

UK SAGE SMALL BUSINESS TRACKER - Q4 2023

Oct to Dec 2023

Sage

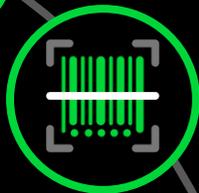
SMART
DATA
FOUNDRY



TABLE OF CONTENTS



1: Headline Findings



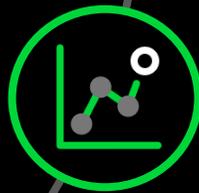
2: Prices



3: Resiliency – (Time to Pay)



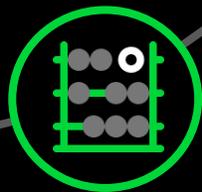
4: Growth



5: Profitability



6: Deep dive – North East



7: Methodology



Headline Findings



Prices



Resiliency



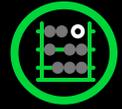
Growth



Profitability



Deep dive North East



Methodology



Headline Q4 findings

The Sage small business tracker reveals that small businesses continue to face challenging circumstances but show resilience. Despite the UK's technical recession (two consecutive quarters of negative growth) across the second half of 2023, average real revenues increased year-on-year in Q4, while overheads and capital expenditure continued to fall. This culminated in stronger profit growth for UK small businesses. All UK regions saw positive profit growth in this time frame, with London leading the way.

Looking ahead, signs are pointing to a recovery and the UK economy is expected to return to expansion in Q1. However, growth is anticipated to be slow and broader economic headwinds remain. Small businesses must navigate a challenging labour market and contend with continued weak productivity.

- i. Profitability growth continued to accelerate in Q4** – Given the annual declines observed in expenditure and overheads amidst higher revenues, the average real EBITDA of small businesses grew by 23.2% in the year to Q4, much higher than the 10.5% increase in Q3 2023.
- ii. Small business revenues were up by 0.9% on an annual basis in Q4** – Average real revenues for small businesses grew by 0.9% on a year-on-year basis in Q4 2023. The return to real revenue growth signals that small businesses continue to demonstrate the resiliency cited in the Q3 Sage small business tracker. Though it should be noted on a quarterly basis, real revenue fell by 1.4%, in line with the direction of the broader economy.
- iii. Nominal wages continue to grow sharply** – The latest Sage data shows nominal wages grew by 13.8% annually in Q4 2023, in line with the broader divergence between goods and labour costs. The UK's currently tight labour market has given more bargaining power to employees, and this has placed upward pressure on wage growth.
- iv. Small business productivity growth continues to struggle** – Annual real productivity for the average small business declined by 5.7% in Q4 2023, following a 2.2% decline in Q3 2023. The faltering productivity growth displayed over the past two years is due to a combination of weak average revenue performance and increasing average employee counts.
- v. Expenditure falls for a sixth consecutive quarter** – On an annual basis, real expenditure for the average small business fell by 3.8% in Q4 2023. The six-quarter trend of declining expenditure on an annual basis reflects several factors, including falling overheads, weak output growth and falling capital expenditure.
- vi. Overheads continue to fall** – Real overheads fell by 1.8% in the year to Q4, the largest annual decline in 2023. The recent easing in cost pressures is partially attributable to lower energy costs gradually impacting the supply chain, alleviating price pressures for businesses across sectors.
- vii. Capital expenditure by small businesses continues to fall sharply amid the high-interest rate environment** – On an annual basis, capital expenditure fell by 16.8% in Q4 2023, following a decline of 7.7% in the previous quarter. Capital expenditure has now declined on an annual basis for nine consecutive quarters. Investment by small businesses has diverged from official ONS statistics which show investment amongst all UK businesses increased in Q4.



Small business profit improves in Q4 amidst growing revenue and easing costs



EBITDA growth for the average small business (2019 prices, year-on-year %)



- The Sage small business tracker provides timely insights into the growth of UK small businesses, given official quarterly estimates of GDP are not broken down by company size.
- Profits grew by 23.2% for the average small business in the year to Q4 2023. This represents an acceleration from the 10.5% annual growth figure witnessed in the previous quarter. Profits have been helped by falling real average overheads and easing cost pressures. Additionally, expenditure by small businesses also fell in Q4 2023 on an annual basis.
- Small business profits also received a welcome boost from the return of real annual revenue growth in Q4 2023, despite the growth being modest.
- Our data measures small business profit 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 a quarterly basis, EBITDA for the average small business grew by 3.1% in Q4 2023.

Source: Sage, Smart Data Foundry, ONS, Cebr



Small business revenue returns to annual growth in Q4 despite technical recession



Headline Findings



Prices



Resiliency



Growth



Profitability

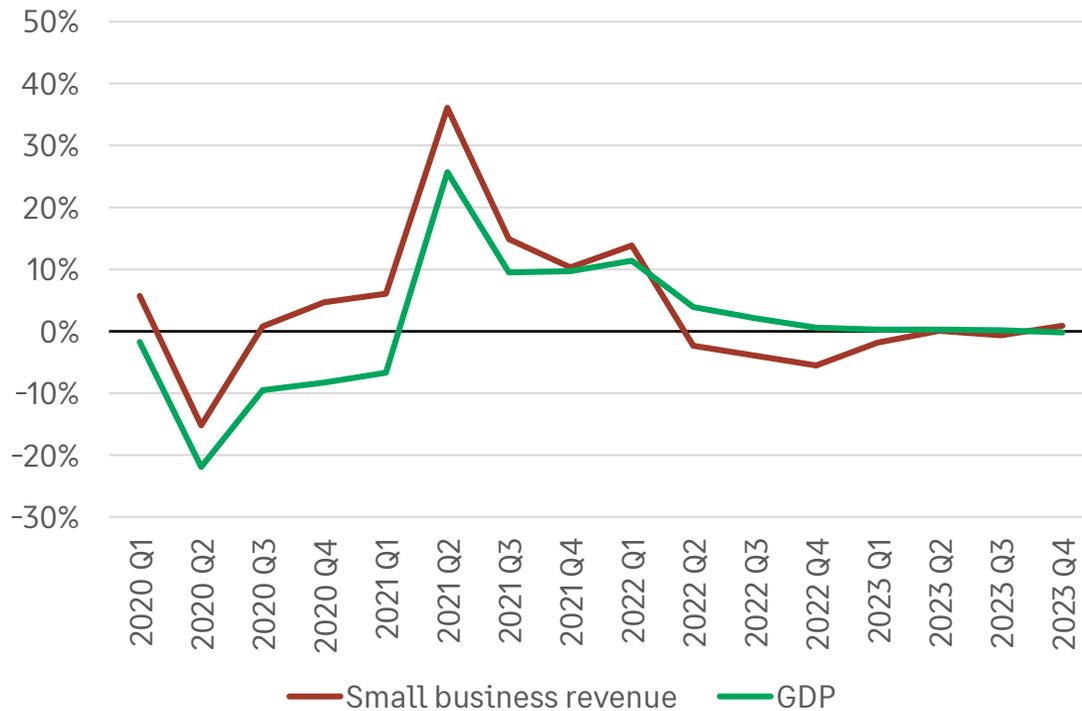


Deep dive North East



Methodology

Revenue growth for the average small business and UK GDP (2019 prices, year-on-year %)



Source: Sage, Smart Data Foundry, ONS, Cebr

- Average real revenues for small businesses grew by 0.9% on a year-on-year basis in Q4 2023. This follows an annual decline of 0.6% in Q3 2023.
- Small business revenue growth in the UK has faced significant headwinds since mid-2022, mirroring the broader economic slowdown. Indeed, the UK economy contracted by 0.2% on a year-on-year basis in Q4 2023.
- The UK economy entered a technical recession in the second half of 2023. Though unwelcome news, it should be highlighted that the recession is a mild one. Moreover, the most recent data points towards output flatlining rather than a sustained decline. Consequently, forecasts produced by Cebr indicate the recessionary pressure should not persist into 2024, with the UK economy returning to expansion in Q1.
- Several economic headwinds pushed the UK into a technical recession. Consumers faced mounting pressure from the cost-of-living crisis, dampening consumption. Meanwhile, tighter monetary policy implemented by the Bank of England aimed to curb inflation has consequently dampened economic activity.
- Nonetheless, small businesses have demonstrated economic resilience in the face of a tough economic climate, recording average real revenue growth in the final quarter despite the UK's recessionary period.



