



What Impact has the Financial Crisis had on Small Businesses in the UK?

The importance of small businesses to the UK economy

There are some 4.7 million businesses in the UK of which over 99 per cent employ less than 50 people. Small businesses in the UK employ 13.7 million and generate over 50 per cent of the UK's annual GDP.¹ These small businesses are responsible for 84 per cent of all new jobs created², for 69 per cent of all apprenticeships³, and for 65 per cent of all commercial innovation.

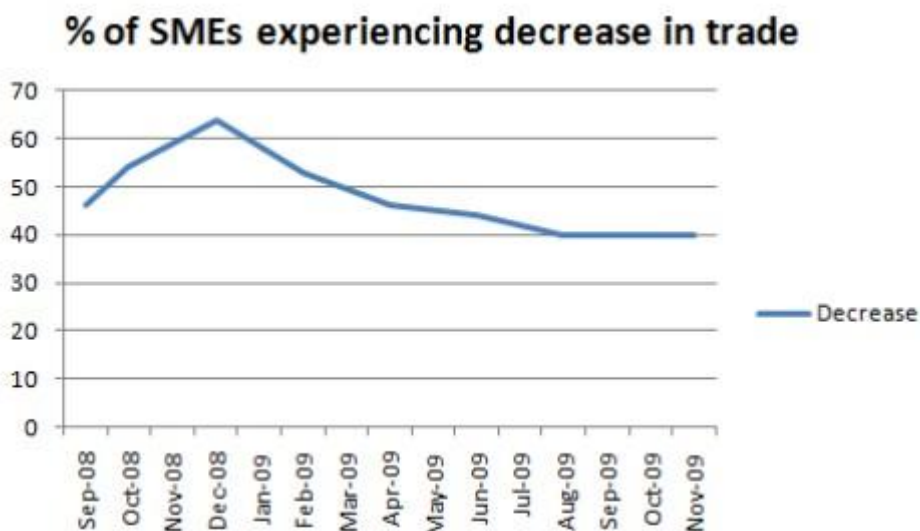
The financial crisis – The small business view

As a result of the financial crisis small businesses have found themselves at the eye of the perfect storm. Caught between contracting markets, late payments, increasing overheads and a sharp decline in access to finance, many viable small businesses have failed. According to the accountancy firm BDO Stoy-Haywood, an estimated 120 small businesses were closing daily at the height of the financial crisis.

The three most crucial impacts of the financial crisis have been: decrease in trade, an increase in late payment and an increased difficulty in accessing finance.

Decrease in trade

Perhaps the most obvious impact of the financial crisis was a decrease in trade. With less money in the economy and businesses and consumers tightening their belts, small businesses experienced a steep decline in trade up to the end of 2008, fortunately this decline slowly eased as we approached the end of 2009.



Small businesses experienced a steep decline in trade up to the end of last year, but this has slowly eased up to August 2009.⁴

¹ Business Innovation and Skills (October 2009)

² http://ec.europa.eu/enterprise/entrepreneurship/craft/sme_perf_review/doc_08/spr08_annual_report_.pdf (Nov 2009)

³ Labour Workforce Survey (2007)

⁴ The FSB polled thousands of its members over the duration of the economic downturn. This graph tracks small businesses' experiences of trade, late payment and access to credit between September 2008 and August 2009

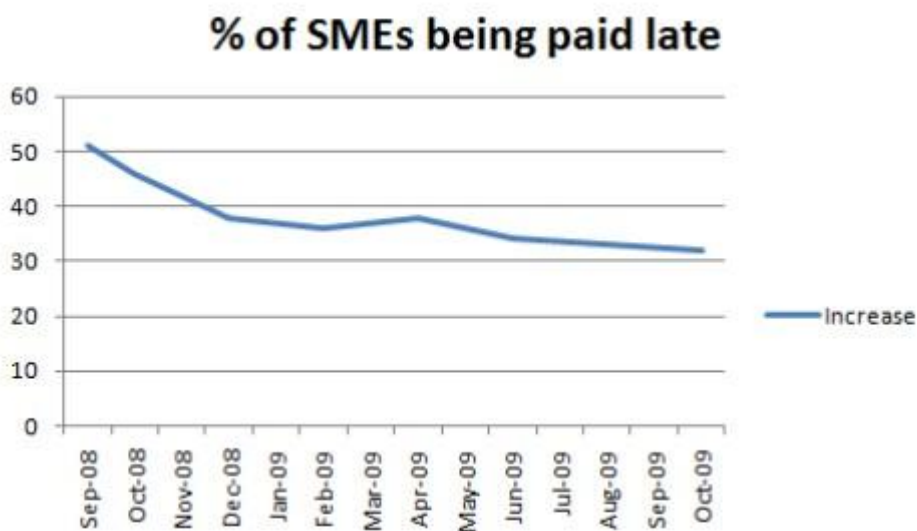


Late payment

Late payments have become an ever increasing problem for small businesses in the UK. A survey by Bacs⁵ suggested that there is £25.9 billion in outstanding payments to the SME sector. The research also showed that UK small businesses are waiting 41.5 days beyond agreed payment times for invoices to be settled, and the average figure owed is £38,000.

