



Sage Simply Accounting: Small Business/Financial Literacy Study

June 23, 2011



Objectives and Methodology

- From May 17th to May 23rd 2011, Angus Reid Public Opinion conducted an online survey on behalf of Sage Simply Accounting.
- The purpose of this survey is to gauge overall perceptions and habits pertaining to the financial management of small businesses among small business owners in Canada. Additionally this study measures the role of financial software in small business.
- In September 2009, a similar study of small business owners was conducted on behalf of Sage. As a result several measurements found in this report will contain tracking data from 2009.
- A balanced sample of 503 small business owners in Canada were surveyed in total. The margin of error for this sample is +/-4.4%, nineteen times out of twenty.
- Small business owners are defined as those who own a business full time and have between one (including the owner) and 99 employees.
- Respondents were recruited from the Angus Reid Forum, Canada's leading on-line national access panel.
- The results have been statistically weighted according to region and number of employees.

Analytical note:

- 'Larger businesses' refer to businesses with six to 99 employees, while 'smaller businesses' refer to businesses with one to five employees.

Executive Summary

Financial Literacy

- Three-in-four (73%) small business owners are considered to be ‘more financially literate’ by reporting that they have identified the single cost that has the largest impact on their business. Those who use accounting software are more likely to be more financially literate.
- Those who are more financially literate are more likely to spend a greater quantity of time managing their business’ finances. Perhaps as a result of this additional time spent, they are also more likely than the less literate to say they are strong in tasks such as financial management, sales and marketing and taxes. This segment is more likely to have attained their knowledge of financial management through an accountant or mentor. The more financial literate use their accounting software to stay current with changing rules and regulations. With this greater personal engagement in their finances, it is not surprising that the more financially literate small business owners are more satisfied with the current reporting and analysis of their business’ finances.
- Conversely, the less financially literate are more likely to report that they don’t perform any financial reporting at all and don’t have any accounting software. These small business owners are more likely to turn to friends and family or online blogs and forums for advice on financial aspects of their business.
- There is also a strong correlation between size of business and financial literacy. The direction of the correlation is not entirely clear, on the one hand it may be that more financially literate business owners are inherently more likely to succeed in growing their business while on the other hand, having a large business may simply necessitate greater financial literacy. Regardless, the link between the two is clear and crops up repeatedly in the study.

Executive Summary

Software Users

- In Canada, one-half (50%) of small business owners use accounting software. This proportion has not changed significantly since 2009. These software users are more likely to be financially literate and to have larger businesses (6-99 employees). In fact, the likelihood of a small business owner having accounting software increases dramatically when the size of his/her business exceeds five employees.
- On the whole, business owners who use accounting software are more satisfied with their financial reporting and analysis than those who do not have software.
- Accountant advice (most prominently for those with larger businesses) and personal experience with the brand are the main determinants for selecting their software.
- Only one-quarter currently use mobile technology for managing their finances. Among those who do, the most prominent use of this technology is to conduct online banking.

Executive Summary

Satisfaction and Overall Performance

- Overall two out of three small business owners report being satisfied with the current reporting and analysis of their financial data.
- Coming out of the economic downturn, just under one-half of small business owners are reporting stability in their business while one-in-five say that business has improved.

Financial Management

- Cost flow, cost management and invoicing are pointed to as the most important aspects of financial management. In particular, cost management is of the greatest concern to those with smaller businesses (one to five employees).
- In terms of reporting a single cost with the greatest impact on their business, there is no clear consensus among small business owners who cite such diverse categories as inventory, employee compensation, capital expenditures and travel.
- On the whole, small business owners tend to perform their own financial management tasks for their business. Not surprisingly, larger businesses are more likely than smaller businesses to have an employee perform these tasks. These tasks are most commonly inventory management and invoicing. When employees are engaged to perform these tasks, employers appear to equip them with accounting software. The tasks that tend to be outsourced to third party professionals the most are accounting and payroll (which are also a factor of business size).
- Small business owners spend on average 6.8 hours a week on their financial management. This average increases with the size of business. Those with accounting software also tend to spend more time on their financial management, though this may be a function of the fact that those with accounting software tend to be involved in larger businesses. When asked how much time they would like to spend in an ideal scenario, business owners state they would like to spend almost half the time they are spending now.

Executive Summary

Knowledge

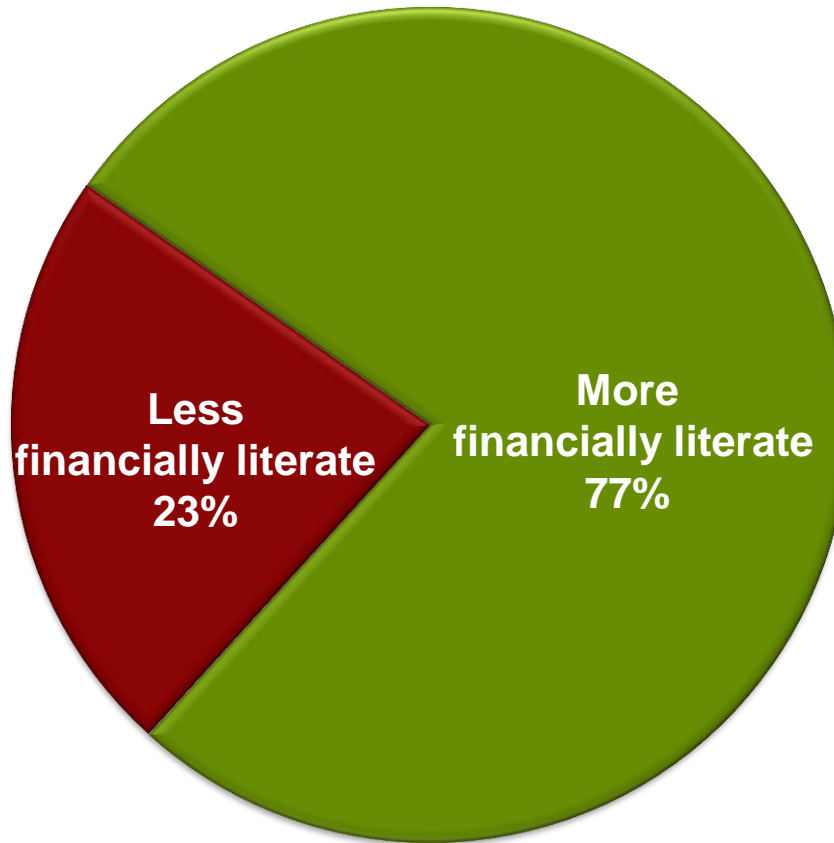
- When identifying areas of personal strengths and weaknesses, business owners identify dealing with taxes as their area of greatest weakness. Gaps in financial knowledge are highest in the areas of tax payments and EI/CPP compliance. Concurrent to this, they are also most likely to identify taxes as the area of greatest concern in terms of being compliant with government rules and regulations.
- Small business owners point to their relationships with clients, staff and suppliers as their greatest strengths. Three-in-five business owners claim to know everything they need to about invoicing and inventory management.
- A majority of business owners are self taught when it comes to financial management, but when they need advice they generally turn to an accountant or consultant. Those with larger businesses are more likely to do so. In order to stay current with changing regulations, small business owners turn most frequently to professional services and government websites as a resource.

Section A

Financial Literacy, Software Users and Recent Financial Performance

Financial Literacy:

- In this study, financial literacy is measured by an affirmative answer to the question ‘ Have you identified which cost has the biggest impact on your business?’. This measure will be referenced throughout this report.
- One-quarter (23%) of small business owners are considered to be ‘more financially literate’.
- Those who use accounting software are more likely to be more financially literate than those who do not (85% vs. 70%, respectively).



	Use accounting software	Don't use accounting software
More Financially Literate	85%	70%

Profile of Accounting Software Users

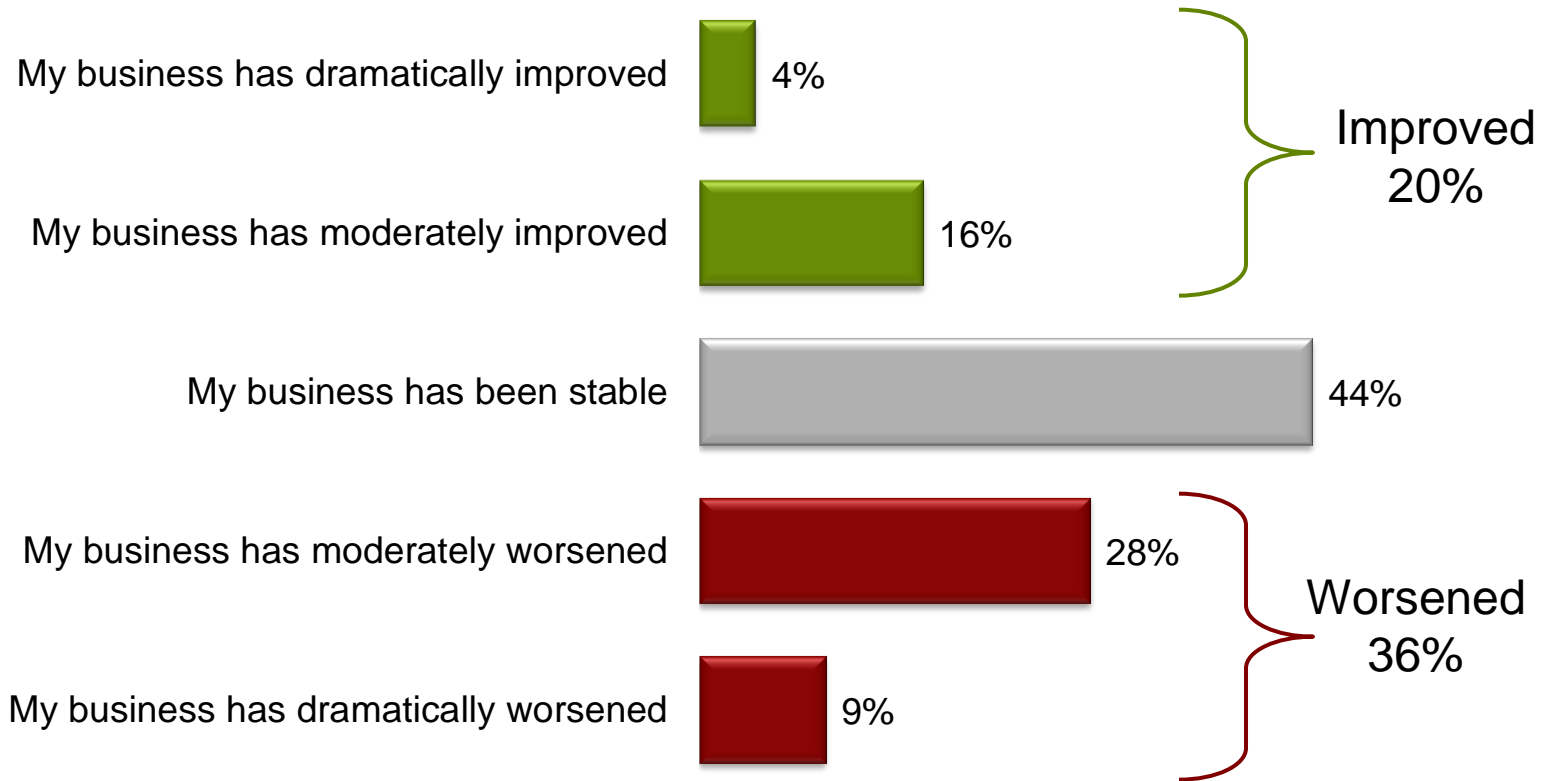
- Another frequent measure found in this study is that of accounting software usage. One-half (50%) of small business owners in Canada use accounting software.
- Software users are more likely to be more financially literate and to have larger businesses (6-99 employees). In fact, the likelihood of a small business owner having accounting software increases dramatically when the size of his business exceeds five employees.



