



Workspace Group

Understanding SME Behaviour and How this impacts on Workspace



Objectives for the Presentation



- 1. Explore dynamics of SME Market**
- 2. Examine resilience of SMEs**
- 3. London Creative Industries**
- 4. How Workspace can benefit**

Structure



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- **Research by Kingston University**
- **Creative Industries**
- **Workspace Research**

Understanding SME Sector



- Small Business Research Centre
- Size and trends in UK SME population
- Start-ups and Closures
- Performance of SMEs
- Key issues and Barriers
- London and the South East differences

Small Business Research Centre Kingston Business School



- Internationally recognised - 8 full time researchers

- Private sector sponsors -



- Public sector -



Small Business Research Centre Kingston Business School



1. ***'Profile of business owners in South'*** - Kingston Smith
2. ***'Quarterly survey of SMEs'*** - Office World
3. ***'Business Closures and Owner Exits'*** - HSBC
4. ***'Finance for independent music businesses'*** - DCMS

UK Business Population



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Key Facts

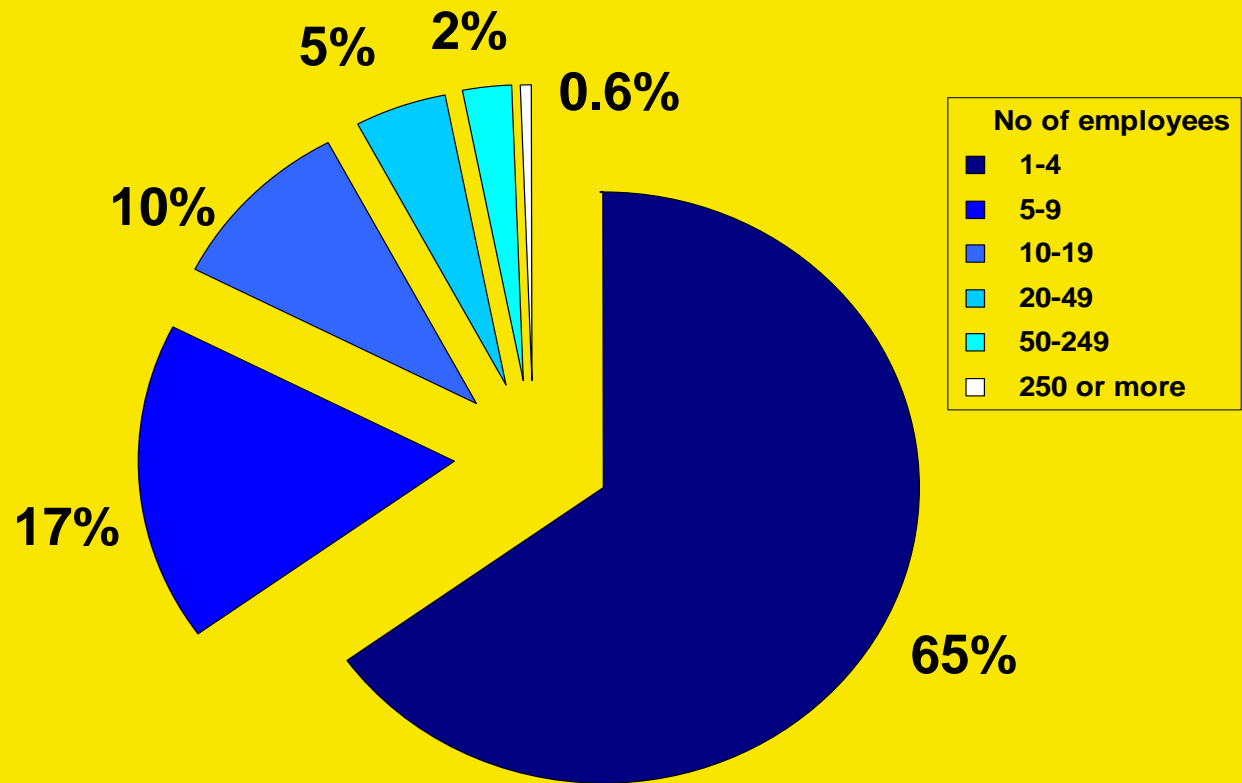
- 1980 -1990 total business stock: 2.5m to 3.7m
- 2002 remains at 3.7 million
 - 1.1 million (30%) employ between 1 and 20 people
 - Only 90,000 businesses employ more than 20 people
 - Small businesses of less than 20 employees represent 31% of employment and 28% of turnover
 - High churn rate

UK Business Population (by size of firms with employees)



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Total firms with Employees: 1.2 million



