

Federation of Small **Businesses**



FSB



**Lifting the Barriers to Growth
in UK Small Businesses**

The FSB Biennial Membership Survey, 2004



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Report to the Federation of Small Businesses

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Executive Summary

BACKGROUND TO THE STUDY

This report presents the results of the third biennial survey of FSB membership. Responses were received from 18,635 FSB members drawn from all regions of the UK.

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

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

This survey also examines a range of current business issues and their effects on the small business sector. These include issues relating to bank switching, the National Minimum Wage up-rate, new employment directives, environmental compliance and business related crime.

PROFILE OF THE BUSINESSES

The regional distribution of responses is similar to that of VAT registered enterprises in 2003. The regions comprising the highest levels of response are South East England and South West England. Together with London, these three areas account for 41% of survey responses and 41% of VAT registered enterprises. The other regions also returned responses at similar levels to VAT registered enterprises.

Respondents represent a wide range of industry sectors. A fifth (22%) operates in the Retail, Wholesale & Motor Trades sector. The services sectors are also well represented, with 16% of respondents operating in the Business Services sector and a further 10% collectively operating in Financial, Personal and Other Services sectors. The Manufacturing (11%), Construction (10%) and Hotels & Restaurants (7%) sectors are also well represented.

Although industry sectors are fairly evenly distributed across the UK, some industries are better represented than others within different regions. Manufacturing is more prevalent in Yorkshire & Humberside and West Midlands. Retail, Wholesale & Motor Trades respondents are higher in Northern Ireland, Wales and North East England. Reflecting the tourism base, Hotels & Restaurants respondents are more likely to be located in Scotland, Wales and North West England. London based respondents contain a high proportion of Business Services enterprises.

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

The characteristics of new business owners are distinctive. They are more likely to be in the younger (under 34) age groups, more likely to be female and more likely to operate their businesses from home-based premises.

A third of respondents have owned their business for many years: 18% have owned their business for between 11-20 years and 12% have owned their business for longer than 21 years. Those operating very mature enterprises (over 31 years) also present a distinctive group profile with regard to their industry sector, attitudes to legislative issues, environmental performance and business related crime.

Nearly half (45%) operate their businesses as limited liability companies. A third (32%) operate as sole traders and 21% as partnerships. In comparison with the two previous FSB surveys, there has been a continued increase in the proportion of limited liability companies, and a reduction in sole traders and partnerships.

Respondents are ambitious for business growth. Just under half reported a two year objective of moderate growth and 8% stated that they were pursuing rapid growth. Very few want to either downsize (3%) or close (2%) their business. A rapid growth objective is most notable among Financial and Business Services respondents and among the newest businesses (0-3 years). Growth objectives decrease incrementally, while ambitions for closure, sale, succession or remaining the same size increase incrementally, with years in business.

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

CHARACTERISTICS OF THE BUSINESS OWNERS

The respondents have a mature age profile. Two-thirds (66%) are aged over 45, and those aged over 65 years comprise 6% of respondents. Just over 10% are in the youngest age groups (under 21 and 22-34 years). Respondents in the 22-34 year group are particularly apparent in the Personal Services category, while respondents aged 35-44 years are over-represented in Business Services.

This year's study has seen a large increase in the number of responses from female-owned businesses. Women business owners are still a minority however; 15% of respondents state that their business is female-owned, 50% state their business is male-owned, and a third (35%) state that their business has male and female owners.

Female-owned businesses are more likely to be new firms, registered as sole traders and less likely to be VAT registered. Female business owners are also more likely to be within the younger age groups and operate their businesses from a home-base.

The proportion of female-owned firms decreases incrementally by years in business. This may suggest that women's entry into business ownership is a relatively new phenomenon, but may also indicate that there is a disproportionate outflow of women from business ownership over time.

A third of respondents share business ownership or management with their spouse. Family involvement is strongly related to industry sector; Agriculture and Hotel & Restaurants enterprises are more likely to be co-owned and co-managed with a spouse. Other family involvement is much less prevalent.

The home-based business is becoming a key trend among small business owners; a quarter of



respondents operate their business from their home. Home-based businesses are more likely to be new firms, sole traders and less likely to be VAT registered. There are, however, few differences between home-based and externally sited businesses with regard to growth ambitions or industry sector. Home-based businesses are more frequently found in East of England and South West England.

A large majority of respondents (73%) entered business by starting from scratch. Of the remainder, 14% bought a going concern, 5% inherited their business, 2% organised a management buy-out and 2% started through franchising.

MARKETS AND CUSTOMERS

Over a third of respondents specialise in sales that go direct to the consumer. Of the remainder, 11% of respondents identify retailers and wholesalers as their main customers; 9% sell mainly to manufacturers and 7% sell mainly to other non-manufacturing firms. Very few small businesses specialise in selling to local or central government: only 2% of respondents send more than 50% of sales to local government and 1% send more than 50% of sales to central government.

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

Customer dependency has been a particular concern for the Manufacturing sector. In this survey, 53% of Manufacturing businesses report that their main customer accounts for less than

25% of annual sales and 21% report that their main customer accounts for between 26-50% of annual sales. Only 2% of Manufacturing businesses are dependent on one customer for 100% of their annual sales, a lower proportion than for the sample as a whole (5%).

Most respondents mainly serve local markets. Nearly half (48%) report that the majority of their sales go to local markets, 18% report that their sales go mainly to national UK-wide markets and 8% sell mainly to regional markets. Very few respondents report high levels of export sales; only 1% report the EU or other export markets as being their main market destination.

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

Most respondents perceive low levels of dynamism in their competitive environment. Only 10% report rapid rates of new businesses entering their market, 12% report rapid rates of new product or service introduction in their industry sector, and 9% report rapid rates of new product or service introduction in their own business. London respondents report the highest rates, while respondents from Scotland, North West England and East of England report lower than average rates of dynamism in their competitive environment.

FINANCE

Almost three-quarters of respondents report sales of £500,000 or less, while only 9% have sales in excess of £1m. Sales turnover is associated with a number of business characteristics. The smallest

businesses are characterised by one or more of the following characteristics: being sole traders, home-based businesses, recent start-ups and female-ownership.

One-third of respondents have other sources of income in addition to that which is generated from the business. The largest category of additional income derives from multiple business ownership, or portfolio entrepreneurship, (15%). Business owners with income from residential (10%) or commercial (6%) property are also significant. More than 1 in 10 respondents have income from a pension.

Over half (57%) report increases in sales volume in the previous financial year, while 23% report decreases. These results compare favourably with the FSB 2002 study, when just under half of respondents reported increased sales volume.

Respondents in Wales, North East England and West Midlands are most likely to report increases in sales volume. Respondents from London are the most likely to report decreased sales volume. The industry sectors most likely to report increases in sales volume are Financial Services and Energy & Water.

Nearly half of the businesses in the survey also report an increase in their profitability during the past financial year, with the proportion reporting an increase (48%) substantially exceeding the proportion reporting a decline in profitability (27%).

Respondents have used a variety of sources of finance during the past two years. On average, each business has used two sources. Bank overdraft (51%) is the most frequently used source. Several sources of finance have each been used by around three in ten businesses: personal savings (31%), bank loans (30%), retained profits (28%)

and credit card debt (25%). In contrast, relatively few firms use leasing (11%), factoring (4%) or informal sources of funding from family (8%) or friends (3%).

The financing mix differs by the type of business premises. Given the preponderance of sole traders who operate from home, it is not surprising that home-based businesses make less use of bank overdrafts, bank loans, leasing, supplier credit and retained profits, and are more likely to use credit card debt and their own savings.

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

The proportion of businesses that have switched banks in the past two years (15%) is surprisingly large. There are two main reasons for switching: to avoid or reduce bank charges and the poor quality of service received. Other frequently cited reasons are the search for better terms and the poor quality of advice received.

The main reason for not switching banks is satisfaction with the service provided (47%). More specific responses include the competence of the bank staff (cited by 20%), the bank's understanding of the business (18%) and reliability of the bank in meeting the businesses' financing needs (18%). A substantial proportion (28%) believes there is 'no real difference between banks' and, by implication, would not expect to derive any benefits from switching. The oldest



businesses are the least satisfied with their existing bank, but also the most likely to consider moving banks as being too risky. The youngest businesses are the least likely to consider that there are no differences between banks.

EMPLOYMENT AND TRAINING

The respondents collectively employ some 96,000 full-time workers plus some 35,000 part-time workers and 18,500 casual/seasonal workers, a total of 150,000 employees or 118,500 full-time equivalents (FTEs). Assuming that the businesses responding to the survey (12%) are representative of the FSB's overall membership, this suggests that the entire FSB membership employs 1.25m workers (987,000 FTEs), of which 800,000 are full-time.

The small size of most businesses is confirmed when their current employment is considered. Some 16% have no full-time employees and a further 55% have fewer than five full-time employees. Just 1% have 50 or more full-time employees. Taking account of part-time and casual/seasonal workers reduces both the proportion of businesses with no workers to 9% and those with fewer than five workers to 46% and doubles the proportion of businesses with 50 or more workers (2%).

The highest proportion of businesses with no employees is sole traders (14%), while limited liability companies have the highest proportion with five or more employees (FTEs). Home-based businesses have a higher proportion with no employees than businesses with external premises (15% compared with 8%). Conversely, 49% of businesses operating in external premises have five or more workers (FTEs) compared with 11% of home-based businesses. The newest businesses have the highest proportion of

businesses with no employees (19%) and with just one employee (28%) and the smallest proportion of businesses with 10 or more employees (8%). The longest established businesses have the highest proportion of businesses with 10 or more employees (28%). There is no difference in the proportion of male and female owned businesses with no employees, but male business owners are more likely to run larger businesses.

In terms of sector, Manufacturing (17%) and Construction (22%) have the smallest proportion of businesses with no employees and the highest proportions of larger businesses (that is, those with five or more FTE employees) (47% and 35% respectively). Personal Services (42%), Hotels & Restaurants (36%) and Financial Services (34%) have the highest proportions of businesses with no employees.

The employment data provides further evidence that the respondents' businesses as a whole are growing. Some 43% of businesses report an increase in employment compared with two years ago, compared with just 16% that report a decline in employment numbers. In aggregate, the sample employs some 26,000 more workers than two years ago (+20.9%). Full-time workers have increased by 14,000 (+17.6%), with even faster rates of growth for part-time (+25.4%) and casual/seasonal labour (+30.4%). In terms of full-time equivalents, employment has increased by 19,000 (+19.2%).

Nearly two-thirds of businesses (78% of businesses with full-time employees) do not provide an occupational pension for any of their employees, compared with 15% who provide a pension for some workers and just 10% who provide a pension for all their employees. Some 40% of businesses provide all their staff with a contract of employment (47% of

businesses with full-time employees) and a further 12% provide a contract of employment for some of their employees. In contrast, 37% of businesses do not provide a contract of employment for any of their employees.

Businesses have found it much more difficult to recruit skilled workers than unskilled workers. However, difficulties vary between industry sectors. Difficulties in recruiting skilled workers are most often reported by businesses in Construction (49%), Health & Social Work (49%), Transport (46%), Manufacturing (44%), Mining & Quarrying (43%) and Hotels & Restaurants (41%). Many of the industries that have encountered difficulties in recruiting skilled workers also reported difficulties in recruiting unskilled workers. This was the case for Transport (21%), Manufacturing (22%), Health & Social Work (30%) and Hotels & Restaurants (31%).

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

Dissatisfaction with advanced IT skills is greatest among businesses in Education (18%), Health & Social Work (16%) and Mining & Quarrying (16%). Health & Social Work businesses are also most likely to be dissatisfied with the basic IT skills of their employees (12%). Dissatisfaction with sales and marketing skills is greatest among Public Administration & Defence (26%) and Business Services (17%) businesses. Dissatisfaction with foreign languages skills is greatest within Manufacturing (17%) and Public Administration and Defence (17%) businesses.

Only 40% of business owners report that they undertook formal staff training on a regular basis, with a further 21% undertaking formal training occasionally and 30% not undertaking any formal training at all.

Businesses in the Manufacturing (37%), Transport (38%) and Retail, Wholesale & Motor Trades (40%) sectors are the most likely to report that they have done no formal staff training in the past year, even though these industries are amongst the most affected by skill shortages. The industries with the highest proportion of businesses undertaking regular training are Hotels & Restaurants (47%), Energy & Water (43%) and Construction (43%).

The single biggest barrier to training is cost, with the cost of courses cited as a barrier by 52% of businesses and the loss of staff time cited by 37% of businesses. Other barriers are related to the lack of relevance of the courses that are available (36%), the timing of the courses (35%), the lack of funding (27%) and the distance from the place of training (26%). Equally significant are the non-barriers: fear of losing newly trained staff is cited by just 11% of businesses and lack of enthusiasm of staff is cited by just 14% of businesses.

NATIONAL MINIMUM WAGE

This survey reports on the effect of the NMW up-rate in October 2003 on the small business sector. Just 17% of businesses have had to up-rate at least one adult worker to the new rate and 6% have had to up-rate the wages of 18-21 year olds to the new rate. However, a substantial minority of respondents employ no others beyond the owner-manager and are therefore unaffected by the NMW up-rate.



The overall number of small business employees who have benefited from the up-rate is quite small, at just 14,000 adults and just under 5,000 young workers. This represents 13% of the total number of workers (including part-timers and casual/seasonal) employed by the survey respondents.

The NMW up-rate has had few adverse consequences on employment. Only 5% of businesses indicated that the NMW up-rate would reduce their willingness to employ adult workers and only 6% indicated that it would reduce their willingness to employ either 18-21 year olds or 16-17 year olds. More generally, only 1% anticipated they would significantly decrease their employment and 4% slightly decrease their employment as a result of the NWR up-rate. There was no evidence that businesses would substitute younger, and thus cheaper, workers in place of older workers. Only 6% of businesses indicated that they would reduce the number of hours that their employees worked (basic and overtime). The impact of the NMW up-rate on forms of remuneration, such as incentive payments, non-wage benefits, was also largely neutral. There was virtually no impact on the willingness of businesses to increase or decrease the training that they provided.

The NMW up-rate will have three main consequences. First, it will have a knock-on effect on higher paid workers, with one in five businesses reporting that they will increase the pay of higher-grade workers in order to maintain wage differentials. Second, 18% of the businesses claimed that the NMW up-rate will increase their overall wage costs (but only 3% said that the increase would be 'significant'). Third, 14% reported that the NMW up-rate and associated knock-on effects will have a detrimental effect on their profitability, although only 2% of businesses anticipated that the effect will be to significantly decrease their profitability.

However, the impact of the NMW up-rate varies quite considerably by sector. In Personal Services 33% of employees have been up-rated, in Hotel & Restaurants 29% of employees have been up-rated and in the Retail, Wholesale & Motor Trades sector nearly one-in-five of workers have been up-rated. However, in many other sectors, notably skilled blue-collar industries such as Manufacturing, Transport and Construction, and service industries dominated by professional workers, notably Financial Services and Business Services, fewer than 10% of employees have been up-rated.

The impact of the up-rate will be most severe on the Hotel & Restaurant sector, with 13% of businesses reporting a decrease in jobs, 20% reporting a decrease in the number of basic hours worked, 13% reporting a cut in overtime hours and 29% reporting a decrease in profitability. One impact of declining profitability is that the Hotels & Restaurants sector has the second highest proportion of businesses (after Education) reporting a decline in investment in new capital equipment.

The proportion of employees in each region who have been up-rated ranges from around 6% in South East England and London to over one-quarter in North East England. In North East England, North West England, Scotland, Northern Ireland and Wales between 22% and 26% of businesses report that they will have to increase the pay of higher grade workers to maintain wage differentials. The equivalent proportion for London is 14% and for South East England is 15%. The proportions of businesses in these northern regions reporting a decrease in employment, reduction in basic hours worked and reduction in overtime hours is also above average. The proportion of businesses reporting a decline in profitability as a result of the NMW up-rate is highest in Northern Ireland (20%), North East

England (20%), North West England (18%) and Wales (17%) and lowest in London (8%) and South East England (10%).

E-COMMERCE

More than four out of five small businesses are connected to the Internet. There is considerable industry variation, with the proportion of non-connection ranging from 0% to over 30% (the UK average is 18%). The vast majority of businesses in Business Services and Financial Services are connected to the Internet, whereas about one third of businesses in the Hotel & Restaurants, Retail, Wholesale & Motor Trades and Personal Services remain unconnected.

Connection to the Internet also varies across the regions. London (11%) and South East England (13%) have the smallest proportion of businesses that are not connected, while Wales (21%) and North West England (22%) have the highest proportions of unconnected businesses.

The main uses of the Internet are e-mail communication with customers and suppliers (69%). However, a substantial minority also use the Internet for purchasing (37%) and file transfers (30%).

Half of the businesses (49%) have their own web sites. However, these are used primarily as an electronic catalogue. Only a minority of businesses have the facility for on-line ordering by customers, after sales service, support or payment by customers, or delivery of digital goods or services.

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

report attracting new overseas customers as a result of their web presence. The industries that have benefited the most in terms of attracting new customers are Business Services, Hotels & Restaurants, Public Administration & Defence, and Manufacturing. It is also important to note that in most cases online sales are additional to, rather than a substitute for, conventional sales.

For those businesses that achieve on-line sales, these typically contribute less than 10% of their overall sales turnover. The industry that has benefited the most from online sales is Hotels & Restaurants, where 13% of businesses derive more than 10% of their sales online.

The main barriers to developing e-commerce capabilities are the perceived reluctance of customers to switch to e-commerce and the perception that e-commerce will not benefit their business. Cost is also a major barrier, with 22% inhibited by the high costs involved in developing a web site and 19% concerned about the high cost of maintaining a web site. Other significant barriers are technology failures (16%) and the lack of technical and web skills among their employees (16%).

Over 70% of businesses use MS Office as their office applications software. The reasons given for using MS Office are largely positive ones: cost, availability of help, facilities, interchange of files and updates. Nevertheless, 21% of businesses felt that they were forced into using MS Office because of the lack of choice.

BUSINESS ADVICE AND SERVICES

Accountants remain the most frequently used source of business advice; nearly three quarters of respondents have consulted an accountant within the previous year. Other sources of business



advice are much less used. A majority (59%) of respondents were satisfied with advice from accountants. Compared with the previous two FSB surveys, satisfaction with accountants' advice has declined: down from 68% in 2002 and 65% in 2000.

Government funded business support services, which include Business Link (England), LEC and Business Gateway (Scotland), Business Support Gateway (Wales) and Invest Northern Ireland, are used by 17% of respondents, but more frequently by new businesses (0-3 years), 26% of whom report using this source of advice. Other local, regional and national government agencies are used by fewer than 5% of respondents.

Respondents who have used government funded business support services in the past year rated their levels of satisfaction over five different criteria. Overall, 10% of users are satisfied with the usefulness of business advice, 9% with the quality of business advisors, 7% with the relevance of their products / services and 6% with the cost of their products / services and advisors' understanding of their business.

Satisfaction with government funded business support services is considerably higher among new businesses (0-3 years), the main users of these services. These results suggest an association between levels of usage and levels of satisfaction with regard to sources of business advice.

Compared with the 2002 FSB study, there has been a slight increase in satisfaction with government funded business support services. Levels of satisfaction with the usefulness of their business advice have increased from 8% in 2002 to 10% in 2004, while satisfaction with the relevance of their products / services has increased from 3% in 2002 to 7% in 2004. Levels

of dissatisfaction have remained more or less static when compared with the FSB 2002 study, constituting between 3% and 5% across each item.

Given the high levels of non-usage reported in all three of the FSB biennial surveys, this year's survey sought to determine the reasons why the majority of small businesses do not use government funded business support services. The major causes of non-usage are a lack of awareness of these services and confusion over service provision. Other reasons for non-usage suggest that respondents are aware of services, but either reluctant to use them or excluded from support. A minority of respondents report that their non-usage is caused by past experience (8%), that better advice is offered elsewhere (8%) or that they are deterred by unqualified business advisers (5%).

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

Greatest satisfaction is reported for the availability of recycling facilities (12%), although fewer respondents are satisfied with the cost of these facilities (5%). A third (34%) are dissatisfied with council refuse / license charges and 31% are dissatisfied with local authority consultation with small businesses.

Satisfaction with transport issues was measured across eight separate items that included road networks and infrastructure, parking, tax and fuel costs and local transport planning. This year's

survey also asked respondents to report their levels of satisfaction with road tolls and congestion charges.

Levels of dissatisfaction with passenger transport are highest in London (35%, compared with 25% across the total sample). London respondents are also more likely to report dissatisfaction with parking (64%, compared with 52% across the UK) and local transport planning (47%, compared with 43% across the UK).

London respondents are far more likely to report dissatisfaction with road tolls / congestion charges (50%, compared with 30% across the total sample), as are to a lesser extent respondents from West Midlands (35%, compared with 30% across the total sample). Interestingly, London respondents are also more than twice as likely to report satisfaction with road tolls / congestion charges, although only a small minority expressed satisfaction (7%, compared with 3% across the sample as a whole).

Dissatisfaction is highest for fuel costs and road tax. These two items have attracted the highest levels of dissatisfaction in all three of the FSB surveys (2000, 2002 and 2004). Some changes in the levels of dissatisfaction are notable, however. In the first FSB survey (2000), 95% of respondents reported that they were dissatisfied with fuel costs, a level that dropped to 74% in the 2002 survey, and has dropped further in this current survey to 66%.

LEGISLATION, REGULATIONS AND THE ENVIRONMENT

Very few respondents report satisfaction with any of the items relating to legislation (volume, complexity, rate of change, interpretation and enforcement of legislation). Levels of

dissatisfaction are greatest for the complexity (60%), volume (59%), rate of change (56%), compliance costs (55%) and interpretation of legislation (54%). Slightly lower levels of dissatisfaction are reported for the enforcement (35%) and inspection (34%) regime.

Compared with the results of the FSB 2002 study, this year's results show a modest reduction in levels of dissatisfaction across each of the seven items related to aspects of legislation.

Dissatisfaction reduced by 5 percentage points for three items: complexity of legislation, rate of change and interpretation. Dissatisfaction reduced by 4 percentage points for two items (volume of legislation and enforcement regime), 3 percentage points for the inspection regime and 2 percentage points for the cost of compliance.

A strong association was found between dissatisfaction with items relating to legislation and the number of years in business. Levels of dissatisfaction increase steadily as years in business increase. Importantly, this relationship was specific to years in business, not age of business owner. It appears that tolerance for legislative issues decreases as experience of business ownership lengthens.

With regard to the anticipated effect of current business issues and directives, only 2% expect changes in parental leave to be positive, while 32% anticipate negative effects. Similarly, 2% expect the working time directive (losing the 48 hour working week) to be positive, while 21% believe it will be negative. A higher proportion (11%) expects a flexible retirement to be positive, while just 10% report negative effects.

The increase in National Insurance contributions is believed to be negative by 63%, while only 2% report positive effects. Increased insurance premiums incur the highest proportion of negative



effect responses (71%) and the lowest proportion of neutral responses (9%).

Compliance with the Disability Discrimination Act is anticipated to bring positive effects by 3% of respondents, but negative effects by 19%. In total, 17% report that they have made adjustments to comply with this legislation and 21% report that their premises are already compliant. A large minority (43%) have not made adjustments and a further 11% are unaware of the requirement. In ten out of the fifteen industry sectors, a majority of respondents are either unaware of the requirement or have not made the necessary adjustments. Of the five other sectors, Health & Social Work (61%) and Education (51%) have a majority of respondents that have either made adjustments or are already compliant. In the Hotels & Restaurants (48%), Retail, Wholesale & Repairs (44%) and Personal Services (44%) sectors, fewer than half the respondents have either made adjustments or are already compliant.

Few respondents report that they engage in activities related to areas of environmental concern. Less than 13% report that their business activities involve the storage or use of hazardous substances, and this was highly correlated with industry sector (Agriculture, Manufacturing and Transport). Fewer than 30 of the total sample of 18,635 respondents report that their business is involved in other activities of environmental concern, such as emissions or large-scale water or energy usage.

Factors that would most encourage compliance with environmental legislation and improve their business's environmental performance include evidence of cost savings, the provision of clear information about government requirements for small business, and having a general concern for the environment. Factors least likely to encourage

their business's environmental performance include voluntary codes, cost increases and threats of fines or legal proceedings.

Over a quarter (27%) of respondents paid the Climate Change Levy on their last power bill, compared with 20% who stated that they had not paid the Levy and 49% who reported that they did not know. Compared with the FSB 2002 survey, there has been a slight increase in the number of respondents reporting that they paid the Levy, a decrease in the numbers stating that they had not and an increase in the number who did not know. Relatively few have instigated any consequent changes in their businesses.

THE INCIDENCE AND COST OF CRIME

Over half (58%) of businesses have been the victims of crime during the past year. The most frequent crimes are vandalism, experienced by 27% of businesses, and vehicle damage (25%). More than one in ten businesses has experienced graffiti (13%) and shoplifting (12%). Many other crimes, such as robbery, employee fraud and cheque fraud, have been experienced by more than 5% of businesses. Only arson (2%) and Internet crime (3%) remain rare.

Many business owners do not report business related crime. Moreover, the willingness to report crimes varies according to the nature of the crime. Only burglary and vehicle theft are fairly consistently reported to the police. There is a reluctance to report employee crimes (fraud, theft) or credit card and cheque fraud, all of which are among the less frequently occurring crimes.

There are two main reasons why business owners do not report crimes. First, there is a view that reporting a crime 'would not achieve anything' (36%). Unwillingness to report crimes is also linked to a lack of confidence in police

capabilities. Second is the cost of crime: no insurance claim was being made (20%) or that the crime was not serious enough (18%). Indeed, for most businesses the cost of crime is either negligible or relatively small. Less than 2% of businesses experienced costs associated with crime that exceeded £10,000.

For most businesses, the main costs of crime arise from the need to take greater crime prevention measures, notably security alarms (34%), security systems (16%) and CCTV (15%). However, only 4% of businesses have chosen the low cost option of establishing or joining a Business Watch scheme.

Introduction

This report presents the results of the Federation of Small Businesses' 2004 biennial survey of its membership. The project was funded by the Federation of Small Businesses (FSB) and undertaken by the Hunter Centre for Entrepreneurship at the University of Strathclyde in Glasgow. This report is the third biennial survey of FSB members and builds on the two previous studies 'Barriers to Survival and Growth in UK Small Firms' published in 2000 and 'Lifting the Barriers to Growth in UK Small Businesses' published in 2002. Each of these surveys is among the largest, non-government surveys of the small business sector that have been undertaken in the UK. This is demonstrated in Appendix One, which presents a comparison of the sample size and coverage of the FSB survey and other leading, large-scale surveys of small businesses in the UK. As a consequence, the FSB surveys should be seen as providing an authoritative picture of the small business sector and record of small business opinion.

