%	0%
Inflation/Cost of materials, supplies	0%	1%	1%	1%	2%	0%
Interest rates/Access to finance	0%	1%	2%	1%	0%	2%
Exchange rates	1%	1%	0%	1%	0%	1%
Other (please specify)	8%	8%	3%	6%	7%	6%
No response	1%	1%	2%	1%	1%	3%
Sample	102	181	107	158	109	122

### Total tax burden

The proportion of firms saying that their biggest problem is the total tax burden has increased from 6% to 9%, moving it up from eighth to fourth in the rankings. As in the previous quarter this is a particular problem for firms in the transport, travel, storage and communication sector and for retailers. This is second-ranked problem in both of these sectors.

### Lack of skills/high pay

The overall proportion indicating that a lack of skilled employees/high pay is the biggest problem facing their business is unchanged on the 9% in the previous quarter. As has become usual, firms in the hotels &

restaurants sector and construction are most likely to report that this is their biggest problem and this is now the top-ranked problem in both of these sectors. Table 3.2 also shows that, unsurprisingly, the relative importance of this problem is related to firm size.

### Cashflow/payments/debtors

The proportion of small firms indicating that their main problem is cashflow/payments/debtors has dropped from 11% to only 6%. This has moved it from second place to only seventh place in the ranking of problems.

Only in manufacturing do more than 10% of small firms now say that this is the single biggest problem facing their business.

# Business Finance

*Britain's small firms seem particularly reliant at the moment on the personal resources of their owner. Few of these firms have 'external' equity and a majority do not rely on trade credit. Bank overdrafts, bank loans and mortgages are used as business finance by fewer small firms than in the past while credit cards continue to rise in importance.*

## Trade Credit

Britain's small firms do not generally exploit their suppliers' credit terms in order to finance their business. Table 4.1 shows that only 23% of respondents say that they owe more to their suppliers than they are owed by their customers. In contrast, 62% report that they are owed more by their customers than they owe to suppliers. These results are similar to those when the same question was asked in a 1999 survey<sup>1</sup>, where 19% reported that they owed more to suppliers and 64% that they were owed more by customers.

Table 4.1 shows that the very smallest firms taking part in the survey are most likely either to have no debtors or creditors, or to say that they are in balance.

The table also shows that the pattern of net trade credit position does not vary consistently with firm size, with the largest and smallest firms in this survey less likely than those of intermediate size to owe more money to suppliers than they are owed by their customers. This does not appear to be a chance finding as it was also the case in the 1999 survey.

Table 4.1: "At present, are you owed more by your customers than you owe to your suppliers?" (by turnover size band)

Turnover Size Band	Yes, customers owe more	No, owe more to suppliers	Have no debtors/creditors or in balance	No response	Sample
Less than £50,000	50%	15%	34%	2%	133
£50,000 - 99,999	61%	20%	20%	0%	117
£100,000 - 249,999	60%	28%	10%	3%	157
£250,000 - 499,999	52%	42%	5%	1%	117
£500,000 - 999,999	69%	24%	6%	1%	110
£1m+	80%	13%	6%	1%	142
All	62%	23%	13%	1%	784

<sup>1</sup> NatWest/SBRT Quarterly Survey of Small Business in Britain, Vol 15 No 2.

Chart 4.1: Balance of firms in each sector which are owed more by their customers than they owe to their suppliers

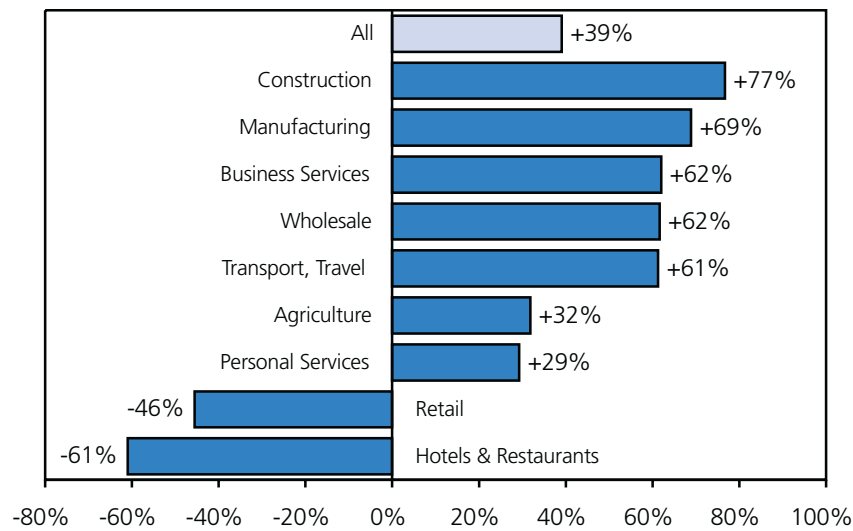


Chart 4.1 shows that the trade credit position varies widely from sector to sector. Retailers and hotels & restaurants generally require immediate payment from their final consumer customers and so most of these firms owe more money to their suppliers than they are owed by customers. In every other sector, however, those owed more money easily outnumber those which are net trade debtors.

