SME Growth Tracker

A report on SME confidence, prospects, e-commerce and trade, in association with Enterprise Nation and Amazon UK
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Research has been carried out with the help of YouGov’s survey platform, the YouGov Omnibus. YouGov has dedicated teams of sector specialists who are supported by skilled quantitative analytics and qualitative departments. Each team combines research expertise with in-depth sector knowledge to help clients to identify, analyse and understand their markets, offering actionable insight that adds competitive business advantage. Our full service menu means you can choose their level of reporting - from basic tables of results, to additional statistical analysis and interpretation, to strategic advice from our industry experts.

The report is in association with Enterprise Nation and Amazon UK.

Since launching in 2005, Enterprise Nation have helped thousands of people start and grow their businesses, and, led by founder Emma Jones MBE, continues to be the most active UK small business community and a leading campaigning voice for small business. For more information, visit: https://www.enterprisenation.com/

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All figures, unless otherwise stated, are from YouGov Plc. or are calculated by Capital Economics using figures from You Gov Plc. Total sample size was 1,073 senior decision makers in SMEs. Fieldwork was undertaken between 19th August and 2nd September 2016. The survey was carried out online. The figures have been weighted and are representative of all Great Britain businesses in terms of size (i.e. number of employees). Numbers may not add up due to rounding.

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5th Floor, 100 Victoria Street, Cardinal Place, London, SW1E 5JL. Registered in England, Registration No. 2484735. VAT No. GB 198 2919 50 © Capital Economics 2016.
From micro-businesses through to small and medium-sized enterprises (SMEs), companies employing fewer than 250 people are the backbone of the UK economy, making up over 99 per cent of all UK businesses and providing 60 per cent of UK private sector employment. Their confidence, future growth, and ability to harness the power of the internet and technology are all significant indicators of Britain’s quality of life and ability to compete on the global economic stage.

This is why, alongside Enterprise Nation, we are delighted to support the SME Growth Tracker by Capital Economics. As an independent, in-depth piece of research based on extensive YouGov polling of over 1,000 SMEs in Britain, the report seeks to examine SME sentiment on key issues related to the overall economy, the export environment and the UK’s digital economy. We hope that it provides helpful insight on how this critical segment of our economy is performing and that it captures the views of SMEs across Britain.

You may ask why we have helped commission this report. At Amazon, we strive to support all businesses – and particularly small businesses. Small businesses play a big role in helping us to serve our millions of customers and through Amazon Marketplace, Amazon Payments and Amazon Web Services, we empower hundreds of thousands of businesses across Great Britain.

We believe technology has a big role to play in helping to foster the growth of businesses. When you consider how the digital economy can democratise the ability to start a business, and how it levels the playing field between businesses big and small by providing a global infrastructure that can be accessed directly from your own home or office, you see there is real opportunity here for Britain’s SMEs. This is evidenced by Amazon Marketplace supporting 74,000 jobs here in the UK, and it’s why last year, UK-based small businesses selling on Marketplace exported more than 100 million units totalling nearly £1.4 billion in export sales.

These figures demonstrate the significant role that SMEs working with Amazon play in supporting the UK economy. And the role of technology and exporting is backed up by the SME Growth Tracker, which finds that SMEs who use e-commerce and export their products and services generally express greater confidence and expect stronger revenue growth in the year ahead. Therefore there are opportunities for SMEs that do not currently use e-commerce or export, which the report finds is more than half of British SMEs today.

We hope this report will raise awareness of SMEs who are leading the way in strengthening the British economy for the future.

Doug Gurr
UK Country Manager
Amazon
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Executive summary

SME Growth Tracker Confidence Index:  +5

Britain’s small and medium sized businesses remain optimistic for their prospects over the coming twelve months.

This is one finding from a comprehensive new survey of over 1,000 small and medium sized enterprises (SMEs). The SME Growth Tracker is a quarterly assessment of the health and confidence of British SMEs carried out by YouGov and analysed by Capital Economics. It monitors key financial and economic trends of businesses that account for 60 per cent of United Kingdom private sector employment.

SMEs expecting some improvement over coming twelve months

The SME Growth Tracker Confidence Index for September 2016 is +5.

(The Confidence Index score is calculated on the basis of responses to the question: “Do you think overall business conditions (e.g. economic growth, customer demand, employment etc.) will have improved, deteriorated or will have stayed about the same for my company?” The Confidence Index score would be +100 if every SME expected conditions to be “significantly improved” in twelve months time and -100 if all expect them to be “significantly deteriorated”. A response of “somewhat improved” is given a score of +50, “have stayed about the same” zero and “somewhat deteriorated” -50.

Twenty eight per cent of SMEs believe that, in twelve months’ time, the overall business conditions facing them will be “significantly” or “somewhat” improved compared to today. In contrast, eighteen per cent said they would be deteriorated.

SMEs expect their revenues to increase by an average of 1.5 per cent over the coming twelve months, which is an improvement on the growth of 1.2 per cent reportedly achieved in the past twelve months.

