Sage small business tracker

A Sage report in partnership with Smart Data Foundry and Cebr

August 2023

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Headline Q1 findings

In Q1 2023 the Sage small business tracker revealed small businesses are struggling, with revenue growth and profitability both falling significantly on an annual basis. A stagnating economy, marred by a cost-of-living crisis and rising interest rates is dampening business activity. The brighter spark in the latest data shows average overheads falling by double-digits in Q1, meaning cost pressures for small businesses are easing.

Some of the key findings of this report by topic are:

i. **Profitability falls by 8% despite lower costs** – the average real EBITDA of small businesses fell by 8.3% year-on-year in Q1. This followed a 19.7% YoY increase in Q4 2022.

ii. **Revenue down by 28% on an annual basis in Q1** – average real revenues for small businesses contracted by 27.9% year-on-year in Q1 2023. Although this was partly due to strong revenues in Q1 last year, the sizeable contraction shows small businesses are struggling amid the slowdown in economic activity induced by elevated inflation and high interest rates.

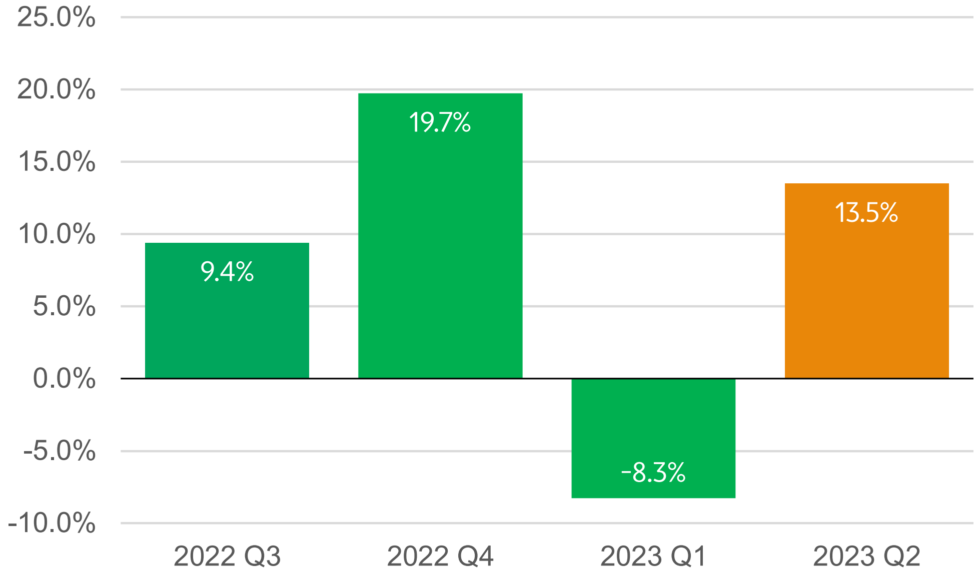
iii. **Overheads at small businesses decline sharply in Q1**– the latest data shows average overheads for small businesses fell significantly in Q1, after a more modest 1.3% fall in Q4 2022. At 16.4%, Q1's fall in fixed and semi-variable costs provided a brighter spark in the quarterly data, showing cost pressures are easing for small businesses, likely supported by significant falls in energy costs.

iv. **Small businesses continue to improve payment times** – Small businesses show a sustained period of increased resilience between Q1 2019 to Q1 2023, with the average number of days to pay an invoice dropping by 16 days in the past four years.

v. **Our Q2 2023 estimates show a contraction in revenues, but lower overheads should support profit growth**– more timely data from a smaller subset of businesses allows Cebr to estimate small business performance in Q2. We expect average revenue growth to have contracted for a third consecutive quarter in Q2. On the other hand, small business profit is expected to have grown on an annual basis, supported by a significant fall in price pressure.

Small business profits estimated to have grown in Q2 2023, supported by lower costs

Year-on-year change in real profit for small businesses in 2018 prices (Quarterly)

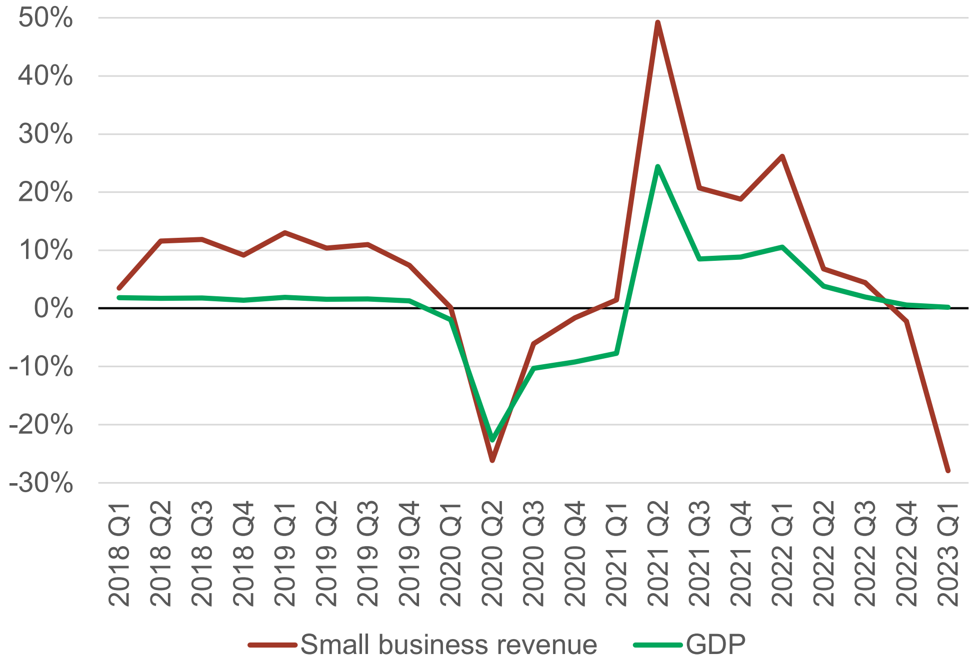


- Cebr has estimated the quarterly growth rate of financial variables using a subsection of only VAT-registered companies, which provide data up to Q2 2023, assuming growth rates of the larger business sample will follow a similar trend.
- Profit for the average small business is estimated to have increased by 13.5% on an annual basis in Q2 2023. This would mark a strong recovery from Q1's fall and will be supported by significant falls in overhead costs for small businesses.
- Small business revenue is estimated to have fallen by 21.1% on a year-on-year basis in Q2 2023. This would mark a third quarter of negative revenue growth. Businesses are suffering from the prolonged period of stagnation in the UK economy, chiefly due to stubborn inflation and rising interest rates, which are both acting as a drag on activity.
- The latest data on the UK economy showed no growth in the three months to May 2023. The cost-of-living crisis is still the key headwind to activity, with very high inflation eroding disposable incomes.
- Seasonally adjusted overheads are estimated to have contracted by 19.2% in Q2 2023. This would mark the second consecutive quarter of a double-digit contraction in business costs, supported by the substantial falls in energy prices this year.

Source: Sage, Smart Data Foundry, ONS, Cebr

Small business revenue falls by double digits in Q1 as UK economy stagnates

Year-on-year change in real revenue for the average small businesses and UK GDP, in 2018 prices (Quarterly)

