



Longitudinal Small Business Survey: SME employers (businesses with 1-249 employees) – UK, 2018

24 May 2019

Official Statistics

- There has been a sharp increase in the proportion of SME employers aiming to grow their sales in the next three years, from 62% in 2017 to 71% in 2018. This has been driven by the increased ambition of the smallest businesses (micro businesses employing between one and nine people).
- 34% of SME employers reported growth in sales during the year compared to the year before. While one-third of micro businesses reported growth, nearly half of medium-sized businesses did so.
- Similarly, looking at employment, medium-sized businesses were more likely to report growth than smaller businesses: 40% of medium-sized businesses said they had increased their number of employees, against 22% of SME employers overall.
- For the first time since the credit crunch we have seen a drop in the proportion of SME employers who have made a profit in the last financial year, from 82% in 2017 to 76% in 2018. Businesses in the health sector and 'other services' saw the greatest falls.
- 20% of SME employers exported goods or services (27% in Northern Ireland and 33% in London). Of these, 78% exported to the EU, and the next most popular international market was the USA, where 40% of exporters made sales. Of the non-exporters, only 5% planned to export at some point in the future.
- 23% of SME employers have done business with the public sector, a similar rate to that seen a couple of years ago, but there were big increases in this rate within the education sector (to 49%), transport (to 32%) and construction (to 31%). The arts and entertainment sector saw a big drop from 19% to 8%. The main public sector customers were local authorities and the NHS.
- SME employers continue to cite competition in the market as their greatest obstacles to success, with 45% of businesses mentioning this, followed by red tape or regulations (43%) and taxation (40%). Competition is a particularly high concern in the retail and wholesale sector, mentioned by 56%. EU exit is a major concern in Northern Ireland – 42% of SME employers mention it, which is much higher than in the other UK nations, though in London it was also mentioned by 41%.
- Since 2010 there has been a clear downward trend in SME employers seeking external finance, and this trend continued in 2018 with just 12% seeking this. The finance and real estate sector saw a fall from 16% seeking external finance in 2017 to just 10% in 2018.

- A quarter of SME employers were based at home in 2018. This varies strongly by business size, with 29% of micro businesses being home-based but only 1% of medium-sized businesses. Rural businesses were more likely to be home-based than urban businesses: 33% compared to 22%.
- The proportion of businesses that are women-led, and the proportion majority led by ethnic minority groups, have both been steady for the four years of this survey; these are 17% and 5% respectively. The 17% women-led figure compares to 43% that are men-led.

What you need to know about these statistics:

These statistics are based on a 2018 telephone survey of UK businesses with fewer than 250 employees. This report focusses on those businesses with at least one employee ('SME employers'), with a separate report on non-employers. There is some guidance at the back of the report on the **uncertainty** that arises because we are using a sample of the UK SME population rather than getting data from all of them.

We refer to **micro businesses** which have 1-9 employees; **small businesses** which have 10-49 employees; and **medium-sized businesses** which have 50-249 employees.

In this report when we refer to business size this is defined entirely in terms of number of employees. Levels of turnover or assets are not part of our definition, though there are other definitions of business size which include these.

'SMEs' means 'small and medium enterprises' – but this is always taken to include microbusinesses and non-employers too. The LSBS covers all SMEs, not just small businesses, though this report only covers SME employers.

This is a longitudinal survey as we try to re-interview businesses each year – about 2,700 businesses have taken part in all four years of the survey so far ('panellists'), and 4,500 of the businesses in 2018 had taken part in at least one previous survey. In addition, there were 10,500 businesses new to the survey ('top-ups').

Throughout the report, where figures sum to less than 100% when you think they should sum to 100% (because they cover all possibilities) the shortfall will be due to businesses saying they did not know the answer or refusing to answer.

Our respondents were each randomly assigned to one of three cohorts and some questions were only asked of one cohort (though most questions went to all three cohorts). The underlying data tables that accompany this report group cohort questions separately, so the report and charts make clear when they are covering cohort questions, to allow you to find the corresponding data table if required.

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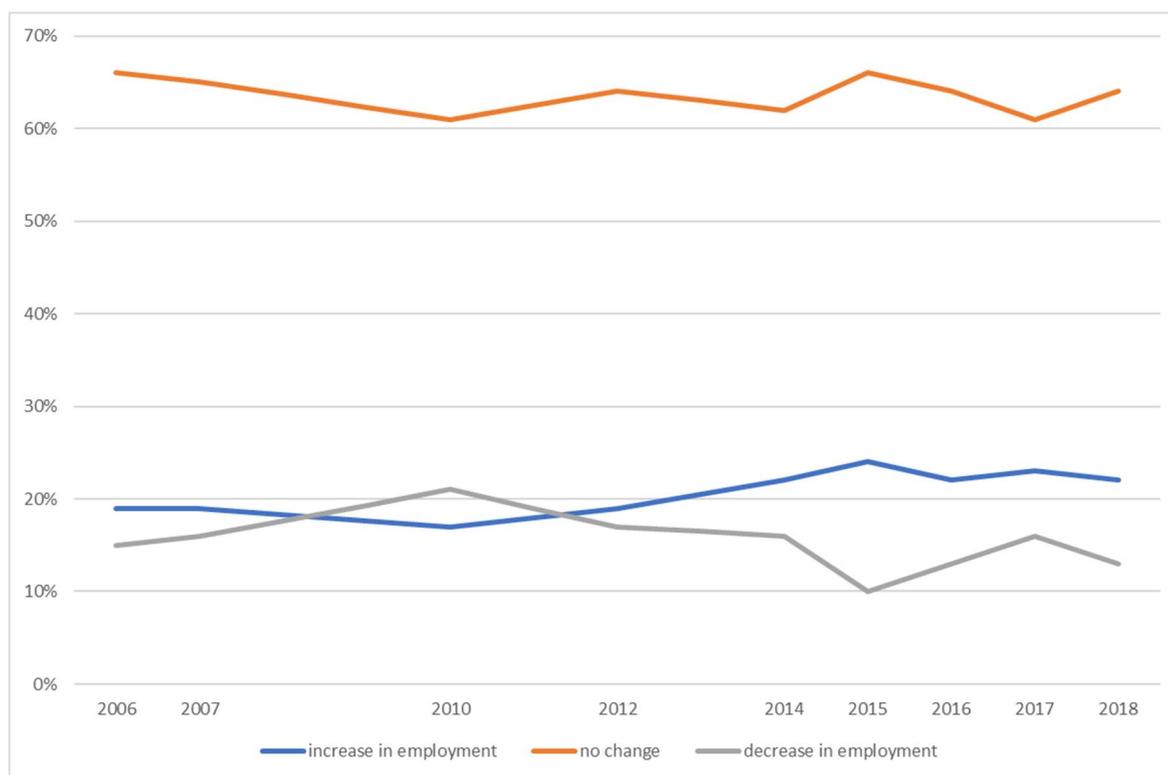
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1. Business performance

Changes in the levels of employment

1. About 22% of SME employers employed more people than a year previously. This compares with 64% who employed the same number and 13% who employed fewer people.

Figure 1.1: Change in employment compared to 12 months previously¹² (2006 to 2018; based on all SME employers trading for at least one year)



¹ In the survey reports for 2016 and 2017 these figures were presented for panellists only (businesses who had taken part each year from 2015), and changes in employment were based on changes to what businesses had reported each year. But in earlier years we do not have repeat respondents, so change in employment is based on the respondents trying to recall employment levels a year before. To make this time series consistent, the 2016 and 2017 figures are now based on 'top-up' respondents who had not taken part before, and the 2018 figure is based on all respondents because in 2018 we asked the 'perceived employment change' question to everyone who had been in business for at least a year.

² Throughout this report, where we have graphed results from before 2015 these are derived from previous Small Business Surveys which have asked the same question. Note that the methodology changed significantly in 2014 so comparisons need to be made with some care. Note that surveys before 2014 were not necessarily every year, so the horizontal axis only shows years where surveys actually took place.

2. Looking at micro businesses³, 20% had increased employee numbers, 12% had fewer employees, and 67% had approximately the same number.
3. For small businesses, 31% had more employees, 15% had fewer employees, and 54% the same. For medium-sized businesses, 40% had more employees, 13% had fewer employees, and 45% the same number.
4. By sector⁴, those in education (30%), administration and support (27%) and information and communication (26%) were the most likely to have increased employee numbers. Those in administration and support were also more likely than average to have decreased employee numbers (16%), as were those in accommodation and food service (15%).
5. In England, 22% increased employee numbers, 13% reduced employees, and 64% had the same number. In Scotland the percentages were 21%, 12% and 66% respectively. In Wales they were 20%, 14% and 65%; and in Northern Ireland they were 21%, 11% and 67%.
6. Compared with 2017, there was an overall three percentage point fall in the proportion with fewer employees. There was a three percentage point increase in SME employers with the same number of employees.
7. The only survey year when the percentage of SMEs that decreased employment was greater than the percentage that increased employment was 2010, two years after the start of the credit crunch.

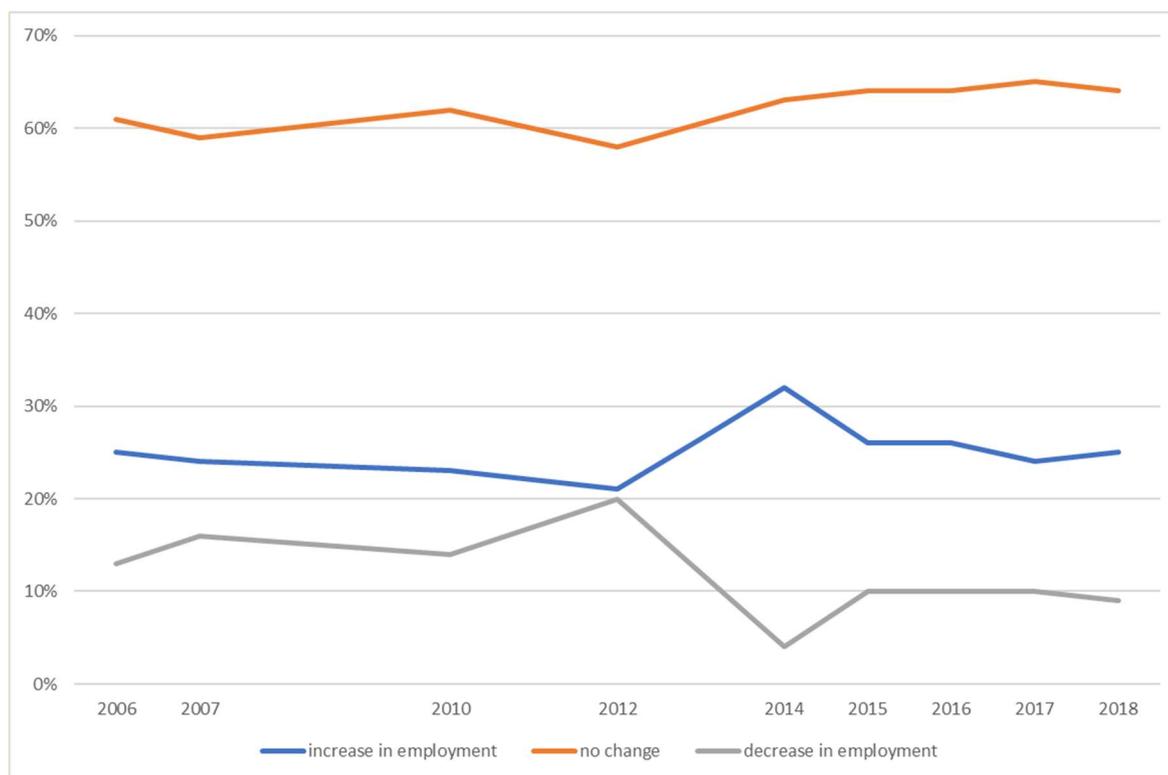
Expectations for employment growth

8. About 25% of SME employers expected to employ more people in a year's time, 64% expected to employ the same number and 9% expected to employ fewer people. These overall proportions were very similar to those seen in the surveys since 2015.
9. An estimated 23% of micro businesses expected to increase employment, compared to 35% of small businesses and 41% of medium-sized businesses. The proportions expecting to decrease employment were more consistent by business size.

³ Businesses with between one and nine employees are classified as 'micro' businesses, those with between 10 and 49 employees are classified as 'small' businesses, and those with between 50 and 249 employees are called 'medium-sized' businesses. These definitions exclude owners and partners but include casual or temporary staff.

⁴ See notes section for further descriptions of the sectors.

Figure 1.2: Expectations for employment in 12 months' time (2006 to 2018)



10. By sector, expectations for employment growth were most likely in administration and support (34%), health, information and communication (both 30%), manufacturing, and professional and scientific (both 29%) sectors. Those in information and communication and the primary sector (both 13%) were most likely to think employment levels would decline.

11. SME employers in Northern Ireland (26%) were more confident that employment numbers would increase. Similarly, in England and Wales 25% were more confident that employment numbers would increase and 23% of SME employers in Scotland.

Changes in levels of turnover

12. About 34% of SME employers reported growth in turnover (value of sales) since a year previously. This compares to 43% which had approximately the same turnover and 18% whose turnover had decreased. These percentages were similar to those seen since 2015.

13. An estimated 33% of micro businesses had increased their turnover, compared with 41% of small and 48% of medium-sized businesses

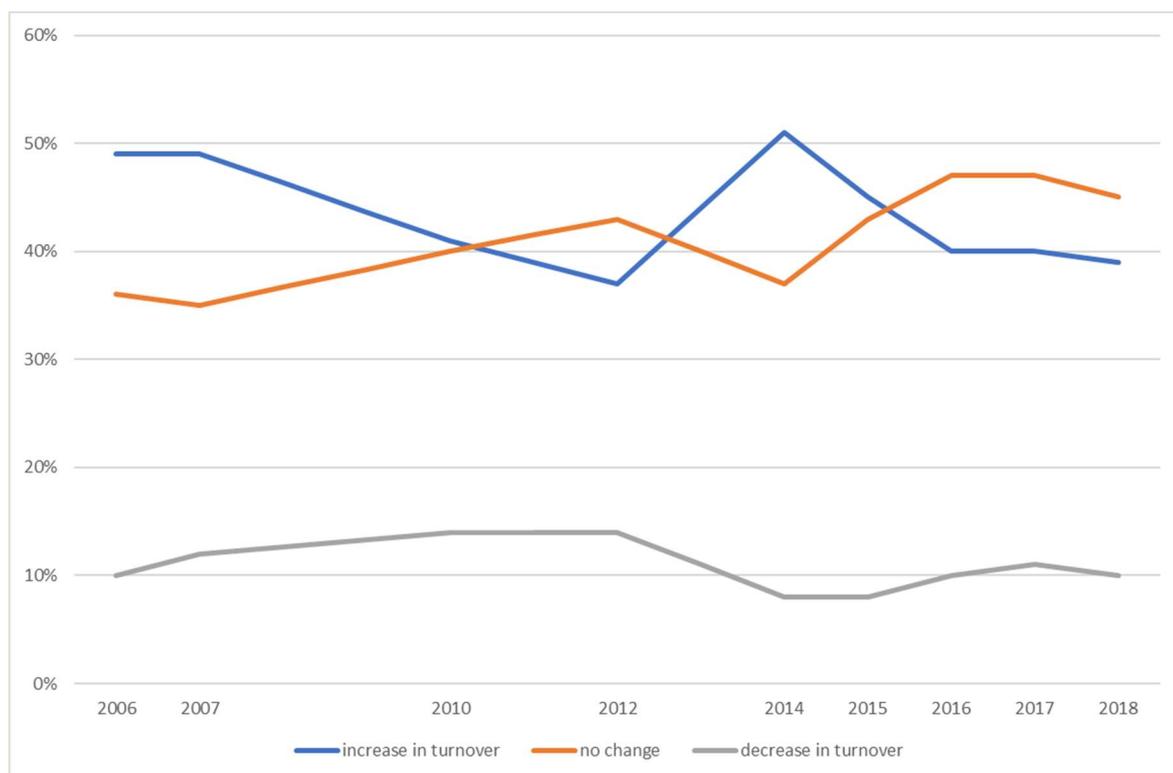
14. The sectors most likely to report turnover growth were finance and real estate (42%), manufacturing, and administration and support (both 41%). Accommodation and food service (22%) were most likely to report a fall.

15. In Northern Ireland 38% of SME employers reported turnover growth, similar to Wales (36%), Scotland and England (both 34%).

Expectations of turnover in 12 months' time

16. Around 39% of SME employers expected turnover to increase in the next 12 months, 45% thought it would remain roughly the same and 10% thought it would be lower. These proportions were very similar to those seen in 2016 and 2017.
17. An estimated 37% of micro businesses expected turnover to increase compared with 46% of small businesses and 55% of medium-sized businesses.
18. By sector, most likely to think that turnover would increase were those in manufacturing (46%) and administration and support (44%). Most likely to think it would decrease were those in the primary sector (15%) and the professional and scientific sector (14%).

Figure 1.3: SME employers' expectations of turnover in 12 months' time (2006 to 2018)



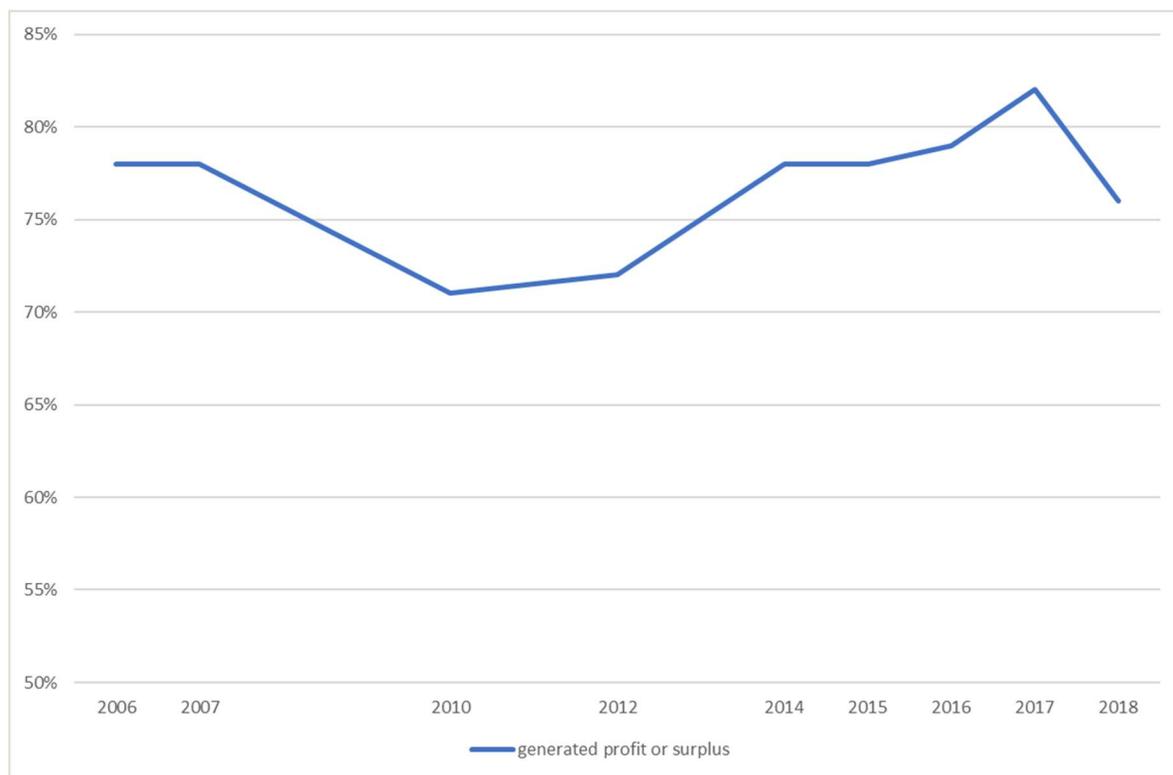
19. Around 40% of SME employers in Wales and Northern Ireland expected turnover to grow. This compared with 39% in England and 38% in Scotland.

Profit

20. An estimated 76% of SME employers generated a profit or surplus in their last financial year, six percentage points lower than in 2017. This was the first year on year decline since the 2010 survey which occurred in the aftermath of the credit crunch.

- 21. Size of business made little difference on whether a profit or surplus was made. Around 77% of micro businesses made a profit, compared with 74% of small businesses, and 78% of medium-sized businesses.
- 22. Those with charitable statuses were less likely to have generated a surplus (55%) than businesses without charitable statuses (78%).
- 23. The sectors most likely to have made a profit or surplus were the professional and scientific sector (84%), finance and real estate (82%), administration and support, and construction (both 80%).
- 24. We see 67% of SME employers in the accommodation and food service sector reported a profit or surplus. With a relatively high proportion of not-for-profit enterprises among their numbers, the other sectors least likely to have made a profit or surplus were health (57%), other services (62%), education (63%), and arts and entertainment (70%).

Figure 1.4: SME employers generating a profit or surplus in the last financial year (2006 to 2018; note vertical axis starts at 50%)



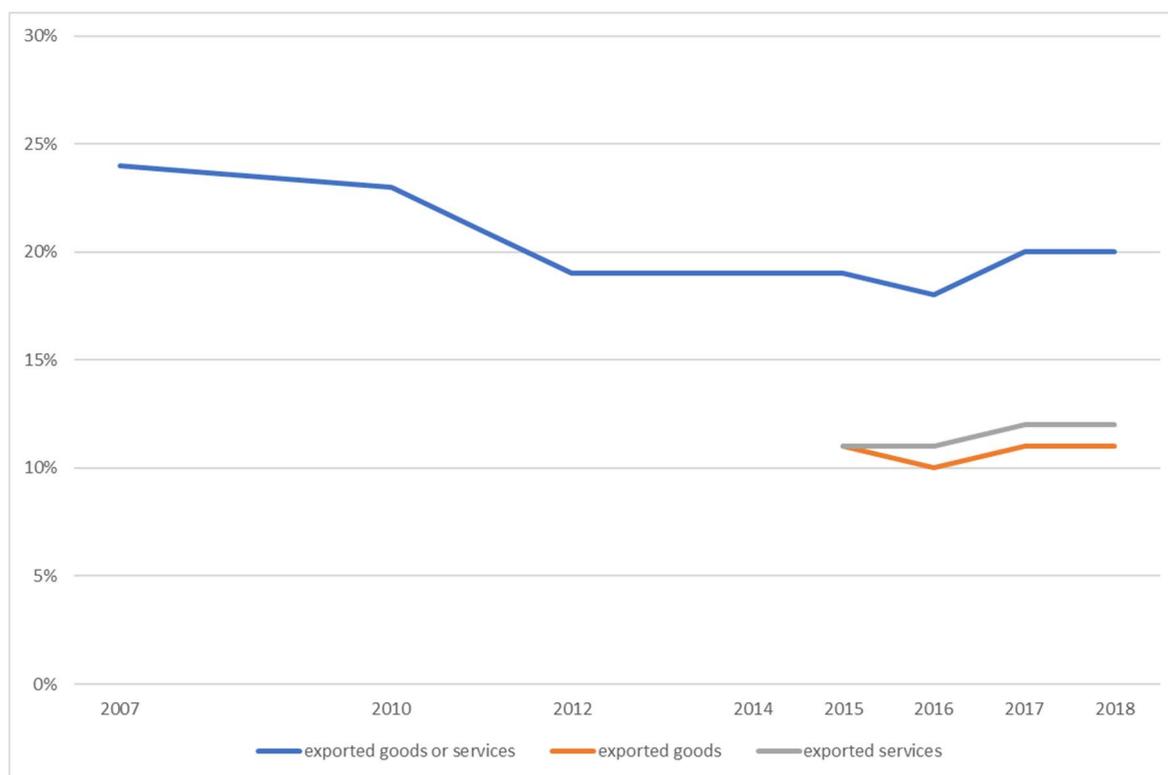
- 25. Compared with 2017, the largest declines in making a profit or surplus by sector were in other services (down 14 percentage points), health (down 13 percentage points), and administration and support (down 10 percentage points).
- 26. Around 77% of SME employers in England, Scotland and Northern Ireland made a profit or surplus. Wales was at a similar level, at 75%.

