

The August 2007 Small Business Confidence Study

Sponsored by Capital One

Small Business Confidence Stays Strong



A Study of U.S. Small Businesses

Commissioned by Capital One
and conducted by
BusinessWeek Research
Services

Small Business Confidence Stays Strong

Study Background

Introduction

Times have certainly changed since the first installment of the Small Business Confidence Index was released four months ago. For example, general consumer confidence has plummeted, inflation fears have heated up, the housing market is on the ropes, hedge funds are taking a beating, and stock market has weathered 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 this second installment of the Capital One Small Business Confidence Study. The study also sheds light on:

- Confidence Differences Between Smaller and Larger Small Businesses;
- Expected Changes in Small Business Costs;
- Expectations for the Performance of the Overall Economy; and
- Small Business Growth.

In addition, this 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. A selection of these responses is available at the end of this report.

About the Study

The Capital One Small Business Confidence Study was conducted jointly by 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 603 small businesses that were interviewed from June 19 to June 25, 2007, and the first wave of the study was completed in February 2007 among 750 small businesses.

Small Business Confidence Stays Strong Growth & Costs

Continued Confidence

It appears that the attitudes of optimism and resilience are now just as strong among small business owners as they were four months ago. Amazingly, the Capital One Small Business Confidence Index 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 areas 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

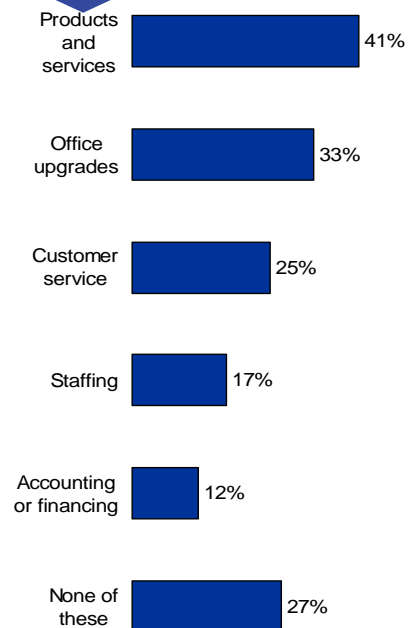
Small business owners' expectations of their future costs are also remarkably in line with prior results, as owners continue to think that their costs will decrease slightly. Specifically, the Capital One Small Business Cost index now has an average score of **45**, while it had a score of 47 in February, and a score of 50 would mean that costs are expected to remain flat. These results are particularly surprising since inflation fears have been heating up for both investors and consumers in recent months.

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 products and services (41%), office upgrades (33%), 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.

Current Index Values



Expected Biz Improvements [Multiple Response]



Small Business Confidence Stays Strong Impact of the Overall Economy

Rose-Colored Glasses for All?

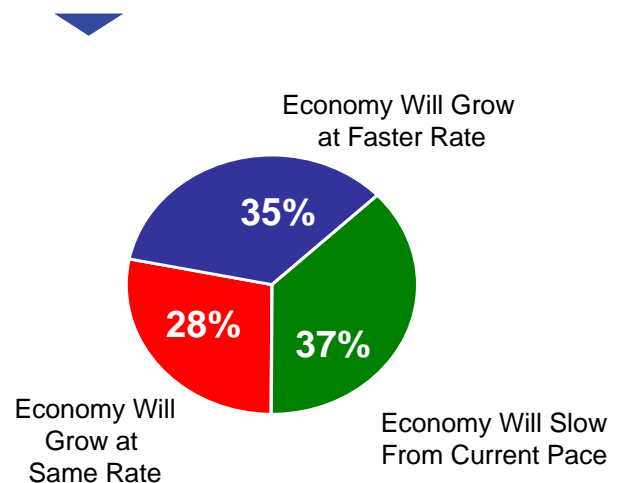
Although small business owners remain optimistic about their own future prospects, what kinds of expectations do they have for the performance of the overall economy? The answer is that, while most small businesses also remain optimistic about the general economy, these attitudes have shifted dramatically downward.

Specifically, in February 2007, eight of ten small business owners (78%) expected the economy to either stay the same or grow. In contrast, only six out of ten (63%) held this view when the current survey was conducted in late June 2007. Although the number of businesses expecting flat economic growth has stayed roughly the same (30% in Feb vs. 28% in June), the number expecting economic decline has increased significantly (from 22% in Feb to 37% in June).

