

# **ANATOMY OF A MICROBUSINESS**

**By Sarla Langdon May 2011**

## **Characteristics of a microbusiness**

- It has less than 10 employees
- It is NOT an SME which has from 11—250 employees
- Its business support needs are specialised .Support initiatives created for SMEs do not work for microbusinesses
- The turnover is usually under approx £1.5m.This threshold varies in different countries and usually increases year on year.
- It usually has a sole proprietor type structure, also known as self employment; less frequently it is a partnership, and even less frequently it is incorporated as a limited company
- It is often a family business
- The microbusiness is visible in rural and urban locations and is often engaged in traditional skilled trades.
- The owner manager is usually an expert as far as the product is concerned, but not in other aspects of running a business
- Formal management skills are rarely used by the microbusiness
- The microbusiness is usually in a comfort zone where size is concerned, and does not wish to grow as an employer or in terms of turnover.
- The microbusiness is, however, interested in improving productivity and profitability
- The microbusiness is sometimes classified as a 'lifestyle' business in a derogatory sense. This view is short sighted—the lifestyle businesses play their own role in keeping themselves off the dole and in gainful self employment

## **Definition**

The coining of the term 'microbusiness' has been laid claim to by the Director of the Small Business Association (SBA, USA) who used it in 1994 in his State of Small Business address to the then US President Clinton; he suggested that the term fits the SBA prototype of businesses with sales less than US\$3.5m. In the UK the term microbusiness now generally refers to a business with fewer than 10 employees. It is also called a nuclear business or a microenterprise - the person who runs it is known as a micropreneur.

European Legislation defines a **microenterprise as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.**

## **Trading Structure**

The trading structure most frequently adopted by the microenterprise is a sole proprietorship or a partnership.

Till recently, the limited company was not favoured by the microbusiness because low turnovers did not justify the cost of the compulsory external audit. This situation changed when the compulsory external audit requirement was waived for companies with a turnover below £ 300,000. This threshold has been raised to £ 1 million and more microbusinesses are opting for the lower taxes, easier borrowing, and the safety of limited liability offered by incorporation.

## **History**

Historically the microenterprise has been a hereditary family business selling special skills passed on from generation to generation eg farmers, apothecaries, guild artisans, farriers, smiths, barbers. In modern times they are represented by low-tech, low-skilled enterprises like carpenters, fitters, mechanics, and corner shopkeepers.

In the last three decades the ranks of microbusiness have swollen as a result of large industrial companies (coal, steel, tin, petrochemicals) downsizing and outsourcing and releasing employees with good redundancy packages into the marketplace.

The Thatcher government set up managed workshops, training programmes and business support and funding packages to help redundant employees re-enter the workplace as micro entrepreneurs. Soon a modern micropreneur culture developed in the UK.

## **Present Status**

In recent years the attention of economists and business support services in Wales has been drawn to the microbusiness for several reasons viz

- Inward Investors Disappoint
- SMEs Are A Poor Substitute

The Welsh Assembly tends to take seriously only that indigenous business that falls into the Small and Medium - sized Enterprise category, ie between 10 and 250 employees. Unfortunately these are mostly links in a supply chain serving dinosaur industries such as coal, steel, petrochemicals etc and are threatened by the steady decline of these industries. Others serve the highly volatile automotive and aeronautical industries and are totally at the mercy of international market variables they have no control over.

It ought to be clear to all policy makers and strategy planners that the microbusiness seems very stable in comparison.

### **Changing Public Perception**

In the last 20 years Information Communications Technology micropreneurs have entered this sector, resulting in an immediate improvement in the image of the microbusiness. The new glamour of a high-tech, high-skilled profile was the metamorphosis that gave the microenterprise a stature of its own in the business community. Most successful dot.com companies have started out as microbusinesses as have software houses and other high tech ICT based companies. Despite subsequent disappointment with the performance of dot com companies on the markets, the movement succeeded in pointing out that very small could be very profitable and efficient. These microbusinesses were driving the whole of an entire new industry and drew attention to themselves as a result.

