



LONGITUDINAL SMALL BUSINESS SURVEY 2017: BUSINESSES WITH NO EMPLOYEES

Summary

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- **Twenty-six per cent of businesses with no employees reported growth in turnover** (value of sales) in the last year. Forty-eight per cent had approximately the same turnover and 23 per cent had a fall in turnover. The proportion indicating lower turnover was nine percentage points higher than in 2016.
- **Twenty-seven per cent of businesses with no employees expected turnover to increase in the next 12 months**, 53 per cent thought it would remain roughly the same and 15 per cent thought it would be lower. Compared to 2016 fewer businesses expected an increase in turnover (down four percentage points on 2016).
- **Sixteen per cent of businesses with no employees employed someone 12 months previously**. This proportion was higher than 2016, up seven percentage points.
- **Twenty-seven per cent of businesses with no employees introduced new or significantly improved goods or services, twelve per cent introduced new or significantly improved processes**. These levels are roughly similar to 2016.
- **Five per cent of businesses with no employees had sought external finance in the 12 months preceding interview**. This was a drop of three percentage points on 2016.
- **Sixteen per cent of businesses with no employees had sought external information or advice in the last 12 months**. This was a slight increase on 2016.
- **Thirty-nine per cent of businesses with no employees planned to grow their turnover over the next three years**. This was the lowest figure yet seen since 2011 - five percentage points lower than in 2016, and eight percentage points lower than in 2015.

- As in the previous year, the **obstacle that was most cited by businesses with no employees was competition in the market** (45 per cent). The other three most cited obstacles were **regulation/red tape** (32 per cent), **late payment** (26 per cent), and **taxation** (25 per cent).
- **Nearly two thirds of businesses with no employees either considered that UK exit from the EU would not have an impact on their business or did not know.** One quarter thought it would be detrimental and seven per cent thought it would be beneficial. Compared with 2016 a lower proportion believed it would be beneficial (a drop of five percentage points).
- **Forty-two per cent of businesses with no employees that considered EU exit to be either beneficial or detrimental to their business said they felt prepared for it,** compared with 25 per cent who felt they were unprepared.
- **Twenty-one per cent of businesses with no employees were majority-led by women.** This figure was just one percentage point lower than in 2016 and 2015.
- **Five per cent of businesses with no employees were majority led by people of a minority ethnic group (MEG-led).** There was no statistically significant difference in the overall proportion of MEG-led businesses between 2015 and 2017.
- **Seven per cent of businesses with no employees were social enterprises,** 16 per cent were socially-orientated SMEs, and two per cent were traditional non-profit organisationsⁱ.

All differences discussed in this report are statistically significant at the 95% confidence level, unless otherwise stated.

ⁱ See paragraph 116 for more details on definition.

Contents

1. Business performance	1
Changes in the levels of employment.....	1
Expectations for employment growth.....	2
Changes in levels of turnover.....	2
Expectations of turnover in 12 months' time.....	3
Profit.....	4
2. Exporting	6
Sales of goods or services outside the UK in the last year.....	6
Destinations of exports.....	6
Goods or services imports in the last 12 months.....	7
Plans to increase exports, start exporting and intermittent exporting.....	7
3. Innovation activity	9
New or significantly improved goods, services or processes.....	9
Innovations which were new to market or industry.....	10
4. Access to external finance	11
Types of external finance currently used.....	11
Whether businesses sought external finance in the last 12 months.....	12
Reasons for applying for external finance.....	12
Type of external finance sought.....	13
Success in obtaining finance.....	13
Intentions to apply for external finance in the next three years.....	14
Trade credit and late payment.....	14

5. Major obstacles to the success of the business.....	15
Overview of main obstacles.....	15
Specific obstacles	16
6. Business support.....	17
Use of external information or advice in the last year	17
Purpose of strategic advice sought (England and Wales only)	17
Purpose of information sought (England and Wales only)	18
Sources of external information and strategic advice (England and Wales only)	19
How information or strategic advice was delivered (England and Wales only).....	20
Paying for strategic advice (England and Wales only)	20
Unmet information and advice needs (England and Wales only).....	20
7. Future plans.....	21
Growth ambitions	21
Plans to undertake growth-related activities	22
8. Attitudes of business with no employees to UK exit from the EU.....	23
Whether UK exit from the EU will be beneficial or detrimental to businesses	23
Whether businesses are prepared for UK exit from the EU	23
9. Profiles of businesses with no employees.....	24
Number of sites.....	24
Business premises in residential settings	24
Age of business.....	24
Legal status.....	25
Social enterprises.....	25
Number of owners/partners.....	26

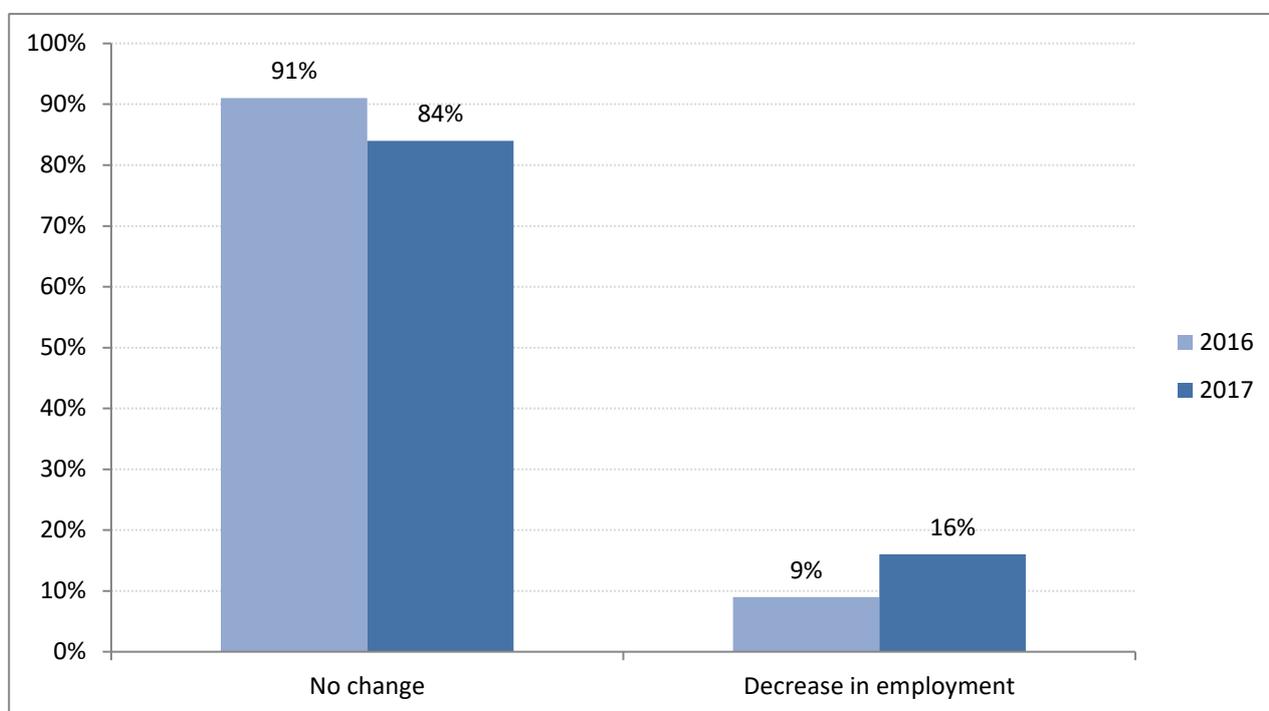
Women-led businesses	27
Minority Ethnic Group-led businesses	27
Notes on this release	28
Aims of the survey	28
Definitions	29
Survey method	29
Note on the report	31
Sector definitions.....	31
Note on Figure 1.1	32
Statistical confidence.....	32

1. Business performance

Changes in the levels of employment

1. Sixteen per cent of businesses with no employees that had traded for at least a year employed at least one person 12 months ago. Compared with 2016 there was a seven-percentage point increase in this proportion.
2. Registered² businesses with no employees were more likely to have had at least one employee a year ago than those that were unregistered (27 per cent compared with 11 per cent).

Figure 1.1: Change in employment compared to 12 months previously (businesses that have been trading for at least a year)³



3. By sector⁴, those in finance/real estate (26 per cent), professional/scientific (22 per cent) and information/communication (21 per cent) were most likely to have reduced their employment levels.

² The definition for registered and unregistered businesses is given at paragraph 139.

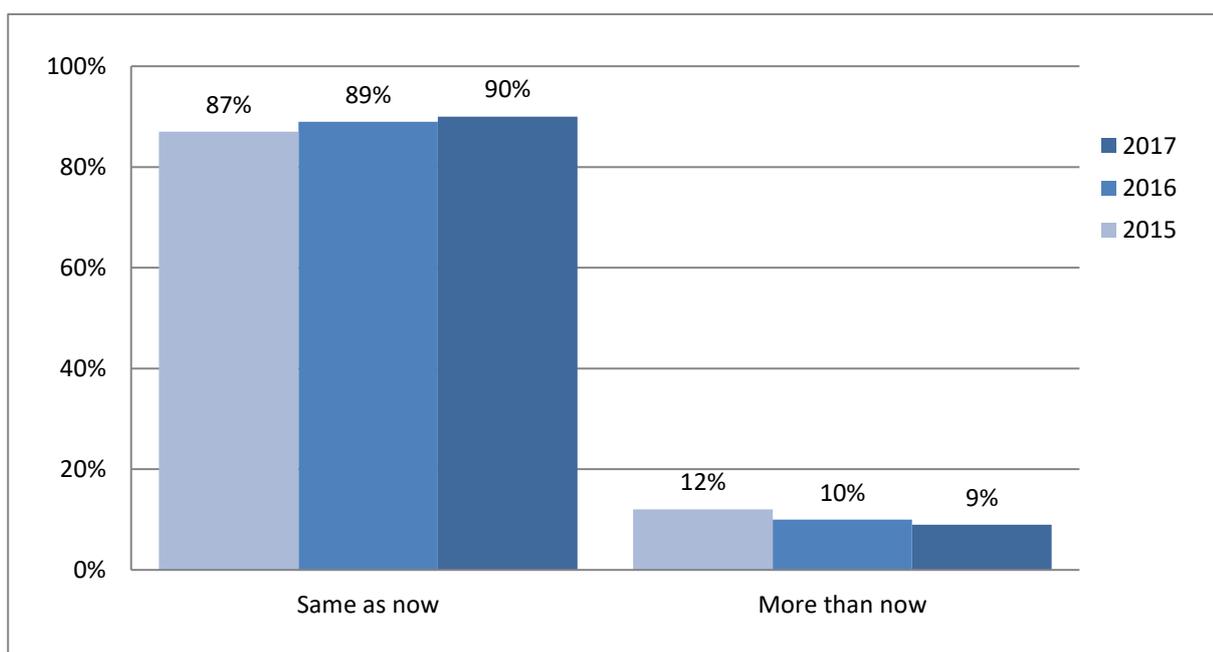
³ This analysis is based only on the responses of panellists (those that were interviewed in both 2016 and 2017). See paragraph 1167 for more details.

⁴ See note on sector (paragraph 146).

Expectations for employment growth

4. Nine per cent of businesses with no employees expected to increase employment in a year's time, and 90 per cent expected not to. These overall proportions were very similar to those seen in 2015 and 2016.
5. Registered businesses with no employees were more likely than unregistered businesses to expect to employ people in a year's time (12 per cent compared with eight per cent).