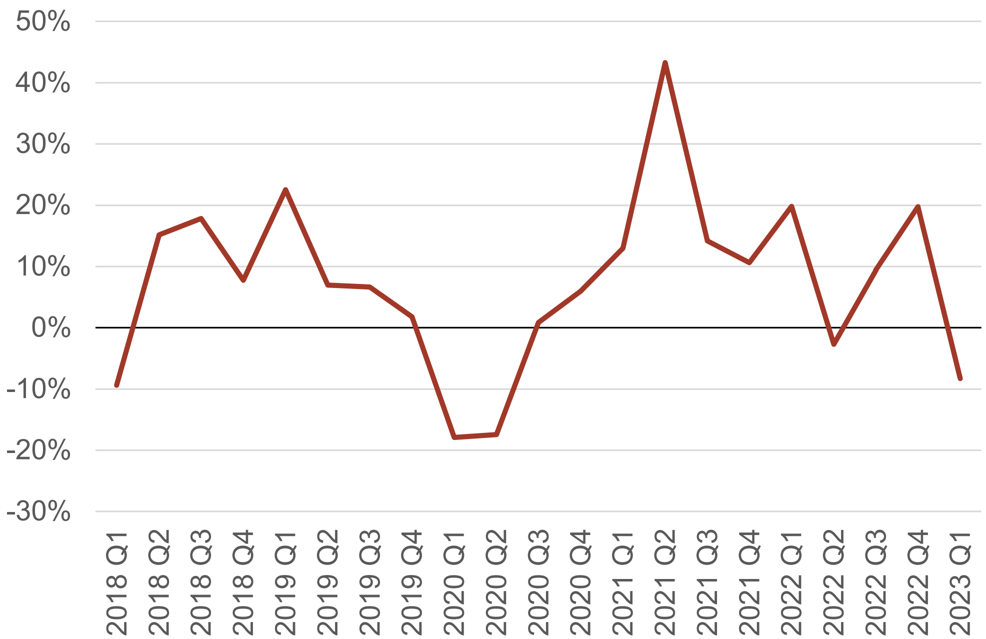


Source: Sage, Smart Data Foundry, ONS, Cebr

- Average real revenues for small businesses contracted by 27.9% on a year-on-year basis in Q1 2023. This marked the second consecutive month of contraction.
- Importantly, the extent of the annual fall in revenue was partly due to high base effects observed in Q1 2022. During this period, ONS data shows household consumption rose by 0.6%, driven by higher spending on leisure which was supported by the dissipation of the threat from the Omicron Covid-19 variant. Consequently, the rebound in economic activity last year contributed to a robust quarter for small businesses in our sample.
- Nonetheless, the large fall in revenues in Q1 2023 does show small businesses are struggling this year. Revenue was likely hurt by the contractionary impact of the cumulative interest rate rises by the Bank of England. Rate rises brought policy rates to 4.25% by the end of Q1 – their highest level since November 2008. All else equal, this reduces consumer spending and disincentivises business investment.
- The UK economy grew by just 0.2% in Q1 2023, marking the fourth quarter of slowdown in the annual rate of output growth. Although supply pressures have eased since the start of the year, stubbornly high inflation and rises in the cost of borrowing remain the main headwinds to activity, with both factors likely to suppress activity for the rest of this year.
- Cebr expects the UK economy to fall into recession at the end of this year. Our worsened outlook is chiefly driven by the impact of higher-than-expected interest rates from the Bank of England after inflation has proven more persistent than markets expected.

Small business profit growth falls into negative territory despite lower costs

Year-on-year change in real EBITDA for the average small business, in 2018 prices (quarterly)

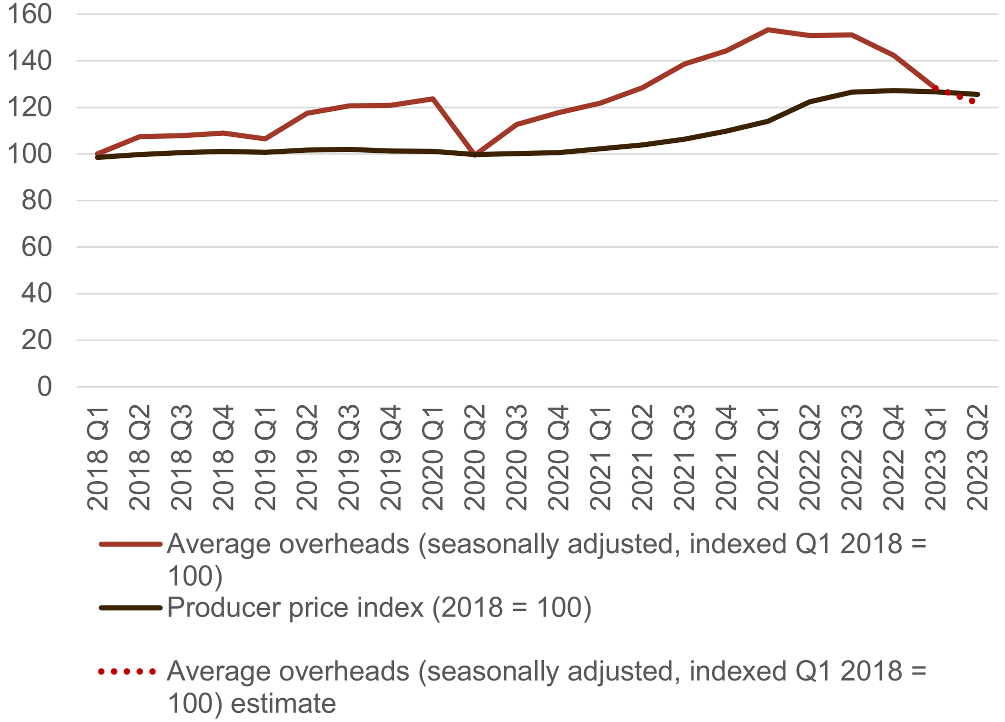


Source: Sage, Smart Data Foundry, ONS, Cebr

- Our data measures small business performance using the EBITDA (Earnings before interest, taxes, depreciation and amortization) measure. This is derived as EBITDA = Revenue - Expenditure – Overheads and helps understand profitability in our sample.
- On an annual basis, the real EBITDA for the average small business fell by 8.3% in Q1 2023. The fall in small business profitability over this period was only the second contraction in profit since the emergence of the Covid-19 pandemic. Lower profits for the average small business in Q1 are partly explained by the significant drop in revenues, indicating demand for goods and services is weak as consumers face a large real income shock.
- Indeed, lower profit comes in spite of a significant fall in overhead costs across the same period. This highlights the severity of the fall in revenues, while also suggesting business expenditures increased in Q1.
- Looking to Q2, based on initial estimates for VAT-registered businesses, Cebr estimates that small business profitability returned to annual growth. This is expected to have been supported by further falls in overhead costs.
- ONS data allow us to compare small business performance to that of all businesses in the UK. The latest data point from the ONS shows that the net rate of return for all businesses, a common measure of company profitability, did not change between Q3 and Q4 2022.
- The relative volatility of average profit in our sample of small businesses compared to that of all business profits suggests that smaller businesses are subject to more uncertainty.

Lower energy costs help to reduce the costs of overheads for small businesses

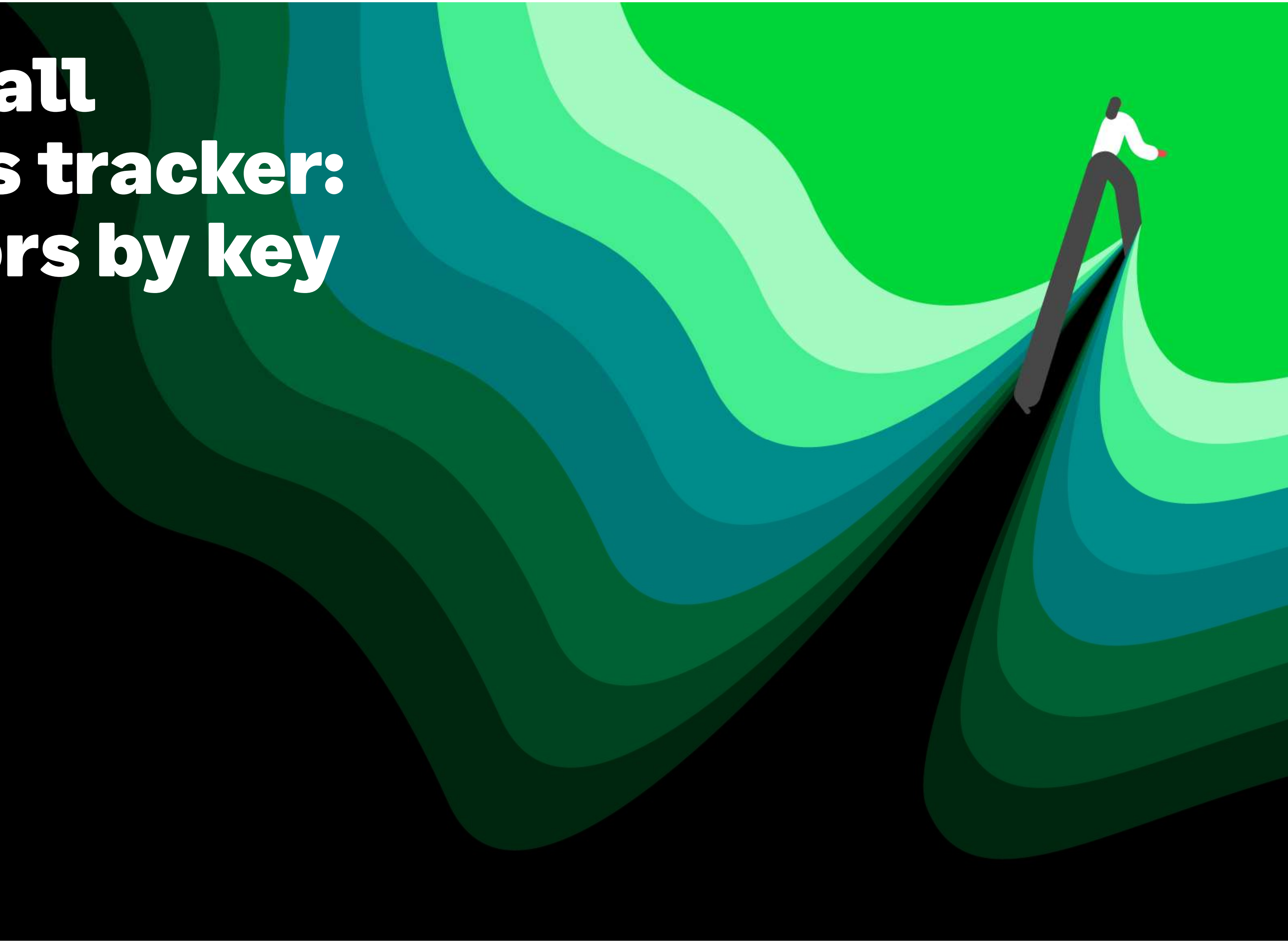
Seasonally adjusted overheads (nominal, indexed values, Q1 2018 = 100) and input producer price index