2. Exporting

Sales of goods or services outside the UK in the last year

27. Overall, 20% of SME employers exported goods or services in the last year, unchanged from 2017. Since 2012, the percentage of SME employers exporting has been stable.

Figure 2.1: Percentage of SME employers selling goods, services or licensed products outside the UK in the last 12 months (2007 to 2018)



28. Sectors with the lowest percentage of exporters were accommodation and food services (3%), health (4%), other services (4%) and construction (4%). Arts and entertainment (13%) and finance and real estate (11%) were also less likely than average to export.

29. Compared with 2017, the proportion of exporters in the other services sector fell by five percentage points. There were no other statistically significant trends in terms of exports by sector.

30. By employment size band, 18% of micros were exporters, compared with 25% of small businesses and 34% of medium-sized businesses. These proportions were consistent with the 2017 data.

31. The nation with the highest proportion of exporters was Northern Ireland (27% – down two percentage points on 2017). The proportion of exporters was lower than

average in Scotland (14% – the same as in 2017) and Wales (13% per cent – up three percentage points). Around 20% of businesses in England were exporters (the same as in 2017).

32. Within England, London had the highest proportion of exporters (31% – down two percentage points on 2017), as has been the case in all previous waves of this survey. Least likely to export were those in the North East (10%, down five percentage points).
33. Some 12% of SME employers exported services, while 11% exported goods, unchanged from 2017. Services exporters were most likely to be in the information and communication (34%), and professional and scientific (27%) sectors. Goods exporters were most likely to be in manufacturing (41%) and retail and wholesale sectors (28%).
34. For 62% of exporters, exports accounted for less than a quarter of turnover. Exports accounted for between a quarter and half of turnover among 13% of exporters, between half and three quarters of turnover for 8%, and over three quarters for a further 13%. (For this question, 4% did not know.)
35. Around 37% of exporters exported in their first year of trading, 24% began exporting between 1 and 5 years after they started, 8% did so between 6 to 10 years after starting, and 20% began exporting more than 10 years afterwards⁵.

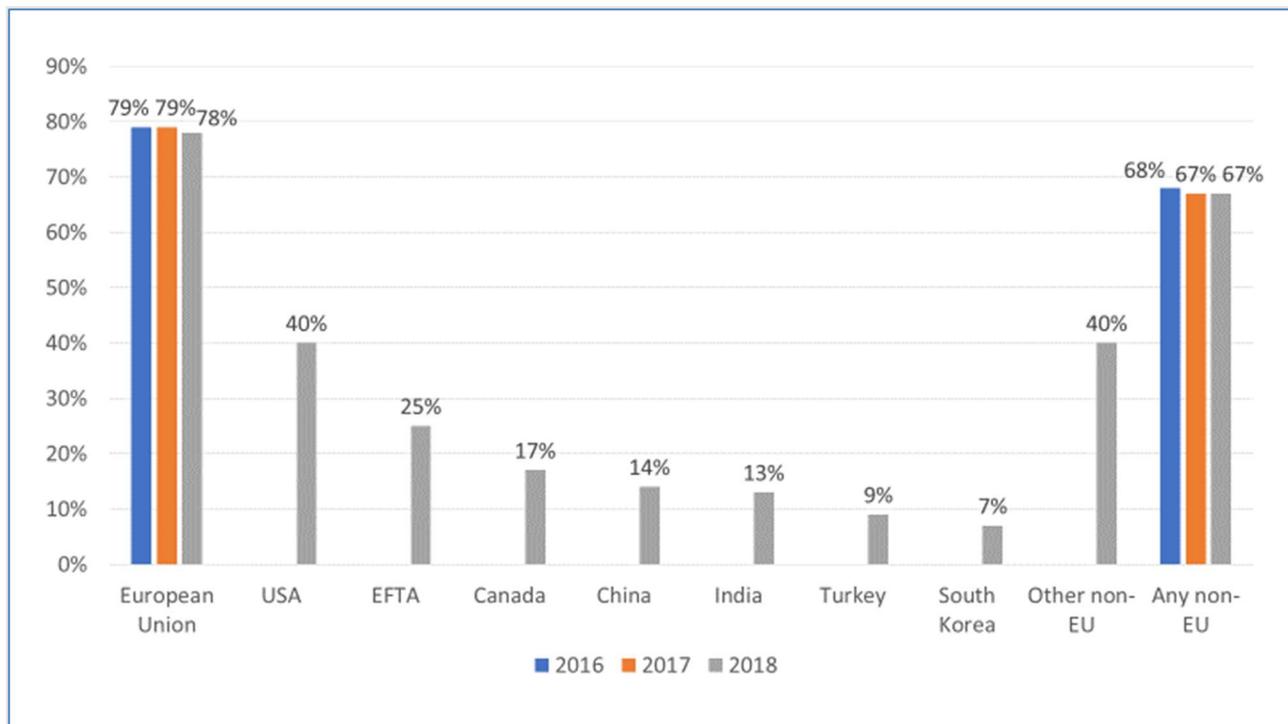
Destinations of exports

36. Of UK SME employers that exported in the last year, 78% exported to European Union countries and 67% exported outside the EU (including to EFTA countries⁶). These proportions are similar to those seen in 2016 and 2017.
37. In 2018 we asked for more detail on non-EU markets. The USA was the most common export market, with 40% of exporters selling goods or services there. Some 25% sold to EFTA countries, 17% to Canada, 14% to China, 13% to India, 9% to Turkey, 7% to South Korea and 40% to other non-EU countries.

⁵ For a further 13%, the number of years between starting trading and starting exporting could not be calculated, because years were not given for both age of business and year first started exporting.

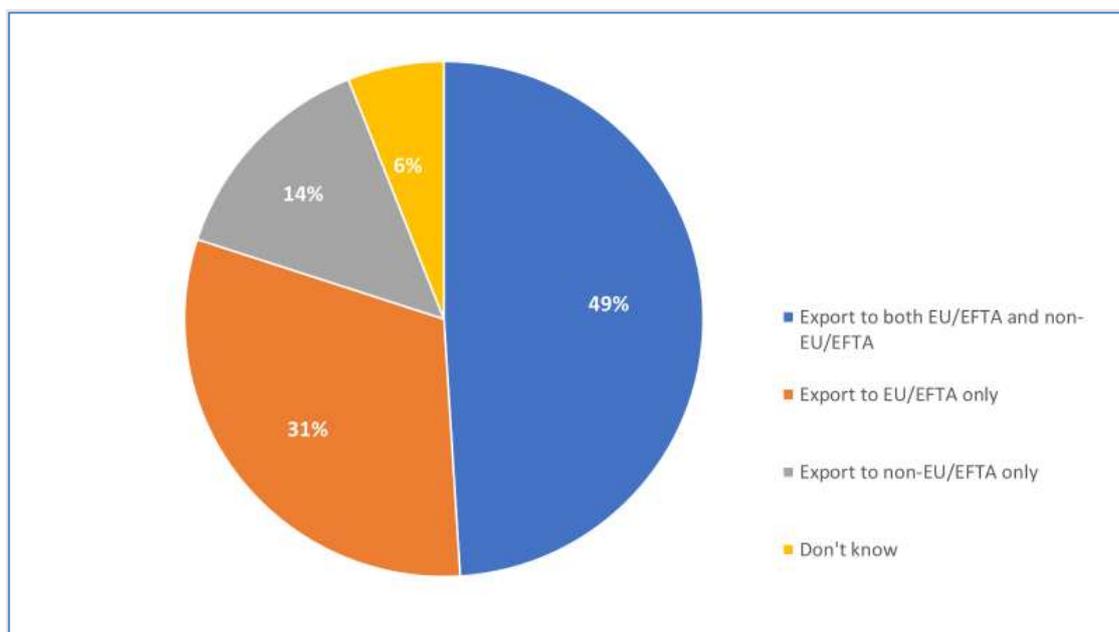
⁶ European Free Trade Association. This comprises the countries of Iceland, Liechtenstein, Norway and Switzerland.

Figure 2.2: Destination of exports in the last year (2016 to 2018; based on SME exporters only)



38. The large majority of those exporting to EFTA countries also exported to the EU. Overall, 80% of exporters sold to either EU or EFTA countries, and 63% to non-EU/EFTA countries. SME exporters in Northern Ireland were less likely than average to have exported to non-EU/EFTA countries (34%).

Figure 2.3: Destination of exports in the last year (2018; based on SME exporters only)

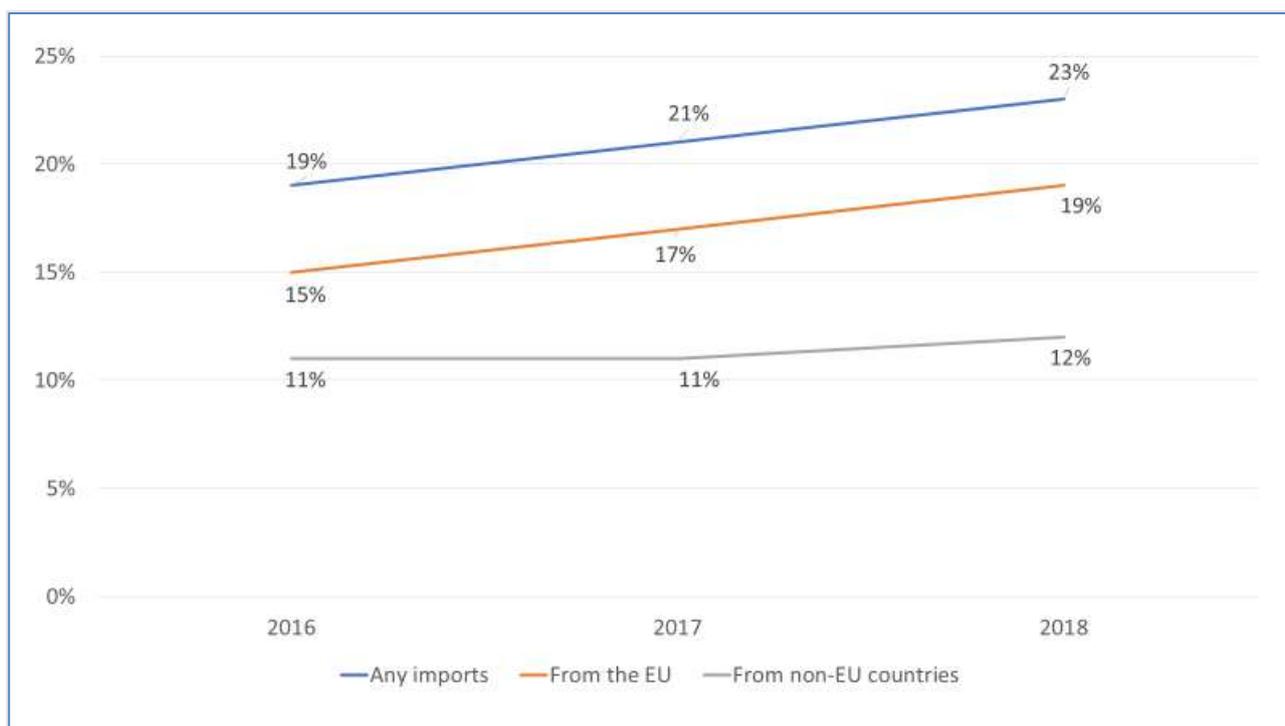


- 39. Almost half of SME exporters sold both to EU/EFTA and other countries in the last year. Around 31% sold only to EU/EFTA, 14% sold only to non-EU/EFTA countries. The remaining 6% were uncertain.
- 40. SME exporters in Northern Ireland were more likely than average to have exported only to the EU/EFTA (52%).
- 41. By sector, SMEs exporting to the EU/EFTA were more common in manufacturing (88%), and retail and wholesale (85%) sectors. Exports to non-EU countries were more likely than average for businesses in the manufacturing sector too (73%).

Goods or services imports from outside of the UK in the last 12 months

- 42. Around 23% of SME employers imported goods or services from outside the UK in the previous year. This proportion was two percentage points higher than in 2017, and four percentage points higher than in 2016.
- 43. Around 19% of SME employers imported from the EU (up two percentage points on 2017), with 12% importing from outside the EU (up one percentage point).

Figure 2.4: Sources of imports (2016 to 2018; based on all SME employers)



- 44. Around 21% of micro businesses imported (up two percentage points on 2017) compared with 28% of small businesses (up two percentage points) and 39% of medium-sized ones (down one percentage point).
- 45. Sectors most likely to have imported goods or services were retail and wholesale (64%), manufacturing (43%), and information and communication (34%).

46. Approximately 28% of SME employers in Northern Ireland imported from outside of the UK in the last year. This compares with 23% in England, 21% in Scotland and 19% in Wales.

47. Around 38% of SME importers imported from both EU and non-EU countries, 46% imported only from the EU, and 17% only from non-EU countries. The proportion of importers in Northern Ireland importing exclusively from the EU was higher than average (63%), presumably largely due to the Republic of Ireland.

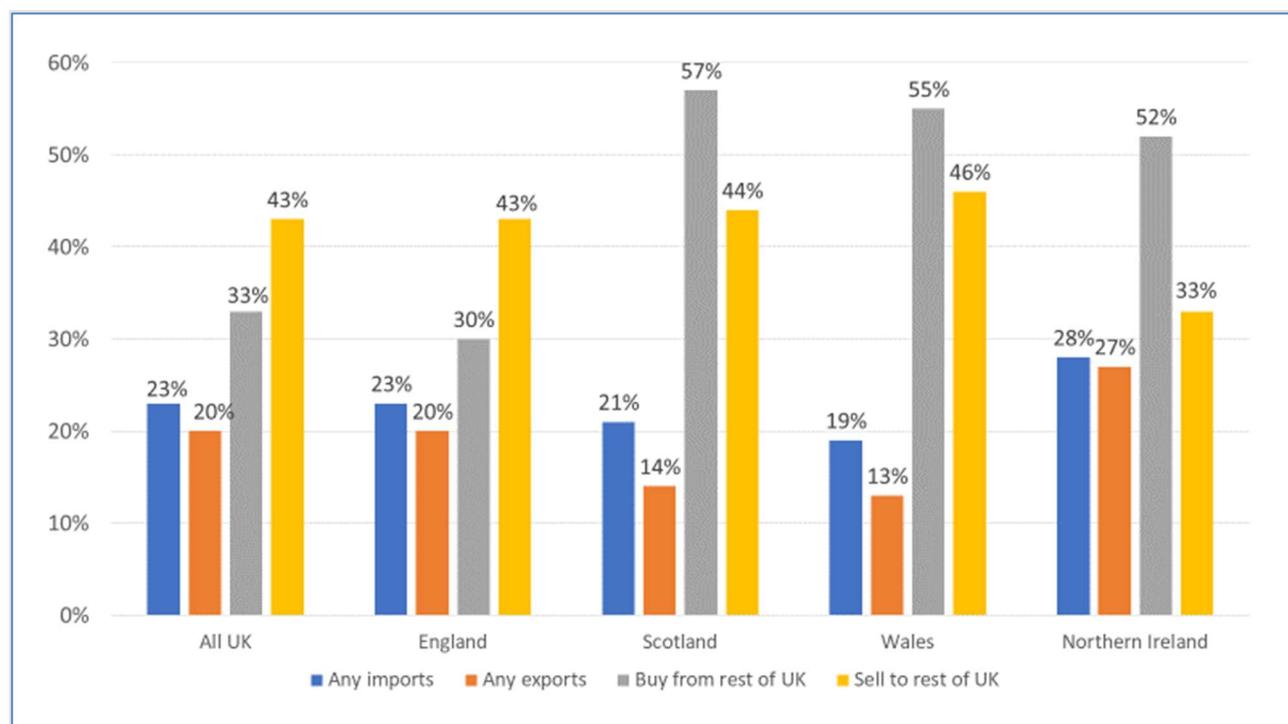
Goods or services bought from and sold to the rest of the UK

48. Some 33% of SME employers across the UK bought goods or services from other UK nations⁷. This proportion was higher in Scotland (57%), Wales (55%) and Northern Ireland (52%) than in England (30%). This proportion did not vary greatly across English regions.

49. Some 43% of SME employers across the UK sell to customers in other UK nations. In Northern Ireland this proportion was lower than average at 33%, compared with 43% in England, 44% in Scotland and 46% in Wales.

50. Imports, exports, and goods and services bought from or sold to the rest of the UK are summarised by nation below.

Figure 2.5: Imports and exports by SME employers, by UK nation (2018)



⁷ eg in England businesses were asked if they bought in good or services from Scotland, Wales and Northern Ireland. In Scotland this was England, Wales and Northern Ireland etc.

Plans to increase exports, start exporting and intermittent exporting

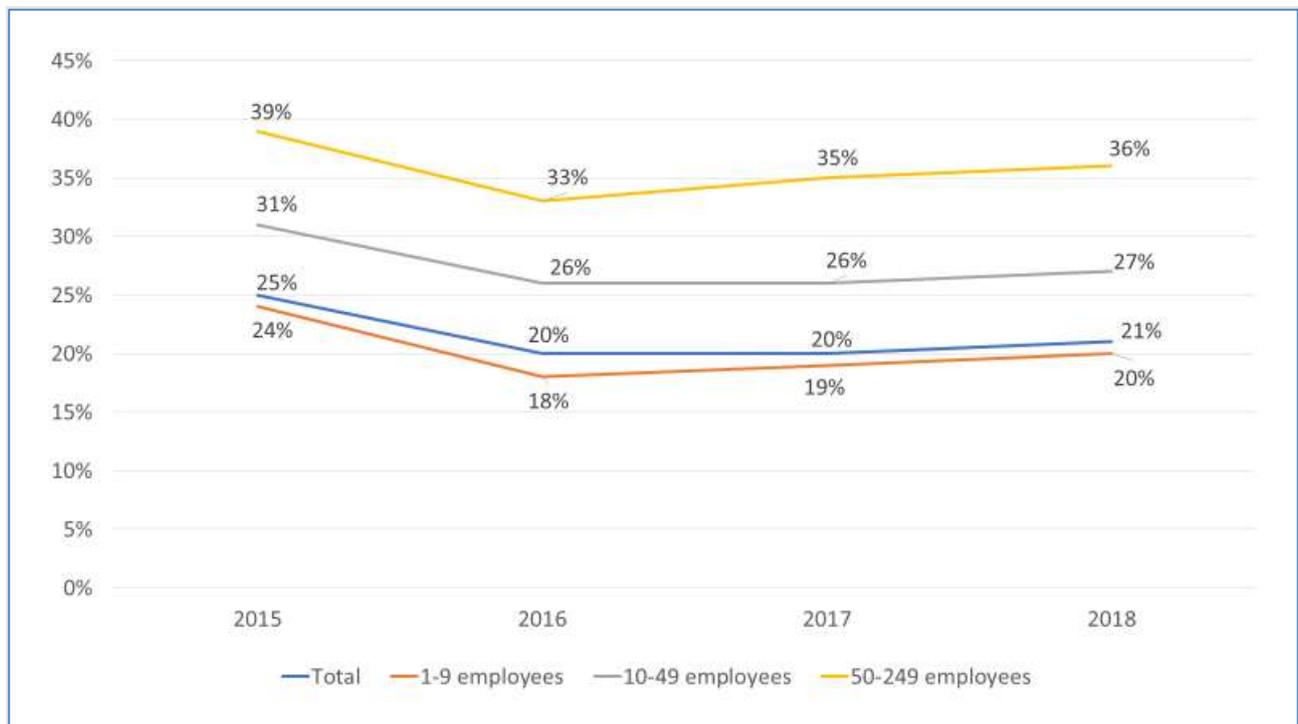
51. Around 56% of current exporters plan to increase their level of exports over the next few years. This was slightly lower (by two percentage points) than the figure in 2017. By sector, plans to increase levels of exports were highest in manufacturing (69% of those currently exporting), retail and wholesale (59%) and administrative and support sectors (59%).
52. Of SME employers not currently exporting, 5% plan to export in the future, up two percentage points on the corresponding 2017 figure. Non-exporters in the information and communication (14%, up six percentage points), and professional and scientific (9%, up two percentage points) sectors were most likely to be considering future exporting activity. Just 2% expect to start exporting in the next 12 months, 3% further in the future.
53. Of those that have been exporting for two years or longer, 72% have had overseas sales every year since starting to export. Around 24% have experienced some years without overseas sales.
54. Of those exporters that have had some years without overseas sales, the main reason for this, given by 47% of exporters, was that they only received occasional orders from overseas. 24% said they now preferred to concentrate on UK markets (up from 11% in 2017). Around 12% said they did not have time to pursue exporting (up from 6%). Exporting was not profitable for 6% of them (down from 7%).
55. Of the SME employers not currently exporting and not planning to do so, 17% said that they had goods or services suitable for export. This was one percentage point higher than the proportion in 2017.
56. Based on all SME employers, 63% said they had no goods or services that could be exported. Sectors most likely to have said this were accommodation and food services (93%), health (89%), other services (86%), and construction (82%).

3. Innovation activity

New or significantly improved processes in the last three years⁸

57. Around 21% of all SME employers had introduced new or significantly improved processes in the last three years. This was one percentage point more than in 2017, but three percentage points less than in 2015. An estimated 36% of medium-sized businesses had innovated in this way, compared with 27% of small businesses and 20% of micro businesses.

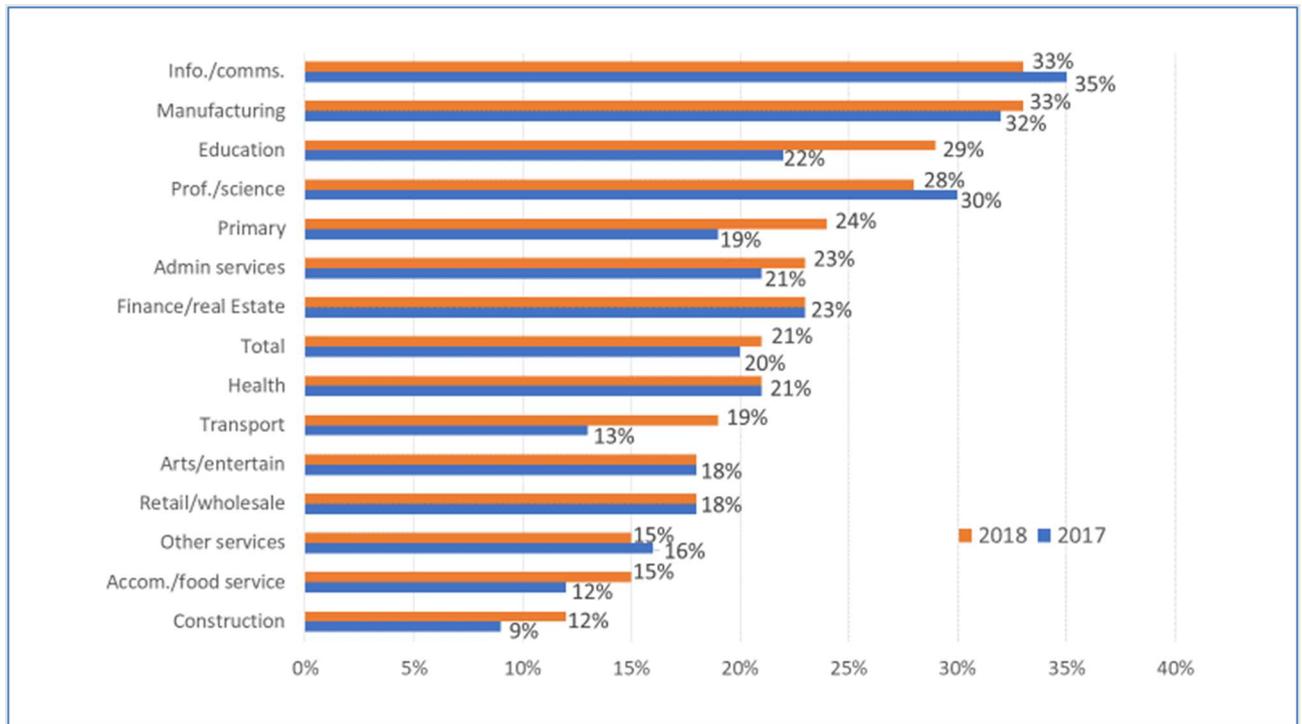
Figure 3.1: Proportion of SME employers which have introduced new or significantly improved processes in the previous three years, by number of employees (2015 to 2018)



58. Process innovation was higher in Wales (23%), England (22%) and Scotland (21%), than in Northern Ireland (17%).

⁸ Figures for the introduction of new or significantly improved goods or services are not shown for 2018. In 2015-17 there were separate questions about goods and services. In 2018 a single question was asked (*'Has your business introduced any new or significantly improved goods or services in the last three years? This excludes the resale of goods purchased from other businesses, or changes of a solely aesthetic nature'*). The drop in the proportion innovating goods or services between 2017 and 2018, and the profile of those doing so, suggests that most respondents interpreted this question in terms of goods only, not goods and services.