Figure 1.2: Expectations for employment in 12 months' time by employment size



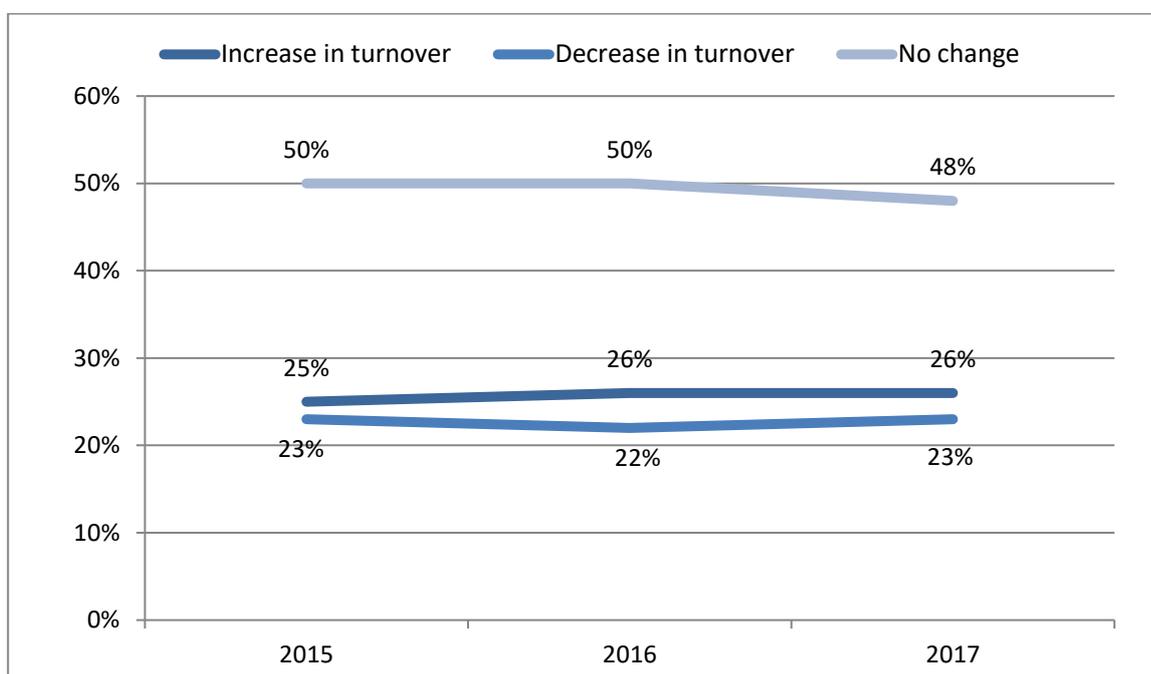
6. By sector, businesses in retail/wholesale (14 per cent) were more likely to expect to employ people.
7. By nation, businesses with no employees in Northern Ireland and Scotland were more likely than those in England and Wales to have thought that they would employ people in the next 12 months (16 per cent and 13 per cent, compared with nine per cent and ten per cent respectively).

Changes in levels of turnover

8. Twenty-six per cent of businesses with no employees (having traded for at least one year) reported growth in turnover (value of sales) since a year previously. Forty-eight per cent had approximately the same turnover and 23 per cent had a fall in turnover. The proportion indicating lower turnover was nine percentage points higher than in 2016.

9. There was little difference between registered and unregistered businesses with no employees in the proportion that increased turnover (29 per cent and 25 per cent respectively).
10. By sector, businesses with no employees in health (43 per cent), administrative services (38 per cent) and finance/real estate (36 per cent) were most likely to report growth in turnover. Those in transport (33 per cent), retail/wholesale (31 per cent) and professional/scientific (29 per cent) were most likely to report a decline in turnover.

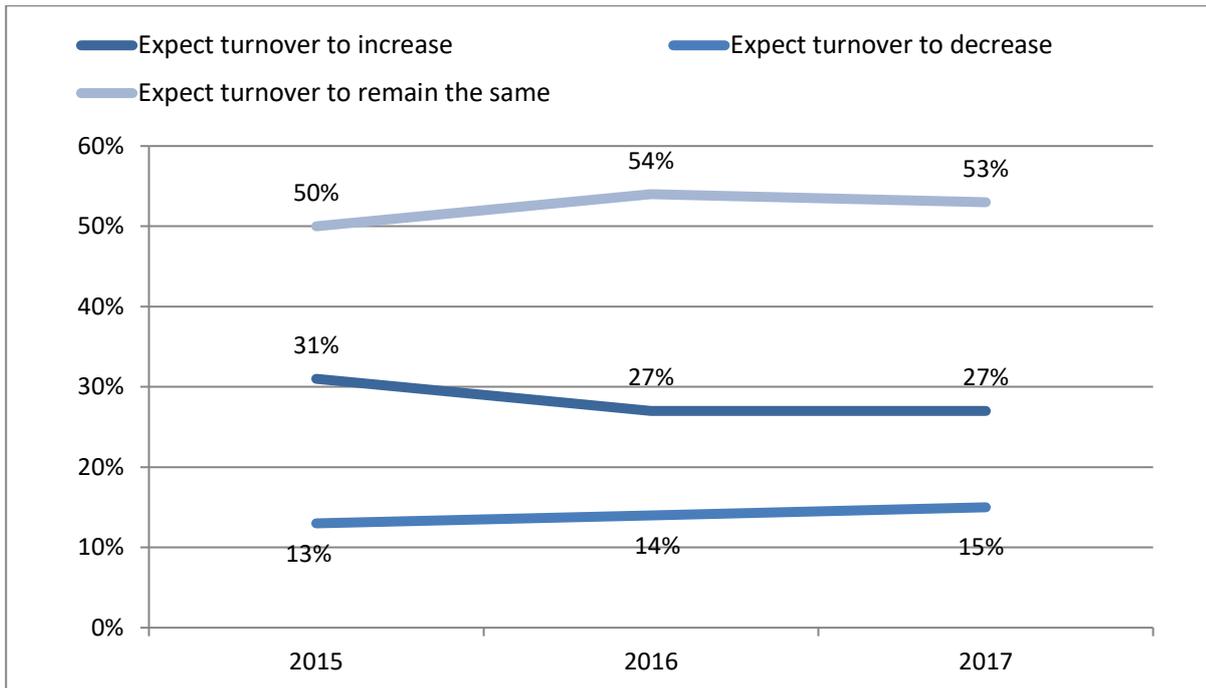
Figure 1.3: Current turnover compared to 12 months previously, by year (based on businesses with no employees trading for at least a year)



Expectations of turnover in 12 months' time

11. Twenty-seven per cent of businesses with no employees expected turnover to increase in the next 12 months, 53 per cent thought it would remain roughly the same and 15 per cent thought it would be lower. Compared to 2016, fewer expected turnover to increase (a drop of four percentage points).
12. Registered businesses with no employees were more likely than unregistered businesses to expect an increase in turnover (32 per cent compared with 26 per cent). The proportions that expected a decrease were similar (16 per cent and 15 per cent respectively).
13. By sector, businesses with no employees in finance/real estate (42 per cent) and administrative services (37 per cent) were more likely than average to think turnover would increase. Those in transport/storage (28 per cent) were more likely than average to think that turnover would decrease.

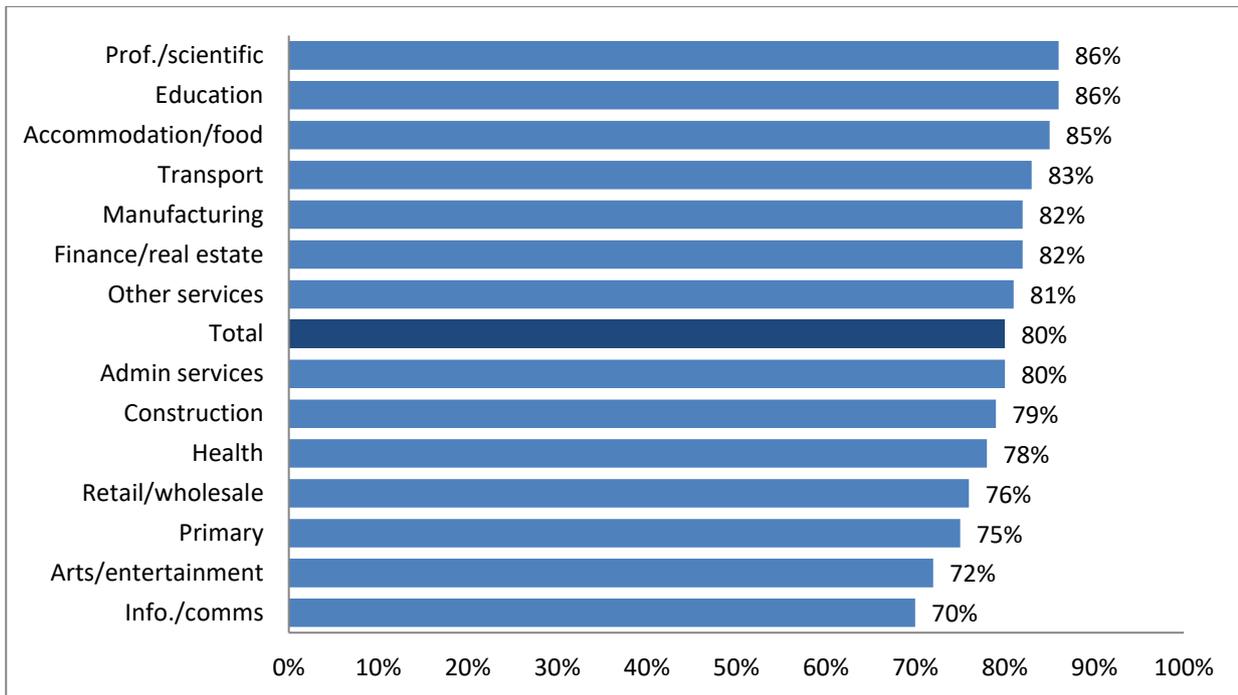
Figure 1.4: Expectations of turnover in 12 months' time



Profit

14. Eighty per cent of businesses with no employees generated a profit or surplus in their last financial year, four percentage points higher than in 2016 and 2015. In comparison, 82 per cent of SME employers did so.
15. By sector, those in the professional/scientific sector (86 per cent) were most likely to have made a profit. Those in information/communications (70 per cent) were least likely to have made a profit.

