

SMALL BUSINESSES. **BIG OPPORTUNITIES.**

Research report highlighting the challenges faced by small businesses and how large service providers can provide rewarding support

November 2012

ABOUT THIS REPORT

This report is based on an online survey commissioned by BCSG and carried out by Trends Research in October 2012. The survey drew upon a [nationally representative] sample of 1,500 UK SME business leaders.

RESEARCH SCOPE

The research investigated the challenges faced by small businesses progressing from start-up to success, their business drivers and motivations, what support they may need along the way, and their attitudes towards banks as potential providers of this support.

14 questions were asked in total, covering the following topics:

- › Reasons behind SME start-ups
- › Length of time planning to run the business
- › Definition of business success
- › Challenges faced in running a business
- › Risks to business success
- › Hours spent working each week
- › Time spent managing finances and admin
- › Value (£) of freeing up extra time
- › Skills and expertise in financial management, administration, marketing, legal/compliance, HR, IT and supplier management
- › Preferences for support from banking provider
- › Rating of banking provider on current levels of support offered

FOREWORD



John Davis, Managing Director, BCSG

Being the leader of a small business is not easy. It requires a broad range of skills to cover every area of the business: product/technical knowledge, marketing and sales, financial management, legal and compliance, IT, people management and supplier management. Each one of these quite different areas can be a minefield for the uninitiated, and it is not surprising that when setting out on a new business venture, there are significant skill gaps.

As this report shows, people start businesses for a variety of reasons, yet they are often not confident that they have the skills needed to make it a success. Even so, an overwhelming percentage of business owners want to run their business for as long as they can – they are motivated by not failing.

Support matters

The mindset of the micro business owner is often one of self-reliance, driving many to work excessive hours in an attempt to get

everything done. It is worth remembering that, as a business leader, their time is valuable. Over-reliance on oneself, and perhaps a small number of individuals too, might not be the most efficient or cost-effective use of time.

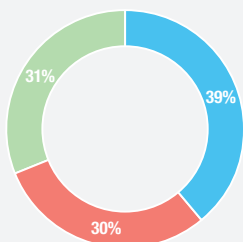
None of us know it all. There is no shame in admitting to needing help or guidance, both when setting up a small business and at various stages along the route to growth and success. However, it is far from clear where small businesses should turn to for this support. Many are unaware that there is a comprehensive range of cost-effective tools out there to support them.

This report highlights some of the motivations behind why small businesses are set up and the challenges they face, as well as the skill gaps that the business owners themselves perceive.

I hope you find the results insightful and thought-provoking.

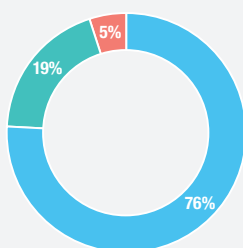
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Key findings



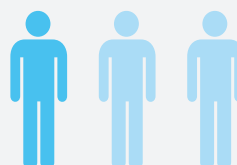
The most common reason for starting a small business is due to being made redundant, followed by spotting a gap in the market.

Key
 ■ Made redundant ■ Gap in the market ■ Other



76% of small businesses are set up with long-term intentions, while 19% regard it as an interim measure until a better opportunity comes along.

Key
 ■ Long-term intentions ■ Interim measure ■ Other



A third of small business leaders are driven by a desire to be the largest player in their particular market or area, whereas 20% just set out to make a comfortable living.



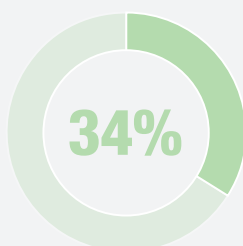
63% say that finding customers is the biggest challenge they face, followed by 19% who identify getting paid on time by customers as the biggest challenge.



On average, our respondents value their time at £54 per hour.



Banks are rated poorly in terms of the level of support they currently provide to small business customers (scoring only on average 3.8/10).



The biggest value a bank can provide is to use its collective bargaining power to lower the price of tools for small businesses. 34% of small business leaders say they would be likely/very likely to purchase business software from a bank if it was at affordable prices that were not available elsewhere. What's more, a further 29% identified themselves as undecided, making them open to persuasion.