Source: Small Business Service 2002

Workspace - Statistics



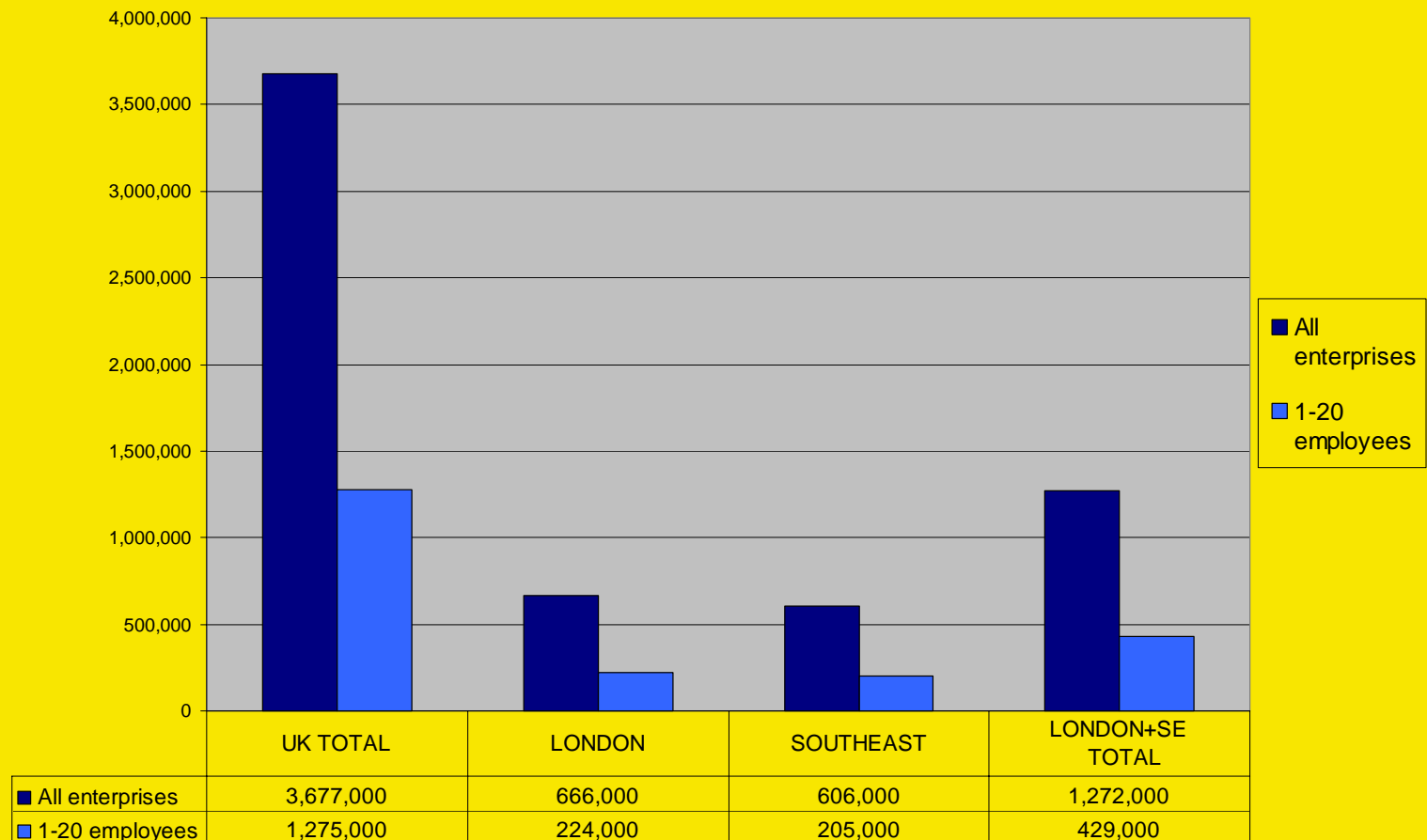
Workspace = 3,300 Customers

- 60% 1 - 5 employees
- 35% 6 - 20 employees
- 5% 20+ employees

“Average” 1-19 employees

SME Dynamics

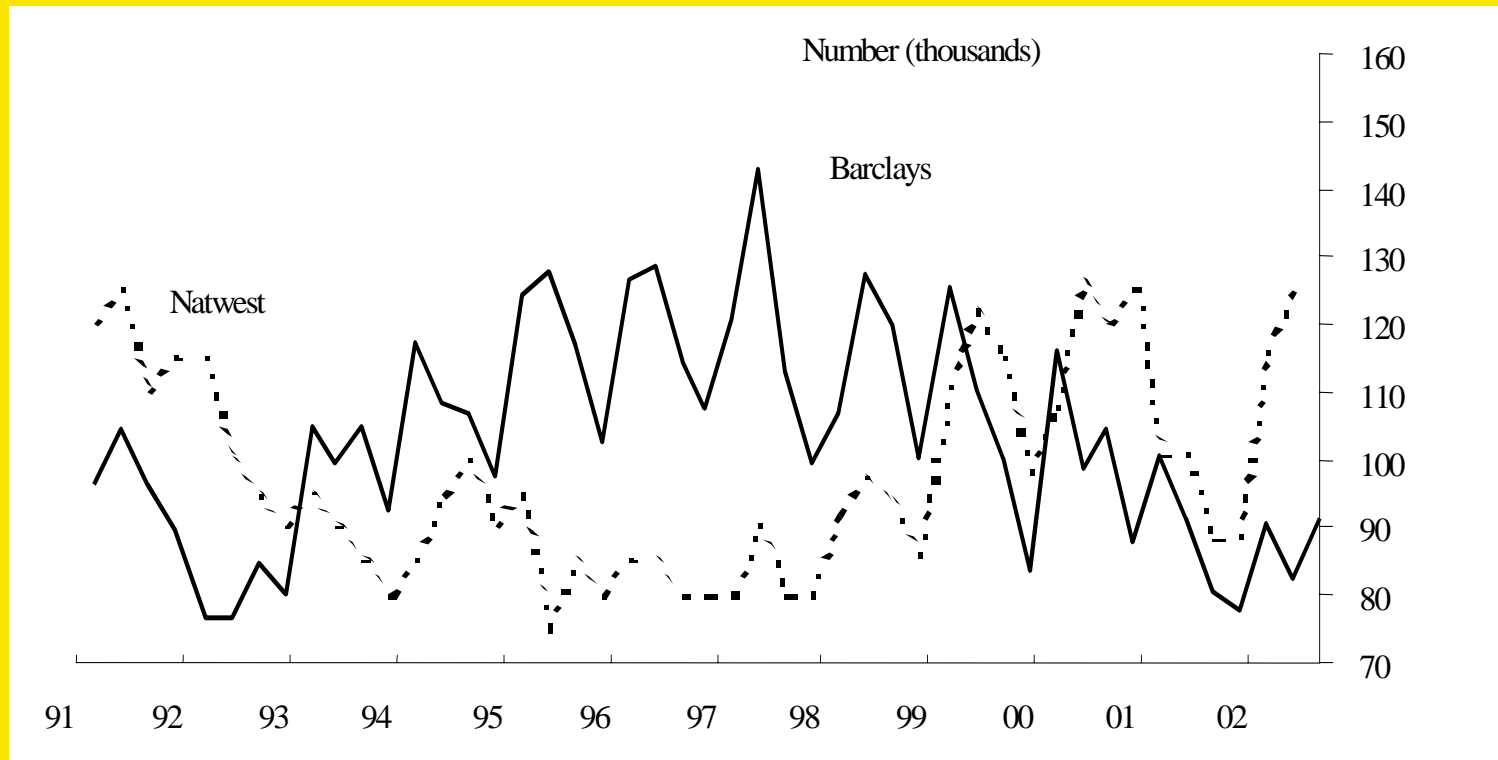
Over 33% of all businesses located in London and South East
(Source: Small Business Service 2000)



Trends in the Business Population: Start Ups



- 300 - 400,000 new businesses start each year (c.10%)