Wages and Productivity



Headline Findings



Prices



Resiliency



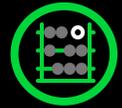
Growth



Profitability



Deep dive North East



Methodology

Nominal wages and real productivity (index 2019 = 100, non-seasonally adjusted)



Source: Sage, Smart Data Foundry, ONS, Cebr

- Following the pandemic, wage growth within small businesses – as all businesses – has picked up markedly. This reflects the ongoing tightness of the UK labour market, where workers have gained increased bargaining power, as well as the increased cost of living.
- Unlike overheads, wage growth continues to pick up for small businesses. The latest Sage data shows nominal wages grew by 13.8% in Q4 2023, up from 11.1% in Q3.
- Official ONS data shows that average total pay grew by 5.8% in Q4 2023. Sage’s data is proving more volatile compared to the ONS data, indicating small businesses experience more wage growth variability than the wider UK economy.
- Productivity in our large sample of small businesses is measured by revenue in real terms divided by the number of employees within a business.
- Productivity for the average small business declined by 5.7% in the year to Q4 2023, following a 2.2% decline in Q3 2023. This represents the third consecutive quarter of decline.
- The faltering productivity growth displayed over the past two years is due to a combination of weak average revenue performance and increasing average employee counts. Indeed, the average number of employees has been slowly rising in Sage’s data set, averaging 5.4 across 2023 compared to 4.3 across 2019. This indicates that despite tough economic conditions, small businesses are continuing to retain employees.



Headline Findings



Prices



Resiliency



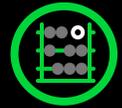
Growth



Profitability



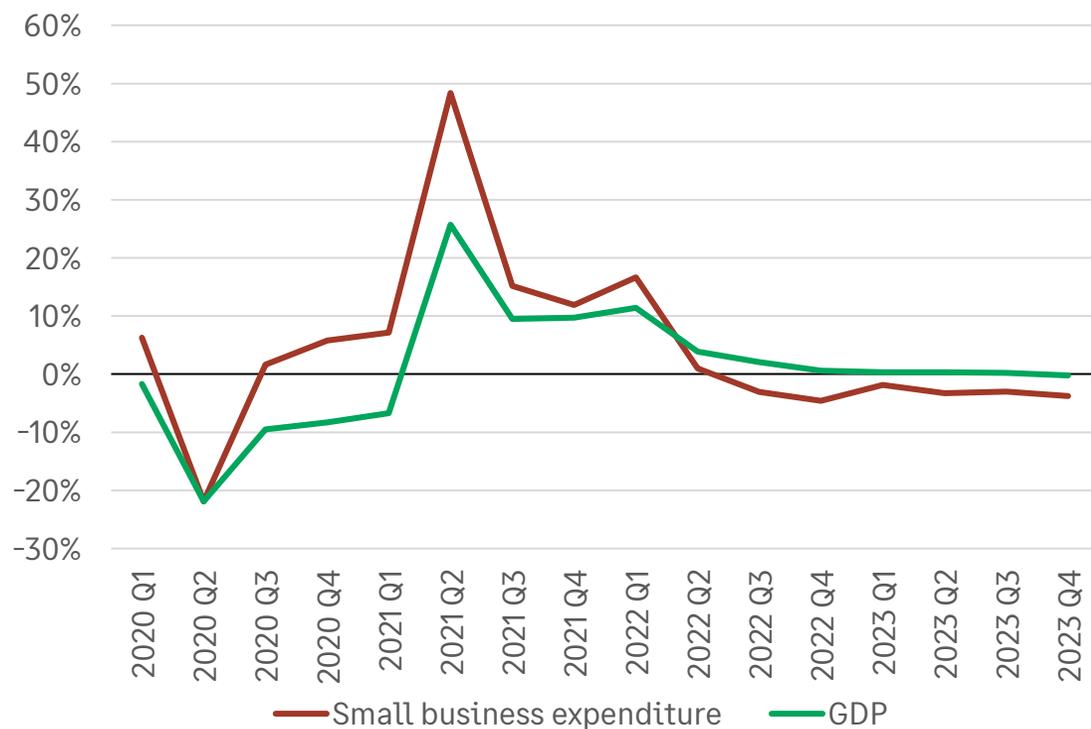
Deep dive North East



Methodology

Small business expenditure falls again in Q4, aiding the uptick seen in profits

Expenditure growth for the average small business and UK GDP (2019 prices, year-on-year %)



Source: Sage, Smart Data Foundry, ONS, Cebr

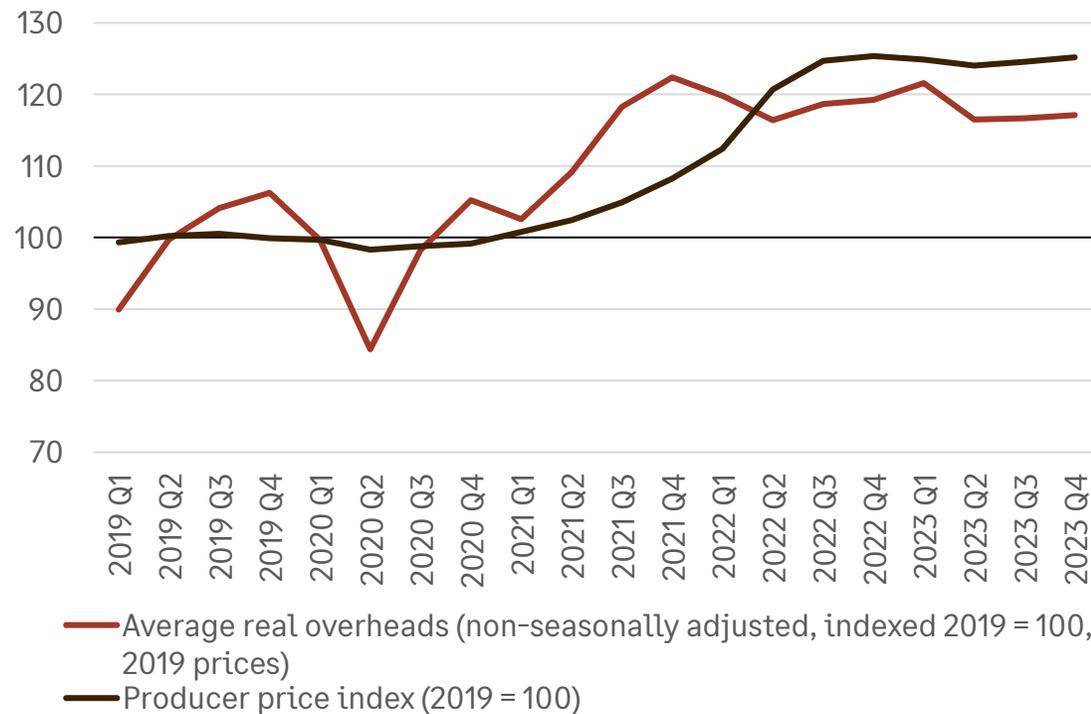
- On an annual basis, real expenditure for the average small business fell by 3.8% in Q4 2023.
- The six-quarter trend of declining expenditure on an annual basis will likely reflect several factors, including falling overheads, weak output growth and falling capital expenditure.
- The continued decline in expenditure coupled with the alleviation of cost pressures has enabled small businesses to achieve robust real profit growth despite weak revenue growth.
- Between Q3 2023 and Q4 2023, real expenditure for the average small business fell by 4.3%. This is the largest quarter-on-quarter fall in expenditure in 2023.
- The long-term trend observed in real average expenditure by small businesses on an annual basis closely aligns with growth figures for the broader economy. Since mid-2022, UK GDP growth has been sluggish. This translates to Q4 2023 data, where the average small business saw a reduction in real expenditure, reflecting the weak demand and activity currently characterising the UK economy.