Figure 3.2: Proportion of SME employers which have introduced new or significantly processes, by sector (2017 and 2018)



59. Businesses in the information and communication sector, in manufacturing (both 33%), education (29%) and professional and scientific sectors (28%) were the most likely to have innovated processes. Those in construction (12%), accommodation and food service and other services (both 15%) were the least likely to have innovated processes.

Process innovations which were new to the industry

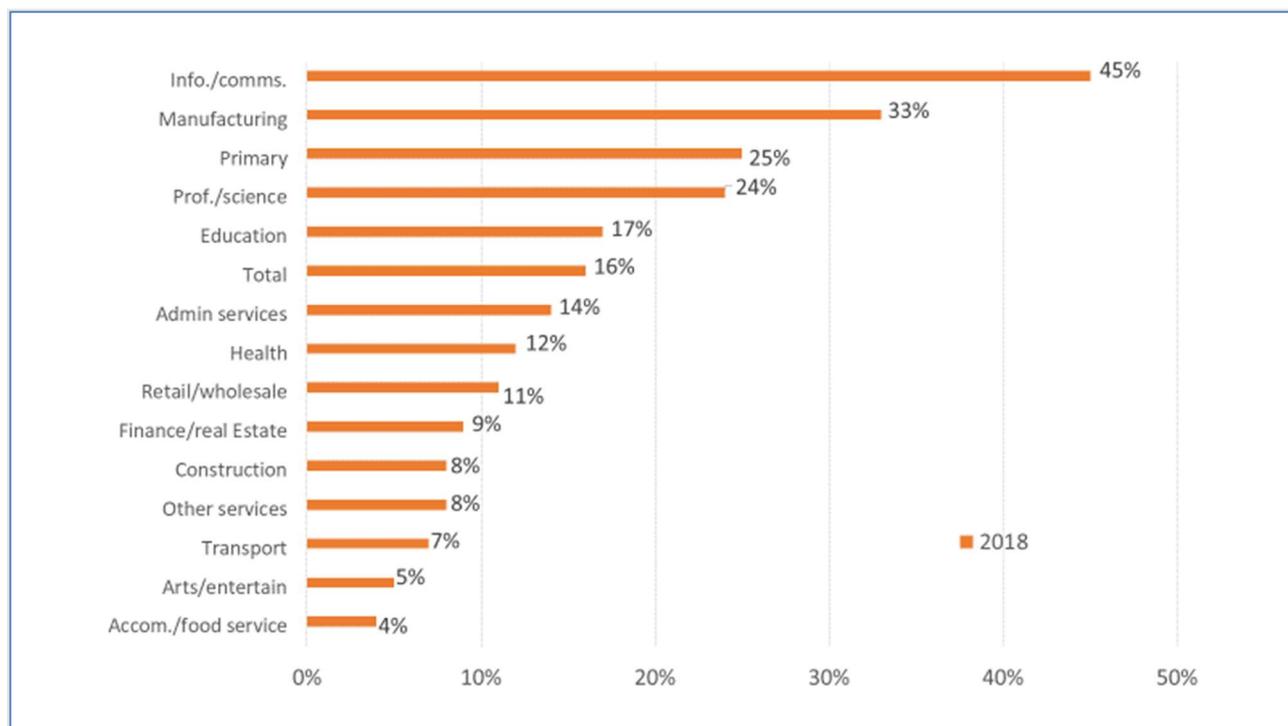
60. Of those that had innovated processes in the last three years, these were new to the industry for 22%, most of the others having processes that were just new to the business. These percentages did not vary significantly by size of business. Compared with 2017, this is a three percentage point increase.

61. Based again on those innovating new processes, these processes were most likely to be new to the industry in professional and scientific (33%) and information and communication sectors (29%).

Any investment in R&D in the last three years (cohort C only⁹)

62. An estimated 16% of SME employers had made any investment in research and development (R&D) in the previous three years. This was the case for 14% of micros, 23% of small businesses and 38% of medium-sized businesses.

Figure 3.3: Any investment in R&D in the last three years, by sector (2018)



63. An investment in R&D was most likely in the information and communication sector (45%). It was also more likely than average in the manufacturing (33%), primary (25%) and professional and scientific (24%) sectors.

64. Least likely to have invested in R&D were those in the accommodation and food service (4%) and arts and entertainment (5%) sectors.

65. Of those investing in R&D, the mean amount spent over the previous three years was £112,000¹⁰. Means are affected by some high values and can overstate what the investment in R&D was by the typical SME employer. This is better reflected by using a median.

⁹ In the 2018 survey, in order to accommodate demand for more questions in the questionnaire, respondents were divided at random into three 'cohorts'. Each cohort was asked their separate series of questions. At the analysis stage, separate weights were applied to each cohort, to make them representative of all SME employers. This question on R&D was new to 2018, hence no comparisons with previous years.

¹⁰ This figure is based on precise responses given to question J5a – some respondents who felt unable to provide a precise figure gave banded responses to question J5c instead, which are not part of these mean and median calculations

66. The median invested by businesses that had invested anything at all was £20,000. This was £10,000 for micro businesses, £50,000 for small businesses, and £160,000 for medium-sized businesses. Manufacturing SME employers, who tend to employ more people than SMEs in other sectors, were the biggest investors with a median of £50,000, while the construction sector saw a median total investment of just £2,000 over the three years (the construction figure is based on a small number of respondents so is not very robust).
67. Although the smaller businesses are less likely to invest in R&D, those that do, actually invest a relatively larger proportion of their turnover than larger SMEs. Our data suggest that the average SME employer that invests anything in R&D in the previous three years spends 2.1% of its annual turnover on R&D¹¹. This proportion was 2.8% for both micros and small businesses, and just 1.1% for medium-sized businesses.

Applications for R&D tax credits in the last three years (cohort C only)

68. Around 4% of SME employers had applied for R&D tax credits in the previous three years. This proportion was higher for medium-sized businesses (19%), than for small (10%) and micro businesses (3%). By sector, applications were most likely in manufacturing and the information and communication sector (both 16%), and the professional and scientific sector (8%).
69. The percentage applying for R&D tax credits was the same as in 2017.
70. Around 74% of those that applied for R&D tax credits were successful in their application.
71. An estimated 20% of those that invested in R&D in the previous three years received R&D tax credits. A further 3% applied for them but were unsuccessful.

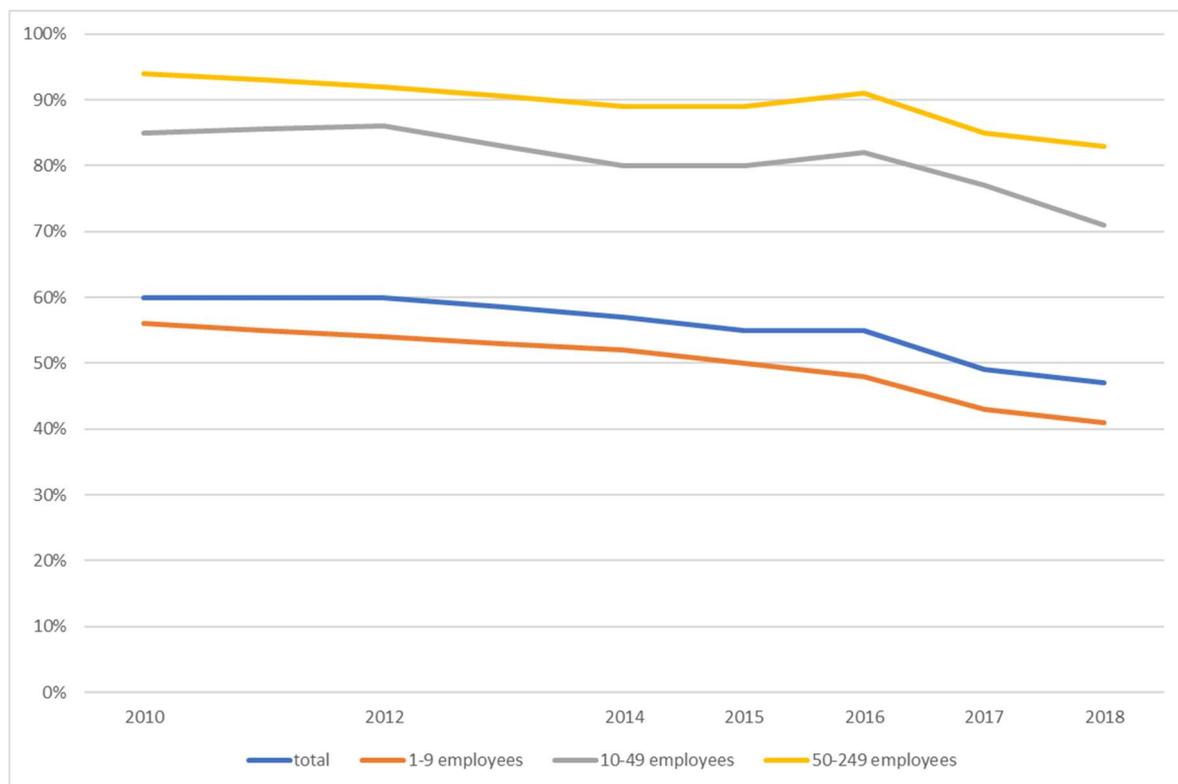
¹¹ We have divided the R&D spend for the last three years by three to compare it to the reported turnover in the last year, and only used businesses with precise figures reported for both R&D and turnover. This analysis could be refined in a number of ways.

4. Training

Arrangement or funding of staff training and development

72. Of SME employers surveyed, 47% had arranged or funded training in the previous year. This was two percentage points lower than in 2017, and the lowest proportion since the surveys began in 2010.

Figure 4.1: Proportion of SMEs that arranged or funded training or development for staff in the previous year, by number of employees (2010 to 2018)

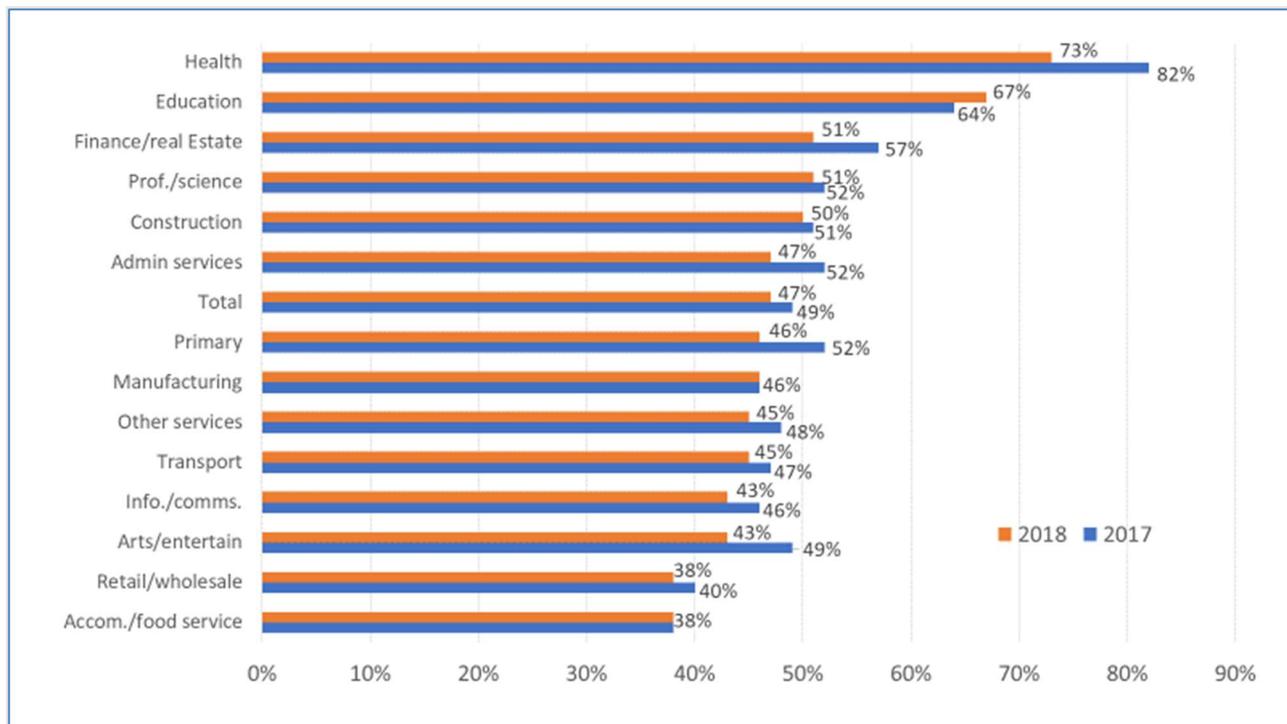


73. Provision of any training is more common for larger organisations. In 2017, 83% of medium-sized businesses provided training, compared with 71% of small businesses and 41% of micro businesses.

74. The decline in the proportion providing training since 2017 has occurred for all size bands, but particularly for small businesses (down six percentage points).

75. An estimated 12% of SME employers offered formal ‘off-the-job’ training only, 11% offered informal ‘on-the-job’ training and 24% provided both. These proportions were all slightly lower than in 2017.

Figure 4.2: Proportion of SMEs that arranged or funded training or development for staff in the year, by sector (2017 and 2018)



76. By sector, SME employers most likely to have provided any training were those in health (73%) and education (67%). The proportion of SME employers in the health sector providing training fell by nine percentage points since 2017.

77. SME employers least likely to have provided training were those in accommodation and food service, and retail and wholesale (both 38%).

78. Training was provided by 50% of SME employers in Wales, 48% in Scotland, 46% in England and 44% in Northern Ireland.

79. SME employers that had the same number of employees as the previous year were the least likely to provide training. Of these, 41% provided any training, compared to 58% of those that had increased their number of employees and 52% of those that had fewer employees than the previous year.

Who received training?

80. Of SME employers surveyed, 32% provided training for managers, which was the same proportion as in 2017. The proportion providing training for non-managers only was 15%, which was two percentage points lower than in 2017.

81. Training for managers was provided by 27% of micro businesses, 52% of small businesses and 68% of medium-sized businesses.

82. Managerial training was provided by 50% of those with six or more working owners and directors, 37% of those with three to five owner and directors, 32% of those with two owner and directors, and 26% of those with a single owner or director.

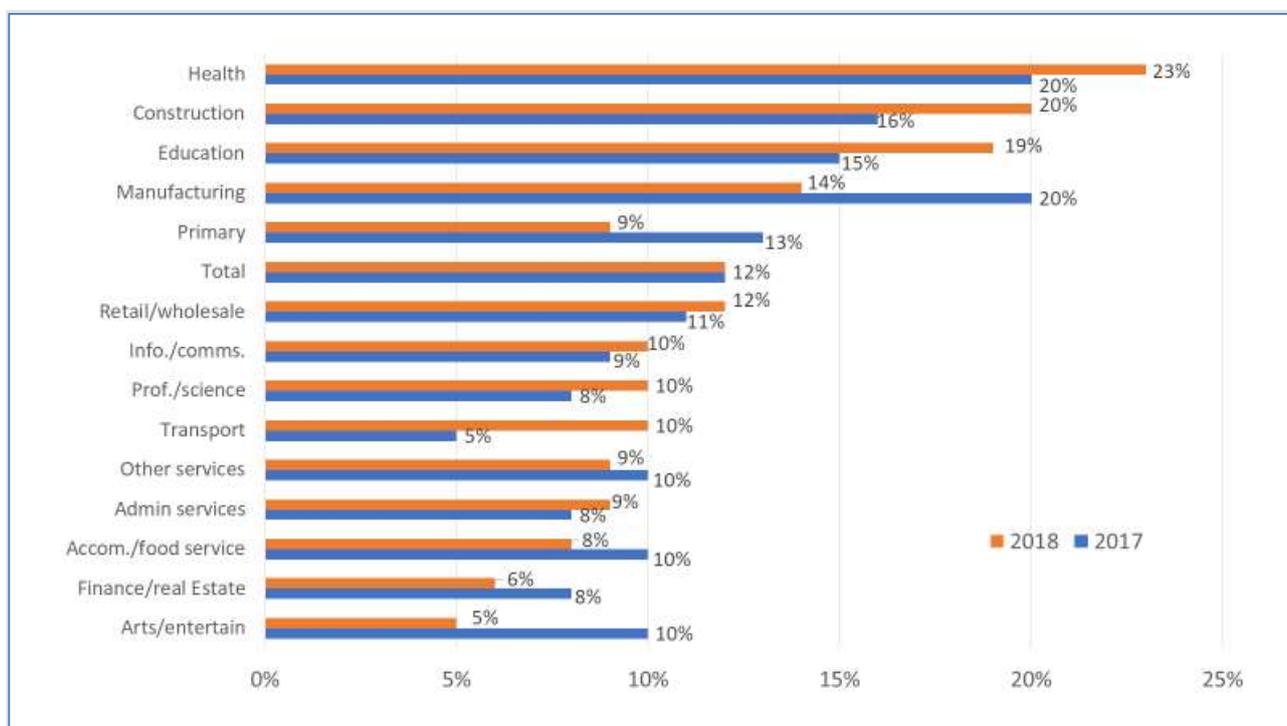
83. By sector, managerial training was most likely in health (63%, down four percentage points on 2017), education (57%, up 21 percentage points), professional and scientific (38%, same as 2017) and finance and real estate (37%, down eight percentage points).

84. Of those SME employers that offered management training, this was most likely to be for technical, practical or job-specific skills. Health and safety training was provided by 65%, leadership and management skills by 38%, IT skills by 35%, team working skills by 34% and financial management was provided by 21%. These proportions were similar to those seen in 2017.

Apprenticeship starts in the last year (cohort A only)

85. An estimated 12% of SME employers had formal apprenticeships start in the previous year, the same as in 2017 and 2016. The proportions for micro, small and medium sized businesses were 9%, 25% and 36%, respectively. These questions were asked of cohort A only.

Figure 4.3: Proportion of SME employers with at least one formal apprenticeship starting in the last year, by sector (2017 and 2018; cohort A only)



86. By sector, apprenticeships were most likely to have been started in health (23%), construction (20%) and education (19%). Apprenticeship starts were least likely in arts and entertainment (5%), finance and real estate (6%) and accommodation and food services (8%).

87. Compared with the 2017 survey, apprenticeship starts in manufacturing declined by six percentage points.

88. In Wales 15% of SME employers had apprenticeships start, compared with 12% in England, 10% in Northern Ireland and 8% in Scotland. In Northern Ireland there was a seven percentage point decline in apprenticeship starts compared with 2017.

89. Of those with apprenticeship starts, 66% had just one apprentice, 22% had two, 6% had three, 3% had four and 3% had five or more.

Apprenticeship starts in the next year (cohort A only)

90. An estimated 13% of SME employers intended to have apprenticeships start in the next 12 months. This proportion was 10% for micros, 23% for small businesses and 38% for medium-sized businesses. These proportions are similar to those describing SME employers that had had apprenticeships start in the previous 12 months. These questions were only asked of cohort A.

91. By sector, the intention to have future apprenticeships start was greatest among those in health (21%), manufacturing (20%) and construction (17%). Only 5% in the education sector intended to have any apprenticeships start. Since the education sector was among the sectors most likely to have apprenticeships start in the previous year, this may indicate that the same businesses do not consistently take on apprentices every year.

92. In Northern Ireland 18% of SME employers intended to have apprenticeships start, compared with 12% in each of England, Scotland and Wales.

93. Of those SME employers that had apprenticeships start in the previous year, 41% intended to have apprenticeships start in the forthcoming year, compared with 9% of those that did not have any start in the previous year.

94. SME employers that did not intend to have any apprenticeships start were asked why this was. Multiple answers could be given to this question:

- 51% did not need any more workers
- 13% said it was too time consuming or costly to train apprentices
- 13% said that apprentices were unsuitable for the nature of their business
- 5% said they needed older or more qualified workers
- 5% could not afford to pay them
- 3% did not know how to get apprentices
- 3% thought it would involve too much paperwork

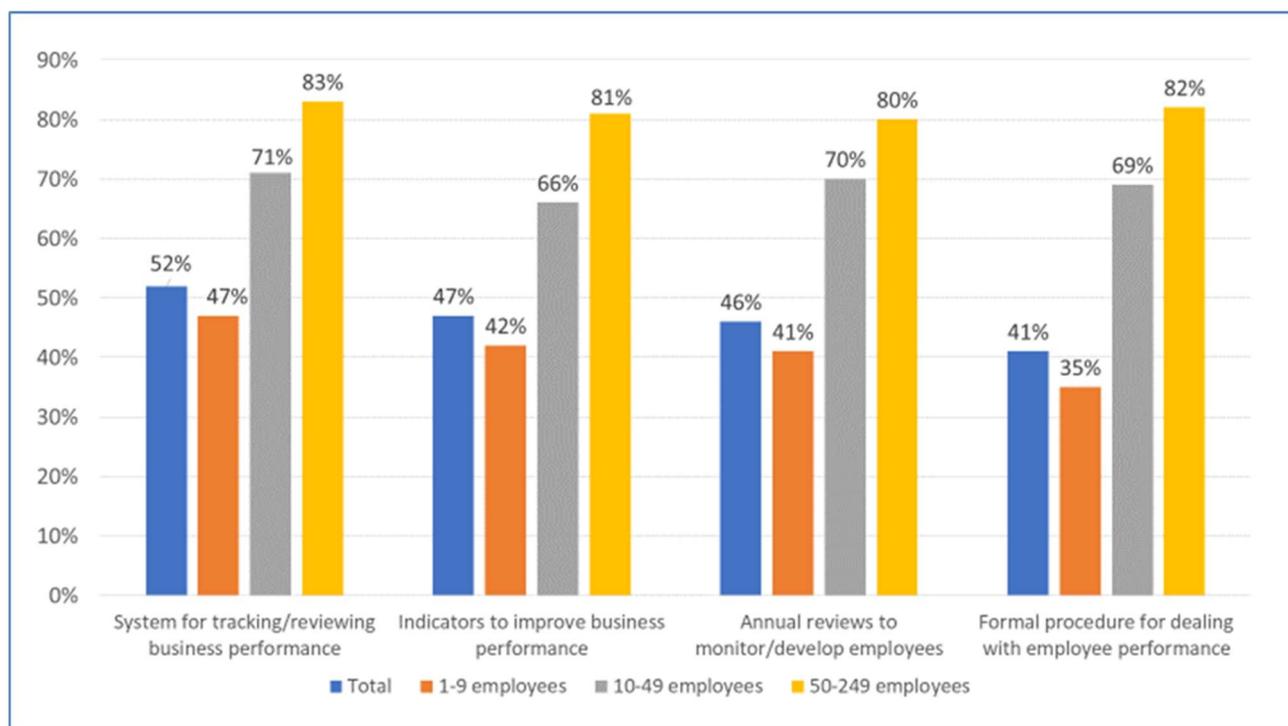
- 3% said there was no point as their business was closing
- 2% had had previous bad experiences with apprenticeships

5. Business practices

Business and management practices (cohort C only)

95. For the first time, the survey asked whether businesses had specific business and management practices. The question was only asked of cohort C.