Every unpaid invoice creates a debtor and a creditor which balance each other and so the fact that a majority of small firms are owed more money by their customers than they owe to suppliers requires explanation. Some customers will be final consumers (though these are less often given credit than other businesses) and there will be some overseas customers and suppliers. It is possible that there is a minority of small firm 'bad debtors' who owe large amounts to many other small firms. However, the most likely explanation would seem

to be that large firms in the economy tend to owe more money to their smaller suppliers than they are owed from customers<sup>2</sup>. Although Table 4.1 shows that the largest firms taking part in our survey are the most likely to report that they are owed more by customers than they owe to suppliers, this is partly because for the smaller firms debtors and creditors are more often in balance (many may have no debtors or creditors). It should also be remembered that even the larger firms in this survey are relatively quite small and possess little market power compared with the largest companies in the economy.

<sup>2</sup> Some evidence in support of this hypothesis is given by a recent study by Experian ('Culture of Late Payment Persists', 2003), which shows that large companies on average take significantly longer than small firms to pay their bills.



Table 4.2: Sources of equity used at present  
(current survey compared with earlier surveys, rankings in brackets)

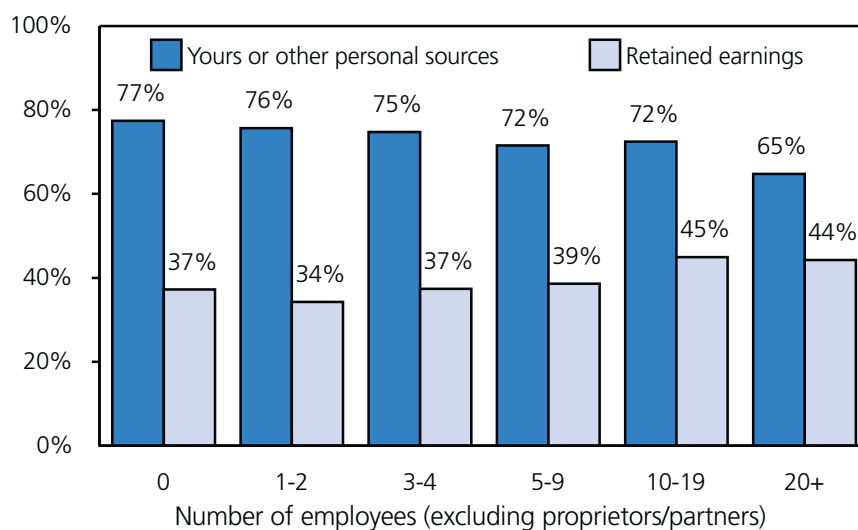
	1991 <small>(NatWest/SBRT Quarterly Survey of Small Business in Britain, Vol 7 No 4)</small>	1999 <small>(NatWest/SBRT Quarterly Survey of Small Business in Britain, Vol 15 No 2)</small>	2003 <small>(current survey)</small>
Yours or other personal sources	67% (1)	64% (1)	73% (1)
Retained earnings	41% (2)	50% (2)	39% (2)
Family and friends	10% (3)	9% (3)	9% (3)
Other private individuals (inc. BES/EIS)	3% (4)	2% (4)	3% (4)
Venture capital company or other professional investors	1% (5)	1% (5)	1% (5)
Trade investors	1% (6)	1% (6)	0% (6)
Other	1%	2%	3%
No response/None	17%	16%	9%
Sample	835	619	784

### Source of equity

Table 4.2 shows that, as in earlier surveys which have asked similar questions, the business owners' own funds and retained earnings remain by far the most common sources of equity for Britain's small firms. The relative importance of retained earnings has slipped

somewhat since 1999, when half of small firms said that this was a source of equity in their business. The proportion now is only 39%, even lower than in 1991 which was a period of recession, when retained earnings would be expected to be depressed. It seems that the business owners' own or other personal

Chart 4.2: Selected sources of equity, by firm size





sources of investment in the business have generally had to rise to finance the business.

Chart 4.2 shows that retained earnings are a little more important for the larger firms than the smallest taking part in the survey, though even for the largest the owners' own or personal sources remain used by most firms.

Investment by family and friends remains a source of finance for a significant minority of small firms. External finance, from other private individuals, venture capital or trade investors remains quite rare. Almost all of the small firms receiving finance of this type are limited companies rather than sole proprietorships or partnerships and none of the very smallest firms has any of these types of finance.

### Sources of borrowing

There have been sustained trends in the sources of borrowing by small firms since questions were first asked about this, twelve years ago (Table 4.3).

Bank overdrafts remain most important, currently used by 42% of small firms. However, their dominance has fallen sharply from the 61% in 1991. Other bank loans (term loans) have also declined in importance, from 28% of small firms in 1991 (ranked second most important) to 24% (third). Mortgages for business premises (including the owner's home if used for business) are also now used by fewer firms (14%, down from 18% in 1991).

Credit card or similar short-term loans are probably a substitute for bank overdrafts. The use of these had already risen between 1991 and 1999 and has continued to do so. 18% now use these, up from 13% in 1991 and matching the proportion using hire purchase or leasing (which is down since 1999). The biggest rise is in loans from the owner, director or proprietor, though it is not clear whether this is through choice or necessity, perhaps because small firms have struggled to obtain external loans<sup>3</sup>. The use of loans from family or friends is, however, down.