Real overheads for small businesses continue to ease



Overheads (2019 prices, indexed values, 2019 = 100) and input producer price index



- In this report, we look at overheads, which include 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
- Overheads fell in Q4 2023, according to Sage data. In real terms, they are estimated to have fallen by 1.8% in the year to Q4, the largest annual decline since Q4 2022. This marks a positive development for small businesses amidst the broader economic challenges.
- This is in line with official data from the ONS on producer prices, which have shown a 0.2% fall in output costs in the UK in Q4 2023. Meanwhile, similar to Sage’s dataset of small businesses, the ONS producer price index rose by 0.5% on a quarterly basis. The recent easing in cost pressures is partially attributable to lower energy costs gradually impacting the supply chain, alleviating price pressures for businesses across sectors.

Source: Sage, Smart Data Foundry, ONS, Cebr

Sage small business tracker: Indicators by key themes





Prices and spending



Headline Findings



Prices



Resiliency



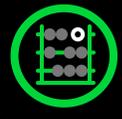
Growth



Profitability

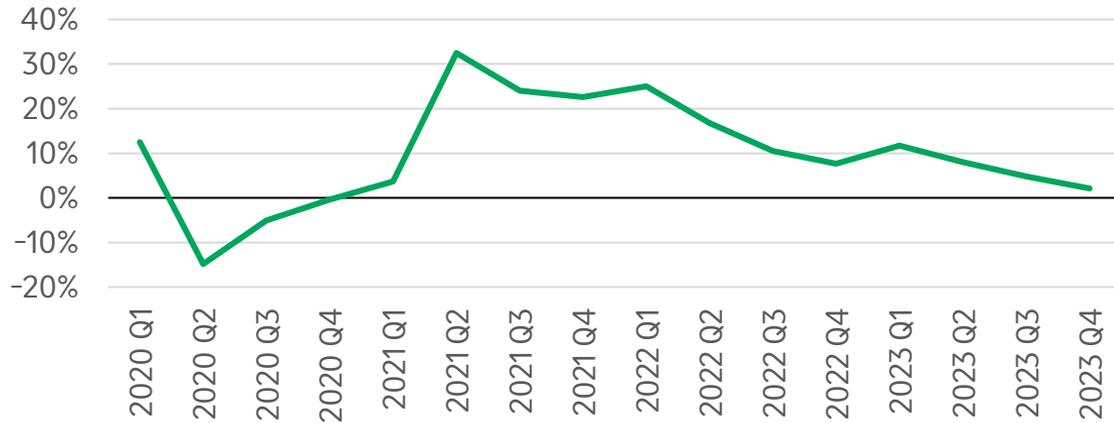


Deep dive North East

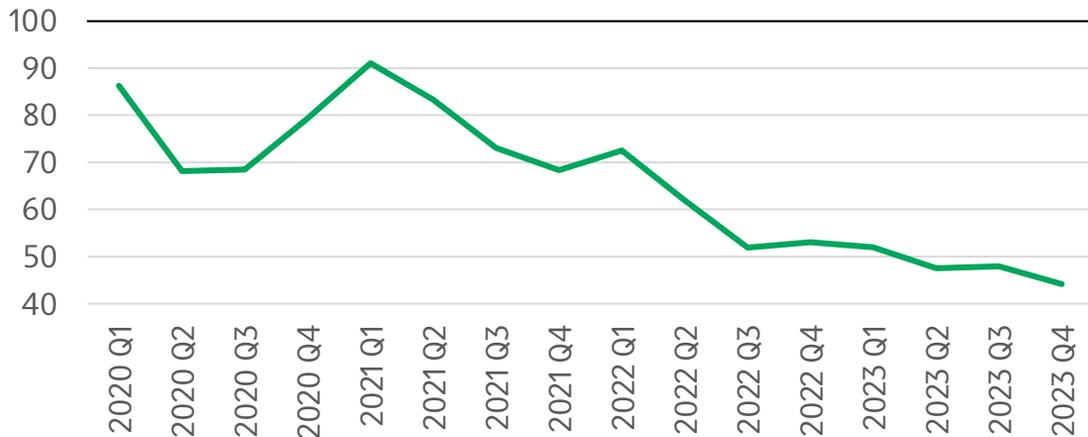


Methodology

Growth in small business overheads (nominal, year-on-year %)



Capital expenditure (indexed 2019 = 100, 2019 prices, non-seasonally adjusted)



Source: Sage, Smart Data Foundry, ONS, Cebr

Overheads grew at the slowest annual rate since Q4 2020. Meanwhile, capital expenditure continued to fall amidst elevated borrowing costs.

- Small businesses witnessed a sharp rise in average overheads over the past three years, with annual cost growth hitting a peak in Q2 2021, the height of the Ukraine invasion-related energy price shock. Cost pressures have gradually eased since then.
- The latest Sage data indicates a continuation of this trend, with average nominal overheads rising by just 2.1% in the year to Q4 2023 for small businesses. This is the slowest annual growth rate since Q4 2020.
- The continued easing is partially attributable to lower wholesale energy prices, which have fallen significantly since their peak. Additionally, recent annual falls in transport and fuel prices have helped ease cost pressures for small businesses.
- On an annual basis, capital expenditure fell by 16.8% in Q4 2023, following a decline of 7.7% in the previous quarter. Capital expenditure is now 39.7% lower than it was pre-pandemic (Q4 2019).
- 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 monetary policy tightening campaign has made borrowing more expensive. This has significantly impacted small business’s decision-making over long-term investments.



Prices: overheads by business size

- Headline Findings
- Prices
- Resiliency
- Growth
- Profitability
- Deep dive North East
- Methodology

Annual growth in nominal average overheads, by business size



The smallest businesses in our sample continue to experience notable annual increases in overheads in Q4, while larger small businesses have seen falls.

- Breaking down overheads data by business size shows how different types of businesses have been affected by rising prices.
- The smallest businesses have tended to see the fastest overheads growth in 2023. In Q4, nano businesses (XXS) reported overheads standing 36.3% higher than a year earlier. Meanwhile, extra small (XS) and small businesses (S) saw overheads fall in Q4 2023, by 9.6% and 4.1%, respectively.
- Please note that overheads for the smallest businesses should be treated with caution. There is a higher percentage of self-employed amongst these businesses who are more likely to have little or no overheads.

Source: Sage, Smart Data Foundry, ONS, Cebr



Prices - Annual growth in nominal overheads by industry

- Small businesses in the accommodation and food industry and transport witnessed the largest annual falls in overheads, falling by 7.4% and 6.3%, respectively. Transport has benefitted significantly from fuel prices recently falling on an annual basis. According to the ONS, motor fuel prices fell by 10.8% annually in December 2023.
- Meanwhile, real estate saw the largest annual rise in overheads at 8.8%. Indeed, it has had notably strong growth in annual overheads for the past three quarters. This could be partially attributed to currently high rents which make up a larger portion of real estate business costs due to their often prime locations.