Figure 5.1: Business and management practices, by number of employees (2018; cohort C only)



96. An estimated 52% of SME employers used a *system for tracking and reviewing business performance*. This was used by 47% of micros, 71% of small businesses and 83% of medium-sized businesses respectively. This was most commonly used in education (81%), health (74%) and finance and real estate (66%). It was least likely to be used in construction (36%) and arts and entertainment (38%).

97. An estimated 47% of SME employers used *indicators to improve business performance*. These were used by 42% of micros, 66% of small businesses and 81% of medium-sized businesses respectively. These were most commonly used in education (78%), health (70%) and finance and real estate (59%). They were least likely to occur in arts and entertainment (31%) and construction (32%).

98. An estimated 46% of SME employers used *annual reviews to monitor and develop employees*. This was used by 41% of micro businesses, 70% of small businesses and 80% of medium-sized businesses respectively. This was most common in health (78%), education (73%) and finance and real estate (71%). It was least

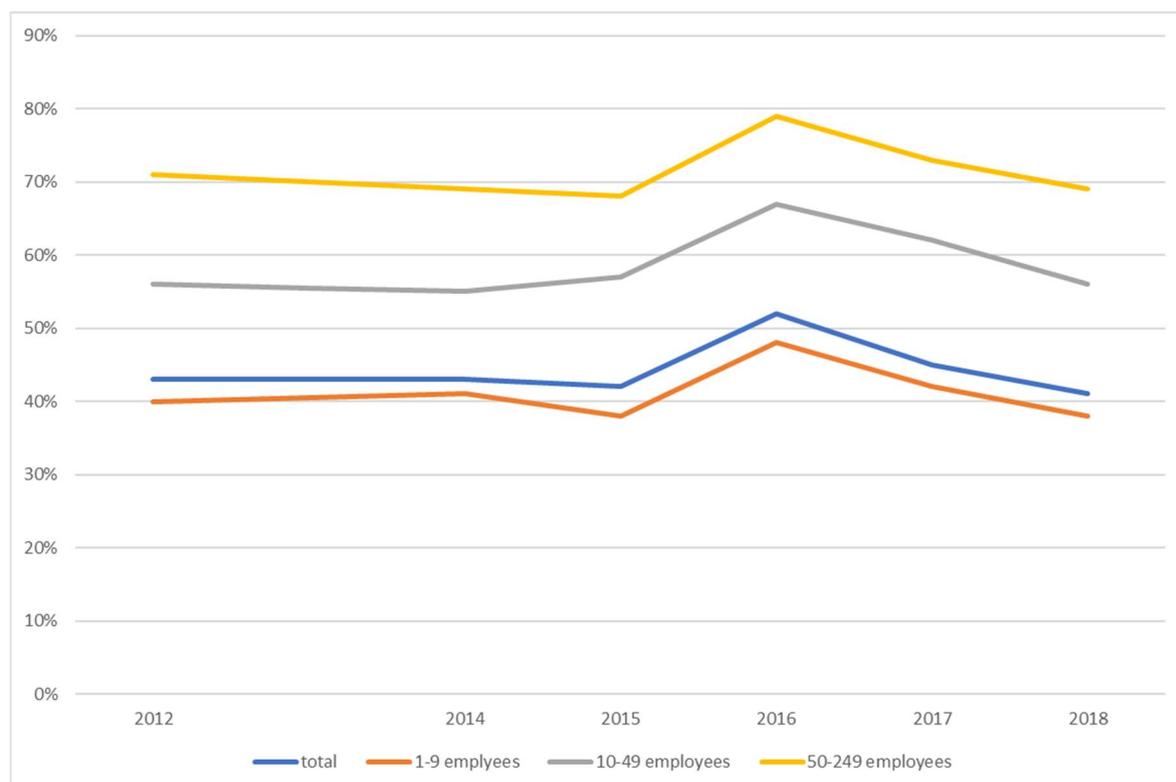
likely to be used in construction (34%) and accommodation and food service (38%).

99. An estimated 41% of SME employers had a *formal procedure for dealing with employee performance*. This was used by 35% of micro businesses, 69% of small businesses and 82% of medium-sized businesses respectively. This was most common in education (77%), health (76%) and finance and real estate (58%). It was least likely to be used in construction (25%) and wholesale and retail (34%).

Business plans

100. An estimated 41% of SME employers had a business plan. Looking at micro businesses, 38% had one, compared with 56% of small businesses and 69% of medium-sized ones.

Figure 5.2: SME employers that have a business plan, by number of employees (2012 to 2018)



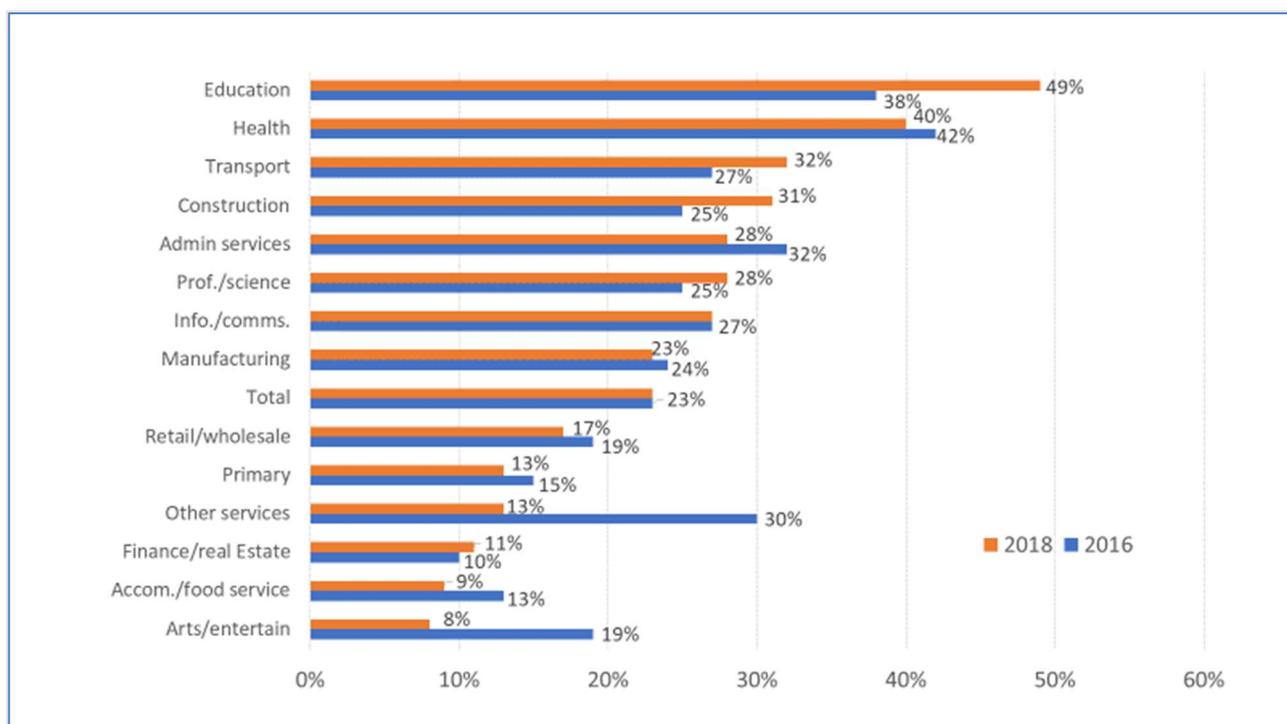
101. Compared with 2017, there was a four percentage point decline in the proportion of SME employers with a business plan in 2018 and an 11 percentage point drop since the 2016 survey. The proportion with a plan in 2018 was approximately the same as that in 2015 and earlier surveys.
102. By sector, business plans were most common in health (69%), education (62%), finance and real estate, and arts and entertainment (both 52%). These were least likely to be used in construction (31%), transport (32%) and wholesale and retail (34%).

- 103. An estimated 45% of SME employers in Scotland had a business plan, compared with 41% in both England and Wales, and 40% in Northern Ireland.
- 104. Of those SME employers with a business plan, 80% keep it up to date. This compares with 77% in 2017.

Working for the public sector (cohort B only)

- 105. An estimated 10% of SME employers expressed an interest in, or bid for, any contract advertised by the public sector. This was the case for 8% of micro businesses, 16% of small businesses and 20% of medium-sized ones. Only cohort B was asked questions about working for the public sector.
- 106. This overall proportion was the same as in 2016, when these questions were last used in this survey.
- 107. Of those that expressed an interest, 75% went on to bid for the contract, a similar proportion to that seen in 2016.

Figure 5.3: SME employers that worked for the public sector in the last year, by sector (2016 and 2018; cohort B only)



- 108. The proportion of SME employers that had done any work for the public sector in the previous 12 months was 23%, the same as the proportion seen in 2016. This was the case for 21% of micro businesses, 29% of small businesses and 32% of medium-sized ones.
- 109. By sector, those in education (49%), health (40%), transport (32%) and construction (31%) were most likely to have worked for the public sector. Those in

arts and entertainment (8%), accommodation and food service (9%), finance and real estate (11%) and other services (13%) were the least likely to have done so.

110. Compared to 2016, the proportion of SME employers working for the public sector was down by 11 percentage points in arts and entertainment, and by 17 percentage points in other services. The proportion was up by 11 percentage points in the education sector.
111. Of those SME employers that bid for public sector contracts in the previous year, 85% worked for the public sector in that year. Of those that expressed an interest but did not bid, 52% worked for the public sector. Of those that neither expressed an interest nor bid, 17% worked for the public sector.
112. The main customers within the public sector were as follows:
 - local authorities (50% of SME employers that worked for the public sector named them as their main client, down two percentage points on 2016)
 - the NHS (19%, up two percentage points)
 - UK Departments of State (12%, up three percentage points)
 - higher and further education institutions (9%, same as in 2016)

Dispute resolution (cohort A only)

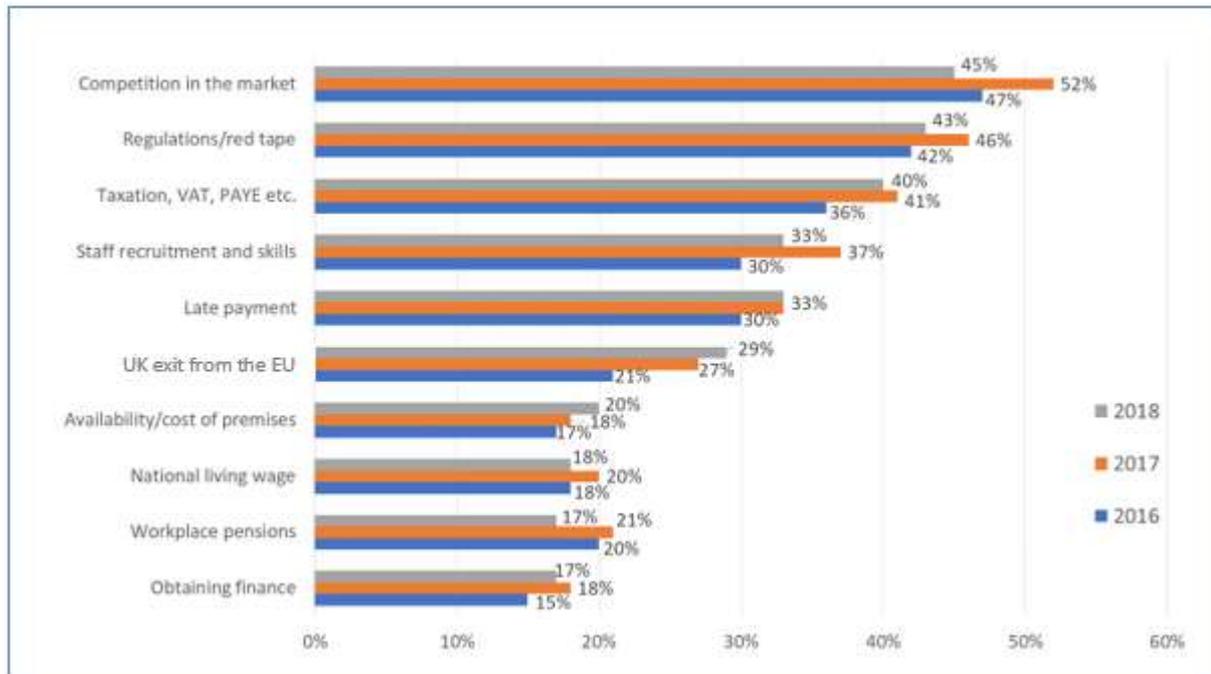
113. SME employers in cohort A were asked if they felt they could satisfactorily resolve a payment dispute with a larger business (ie one with 50 or more employees). The question was only asked if they gave or received credit and themselves had fewer than 50 employees.
114. Of those SME employers asked, 71% felt that they could resolve such a dispute. This proportion varied slightly by employment size. Of those with 1 to 4 employees, 68% thought they could resolve the dispute, compared with 72% of those with 5 to 9 employees, 78% of those with 10 to 19 employees and 77% of those with 20 to 49 employees.
115. By sector, those in accommodation and food (54%) were the least confident that they could resolve such a dispute.

6. Major obstacles to the success of the business

Overview of main obstacles (cohort B only)

116. SME employers were most likely to mention competition in the market as a major obstacle to the success of their business (46% in 2018). This was also the most cited major obstacle in each of the previous three surveys. The proportion declined by seven percentage points from 2017. In 2018, this question was only asked of cohort B.
117. Other major obstacles included regulations and red tape (43%), taxation (40%), staff recruitment and skills and late payment (both 33%), and UK exit from the EU (29%).
118. In 2017 business were more likely to report obstacles than in other years, hence mentions of most specific obstacles were fewer in 2018. The exceptions to this were UK exit from the EU and availability and cost of suitable premises.

Figure 6.1: Proportion of SME employers citing each major obstacle to the success of the business (2016 to 2018; cohort B only)



119. Obstacles relating to employment were more of a concern to larger employers. Hence, 28% of medium-sized business mentioned the National Living Wage as an obstacle and 25% of small businesses, compared with 17% of micro businesses. An estimated 61% of medium-sized businesses mentioned staff recruitment and

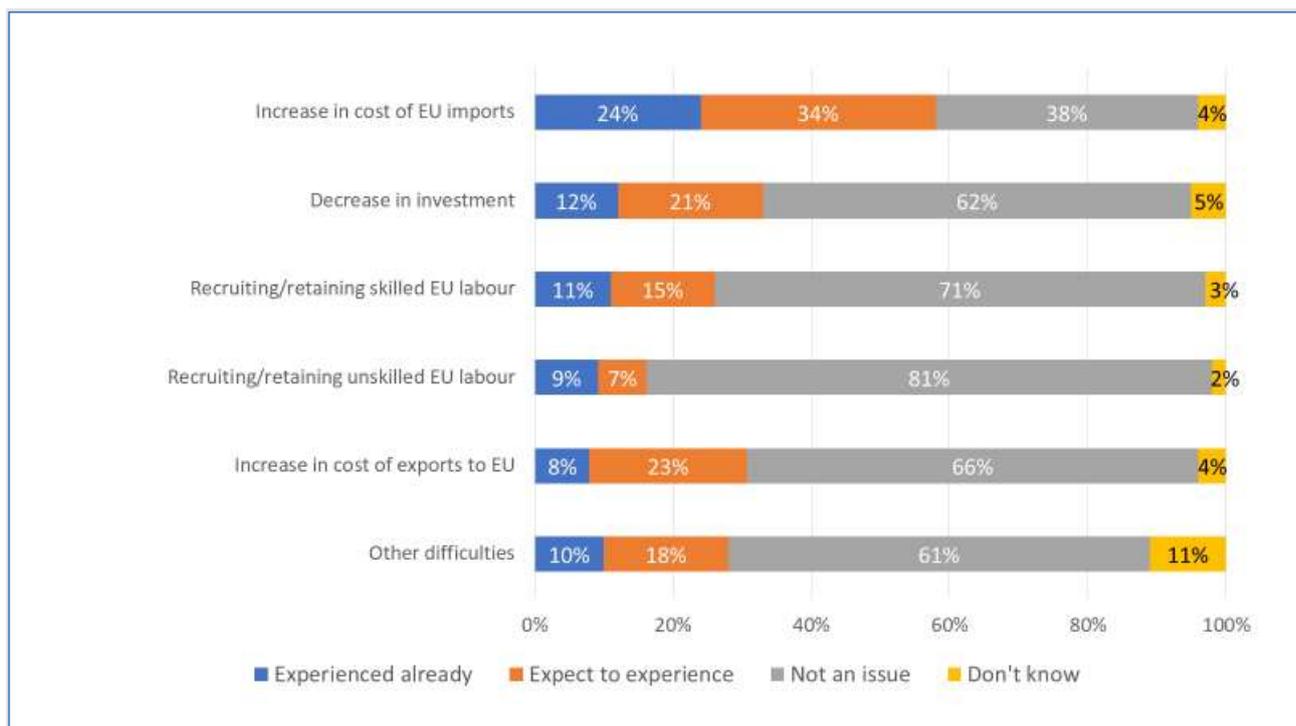
skills as an obstacle, compared with 48% of small businesses and 30% of micro businesses.

120. Otherwise, with a couple of exceptions, there was little difference in obstacles mentioned according to employment size. The exceptions were competition in the market, mentioned by 59% of medium-sized businesses, 52% of small businesses, and 44% of micro businesses; and UK exit from the EU, mentioned by 35% of mediums, 31% of small businesses, and 28% of micros.
121. There was some sectoral variation in the obstacles that SME employers cited:
- *competition* was most likely to be an obstacle for those in retail and wholesale (56%)
 - *regulations* were most likely to be considered an obstacle in the primary sector (62%) and finance and real estate (60%)
 - *taxation* was most likely to be an obstacle in accommodation and food service (58%), and retail and wholesale (51%)
 - *staff recruitment and skills* were most likely to be considered an obstacle in transport (47%)
 - *late payment* was most likely to be viewed as an obstacle in construction (45%), and professional and scientific (44%)
 - *UK exit from the EU* was most likely to be considered an obstacle in information and communication, and retail and wholesale (both 35%)
 - *the availability and cost of suitable premises* was most likely to be viewed as an obstacle in retail and wholesale (25%)
 - *the National Living Wage* was most likely to be viewed as an obstacle in accommodation and food service (33%), other services (27%), health (26%) and retail and wholesale (25%)
 - *workplace pensions* were most likely to be viewed as an obstacle in transport (24%) and accommodation and food service (23%)
 - *obtaining finance* was most likely to be considered an obstacle in health (32%) and other services (29%)
122. UK exit from the EU was an obstacle for 42% in Northern Ireland, 28% in England and Scotland, and 24% in Wales. In London, 41% considered it a major obstacle, about the same level as in Northern Ireland.

Whether experienced, or expect to experience, difficulties as a result of UK exit from the EU (cohort B only)

123. In a new question for 2018, those SME employers that considered UK exit from the EU to be a major obstacle to the success of their business were asked whether they had already experienced, or expected to experience, a number of specific difficulties.

Figure 6.2: Whether experienced difficulties as a result of UK exit from the EU (2018; cohort B only)



124. In terms of difficulties already experienced, this was most likely to be the increase in the cost of EU imports (24%). This was also the most likely difficulty that SME employers expected to experience (34%), followed by increases in the cost of exports to the EU (23%) and decreased investment (21%).

125. By sector, those most affected by the increase in cost of EU imports were in retail and wholesale (44% experienced already, 40% expect to experience), accommodation and food service (40% experienced already, 31% expect to experience) and manufacturing (35% experienced already, 39% expect to experience).

126. Those most likely to expect to experience an increase in the cost of exports were in manufacturing (35%), information and communication (32%) and retail and wholesale (30%).

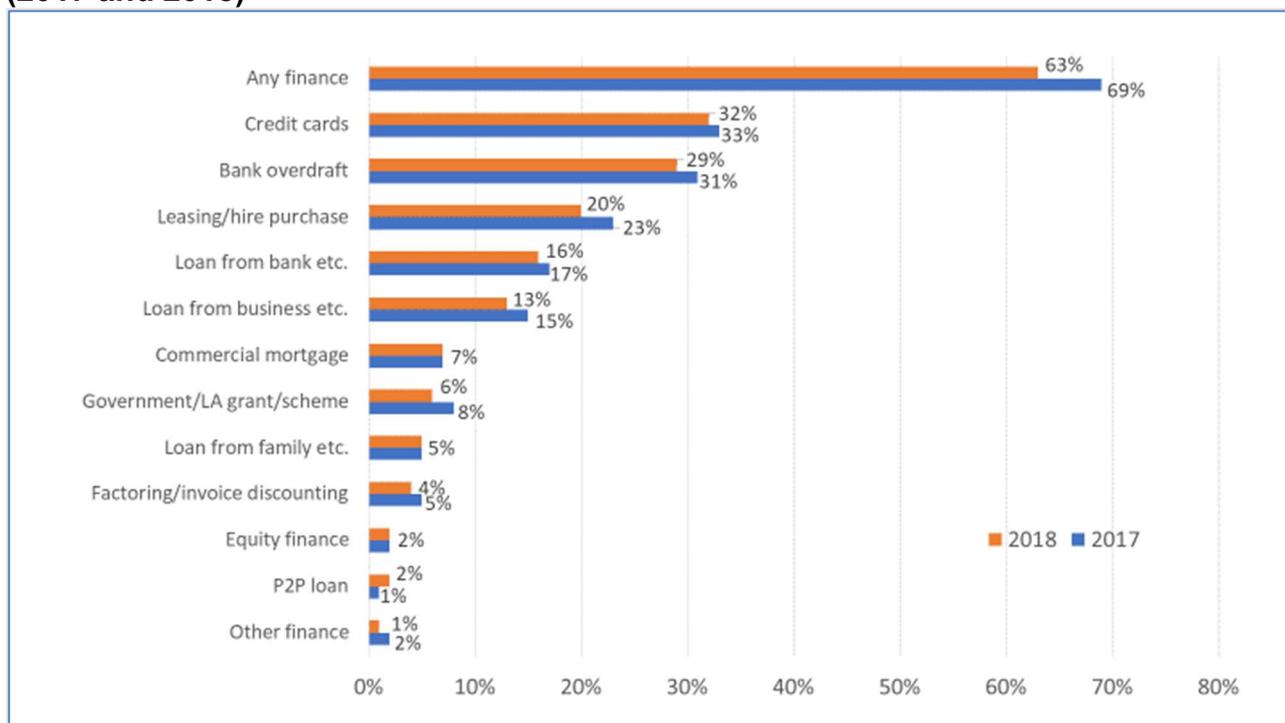
7. Access to finance

Types of external finance currently used

127. Of SME employers, 63% were using some form of external finance at the time of the 2018 interview. Around 62% of micros used finance, compared with 70% of small businesses and 76% of medium-sized businesses. The overall proportion using finance was six percentage points lower than in 2017.

128. The most common forms of external finance used were credit cards (32%), bank overdrafts (29%) and leasing and hire purchase (20%). Compared with 2017 there were fewer SME employers using leasing and hire purchase (down three percentage points).

