

Cause and effect: SMEs and the era of rising costs



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The lending landscape in the UK has scarcely been less certain. So far, recession has been narrowly avoided, but growth remains stubbornly low, making life challenging for businesses of all sizes - not least, for SMEs.

What's more, there's no immediate sign of the pressure easing with recent inflation figures showing only a marginal slow down and interest rates still remaining at a high not seen since 2008. Our 2023 Global Business Monitor report reveals the challenges and opportunities SMEs are facing going into 2024, and paints a picture that brokers will be more than familiar with.

The lingering impacts of the pandemic together with soaring inflation, a cost-of-living crisis and shifting monetary policies make for a uniquely complicated landscape to navigate. Faced with a cocktail of economic uncertainty, borrowing and investment are becoming increasingly difficult to plan - particularly for small businesses operating on tight margins.

Our report highlights the key challenges facing SMEs today, and provides a steer for lenders and brokers alike, as to the kinds of strategies and solutions we should be looking to in the short term.

The current business landscape for UK SMEs paints a multifaceted picture, fraught with

challenges yet tinged with a resilient spirit of optimism. A striking 46% of UK SMEs believe that 2023 has been more punishing than during the pandemic, underscoring the gravity of their struggle. Furthermore, a significant portion (37%) feel that the global economy is fairing less well than it was in the immediate aftermath of the global financial crisis. This perspective sheds light on the depth of economic disturbances faced by SMEs in the present climate.

Managing bad debt in supply chains

A major knock-on impact of external economic pressure is bad debt. According to the Global Business Monitor, a quarter of UK SMEs have suffered bad debt in the last 12 months, and the average write-off is a hefty £21,000. Beyond that, small businesses can be left struggling to cope with invoices that are never honoured. For approximately a third of SMEs in the UK, this situation has been compounded by customers entering administration in the past year.

Naturally, brokers can help SMEs identify lenders who offer bad debt protection as part of their service. Invoice factoring also enables the business to outsource client payment collection to the lender which can improve processes and help manage cashflow.

Getting a handle on late payment

SMEs have long been plagued by the burden of not being able to rely on prompt payments. Over half of the UK's SMEs say their customers are taking longer to pay than a year ago and the average value of unpaid invoices is staggering, at over £68,000.

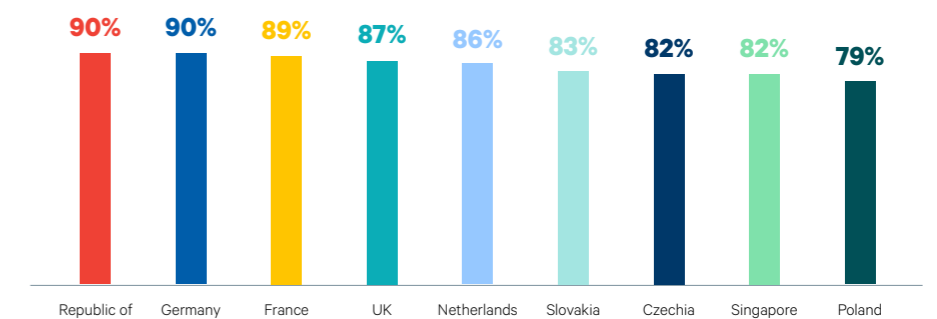
Again, we believe that invoice finance and the working capital it releases may be able to provide an immediate solution. At Bibby Financial Services we're committed to working hand in hand with brokers to ensure as many SMEs as possible are aware of, and have access to, this option.

Cashflow is still king

Cashflow will always be a key consideration for SMEs. Though 54% of small businesses in the UK claim to have a stable cashflow, one in three have insufficient funds to grow and circa one in ten can't operate effectively on a day-to-day basis.

Now more than ever, SMEs need help to understand the financial landscape and the funding sources available to them. Brokers will continue to have a critical role to play in providing guidance to SMEs through this year and beyond.

SME confidence in business prospects



A glimmer of hope

But even with so much uncertainty, recent growth forecasts offer a glimmer of hope for the mid- to long-term. Inflation is predicted to ease up in the second half of next year, and interest rates too are likely to either at least remain stable or potentially reduce at some point in 2025.

Despite economic conditions, 87% of UK SMEs remain confident and optimistic about their prospects, which is above average within the nine markets that participated in our Global Business Monitor.

It's clear to those of us with many years' experience working with SMEs - which so often demonstrate outstanding resilience and innovation through times like these - that much of the UK's predicted growth will come from them, provided they are properly supported by policy makers and industry partners alike.

For SMEs, the partnership between lender and broker will be critical. Brokers are uniquely placed to help SMEs in pairing them with the right funder for their needs. Whatever the coming months bring, we'll continue to support SMEs as we have done for the last 40 years - through the rough and the smooth.