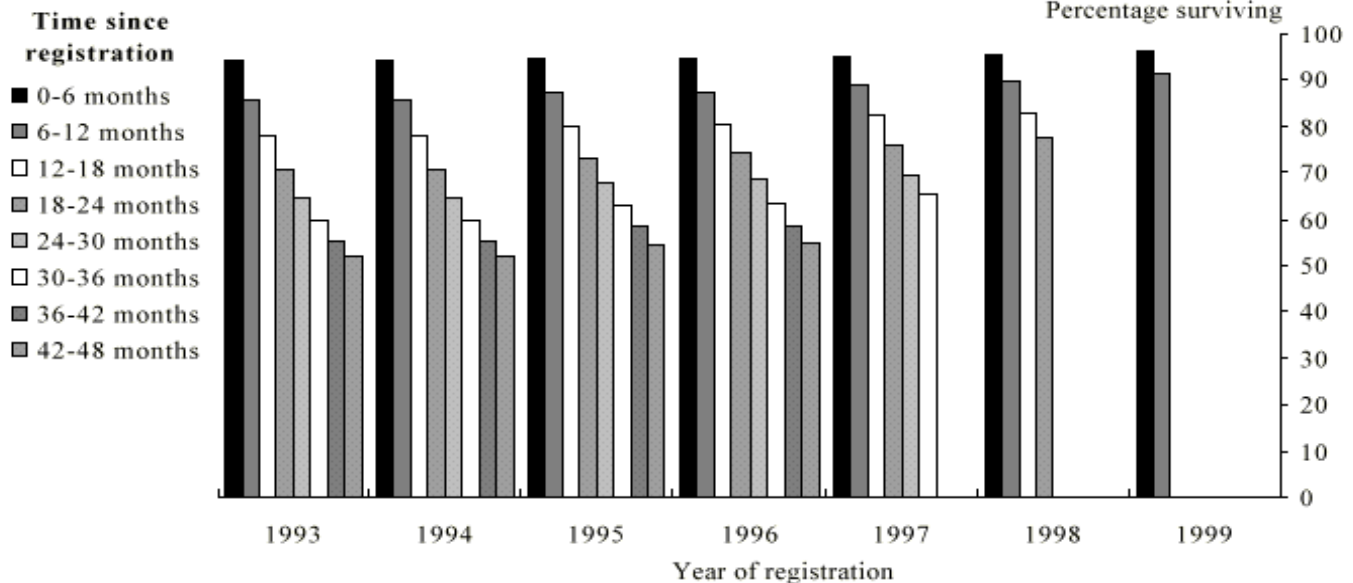


Source: Barclays and NatWest - start ups per quarter

Business Life Cycle

Business lifespan increasing
Over two thirds are now trading for 3 years+

Lifespan of businesses registered for VAT in each year



Source: Small Business Service.

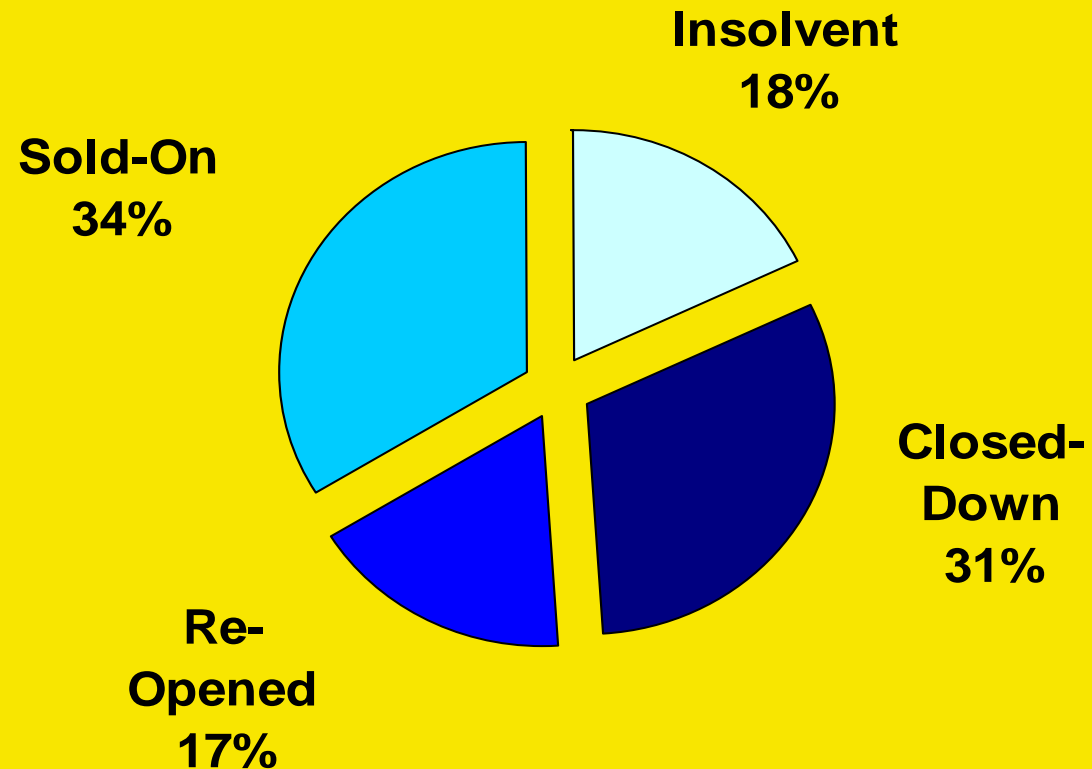
Workspace Targets Second Stage Businesses

Exits: What Happens to the Business?



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Over 50% of businesses survive the exit of the owner as they are sold or reopen in another form.