Figure 7.1: Proportion of SME employers currently using forms of external finance (2017 and 2018)



129. For each form of finance, the larger the business, the more likely it was to use that form of finance, with four exceptions: micro and small businesses were more likely to get loans from family or friends than were medium-sized businesses; and the proportions using bank overdrafts, loans from their own business and P2P (peer-to-peer) loans did not vary by employment size.

130. About 71% of SME employers in Scotland used some form of finance, compared with 69% in Northern Ireland and 62% in England and in Wales.

131. SME employers in the primary sector, largely consisting of agriculture, were the most likely to use external finance (79%). Transport (74%), manufacturing (72%),

construction (71%), and retail and wholesale businesses (66%) were also more likely than average to use finance. Use of finance was below average in the information and communication (51%), finance and real estate (55%), health (56%), accommodation and food service, and professional and scientific (both 57%) sectors.

132. In comparison to 2017, the largest drop in the use of finance was in information and communication (down 15 percentage points), accommodation and food services (down 11 percentage points), financial and real estate (down 10 percentage points), administrative and support (down eight percentage points), health (down seven percentage points) and retail and wholesale (down seven percentage points).

133. Different sectors use different types of external finance to suit their needs:

- *credit cards* were most likely to be used in manufacturing (42%), primary (40%), construction (37%), and retail and wholesale (36%)
- *bank overdrafts* were particularly likely to be used in the primary sectors (56%), construction (35%), retail and wholesale (34%), and manufacturing (34%)
- *leasing or hire purchase* was used most by the primary sectors (41%), manufacturing (29%), construction and transport (both 28%)
- *bank loans* were most likely to be used in the primary sectors (40%), transport, and accommodation and food service (both 20%), manufacturing (19%) and retail and wholesale (19%)
- *government grants* were most used in health (25%), education (19%), arts and entertainment, and the primary (both 14%) and other services (11%) sectors
- *factoring or invoice discounting* was most used in manufacturing (9%), administrative and support (8%), transport (7%), and retail and wholesale (6%)
- *P2P loans* were most used in information and communication, and administrative and support (both 3%) sectors

134. Equity finance was used by 2% of SME employers. SME employers in the manufacturing sector (3%) were most likely to have used it.

135. About 31% of those with equity finance gained it from within their business, 27% from another business or organisation, 14% from business angels, 12% from venture capitalists, 12% from family or friends, 6% from public equity and 4% from crowd funding.

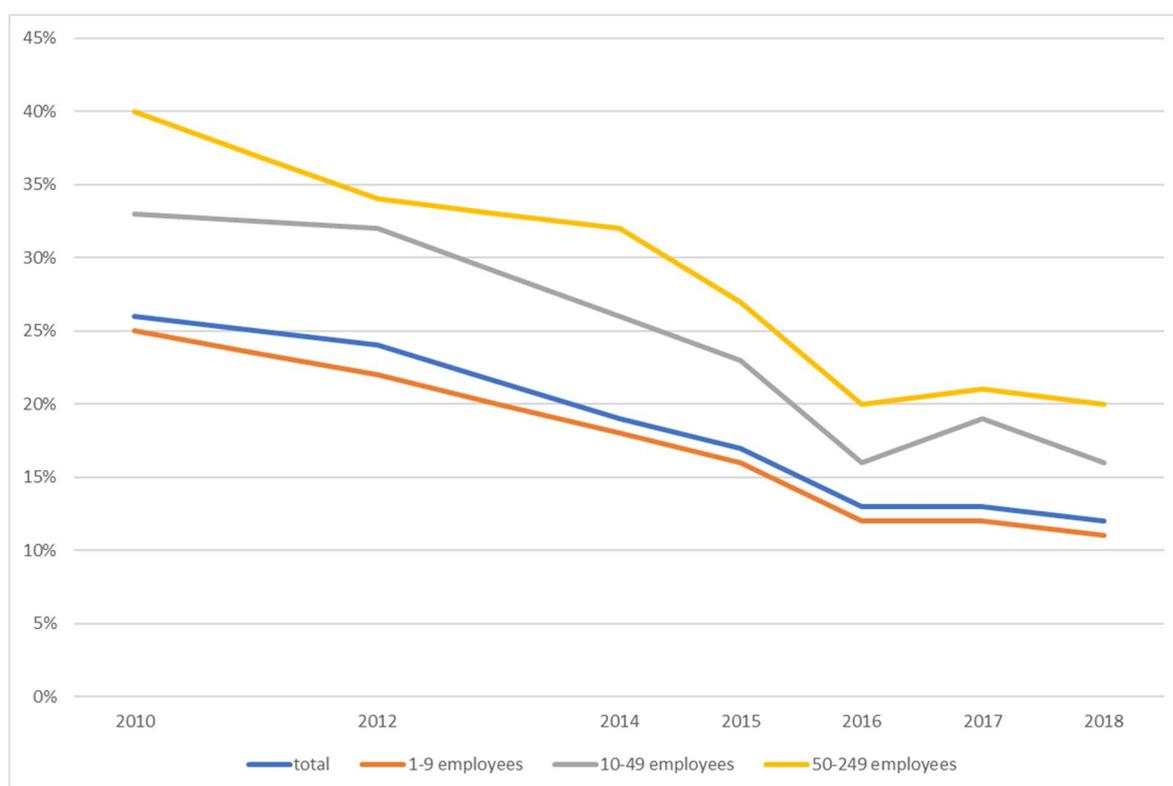
136. Around 8% of SME employers were using some form of ‘alternative finance’, not originating from banks, the public sector, or people known to the business¹². This proportion was two percentage points lower than in 2017.

137. Around 7% of micro businesses used alternative finance, compared with 13% of small businesses and 19% of medium-sized businesses. Alternative finance was most likely to be used in the manufacturing (13%) and administrative services (12%) sectors.

Whether sought external finance in the last 12 months

138. Around 12% of SME employers had sought external finance in the previous year. This was the one percentage point lower than in 2017, which is not statistically significant, but there has been a declining trend in applications for external finance since 2010, when the proportion applying was more than double that in 2018.

Figure 7.2: Proportion of SME employers that sought external finance in the last year, by number of employees (2010 to 2018)



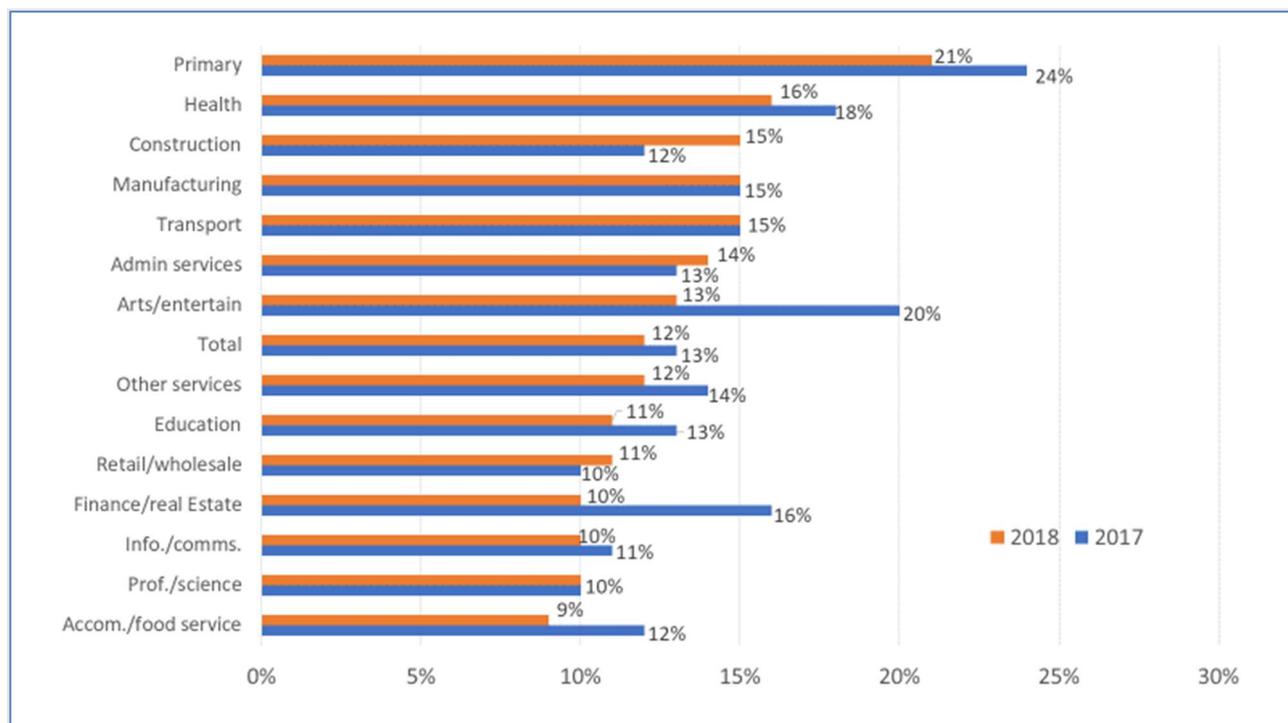
139. Medium-sized businesses were more likely to have sought external finance (20%) than small (16%) or micro businesses (11%). Compared with 2017, fewer small businesses sought finance (down three percentage points).

¹² In this instance, alternative finance refers to equity, factoring or invoice discounting, peer-to-peer (P2P) loans and ‘other finance’.

140. Some 17% of SME employers sought finance in the preceding 12 months in Scotland. In England, Wales and Northern Ireland this proportion was 12%.

141. SME employers in the primary (21%), health (16%), manufacturing and construction (both 15%) sectors were more likely than average to have applied for finance in the last year.

Figure 7.3: Proportion of SME employers that sought external finance in the previous 12 months, by sector (2017 and 2018)



142. Compared to 2017, applications for finance fell in the finance and real estate sector (down six percentage points). Changes in other sectors were not statistically significant.

143. Around 8% of SME employers sought finance once in the previous 12 months, and 4% sought it more than once. Those in the health sector (9%) were the most likely to have sought it more than once.

Reasons for applying for external finance

144. Of SME employers applying for external finance in the last 12 months, 62% did so to acquire working capital or cash flow (up five percentage points on 2017), and 47% to invest in their business (up one percentage point). There were no differences in these proportions according to employer size.

145. By sector, those most likely to seek working capital were in retail and wholesale (70%). Those most likely to seek an investment were in arts and entertainment (78%), transport (70%) and health (57%).

146. Of those seeking an investment, the main purposes were to acquire capital equipment or vehicles (47%), to buy, rent, lease or improve buildings and land (36%), to invest in new or significantly improved goods or services (20%), to invest in new or significantly improved processes (16%), staff training or development (12%), and marketing (11%).
147. For those that sought finance for investment in new goods and services, 22% wanted finance for goods and services that would be new to the market. This was seven percentage points lower than in 2017.
148. For those that sought finance for investment in new processes, 21% wanted the finance for processes that would be new to the industry. This was 18 percentage points lower than in 2017.
149. The main reasons for seeking working capital or cash flow were:
- to fund general growth (60% of those seeking finance for working capital)
 - to cover a short-term gap until funds were received from customers (42%)
 - as a safety net (27%)
 - to cover a short-term gap due to unexpected expense, eg late payment from a supplier (22%)

Type of external finance sought

150. The types of external finance that were sought in the previous 12 months were as following:
- bank overdraft (34% of those that applied, up one percentage point on 2017)
 - bank loans (34%, down four percentage points)
 - leasing or hire purchase (22%, up five percentage points)
 - credit cards (15%, up three percentage points)
 - government or local authority grant or scheme (12%, down three percentage points)
 - loan from business partner/director (8%, up three percentage points)
 - commercial mortgage (7%, down one percentage point)
 - loan from a P2P platform (7%, up two percentage points)
 - loan from family or friend (6%, up two percentage points)

- equity finance (4%, up one percentage point)
- factoring or invoice discounting (3%, same as 2017)

151. The mean amount of finance sought¹³ was £423,000 – £318,000 for micros, £606,000 for small businesses, and £1.55 million for medium-sized businesses.

152. The median, which better represents the amount that the typical business sought¹⁴, was £50,000 – £37,000 for micros, £100,000 for small businesses and £500,000 for medium-sized businesses.

Success in obtaining finance

153. Of those applying for external finance in the previous 12 months, 76% were successful. Around 10% did not obtain any finance. The outcome of applications was still pending¹⁵ for 14%.

154. The changes in successful and unsuccessful applications compared to 2017 were not significant.

155. Larger SMEs had more success in obtaining external finance: 82% of medium-sized businesses that applied for external finance were successful in obtaining some or all of the desired amount, as were 80% of small businesses. This compared with 75% of micro businesses.

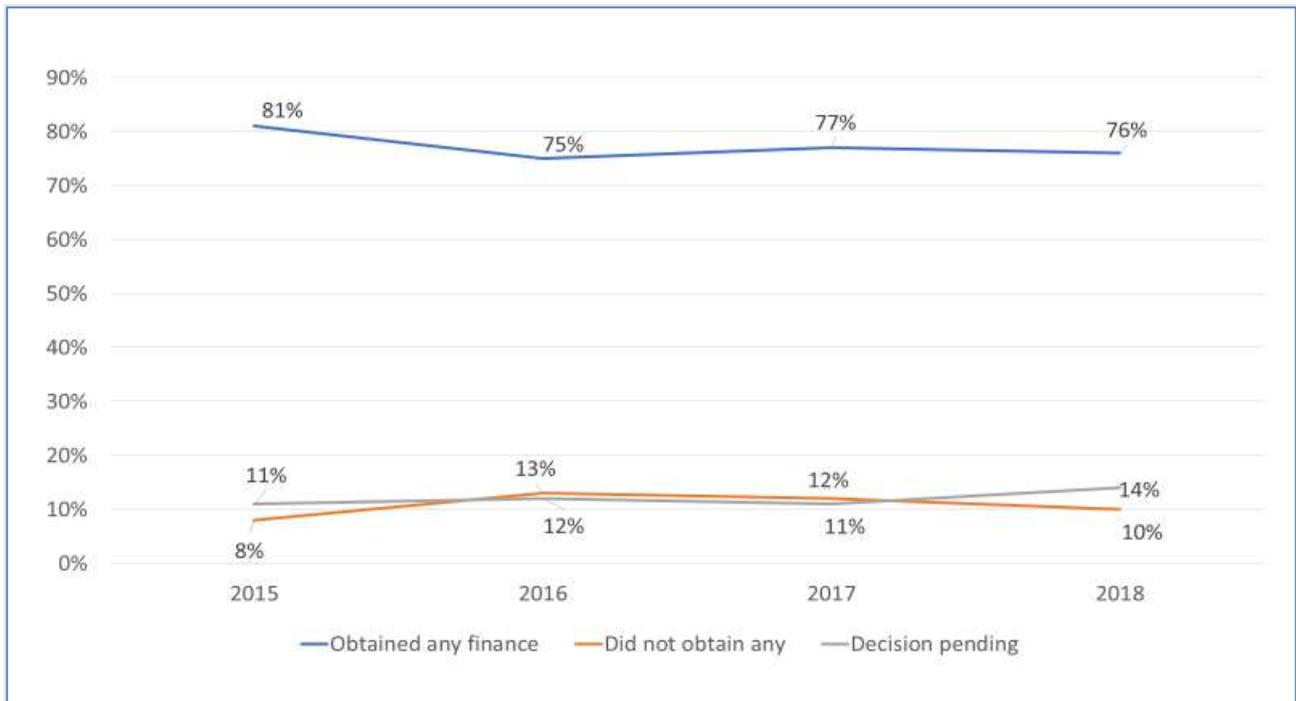
156. About 59% of those that applied for finance obtained the full amount applied for. Around 1% obtained more than they had applied for, 13% obtained less than the full amount applied for. Some 10% obtained nothing. These figures were consistent with those seen in 2017.

¹³ For those that sought bank overdrafts, this includes the size of the overdraft facility, even if it was not used.

¹⁴ The mean can be affected by a relatively small number of very large values

¹⁵ This category also includes those who did not know if they had been successful. The main reason for not knowing was because somebody else dealt with finance eg a finance manager.

Figure 7.4: Outcomes of SME employers’ applications for external finance, by number of employees (2015 to 2018)



157. Around 68% of medium-sized and 64% of small businesses that applied for finance gained the amount they sought or more, compared to 59% of micro businesses.

158. The most successful, in terms of obtaining the entire amount of finance applied for or more, were those in the primary (84%) and transport (82%) sectors. Those least likely to have obtained all or more of the finance applied for were in education (25%), arts and entertainment (36%), and health (47%).

Intentions to apply for external finance in the next three years

159. Around 20% of SME employers said they were likely to approach external finance providers in the next three years.

160. 31% of medium-sized businesses said they would be likely to approach external finance providers, compared with 25% of small businesses and 18% of micro businesses.

Trade credit and late payment (cohort A only)

161. 45% of SME employers give their customers trade credit – down five percentage points on the 2017 figure.

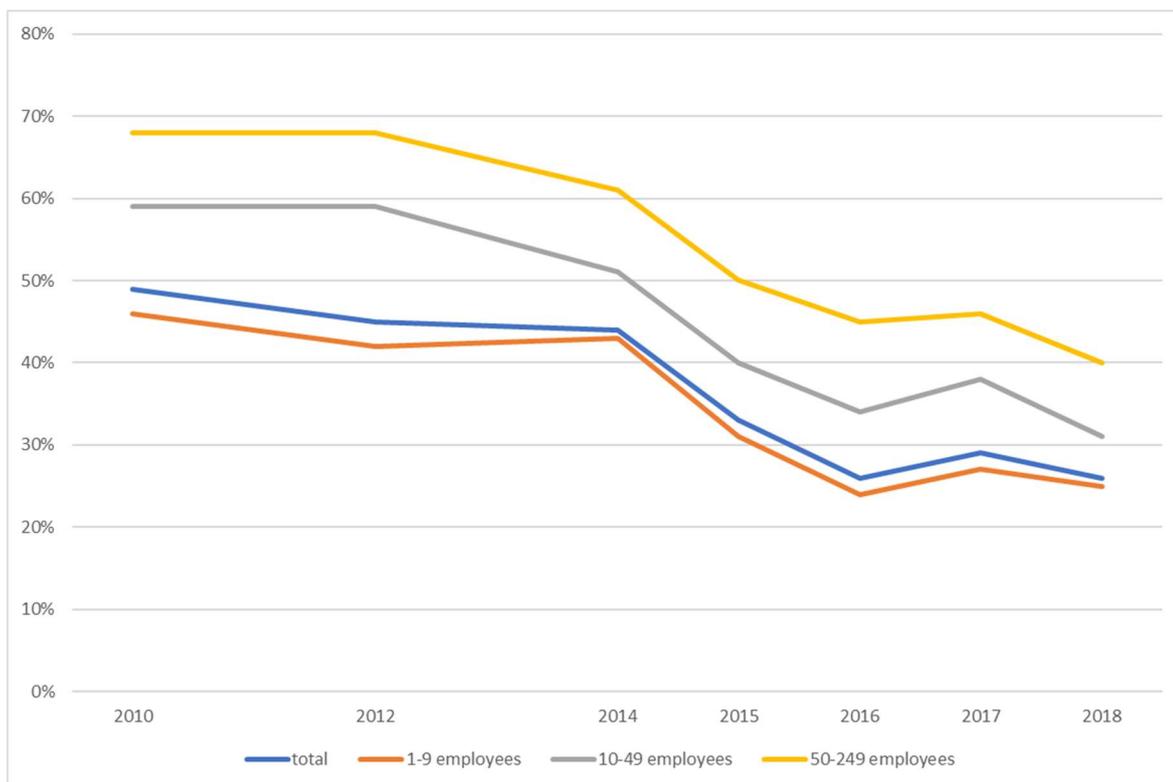
162. 64% of medium-sized businesses reported giving trade credit, compared with half of small businesses, and 44% of micros.

163. Whether or not credit was given varied considerably according to sector. 83% of both manufacturing and wholesale businesses reported giving credit, as did 58% in transport, 56% in construction and 53% in professional and scientific sectors. By contrast, only 10% of businesses in the accommodation and food service sector reported giving credit, 13% in health, 16% per cent in finance and real estate, 25% in education and 23% in other services.
164. Late payment was considered a problem for 55% of those that give trade credit (27% of all SME employers). This was the same proportion observed in 2017. A higher proportion of small and medium-sized businesses considered late payment a problem than micro-businesses.
165. By sector, late payment was most likely to be considered a problem in manufacturing (46% per cent of all SME employers in the sector), construction (33%), and professional and scientific sectors (31%).

8. Business support

166. An estimated 26% of SME employers had sought external information or advice in the last 12 months, defined as more than just a casual conversation. This proportion was three percentage points less than in 2017 and the same proportion seen in 2016. Use of external information or advice has declined significantly since the beginning of the decade.

Figure 8.1: Proportion of SME employers that sought external information or advice in the last year, by number of employees (2010 to 2018)



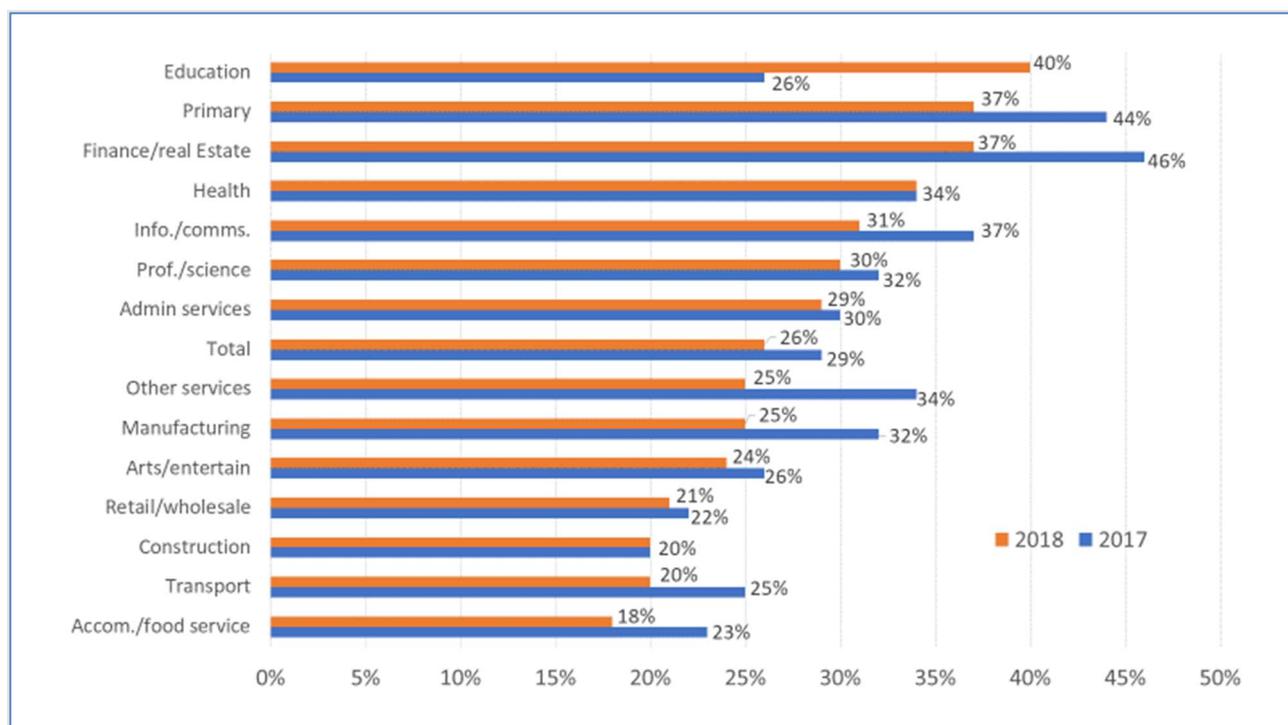
167. Larger SMEs were more likely to have sought external information or advice. This was sought by 40% of medium-sized businesses, compared with 31% of small businesses and 25% of micro businesses. The decline in the proportion using information or advice since 2017 is mainly driven by small and medium-sized businesses.