The project methodology used a postal survey questionnaire sent to 155,000 of the 185,000 FSB membership in October 2003. In addition to the postal survey, the questionnaire was available to complete on the Internet, and was also available on request in six languages. In total, 18,635 responses were returned by the cut-off date, a response rate of 12.02%. Further details of the project methodology and a copy of the questionnaire are available on request.

This report summarises the results of the project and presents data on survival and growth in small businesses across the UK. Further, in-depth analysis of the data will be undertaken and published over the course of 2004.

A large number of individuals have contributed their time and expertise to this project, not least the many thousands of business owners who took the time to complete and return the questionnaire. The research team would like to thank the individuals who contributed to this project.

Profile of the Businesses

AREA OF RESPONSES

Table 1.1 presents details of the survey respondents by region. The regions comprising the highest levels of response are South East England (19.8%) and South West England (17.3%). These two regions, together with London, comprise more than 40% of respondents. Responses from Scotland account for a further 11% of the total. In comparison with FSB area membership, responses from East of England (5.8%), Yorkshire & Humberside (5.9%) and North West England (9.2%) are slightly lower than expected, while responses from South East England and South West England are slightly higher. Overall, however, the regional distribution of responses closely matches FSB area membership.

Table 1.1 also presents details of the regional distribution of responses in the two previous FSB biennial membership surveys (undertaken in 2002 and 2000). While minor variations are apparent between the three biennial surveys, overall there is

a high level of consistency in the regional distribution of respondents over the three surveys.

The final column of *Table 1.1* presents details of the regional distribution of VAT registered enterprises in the UK. While there is consistency between the distribution of FSB responses and VAT registered enterprises in some regions, there are a few distinct differences. The greatest difference is seen in the London area, which accounts for only 4.1% of the effective sample, but contains over 16% of VAT registered enterprises. In contrast, South West England comprises 17.3% of the effective sample, but only 9.29% of VAT registered enterprises, and South East England comprises 19.8% of the effective sample but a lower proportion (15.74%) of VAT registered enterprises. To a large extent these differences can be explained by the boundaries used to define the London area. The VAT registration data presented in *Table 1.1* includes both inner and outer London, in contrast to the FSB area boundaries. These definitional differences explain both the apparent under-

Table 1.1 Regional distribution of respondents

	FSB Survey 2004 No.	FSB Survey 2004 %	FSB Survey 2002 %	FSB Survey 2000 %	FSB Area Membership %	* VAT Reg. Enterprises %
London	766	4.1	4	5	3	16.05
South East	3699	19.8	21	20	17	15.74
South West	3224	17.3	16	15	15	9.29
West Midlands	1426	7.7	7	8	8	8.29
East Midlands	1599	8.6	9	9	10	6.78
East of England	1083	5.8	6	6	9	10.06
Yorkshire & Humberside	1105	5.9	8	8	8	7.06
North East	537	2.9	2	2	2	2.47
North West	1720	9.2	10	10	11	9.64
Wales	836	4.5	4	4	4	4.36
Scotland	2045	11.0	10	10	10	7.03
Northern Ireland	390	2.1	2	1	1	3.16
Not answered	205	1.1	2	1	-	-
Total	18635	100	100	100	100	100

Source: *Small Business Service Statistical Press Release 'Business Start-Ups and Closures: VAT Registrations and Deregistrations in 2002', 21st October 2003

representation of London businesses and the over-representation of businesses in South East England and South West England, among the survey respondents. It is also worth noting that this survey depended on the self-classification of region by FSB survey respondents and that this may also have contributed to the differing proportions of regional responses.

INDUSTRY SECTOR

Table 1.2 presents details of the respondents' businesses by industry sector and demonstrates the wide range of industries among FSB members. The largest proportion of respondents (22.4%) operates businesses in the Retail, Wholesale & Motor Trades sector. The services sectors are also well represented, with 15.9% of respondents operating businesses in the Business Services sectors, 3.5% in the Financial Services and, in total, a further 6% of respondents operating firms in Education, Health & Social Work, Personal Services and Public Administration & defence.

The Manufacturing sector is the third largest sector (10.7% of respondents), while Construction (10.2%) and Hotels & Restaurants (7.1%) are both well represented. Of the remaining businesses, 3.4% operate in the Agriculture sector, 0.7% operate in Energy & Water and 0.3% in Mining & Quarrying.

Table 1.2 also presents details of the industrial distribution of respondents in the two previous FSB biennial surveys. Due to changes in the way that information about industry sector was collected in this year's survey, it is not possible to present an exact comparison of the data. However, it is clear from *Table 1.2* that there has been consistency in the responses in many of the main industry sectors across the three biennial surveys. Sectors such as Agriculture; Retail, Wholesale & Motor Trades; Hotels & Restaurants; Financial Services; Education; and Health & Social Work show a consistent level of response over the three surveys. Some minor differences may be noteworthy. Responses from the Manufacturing

Table 1.2 Industrial profile of respondents *Industry Sector based on Standard Industrial Classification (SIC) codes*

	FSB Survey 2004 No.	FSB Survey 2004 %	FSB Survey 2002 %	FSB Survey 2000 %	* VAT Reg. Enterprises %
A&B Agriculture, Forestry, Fishing	630	3.4	2.9	3.1	8.63
C Mining & Quarrying	51	0.3	-	-	0.08
D Manufacturing	1985	10.7	11.4	12.2	8.81
E Energy & Water	132	0.7	0.8	0.5	-
F Construction	1908	10.2	8.4	8.4	10.99
G Retail/ Wholesale/ Motor	4179	22.4	21.7	22.6	22.22
H Hotels/ Pubs/ Restaurants	1315	7.1	6.8	7.1	6.80
I Transport / Communication	759	4.0	5.2	5.7	4.62
J Financial Services	656	3.5	3.0	3.0	0.64
K Business Services	2966	15.9	6.1	7.3	27.25
L Public Admin & Defence	23	0.1	-	-	-
M Education	281	1.5	1.3	1.1	0.63
N Health & Social Work	450	2.4	2.9	2.7	0.57
O Other Services	323	1.7	8.6	8.3	8.69
Other	2810	15.1	12.3	12.8	-
Not answered	167	0.9	1.8	0.4	-
Total	18635	100	100	100	100

Source: *Office for National Statistics 'Commerce, Energy & Industry: Size Analysis of UK Businesses, PA 1003, Data for 2003', Data drawn from Table 1a, Published June 2003.

and the Transport sectors have declined modestly across each of the three surveys, while responses from Construction businesses have increased in the current survey. Finally, the increase in responses from Business Services and the decrease in responses from Personal Services are largely due to changes in the data collection procedures.

The final column of *Table 1.2* presents details of the distribution of VAT registered enterprises by industry sector in the UK in 2003. The largest industry sectors are Business Services, which account for over 27% of all VAT registered enterprises and Retail, Wholesale & Motor Trades, accounting for a further 22% of VAT registered enterprises. Other industry sectors account for a much lower proportion of the total number of UK VAT registered enterprises. In comparison with this data, the survey respondents present an interesting profile. Within the Retail, Wholesale & Motor Trades, Construction, Hotels & Restaurants and Transport sectors, there is a very close similarity in the proportion of survey respondents compared with VAT registered enterprises. The survey slightly over-represents respondents in the Manufacturing sector (10.7%, compared with 8.81% of VAT registered enterprises), and under-represents Agriculture (3.4%, compared with 8.63% of VAT registered enterprises). A key difference between the two data sets is within the various services sectors. Collectively, the various services sectors (SIC Codes J, K, L, M, N, O) account for nearly 38% of all VAT registered enterprises, but only 25% of FSB respondents. The FSB survey under-represents Business Services (15.9%, compared with 27.25% of VAT registered enterprises) and Other Services (1.7%, compared with 8.69% of VAT registered enterprises). Importantly, the FSB survey depends on respondents' self-classification of industry sector, and 15.1% were unable to do so. It is possible that many of these respondents operate within the various services sectors, but were unable to classify their businesses into one specific industry sector. If added to the total number of services based respondents, the sectoral distribution of FSB respondents would more closely reflect the distribution of VAT registered enterprises.

Table 1.3 presents details of the sectoral profile of respondents by region. In comparison with the UK total, Agriculture based businesses are more likely to be located in Scotland (6%, compared with a UK average of 3%) and East of England (5%). In contrast, Manufacturing respondents are more likely to be located in Yorkshire & Humberside and West Midlands. The proportion of Retail, Wholesale & Motor Trades respondents across the UK is 22%, but higher in Northern Ireland (27%), Wales (26%) and North East England (26%). Reflecting the tourism base, Hotels & Restaurants respondents (7% of the total) are more likely to be located in Scotland (11%), Wales (10%) and North West England (10%). While London based respondents are less likely to operate in the Manufacturing, Retail, Wholesale & Motor Trades and Hotels & Restaurants sectors, they contain a very high proportion of Business Services enterprises (26%, compared with a UK average of 16%). A similar distribution of industry sectors can be seen in South East England, which also contains a higher than average proportion of Business Services and Financial Services respondents, but under-represents those in the Hotels & Restaurants, Manufacturing and Retail, Wholesale & Motor Trades sectors. Construction based respondents are fairly evenly distributed across the UK (10%), but it is perhaps notable that fewer than average are located in Northern Ireland (7%) and Wales (7%), while South East England (12%), London (11%) and Scotland (11%) contain a slightly higher proportion. Finally, it is notable that nearly a fifth of London respondents, compared with 15% across the UK, failed to self-classify their industry sector, suggesting that they may be operating in very new industries or sectors which conventional SIC codes fail to capture. Given that London respondents are disproportionately over-represented in the services sectors, this may add weight to the suggestion in the previous paragraph that many of the non-classified industry respondents are likely to operate within the various service sectors.

YEARS IN BUSINESS

Table 1.4 presents details of the length of time respondents have owned their current business. The results show that a quarter of respondents (25.2%) have started their business within the previous three years, while a further 18.9% have owned their business between three and five years. In contrast, nearly a third of respondents owned mature businesses. In total, 18.0% have owned their business for between 11-20 years and 12% have owned their business for longer than 21 years.

This business age profile is notably younger than the two previous FSB surveys, both of which reflected a more mature business owning sample. The growth in the number of younger respondents is an important element of this sample. Many of

the economic benefits associated with the small business sector, including new employment and wealth creation, are more accurately attributed to new firms. That so many of the FSB respondents are new to business ownership is, therefore, an important finding, and perhaps reflects the recent growth in the total number of the self-employed reported in the Labour Force Survey, 2003. An analysis of the characteristics of respondents who have owned their business for less than three years reveals a distinctive group profile. They are more likely to be in the younger (under 21 years and 22-34 years) age groups, more likely to be female and more likely to operate their businesses from home-based premises. Interestingly, those who have owned their business in excess of 31 years also present a distinctive group profile, with particular regard to their industry sector, attitudes to legislative issues

Table 1.3 Industrial profile of respondents by region

	Not answered	Agriculture Forestry & Fishing	Mining & Quarrying	Manufacturing	Energy & Water	Construction	Retail, Wholesale & Motor Trade	Hotels & Restaurants	Transport & Communications	Financial Services	Business Services	Public Administration & Defence	Education	Health & Social Work	Personal Services	Other
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
London	0	1	0	7	1	11	18	3	4	4	26	0	1	3	2	19
South East	1	3	0	9	1	12	20	5	4	5	21	0	2	2	2	15
East England	1	5	0	12	1	9	21	6	5	3	17	0	1	2	2	14
South West	1	4	0	8	1	10	24	9	4	3	14	0	1	3	2	15
East Midlands	1	3	0	14	1	10	23	5	4	4	16	0	1	2	2	15
West Midlands	1	3	0	16	1	10	20	4	4	4	15	0	1	3	2	15
Yorkshire & Humberside	1	3	0	17	1	10	23	6	4	4	13	0	2	2	1	15
North West	0	2	0	12	1	10	24	10	4	3	14	0	2	3	2	14
North East	1	3	0	10	1	9	26	7	5	3	15	0	1	4	2	15
Wales	1	4	0	11	1	7	26	10	4	3	12	0	1	2	2	15
Scotland	1	6	0	7	1	11	24	11	4	2	13	0	1	1	2	15
Northern Ireland	2	4	0	15	1	7	27	7	4	3	13	0	1	3	2	12
Not answered	20	4	0	12	1	5	16	7	2	2	7	0	1	1	2	18
UK	1	3	0	11	1	10	22	7	4	4	16	0	2	2	2	15

Table 1.4 years in business

	Count	%
0-3	4693	25.2
4-5	3514	18.9
6-10	3240	17.4
11-20	3354	18.0
21-30	2206	11.8
31+	36	0.2
Not answered	1592	8.5
Total	18635	100.0

and environmental performance and crime. These differences will be discussed at relevant points throughout the report.

Table 1.5 presents details of respondents' length of business ownership by industry sector. This table also highlights some distinctive differences in the industry sectors favoured by newer firms. While new firms (0-3 years) account for 25% of the total sample, they comprise 40% of businesses in the Hotels & Restaurants sector, 39% of businesses in

Public Administration & Defence and 37% of businesses in Education. Overall, new businesses tend to be over-represented within the service based industries and under-represented in the more traditional industry sectors, such as Mining & Quarrying (10%), Agriculture (14%) and Manufacturing (17%). In contrast, the more mature businesses (21-30 years), which accounted for 11.8% of the total sample, are more likely to operate in the Manufacturing (17%), Construction (16%) and Agriculture (16%) sectors. Businesses

Table 1.5 Years in business by industry sector

	Not answered	0-3	4-5	6-10	11-20	21-30	31+
	%	%	%	%	%	%	%
Agriculture, Forestry & Fishing	23	14	15	14	18	16	0
Mining & Quarrying	18	10	25	22	14	12	0
Manufacturing	10	17	17	16	23	17	0
Energy & Water	10	26	17	23	8	15	0
Construction	10	21	18	16	18	16	0
Retail, Wholesale & Motor Trade	11	23	18	16	17	14	0
Hotels & Restaurants	4	40	21	18	11	6	0
Transport & Communications	10	23	19	17	18	13	0
Financial Services	5	27	20	20	19	9	0
Business Services	4	30	21	20	17	7	0
Public Administration & Defence	4	39	17	22	13	4	0
Education	3	37	20	20	16	4	0
Health & Social Work	6	26	21	15	22	10	0
Personal Services	6	34	18	18	17	7	0
Other	7	26	19	17	20	10	0
Not answered	19	23	16	19	11	11	1
UK	9	25	19	17	18	12	0

Table 1.6 Years in business by region

	Not answered	0-3	4-5	6-10	11-20	21-30	31+
	%	%	%	%	%	%	%
London	10	23	21	17	17	12	0
South East	7	26	19	18	18	12	0
East England	8	24	20	17	20	12	0
South West	8	28	19	18	17	10	0
East Midlands	10	24	16	17	19	14	0
West Midlands	10	21	20	17	18	14	0
Yorkshire & Humberside	9	21	20	18	20	12	0
North West	9	25	19	17	19	12	0
North East	10	28	17	16	17	11	1
Wales	9	23	18	20	18	12	0
Scotland	10	28	17	16	17	11	0
Northern Ireland	9	22	17	21	19	12	1
Not answered	17	25	18	14	15	10	0
UK	9	25	19	17	18	12	0

Table 1.7 Legal status of business

	Count	%
Limited Company	8448	45.3
Sole Trader	5934	31.8
Partnership	3889	20.9
Franchised Operation	135	.7
Limited Liability Partnership	121	.6
Not answered	108	.6
Total	18635	100.0

that have been operating in excess of 31 years are far more likely to be in Manufacturing (19%, compared with 11% across the total sample) and in Transport (8%, compared with 4% across the total sample). There are few discernible differences in the length of business ownership when analysed by area (Table 1.6). Three regions show a disproportionately higher number of new firms (0-3 years): South West England, North East England and Scotland; while three regions (the West Midlands, Yorkshire & Humberside and Northern Ireland) show a disproportionately lower number of new firms. In contrast, two regions,

West Midlands and East Midlands show a higher proportion of more mature businesses (21-30 years).

LEGAL STATUS OF BUSINESS

Table 1.7 presents details of the legal form of respondent businesses. The largest proportion (45.3%) operate as limited liability companies. Nearly a third (31.8%) are registered as sole traders and a further 20.9% as partnerships. Less than 1% of businesses are registered as limited liability partnerships or as a franchise. The legal

Table 1.8 | Legal status of business by region

	Not answered %	Limited Company %	Franchised Operation %	Limited Liability Partnership %	Sole Trader %	Partnership %
London	1	60	0	1	28	10
South East	1	50	1	1	31	17
East England	0	44	0	1	32	23
South West	1	40	1	1	32	25
East Midlands	0	49	1	1	30	19
West Midlands	0	51	1	1	29	18
Yorkshire & Humberside	0	47	1	1	31	20
North West	0	46	1	1	30	22
North East	0	45	1	1	32	22
Wales	0	37	1	1	34	27
Scotland	1	37	1	1	38	23
Northern Ireland	1	38	1	0	39	21
Not answered	8	37	0	0	33	22
UK	1	45	1	1	32	21

Table 1.9 | Legal status of business by industry

	Not answered %	Limited Company %	Franchised Operation %	Limited Liability Partnership %	Sole Trader %	Partnership %
Agriculture, Forestry & Fishing	1	34	1	1	31	33
Mining & Quarrying	2	49	4	0	31	14
Manufacturing	0	66	0	1	19	14
Energy & Water	0	57	0	2	31	11
Construction	1	53	0	1	31	15
Retail, Wholesale & Motor Trade	1	35	1	1	36	27
Hotels & Restaurants	1	23	1	1	30	45
Transport & Communications	0	49	1	0	31	19
Financial Services	0	40	2	0	42	16
Business Services	1	57	1	1	29	12
Public Administration & Defence	4	61	0	4	9	22
Education	1	42	1	0	36	20
Health & Social Work	0	32	0	1	40	26
Personal Services	1	29	0	1	50	20
Other	1	46	1	1	34	18
Not answered	11	35	2	1	34	19
UK	1	45	1	1	32	21

status of respondent businesses is very close to that of VAT registered enterprises reported in PA1003 (reference after table 1.2), in which 43% are registered as limited companies, 34% are registered as sole traders and 21% are registered as partnerships. In comparison with the two previous FSB surveys, there has been a continued increase in the proportion of limited liability companies (up from 33% in 2000, 35% in 2002 to 45% in 2004), and a reduction in sole traders (down from 39% in 2000, 37% in 2002, to 32% in 2004) and partnerships (down from 27% in 2000, 26% in 2002 to 21% in 2004). This reflects an ongoing increase in company registrations across both the UK, reported in PA 1003 and Companies House - The Register, and in other European countries.

Analysed by region (Table 1.8), limited companies are most likely to be seen in London (60%), West Midlands (51%) and South East England (50%). Fewer than average limited companies are seen in Wales (37%), Scotland (37%) and Northern Ireland (38%). Sole traders, usually smaller businesses, are over-represented in Northern Ireland (39%) and Scotland (38%) and under-represented in London (28%). Partnerships are similarly under-represented in London (10%), but comprise a disproportionately higher number of responses from Wales (27%) and South West England (25%).

Table 1.9 shows the legal form of respondents' businesses by industry sector. Businesses in the Manufacturing (66%), Public Administration & Defence (61%), Energy & Water (57%), and Business Services (57%) sectors are more likely to be registered as limited companies. The remaining service industries, in particular the Personal Services (50%), Financial Services (42%) and Health & Social Work (40%) sectors, are more

likely to be registered as sole traders. Perhaps reflecting the tradition of family ownership in the Hotels & Restaurants and Agriculture industries, these two sectors are more likely to be registered as partnerships.

Sole traders are particularly represented among businesses that operate from home-based premises. While sole traders make up 32% of the effective sample, they account for 45% of home-based businesses. Sole traders are also more apparent within those businesses that are female owned. While female-owned businesses comprise 15% of the effective sample, they account for 50% of sole traders. Among those respondents who have been in business for the longest period (over 31 years), partnerships are particularly favoured (31%, compared with 21% across the total sample), while sole trading is the least likely legal form of business (25%, compared with 32% across the total sample).

VAT REGISTRATION

Table 1.10 shows the proportion of VAT registered businesses in the sample. In total, 78.9% of businesses are registered for VAT, 17.6% are not registered and 2.8% are exempt from VAT registration. Given that VAT registration is voluntary for businesses with a sales turnover of less than £56,000, VAT registration may be regarded as an indicator of small business scale and ambition. Businesses that are not registered for VAT, without industry sector based VAT exemption, are often the smallest and most marginal enterprises.

As in the two previous FSB biennial surveys, clear regional differences could be seen in levels of VAT

Table 1.10 Is the business registered for VAT?

	Count	%
Yes	14695	78.9
No	3276	17.6
Exempt	525	2.8
Not answered	139	.7
Total	18635	100.0

registration among respondents' businesses. *Table 1.11* shows that respondents from London and Northern Ireland are most likely to operate VAT registered businesses, while those from South West England and Scotland are disproportionately more likely to operate VAT unregistered businesses.

VAT registration is also influenced by industry sector. Four sectors, Education, Health & Social Work, Other Services and Financial Services, are all much less likely to be registered for VAT. While VAT exemptions account for a proportion of these non-registrations, the small size and consequent low sales turnover of businesses in these sectors are clearly also factors in non-registration. As expected, home-based businesses are less likely

to be VAT registered. While 18% of the sample is not registered for VAT, one third (33%) of home-based businesses are non-VAT registered.

BUSINESS GROWTH OBJECTIVES

Table 1.12 presents the business growth objectives of respondents. The largest proportion (49.1%) state that their two-year objective is to expand modestly and a further 8.3% state that they wished to grow rapidly. While these results demonstrate the clear growth orientation and ambitions of the respondents, not all want to grow. Nearly a quarter (24.7%) state that they wanted to remain about the same size. Fewer than 10% of respondents want to either sell (6.9%) or to hand-

Table 1.11 VAT registered businesses by region

	Not answered	Yes	No	Exempt
	%	%	%	%
London	0	85	13	2
South East	1	79	17	3
East England	0	80	18	2
South West	1	76	21	3
East Midlands	1	81	15	3
West Midlands	1	81	15	4
Yorkshire & Humberside	0	81	15	3
North West	1	78	19	3
North East	0	78	18	3
Wales	1	78	18	3
Scotland	1	76	20	2
Northern Ireland	0	85	13	2
Not answered	8	69	19	4
UK	1	79	18	3

Table 1.12 Two-year business growth objectives

	Count	%
To expand moderately	9149	49.1
To remain about the same size	4603	24.7
To grow rapidly	1543	8.3
To sell the business	1278	6.9
To downsize/ consolidate the business	592	3.2
To close it down	381	2.0
To hand on the business/ succession	356	1.9
Not answered	733	3.9
Total	18635	100.0

on (1.9%) their business. Very few want to either downsize (3.2%) or close down (2.0%) their business.

Analysed by area (*Table 1.13*), respondents in London demonstrate the greatest ambition for rapid business growth, while those in Northern Ireland are the most ambitious for moderate growth. Respondents in these two areas are also the least likely to want to remain about the same size. Northern Ireland respondents are also notable for their desire to stay in business; they are the least likely to want to either close down or sell the business.

Sectoral differences are also apparent in the respondents' growth objectives. Rapid growth is cited as the main objective for 8.3% of the total sample, but firms in Public Administration & Defence (17%), Financial Services (14%) and Business Services (13%) are more likely to have a

rapid growth objective. Financial Services and Business Services based businesses are also more likely than other firms to express the desire for moderate growth. Of those who state an objective of business sale or closure, it is notable that 17% of Hotel & Restaurants respondents intend to sell their business, compared with 7% of the total sample, and 4% of Mining & Quarrying respondents intend to close their business, compared with 2% of the total sample. Some of the greatest differences in growth ambitions are seen when analysed by age of respondent (*Table 1.14*). Respondents in the older age groups (55-64 years and 65+ years) are much more likely to want to close, sell and hand-on their business and less likely to aspire to moderate or rapid growth. In contrast, respondents in the younger age groups (under 21 years, 22-34 years and 35-44 years) are much more likely to want to achieve rapid or moderate growth.

Table 1.13 Two-year business growth objectives by region

	Not answered %	To close it down %	To sell the business %	To downsize/ consolidate the business %	To remain about the same size %	To expand moderately %	To grow rapidly %	To hand on the business/ succession %
London	4	3	8	4	19	49	12	2
South East	4	2	6	4	24	49	9	2
East England	4	2	7	3	25	49	7	2
South West	4	2	8	3	24	49	8	2
East Midlands	3	2	7	3	27	46	9	2
West Midlands	5	2	6	4	25	49	7	2
Yorkshire & Humberside	4	3	6	3	24	50	8	2
North West	4	2	8	3	25	47	8	2
North East	3	2	6	3	24	52	9	1
Wales	4	2	7	2	26	50	8	2
Scotland	5	2	6	3	25	50	7	2
Northern Ireland	3	1	5	3	21	57	9	2
Not answered	8	1	6	2	27	46	7	2
UK	4	2	7	3	25	49	8	2

Table 1.14 Two-year business growth objectives by age of respondent

	Not answered	To close it down	To sell the business	To downsize/ consolidate the business	To remain about the same size	To expand moderately	To grow rapidly	To hand on the business/ succession
	%	%	%	%	%	%	%	%
Under 21	3	1	3	2	22	58	11	0
22 to 34	3	1	4	2	18	57	15	0
35 to 44	4	1	4	2	21	56	11	1
45 to 54	3	2	6	3	26	52	8	1
55 to 64	4	3	10	4	28	41	5	4
65+	6	6	14	5	28	30	3	8
Not answered	13	5	9	1	19	41	11	1
UK	4	2	7	3	25	49	8	2

Table 1.15 Methods to achieve business growth objectives

	Count	%
Improve sales & marketing	8124	43.6
Seek to reduce costs	7204	38.7
Seek out new types of customers	6481	34.8
Invest in new equipment/ machinery	6152	33.0
Expansion in range of products/ services	4545	24.4
Invest in IT	4517	24.2
Increase expenditure on staff training	3060	16.4
Move to new premises	2905	15.6
Greater collaboration with suppliers	2232	12.0
Seek out new geographical markets	2112	11.3
Open additional branches/ premises	1690	9.1
Reduce environmental impact	1148	6.2
Increase exporting	1114	6.0
Focus on narrower range of products/ services	972	5.2
Increase R&D spending	841	4.5
Greater collaboration with competitors	780	4.2
Start exporting	415	2.2
Shift activities to lower cost overseas location	201	1.1
Shift out of manufacturing and into services	124	.7
None ticked	3180	17.1

Note: Multiple Responses were possible so totals exceed 100%

Distinctive differences are also seen when analysed by years in business. The most mature businesses (over 31 years) are far more likely to want to close the business (6%, compared with 2% across the total sample), sell the business (11%, compared with 7% across the total sample), remain about the same size (33%, compared with 25% across the total sample), or hand on the business through succession (6%, compared with 2% across the total sample). In contrast, the newest businesses (0-3 years) are far more likely to desire either moderate growth (59%, compared with 49% across the total sample) or rapid growth (15%, compared with 8% across the total sample). An ambition for moderate or rapid growth decreases incrementally, while ambitions for

closure, sale, handing the business on or remaining the same size increase incrementally, with years in business.