Table 4.3: Sources of borrowing used at present (current survey compared with earlier surveys, rankings in brackets)

	1991 (NatWest/SBRT Quarterly Survey of Small Business in Britain, Vol 7 No 4)	1999 (NatWest/SBRT Quarterly Survey of Small Business in Britain, Vol 15 No 2)	2003 (current survey)
Bank overdrafts	61% (1)	46% (1)	42% (1)
Loans from owner, director or proprietor	28% (3)	31% (2)	36% (2)
Other bank loans (term loans)	28% (2)	26% (3)	24% (3)
Hire purchase or leasing	24% (4)	24% (4)	18% (4)
Credit card or similar short-term loans	13% (6)	16% (6)	18% (5)
Mortgage for business premises (including your home if used for business)	18% (5)	17% (5)	14% (6)
Loans from family or friends	10% (7)	9% (7)	7% (7)
Debt factoring/ invoice discounting	2% (10=)	3% (8=)	4% (8=)
Small Firms Loan Guarantee Scheme	} 4% (9)	} 3% (10)	2%
Other loans or grants from Government, local authority or enterprise agency			2% (8=)
Long-term business loans from other financial institutions			4% (10)
Loans from other private individuals	2% (10=)	1% (11)	1% (11)
Other	2%	1%	6%
No response/None	18%	24%	18%
Sample	835	619	784

<sup>3</sup> Though the regular questions in this report show that only 1% of small firms report that interest rates/access to finance is the single biggest problem facing their business and interest rates are at an historic low.

Table 4.4: Sources of borrowing used at present  
- by number of employees (not including proprietor/partners)

	0	1-2	3-4	5-9	10-19	20+	All
Bank overdrafts	25%	34%	35%	50%	47%	57%	42%
Loans from owner, director or proprietor	18%	33%	42%	42%	39%	42%	36%
Other bank loans (term loans)	14%	17%	18%	22%	29%	45%	24%
Hire purchase or leasing	8%	6%	13%	24%	20%	42%	18%
Credit card or similar short-term loans	27%	22%	12%	15%	16%	14%	18%
Mortgage for business premises (including your home if used for business)	15%	10%	17%	11%	17%	15%	14%
Loans from family or friends	10%	7%	7%	7%	6%	4%	7%
Debt factoring/ invoice discounting	0%	1%	1%	2%	8%	12%	4%
Long-term business loans from other financial institutions	3%	3%	4%	3%	6%	5%	4%
Small Firms Loan Guarantee Scheme	0%	1%	1%	3%	4%	4%	2%
Other loans or grants from Government, local authority or enterprise agency	0%	0%	2%	2%	4%	5%	2%
Loans from other private individuals	1%	1%	1%	1%	0%	3%	1%
Other	7%	7%	4%	6%	9%	5%	6%
No response	29%	22%	24%	13%	15%	7%	18%
Sample	102	181	107	158	109	122	784

### Borrowings by size of firm

Table 4.4 shows that the usage of most types of borrowing increases with size of firm. A corollary of this is that relatively larger firms are more likely to use more than one source of borrowing. Overdrafts and term loans from banks, hire purchase or leasing and debt factoring/invoice discounting in particular are used by a far greater proportion of the relatively larger firms in our survey than by the smallest. Loans from other financial institutions, from government sources (including the Small Firms Loan Guarantee Scheme) and from other private individuals also tend to be used more by larger firms, though the number of firms involved here is relatively small.

There are some exceptions. Credit cards and other similar short-term loans are used more often by the smallest firms than by their larger counterparts, as are loans from family or friends. The use of mortgage finance shows no clear link with firm size. Loans from the owner, director or proprietor are important for firms of all sizes, though the very smallest are more likely to rely on credit card or other short-term loans.

### Size and importance of borrowings

While bank overdrafts remain the most commonly used source of loans, they are now the largest source of loans for only 16% of small firms. More (19%) report that loans from the owner, director or proprietor are the largest source (Table 4.5). These proportions were the other way around when this question was asked in the 1999 survey. Back in 1991 29% reported that overdrafts were the largest source and only 11% that owners' loans were largest.

Mortgages tend to be large loans and so are, unsurprisingly, higher up the rankings in terms of loan size (three-quarters of those which use a mortgage as business finance report that it is their largest source of loans at present).

20% of small firms say that their bank overdraft has been the most important source of loans for the growth, survival or efficiency of their business over the past twelve months. This is unchanged on the 1999 result, but is almost matched by the 19% saying the same of owners' loans (up from only 12% in 1999).



Table 4.5: Sources of borrowing used at present, largest source at present and most important for growth, survival and efficiency of the business over the past twelve months (rankings in brackets)

	Use at present	Largest at present	Most important over past 12 months
Bank overdrafts	42% (1)	16% (2)	20% (1)
Loans from owner, director or proprietor	36% (2)	19% (1)	19% (2)
Other bank loans (term loans)	24% (3)	11% (3)	8% (3)
Hire purchase or leasing	18% (4)	5% (5)	3% (5=)
Credit card or similar short-term loans	18% (5)	3% (6)	3% (7)
Mortgage for business premises (including your home if used for business)	14% (6)	10% (4)	3% (4)
Loans from family or friends	7% (7)	3% (7)	3% (5=)
Debt factoring/ invoice discounting	4% (8)	2% (8)	2% (8)
Long-term business loans from other financial institutions	4% (9)	1% (9)	0% (11=)
Small Firms Loan Guarantee Scheme	2% (10=)	1% (10)	1% (9)
Other loans or grants from Government, local authority or enterprise agency	2% (10=)	0% (11=)	0% (10)
Loans from other private individuals	1% (12)	0% (11=)	0% (11=)
Other	6%	2%	2%
No response	23%	27%	35%
Sample	784	784	784

### Need for capital

Although only a relatively small number of firms use debt factoring/invoice discounting, it is worth noting that 60% of those which do use it report that it has been the most important source of loans for their business over the past 12 months (the highest for any type of loan).