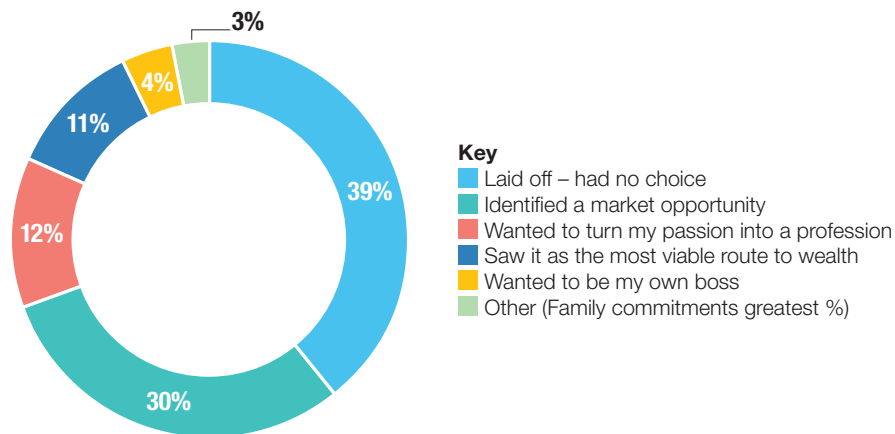
Over a third of small business leaders work more than 50 hours per week, with the average being approximately 51 hours.

1. MAKING IT HAPPEN

Taking the plunge

Small business owners start their businesses for a variety of reasons. With the huge number of small businesses in the UK, you might think we are a nation of entrepreneurs with a desire to be the boss. In reality, our research shows that the main reason for setting up a small business is due to being made redundant and having no other choice (39% of respondents). A sign of our economic times? Maybe. But then it's also the most challenging time to launch a new venture. And let's not forget that the second most cited reason was having identified a market opportunity (30%), although wanting to be your own boss appears surprisingly low down in the rankings (at just 4%).

Fig. 1 – What was the main reason for starting your business?



In your own words: why small business leaders started out

“ I was made redundant last year ... and the best avenue was to become self-employed and start a business.”

“ Just an idea I had, thought it could be a successful business idea and decided to give it a go.”

“ Lifestyle. So I could spend more time with my son.”

“ My business partner and I were young, we'd finished university and the job market was difficult. We just thought we'd go for it, we've got nothing to lose really.”

“ We'd had enough of working for other people and we knew we could do something better.”

Beyond the horizon or round the corner?

Despite well-documented statistics about the high failure rate of small business start-ups, most (76%) are set up with long-term intentions. Of those that aren't, almost 20% are a stop-gap "until something better comes up", with only 5% being short-term projects intended to last just a few years.

Fig. 2 – How long do you plan to run the business?



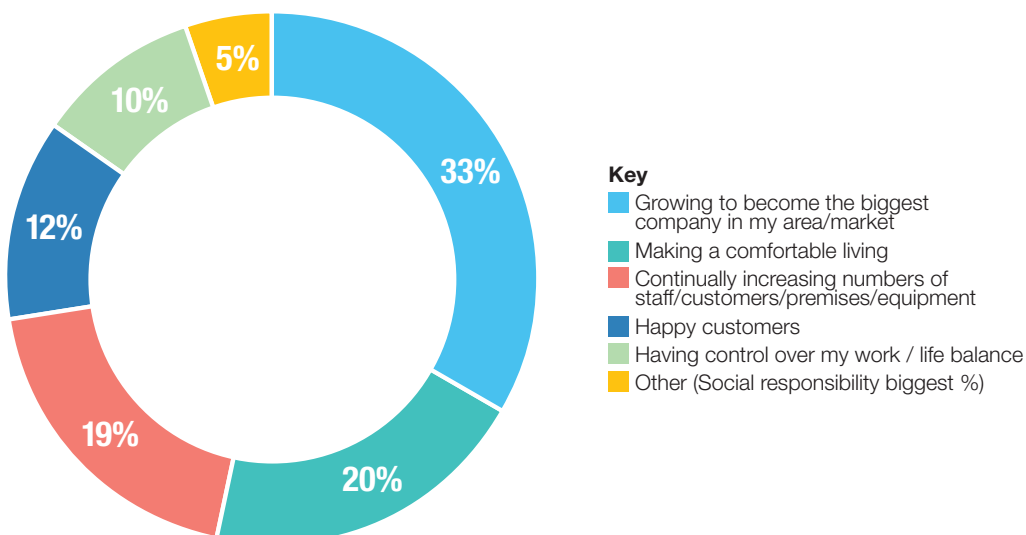
Key

- As long as I can
- Until a better opportunity comes up
- A few Years

Making it

Success means different things to different people. Whilst a third of respondents want to become the biggest company in their market/area, there are a wide range of other important ambitions. These range from making a comfortable living to continuing to increase in size, and from having happy customers and to having more control over the work-life balance. Not all small businesses want to be the next Google – many are just looking for a way to make a good living and to enable a better quality of life – but their businesses are very important to them and they are highly motivated not to fail.