Despite uncertainty in the wake of the vote to leave the European Union, smaller businesses are anticipating a steady year ahead – with improvements expected in employment (jobs growth forecast to rise by 0.7 per cent over the coming twelve months, up from 0.6 per cent over the last) and export volumes (exporters expect export volume growth of 1.5 per cent from 1.0 per cent). The outlook for capital investment is stable growth (at 0.9 per cent per annum), while prices charged by SMEs are expected to increase by 1.2 per cent (up from 0.8 per cent) – although so are supply costs (up 1.8 per cent from 1.2 per cent).

SMEs that use e-commerce are among the most confident, with a confidence score of +7; on average they expect to increase revenues by 1.8 per cent over the coming twelve months. Similarly, SMEs that export are also above the national average (with a confidence score of +6 and expected revenue of 1.8 per cent respectively).

Not all SMEs have such a positive outlook. The smallest of businesses (with five or fewer employees) have a confidence score of +1, and expect future annual revenue growth of 0.3 per cent – albeit this is an improvement on a reported decline over the past twelve months.

SMEs in the manufacturing industry expect their revenues to increase by 2.4 per cent next year; this is second only to SMEs in the financial services industry. They expect the highest jobs growth in the coming year and are the most confident in the outlook for business conditions for their company.

Regionally, SMEs in the east are more positive on the outlook for their business. Stronger revenue, jobs and investment growth are expected in East of England and Yorkshire and the Humber for example.

Forty nine per cent of respondents report that the referendum result will have a negative impact on their revenues in the coming twelve months; 20 per cent say it will have a positive effect. The remainder (31 per cent) said it would have “no impact”. The Brexit vote hasn’t changed anything yet for three-quarters of SMEs – although twelve per cent of Britain’s smaller businesses have delayed hiring additional staff because of the vote.
But prospects for the economy at large are less rosy

Although SMEs report resilience in their own businesses, there is widespread concern over the general economic climate and its potential impact on British businesses at large. The global economy falling into recession is more of a concern for respondents than the “consequences of Brexit”, but the fallout from the recent vote remains significant.

Overall, SMEs have a slightly negative view of prospects for the coming twelve months for their own industry. The Confidence Index for their industries is -2 (against +5 for their own businesses).

When asked about prospects for the United Kingdom economy, the score falls to -13, with 45 per cent of respondents expecting conditions to have “significantly” or “somewhat” deteriorated in twelve months’ time.

SMEs of all shapes and sizes share this less than rosy view of the national economy’s prospects.

Trade important to many SMEs

On average, SMEs obtain 82 per cent of their revenues from British customers and the domestic market; 54 per cent report no export revenues at all. But trade and growth from exports remains important to many smaller businesses.

The smallest SMEs are the least likely to export. Thirty three per cent of those that employ five or less workers export. This compares to 49 per cent of those that employ between six and nineteen workers, 58 per cent of those that employ between twenty and 49 and 66 per cent of those that employ more than fifty workers.

SMEs that export are looking for an improvement in export revenue growth in the coming twelve months – up an average of 0.8 per cent against 0.4 per cent previously.

Exporters who use e-commerce are looking for an acceleration in export revenue growth from e-commerce sales, which is in line with overall export revenue growth. Within the retail industry, SMEs expect export revenue from e-commerce to rise by 1.0 per cent in the coming twelve months against 0.4 previously.

Faster export revenue growth is anticipated from exports markets beyond the European Union than from those within (1.2 per cent versus 0.3 per cent), but the other 27 member states remain a major market; 41 per cent of SMEs export to the bloc while it accounts for 47 per cent of SMEs’ export revenues. Respondents cite “uncertainty caused by Brexit” as the greatest drag on their ability to grow exports.

Looking ahead to the next three years, SMEs expect export revenue to increase the most from exports to Asia excluding China and India. What’s more, they expect a greater increase in export revenue from the United States than both China and India. Compared to export revenue over the past twelve months, SMEs expect export revenue from the European Union to fall, by on average, -0.4 per cent looking ahead to the next three years.

A post-Brexit trade deal with the European Union is seen as a higher priority than negotiations with anywhere else. With around ten per cent of their workforce coming from the other 27 member states, there is concern about the potential impact on the availability of both high and low skilled labour.

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Key business performance metrics from the SME Growth Tracker

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<thead>
<tr>
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<th>Next 12 months</th>
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<tbody>
<tr>
<td>Annual revenue growth</td>
<td>1.2%</td>
<td>1.5%</td>
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<td>Currently use e-commerce</td>
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<tr>
<td>E-commerce revenue</td>
<td>46%</td>
<td>48%</td>
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Almost half of SMEs use e-commerce, while email is as important as face-to-face

Almost half of SMEs currently use e-commerce. It is most prevalent in the retail industry, with around 70 per cent using it. This compares to 21 per cent in the real estate and construction sectors.

The larger the SME the more likely it is to use e-commerce.