ACHIEVING BUSINESS GROWTH OBJECTIVES

The methods that respondents intend to use in order to achieve their business growth objectives are reported in *Table 1.15*. The most favoured method, cited by 43.6% of respondents is to improve sales and marketing. The results of this survey indicate that this is an area in which respondents believe themselves to be vulnerable and are keen to improve their skills. The concern with sales and marketing related issues is also apparent in the third most favoured method of

Table 1.16 Methods to achieve growth objective by region

	Move to new premises	Open additional branches/ premises	Invest in new equipment/ machinery	Increase expenditure on staff training	Increase R&D spending	Invest in IT	Reduce environmental impact	Start exporting	Increase exporting	Improve sales & marketing	Seek out new geographical markets	Seek out new types of customers	Seek to reduce costs	Focus on narrower range of products/ services	Expansion in range of products/ services	Greater collaboration with suppliers	Greater collaboration with competitors	Shift activities to lower cost overseas location	Shift out of manufacturing and into services	None ticked
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
London	22	12	31	16	6	30	4	3	8	47	16	41	33	5	26	13	6	3	1	16
South East	16	9	30	16	5	25	5	2	7	45	11	36	38	6	26	13	5	1	1	17
East England	12	8	31	14	4	25	6	2	6	43	9	33	39	5	23	11	4	1	1	17
South West	15	9	33	16	4	23	6	2	5	43	10	33	39	5	24	11	4	1	1	18
East Midlands	15	9	31	17	4	24	7	2	6	42	10	36	39	6	25	11	5	1	1	17
West Midlands	15	8	32	15	5	23	5	2	6	42	10	33	37	5	25	12	3	2	1	19
Yorks & Humber	18	8	33	16	4	23	5	1	8	45	12	34	41	5	24	13	4	1	1	14
North West	17	9	34	16	5	24	6	2	5	42	10	34	39	5	24	11	3	1	1	17
North East	17	11	37	19	5	27	7	3	6	48	13	40	38	5	25	12	6	1	0	13
Wales	13	9	36	18	4	25	6	3	6	43	12	34	36	5	22	11	4	1	0	17
Scotland	15	10	37	18	4	23	9	2	4	42	14	34	41	5	23	12	4	1	0	18
Northern Ireland	16	9	39	20	6	28	10	3	9	46	13	32	48	7	29	15	4	1	1	11
Not ticked	17	8	33	11	5	19	6	4	6	41	11	37	35	5	27	10	4	1	2	19
UK	16	9	33	16	5	24	6	2	6	44	11	35	39	5	24	12	4	1	1	17

achieving growth, seeking out new types of customers, cited by 34.8% of respondents. Other marketing related methods cited by respondents included: searching for new geographical markets (11.3%); expanding their product / service range (24.4%); focusing on narrower product / service range (5.2%); increasing collaboration with suppliers (12%) and competitors (4.2%); and increasing or starting exporting (6% and 2.2% respectively).

Overall, the business growth methods favoured by respondents suggest a concern with increasing their management skills and investing in their business capabilities. However, respondents also demonstrate a concern with cost control, and 38.7% cited cost reduction as a mechanism to achieve their growth objective. While investment in marketing and cost control procedures are two of the main methods of achieving business growth, a substantial proportion of respondents intend to invest in new equipment and technology. Overall, a third (33%) of respondents intend to invest in new equipment and machinery, and a quarter (24.2%) intend to invest in IT as a means of achieving their business growth objectives.

The least popular methods of achieving growth objectives are off-shoring, shifting activities to lower cost overseas locations, cited by only 1.1% of respondents, and shifting from manufacturing into services, cited by only 0.7% of respondents. Interestingly, both of these activities are more favoured by London based respondents. *Table 1.16* presents methods of achieving business growth objectives by region. London respondents are more likely than average to favour a range of growth mechanisms, including moving to new premises, opening additional branches, investing in IT, improving sales and marketing, seeking out new geographic markets and new types of customers. Northern Ireland respondents also are more likely than average to favour a range of growth mechanisms, including investing in new equipment, staff training and IT, expanding their product / service range, reducing their environmental impact and reducing costs. Few other regional differences are apparent in the most favoured methods to achieve business growth objectives.

Characteristics of the Business Owners

AGE OF OWNER

Table 2.1 presents details of the age of respondents, and highlights the mature membership of the FSB. The largest proportion of respondents is in the 45-54 years age group (31.7%), while 27.8% are aged 55-64 years and 24.1% are aged 35-44 years. In total 10.4% of respondents are in the youngest age ranges 22-34 years (9.6%) and under-21 years (0.8%). Those aged over 65 years comprise 5.5% of respondents.

Analysed by area, it is notable that respondents in the younger age group (22-34 years) are particularly well represented among Northern Ireland respondents (17%), as are respondents in the next age group 35-44 years (30%). Analysed by sector, respondents in the younger age group (22-34 years) are particularly apparent in the

Other Services category; respondents aged 35-44 years are disproportionately over-represented in Business Services, while the oldest age group (over 65 years) are disproportionately over-represented in Agriculture.

GENDER OF OWNER

Compared with the FSB 2002 survey, this year's study has seen a large increase in the number and proportion of respondents from female-owned businesses. Nearly 15% of respondents state that their business is female-owned, 50% state their business is male-owned, and a third (34.6%) state that their business has male and female owners (Table 2.2). Although female-owned businesses still comprise only a minority of respondents, nearly one thousand more female business owners responded to this year's study compared with the 2002 survey, when 1,750 responses were

Table 2.1 Age of respondent

	Count	%
Under 21	157	.8
22 to 34	1790	9.6
35 to 44	4482	24.1
45 to 54	5909	31.7
55 to 64	5180	27.8
65+	1023	5.5
Not answered	94	.5
Total	18635	100.0

Table 2.2 Gender of ownership

	Count	%
Male	9324	50.0
Female	2732	14.7
Male and Female	6454	34.6
Not answered	125	.7
Total	18635	100.0

received from women. The relatively large number of women respondents ensures that this year's FSB survey is one of the largest and most comprehensive datasets of women entrepreneurs in the UK.

In comparison with other respondents, female-owned businesses are more likely to be new firms (35% were between 0-3 years), registered as sole traders (50%, compared with 32% across the total sample) and less likely to be VAT registered (63%, compared with 79% across the total sample). Female business owners are also more likely to be within the younger age groups (22-34 years and 35-44 years) and operate their businesses from a home-base (28%, compared with 24% across the total sample). The pattern of years in business of female-owned businesses is particularly distinctive: the proportion of female-owned firms is highest among new firms and decreases incrementally by years in business. This finding may suggest that women's entry into business ownership is a relatively new phenomenon, but equally it may indicate that there is a disproportionate outflow of women from business ownership over time.

Analysed by area, female-owned businesses are particularly well represented in Scotland, while Yorkshire & Humberside have the lowest proportion of female-owned businesses. In contrast, Northern Ireland has the highest proportion of male-owned businesses (61% compared with 50% across the total sample), while both Wales and South West England have the lowest proportion (46%). Interestingly, both of these regions have a relatively large number of male and female co-owned businesses (38% compared with 35% across the total sample), perhaps reflecting the prevalence of the Agriculture and Hotel & Restaurant sectors in Wales and South West England. As *Table 2.3* highlights, there are very clear gender differences in the sectoral distribution of respondents. Women-owned businesses are more likely to operate in sectors such as Personal Services (38%), Education (38%) and Health & Social Work (32%). Male-owned businesses are more likely to operate in sectors such as Energy & Water (67%), Construction (66%) and Financial Services (62%). Perhaps reflecting the tradition of family ownership in the Hotel & Restaurants industries, the majority (52%) of businesses in this sector are male and female co-owned.

Table 2.3 Gender of ownership by industry

	Not answered	Male	Female	Male and Female
	%	%	%	%
Agriculture, Forestry & Fishing	1	52	8	39
Mining & Quarrying	2	51	8	39
Manufacturing	1	55	8	36
Energy & Water	0	67	6	27
Construction	0	66	5	28
Retail, Wholesale & Motor Trade	1	46	18	35
Hotels & Restaurants	0	28	19	52
Transport & Communications	0	59	7	35
Financial Services	0	62	14	24
Business Services	1	53	14	33
Public Administration & Defence	0	35	22	43
Education	2	24	38	36
Health & Social Work	1	29	32	38
Personal Services	0	35	38	27
Other	1	51	15	34
Not answered	11	46	15	28
UK	1	50	15	35

Table 2.4 Family involvement in ownership and management

	Count	%
Do any of these individuals share in the ownership of your business?		
Spouse	6637	35.6
Children	1153	6.2
Parents	600	3.2
Brother/Sister	642	3.4
Other relatives	339	1.8
None ticked	10479	56.2
Do any of these individuals share in the management of your business?		
Spouse	4536	24.3
Children	1576	8.5
Parents	310	1.7
Brother/Sister	402	2.2
Other relatives	363	1.9
None ticked	12457	66.8

FAMILY INVOLVEMENT

Respondents were asked to identify whether other family members were involved in either the ownership or the management of their business. In total, 35.6% of respondents share ownership and 24.3% share business management with their spouse (*Table 2.4*). Other family involvement is much less prevalent. Only 6.2% of respondents share ownership and 8.5% share business management with their children. As expected, family involvement in the business is strongly influenced by industry sector. Businesses in the Agriculture and Hotel & Restaurants sectors are more likely to be co-owned and co-managed with a spouse. The family involvement in the Agriculture sector is wider, encompassing children, parents and siblings in the ownership of these businesses. There is also an interesting relationship between family involvement in the business and the years in business by respondents. The involvement of the spouse, both in the ownership and the management of the business, increases incrementally with years in business. Clearly this demonstrates a specific feature of the small business sector; as the

number of years owning the business increase, they attract the involvement of family members and thus emerge, over time, as being family businesses.

Few variations in family involvement in business ownership and management are apparent by region. It is notable, however, that respondents from Northern Ireland are much less likely to either co-own or co-manage their business with a spouse. In part, this result may be explained by the sectors that predominate in Northern Ireland, but it may also be influenced by the personal characteristics of Northern Ireland respondents who, compared with the total sample, are both more likely to be male-owned businesses and in the youngest age groups.

HOME-BASED BUSINESSES

Although a majority (60.1%) of respondents site their business in external premises, a large proportion (24.3%) operate their business from their home, while 14.9% operate from a combination of their home and external premises (*Table 2.5*). As new computer technologies have

enabled a growing number of people to work remotely, the home-based office is becoming a key trend among small business owners. Given the relatively large number of respondents that are based in home-offices, some consideration is necessary of this particular group of entrepreneurs.

Many of the home-based businesses are new firms: 32% of home-based businesses are under 3 years old, compared with 25% across the total sample. The proportion of home-based businesses decreases incrementally with the age of the firm (measured by years in business), and only 11% of businesses aged over 31 years are home-based. Home-based businesses are also far more likely to be registered as sole traders (45%, compared with 32% of the total sample) and less likely to be limited liability companies (32%, compared with 45% of the total sample). Home-based businesses are also less likely to be VAT registered (64%, compared with 79% of the total sample). While the characteristics of home-based businesses are distinctive, the characteristics of home-based business owners are less clear-cut. Analysed by the age of business owner, home-based businesses can be seen across the age spectrum, with little variation by age group. Similarly, although a slightly higher proportion of women-owned businesses operate from home-based premises (28%, compared with 24% across the total sample), there are few other noticeable gender variations. One distinctive feature of home-based businesses is that they are more likely to be co-managed with a spouse; however businesses that operate partly from home and partly from external premises tend to show higher levels of spouse co-ownership and co-management. Home-based businesses do not, therefore, demonstrate the highest levels of family involvement; neither can they be described as family businesses.

A more revealing view of home-based businesses can be gained by examining their business growth objectives. Home-based businesses are more likely to want to 'remain about the same size' (31%, compared with 25% across the total sample) and less likely to want to expand moderately (45%, compared with 49% across the total sample). However, there are no differences between home and externally situated businesses with regard to other growth ambitions. The same proportion of home-based businesses (8%) express a desire for rapid growth as seen in the total sample. While home-based businesses are generally smaller concerns run by an individual, there is no evidence that these businesses are pursuing an exit strategy. Only 4% of home based businesses state that they wanted to sell the business, compared with 7% across the total sample. Methods to achieve business growth objectives also vary between home-based and externally situated businesses. Home-based businesses are more likely to favour increased collaboration with suppliers and less likely to favour moving to additional premises, increasing expenditure on staff training, exporting, reducing costs, and greater collaboration with competitors.

Analysed by sector, it is clear that respondents with home-based businesses operate across a wide variety of industry sectors. While industries such as Agriculture and Hotels & Restaurants traditionally operate from a domestic base, this study found home-based businesses throughout the industry spectrum, with Energy & Water, Business Services, Construction and Public Administration & Defence businesses particularly likely to be home-based. The two industry sectors least likely to be home-based and most likely to operate solely in external premises were Manufacturing and Retail, Wholesale & Motor Trades.

Table 2.5 Location of business premises

	Count	%
External premises	11207	60.1
Your home	4533	24.3
Partly home, partly external	2785	14.9
Not answered	110	0.6
Total	18635	100.0

It is notable that some businesses operate from a combination of external and home-based premises. Sectors in which this combination is most likely to occur are Mining & Quarrying, Agriculture and Education.

Analysed by region, home-based businesses are more frequently found in East England and South West England, and much less frequently found in Northern Ireland (12%, compared with 24% across the total sample). Businesses in Northern Ireland

and, to a lesser extent, Yorkshire & Humberside are more likely to be sited in external premises.

BUSINESS ENTRY

Table 2.6 presents details of the methods used by respondents to enter business. The vast majority (73.2%) entered business by starting from scratch. Of the remainder, the largest proportion (14.3%) entered by buying a going concern, relatively few (5.4%) inherited their business,

Table 2.6 Business entry

	Count	%
Started from scratch	13634	73.2
Bought going concern	2667	14.3
Inherited	998	5.4
Management buy out	444	2.4
Franchise	317	1.7
Other	467	2.5
Not answered	108	0.6
Total	18635	100.0

Table 2.7 Business entry by region

	Not answered	Started from scratch	Management buy out	Bought going concern	Inherited	Franchise	Other
	%	%	%	%	%	%	%
London	0	81	2	9	4	1	3
South East	0	75	3	12	5	2	3
East England	1	73	3	14	6	1	3
South West	1	71	2	18	5	1	2
East Midlands	1	75	2	12	6	1	3
West Midlands	0	74	3	12	5	2	3
Yorkshire & Humberside	0	73	3	14	6	2	2
North West	0	69	2	17	6	2	3
North East	0	78	2	12	5	1	2
Wales	0	71	2	17	6	2	2
Scotland	1	71	2	16	6	2	2
Northern Ireland	1	70	2	14	9	2	2
Not answered	8	67	0	17	3	1	2
UK	1	73	2	14	5	2	3

organised a management buy-out (2.4%) or started through franchising (1.7%).

Analysed by region, there are some notable differences in patterns of business entry (*Table 2.7*). Respondents from London and North East England are even more likely than respondents in other areas to start their business from scratch (81% and 78% respectively, compared with 73% across the total sample). Respondents in North West England (69%) and Northern Ireland (70%) are slightly less likely to enter business by starting from scratch. Three regions, in particular, have relatively high levels of respondents who entered business by buying a going concern: South West England, North West England and Wales. Notably, respondents in Northern Ireland are most likely to inherit a business, although the proportion inheriting a business is still relatively small (9%, compared with 5% across the total sample).

Business inheritance remains a notable feature of the Agriculture sector, where 21% of respondents inherited their farm business and, compared with the total sample, a relatively low proportion (67%) started from scratch. Inheritance is, of course, a specific feature of family businesses. In this survey, businesses that have operated for the longest period (over 31 years) demonstrate many features of family firms, including the likelihood of business entry by inheritance. While only 5% of the total sample inherited their business, 39% of the most mature businesses (over 31 years) had been inherited. Respondents who entered business by buying a going concern are most prevalent in Hotels & Restaurants (50%, compared with 14% across the total sample), Health and Social Work (25%) and Other Services (20%). Although the majority of respondents started in business from scratch, business entry in sectors such as Public Administration and Defence, Business Services, Construction and Financial Services are more likely to have occurred in this way.

Markets and Customers

MAIN CUSTOMERS AND MARKETS

In this year's survey, respondents were asked to give details of the type of customers and the geographical markets they serve by indicating the percentage of sales going to each. The resulting data shows complex patterns of customers and markets, which will be reported in more depth at a later date. To illustrate the main trends, the data has been simplified by aggregating sales data and reporting only the main customers and markets. Main customers and markets are those which account for more than 50% of sales. *Table 3.1*

shows the main customers of SMEs by region, and demonstrates the diversity of customers served by SMEs. While a large proportion of respondents specialise in sales that go direct to the consumer (37% of the total sample), 11% of respondents send more than 50% of sales to retailers and wholesalers; 9% send more than 50% to manufacturers and 7% send more than 50% to other non-manufacturing firms. While business to business customers are an important element of SME sales, relatively few specialise in selling to local or central government. Only 2% of respondents send more than 50% of sales to local

Table 3.1 Main customers (more than 50% of sales) by region

	Retailers and wholesalers	Manufacturers	Other non-manufacturing firms	Local government	Central government	Direct to the public/ consumers	Other	Not ticked
	%	%	%	%	%	%	%	%
London	13	8	10	2	1	27	12	29
South East	11	9	8	2	1	36	8	27
East England	12	9	7	2	1	36	7	29
South West	11	6	5	1	1	44	6	28
East Midlands	11	11	8	2	0	36	8	26
West Midlands	12	13	7	2	1	31	6	30
Yorkshire & Humberside	12	13	6	2	1	33	6	29
North West	12	9	5	2	1	37	6	29
North East	10	10	5	3	1	36	7	30
Wales	12	7	6	3	1	41	6	27
Scotland	9	4	6	2	1	41	7	32
Northern Ireland	16	8	3	3	2	37	5	28
Not ticked	9	9	5	0	0	35	9	9
UK	11	9	7	2	1	37	7	29

government and 1% send more than 50% of sales to central government.

Table 3.1 also shows that there are many similarities in the relative importance of main customers across respondents, irrespective of region. A few minor differences emerge, however. More respondents from South West England rely on sales going direct to consumers, while respondents from Northern Ireland are more likely to report retailers and wholesalers as main customers. London respondents are more likely to report sales to non-manufacturing business customers. Overall, however, these regional differences are slight. As expected, there are greater differences in main customers when responses are analysed by sector. Respondents in the Agriculture, Energy & Water and Retail, Wholesale and Motor Trades sectors are more likely to identify retailers and wholesalers as main customers. Respondents in the Mining & Quarrying and Manufacturing sectors are more

likely to report that their main customers are manufacturers. Finally, over half of all respondents in Retail, Wholesale & Motor Trades, Hotels & Restaurants and Other Services report their main customers as being the final consumer.

Table 3.2 presents details of the main geographical markets served by respondents. It is clear that most respondents serve local markets. Nearly half (48%) the respondents send the majority of their sales (more than 50%) to local markets. A further 18% of respondents send more than 50% of sales to national UK-wide markets and 8% of respondents send more than 50% of sales to regional markets. Very few respondents report high levels of export sales; only 1% of respondents report the EU or other export markets as being the main market destination. Some notable regional variations are apparent in *Table 3.2*. Respondents from Northern Ireland are much more likely to report local markets as their main destination (68%, compared with 48% across the total

Table 3.2 Main geographical markets (more than 50% of sales) by region

	Local markets	Regional markets	National UK-wide markets	Rest of the EU	Rest of Europe (non EU)	Rest of World	None more than 50%
	%	%	%	%	%	%	%
London	42	8	21	1	1	3	29
South East	47	8	19	1	0	2	28
East England	48	9	19	1	0	1	25
South West	49	8	17	1	0	1	24
East Midlands	47	7	22	0	0	2	26
West Midlands	43	8	25	1	0	1	24
Yorkshire & Humberside	46	9	19	1	0	1	26
North West	46	9	18	1	0	1	26
North East	51	9	16	1	0	0	27
Wales	50	8	15	1	0	1	25
Scotland	51	10	9	0	0	1	28
Northern Ireland	68	7	4	3	0	1	31
Not ticked	43	5	20	0	0	1	29
UK	48	8	18	1	0	1	26

sample), while those from the West Midlands and the East Midlands are more likely to serve national, UK-wide markets (25% and 22% respectively, compared with 18% across the total sample). It is also notable that, while very few respondents serve non-EU export markets, those from London are far more likely to do so (3%, compared with 1% across the total sample).

Clearly, industry sector is a strong influence on the type of geographical markets that are served. Industry sectors such as Retail, Wholesale & Motor Trades (63%); Financial Services (63%); Health & Social Work (61%); and Other Services (60%) are far more likely to depend on local markets for a majority of their sales. In contrast, Manufacturing (36%), Public Administration & Defence (35%) and, to a lesser extent, Business Services (24%) are more likely to sell into national, UK-wide markets. Public Administration & Defence is notable as the only sector where more than 1% report non-EU Europe as a main market. Finally, while a dependence on export markets beyond Europe is seen across a range of industry sectors, albeit within a very small minority of firms (1% across the total sample), businesses in the Mining & Quarrying sector (6%) are more likely to report this.

CUSTOMER DEPENDENCY

The SME sector is often characterised as having a high degree of customer dependency. While this may reflect the importance of product / service specialisation and their role in niche markets, excessive customer dependency may increase a

firm's vulnerability in the market place. *Table 3.3* presents details of the percentage of annual sales going to the respondents' main customer. The results demonstrate the diversity of experience throughout the sample. In total, 16.4% report that they are dependent on one customer for over half of their annual sales. Of these, 4.6% report total dependence (100% of sales) on one customer, 4.9% report that between 76-99% of annual sales goes to one customer and 6.9% report that between 51-75% of annual sales goes to one customer. Over half of respondents (51.2%) report very little dependence on one main customer. Of these, 11.1% report that less than 1% of annual sales go to their main customer, while 15.7% report that 1-5% and 24.4% report that 6-25% of annual sales goes to their main customer.

Analysed by sector, those industries that sell direct to the consumer are most likely to report very low levels of customer dependency (Retail, Wholesale & Motor Trades, Hotels & Restaurants; Other Services; and Financial Services). The industry sector reporting the highest levels of dependency on one main customer is Public Administration & Defence, where 22% sold 100% of annual sales to one main customer. Interestingly, the Hotels & Restaurants sector presented a bimodal profile: while most in this sector report low levels of customer dependency (19% report that their main customer accounts for less than 1% of annual sales), 11% report that all their sales go to one main customer. While there has been some concern about levels of customer dependency in the Manufacturing sector, the results of this study suggest otherwise. Over half

Table 3.3 Percentage of annual sales to main customer

	Count	%
Less than 1%	2065	11.1
1-5%	2934	15.7
6-25%	4543	24.4
26-50%	2345	12.6
51-75%	1278	6.9
76-99%	908	4.9
100%	862	4.6
Not answered	3700	19.9
Total	18635	100.0

(53%) of Manufacturing businesses report that their main customer accounts for less than 25% of annual sales and a further 21% report that their main customer accounts for between 26-50% of annual sales. Only 2% of Manufacturing businesses are dependent on one customer for 100% of their annual sales, a lower proportion than for the sample as a whole (5%).

COMPETITIVE STRENGTHS

Table 3.4 presents details of the competitive strengths and weaknesses identified by respondents. The main competitive strengths are believed to be the reputation of the business (55%), product / service quality (51%), customer service (48%) and their specialised expertise or products (41%). The factors believed to be the main competitive weaknesses are costs (6%), distribution channels (6%) and selling price (4%).

Perceptions of the factors that constitute competitive strengths and weaknesses are largely consistent throughout the UK. There are, however, a few notable differences. Compared with the total sample, London respondents are less likely to report selling price, reputation, environmental friendliness or customer service as major competitive strengths, but more likely to cite flair and creativity and specialised expertise or products. More than other regions, respondents from North East England cite selling price, and

those from Wales cite environmental friendliness, as major competitive strengths.

Analysed by sector, businesses selling direct to consumers (Retail, Wholesale & Motor Trades and Financial Services) are more likely to report selling price as a major competitive strength. In contrast, Manufacturing businesses are more likely to cite product / service quality, and the services sectors (Education, Personal Services) are more likely to cite flair and creativity, as a major competitive strength. While few businesses cite costs as a major strength, it is notable that businesses in the Energy & Water and Financial Services sectors are more likely to do so.

MARKET, INDUSTRY AND BUSINESS DYNAMISM

Respondents were asked to rate the degree of dynamism in their business, industry and market by indicating the rate at which new products / services are introduced into their business and their industry sector and the rate of new businesses entering their market. Across each of these three dimensions, a majority of respondents report that the rate of introduction is slow, suggesting that most respondents perceive low levels of turbulence and change in their competitive environment. Only 10% of respondents report rapid rates of new businesses entering their market, 12% report rapid rates of new product / service introduction in their industry

Table 3.4 Competitive strengths and weaknesses

	Not ticked	Major Weakness	2	3	4	Major Strength
	%	%	%	%	%	%
Selling price	17	4	8	34	21	16
Product/ Service quality	15	0	1	7	25	51
Specialised expertise or products	20	1	3	12	24	41
Flair and Creativity	25	2	11	25	21	16
Distribution channels	38	6	16	27	9	5
Customer service	14	0	1	8	28	48
Costs	22	6	13	32	17	10
Quality of staff	21	2	3	13	28	33
Reputation	12	0	1	6	26	55
Environmental friendliness	29	3	10	33	13	11

Table 3.5 Perceived rates of market, industry and business dynamism

	Not ticked %	Very Slow %	2 %	3 %	4 %	Very Fast %
New businesses entering your market?	14	33	25	19	6	4
New product/ service introduction in your Industry sector?	27	22	23	17	6	5
New product/ service introduction in your business?	25	20	26	20	6	3

sector, and 9% report rapid rates of new product / service introduction in their own business (Table 3.5).

Analysed by area, London respondents report the highest rates of environmental dynamism. Across all three measures, London respondents rate environmental change as being more rapid: 13% report rapid new business entry; 14% report rapid new product / service introduction in their industry sector and 12% report rapid new product / service introduction in their own business. Respondents in Northern Ireland also report more rapid rates of environmental dynamism than the total sample, but to a slightly lesser degree. In contrast, respondents from Scotland, North West England and East of England report lower than average rates of environmental dynamism across all three measures.

