

Trends in the SME sector and the implications for Workspace

Presentation at *cityPROFILE*
Tuesday, 15th February 2005

→ Objectives for the Presentation



1. Introduction Harry Platt
2. Current SME trends and performance David Stokes
3. Who are Workspace's customers? Matthew James
4. What are the long-term implications for Workspace? Harry Platt

→ About Our Business



“We provide affordable, flexible space for new and small businesses in London and the South East.”

- 3,800 customers over 100 estates with 5m sq. ft
- Market leading brand in fragmented market
- A simple product offer
- Superior service from in-house management
- Customer focused

→ The Business – A Simple Model



To achieve profit and capital growth from:

- Providing workspace to SMEs
- Investing in properties with potential
 - Income growth
 - Capital growth
 - Alternative use
- Increasing scale of portfolio, spreading overheads and developing the brand
- The right financial platform

→ Factors Underpinning Our Success



Our Buildings

- Low capital value, non obsolescent
- Potential for intensification & change of use

Our Customers

- SMEs are diverse and robust

The London Economy

- Young, more entrepreneurial, population: Enterprise Culture
- Increasing population & sectoral growth

Clustering

- e.g. Southbank & West London clusters

Time Horizon

- Leading provider – yet small market share in growing market place

→ Churn...

... is good, and not as simple as you think.

EXAMPLES:

LOCATION

- TEC Survey: 1 in 10 workplaces to move in 3 years
- 1 in 5 London Small Businesses “thinking” of moving

ENTERPRISES

- Serial entrepreneurship, whilst majority of start-ups do not last beyond 5 years, half of the entrepreneurs involved stay in SME Sector
- Some evidence of business lifespan increasing; about two thirds of start-ups trading 3 years +

WORKSPACE TARGETS

- Lifespan of continuing customers is at least 4 to 6 years



THE SME SECTOR:

'Current Trends and SME Performance'