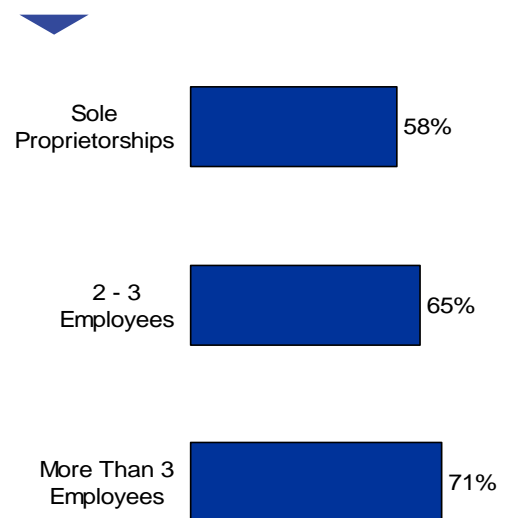
These results beg an important question: if a number of small businesses are pessimistic about the general economy, why do they remain optimistic about their own specific performance? One possibility is that small businesses are misguided in their personal optimism, but the results seem to refute this conclusion because a number of owners harbor negative expectations. For example, more than one out of ten owners (15%) has a score of less than 50 on the Small Business 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 of more than 50 on the Small Business Cost index, meaning that they expect many of their costs to increase during the next few months.

Instead, the answer may be that the survey tends to include successful businesses. Support for this idea is found in the fact that most of the respondent companies (60%) have more than one employee, and companies with more than 1 employee tend to have much more optimistic attitudes than sole proprietorships. In other words, the survey includes a large number of businesses that have weathered economic storms, survived, and now have a certain degree of economic stability. These kinds of businesses have probably developed a large amount of business competence, and a belief that they can control their own financial destinies, regardless of the health of the overall economy.

Expectations for Overall Economy:



Expect Increased Biz Revenue



Small Business Confidence Stays Strong Fueling Continued Growth

Seeking Additional Growth

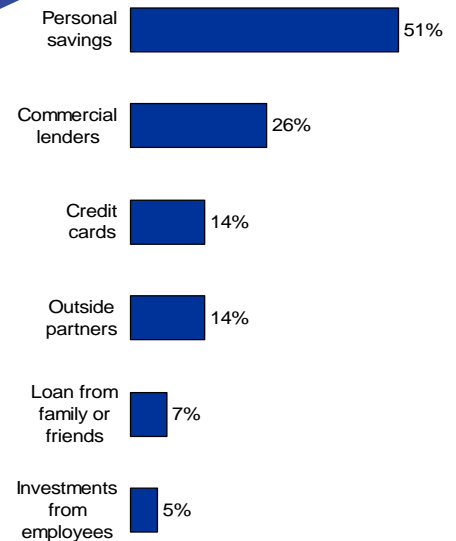
How can small businesses improve their performance during the next few months? As usual, capital remains an important driver of small business growth. Just as in the prior wave of this study, almost six out of ten small business owners (55%) say that it would be easier for their businesses to grow if 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, one-third of card users (34%) miss out by not receiving rewards for their business purchases.

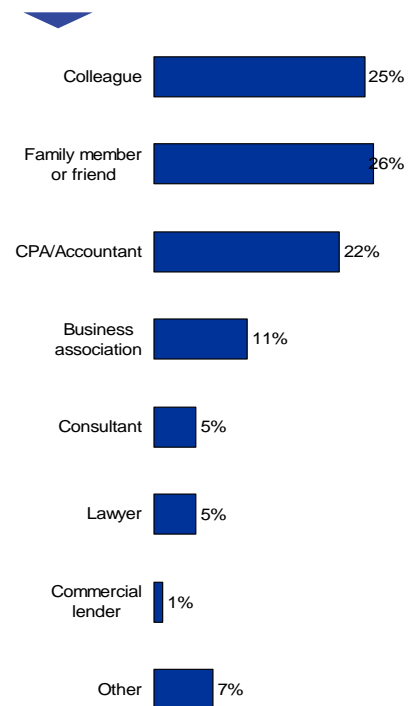
Trusted Advice

It appears that many small businesses are also hampered by a lack of professional business 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 professional adviser, like a CPA/accountant, lawyer, consultant, or business association.

Typical Funding Sources



Most Trusted Advisers



Small Business Confidence Stays Strong Starting and Growing

In Their Own Words: How Did You Start and Then Grow Your Business to Its Current Level? [selected responses]

"Consistent networking and marketing."

"I jumped in and swam."

"Developed a unique product, found a good partner."

"Hard work."

"Contacting prospects, winning one client at a time, getting referrals from satisfied clients."

"Used contacts from [former] business job and networking to secure current client base."

"Bought an existing business and started doing sales calls on potential customers to get them to become customers."

"Family passed it on."

"Started with an idea, designed to a patent, and then secured a trusted manufacturer. Prototyped and got initial customer reaction and suggestions."

"Used proceeds from inheritance and withdrew funds from IRA and ESOP."

"Offered free consultation. Results brought word-of-mouth referrals."