### **Difficulties In Data Collection**

Nonetheless the current knowledge base about the microbusiness is still at an embryonic state largely because of the difficulties inherent in collecting data about the microbusiness. These difficulties arise from the following factors:

- Most microbusinesses have turnovers below the VAT threshold and therefore do not register for VAT. Thus the single most efficacious method of collecting numerical data cannot be applied to the microbusiness.
- Because the borrowing requirement of microbusinesses is very small, and the exposure high because most microbusinesses are not incorporated, banks advise them against expensive business loans and encourage them to trade with personal loans. Thus another source of data collection -- ie bank records -- cannot be used for the microbusiness.
- The arrival of a new business, particularly if it has no employees, is not detectable by the Inland Revenue till it files a tax return - which it need not do for a while following starting up, further distorting the figures.
- A large number of microbusinesses operate from a garden shed or from home and therefore do not show up on any records of business premises rentals or purchases.

### **My Own Data Collection System**

In my experience as a practitioner I have found that I can keep myself informed of new local start-ups by using an intelligence system of my own creation. I keep contact with jobbing printers because the first thing a microbusiness needs is business cards and stationery. Similarly sign writers are a valuable source of information. An efficient network of business contacts across the board also provides news on an ongoing basis.

Business support organisations such as Business Connect or Local Enterprise Partnerships (apart from other official sources in the public domain) only possess exclusive records of start-ups that voluntarily enter their doors: this unfortunately

is only a small part of the total micropreneur numbers. A survey of 30 microbusinesses in the Swansea area, which was carried out by Markmaid Ltd in Feb/ Mar 2001, revealed that only 12 respondents had used Business Connect

and/or other public sector business support organisations -less than 50%.

#### **Available Microbusiness Data for Wales (*next update Oct 2011*)**

- There were 49,700 enterprises active in South West Wales in 2010, of which 94 per cent were in the zero or micro size band (0-9 employees), the same as that for Wales as a whole.
- 37 per cent of private sector employment in South West Wales was in the zero or micro size-bands and 36 per cent was in the large size-band (250 plus employees). For Wales as a whole these size-bands accounted for 33 and 40 per cent of private sector employment respectively.
- Smaller enterprises accounted for a greater proportion of employment in the more westerly local authorities in South West Wales and large enterprises accounted for a higher percentage of employment in Swansea.

#### **(Start 1998)**

These figures were kindly provided by the Welsh Assembly Economic Development Committee

The data shows 153,345 VAT and non VAT registered businesses at the start of 1998, employing 724000 people

95.1% are microbusinesses employing less than 10 employees. (UK =94.8%)

66% of businesses have no employees.

23.5% have 1-4 employees

Micro-sized firms account for 39.9% of all employment in businesses in Wales. (UK=30.5%)

In Wales the smallest firms are a relatively more important source of employment than in the UK as a whole.

#### **{UPDATED in 2007-01-09**

Size Band Analysis of Enterprises Active in Swansea 2003

Enterprises

Micro (0-9 employees) =11,100 microbusinesses

Small (10-49) =555 small businesses

Medium (50-249) =175 medium-sized business

Large (250+) =450 large businesses

Total: = 12,285

Source: SDR 69/2004, Size Analysis of Welsh Businesses 2003, Welsh Assembly Government

Note: This is a count of enterprises that are active in Swansea, including multi-region enterprises registered outside Swansea. The data also includes estimates for the very small businesses that operate below the VAT threshold (unregistered enterprises). }

### **Sloppy Terminology**

It must be pointed out at this juncture that the National Statistics Labour Market Trends report of Oct 2000 (Vol 108/No 10) includes a Research Brief entitled `Lifetime experiences of self-employment`, much of which could pertain to the microbusiness.