Table 4.6 shows that the most common need for capital over the past year, especially for firms with fewer than 10 employees, has been to manage cashflow/bad debts. Larger firms have more often required capital to fund investment in equipment, buildings etc, or to fund business growth.

Table 4.6: "Which of the following have driven your need for capital in the past year?" - by number of employees (not including proprietor/partners)

	0	1-2	3-4	5-9	10-19	20+	All
Manage cashflow/bad debts	34%	33%	36%	35%	32%	28%	33%
Fund investment in equipment, buildings etc.	22%	19%	20%	23%	36%	32%	25%
Fund business growth	8%	13%	22%	25%	28%	40%	22%
Fund increased operating/staff costs	7%	9%	17%	18%	28%	20%	16%
Fund increased marketing/promotion	8%	6%	12%	11%	9%	6%	8%
Fund research/development/innovation	4%	4%	6%	6%	6%	7%	6%
Manage increased credit restrictions	2%	2%	0%	1%	2%	2%	2%
Other	13%	9%	6%	6%	3%	8%	7%
No response	25%	24%	21%	18%	18%	9%	19%
Sample	102	181	107	158	109	122	784

## Conclusions

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The business owners' own and other personal sources of capital are the most common source of equity. The proportion reporting they use these sources is higher than in both 1999 and 1991 when earlier surveys asked the same question.

In terms of loan finance, loans from the owner, director or proprietor are also higher than in earlier years. Bank overdrafts remain the most common source of borrowings, though in terms of size more respondents report that the largest loan which their business has is from an owner, director or proprietor than from any other source. In 1991 76% of small firms had borrowings from financial institutions. By 1999 this had fallen sharply to 66% and the proportion is now down again, to 64%.

Bank overdrafts still beat loans from the owner in terms of importance for the growth, survival or efficiency of the business over the past twelve months, but only by one percentage point, compared with eight percentage points in 1999.

Credit card finance continues to increase in importance, especially for the smallest firms. Debt factoring/invoice discounting is also used by more small firms than in earlier years and is also rated as particularly important in ensuring the growth, survival or efficiency of the business over the past twelve months for those which have used it.

Although times have recently been difficult for small firms and many seem to have been forced to call on their owner's own personal resources, few seem in a position to take advantage of trade credit. Most small firms report that their customers owe more to them than they owe to their suppliers.

For the relatively larger firms in our survey the need for capital has been a positive one - driven by investment in equipment or buildings or to fund business growth, For the smallest firms, however, the most common need has been simply to manage cashflow or cope with bad debts.



The survey reports in each issue on changes in sales, employment, investment and prices and on the ranking of most important problems experienced by small firms. The percentage balances for sales, employment,

investment and prices are shown in Appendix Table A.1. In addition, each issue covers one or more special topics, designed to contribute to knowledge about small business in Britain<sup>1</sup>.

The following topics have been examined to date:

(note, the results from two surveys were published in Volume 1 Number 1)

## Special Topics

Year	Volume	Number	Survey Number	Topic
1985	Vol. 1	No 1	1 & 2	Some Characteristics of the Respondents
		No 2	3	Changes in Employment, New Business
		No 3	4	Part-time Employees, Computers in Small Firms
		No 4	5	Employment
1986	Vol. 2	No 1	6	Finance, Membership of Representative Bodies
		No 2	7	Exports, The Business Expansion Scheme
		No 3	8	Employment, Skill Shortage
		No 4	9	Incorporated and Unincorporated Business, Expanding Firms, Small Firms in the Service Sectors
1987	Vol. 3	No 1	10	Domestic versus Business Telephone Usage, Employment
		No 2	11	Most Important Problem Facing Declining and Growing Businesses, Characteristics of our Respondents
		No 3	12	Employment, Slow Payment Problems
		No 4	13	Use of Accountants
1988	Vol. 4	No 1	14	Use of Solicitors
		No 2	15	Training background of managers and arrangements for staff training
		No 3	16	Access to external information
		No 4	17	Present and future use of Telecommunications products and services, Characteristics of Respondents
1989	Vol. 5	No 1	18	Employee Turnover, National Chamber of Trade Survey, National Westminster Digest Survey
		No 2	19	The effects of 1992 on small firms
		No 3	20	Intergenerational and previous business background of respondents
		No 4	21	Origins of new employees
1990	Vol. 6	No 1	22	European Community Special Directorate DG23
		No 2	23	Motivation and Objectives of respondents for setting up their own business
		No 3	24	School-leaver Training
		No 4	25	School-leaver Training Problems
1991	Vol. 7	No 1	26	Training and Enterprise Councils
		No 2	27	Use of Computers
		No 3	28	Business Growth Objectives, Gender of Owner
		No 4	29	Sources of Small Business Finance

<sup>1</sup> The reports of the surveys were published as the NatWest/SBRT Quarterly Survey of Small Business in Britain until Vol 18 No 4.