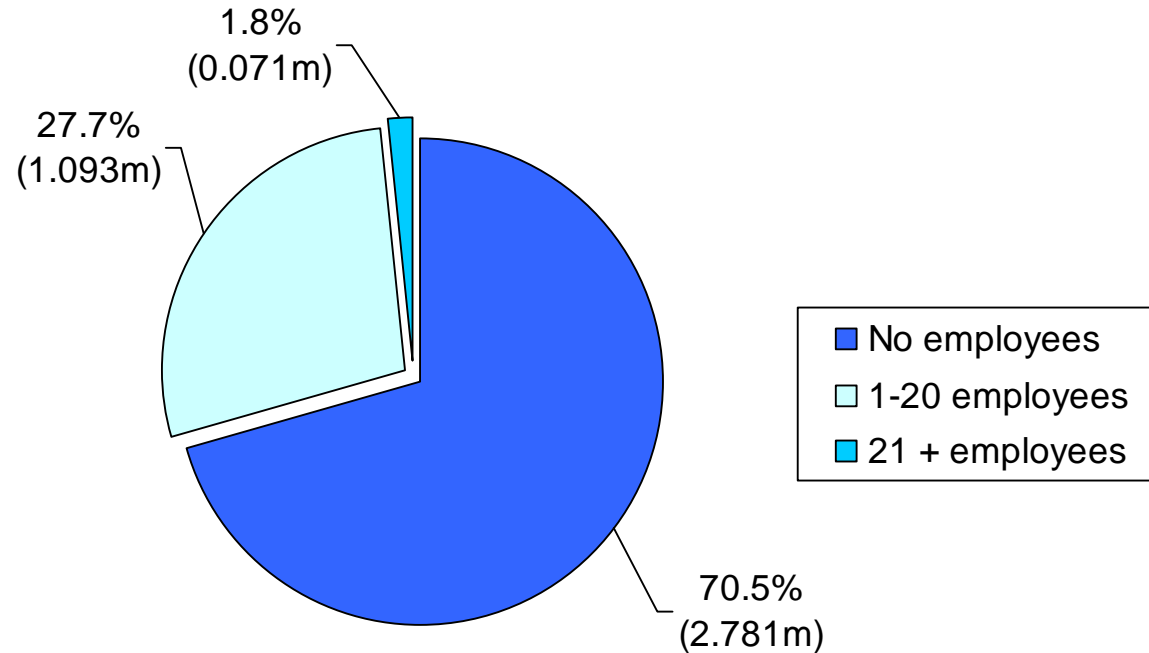
Dr David Stokes

Kingston University

→ Customers: The Market Place



SMEs in the UK



Source: Small Business Service, 2003

SMEs in London

Of businesses with employees, 93% employ between 1-24 people

Accounts for 31% of all employment in London

Source: London Employers Survey, 2002

→ Recent Trends: Starts

Continued rise in starts across the UK during first half of the year

Trend is mirrored across London & South East

	2003 Half Year 1	2003 Half Year 2	2004 Half Year 1
London	39,600	44,800	57,200
South East	37,500	38,800	46,300
Total	215,000	208,100	288,200

Source: Barclays 'Starts & Closures', 2003/4
(estimates based on business accounts)

→ Recent Trends: Starts (2)

- London & South East lead the way in business starts & most starts per 10,000 of population

	Starts	No. of starts per 10,000 of population
London	57,200	122
South East	46,300	94
North West	34,200	84
South West	30,600	104
East	28,600	87
Yorkshire	23,300	77
West Midlands	23,200	73
East Midlands	21,300	83
North East	9,800	64

Source: Barclays 'Starts & Closures', Half Year 1, 2004
(estimates based on business accounts)

→ Recent Trends: Closures



164,000 closures during first half year 2004

Typically expect 190-200,000 closures per half year

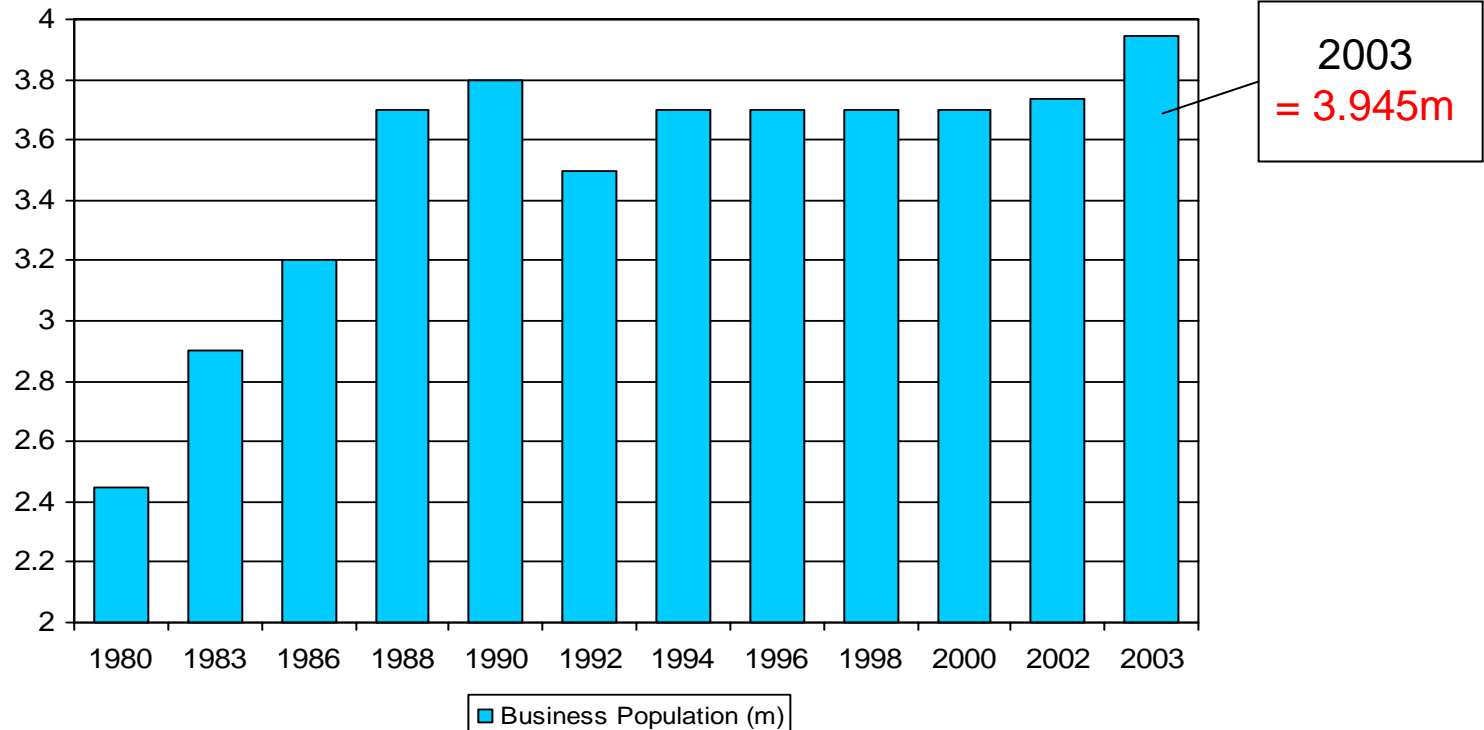
Year	2003 Half Year 1	2003 Half Year 2	2004 Half Year 1
Total Closures	219,000	173,300	164,000