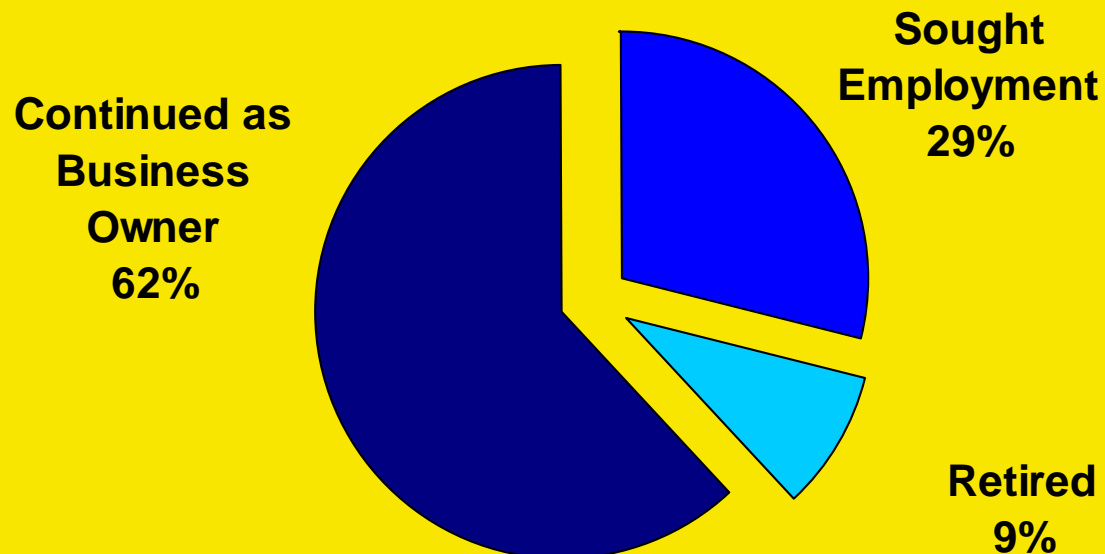


Source: Stokes and Blackburn, SBRC, Kingston University

Exits: What happens to the owners?

62% of exiting owners, stay in self-employment

- 33% start new enterprise
- 29% continuing in an existing business

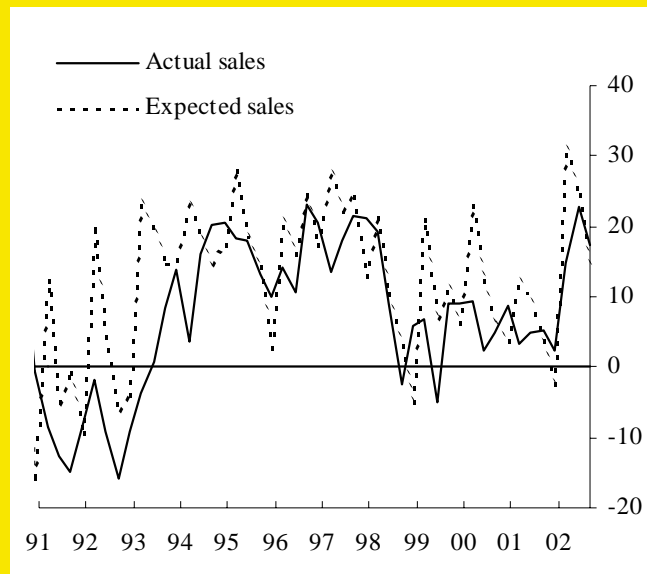


“Positive Learning Experience”

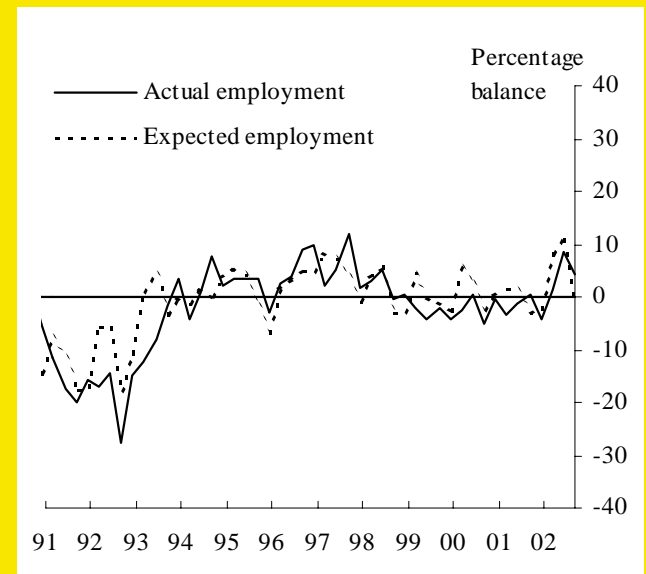
Business Performance

Overall, small businesses are still performing robustly

Percentage balance for the actual and expected changes in sales



Percentage balance for the actual and expected changes in employment



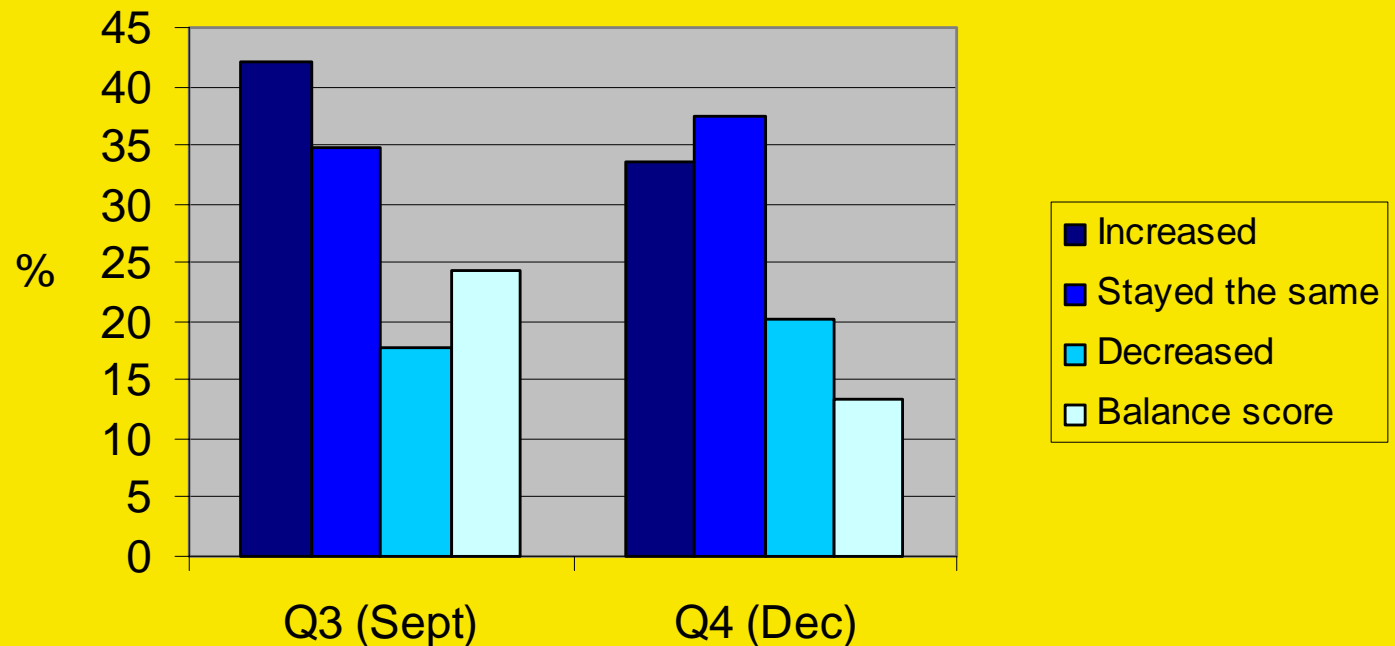
Source: NatWest SBRT Quarterly Survey of Small Business in Britain (December 2002)