Figure 1.5: Percentage of business with no employees that generated a profit or surplus in the last financial year, by sector⁵



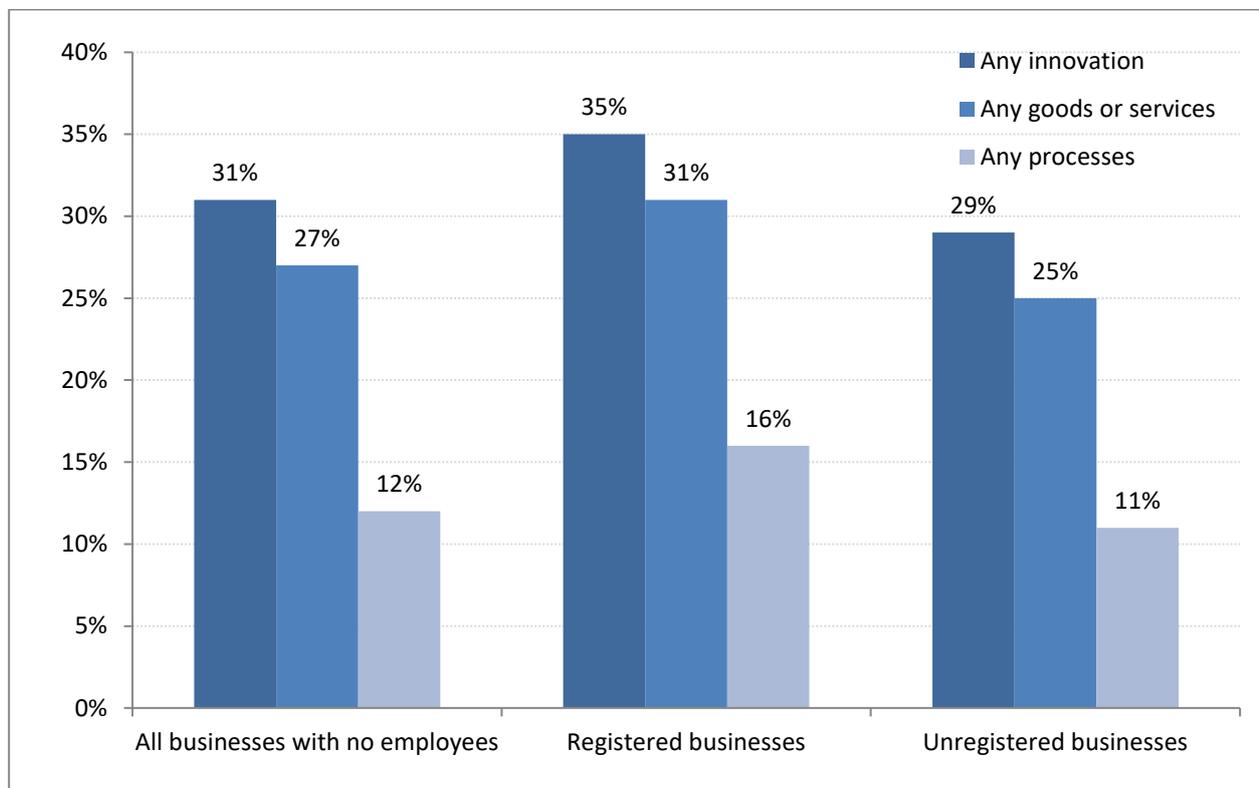
⁵ See notes on sector (paragraph 146).

2. Exporting

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

16. Overall, 12 per cent of businesses with no employees exported goods or services in the last year. This proportion is two percentage points higher than in 2016.
17. Registered businesses with no employees were more likely to have done so than unregistered businesses (21 per cent and nine per cent respectively).

Figure 2.1: Whether sold goods or services or licensed products outside the UK in the last 12 months, by sector



18. By sector, businesses in the information/communication (28 per cent), retail/wholesale (27 per cent), manufacturing (23 per cent) and professional/scientific (19 per cent) sectors were most likely to export. Businesses in the construction, other services (both two per cent) and primary (five per cent) sectors were least likely to export.

Destinations of exports

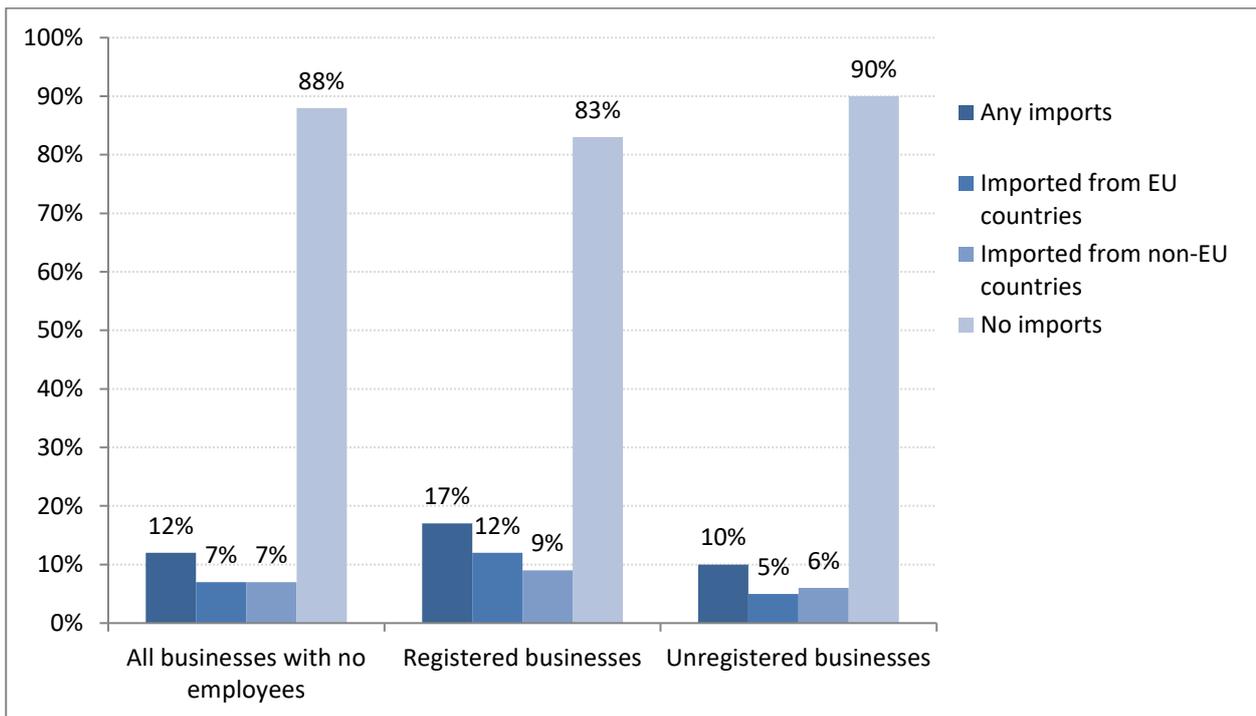
19. Of businesses with no employees that exported in the last year, 69 per cent exported to (non-UK) European Union countries and 60 per cent exported outside the EU. Twenty-nine per cent exported *only* to the EU, whereas 20 per cent *only* exported to the rest of the world. These proportions were very similar to those seen in 2016 (29 per cent and 24 per cent respectively).

- 20. By nation and similarly to SME exporters, businesses with no employees based in Northern Ireland that have exported were least likely to have exported to non-EU countries (34 per cent) and were most likely to have exported *only* to the EU (53 per cent).
- 21. By sector, exporters to the EU were most common in the retail/wholesale (92 per cent) sector.

Goods or services imports in the last 12 months

- 22. Twelve per cent of businesses with no employees imported goods or services in the previous year, the same as in 2016. The equivalent proportion for SME employers was 21 per cent.
- 23. Registered businesses with no employees were more likely to have imported goods or services in the previous year than non-registered businesses (17 per cent compared with ten per cent).

Figure 2.2: Sources of imports, by employment size



- 24. The sectors most likely to have imported goods or services were retail/wholesale (27 per cent), manufacturing (24 per cent) and information/communications (23 per cent)

Plans to increase exports, start exporting and intermittent exporting

- 25. Forty-three per cent of current exporters planned to increase their level of exports over the next few years (down three percentage points on 2016). The equivalent proportion for SME employer exporters was 58 per cent.

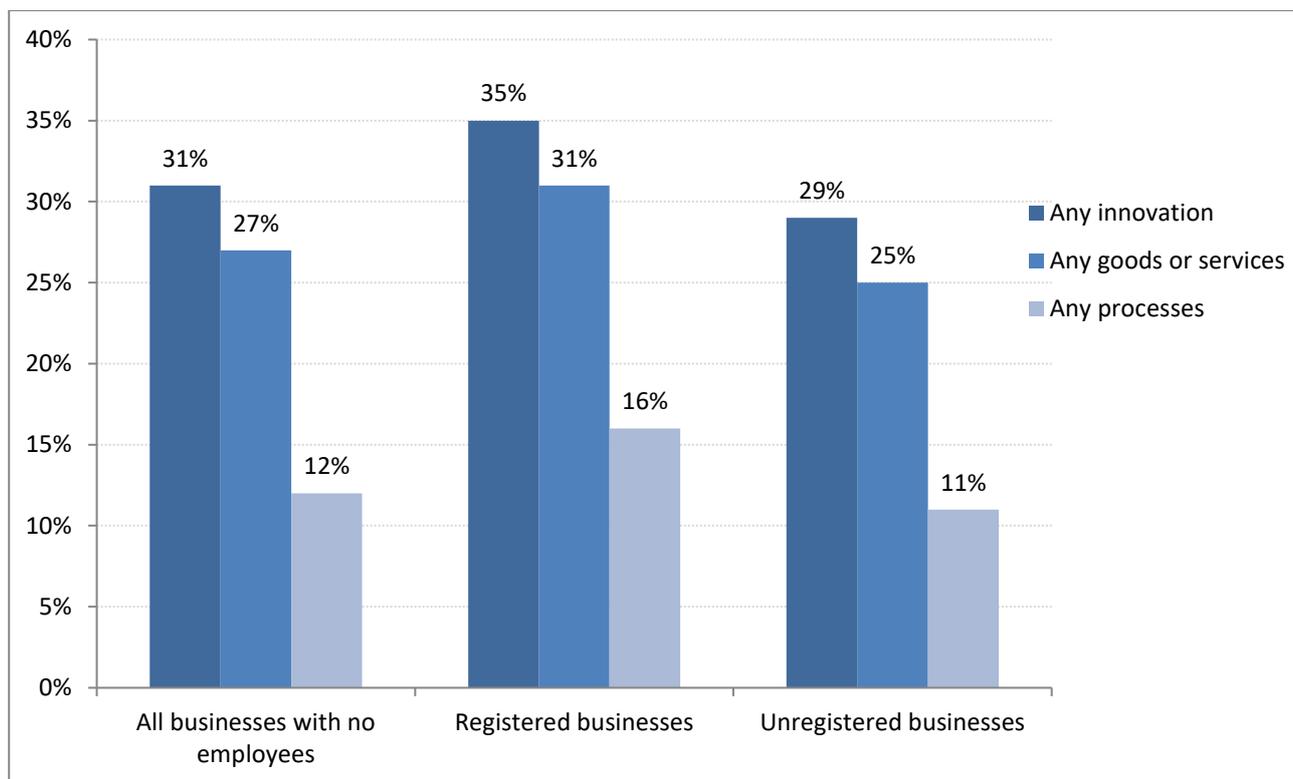
26. Of businesses with no employees that do not currently export, four per cent plan to export in the future. This was very similar in 2016 and 2015 (five per cent and four per cent respectively). It compared to three per cent of SME employers that do not currently export.
27. Non-exporters in the information/communications sector were most likely to consider future exporting activity (15 per cent of businesses), as were registered businesses (seven per cent compared with three per cent of unregistered zero employee businesses).
28. Of businesses with no employees that have exported for two years or longer, 52 per cent have had overseas sales every year since they started exporting, and 42 per cent have had some years without overseas sales. This compared with 67 per cent and 31 per cent respectively of SME employers.
29. Of those exporters that had some years without overseas sales, the main reason for this was that they only received occasional orders from overseas (38 per cent). Thirteen per cent said that they preferred to concentrate on UK markets, five per cent said that exporting was not profitable for them, and four per cent that they did not have time to pursue exporting.
30. Overall, 29 per cent of businesses with no employees had goods or services that were suitable for export. This was a similar proportion to the 2016 survey (28 per cent). Most likely to have had goods or services suitable for export were registered zero employee businesses (43 per cent, compared to 24 per cent of unregistered ones), and those in the manufacturing (65 per cent), information/communication (62 per cent), retail/wholesale (49 per cent) and professional/scientific (48 per cent) sectors.