Year	Volume	Number	Survey Number	Topic
1992	Vol. 8	No 1	30	Co-operatives
		No 2	31	Exports
		No 3	32	Quality Standards (BS 5750)
		No 4	33	Impact of the Recession on Incomes and Prices
1993	Vol. 9	No 1	34	Business Premises and the UBR
		No 2	35	Rented Business Premises
		No 3	36	Delayed Payments
		No 4	37	External Sources of Information
1994	Vol. 10	No 1	38	The Single Market
		No 2	39	Pensions
		No 3	40	The Past Ten Years
		No 4	41	Minimum Wage
1995	Vol. 11	No 1	42	Capacity Utilisation
		No 2	43	Succession and Ownership
		No 3	44	Staff Recruitment
		No 4	45	Employee Turnover and Training
1996	Vol. 12	No 1	46	Compliance Costs
		No 2	47	IT - Communications and Computers
		No 3	48	Business Support Organisations
		No 4	49	Motivations, Objectives and Targets
1997	Vol. 13	No 1	50	50th Survey (employment change, hours worked, satisfaction)
		No 2	51	Incomes and Prices
		No 3	52	Minimum Wage
		No 4	53	Slow Payment
1998	Vol. 14	No 1	54	VAT Compliance Costs
		No 2	55	Low Turnover, Advertising and Promotion
		No 3	56	Lack of Skills, Training and the 'New Deal'
		No 4	57	The euro
1999	Vol. 15	No 1	58	IT, Communications and Year 2000
		No 2	59	Business Finance
		No 3	60	Government Regulations and Paperwork
		No 4	61	Motivations, Objectives and Targets
2000	Vol. 16	No 1	62	Changes
		No 2	63	Slow Payment
		No 3	64	Government Regulations and Paperwork
		No 4	65	Skills Shortages and Training
2001	Vol. 17	No 1	66	Employee Turnover and Retirement
		No 2	67	Exports and the Euro
		No 3	68	IT and the Internet
		No 4	69	Business Climate
2002	Vol. 18	No 1	70	Sources of Business Information
		No 2	71	Business Networks and Supply Chains
		No 3	72	Ownership and Intentions
		No 4	73	Pensions and Stockmarket Slide
2003		No 1	74	Minimum Wage and Cost Pressures
		No 2	75	Government Regulations and Paperwork
		No 3	76	Business Finance