	More financially literate	Less financially literate	Single employee	2 – 5 employees	6 – 99 employees
Use accounting software	54%	34%	36%	62%	93%

Financial Performance Since Economic Downturn

One-in-five (20%) small business owners report an improvement in their business' financial performance since the economic downturn. These proportions do not differ significantly by financial literacy, company size or the number of years in business.

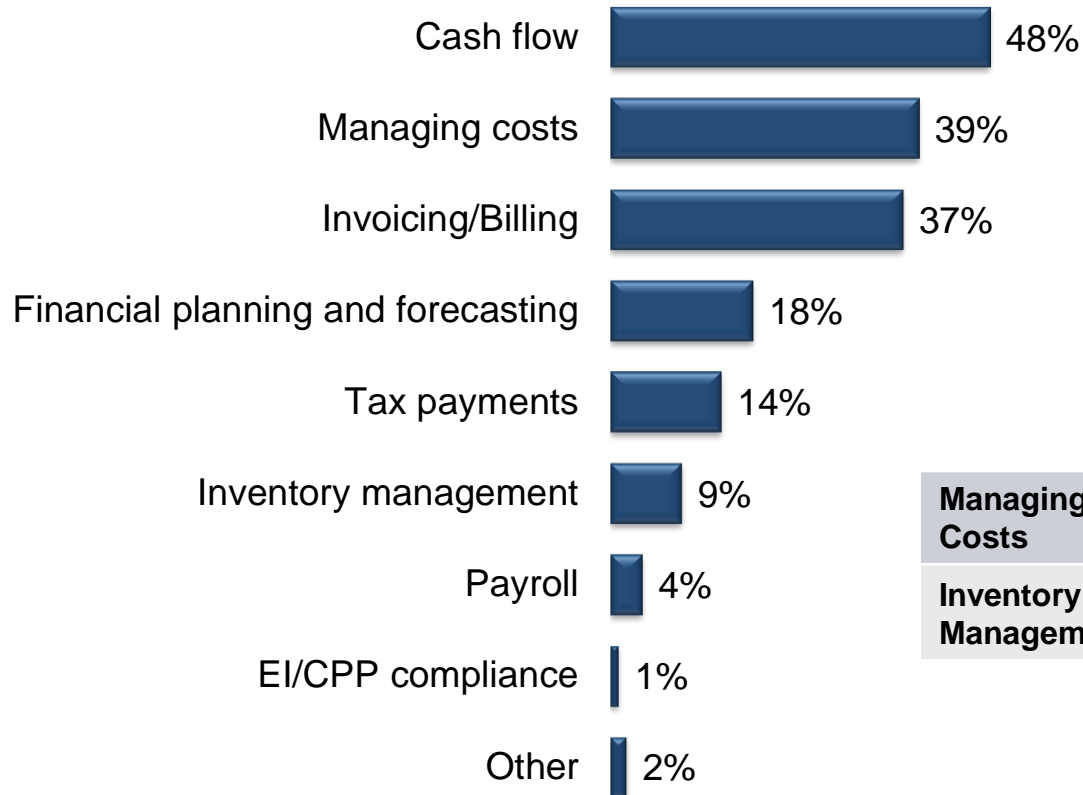


Section B

Financial Management: Important Tasks, Roles, Time Spent

Most Important Financial Management Tasks

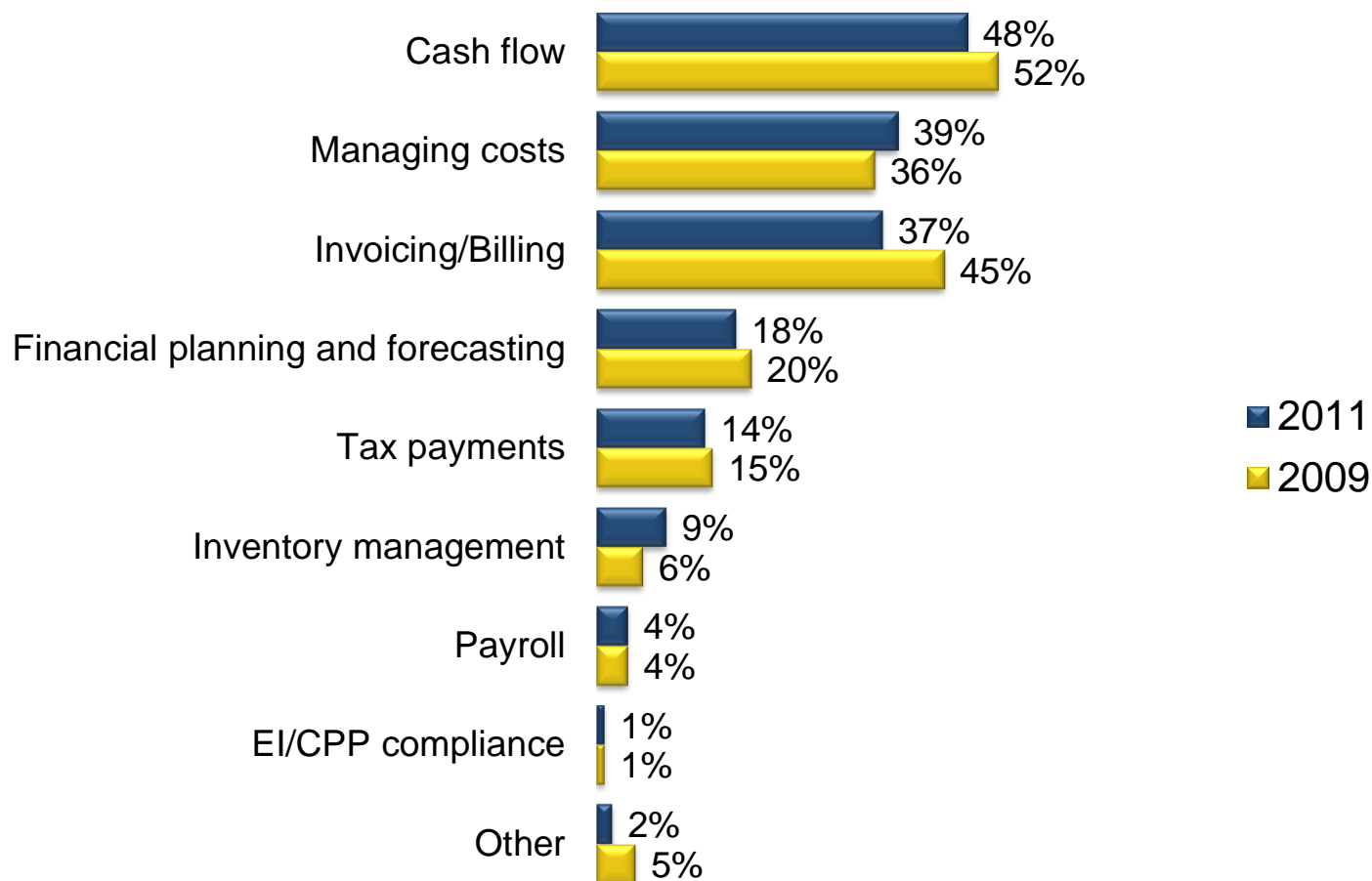
- When asked to list up to two aspects of financial management that are most important to their business, one-half (48%) of small business owners cite cash flow, 39% report managing costs and 37% report invoicing.
- Those with smaller businesses (1-5 employees) are more likely than businesses with those with larger businesses (6-99 employees) to point to managing costs (42% vs. 21%, respectively) as an important task. Conversely, those with larger businesses are more likely to report that inventory management is very important to their business' success.



	1-5 employees	6-99 employees
Managing Costs	42%	21%
Inventory Management	7%	21%

Most Important Financial Management Tasks - Over Time

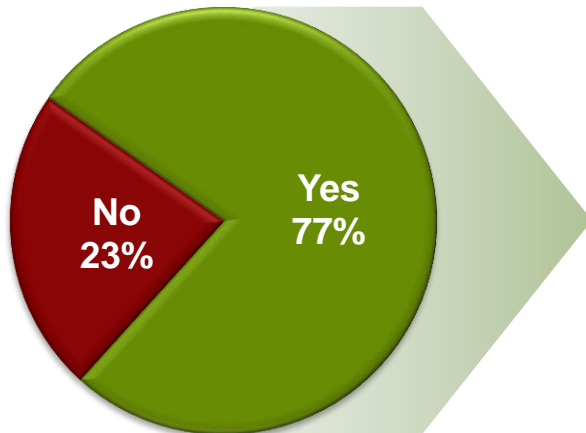
Since 2009, the proportion of small business owners who say that invoicing is one of the most important aspects to their business' success has decreased (45% in 2009 vs. 37% in 2011).



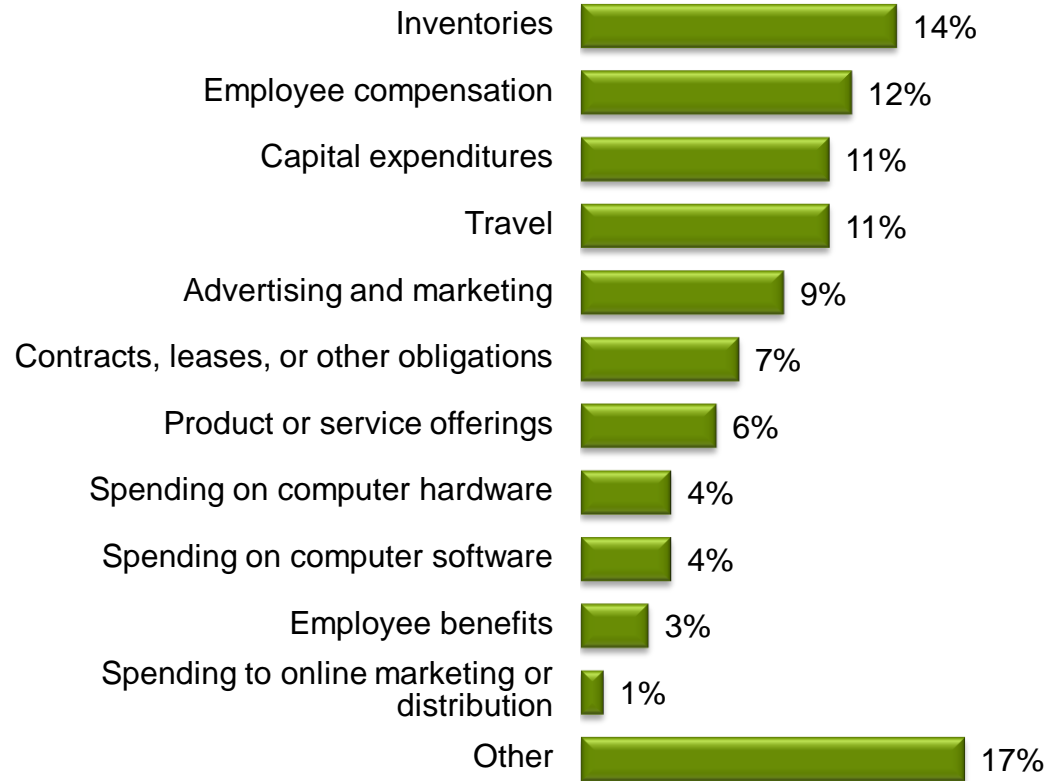
Financial Literacy: Identifying the Cost with Biggest Impact on Business

Responses about the cost with the biggest impact on their business range across several categories including inventories (14%), employee compensation (12%), capital expenditures (11%) and travel (11%).