168. In Scotland 28% of SME employers sought external information and advice (down four percentage points on 2017), compared with 26% in England (down three percentage points), 25% in Northern Ireland (same as 2017) and 23% in Wales (up two percentage points).

169. Businesses seeking information and advice were most likely to be in the education (40%), primary, finance and real estate (both 37%), health (34%), information and communication (31%), professional and scientific (30%) and administration and support (29%) sectors. They were least likely to be in the accommodation and

food service (18%), transport and construction (both 20%) and retail and wholesale (21%) sectors.

Figure 8.2: Proportion of SME employers that sought external information or advice in the last 12 months, by sector (2017 and 2018)



170. Compared with 2017, seeking information or advice has declined most in the finance and real estate, other services (both down nine percentage points) and manufacturing sectors (down seven percentage points). It increased by 14 percentage points in the education sector.

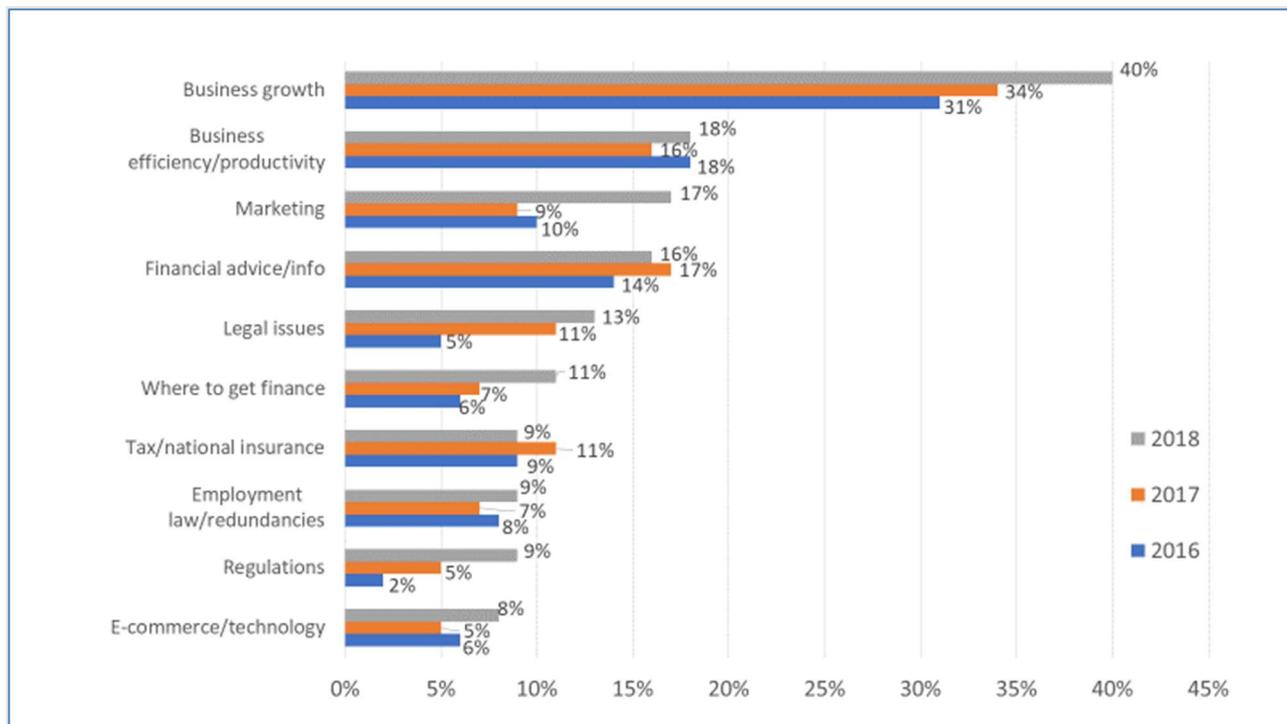
Purpose of strategic advice sought (England and Wales only)¹⁶

171. In England and Wales, those that had sought information or advice were asked what this related to. Some 34% said they had used information relating to the day-to-day running of the business, 24% had used strategic advice to help introduce a stepped change to grow their business in terms of profitability, numbers employed or productivity, and 27% had done both of these. A further 15% felt they had not done either of these.

172. Of those that had used strategic advice, business growth was the most common reason for seeking it (40%). The proportion seeking it increased by six percentage points on 2017.

¹⁶ These questions were asked differently according to nation, and so these data are not available to this level of detail for Scotland or Northern Ireland.

Figure 8.3: Purpose of strategic advice in the last year (2016 to 2018; England and Wales only)



173. Of those seeking advice, 18% sought it on business efficiency or productivity, 17% on marketing (up eight percentage points on 2017), 16% on financial advice for the general running of the business, 13% on legal issues, and 11% each on where to get finance (up four percentage points) and tax or national insurance.

174. There were few differences in the type of strategic advice sought by size and sector, with the following exceptions:

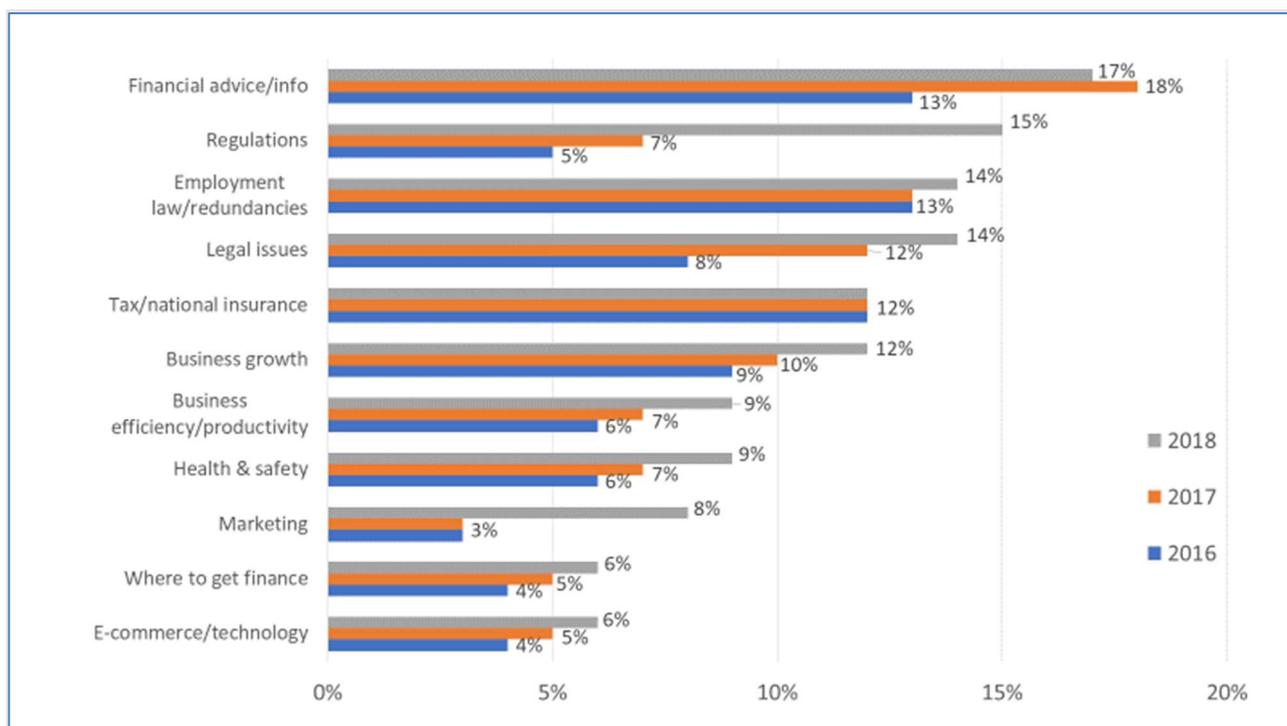
- advice on business growth was more likely to be sought by those in the professional and scientific (56%) sector
- advice on business efficiency or productivity was more likely to be sought in the primary sector (31%)
- advice on marketing was more likely to be sought by those in the education (36%) and accommodation and food service (32%) sectors
- financial advice for the general running of the business was more likely to be sought by those in the retail and wholesale (22%) sector
- legal advice was more likely to be sought by medium-sized businesses (21%) than small businesses (14%) or micros (13%)
- tax advice was more likely to be sought by micros (10%) than small and medium-sized businesses (both 6%). It was more likely to be sought by those in the construction sector (17%)
- advice on employment law or redundancies was more likely to be sought in the administration and support (16%) sector

- advice on regulations was more likely to be sought in the finance and real estate (16%) sector

Purpose of information sought (England and Wales only)

175. Information was mainly sought on financial matters for the general running of the business (17%), on regulations (15%), employment law (14%), legal issues (14%) tax or national insurance matters and business growth (both 12%).

Figure 8.4: Purpose of seeking information in the last year (2016 to 2018; England and Wales only)



176. Compared with 2017, seeking information on regulations increased (up eight percentage points), as did seeking information on marketing (up five percentage points).

177. Again, there were few differences in the type of information sought by size and sector, with the following exceptions:

- financial information on the general running of the business was more likely than average to be sought by micro (18%) than small (14%) and medium-sized businesses (9%). This was also more likely to be sought in the information and communication sector (35%)
- information on regulations was more likely to be sought in the finance and real estate (35%) and professional and scientific (19%) sectors
- information on employment law and redundancies was more likely to be sought by medium-sized and small businesses (both 22%) than micro

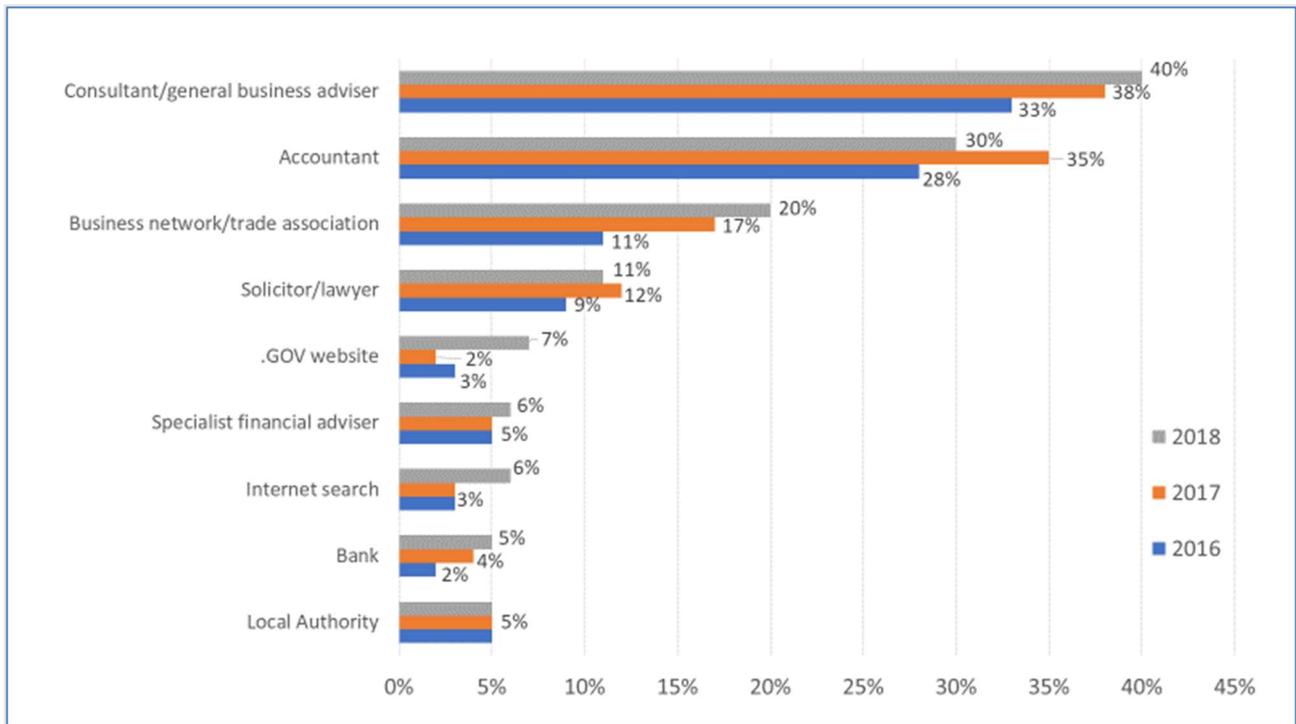
businesses (12%). This was also more likely to be sought in the health sector (26%)

- information on legal issues was more likely to be sought by medium-sized businesses (21%) than small businesses or micros (both 14%). This was also more likely to be sought in the finance and real estate sector (23%)
- information on tax was more likely to be sought in the administration and support (22%) and information and communication (20%) sectors
- information on business growth was more likely to be sought by those in the primary (19%) sector
- information on business efficiency and productivity was also more likely to be sought by those in the primary sector (20%)
- information on health and safety was more likely to be sought in the construction (19%) and manufacturing (16%) sectors
- information on where to get finance was more likely to be sought in the other services (16%) and information and communication (14%) sectors
- information on e-commerce or technology was more likely to be sought by those in the education sector (15%)

Sources of external information and strategic advice (England and Wales only)

178. An estimated 40% of SME employers that sought **advice** approached consultants or business advisers, and 30% approached accountants, while 20% sought strategic advice from business networks, and 11% from solicitors or lawyers.
179. Compared with 2017, there was less use of accountants (down five percentage points).

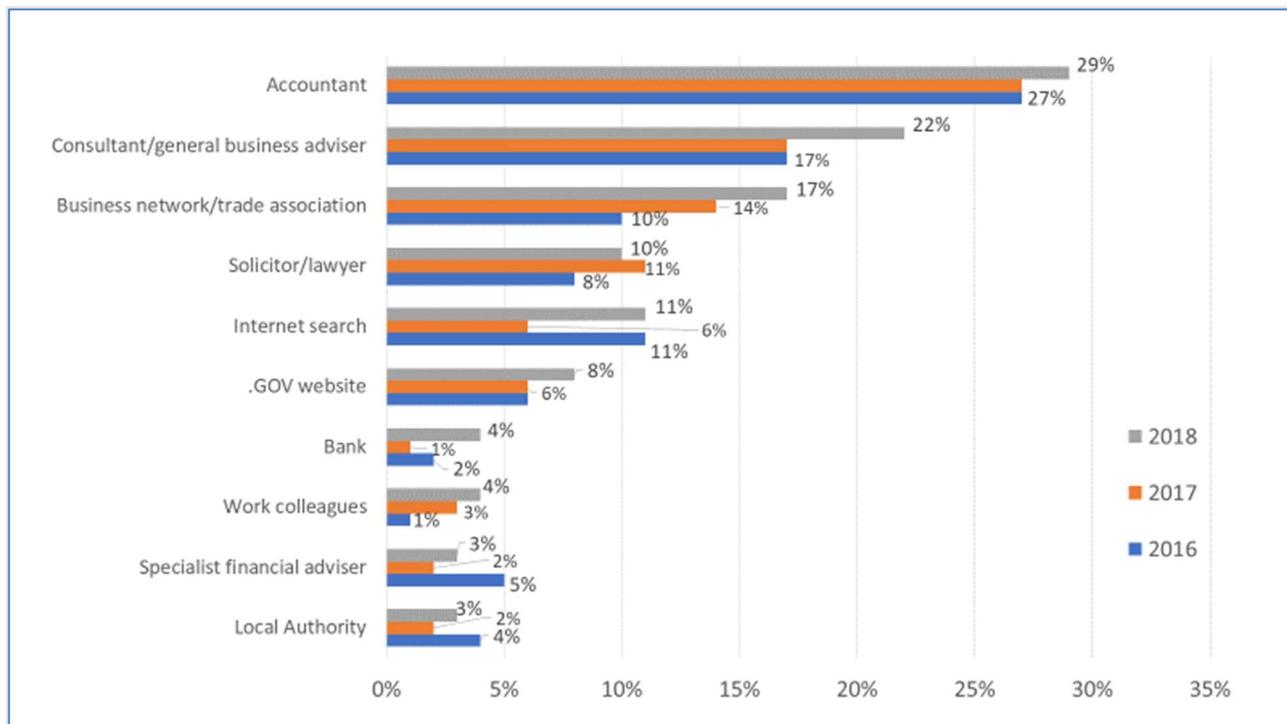
Figure 8.5: Who provided strategic advice in the last year (2016 to 2018; England and Wales only)



180. Those that had sought **information** were most likely to have consulted accountants (29%), followed by 22% seeking information from consultants or business advisers, 17% using business networks or trade associations, and 11% used internet searches.

181. Compared with 2017, there was an increase in the proportion seeking information from both consultants (up five percentage points) and business networks or trade associations (up three percentage points).

Figure 8.6: Who provided information in the last year (2016 to 2018; England and Wales only)



How information or strategic advice was delivered (England and Wales only)

182. In England and Wales, 77% of those that received strategic **advice** had this mainly delivered face-to-face. This was a three percentage point increase on the figure in 2017.
183. About 10% had their advice delivered by email, 9% on the phone, and 2% via a website. These were similar proportions to those seen in 2017.
184. Medium-sized businesses were most likely to have their advice delivered face to face (81%) than small (78%) and micro businesses (76%). Micros were more likely to have advice delivered by email and phone than small and mediums.
185. We saw that 64% of those that sought **information** received this face-to-face, a six percentage point increase on the 2017 figure. In contrast just 18% received it over the phone (a three percentage point fall), 11% by email (one percentage point increase), and 8% through a website (a two percentage point increase).
186. Medium-sized businesses were more likely to receive their information face-to-face (67%) than small businesses (65%) and micros (62%). Micro businesses were more likely to receive their information on the phone compared to small and medium-sized businesses (16% of micro businesses, 14% of small businesses, 12% of medium-sized businesses).

Paying for strategic advice (England and Wales only)

187. Of SME employers in England and Wales that received strategic advice in the last 12 months, 63% paid for it. This was six percentage points lower than in 2017.
188. Medium-sized businesses were more likely to have paid for advice (84%) than small businesses (75%) and micro businesses (59%).
189. SME employers in finance and real estate (86%) and the primary sector (77%) were more likely than average to have paid for advice, and those in transport were the least likely (39%).

Unmet information and advice needs (England and Wales only)

190. Just 4% of SME employers in England and Wales had opportunities, difficulties or important information or advice needs for which they did not get external advice or support for in the previous 12 months. This was a similar proportion to that observed in previous years, and there was no significant variation according to size of business.
191. There were few differences according to sector. Those in the health and administration and support sectors were most likely to have had unmet information and advice needs (both 5%).

Awareness of organisations offering business support (England only; cohort A only)

192. SME employers in England were asked if they had heard of their Local Enterprise Partnership (LEP) and their local Growth Hub¹⁷. They were also asked if they had sought information or advice from them, or otherwise engaged with them, in the last 12 months. This question was asked of cohort A only.
193. About 40% of SME employers had heard of Local Enterprise Partnerships, and 24% had heard of Growth Hubs. These were lower awareness levels than we saw in 2017, down nine and six percentage points respectively. Just 5% had ever used either of these.

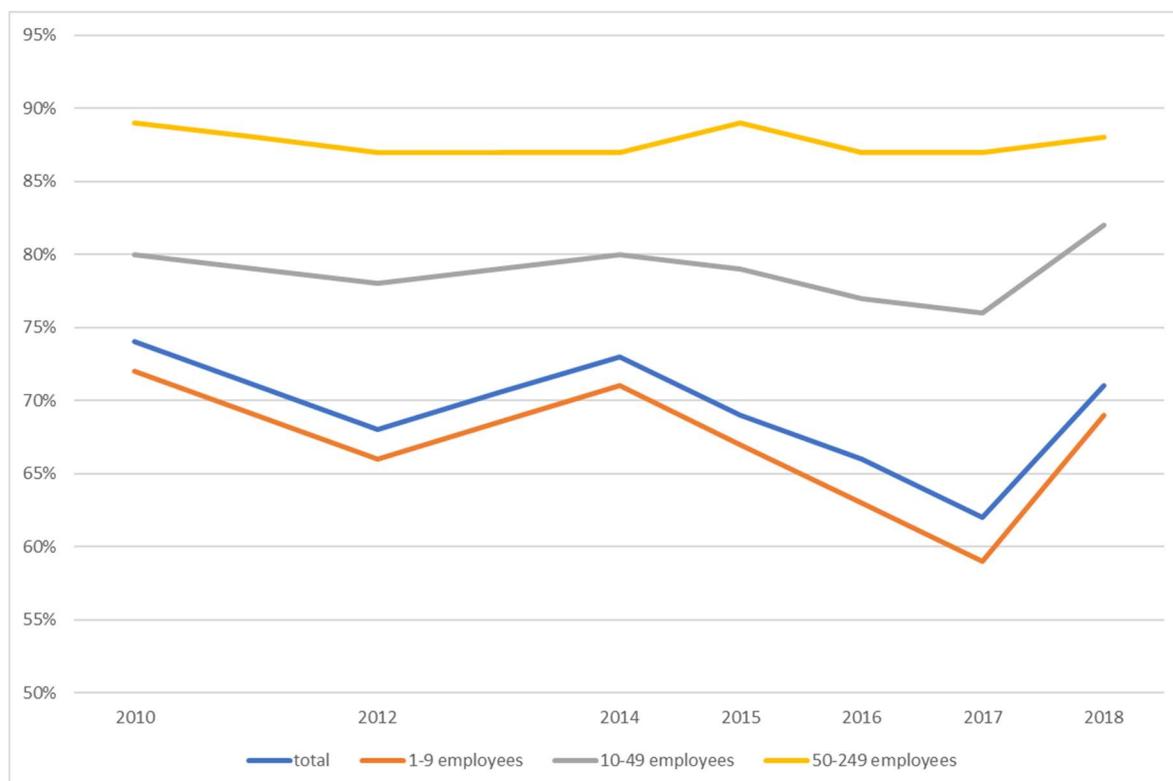
¹⁷ Businesses were given the actual name of their local LEP and Growth Hub, which was determined through the postcode that appeared on the database. In cases where they could be located in two LEPs/Growth Hubs, the primary LEP/Growth Hub was chosen.

9. Future plans

Growth ambitions

194. An estimated 71% of SME employers aimed to grow sales over the next three years. Medium-sized businesses were most likely to have this ambition (88%, compared to 82% of small businesses and 69% of micro businesses).