Business Performance

Other studies confirm SME confidence is still positive:

- Profits in Q4. 2002: up 28%, same 37%, down 25%
- Expected profits, 2003 up 33%, same 36%, down 17%

Turnover comparison over last two quarters



Business Performance

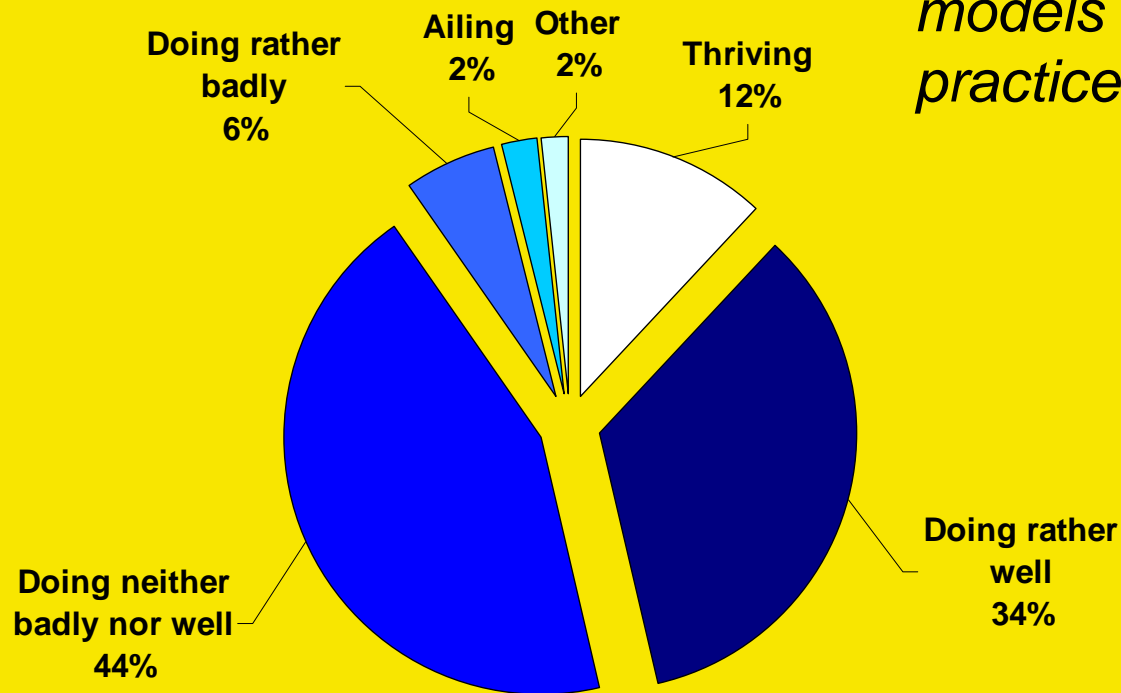


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SMEs in S. England - over 5 employees

- 50%+ increased sales 2000/2002
- 75% profitable in each year

“Management rated highly compared to models of good practice”

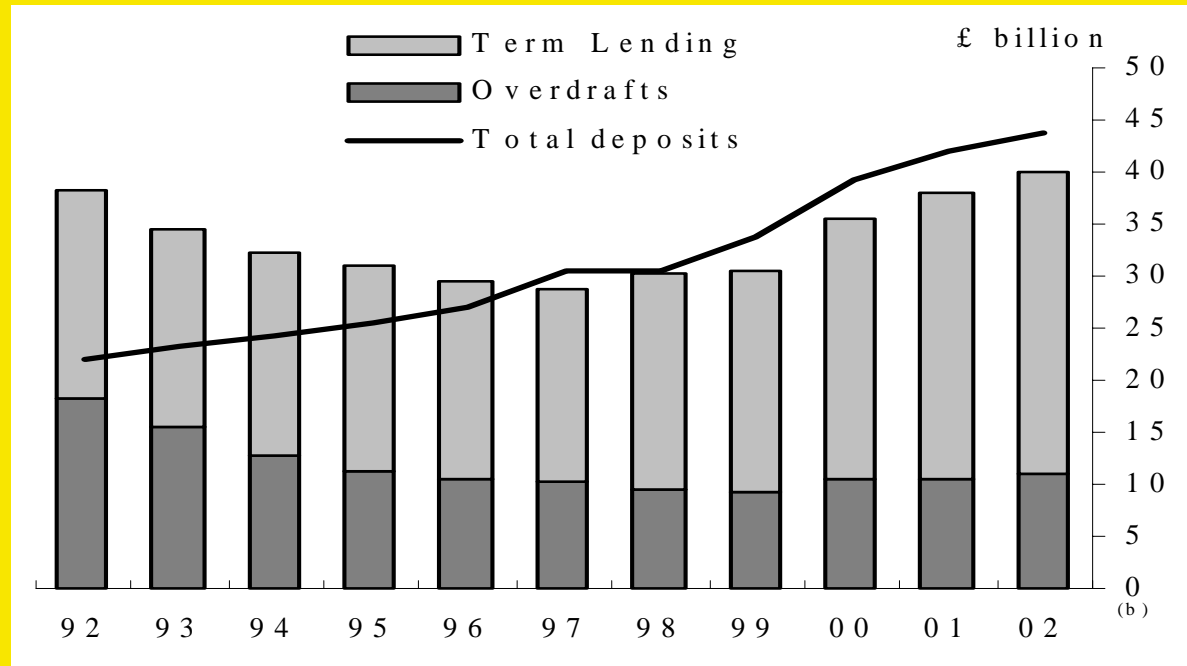


Source: SBRC, Kingston Smith, Sept 2002

SME Finance

Borrowing and deposits increased - overall liquidity is stable
*“There is little evidence yet of financial distress amongst SMEs in aggregate
(though some sectors have clearly struggled more than others)”*
Bank of England, 2002.