Have Identified Cost With Biggest Impact



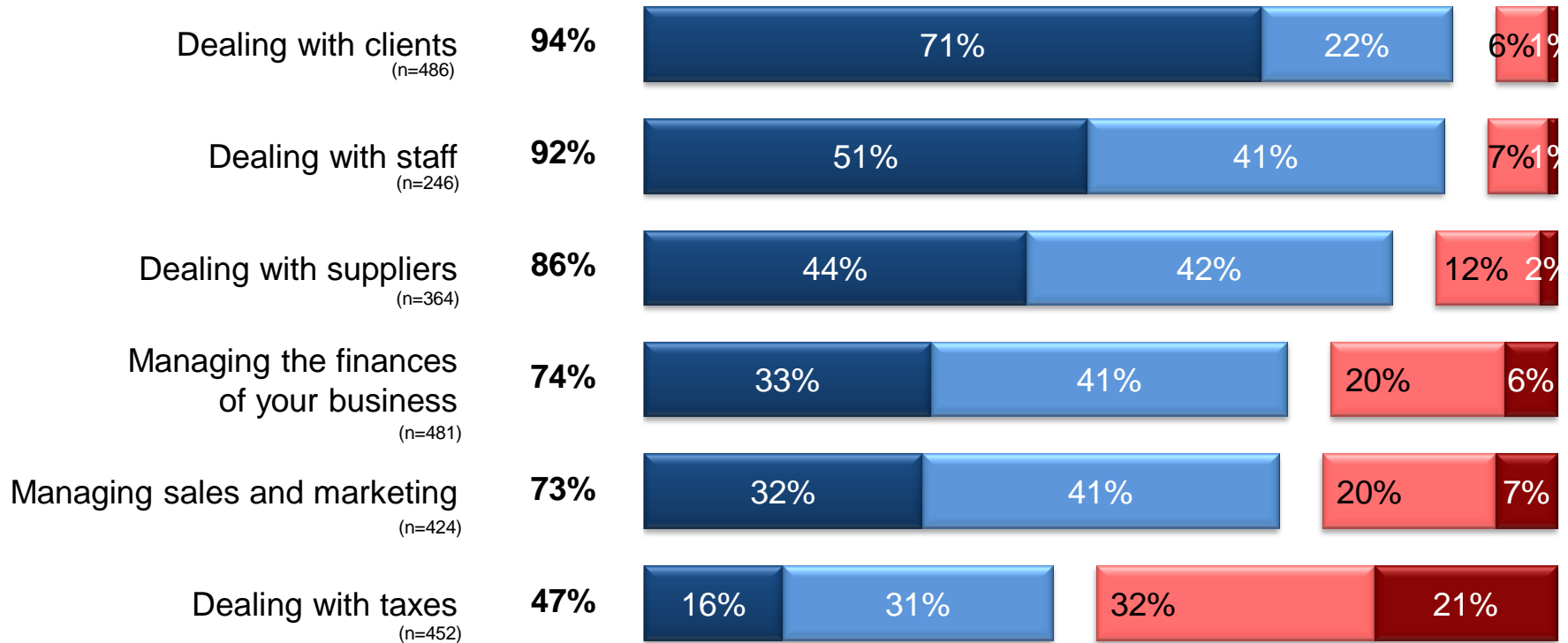
Which Cost



Small Business Activities: Strengths and Weaknesses

- Over one-half (53%) of small business owners cite dealing with taxes as an area of weakness.
- Additionally, one-quarter report managing sales and marketing (27%) and managing the finances of their business (26%) as weaknesses.
- Small business owners report dealing with staff, clients and suppliers as a personal business strength.

Strength
(major + minor)



■ Major strength

■ Minor strength

■ Minor weakness

■ Major weakness

Small Business Activities: Strengths and Weaknesses

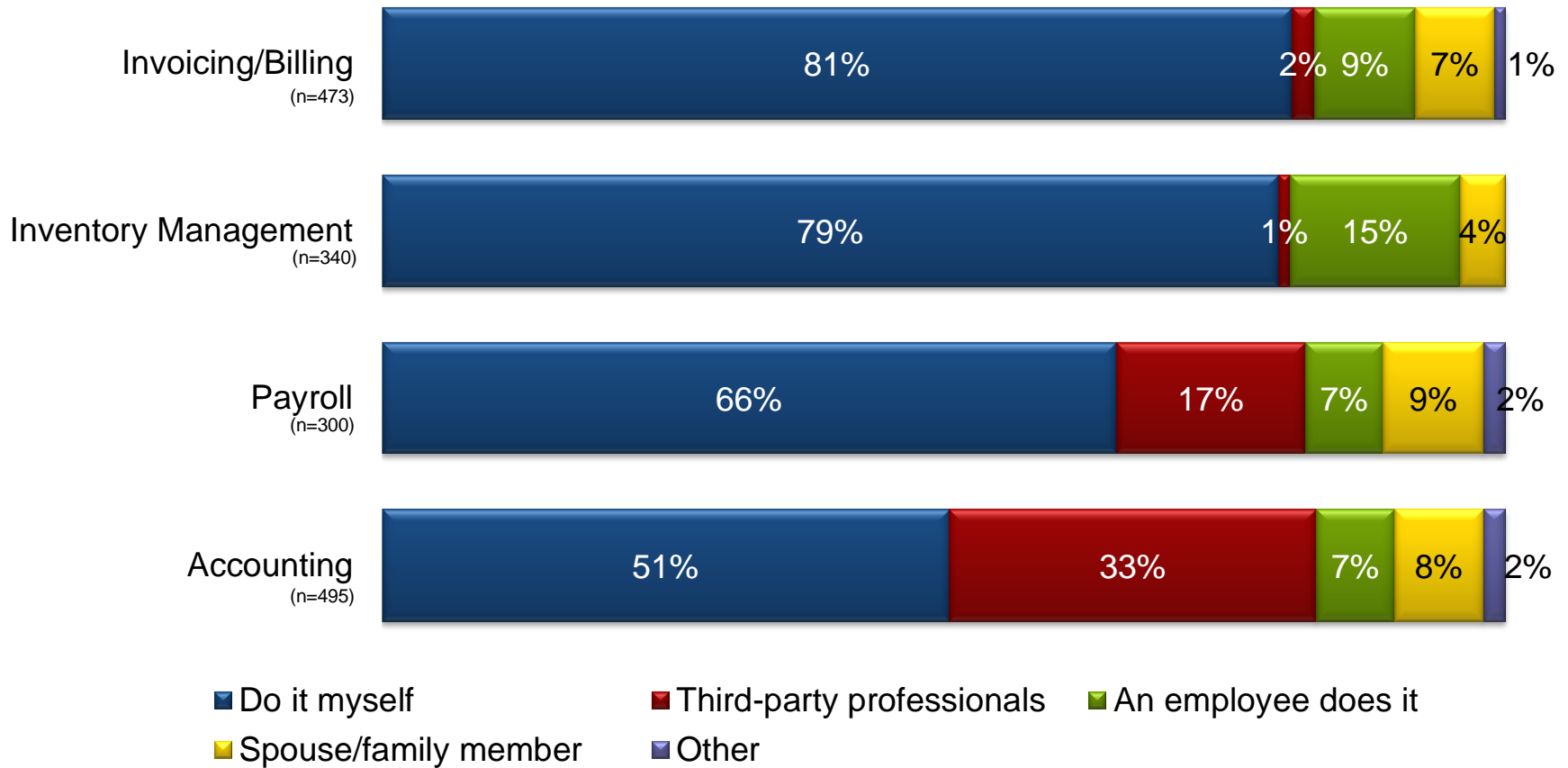
- While more financially literate small business owners are more likely than less literate small business owners to report that dealing with taxes is a strength, this activity is still rated poorly as an overall strength among all small business owners.
- Small business owners with larger business sizes (6-99 employees) and more financially literate owners are more likely to report that managing sales and marketing and their business' finances as a strength.

Strength (major + minor)

	TOTAL	1-5 employees	6-99 employees	More financially literate	Less financially literate
Dealing with clients (n=486)	94%	94%	92%	94%	91%
Dealing with staff (n=246)	92%	92%	92%	92%	94%
Dealing with suppliers (n=364)	86%	87%	79%	87%	84%
Managing the finances of your business (n=481)	74%	72%	91%	79%	57%
Managing sales & marketing (n=424)	73%	70%	91%	76%	60%
Dealing with taxes (n=452)	47%	49%	33%	50%	38%

Looking After Financial Management

- Accounting, followed by payroll, is the financial task which tends to be outsourced to a third party professional the most (33% and 17%, respectively).
- A majority of small business owners tend to perform financial management tasks themselves including invoicing (81%), inventory management (79%), payroll (66%) and accounting (51%).