## Performance Tables

Table A.1: Actual and expected changes, percentage balance

Survey	Sample Size	Past Quarter Date	Actual Change, past quarter compared with same quarter last year				Expected Change, next quarter compared to past quarter					
			Sales		Investment		Sales		Employment		Investment Prices	
			Employment	Prices	U	S	U	S	U	U		
Vol.1 No.1a	3,056	1984/3	+34.7%	+10.5%	-	-	+21.2%	+23.1%	+3.3%	+5.2%	-	-
Vol.1 No.1b	1,795	1984/4	+32.6%	+10.4%	-	-	+9.5%	+17.7%	+0.9%	+3.9%	-	-
Vol.1 No.2	1,181	1985/1	+33.4%	+17.6%	-	-	+16.9%	+9.4%	+9.5%	+7.1%	-	-
Vol.1 No.3	1,090	1985/2	+34.4%	+11.2%	-	-	+31.4%	+28.8%	+5.3%	+2.8%	-	-
Vol.1 No.4	1,072	1985/3	+37.4%	+12.1%	-	-	+26.2%	+28.1%	+5.3%	+7.2%	-	-
Vol.2 No.1	1,326	1985/4	+41.4%	+12.6%	-	-	+9.8%	+18.0%	+5.3%	+8.3%	-	-
Vol.2 No.2	1,052	1986/1	+33.6%	+11.6%	-	-	+31.1%	+23.6%	+5.6%	+3.2%	-	-
Vol.2 No.3	1,285	1986/2	+35.5%	+14.2%	-	-	+29.6%	+27.0%	+11.9%	+9.4%	-	-
Vol.2 No.4	1,435	1986/3	+39.7%	+15.2%	-	-	+22.3%	+24.2%	+6.0%	+7.9%	-	-
Vol.3 No.1	1,116	1986/4	+40.0%	+13.4%	-	-	+17.0%	+25.2%	+4.6%	+7.6%	-	-
Vol.3 No.2	1,746	1987/1	+40.2%	+15.2%	-	-	+39.7%	+32.2%	+15.1%	+12.7%	-	-
Vol.3 No.3	1,113	1987/2	+44.7%	+23.1%	-	-	+36.8%	+34.2%	+13.2%	+10.7%	-	-
Vol.3 No.4	977	1987/3	+44.8%	+17.6%	-	-	+28.8%	+30.7%	+10.0%	+11.9%	-	-
Vol.4 No.1	1,042	1987/4	+52.7%	+23.4%	-	-	+31.4%	+39.6%	+10.5%	+13.5%	-	-
Vol.4 No.2	933	1988/1	+52.7%	+19.3%	-	-	+46.7%	+39.2%	+15.3%	+12.9%	-	-
Vol.4 No.3	983	1988/2	+55.0%	+22.0%	-	-	+47.9%	+45.3%	+19.1%	+16.6%	-	-
Vol.4 No.4	950	1988/3	+54.9%	+22.3%	-	-	+34.4%	+36.3%	+13.3%	+15.2%	-	-
Vol.5 No.1A	1,523	1988/4	+49.2%	+15.1%	-	-	+25.6%	+33.8%	+5.7%	+8.7%	-	-
Vol.5 No.2	947	1989/1	+38.8%	+18.1%	-	-	+18.6%	+11.1%	+5.6%	+3.2%	-	-
Vol.5 No.3	2,274	1989/2	+41.1%	+16.7%	-	-	+30.8%	+28.2%	+10.4%	+7.9%	-	-
Vol.5 No.4	795	1989/3	+33.5%	+18.3%	-	-	+20.2%	+22.1%	+7.4%	+9.3%	-	-
Vol.6 No.1	1,091	1989/4	+29.9%	+10.5%	-	-	+10.6%	+18.8%	+0.9%	+3.9%	-	-
Vol.6 No.2	1,384	1990/1	+31.4%	+9.9%	-	-	+24.4%	+17.0%	+3.5%	+1.1%	-	-
Vol.6 No.3	1,043	1990/2	+22.3%	+4.8%	-	-	+14.7%	+12.1%	+0.9%	-1.7%	-	-
Vol.6 No.4	1,312	1990/3	+18.2%	+3.5%	-	-	+3.6%	+5.5%	-4.1%	-2.1%	-	-
Vol.7 No.1	1,239	1990/4	-0.5%	-5.1%	-	-	-16.0%	-7.8%	-14.4%	-11.4%	-	-
Vol.7 No.2	984	1991/1	-8.6%	-11.6%	-12.7%	-	+12.3%	+4.9%	-7.6%	-10.0%	-15.0%	-
Vol.7 No.3	1,718	1991/2	-12.5%	-17.3%	-20.0%	-	-5.2%	-7.8%	-11.5%	-14.1%	-20.6%	-
Vol.7 No.4	835	1991/3	-14.8%	-19.9%	-15.0%	-	-1.0%	+0.9%	-17.5%	-15.5%	-15.1%	-
Vol.8 No.1	1,684	1991/4	-7.9%	-15.6%	-20.5%	-	-9.4%	-1.2%	-16.9%	-13.9%	-13.3%	-
Vol.8 No.2	1,359	1992/1	-1.8%	-17.2%	-13.9%	-	+19.5%	+12.0%	-5.5%	-7.9%	-6.8%	-
Vol.8 No.3	1,527	1992/2	-9.2%	-14.6%	-18.7%	-	+4.2%	+1.6%	-5.9%	-8.4%	-11.8%	-
Vol.8 No.4	921	1992/3	-15.9%	-27.8%	-32.7%	-	-6.2%	-4.3%	-17.7%	-15.8%	-24.1%	-
Vol.9 No.1	1,339	1992/4	-9.1%	-15.1%	-21.0%	-	-4.0%	+4.3%	-10.7%	-7.7%	-13.1%	-
Vol.9 No.2	1,021	1993/1	-3.8%	-12.4%	-11.3%	-	+23.5%	+16.0%	+0.7%	-1.7%	-0.8%	-
Vol.9 No.3	1,310	1993/2	+0.9%	-7.9%	-7.4%	-	+19.1%	+16.4%	+4.3%	+1.7%	-0.5%	-
Vol.9 No.4	1,076	1993/3	+8.3%	-1.6%	-7.0%	-	+14.7%	+16.6%	-3.4%	-1.4%	-4.5%	-
Vol.10 No.1	1,295	1993/4	+13.8%	+3.5%	-3.3%	-	+15.1%	+23.4%	-0.2%	+2.8%	+3.3%	-
Vol.10 No.2	861	1994/1	+3.6%	-4.3%	-3.8%	-	+23.0%	+15.5%	-1.1%	-3.5%	+3.7%	-
Vol.10 No.3	2,327	1994/2	+16.2%	+0.8%	-3.3%	-	+18.4%	+15.8%	+1.6%	-0.9%	-2.2%	-
Vol.10 No.4	1,046	1994/3	+20.3%	+7.6%	+0.6%	-	+14.6%	+16.5%	-0.2%	+1.7%	+1.9%	-
Vol.11 No.1B	983	1994/4	+20.6%	+2.1%	+4.1%	-	+17.2%	+25.4%	+3.7%	+6.7%	+2.4%	-
Vol.11 No.2	1,295	1995/1	+18.2%	+3.2%	+1.4%	-	+27.8%	+20.3%	+5.7%	+3.4%	+5.0%	-
Vol.11 No.3	669	1995/2	+18.0%	+3.2%	+1.1%	-	+18.6%	+15.9%	+4.3%	+1.8%	-1.5%	-
Vol.11 No.4	1,047	1995/3	+13.1%	+3.3%	+3.1%	-	+14.0%	+15.9%	-1.9%	+0.1%	-2.1%	-

continued ...

Table A.1: Actual and expected changes, percentage balance (continued)