Analysed by industry sector, remarkably high rates of environmental turbulence are reported in three of the service-based sectors. Business Services respondents, in particular, report rapid rates of new product / service introduction in their sector (20%) and in their business (15%), and faster than average rates of new business entry in their market (14%). Other Services also report faster than average rates of new business entry (17%) and new product / service innovation in their sector (15%), but only average rates of new product / service introduction in their own businesses. The Education sector report the fastest rates of new business entry (25%, compared with 10% across the sample as a whole), but average rates of new product / service introduction in their sector and their own businesses.

4 Finance

SALES TURNOVER

The vast majority of businesses who responded to this survey are small scale enterprises (*Table 4.1*). Only 9% report sales in excess of £1m, and only 0.9% in excess of £5m, while almost three-quarters report sales of £500,000 or less. Indeed, more than a fifth of respondents have a sales turnover below the current VAT threshold (£56,000). Using EU turnover definitions of firm size provides a useful benchmark. With a micro business defined as having a turnover of € 2 million or less (roughly £1.3m), it is clear that, on this definition, more than 90% of respondents are in this category.

Size of sales turnover is related to a number of business and owner characteristics. First, in terms of legal status, businesses with the smallest sales turnover tend to be sole traders (40% with sales of less than £50,000; 89% with sales of £500,000 or less). Partnerships are mainly concentrated in the £100,000-£500,000 turnover range. Limited liability companies are mainly in the largest turnover category (10% with sales less than £50,000; 33% with sales in excess of £500,000).

Second, the smallest businesses tend to operate from home; nearly half of home-based businesses report sales of £50,000 or less. Nevertheless, operating a business from home is not necessarily inimical to growth; 4% of home-based businesses report sales in excess of £500,000. Businesses which operate partly from home and partly from external premises tend to be larger: only 24% have sales of £50,000 or less, and 12% have sales of more than £500,000. As would be expected, businesses which operate from external premises are generally substantially larger than home-based businesses: only 10% have sales of £50,000 or less and 29% have sales of more than £500,000.

Third, as might be expected, there is a strong relationship between years in business and sales turnover. Half of the businesses that are less than three years old have sales of £100,000 or less, compared with one-third of businesses that are 11-20 years old, just over one-quarter of businesses that are 21-30 years old, and one-quarter of businesses over 30 years old. At the other end of the spectrum, only 4% of businesses less than 3 years old have sales of over £1 million, compared with more than 10% of longer established businesses.

Table 4.1 Sales turnover in the last financial year

	Count	%
Less than £25,000	1483	8.0
£25,001 to £50,000	2442	13.1
£50,001 to £100,000	3009	16.1
£100,001 to £500,000	6773	36.3
£500,001 to £1m	2146	11.5
£1,000,001 to £5m	1518	8.1
More than £5m	160	0.9
Not answered	1104	5.9
Total	18635	100.0

Fourth, there are considerable differences in business size (as measured by sales turnover) across industry sectors (*Table 4.2*). The smallest firms are concentrated in the service industries, notably Personal Services, where 43% of businesses have sales of £50,000 or less and 88% have sales of £500,000 or less, Business Services (28% and 80%) and Financial Services (32% and 84%). Hotels & Restaurants also have a high proportion of small businesses (81% with sales of £500,000 or less). At the other extreme, sectors with the largest proportions of larger businesses are Manufacturing (33% with sales in excess of £500,000), Construction (29%), Transport (29%) and Mining & Quarrying (28%).

Fifth, there are also some regional variations in business size (as measured by sales turnover), but these are not nearly as marked as for industry sector (*Table 4.3*). The proportion of very small firms (sales of £50,000 or less) is highest in South West England and Scotland (23%, compared with

21% across the total sample). South West England also stands out as having the highest proportion of businesses with sales of £500,000 or less (78%, compared with 73% across the total sample), with the East of England having the second highest proportion (76%). Both these regions are, of course, predominantly rural. Regions with the highest proportions of larger businesses (sales turnover in excess of £500,000) are Northern Ireland (32%), Yorkshire & Humberside (25%), West Midlands (24%) and London (24%).

Finally, in terms of owner characteristics, female-owned businesses are substantially smaller than male-owned businesses. One third (34%) of female-owned businesses report sales of £50,000 or less, compared with 22% for males, and only 10% have sales of over £500,000, compared with 21% for males. However, businesses owned jointly by males and females have the lowest proportion of businesses with sales of £50,000 or less (13%)

Table 4.2 Sales turnover in the last financial year by industry

	Not answered	Less than £25,000	£25,001 to £50,000	£50,001 to £100,000	£100,001 to £500,000	£500,001 to £1m	£1,000,001 to £5m	More than £5m
	%	%	%	%	%	%	%	%
Agriculture, Forestry & Fishing	7	8	10	17	35	12	10	2
Mining & Quarrying	6	4	14	14	35	10	10	8
Manufacturing	5	3	8	12	38	18	14	1
Energy & Water	8	6	18	14	33	14	5	0
Construction	5	6	13	13	34	16	12	1
Retail, Wholesale & Motor Trade	7	5	10	16	40	12	9	1
Hotels & Restaurants	8	5	15	18	43	7	4	0
Transport & Communications	6	6	10	13	36	15	13	1
Financial Services	5	13	19	19	33	5	5	1
Business Services	5	12	16	19	33	9	5	0
Public Administration & Defence	4	13	9	26	26	9	13	0
Education	10	16	12	17	36	6	2	0
Health & Social Work	4	10	14	12	38	14	6	0
Personal Services	7	18	25	20	25	2	3	0
Other	6	11	15	17	34	10	7	1
Not ticked	13	10	15	11	31	11	7	2
UK	6	8	13	16	36	12	8	1

Table 4.3 Sales turnover in the last financial year by region

	Not answered	Less than £25,000	£25,001 to £50,000	£50,001 to £100,000	£100,001 to £500,000	£500,001 to £1m	£1,000,001 to £5m	More than £5m
	%	%	%	%	%	%	%	%
London	5	7	12	14	37	13	10	1
South East	6	8	13	15	36	12	8	1
East England	5	9	13	18	36	11	8	0
South West	6	9	14	18	37	9	6	1
East Midlands	5	7	13	15	37	13	9	1
West Midlands	6	8	12	15	35	13	10	1
Yorkshire & Humberside	5	5	12	16	37	13	10	2
North West	6	7	13	16	37	11	9	1
North East	5	9	12	18	33	14	8	0
Wales	7	8	13	16	36	12	7	1
Scotland	8	9	14	16	35	10	8	0
Northern Ireland	5	5	9	10	39	15	14	3
Not ticked	10	9	16	16	35	7	7	0
UK	6	8	13	16	36	12	8	1

Table 4.4 Additional business activities & income sources

	Count	%
This business is my only source of income	12413	66.6
I own more than one business	2713	14.6
I have other income from pension(s)	2133	11.4
I have other rental income from residential property	1880	10.1
I have other income from a share portfolio	1428	7.7
I have other part - or full-time employment	1147	6.2
I have other rental income from commercial property	1052	5.6
I have other income from family tax credit	802	4.3
I invest in other small businesses	469	2.5
I have other income from social security	228	1.2
None ticked	778	4.2

Note: Multiple Responses were possible so totals exceed 100

and the highest proportion of businesses with sales in excess of £500,000 (24%). This might reflect the greater growth capabilities of team-based businesses.

With regard to the age of the business owner,

owners aged 65+ have the highest proportion of the very smallest businesses (26% with sales of £50,000 or less) whereas the youngest owners (under 21), a very small proportion of the overall response, have the smallest proportion (18%). Otherwise, age of the business owner appears to

be largely independent of business size (as measured by sales turnover).

ADDITIONAL INCOME SOURCES

The data on sales turnover clearly suggests that a substantial minority of businesses are too small to support an individual on a full-time basis. Perhaps as a consequence, many small business owners have additional sources of income. This is confirmed in *Table 4.4* which reveals that one-

third of respondents have other sources of income in addition to that which is generated from the business. The largest category is multiple business ownership, often termed portfolio entrepreneurship (14.6%). Business owners with income from residential (10.1%) or commercial (5.6%) property are also significant. More than 1 in 10 respondents has an income from a pension. While this might suggest that some of the oldest business owners may be in the process of winding down their business, this is contradicted by other

Table 4.5 Additional business activities & income sources by industry

	This business is my only source of income	I own more than one business	I invest in other small businesses	I have other part - or full-time employment	I have other income from pension(s)	I have other income from social security	I have other income from family tax credit	I have other income from a share portfolio	I have other rental income from residential property	I have other rental income from commercial property	None ticked
	%	%	%	%	%	%	%	%	%	%	%
Agriculture, Forestry & Fishing	61	17	2	8	14	2	6	13	13	8	4
Mining & Quarrying	63	20	2	2	10	0	0	8	12	12	4
Manufacturing	72	14	3	4	10	1	4	8	8	7	4
Energy & Water	63	11	2	6	17	0	5	9	10	2	6
Construction	72	14	3	3	9	0	4	6	11	6	4
Retail, Wholesale & Motor Trade	68	12	2	5	11	2	5	7	11	6	4
Hotels & Restaurants	66	15	2	8	14	2	5	6	11	3	5
Transport & Communications	69	17	3	5	12	0	4	5	7	5	3
Financial Services	64	22	4	7	8	1	4	7	13	8	4
Business Services	64	15	3	7	12	1	4	10	10	5	4
Public Administration & Defence	39	17	4	9	39	4	0	13	26	9	0
Education	52	15	1	17	15	0	7	5	9	3	9
Health & Social Work	60	20	3	11	14	2	5	9	12	6	4
Personal Services	61	16	2	11	11	2	6	6	8	3	5
Other	66	14	2	7	13	1	4	7	9	5	4
Not ticked	59	17	3	5	10	1	2	10	7	4	11
UK	67	15	3	6	11	1	4	8	10	6	4

Note: Multiple Responses were possible so totals exceed 100%

evidence that only 2% of business owners intend to close their business in the next two years (*Table 1.12*). Finally, it is interesting to note that just 2.5% of respondents could be defined as ‘business angels’, that is, people who invest in other unquoted businesses.

Owners of limited liability companies are the most likely to report that the business is their only source of income (73%, compared with 67% across the total sample). This is entirely consistent with the evidence, reported earlier, that limited liability companies are larger enterprises. Owners of franchises (who comprise less than 1% of all respondents) are the most likely to have other sources of income (37%), notably rental income from residential property (15%, compared with a sample average of 10%).

Business owners who operate home-based businesses are the most likely to have other sources of income (38%, compared with 30% for those with external premises). Here again, this is consistent with the earlier evidence that a high proportion of these businesses are very small and hence likely to be part-time. Owners of home-based businesses are more likely to have part-time or full-time employment (10%, compared with an average of 6%) and have income from a pension (17%, compared with 11%).

Respondents who have owned their business for the longest number of years (over 31 years) are the least likely to report that the business is their only source of income (61%, compared with 67% across the total sample). These business owners are the most likely to report income from a share portfolio (11%, compared with 7% across the total sample) and from rental income from residential property (19%, compared with 10% across the total sample).

Business owners in the Public Administration and Defence (61%), Education (48%) and Agriculture (39%) sectors are the most likely to have other sources of income (*Table 4.5*). However, it should be noted that Public Administration & Defence represents just 0.1% of overall responses which is too small to be meaningful. Business owners in

Education with more than one source of income are likely to have a job, a pension or family credit, but unlikely to have income from other businesses or investments. The additional sources of income for business owners in Agriculture takes various forms, including owning other businesses, employment, pension, family tax credit, share portfolios and rental income from residential and commercial property (which may reflect farm diversification strategies). Business owners in Manufacturing and Construction are the least likely to report other income sources which is consistent with the earlier evidence that these sectors were more likely to contain the larger businesses.

An analysis of the variations in income sources by sector (and ignoring the smallest sectors comprising less than 1% of overall responses) provides a complementary perspective:

- Multiple business ownership is most common in Financial Services;
- part-time or full-time employment is most frequent in Education and Health & Social Work;
- pension income is most frequent in Education, Hotels & Restaurants and Agriculture;
- family credit is most common in Education and Personal Services;
- income from a share portfolio is most common in Agriculture and Business Services;
- rental income from commercial property is most common in Agriculture and Financial Services;
- rental income from commercial property is also most common in Agriculture.

In contrast, there are relatively few regional variations in either the proportion of respondents for whom the business is their only source of income, or in types of income sources (*Table 4.6*). South West England has the highest proportion of business owners reporting additional sources of income (36%). Otherwise, the only marked deviations are for Northern Ireland where a much smaller proportion of respondents have income from pension sources (5%) and a much higher proportion who report income from renting commercial property.

Turning to business owner characteristics, male business owners are slightly more likely than women to report that the business is their only source of income, although the differences are quite small (68%, compared with 64%). Men are more likely to own additional businesses, invest in other businesses, have income from a share portfolio and have rental income from commercial properties, while women are more likely to have another job and have family tax credit, but in all cases the differences are quite small (maximum of two percentage points).

Unsurprisingly, there is more variation when business owners are considered by age. Younger business owners, in the age groups 21-44 years, are the least likely to have other sources of income, whereas older business owners (65+) are the most likely to report other income sources, notably pension, social security and share portfolio. However, it is also interesting to observe that there is little variation in the proportions of entrepreneurs in the 22-54 year age groups who derive income from various market sources: multiple business ownership, investing in other businesses, or rental income from commercial or residential property.

Table 4.6 Additional business activities & income sources by region

	This business is my only source of income	I own more than one business	I invest in other small businesses	I have other part - or full-time employment	I have other income from pension(s)	I have other income from social security	I have other income from family tax credit	I have other income from a share portfolio	I have other rental income from residential property	I have other rental income from commercial property	None ticked
	%	%	%	%	%	%	%	%	%	%	%
London	66	14	4	5	12	1	2	10	13	6	5
South East	67	14	2	6	11	1	4	8	10	5	4
East England	66	14	2	6	11	2	4	8	9	6	5
South West	64	14	2	7	12	2	5	8	12	6	4
East Midlands	68	15	3	5	12	2	4	8	8	6	4
West Midlands	69	15	3	6	11	1	5	8	9	6	4
Yorkshire & Humberside	68	15	3	6	12	1	4	8	11	6	4
North West	69	14	3	5	11	1	4	7	9	6	5
North East	67	16	2	7	11	2	5	7	11	7	3
Wales	67	15	2	7	12	1	6	5	11	7	4
Scotland	65	15	3	7	12	1	4	9	9	5	5
Northern Ireland	66	15	2	7	5	1	6	7	9	10	3
None ticked	61	16	3	7	10	3	3	7	7	5	7
UK	67	15	3	6	11	1	4	8	10	6	4

Note: Multiple Responses were possible so totals exceed 100%

TRENDS IN SALES VOLUME

It was reported earlier in the report that a majority of respondents specified that their business objective is growth. An analysis of trends in sales volume suggests that many are achieving business growth. Some 57% of respondents report that their sales turnover has gone up in the previous year, compared with 23% who report a decline (Table 4.7). This compares favourably with the previous study in 2002, when just under half (49.8%) of respondents reported an increase in sales volume, and demonstrates the underlying strength of the small business sector.

Franchised operations are the fastest growing category, with 68% of businesses whose sales had increased in the previous year; however these constitute a very small percentage of responses (less than 1%). Limited liability companies also have a high proportion of growing businesses (65% with increased sales). The proportion of businesses with external premises with a growth in sales is slightly higher than for home-based businesses (57%, compared with 54%). With regard to years in business, differences are most apparent at each end of the spectrum. The youngest businesses (up to three years old) are least likely to report declining sales (15%,

Table 4.7 Trends in sales volume in the last financial year

	Count	%
Gone down	1893	10.2
Gone down slightly	2366	12.7
Stayed the same	2828	15.2
Gone up slightly	5886	31.6
Gone up	4711	25.3
Not answered	951	5.1
Total	18635	100.0

Table 4.8 Trends in sales volume in the last financial year by industry

	Not answered	Gone down	Gone down slightly	Stayed the same	Gone up slightly	Gone up
	%	%	%	%	%	%
Agriculture, Forestry & Fishing	4	10	12	18	34	22
Mining & Quarrying	4	12	24	14	33	14
Manufacturing	4	14	15	15	28	23
Energy & Water	8	8	5	17	33	28
Construction	5	8	11	18	33	25
Retail, Wholesale & Motor Trade	6	10	14	14	32	25
Hotels & Restaurants	6	7	12	14	34	27
Transport & Communications	4	11	12	14	36	23
Financial Services	4	9	10	12	34	30
Business Services	4	13	13	14	29	27
Public Administration & Defence	0	17	0	26	35	22
Education	10	8	11	16	33	22
Health & Social Work	5	6	11	20	34	24
Personal Services	7	7	10	20	33	23
Other	5	10	13	16	31	26
Not ticked	14	14	11	13	29	19
UK	5	10	13	15	32	25

compared with 23%). Businesses with declining sales are disproportionately concentrated among the oldest businesses (over 31 years): 42% report declining sales (compared with 23% across the total sample) and only 33% report growing sales (compared with 57% across the total sample).

There are relatively few differences between industries in the proportions of businesses with increased and decreased sales (*Table 4.8*). The two industries with the highest proportions of businesses reporting increased sales are Financial Services (64%) and Hotels & Restaurants (61%). A further two industries are noteworthy for the low proportions of growing businesses, and higher proportion of businesses reporting declining sales: just 51% of Manufacturing businesses

report increased sales volumes, while just 47% of Mining & Quarrying businesses report increased sales volumes.

Wales and North East England contain the highest proportions of businesses with increased sales (62% and 61% respectively). London and West Midlands have the lowest proportions of businesses with increased sales (49% and 52% respectively). (*Table 4.9*).

Perhaps surprisingly, the proportion of women business owners reporting increased sales (59%) is slightly higher than that of both men (56%) and male and female owned businesses (57%). Finally, with the exception of business owners aged 21 and under, there was a smooth gradation between

Table 4.9 Trends in sales volume in the last financial year by region

	Not answered %	Gone down %	Gone down slightly %	Stayed the same %	Gone up slightly %	Gone up %
London	5	19	14	14	27	22
South East	5	12	14	14	31	25
East England	5	10	13	16	33	23
South West	5	8	12	15	33	27
East Midlands	4	11	13	17	31	25
West Midlands	5	11	15	17	29	23
Yorkshire & Humberside	5	11	12	16	31	25
North West	5	9	12	16	32	25
North East	5	7	11	16	32	29
Wales	6	8	9	15	33	29
Scotland	7	9	12	15	33	25
Northern Ireland	4	10	14	14	34	24
Not ticked	8	10	15	14	26	27
UK	5	10	13	15	32	25

Table 4.10 Trends in profitability in the last financial year

	Count	%
Gone down	2351	12.6
Gone down slightly	2682	14.4
Stayed the same	3748	20.1
Gone up slightly	5567	29.9
Gone up	3318	17.8
Not answered	969	5.2
Total	18635	100.0

age category and the proportion of growth businesses. Thus, the proportion of businesses with a growth in turnover fell from 65% amongst business owners aged 22-34, to 61% for the next group (35-44) to 53% for owners aged 55-64 and 48% for those aged 65 and over.

TRENDS IN PROFITABILITY

Nearly half of the businesses in the survey also report an increase in their profitability during the past financial year (*Table 4.10*), with the proportion reporting an increase (48%) substantially exceeding the proportion reporting a decline (27%). Here again, franchised operations is the business form with the highest proportion of respondents reporting increased profitability (53%), followed by limited liability companies. Home-based businesses and businesses with external premises report similar trends in profitability (49% of home-based businesses reported increased profits compared with 48% of businesses with external premises and 47% of businesses with both home and external premises.

Profitability is also associated with years in business. The youngest businesses (under 3 years) are the most likely to report substantial profit growth (26%, compared with 18% across the total sample). The oldest businesses (over 31 years) are the most likely to report falling profitability (34% compared with 27% across the total sample), while only 8% report substantial profit growth.

There are some marked differences in profitability trends by industry (*Table 4.11*). Just 39% of businesses in Mining & Quarrying report increased profits, compared with 36% which report falling profits, and just 44% of Manufacturing businesses report increased profits. In contrast, the sectors with the highest proportions of businesses reporting increased profitability are Financial Services (54%) and Energy & Water (53%).

Profitability trends across regions are relatively similar (*Table 4.12*), although there are two notable regional outliers. The first is London, which has a below-average proportion of businesses reporting increased profits (43%) and a correspondingly

Table 4.11 Trends in profitability in the last financial year by industry

	Not answered	Gone down	Gone down slightly	Stayed the same	Gone up slightly	Gone up
	%	%	%	%	%	%
Agriculture, Forestry & Fishing	4	13	14	21	33	15
Mining & Quarrying	6	24	12	20	27	12
Manufacturing	4	18	16	19	27	17
Energy & Water	8	12	4	23	35	18
Construction	5	11	14	23	31	16
Retail, Wholesale & Motor Trade	6	11	16	21	31	16
Hotels & Restaurants	7	11	16	19	31	16
Transport & Communications	5	15	16	19	29	16
Financial Services	5	12	12	17	29	25
Business Services	4	13	12	20	27	23
Public Administration & Defence	0	17	9	39	13	22
Education	10	12	12	18	32	17
Health & Social Work	4	12	18	18	30	18
Personal Services	7	10	14	22	31	15
Other	5	12	14	20	31	19
Not Ticked	14	15	16	14	29	11
UK	5	13	14	20	30	18

higher proportion reporting declining profits (33%, compared with 27% across the total sample). The second is Wales where 52% of businesses report increased profits, some four percentage points above the national average.

The proportion of female-owned businesses reporting rising profits (50%) is slightly higher than that of males (47%) and also businesses owned jointly by men and women. In terms of age of business owner, the trend in profitability mirrors that for sales. With the exception of the very youngest business owners (21 and under), the age group with the highest proportion of businesses reporting rising profits is the 22-34 year group. This proportion falls incrementally with each subsequent age group, with 45% of business owners in the 55-64 year age group and 42% in the 65 and over group reporting increased profits.

SOURCES OF BUSINESS FINANCE

Respondents have used a variety of finance sources during the past two years (*Table 4.13*). On average, each business has used two sources. Bank overdraft (50.8%) is the most frequently used source. This high usage is rather surprising in the light of evidence from the Bank of England's

annual review of small firm finance which has highlighted the diminishing use of overdrafts in recent years as banks have sought to move their customers to other sources of finance. The overdraft's demise would appear, therefore, to have been exaggerated. This is followed by several sources of finance which are each used by around three in ten businesses. Personal savings are the second most frequently used funding source (30.6%), followed by bank loans (29.5%). The relatively low usage of bank loans is notable: they are used by less than one-third of respondents. Retained profits are also an important source of finance (28.5%). Finally, credit card debt is used by one-quarter of businesses (25.5%). It would seem valid to explain the high usage of credit cards, despite their high rate of interest, in terms of their flexibility of use.

The limited use of some other forms of finance is equally noteworthy. First, leasing (11.5%) and factoring (3.7%) are used by only a small minority of firms. Second, relatively few businesses make use of informal sources of funding, such as family (8.4%) and friends (3.1%). This may reflect the fact that such sources tend to be confined to start-up. Third, the use of venture capital and informal venture capital barely registers (less than 1% in

Table 4.12 Trends in profitability in the last financial year by region

	Not answered %	Gone down %	Gone down slightly %	Stayed the same %	Gone up slightly %	Gone up %
London	5	19	14	19	26	17
South East	5	14	15	20	29	18
East England	5	13	17	18	30	17
South West	5	10	14	21	31	19
East Midlands	4	13	15	20	30	17
West Midlands	5	14	15	21	28	17
Yorkshire & Humberside	5	13	14	20	32	17
North West	5	12	14	21	31	17
North East	5	10	15	21	31	19
Wales	6	13	10	20	32	20
Scotland	7	12	13	20	30	18
Northern Ireland	5	15	18	18	31	15
Not ticked	9	10	16	19	24	21
UK	5	13	14	20	30	18

each case). Finally, the survey adds to the evidence on the low usage of the Loan Guarantee Scheme (2.3%) (and only 8% of those businesses raising a bank loan).

Sources of finance show some relationship with legal status of business. Sole traders have the greatest reliance on bank loans (35%) whereas limited liability companies make least use of bank loans (27%). This is partly a reflection of the greater range of finance sources that are available to limited liability companies, notably factoring and supplier credit. Use of retained profits also varies: limited liability businesses also make most use of retained profits (35%), whereas

partnerships (26%), limited liability partnerships (23%) and sole traders (21%) all made much less use of this source. Sole traders are also the most frequent users of credit card debt (32%). Finally, although franchised businesses comprise a very small proportion of the total sample, their distinctive pattern of financing is worthy of comment. Franchised operations are the least likely to use bank overdrafts (46%) and retained profits (17%), have low usage of supplier credit (16%), and make the greatest use of leasing (17%).

Compared with the total sample, the newest businesses (under 3 years) are more likely to use own savings (45%), family (14%), friends (6%) and

Table 4.13 Sources of finance used in the last two years: 2004, 2002, 2000

	Count	2004 %	2002 %	2000 %
Bank overdraft	9464	50.8	57.1	65.6
Own savings	5708	30.6	44.5	57.4
Bank loan	5499	29.5	43.5	45.3
Retained profit	5308	28.5	25.3	-
Credit card debt	4744	25.5	18.0	29.4
Supplier credit	3796	20.4	13.9	21.2
Leasing	2151	11.5	-	-
Second mortgage	1587	8.5	10.0	13.9
Family	1570	8.4	12.5	32.9
Grant	1046	5.6	5.0	7.1
Pension	767	4.1	3.1	5.1
Factoring	693	3.7	3.5	3.7
Other business/ employment	688	3.7	3.8	-
Friends	576	3.1	3.1	7.4
Inheritance	554	3.0	3.8	6.7
Loan Guarantee Scheme	437	2.3	2.6	3.3
Redundancy	314	1.7	5.9	-
Enhanced capital allowances	261	1.4	-	-
Venture capital	144	.8	1.1	1.4
Public sector low interest loan	139	.7	.7	-
Business angel/ private investor	123	.7	-	-
Selling equity	-	-	2.5	4.9
Household income	-	-	4.0	-
EU funding	-	-	.6	-
Lottery win	-	-	-	0.3
Other income	-	-	-	10.3
None ticked	2341	12.6	4.3	3.6

Note: Multiple Responses were possible so totals exceed 100%

'-' indicates option not in that FSB survey

credit cards (31%) and have least dependence on bank overdrafts (46%). In contrast, the oldest businesses (over 31 years) are least likely to use credit cards (11%) or supplier credit (8%), and most likely to use retained profits (39%). The financing mix also differs by the type of business premises. Given the preponderance of

sole traders who operate from home, it is not surprising to find that home-based businesses make less use of bank overdraft (41%), bank loans (23%), leasing (5%), supplier credit (13%) and retained profits (24%) and are more likely to use credit card debt (29%) and their own savings (37%).