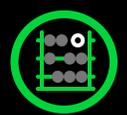


Source: Sage, Smart Data Foundry, Cebr

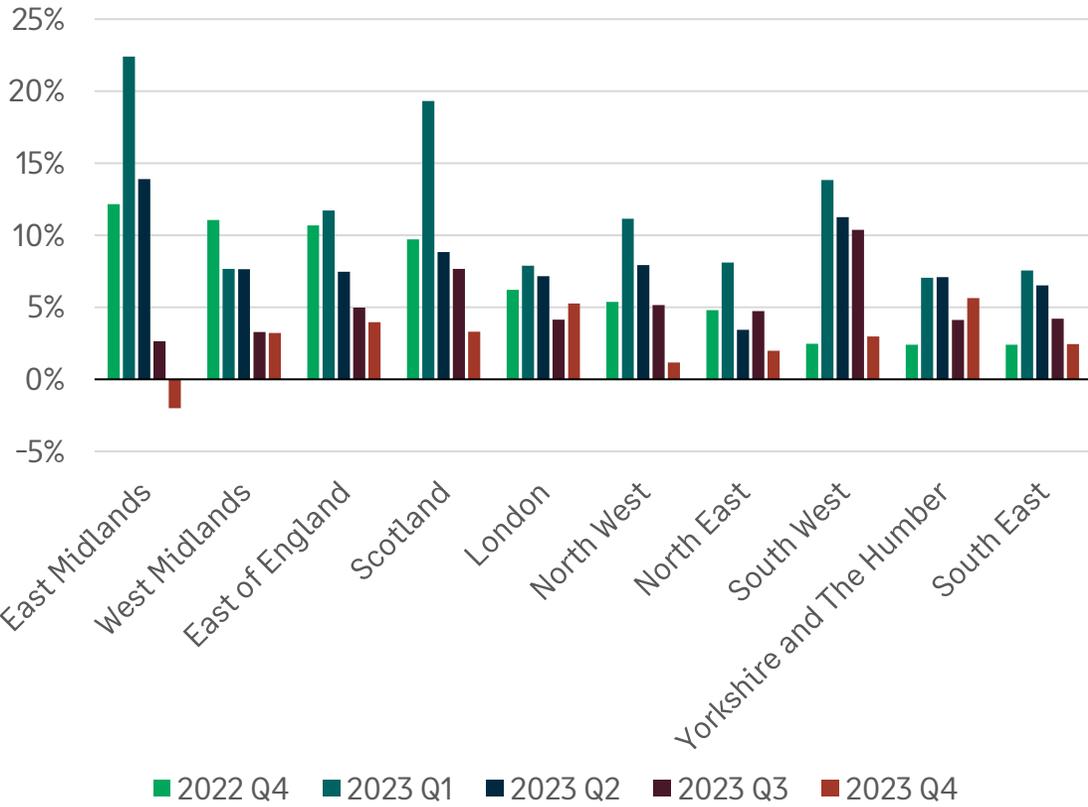
- Headline Findings
- Prices
- Resiliency
- Growth
- Profitability
- Deep dive North East
- Methodology



Prices: overheads by region

-  Headline Findings
-  Prices
-  Resiliency
-  Growth
-  Profitability
-  Deep dive North East
-  Methodology

Average overheads growth by UK region between 2022 Q4 and 2023 Q4 (nominal, year-on-year %)



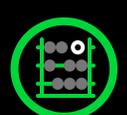
*Northern Ireland and Wales omitted due to sample size

Source: Sage, Smart Data Foundry, ONS, Cebr

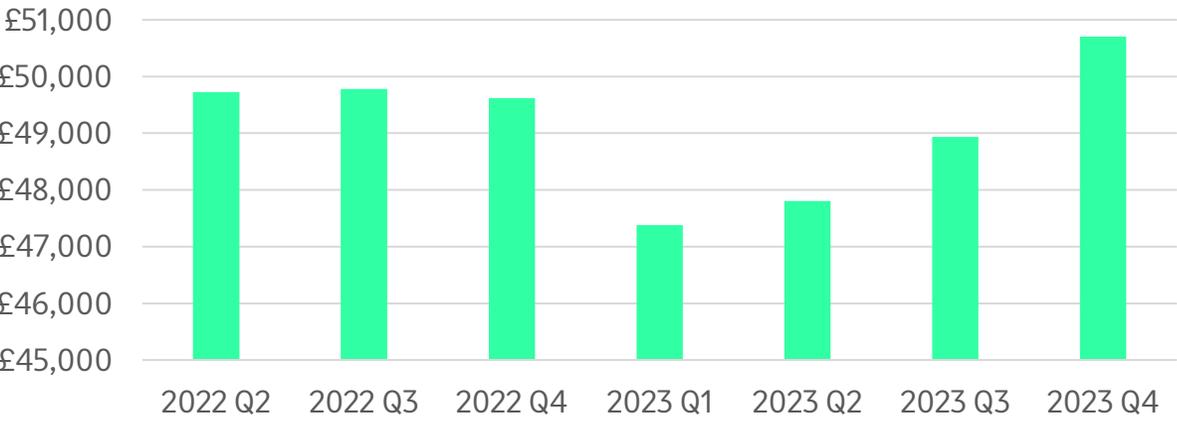
- Businesses across the UK nations and regions have seen overheads growing at different rates over the past year. All regions saw particularly high rates of overhead growth across 2022 and in early 2023, but these have broadly continued to ease in Q4 2023.
- Overhead growth eased in eight of the ten regions of the UK for which we have a representative sample in the year to Q4, compared to the previous quarter. Only the East Midlands saw a decline in this time, down 2.0%. Meanwhile, the weakest positive growth figures were seen in the North West and North East, at 1.2% and 2.0%, respectively.
- Businesses in Yorkshire and The Humber and London saw the most significant increases in overheads in the year to Q4 2023, at 5.6% and 5.2%, respectively. These two regions experienced an acceleration in annual overheads growth compared to the previous quarter, indicating that the broader easing in overheads has not been felt evenly across the UK. It is likely this is at least partially related to the region’s sectoral compositions, with services price growth currently outstripping goods price growth.
- On a quarterly basis, for six out of the ten UK regions, average nominal overheads had fallen compared to the previous quarter, further signalling that cost pressures are easing for small businesses across most regions.



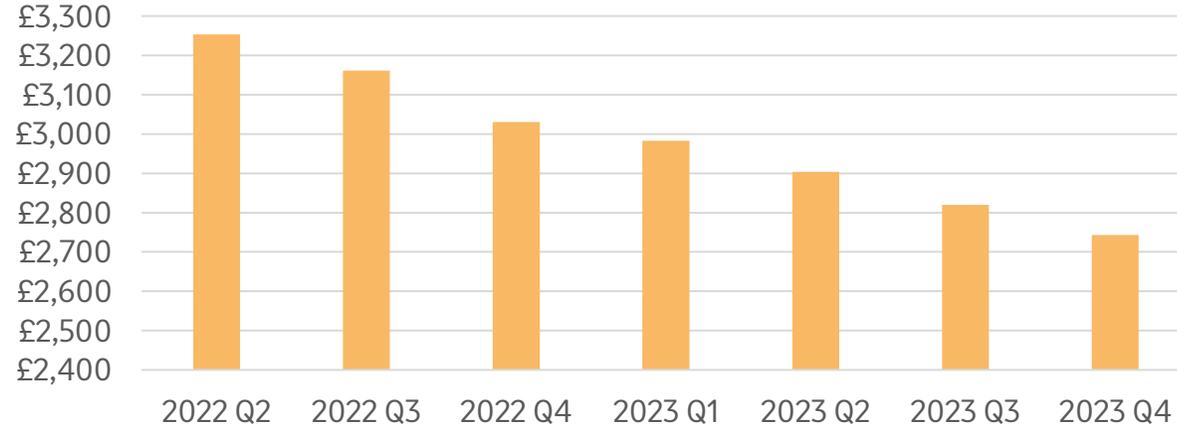
Resiliency: cash and debt

-  Headline Findings
-  Prices
-  Resiliency
-  Growth
-  Profitability
-  Deep dive North East
-  Methodology

Real cash balances for average small business (non-seasonally adjusted)



Real debt position for average small business (non-seasonally adjusted)