3. Innovation activity

New or significantly improved goods, services or processes

31. In 2017, 27 per cent of all businesses with no employees had innovated goods or services in the last three years compared to 35 per cent of all SME employers. This was roughly the same as in 2016, but lower than in 2015 (34 per cent).
32. Registered businesses with no employees were more likely to have innovated goods and services in the last three years than unregistered businesses (31 per cent compared with 25 per cent).
33. By sector, the proportion of businesses with no employees which had innovated goods and/or services was highest in information/communication (45 per cent), accommodation/food (44 per cent), education (42 per cent), manufacturing (39 per cent) and health (38 per cent). The proportion was lowest in the construction (nine per cent) and transport (13 per cent) sectors.
34. Thirteen per cent of businesses with no employees had innovated goods and 22 per cent had innovated services, little change on the previous year.
35. Businesses with no employees in the manufacturing (34 per cent) and information/communications (24 per cent) sectors were most likely to have introduced new or significantly improved goods.
36. Businesses in accommodation/food (42 per cent), education (41 per cent), information/communications (37 per cent) and health (36 per cent) were most likely to have introduced new or significantly improved services.
37. Twelve per cent of all businesses with no employees had innovated processes for producing or supplying goods or services in the last three years. This was the same proportion as in 2016 but, again, lower than in 2015 (16 per cent). It compared with 20 per cent of all SME employers.
38. The proportion was higher for registered than unregistered businesses with no employees (16 per cent compared with 11 per cent).
39. Businesses in the information/communication and professional/scientific sectors (22 and 18 per cent, respectively) were most likely to have introduced new or significantly improved processes.

Figure 3.1: Proportion of businesses with no employees which have introduced new or significantly improved goods, services or processes



Innovations which were new to market or industry

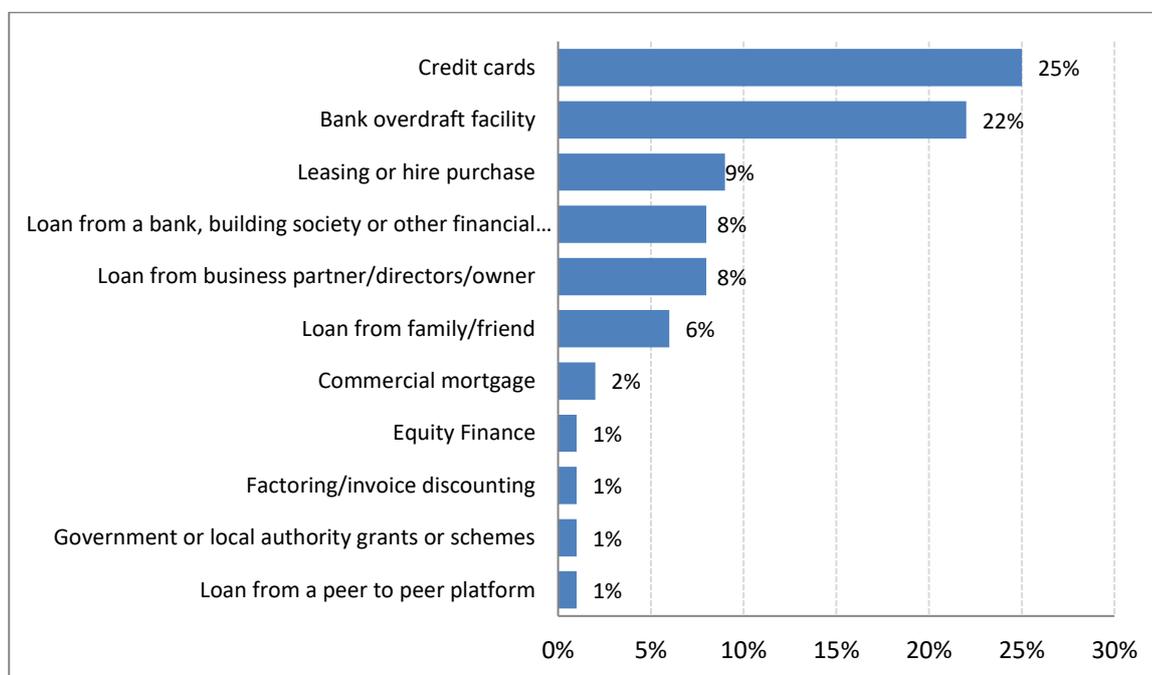
40. Eight per cent of all businesses with no employees had introduced goods or services that were new to the market and three per cent had introduced or significantly improved processes that were new to their industry, roughly the same as in 2016. These proportions compared with ten per cent and four per cent respectively for SME employers.
41. Businesses that introduced goods or services that were new to the market were most likely to be in the information/communication (17 per cent), manufacturing (13 per cent) and professional/scientific (12 per cent) sectors
42. Businesses that introduced processes that were new to the market were most likely to be in the information/communication sector (11 per cent).

4. Access to external finance

Types of external finance currently used

43. Forty-eight per cent of businesses with no employees used external finance (down two percentage points on 2016), compared with sixty-nine per cent of SME employers.
44. Registered businesses with no employees were more likely to use external finance than unregistered businesses (58 per cent compared with 44 per cent).
45. For businesses with no employees the most common forms of external finance used were credit cards (25 per cent; 33 per cent of SME employers), bank overdrafts (22 per cent; 31 per cent of SME employers), leasing/hire purchase (nine per cent; 23 per cent of SME employers) and loans from a bank, building society or other financial institution or from business partners/directors/owners (eight per cent for both; 17 per cent and 15 per cent respectively of SME employers).
46. There were no overall differences in the types of finance used between 2016 and 2017.

Figure 4.1: Proportion of businesses with no employees currently using forms of external finance

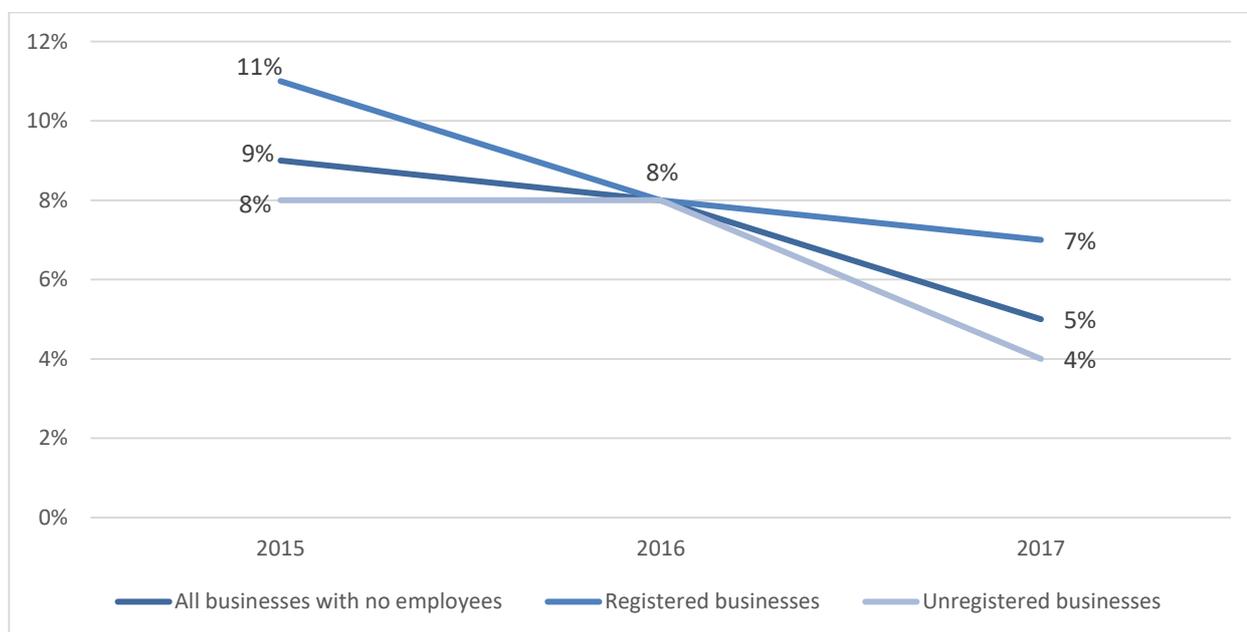


47. Businesses with no employees in the primary sector, largely consisting of agriculture, were most likely to use external finance (69 per cent). Use of finance was lowest in the information/communications (32 per cent) and health (36 per cent) sectors.

Whether businesses sought external finance in the last 12 months

48. Five per cent of businesses with no employees had sought external finance in the last year. This proportion was three percentage points lower than in 2016.
49. Seven per cent of registered zero employee businesses had sought finance, compared to four per cent of unregistered ones.
50. By UK nation, thirteen per cent of businesses with no employees in Northern Ireland sought finance, compared with seven per cent in Scotland and five per cent in England. Less than one per cent of businesses with no employees in Wales sought finance.
51. Businesses with no employees in the accommodation/food and transport/storage sectors (11 and 10 per cent) were the most likely to have applied for finance in the last year.
52. Five per cent of businesses with no employees sought finance once in the previous 12 months (nine per cent of SME employers), and one per cent sought it more than once (four per cent of SME employers). Those in manufacturing (four per cent) were most likely to have sought it more than once in 12 months.

Figure 4.2: Proportion of businesses with no employees that sought external finance in the last year, by year and whether registered or not



Reasons for applying for external finance

53. Sixty-seven per cent of businesses with no employees that had applied for external finance did so to acquire working capital or cash flow, and 30 per cent did so to invest in their business. This compared with 57 per cent and 46 per cent of SME employers that had applied for external finance respectively.

54. The proportion of those seeking finance for working capital decreased by three percentage points compared with 2016, and the proportion seeking finance for investment increased by three percentage points. The lower demand for working capital and increased demand for investment was also seen among SME employers.
55. Compared with 2016, the proportion of businesses with no employees using finance to acquire capital equipment or vehicles decreased by four percentage points.
56. The main reasons for seeking working capital/cash flow were:
- To fund general growth (50 per cent of those seeking finance for working capital; 57 per cent of SME employers);
 - To cover a short-term gap until funds were received from customers (46 per cent; 45 per cent of SME employers);
 - As a safety net, just in case (28 per cent; 31 per cent of SME employers).

Type of external finance sought

57. Thirty-two per cent of businesses with no employees that sought external finance applied for loans from banks or other financial institutions (compared with 38 per cent of SME employers). Twenty-four per cent applied for bank overdrafts (33 per cent of SME employers), 11 per cent for leasing/hire purchase (17 per cent of SME employers), 11 per cent for a government or local authority grant/scheme (15 per cent of SME employers), and 11 per cent for credit cards (12 per cent of SME employers).
58. There was lower demand for each of these types of finance in 2017 than in 2016, with the exception of leasing/hire purchase (up two percentage points). Demand for bank/financial institution loans was down seven percentage points; bank overdrafts was down six percentage points and demand for credit cards was down two percentage points compared with 2016.

Success in obtaining finance

59. Of businesses with no employees that applied for external finance in the last 12 months, 52 per cent were successful in obtaining any finance, and 41 per cent received none. The remaining seven per cent had applications still pending at the time of the interview. This compares with 77 per cent of SME employers receiving any finance, and 12 per cent receiving none.
60. Compared with 2016, the proportion of businesses with no employees that obtained any finance fell by eleven percentage points, and the proportion that received none increased by 15 percentage points.

61. Seventy per cent of registered businesses with no employees obtained any finance (down three percentage points on 2016), compared to 42 per cent of unregistered ones (down 17 percentage points).

Intentions to apply for external finance in the next three years

62. Eleven per cent of businesses with no employees said it was likely that they would approach external finance providers in the next three years (five per cent very likely, six per cent fairly likely), about half of the proportion for SMEs with employees. These proportions were lower than those seen in 2016 (14 per cent overall, six per cent very likely, eight per cent fairly likely).
63. Registered businesses with no employees were more likely than unregistered businesses to say it was likely that they would approach external finance providers in the medium term (14 per cent compared with ten per cent).
64. The proportion was higher in the primary and arts/entertainment sectors (24 and 20 per cent respectively).