Looking After Financial Management

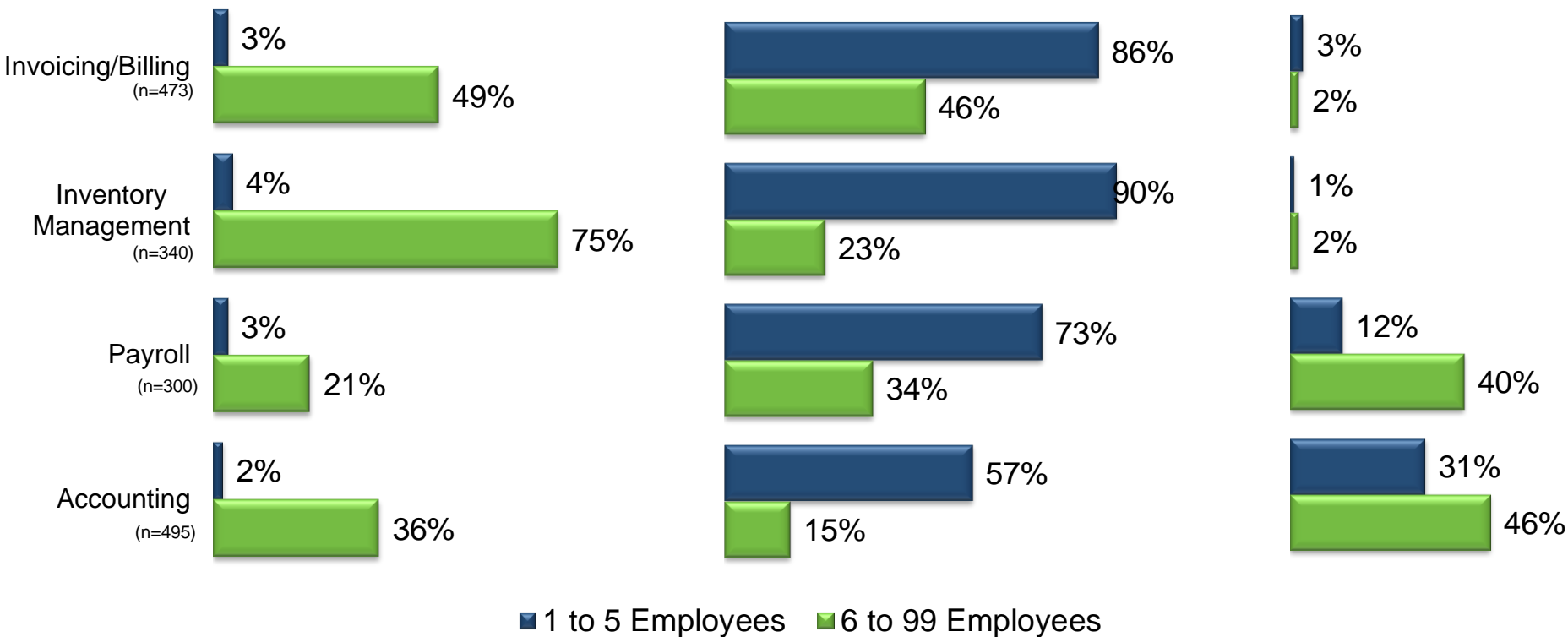
- Smaller vs. Larger Business Sizes

As the size of the business grows, so does the propensity to have a financial management task be performed by an employee (as opposed to performed by the small business owner). Additionally, the propensity to turn to a third party professional for payroll or accounting tasks increases with the size of a business.

Employee Does it

Do it myself

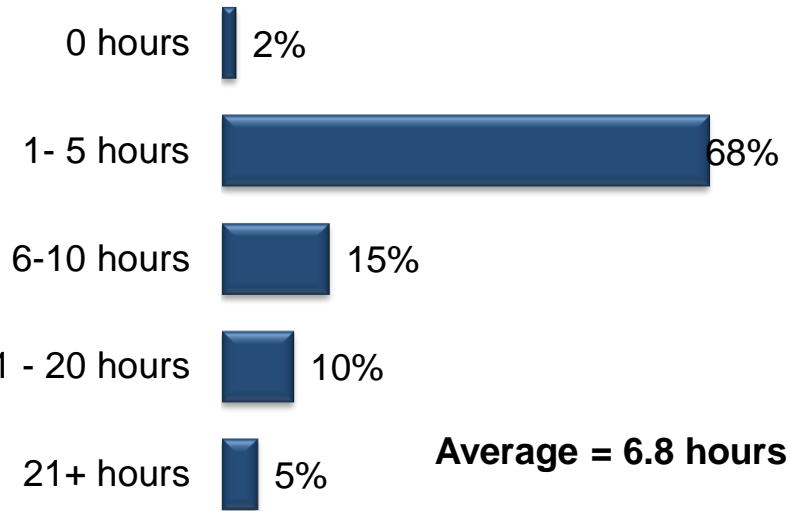
Third Party Professional



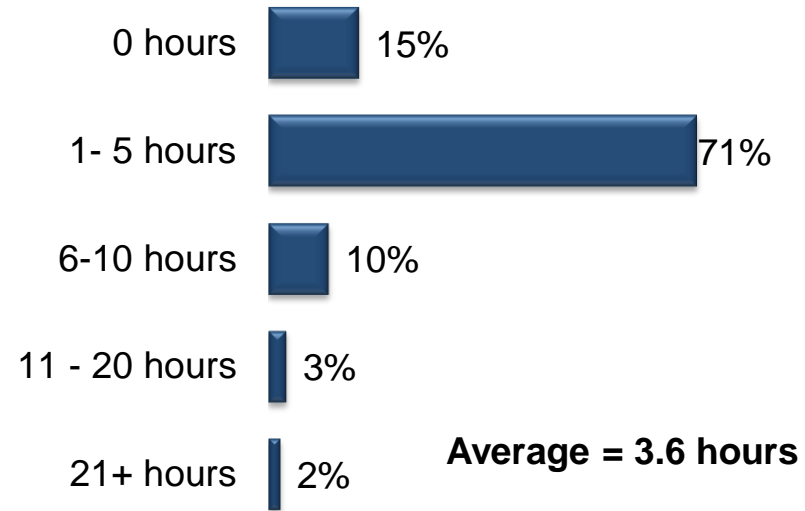
Number of Hours Spent Managing Business' Finances

- Two- in-three (68%) small business owners spend one to five hours in a given week managing their business' finances.
- The number of hours spent in a given week is higher among those with larger businesses (6-99 employees), the more financially literate and those who use accounting software.
- When asked how much time they would like to spend on their business' finances in an ideal world, 15% said they would like to spend no time at all.

Time spent per week



Time ideally spent per week



	1-5 employees	6-99 employees
Time spent (avg.)	6.4	9.3

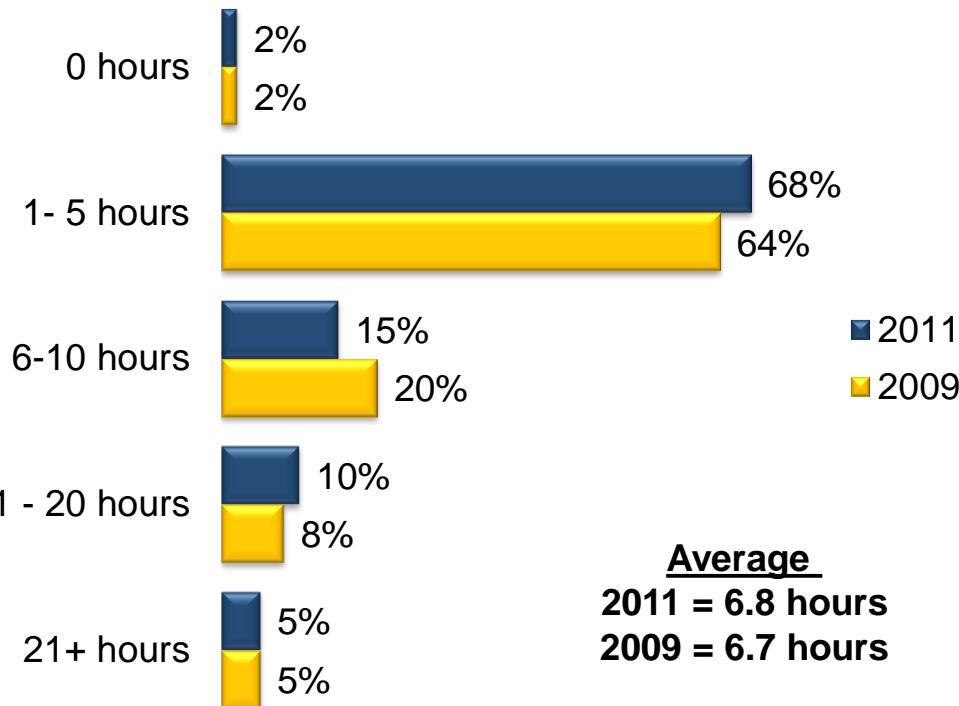
	More financially literate	Less financially literate
Time spent (avg.)	7.3	5.1

	Use accounting software	Don't use accounting software
Time spent (avg.)	7.9	5.7

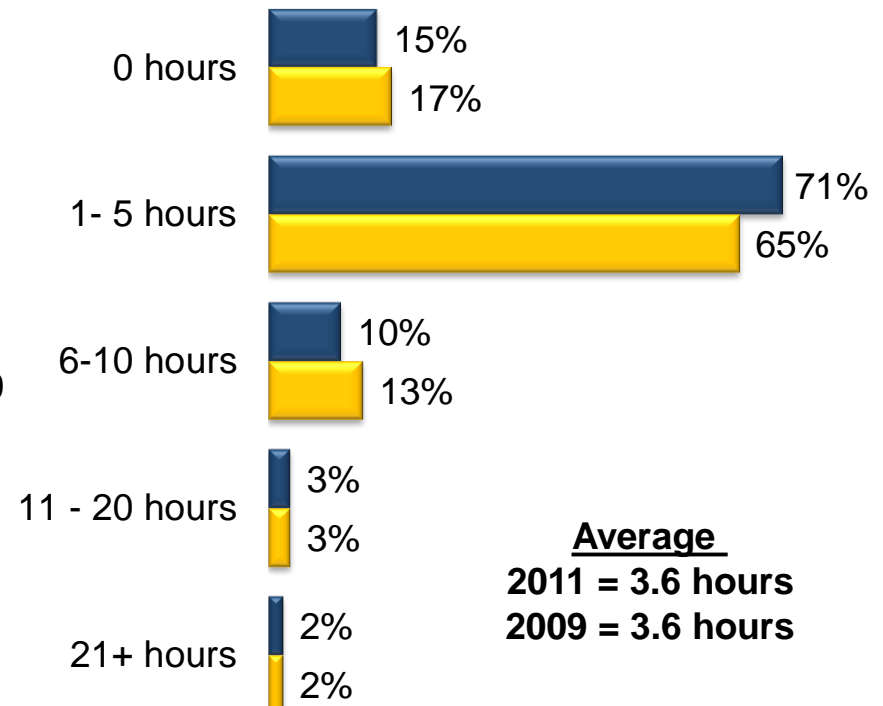
Number of Hours Spent Managing Business' Finances - Over Time

Since 2009, few changes are reported in terms of the number of actual hours spent on managing business finances or the ideal number of hours that a small business owner would like to spend.