Table 4.14 Sources of finance used in the last two years by industry

	Bank overdraft	Factoring	Second mortgage	Venture capital	Credit card debt	Grant	Friends	Inheritance	Leasing	Loan Guarantee Scheme	Family	Bank loan	Pension	Supplier credit	Own savings	Other business/ employment	Retained profit	Public sector low interest loan	Redundancy	Business angel/ private investor	Enhanced capital allowances	None ticked
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Agriculture	61	1	4	1	17	10	2	5	14	2	6	28	5	17	28	4	28	1	1	0	1	11
Mining etc	49	0	4	0	20	6	4	2	16	4	10	27	2	16	33	0	41	0	0	0	4	14
Manufacturing	55	9	8	1	18	9	2	3	14	4	7	27	4	24	27	3	33	1	2	1	1	11
Energy & Water	45	3	9	2	25	2	3	1	8	2	8	24	5	21	24	2	32	2	1	2	1	17
Construction	55	3	8	1	25	3	2	2	12	3	6	28	4	24	25	2	29	1	1	0	1	12
Retail etc	54	3	9	1	24	4	3	3	11	2	10	32	4	28	29	3	27	1	1	1	1	12
Hotels & Rest	50	1	9	1	30	6	5	4	12	2	11	42	7	17	38	5	21	1	2	1	1	13
Transport & coms	57	9	9	2	30	4	4	2	19	2	9	39	4	21	30	4	27	0	2	1	3	9
Fin. Services	50	0	10	1	33	3	2	3	8	1	8	32	2	9	33	3	30	0	3	0	7	13
Bus. Services	45	4	9	1	29	6	3	2	10	2	9	23	3	16	36	5	34	1	3	1	2	12
Public Admin.	52	0	9	0	30	13	0	0	13	4	9	22	9	9	39	4	43	0	4	0	0	9
Education	38	2	10	1	26	16	2	3	5	5	10	28	7	6	34	6	26	1	4	1	1	17
Health & Soc.	46	2	11	0	26	6	2	3	15	2	7	41	5	14	34	4	21	1	2	0	1	14
Pers. Services	47	1	10	2	35	6	4	2	11	2	8	33	6	18	35	6	17	0	1	1	2	14
Other	46	4	8	1	26	6	3	3	10	3	8	26	4	17	30	4	29	1	2	1	1	14
None ticked	39	6	7	1	21	2	4	3	13	4	4	23	5	16	31	4	23	1	0	0	1	23
UK	51	4	9	1	25	6	3	3	12	2	8	30	4	20	31	4	29	1	2	1	1	12

Note: Multiple Responses were possible so totals exceed 100%

Financing sources vary quite considerably by industry sector (Table 4.14). The discussion will concentrate on the main sources of finance (that is, those used by at least 25% of the sample): bank overdrafts, own savings, bank loans, retained profits and credit card debt.

Agriculture (61%), Transport (57%) and Manufacturing (55%) businesses make the greatest use of bank overdrafts (average 51%). At the other extreme, Education (38%), Energy & Water (45%), Business Services (45%), Health and Social Work (46%) and Other Industries (46%) make least use of bank overdrafts. Own savings (average 31%) are utilised most intensively by service sector businesses, notably Hotels & Restaurants (38%) and Business Services (36%), and least extensively by Energy & Water (24%), Construction (25%) and Manufacturing (27%). Hotels & Restaurants (42%), Health & Social Work

(41%) and Transport (39%) make the most use of bank loans (average 30%). Business Services (23%) and Energy & Water (24%) make least use of bank loans. Use of retained profits (average of 29%) exhibits considerable variability. Mining & Quarrying (41%) and Business Services (34%) have the highest use of retained profits, while at the other extreme, Personal Services (17%), Health & Social Work (21%) and Hotels & Restaurants (21%) have the least reliance on retained profits. Finally, Personal Services (35%), Financial Services (33%), Hotels & Restaurants (30%) and Transport (30%) make the greatest use of credit card debt. Agriculture (17%), Manufacturing (18%) and Mining & Quarrying (20%) make least use of credit card debt.

The greatest variability in usage occurs with the least used finance sources. Use of factoring (average 4%) peaks at 9% for the Manufacturing and Transport sectors, but is used by less than 2%

Table 4.15 Sources of finance used in the last two years by region

	Bank overdraft	Factoring	Second mortgage	Venture capital	Credit card debt	Grant	Friends	Inheritance	Leasing	Loan Guarantee Scheme	Family	Bank loan	Pension	Supplier credit	Own savings	Other business/ employment	Retained profit	Public sector low interest loan	Redundancy	Business angel/ private investor	Enhanced capital allowances	None ticked
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
London	49	5	10	1	24	2	4	3	9	2	10	24	3	18	31	4	30	1	2	1	1	14
South East	48	4	10	1	26	3	3	3	11	2	8	27	4	19	30	4	30	0	2	1	1	13
East England	51	3	8	1	26	3	3	2	10	2	8	28	4	21	31	3	27	1	2	1	1	14
South West	51	2	10	1	27	3	3	3	10	2	9	31	4	19	32	4	27	1	1	1	1	12
East Midlands	50	4	7	1	25	5	3	3	12	2	9	31	4	20	30	2	31	1	2	1	2	11
West Midlands	49	5	8	1	24	5	3	3	11	3	7	28	4	21	29	3	31	1	1	1	1	14
Yorks & Humber	52	5	7	0	25	6	3	2	14	3	9	30	4	23	27	3	32	1	1	1	1	12
North West	52	4	9	1	25	7	3	3	12	2	9	30	4	22	31	4	28	1	2	1	1	13
North East	50	5	9	1	28	13	4	2	12	2	9	31	6	21	33	3	28	1	2	0	1	13
Wales	54	3	8	1	24	13	2	3	11	2	7	36	4	21	27	4	24	1	1	1	2	13
Scotland	54	3	5	1	25	12	4	3	13	3	9	32	5	22	32	4	27	2	2	1	2	12
N Ireland	62	5	9	1	23	12	5	3	18	2	9	36	4	25	32	3	27	1	1	0	3	9
None ticked	45	5	9	1	23	4	3	5	9	2	9	20	4	15	35	6	23	0	0	0	0	17
UK	51	4	9	1	25	6	3	3	12	2	8	30	4	20	31	4	29	1	2	1	1	13

Note: Multiple Responses were possible so totals exceed 100%

for most of the services sectors. Grants (average 6%) are an important finance source for Education (16%), Agriculture (10%) and Manufacturing (9%). Supplier credit (average 20%) is used most often by Retail, Wholesale & Motor Trades (28%), Manufacturing and Construction (both 24%) and least often by Education (6%) and Financial Services (9%)

There are few regional differences in finance sources (*Table 4.15*). The main variability is in the use of grants (average of 6%) which is high in North East England (13%), Wales (13%), Scotland (12%) and Northern Ireland (12%), but largely insignificant in London (2%), South East England (3%), East of England (3%) and South West England (3%). The use of bank loans (average 30%) also exhibits greater variation than might have been anticipated. Usage is highest in Wales (36%) and Northern Ireland (36%) and is lowest in London (24%). Firms in Northern Ireland are again distinctive, making greatest use of bank overdrafts (62%, compared with 51% across the total sample), leasing (18%, compared with 12% across the total sample) and supplier credit (25%, compared with 20% across the total sample).

Financing sources exhibit some differences with regard to the personal characteristics of the business owner. In general, male business owners make greater use of external sources of finance, notably bank overdrafts (52%, compared with 46%), bank loans (30%, compared with 26%) and

supplier credit (21%, compared with 17%). Male owned business also rely to a greater extent than women on retained profits (28%, compared with 22%), although male-female jointly owned businesses make the greatest use of retained profits (32%). The only source which women use more than men is family sources (12%, compared with 8%). Finally, with regard to the age of business owners, younger entrepreneurs make more use of bank overdrafts, bank loans, credit cards, own savings and family than older business owners. In turn, older owners rely to a greater extent on retained profits.

Finally, we can compare the use of financing sources over the three surveys. It can be observed from *Table 4.13* that the information is not fully comparable because the check list of types of finance has been modified over the three surveys. Nevertheless, certain trends are apparent. First, although the proportion of businesses which use bank overdrafts is high, it is significantly lower than in previous surveys, confirming the shift away from overdraft financing reported in other studies. Second, there has been a significant decline in the proportion of businesses using personal sources of finance, such as own savings, second mortgage, redundancy, family, and friends. This is in spite of an increase in the proportion of new businesses in the current survey which might have been expected to make greater use of such sources. Third, the proportion of businesses using bank loans has also fallen over the three surveys.

Table 4.16 Reasons for switching banks

	Count	%
Avoid/ reduce bank charges	1549	8.3
Poor quality of service received	1519	8.2
Search for better terms	1005	5.4
Poor quality of advice received	841	4.5
Earn a higher rate of interest	445	2.4
Change of bank personnel	443	2.4
Improved prospects of getting a loan	380	2.0
Access to internet banking	376	2.0
Branch closure	111	.6
Rapid growth of business	99	.5
Not switched	5572	29.9
None ticked	10206	54.8

Note: Multiple Responses were possible so totals exceed 100%

Indeed, of the significant financing sources only supplier credit and credit card debt have been utilised by similar proportions of businesses over the three surveys.

BANK SWITCHING

Against this context, the proportion of businesses that switched banks in the past two years (15%) is surprisingly large. The propensity to switch banks is unrelated to the legal status of the business, type of business premises, regional location or the gender of business owner. In terms of industry sector, businesses in Hotels & Restaurants have the greatest propensity to switch banks (20%), while those in Agriculture have the lowest propensity (9%). The greatest variation in the propensity to switch banks is associated with the age of the business owner, with the likelihood of changing bank declining from 21% amongst business owners aged 21 and under, and 20% for those in the 22-34 year age group, to 12% amongst owners aged 55-64 and 10% for those aged 65 and over.

Those businesses that switched banks gave an average of three reasons for doing so (*Table 4.16*). Two reasons dominate: to avoid or reduce bank charges and the poor quality of service received. Other frequently cited reasons are the search for better terms and the poor quality of advice received. In short, bank switching is associated with both cost and service considerations.

Hotels & Restaurants are noticeably more likely to switch to avoid or reduce bank charges (13%, compared with 8% average), while Mining & Quarrying businesses are more likely than average to switch because of the poor quality of advice received (14%, compared with 8% average). The greatest variability in reasons for bank switching is associated with age of the owner and their years in business. Younger owners are more likely to switch to avoid or reduce bank charges and because of the poor quality of service received. The oldest businesses (over 31 years) are by far the most likely to switch in a search for better terms (19%, compared with 5% across the total sample).

The main reason why businesses have not switching banks (*Table 4.17*) is because they are happy with the service provided (47%). More specific responses include the competence of the bank staff (20%), the bank understands the business (18%) and the reliability of the bank in meeting the businesses' financing needs (18%). However, a substantial proportion (28%) believe that there is no real difference between banks and, by implication, would not expect to derive any benefits from switching. The oldest businesses stand out as being the least likely to be satisfied with their existing bank (36%), but also the most likely to consider moving banks to be too risky (14%). The youngest businesses are the most likely to consider that there are no real differences between banks.

Table 4.17 Reasons for not switching banks

	Count	%
Happy with the services provided	8702	46.7
No real differences between banks	5134	27.6
Competence of bank staff that I deal with	3727	20.0
Convenience of the banks location	3620	19.4
Reliability of bank in meeting the financial needs of the business	3445	18.5
The bank understands my business	3395	18.2
Never considered the possibility	1417	7.6
Too risky to change banks	1306	7.0
Bank has a floating charge on assets	1209	6.5
No other branch nearby	691	3.7
None ticked	4131	22.2

Note: Multiple Responses were possible so totals exceed 100%

Employment & Training

EMPLOYMENT NUMBERS

The respondents collectively employ some 96,000 full-time workers plus some 35,000 part-time workers and 18,500 casual/seasonal workers, making a total of 150,000 employees or 118,500 full-time equivalents (FTEs). Assuming that the businesses which responded to the survey (12%) are representative of the FSB's overall membership, this suggests that the entire FSB membership employs 1.25m workers (987,000 FTEs), of which 800,000 are full-time.

Our discussion in the previous section of the sales turnover of respondents pointed to their small size. This is underlined when their current employment is considered. Some 16% have no full-time employees and a further 55% have fewer than five full-time employees. Just 1% have 50 or more full-time employees (*Table 5.1*). Taking account of part-time and casual/seasonal workers reduces both the proportion of businesses with no workers to 9% and those with fewer than five workers to 46% and doubles the proportion of businesses with 50 or more workers (2%). Some 7% of businesses reported that they employ workers who are registered as disabled.

Size is related to several business characteristics. First, in terms of legal form, sole traders are the most likely to have no (FTE) employees (14%), while limited liability companies have the highest proportion of businesses with five or more employees (FTEs) (58% compared with 45% average). Second, home-based businesses have a higher proportion of with no employees than businesses with external premises (15% compared with 8%). Conversely, 49% of businesses operating in external premises have five or more workers (FTEs) compared with 11% of home-based businesses. Nevertheless, this underlines the earlier point when considering sales turnover, that some home-based businesses are significant in terms of their size. Third, there is an association between years in business and employment. The youngest businesses have the highest proportion of businesses with no employees (19%) and with just one employee (28%) and the smallest proportion of businesses with 10 or more employees (8%). The longest established businesses have the highest proportion of businesses with 10 or more employees (28%).

Turning to the characteristics of the business owners, although there is no difference in the

Table 5.1 Present employment profile of respondents

	Full time		Part time		Casual		Total		FTEs	
	Count	%	Count	%	Count	%	Count	%	Count	%
0	2999	16.1	9040	48.5	14815	79.5	1777	9.5	1873	10.1
1	4030	21.6	4131	22.2	1735	9.3	2294	12.3	2774	14.9
2-4	6302	33.8	3931	21.1	1466	7.9	6206	33.3	7073	38.0
5-9	2847	15.3	883	4.7	314	1.7	4431	23.8	3787	20.3
10-49	2271	12.2	589	3.2	263	1.4	3569	19.2	2881	15.5
50-99	142	.8	46	.2	23	.1	250	1.3	185	1.0
100+	44	.2	15	.1	19	.1	108	.6	62	.3
Total	18635	100.0	18635	100.0	8635	100.0	18635	100.0	18635	100.0

proportion of male and female owned businesses with no employees, male business owners are more likely to run larger businesses: 34% of male-owned businesses have five or more FTE employees compared with 27% of women owned businesses. However, 45% of businesses jointly owned by males and females had five or more FTE employees. The youngest business-owners are the most likely to run businesses with no employees.

Analysed by region, Northern Ireland respondents are the least likely to have no FTE employees (7% compared with 10% average) and had the highest proportion of businesses with five or more employees (42% compared with 36% average).

Finally, there are a number of variations in business size across industry sectors. Manufacturing (17%) and Construction (22%) stand out as the industries with the smallest proportion of businesses with no employees. These industries also have the highest proportions of larger businesses (that is, those with five or more FTE employees) (47% and 35% respectively). Mining & Quarrying (36%) and Transport (35%) also have the highest proportion of businesses with five or more FTE employees. At the other extreme are Personal Services (42%), Hotels & Restaurants (36%) and Financial Services (34%) which have the highest proportions of businesses with no employees. These industries, along with Business Services, also have the smallest proportions of businesses with five or more FTE employees, with between 14 and 18%.

EMPLOYMENT CHANGE

The employment data reinforces the earlier conclusion based on sales turnover, that the

respondents as a whole are growing. Some 43% of businesses reported an increase in employment compared with two years ago, compared with just 16% which experienced a drop in numbers. In aggregate, the sample employs some 26,000 more workers than two years ago (+20.9%). Full-time workers have increased by 14,000 (+17.6%), with even faster rates of growth for part-time (+25.4%) and casual/seasonal labour (30.4%). In terms of full-time equivalents, employment has increased by 19,000 (+19.2%) (Table 5.2).

Analysed by legal form, the two smallest categories, franchised operations (28%) and limited liability partnerships (23%), reported the largest aggregate growth in FTE employment, while sole traders (23%) increased employment faster than both limited liability companies (19%) and partnerships (14%). There is little difference in the aggregate FTE employment growth of home-based businesses (19%) and businesses with formal premises (20%). Home-based businesses that also had external premises reported slightly slower aggregate employment growth (15%). Younger businesses have grown faster than longer established businesses (61% for businesses less than 3 years old, compared with less than 10% for businesses over 10 years old).

Women-owned businesses increased FTE employment to a much greater extent than either male-owned businesses (27% compared with 19%) or male-female jointly owned businesses (16%). However, it should be noted that women-owned businesses were starting from a much smaller base. Moreover, only 51% of the employment in women-owned businesses is full-time, compared with 68% in the case of male-owned businesses and 63% in businesses with

Table 5.2 Aggregate employment change by type of employment

Type of employment	Total employed two years ago	Total employed at time of survey	Change	%
Full time	81,714	96,083	+14,369	+17.6
Part-time	28,177	35,396	+7,219	+25.6
Casual/seasonal	14,230	18,552	+4,322	+30.4
Total employed	124,121	150,031	+25,910	+20.9
FTEs	99,360	118,419	+19,059	+19.2

joint male-female ownership. Younger business owners achieved the fastest aggregate FTE employment growth (41% for 22-34 year olds and 31% for 21 and under). Growth slowed in the 35-44 (26%), 45-54 (18%) and 55-64 (10%) age groups but revived in the 65 and over age group (19%).

There is considerable variation in the growth rates by industry sector. The fastest growing industries by FTE employment are in the service sector: Retail, Wholesale & Motor Trades (45%), Education (36%), Energy & Water (35%), Financial Services (31%), Hotels & Restaurants (29%). Manufacturing (7%), Mining & Quarrying (10%) and Construction (16%) have the slowest rates of employment growth.

Finally, FTE employment growth rates ranged from 14% in the West Midlands to 21% in both the South West and East Midlands.

CONDITIONS OF EMPLOYMENT

Nearly two-thirds of businesses (78% of businesses with full-time employees) do not provide an occupational pension for any of their employees, compared with 15% (17% of businesses with full-time employees) who provide a pension for some workers and just 10% (12% of businesses with full-time employees) who provide a pension for all their employees.

Some 40% of businesses provide all their staff with a contract of employment (47% of businesses with full-time employees) and a further 12% (15% of business with full-time employees) provide a contract of employment for some of their employees. In contrast, 37% (44% of businesses with full-time employees) of businesses do not provide a contract of employment for any of their employees.

Most small businesses are non-unionised. There are just 6% of businesses which report that some of their employees are unionised and in fewer than 1% of businesses are all employees members of trades unions.

Older businesses are most likely to provide occupational pensions and contracts of employment. However, there is no relationship between years in business and the proportion of employees who are members of trade unions.

RECRUITMENT AND SKILLS

Not surprisingly, businesses have found it much more difficult to recruit skilled workers than unskilled workers (*Table 5.3*). However, the difficulties have varied between industry sectors. Difficulties in recruiting skilled workers are most intense for Construction (49%), Health & Social Work (49%), Transport (46%), Manufacturing (44%), Mining & Quarrying (43%) and Hotels & Restaurants (41%). In contrast, respondents in Business Services (27%), Financial Services (29%) and Other Industries (30%) were the least likely to report difficulties in recruiting skilled workers. Many of the industries which have encountered difficulties in recruiting skilled workers also reported difficulties in recruiting unskilled workers. This was the case for Transport (21%), Manufacturing (22%), Health & Social Work (30%) and Hotels & Restaurants (31%). Conversely, respondents in Energy & Water (6%), Financial Services (6%), Business Services (9%) and Education (10%) were least likely to report difficulties in recruiting unskilled workers. Businesses in such industries are relatively small and make only limited use of unskilled workers.

There are few variations in recruitment difficulties across regions. Indeed, the only deviant case is Northern Ireland which contains a high proportion of businesses reporting difficulties in recruiting

Table 5.3 Experience of recruiting staff in the following categories, in the past two years

	Not ticked	Not relevant	Difficult	Neutral	Easy
Skilled	20	27	36	13	5
Unskilled	23	31	16	18	11

skilled workers (44% compared with average of 36%).

Table 5.4 provides further insight into those skills that businesses are most concerned about. In analysing this information it need to be remembered, first, that a significant proportion of

businesses either have no employees or just a handful, and second, that many businesses have no need for particular types of skills. The key skills where businesses report the greatest dissatisfaction are with advanced IT skills (12%), sales and marketing skills (11%) and foreign languages (11%). Conversely, and conflicting with

Table 5.4 Satisfaction with skills of current employees

	Not ticked	Not relevant	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied
	%	%	%	%	%	%	%
Literacy	18	4	1	4	11	40	23
Numeracy	18	3	1	3	11	41	23
Basic IT skills	21	10	1	5	17	30	17
Advanced IT skills	25	16	3	9	24	14	9
Technical skills	23	8	1	4	17	31	16
Managerial skills	22	8	1	7	22	29	10
Communication skills	19	2	1	5	16	39	18
Customer service	19	2	1	2	9	39	28
Sales and marketing	23	8	2	9	24	26	8
Foreign languages	26	34	4	7	22	4	2

Table 5.5 Dissatisfaction with skills of current employees by industry

	Literacy	Numeracy	Basic IT skills	Advanced IT skills	Technical skills	Managerial skills	Communication skills	Customer service	Sales and marketing	Foreign languages	None ticked
	%	%	%	%	%	%	%	%	%	%	%
Agriculture, Forestry & Fishing	4	3	5	10	4	6	6	3	7	8	75
Mining & Quarrying	6	4	4	16	6	8	4	2	4	12	67
Manufacturing	6	6	8	13	6	10	9	3	14	17	60
Energy & Water	2	2	2	5	1	4	2	0	8	8	76
Construction	6	5	6	12	4	7	7	3	9	7	71
Retail, Wholesale & Motor Trade	4	4	8	12	5	8	5	3	9	8	72
Hotels & Restaurants	6	6	6	9	5	9	7	3	9	11	70
Transport & Communications	5	4	7	14	6	8	7	4	12	13	66
Financial Services	3	2	3	12	5	6	4	2	11	8	71
Business Services	4	3	4	10	4	8	6	3	17	14	63
Public Administration & Defence	0	0	4	13	0	9	4	9	26	17	61
Education	8	5	9	18	7	7	3	2	12	10	62
Health & Social Work	8	7	12	16	6	9	7	4	13	7	64
Personal Services	8	7	5	11	7	9	5	4	10	7	73
Other	4	3	4	11	5	7	5	2	11	11	71
Not ticked	4	4	5	8	5	7	5	2	10	11	77
UK	5	4	6	12	5	8	6	3	11	11	68

The data in this table is based on the responses to the question 'How satisfied are you with the skills of your current employees?' from the 2004 survey. The data is presented in this table for the 2004 survey only.

conventional wisdom, a relatively few businesses are dissatisfied, or very dissatisfied, with the numeracy (4%) and literacy (5%) skills of their workers, customer service skills (3%) and communication skills (3%).

Industries differed in the extent to which they were dissatisfied with the skills of their employees (Table 5.5). Dissatisfaction with advanced IT skills is greatest among businesses in Education (18%), Health & Social Work (16%) and Mining & Quarrying (16%). Health & Social Work businesses are also most likely to be dissatisfied with the basic IT skills of their employees (12%).

Dissatisfaction with sales and marketing skills is greatest among Public Administration & Defence (26%) and Business Services (17%) businesses. Dissatisfaction with foreign languages skills is greatest within Manufacturing (17%) and Public Administration and Defence (17%) businesses. Energy & Water businesses are the least likely to be dissatisfied with any of the skills of their employees. However, dissatisfaction with staff skills exhibits few regional variations. Indeed the only significant feature is that a higher proportion

of London firms express dissatisfaction with managerial skills and sales and marketing.

FORMAL TRAINING

Training is the obvious response to skill shortages. Only 39.8% of business owners report that they undertake formal staff training on a regular basis, with a further 20.9% undertaking formal training occasionally, and 30% not undertaking any formal training at all (Table 5.6). Interestingly, there are no significant regional variations in the proportion of businesses that have participated in staff training.

Businesses in the Manufacturing (37%), Transport (38%) and Retail, Wholesale & Motor Trades (40%) sectors are the most likely to report that they have done no formal staff training in the past year, even though as noted earlier, these industries are among the most affected by skill shortages. Sectors with the fewest businesses which do no formal training are Health & Social Work, Education, Financial Services and Other Personal Services. However, the proportion of

Table 5.6 Frequency of providing formal staff training in the last 12 months

	Count	%
Not at all	5588	30.0
Occasionally	3900	20.9
Regularly	7424	39.8
Not answered	1723	9.2
Total	18635	100.0

Table 5.7 Barriers to formal training

	Count	%
Cost of courses	9627	51.7
Lost staff time	6895	37.0
Courses offered not relevant to business needs	6768	36.3
Timing of courses	6502	34.9
Lack of funding	5033	27.0
Distance from place of training	4855	26.1
Lack of enthusiasm from staff	2597	13.9
Fear of losing staff once trained	1980	10.6
No barriers to training	2284	12.3
None ticked	2365	12.7

Note: Multiple Responses were possible so totals exceed 100%

businesses which undertake regular training in some of these industries is also quite low. The industries with the highest proportion of businesses undertaking regular training are Hotels & Restaurants (47%), Energy & Water (43%) and Construction (43%).

Most businesses attribute their limited formal training to the existence of barriers. Indeed, just 12.3% of firms said there were no barriers to training. The single biggest barrier to training is cost (*Table 5.7*), with the cost of courses cited by 51.7% of businesses as a barrier and the loss of staff time cited by 37% of businesses. Other barriers are related to the lack of relevance of the courses that are available (36.3%), the timing of the courses (34.9%), the lack of funding (27%) and the distance of the business from the place of funding (26.1%). Equally significant are the non-

barriers: fear of losing newly trained staff was cited by just 10.6% of businesses and lack of enthusiasm of staff was cited by just 13.9% of businesses.

The relevance of these barriers varies between industries. Cost of courses is the greatest problem for Health & Social Work, Personal Services and Construction. Timing is a particular barrier for Health & Social Work, Hotels & Restaurants, Education, and Transport. The relevance of the courses available is a major issue for Manufacturing and Transport businesses. Manufacturing, Construction, Transport and Health & Social Work are particularly concerned about the loss of staff time. The lack of funding is of particular concern to Health & Social Work businesses.

National Minimum Wage

THE IMPACT OF THE 2003 UP-RATE ON SMES

Since the National Minimum Wage (NMW) was introduced in the UK in 1999, the level has been increased three times, with the most recent increase, or up-rate, occurring in October 2003. The adult minimum wage (those aged 22 and over) was raised from £4.20 to £4.50 per hour and the Development Rate (for those aged 18-21) from £3.60 to £3.80 per hour.

