



Small Business Confidence Index Stays Strong

During the past four months, general consumer confidence has plummeted, inflation fears have heated up, the housing market is on the ropes, hedge funds are taking a beating and the stock market has hit several bumps. But, despite all of these ominous signs, small business confidence has remained stable.

The resilience of small business optimism is just one of the findings of the second installment of the Capital One Small Business Confidence Study. The study also sheds light on: current small business costs, the outlook for the next three months, and real-world business growth tips that owners can use to achieve success in 2007 and beyond.

ABOUT THE STUDY

The Capital One Small Business Confidence Study was conducted jointly by BusinessWeek Research Services and Capital One. This

study continues 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 603 small businesses that were interviewed from June 19 to June 25, 2007.

CONTINUED CONFIDENCE

Optimism and resilience appear just as strong among small business owners as they were four months ago. Amazingly, the Capital One Small Business Confidence has the exact same average score, 63, as it did during the first wave of the study. Since a score of 50 would indicate expectations of flat growth, this score indicates that small business owners continue to expect increased growth throughout 2007.

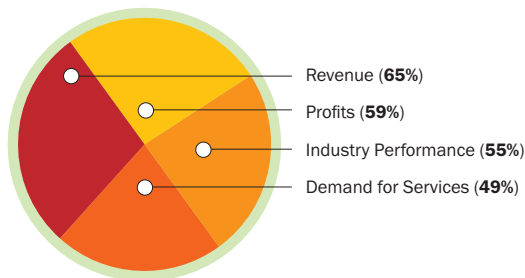
In fact, small business owners continue to expect growth in each of the four growth factors that the Index measures. Specifically, almost seven out of ten small businesses (65%) expect their revenue to increase, six out of ten (59%) expect their profits to increase, half (49%) expect the demand for their services to increase, and almost six out of ten (55%) expect the performance of their specific industries to improve.

LOWER COSTS EXPECTED

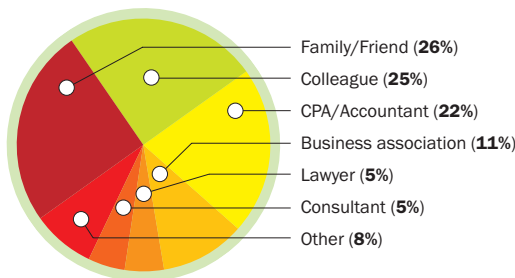
Owners' expectations of their future costs are also remarkably in line with prior results, as owners continue to think that their costs will decrease slightly. Specifically, the Capital One Small Business Cost Index now has an average score of 45, while it had a score of 47 in February, and a score of 50 would mean that costs are expected to remain flat. These results are particularly



EXPECTED NEAR-TERM IMPROVEMENTS:



TRUSTED ADVISERS:



surprising since inflation fears have been heating up for both investors and consumers in recent weeks.

Specifically, almost half of small business owners (47%) expect their firms' overall operating costs to decrease or stay flat; most expect costs to stay flat for advertising/marketing, technology, staffing, energy, and business space (although 45% expect energy costs to increase); less than half of small business owners are very concerned about rising costs; and only a moderate number of businesses expect to incur costs for business improvements like office upgrades (33%), products and services (41%), customer service (25%), staffing (17%), and accounting or financing (12%), while more than one-quarter (27%) do not expect to make any of these improvements.

ROSE-COLORED GLASSES FOR ALL?

Since the general economy is facing some significant challenges, it's somewhat surprising that small businesses remain optimistic. Is this optimism held by all small business owners, or are some owners more measured in their outlook?

In fact, a number of small business owners remain skeptical about their future prospects. Specifically, more than one out of ten owners (15%) has a score of less than 50 on the Confidence Index, meaning that they expect their performance to decline during the next few months. In addition, a full one-quarter of owners (25%) obtain a score

Hundreds answered the question:

How did you start and then grow your business to its current level? How would you spend \$50,000 to improve your business?

of more than 50 on the Cost Index, meaning that they expect many of their costs to increase during the next few months.

SEEKING ADDITIONAL GROWTH

How can small businesses improve their performance during the next few months? As usual, capital remains an important driver of small business growth. Just as in the prior study, almost six out of ten small business owners (55%) say that it would be easier for their businesses to grow if they had access to additional capital. Specifically, small businesses say that their most difficult growth issues include: delivering more products and services (40%), staffing issues (25%), raising capital and financing (25%), and managing technology (11%).

Small businesses also continue to indicate that they might benefit from additional funding sources. For example, about half of small business owners (49%) choose to rely on their personal savings to fund their businesses, and only three out of ten (28%) tap into commercial banks, lenders, or financial companies. In addition,

almost half of small businesses (44%) say that they don't feel valued or appreciated by their banks. And, although about one out of ten small businesses (13%) use credit cards to finance their business growth, more than three out of ten card users (34%) miss out by not receiving rewards for their business purchases.

55% of small business owners say their growth would improve if they had additional capital.

NEW SUCCESS STRATEGIES

It appears that many small businesses are also hampered by a lack of professional advice: half of small businesses (50%) say that their most trusted business advisor is either a colleague (25%), or a friend or family member (26%), as opposed to a CPA/accountant, lawyer, consultant, or business association.

To gather some new success strategies for business owners, the Capital One Small Business Survey included the following open-ended questions: **How did you start and then grow your business to its current level?** And: **If you received \$50,000, how would you spend it to improve your business?** We received hundreds of real-world, practical answers, and some of these answers 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 new small business research results.

Stay tuned for the results of the follow-up Capital One small business research study, arriving in October 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). A total of 603 representatives from small businesses answered ten questions about future growth and operational costs for this study. A random sample of small businesses was drawn from the BusinessWeek Market Advisory Board for this study. Vision Critical, a market research firm, managed the online data collection. All study participants are small business "primary decision makers" within companies that have less 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.