Time spent per week



Time ideally spent per week

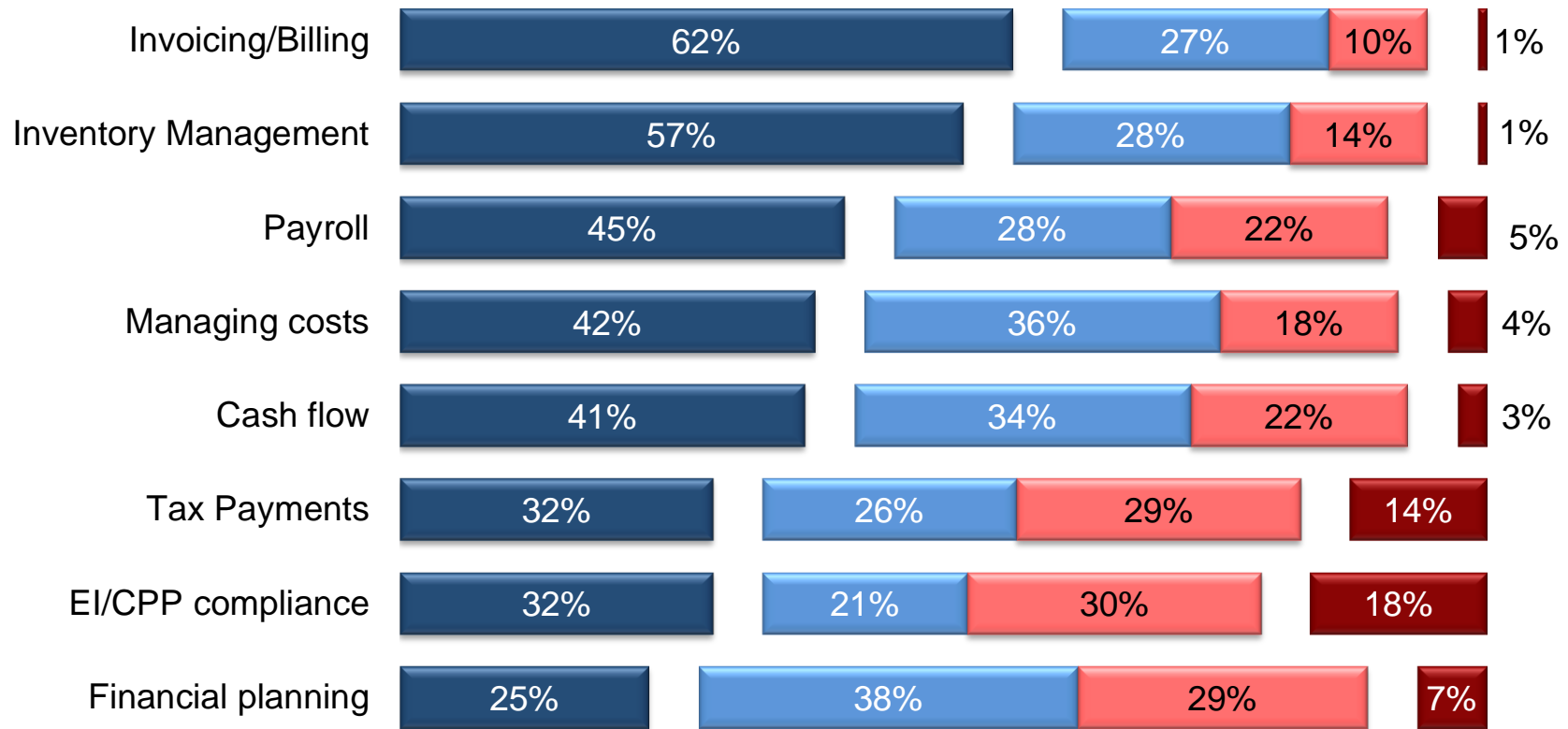


Section C

Financial Management Knowledge

Knowledge Levels Among Small Business Owners

Small business owners are most likely to cite EI/ CPP compliance (18%) and tax payments (14%) as the financial management areas they know the least about.



■ Know everything I need to know
 ■ Know a lot, but there are gaps
■ Know enough to get by, but need to know more
 ■ Don't know enough to get by

Knowledge Levels Among Small Business Owners

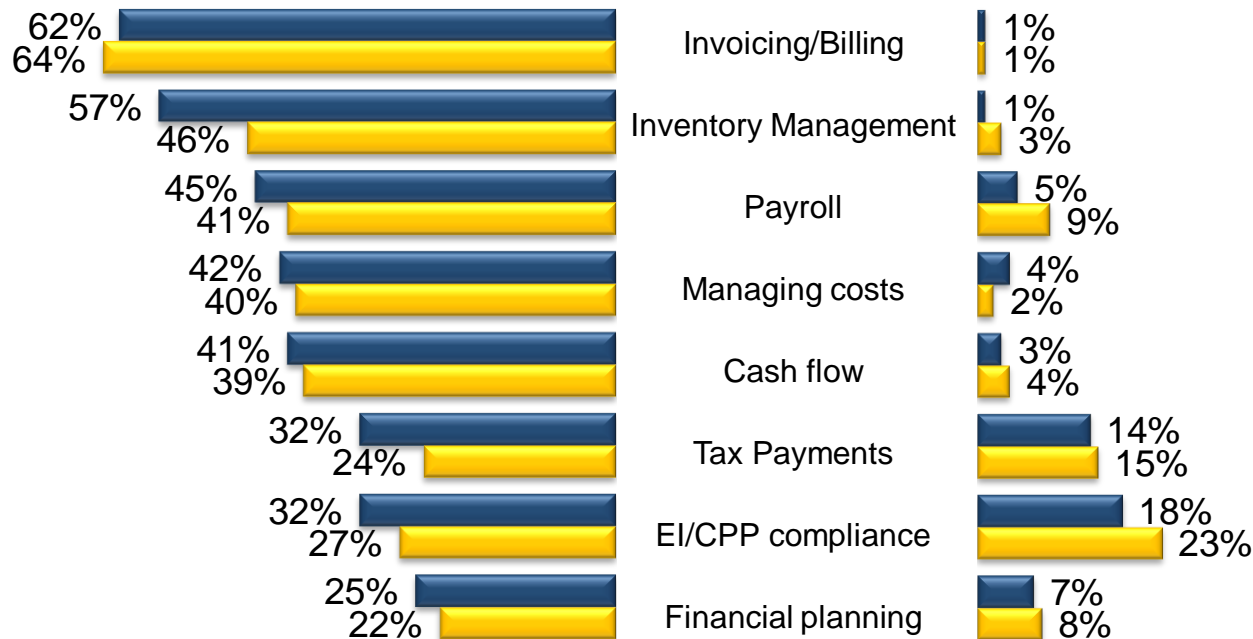
-Over Time

- In comparison to 2009, small business owners are more likely to state that they know everything they need to know about inventory management and tax payments.
- The increase in knowledge of inventory management is primarily exhibited by those with larger businesses. These larger businesses are also more likely to have an employee complete this task.
- Conversely, the increased knowledge of tax payments can be attributed to owners of smaller sized businesses. One possible explanation for this increase in knowledge may be the simplification of tax payments due to the harmonization of sales tax via the HST in British Columbia and Ontario.

