
State of the Small Business Nation

BT Business – April 2007



Overview

This report presents the high-level findings of a detailed independent research projectⁱ that looked at small businesses of up to 50 employees and examined topics such as why people originally start companies, what keeps owners and decision makers awake at night and how they are using the internet and technology in order drive business and create a better work-life balance.

To put the report into context and highlight the importance of small businesses to the British economy, there are more than 4.3 million business enterprises in the UK, the vast majority (99.3 per cent) of which employ less than 50 people.

Small businesses account for approximately 10.3 million jobs in the UK (46.8 per cent of all employment) and 36.4 per cent of UK business turnover, equating to more than £800 billion annually.

Approximately 3.13 million (72.8 per cent of all enterprises) have no employees and are either sole proprietorships or partnerships, with self-employed owner managers. These businesses have an estimated turnover of £190 billion. The number of enterprises employing staff is around 1.2 million, with an estimated combined turnover of £2,250 billionⁱⁱ.

Small businesses play a vital role in the UK and this report aims to give a perspective on the state of the small business nation.

Britain's Broadband Businesses

There are now more than ten million broadband connections in the UKⁱⁱⁱ and we have the best ADSL broadband availability in the G8 with almost 100 per cent availability of high-speed internet^{iv}.

86 per cent of small businesses in the UK now use broadband, with the South West topping the regions with the highest propensity (96 per cent), followed by Northern Ireland (95 per cent) and Scotland (90 per cent).

At the bottom of the broadband adoption list is the North East of England with 73 per cent and Wales with 79 per cent, which means that more than 100,000 businesses in the North East alone are without broadband. Surprisingly London was in seventh place with 80 per cent, which equates to more than 130,000 businesses not using high-speed internet, below the North West of England and the Midlands. (See figure 1 below).

Region	Percentage of companies with broadband	Number of small businesses (0-49 employees) in the region ^v	Approximate number of businesses without broadband
South West England	96%	415,035	16,601
Northern Ireland	95%	113,945	5,697
Scotland	90%	274,185	27,419
South East England	89%	724,775	72,478
Midlands	87%	631,480	82,092
North West England	81%	433,695	82,402
London	80%	670,870	134,174
Wales	79%	174,230	36,588
North East England	73%	418,620	113,027
Average	86%		

Figure 1. Businesses using broadband in their business

Of those that don't have broadband, cost (9%) and security (4%) are no longer the major barriers to adoption, as the cost of connections has come down considerably over the last few years and packages often include the security businesses users need to protect themselves online.

Surprisingly cost and security were more of an issue for companies with 21 to 50 employees than any of the smaller businesses. This is because larger SMEs are likely to be using their broadband connections to create virtual private networks (VPNs) and allowing remote access to servers, which often requires a dedicated connection, along with increased security.

The main reason that companies gave for not having broadband was that they don't believe they need it (70 per cent), with almost one fifth (17 per cent) having no specific reason for not being connected to the internet. This figure increased to 50 per cent of larger companies in the research group that did not have high-speed internet.

A Better Work-Life Balance

82 per cent of the UK's small businesses with broadband have a better work-life balance and more than three quarters of businesses surveyed (78 per cent) cited speed and flexibility as the reason for broadband uptake.

Work-life balance also featured top in the reasons why businesses were founded, with a third of small businesses overall (33 per cent) and half (48 per cent) of sole traders citing it as their primary motivation. This outweighs spotting a business opportunity (23 per cent) and making money (17 per cent).

Smaller businesses in the Midlands, North West England, Northern Ireland, South East and South West England saw work-life balance as the most important driver, however in Scotland and Wales it was spotting the opportunity (45 per cent and 32 per cent respectively). A fifth of decision makers in the North East of England (22 per cent) always wanted to be their own boss, which spurred them on to start their business.