A higher share of exporters use e-commerce than non-exporting SMEs – 62 per cent and 31 per cent respectively.

There are only two regions in which less than forty per cent of SMEs use e-commerce – the North West and the South East.

Almost half (48 per cent) of all SME revenues are expected to come via e-commerce over the coming twelve months – up incrementally from 46 per cent over the past year.

SMEs that use e-commerce are more confident in their future (with a score of +7) than those that do not use e-commerce (+3). What’s more, SMEs that use e-commerce are generally more positive about their company’s prospects than those that do not. Whilst those that use e-commerce expect revenue to increase by 1.8 per cent over the coming twelve months, those that don’t use e-commerce expect it to increase by a smaller 1.3 per cent.

SMEs cited face-to-face, e-mail and telephone as the most important channels when selling to customers. These are the most commonly used channels – nearly 90 per cent of SMEs use e-mail whilst 85 per cent said that they use telephone and face-to-face.

Fax is currently more popular with SMEs as a sales channel (29 per cent use it) than an own company mobile app or a third party retail website or mobile app (eleven and eighteen per cent respectively).

The popularity of mobile apps is increasing though and, in the coming twelve months, use of own company mobile apps is expected to double. An equivalent share of SMEs, ten per cent, expect to start using a third part social media website or mobile app to sell to customers in the coming year.
### SME Growth Tracker Confidence Index

Regional results (Score: +100/-100)

<table>
<thead>
<tr>
<th>Region</th>
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<td>Employment</td>
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<tr>
<td></td>
<td></td>
<td>Past 12 months</td>
<td>Next 12 months</td>
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<td>Next 12 months</td>
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<td></td>
<td>Past 12 months</td>
<td>Next 12 months</td>
<td>Revenue</td>
<td>1.8%</td>
<td>2.3%</td>
<td>Employment</td>
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<tr>
<td></td>
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<td>Past 12 months</td>
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<td>Revenue</td>
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<td>Past 12 months</td>
<td>Next 12 months</td>
<td>Revenue</td>
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<td>1.3%</td>
<td>Employment</td>
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<tr>
<td></td>
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<td>Past 12 months</td>
<td>Next 12 months</td>
<td>Revenue</td>
<td>1.2%</td>
<td>0.7%</td>
<td>Employment</td>
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<tr>
<td></td>
<td></td>
<td>Past 12 months</td>
<td>Next 12 months</td>
<td>Revenue</td>
<td>1.6%</td>
<td>2.1%</td>
<td>Employment</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

**Source:** YouGov survey. Responses = 1,073.
**Introduction**

**SMEs are the economy’s backbone**

The SME Growth Tracker focuses on understanding the performance and prospects of small and medium sized enterprises (SMEs).

SMEs are important to the British economy and future prosperity. According to official statistics they have grown in number by 60 per cent since 2000, reaching 5.4 million in 2015, and make up 99.9 per cent of all private sector businesses.

They account for more than half of all value added in the United Kingdom and provide 60 per cent of private sector employment. Over the past five years, SMEs have accounted for almost four-fifths of the 2.5 million new jobs in the private sector.

The success of British SMEs since the financial crisis has not been matched across Europe. While value added by SMEs rose by 22 per cent in the United Kingdom from 2008 to 2014, there was no growth from French SMEs and Italian SMEs’ economic contribution fell.

*Differences in methodological detail between the estimates used in this Tracker and the official statistics are discussed in the appendices to this report.*

**Retail is the largest employer**

Official data show that retail is the largest SME employer in the United Kingdom employing around two million workers which partly reflects the size of retail employment in the general economy.

Most of the employment by small and medium enterprises in retail – 80 per cent – was by enterprises that employ less than 50 workers. These same businesses accounted for the largest share of turnover generated by SMEs in the retail sector in 2015, at 66 per cent.

Source: Capital Economics and Department for Business, Innovation and Skills, Business population estimates for the UK and regions 2015 (Department for Business, Innovation and Skills, London), 2015.
British SMEs more likely to sell online than the average European Union SME

E-commerce is an important tool for businesses.

Official data show that the United Kingdom ranked in seventh place in the European Union in 2015 for the share of SMEs that sell online, with twenty per cent. This was greater than the union’s average (sixteen per cent), and countries such as France, Italy or Spain, Ireland ranked the highest.

Whilst a greater proportion of large businesses sell goods or services online compared with SMEs in the United Kingdom, this share has remained relatively stable over the last four years growing from 39 per cent in 2010 to 43 per cent in 2015. This contrasts with an increase from thirteen per cent in 2010 to twenty per cent in 2015 for SMEs.

The SME Growth Tracker aims to delve deeper into the use of e-commerce by SMEs, its future use and its importance to SMEs’ revenues.

Sources: Capital Economics and Eurostat, Enterprises selling via internet and/or networks other than internet (Eurostat, Luxembourg), 2016. Note SMEs are defined here as enterprises with ten to 249 employees and large enterprises are those with 250 or more employees. These data exclude the financial sector. Enterprises selling online are those with online sales generating at least one per cent of turnover.

