

The October 2007 Small Business Confidence Study

Sponsored by Capital One

Mixed Signals for Small Business?



A Study of U.S. Small Businesses

Commissioned by Capital One
and conducted by
BusinessWeek Research
Services

Mixed Signals for Small Business?

Study Background

Introduction

Although small businesses continue to display the optimism and resilience they have demonstrated throughout 2007, some mixed signals are coming into view. For example, although small business confidence is still high, it appears to have dropped for the first time this year.

Fluctuations in small business optimism is just one of the findings of this third installment of the Capital One Small Business Confidence Study. The study also sheds light on mixed signals regarding:

- 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 683 small businesses that were interviewed from September 5 to September 10, 2007. The first wave of the study was completed in February 2007 among 750 small businesses, and the second wave of the study was conducted in June 2007 among 603 small businesses.

Mixed Signals for Small Business? Growth & Costs

Confidence in Flux?

Although small business confidence remains high, the Capital One Small Business Confidence Index has dropped for the first time this year. Specifically, the Index now has an average score of **61**, while it had a score of 63 four months ago (and any score above 50 indicates respondent's expectations of increased growth for their businesses).

In addition, fewer small business owners expect increased growth in the four factors that the Index measures, as compared to the last survey wave. Specifically, small reductions were seen in revenue expectations (59% expect growth vs. 65% in the prior wave), profit expectations (55% vs. 59%), expectations for the performance of their specific industries (52% vs. 55%), and expectations regarding the consumer demand for their services (48% vs. 49%).

Flat Costs Expected

As in prior survey waves, small business owners expect their business costs to remain flat in the near future. Specifically, the Capital One Small Business Cost Index now has an average score of 50, which is the exact score representing flat expectations (scores above 50 represent higher expected costs, and scores below 50 represent lower expected costs). These results are particularly surprising since inflation fears have been heating up for both investors and consumers in recent weeks.

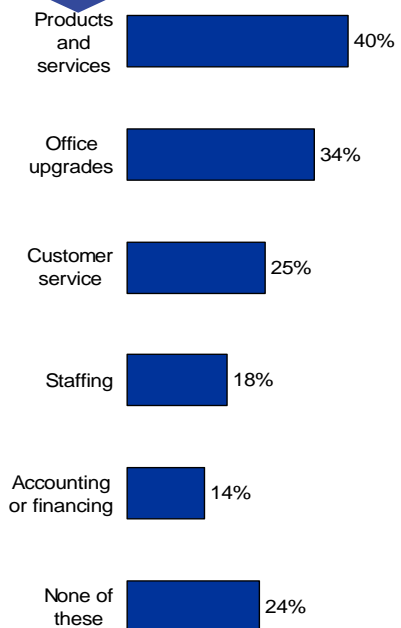
In addition, most small business owners expect their costs to stay flat for advertising/marketing, technology, staffing, energy, and business space; less than half of small business owners are very concerned about rising costs; and small businesses are just as likely as they were last wave to expect to pursue costly business improvements like: office upgrades (34%), new products and services (40%), customer service (25%), staffing (18%), and accounting or financing (14%). On the other hand, it's important to note that about half of small business owners (53%) expect their firms' overall operating costs to increase in the near future.

Current Index Values



Source: CapitalOne Small Business Confidence Study / BusinessWeek Research Services

Expected Biz Improvements [Multiple Response]



