



Mixed Signals for Small Business?

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. In addition, although small businesses are not very concerned about rising costs, most of them expect their overall costs will soon increase. And most small businesses expect the general U.S. economy to soon decline. Only time will tell how these factors will play out on Main Street, but it may be helpful for small businesses to begin to prepare for all contingencies.

These are some of the findings from the third edition of the Capital One Small Business Confidence Study. To help small businesses thrive in any market condition, the study also sheds light on 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 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 683 small businesses that were interviewed from September 5 to September 10, 2007.

CONFIDENCE IN FLUX?

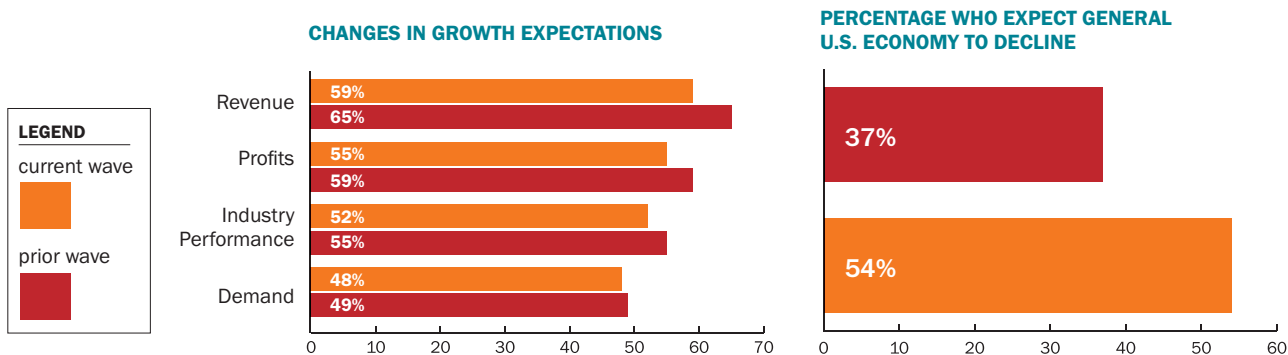
Although small business confidence remains high, the Capital One Small Business Confidence Index has dropped for the first time this year. Specifically, the Index now has an average score of **61**, while it had a score of 63 four months ago (and any score above 50 indicates respondents' expectations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

THE GENERAL ECONOMY

In contrast to their positive expectations for their own businesses, small businesses tend to have less 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 37% that held this view in the prior survey wave.

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.

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%).

As usual, capital remains an important driver of small business growth. Just as in the prior study, more than half of small business owners (53%) say that it would be easier for their businesses to grow if they had access

53% of small business owners say their growth would improve if they had additional capital

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.

NEW SUCCESS STRATEGIES

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).

To gather some new success strategies for business owners, the Capital One Small Business Survey included the following open-ended questions: **What do you like most about the work you do, and why?** And: **Which businesspeople do you most admire, and why?** 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 final Capital One small business research study of 2007, arriving in late December.

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



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