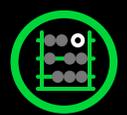


Source: Sage, Smart Data Foundry, ONS, Cebr

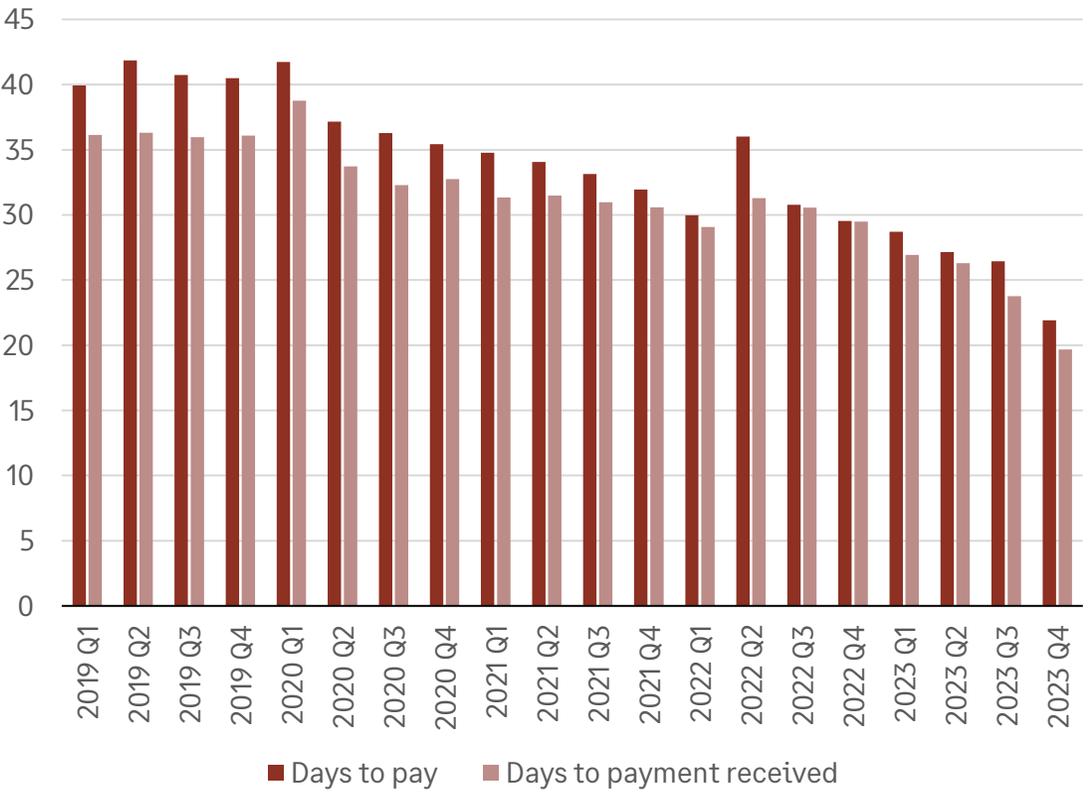
- Small business cash balances reflect the sum of their current account balance and the amount they have in savings. If they are struggling with clients paying late or with difficult trading conditions leading to lower demand, they are likely to see lower cash balances. On the other hand, a difficult economic environment may also lead businesses to hold some precautionary savings. Furthermore, the recent high-interest rate environment has made saving more attractive.
- The latest data for Q4 2023 shows that cash balances in real terms improved notably from their levels in Q3 2023 and were up by 2.2% compared to a year earlier in Q4 2023. The average small business had a cash balance of £50,705 in Q4 2023. This demonstrates that the average small business is happy to hold more savings amid the current high-interest rate environment.
- Small business debt positions reflect loan utilisation, which is the sum of credit card balances and other credit available. The average debt position fell in Q4 2023 to £2743. Indeed, in real terms, debt is down 9.5% compared to a year earlier. Compared to the previous quarter, the average small business’s real debt position fell by 2.7%. It is likely that higher profit levels have allowed firms to use self-financing rather than loans.
- The high interest rate environment as a result of the Bank of England’s tightening campaign has made borrowing much more expensive for small businesses. Consequently, they have decreased their debt position.
- The trend for cash and debt over the past year broadly mirror each other. This indicates that amid high-interest rates, small businesses have increased their cash levels and decreased borrowing.



Resiliency: time to pay

-  Headline Findings
-  Prices
-  Resiliency
-  Growth
-  Profitability
-  Deep dive North East
-  Methodology

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



Source: Sage, Smart Data Foundry, ONS, Cebr

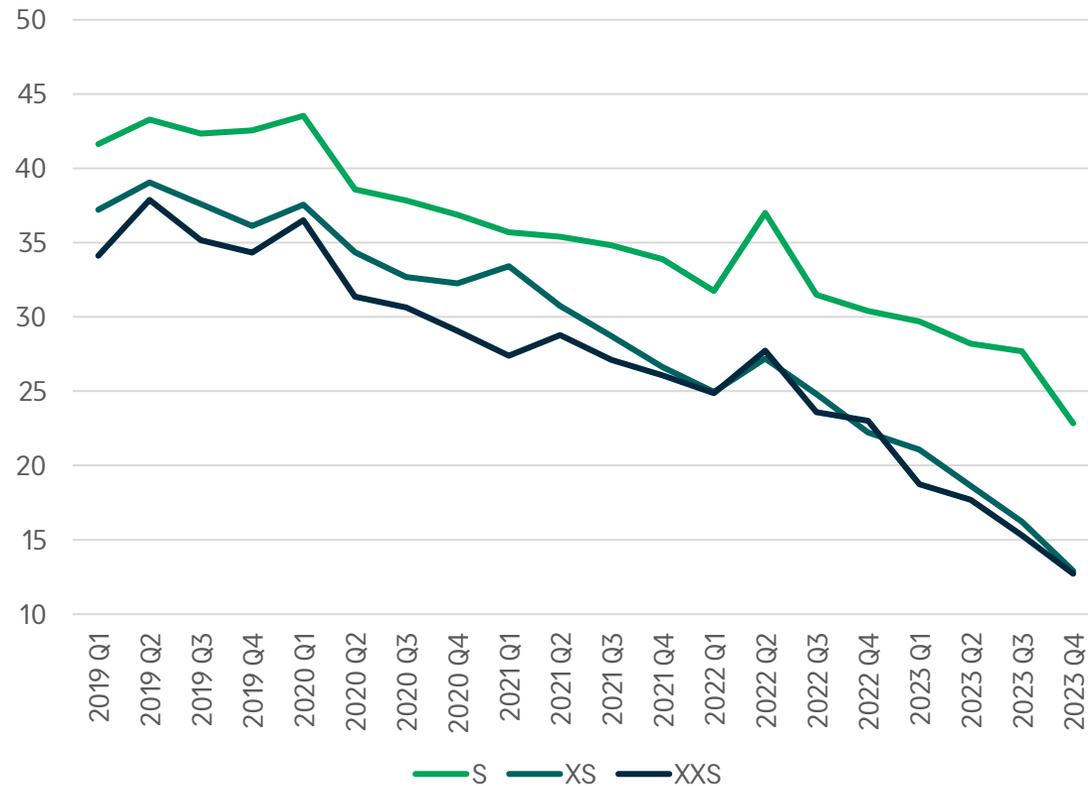
- Small businesses, on average, received payment on invoices after 19.7 days, down by 4.1 days in the last quarter. This represents an almost halving in time to be paid from 2020 Q1 (38.8 days).
- This data continues to be great news for small businesses, as late payments can present a huge strain on cash flows, given that many small firms have little credit or cash balances, and such invoices can often represent a large proportion of their revenues.
- The average number of days small businesses took to pay an invoice was 21.9 in Q4 2023. This marked an improvement of 4.5 days from last quarter.
- This data series shows that 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, 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. It is also positive that the time taken to receive payments has fallen, which supports cash flow resilience.



Deep dive – time to pay by business size

- Headline Findings
- Prices
- Resiliency
- Growth
- Profitability
- Deep dive North East
- Methodology

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



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) took 12.7 days to pay an invoice in Q4 2023. This marks a strong improvement from an average of 23.0 days recorded in the same quarter a year earlier.
- The small (S) grouping had the highest average days to pay in Q4 2023. At 22.8 days, however, this was a notable improvement from one year earlier when these businesses took an average of 30.4 days to pay an invoice.
- Meanwhile, extra-small (XS) businesses took 12.9 days to pay an invoice in Q4 2023., an improvement of 9.3 days compared to the same quarter a year prior.
- The smaller firms in our sample consistently have lower payment times than the larger firms. This may be a result of having smaller teams, therefore being more agile in dealing with invoices. It may also be that smaller firms place more value on prompt payment, given that they often face more acute cash flow concerns.