SMEs account for just over a third of the total value of the United Kingdom’s exports

SMEs make a valuable contribution to British exports.

Statistics from HM Revenue and Customs show that SMEs accounted for 36 per cent of the total value of exports of the United Kingdom’s in 2014, up from 33 per cent in the previous year.

This report looks into the share of SMEs that export, where they export to and future exporting plans.

Survey results
1 Business outlook
SMEs confident in next twelve months

The SME Growth Tracker Confidence Index for September 2016 is +5.

The Confidence Index score is calculated on the basis of responses to the question: “Do you think overall business conditions (e.g. economic growth, customer demand, employment etc.) will have improved, deteriorated or will have stayed about the same for my company?”

The Confidence Index score would be +100 if every SME expected business conditions for their company to improve significantly and -100 if every SME expected them to deteriorate significantly. The scores allocated to each answer were: +100 for “significantly improved”, +50 for “somewhat improved”, 0 for “stayed about the same”, -50 for “somewhat deteriorated” and -100 for “significantly deteriorated”.

Some 25 per cent of SMEs expect business conditions for their company to improve “somewhat” over the coming twelve months and three per cent of SMEs expect a “significant” improvement.

More than half (54 per cent) the businesses in the survey anticipate that conditions will remain the same for their company and eighteen per cent expect that they will deteriorate “somewhat” or “significantly”.

SMEs in Yorkshire and the Humber, the Midlands and the South East expect business conditions for their company to improve the most

SMEs in Yorkshire and the Humber expect the greatest improvement in business conditions for their company in the next twelve months, with a score of +15.

SMEs in London, South West, Scotland and Wales expect conditions to deteriorate for their company. SMEs in Wales and Scotland anticipate conditions will deteriorate the most, with a score of -3.

More generally, SMEs in urban areas are more positive about business conditions for their firms than other SMEs.


E-commerce users and exporters expect a greater improvement in business conditions for their companies

There is a modest difference in expectations for business conditions over the coming twelve months between businesses that use e-commerce or export, and those that do not.

The score for e-commerce users is +7, against +3 for SMEs that don't use such digital tools.

The score for exporters is +6, compared with +4 for businesses that only sell domestically.


Change in business conditions for my company in the coming twelve months by region (Score: +100/-100)

Change in business conditions for my company in the coming twelve months by whether they use e-commerce and whether SMEs export (Score: +100/-100)
Larger SMEs are more optimistic that business conditions will improve for their company

Larger SMEs, and those with twenty to 49 employees in particular, anticipate a more material improvement in business conditions for their company than the smallest of SMEs.

On average the smallest of SMEs, those with five or fewer employees, expect little improvement in business conditions over the coming twelve months.

Manufacturing firms expect the greatest improvement in business conditions

Manufacturing SMEs expect the greatest improvement in business conditions for their firm, with a score of +11.

Professional services firms typically expect the least improvement in conditions for their business, with a score of +2.

Highest growth firms anticipate business conditions will be more favourable in the coming twelve months

SMEs that have experienced the slowest growth over the past twelve months expect business conditions to deteriorate in the coming twelve months, with a score of -13.

The highest growth SMEs anticipate business conditions will improve for their company, with a score of +21.

Business performance

Past and expected growth in key business performance measures (average percentage change over twelve-month period)

<table>
<thead>
<tr>
<th>Growth in ...</th>
<th>All SMEs</th>
<th>Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Past 12 months</td>
<td>Next 12 months</td>
</tr>
<tr>
<td>Annual revenue</td>
<td>1.2%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Jobs</td>
<td>0.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Prices</td>
<td>0.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Supply costs</td>
<td>1.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Export volumes*</td>
<td>1.0%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>


SMEs looking for continued growth in coming year

SMEs expect their revenues to increase by an average of 1.5 per cent over the coming twelve months, which is an improvement on the growth of 1.2 per cent achieved in the past twelve months.

They are anticipating a steady year ahead. Improvements are expected in employment (jobs growth forecast to rise by 0.7 per cent over the coming twelve months, up from 0.6 per cent over the last), and exports. Exporting SMEs are expecting a 1.5 per cent rise in export volumes in the coming twelve months, an increase over export volume growth seen in the past twelve months (1.0 per cent).

SMEs haven’t reported any collapse in business investment plans after the Brexit referendum result. Instead, the growth in capital investment is expected to remain stable (at 0.9 per cent per annum).

SMEs anticipate being able to increase the prices they charge by an average of 1.2 per cent (up from 0.8 per cent) – although they expect supply costs to rise too (up 1.8 per cent from 1.2 per cent).

This means that SMEs expect the costs of supplies to rise...
**SMEs in the East of England expect the greatest revenue growth**

SMEs in the East of England expect the greatest growth in annual revenue in the coming twelve months, at 2.7 per cent.