"Developed a unique solution to a major problem in the business world."

"Used Direct Response -- sales letters, newsletters, case studies -- referrals, and networking."

"Got disgusted [in my corporate job], quit, and several of my clients followed me."

"Based on licensed technology, investment by VC's, investment by private investors."

"Started as sole provider of consulting services. Outsourced specific skill sets to other individuals (1099). Outsource larger initiatives to other professional services firms. Hired employees."

"Worked in the field for a large institution to gain experience and knowledge before starting my private company."

"Started as a part-time business & went from there."

"Wrote business plan while an MBA student, received economic development assistance."

"Started in my living room with a computer and a fax machine. Grew the business by offering organizational seminars. Then, year by year the business has grown."

"I started my own marketing company and began with a single client that could keep me afloat. I later expanded to include more clients and have not looked back."

"Used personal savings and credit cards; bank line of credit added after 15 years; reinvested capital."

"Created a website."

Small Business Confidence Stays Strong Business Improvements

In Their Own Words: How Would You Use \$50,000 to Improve Your Business? [selected responses]

"Marketing, advertising, market research."

"Build a professional website."

"Hire an outside salesperson."

"Hire technology assistance and administrative support."

"Increase inventory."

"Ongoing education and training."

"Open up an additional location."

"Expand our intellectual property protection."

"Travel to more business events."

"Technology - computers, PDA's, phones, etc."

"Would invest more in T&E in connection with business development."

"Refine, launch and actively market several new products."

"Subscribe to various databases, magazine / journal subscriptions (online and offline)."

"I would purchase additional office equipment."

"I would increase my warehouse space. Add a 800 number to my customer support. Stop co-locating my servers and have them in-house. Add automated equipment to my shipping department. Maybe increase my sales force. Expand my mail order catalog."

"Health/dental insurance improvements."

"Set up a computer network, invest in high speed scanner technology, and become a paperless office."

"Provide more training and tools for employees."

"Attend trade show and industry meetings to network."

"Pay better salaries and provide other employee rewards."

"Look for new office space or new location."

"Hire an accountant to get the books in shape."

"Buy a new truck."

"Self-publish a book."

"Consider investing in external storage for paper records. Hire interior designer to redesign office space."

Small Business Confidence Stays Strong

Small Business Profile

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 603 small businesses participated in this wave of the study, gathered from more than 40 different kinds of services and industries. Respondents were drawn at random from the BusinessWeek Market Advisory Board, a proprietary research panel of business leaders. 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.

Visit the Capital One Small Business Knowledge Center for more information about this study, including a research podcast:

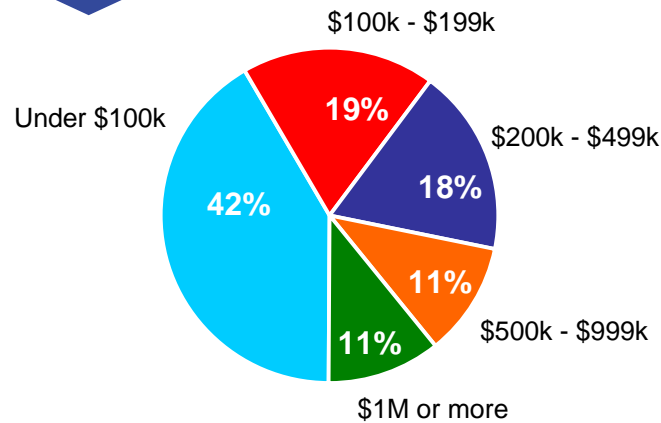
<http://knowledgecenter.businessweek.com/smallbizconfidence>

For more information about BusinessWeek Research Services, please contact Marc Scheer, Ph.D. at (212) 512-2298.

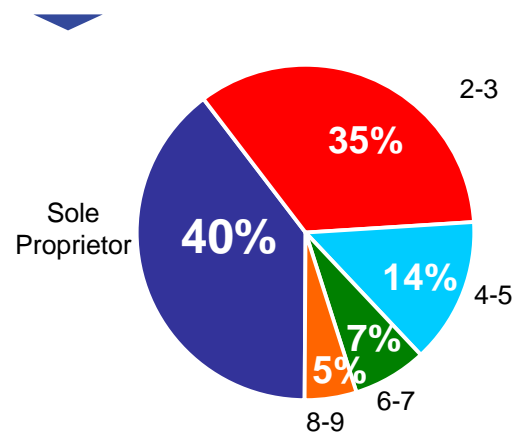
Stay tuned for the results of the next installment of the Capital One small business research study, arriving in October 2007.

Small Business Sample

2006 gross annual sales revenue



Number of Employees



Note: percentages in graphs may not add to 100% due to rounding