I know everything I need to know

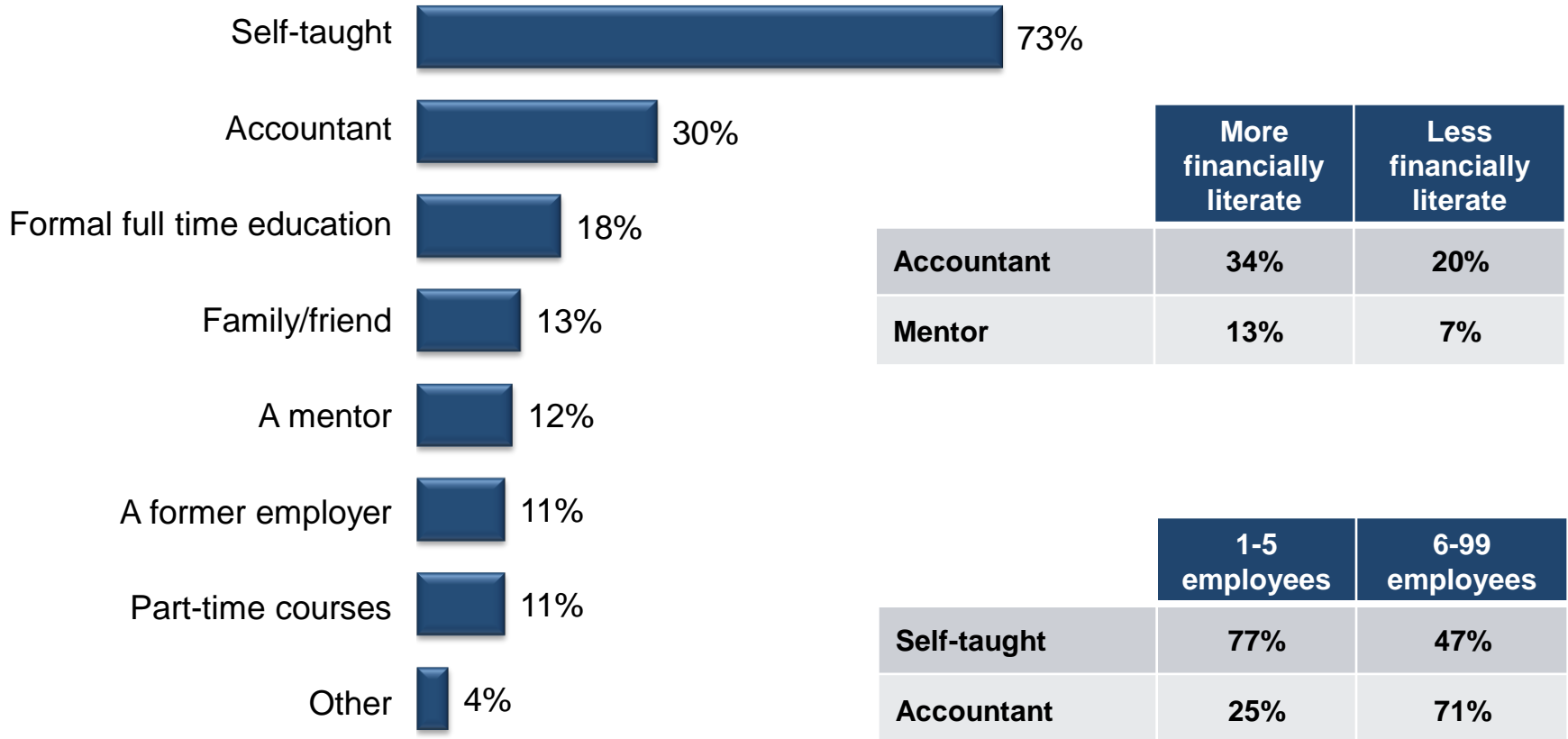
■ 2011 ■ 2009

I don't know enough to get by



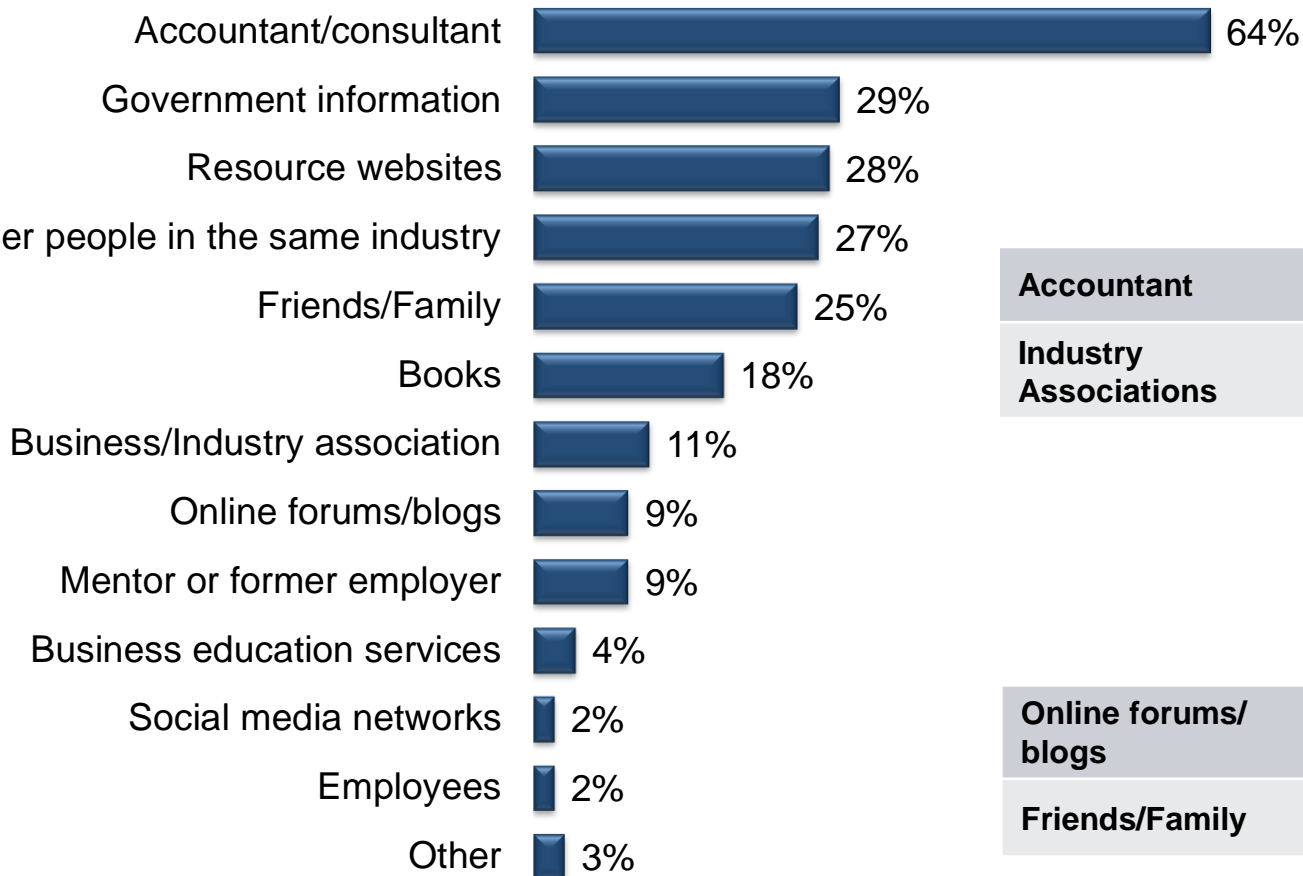
Where Small Business Owners Learn Financial Management

- Three-in-four (73%) small business owners taught themselves how to manage the finances of their business.
- Those with smaller businesses are more likely to be self-taught than those with larger businesses (77% vs. 47%, respectively), while those with larger businesses are more likely to have learned their financial managements skills from an accountant (71% vs. 25%, respectively).



Where Small Business Owners Turn to for Advice

- Two-in-three (64%) small business owners turn to their accountant for advice on managing their business' finances.
- Those with larger companies are more likely to turn to accountants and industry associations as a resource.
- Less financially literate small business owners are more likely to rely on online forums/blogs or friends and family.



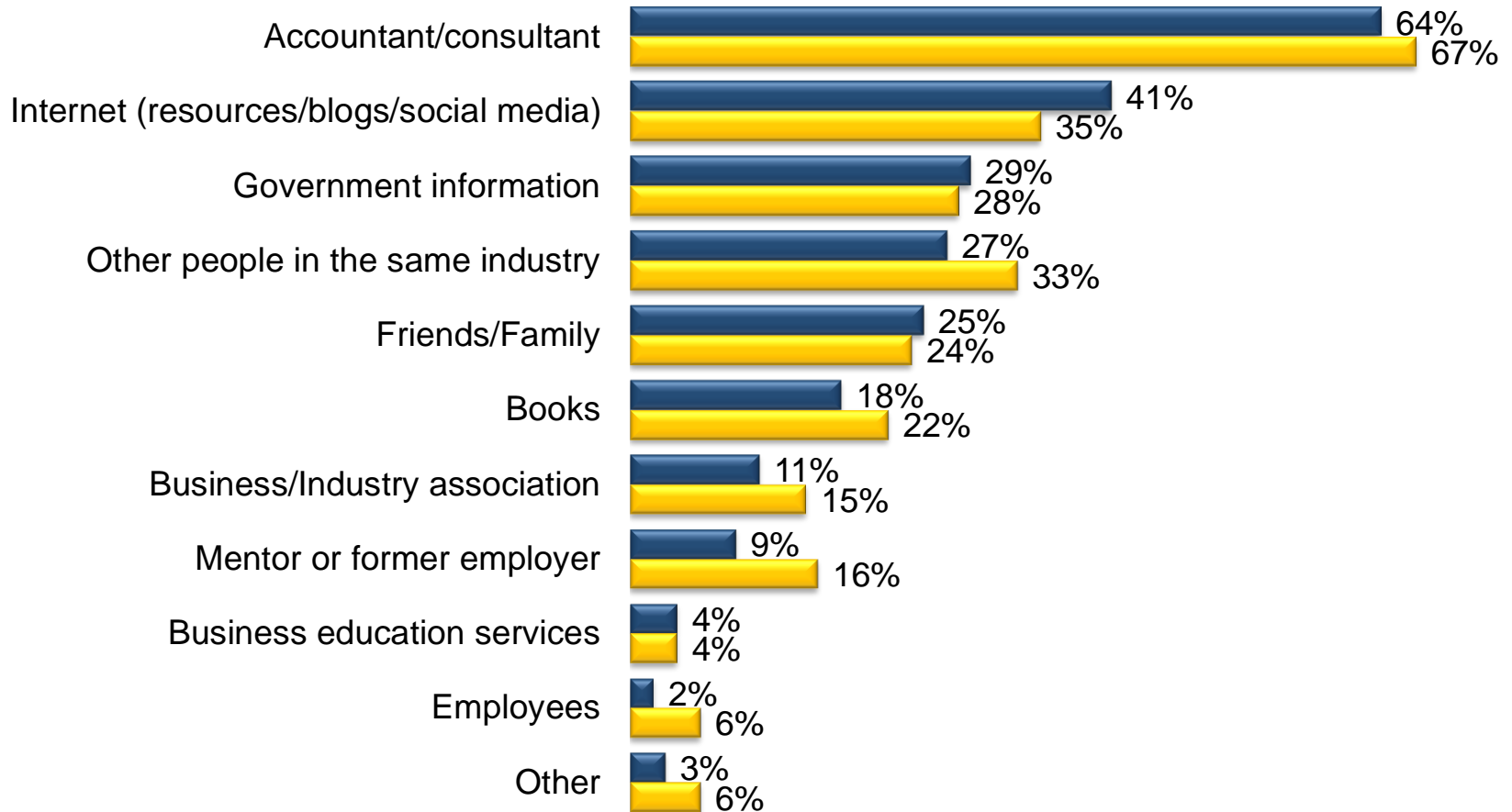
	1-5 employees	6-99 employees
Accountant	60%	89%
Industry Associations	9%	24%

	More financially literate	Less financially literate
Online forums/blogs	8%	15%
Friends/Family	23%	32%

Where Small Business Owners Turn to for Advice

- Over Time

Since 2009, small business owners are less likely to consult others in the same industry or former employers but are more likely to consult online resources, blogs or social media for advice on their business' finances .