Only SMEs in the South West expect revenue growth to slow in the coming months and only SMEs in Wales expect annual revenue to decline – at an average rate of -0.7 per cent.

SMEs in urban areas expect the greatest growth in annual revenue in the coming twelve months. Those in town and fringe areas expect revenue to decline.


**E-commerce users and exporters expect the greatest acceleration in revenue growth**

Users of e-commerce expect an acceleration in revenue growth over the coming twelve months, up to 1.8 per cent from 1.4; the comparable numbers for those that don’t use e-commerce are 1.3 per cent and 1.0 per cent respectively.

Exporters anticipate revenue growth will increase to 1.8 per cent (from 1.3) compared to an improvement to 1.2 per cent (from 1.0) from those that only sell domestically.

Smallest SMEs have a weaker outlook than the rest

The smallest of businesses (with five or fewer employees) expect the weakest revenue growth over the coming twelve months, at 0.3 per cent. This is, however, an improvement from declining revenues over the past twelve months.

Larger SMEs are more positive, and expect revenue growth to accelerate over the coming twelve months.


SMEs in the manufacturing industry expect their revenue growth to accelerate the most in the coming year

The manufacturing sector anticipates the greatest revenue growth over the next twelve months at 2.5 per cent, which is up from 2.2 per cent.

Revenue growth was slowest in retail over the past twelve months, but these SMEs expect an improvement to 1.0 per cent (up from 0.0).

The real estate and construction sectors anticipate the slowest growth at 0.9 per cent, which is down from 2.0 over the past twelve months.


Revenue growth to slow for highest growth firms next year

The highest growth SMEs expect their companies will remain at the top of the growth leader board over the next twelve months. However, they do anticipate annual growth to slow to 6.1 per cent (down from 9.3).

The lowest growth SMEs expect revenues to fall by 3.3 per cent, albeit this is an improvement from the decline over the previous twelve months (-7.6 per cent).

**SMEs in the East of England expect the greatest growth in jobs, whilst SMEs in Wales expect to reduce employment over the coming 12 months**

SMEs in the East of England expect the greatest growth in jobs over the coming twelve months, at 1.3 per cent (up from 0.9 per cent over the previous twelve months).

Employment in Scotland and the North East is expected to increase only marginally. SMEs in Wales expect a further deterioration in employment, with the number of jobs set to fall by 0.5 per cent compared to a decline of 0.1 per cent over the previous twelve months.

More generally, employment growth is expected to be much faster on the east of the nation than the west in the coming twelve months.

**Source:** YouGov. Responses = 1,073.

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**E-commerce users and exporters anticipate an acceleration in jobs growth**

SMEs that use e-commerce expect employment growth to rise to 0.9 per cent over the coming twelve months, up from 0.6 per cent over the last twelve months.

SMEs that don’t use e-commerce anticipate employment growth will remain steady at 0.6 per cent.

Exporters expect jobs growth to accelerate to 1.1 per cent (up from 0.8) and those that don’t sell abroad expect it to stay at 0.5 per cent for their businesses.

**Source:** YouGov. Responses = 1,073.
Smallest SMEs don’t anticipate a material increase in hiring

The smallest businesses expect the weakest job growth over the next twelve months, at just 0.1 per cent. This is an improvement though after the number of jobs at these firms declined over the last twelve months.

Larger SMEs anticipate more substantial employment growth over the coming twelve months.


Manufacturing SMEs expect greatest jobs growth in coming twelve months

SMEs in the manufacturing industry expect the greatest rate of jobs growth over the coming twelve months at 1.4 per cent, up from 0.8 per cent over the last twelve months.

SMEs in the hospitality and transport sectors remain the slowest for jobs growth, at 0.3 per cent.

Jobs growth to slow modestly at the highest growth firms

The highest growth firms expect the greatest job growth in coming twelve months. This rate will slow from 2.9 per cent to 2.6 per cent.

The lowest growth firms anticipate that they will continue to reduce headcount. The rate of job loss will slow from -1.1 per cent per annum to -0.6 per cent over the next twelve months.

Opportunities and risks for the UK economy
Confidence

Change in business conditions for my company, my industry and the UK economy in the coming twelve months (percentage of SMEs)

"Significantly improved" (Score = +100)
"Somewhat improved" (Score = +50)
"Stayed about the same" (Score = 0)
"Somewhat deteriorated" (Score = -50)
"Significantly deteriorated" (Score = -100)

My company
My company’s main industry
UK economy


SMEs confident about their business, but less so for others

Despite being positive about the outlook for their own company, SMEs are downbeat on average about the outlook for others and expect business conditions to deteriorate for their industry and even more so for the entire United Kingdom economy.

The confidence score reported by SMEs for their industries is -2. (The industry index would be +100 if every SME expected business conditions for their industry to improve significantly and -100 if every SME expected them to deteriorate significantly.)

The score for SMEs for the British economy is -13.

43 per cent of SMEs believe the UK economy will deteriorate over the next 12 months, compared to 24 per cent who expect an improvement.