Source: Barclays 'Starts & Closures', 2003/4
(estimates based on business accounts)

→ Effect on UK Business Stock

2003 – APPROACHING 4.0m BUSINESS ENTERPRISES IN THE UK

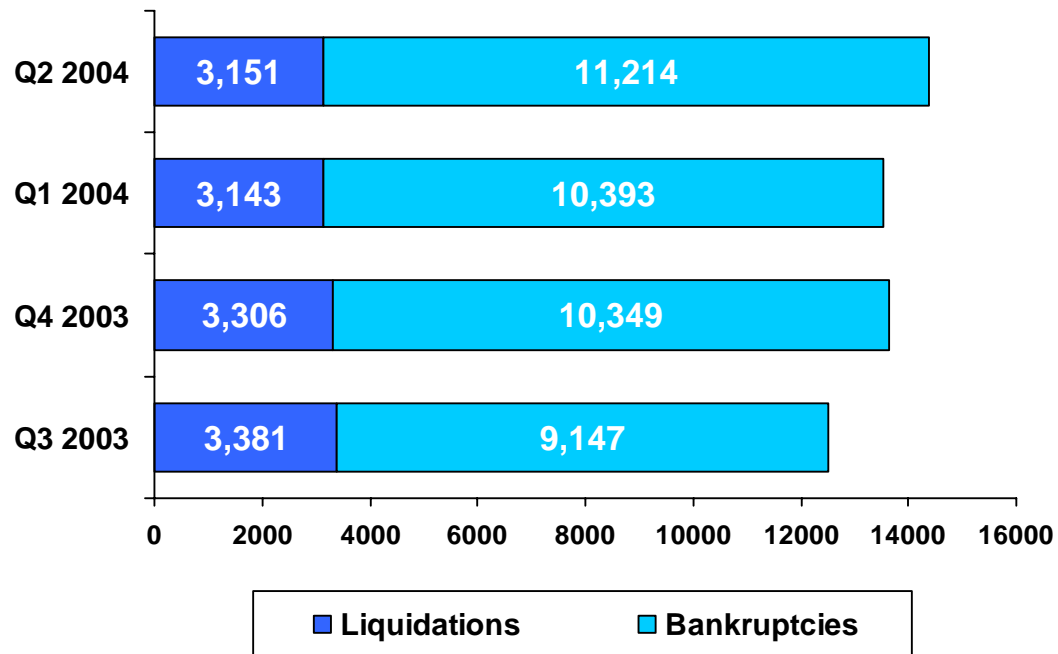
First significant rise in business stock for some time