Overdue invoice payment times fall markedly

- Headline Findings
- Prices
- Resiliency
- Growth
- Profitability
- Deep dive North East
- Methodology

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



- The average number of days for small businesses to be paid a sales invoice once it was overdue was 16.5 days. This represents an almost halving in time to be paid for overdue invoices since 2022 Q4.
- The average number of days small businesses were late to pay an invoice for those that were overdue was 18.6 days in Q4 2023.
- This marked an improvement from a year earlier, which saw an average of 32.3 days in Q4 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 45.9 days.
- 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.
- The overall share of invoices which were late was 40.5% in Q4 2023. For context, this measure averaged 45.0% between 2018 and 2022.

Source: Sage, Smart Data Foundry, ONS, Cebr



Deep dive – revenue growth by business size

- Headline Findings
- Prices
- Resiliency
- Growth
- Profitability
- Deep dive North East
- Methodology

Year-on-year change in real revenue for the average small business, in 2019 prices



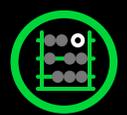
Source: Sage, Smart Data Foundry, ONS, Cebr

For a fourth consecutive quarter, the smallest businesses in our sample recorded the strongest real revenue growth on an annual basis. However, these businesses have also faced the largest increases in overheads.

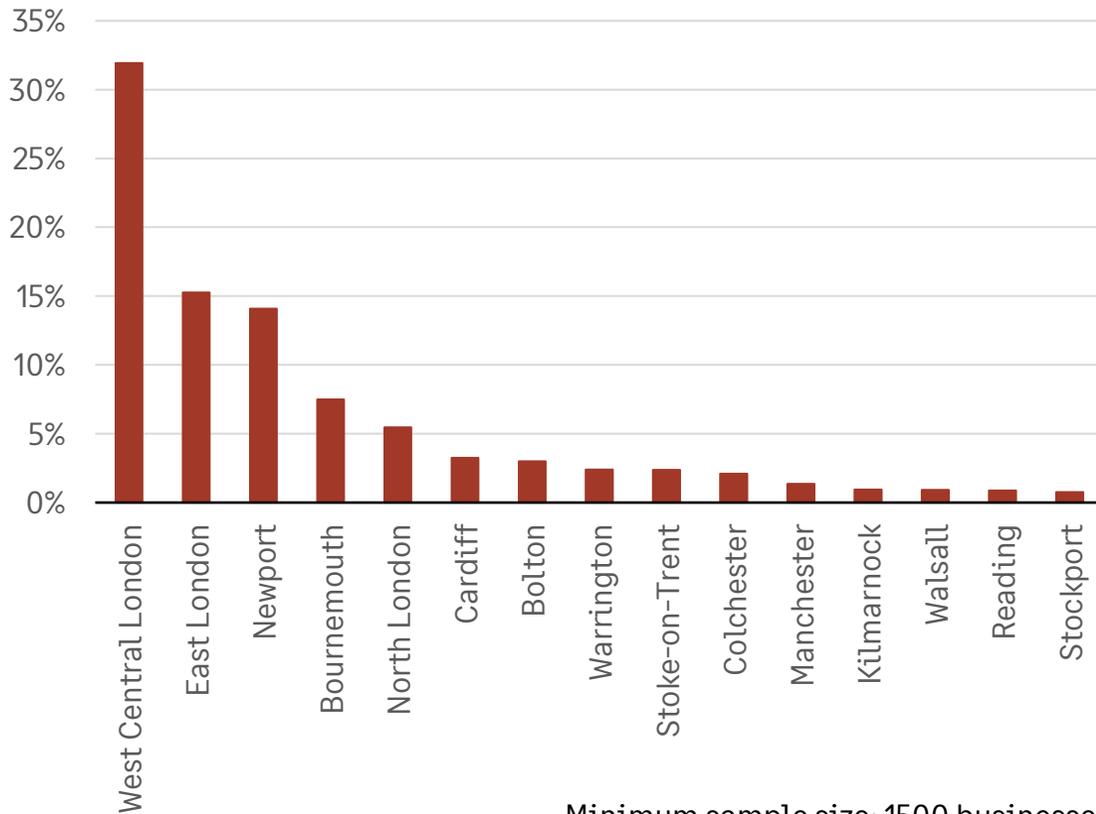
- Looking at business revenue across our three subgroups of size shows that small (S) and extra small (XS) sized businesses have exhibited very similar trends across the whole history of our data. The trend of these businesses has broadly followed that of the wider economy, exhibiting a strong recovery post-pandemic and then tailing off during the period of sluggish economic growth witnessed over the past two years.
- However, nano-businesses (XXS), the smallest businesses in our sample, have exhibited a different trend. Over the past two years their average real revenue growth has been notably more volatile than their larger counterparts. More recently, they have bucked the trend of falling real revenues experienced by larger small businesses, recording average real revenue growth of 14.0% on an annual basis in Q4 2023. Although it is worth noting that real revenue for nano-businesses (XXS) was particularly weak in 2022.
- During the period of strong real revenue growth over the previous three-quarters, nano-businesses also experienced the largest increases in annual overheads. In Q4, nano businesses (XXS) reported nominal overheads standing 36.3% higher than a year earlier. Meanwhile extra small (XS) and small businesses (S) saw overheads fall in Q4 2023, by 9.6% and 4.1%, respectively.



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

-  Headline Findings
-  Prices
-  Resiliency
-  Growth
-  Profitability
-  Deep dive North East
-  Methodology

Growth in average business revenue between Q4 2021 and Q4 2023 (2019 prices, top 15 cities)



Minimum sample size: 1500 businesses
Source: Sage, Smart Data Foundry, ONS, Cebr

Over the two years between Q4 2021 and Q4 2023, revenue growth varied greatly by postcode region. From over 100 areas across the UK, 22.6% saw average real small business revenue increase.