A greater proportion of SMEs believe that there will be a “significant” worsening in the British economy (nine per cent) than do a significant deterioration in business conditions for their industry (four per cent) and for their own company (three per cent).
SMEs in the South East are least worried about the outlook for the economy

SMEs in the South East expect the smallest deterioration in the United Kingdom economy over the coming twelve months, with a confidence score of -3. Businesses in Scotland are the most concerned about the economic outlook for the United Kingdom economy, with a score of -26.


Confidence in the British economy is unaffected by whether a firm uses e-commerce or not

SMEs that don’t use e-commerce expect conditions for their industry to deteriorate more than those that do use e-commerce (score of -4, compared to 0). Exporters are marginally more downbeat on conditions for their main industry (-3) than those that only sell domestically (-2).

All SMEs on average, whether they use e-commerce or not or whether they sell internationally or not, expect the British economy to worsen in the coming year.

All sizes of SMEs expect the British economy to worsen over the coming twelve months

SMEs of all sizes expect the United Kingdom economy to worsen over the next twelve months.

Although the smallest of businesses are least confident that conditions for their own company will improve, there isn’t the same distinction for their own industry.


Retail firms are the least pessimistic about the outlook for the economy

While SMEs in the manufacturing, and hospitality and transport sectors expect business conditions to improve for their industry in the coming twelve months, they expect the British economy to worsen.

All industries expect the economy to worsen over the next twelve months.

SMEs in the health and education industry expect it to worsen the most, with a score of -20.


Highest growth firms are optimistic for their own company and industry, but downbeat on the economy

Only the highest growth firms are, on average, optimistic that business conditions will improve for their own industry, with a score of +5.

The lowest growth firms expect conditions for their industry to deteriorate more than those at median growth firms.

Firms of all growth rates lack confidence in the outlook for the British economy and expect it to worsen over the next twelve months.

Systemic risks

Risk of global recession leads SME concerns

SMEs are more concerned over the global economy falling into recession than they are about the consequences of Brexit in the coming twelve months, despite the negative media coverage on the consequences of the referendum result for the economy.

They reported a score of 55 for the global economy falling into recession. (The index would be 100 if every SME said they were “very concerned” about a global recession in the next twelve months and zero if every SME said they were “not at all concerned”.)

Although just under half of SMEs (49 per cent) are “fairly” or “very” concerned about Brexit consequences for the next twelve months, Brexit isn’t everything.

A fall in domestic demand is the second greatest concern for key decision makers at SMEs (53) and the consequences of Brexit rank a close third (51). These are more of a concern to SMEs than higher price inflation or stability in the euro-zone over the next twelve months.

Source: YouGov survey. Excluding those that answered “don’t know”, responses vary between 1,026 and 1,045 depending on response. The “don’t know” responses vary between 28 and 47 depending on response and are excluded from reported results.
Almost half of SMEs expect a negative revenue impact from Brexit in the coming twelve months but one in five expect a positive impact

Although Brexit is not the greatest concern for SMEs over the coming twelve months, just under one half (49 per cent) expect that it will have a negative impact on their annual revenue while 20 per cent anticipate that it will have a positive effect.

The remainder 31 per cent say that it will have no impact.

The majority of SMEs don’t expect leaving the European Union to have an impact on key business issues

When asked whether Brexit will impact on key business issues, such as the availability of finance, investment in exporting and hiring, the majority (between 66 and 77 per cent, depending on the issue) say they expect “no impact”. They expect Brexit will have the greatest negative impact on their hiring, with 27 per cent expecting a negative impact, six per cent expecting a positive impact and the remainder (66 per cent) “no impact”. The next greatest negative impact is for the cost and availability of finance.
Brexit hasn’t changed anything yet for over three-quarters of SMEs but twelve per cent have delayed hiring additional staff

Brexit has not changed anything yet for the majority of SMEs.

Just under a quarter of SMEs (23 per cent) reported that they have delayed a business decision as a result of the referendum result.

The business decision that has been delayed the most is the hiring of additional staff – twelve per cent of SMEs said they delayed hiring additional staff.

Source: YouGov survey. Excluding those that answered “don’t know”, responses totalled 1,033. The “don’t know” responses totalled 40 and are excluded from reported results.

Losing free movement of labour with the EU would be negative

Two thirds of SMEs don’t see losing the free movement of labour as having an impact on the availability, cost and their ability to retain both low and high skilled labour.

From the rest, a larger share see losing freedom of movement of labour as having a negative impact rather than a positive impact.


A third of SMEs expect the overall impact on the availability of high skilled labour to be negative (ranging from somewhat to significant). This is more than those who expect the overall impact to be negative on the availability of low skilled labour and the ability to retain, or the cost of, low or high skilled labour.

Impact of losing freedom of movement of labour on a number of labour-related issues for my business (percentage of SMEs)

Share of SMEs that said they delayed the following business decisions as a result of the UK’s decision to leave the EU (per cent)
International trade prospects
The majority of SMEs do not export

Less than half of all SMEs export (46 per cent).