Trade credit and late payment

65. Thirty-six per cent of businesses with no employees said they give their customers trade credit (up five percentage points on 2016). This compared with 50 per cent of SME employers.
66. The proportion was higher in registered businesses than in unregistered businesses (47 per cent compared with 31 per cent).
67. Trade credit was most likely to be given by businesses with no employees in the manufacturing, professional/scientific and information/communication sectors (60, 51 and 45 per cent, respectively) and was least likely to be given in health, accommodation/food, arts/entertainment and other services (11, 14, 18 and 20 per cent, respectively).
68. Late payment was considered a problem for 46 per cent of those that give trade credit (16 per cent of all businesses with no employees overall), with 11 per cent of those considering it a big problem. This compared with 55 per cent of SME employers that give trade credit.

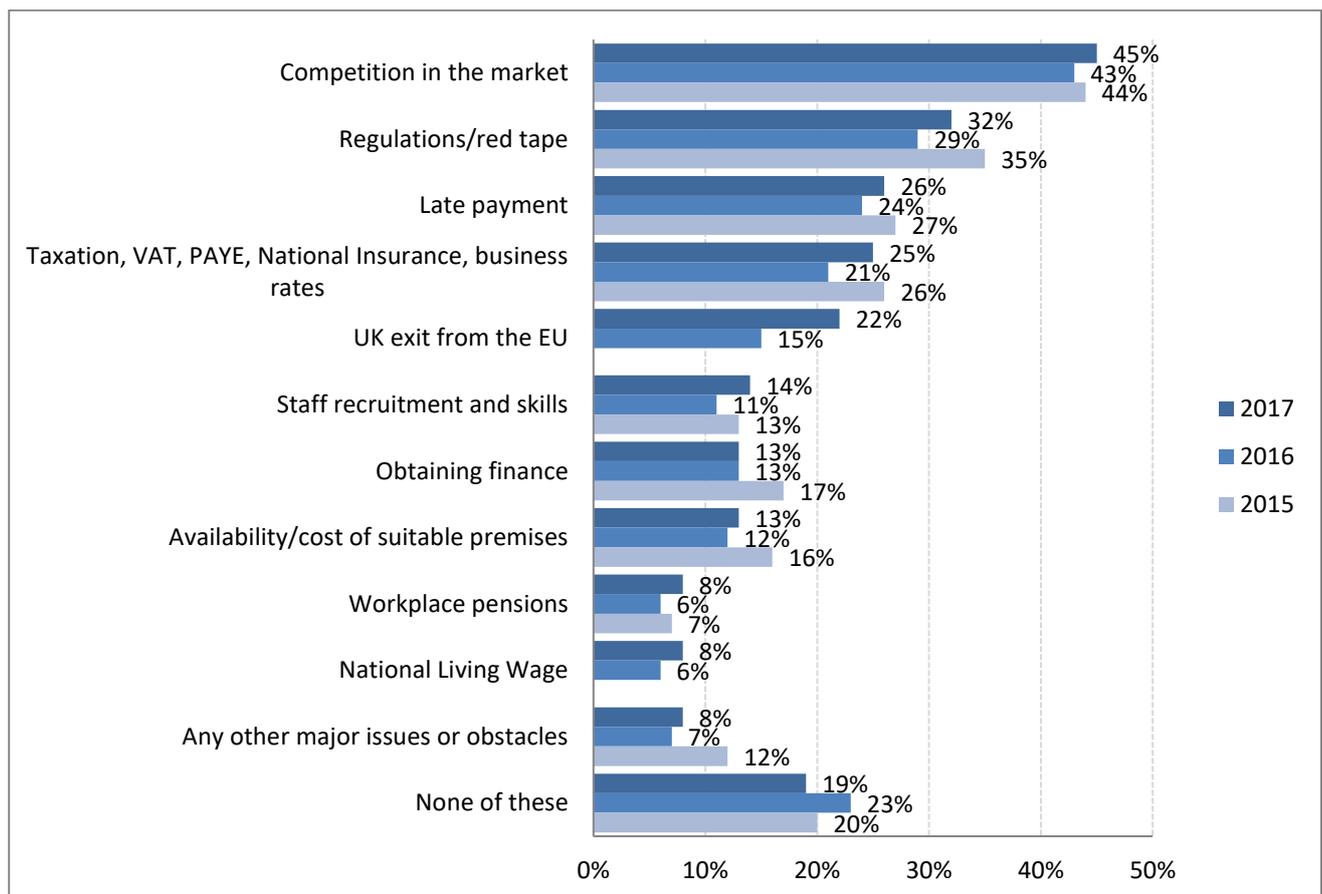
5. Major obstacles to the success of the business

Overview of main obstacles

69. As in the previous year, the obstacle that was most cited by businesses with no employees was competition in the market (45 per cent). The other three most cited obstacles were regulation/red tape (32 per cent), late payment (26 per cent), and taxation (25 per cent).

70. Businesses were more likely to report most of these obstacles than in 2016. In particular, the proportions mentioning taxation and UK exit from the EU increased by four and seven percentage points respectively.

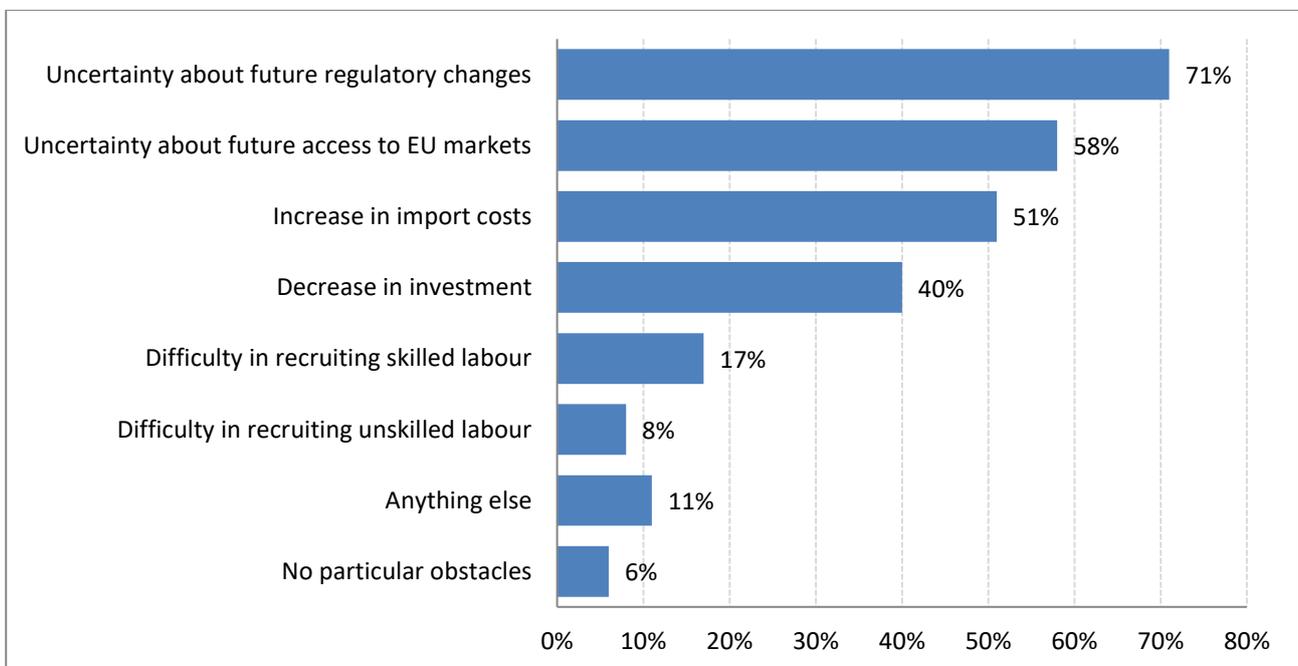
Figure 5.1: Proportion of businesses with no employees citing each major obstacle to the success of the business – by year



Specific obstacles

71. Of businesses with no employees that cited red tape as major obstacles, the most common regulations mentioned were sector specific regulations, tax-related regulations, employment regulations, health and safety, and financial services regulations (16, 15, 9, 8 and 7 per cent of those that considered it an obstacle, respectively).
72. The given reasons for UK exit from the EU being an obstacle to success were uncertainty about future regulatory changes, uncertainty about future access to EU markets, increases in import costs, decreases in investment, difficulty in recruiting skilled labour and difficulty in recruiting unskilled labour (71, 58, 51, 40, 17 and 8 per cent of those that considered it an obstacle, respectively).

Figure 5.2: Reasons given by businesses with no employees that cited EU exit as an obstacle to business success⁶



⁶ The figures are based on businesses with no employees that regarded EU exit as an obstacle to business success.

6. Business support

Use of external information or advice in the last year

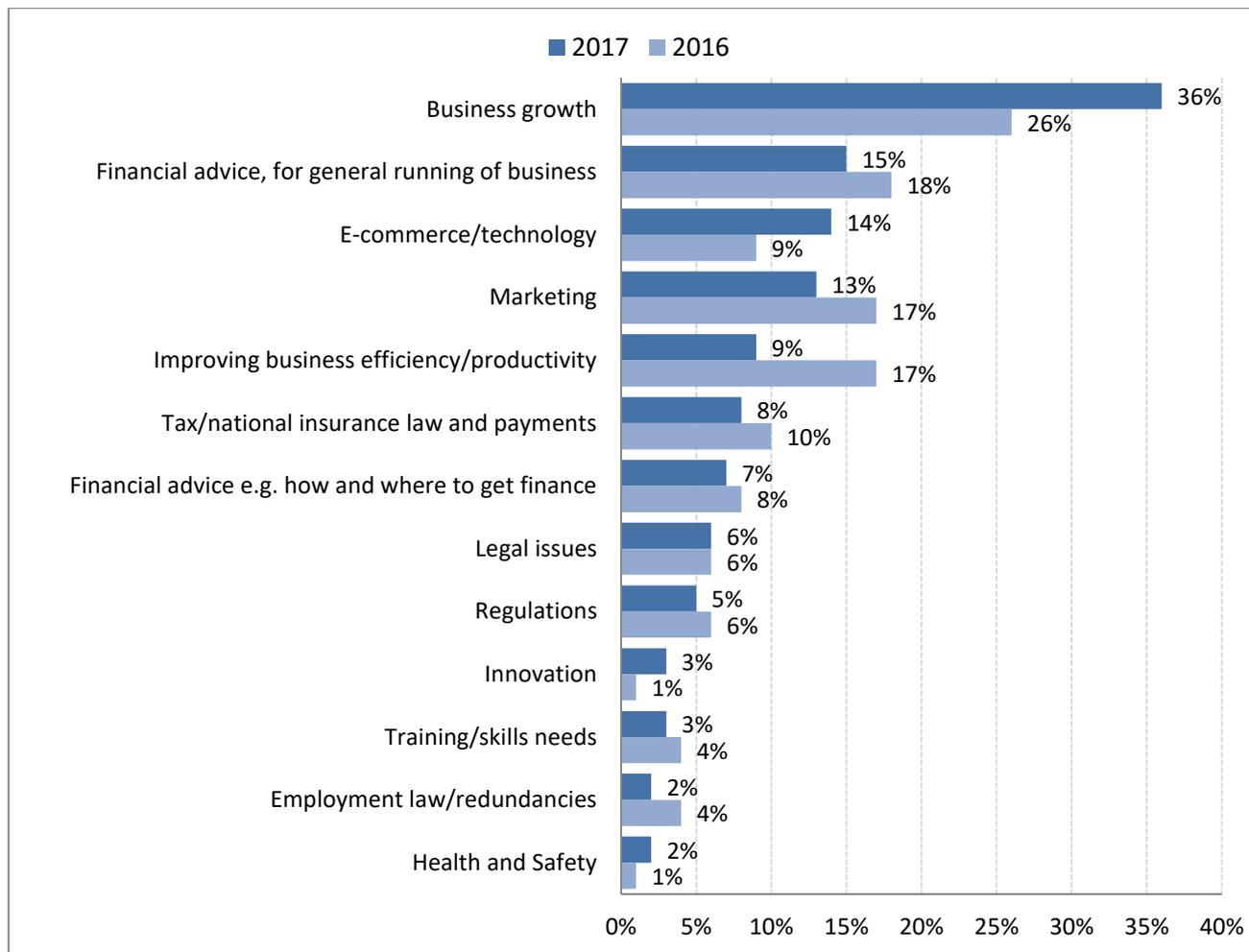
73. Sixteen per cent of businesses with no employees had sought external information or advice in the last 12 months (defined as more than just a casual conversation). This proportion was two percentage points higher than in 2016 but three percentage lower than in 2015. The proportion for SME employers was 29 per cent.
74. Twenty-one per cent of registered businesses with no employees sought information or advice, compared with 13 per cent of unregistered ones.
75. Businesses with no employees which sought information and advice were most likely to be in the primary, health and arts/entertainment sectors (all 24 per cent) and were least likely to be in construction (ten per cent) and retail/wholesale (seven per cent).