Although highly controversial when initially proposed, and attracting opposition from business groups, the NMW is now widely accepted as having brought benefits to many low paid workers without any apparent adverse effect on the economy or employment. This encouraged the Government to accept the Low Pay Commission's proposal that the increase in the minimum wage which came into effect in October

2003 should be significantly above the forecast increase in average earnings. The Government has also accepted the Low Pay Commission's proposal that there should be a further increase in the minimum wage to £4.85 and £4.10 in October 2004.

As the timing of the October 2003 up-rate coming into effect coincided with the survey being distributed, this provided a timely opportunity to explore its likely effect on FSB members. It should be noted that this survey, with over 18,000 responses, considerably exceeds the size of the Low Pay Commission's own survey that was published in their 3rd Report (March 2001) to assess the impact of the national minimum wage which is based on under 4,000 responses (a 13% response rate) and its findings can therefore be regarded as being authoritative.

Table 6.1 Number of businesses who have up-rated employees to the new NMW

Number of uprated employees	No. of Businesses uprating Adults 22 & over		No. of Businesses uprating Young workers 18-21	
	No.	%	No.	%
	1	1205	6.5	718
2-4	1172	6.3	379	2.0
5-9	342	1.8	84	0.5
10-49	301	1.6	45	0.2
50-99	16	0.1	0	0
100+	7	0	5	0
Total business uprating employees	3043	16.3	1231	6.6
Total businesses in sample	18635	100.0	18635	100.0

Table 6.2 Willingness to employ workers in different age groups following the NMW up-rate

	Not ticked	More likely to employ	No change	Less likely to employ
	%	%	%	%
Workers aged 16-17	34	2	58	6
Workers aged 18-21	33	2	60	6
Workers aged 22+	29	2	64	5

As noted earlier, a significant minority of respondents to the survey are one person businesses which do not employ anyone other than the owner (or owners) and who will therefore be unaffected by the change to the NMW. Thus, just 16.3% of businesses have had to up-rate at least one adult worker to the new rate and 6.6% have had to up-rate the wages of 18-21 year olds to the new rate. In the majority of cases just one or two workers have been up-rated (*Table 6.1*), thus the overall number of workers who have benefited is quite small, at just under 14,000 adults and just under 5,000 young workers, which represents 13% of the total number of workers (including part-timers and casual / seasonal) employed by the businesses which responded to the survey.

In other respects the survey confirms that the NMW up-rate would have few adverse consequences on employment (see *Tables 6.2* and *6.3*).

- Only 5% of businesses indicated that the NMW up-rate would reduce their willingness to employ adult workers and only 6% indicated that it would reduce their willingness to employ either 18-21 year olds or 16-17 year olds. More generally, only 1% of businesses would significantly decrease their employment, and 4% slightly decrease their employment as a result of the NMW up-rate.

- There was no evidence that businesses would substitute younger, and thus cheaper, workers in place of older workers.
- The proportion of businesses that would reduce the number of hours that their employees worked (basic and overtime) was also low, at just 6%.
- Few businesses proposed to substitute labour by investment in capital equipment: indeed, the proportion of businesses proposing to increase their investment in new capital equipment (5%) was almost entirely offset by the proportion who proposed to reduce their capital investment spend (4%).
- The impact of the NMW up-rate on forms of remuneration, such as incentive payments, non-wage benefits, was also largely neutral.
- There was virtually no impact on the willingness or otherwise of businesses to increase or decrease the training that they provided.
- Few businesses were planning to respond to the increase by moving 'up market' by increasing the quality of their products or services. Indeed, the impact of the NMW up-rate was confined to the following.

Table 6.3 Anticipated changes following the NMW up-rate

	Not ticked	Significant decrease	Slight decrease	no change	Slight increase	Significant increase
	%	%	%	%	%	%
Number of people employed	30	1	4	63	1	0
Basic hours worked	32	1	5	62	1	0
Overtime hours	34	2	3	60	1	0
Incentive payments (bonuses, tips etc)	37	1	2	58	1	0
Non-wage benefits (meal vouchers etc)	40	1	1	58	0	0
Training provided	37	1	1	59	2	0
Measures to control labour costs (paid breaks etc)	37	1	2	57	2	0
Measures to control non-wage costs	38	1	2	55	4	1
Using younger workers in place of older workers	37	1	1	58	2	0
Investing in new capital equipment	37	1	3	55	4	1
Quality of products / service	37	0	1	58	4	1
Total wage bill	34	0	1	46	15	3
Profitability	34	2	12	48	4	1

- First, it will have a knock-on effect on higher paid workers, with one in five businesses reporting that they will increase the pay of higher grade workers in order to maintain wage differentials (*Table 6.4*).
- Second, 18% of respondents claimed that the increase in the NMW will increase their overall wage costs (but only 3% said that the increase would be 'significant') (*Table 6.3*).
- Third, 14% reported that the NMW up-rate and associated knock-on effects will have a detrimental effect on their profitability, although only 2% of businesses anticipated that the effect would be to significantly decrease their profitability (*Table 6.3*).

However, it is important to recognise that the impact of the NMW up-rate varies by sector and by region.

THE EFFECT OF THE 2003 UP-RATE BY INDUSTRY

The impact of the NMW up-rate varies quite considerably by sector. In the Personal Services sector 33% of employees have been affected, while in the Hotel & Restaurants 29% of employees have been up-rated. In Retail, Wholesale & Motor Trades nearly one in five of workers have been up-rated. However, in many other sectors, notably skilled blue collar industries such as Manufacturing, Transport and Construction, and service industries dominated by professional workers, notably Financial Services and Business Services, fewer than 10% of workers have been up-rated (*Table 6.5*).

The impact of the up-rate will be most severe on the Hotel & Restaurant sector, with 13% of businesses reporting a decrease in jobs (compared with 5% average), 20% reporting a decrease in the number of basic hours worked (compared with 5% average), 13% reporting a cut in overtime hours (compared with 5% average) and 29% reporting a decrease in profitability (compared with 14% nationally). One impact of declining profitability is that the Hotels & Restaurants sector has the second highest proportion of businesses (after Education) reporting a decline in investment in new capital equipment (9% compared with 4% average). Education (25%), Health & Social Work (22%) and Personal Services (22%) also have high proportions of businesses reporting declining profitability (compared with 14% national average).

THE EFFECT OF THE 2003 UP-RATE BY REGION

Turning to the regional dimension, it is acknowledged that the UK has distinctive labour market regimes arising from differences in the demand for labour, labour market conditions and the cost-of-living. As a consequence, the proportion of workers who fall below the minimum wage will vary between regions. There are also likely to be effects at other geographical scales, such as urban and rural. These will be the subject of a separate analysis and published at a later date.

It is clear that the impact of the NMW up-rate is much greater in the northern regions of England and Scotland and Wales, regions which are characterised by higher proportions of low wage workers, below average wage rates, above average unemployment and lower cost of living (including house prices).

Table 6.4 Will you increase the pay of higher grade staff to maintain differentials?

	Count	%
Yes	3542	19.0
No	5608	30.1
Undecided	3286	17.6
Not answered	6199	33.3
Total	18635	100.0

The proportion of employees in each region who have been up-rated ranges from around 6% in the South East and London to over one quarter in North East England (Table 6.6).

In North East England, North West England, Scotland, Northern Ireland and Wales between 22% and 26% of businesses report that they will have to increase the pay of higher grade workers to maintain wages differentials (national average of 19%). The equivalent proportion for London is 14% and for South East England is 15%.

The proportions of businesses in these regions reporting a decrease in employment, reduction in basic hours worked and reduction in overtime hours is also above average.

The proportion of businesses reporting a decline in profitability as a result of the NMW up-rate is highest in Northern Ireland (20%), North East England (20%), North West England (18%), Wales (17%) and lowest in London (8%) and South East England (10%), compared with the national average of 14%.

Businesses in North East England, which have been hardest hit by the NMW up-rate, have been most proactive in responding to its impact, by reducing non-wage benefits (4% compared with 2% nationally), controlling labour costs (5% compared with 2% nationally) and investing in new capital equipment (6% compared with 4% nationally).

These results suggest that the latest NMW up-rate will have a relatively limited impact in terms of both the proportion of businesses and employees affected. However, this is influenced by the nature of the respondents to the survey which comprise a substantial proportion of businesses without employees.

These results also add to the evidence that the NMW is not having a significantly adverse impact on business. Clearly it is raising the wage bill of companies, both directly and indirectly, because of the need to maintain differentials, and in turn on profitability. But few businesses anticipate that the impact will be 'significant'. Neither is the NMW prompting large numbers of businesses to make significant changes either to their recruitment or to operational practices.

Table 6.5 Number of employees up-rated to new NMW rates by industry

	Adults 22 & over	Young workers 18-21	Total up-rated on NMW	% of total employees
	(from £4.20 to £4.50)	(from £3.60 to £3.80)		
Agriculture, Forestry & Fishing	321	49	370	8.3
Mining & Quarrying	19	2	21	3.8
Manufacturing	1222	236	1458	6.9
Energy & Water	8	7	15	1.7
Construction	494	177	671	4.1
Retail, Wholesale & Motor Trade	3448	1743	5191	19.3
Hotels & Restaurants	2727	1309	4036	29.2
Transport & Communications	549	68	617	7.3
Financial Services	80	27	107	3.8
Business Services	1153	576	1729	8.9
Public Administration & Defence	.	.	0	-
Education	301	87	388	12.4
Health & Social Work	1090	53	1143	13.9
Personal Services	665	192	857	33.1
Other	1912	315	2227	11.5
Total	13904	4823	18727	12.7

Table 6.6 Number of employees up-rated to the new NMW rates by region

	Adults 22 & over (from £4.20 to £4.50)	Young workers 18-21 (from £3.60 to £3.80)	Total up-rated on NMW	% of total employees
London	388	55	443	6.4
South East	1316	337	1653	5.8
East England	1096	187	1283	15.0
South West	1801	406	2207	9.9
East Midlands	1078	800	1878	13.3
West Midlands	834	627	1461	13.0
Yorkshire & Humberside	1175	288	1463	15.3
North West	2011	810	2821	17.3
North East	654	574	1228	28.0
Wales	903	200	1103	16.8
Scotland	2229	411	2640	16.6
Northern Ireland	488	141	629	14.9
Total	13872	4813	18685	12.6

Note: number of up-rated workers is different in Tables 6.5 and 6.6 due to differences in respondent numbers.

However, it is important that this favourable assessment of overall impact of the NMW up-rate does not obscure important sectoral and regional differences. There will be significant effects of the NMW up-rate on the Hotels & Restaurants sector in particular. Businesses in North West England, North East England, Scotland, Wales and Northern

Ireland will also be differentially affected. The Chancellor of the Exchequer has recently made the case for greater regional variations in wage negotiation. The same arguments can be used to argue that the NMW should be regionalised to reflect the very different labour market conditions around the country.

E-Commerce

INTERNET ACCESS AND USAGE

Electronic (E-) commerce is transforming the way in which businesses operate. The effects may be particularly significant for small businesses as it provides them with the potential to achieve much greater market reach, for example, by enabling specialist producers to supply a customer base that is geographically dispersed not just on a national scale but globally. However, there are concerns that the small firm sector has been slow to adopt e-commerce. This section contributes to this debate by examining the rate of adoption of e-commerce between different types of businesses and across industries and regions, and exploring perceived barriers to adoption.

More than four out of five small businesses are connected to the Internet, mainly via a modem over the telephone line (37.5%) or via broadband over the telephone network (ADSL) (23.0%) (Table 7.1). In total, 28% of businesses have broadband connection in one form or another (36% if non-respondents and businesses not connected to the Internet are excluded). More than two-thirds of the businesses connected to broadband have been connected within the past year, and 40% have been connected within the past six months.

The types of business that are least likely to be connected to the Internet are sole traders (26%), partnerships (24%) and limited liability partnerships (22%). By comparison, only 9% of limited liability companies are not connected. However, there is little difference in the proportion of home-based businesses (15%), home-based businesses with external premises (17%) and businesses with external premises (19%) that are not connected to the Internet. This is consistent with the theme which runs through this report that home-based businesses are just as 'serious' as those businesses which operate from external premises.

The greatest variation in non-connection to the Internet is in terms of industry, with the proportion of businesses with no Internet connection ranging from zero (Public Administration & Defence) to 34% (Personal Services), although the non-connection average across the total sample is 18% (Table 7.2). The vast majority of businesses in Business Services and Financial Services are connected to the Internet, whereas around 30% or more of the businesses in the Hotel & Restaurants, Retail, Wholesale & Motor Trades and Personal Services sectors are not connected.

Table 7.1 Connection to the Internet

	Count	%
Yes (via Modem over telephone line)	6980	37.5
Yes (via Broadband over telephone network (ADSL))	4287	23.0
Yes (via ISDN/ Home/Business Highway)	2119	11.4
Yes (via Broadband over cable)	744	4.0
Yes (via Broadband over satellite)	92	.5
Yes (via Broadband over wireless)	52	.3
No	3343	17.9
Not answered	1018	5.5
Total	18635	100.0

Table 7.2 Connection to the Internet by industry

	Not answered	Yes (via Broadband over telephone network (ADSL))	Yes (via Broadband over cable)	Yes (via Broadband over satellite)	Yes (via Broadband over wireless)	Yes (via ISDN/ Home/Business Highway)	Yes (via Modem over telephone line)	Not Connected
	%	%	%	%	%	%	%	%
Agriculture, Forestry & Fishing	8	7	1	0	0	13	49	22
Mining & Quarrying	8	22	2	0	0	18	39	12
Manufacturing	5	25	2	1	0	13	42	12
Energy & Water	8	23	4	0	0	14	35	17
Construction	6	20	4	0	0	11	42	17
Retail, Wholesale & Motor Trade	6	16	2	0	0	9	36	30
Hotels & Restaurants	8	12	2	0	0	8	40	29
Transport & Communications	6	24	5	1	0	15	32	17
Financial Services	3	35	6	0	0	13	37	5
Business Services	3	39	7	1	1	14	30	4
Public Administration & Defence	4	39	26	0	0	9	22	0
Education	6	26	6	1	0	12	37	12
Health & Social Work	5	20	3	0	0	9	40	23
Personal Services	7	13	5	0	0	8	33	34
Other	5	23	5	0	0	12	38	15
Not ticked	16	20	3	1	0	8	37	16
UK	5	23	4	0	0	11	37	18

Non-connection to the Internet also varies across the regions (*Table 7.3*). London (11%) and South East England (13%) have the smallest proportion of businesses that are not connected while North West England (22%) and Wales (21%) have the highest proportions of non-connected businesses. London also has by far the highest proportion of broadband connected businesses and these businesses have been connected to broadband for longer than businesses in the rest of the UK.

The main uses of the Internet (*Table 7.4*) are for e-mail communication with customers and suppliers (69.3%). However, a significant minority of businesses also use the Internet for purchasing (36.6%) and file transfers (30.4%).

ON-LINE SALES

Half of the businesses (49.2%) have their own web sites (*Table 7.5*). However, these are used

Table 7.3 Connection to the Internet by region

	Not answered	Yes (via Broadband over telephone network (ADSL))	Yes (via Broadband over cable)	Yes (via Broadband over satellite)	Yes (via Broadband over wireless)	Yes (via ISDN/ Home/Business Highway)	Yes (via Modem over telephone line)	Not Connected
	%	%	%	%	%	%	%	%
London	3	44	5	1	0	7	29	11
South East	4	31	5	0	0	11	34	13
East England	5	16	4	1	0	13	41	20
South West	6	20	3	0	0	13	39	19
East Midlands	5	20	5	0	0	13	37	19
West Midlands	6	23	4	0	0	12	37	18
Yorkshire & Humberside	5	23	3	1	0	10	38	20
North West	6	23	4	0	1	9	37	22
North East	8	19	4	1	0	8	39	20
Wales	6	14	3	1	0	14	41	21
Scotland	7	16	4	1	0	11	42	19
Northern Ireland	6	26	3	0	0	12	35	18
Not ticked	10	17	5	1	0	9	36	22
UK	5	23	4	0	0	11	37	18

Table 7.4 Uses of the Internet

	Count	%
e-mail to communicate with customers/ suppliers	12788	69.3
Purchasing	6750	36.6
File transfers	5607	30.4
e-mail to communicate internally	3438	18.6
Remote access to the office system	2316	12.5
None ticked	5206	28.2

Table 7.5 Businesses with a website

	Count	%
Yes	9173	49.2
No	4932	26.5
Not answered	4530	24.3
Total	18635	100.0

Table 7.6 Uses of website

	Count	%
Information on company's goods/ service to potential customers	8558	45.9
Facility for on-line ordering	2309	12.4
Facility for customers to make payments on-line (credit card etc)	1034	5.5
Downloading of purchased of digital goods/ services	590	3.2
After-sales service and support	1781	9.6
None ticked	10006	53.7

Note: Multiple Responses were possible so totals exceed 100%

Table 7.7 Impact of the website on customer acquisition

	Count	%
Attracted new customers within the UK	3988	21.4
Attracted new overseas customers	1907	10.2
Existing customers switched to internet – no additional sales resulting	527	2.8
Additional purchasing from existing customers only	336	1.8
No impact	3977	21.3
None ticked	10091	54.2

Note: Multiple Responses were possible so totals exceed 100%

primarily as an electronic catalogue (Table 7.6). Only a minority of businesses have the facility for on-line ordering by customers (12.4%), after sales service and support (9.6%), payment by customers (5.5%) or delivery of digital goods and services (3.2%).

The types of businesses with web sites, largely mirrors those that are connected to the Internet. Thus, limited liability companies are more likely to have web sites (62%) than either partnerships (43%) or sole traders (36%). Businesses with external premises are slightly more likely to have a web site (52%) than either home based businesses with external premises (47%) or home-based businesses (46%). Younger

businesses are also generally more likely than older businesses to have a web site (52% for businesses up to 10 years old, compared with 43% of businesses that are 21-30 years old).

There is little difference between male-owned and female-owned businesses in the proportions with web sites (48% compared with 46%). However, businesses jointly owned by males and females are the most likely to have web sites (53%). Older business owners are less likely to have web sites than younger business owners; 38% of business owners aged over 65, 45% of those aged between 55-64 years, compared with over 50% for younger business owners, have a web site.

In terms of industry, the proportion of businesses with web sites ranges from 31% in Agriculture, 36% in Energy & Water, 37% in Construction and 37% in Personal Services to 65% in Public Administration & Defence and 68% in Business Services. Surprisingly, the high Internet connection of Financial Services businesses is not reflected in an above average use of web sites. Similarly, the proportion of businesses in Hotels & Restaurants with a web site (44%) is higher than would be expected on the basis of the relatively low Internet connection rate of these industries. Analysed by region, businesses in London (59%) and South East England (54%) are the most likely to have web sites, while Northern Ireland has the lowest proportion of businesses with web sites (43%).

Given this rather limited involvement in e-commerce it is unsurprising to find that, for many businesses with a web site, few benefits had accrued (*Table 7.7*) and that most businesses report only very low levels of sales derived on-line (*Table 7.8*). Nevertheless, one in five businesses (21.4%) report attracting new UK customers as a result of their web presence, and one in ten (10.2%) report attracting new overseas customers. The industries that have benefited the most in terms of attracting new customers are Business Services, Hotels & Restaurants, Public Administration & Defence and Manufacturing. It is also important to note that in most cases online sales are additional: only 2.8% of businesses (6% of businesses with web-sites) report that existing customers have switched to online purchasing, with no net additional sales resulting (see *Table 7.7*).

For those businesses that achieve on-line sales, these typically contribute less than 10% of their overall sales turnover. The sector that has benefited the most from online sales is Hotels & Restaurants, where 13% of businesses derived more than 10% of their sales online (compared with 3% average). However, the sample does contain a small proportion (0.7%) of e-commerce-enabled businesses that derive more than three-quarters of their sales online (*Table 7.8*). These businesses are mainly in the following sectors: Retail, Wholesale & Motor Trades; Hotels & Restaurants; and Business Services and are located throughout the UK.

BARRIERS TO DEVELOPING E-COMMERCE

Respondents report a number of barriers to developing their e-commerce capabilities (*Table 7.9*). The single biggest barriers, each cited by just under one-quarter of businesses, are the reluctance of customers to switch to e-commerce (24.3%) and the perception that e-commerce will not benefit their business (23.5%). Cost is also a major barrier, with 22.3% inhibited by the high costs involved in developing a web site and 18.9% concerned about the high cost of maintaining a web site. Other significant barriers are amount of development time (16.3%), technology failures (16.0%) and the lack of technical/web skills amongst their employees (15.8%).

There is some industry variation in the most significant barriers. For example, 'customer preference for traditional ways' is most significant

Table 7.8 Proportion of sales derived online

	Count	%
None	4770	25.6
1-10 %	2728	14.6
11-25 %	559	3.0
26-50 %	304	1.6
51-75 %	144	.8
75-99 %	91	.5
100 %	40	.2
Not answered	9999	53.7
Total	18635	100.0

Table 7.9 Barriers to developing e-commerce

	Count	%
Customers do not want to change -they prefer traditional ways	4532	24.3
Will not benefit my business	4376	23.5
High costs to develop the web site	4151	22.3
High costs to maintain the web site	3513	18.9
Amount of development time required is too great	3036	16.3
Technology failures	2978	16.0
Lack of technical/ web skills amongst employees	2942	15.8
Difficulty in getting good external advice	2523	13.5
Not interested	2401	12.9
High connection costs	1836	9.9
Suppliers are not co-operative or ready for electronic business	1329	7.1
Security failures/ problems	1115	6.0
Difficulty in hiring staff with appropriate technical/ web skills	1081	5.8
Difficulty in finding web design company	1077	5.8
Internet fraud	896	4.8
None ticked	4974	26.7
Total	18635	100.0

Note: Multiple Responses were possible so totals exceed 100%

Table 7.10 Type of office application software used

	Count	%
Microsoft Office	13255	71.1
Other	1919	10.3
Word Perfect/ Correl	433	2.3
Star Office	168	.9
Not answered	2860	15.3
Total	18635	100.0

Table 7.11 Influences on choice of office applications software

	Count	%
Cost	4955	26.6
No choice	3947	21.2
Help easily available	3940	21.1
Facilities	3641	19.5
Interchange of files	2757	14.8
Updates	2736	14.7
Good customer service	2101	11.3
None ticked	4588	24.6

Note: Multiple Responses were possible so totals exceed 100%

in the Agriculture, Financial Services and Retail, Wholesale & Motor Trades sectors. The highest proportions of businesses stating that e-commerce would not benefit their business are in Health & Social Work (37%), Personal Services (35%), Construction (30%) and Agriculture (29%). Technology failure is a particular issue for Financial Services businesses. High costs of developing and maintaining a web site is most problematic for Retail, Wholesale & Motor Trades businesses. Businesses in the Education sector are disproportionately affected by the lack of skills. In terms of region, businesses in Northern Ireland stand out as containing a higher proportion of businesses reporting barriers across virtually all of the categories.

Few businesses have experienced countervailing pressures to trade electronically. For example, just 12% of firms report that their suppliers have insisted that they trade electronically. As might be expected, the proportion of businesses in each industry stating that their suppliers required them to trade electronically is reflected in the adoption rates of e-commerce in each industry, being highest in Financial Services (23%) and lowest in Hotels & Restaurants (7%) and Personal Services (7%).

Overall, the survey evidence suggests that most businesses are connected to the Internet and around half have web sites. However, the involvement in e-commerce for most of these businesses is fairly superficial, mainly for communication purposes. Only a small minority engage in online selling and procurement or in other more sophisticated uses of e-commerce. So, not surprisingly, for most small firms the economic impact of e-commerce is currently minimal.

SOFTWARE USE

The large market share of Microsoft software is indicated in *Table 7.10*. Over 70% of respondents use MS Office as their office applications software. The reasons given for using MS Office are largely positive ones (*Table 7.11*): cost, availability of help, facilities, interchange of files and updates. Nevertheless, 21% of businesses felt that they were forced into using MS Office because of the lack of choice.

Business Advice and Services

MOST USED SOURCES OF ADVICE

The results of this survey demonstrate that accountants are the most frequently used source of business advice (Table 8.1). Nearly three quarters (74.1%) of respondents have consulted an accountant within the previous year. Other sources of business advice are much less used. A third of respondents sought advice from other professional services, banks (33.8%) and solicitors (30.4%), and 28.7% used other business owners. A minority of respondents sought advice from their customers (21.9%), trade associations (20.2%), their suppliers (18.4%) and their family (17.3%). While there are several local and national government agencies providing business advice,

these are generally not well used. Government funded business support services, which include Business Link (England), LEC and Business Gateway (Scotland), Business Support Gateway (Wales) and Invest Northern Ireland, are used by 16.7% of respondents, although are more frequently used by new businesses (0-3 years), 26% of whom report using this source of advice. Other local, regional and national government agencies are used by fewer than 5% of respondents.

These results mirror the broad findings of the two previous FSB surveys. This year, however, several more categories of advisory services were included in the survey and this has enabled a

Table 8.1 Most frequently used source of business advice

	Count	%
Accountant	13810	74.1
Bank	6293	33.8
Solicitor	5656	30.4
Other business owners	5355	28.7
Your customers	4078	21.9
Trade Association	3757	20.2
Your suppliers	3435	18.4
Your family	3232	17.3
Government Funded Business Support *	3111	16.7
Enterprise Agency/ Trust	804	4.3
Central government (DTI, HSE, HMCE, IR)	754	4.0
Regional Development Agency	744	4.0
Local government	711	3.8
Tourist Board	497	2.7
Learning & Skills Council	436	2.3
Export partnerships (e.g. Trade Partners UK)	350	1.9
Did not seek advice	2116	11.4
None ticked	742	4.0

Note: Multiple Responses were possible so totals exceed 100%

*Business link (England): LEC, Business gateway (Scotland): Invest Northern Ireland: Business support gateway (Wales)

more nuanced view of the usage of business advice. Analysed by area, several clear differences emerge in the usage of different sources of business advice (Table 8.2). While a majority of respondents seek advice from accountants, respondents in Northern Ireland are more likely to do so (82%, compared with 74% across the total sample). Northern Ireland respondents are also more likely to seek advice from other professional sources (solicitors and banks) as well as their customers, suppliers and family. In contrast, respondents from Wales are less likely to seek advice from professionals (accountants, solicitors, banks) and other business owners, but substantially more likely to seek advice from local

government (10%, compared with 4% across the total sample), regional development agencies (14%, compared with 4% across the total sample) and tourist boards (6%, compared with 3% across the total sample). Government funded business support services are particularly well used by respondents from North East England (24%, compared with 17% across the total sample), while London respondents are less likely to use this source of advice. London respondents, however, report higher than average usage of solicitors, trade associations, customers and other business owners.