Figure 9.1: Proportion of SME employers that aim to grow sales of the business over the next three years, by number of employees (2010 to 2018; note vertical axis starts at 50%)



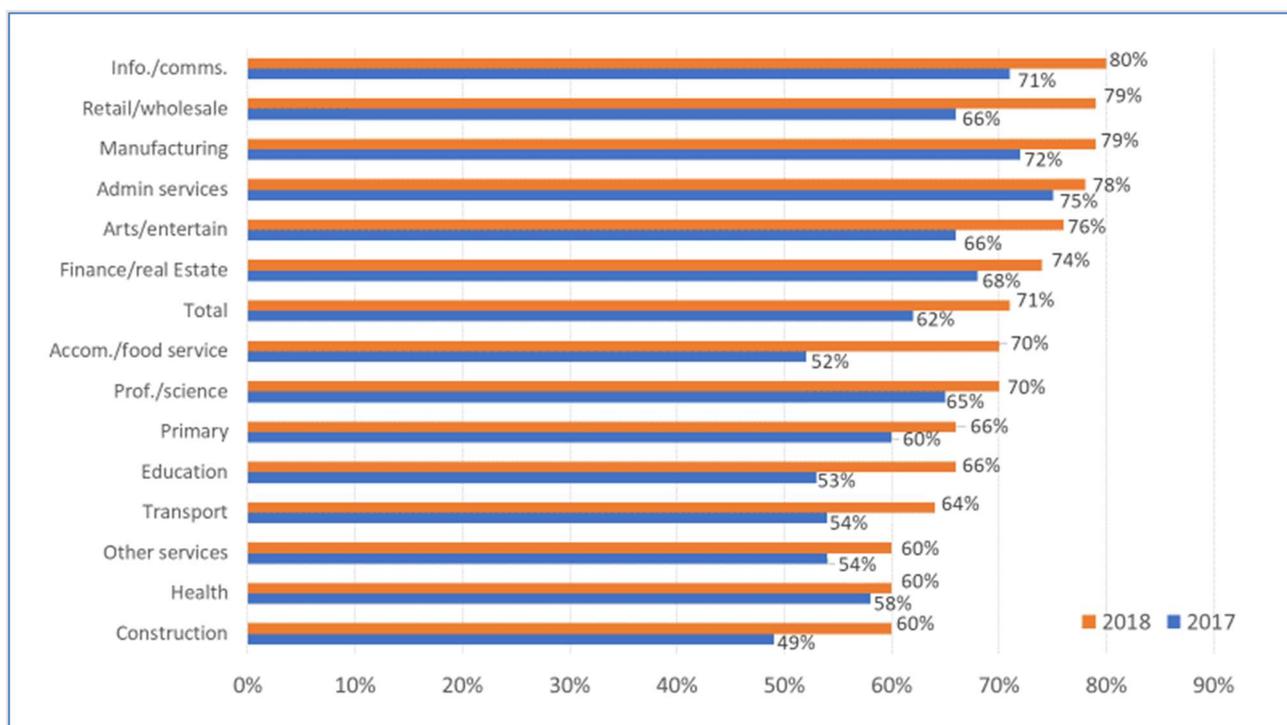
195. The overall proportion seeking to grow was nine percentage points higher than in 2016, and the highest proportion seen since the 2014 survey. The increase has mainly been driven by micro (up ten percentage points) and small businesses (up six percentage points)¹⁸.

196. By sector, those in information and communication (80%), retail and wholesale and manufacturing (both 79%), and administrative services were most likely to aim

¹⁸ Investigation shows that the proportion seeking to grow was 69 per cent for full panellists, 72 per cent for top-ups, and 80 per cent for past panellists (businesses that have taken part in some years but not taken part in other years). Therefore, the differences in the figures between the two years are unlikely to be due to the changing panel/top-up profile in the survey (2017 was majority panellists, and 2018 was majority top-ups).

to grow. Those in construction, health, and other services (all 60%) were least likely to be aiming to grow.

Figure 9.2: Proportion of SME employers that aim to grow sales of the business over the next three years, by sector (2017 and 2018)



197. Compared to 2016, all sectors had a greater desire to grow, but this was most evident in accommodation and food service (up 18 percentage points), retail and wholesale, and education (both up 13 percentage points).

198. Growth ambition was highest in Northern Ireland (75%, up 10 percentage points). It was 71% in England (up eight percentage points), and 70% in Scotland and Wales (up ten and 11 percentage points respectively).

199. By English region, growth ambition was strongest in London at 77% (up seven percentage points), and lowest in the North East (66%, up three percentage points).

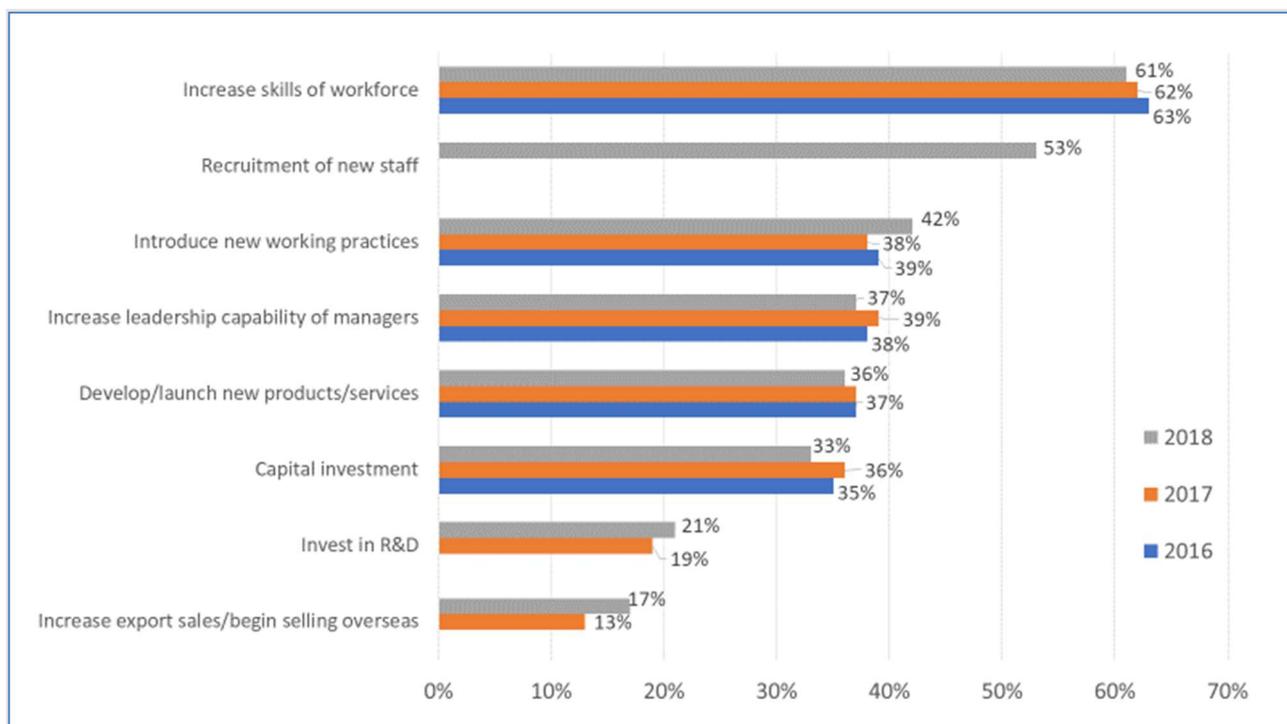
200. Of those intending to grow, 20% aimed to grow sales by 1%-9% in three years' time, 40% by 10%-24%, 14% by 25%-49%, and 14% by 50% or more. (12% did not know.)

Plans to undertake growth-related activities over the next three years (cohort B only)

201. Over the next three years, 61% of SME employers said they planned to increase workforce skills; 53% planned to recruit new staff; 42% planned to introduce new working practices; 37% planned to increase the leadership capability of managers; 36% planned to develop and launch new products or services; 33% planned to

invest in premises, machinery or other types of capital investment; 21% planned to invest in R&D; and 17% planned to increase export sales or begin selling to new overseas markets. In 2018, these questions were only asked of cohort B.

Figure 9.3: Proportion of businesses undertaking growth-related activities, by type of activity (2016 to 2018; cohort B only)



202. Compared with 2017, the proportion intending to introduce new working practices and to increase export sales or begin selling overseas both increased significantly (each by four percentage points).

203. Micro businesses were far less likely to plan any of these activities than small and medium-sized businesses.

204. There was some variation in the intentions of SME employer across sectors.

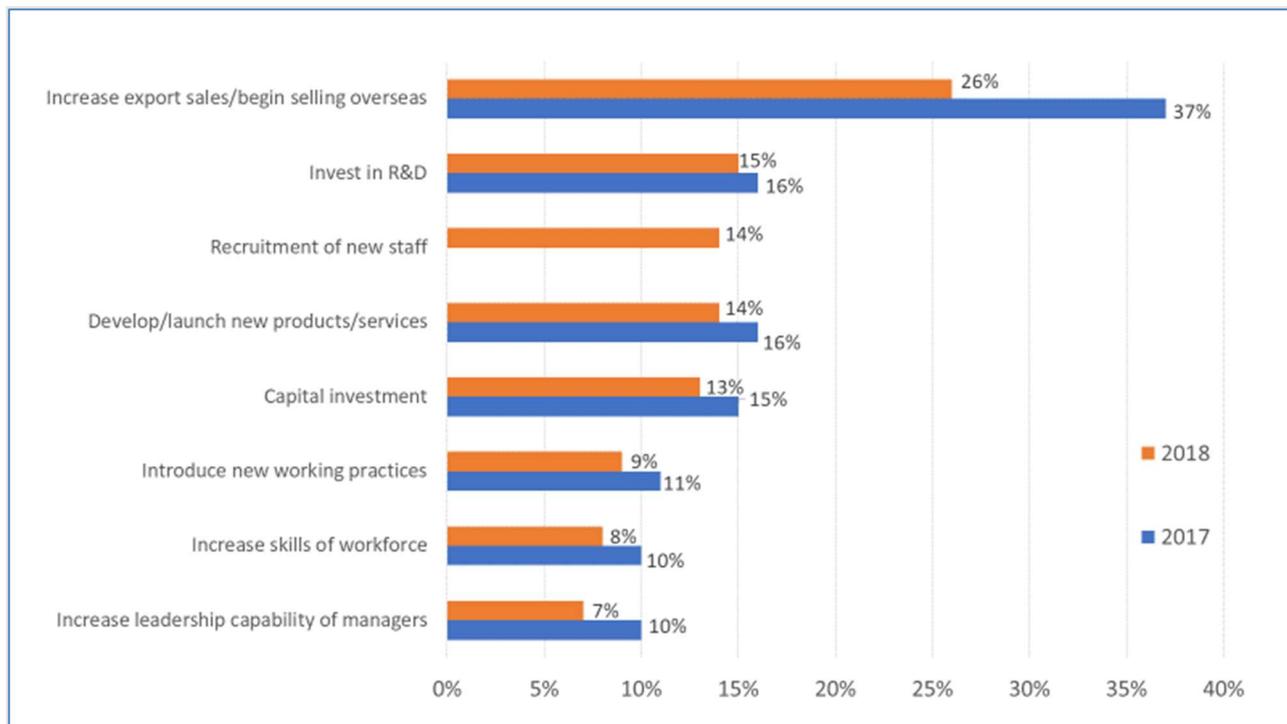
- Businesses in health (74%), finance and real estate (69%) and professional and scientific (68%) were most likely to plan to *increase the skills of the workforce*.
- Businesses in health (62%) and administrative services (61%) were more likely than average to plan to *recruit new staff*.
- Businesses in health (50%) and administrative services (48%) were more likely than average to plan to *increase leadership capability*.
- Businesses in health (51%) were more likely than average to plan to introduce *new working practices*.

- Businesses in information and communication (55%), retail and wholesale (44%), and manufacturing (42%) were most likely to plan to *develop and introduce new products and services*.
- Businesses in the primary sector (59%), manufacturing (47%), and accommodation and food service (39%) were most likely to plan to *make capital investments*.
- Businesses in information and communication (48%), manufacturing (34%), and professional and scientific (27%) were most likely to plan to *invest in R&D*.
- Businesses in information and communication (36%), manufacturing (35%), professional and scientific (26%) and retail and wholesale (23%) were most likely to plan to *increase export sales or begin selling to new overseas markets*.

Whether plans for growth-related activities have been affected by UK exit from the EU (cohort B only)

205. The following section concerns those SME employers which planned to undertake specific growth-related activities. Only cohort B were asked these questions. Note that businesses were being interviewed from July 2018 until January 2019.
206. Those with plans to *increase export sales or begin selling to new overseas markets* were most likely to have had these plans affected by UK exit from the EU (26%). This was 11 percentage points lower than the equivalent figure in 2017. Of those whose plans for this have been affected, 22% had scaled up their plans, 32% had scaled them down, and for 42% their plans were at the same level. Plans had been brought forward by 16%, 45% had pushed them back, and for 38% the timings were unaffected.
207. Of those that had planned to *invest in R&D*, 15% had their plans affected. This was a similar proportion to 2017. Of those whose plans for this have been affected, 17% had scaled up their plans, 55% had scaled them down, and for 24% their plans were at the same level. Just 9% had brought forward their plans, 60% had pushed them back, and for 27% the timings were unaffected.

Figure 9.4: Plans affected by UK exit from the EU (2017 and 2018; based on SME employers that plan to undertake each growth-related activity; cohort B only)



208. The UK’s exit from the EU was reported to have affected 14% of those with plans for *recruitment of new staff*, similar to the 14% of those that planned to *develop or launch new products or services*, and 13% of those that planned to make *capital investment*.

209. Those that had planned to *introduce new working practices*, *increase the skills of the workforce* and *increase the leadership capability of managers* were less likely to have these plans affected (9%, 8% and 7% of those with each type of plan respectively).

210. For each of these types of plan affected, SME employers were more likely to have scaled down plans rather than scaled them up. This was particularly true of recruitment of new staff, where 50% had scaled down plans, and only 10% had scaled them up.

211. In the same vein, these affected businesses were more likely to have pushed back plans than brought them forward. This was particularly the case for capital investment, where 65% had pushed back plans, compared to 12% who had brought them forward.

10. Profiles of SMEs

212. This section gives a snapshot picture of SME employers in terms of their physical characteristics and ownership.

Changes in the organisation in the last 12 months (panel only)

213. SME employers that were panellists, ie those that had taken part in both the 2017 and 2018 surveys, were asked whether specific changes had occurred in the last 12 months. The picture is one of stability.

- 6% had gained or lost directors in day-to-day control of the organisation.
- 4% had opened or closed a new branch, site or office.
- 4% had changed their ownership structure.
- 3% had moved their head office.
- 2% became VAT registered for the first time.
- 1% had changed their legal status.
- 1% had changed the principal activity of their business.
- For 85%, **none** of these changes had occurred.

Number of sites

214. In 2018, 87% operated from a single site. This proportion was two percentage points higher than in 2017, but the same as in 2015. In 2018, 12% had multiple sites and 1% reported that they were unsure.

215. The more employees in an enterprise, the more likely it is to have multiple sites. Looking at micro businesses, 9% had multiple sites, compared with 24% of small businesses and 52% of medium-sized ones.

216. By sector, those most likely to have multiple sites were health (19%), information and communication (16%) and finance and real estate (15%).

Business premises in residential settings

217. Of SME employers surveyed, 25% located the main work premises in their home or the home of the business's owner. This was four percentage points higher than in 2017, but a similar proportion to that seen in 2015.

218. Looking at micro businesses, 29% worked out of a domestic address, compared to 11% of small businesses and 1% of medium-sized ones.
219. By sector, 46% of SME employers in the primary sectors, 41% in construction, 36% in information and communication and 30% in professional and scientific sectors worked from a domestic address.
220. Those in manufacturing (12%), retail and wholesale and other services (both 14%) and health (15%) were least likely to be home based.
221. There was little variation between the UK nations in the rate of home-based businesses. In Scotland and Wales 28% of SME employers were home-based, while in England and Northern Ireland the rate was 25%.
222. Looking at businesses in rural areas, 33% were home-based, compared with 22% in urban areas.

Age of business

223. In 2018, 14% of SME employers first started trading 0 to 5 years previously (ie between 2013 and 2018), 17% started trading 6 to 10 years previously, 26% 11 to 20 years previously, and 42% 21 years or more previously¹⁹.
224. Small and medium-sized businesses tended to be older than micro businesses. Looking at young businesses, 15% of micro businesses were aged 0 to 5 years, compared to 10% of small businesses and 5% of medium-sized ones. At the other end of the scale, 40% of micro businesses were aged 21 or more years, compared to 50% of small businesses and 61% of medium-sized ones.
225. By sector, those most likely to be aged 0 to 5 years were in accommodation and food service (28%) and finance and real estate (19%) sectors.
226. SME employers in Northern Ireland (23%) were more likely to be aged 0 to 5 years than those in Wales (17%), England (14%) and Scotland (10%).

Legal status²⁰

227. Of SME Employers surveyed, 70% were private limited companies, limited by shares. An estimated 13% were sole proprietors, 7% were partnerships and 5% were private companies limited by guarantee (CLGs). About 1% each were limited liability partnerships (LLPs), industrial and provident societies (IPS) and charitable incorporated organisations (CIOs). Less than 0.5% each were public limited

¹⁹ The 2018 sample, in which top-ups were in the majority, was younger overall than in 2017, when panellists were in the majority. In 2017, 9% of SME employers were aged 0 to 5 years, 13% 6 to 10 years, 22% 11 to 20 years, and 56% 21 or more years.

²⁰ Note that in 2018 we substantially recoded legal status using Companies House data. Therefore, there is limited comparability with figures from past LSBS surveys.

companies (PLCs), community interest companies (CICs) and community benefit societies (CBS).

228. Looking at micro businesses, 69% were private companies limited by shares, as were 79% of small businesses and 83% of medium-sized ones. The proportion of micro businesses that were sole proprietors was 15%, compared with 3% of small businesses and less than 0.5% of medium-sized ones.
229. Not-for-profit enterprises tended to have alternative legal statuses, tending not to be limited by shares, sole proprietors, or any form of partnership. They were mainly CLGs, although others were IPS, CIOs, CBS, CICs or described themselves as trusts, friendly societies, co-operatives, royal charter companies or unincorporated associations. Overall, 9% of SME employers had these alternative legal statuses.
230. By sector, these alternative legal statuses were most common in health (47%), other services (42%), arts and entertainment (41%) and education (39%).

Registered charity status

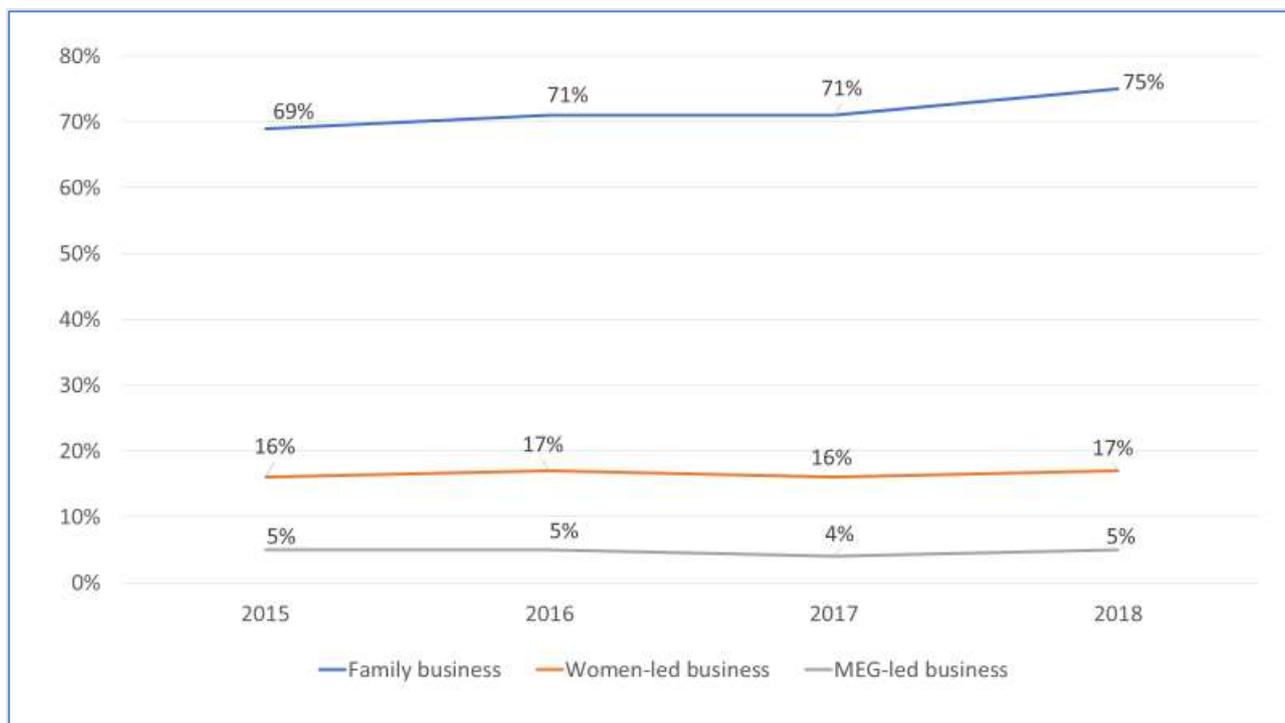
231. In 2018, 5% of SME employers were registered charities. The figure for micro businesses was 5%, compared with 7% of small enterprises and 8% of medium-sized ones.
232. Of those with alternative legal statuses as described above, 62% had charitable status. Of those with other legal statuses, less than 0.5% were registered charities.
233. By sector, charitable status was most common in health (44%), education (33%), other services (31%) and arts and entertainment (24%).

Number of owners or partners

234. Of SME employers surveyed, 40% had just one owner or business partner, 39% had two, 13% had between three and five, and 2% had six or more. About 7% (mainly not-for-profit organisations) claimed to have no owners or partners.
235. The number of owners or partners increases with size of business. About 19% of medium-sized businesses had a single owner, compared with 26% of small businesses and 43% of micro businesses.

Family-owned businesses

Figure 10.1: Ownership and leadership of SME employers (2015 to 2018)



236. Of SME employers surveyed, 75% were defined as family-owned businesses: majority owned by members of the same family. Businesses with just a single owner or partner were also classified as family businesses, and those with no owners were classified as not being family businesses. The proportion of family-owned businesses increased by four percentage points since 2017.
237. Family-owned businesses were more common among smaller enterprises, comprising 78% of micro businesses, 61% of small businesses and 52% of medium-sized businesses.
238. By sector, family businesses were most likely in the primary sector (93%), retail and wholesale (84%), transport and construction (both 83%) and accommodation and food service (78%).

Women-led businesses

239. An estimated 17% of SME employers were majority-led by women, defined as controlled by a single woman or having a management team of which a majority were women. This figure was consistent with those from the LSBS surveys from 2015 to 2017.
240. There was a smaller proportion of women-led medium-sized businesses (11%), compared with small businesses (18%) and micro businesses (17%). This was also the case in previous surveys.

241. Women-led businesses were most likely in health (37%), education (31%), other services (27%), accommodation and food service (22%) and administration and support (21%).
242. While 17% of SME employers were women-led, a further 24% were 'equally-led', with an equal number of men and women in the management team. The majority of these had two owners or directors (92%).
243. A further 10% of SME employers had a minority of women in the management team and 43% were entirely male-led.

Minority Ethnic Group-led businesses

244. An estimated 5% of SME employers were minority ethnic group led (MEG-led), defined as having a person from an ethnic minority in sole control of the business or having a management team with at least half of its members from an ethnic minority. There was no significant difference in the overall proportion of MEG-led businesses since 2015.
245. MEG-led businesses were more likely in health (9%), retail and wholesale, accommodation and food service and administration and support (all 7%). They were less likely in the primary sector (less than 0.5%), construction and manufacturing (both 3%) and professional and scientific sectors (4%). Typically, the proportion where we do not know if a business is MEG-led is more than the proportion that is known to be MEG-led. For education, health, arts and entertainment and other services, the proportion where we do not know is 20% or higher; for SME employers as a whole the proportion is 8%.
246. MEG-led businesses were most common in London (16%) and the West Midlands (8%). They were least common in the North East and Northern Ireland (both 1%), and Scotland, Wales and the South West (all 2%).
247. Of MEG-led businesses with multiple owners or directors²¹, the most likely ethnic origins were Indian (37%), followed by Other Asian²² (14%), Pakistani (13%), Chinese (10%), Black Caribbean (7%), Black African, Arab and Mixed White/Asian (all 6%), Mixed White/Black Caribbean, Bangladeshi and Other Black background (all 2%).
248. Of MEG-led businesses with a single owner/director, the most likely ethnic origin was Indian (26%), followed by Pakistani (16%), Other Asian (14%), Black African (11%), Chinese (8%), Mixed White and Black African and Bangladeshi (both 5%).