Purpose of strategic advice sought (England and Wales only)⁷

76. In 2017, businesses in England and Wales were most likely to have sought strategic advice for business growth (36 per cent), financial advice for the general running of the business (15 per cent), advice on e-commerce/technology (14 per cent) and marketing (13 per cent).
77. Compared with 2016, advice on business growth was sought more often (up ten percentage points), as was advice on e-commerce/technology (up five percentage points), while financial advice for the general running of the business and marketing advice were less likely to be sought (down three and four percentage points respectively).

⁷ Because these sets of questions were asked differently according to nation, the data is not comparable across the UK, and only results from England and Wales are shown here.

Figure 6.1: Purpose of strategic advice sought by businesses with no employees in the last year (England and Wales only)

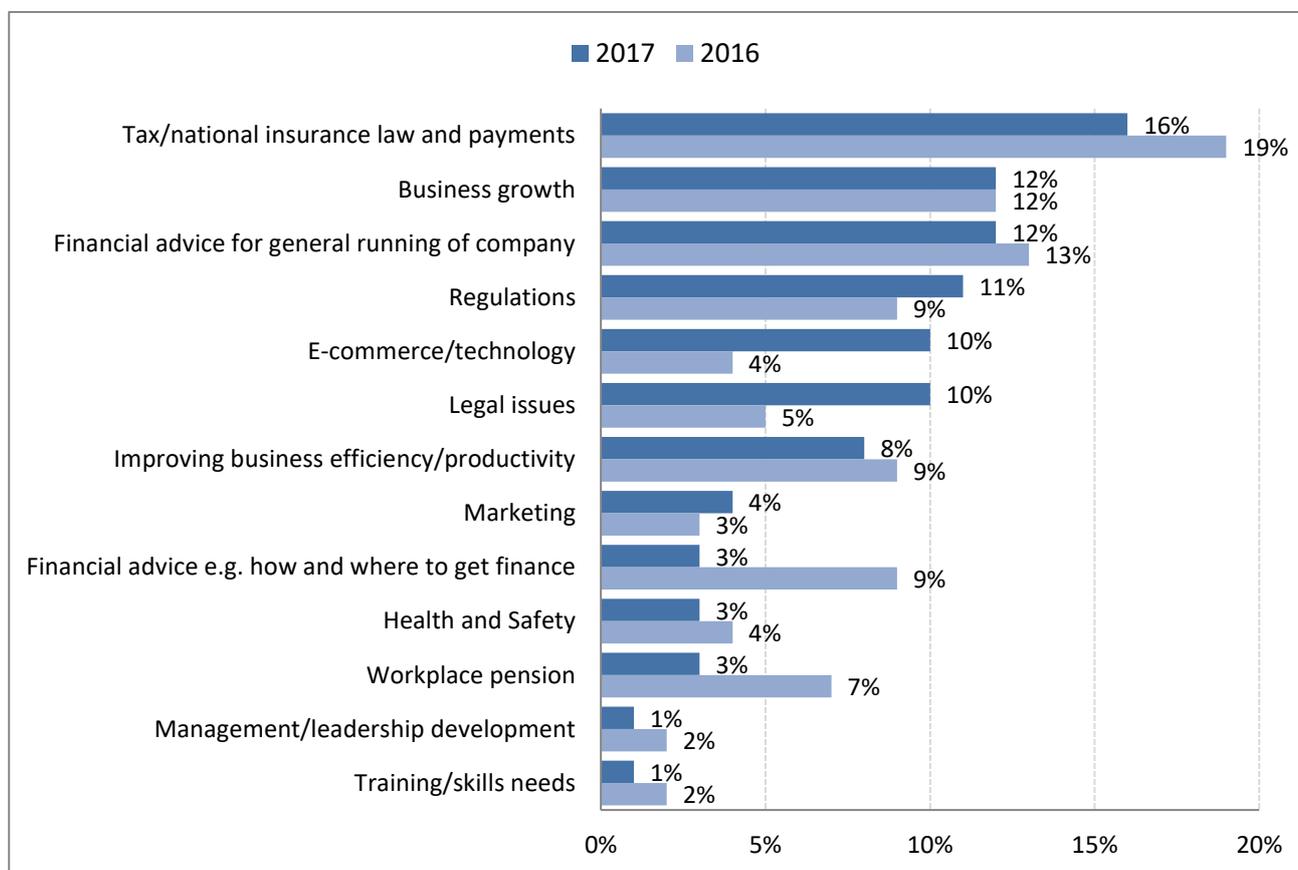


Purpose of information sought (England and Wales only)⁸

78. Information was mainly sought on tax/national insurance law and payments (16 per cent), financial matters for the general running of the business (12 per cent), business growth (also 12 per cent), regulations (11 per cent), legal issues (ten per cent) and e-commerce/technology (also ten per cent).
79. Compared with 2016, seeking information on e-commerce/technology increased (up six percentage points), as did seeking information on legal issues (up five percentage points).

⁸ Because these sets of questions were asked differently according to nation, the data is not comparable across the UK and only results from England and Wales are shown here.

Figure 6.2: Proportion of businesses with no employees that sought each type of information in the last year (based on those that sought any information: England and Wales only)



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

80. Thirty-six per cent of businesses with no employees that sought advice approached accountants (35 per cent of SME employers) and 30 per cent approached business networks/trade associations (17 per cent of SME employers). Nineteen per cent approached consultants/business advisers (38 per cent of SME employers).
81. Compared to 2016, there was more use of business networks (up 11 percentage points) and accountants (up five percentage points) and less use of consultants/business advisers (down six percentage points).
82. Those that had sought information were most likely to have consulted accountants (38 per cent; 27 per cent of SME employers). Eighteen per cent sought information from business networks or trade associations (14 per cent of SME employers) and 13 per cent sought information from consultants/business advisers (17 per cent of SME employers).

83. Compared with 2016, there was an increase in the proportion seeking information from an accountant (up 14 percentage points), business networks (up three percentage points) and consultants/business advisers (also up three percentage points). There were declines in the proportions using internet searches (down four percentage points), the .GOV website (down three percentage points) and work colleagues (down five percentage points).

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

84. As in 2016, seventy per cent of businesses with no employees that received strategic advice in England and Wales had this mainly delivered face-to-face. Seven per cent had their advice delivered by email, ten per cent on the phone, and four per cent via a website.
85. Sixty-one per cent of those that sought information received this face-to-face, 13 per cent received it over the phone, 11 per cent through a website, and 9 per cent by email.

Paying for strategic advice (England and Wales only)

86. Of businesses with no employees in England and Wales that received strategic advice in the last 12 months, 56 per cent paid for it (an increase of five percentage points on 2016). This compared with 69 per cent of SME employers.
87. Twenty-seven per cent of zero employee businesses that paid for advice paid less than £500, 18 per cent paid between £500 and £999, 24 per cent paid between £1,000 and £2,499, and 24 per cent paid £2,500 or more. The median average was £1,000, the same as in 2016.

Unmet information and advice needs (England and Wales only)

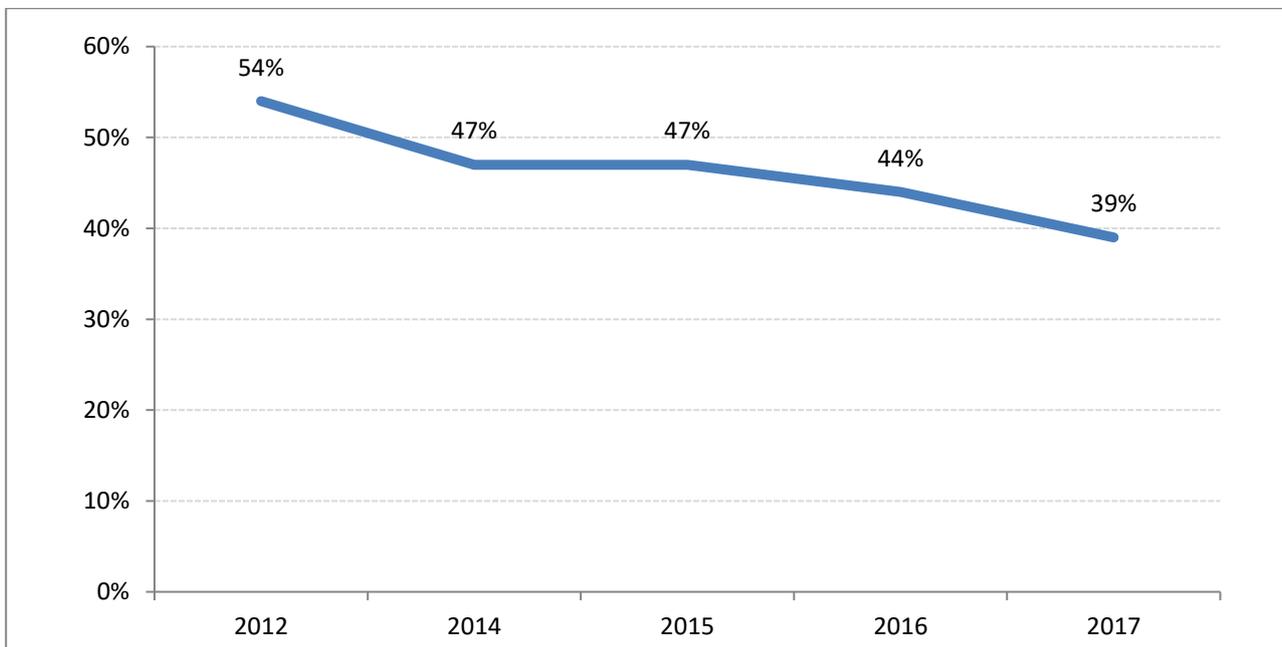
88. Three per cent of businesses with no employees in England and Wales had opportunities, difficulties or important information or advice needs for which they did not get external advice or support for in the previous 12 months. This was the same proportion reported by SME employers and the same as that observed for businesses with no employees in 2016.
89. Those in the information/communication sector were most likely to have had unmet information and advice needs (eight per cent).

7. Future plans

Growth ambitions

- 90. Thirty-nine per cent of businesses with no employees aimed to grow sales over the next three years, compared with 62 per cent of SME employers.
- 91. The overall proportion of businesses with no employees that aimed to grow was five percentage points lower than in 2016, and eight percentage points lower than in 2015.