Source: Sage, Smart Data Foundry, ONS, Cebr

- In this report, data on overheads is studied which includes fixed and semi-variable overheads such as rent, energy and utility bills. Therefore, overheads can be driven by changes in prices and any shifts in production which would affect factors such as rent or utilities.
- Throughout 2021 and 2022, overheads significantly increased. Initially, this rise was triggered by global supply chain issues when met with the surge in demand following the easing of lockdowns, resulting in higher costs. Additionally, the European dependence on Russia for energy became a significant factor when the country invaded Ukraine at the beginning of 2022. This caused a substantial spike in the price of oil and gas, which significantly affected costs for the remainder of the year.
- More recently, Sage's data points to a substantial drop in fixed and semi-variable overheads at the start of 2023. Overheads are estimated to have fallen by 16.4% in Q1, after a 1.3% fall in Q4 2022. This large drop brings the seasonally adjusted level of overheads spending back to Q1 2021 levels.
- Official data from the ONS on producer prices have shown a slowdown in the rate of price increases. On an annual basis, there was an 11.1% rise in the cost of production in the UK in Q1 2023, this was down from the 18.9% peak in Q3 2022. This easing of price pressure has been supported by lower energy costs which have fed through the supply chain into lower costs more generally for businesses.
- Cebr is forecasting average overheads to fall by 19.2% in Q2, based on the smaller sample of VAT-registered businesses. Price pressures are slowing in the wider economy, and this should support a return to profit growth.

Sage small business tracker: Indicators by key themes



Growth

Year-on-year change in real revenue for the average small business, in 2018 prices

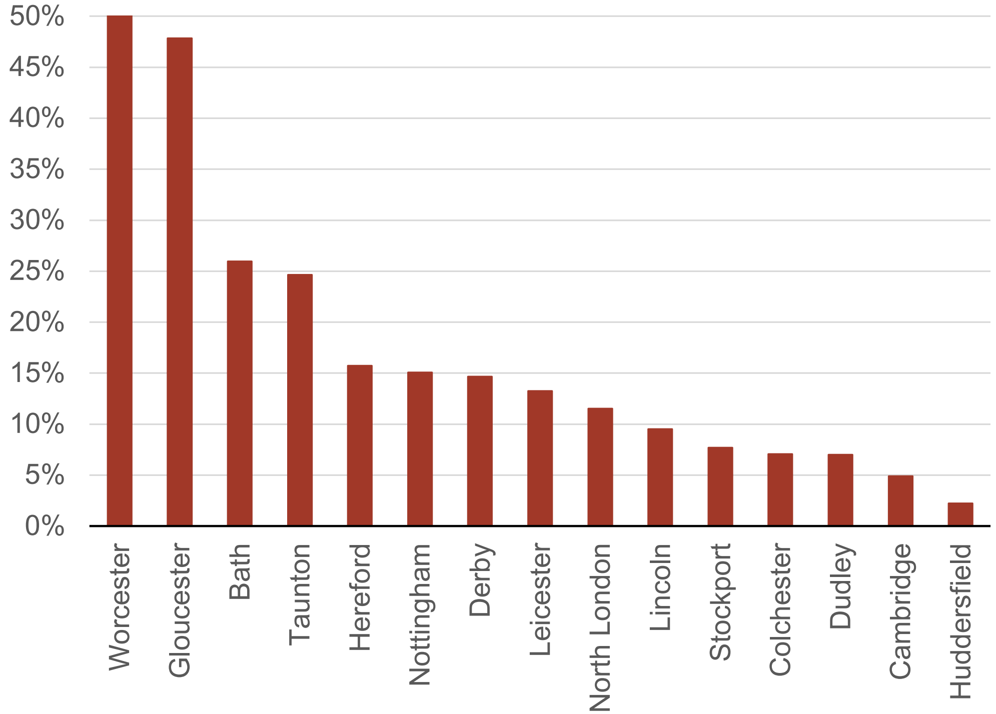
Source: Sage, Smart Data Foundry, ONS, Cebr

Average revenue fell by 27.9% YoY in Q1 2023 showing small businesses are being impact by weaker demand conditions

- On an annual basis, real revenue for the average small business fell by 27.9% in Q1 2023. This followed a 2.2% contraction in Q4 2022 and was the first time revenue contracted for two consecutive quarters since the first year of the pandemic.
- Growth in average real revenue has now slowed in each quarter since Q1 2022. This shows the marked impact of the cost-of-living crisis on business growth over the past year. Elevated inflation has led to an erosion of household disposable incomes, causing individuals to cut down on discretionary expenditure to balance the rising cost of essentials. This has impacted demand for small businesses. Meanwhile, rising interest rates have made investing much more costly, thereby holding back growth.
- Looking back on our data series, the pandemic had a profound impact on average small business revenue, particularly during Q2 2020. Many business operations were halted during the pandemic which is reflected in the Sage data.
- Revenue data show subsequent national lockdowns had a less significant impact on average revenue in small businesses, as some businesses adapted to the new climate and found innovative ways to keep operations running. In total, 2021 saw strong recovery from the low base in 2020, with revenues growing by 22.4% on an annual basis in 2021.

Deep dive – the fastest growing cities and towns over the past two years

Growth in average real business revenue between Q1 2021 and Q1 2023, 2018 prices, top 15 cities



Source: Sage, Smart Data Foundry, ONS, Cebr

Minimum sample size: 850 businesses

Over the two years between Q1 2021 and Q1 2023, revenue growth varied greatly by postcode region. From over 100 areas across the UK, 53% saw average small business revenue increase.

- Small businesses in Worcester saw the strongest revenue growth in the two years to Q1 2023, at 50.1%. Nearby city Gloucester was second highest with 47.8%, while Bath was third with 26.0% growth.
- The strength of small businesses in the Southern Western areas of Gloucester, Taunton and Bath has supported strong regional growth, with revenue for the average small business in the South West rising by 13.8% over this two-year period, the highest of any of the twelve regions of the UK.
- Tourism is an important industry in the South West and the sector has seen a much-needed bounce-back over the past two years after the pandemic severely disrupted activity.
- For Gloucester specifically, the Government's Levelling Up Fund allocated £20 million to the city centre's regeneration at the start of 2023. This should support further growth of small businesses in the area.
- Strong growth for small businesses in Nottingham, Derby, Leicester and Lincoln was likely key to supporting the East Midlands to show the second-highest growth of any region over the past two years.
- At the other end of the spectrum, the London town of Harrow and Yorkshire city Wakefield saw the largest contractions in average small business revenue, at -29.3% and -21.5%, respectively.

Profitability

Growth in average real EBITDA between Q1 2021 and Q1 2023, in 2018 prices, by fastest four growing UK regions

Source: Sage, Smart Data Foundry, ONS, Cebr

Minimum sample size: 850 businesses

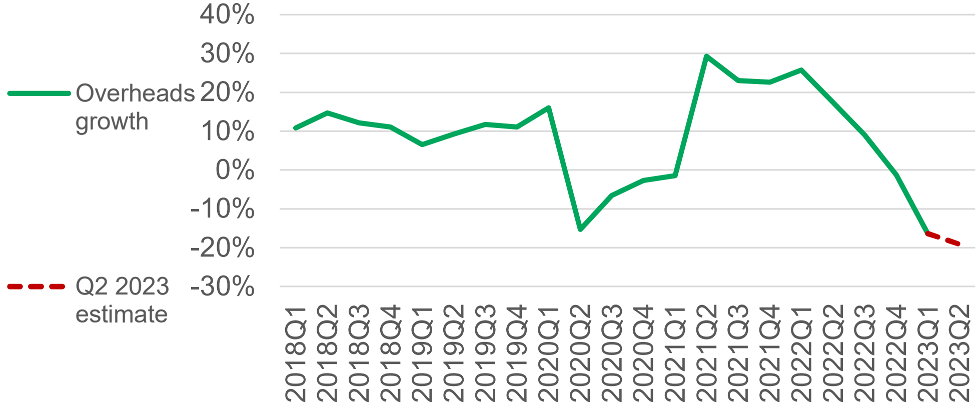
The average small business EBITDA fell by 8.3% YoY in Q1 2023 as profitability was hit by lower revenue

- EBITDA (earnings before interest, taxes, depreciation, and amortization) is a leading measure of profitability and business performance. Sage's data shows the average small business saw an 8.3% fall in EBITDA in Q1 2023 on an annual basis.
- Looking at small business profitability over the past two years shows different results across the twelve UK regions*, however. The majority of regions saw profit growth across this period.
- The South West saw the largest annual increase in profitability, up 49.8%. The strength of profitability in this region is supported by higher revenue compared to others.
- This is corroborated by official data and Cebr's in-house forecasts. Economic output in the South West, as measured by gross value added (GVA), is expected to have grown by 4.4% across 2022, marking the second-highest growth of all twelve nations and regions in the UK.
- The East of England saw profitability increase by 38.9% in the two years to Q1 2023.
- For small businesses in London, average profit was up by just 0.9% between Q1 2021 and Q1 2023, suggesting businesses profitability has not yet recovered from the pandemic.