The largest SMEs are most likely to be exporters. Around two-thirds of businesses that employ 50 to 249 people exported in the last twelve months. The smallest businesses are least likely to be exporters, with just one third selling goods or services abroad in the last year.


Manufacturing industry has greatest share of exporting SMEs

The manufacturing industry has the greatest share of exporting SMEs, with 81 per cent selling goods or services outside of the United Kingdom in the last twelve months.

Fifteen per cent of real estate and construction SMEs exported over the past year.

London contains the largest share of SMEs that export

London contains the largest share of SMEs that export (64 per cent). These businesses account for just over a fifth of all SMEs that export.

The majority of SMEs in the North East don’t export – around three-quarters only sell goods or services to customers in the United Kingdom.


E-commerce users twice as likely to export than their counterparts

On average, a larger proportion of SMEs that use e-commerce export (64 per cent) than those that do not (34 per cent).

Less than ten per cent of SMEs’ revenue on average comes from the European Union

On average, over 80 per cent of SMEs’ revenue is derived locally from the United Kingdom.

Proceeds from selling goods or services outside the European Union account for a marginally greater share of total revenue, at around ten per cent, than export revenue to the European Union (nine per cent).

For SMEs that export, foreign revenue i.e. export revenue, on average, accounts for 36 per cent of total revenue. Of this, 47 per cent comes from the European Union.


Export revenue set to increase in the coming year

Exporting SMEs expect their revenue from selling goods or services abroad to increase in the coming twelve months by 0.8 per cent. This is an improvement from the 0.4 per cent growth experienced in the past twelve months,

This improvement is driven by an acceleration in export revenue growth to countries outside the European Union, up to 1.2 per cent per annum over the next twelve months from 0.7 per cent. Meanwhile, growth in export revenue to the European Union is set to stay steady at 0.3 per cent over the next twelve months.

Export revenue through e-commerce

Export revenue from e-commerce set to rise

For those SMEs that export and use e-commerce, export revenue growth from e-commerce is set to rise to 0.8 per cent over the next twelve months, up from 0.4 per cent.

The acceleration in export revenue growth from e-commerce is marginally greater for retail SMEs, up to 1.0 per cent from 0.4 per cent.

Source: YouGov survey. Responses = 307 for all and 51 for retail, this includes only those that export and use e-commerce.

SMEs that employ six to nineteen workers expect greatest increase in export revenue from e-commerce in the coming twelve months

Analysing SMEs by number of employees we see that export revenue from e-commerce has been greatest for those which employ between six and nineteen workers over the past twelve months.

Looking ahead to the coming year, these same SMEs expect the greatest increase in export revenue from digital sales.

Source: YouGov survey. Responses vary between 55 and 97 depending on size of SME by employment, this includes only those that export and use e-commerce.
Export markets

Nine in ten of SMEs that export do so to the European Union

Almost a half of SMEs (46 per cent) export and 41 per cent of all SMEs sell goods or services to member states of the European Union (89 per cent of SMEs have customers in the European Union). The next most common country or region that British SMEs export to is the United States.

Export revenue growth expected from outside the European Union

Looking ahead to the next three years, SMEs expect export revenue to increase the most from exports to Asia excluding China and India.

They expect a greater increase in export revenue from the United States than both China and India. SMEs expect that, compared to export revenue over the past twelve months, export revenue from the European Union will fall by, on average, 0.4 per cent looking ahead to the next three years.

Export risks and trade negotiations

Impact of a number of factors on SMEs’ ability to grow their exports (Score: +100/-100)

Uncertainty caused by Brexit, red tape and volatile exchange rates holding exports back

SMEs report that among a range of possible issues the uncertainty caused by Brexit will have the greatest negative impact on their ability to grow their exports in the coming year.

Looking at only those that export, volatile exchange rates and uncertainty caused by Brexit are seen to have an equal negative impact on exporting SMEs’ ability to grow their exports with a score of -22.

(If all SMEs expected volatile exchange rates to have a “significant positive impact” on their ability to grow exports over the coming twelve months the score would be +100, if all of them thought volatile exchange rates would have a “significant negative impact” on their ability to grow exports the score would be -100.)

The quality of competitors’ products is seen to have the least negative impact on exporting SMEs’ ability to export with a score of -4.

Importance of prioritising United Kingdom trade negotiation with country or economic grouping to SMEs (index, score: 100/0)


Government should focus on striking a trade deal with the European Union

Looking ahead to post-Brexit Britain, SMEs believe that the government should prioritise negotiating a new trade deal with the European Union over any other region or country, with an index score of 59. This is consistent across all industries and by size of SME.

The score would be 100 if every SME thought it was “very important” that the United Kingdom prioritises negotiations for new trade relations with the European Union and zero if every SME thought this was “not at all important”. The scores allocated to each answer were: 100 for “very important”, 67 for “fairly important”, 33 for “not very important” and zero for “not at all important”.