Analysed by industry sector, further differences emerge. Respondents from the Mining &

Table 8.2 Most frequently used source of business advice by region

	Solicitor	Accountant	Government Funded Business Support *	Local government	Central government (DTI, HSE, HMCE, IR)	Regional Development Agency	Bank	Trade Association	Enterprise Agency/ Trust	Learning & Skills Council	Tourist Board	Export partnerships (e.g. Trade Partners UK)	Your family	Your customers	Your suppliers	Other business owners	Did not seek advice	None ticked
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
London	38	75	13	3	5	2	30	23	3	1	1	2	19	25	19	31	10	5
South East	30	74	14	3	4	2	33	22	4	2	1	2	18	22	18	31	11	4
East England	28	74	16	4	4	3	34	20	4	2	2	2	17	23	18	29	12	4
South West	29	73	17	4	4	3	35	22	3	3	4	2	17	22	18	29	13	3
East Midlands	30	75	16	4	4	3	35	20	2	3	2	2	19	21	18	29	11	3
West Midlands	30	75	17	3	4	4	34	19	2	3	1	2	15	20	18	29	12	5
Yorks & Humber	31	75	17	3	4	3	33	20	1	2	2	2	16	24	21	27	11	4
North West	30	74	18	4	4	4	34	20	3	3	3	2	17	21	19	27	12	4
North East	31	75	24	4	6	5	36	21	5	4	2	3	17	22	20	28	10	4
Wales	25	70	20	10	4	14	33	17	6	3	6	2	14	19	16	22	12	5
Scotland	32	74	18	5	4	6	34	17	13	1	5	2	18	22	18	28	11	4
Northern Ireland	43	82	20	5	3	7	37	15	4	2	3	1	23	25	24	31	8	3
Not ticked	23	64	16	4	6	1	32	17	4	3	3	1	15	19	17	28	15	8
UK	30	74	17	4	4	4	34	20	4	2	3	2	17	22	18	29	11	4

*Business link (England): LEC, Business gateway (Scotland): Invest Northern Ireland: Business support gateway (Wales)

Quarrying (37%), Health & Social Work (36%), Hotels & Restaurants (35%) and Business Services (35%) sectors are more likely to use solicitors (30% across the total sample), while fewer than half of the Financial Services respondents (45%) use accountants (compared with 74% across the total sample). Across the total sample, 17% use government funded business support services, but respondents from the Public Administration & Defence (35%), Education (28%), Manufacturing (25%), Business Services (23%) and Health & Social Work (22%) sectors are more likely to do so. The Hotels & Restaurants sector is more likely to seek advice from professional sources and also from tourist boards (19%, compared with 3% across the total sample). The Health & Social Work sector is more likely to seek advice from trade associations (32%, compared with 20% across the total sample), and respondents from the Retail, Wholesale & Motor Trades sector are more likely to seek advice from their suppliers (26%, compared with 18% across the total sample). A fifth (22%) of all respondents report consulting their customers for business advice, but respondents from the Construction (15%) and Financial Services (14%) sectors are less likely to do so.

SATISFACTION WITH SOURCES OF BUSINESS ADVICE

Table 8.3 reports levels of satisfaction with the business advice received from the various sources. Accountants, being the most frequently used source of advice, received high response levels. A clear majority (59%) of respondents are either satisfied (41%) or very satisfied (18%) with advice from accountants, compared with only 6% of respondents who report dissatisfaction. Compared with the previous two FSB surveys, however, satisfaction with accountants' advice has slightly declined: down from 68% in 2002 and 65% in 2000. Other sources of business advice, perhaps because they are less commonly used, receive lower response levels. Overall, 26% of respondents are either satisfied or very satisfied with solicitors' advice, compared with 3% that are dissatisfied, and 23% are satisfied or very satisfied with bank advice, compared with 7% that are dissatisfied. With regard to the previous FSB surveys, satisfaction with bank advice has declined (down from 39% in 2002), as has the level of dissatisfaction (down from 16% in 2002).

Analysed by area, some notable differences emerge (Table 8.4). Satisfaction with solicitors is considerably higher among Northern Ireland respondents (35%, compared with 25% across

Table 8.3 Satisfaction with business advice

	Not ticked	Don't use	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied
	%	%	%	%	%	%	%
Solicitor	45	16	1	2	10	20	6
Accountant	18	4	2	4	13	41	18
Government Funded Business Support *	59	18	3	3	6	8	2
Local government	70	21	2	2	4	2	0
Central government (DTI, HSE, HMCE, IR)	70	20	2	1	4	2	0
Regional Development Agency	70	21	2	1	3	2	0
Bank	46	10	3	4	14	19	4
Trade Association	60	14	1	1	8	13	3
Enterprise Agency/ Trust	71	21	1	1	3	2	0
Learning & Skills Council	72	22	1	1	3	1	0
Tourist Board	72	22	1	1	3	1	0
Export partnerships (e.g. Trade Partners UK)	71	22	1	1	3	1	0

*Business link (England): LEC, Business gateway (Scotland): Invest Northern Ireland: Business support gateway (Wales)

the total sample). Northern Ireland respondents are considerably more likely to use solicitors as a source of business advice and clearly most are satisfied with the result. Respondents from Wales, who are more likely to use public sector agencies, also report above average levels of satisfaction with local government (4%, compared with 2% across the total sample), regional development agencies (6%, compared with 2% across the total sample) and tourist boards (4%, compared with 2% across the total sample). Respondents from Scotland report the highest levels of satisfaction with enterprise agencies / trusts (7%, compared with 3% across the total sample), while those from North East England report the highest levels of satisfaction with banks (27%, compared with 23% across the total sample). London respondents, in

contrast, are the least likely to report satisfaction with banks (17%). London respondents are notable also for reporting the lowest levels of satisfaction with (and usage of) government funded business support services (7%, compared with 10% across the total sample). In contrast, respondents in North East England, the most likely to use government funded business support services, are also the most likely to report that they were satisfied with this source (16%). Notably, satisfaction with government funded business support services is considerably higher among new businesses (0-3 years), the main users of these services (15% report satisfaction, compared with 10% across the total sample).

Table 8.4 Satisfaction with business advice by region

	Solicitor	Accountant	Government Funded Business Support *	Local government	Central government (DTI, HSE, HMCE, IR)	Regional Development Agency	Bank	Trade Association	Enterprise Agency/ Trust	Learning & Skills Council	Tourist Board	Export partnerships (e.g. Trade Partners UK).	Not ticked
	%	%	%	%	%	%	%	%	%	%	%	%	%
London	29	56	7	1	3	1	17	18	2	0	1	1	31
South East	25	60	8	2	3	1	23	18	3	1	1	1	28
East England	24	59	10	2	2	2	26	17	2	1	2	2	27
South West	24	58	11	2	3	2	23	18	2	1	3	3	28
East Midlands	24	61	9	2	3	2	25	17	2	2	1	1	27
West Midlands	25	58	10	1	3	1	22	15	1	2	1	1	30
Yorkshire & Humberside	27	61	10	2	3	1	22	16	1	2	1	1	27
North West	24	57	10	2	3	2	22	17	2	1	3	3	30
North East	27	58	16	3	4	2	27	17	3	3	1	2	28
Wales	22	57	11	4	3	6	25	15	4	2	4	4	28
Scotland	29	59	11	3	3	4	24	14	7	1	2	2	27
Northern Ireland	35	61	9	3	2	3	24	14	2	1	1	1	28
Not ticked	19	49	10	3	3	1	20	14	2	3	2	2	38
UK	25	59	10	2	3	2	23	17	3	1	2	2	28

These results suggest an association between levels of usage and levels of satisfaction with regard to sources of business advice. However, it is not possible to determine from the data whether usage of a particular source of advice leads to enhanced satisfaction or whether satisfaction with an advisory source leads to increased usage.

GOVERNMENT FUNDED BUSINESS SUPPORT SERVICES

In the two previous FSB surveys, respondents have been highly critical of government funded business support services. This year's survey sought to examine current views of government funded business support services in two main ways. Firstly, the study sought to determine levels of satisfaction of particular aspects of the services among users. Secondly, the study sought to determine the reasons for the high levels of non-usage of these services.

As reported above, only 17% of respondents state that they have used government funded business support services in the past year. This group of respondents was asked to rate their levels of satisfaction over five different criteria. As *Table 8.5* highlights, 10% of users are either satisfied or very satisfied with the usefulness of business advice, 9% are satisfied with the quality of business advisors, 7% are satisfied with the relevance of their products / services and 6% are satisfied with the cost of their products / services and advisors' understanding of their business. Satisfaction with the various aspects of these services is notably higher among new businesses (0-3 years). In total, 15% of new businesses (0-3

years) report satisfaction with both the usefulness of business advice and the quality of business advisers (10% average), and 10% are satisfied with the remaining aspects, advisers' understanding, relevance of products, cost of products (7%, 7% and 6% average, respectively).

Compared with the 2002 FSB study, there have been slight increases in satisfaction levels. In particular, levels of satisfaction with the usefulness of their business advice have increased from 8% in 2002 to 10% in 2004, while satisfaction with the relevance of their products / services has increased from 3% in 2002 to 7% in 2004. Levels of dissatisfaction in the current study have remained more or less static when compared with the FSB 2002 study, constituting between 3% and 5% across each item.

Given the high levels of non-usage reported in the past two FSB studies, this year's survey sought to determine the reasons why the majority of small businesses do not use government funded business support services. As *Table 8.6* illustrates the major cause of non-usage lies in the lack of awareness of these services, a factor cited by 27.6% of the sample. A lack of awareness of services and confusion over service provision (15.3%) demonstrate the residual lack of knowledge among small businesses of the type of services available to them. Other reasons for non-usage suggest that respondents are aware of services, but either reluctant to use them or excluded from support. The second most frequently cited reason for non-usage is that these services are inappropriate for their business (22.9%), while 8.3% claim that their business needs are excluded and 5.7% claim that their

Table 8.5 Users satisfaction with government funded business support services

	Don't use %	Very Dissatisfied %	Dissatisfied %	Neutral %	Satisfied %	Very Satisfied %
Usefulness of business advice	81	2	2	5	8	2
Quality of business advisors	82	1	2	5	7	2
Advisors' understanding of your business	82	2	3	6	5	1
Relevance of their products/ services	83	1	3	6	6	1
Cost of their products/ services	83	1	2	8	4	2

sector is excluded from targeted support. A minority of respondents report that their non-usage is caused by past experience (7.7%), that better advice is offered elsewhere (7.8%) and that they are deterred by unqualified business advisors (5.3%).

SATISFACTION WITH LOCAL AUTHORITY SERVICES

Satisfaction with local authority services varies quite substantially according to the type of service provided. Overall, respondents report low levels of satisfaction across the range of local authority services and consistently higher levels of dissatisfaction. However, as *Table 8.7* illustrates, a majority of respondents report that these services are not relevant, did not respond to the question or returned a neutral response. The highest level of satisfaction is seen in the availability of recycling facilities (12%), although fewer respondents are

satisfied with the cost of these facilities (5%). In a similar vein, 7% of respondents report their satisfaction with the availability of premises, while only 5% report satisfaction with the cost of premises. Of the remaining items, fewer than 5% of respondents report satisfaction. A more revealing view of local authority services can be gained from exploring the items that gain the highest levels of dissatisfaction. One third (34%) of all respondents are dissatisfied with council refuse / license charges and 31% are dissatisfied with local authority consultation with small businesses. While the availability of recycling facilities gained the highest proportion of satisfied responses, this item also attracted the third highest number of dissatisfied responses.

Analysed by region, few distinct differences emerge (*Table 8.8*). Notably, however, respondents

Table 8.6 Reasons for non-usage of government funded business support services

	Count	%
Inappropriate for my business	4261	22.9
Confusion over service provision	2851	15.3
My business needs are excluded from targeted support	1546	8.3
Better advice offered elsewhere	1456	7.8
Past experience of using service	1429	7.7
My business sector is excluded from targeted support	1066	5.7
Unqualified advisers	993	5.3
Not aware of these services*	5141	27.6
None ticked	5974	32.1

Note: Multiple Response

Table 8.7 Satisfaction with local authority services

	Not ticked	Not relevant	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied
	%	%	%	%	%	%	%
Availability of premises	31	29	6	8	20	6	1
Cost of premises	31	27	10	11	16	4	1
Planning applications - timescales	34	27	11	9	16	3	0
Planning applications - cost	34	27	10	10	17	2	0
Economic development	40	25	7	7	18	2	0
Local regulations/ bye laws	37	21	10	10	20	2	0
Council refuse/ license charges	28	16	19	15	17	4	0
Consultation with small business	33	17	17	14	17	2	0
Availability of recycling facilities	29	14	16	13	17	10	2
Cost of recycling facilities	33	19	12	9	21	4	1

Table 8.8 Satisfaction with local authority services by region

	Availability of premises	Cost of premises	Planning applications - timescales	Planning applications - cost	Economic development	Local regulations/ bye laws	Council refuse/ license charges	Consultation with small business	Availability of recycling facilities	Cost of recycling facilities
	%	%	%	%	%	%	%	%	%	%
London	5	4	2	2	2	2	4	2	10	5
South East	6	4	3	2	2	3	4	3	12	5
East England	6	4	4	2	2	2	4	2	11	5
South West	6	5	3	2	2	2	5	3	15	7
East Midlands	7	6	3	2	2	2	4	2	10	5
West Midlands	6	4	3	2	2	2	5	1	10	4
Yorkshire & Humberside	8	6	3	2	3	2	6	3	10	5
North West	6	5	3	2	3	2	5	2	11	4
North East	8	7	4	3	3	4	6	4	9	4
Wales	7	6	3	2	3	2	6	3	13	6
Scotland	6	4	4	2	2	3	5	3	11	5
Northern Ireland	11	6	3	1	3	2	5	4	11	7
Not ticked	5	3	3	2	2	2	6	2	11	7
UK	6	5	3	2	2	2	5	3	12	5

Table 8.9 Satisfaction with transport issues

	Not ticked	Not relevant	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied
	%	%	%	%	%	%	%
Passenger transport	19	28	12	14	20	7	1
Road networks (trunk roads & motorways)	17	11	15	19	20	16	1
Road infrastructure (local roads & repair)	16	8	22	25	17	10	1
Fuel costs	13	7	41	25	12	2	0
Road tax	15	7	27	23	24	4	0
Parking	15	9	33	19	17	6	1
Road tolls/ Congestion charges	22	25	21	9	21	2	0
Local transport planning	19	14	25	17	22	2	0

from North East England report slightly higher levels of satisfaction across all of the items with the exception of two: the availability and cost of recycling facilities. In contrast, respondents from South West England report the highest levels of satisfaction with both the availability and cost of recycling facilities. Respondents in Northern Ireland report substantially higher than average levels of satisfaction with the availability of premises, while West Midlands' respondents report lower levels of satisfaction with Local Authority consultation with small businesses.

SATISFACTION WITH TRANSPORT ISSUES

This year, satisfaction with transport was measured across eight separate items which

included road networks and infrastructure, parking, tax and fuel costs and local transport planning. For the first time, this year's survey also asked respondents to report their levels of satisfaction with road tolls and congestion charges (*Table 8.9*). The proportion of respondents stating that these issues are not relevant to them varied from 8% to 28%. In addition, the non-responses to these questions range from 13% to 22%.

Satisfaction is highest for road networks (trunk roads and motorways), where 17% of respondents express some degree of satisfaction, while 34% express dissatisfaction. The road infrastructure and passenger transport gain the next highest levels of satisfaction (11% and 8% respectively), but also substantial, and much higher, levels of

Table 8.10 Dissatisfaction with effect of transport issues by region

	Passenger transport	Road networks (trunk roads & motorways)	Road infrastructure (local roads & repair)	Fuel costs	Road tax	Parking	Road tolls/ Congestion charges	Local transport planning	None ticked
	%	%	%	%	%	%	%	%	%
London	35	36	48	59	45	64	50	47	17
South East	27	38	49	64	47	55	33	44	20
East England	28	39	51	68	50	52	28	46	18
South West	26	32	49	64	48	53	26	43	19
East Midlands	22	33	46	66	51	51	30	42	19
West Midlands	25	36	49	68	53	52	35	42	20
Yorkshire & Humberside	23	34	50	69	54	52	30	45	18
North West	26	35	48	67	53	55	28	42	19
North East	24	29	44	66	50	52	28	42	21
Wales	21	27	39	64	49	46	22	36	22
Scotland	23	29	46	68	53	46	29	40	19
Northern Ireland	17	27	40	66	50	45	13	34	22
Not ticked	22	28	41	56	44	45	26	39	27
UK	25	34	48	66	50	52	30	43	20

dissatisfaction (47% and 26% respectively). As expected, the highest levels of dissatisfaction are reserved for fuel costs (66% dissatisfied) and road tax (60% dissatisfied). These two items have attracted the highest levels of dissatisfaction in all three of the FSB surveys (2000, 2002 and 2004). Some changes in the levels of dissatisfaction are notable, however. In the first FSB survey (2000), 95% of respondents reported that they were dissatisfied with fuel costs, a level that dropped to 74% in the 2002 survey, and has dropped further in this current survey to 66%. While levels of dissatisfaction have declined, a corresponding increase in levels of satisfaction is not apparent. In the FSB 2000 survey, only 1% of respondents stated that they were satisfied with fuel costs, a proportion that increased to 4% in 2002, but has declined to 2% in this current survey. In the first FSB survey (2000), 75% of respondents reported their dissatisfaction with road tax, a proportion that declined to 55% in the 2002 survey, but has subsequently increased to 60% in the current study. Similarly, levels of satisfaction with road tax increased from 5% in the FSB 2000 survey to 8% in 2002, but have since declined to 4% in this current study.

With regard to road tolls / congestion charges, a new item under investigation, only 2% of respondents report satisfaction, while 30% report dissatisfaction. Overall, however, a majority of respondents fail to express an opinion on this item, either through non-response (22%), stating the item is not relevant (25%) or by returning a neutral response (21%).

Analysed by area, a number of regional variations are noteworthy. Levels of satisfaction with passenger transport are highest in London and Scotland (12% and 10% respectively, compared with 7% across the total sample). However, as *Table 8.10* shows, levels of dissatisfaction with passenger transport are also highest in London (35%, compared with 25% across the total sample). London respondents are also more likely to report dissatisfaction with parking (64%, compared with 52% across the UK) and local transport planning (47%, compared with 43% across the UK). It is notable also that London respondents are far more likely to report dissatisfaction with road tolls / congestion charges (50%, compared with 30% across the total sample), as are to a lesser extent respondents from West Midlands (35%, compared with 30% across the total sample). Interestingly, London respondents are also more than twice as likely to report satisfaction with road tolls / congestion charges, although only a small minority expressed satisfaction (7%, compared with 3% across the sample as a whole). Other regional variations are perhaps as expected: East of England and South East England respondents report higher than average levels of dissatisfaction with road networks; East of England and Yorkshire & Humberside respondents report higher levels of dissatisfaction with road infrastructure; London respondents report below average levels of dissatisfaction with fuel costs and road tax; Northern Ireland respondents report either below average or average levels of dissatisfaction across each of the eight items.

Legislation, Regulations and the Environment

SATISFACTION WITH LEGISLATION ISSUES

Table 9.1 presents details of respondents' views on how satisfied they are with the volume, complexity, rate of change, interpretation and enforcement of legislation. The proportion of respondents stating that this is not relevant to them varied from 9% to 11%, while the number not answering these questions varied from 15% to 20%. Only a small minority of respondents state that they are satisfied with any of these aspects of legislation and less than 0.5% state that they were very satisfied. Levels of dissatisfaction are greatest for the complexity (60%), volume (59%), rate of change (56%), compliance costs (55%) and interpretation of legislation (54%). Slightly lower levels of dissatisfaction are reported for the enforcement (35%) and inspection (34%) regime.

While these results demonstrate the general dissatisfaction of small business owners with the various aspects of legislation, in comparison with the results of the FSB 2002 study, this year's results show a marked reduction in levels of dissatisfaction in each of the seven items measured. Across the seven items relating to aspects of legislation, levels of dissatisfaction declined by between 2 and 5 percentage points in

this year's study. Dissatisfaction reduced by 5 percentage points for three items: complexity of legislation, rate of change and interpretation. Dissatisfaction reduced by 4 percentage points for two items (volume of legislation and enforcement regime), 3 percentage points for one item (inspection regime) and 2 percentage points for one item (cost of compliance).

This year's survey included an assessment of whether and in what ways dissatisfaction with legislative issues changes over time, as the experience of owning a business lengthens. A very strong association was found between years in business and dissatisfaction with various items relating to legislation. In brief, the longer one's experience of business ownership the more dissatisfied one becomes with legislative issues. An example of this is seen in the first item relating to volume of legislation. While 58% of the total sample is dissatisfied with this item, new businesses are markedly less dissatisfied (47%), while those in the oldest business group (over 31 years) are the most dissatisfied (81%). Levels of dissatisfaction with this item increase steadily as years in business increase, but show a dramatic increase between the second oldest business age group (21-30 years) of whom 68% are dissatisfied,

Table 9.1 Satisfaction with legislation issues

	Not ticked %	Not relevant %	Very Dissatisfied %	Dissatisfied %	Neutral %	Satisfied %	Very Satisfied %
Volume of legislation	15	9	34	25	16	1	0
Complexity of legislation	16	8	36	24	14	1	0
Rate of change of legislation	17	8	33	23	17	1	0
Interpretation of legislation	18	8	31	23	18	1	0
Inspection regime	19	11	19	15	31	4	0
Enforcement regime	20	11	20	15	31	3	0
Cost of compliance with legislation	17	9	34	21	17	1	0

Table 9.2 Dissatisfaction with legislation issues by region

	Volume of legislation %	Complexity of legislation %	Rate of change of legislation %	Interpretation of legislation %	Inspection regime %	Enforcement regime %	Cost of compliance with legislation %	None ticked %
London	57	60	55	52	34	35	53	34
South East	58	60	56	53	33	33	54	34
East England	62	64	60	58	34	36	59	30
South West	57	60	55	53	33	33	54	33
East Midlands	62	62	59	56	37	38	58	31
West Midlands	58	59	55	53	35	36	56	34
Yorkshire & Humberside	62	62	59	57	36	36	57	31
North West	60	61	56	54	34	34	56	32
North East	58	62	58	56	35	35	56	31
Wales	55	59	56	53	37	37	56	34
Scotland	56	57	53	51	34	34	53	35
Northern Ireland	56	59	53	50	33	34	52	36
Not ticked	51	54	48	47	32	36	49	41
UK	58	60	56	54	34	35	55	33

and the oldest group. This pattern is evident across each of the seven items relating to legislation. Importantly, this relationship is specific to years in business, not age of business owner. While it is likely that there are a number of explanations for this particular pattern, most obviously it appears that one's tolerance for legislative issues decreases as one's experience of business ownership lengthens. It is also possible that other intervening factors, such as sector, location, profitability, business growth objectives, are present and also affect these results. Further analysis of this issue will be undertaken and published over the next year.

Few differences are apparent in levels of dissatisfaction when analysed by region (Table 9.2). Notably, however, respondents in East of

England, East Midlands and Yorkshire & Humberside report generally higher levels of dissatisfaction across several of the items, including volume, complexity, rate of change, interpretation and compliance costs.

A more revealing view of the effect of legislative issues may be derived from exploring those industry sectors reporting unusually high levels of satisfaction with particular aspects of the legislative regime. While there are very low levels of satisfaction with any general aspect of legislation (volume, complexity, rate of change, interpretation and cost of compliance) across all industries, a number of sectors demonstrate marked differences with regard to the inspection and enforcement regimes. In three of the service-based sectors (Education, Health & Social Work

and Public Administration & Defence), 9% of respondents and 8% of Hotels & Restaurant respondents report that they are satisfied with the inspection regime. The service-based industries also report higher levels of satisfaction with enforcement of legislation: 8% of Education respondents and 7% of respondents from Health & Social Work and Hotels & Restaurants report satisfaction with the enforcement regime.

THE EFFECT OF NEW LEGISLATION ON SMES

This year, the effect of legislation issues on small business owners also included an assessment of the likely effects of current issues facing businesses. These issues include new legislation and directives affecting employment, health and safety, disability discrimination and data protection, as well as the effect of higher insurance costs.

Table 9.3 presents details of the reported effects of ten current issues on small businesses. Across the range of issues, between 15% and 19% of respondents did not answer and between 3% and 18% state that they were not aware of the issue. There are marked variations in the responses to the five issues relating to employment legislation and directives. Only 2% of respondents believe that there would be either slight or clear positive effects on their business resulting from changes in

parental leave, while 32% believed this would result in slight or clear negative effects (39% neutral). A similar proportion (2%) believe that the working time directive (losing the 48 hour working week) would have positive consequences, while 21% believe it would have negative effects (48% neutral). A higher proportion (11%) report that a flexible retirement age would have positive effects, while just 10% report negative effects (52% neutral). With regard to the administration of tax credits, 2% report a positive effect, while 37% report a negative effect (33% neutral). The employment-related issue incurring the highest proportion of negative effect responses is the increase in National Insurance contributions; 63% of respondents believe this would have a negative effect, while only 2% report positive effects (16% neutral).

Of the five remaining issues, increases in insurance premiums incurred the highest proportion of negative effect responses (71%) and the lowest proportion of neutral responses (9%). The effects of the Data Protection Act are believed to be positive by just 3% of respondents and negative by 24% (47% neutral). The incoming fire assessment and asbestos regulations also draw a large proportion of neutral responses, while 24% and 13% respectively believe that these would have a negative effect on their business.

Table 9.3 Perceived effect of current business issues

	Not ticked	Not aware of issue	Clear negative effect	Slight negative effect	Neutral	Slight positive effect	Clear positive effect
	%	%	%	%	%	%	%
Parental leave	17	10	17	15	39	1	1
Flexible retirement age	18	10%	4	6	52	8	3
Working time directive (losing the opt-out 48hr working week)	19	11	13	8	48	1	1
Compliance with Disability Discrimination Act	18	9	9	10	51	2	1
Increase in National Insurance Contributions	15	4	40	23	16	1	1
Administration of Tax Credits	19	9	21	16	33	1	1
Data Protection Act	19	7	10	14	47	2	1
Higher Insurance Premiums	15	3	55	16	9	1	2
Incoming asbestos regulations	19	18	8	5	48	1	1
Incoming fire assessment regulations	18	18	11	13	37	2	1

Compliance with the Disability Discrimination Act is believed to have positive effects by 3% of respondents, but negative effects by 19% (51% neutral). Respondents were also asked to report whether they had made adjustments to their premises to enable disabled access (*Table 9.4*). In total, 16.5% of respondents report that they have made adjustments and 21.2% report that their premises are already compliant. A large proportion (42.5%) report that they have not made adjustments and a further 11.2% report that they are unaware of the requirement (8.6% unanswered). *Table 9.5* presents details of adjustments to enable disabled access by industry sector of respondents. In ten out of the fifteen industry sectors a majority of respondents

are either unaware of the requirement or have not made the necessary adjustments. Of the five other sectors, Health & Social Work (61%) and Education (51%) have a majority of respondents that have either made adjustments or are already compliant. In the Hotels & Restaurants (48%), Retail, Wholesale & Repairs (44%) and Other Services (44%) sectors, fewer than half the respondents have either made adjustments or are already compliant.