Lending to and deposits from small firms



Problems and Constraints on Performance



SMEs in S. England, over 5 employees, rated recruitment as the key issue

Ranking of Constraints by Market Sector

<i>Constraints</i>	<i>All</i>	<i>Manuf.</i>	<i>Retail</i>	<i>Hotels</i>	<i>Prof.</i>	<i>Creative</i>	<i>Cons.</i>
• Recruitment	1	4	3	1	1	3	1
• Regulations	2	3	4	2	3=	4	2
• Demand	3	2	5	4=	2	1	-
• Competition	4	6	1	4=	5	2	5
• Cashflow	5	1	7	4=	3=	-	4
• Premises	6	5	2	3	6=	5=	3
• Value of £	7	7=	6	4=	6=	5=	6
• Labour Market	8	7=	8		8=	5=	6
• Finance-access	9	-	-	-	8=		
• Finance-costs	10	-	-	-	8=	-	-

Source: Stokes and Blackburn, SBRC, Kingston University, for Kingston Smith

SMEs in London and the SE



Important differences from the UK small business population:

- More likely to be growing quickly - 75% of 'fast-growth' firms are in London and South East
- Higher margin businesses because of higher overhead costs - rent, people, transport, services.
- Black and Minority Ethnic owned businesses (BMEs) represent 20% of London's firms.
- Clustering of knowledge-based firms
 - manufacturing represents 10% of GDP, half UK average
 - financial/business services and creative industries are the two most important sectors in London

Summary



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1. “Exit” activity
 - “Revolving door” not a “one-way exit”
2. Resilience and confidence
 - good liquidity and positive outlook
3. Owners are better managers
 - owners more experienced

Workspace in London



- Creative industries, growth sectors
- Analysing churn
- Customer survey
- External perceptions

Creative Industries - Importance for London



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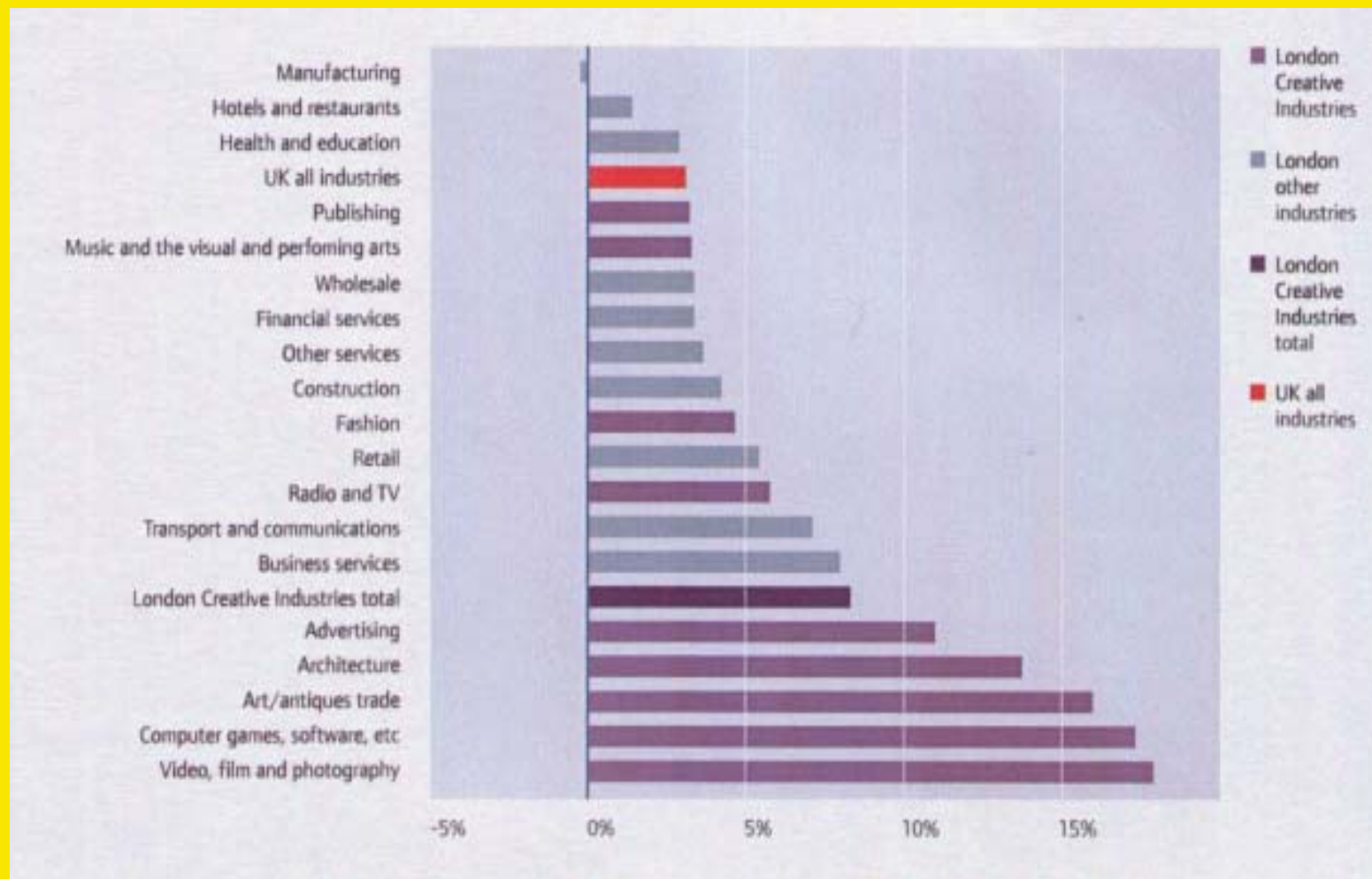
- Diverse sector
- Fundamental part of London economy
 - £21bn output pa
 - from advertising and architecture to software and TV
- Third largest employer (525,000 jobs)
- Second largest source of growth in last five years
- Mainly SMEs
- Many “high added value” businesses