Figure 7.1: Proportion of businesses with no employees that aim to grow sales of the business over the next three years, by year⁹

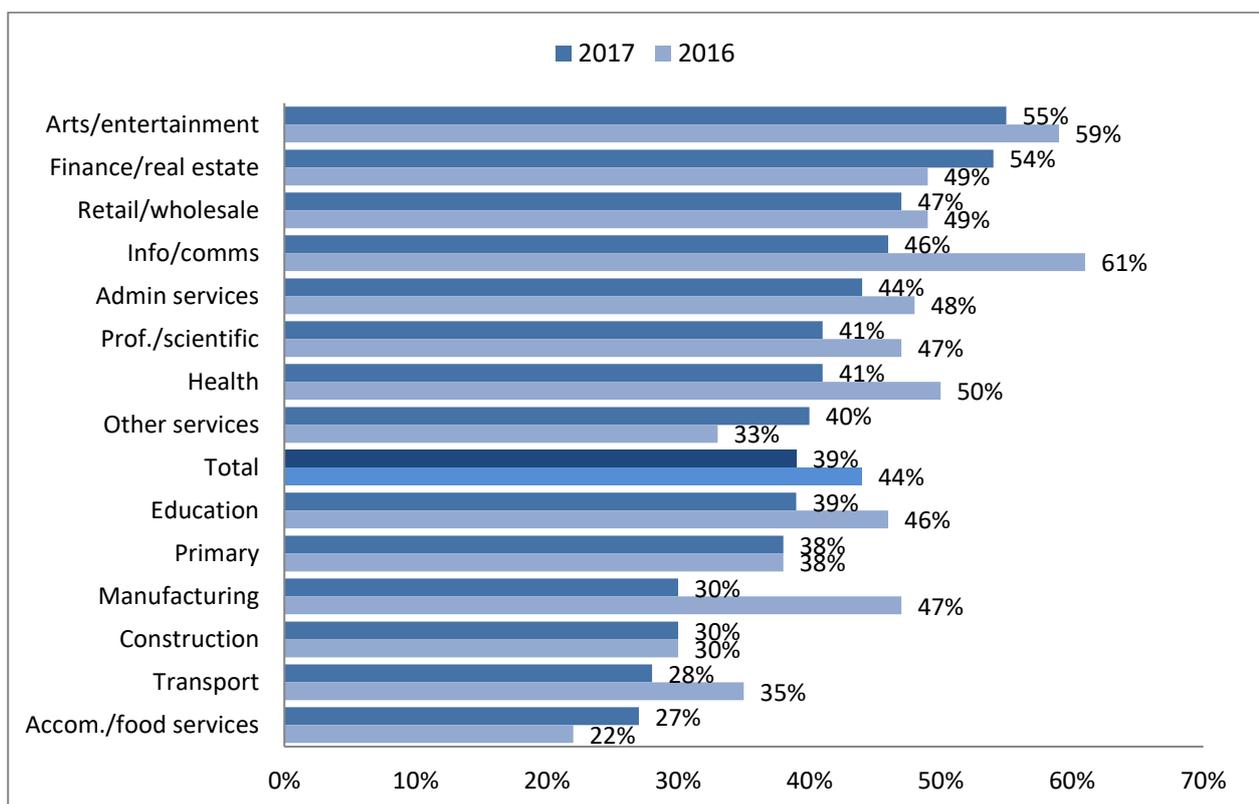


- 92. Forty-six per cent of registered businesses with no employees aimed to grow (down two percentage points on 2016), compared to 37 per cent of unregistered ones (down five percentage points).
- 93. By sector, businesses in the arts/entertainment, information/communications, and retail/wholesale sectors (55, 54 and 47 per cent, respectively) were most likely to aim to grow and those in the construction and transport (30 and 8 per cent, respectively) sectors were least likely to be aiming to grow.

⁹ The survey was not run in 2013.

94. The proportion of businesses with no employees that aimed to grow sales fell since 2016 in the following sectors: manufacturing, information/communication, health, education, transport, and professional/scientific (down 17, 15, 9, 7, 7 and 6 percentage points, respectively).

Figure 7.2: Proportion of businesses with no employees that aim to grow sales of the business over the next three years, by sector¹⁰ and year



Plans to undertake growth-related activities

95. Over the next three years, 33 per cent of businesses with no employees said they planned to increase workforce skills, 25 per cent planned to develop and launch new products or services, 22 per cent planned to invest in premises, machinery or other types of capital investment, 21 per cent planned to introduce new working practices, 16 per cent planned to increase the leadership capability of managers, 14 per cent planned to invest in R&D, and 6 per cent planned to increase export sales or begin selling to new overseas markets.

¹⁰ See note on sector (paragraph 1466).

8. Attitudes of business with no employees to UK exit from the EU

Whether UK exit from the EU will be beneficial or detrimental to businesses

96. Nearly two thirds of businesses with no employees (67 per cent) believed that UK exit from the EU would not have an impact on their business or did not know. One quarter (25 per cent) thought it would be detrimental and less than one tenth (seven per cent) thought it would be beneficial. Compared with 2016, the proportion considering EU exit beneficial decreased by five percentage points, and the proportion considering it detrimental increased by three percentage points.
97. The overall proportions considering EU exit beneficial and detrimental were similar to SME employers.
98. EU exit was considered beneficial by eight per cent of registered businesses with no employees, compared to seven per cent of unregistered ones. Thirty-one per cent of registered businesses considered it detrimental, compared to 23 per cent of unregistered ones.
99. By sector, businesses in the primary and transport sectors (20 and 13 per cent, respectively) were most likely to consider EU exit to be beneficial to their business. EU exit was most likely to be considered detrimental for businesses in the information/ communications, manufacturing, and professional/scientific (42, 37 and 35 per cent, respectively).

Whether businesses are prepared for UK exit from the EU

100. Forty-two per cent of businesses with no employees that believed EU exit to be either beneficial or detrimental to their business said they felt prepared for it, compared with 25 per cent who felt they were unprepared (very similar to SME employers).
101. Businesses in the primary sector were most likely to say they felt prepared (59 per cent of businesses). Those in the manufacturing sector were most likely to say they felt unprepared (39 per cent of businesses).

9. Profiles of businesses with no employees

Number of sites

102. In 2017, 93 per cent of businesses with no employees operated from a single site, roughly the same as in 2016, and compared with 85 per cent of SME employers.
103. By sector, those most likely to have more than one site were in health (16 per cent). This was a similar picture among SME employers (24 per cent of those in health).

Business premises in residential settings

104. Sixty-one per cent of businesses with no employees located the main work premises in their home compared with 29 per cent of SME employers. This was one percentage point more than in 2016, and two percentage points more than in 2015.
105. Fifty-six per cent of registered businesses with no employees operated from home, compared with 63 per cent of unregistered ones.
106. By sector, 82 per cent of businesses with no employees in construction, 75 per cent in education, 72 per cent in transport/storage and 71 per cent in information/communication worked from a domestic address.
107. Those in retail/wholesale, finance/real estate, manufacturing, other services, and arts/entertainment were less likely to be home based (30, 33, 39, 41 and 48 per cent of businesses, respectively).

Age of business

108. Twelve per cent of businesses with no employees had been trading for fewer than six years (i.e. they started trading between 2012 and 2017), compared with nine per cent of SME employers. Twenty per cent started trading between six and ten years ago, 30 per cent between 11 and 20 years ago, and 38 per cent more than 21 years ago. This compared with 13 per cent, 22 per cent and 56 per cent of SME employees respectively.
109. By sector, businesses with no employees in the finance/real estate and administrative services sectors were most likely to have traded for fewer than six years (22 and 20 per cent respectively). Businesses in the primary, manufacturing, retail/wholesale, and arts/entertainment sectors were most likely have been in business for more than 20 years (64, 50, 50 and 50 per cent respectively)

Legal status

110. Fifty-five per cent of businesses with no employees in 2017 were sole proprietors. This was three percentage points lower than in 2016 and compared with 13 per cent of SME employers.
111. Thirty-four per cent of businesses with no employees were private limited companies limited by shares (Ltd) and five per cent were partnerships. The proportion of businesses with no employees that were private limited companies in 2017 was up three percentage points compared with 2016. This compared with 65 per cent of SME employers.
112. While 68 per cent of unregistered businesses with no employees were sole proprietors, just 22 per cent of registered businesses with no employees were.
113. Business in the education, transport, manufacturing, construction, and retail/wholesale sectors were most likely to be sole proprietorships (77, 71, 69, 69 and 63 per cent, respectively).
114. Businesses in finance/ real estate, transport, and professional/scientific were most likely to be private limited companies (76, 66 and 66 respectively).
115. Partnerships were most likely to be in the primary (42 per cent) and food/ accommodation (22 per cent) sectors.

Social enterprises

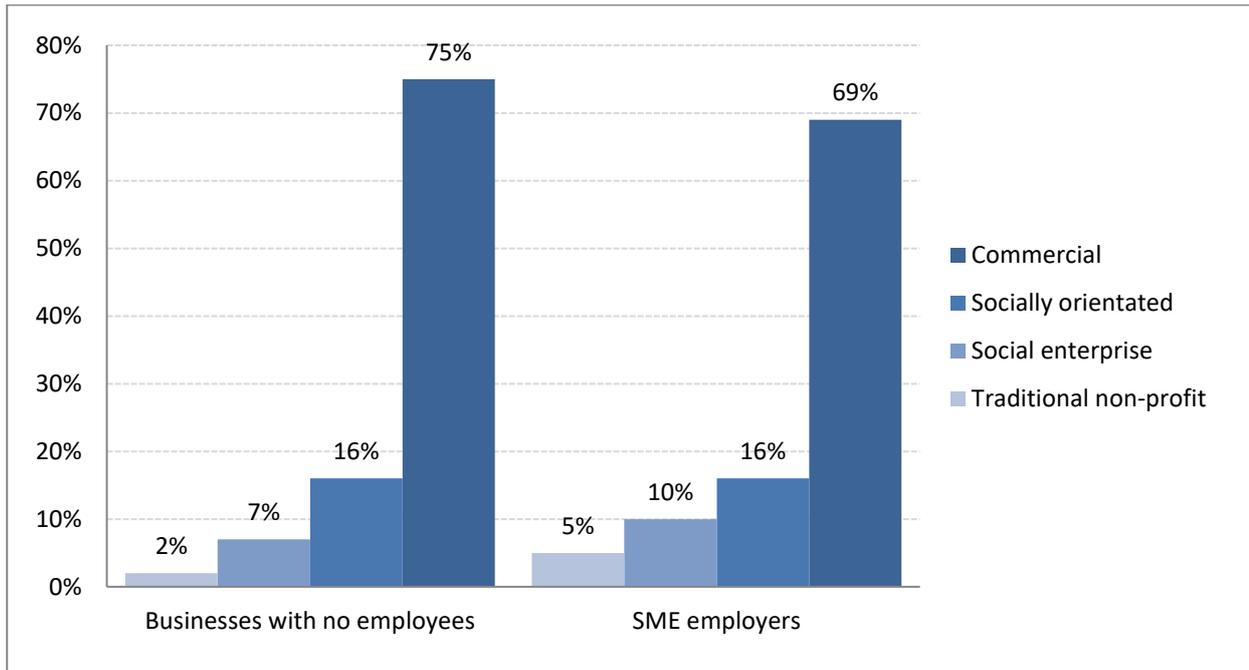
116. In 2016, BEIS and DCMS jointly commissioned a study (Social enterprise: market trends 2017¹¹) to improve the business classification methodology used to identify social enterprises in the UK small business population. The study sought to define and measure four groups, based on their social and environmental goals: social enterprises; traditional non-profit enterprises; socially orientated SMEs; and commercial SMEs.
117. There were several routes by which enterprises could be classified as one of the four categories. These were based on answers to questions on the following themes: the share of income from trading/commercial activities; rules or restrictions on the use of surpluses/profits to further social/environmental goals; the type of social or environmental goals and how they compare to financial goals; charitable status and legal form¹².