ENVIRONMENTAL LEGISLATION AND COMPLIANCE

Few respondents report that they engage in activities related to areas of environmental

Table 9.4 Adjustments to enable disabled access

	Count	%
Yes	3066	16.5
No	7918	42.5
Not aware of requirement	2093	11.2
Already compliant	3955	21.2
Not answered	1603	8.6
Total	18635	100.0

Table 9.5 Adjustments to enable disabled access by industry

	Not answered %	Yes %	No %	Not aware of requirement %	Already compliant %
Agriculture, Forestry & Fishing	11	17	42	13	17
Mining & Quarrying	8	16	33	18	25
Manufacturing	6	15	41	12	25
Energy & Water	11	16	48	10	15
Construction	11	13	48	12	16
Retail, Wholesale & Motor Trade	8	19	37	11	25
Hotels & Restaurants	8	30	37	8	18
Transport & Communications	10	13	46	13	18
Financial Services	8	11	52	10	18
Business Services	7	10	50	12	20
Public Administration & Defence	4	13	48	17	17
Education	10	26	32	7	25
Health & Social Work	8	31	28	4	30
Personal Services	11	19	35	10	25
Other	10	15	43	12	20
Not ticked	18	16	43	10	13
UK	9	16	42	11	21

concern (Table 9.6). Fewer than 13% of respondents report that their business activities involve the storage or use of hazardous substances (e.g. oil or chemicals). As expected, this is highly correlated with industry sector. Respondents in the Agriculture (22%), Manufacturing (19%) and Transport & Communication (19%) sectors are far more likely to do so. Notably, respondents from London (8%) are much less likely to be involved in this. Fewer than 30 of the total sample of 18,635 respondents report that their business is involved in other activities of environmental concern, such as emissions or large-scale water or energy usage.

When analysed by years in business, it is clear that the vast majority of respondents who engage in

activities related to areas of environmental concern are the most mature firms (over 31 years). In total, 6% of firms in this age range are involved in the creation, storage, transportation or the treatment, disposal of solid waste; emission of smoke, dust, fumes; emission of noise or odours; 11% are involved in usage or sale of dangerous substances; and 8% are involved in usage of large quantities of water or energy. Clearly, several of these mature businesses operate in industry sectors in which these activities are required. However, it is also likely that within these sectors, the most mature firms operate in relatively traditional and old fashioned sub-sectors that few new businesses are keen to enter. Overall, this survey demonstrates that very few small businesses

Table 9.6 Engagement in activities of environmental concern

	Count	%
Storage or use of hazardous substances, e.g. oil, chemicals, etc	2379	12.8
Emission of smoke, dust, fumes to air	26	.1
Emission of liquids to drains, water courses or the ground	25	.1
Emission of noise or odours	24	.1
Usage or sale of dangerous substances e.g. refrigerants, heavy metals, solvents etc.	23	.1
Creation, storage and transportation of solid waste	21	.1
Usage of large quantities of water	17	.1
Treatment and disposal of solid waste	13	.1
Usage of large quantities of energy	11	.1
Storage, transportation, use of plant and livestock protection products	4	.0
None ticked	16201	86.9

Note: Multiple responses

Table 9.7 How would the following factors encourage compliance with environmental legislation/ improved environmental performance

	Not ticked	Not at all			A great deal	
	%	1 %	2 %	3 %	4 %	5 %
Clear information about government requirements for small business	29	8	5	18	19	22
Threats of fines or legal proceedings	35	15	9	18	11	11
Pressure from customers	36	10	6	18	18	12
Financial charges and incentives	37	8	4	19	20	13
Gaining competitive advantage	39	9	3	14	20	16
Increased cost of certain activities	42	11	8	22	12	6
Voluntary code of conduct	39	11	7	28	10	6
Knowledge of different ways of operating	39	8	5	24	16	8
Evidence of costs savings	34	5	2	13	25	20
General concern for the environment	32	6	3	19	22	18

engage in activities of environmental concern and those that do show a specific profile related to both industry sector and business maturity.

This year's survey attempted to assess the response of small business owners to a range of possible measures that could be used to encourage compliance with environmental legislation and improve their business's environmental performance. *Table 9.7* presents the responses of small business owners to ten different approaches to encourage compliance. Non-responses account for between 29% and 42% of the sample. The most popular measures

are evidence of cost savings and the provision of clear information about government requirements for small business, cited by 45% and 41% of respondents as factors that would encourage compliance. Having a general concern for the environment is the third most popular factor, cited by 40% of respondents. While gaining competitive advantage (36%), financial charges and incentives (33%) and pressure from customers (30%) gain broad support from about a third of respondents, less support is awarded to voluntary codes (16%), cost increases (18%) and threats of fines or legal proceedings (22%).

Analysed by area, there are minor but notable

Table 9.8 Factors encouraging compliance with environmental legislation/ improved environmental performance by industry

	Clear information about government requirements for small business	Threats of fines or legal proceedings	Pressure from customers	Financial charges and incentives	Gaining competitive advantage	Increased cost of certain activities	Voluntary code of conduct	Knowledge of different ways of operating	Evidence of costs savings	General concern for the environment
	%	%	%	%	%	%	%	%	%	%
Agriculture, Forestry & Fishing	45	28	32	36	36	22	23	30	50	49
Mining & Quarrying	39	31	35	35	29	18	18	16	39	31
Manufacturing	45	24	31	36	41	20	16	28	53	46
Energy & Water	40	22	24	30	28	17	12	19	36	35
Construction	40	24	30	33	36	19	14	24	43	39
Retail, Wholesale & Motor Trade	40	22	28	31	33	16	15	24	43	38
Hotels & Restaurants	43	24	33	35	39	18	20	29	52	42
Transport & Communications	36	22	26	32	36	17	14	23	44	35
Financial Services	32	22	24	30	29	13	10	17	36	30
Business Services	40	22	31	33	40	18	14	23	44	37
Public Administration & Defence	39	17	30	43	30	17	22	26	52	35
Education	37	20	30	32	31	14	15	30	42	38
Health & Social Work	47	25	31	37	32	17	22	29	49	45
Personal Services	39	19	29	29	28	15	14	22	39	34
Other	40	22	30	30	35	17	16	24	43	41
Not ticked	32	16	22	28	24	11	13	20	34	32
UK	41	23	30	32	36	18	16	25	45	40

differences in responses. Respondents in Scotland express a higher concern with information, being more likely to report that compliance would be increased by both clear information about government requirements for small business and knowledge of different ways of operating. Scotland based respondents are also more likely to state that greater levels of compliance would occur through having a general concern for the environment. Respondents in Northern Ireland are the most likely to state that threats of fines or legal proceedings would encourage greater compliance (29%, compared with 23% across the total sample), and also the most likely to state that compliance would be enhanced by cost-based measures (either by financial charges or incentives, evidence of cost savings or increased cost of certain activities). Interestingly, Northern Ireland respondents are also the most likely to state that voluntary codes and gaining competitive advantage would encourage greater compliance.

Table 9.8 presents details of responses by industry sector to these different approaches in encouraging environmental compliance. Respondents from the Agriculture and Manufacturing sectors are most likely to report

that evidence of cost savings, having a general concern for the environment and clear government requirements would encourage greater compliance. For the Manufacturing sector, the ability to gain competitive advantage is also a highly ranked factor. For the Hotels & Restaurants and Public Administration & Defence sectors, evidence of cost savings is cited by 52%, a larger proportion than the sample as a whole (45%). Very little support was given to voluntary codes of conduct (16% across the total sample), but respondents in Financial Services (10%) and Energy & Water (12%) are the least likely to state that this approach would encourage their compliance.

Given that most of the businesses that engage in these activities are the most mature enterprises, it is pertinent to assess which factors these respondents would most favour. Analysed by years in business, the most mature enterprises (over 31 years) are the least likely to state that environmental compliance would be encouraged by threats of fines (19%, compared with 23% average), pressure from customers (17%, compared with 30% average), financial incentives (22%, compared with 32% average), and a general concern for the environment (31%, compared with

Table 9.9 Payment of the Climate Change Levy

	Count	%
Yes	5013	26.9
No	3745	20.1
Don't know	9035	48.5
Not answered	842	4.5
Total	18635	100.0

Table 9.10 Changes instigated as a consequence of paying the Climate Change Levy

	Count	%
Changed energy tariff to a green tariff	1556	8.3
Raised awareness amongst staff	62	.3
Improved management of energy use in your buildings	53	.3
Changed to more energy efficient equipment	44	.2
Used external information/ advice	14	.1
Used financial support from Government Programmes	2	.0
None ticked	16974	91.1

Note: Multiple responses

40% average). Indeed, when compared with the total sample, the only factor that is more favoured by this group is evidence of cost savings, cited by 50% (compared with 45% average).

THE CLIMATE CHANGE LEVY

Over a quarter (26.9%) of respondents paid the Climate Change Levy on their last power bill, compared with 20.1% who state that they had not paid it and 48.5% who reported that they did not know (*Table 9.9*). Compared with the FSB 2002 survey, there has been a slight increase in the number of respondents reporting that they paid the Levy (up from 25% in 2002), a decrease in the numbers who stated that they had not paid it (down from 26% in 2002) and an increase in the number who did not know (up from 44% in 2002). Respondents reporting that they had paid the Levy are more likely to operate in the Hotels & Restaurants (56%), Manufacturing (41%) and Agriculture (37%) sectors.

Although there has been an increase in the number of respondents who have paid the Climate Change Levy, relatively few have instigated any consequent changes in their businesses (*Table 9.10*). The most frequently cited response is to change their energy tariff to a green tariff, a move cited by 8.3% of respondents. The industry sectors most likely to report this response are Hotels & Restaurants (17%), Manufacturing (12%), Mining & Quarrying (12%) and Agriculture (11%). Alternative measures, including raising awareness among staff, changing towards more energy efficient equipment, and improving management of energy use, have been implemented by very few respondents.

The Incidence and Cost of Crime

THE INCIDENCE AND REPORTING OF CRIME

The Government has recently launched a new crime strategy to tackle business-related crime (Home Office Press Release: 219/2003, 14 August 2003). While the broad issue of crime was raised in the last FSB survey (2002), there was insufficient data to examine in any depth the incidence and effect of crime on small businesses. This current survey, therefore, took the opportunity to explore the extent to which businesses have been the victims of crime, the types of businesses that have been most affected, the types of crimes experienced, and the impact of crime on the small business sector.

Over half (58.5%) of all businesses have been the victims of crime during the past year (*Table 10.1*). The most frequent crimes are vandalism, experienced by 27% of businesses, and vehicle damage (25%). More than one in ten businesses has experienced graffiti (13%) and shoplifting (12%). Many other crimes, such as robbery, employee fraud and cheque fraud, have been experienced by more than 5% of businesses. Only arson (2%) and Internet crime (3%) remain rare (*Table 10.2*).

The experience of crime varies quite considerably across business sectors. With regard to the most common crimes:

Table 10.1 Frequency of crime

	Count	%
No crimes	5596	30.0
At least one crime	10899	58.5
No response	2140	11.5
Total	18635	100.0

Table 10.2 Experience of different types of crimes in the past 12 months

	Not ticked %	Never %	1-2 times %	More than 2 times %
Vandalism	23	51	19	8
Graffiti	28	59	9	4
Vehicle theft	30	62	7	2
Vehicle damage	25	51	20	5
Arson	31	67	2	0
Burglary	27	59	12	3
Robbery	30	63	6	1
Assault on owners/ staff	31	66	3	1
Shoplifting	29	59	7	5
Employee fraud	31	63	5	1
Employee theft	30	62	7	2
Cheque fraud	30	61	7	2
Credit card fraud	30	62	6	2
Internet crime	31	66	2	1

- Hotels & Restaurants, Transport, and Retail, Wholesale & Motor Trades businesses are the most at risk to vandalism
- Transport businesses are most at risk to vehicle damage
- Retail, Wholesale & Motor Trades businesses are most at risk to shoplifting
- Hotels & Restaurants and Health & Social Work businesses are most at risk to employee fraud.

- Health & Social Work businesses are also most at risk to employee theft
- Retail, Wholesale & Motor Trades businesses are most at risk to credit card fraud and, along with Hotels & Restaurants, to cheque fraud.

Crime is also associated with years in business. Young businesses (under 3 years) are less likely to experience all of the most frequently reported

Table 10.3 Experience of crime by years in business

	Vandalism	Graffiti	Vehicle theft	Vehicle damage	Arson	Burglary	Robbery	Assault on owners/ staff	Shoplifting	Employee fraud	Employee theft	Cheque fraud	Credit card fraud	Internet crime	None ticked
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
0-3	21	10	6	21	2	10	6	4	11	5	8	7	7	3	47
4-5	25	11	8	24	2	14	8	4	11	6	8	8	8	3	42
6-10	27	14	8	27	2	14	8	4	12	7	10	10	9	4	39
11-20	27	13	10	25	2	15	8	3	12	6	8	10	8	3	41
21-30	34	17	11	27	3	17	9	3	14	6	9	10	9	2	36
31+	53	50	11	33	14	36	22	11	22	14	14	17	14	6	25
Not ticked	35	17	10	26	4	18	9	3	16	6	8	11	9	2	37
UK	27	13	9	25	2	14	8	4	12	6	8	9	8	3	42

Table 10.4 The proportion of crimes reported to the police

	Not ticked	Not reported	Some cases reported	All cases reported
	%	%	%	%
Vandalism	76	11	5	7
Graffiti	90	8	1	1
Vehicle theft	92	1	1	6
Vehicle damage	79	10	3	8
Arson	98	1	0	1
Burglary	87	1	2	10
Robbery	93	1	1	4
Assault on owners/ staff	97	1	1	2
Shoplifting	90	7	2	2
Employee fraud	95	4	0	1
Employee theft	93	5	1	1
Credit card fraud	93	5	1	2
Cheque fraud	94	3	1	2
Internet crime	98	2	0	1

crimes (vandalism 21%, graffiti 13%, vehicle theft 6%, vehicle damage 21%, burglary 10%). No doubt this is in part because the youngest businesses are more likely to be home-based businesses. By contrast older businesses (over 20 years old) have experienced much higher rates of crime. Although the number of respondents is low, the level of crime experienced by businesses that are more than 30 years old is exceptionally high (*Table 10.3*).

By contrast, there are relatively few regional variations in crime. A finer level of geographical analysis (for example, urban and rural) is likely to reveal clearer differences in the incidence and experience of crime. This will be the subject of further analysis and published at a later date. Businesses in London are more likely to have experienced graffiti (18%, compared with an average of 13%), vehicle damage (30%, compared with an average of 25%) and credit card fraud (13%, compared with an average of 8%) but less likely to have experienced vandalism (21%, compared with an average of 27%). Businesses in East of England are least likely to experience graffiti (9%, compared with 13% across the total sample). Businesses in Yorkshire & Humberside are most likely to experience vehicle damage (30%, compared with 25% across the total sample) and burglary (20%, compared with 14%

across the total sample), while Northern Ireland businesses are most at risk to employee fraud (11%, compared with 6% across the total sample), employee theft (15%, compared with 8% across the total sample) and cheque fraud (17%, compared with 9% across the total sample).

It is generally believed that many business owners do not report crimes committed against them. As a consequence, official crime statistics may under-report the true incidence of business related crime. Moreover, the willingness to report crimes varies according to the nature of the crime. The consequence is that official statistics may under-report the most common types of crimes. Both aspects of under-reporting are confirmed in this survey. Indeed, of all the crimes reported by respondents in this survey, only burglary and vehicle theft are fairly consistently reported to the police. Most businesses do not report relatively minor crimes, such as graffiti and shoplifting. There is also a reluctance to report employee crimes (employee fraud or employee theft) or credit card and cheque fraud, all of which are among the less frequently occurring crimes (*Table 10.4*).

There are several reasons why businesses do not report crimes (*Table 10.5*). However, these can be

Table 10.5 Reasons for not reporting crimes to police

	Count	%
Would not achieve anything	6773	36.3
Don't think police will be able to find the criminals	4649	24.9
Don't think police will be able to achieve a successful prosecution	3803	20.4
Not making an insurance claim	3798	20.4
Police not interested	3657	19.6
Crime not serious enough	3449	18.5
Could not identify offender(s)	2663	14.3
Lack of proof/ evidence	2614	14.0
Too time consuming	2302	12.4
Person responsible was dismissed	643	3.5
Fear of reprisals	622	3.3
Fear of negative publicity	294	1.6
Stolen items were recovered	218	1.2
Other	350	1.9
None ticked	9797	52.6

Note: Multiple Responses were possible so totals exceed 100%

ordered into two main sets of reasons. Firstly, over a third of respondents stated that reporting a crime to the police 'would not achieve anything' (36%). Unwillingness to report crimes was also linked to a fairly negative view of the police and the judicial system: that they would not be able to find the criminals (25%), achieve a successful prosecution (20%), or that they were not interested in pursuing the crime (20%). The second reason for not reporting crimes was that no insurance claim was being made (20%) or that the crime was not serious enough (18%). This reflects the fact that for a very large proportion of businesses the cost of crime is either relatively small or negligible (*Table 10.6*). Less than 2% of respondents report that they have experienced costs associated with crime that exceeded £10,000. This is confirmed in *Table 10.7*, which indicates the miniscule impact of crime on business costs, operating hours or loss of trade.

THE COST AND EFFECT OF CRIME

For most businesses, the main costs of crime arise from the need to take greater crime prevention measures, notably security alarms (34.3%), security systems (15.7%) and CCTV (15.1%). However, only 3.7% of businesses have chosen the low cost option of establishing or joining a Business Watch scheme (*Table 10.8*). Hotels & Restaurants are the most likely type of business to have set up or joined a Business Watch scheme (8%).

Crime, therefore, appears to be a relatively minor issue for the vast majority of businesses. It is largely concentrated in just two sectors: Hotels & Restaurants and Retail, Wholesale & Motor Trades. However, it should be recognised that the overall level of crime identified in this survey is depressed by the much lower level of crime experienced by home-based businesses (which

Table 10.6 Overall cost of crime to businesses in the past 12 months

	Count	%
Negligible	7589	40.7
Less than £1,000	4002	21.5
£1,000-£4,999	2519	13.5
£5,000-£9,999	536	2.9
£10,000-£24,999	238	1.3
£25,000-£49,999	58	.3
£50,000 and above	44	.2
Don't Know	324	1.7
Not answered	3325	17.8
Total	18635	100.0

Table 10.7 The effect of crime on business activity

	Count	%
Higher insurance premiums	212	1.1%
Higher ongoing operating costs	93	.5%
Lost staff time	72	.4%
Raised prices to cover costs of crime/ prevention	47	.3%
Temporary loss of trade	44	.2%
Reduced opening hours	11	.1%
Permanent loss of trade	6	.0%
Negligible effects	372	2.0%
None ticked	17984	96.5%

Note: Multiple Responses were possible so totals exceed 100%

Table 10.8 Crime prevention/ protection measures taken by businesses

	Count	%
Installed or upgraded a security alarm	6397	34.3
Installed extra security systems	2933	15.7
Installed CCTV	2816	15.1
Sought advice from the police	2387	12.8
Significantly increased insurance cover	1360	7.3
Set up/ joined a Business Watch scheme	686	3.7
Moved/ considered moving to another area	679	3.6
Hired a security firm	401	2.2
Arrange for transport to take staff to/ from work	121	.6
Other	1894	10.2
None ticked	7013	37.6

Note: Multiple Responses were possible so totals exceed 100%

account for a quarter of responses). To the extent that crime occurs it would appear to be accepted by most business owners as just one of the hazards of being in business. In most cases the economic costs are minor and, in part for this reason, frequently are not reported. Nevertheless, this is not to minimise the personal and psychological costs for the business owners concerned. Perhaps a greater concern is the high proportion of business-owners who have

effectively opted-out of the criminal justice system because they do not believe that reporting crime will 'achieve anything'. The low involvement of business in collaborative crime prevention schemes, specifically Business Watch, which is the Government's preferred approach, should also be a concern and highlights the need to understand the reluctance of business-owners to participate in this low cost form of crime prevention.

Conclusions

This report is based on responses from 18,635 small business owners who are members of the Federation of Small Business, making it and its two predecessor reports, the largest surveys of small business in the UK. These businesses employ nearly 100,000 full-time employees and 150,000 including part-time, seasonal and casual workers. Relating this to the entire FSB membership gives an employment total of 1.25m (800,000 full-time equivalents). The coverage of very small businesses, including one-person and home-based businesses, makes this survey, perhaps, more representative than other surveys of the UK small business sector.

The overall picture is of a healthy small business sector that is benefiting from a growing economy. The sample contains high proportions of new and recently started businesses, businesses with ambitions to grow and businesses that are growing successfully in sales turnover and employment.

The portrait of the small business sector that is presented underlines its heterogeneity. The main sources of variability are industry sector, age of the business owner and years in business (length of business ownership). The diversity of the small business sector is particularly relevant when the impact of legislation is considered. Many types of legislation have limited impact across the small business sector as a whole. Nevertheless, harmful effects can be seen to impact on particular types of businesses. Legislators must therefore be aware of the potential effects of new regulations on specific types of small business.

One of the most interesting findings to emerge from this survey of the small business sector is the high proportion of home-based businesses,

accounting for one-quarter of the total. For some a home base is a temporary status associated with a low cost mode of business entry. Indeed, the home is the most important business incubator. However, for others this is a permanent arrangement. It is also important to note that operating from home is not a barrier to growth. The economic and social issues that arise from the home-based business sector should be an important issue for further research.

The report focuses on three special topics. The first topic is the impact of the up-rate in the National Minimum Wage (NMW). The majority of businesses are unaffected, either because they do not have employees or do not employ staff on the minimum wage. Furthermore, the majority of small businesses that have been affected by the NMW up-rate are able to absorb the consequent rise in wage costs (both direct and indirect) and reduction in profits without the need to substitute cheaper for expensive workers, reduce hours worked, cut overtime or alter operating practices. However, businesses in the Hotel & Restaurants sector have found it harder to cope with the minimum wage and in this sector adverse impacts are more common. The NMW up-rate has also had greater consequences for businesses in North West England, North East England, Scotland and Wales because of their specific labour market conditions; higher unemployment, lower average wages and lower cost of living than in London and South East England. This suggests that a regional dimension to the NMW should be considered.

The second topic is the extent to which the small business sector is engaging with e-commerce. The survey indicates that most small businesses are connected to the Internet and half have a web site, but overall there has been limited



development of e-commerce capabilities.

As a consequence there have been few economic benefits. This is a rather disquieting conclusion in view of the likely future significance of e-commerce. Accordingly it is an issue that needs to be closely monitored.

The third topic is business related crime. Over half of small businesses have been affected by crime. However, most crimes have had a negligible or minor impact on the business. For most businesses, therefore, crime appears a relatively minor issue.

Finally, the survey looked at four aspects of the small business-government relationship. The first was the use of government sources of business advice. The survey found that only 17% of businesses, but 26% of new businesses, used these sources of advice. Non-usage is largely due to lack of awareness of these services and confusion over service provision. For most businesses their accountant remains by far the most important (and often only) source of business advice. The majority were satisfied with the advice that they received from this source, but

this proportion has been falling in all three surveys. The second was satisfaction with local authority services. Satisfaction varied by type of service provided but was generally low. The third was environmental legislation. Few businesses report that they were affected by the environmental issues examined in the survey. However, there are a very small number of businesses for which environmental legislation has a crucial impact on their activities. The fourth was the impact of a range of current legislation and directives. In most cases business owners anticipated that the likely impact would be negative. While there is a well-established pattern of businesses anticipating the effect of legislation to be worse than its actual impact turns out to be, this is not a universal effect. Moreover, as this report shows, even if the vast majority of businesses are sanguine about the effects of a particular set of regulations, the heterogeneity of the small business sector means that in all probability the regulations will have an adverse impact on a small 'invisible' proportion of businesses. Accordingly, it is essential that the effects of legislation on the small business sector are monitored with great care.

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Appendix

COMPARATIVE SURVEYS OF THE SME SECTOR

SURVEY TITLE	REGULARITY	SAMPLE SIZE AND STRUCTURE	RESPONSE RATE
<i>'Lifting the Barriers to Small Business Growth in the UK: FSB Biennial Survey of Small Businesses'</i> Hunter Centre for Entrepreneurship, University of Strathclyde	3rd biennial study, 2004	Census of FSB membership, circulated to 155,000, by mail questionnaire	18,635 responses (12.02%)
<i>'Enterprise Challenged: Policy and Performance in the British SME Sector 1999–2002'</i> Centre for Business Research, University of Cambridge	5th biennial report, 2003	Panel survey of independent firms (under 500 employees) using D&B UK i. 1,579 survivor firms of 2,194 from the 1997 study ii. New panel of 11,365 for telephone and mail questionnaire. Manufacturing and Business Service sectors only.	i. 521 responses (33%) from previous panel ii. 1,609 responses (14.2%) from new panel Total: 2,130 responses (16.5%)
<i>Omnibus Survey of Small Business Opinion,</i> Small Business Service	Commenced 2001, latest report 2003	Stratified sample of small businesses, drawn from D&B UK. Telephone survey. Coverage limited to England, but with separate Scottish survey	2002 report contained 4,217 respondents, including a Scottish boost of 1,002. No response rate given, only a 'refusal rate'.
<i>NatWest Quarterly Survey of Small Business in Britain,</i> Small Business Research Trust, the Open University	Quarterly since 1984	Continuous recruitment of small businesses (not a panel, not random sample), drawn from 'wide range of sources'. Questionnaires by email and mail to 2,866 (Q4, 2003 survey)	687 responses (24%) in Q4 2003 survey.
<i>CBI Quarterly Survey,</i> Confederation of British Industry	Quarterly	3,500 questionnaires to UK manufacturing businesses (all sizes). Sample extracted from CBI Industrial Trends Survey. Small business respondents drawn from main survey and analysed separately.	836 responses (23.8%), of which 771 are SMEs (1-499 employees)
<i>UK Business Barometer,</i> Institute for Enterprise and Innovation, Nottingham University Business School	Monthly	Panel survey of SMEs (up to 250 employees), currently consists of 304 business owners. Data collected via Internet.	Latest survey had 174 responses (57%) from the current panel of 304 businesses.

Lifting the Barriers to Growth in UK Small Businesses: The FSB Biennial Membership Survey, 2004. Lifting the Barriers to Growth in UK Small Businesses: The FSB Biennial Membership Survey, 2004.

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