Source: SBS, 'Small Business Statistics' 2003

→ Closures Not Failures

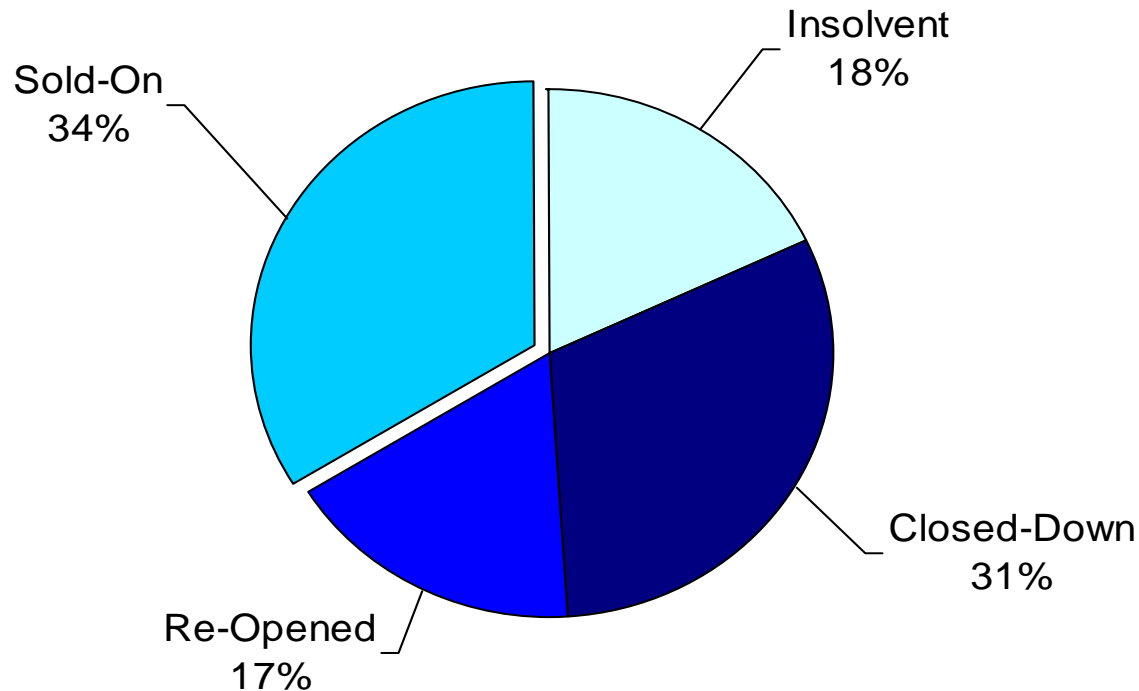
- Bankruptcies form a small part of registered stock
- Typically account for about 10% of all business closures



Source: SBS, 'Small Business Statistics' 2003

→ Exits: What happens to the business

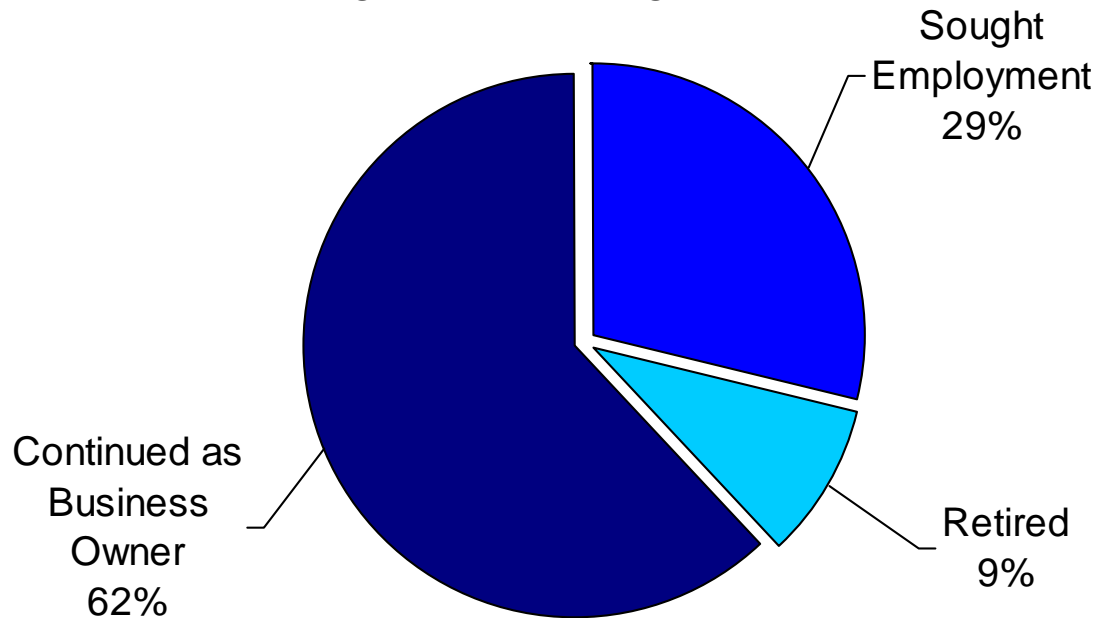
Over 50% of businesses survive the exit of the owner as they are sold or re-open in another form.