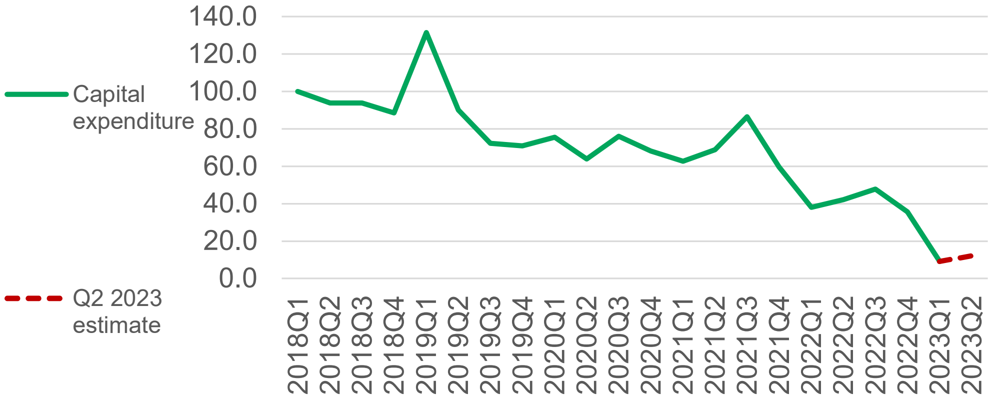
*A smaller subset of 16,000 small businesses reported the region of their operations in Q1 2023, which is used for our regional analysis. Northern Ireland, Wales and the North East have been excluded from the analysis due to a small sample size.

Prices and spending

Year-on-year change in cost of nominal overheads per small business



Real, seasonally adjusted capital expenditure, indexed Q1 2018 = 100



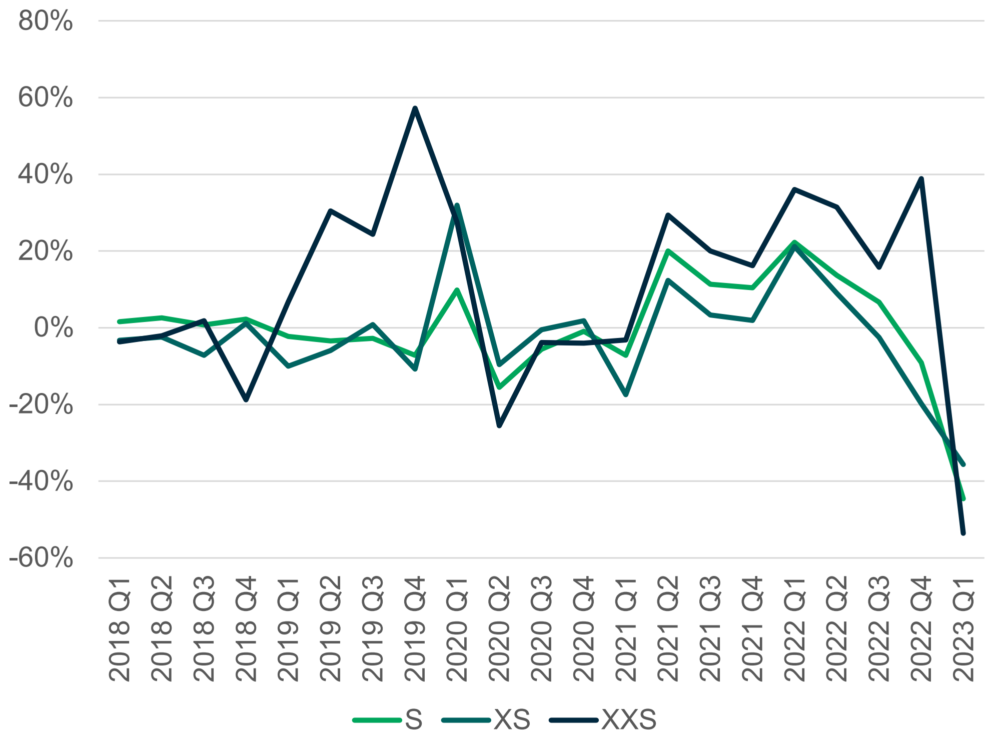
Source: Sage, Smart Data Foundry, ONS, Cebr

Overheads and capital expenditure fall in Q1 as energy costs decline but borrowing costs rise

- Over the past two years, small businesses have faced a significant surge in average overheads, with cost growth reaching its peak in Q1 2022. This was followed by a steady decline, evidenced by a 16.4% annual decrease in Q1 2023.
- The inflationary crisis in the UK has been a major driver of this pressure on business inputs. Costs such as rent, energy prices, and other non-variable expenses remained at exceptionally high levels throughout 2021 and 2022, well above the historical data series.
- However, the latest data for Q1 2023 and the early, partial, data for Q2 2023, show annual prices have begun to fall markedly, likely influenced by lower wholesale energy prices. Additionally, reduced business activity during these quarters may have contributed to the decline in fixed and semi-variable spending. As evidenced by GDP growth of just 0.2% in Q1 2023, some businesses may have scaled back their production as demand remains weak.
- Small business capital expenditure refers to the acquisition or upgrading of long-term assets, such as equipment or property. This measure has been adversely affected by the challenging trading environment caused by high inflation, interest rates, and weak economic output growth.
- The Bank of England's tightening campaign has made borrowing for capital investment much more expensive. Real, seasonally adjusted capital expenditure fell by 76.1% in Q1 2023 compared to a year earlier and a small sample estimate suggests a further annual fall in Q2 2023.

Prices: overheads by sector and business size

Annual growth in nominal average overheads, by business size

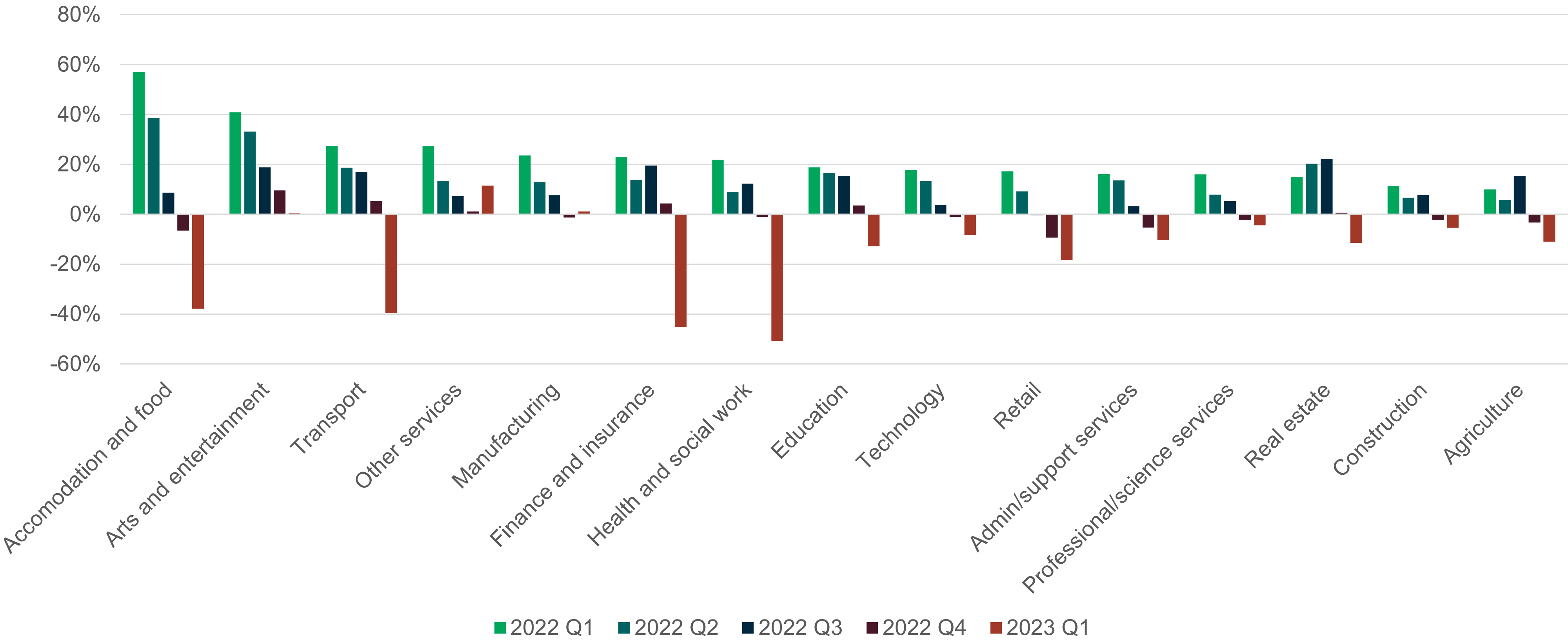


Source: Sage, Smart Data Foundry, Cebr

The smallest businesses in our sample have seen the highest annual increases in overheads over the past two years, but Q1 data shows a sharp drop in Q1 2023