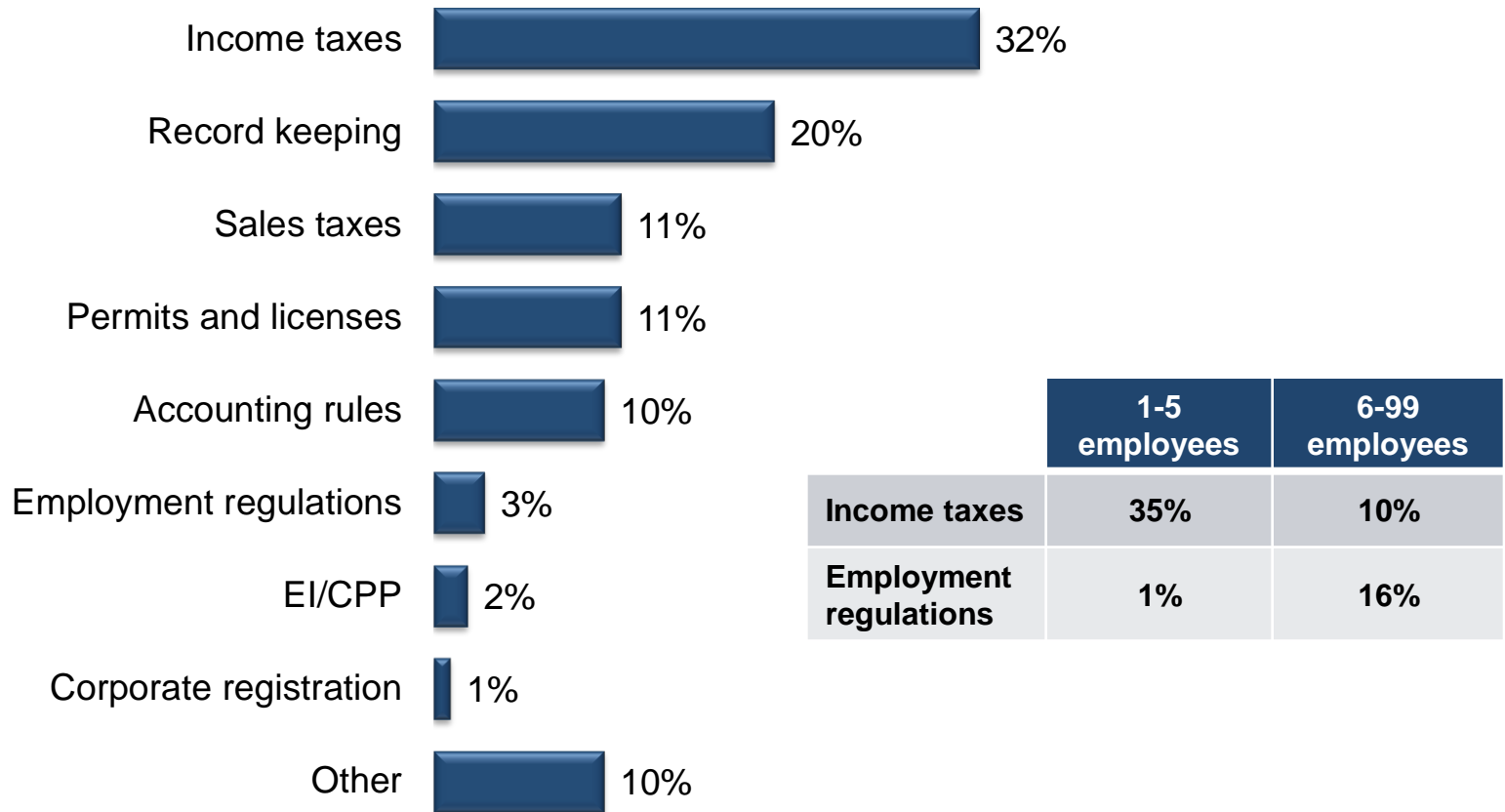


Section D

Compliance with Government Rules & Regulations

Regulation Compliance of Highest Concern

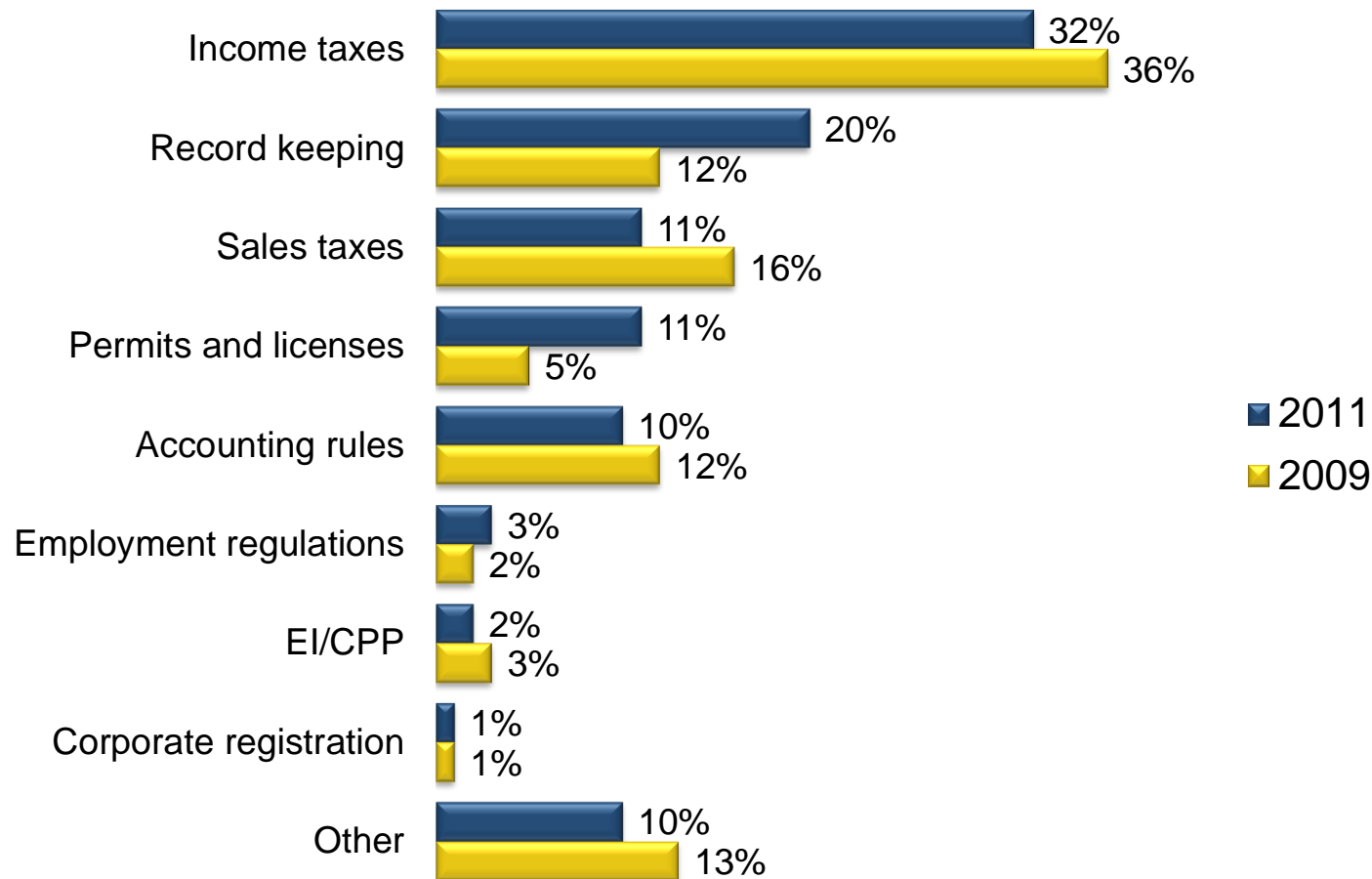
- As reported earlier,* small business owners report that dealing with taxes is their area of greatest weakness. Concurrent to this income taxes are highlighted as the area of compliance that they are most concerned about (32%).
- The second highest area of concern reported by small business owners is compliance with record keeping (20%).
- Those with smaller business are more concerned than larger businesses with income tax compliance (35% vs. 10%, respectively).



* Slide 14

Regulation Compliance of Highest Concern -Over Time

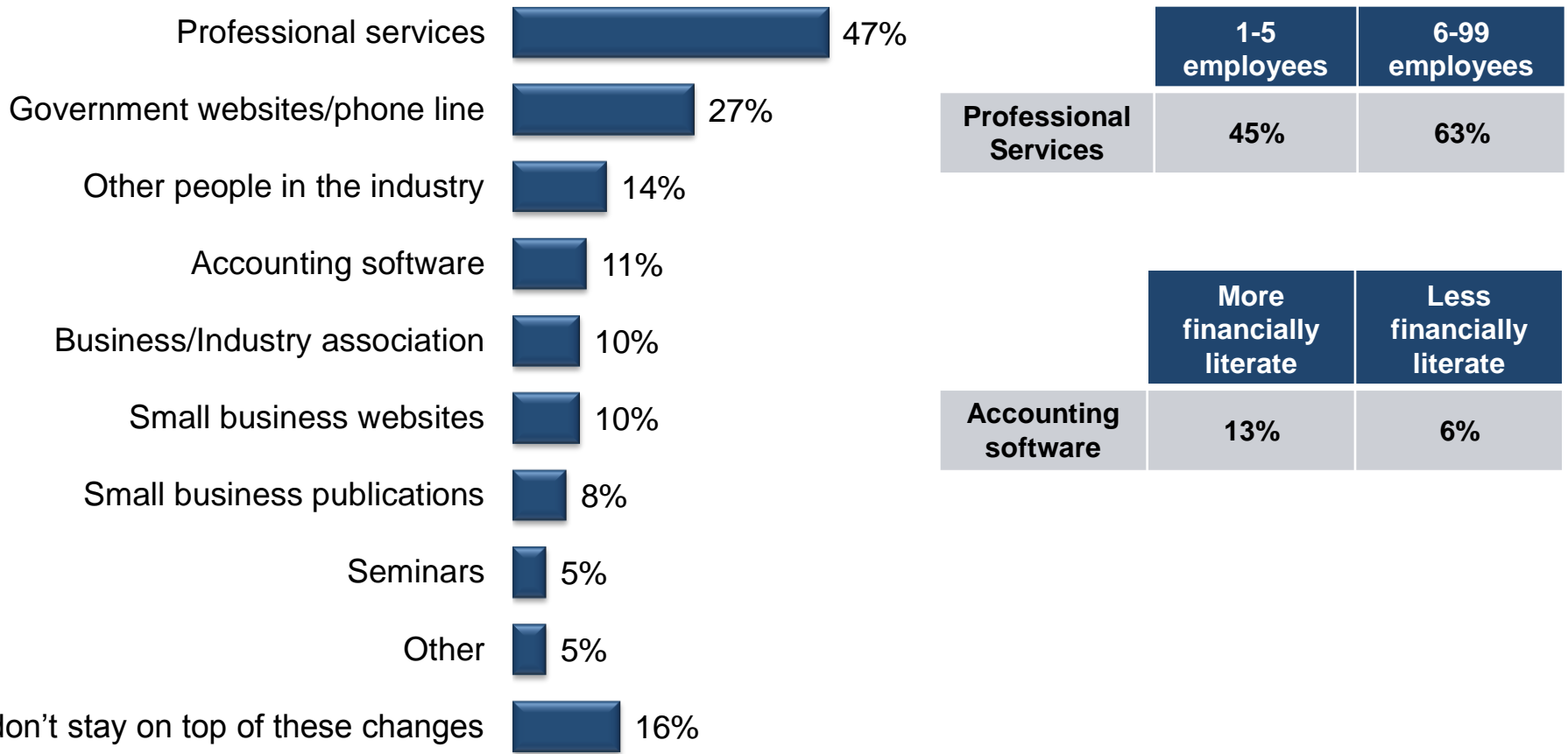
Since 2009, small business owners have become more concerned with conforming with rules and regulations associated with record keeping and permits/licenses, but less concerned with sales tax compliance. This decrease in concern over sales tax compliance corresponds to an increase over this same time period in knowledge pertaining to taxes.*



* Slide 23

Staying Informed about Rules and Regulations

- One-half (47%) of small business owners utilize professional services to stay on top of updated rules and regulations while one-in-four (27%) use government websites or phone lines.
- More financially literate small business owners are more likely to use accounting software to stay on stop of updated rules and regulations while those with larger businesses (6-99 employees) are more likely to consult with professional services.