Mixed Signals for Small Business? Impact of the Overall Economy

Shifting Views on the General Economy

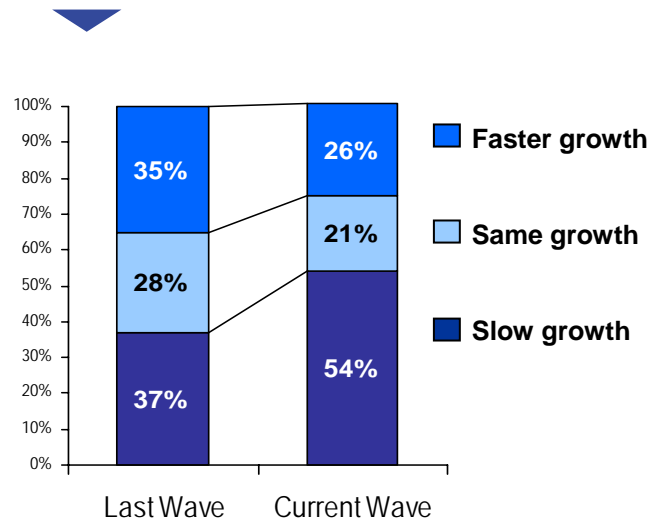
In contrast to their positive expectations for their own businesses, small businesses tend to have optimistic expectations for the overall U.S. economy. Specifically, more than half of small business owners (54%) expect the general economy to decline, which is much higher than the number that held this view in the prior survey wave (37%).

Based on these results, it's reasonable to wonder if small business owners' current mixed expectations for their own success have been caused by their less positive expectations for or experience with the general economy. On the other hand, current mixed expectations could be a result of changes in the small business marketplace, or even of normal statistical error. The next few months should reveal whether these attitudes are a one-time aberration, or if they are part of an emerging trend.

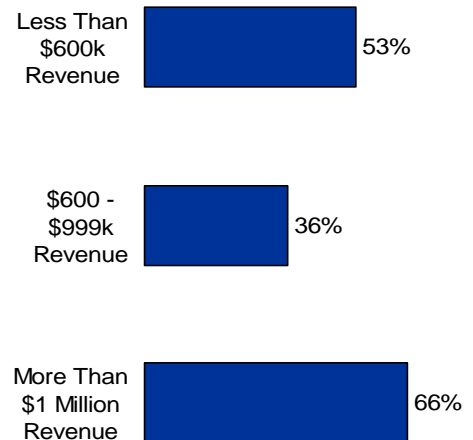
Expectations also differ based on company size. For example, businesses with revenue of \$1 million or more are most pessimistic about the general economy (66% expect decline), followed by those with less than \$600,000 in revenue (53%), and those with \$600 - \$900,000 in annual revenue (36%). It's possible that small businesses at the extremes foresee a lack of opportunity to grow, whereas those in the middle have a better balance of stability and growth.

Time will tell how these factors play out, including the possible influence of inflation and a tight credit market.

Expectations for Overall Economy:



Expecting the Economy to Decline



Mixed Signals for Small Business? Fueling Continued Growth

Seeking Growth in a Tight Credit Market

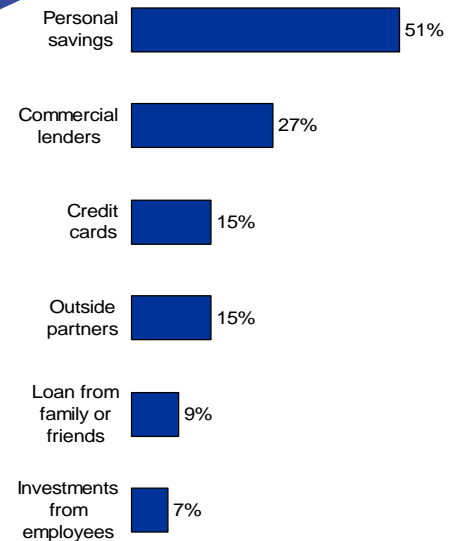
As they seek additional growth, small businesses continue to struggle with top challenges like: delivering more products and services (40%), raising capital and financing (27%), managing staffing issues (22%), and technology (11%).