- Breaking down overheads data by business size shows how different types of businesses have been affected by rising prices. Businesses across all sizes saw overheads rise over the course of 2021 and early 2022 as input prices rose.
- The smallest businesses have tended to see the fastest overheads growth in 2022. In Q4 2022, nano businesses (XXS) reported overheads standing 38.9% higher than a year earlier, compared to extra small and small businesses which saw overheads fall in Q4 2022, by 19.8% and 9.1%, respectively. Very small businesses may be more exposed to inflation as they may have less bargaining power with their suppliers.
- However, in the most recent data, all business sizes in Sage's sample saw a significant fall in overheads, suggesting cost pressures are easing across the board.
- On the next slide, annual overheads growth by sector is shown. Arts and entertainment, manufacturing and other services were the only sectors to see growth in overheads in Q1 2023. All other sectors saw a fall in costs. The largest fall in overheads by sector was seen in health and social care, down 50.9%, while costs for small businesses in finance and insurance saw the second largest fall, down 45.2%.

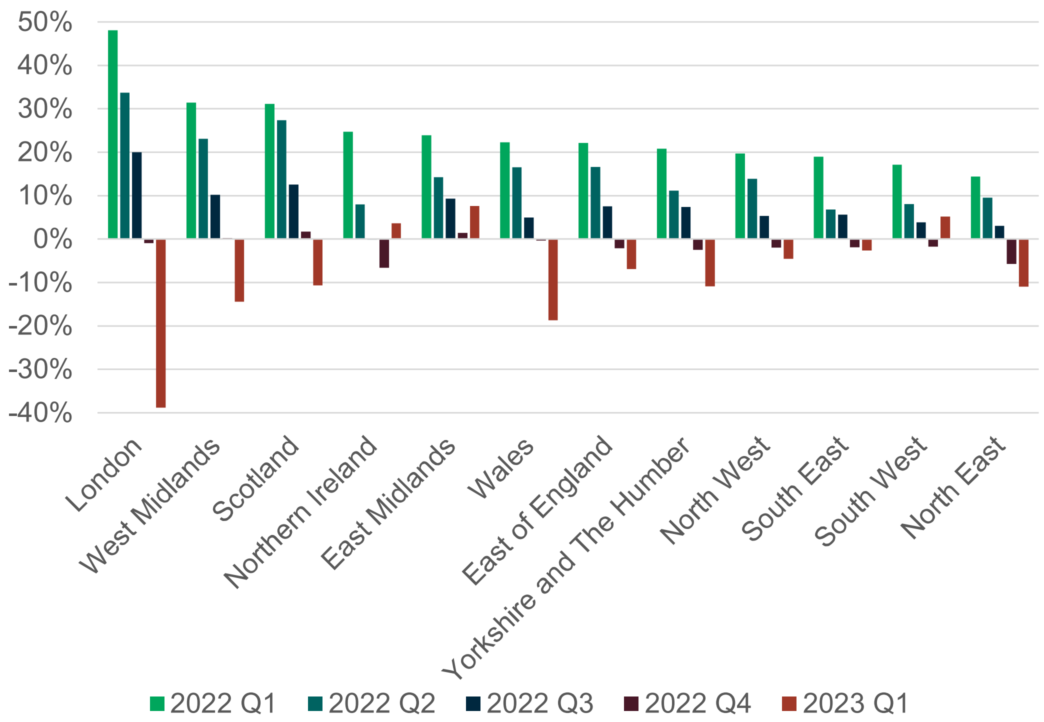
Annual growth in nominal average overheads by industry



Source: Sage, Smart Data Foundry, Cebr

Prices: overheads by region

Annual growth in average nominal overheads by UK region between 2022 Q1 and 2023 Q1

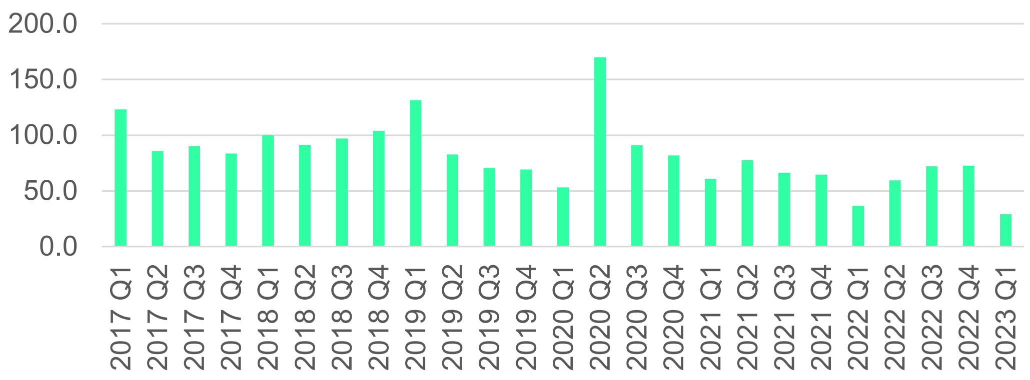


Source: Sage, Smart Data Foundry, Cebr

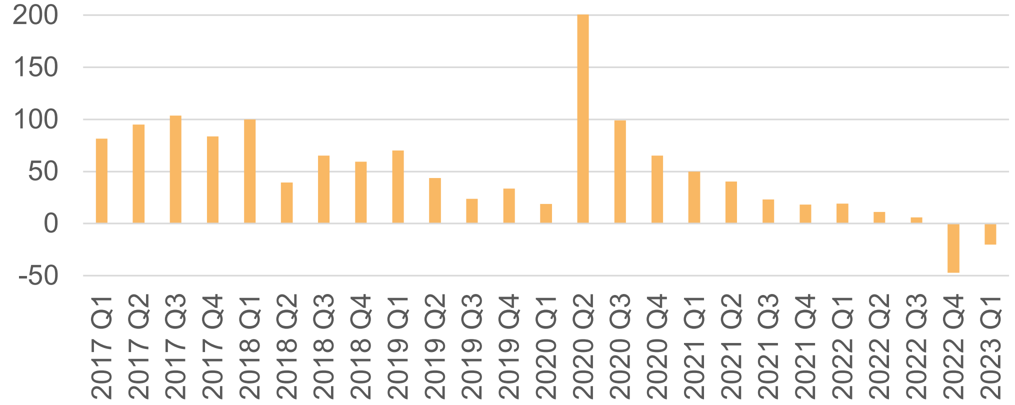
- Businesses across the UK nations and regions have seen overheads growing at different rates over the past year. Annual growth in overheads across all regions was particularly high in Q1 2022, while it contracted across all but two regions in Q4.
- The most recent data for Q1 2023 shows overheads contracted in nine of the twelve regions of the UK. Annual declines in overheads were largest in London and Wales, down 38.8% and 18.7%, respectively.
- Meanwhile, businesses in the East Midlands, South West, and Northern Ireland saw annual increases in overheads in Q1 2023, at 7.6% and 0.8%, respectively. This signals the significant drop in costs seen in the aggregate data this quarter has not been felt evenly across the UK. Lower input prices take time to feed through the supply chain and so impact small businesses differently depending on their exposure.
- Though most small businesses across regions have started to see overhead costs fall, they still stand above the levels seen in Q4 2020. With the exception of London and Wales, all regions saw overheads higher in Q1 2023 than in Q4 2020.

