The year ahead: a view from Britain’s small businesses

Presentation to BIS 21ST January 2011

Professor Robert Blackburn
Dr Thomas Wainwright

Small Business Research Centre
Kingston University London

BARCLAYS
What are the ambitions of SMEs for 2011?

What are their expectations?

How are they repositioning themselves for recovery?

Are SMEs investing in growth?

What effect will SME plans have on employment?

What are the attitudes and plans towards SME exporting?
Methodology

n =1000 SME survey completed in September 2010 (all firms in presentation unless otherwise stated)

10 Regions in UK (excluded NI)

Turnover < £5m

12 Sectors

<table>
<thead>
<tr>
<th>Agriculture Forestry &amp; Fishing</th>
<th>Business &amp; Professional Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Consumer Services</td>
</tr>
<tr>
<td>Construction</td>
<td>Financial Services</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>Transport &amp; Communications</td>
</tr>
<tr>
<td>Hotels, Catering &amp; Hospitality</td>
<td>Health &amp; Social Work</td>
</tr>
<tr>
<td>Leisure &amp; Entertainment</td>
<td>Technology/IT/Computer Services</td>
</tr>
</tbody>
</table>

Minimum quota samples by region, turnover size and exporter/non-exporter
Aims, Ambition and Strategy
Ambitions 2011

- To grow: 2010 - 54%, 2011 - 66%
- To survive: 2010 - 35%, 2011 - 49%
- To downsize: 2010 - 2%, 2011 - 2%
- To sell up/business exit: 2010 - 4%, 2011 - 5%
- Don’t know: 2010 - 2%, 2011 - 2%

Small Business Research Centre
Kingston University London
Plans for growth and downsizing vary by turnover size and sector.

70% of firms in turnover categories of £500,001-£1m and £100,001-£5m seek to grow, compared with...

63% of firms in turnover categories <£100,000 and £100,001-£500,000

The turnover category of £100,001-£500,000 has the highest proportion of firms expecting to downsize (4%)

Sectors with the largest proportion of businesses expecting growth/downsizing are:
Agriculture, Forestry & Fishing (79%), Financial Services (76%), Transport & Communications (71%)  
Business & Professional Services (5%), Leisure & Entertainment (4%)
Expected Performance in 2011

- **Sales to businesses**
  - Up: 40
  - Down: 8
  - Stay the same: 6
  - Don't know: 14

- **Sales to public sector**
  - Up: 55
  - Down: 14
  - Stay the same: 17
  - Don't know: 1

- **Sales to individual customers/general public**
  - Up: 48
  - Down: 9
  - Stay the same: 7
  - Don't know: 1

- **Sales to not for profit organisations**
  - Up: 63
  - Down: 13
  - Stay the same: 16
  - Don't know: 8
In the last trading year 72% of firms reported a profit.

For 2010 35% of firms expected profits to increase.

For 2011 56% of firms expect profits to increase.

Sectors with the largest proportion of businesses expecting increases/decreases are: Agriculture, Forestry & Fishing (75%), Financial Services (68%), Transport & Communications (63%), Construction (12%), Business & Professional Services (11%), Leisure & Entertainment (10%).

The ‘£500,001-£1m’ category has the most SMEs that are expecting profit increases.

Results suggest increased profitability may emerge from increased marketing and sales efforts, increases in efficiency, innovation and market diversification.
Strategies for 2011

- Enter new markets: 35%
- Develop existing client relationship management: 34%
- Introduce new working practices to increase productivity: 27%
- Implement more efficient marketing: 27%
- Develop new working partnerships/alliances: 26%
- Renegotiate supplier costs: 22%
- Recruit new talent: 20%
- Raise prices: 19%
- Reduce prices: 12%
- Manage trade credit and invoicing more effectively: 10%
- Use more outsourcing: 10%
- Acquire other business: 9%
- Open up new sites: 6%
- Other (please specify): 3%
- Don’t know: 4%
- None of the above: 5%
Overall, SMEs spent 16% of their income on developing **new products and services in 2010**

**Highest** spend from Agriculture, Forestry and Fishing (24%) and **lowest** spend from Business and Professional Services (12%)

Larger firms (turnover) spend more on new products and services developments, £1,000,001 - £5m (19%) compared to <£100,000 (14%)