Just over a third (36 per cent) of all SMEs think that it is “very important” that the United Kingdom prioritises negotiations for new trade relations with the European Union, 26 per cent thought it was “fairly important”, sixteen per cent thought it was “not very important” and 22 per cent thought it was “not at all important”.

Source:

- Title: Government should focus on striking a trade deal with the European Union
- Description: A bar chart showing the importance of prioritising United Kingdom trade negotiation with country or economic grouping to SMEs, with the EU as the highest priority, followed by European countries outside the EU, United States, and China.

Important details:
- The importance of prioritising United Kingdom trade negotiation with country or economic grouping to SMEs is measured on an index scale from 100 (very important) to 0 (not at all important).
- The index score for prioritising trade negotiations with the European Union is 59, indicating that SMEs believe it is important to prioritize trade deals with the EU.
- Over 36% of SMEs think it is very important to prioritize trade negotiations with the EU, with 26% thinking it is fairly important, 16% not very important, and 22% not at all important.

YouGov survey. Responses = 1,073.
E-commerce and the digital economy
Almost half of SMEs are using e-commerce

Almost half of SMEs (45 per cent) currently use e-commerce. The retail industry contains the biggest share of SMEs that use e-commerce (68 per cent) and SMEs that use e-commerce in the retail industry account for fifteen per cent of all e-commerce using SMEs.

E-commerce, or electronic commerce, is the trading or facilitation of trading in products or services using computer networks, such as the internet or online social networks. This includes completing transactions over email or website, mobile app, third party website or social media.

Bigger SMEs are marginally more likely to deploy e-commerce. Fifty four per cent of SMEs that employ more than 50 or more workers use e-commerce; the equivalent share for those that employ five or fewer workers, between six and nineteen workers and between twenty and 49 workers are 43 per cent, 42 per cent and 47 per cent respectively.

A higher share of exporters use e-commerce compared to non-exporting SMEs: 62 per cent and 31 per cent respectively.
Scottish SMEs have highest use of e-commerce

Scotland contains the biggest share of SMEs that use e-commerce, at 55 per cent. Meanwhile, only a third of SMEs in the North West use e-commerce – the smallest share of any region.


E-commerce most used in retail and hospitality and transport sectors

E-commerce use is most prevalent in the retail industry, with 68 per cent of SMEs using it. This compares to 21 per cent in the real estate and construction sectors.

There are only two industries in which at least half of SMEs utilise e-commerce to sell goods and services to customers; the retail industry and the hospitality and transport sectors.

SME Growth Tracker

E-commerce revenue

Share of total revenue that came from e-commerce in the past twelve months and that which it is expected to be in the coming twelve months for SMEs that use e-commerce overall and by number of employees (weighted average, percentage for twelve month period)

Source: YouGov survey. Responses = 481

Share of revenue coming from e-commerce expected to rise

On average, in the next twelve months, SMEs that use e-commerce expect total revenue from it to account for a greater share of total revenue than in the past twelve months, albeit only marginally. SMEs expect the share of revenue coming from e-commerce to increase from, on average, 46 per cent over the past twelve months to around 48 per cent in the coming twelve months.

Digital sales account for the largest share of revenue for the smallest of SMEs and the smallest SMEs expect e-commerce to account for the largest share of revenue looking ahead to the coming twelve months.

SMEs of all sizes that use e-commerce expect the share of revenue that comes from e-commerce to increase in the coming twelve months compared to what it was in the past twelve months.

Analysing SMEs by the growth in revenue they experienced over the past twelve months it is also true that they all expect e-commerce to account for a larger share of revenue in the coming twelve months as compared to the past twelve months.

SMEs in the retail industry see e-commerce accounting for a greater share of total revenue in the coming twelve months that the national average. On average, they expect revenue from e-commerce sales to account for 60 per cent of total revenue.
A smaller share of SMEs use an own company mobile app than fax

SMEs cited face-to-face, email and telephone as the most used channels when selling to customers.

Over 90 per cent of all SMEs currently use, or intend to, email to sell goods and services to their customers in the coming twelve months.

Few SMEs (eleven per cent) currently use an in-house mobile app to sell goods and services, less than the share that currently use fax (29 per cent). The popularity of mobile apps is increasing though and ten per cent of SMEs intend to start using an own company mobile app in the coming twelve months.

Source: YouGov survey. Excluding those that answered “don’t know”, responses vary between 1,020 and 1,057 depending on response. The “don’t know” responses vary between 16 and 51 and were excluded from reported results.

Email as important as face-to-face

The most important channels for SMEs to sell to customers remain face-to-face, email and telephone.

Meanwhile, the least important, although it is used more than some other channels for sales, is fax with a score of 43 in an index between zero and 100.

Source: YouGov survey. Excluding those that answered “don’t know”, responses vary between 1,067 and 1,073 depending on response. The “don’t know” responses vary between 1 and 6 and were excluded from reported results.