Source: GLA; Creativity, London's Core Business

London's Annual Output Growth 1995-2000

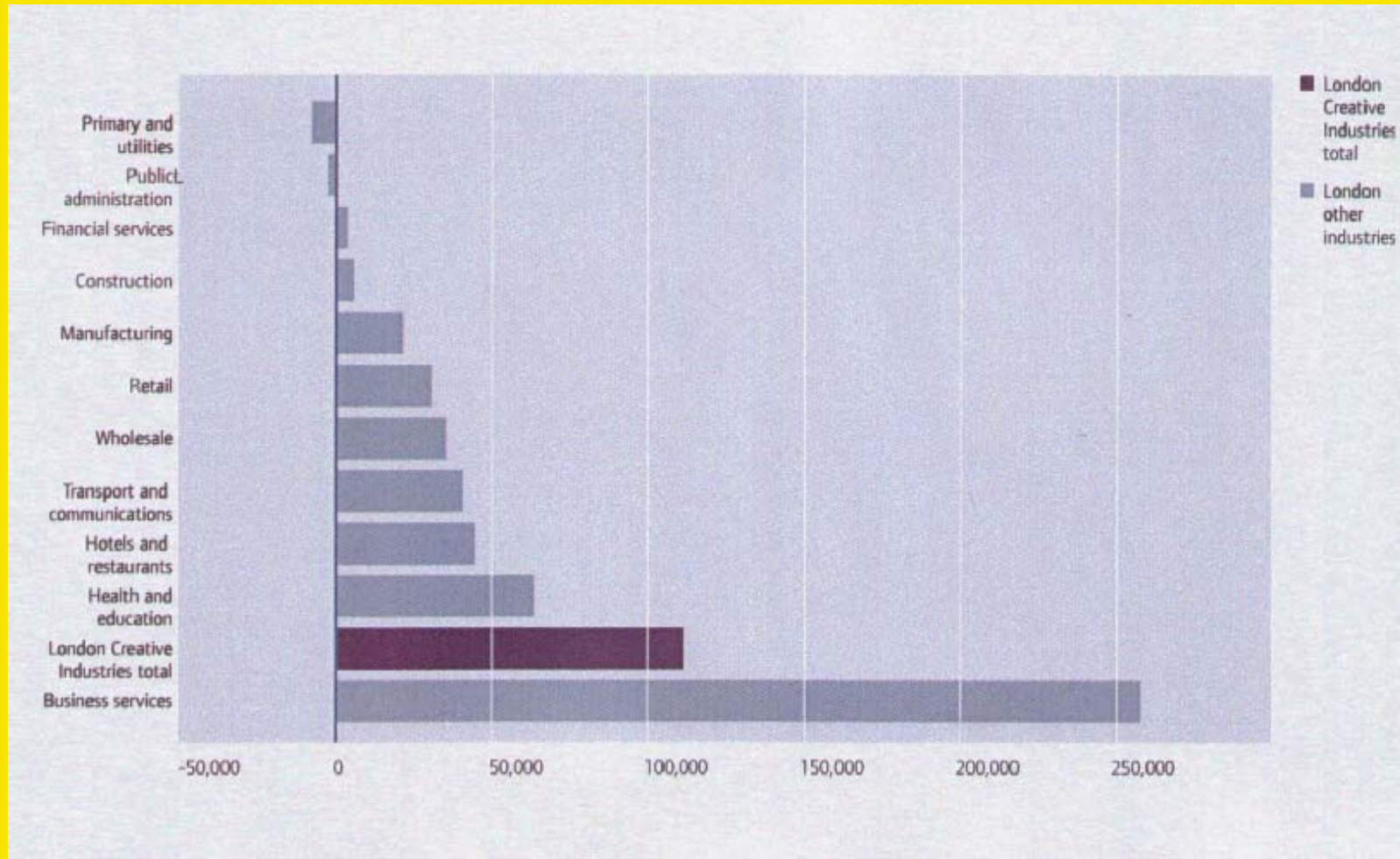


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Source: GLA

London's Job Growth 1995-2000

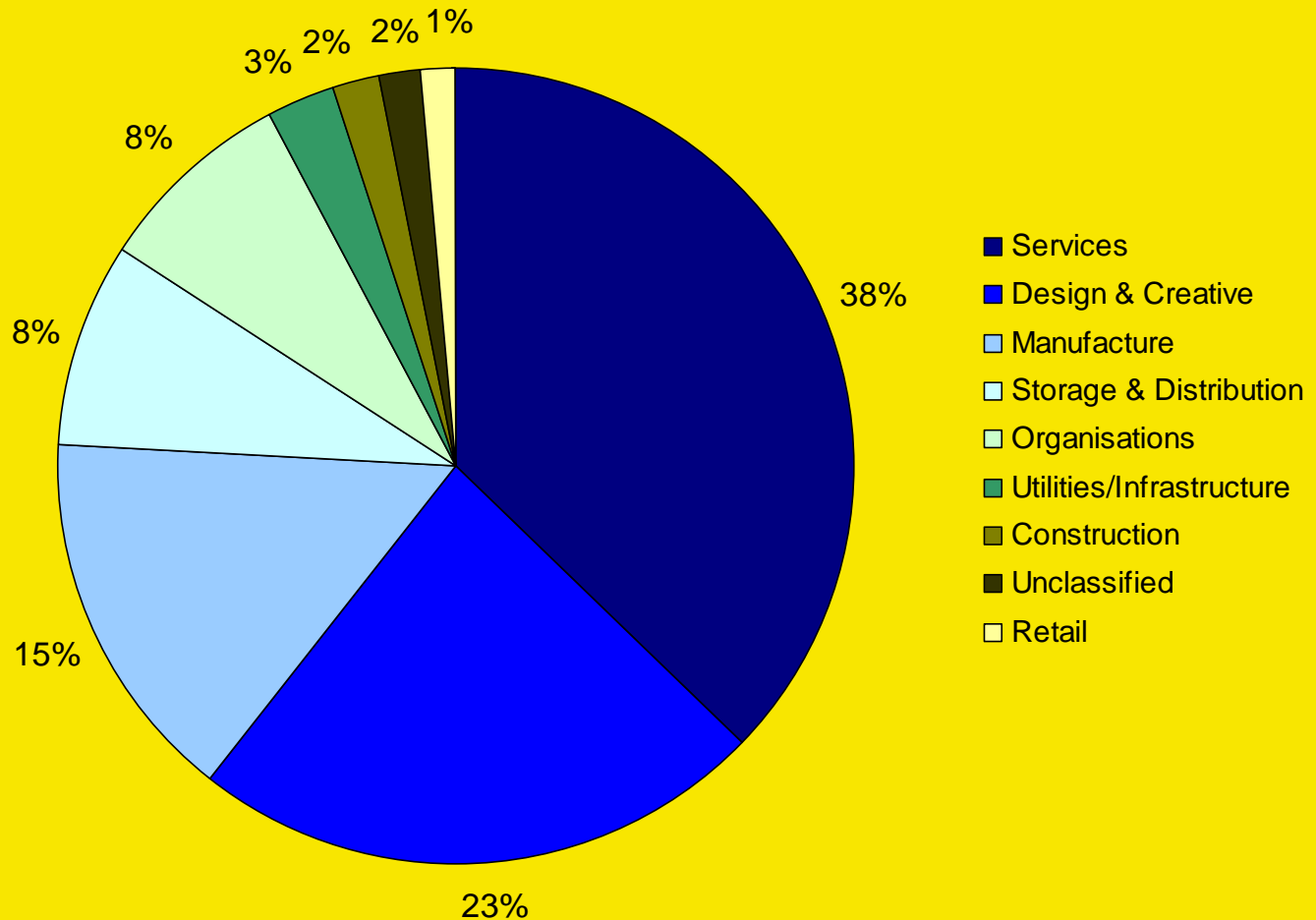


Source: GLA

Total Percentage of Customers by DTI Categories



DTI Classification of Tenants



Example - The Leathermarket

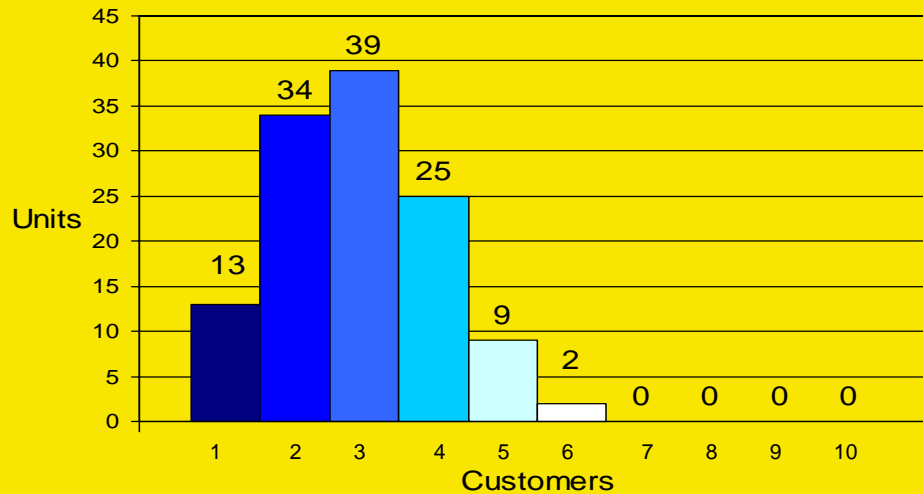


- Located in Borough, SE1
 - Acquired in 1993
 - 121,000 sq. ft (net)
 - 148 units
 - Cafeteria
 - Mix of sectors

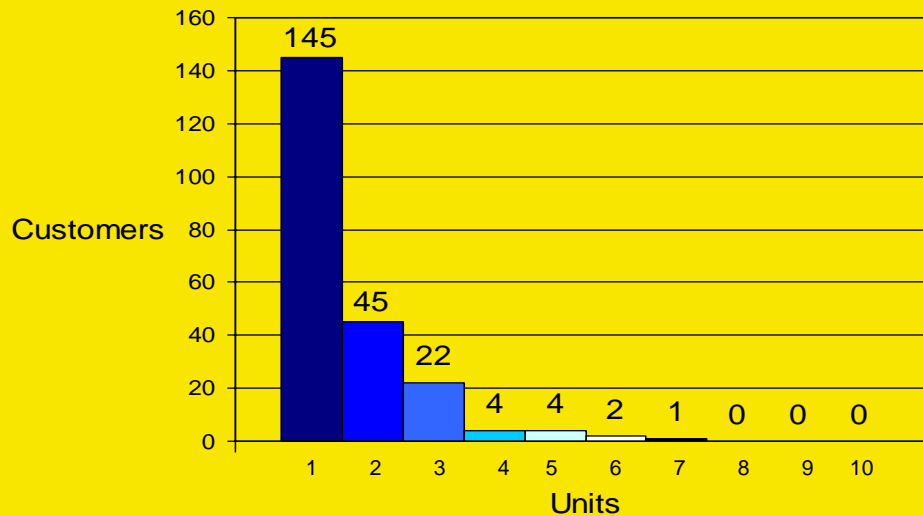
Analysing Churn - Leathermarket



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**Units per customer
(1997-2003)**



**Customers per Unit
(1997-2003)**

Analysing Churn - Leathermarket



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- Average Lifetime of leavers - 2.4 years
- Lifetime of continuing customers (to expiry) - 5.9 years+
- Lifetime of continuing customers (to date) - 4.0 years

Workspace Customer Survey



Key Findings

- 78% trading three years +
- 25% need to move
- 65% Sign Board / Direct Recommendation
- 96% use Computers
 - most on internet through “dial-up”
- Easy in, easy out formula high priority

External Perceptions



Independent London SME Research

- 38% Need more Space
- 52% Recommendation / Sign Board
- 32% Know Workspace (Regus 41%)
- Most need “improved” information

1 in 5 Looking to Move at any one time

How Workspace benefits



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- 1. SME sector resilience and growth potential**
- 2. The London effect**
- 3. Appeal to “second stage” businesses**



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