The majority people questioned worked between 20 and 60 hours per week (38 per cent worked 20-40 hours and 39 per cent worked 41-60 hours). As businesses grow, the research suggests that the hours become more regular, but also longer. Two thirds of sole traders work less than 40 hours per week, and only one per cent work more than 80 hours. Under half of those interviewed from larger companies worked less than 40 hours. As a result, three quarters still believe they could have a better work-life balance.

Despite the important role technology plays in creating a better work-life balance, it comes low down on the list of things that concern small businesses, with only one in 20 companies (5 per cent) choosing it as their number one. Topping the list was government legislation and tax (29 per cent) followed closely by finance (27 per cent). (See figure 2).

Areas of concern	Percentage
Government legislation & tax levies	29%
Finance	27%
New business	17%
Staff	10%
Customers	10%
Computer systems	5%
Security	2%

Figure 2. What concerns businesses most

Smallest Businesses Lead the Way With VoIP

One fifth of small businesses in the UK are using Voice over Internet Protocol (VoIP) or internet calling services and a further quarter (23 per cent) plan to in the next 12 months. However, only 20 per cent of companies with 31 to 50 employees are planning to use VoIP in the next 12 months, compared to 57 per cent for companies with two to ten employees and 48 per cent for sole traders.

Added to this, only one third of 31 to 50 employee businesses saw mobility as a driver for VoIP adoption, with cost and convenience still the major reasons for uptake.

There was also a clear regional split among the companies using Voice over Internet Protocol services. London was top with a third of businesses making calls over the internet, which was followed by the North East of England (24 per cent) and the South West (23 per cent). In fourth place was Northern Ireland (20 per cent), the North West (19 per cent) and the South East (18 per cent). Scotland came seventh (17 per cent), ahead of the Midlands (15 per cent).

Businesses in Wales are the slowest to adopt VoIP services, with only five per cent of those interviewed making calls over the internet. They are also the least likely to be using VoIP in 12 months time, with only seven per cent of businesses planning to adopt such services, the same percentage as the North East of England.

Topping the regions with companies planning to adopt VoIP in the next year is Northern Ireland with more than 50 per cent (54 per cent), followed by London (36 per cent) and the South East (29 per cent).

Region	Percentage of companies using internet call services	Percentage of companies planning to use internet call services in the next 12 months
London	33%	36%
Midlands	15%	26%
North East England	24%	7%
North West England	19%	23%
Northern Ireland	20%	54%
Scotland	17%	5%
South East England	18%	29%
South West England	23%	17%
Wales	5%	7%
Average	20%	23%

Figure 3. Current and planned VoIP usage

Quality Counts in Business Too

When it comes to making purchases for their businesses, overall decision makers in smaller companies see reliability as the most important consideration (37 per cent) followed by value for money (35 per cent). Only 12 per cent of businesses see cost as the number one consideration.

For sole traders value for money is the most important factor in making the decision (44 per cent), followed by reliability (34 per cent), where as organisations with employees are looking for reliability. As organisations grow, cost and support grow in importance, with 12 per cent of businesses with 11-30 employees making decisions based on support provision.

40 per cent of businesses in retail, transport and distribution choose services based on reliability, compared with only 26 per cent looking at value for money. Manufacturing follows a similar pattern (37 per cent and 32 per cent), however, financial services firms see value for money as most important (36 per cent versus 32 per cent for reliability). Business and professional services companies see reliability and value for money as equally important (39 per cent). Cost is also a bigger consideration for these companies (18 per cent).

i Independent research commissioned by BT Business and conducted by Vanson Bourne. The project looked at 435 small businesses with up to 50 employees across the UK (England, Scotland, Wales and Northern Ireland)

ii Small and Medium-sized Enterprise Statistics for the UK 2005, published by the DTI's Small Business Service, August 31, 2006. 4.3 million business enterprises in the UK; 27,000 (0.6 per cent) were medium-sized (50 to 249 employees) and 6,000 (0.1 per cent) were large

iii Wholesale broadband connections (DSL and LLU), BT, December, 2006

iv BT, March 2007

v Small and Medium-sized Enterprise Statistics for the Regions 2005, DTI, published December 2006