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”

Source: Stokes and Blackburn, SBRC, Kingston University



The SME Sector:

‘Recent Performance’

→ Business Survival Rates

% of businesses still trading 3 years after registration

	London	South East	UK
1993	61.4	63.5	62.1
1994	60.8	64.3	62.5
1995	62.6	68.3	65.3
1996	63.3	69.5	66.0
1997	64.2	70.7	67.4
1998	62.5	69.6	66.3
1999	62.8	69.7	66.5

London lower than South East & UK average

BUT more starts and more closures = CHURN

→ Small is OK: Efficiency



SMALL LIMITED FIRMS HAVE THE EDGE OVER LARGE FIRMS IN CURRENT CLIMATE

- Average earning per employee higher
- Profit per employee higher
- Wages constitute smaller % of turnover

→ SME Performance: Current



- Last Quarter of 2004 saw an improvement, year on year, in performance after poor performance of recent quarters

Change 2003/2004	Up	Down	Same	Balance
Sales Turnover	44%	27%	27%	+17
Average Employment	19%	13%	63%	+6
Investment	22%	14%	58%	+7
Selling Prices	33%	10%	53%	+23

Source: SERT, 'Quarterly Survey of Small Businesses in Britain', Q4 2004

→ SME Performance: Prospects

- Across the country, a balance of +8% expect an increase in sales turnover over coming 12 months

	Sales Turnover	Average Employment	Investment	Selling Prices
London	+17%	+2%	-7%	+3%
South East	+5%	+2%	+2%	+3%

- London's SMEs expect an increase in sales turnover, employment, and selling prices



Workspace Customers:

'Profile of our Customers'

Matthew James
Workspace Group

→ Workspace Intelligence: Aims



Workspace/Kingston University research designed to:

Identify characteristics of businesses and business owners & record measures of past, present and future performance

Compare and benchmark business & owner-manager characteristics and business performance

Investigate business needs of owner-managers & make recommendations towards addressing these needs

→ Who Are the Owners?



- **Younger customer-base**

 - About a third aged between 30-39 (30.2%)

 - About a third aged between 40-49 (34.1%)

- **Better-educated customer base than average**

 - Nearly half are university educated (46.6%)

 - Less than 5% have no formal qualification (4.4%)

- **Good representation of ethnic minority owners**

 - Total of nearly 13% ethnic minorities

→ Who Are the Businesses?