Resiliency: cash and debt

Real cash balances (seasonally adjusted, 2018 prices) index (Q1 2018 = 100)



Real debt position (seasonally adjusted, 2018 prices) index (Q1 2018 = 100)

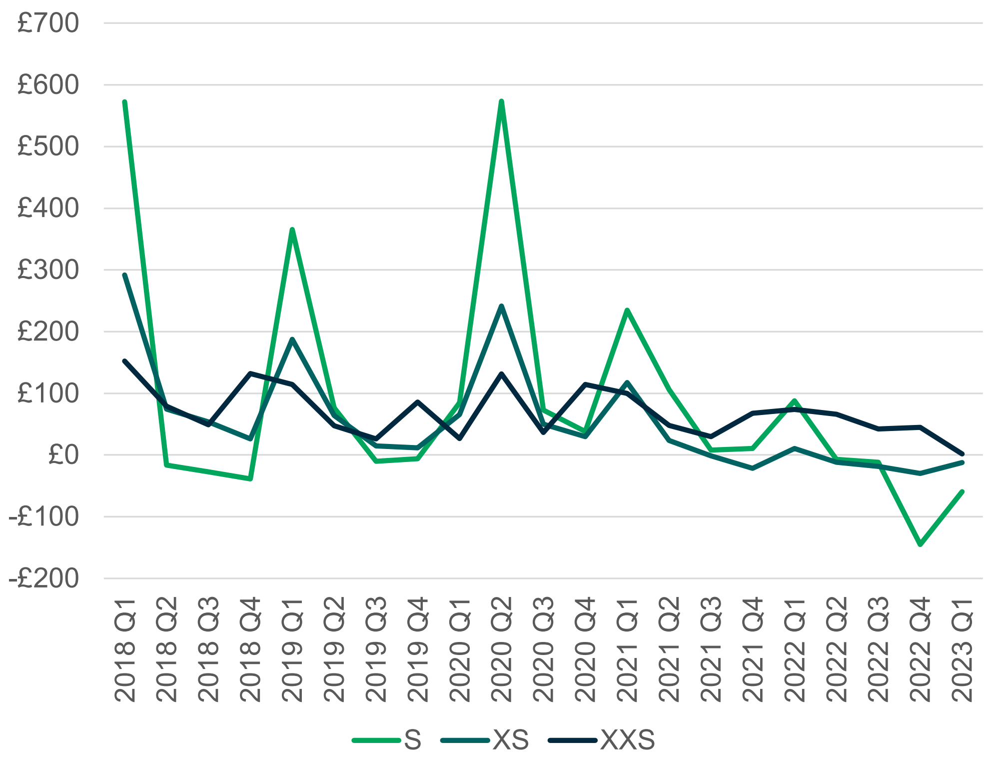


Source: Sage, Smart Data Foundry, ONS, Cebr

- Small business cash balances reflect their current account balance and the amount they have in savings. If they are struggling with clients paying late, or with difficult trading conditions leading to lower demand, they are likely to see lower cash balances. On the other hand, a difficult economic environment may also lead businesses to hold some precautionary savings. Furthermore, recent interest rate rises have made saving more attractive.
- The latest data for Q1 2023 shows that real cash balances fell significantly from their levels in Q4 2022 and were down by 20.2% compared to a year earlier. This shows that the average small business is struggling in the difficult economic environment, needing to use its cash buffer to compensate for weak demand.
- The data for real debt position in Q1 2023 shows that debt remained in negative territory in Q1 2023, suggesting that many businesses are in credit.
- The high interest rate environment as a result of the Bank of England's tightening campaign has made borrowing much more expensive for businesses. Though it is not sustainable for businesses to have to borrow to fund day-to-day spending, in normal trading conditions, businesses typically borrow to invest in capital such as technology or machinery that will help grow their business. The fact that businesses are so reluctant to borrow highlights the level of uncertainty in the UK macroeconomy.

Resiliency: debt by business size

Average real debt position (seasonally adjusted, 2018 prices) by business size

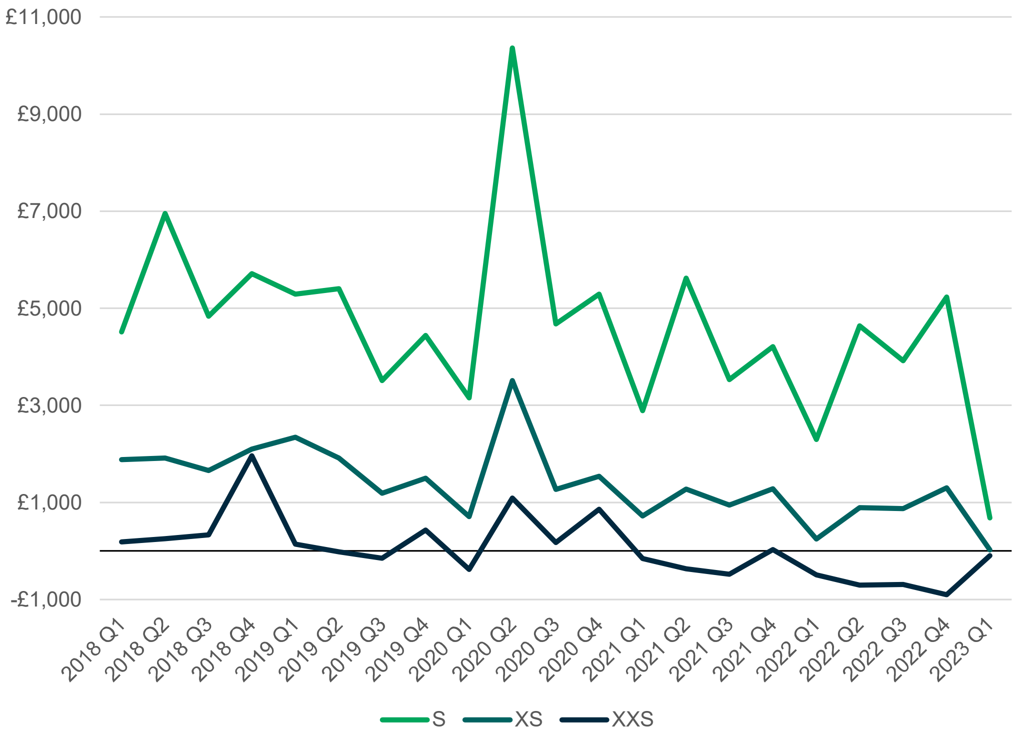


- Debt position by business size data highlight how the smallest businesses still have debt in Q1 2023, but small (S) businesses saw their average debt position remain in negative territory. As interest rates have risen, businesses may have sought to avoid borrowing and indeed may have ended up with positive balances on their accounts.
- The average nano business (XXS) in the dataset had £2 in credit card and other forms of debt in Q1. This average hasn't stood above £100 since 2020, when the Bank of England base rate stood at a much lower level of just 0.1% for most of the year.
- Meanwhile, the real debt position of small (S) businesses has been more volatile over the past four years. In Q1, the average debt for small (S) businesses was-£59 meaning these businesses were in credit. The higher interest rate environment in Q1, with the Bank of England policy rate rising to 4.25% - its highest level since 2008 – looks to have kept borrowing below zero for both small (S) and very small (XS) businesses.

Source: Sage, Smart Data Foundry, ONS, Cebr

Resiliency: cash by business size

Average real cash balances (seasonally adjusted, 2018 prices) by business size

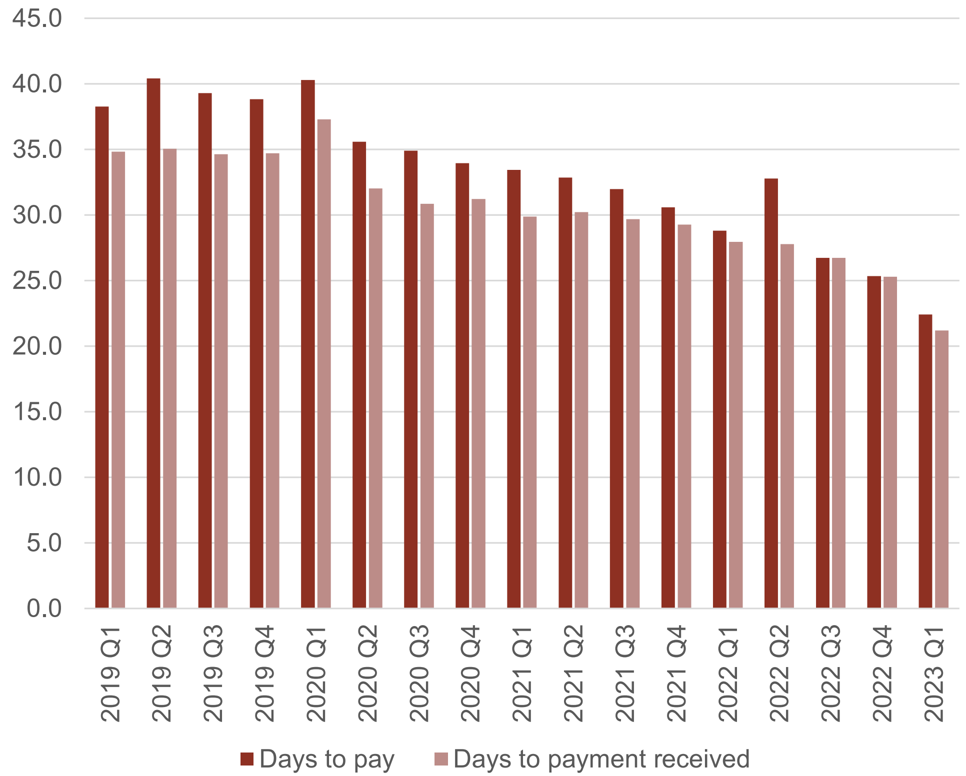


- Cash balances by business size data highlights how the smallest businesses often struggle to maintain a healthy level of cash in their accounts.
- The average nano business (XXS) in the dataset had -£98 in their bank accounts in Q1 2023 (after adjusting for seasonality and in 2018 prices). Although this marks an increase from Q4 2022, real cash balances have remained in negative territory over the last year. This highlights how the finances of these businesses are more fragile.
- Even the small (S) grouping, which has shown the strongest level of cash in their accounts over the past four years, saw a significant drop-off in real cash balances in Q1 2023. These stood at £683 in Q1, down from the £4,000 average seen across 2022.