The problem is of course that `self-employed ' is not a synonym for microbusiness and has absolutely no limitation with regard to size. Thus the director of a limited company, who like me is the only employee, cannot be classified as self-employed - I am legally and fiscally employed by my company. Additionally most legal and accountancy practices consist of a group of self-employed partners employing thousands of staff with multimillion turnovers. This slipshod terminology makes it difficult to accept the findings as gospel, a situation exacerbated by the evidence that the naivety of civil servants when dealing with business issues can distort research findings drastically.

### **Civil Servant Naivety**

An example of this can be found in the report `Job characteristics of the self-employed.' I quote, `As many as 29 per cent of the self-employed earned below £ 3,600 per year (£69 per week) compared with 22 per cent of employees.' This is a natural enough mistake for a non-business researcher to make - but anybody in business will tell you that £3600 (now £4500) is always the salary declared by any business person wherever possible, because it is the maximum tax free allowance. A good accountant will attempt to show the rest of the income as costs. For these reasons I am loath to accept these findings without reservation and quite reluctant to use them as valid data about the microbusiness.

### **Taking the Microbusiness Seriously**

The microbusiness forms the wide solid base of the pyramid on which the more affluent part of the economy rests, and cannot be ignored. It is a sector that would offer more reward from nurturing than the inward investor, the dinosaur industries or the SMEs that form part of a supply chain serving dinosaur industries.

There is a tendency among business support agencies to treat the microbusiness with contempt because it does not appear to create wealth and does not visibly provide employment. The fact is that each microbusiness

- provides an income for the proprietor
- takes him/her off the dole
- creates a vacancy in the job market
- supports other local businesses by using their services.
- often provides at least one part-time job
- According to Nick Bourne, Conservative Welsh Assembly Member, if each micro-business in Wales employed just one person, there would be full employment in Wales.
  - Micro-sized firms already account for 39.9% of all employment in businesses in Wales. (UK=30.5%)

All public sector strategists in Wales now must recognise that the vast majority of indigenous businesses employ less than 10 staff and therefore have to be included in any plans or strategies for the local economy.

-

## . **The Problems of Running a Microbusiness**

The factors perceived by the microbusiness to be their biggest problems:

- **The biggest problem**

The biggest problem was that they were not being taken seriously because of their size. "Whether it is a business support agency or a potential customer or a bank - as soon as they hear I am a one-man band they lose interest," was the complaint. This was considered to be even more galling because many of the respondents had gained their experience /expertise in large companies and were perfectly capable of tackling complex jobs. It was pure prejudice to regard them as incapable or inferior simply because they were now small independents.

Interestingly pure ICT companies did not suffer because of their size - it was accepted that IT was a one-genius matter (SIE Single Idea Enterprise) and did not need more than one expert to be taken seriously. Besides, ICT is not very well understood generally and most people were willing to accept an ICT expert at his/her own valuation

- **The second biggest problem**

The second biggest problem was cash flow. This is the result of slow paying customers. This problem is endemic in the UK economy and there are no easy answers to it. SMEs manage with the help of bank overdrafts, which are rarely available to the microbusiness.

All too frequently credit cards with their extortionate interest rates are the only financial recourse for the microbusiness.

It would be a mistake however to take this complaint at face value. I have been called in to help find funding for a microenterprise with a cash flow problem and discovered that the problem was in fact slow invoicing and insufficient sales compounded by aggressive suppliers. Putting a sales strategy in place, and introducing a motivational sales training programme to help implement the sales strategy soon rectified things. Systems for prompt invoicing with credit terms spelt out to the customer were put into place.

New suppliers were recruited to weaken the position of the incumbents and better credit terms became available as a result. The 'cash' problems were solved without any need to find new capital, but with the worrying conclusion that the micropreneur was too inexperienced to analyse his/her own problem accurately.