During the financial crisis late payments are leading to business closures and job losses. 36 per cent of small businesses said that they were being paid later in March 2009 than in January 2009 by private sector companies.⁶

The EU says that one in four businesses goes bust due to late payments, and throughout the EU 45,000 jobs are lost due to late invoice payments.⁷



Over half of small businesses were experiencing late payment last year; this has slowly eased although a third are still being paid late.⁸

Access to finance

For small businesses access to finance and cash flow remain the greatest challenges of this financial crisis. There are growing concerns from the business community that due to government bailouts, takeovers, capitalisations and recapitalisations, the choice of banking services for small businesses has diminished. FSB research in October 2009 showed that 27 per cent of SMEs have seen an increase in existing finance – choice and competition will put a downward pressure on price.

The Cruickshank report found that the four main banks – Barclays, HSBC, Lloyds TSB and the Royal Bank of Scotland (including National Westminster) – had an 83 per cent share of the SME banking market. This will have grown since the report was published due to Lloyds acquiring HBOS.

⁵ <http://www.bacs.co.uk/Bacs/Press/PressReleases/2009/Pages/LatePaymentsToSMEsLeap40PerCentTo26Billion03032009.aspx>

⁶ <http://www.fsb.org.uk/News.aspx?loc=pressroom&rec=5006>

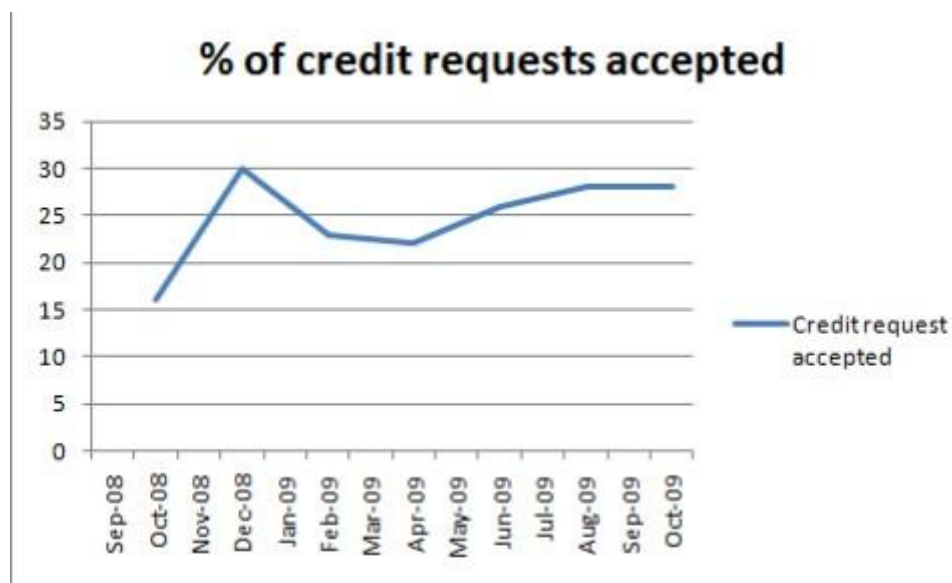
⁷ http://ec.europa.eu/news/business/090409_1_en.htm

⁸ The FSB polled thousands of its members over the duration of the economic downturn. This graph tracks small businesses' experiences of trade, late payment and access to credit between September 2008 and August 2009



Federation of Small Businesses

The UK's Leading Business Organisation



Small businesses spent the latter part of 2008 and early 2009 struggling to access loans and overdrafts. This has begun to improve, although now there is an issue on the cost of finance.⁹

Light at the end of the tunnel?

Evidence of recovery is far from conclusive and unemployment could still grow. In the last year, the nation's total net debt has risen to £870 billion, productivity has been slashed by five per cent and one in five under-25-year-olds is unemployed.¹⁰

The FSB-ICM *Voice of Small Businesses Annual Survey*¹¹ reveals that, despite difficulties, small businesses are already leading the way back to growth. The survey's findings show that around three in ten small businesses have seen profits (27 per cent) and sales volumes (30 per cent) grow in the last year.

More encouraging still, over half (53 per cent) of small businesses have continued to introduce new or improved products or services in the last 12 months. A similar proportion (51 per cent) intends to introduce new products and services in the next 12 months. Despite the financial crisis, the desire to innovate is undimmed in the small-business community and might even have been encouraged by the difficult economic conditions.

Although encouraging, these results should not be read as a signal to pull the plug on the economic stimulus just yet. In fact, these signs of recovery strengthen the argument for targeted measures to nurture this tentative growth.

A sustained recovery will require more finance than the banks are currently able or willing to give; it will require a sympathetic tax regime, a stable and predictable business environment, and targeted measures to encourage innovation and entrepreneurship.

The revival of the EU's ailing economies will need more than just a cut in regulation. Urgent action needs to be taken to help small businesses to survive, move forward and generate employment. Small businesses can help overcome the challenges faced in these uncertain times. Given the chance, small businesses can even turn these challenges into opportunities.

It is worth remembering that if 50 per cent of small businesses in the EU employed one extra person there would be an additional 10 million jobs.

⁹ The FSB polled thousands of its members over the duration of the economic downturn. This graph tracks small businesses' experiences of trade, late payment and access to credit between September 2008 and August 2009

¹⁰ Labour Market Statistics (November 2009)

¹¹ FSB-ICM *Voices of Small Business Annual Survey* (2009)