Survey	Sample Size	Past Quarter Date	Actual Change, past quarter compared with same quarter last year				Expected Change, next quarter compared to past quarter					
			Sales	Investment	Employment	Prices	Sales		Employment		Investment	Prices
			U	S			U	S	U	U		
Vol.12 No.1	700	1995/4	+10.0%	-2.9%	+1.9%	-	+2.6%	+10.8%	-6.7%	-3.7%	-5.2%	-
Vol.12 No.2	1,099	1996/1	+14.2%	+2.5%	+1.0%	-	+20.7%	+13.3%	+1.9%	-0.5%	-2.8%	-
Vol.12 No.3	742	1996/2	+10.5%	+3.9%	+5.1%	-	+16.1%	+13.4%	+3.3%	+0.8%	-2.7%	-
Vol.12 No.4	753	1996/3	+23.1%	+8.9%	+7.2%	-	+24.3%	+26.2%	+5.1%	+7.1%	+6.1%	-
Vol.13 No.1	912	1996/4	+20.4%	+9.8%	+10.9%	-	+17.4%	+25.6%	+4.8%	+7.7%	+7.2%	-
Vol.13 No.2	720	1997/1	+13.6%	+2.0%	+9.9%	-	+27.7%	+20.3%	+8.6%	+6.3%	+7.0%	-
Vol.13 No.3	909	1997/2	+18.0%	+5.3%	+5.2%	-	+22.2%	+19.5%	+7.3%	+4.7%	+2.4%	-
Vol.13 No.4	634	1997/3	+21.5%	+12.1%	+10.7%	-	+24.1%	+26.0%	+3.9%	+5.8%	+3.8%	-
Vol.14 No.1	783	1997/4	+21.1%	+1.7%	+10.4%	-	+12.8%	+21.0%	-0.7%	+2.3%	+3.9%	-
Vol.14 No.2	1,273	1998/1	+19.3%	+3.0%	+12.4%	-	+21.3%	+13.8%	+3.9%	+1.5%	+2.2%	-
Vol.14 No.3	682	1998/2	+9.0%	+5.0%	+5.0%	-	+10.3%	+7.6%	+5.6%	+3.1%	+2.0%	-
Vol.14 No.4	654	1998/3	-2.5%	-0.4%	+4.6%	+10.0%	+3.0%	+4.9%	-2.9%	-1.0%	-8.0%	+0.5%
Vol.15 No.1	601	1998/4	+5.9%	+0.5%	+2.8%	+9.3%	-5.0%	+3.2%	-2.9%	+0.1%	-5.7%	+5.6%
Vol.15 No.2	619	1999/1	+6.9%	-2.3%	+3.4%	+15.7%	+20.8%	+13.3%	+4.4%	+2.0%	+1.3%	+14.6%
Vol.15 No.3	507	1999/2	-4.9%	-4.3%	-2.7%	+8.5%	+6.8%	+4.2%	+0.1%	-2.4%	-5.0%	+4.8%
Vol.15 No.4	1,121	1999/3	+9.2%	-2.0%	+2.5%	+13.7%	+11.4%	+13.3%	-0.7%	+1.3%	+0.1%	+5.8%
Vol.16 No.1	812	1999/4	+9.3%	-4.2%	+1.8%	+16.0%	+6.4%	+14.6%	-2.5%	+0.5%	+1.9%	+15.2%
Vol.16 No.2	866	2000/1	+9.6%	-2.6%	+2.2%	+16.9%	+22.6%	+15.1%	+5.4%	+3.0%	+2.8%	+14.0%
Vol.16 No.3	758	2000/2	+2.1%	+0.5%	-1.5%	+17.0%	+11.7%	+9.0%	+3.0%	+0.5%	-1.2%	+9.2%
Vol.16 No.4	803	2000/3	+5.0%	-5.0%	+3.1%	+15.3%	+6.3%	+8.2%	-2.7%	-0.7%	-0.7%	+12.4%
Vol.17 No.1	726	2000/4	+8.6%	-0.5%	+4.3%	+16.7%	+3.7%	+11.9%	+0.5%	+3.4%	+3.7%	+16.3%
Vol.17 No.2	856	2001/1	+3.2%	-3.3%	+1.9%	+18.7%	+12.1%	+4.6%	+1.7%	-0.7%	-2.8%	+16.2%
Vol.17 No.3	720	2001/2	+4.9%	-1.4%	+3.1%	+22.4%	+9.5%	+6.8%	+1.2%	-1.3%	-2.2%	+14.2%
Vol.17 No.4	705	2001/3	+5.3%	+0.3%	+3.9%	+18.2%	+3.7%	+5.6%	-2.9%	-0.9%	-5.4%	+6.2%
Vol.18 No.1	654	2001/4	+2.5%	-4.2%	-3.0%	+13.6%	-2.3%	+5.9%	-2.0%	+1.0%	-7.1%	+10.0%
Vol.18 No.2 old	675	2002/1	+5.4%	-2.7%	-2.7%	+14.6%	+20.0%	+12.6%	+5.8%	+3.4%	+2.3%	+11.9%
Vol.18 No.2	1,168	2002/1	+14.7%	+1.2%	+1.4%	+13.1%	+31.0%	-	+8.1%	-	+4.2%	+14.3%
Vol.18 No.3	1,078	2002/2	+22.9%	+8.5%	+7.0%	+22.6%	+24.5%	-	+10.7%	-	+5.9%	+15.2%
Vol.18 No.4	1,074	2002/3	+17.2%	+4.1%	+0.1%	+16.8%	+13.7%	-	-1.2%	-	-4.0%	+7.9%
2003 No.1	922	2002/4	+15.5%	+2.7%	-5.8%	+19.5%	+3.2%	-	-6.2%	-	-10.9%	+11.4%
2003 No.2	851	2003/1	+9.0%	-4.7%	-10.7%	+17.2%	+13.3%	-	+2.4%	-	-3.9%	+11.3%
2003 No.3	784	2003/2	+15.4%	+1.6%	+5.8%	+24.6%	+16.2%	-	+6.5%	-	+0.6%	+10.9%

Notes: Because the balances referring to the expected sales turnover and employment in the next quarter have a pronounced seasonal trend we have also constructed seasonally-adjusted figures for these balances. These are listed in Appendix Table A.1 above. The breakdowns by size, sector and region are not seasonally adjusted, neither are the figures in Table 1.1.

a, b – The results from two surveys were published in Vol. 1 No. 1

A – From Vol. 5 No. 1, results were weighted to the sectoral distribution according to VAT statistics.

B – From Vol. 11 No. 1, results are weighted to the sectoral distribution of employment in firms with under 50 employees according to DTI statistics.

Key: U – Unadjusted, S – Seasonally adjusted

# Quarterly Survey 2003Q3

Survey Section, c/o Bannock Consulting, Freepost WD549, Chorley, Lancashire PR6 7ZZ

CONFIDENTIAL

Please circle the appropriate letters or fill in the blanks. Your answers will remain confidential.