In 2011, 29% of Manufacturers and Financial Services Firms plan to increase innovation spending (**highest increase**) with 10% of Health and Social Work firms planning to decrease innovation spending (**highest decrease**)

In addition to investing in products and service development, notable investment will be made in **IT (26% increase overall)** suggesting efficiency costs and a **43% increase in marketing**, to increase sales and to enter new markets.
Barriers to Recovery

- Economic climate or demand: 65%
- Cash flow, payment or debtors: 30%
- Growing competition: 28%
- VAT increase: 28%
- Inflation or cost of inputs: 20%
- Shrinking government markets: 16%
- Government regulations: 13%
- Problems accessing external finance*: 13%
- Shortage of skilled labour: 8%
- Don't know: 5%
- **Other (please specify): 3%
Main Reported Barrier to Recovery

- Economic climate or demand: 44%
- Cash flow, payment or debtors: 12%
- Growing competition: 10%
- VAT increase: 8%
- Shrinking government markets: 6%
- Problems accessing external finance (e.g. through banks / loan companies): 3%
- Shortage of skilled labour: 3%
- Government regulations: 3%
- Inflation or cost of inputs: 3%
- *Other (please specify): 3%
- Don’t know: 5%
Employment Intentions
2010-11 Employment Change

N.B. The percentage represents the change in the mean average number of employees in a firm for each sector.
2010-11 Employment Change (turnover)

N.B. The percentage represents the change in the mean average number of employees in a firm for each sector.
Graduate Recruitment Intentions 2011

- Yes, recent graduates full time: 13%
- Yes, recent graduates part time: 7%
- No, will not be recruiting recent graduates: 67%
- Don’t know: 14%
Export Intentions
Exporters by Sector

N.B. This graph includes exporters and non-exporters
Markets: Exporting

N.B. This graph includes exporters and non-exporters
Exporter Turnover 2010

- Under £100,000
  - Exporters: 35%
  - Not Exporters: 65%

- £100,001 - £500,000
  - Exporters: 39%
  - Not Exporters: 62%

- £500,001 - £1m
  - Exporters: 48%
  - Not Exporters: 52%

- £1,000,001 - £5m
  - Exporters: 40%
  - Not Exporters: 60%

N.B. This graph includes exporters and non-exporters
Born Global Exporters

N.B. This graph only includes firms that export (n=457)
New overseas customers approached the SME directly

The SME actively sought new overseas customers

New overseas customers were introduced to the firm through an existing supplier or customer

N.B. This graph only includes firms that export (n=457)
Perceived Benefits of Exporting

- Spreading our customer base: 59%
- Increased sales: 55%
- Increased turnover: 50%
- Increased profits: 43%
- Reduce the effects of worsening UK market conditions: 28%
- Overcoming limited domestic market opportunities: 27%
- Fulfilling personal ambition: 19%
- Help us remain competitive: 18%
- Increase the status of my business: 17%
- Helps us innovate: 16%
- Help us maintain capacity: 15%
- New supplier linkages: 14%
- It’s the next stage of my business: 13%
- Helps us keep an eye on the market: 11%
- *Other (please specify): 6%

N.B. This graph only includes firms that export (n=457)
Barriers to Exporting

- Regulations: 31%
- Language issues/ understanding culture: 31%
- Time and effort it takes: 31%
- Developing and understanding of the market: 24%
- Understanding and coping with currency fluctuations: 21%
- Need for face-to-face access with customers/ clients: 19%
- Transportation: 17%
- Culture of our employees/ business?: 14%
- Testing and certification: 13%
- Finding agencies/ distribution outlets: 13%
- Severe competition: 12%
- Lower profits/higher unit costs: 11%
- *Other (please specify): 5%
- None: 10%

N.B. This graph only includes firms that export (n=457)
Summary

SMEs are well-placed for the recovery

Broadly, they are seeking **growth** – BUT this varies by **sector**, **size** and **location**

SMEs are investing for growth in **IT**, **marketing** and **innovation**

SMEs believe that an increase in **business** and **consumer confidence** is needed to boost demand

**Non-exporter -> exporter transition** will be **limited** – targeted advice and understanding is required
Professor Robert Blackburn
R.Blackburn@kingston.ac.uk

Dr Thomas Wainwright
T.Wainwright@kingston.ac.uk

http://business.kingston.ac.uk/research/research-centres/small-business-research-centre