¹¹ <https://www.gov.uk/government/publications/social-enterprise-market-trends-2017>

¹² The method of determining the type of SME, based on the answers to the various questions based on the themes above, is complex and is described in detail in the Social enterprise: market trends 2017 report, as well as in the methodological report for LSBS Year 3.

118. Compared with SME employers, businesses with no employees were less likely to be traditional non-profit organisations (two per cent of businesses with no employees, compared with five per cent of SME employers) and social enterprises (seven per cent, compared with ten per cent). They were as likely to be socially-orientated enterprises (both 16 per cent). The remaining 75 per cent of employee businesses with no employees were commercial businesses, compared with 69 per cent of SME employers.

Figure 9.1: Type of organisation, by employment size



119. The highest proportion of traditional non-profit businesses with no employees were in the arts/entertainment, accommodation/food, and health (six per cent) sectors (13, 7 and 6 per cent respectively).

120. The proportion of social enterprises was highest in the health (19 per cent) and primary sectors (14 per cent). The health sector also had the highest proportion of businesses with no employees that were socially orientated (24 per cent).

Number of owners/partners

121. The definition for being an employer excludes owners and partners. Therefore, businesses with no employees may have multiple owners and partners.

122. Seventy-four per cent of businesses with no employees had just one owner or partner, compared with thirty-eight per cent of SME employers.

123. Seventeen per cent of businesses with no employees had two owners or partners, three per cent had between three and five, and less than one per cent had six or more.

124. Compared with 2016, businesses with no employees were less likely to have had just one owner or partner (down four percentage points).
125. registered businesses with no employees were less likely than unregistered businesses to have a single owner (51 per cent compared with 83 per cent).
126. By sector, businesses with no employees in the primary, accommodation/food, finance/real estate, and retail/wholesale sectors (35, 43, 51 and 66 per cent of businesses, respectively) were least likely to have a single owner or partner.

Women-led businesses

127. Twenty-one per cent of businesses with no employees 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 just one percentage point lower than in 2016 and 2015. It was higher than that reported among SME employers (19 per cent).
128. Women-led businesses were more common among unregistered businesses with no employees than registered businesses (23 per cent, compared with 14 per cent).
129. Among those with no employees, women-led businesses were most likely in the health, other services, accommodation/food, education, and arts/entertainment sectors (61, 46, 43, 33 and 30 per cent of businesses, respectively).
130. Women-led businesses were less common in construction (six per cent), transport/storage (ten per cent), information/communication (11 per cent), manufacturing (11 per cent), finance/real estate (12 per cent) and primary sectors (13 per cent). These trends are similar to previous years.

Minority Ethnic Group-led businesses

131. Five per cent of businesses with no employees were led by a person or persons of a minority ethnic group (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. This was one percentage point higher than in 2016. It compared with four per cent of SME employers.
132. MEG-led businesses were most likely in administrative services (11 per cent) and information/communication (11 and 9 per cent of businesses, respectively) and least likely in the primary , manufacturing, and transport/storage, and sectors (one, zero and zero per cent, respectively)).

Notes on this release

Aims of the survey

133. This report sets out the key findings from the 2017 Longitudinal Small Business Survey (LSBS), a large-scale telephone survey of 6,619 owners and managers of UK businesses, 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 survey on this occasion was conducted between August 2017 and January 2018 by BMG Research Ltd.
134. The 2017 survey follows on from the 2015 and 2016 surveys which had sample sizes of 15,502 and 9,248, 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. Any panel will have an element of attrition, hence the need for a large sample size in year one.
135. The majority of those interviewed in the 2017 survey were also interviewed in both 2015 and 2016: 4,165 in total. A further 889 had been interviewed in year two, but not year one; and a further 261 had been interviewed in year one, but not year two. The other 1,304 interviewed were 'top-ups'. These were needed for the following reasons:
- To represent sections of the SME population that were not active in year two of the survey, i.e. businesses less than one year old;
 - To represent sectors in the raw data that may be under-represented due to business closure, or difficulty of securing an interview (e.g. in cases where businesses work away from their main offices);
 - To increase the sample size in Scotland and Northern Ireland, to allow for meaningful analysis on a nation basis.
136. The main aim of the cross-sectional survey is to collect a range of information on Small and Medium-sized Enterprises (SMEs¹³). The survey measures:
- The characteristics of SMEs such as the number of sites they occupy, the number of owners, whether they have separate business premises, etc.

¹³ Defined here as having fewer than 250 employees.

- The characteristics of their owners and leaders
- 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

137. There are three main reports based on the 2017 LSBS:

- A **cross-sectional report** based on **SME employers**. A cross-sectional report is a snap shot of the state of SMEs at any particular stage in time, this one being the latter half of 2017;
- This **cross-sectional report** based on businesses with **no employees**;
- A **longitudinal report** based on those that were **SME employers** in 2015. This looks at the main changes that apply to the ‘panellists’ from year to year, and what appears to influence these changes (published on the 28th of June 2018).

Definitions

138. SME employers are businesses with between 1 and 249 employees currently on their payroll in the UK. The definition excludes working owners, partners, the self-employed and agency staff, but includes casual or temporary staff.
139. ‘Registered’ businesses are those that are registered for VAT and/or PAYE. In the case of businesses with no employees, PAYE may be paid on the earnings of the owners/partners. Registered businesses were sampled from the IDBR. ‘Unregistered’ businesses with no employees were sampled from Dun & Bradstreet’s commercial database, and screened to ensure they were not registered for VAT or PAYE.

Survey method

140. Of the 9,248 CATI interviews conducted in 2016, 8,038 (87 per cent) agreed to a follow-up interview. The objective was to obtain the highest possible number of repeat interviews with these panellists in 2017. 5,054 were interviewed between August 2016 and January 2017 (63 per cent response rate). Of these, 1,189 had no employees, 23 had become large businesses with 250+ employees, and the remainder (3,842) were SME employers.

141. In addition, 1,527 businesses interviewed in 2015 but not 2016 could be re-approached for interview (i.e. they had given permission for re-interview and had not refused to take part in 2016 or ceased trading). Two hundred and sixty-one such businesses were interviewed in 2017, of which 42 had no employees.
142. In addition to these, 1,304 'boost' interviews were conducted (594 of which had no employees), for reasons explained in the paragraphs above. As a result, the total sample size of zero employee businesses in 2017 was 1,825.
143. The top-ups were sampled using a method consistent with 2015 and 2016:
- Within each of the four UK nations the sample was stratified. Targets were set according to the employment size of enterprises and, within those targets, by sector (SIC 2007);
 - The targets over-represented businesses with five to 249 employees substantially in comparison to their actual numbers within the business population;
 - For registered businesses, the Inter Departmental Business Register (IDBR) was used as the sample source. For unregistered businesses with zero employees, Dun & Bradstreet's database was used. Dun & Bradstreet contacts were screened out if they either had employees on their payroll or paid VAT, as these would have duplicated contacts found within the IDBR;
 - The IDBR is a record of all UK enterprises that pay VAT or PAYE, which contains around 2.56 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 come 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 it contains records for both registered and unregistered businesses;

- The targets within the sample stratification matrix were informed by the 2016 BPE¹⁴, the latest available at the time. However, survey findings were weighted to the 2017 BPE¹⁵ which became available towards the end of fieldwork. The 2017 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 2016 BPE;
- A review of the 2016 questionnaire was undertaken through consultations with stakeholders before the 2017 survey. This resulted in a number of 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 an extensive round of 15 cognitive tests and a 'live' pilot of 100 interviews of the adjusted year three questionnaire.

Note on the report

144. All differences discussed in this report are statistically significant at the 95% confidence level, unless otherwise stated.
145. Please note that the findings presented in this report purely refer to businesses with no employees– SME employers have been excluded from the dataset on which this report is based. This procedure is consistent with reporting of previous surveys. The overall sample size for businesses with no employees across the UK is 1,825.

Sector definitions

146. 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, two 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.

¹⁴ <https://www.gov.uk/government/statistics/business-population-estimates-2016>. 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.

¹⁵ <https://www.gov.uk/government/statistics/business-population-estimates-2017>. Method of data collection as above.

Note on Figure 1.1

147. The results for the question on employment growth differ between panellists and top-ups. For panellists (those taking part in the previous year's survey), the number of employees given in the previous year is used to make the comparison with the current number of employees. Top-up respondents were asked how many employees they had 12 months previously and were more likely to perceive that they had the same number of employees as before. For this reason, it is not possible to combine figures for the two groups, as overall results are dependent upon the ratio between panellists and top-ups within each survey. For information, 13 per cent of zero employee top-ups had fewer employees and 87 per cent the same number.

Statistical confidence

148. This overall sample is sufficiently large to allow reporting on findings with a high degree of statistical reliability. Table 11.1 overleaf shows the overall statistical reliability of findings for different sub-groups.
149. In the instances where comparisons for zero employee businesses can be made with the 2016 LSBS survey, at the overall level a difference of +/- 1.8 per cent for a finding around 10/90 per cent is enough to make it statistically significant, as is a difference of +/- 2.8 per cent for a finding around 30/70 per cent, and as is a difference of +/- 3.1 per cent for a finding around 50 per cent.
150. Figures in some figures may not add to 100 per cent due to rounding of percentages, or exclusion of 'don't know' and/or 'refused' responses.

Table 11.1: Statistical confidence in survey findings – by registration and sector¹⁶

	Sample size	Standard error at 10%/90%	Standard error at 30%/70%	Standard error at 50%/50%
All UK businesses with no employees	1,825	+/- 1.4%	+/- 2.1%	+/- 2.3%
Registered businesses	1,021	+/- 1.8%	+/- 2.8%	+/- 3.1%
Unregistered businesses	804	+/- 2.1%	+/- 3.2%	+/- 3.5%
ABDE. Primary sector	158	+/- 4.7%	+/- 7.1%	+/- 7.8%
C. Manufacturing	97	+/- 6.0%	+/- 9.1%	+/- 10.0%
F. Construction	240	+/- 3.8%	+/- 5.8%	+/- 6.3%
G. Retail & wholesale	179	+/- 4.4%	+/- 6.7%	+/- 7.3%
H. Transport & storage	75	+/- 6.8%	+/- 10.4%	+/- 11.3%
I. Accommodation & food service	49	+/- 8.4%	+/- 12.8%	+/- 14.0%
J. Information & communication	135	+/- 5.1%	+/- 7.7%	+/- 8.4%
KL. Financial & real estate	90	+/- 6.2%	+/- 9.5%	+/- 10.3%
M. Professional & scientific	390	+/- 3.0%	+/- 4.5%	+/- 5.0%
N. Administrative services	115	+/- 5.5%	+/- 8.4%	+/- 9.1%
P. Education	91	+/- 6.2%	+/- 9.4%	+/- 10.3%
Q. Human health	67	+/- 7.2%	+/- 11.0%	+/- 12.0%
R. Arts & entertainment	75	+/- 6.8%	+/- 10.4%	+/- 11.3%
S. Other services	64	+/- 7.4%	+/- 11.2%	+/- 12.3%

¹⁶ The table presents the standard error margin for the year three survey, at the 95 per cent confidence level, associated with findings of 10 per cent/90 per cent, 30 per cent/70 per cent and findings of 50 per cent.



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