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 waves of this study, more than half of small business owners (53%) say that it would be easier for their businesses to grow if they had access to additional capital. Right now, about half of small business owners (51%) choose to rely on their personal savings to fund their businesses, and only one-quarter (27%) tap into commercial banks, lenders, or financial companies. In addition, almost half of small businesses (48%) say that they don't feel valued or appreciated by their banks. And, although about one out of ten small businesses (15%) use credit cards to finance their business growth, three out of ten card users (31%) miss out by not receiving rewards for their business purchases. It will be interesting to see if the general credit crunch in the overall economy begins to affect small business owners.

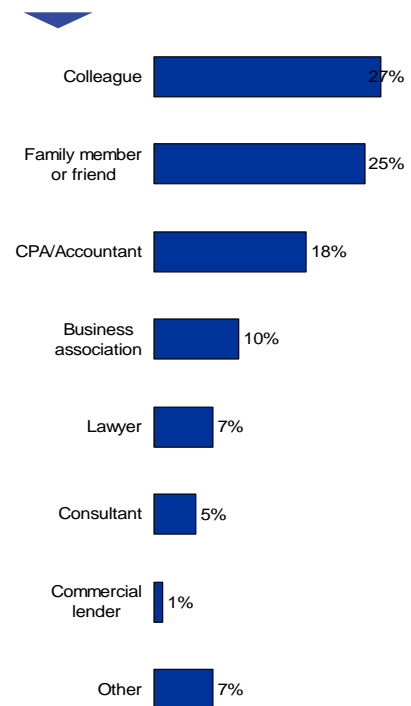
Trusted Advice

Most small businesses continue to rely on non-professional business advice, by depending on colleagues (27%), or friends and family (25%), as their top business advisers (as opposed to CPAs/accountants, lawyers, consultants, or business associations).

Typical Funding Sources



Most Trusted Adviser



Mixed Signals for Small Business?

Career Enjoyment

In Their Own Words: What Do You Most Enjoy About the Work That You Do? [selected responses]

"I like helping people."

"I love the creativity required every moment."

"Helping clients do well, work more effectively, solve difficult problems and feel good about the outcomes."

"The opportunity to introduce a new product that truly wows a customer."

"Worldwide travel. Gaining an understanding of other people and cultures."

"The freedom to take risks."

"The opportunity to meet people from all over the US and the world."

"Personal satisfaction as the business becomes successful and grows."

"I am allowed to read many educational and informative books as part of my duties."

"I make people happy every single day and have never had an enemy in 20+ years."

"Being able to work on projects which I feel are important and will make a difference in society."

"The variety of tasks and contacts. Each day is different."

"I like the challenge and complexity of the work. It is tremendously rewarding."

"I would do it even it was not work and I was not getting paid, or if I was retired."

"I love that I can develop new ideas and learn new things all the time."

"Uncompromising integrity - I can live my values."

"Contact with executives and business leaders."

"I like being able to dabble in each area of business management."

"Personal attention that I can give to my employees and customers."

"We're creating a unique product/service that fills a major unmet need."

"The interaction with various professionals. We deal on a daily basis with lawyers, accountants, bankers, and private equity investors."

"The people I get to work with."

"The fact that I never know what I will be working on tomorrow."

Mixed Signals for Small Business? Admired Businesspeople

In Their Own Words: Which Businesspeople Do You Admire Most, and Why? [selected responses]

Steve Jobs -- Creativity and market intuition.

Bill Gates - Sharp business person who capitalized on being at the right place at the right time.

Frank Zappa -- did what he loved and did it well.

Edgar Bronfman III- Family values.

Henry Ford-he didn't really make it until much later in life which shows great dedication.

Herb Kelleher, CEO of Southwest, for running his business with a new and unique business model.

Empire builders, like Carnegie.

Ann Mulcahy, Mark Hurd, John Chambers, Joe Tucci, all CEOs of major corporations who successfully led their companies through significant transformation.

Oprah Winfrey, because she persevered and made herself successful.

Rupert Murdoch, because he does things his way (with his and others people's money).

Martha Stewart. She has been a genius at marketing herself throughout her career.