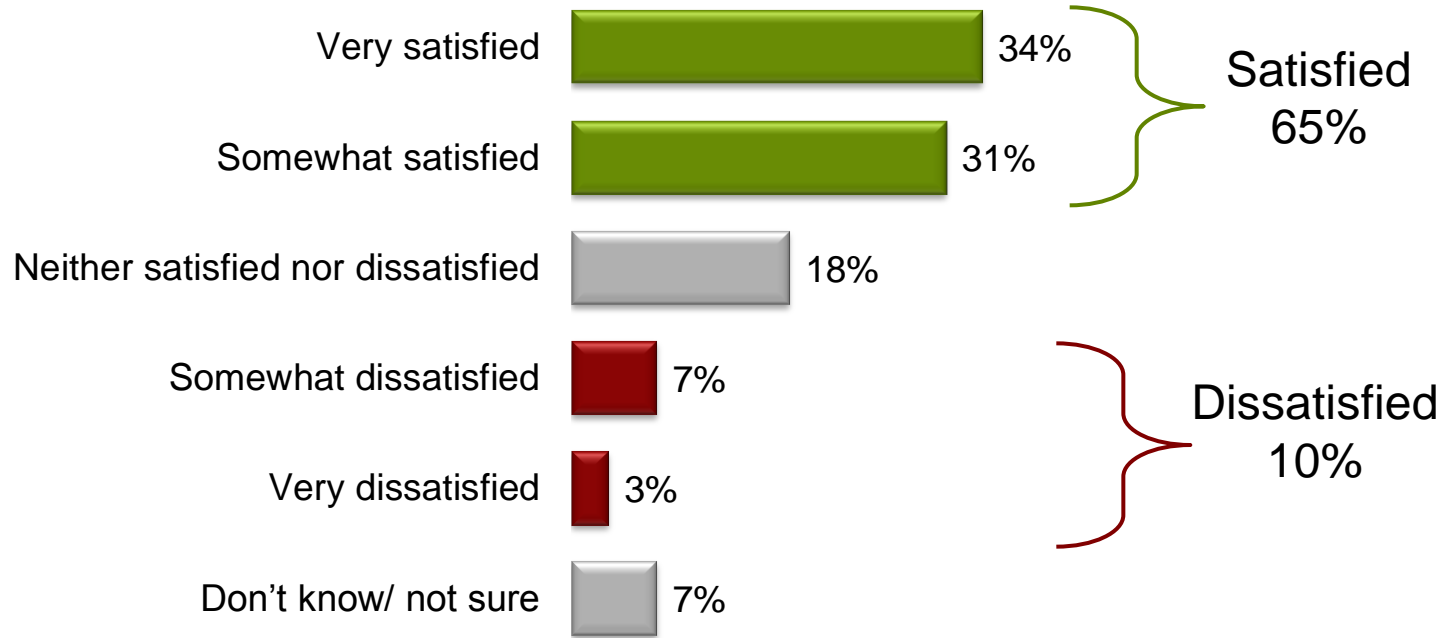


Section E

Reporting of Financial Data and Software Usage

Satisfaction with Reporting/Analysis of Financial Data

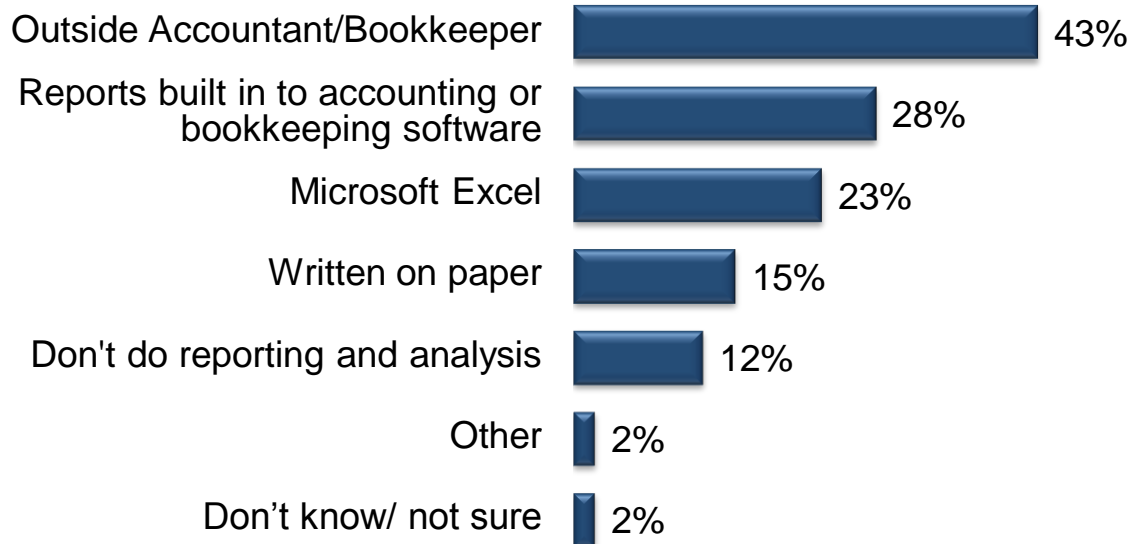
- Two-in-three (65%) small business owners are satisfied with the way their business handles reporting and analysis of financial data.
- Satisfaction is higher among those who are more financially literate (70%) and among those who use accounting software (72%).



	More financially literate	Less financially literate	Use accounting software	Don't use accounting software
Satisfied	70%	49%	72%	59%

Methods of Handling Reporting and Analysis

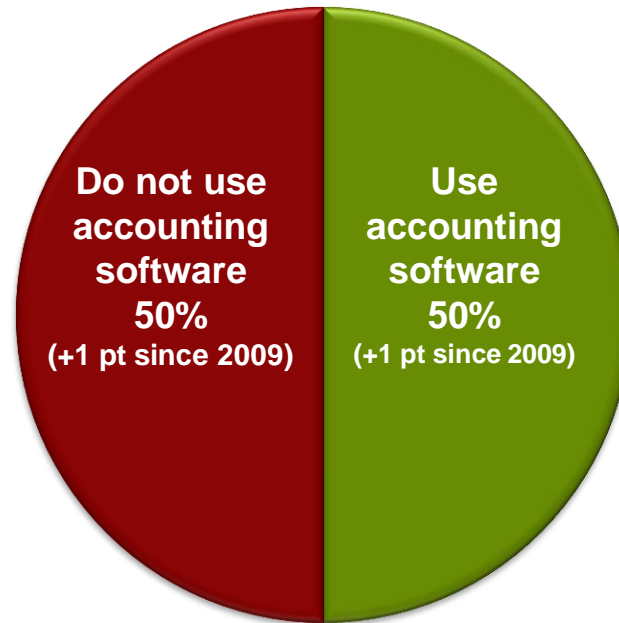
- Small business owners are most likely to use an outside accountant or bookkeeper to handle the reporting of their financial data (43%).
- Not surprisingly, those who are less financially literate are more likely than those who are more financially literate to not perform any reporting or analysis (17% vs. 4%, respectively).
- Sole proprietorships are more likely than those with multiple employees to not perform any reporting and analysis (17% vs. 4%, respectively).



	More financially literate	Less financially literate	Single employee	2 – 99 employees
Don't do reporting and analysis	10%	19%	17%	4%

Accounting Software Usage

One-half (50%) of small business owners use accounting software. This proportion remains consistent with that seen in 2009. The propensity to use accounting software for financial management increases as the size of the business increases.



	More financially literate	Less financially literate	Single employee	2 – 5 employees	6 – 99 employees
Use accounting software	54%	34%	36%	62%	93%

Resources Used to Help Choose Accounting Software

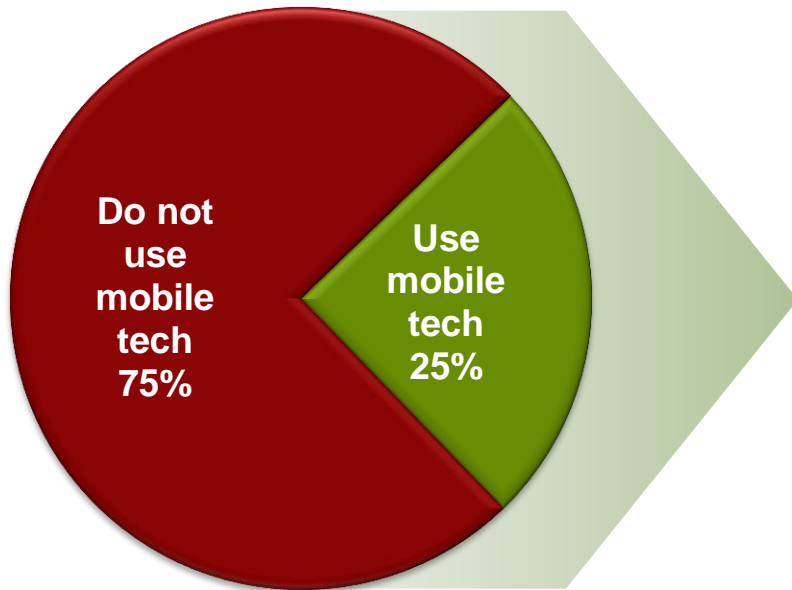
- Among the 50 per cent who use accounting software, two-in-five (42%) small business owners chose the software after consulting their accountant, one-in-five (23%) had previous experience with the brand and one-in-five (19%) consulted with a friend or professional acquaintance.
- Small business owners with larger businesses (6-99 employees) are more likely than those with smaller businesses (1-5 employees) to consult an accountant (64% vs. 36%, respectively). Conversely, those with smaller businesses are more likely than those with larger businesses to decide on their software based on previous experience with the brand (28% vs. 8%, respectively).



Use of Mobile Technology for Business-Related Activities

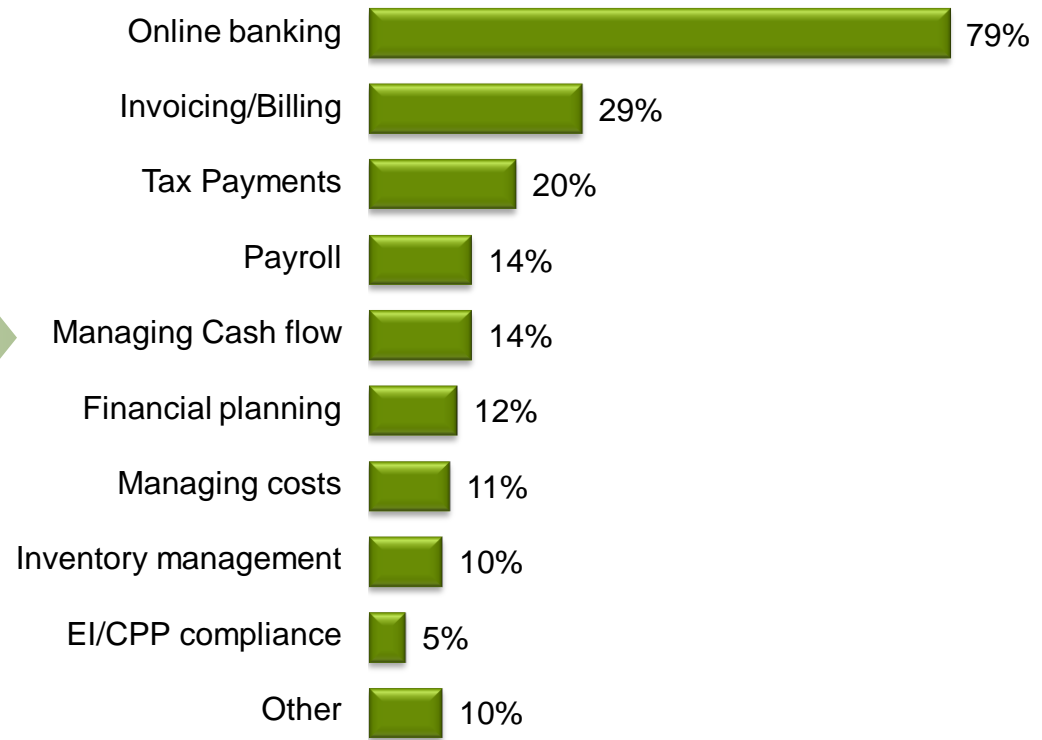
Among the 25 % of small business owners who use mobile technology to manage their business-related activities, the most prominent use of the technology is online banking (79%)

Mobile Technology Usage



Used for What?

(n=123)



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