Source: Sage, Smart Data Foundry, ONS, Cebr

Resiliency: time to pay

Average number of days taken to either pay invoice or be paid per small business, by quarter



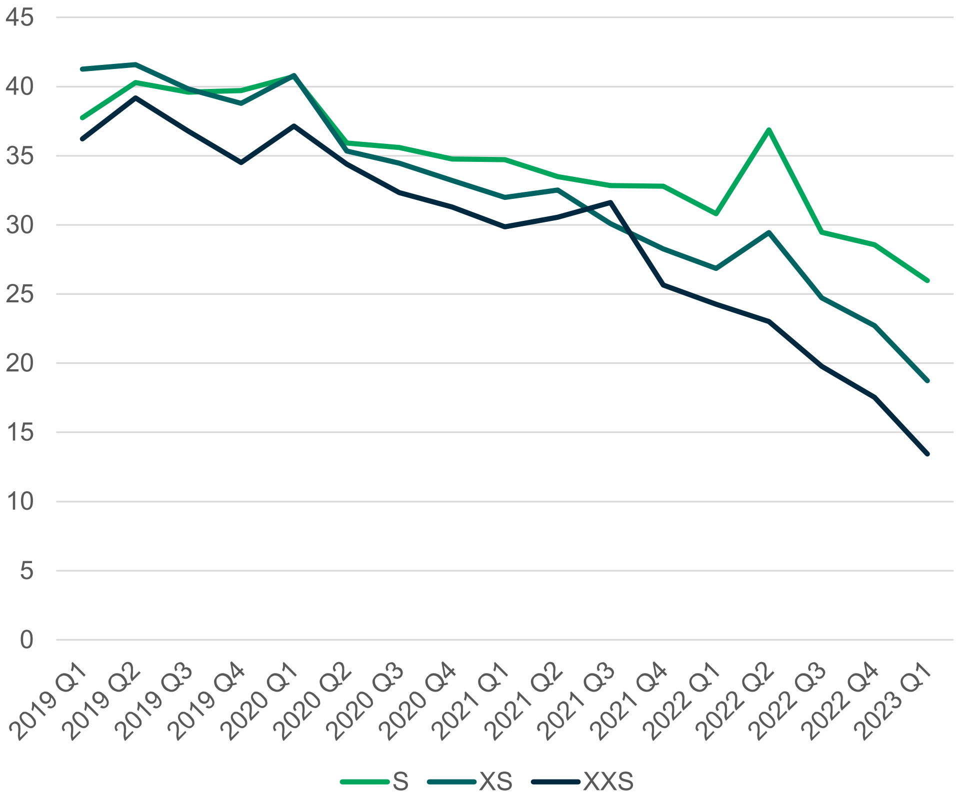
Source: Sage, Smart Data Foundry, ONS, Cebr

Small businesses show a sustained period of increased resilience between Q1 2019 to Q1 2023, with the average number of days to pay an invoice dropping by 16 days.

- The average number of days small businesses took to pay an invoice was 22 in Q1 2023, while the average days to a payment being received was 21 days. This marked an improvement of 6 and 7 days, respectively, from the same quarter a year earlier. In fact, with the exception of Q2 2022 , average days to pay has decreased in every quarter since the start of 2020.
- This data series shows small businesses are making a concerted effort to streamline their payment processes and become more efficient in paying invoices.
- By paying their bills on time, small businesses can establish a good credit history, build strong relationships with suppliers, and avoid late fees or penalties. This could ultimately lead to greater stability and growth for small businesses.
- Despite the difficult circumstances that businesses have faced during the pandemic and the subsequent high inflation environment, there have been improvements in the time it takes to make payments. It is possible that these recent crises have motivated small businesses to prioritise enhancing their payment processes in order to boost their overall resilience during difficult economic circumstances.

Deep dive – time to pay by business size

Average number of days taken to pay an invoice per small business by business size, by quarter

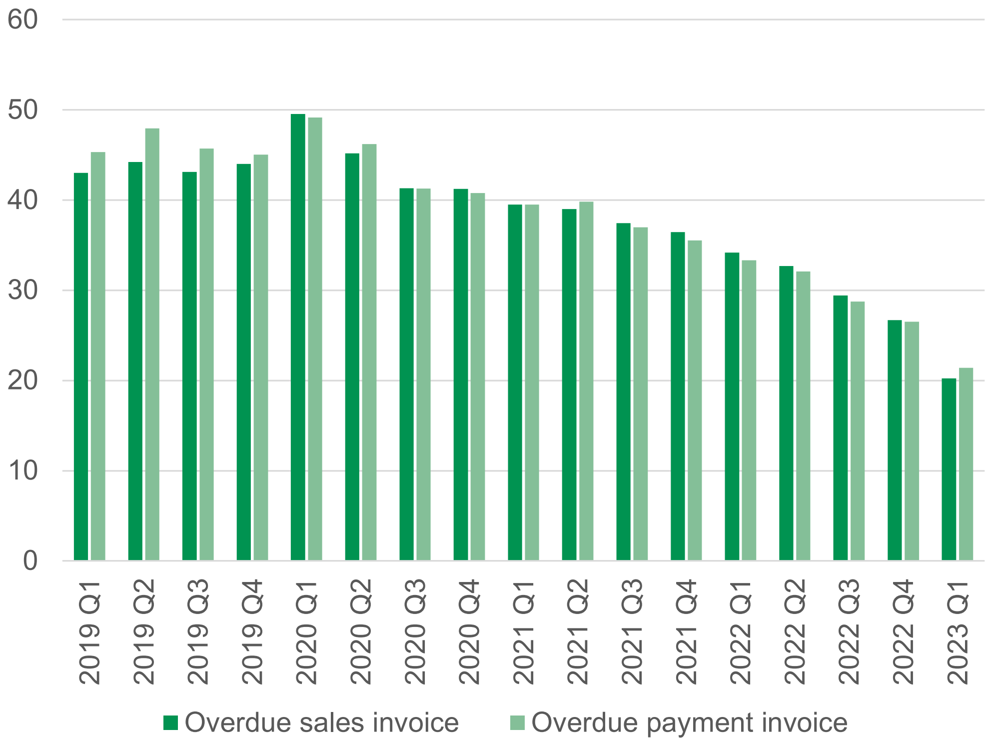


Source: Sage, Smart Data Foundry, ONS, Cebr

- Average time to pay an invoice by business size data shows that the smallest businesses have seen the largest improvement in the time they took to pay an invoice.
- The average nano business (XXS) in the dataset took 13 days to pay an invoice in Q1 2023. This marks a strong improvement from an average of 24 days a year earlier.
- The smallest businesses face the challenge of limited financial resources, making consistent cash flow essential for covering their operational expenses. Consequently, there is a strong motivation for this group to improve payment times. Additionally, timely invoice payments play a crucial role in nurturing positive business relationships, resulting in better credit terms and a more reliable supply chain.
- The small (S) grouping had the highest average days to pay in Q1 2023. At 26 days, however, this was a marked improvement from two years earlier when these businesses took an average of 41 days to pay an invoice.