²¹ Multiple answers were possible at this question.

²² ie not Indian, Pakistani, Bangladeshi or Chinese.

Notes on this release

Aims of the survey

249. This report sets out the key findings for the 2018 Longitudinal Small Business Survey (LSBS), a large-scale mainly telephone (CATI²³) survey of 15,015 UK small business owners and managers, commissioned by the Department for Business, Energy and Industrial Strategy (BEIS). This survey is the latest in a series of annual and biennial Small Business Surveys (SBS) dating back to 2003. The 2018 survey on this occasion was conducted between July 2018 and January 2019 by BMG Research Ltd.
250. The 2018 survey follows from the 2015, 2016 and 2017 surveys which had sample sizes of 15,502, 9,248 and 6,619 respectively. The 2015 survey was the largest SBS yet undertaken. The main reason for this large sample size was to allow the survey to have a longitudinal tracking element, establishing a panel of businesses that might be re-surveyed in subsequent years, enabling a detailed analysis of how combinations of factors affect business performance through time. Any panel will have an element of attrition, hence the need for a large sample size in 2015.
251. In 2018 it was decided to boost this panel significantly. In addition to 4,486 interviews with enterprises that had already completed at least one LSBS survey between 2015 and 2017, 10,529 top-up interviews were also conducted. Top-ups were needed for the following reasons:
- to represent sections of the SME population that were not active in the year three survey, ie businesses less than one year old
 - to represent sectors in the raw data that may be under-represented due to business closure, or the difficulty of securing an interview (eg in cases where businesses work away from their main offices)
 - to increase the sample size in Northern Ireland, to allow for meaningful analysis on a nation basis
252. All interviews were conducted with owner or proprietors, managing directors or other senior directors in UK-based enterprises. For the top-ups, named contact details were not supplied and it was necessary to screen to find an appropriate respondent. The average interview length was 22.5 minutes (18 minutes for panellists, 24 minutes for top-ups).

²³ Computer Assisted Telephone Interviews. 14,958 interviews were conducted via CATI, and a further 57 were conducted online using Computer Assisted Web Interviews (CAWI).

253. The main aim of the survey is to collect a range of information on small and medium-sized enterprises (SMEs²⁴). The survey measures:

- recent turnover and employment growth
- capabilities (in terms of their ability to innovate, export, train staff, etc)
- experience of accessing finance
- use of business support
- expectations of growing turnover and employment
- the major obstacles that prevent SMEs fulfilling their potential
- the characteristics of SMEs such as the number of sites they occupy, the number of owners, whether they have separate business premises, etc
- the characteristics of their owners and leaders

254. There are three main reports based on the 2018 LSBS:

- this report, a **cross-sectional report** based on **SME employers**. A cross-sectional report is a snapshot of the state of SMEs at a point in time, this one being 2018 (interviews took place from July 2018 until January 2019)
- similarly, a **cross-sectional report** based on businesses with **no employees**, which has been published at the same time as this report
- a **longitudinal report** based on those businesses that responded in all four years of the survey, to be published in June 2019. This looks at the main changes that apply to the panellists from year to year, and what appears to influence these changes

255. There were 23 interviews with large employers with 250 or more employees. The reason for interviewing these is that these businesses had been SMEs previously when first interviewed in 2015-17 and had grown since. They form a part of the longitudinal analysis, but not the cross-sectional analysis.

Survey method

256. Of the 6,619 interviews conducted in 2017, 5,826 (88%) agreed to a follow-up interview. The objective was to obtain the highest possible number of repeat interviews with these panelists. 3,941 were interviewed between July 2018 and January 2019 (68% response rate, up from 63% in the 2017 survey). Of these,

²⁴ Defined here as having fewer than 250 employees.

1,001 had no employees, 14 were large businesses with 250+ employees, and the remainder (2,926) were SME employers. This group is known as the full panel.

257. In addition, 2,020 businesses interviewed in 2015 and 2016 but not in 2017 could be re-approached for interview (ie they had given permission for re-interview and had not refused to take part in 2015 or 2016 or ceased trading). Of these 545 were interviewed in 2018, a response rate of 27% (up from 17% in 2017), of which 456 were SME employers. This group is known as the past panel.

258. In addition to these, 10,529 top-up interviews were conducted (8,101 of which were SME employers), for reasons explained in the paragraphs above. As a result, the total sample size in the 2018 survey was 15,015, of which 11,483 were SME employers.

259. The top-ups were sampled using a method consistent with the 2015-17 surveys:

- the sample was stratified within each of the four UK nations
- targets were set according to the employment size of enterprises and, within those targets, by 1-digit sector (Standard Industrial Classification (SIC) 2007²⁵)
- the targets over-represented businesses with five to 249 employees substantially in comparison with their actual numbers within the business population
- the Inter Departmental Business Register (IDBR) was used as the sample source for registered businesses
- Dun & Bradstreet's database was used as the sample source for unregistered businesses with no employees and contacts were screened out if they either had employees on their payroll or paid value added tax (VAT), as these would have duplicated contacts found within the IDBR
- the IDBR is a record of all UK enterprises that pay VAT or Pay As You Earn tax (PAYE), which contains around 2.7 million unique entries for enterprises. The BEIS Business Population Estimates (BPE) publication estimates around 5.7 million enterprises in the UK in total. The difference in the figures is explained by the number of unregistered enterprises that do not pay VAT or PAYE, estimates of which primarily comes from the Labour Force Survey (LFS). This is the reason why Dun & Bradstreet was retained as the source for top-up businesses with no employees, as its database has better coverage of unregistered businesses

²⁵ See

<https://www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities/uksic2007> for more information.

- 2018 top-up businesses from Dun & Bradstreet do not feature in this report as they are all non-employers. There are some panellists and past panellists who may be included in this report who entered LSBS in previous years as non-employers but who have become employers by the 2018 survey
 - The targets within the sample stratification matrix were informed by the 2017 BPE²⁶, the latest available at the time. However, survey findings were weighted to the 2018 BPE²⁷ which became available towards the end of fieldwork. The 2018 BPE was used for weighting as it more accurately represented the IDBR contacts used for the survey, as well as providing a more up-to-date picture of UK small businesses than the 2017 BPE
260. A 336-cell sample stratification matrix was devised, the targets within each cell informed by the 2017 BPE. These cells were as follows:
- 14 'one digit' SIC 2007 categories (ABDE, C, F, G, H, I, J, KL, M, N, P, Q, R, S)
 - multiplied by six size categories (unregistered zero employees, registered zero employee, 1-4 employees, 5-9 employees, 10-49 employees, 50-249 employees)
 - multiplied by four nations (England, Scotland, Wales, Northern Ireland)
261. Once the sample was drawn, informed by differential likely telephone-matching success rates for each cell (based upon experience from the previous surveys), no quotas were employed on size, sector or any other criteria except for country, as the sample for Northern Ireland was boosted above its actual proportion in the business population in order to obtain a minimum of 500 interviews.
262. A review of the 2017 questionnaire was undertaken through consultations with stakeholders. This resulted in several alterations to existing questions from previous surveys, new question additions and deletions. The changes were informed by the requirement to balance stakeholders' emergent needs with the desire to exploit the longitudinal power of the survey. The consultation was followed up by a live pilot of 100 interviews of the adjusted 2018 questionnaire.
263. Based on all sample taken prior to fieldwork, the response rate for full panellists was 68%, five percentage points higher than in 2017. For past panellists, the response rate was 27%, ten percentage points higher than in 2017. For IDBR top-

²⁶ <https://www.gov.uk/government/statistics/business-population-estimates-2017>. The figures were drawn from a combination of the Inter Departmental Business Register (IDBR) which contains all businesses operating VAT or PAYE schemes or which were registered at Companies House, and the household survey-based Labour Force Survey (LFS) which is the main source for estimating the number of the self-employed and very small businesses.

²⁷ <https://www.gov.uk/government/statistics/business-population-estimates-2018>. Method of data collection as above.

ups the response rate was 18%, the same as in 2017. For Dun & Bradstreet top-ups, the response rate was 6%, four percentage points lower than in 2017. The technical report gives more information on outcomes for the sample, including contact rates and error rates in the sample frames.

Other publications

264. We are publishing four sets of data tables with this release, allowing users to look up results for most questions in the survey. The tables provide results for all SME employers and breakdowns by UK nation, by size band (micro, small and medium-sized businesses) and by industry. The tables are organised by whether they are longitudinal questions or one of the cohort questions. We have tried to make it clear throughout this report when we are discussing a cohort question, to make it easier for you to find the underlying data table.
265. At the same time as this report, BEIS publishes the corresponding SME non-employers' report and its underlying data tables.
266. We will publish the panel report (with longitudinal analyses based on the businesses that have taken part every year since 2015), and a technical report (which will include a copy of the questionnaire used in the 2018 survey) on 27 June 2019.
267. During the summer of 2019 we will deposit the cleaned microdata with the Office for National Statistics' Secure Research Service and with the UK Data Service. The dataset will be available to approved researchers for secondary analysis.
268. We plan to conduct another wave of the survey, with interviews starting in July 2019. At the time of writing we expect to be publishing results for this wave in May 2020.

New strategies in the 2018 survey

269. Some new methods were piloted in the 2018 survey, their primary purpose being to improve the response rate for panellists and top-ups alike. These were as follows:
 - **online.** Respondents who were unable to do a telephone interview during working hours were given the option to do the survey online via Computer Assisted Web Interviewing (CAWI) software. This was done by 57 respondents
 - **pre-mailing.** Panellists who had previously completed surveys were sent emails to inform them of the upcoming survey. This was not possible for top-ups as no email details were held in the IDBR. Therefore, in 2018 a portion of the IDBR²⁸-sourced top-up sample was posted a letter on BEIS headed paper,

²⁸ For legal reasons, Dun & Bradstreet sourced top-ups were not sent a letter.

explaining the survey and inviting businesses to take part, with links to the previous published report, guarantees of privacy and anonymity, and contact telephone numbers and emails at BMG and BEIS for those that wanted further information. The letter was signed by the Chief Statistician in BEIS's Analysis Directorate. Eight thousand letters were posted to a random selection of IDBR contacts for whom telephone numbers had been obtained. The letters were addressed to Dear Sir/Madam, as the IDBR does not contain the names of individuals within enterprises. A control group of 44,000 IDBR-sourced contacts for whom telephone numbers had been obtained were not sent letters. Of the 8,000 sent the letter, 1,044 completed LSBS 2018, an overall response rate of 13%. This compares with the control group, for whom the overall response rate was 19%. This suggests that the pre-mailing was not effective at boosting response rates for this survey

- **cohorts.** One of the main reasons given by respondents who do not want to participate in LSBS is that the interview length is too long. In 2018, BEIS made a commitment to bring down the average interview length, to help boost response rates, and to generally attempt to reduce the burden on respondents. Three cohorts (A, B and C) were created. Each cohort was exclusively asked a series of non-key questions. For example, only cohort A was asked questions on business energy usage, awareness and usage of LEPs, credit and late payment and apprenticeships. Cohorts were selected at random upon reaching a point in the interview after section C. The use of this system helped to bring down the overall average interview length to 18 minutes for panellists, and 24 minutes for top-ups. This shorter interview length may also be one of the reasons why better response rates were achieved in 2018 than in previous years, especially for full and past panellists. We will continue to use cohorts in the 2019 survey

Sector definitions

270. Throughout this report, data tables show sectoral analysis by one-digit SIC 2007 codes. Because of relatively small numbers in the business population and survey sample, some of these sectors are grouped together: ABDE, labelled as primary, comprises (A) agriculture, fishing and forestry, (B) mining and quarrying, (D) electricity and gas, and (E) water, sewerage and waste management; KL comprises (K) finance and insurance, and (L) real estate.

271. To gain a better picture of the types of businesses that fall into each sector category, the following gives the most populous sub-sectors for SME employers at the three-digit level²⁹:

- **ABDE (primary).** There were 60,700 UK SME employers in this sector in 2018. The sector is dominated by farming. The three most populous sub-

²⁹ These figures are taken from the 2018 Business Population Estimates, which contain more information such as turnover shares: <https://www.gov.uk/government/statistics/business-population-estimates-2018>

sectors within the category were animal production (39%), growing of non-perennial crops (22%) and mixed farming (14%)

- **C (manufacturing).** There were 87,510 UK SME employers in this sector in 2018. Manufacturing is the most classified sector, with 95 three-digit SIC codes. The most populous sub-sectors within the category were treatment and coating of metals (10%), and printing (8%)
- **F (construction).** There were 169,865 UK SME employers in this sector in 2018. The most populous sub-sectors within the category were electrical and plumbing (30%), building completion (25%) and building construction (18%)
- **G (retail and wholesale, and repair of motor vehicles and motorcycles).** There were 240,735 UK SME employers in this sector in 2018. The most populous sub-sectors within the category were retail sale in specialised stores (16%), maintenance and repair of motor vehicles (13%), and retail sale in non-specialised stores (12%)
- **H (transport and storage).** There were 47,470 UK SME employers in this sector in 2018. The most populous sub-sectors within the category were road freight transport (43%) and other passenger land transport (mainly taxi businesses, 17%)
- **I (accommodation and food service).** There were 132,635 UK SME employers in this sector in 2018. The most populous sub-sectors within the category were restaurants (62%) and pubs and bars (22%)
- **J (information and communication).** There were 83,525 UK SME employers in this sector in 2018. The most populous sub-sector within the category was computer programming and consultancy (73%)
- **KL (financial and real estate).** There were 66,290 UK SME employers in this sector in 2018. The most populous sub-sectors within the category were estate agents (34%), property rentals (29%) and auxiliary financial services (16%)
- **M (professional and scientific).** There were 195,240 UK SME employers in this sector in 2018. The most populous sub-sectors within the category were management consultancy (30%), architecture and engineering (20%) and accountancy (13%)
- **N (administrative services).** There were 123,730 UK SME employers in this sector in 2018. The sector was dominated by business support services not elsewhere classified (43%). This is a miscellaneous category, and many businesses classified here could be included in other sectors. Sector N also included house or business cleaning (13%) and landscaping (8%)
- **P (education).** There were 19,710 UK SME employers in this sector in 2018. The most populous sub-sector within the category was 'other education' (59%, eg driving schools and sports coaches). The next most populous was pre-primary education (14%)

- **Q (human health and social work).** There were 60,605 UK SME employers in this sector in 2018. The most populous sub-sectors within the category were medical and dental (42%) and residential care visitors (21%)
- **R (arts and entertainment).** There were 26,550 UK SME employers in this sector in 2018. The most populous sub-sectors within the category were sports activities (44%), creative and arts (35%) and amusement and recreation (15%)
- **S (other services).** There were 68,135 UK SME employers in this sector in 2018. The sector was dominated by other personal service activities (87%). This includes hairdressing/beauty, funeral directors and dry cleaning

Uncertainty

272. Since the LSBS questioned a sample of UK SMEs, rather than all of them, there is inevitably a level of uncertainty around the estimates we derive from the survey and how close they will be to the true values.

Coverage and representativeness

273. Users might wonder if the sample we have used is adequately representative of the *target population* (the UK SME population). We have used two sampling frames to draw our sample from. One is the IDBR from the Office for National Statistics, which has excellent coverage of registered businesses in the UK, as it is regularly updated with information from HMRC. We use the Dun & Bradstreet service to provide us with a sample of unregistered businesses.
274. The coverage of the unregistered business population is less well understood. It is likely that the Dun & Bradstreet frame is good for well-established businesses that advertise their presence in trade directories for example. You can imagine a small business owner that relies on word of mouth and a few repeat customers, and has no wish to expand the business for the moment (for example, there are people who make birthday cakes and other cakes in their own kitchens at home, who might have at most a Facebook page or Instagram account to advertise themselves). Neither of our sampling frames is likely to list this kind of small business.
275. Our sample is deliberately unrepresentative in the sense that it overrepresents larger SMEs, and also overrepresents non-English businesses. This is to ensure that we have reasonable sample sizes for medium-sized businesses, Scottish businesses etc. A truly proportionate sample would otherwise contain just a handful of medium-sized businesses. We produce survey weights so that analysts can nevertheless arrive at estimates that take due account of the actual distributions in the population – the micro businesses have larger weights than the medium-sized businesses for example.
276. Another way that our sample might be unrepresentative is that the businesses that take part in the survey (which is after all voluntary) are different from the businesses that we sample but do not agree to take part, with respect to the various questions we ask. This is known as non-response bias. For example, if

struggling businesses are more likely to refuse to take part than thriving ones, then our final achieved sample will underrepresent struggling businesses, and estimates of things like future ambition, that might differ considerably between struggling and thriving businesses, might be biased.

277. It is hard to quantify non-response bias. We have taken a number of standard steps to try to minimise its risk. The research company that conducted our interviews made multiple attempts for each sampled business for which we could obtain a telephone number, so that we can get more of the reluctant businesses, and we did not have hard quotas for each of our 'target cells' (quotas for a target cell, for example 25 interviews of micro businesses in finance and real estate in Wales, can encourage an interviewer to give up quickly on reluctant businesses and focus on snapping up as many easier businesses as possible in order to meet their quota as quickly as possible). Sampled businesses were also given contact details for government officials so they could confirm the survey was genuine and official.

Sampling uncertainty

278. It is possible to quantify the amount of uncertainty that arises from using a sample instead of interviewing the entire population. There are a number of ways of doing this, but we will focus on using so-called *confidence intervals*.
279. In order to run our survey, we drew a random sample. This means that on another day we would have drawn a different sample. With our actual sample, we estimated that 76.5% of SME employers in 2018 made a profit or generated a surplus in the previous financial year. But it is possible that another random sample might have found that number to be 80.1%, or 76.2%, even though the actual true figure is unchanging. This is known as sampling variability.
280. What we can do is produce a *95% confidence interval* around an estimate. In the case of this profitability measure, the interval goes from 75.5% to 77.5%. The interval has been calculated using a method that, for 95% of the possible random samples we could have drawn, will produce an interval that actually contains the true value of this profitability measure. Each different random sample would have a different confidence interval, but 95% of the time the interval produced will contain the true value. So, our actual survey estimate is 76.5%, and we are 95% confident that the true value is in the range 75.5% to 77.5%.
281. Our survey contains hundreds of measures and it is not practical to produce confidence intervals for each one of them. Instead, table 11.1 summarises the sampling uncertainty for the key measures reported in this publication.
282. Most of the estimates from this survey are presented as proportions or percentages (such as 10%). If this was an estimate relating to all UK SME employers, then we look at the 'all UK' row and the column for estimates at 10%. The confidence interval is given as +/- 0.7%. So our confidence interval around the 10% estimate is 10% +/- 0.7%, that is, from 9.3% to 10.7%. We are 95% confident that the true figure is between 9.3% and 10.7%.

283. If the estimate had been closer to 30% or to 70%, then our interval would have used +/-1.1% instead of +/- 0.7%, according to Table 11.1. When estimates are close to 50%, that is the 'worst case scenario' in the sense that the confidence intervals are at their widest. They narrow more as the estimate moves away from 50% (in either direction). So the intervals are slightly narrower for 30% or 70% estimates, and narrower still for 10% and 90% estimates.
284. Confidence intervals get narrower when you have larger sample sizes too. If our 10% estimate is for medium-sized businesses employers rather than for all UK SME employers, we use a different row of the table, and find the confidence interval to be 10% +/- 1.4%. If we have an estimate of 65% for the construction sector, that is pretty close to 70% so we use that column of the table and arrive at an approximate confidence interval of 65% +/- 3.6%.
285. Table 11.1 is useful for estimates of proportions, but cannot be used for other measures. For example, we have estimated a mean amount of external finance sought for by SME employers - £366,000. Table 11.1 cannot be used to produce a confidence interval for this estimate, though it can be done (it is +/- £80,000)³⁰.

Which differences are statistically significant?

286. Generally, throughout this report where we talk about differences (between the estimate for a subgroup and the total, say, or between two subgroups) we mean they are different even after taking account of the sampling variability. This is often described as *statistically significant*. Where we simply list numbers that are different (for example 'England (41%), Scotland (38%), Wales and Northern Ireland (both 36%)') this does not necessarily mean that they are statistically significantly different from each other. Where we draw attention to some estimate being 'higher', or a subgroup being 'most likely', or single out a sector as higher than the rest, this is a statistically significant difference.
287. For example, we have stated the following in chapter 4: *By sector, apprenticeships were most likely to have been started in health (23%), construction (20%) and education (19%). Apprenticeship starts were least likely in arts and entertainment (5%), finance and real estate (6%) and accommodation and food services (8%).*
288. This does not mean that health is statistically significantly more likely to have had apprenticeship starts than construction and education. But all three of these sectors were statistically significantly more likely than the rest of the SME employers; they are more likely than average. Similarly, we are 95% confident that the three other sectors mentioned were less likely than average, even though there is some uncertainty over those specific figures of 5%, 6% and 8%.

³⁰ The underlying data tables published alongside this report contain something called 'standard errors' for estimates that are not proportions, such as amount of finance sought, or number of employees. Standard errors are another way of quantifying the sampling variability. As a rule of thumb, twice the standard error gives you the '+/-' for a 95% confidence interval, which is how we calculated the +/- £80,000 figure above.

Table 11.1: SME employers – 95% confidence intervals in survey findings – nation, size band and sector³¹

	Sample size	Confidence interval for an estimate of 10% or 90%	Confidence interval for an estimate of 30% or 70%	Confidence interval for an estimate of 50%
All UK	11,483	+/- 0.7%	+/- 1.1%	+/- 1.2%
England	9,744	+/- 0.8%	+/- 1.2%	+/- 1.3%
Scotland	836	+/- 2.9%	+/- 4.4%	+/- 4.8%
Wales	460	+/- 3.5%	+/- 5.5%	+/- 6.0%
Northern Ireland	443	+/- 3.9%	+/- 5.5%	+/- 5.8%
Micro businesses (1-9 employees)	5,317	+/- 0.9%	+/- 1.3%	+/- 1.4%
Small businesses (10-49 employees)	4,158	+/- 0.9%	+/- 1.4%	+/- 1.5%
Medium-sized businesses (50-249 employees)	2,008	+/- 1.4%	+/- 2.0%	+/- 2.2%
ABDE. Primary sector	401	+/- 3.5%	+/- 5.4%	+/- 5.9%
C. Manufacturing	1,248	+/- 2.3%	+/- 3.4%	+/- 3.7%
F. Construction	953	+/- 2.4%	+/- 3.6%	+/- 4.1%
G. Retail and wholesale	2,009	+/- 1.6%	+/- 2.4%	+/- 2.7%
H. Transport and storage	418	+/- 3.7%	+/- 5.8%	+/- 6.5%
I. Accommodation and food service	1,127	+/- 2.5%	+/- 3.7%	+/- 4.0%
J. Information and communication	578	+/- 3.0%	+/- 4.8%	+/- 5.2%
KL. Financial and real estate	518	+/- 3.0%	+/- 4.5%	+/- 4.9%
M. Professional and scientific	1,408	+/- 1.8%	+/- 2.9%	+/- 3.2%
N. Administration and support	936	+/- 2.7%	+/- 4.1%	+/- 4.4%
P. Education	252	+/- 5.8%	+/- 8.3%	+/- 8.8%
Q. Human health	953	+/- 2.8%	+/- 4.3%	+/- 4.7%
R. Arts and entertainment	258	+/- 4.8%	+/- 7.1%	+/- 8.0%
S. Other services	424	+/- 3.7%	+/- 5.4%	+/- 6.0%

For cohort questions, the margins of error increase by about 70% - for example +/- 2.0% becomes +/- 3.4%

This table applies to estimates of proportions

³¹ See the uncertainty section for how to use this table.



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