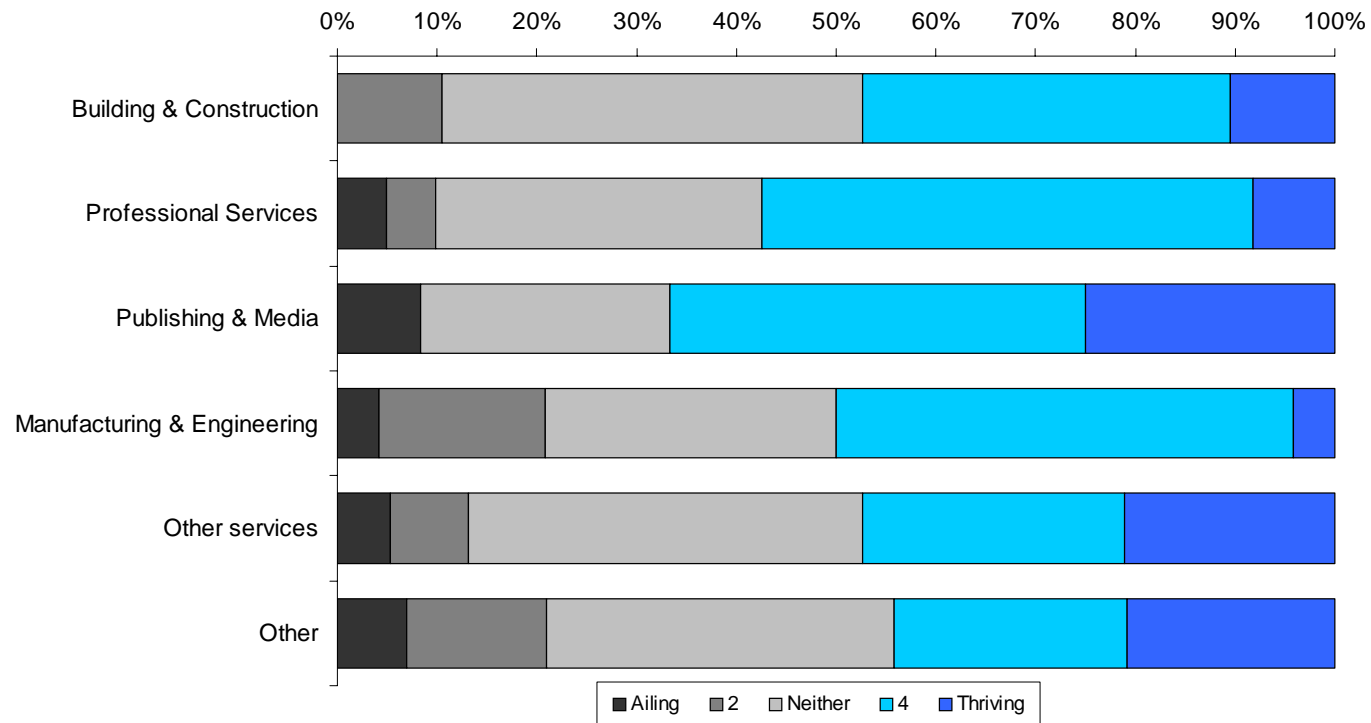
- **Predominance in service sector and creative industries (58.7%)**
- **Stage of business: Good mix of growth (57.7%) & mature (20.7%)**
- **Number of employees typically between 1-20**
- **Age: Good spread across age of business = robust, viable base**
- **Good turnover: service-based businesses & high productivity**

→ Current Business Performance



More than half currently consider their business to be 'thriving'

= majority across all sectors in good financial health



TYPICAL WORKSPACE TENANT:

	Median	% of median turnover
Year of start	1996	—
Turnover	£250,000	—
Overheads	£90,000	36
Profits	£40,000	16
Rent	£12,000	4.8

= Key statistic: rent accounts for low percentage of turnover

→ Exits & Serial Entrepreneurs



Serial Entrepreneurs – ‘creates, runs and sells a business’

3 in 10 (29.6%) own/have owned another business

Portfolio Entrepreneurs – ‘juggles several businesses at same time’

2 in 10 (21.2%) currently own another business

**= Archetype: middle-aged, male, Professional Services
driven by market opportunities**

17.8% currently have an exit plan for their business

Of these, a quarter (24.8%) plan to leave within 5 years

		Introduced new or significantly enhanced products or services	
		Yes	No
Introduced new practices or processes	Yes	Innovators: 31.8% (15%)	Changers: 21.9% (20%)
	No	Changers: 21.9% (20%)	Conservatives: 46.4% (63%)

About 3 in 10 (31.8%) are ‘Innovators’ – London average of 15%

About 1 in 5 (21.9%) are ‘Changers’ – London average of 20%

= Higher than London average of ‘Innovators’ & ‘Changers’

* Workspace scores in red & London average, as reported by London Annual Business Survey (2003), in brackets

→ Owner Attitude and Style



Workspace Group

Business-style – Tenant self-categorisations:

		%	KS	or		%	KS
A	I am a Traditional Business Person	44.8	60.3	or	I am a 21 st Century Entrepreneur	55.2	37.2
B	I like to innovate and create change	66.3	60.0	or	I stick to what I know best	33.7	38.6
C	I plan my business strategy well in advance	27.2	34.2	or	I take opportunities whenever I can	72.8	62.8
D	I use new technologies as soon as possible	46.7	30.3	or	I like to wait for systems to be tried and tested before using them	53.3	67.8
E	I am restless and easily bored	60.7	43.6	or	I am happy just doing my job	39.3	52.5
F	I prefer to keep my head down and avoid publicity	62.7	62.2	or	I am a high-profile image maker	37.3	33.9
G	I am happy to take high risks, providing the rewards are high	43.0	22.8	or	I take decisions based on known facts so they are less risky	57.0	75.3
H	I prefer my firm to work independently	58.9	68.1	or	I am happy to work through joint ventures and share business with others	41.1	30.8
I	I regard myself a risk taker	55.0	4.8	or	I prefer to avoid risks	45.0	55.8

Majorities see themselves as:

- 21st Century Entrepreneurs 55.2%**
- Innovators & changers 66.3%**
- Risk takers 55.0%**

NB: 'KS' refers to SBRC/Kingston Smith, 'Who are the entrepreneurs?', 2002'

→ Customers: Archetypes



WORKSPACE ENTREPRENEUR

AGE
EDUCATION
MOTIVATION
BUSINESS STYLE
SUCCESS
SERIAL/PORTFOLIO

WORKSPACE BUSINESS

ROBUST SIZE, AGE,
LEGAL TYPE
SUPERIOR BUSINESS
PERFORMANCE
INNOVATIVE

→ Summary



**“WORKSPACE GROUP INVESTS IN PREMISES THAT
ACCOMMODATE SUCCESSFUL, ROBUST, DIVERSE
AND INNOVATIVE CUSTOMERS”**

= We target high added-value customers



Long-term implications for Workspace

Harry Platt

Workspace Group

→ How are we reaching customers?



Increasing awareness – reaching customers

- Advertising / Sign Boards / Local PR / internet
- Initiatives – *'Recyclopedia'*, *'Beginner's Guide to Business Space'*
- Acquisitions / re-furbishment of new sites
- Links with local authorities / SME advisers
- 'Word of Mouth'
- 'Cross-marketing' local clusters of Workspace sites
- Marketing Database
- 2004: 6000+ enquiries converted 1,000+ as new lettings

→ Key SME trends



- 1. SME Stock is growing**
- 2. London is No.1**
- 3. SMEs maturing and financially robust**
- 4. Growth of creative and service industries**
- 5. Business owners are getting younger**
- 6. Entrepreneurial activity rising**
- 7. Change is constant – Flexibility is important**

→ Implications for Workspace



Workspace will benefit from long-term changes

1. Demographics of London are changing
2. Pressure on sites / density of development
3. London = SME magnet
4. Changes in working practices and the labour market
5. Entrepreneurs do cluster

→ Implications for Workspace (2)



Workspace will benefit from long-term changes

1. Rise in SME numbers = Demand for space
2. Lifespan of customers increasing = Robust businesses
3. Churn remains high = Demand for space
4. Serial Entrepreneurs = Return customers
5. SME confidence improving = Confidence to move premises
6. Strength of customers = potential for rental growth