**1** Please indicate your firm's annual turnover (excluding VAT):

- |                      |                      |                      |              |
|----------------------|----------------------|----------------------|--------------|
| 1. Less than £25,000 | 4. £100,000-£149,999 | 7. £350,000-£499,999 | 10. £1m-£3m  |
| 2. £25,000-£49,999   | 5. £150,000-£249,999 | 8. £500,000-£749,999 | 11. over £3m |
| 3. £50,000-£99,999   | 6. £250,000-£349,999 | 9. £750,000-£999,999 |              |

**2a** Employment: How many people (including yourself) work in the business? \_\_\_\_\_

**2b** If your business is not a limited company, how many of these people are self-employed proprietors or partners? \_\_\_\_\_

**3** How many years has your present business been trading? \_\_\_\_\_

**4a** Please classify your business activity by circling one of these categories:

- |  |                                   |  |
|--|-----------------------------------|--|
| 1. Agriculture, Forestry, Fisheries          | 4. Construction                   | 7. Hotels & Restaurants                          |
| 2. Manufacturing (incl. Publishing/Printing) | 5. Wholesale                      | 8. Business Services/Real Estate/Finance/Renting |
| 3. Transport, Travel, Storage, Communication | 6. Retail, Repair household goods | 9. Health/Education/Leisure/Personal Services    |

**4b** Please also describe in a few words the precise nature of your business: \_\_\_\_\_

**5** At present, are you owed more by your customers than you owe to your suppliers? Please circle ONE ONLY:

1. YES, customers owe more      2. NO, owe more to suppliers      3. Have no debtors/creditors or in balance

In 6a and 6b we are interested in sources of capital (other than trade credit) used in your business. Please read through the lists then circle any of the sources which you use at present:

**6a** EQUITY (i.e.: investment entitled to a share in profits)

- |  |                           |
|--|---------------------------|
| 1. Yours or other personal sources                         | 5. Retained earnings      |
| 2. Family and friends                                      | 6. Trade investors        |
| 3. Other private individuals (inc. EIS)                    | 7. Other (please specify) |
| 4. Venture capital company or other professional investors | _____                     |

**6b** LOANS

- |   |  |
|---|--|
| 1. Loans from owner, director or proprietor                   | 8. Mortgage for business premises (including your home if used for business) |
| 2. Loans from family or friends                               | 9. Debt factoring/ invoice discounting                                       |
| 3. Loans from other private individuals                       | 10. Hire purchase or leasing   |
| 4. Bank overdrafts  | 11. Small Firms Loan Guarantee Scheme  |
| 5. Other bank loans (term loans)                              | 12. Other loans or grants from Government, local authority/enterprise agency |
| 6. Credit card or similar short-term loans                    | 13. Other (please specify)   |
| 7. Long-term business loans from other financial institutions | _____  |

From the source of LOANS in question 6b above, please note, by giving the appropriate NUMBER (1-13):

**7a** Which, if any, is the largest source of loans at present: \_\_\_\_\_

**7b** Which, if any, has been most important source of loans for the growth, survival or efficiency of your business over the last twelve months: \_\_\_\_\_

**8** Which of the following have driven your need for capital in the past year (circle those which apply):

- |   |   |   |
|---|---|---|
| 1. Manage cashflow/bad debts            | 4. Fund increased marketing/promotion   | 7. Fund investment in equipment, buildings etc. |
| 2. Manage increased credit restrictions | 5. Fund research/development/innovation | 8. Other (please specify)                       |
| 3. Fund increased operating/staff costs | 6. Fund business growth                 | _____   |

**9** What is the legal form of your business? Please circle ONE ONLY:

1. Sole proprietorship      2. Partnership      3. Limited company      4. Not for profit/co-operative

**10** How did your sales turnover, average employment, investment (in plant, equipment and premises) and average selling prices in the past quarter compare with the same period in 2002? What do you expect to happen in the current quarter?

Please complete the table by ticking 8 boxes only:

	ACTUAL			EXPECTED		
	April, May, June 2003 compared with the same period 2002			July, August, September 2003 compared with April, May, June 2003		
	UP	DOWN	SAME	UP	DOWN	SAME
Sales Turnover						
Average Employment						
Investment						
Selling Prices						

**11** Which of the following is the SINGLE most important problem facing your business today? (Please circle ONE ONLY - we appreciate that every firm faces many problems, but we wish to focus on your current single MOST important problem)

- |                                    |   |  |                            |
|------------------------------------|---|--|----------------------------|
| 1. General economic climate        | 5. Interest rates/Access to finance       | 9. Cashflow/Payments/Debtors           | 13. Lack of time/capacity  |
| 2. Sector-specific demand/problems | 6. Inflation/Cost of materials, supplies  | 10. Gov't regulations and paperwork    | 14. No problems            |
| 3. Competition                     | 7. Other costs (e.g. premises, transport) | 11. Lack of skilled employees/High pay | 15. Other (please specify) |
| 4. Marketing problems              | 8. Exchange rates                         | 12. Total tax burden                   | _____                      |

**12** Please indicate the sex of the owner(s) of the business:

1. Male      2. Female      3. Joint Male/Female ownership

Thank you for completing this confidential survey questionnaire.  
**Please return it in the envelope provided by 29th August 2003.**  
 Please note that this is a FREEPOST address (no stamp required).