The management staff at Costco.

Paul Hawken, for increasing our awareness of sustainability.

Tony Robbins, who built a massive empire of companies on his own.

Richard Branson, Mark Cuban, Warren Buffet - trailblazers and revolutionaries.

Walt Disney, who built a leading empire out of nothing.

Donald Trump, for consistently rebounding from adversity and poor decisions.

Michael Dell, for his innovative sales model.

Michael Bloomberg - a straight shooter, extremely intelligent, and extremely sharp as a manager.

Ted Turner. Original thinker.

Meg Whitman and her inspiration and dedication to keep eBay innovating.

Steven Covey for bringing the more human/spiritual side to business.

Anita Roddick of the Body Shop - for the tenacity she had.

Starbucks CEO Howard Schultz. He built a great business on a simple product that has been around for years.

Laura Ziskin, producer major budget action films, who succeeded where many women and men have failed.

B. Thomas Golisano for the company he founded and built (Paychex). And for his philanthropic endeavors to make his community a better place.

Donna Dewberry, a housewife who started her business as a way to make extra money and provide her children with inexpensive but unique gifts for their teachers.

The founders of Google, who developed a new industry and kept their company operating ethically (for the most part) while treating their employees well and fairly.

David W. Cole, CEO of Coinstar, who is honest, creative, hard working, and morally & spiritually wise.

John Mackey, CEO of Whole Foods, for seeming to stay true to balancing company culture in a forward-growth phase.

Anyone who starts their own business.

Mixed Signals for Small Business? 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).

BWRS selected a random sample of qualified respondents from the BusinessWeek Market Advisory Board, and a total of 683 respondents completed a brief online questionnaire about small business growth. All study participants are small business "primary decision makers" within companies that have less than 10 employees. Respondents represent over 40 different kinds of services and industries. Vision Critical, a market research firm, managed the online data collection.

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:

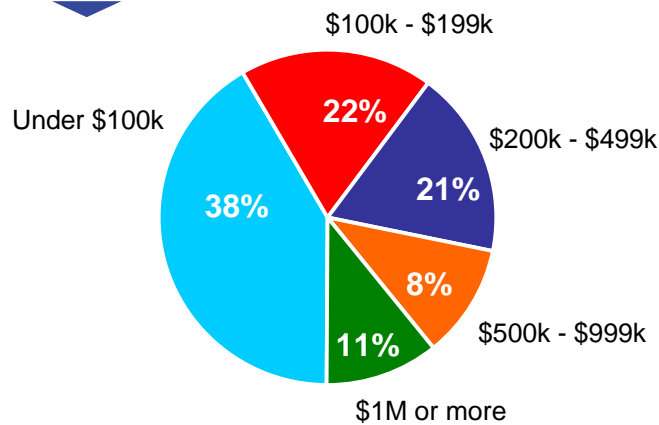
<http://knowledgecenter.businessweek.com/smallbizconfidence>

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

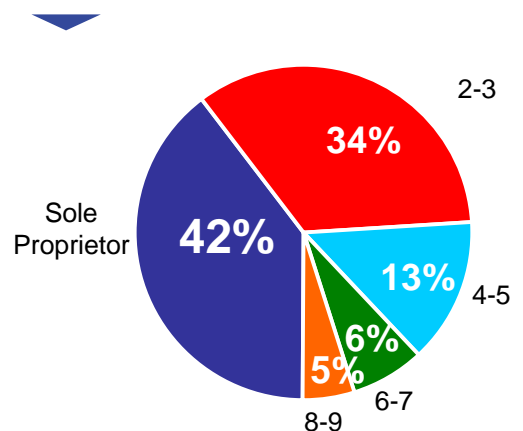
Stay tuned for the results of the next installment of the Capital One small business research study, arriving in December 2007.

Small Business Sample

2006 gross annual sales revenue



Number of Employees



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