

BusinessWeek

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Introducing the Small Business Confidence Index

In these turbulent times, exactly what's in store for your small business? How will your revenue, profits, costs, and growth change during the first half of 2007? And how will your upcoming business performance compare with that of your peers?

Although there are no small business crystal balls we can use to predict the future, the first edition of the Capital One Small Business Confidence Study provides insight into these issues. And, the study goes one step further, revealing hundreds of successful real-world small business growth strategies, directly from the mouths of small business owners, to help your business achieve success in 2007 and beyond.

ABOUT THE STUDY

The Capital One Small Business Confidence Study was conducted jointly between BusinessWeek Research Services and Capital One. This study will continue to track small business attitudes and growth

strategies throughout 2007, to provide additional insight and ideas for your business. The current wave of the study includes the experiences of 750 small businesses that were interviewed from February 14 to February 20, 2007.

INCREASED GROWTH EXPECTED

The good news is that optimism and resilience are alive and well among American small business owners. Specifically, the Capital One Small Business Confidence Index has an average score of 63 for this wave of the study (on a scale of 1 to 100). A score of 50 on this index would indicate expectations of flat growth, and a score of 100 would indicate expectations of extremely large growth. Therefore, a score of 63 indicates moderate expected growth increases during the first half of 2007.

The Capital One Small Business Confidence Index represents four business factors: revenue, profits, demand for products and services, and industry performance. And small business owners expect moderate increases in each of these areas during the first half of 2007, on average. Specifically, seven out of ten small businesses expect their revenue to increase, six out of ten expect their profits to increase, half expect the demand for their services to increase, and six out of ten expect the performance of their specific industry to improve.

HOLDING COSTS IN CHECK

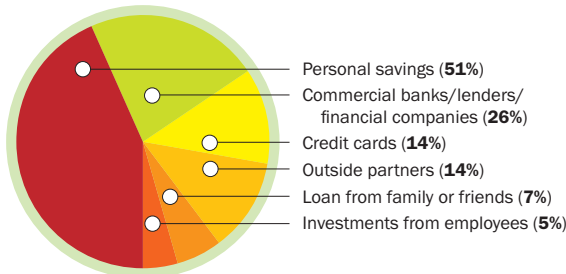
In addition, small businesses expect their business costs to remain stable or decrease slightly, a factor that can facilitate small business growth. Specifically, the Capital One Small Business Cost Index has an average score of 47 for this wave of the study (on a scale of 1 to 100).



Source: CapitalOne Small Business Confidence Study / BusinessWeek Research Services

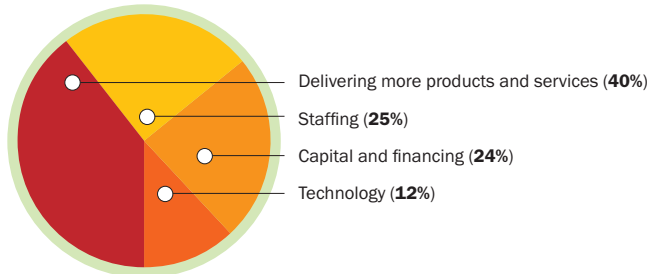
FUNDING SOURCES

As your business grows, how do you tend to finance the growth?
(Multiple Response)



CHALLENGING GROWTH ISSUES

When it comes to growing your business, which one of the following factors is most difficult to manage?



A score of 50 on this index would indicate expectations of flat costs, and a score of 1 would indicate expectations of extremely reduced costs. Therefore, a score of 47 represents expectations of flat costs or a slight decrease in business costs during the first half of 2007.

The Capital One Small Business Cost Index includes four aspects of business costs: overall operating costs, costs for specific business processes, costs for business improvements, and concerns about business costs. Specifically, half of small business owners expect their firm's overall operating costs to stay the same or decrease; seven out of ten expect costs to remain flat for advertising/marketing, technology, staffing, energy, and business space; half of small business owners have a minimal level of concern about rising costs; and a moderate amount of businesses expect to incur costs for business improvements like office upgrades (40%), products and services (39%), customer service (22%), staffing (16%), and accounting or financing (15%), while one-quarter (24%) do not expect to make any of these improvements.

USING CAPITAL TO FUEL GROWTH

On the other hand, business costs are not always a bad thing, because costs can be used as an investment that leads to better performance and growth, over the long-term. In short, business growth often has to be financed in some fashion. And small business owners could use new sources of financing.

Specifically, almost six out of ten small business owners (56%) say that it would be easier for their businesses to grow if they had access to additional capital. And small businesses say that their most difficult growth issues include: delivering more products and

56% of small business owners say their growth would improve if they had additional capital.

services (40%), staffing issues (25%), raising capital and financing (24%), and managing technology (12%).

Part of the problem is that small businesses tend to tap into a narrow range of funding sources to finance growth, with most businesses choosing to rely on their own personal savings, and only about one-quarter choosing to tap into commercial banks, lenders, or financial companies. Almost half of small businesses (47%) even say that they don't feel valued or appreciated by their banks. In addition, about one out of ten small businesses use credit cards to finance their business growth, but two out of ten card users miss out by not receiving rewards for their business purchases.

REAL-WORLD SMALL BUSINESS GROWTH STRATEGIES

Unfortunately, capital and spending are not enough for small business success; small businesses also need effective strategies to guide their purchases. However, small businesses seem to suffer from a lack of professional business advice: more than half of small businesses (54%) say that their most trusted business advisor is either a colleague (29%), or a friend or family member (25%), as opposed to a CPA/accountant, lawyer, consultant, or business association.

Since many small businesses struggle with challenges like the need for capital, a reliance on personal savings, banks that don't value them, and a lack of professional advice, the Capital One Small Business Survey included the following open-ended question for small business owners: **what was the best financial investment you ever made in your business, and why?**

Hundreds answered the question:
What was the best financial investment you ever made in your business?

We received hundreds of real-world, practical answers that are now available at the Capital One Small Business Knowledge Center, located at: <http://knowledgecenter.businessweek.com/smallbizconfidence>. This website also includes a white paper and podcast about all of our small business research results.

Stay tuned for the results of the follow-up Capital One small business research study, arriving in August, 2007.

RESEARCH METHODOLOGY

The Capital One Small Business Study is commissioned by Capital One and conducted by BusinessWeek Research Services (a division of the Businessweek marketing department). Representatives from 750 small businesses participated in this wave of the study. The respondent sample was drawn from the BusinessWeek Market Advisory Board. Vision Critical, a market research firm, managed the online data collection. All study participants are small business "primary decision makers" within companies that have fewer than 10 employees. The Capital One Small Business Confidence Index and the Capital One Small Business Cost Index were developed by BusinessWeek Research Services through the use of statistical factor analysis. For more information about BusinessWeek Research Services, please contact Marc Scheer at (212) 512-2298.