Fig. 3 – What does business success mean to you?



Key

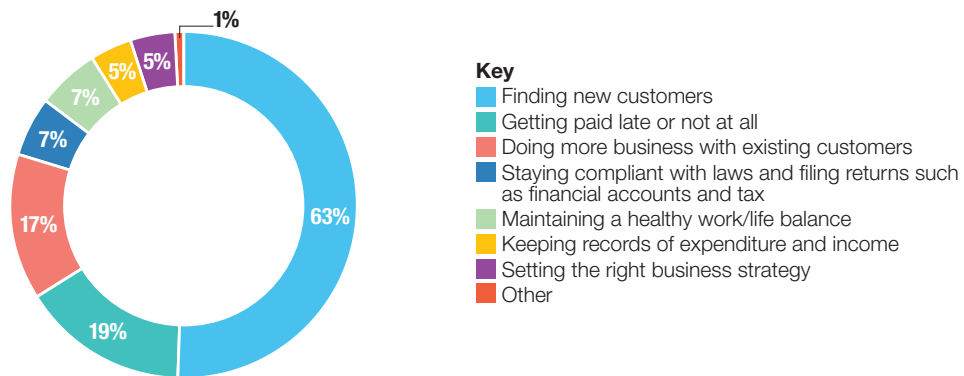
- Growing to become the biggest company in my area/market
- Making a comfortable living
- Continually increasing numbers of staff/customers/premises/equipment
- Happy customers
- Having control over my work / life balance
- Other (Social responsibility biggest %)

2. SQUARING UP

The biggest challenges

Regardless of the reason for setting up a business, a number of specific challenges face small businesses. By far the most common is finding new customers, cited by 63% of those surveyed. Other common challenges included getting paid late or not at all, and trying to do more business with existing customers. A survey by BACS¹ found that the average small UK company is owed £39,000 and has to wait an average of 28 days above their agreed terms for payment. This can put a company's cash under great strain, even jeopardising the entire viability of the business.

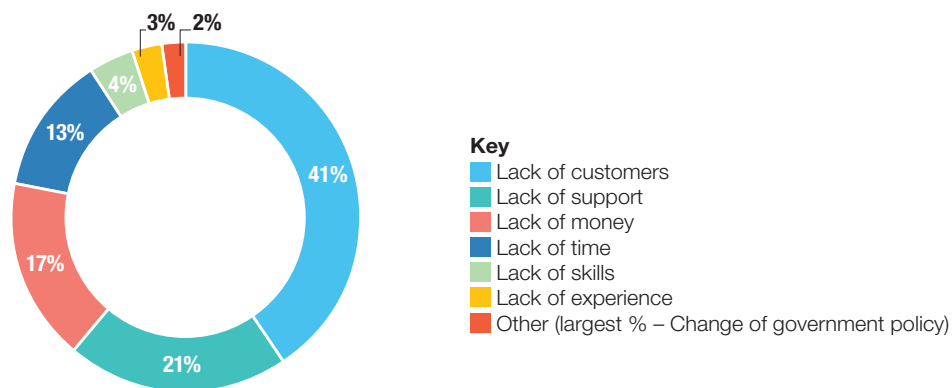
Fig. 4 – Which activities do you find the most challenging when running your business?



Threat assessment

In a similar vein, the biggest risk to the success of a business was identified as a lack of customers, mentioned by 41% of those surveyed. Other risks identified were a lack of support (21%), a lack of money (17%) and lack of time (13%).

Fig. 5 – What do you think is the biggest risk to the success of your business?