Resiliency: late payments

Average number of days overdue to either pay invoice (payment) or be paid (sales) per small business, by quarter



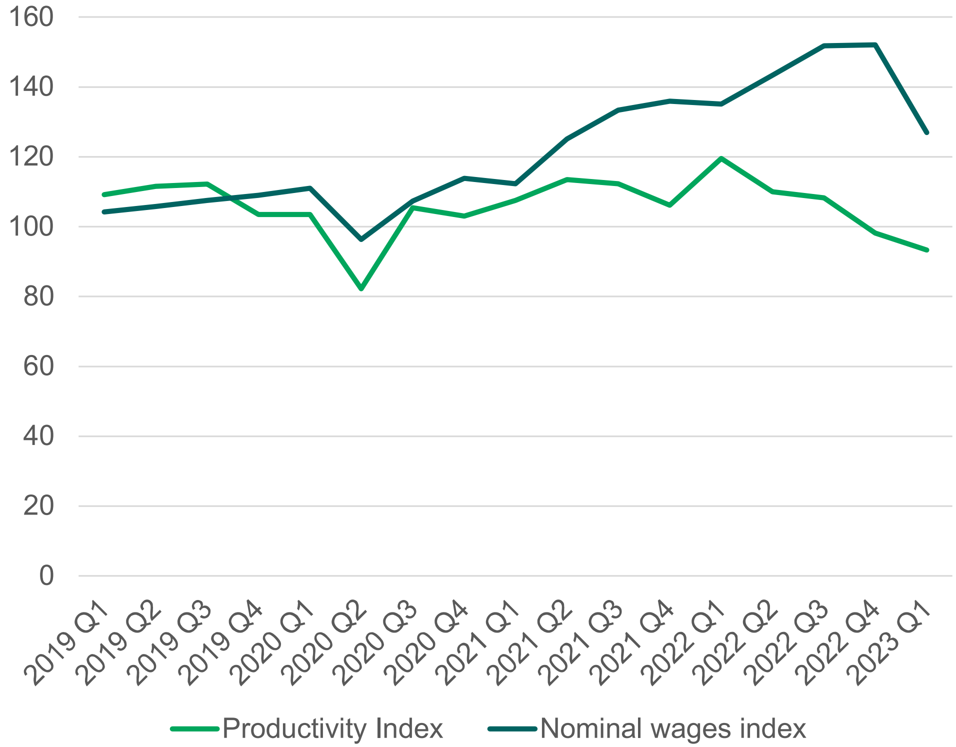
Source: Sage, Smart Data Foundry, ONS, Cebr

Small businesses have demonstrated a consistent improvement in the average number of days an invoice is overdue since the initial impact of the pandemic.

- The overall share of invoices which are late has stayed stable between 2018 and 2022 at roughly 45%.
- The average number of days small businesses were late to pay an invoice, for those which were overdue, was 21 days in Q1 2023.
- This marked an improvement from a year earlier, which saw an average of 33 days in Q1 2022, as well as a much better result when compared to before the pandemic. Indeed in 2019, the average number of days a small business is overdue on their invoice when they are overdue was 46 days.
- The most recent data for Q1 2023 was the largest quarterly change for over two years showing businesses are greatly improving their ability to both collect payments and manage outgoings more effectively.
- Improved credit control practices and strengthened relationships between businesses and their customers could be driving this positive trend. Additionally, during periods of economic uncertainty, businesses may be putting in extra effort to collect their outstanding payments.

Wages and Productivity

Seasonally adjusted nominal wages and real productivity, index Q1 2018 = 100

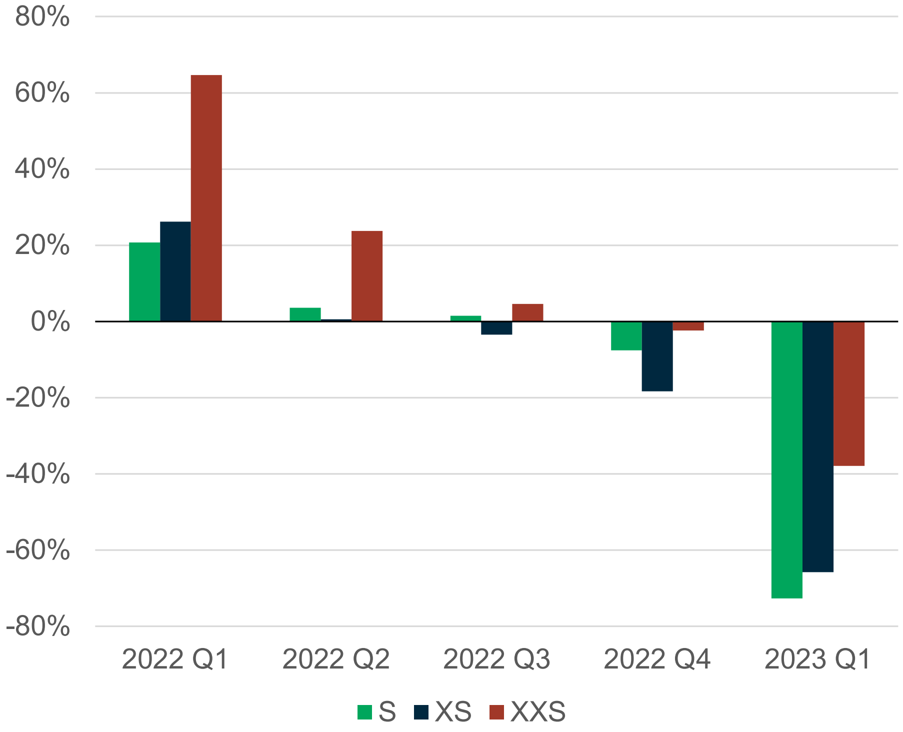


Source: Sage, Smart Data Foundry, ONS, Cebr

- Productivity in our large sample of small businesses is measured by revenue divided by the number of employees within a business. The average number of employees has been slowly rising in Sage's data set, averaging 5.1 in 2022 compared to 4.1 in 2018.
- Annual productivity growth for the average small business has been slowing in each of the past two quarters, moving from 0.7% recorded in Q3 2022 to -21.9% in Q1 2023.
- Wages within small businesses have seen significant rises in nominal terms through 2021 and 2022. This is resultant of the inflationary environment in the UK, with costs rising significantly during this period meaning workers are bargaining for wage increases to maintain their living standards.
- However, the latest Sage data shows nominal wages fell by 6.0% in Q1 2023. Although wages were down in Q1, quarterly growth averaged 15.1% across 2022. This means that adjusted nominal wages are still higher than the levels seen during Q2 2021.
- This follows official ONS data which showed average total pay grew by 5.8% in Q1. Sage's data is proving more volatile compared to the ONS data.

Deep dive – revenue growth by business size

Year-on-year change in real revenue for the average small business by business size, in 2018 prices



Source: Sage, Smart Data Foundry, ONS, Cebr

- Looking at business revenue across our three subgroups of size shows that small (S), extra small (XS) and nano (XXS) sized businesses have exhibited a similar trend in average annual revenue growth across the past year. In each quarter, the direction of revenue growth was the same across all sizes, with the exception of Q3, where revenue for extra small (XS) businesses contracted by 3.4% and expanded for small (S) and nano (XXS) businesses, by 1.5% and 4.6%, respectively.
- In the period from Q1 2022 to Q1 2023, growth has slowed and then turned negative for all three business size categories. This demonstrates the widespread impact of soaring inflation in the UK, which has led to a cost-of-living crisis impacting demand and higher borrowing costs for businesses.
- Nevertheless, the extent to which revenues have been impacted has differed across business sizes. In the most recent data for Q1, the average small (S) sized business saw revenue drop by over 70%, while the average nano (XXS) sized business saw a 37.9% fall.
- The smallest businesses often serve a more localised base of consumers and could be involved in relatively niche markets. Both of these factors could provide a more dedicated consumer base in times of economic hardship.

Methodology

Methodology and data

- Seasonally adjusted data is calculated using a central moving average, which adjusts quarterly data based on a quarter's historical strength/weakness to allow for a better quarter-on-quarter comparison.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) is a common measure of business performance. It is derived as EBITDA = Revenue - Expenditure – Overheads
- Within Sage's data around a third reported their net margin position. A positive net margin is defined as 10%+, while a negative net margin is defined as less than -10%, a firm breaking even falls within the -10% to 10% net margin cohort.
- Net rate of return is used as the measurement of company profitability for total businesses. The rate of return is calculated as the economic gain (profit) shown as a percentage of the capital used in production, obtained from the ONS.
- Small businesses are classified by size groupings via their average annual revenue within Sage's data. The categories are as follows: nano/extra-extra small (average annual revenue less than or equal to £50,000), extra-small (average annual revenue greater than £50,000 and less than or equal to £200,000) and small (average annual revenue greater than £200,000).
- The Q2 2023 financial data has been restricted to VAT-registered companies, using SAGE for VAT payments, who have up-to-date VAT returns to the end of Q2 2023 (just under 10% of all companies).
- In estimating Q2 2023 data for all small businesses, Cebr has forecasted the quarterly growth rate using our subsection of VAT-registered companies, assuming growth rates of the larger business sample will follow a similar trend.

Our small business sample

- In Q1 2023, our sample of over 85,000 businesses contained the following demographics.

Size

- 24% were small (S) businesses (average annual revenue greater than £200,000).
- 30% were extra-small (XS) businesses (average annual revenue greater than £50,000 and less than or equal to £200,000)
- 46% were nano (XXS) businesses (average annual revenue less than or equal to £50,000)

Region

- Within the sample, 16,000 businesses identified their region.

Region	North West	London	East of England	South East	West Midlands	Yorkshire and The Humber	South West	Scotland	East Midlands	North East	Wales	Northern Ireland
Share	**14%**	**14%**	**11%**	**10%**	**10%**	**10%**	**9%**	**8%**	**7%**	**4%**	**1%**	**1%**

Sector (of the 70k of businesses for which we know the sector)

- 14% were in heavy industry
- 10% were in light industry
- 76% were in services

Contact.

Josie Anderson

janderson@cebr.com

020 7324 2864

Benjamin Trevis

btrevis@cebr.com

020 7324 2859