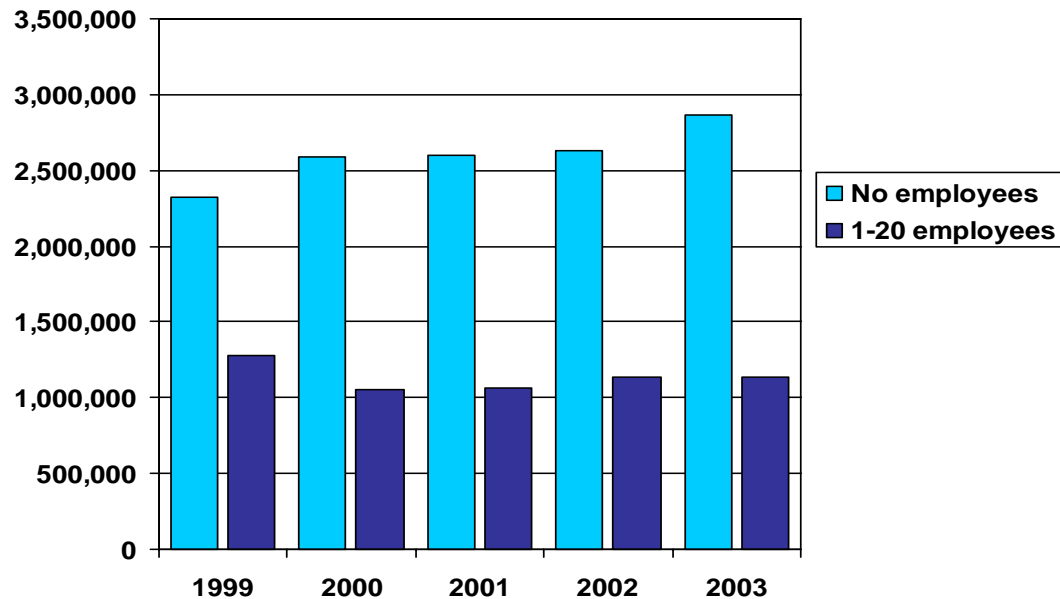
= Long-term prospects for Workspace remain robust



Workspace Group

APPENDIX

→ Employee Growth

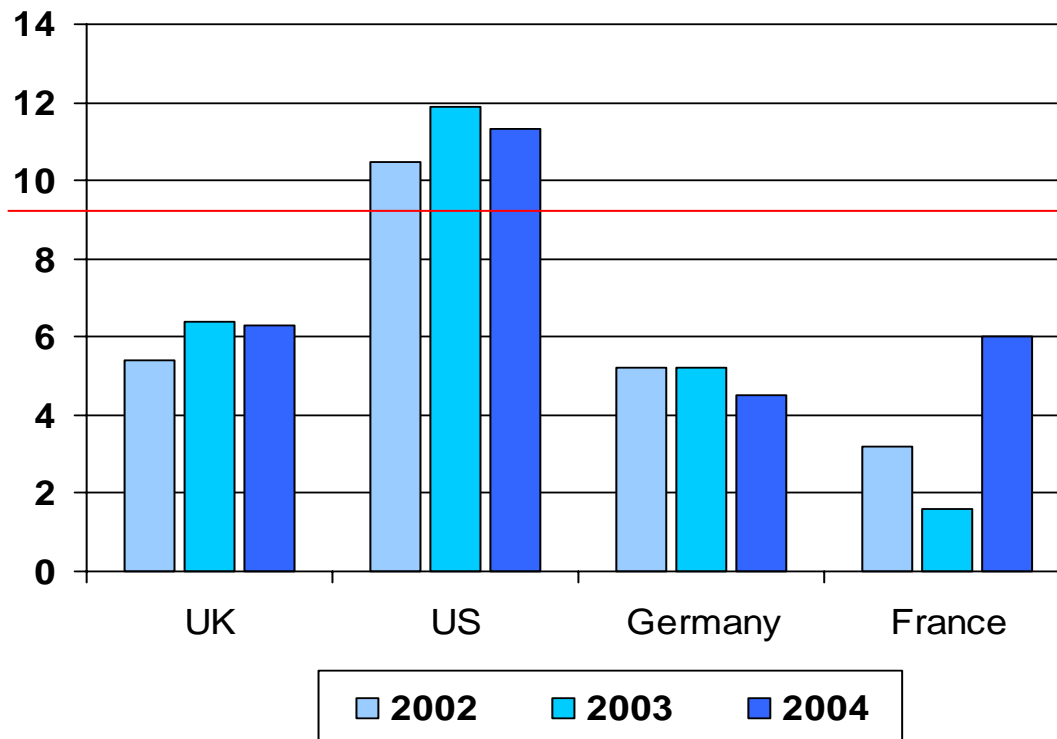


No. with no employees up on previous year (240,000)

No. with employees down slightly on previous year (10,000)

→ How Entrepreneurial is the UK?

> Based on 'Total Entrepreneurial Activity', is ahead of Germany & France
but behind the USA



2004 GLOBAL
AVERAGE = 9.3