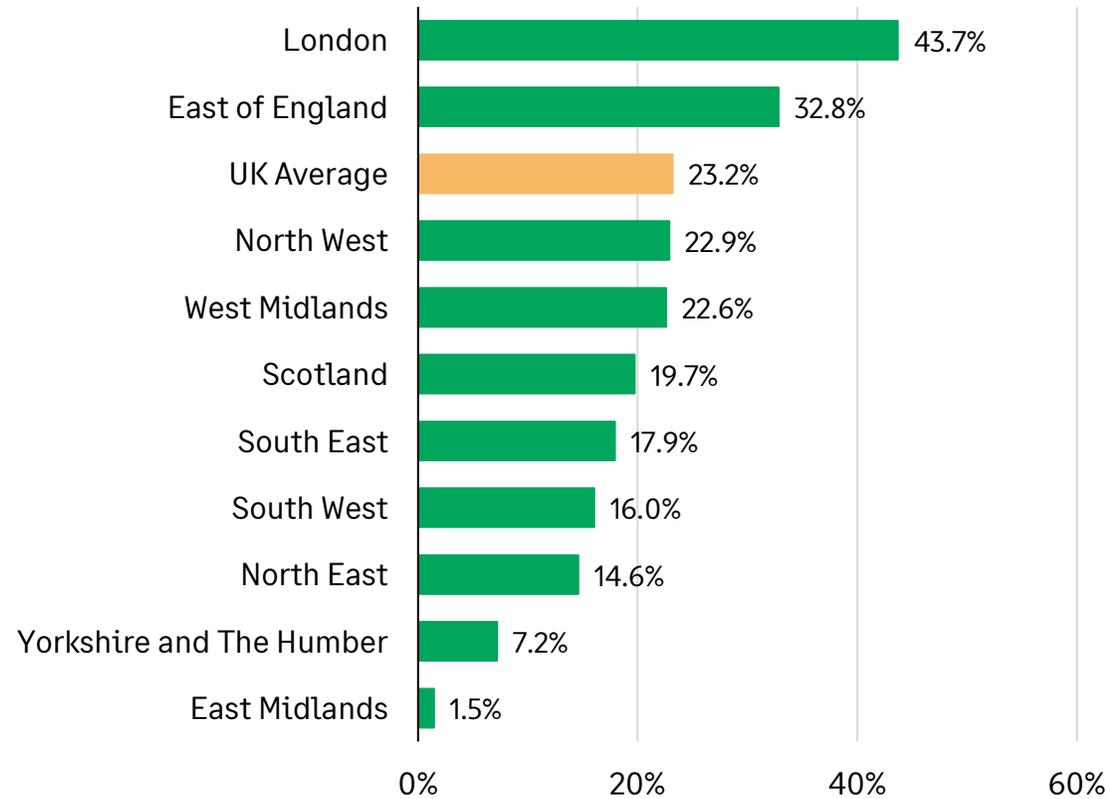
- Small businesses in West Central London saw the strongest real revenue growth in the two years to Q4 2023, at 31.9%. West Central London has a high concentration of hospitality and entertainment businesses, as well as food and restaurant services. Consequently, the area has likely benefitted from the return to growth in these industries in the period following the pandemic.
- East London saw the second strongest revenue growth at 15.3%. Indeed, London has performed strongly over the past two years, with North London also featuring amongst the UK’s fastest growing cities. The average small business in London saw a 43.7% rise in EBITDA in the year to Q4 2023.
- London attracts the most foreign direct investment in the UK, in addition to having a large population and strong public infrastructure. All these characteristics likely contributed towards strong real average small business growth over the past two years.
- It is worth noting that Manchester and Reading (both of which are in the top 15 fastest-growing cities) ranked highly on the investment attractiveness index produced by Cebr. Like London, Manchester has a large, economically active population, providing a large number of workers available for businesses seeking to invest in the city. Meanwhile, Reading has a particularly high level of skilled workers.
- The East Midlands had the slowest annual growth in EBITDA in Q4 2023, at 1.5%. Unsurprisingly, the region is not represented amongst our fastest growing cities.



Profitability

- Headline Findings
- Prices
- Resiliency
- Growth
- Profitability
- Deep dive North East
- Methodology

Growth in average real EBITDA between Q4 2022 and Q4 2023 (2019 prices, by UK regions)



*Northern Ireland and Wales omitted due to sample size

Source: Sage, Smart Data Foundry, ONS, Cebr

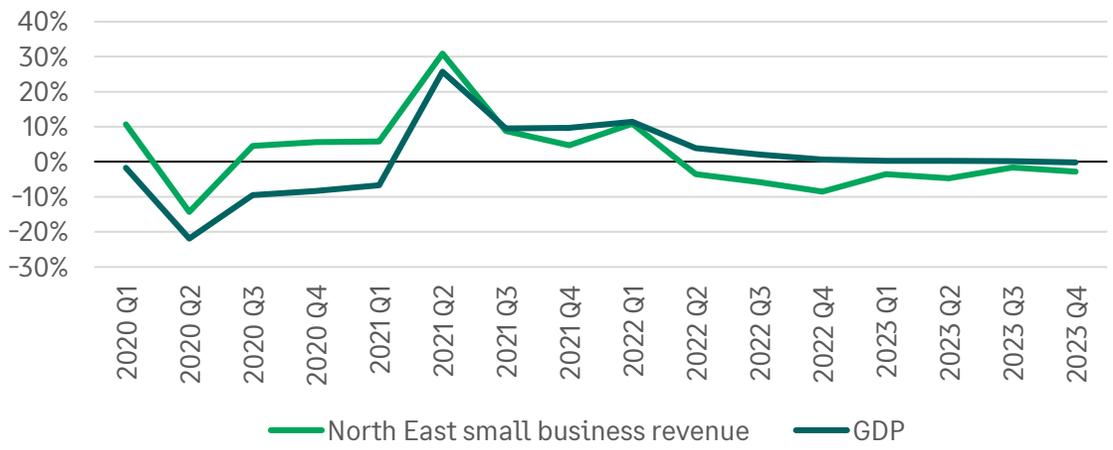
The average small business saw EBITDA rise by 23.2% in the year to Q4 2023, with London recording the strongest growth of any UK region

- The Sage small business tracker provides timely insights into regional growth figures, with official regional GDP statistics produced with a long lag.
- EBITDA (earnings before interest, taxes, depreciation, and amortization) is a leading measure of profitability and business performance. Sage’s data shows that the average small business saw a 23.2% rise in EBITDA in the year to Q4 2023.
- Looking at small business profitability over the past two years shows different results across the UK regions. All regions saw profit growth across this period, but the regional disparities in growth highlight the importance of the government’s levelling up agenda to improve growth across the UK.
- Looking at regions in England, London saw the largest annual increase in profitability, up by 43.7%. Areas of London accounted for three of the five fastest-growing UK cities over the past two years in terms of average real business revenue growth. The gradual return to cities and offices has boosted consumer spending in the capital.
- Meanwhile, the East of England and the North West also performed strongly, with real EBITDA growth of 32.8% and 22.9%, respectively, over the past year.
- The East Midlands saw the slowest growth, although it remained positive. Profits in this region grew by just 1.5% annually in Q4 2023.

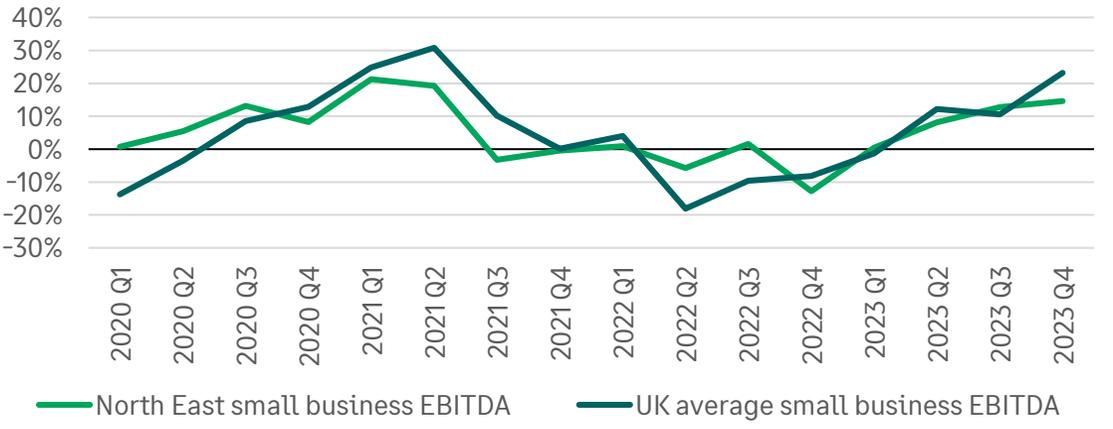


Deep dive – North East

Revenue growth for the average North East small business and GDP (2019 prices, year-on-year %)



EBITDA growth for the average North East small business (2019 prices, year-on-year %)



Source: Sage, Smart Data Foundry, ONS, Cebr

With its global headquarters based in North Tyneside, Sage has been a stalwart in the North East business scene for almost 43 years with its technology being used by nearly half of the region’s SMBs. They are committed to driving regional economic growth, nurturing local talent, and empowering businesses to thrive. For this reason, the Sage Small Business Tracker includes a deep dive into the performance of the region’s small businesses.

The average North East small business saw real revenue fall by 2.8% in the year to Q4 2023. Meanwhile, average small business real EBITDA in the North East rose by 14.6% on an annual basis.

- Small business revenue fell by 2.8% in the North East in the year to Q4 2023, in real terms. By contrast, it rose 0.9% for the UK-wide average small business. On a quarterly basis, real revenue fell by 4.7% in the North East. This is larger than the 1.4% quarterly fall witnessed more broadly across the UK.
- North East small business revenue closely follows the broader trend of UK GDP growth.
- In level terms, average small business revenue in the North East was 10.2% below that of the UK average.
- Small business profits grew by 14.6% in the North East in the year to Q4 2023. This is slightly weaker than the 23.2% growth experienced by the UK-wide average small business.
- In level terms, the average North East small business saw EBITDA 3.0% below the UK average.