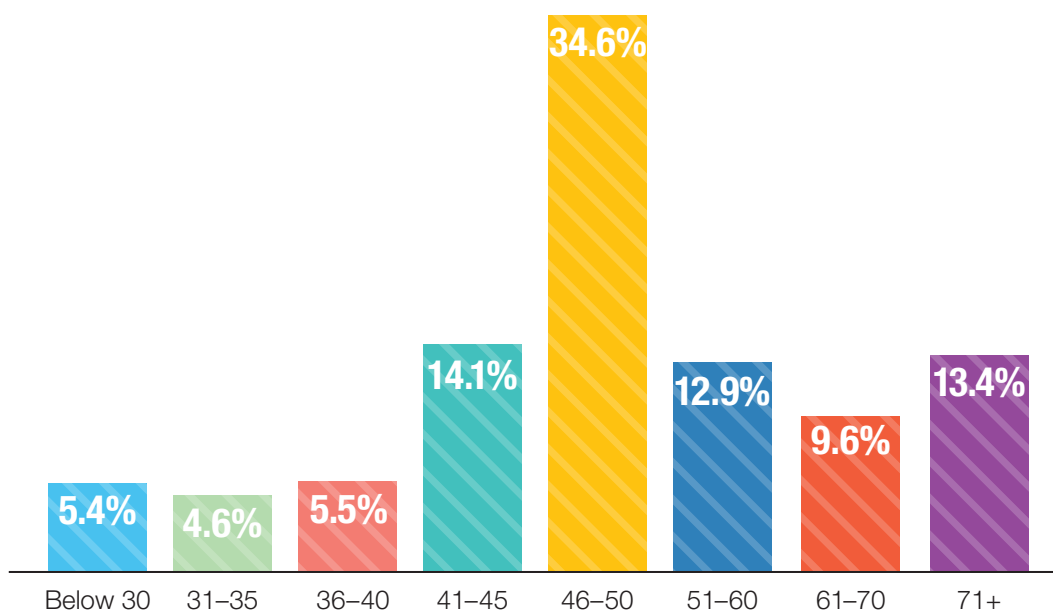
¹ Bacs Consumer Payments Survey 2012

3. PUTTING IN THE HOURS

Going the extra mile

The majority of small business owners questioned work significantly longer hours than the standard 37-hour working week. The highest proportion (35%) put in between 46 and 50 hours a week, but there are a significant number (13%) working more than 71 hours. Gaining an improved work/life balance may be an ambition, but the reality is that running a small business is taking up a significant amount of time.

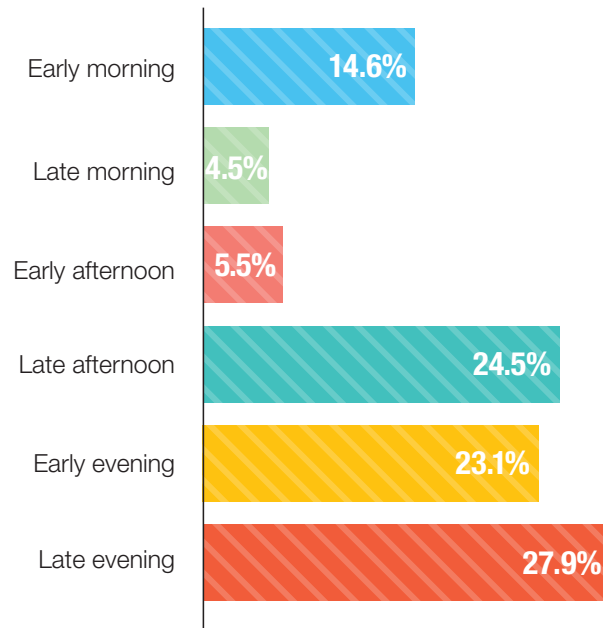
Fig. 6 – How many hours do you spend working each week?



After hours

The research also shows that non-core but still essential activities – such as managing finances and administration – are often carried out outside normal working hours. Whether it's early in the morning or in the evening 'after work', beyond the day-to-day management of the business, there's still plenty to do.

Fig. 7 – What time of day do you typically manage your finances and carry out administration?



What's it worth?

To put a value on these extra hours worked, we asked respondents how much they feel that their time is worth (i.e. if you could cut down on the time spent on managing finances and administration, how much would each hour saved be worth to you in monetary terms?). The weighted average of these answers puts the value of an hour at £54.



4. SKILL SPECTRUMS

Seeing the gaps

When starting out, many small business leaders lack the basic skills required to manage a company. An individual is likely to have specific skills – such as the product know-how to identify a gap in the market, or a profession or trade – but it is unlikely that they will have sophisticated skills across the entire spectrum required to successfully manage a business. We asked our participants to rate themselves on a scale of 1 to 10 in terms of skills and expertise across a number of areas when they started their business.