- **The third problem**

Lack of time for strategic planning, for sales and marketing and for keeping up with the latest industry trends was the next biggest problem. Many microbusinesses, though they have worked in large companies, have not been aware of the function of departments other than their own and are alarmed to discover how much more than their own particular skill goes into the running of a successful business - no matter how big or small. They did not realise how many hats they would be required to wear and are in a constant state of uncertainty. Training courses in old fashioned classroom formats are too generalised and asteful e.g. a young client of mine with a bookstore wasted one day of a business course on VAT - because the trainer did not know that books are VAT -exempt. The young entrepreneur was more confused after than before the training.

### **Some advantages of being a microbusiness**

- The advantages of employing less than five staff are significant, since most of the European and UK Employment laws do not apply to organisations of this size. The advantages are enormous (e.g. exemption from providing paternity/maternity leave).

The microbusiness has the following advantage over larger operators:

- faster response times
- faster turnaround times
- more flexibility than bigger competitors.

### **References**

- A Realistic Review of the Efficacy of Micro PR Practitioners vis a vis the Needs of Microbusiness Clients. Paper by Sarla Langdon for *CIPR Conference 2005*
- SME Statistics for the UK 1998. Department of Trade and Industry and County of Swansea Research and Information Team. Business Structure Statistics at <http://www.wales.gov.uk/keypubstatisticsforwales/topicindex/topics.htm#business>
- [http://www.swansea.gov.uk/media/pdf/i/r/Swa\\_LMEc\\_Profile\\_May06.pdf](http://www.swansea.gov.uk/media/pdf/i/r/Swa_LMEc_Profile_May06.pdf)
- 'The Consultant's Perspective'. Talk presented by Sarla Langdon, 9.10.03 at the Welsh Development Agency's Consultant's Conference, Treforest.
- The Influence of Information Technology on the Growth of the Microbusiness .Sarla Langdon. Paper published at 24th ISBA National Small Firms Conference: Exploring the Frontiers of Small Business
- The needs of new generations of ethnic minority entrepreneurs – is it time for a policy change? Paper by Sarla Langdon presented at 2002 ISBA Conference

Website of Utah State University Extension. Microbusiness Institute  
<https://microbusiness.ce.usu.edu/main.ht>

### **Papers by Sarla Langdon**

A series of practical papers by Sarla Langdon on the subject of the barriers to start-up and growth experienced by microbusinesses in Wales have been published at policy conferences across the UK. These papers examine the emerging needs of microbusinesses and whether current levels of business support, both in the private and the public sector, meet these new needs. The papers include recommendations based on the findings of the above research on initiatives to encourage and support the growth of microbusinesses.

1. [\*The Influence of Information Technology on the Growth of the Microbusiness.\* Sarla Langdon. Paper published at 24th ISBA National Small Firms Conference: Exploring the Frontiers of Small Business](#)
2. [\*The Needs of New Generations of Ethnic Minority Entrepreneurs – is it time for a policy change?\* Paper by Sarla Langdon presented at 2002 ISBA Conference](#)
3. [\*'The Consultant's Perspective'.\* Talk presented by Sarla Langdon, 9.10.03 at the Welsh Development Agency's Consultant's Conference, Treforest.<http://www.markmaid.com/pdfs/WDAtalk.pdf>](#)
4. [\*A Realistic Review of the Efficacy of Micro PR Practitioners vis a vis the Needs of Microbusiness Clients.\* Paper by Sarla Langdon for Chartered Institute of Public Relations Conference. Lincoln 2005](#)
5. [\*Business Birth-rate Strategy and Economic Development: Focus on the Microbusiness\* Paper presented by Sarla Langdon for 29th ISBE Conference, Cardiff 2006](#)

[\*The Cyber Ceiling. A Report On Gender Imbalance In Information Technology by Sarla Langdon for Swansea University, Computer Science Dept : Xxx Business Club Reports: Examining the social and economic effect of ICT on Small / Microbusiness March 2007\*](#)