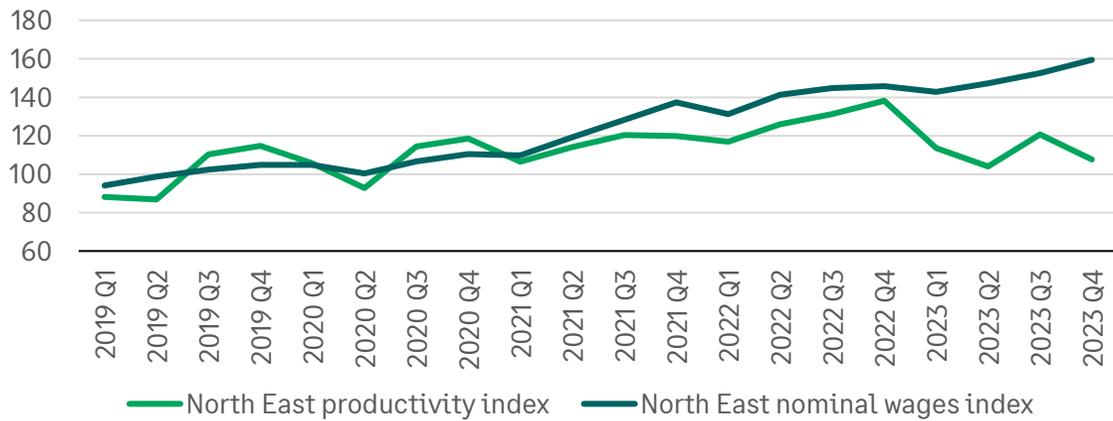
- Headline Findings
- Prices
- Resiliency
- Growth
- Profitability
- Deep dive North East
- Methodology



Deep dive – North East

- Headline Findings
- Prices
- Resiliency
- Growth
- Profitability
- Deep dive North East
- Methodology

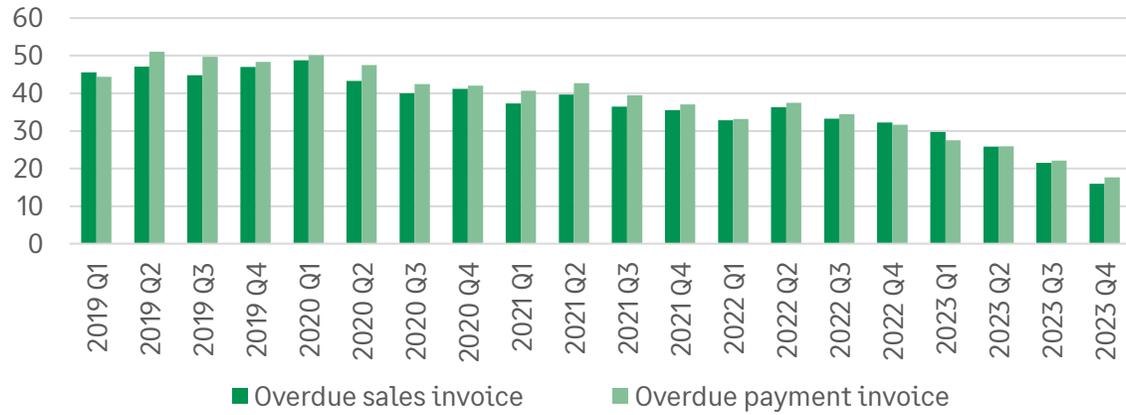
Nominal wages and real productivity for the average North East small business (index 2019 = 100, non-seasonally adjusted)



The average North East small business saw productivity fall by 22.1% in the year to Q4 2023, in real terms. Meanwhile, the average number of days for North East small businesses to be paid continued on a downward trend.

- Productivity in our sample of North East small businesses is measured by revenue divided by the number of employees within a business.
- Like the UK-wide trend, productivity in the North East has faltered over the previous year. This is in line with the weak real revenue growth observed across the same period.
- Meanwhile, nominal wages for the average small business in the North East grew by 9.4% on an annual basis in Q4 2023. This is slightly softer than the 13.8% growth observed by the UK-wide sample.
- The average number of days for North East small businesses to be paid a sales invoice for those that were overdue was 16.0 days. This represents an almost halving in time to be paid for overdue invoices since 2022 Q4. The UK average is 16.5 days.
- The average number of days small businesses were late to pay an invoice for those that were overdue was 17.6 days in Q4 2023. The UK average is 18.6 days.

Average number of days overdue to either pay invoice (payment) or be paid (sales) per North East small business



Source: Sage, Smart Data Foundry, ONS, Cebr



Methodology



Methodology and data



Headline Findings



Prices



Resiliency



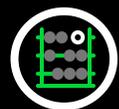
Growth



Profitability



Deep dive North East



Methodology

- The Sage Small Business Tracker uses data from Sage’s accounting and payroll software. The Smart Data Foundry aggregates and cleans the data, before Cebr deflates and analyses the data ahead of its publication. The data is not currently seasonally adjusted due to the length of back history available for analysis.
- Filters are applied to the data to ensure it is not impacted by outliers. This includes a maximum monthly revenue figure of £1m and a maximum annual payroll figure of £1.1m.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) is a common measure of business performance. It is derived as $EBITDA = Revenue - Expenditure - Overheads$
- 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).



Our small business sample

- In Q4 2023, our sample of over 136,000 businesses contained the following demographics.

Size

- 57% were small (S) businesses (average annual revenue greater than £200,000).
- 25% were extra-small (XS) businesses (average annual revenue greater than £50,000 and less than or equal to £200,000)
- 18% were nano (XXS) businesses (average annual revenue less than or equal to £50,000)

Region

- Within the sample, over 126,000 of businesses identified their region.

Region	South East	London	Yorkshire and The Humber	North West	East of England	West Midlands	South West	Scotland	East Midlands	North East	Wales	Northern Ireland
Share	14%	11%	10%	10%	9%	9%	9%	9%	8%	4%	3%	3%

Sector (of the over 63,000 of businesses for which we know the sector)

- 28% were in heavy industry
- 20% were in light industry
- 52% were in services

Payroll (our data for productivity and workforce-related variables are based on a smaller sub-sample of 23k small businesses)

- The overall sample size changes between reports due to changes in Sage’s customer base and the removal of outliers.





Glossary



Headline Findings



Prices



Resiliency



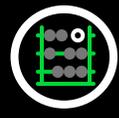
Growth



Profitability



Deep dive North East



Methodology

EBITDA - Earnings before interest, taxes, depreciation and amortization (EBITDA) is a common measure of business performance. It is derived as $EBITDA = Revenue - Expenditure - Overheads$.

Net rate of return - 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.

Overheads - In this report overheads include both fixed and semi-variable overheads such as rent, energy and utility bills.

Productivity - In our large sample of small businesses productivity is measured by revenue in real terms divided by the number of employees within a business.

Capital expenditure - Small business capital expenditure refers to the acquisition or upgrading of long-term assets, such as equipment or property.

Cash balance - Small business cash balances reflect the sum of their current account balance and the amount they have in savings.

Debt position - Small business debt positions reflect loan utilisation, which is the sum of credit card balances and other credit available.

Days to pay - Sale payment time in days.

Days to payment received - Purchase payment time in days.

Nominal - The nominal value of an economic variable is the value expressed in current prices.

Real - The real value of an economic variable is the nominal value adjusted for inflation.

Technical recession - Two consecutive quarters of negative quarterly growth in real GDP.

Monetary policy - Action a central bank can take to influence how much money is in a country's economy and what the cost of borrowing is. This can include raising or lowering the base interest rate.

Contact

Christopher Breen

cbreen@cebr.com

020 7324 2866

Cameron Misson

cmisson@cebr.com

020 7324 2873