70% of small businesses on average rate themselves at the beginners end of the scale (i.e. rated 5 and below) across the following areas when they started their business:



Financial management



Marketing



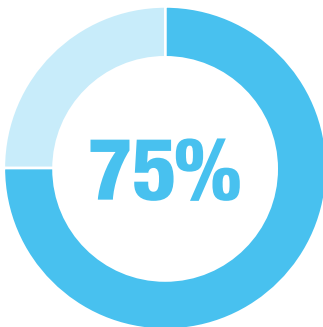
Legal & compliance



HR



IT



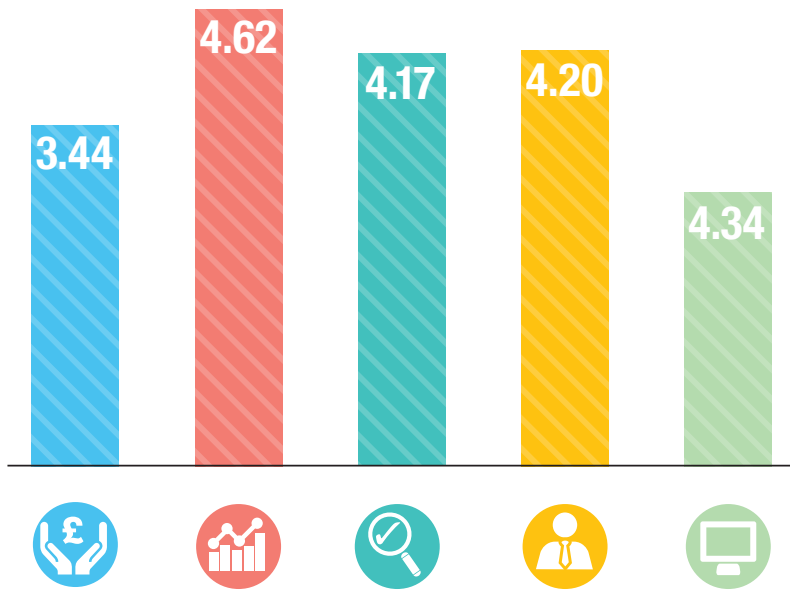
**75% of small
business leaders
rated their financial
management skills
five or less out of ten
when they started**



Experts wanted

Clearly, at start-up, many small business leaders lack confidence in their own abilities across key areas. Over time, these results show some improvement as individuals learn “on the job”. But, even after the business has become established, very few small business leaders regard themselves as expert in areas such as financial management and marketing. This lack of expertise will inevitably result in a lot of wasted time and mistakes along the way.

Fig. 8 – Skill ratings for when business was started*



*Calculated as an average out of 10.

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Conclusion

Many businesses are set up out of necessity rather than to fulfil a specific, identified market need. This suggests that they may require more support in terms of how to set up, manage and grow a new business. Most are in it for the long term – not just to fill a gap or make a quick profit.

The biggest challenge/risk to a small business is finding customers to enable the business to grow. The survey also revealed the extensive hours worked by SME business leaders and the need to catch up on administrative activities outside of normal working hours. Clearly there is significant value to be gained by freeing up some of the time spent on administrative tasks – time that could be spent on more profitable tasks, such as finding new customers. On average, our respondents valued their time at around £54 per hour – a revealing and important consideration when evaluating the cost of support tools which can help to improve efficiency.

Supplying the lack of skills and support

Skill levels at start-up are rated by small business leaders themselves as pretty low, especially in the areas of finance and supplier management. Skills do improve “on the job”, but still remain average rather than expert, with 20% of those surveyed identified lack of support as a key business risk.

A yet-to-be-met need exists within the small business sector for tools that can save time, reduce credit management challenges and aid new customer acquisition. Given that large service providers have direct relationships with small business owners, they are well placed to meet this need.

Whilst large service providers are not currently perceived particularly well in terms of the support that they provide to small businesses, there is a level of interest in using support services if they are competitive and can be shown to have value.

Expanding the range of support services offered by large service providers could bring multiple benefits – improving margins, reducing customer failure rates, deepening customer relationships and enhancing the large service provider’s own brand reputation. Such a move would also have benefits to the wider economy and society, by helping to create a more prosperous and successful small business sector.

For more information on small business support tools created specifically for large service providers, contact 0845 880 8820.

ABOUT BCSG

BCSG creates and supports leading cloud-based products that address the key headaches of small business owners. We work with leading financial institutions around the world to enhance their small business propositions, and deepen their relationships with small business customers.

See more at www.bcsfg.com



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