SME Confidence Tracker

April 2023

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BIBBY FINANCIAL SERVICES

Foreword

2023 will put SMEs' resilience to the test

What a year it's been. In the last 12 months alone, we've had three Prime Ministers, four Chancellors of the Exchequer, and four Secretaries of State for Business.

Amidst this political upheaval, it's been a rocky ride for businesses as well. Costs have skyrocketed, foreign exchange rates have fluctuated, borrowing has become more expensive and harder to access, and government support has flip-flopped.

Undoubtedly, SMEs have been feeling the heat. As Covid-19 support was withdrawn, we saw many businesses that were being kept afloat by these loans and grants become insolvent. Indeed, according to data from the Insolvency Service agency, more companies suffered insolvency in 2022 in England and Wales than any time since 2009.

This trend isn't such a surprise, but what is worrying is that growth and ambition have also taken a hit. High inflation and the spiralling cost of business have led many SMEs to focus on survival rather than investing in growth. It's a stark warning for Britain's future competitiveness, productivity and innovation.

The good news? Our data shows that those SMEs still operating remain remarkably resilient. Over half (54%) of the businesses we surveyed say they expect sales to increase in the next six months. Promisingly, this is up from 49 percent in September 2022, demonstrating that businesses are rallying and coping despite the challenging environment.

It's evident that SMEs can't rely on government support. The Energy Bill Support Scheme was a lifeline for many businesses. However, this is being dialled down at the end of March, and there's little else on the table. This is reflected in our findings. Eight in ten SMEs don't think the Government is doing enough to help them and two thirds (67%) said they're not confident March's Spring budget will deliver the support they need.

Evidently, SME leaders will need to be self-sufficient. In 2023 they will have to focus on productivity and resilience - particularly as many have witnessed the failure of customers and suppliers in recent months.

With the cost of borrowing now rising at pace and access to traditional sources of finance becoming increasingly difficult to source, it's more important than ever that SMEs are aware of all the finance options available to them.

Survival and success will depend heavily on SMEs having the right knowledge and know-how to manage their finances effectively.

Only half of our respondents have heard of the Bank Referral Scheme, for example. If nothing else, the Government could play a key role in promoting awareness of useful initiatives, such as this.

This year will continue to be tough for many SMEs, and it will put their resilience to the test amid a cost of doing business crisis not seen for many years. SMEs that get a handle on cashflow, pull together collectively, and push for innovation and growth, will be best placed to come out the other side of 2023 in a position of strength.

Derek Ryan
UK Managing Director
Bibby Financial Services

Derek Ryan

Highlights from our research of UK SMEs

54%

expect sales to increase in the next six months

60%

say it's taking longer for customers to pay their invoices in full compared to a year ago

61%

increase in the amount businesses have written off in bad debt over the past year, compared to 2022, with the average bad debt amounting to £16,641

31%

have dipped into their company reserves to stay afloat

59%

say it's harder to secure a business loan now compared to pre-pandemic

47%

have seen one or more of their customers stop trading in the past six months

Squeezed at both ends

While we hoped the transition out of the pandemic would be plain sailing, the past year has brought even more uncertainties and challenges for UK SMEs. Over the last six months, just 39 percent of SMEs report an increase in sales. Representing this decline in SME fortunes, in September 2022, this figure was 43 percent, and it was 56 percent last Spring.

Recent reports suggest we may narrowly avoid recession in 2023. But costs and interest rates remain at record highs - dampening demand and tightening margins - so businesses are being squeezed at both ends. Meanwhile, supply chain constraints, labour and skills shortages, and Brexit related issues all continue to cause a headache for many.

What's keeping SME leaders up at night? Inflation (61%) and energy bills (52%) are firmly at the top of their list of concerns. So, it's unsurprising that cashflow (32%) and a lack of customer demand (32%) are also ranking high. And, many are worried about invoices taking longer to be paid (29%).

As a result of these challenges, our data also shows that this has had an impact on SMEs' growth and investment ambitions. Worryingly, one fifth of businesses (20%) surveyed don't plan to invest in the next six months.

Those that are investing are prioritising marketing and sales (36%), as well as staff training and development (31%), followed by the hiring of new staff (26%). This highlights that entrenched skills shortages mean businesses are having to focus more on retention and internal development in a market where ready-made skills and talent are hard to find. This is particularly the case for manufacturing and construction firms - each of which 36 percent said they plan to invest in staff training and development in the next six months.

It's clear that it's not an easy road ahead. Insolvencies have been on the rise since the Government's pandemic support was dialled down, and half of businesses have seen at least one supplier (49%) or customer (47%) folding. A quarter of businesses have experienced the insolvency of three or more customers, demonstrating not only the current climate's impact on supply chains, but also on income streams.

Customers are also delaying payment. Overall, 60 percent of respondents say it's taking longer for customers to pay their invoices in full compared to a year ago and on average, 18 percent of invoices raised over the past six months have been paid late. Those that are currently awaiting payments say they have an average total of £68,413 outstanding in unpaid invoices.

The obvious risk here is that late payments become unrecoverable, which in turn could pave the way for a swathe of business failures. Though the number of businesses suffering bad debt has not increased, the specific amounts being written off have risen sharply.

In Spring 2022, the average single bad debt was £10,329. Last Autumn it reached £11,712 and it now stands at £16,641 - an increase of 61 percent in a year.

Key challenges for SMEs today

General inflation	61%
The energy crisis/energy costs	52%
Supply chain disruption	32%
A lack of customer demand	32%
Cashflow	32%
Customers taking longer to pay	29%
Ongoing impact of Brexit	25%

Resilience and optimism

What's clear is that the UK's SMEs are incredibly resilient. Although sales have seen slower growth over the past six months, our data shows that businesses are more optimistic about the next six months than when we last spoke to them in Autumn 2022.

Over half (54%) expect sales to increase in the next six months, up from 49 percent in September 2022. However, this optimism is still far short of the 67 percent who expected growth a year ago. Longer term, over a fifth (22%) of SMEs say they plan to grow their business in the next 12 months.

This feeling of resilience shines through in their reflections on their profitability. Despite sales growth slowing, more businesses now consider themselves profitable (59%) compared to six months ago (53%).

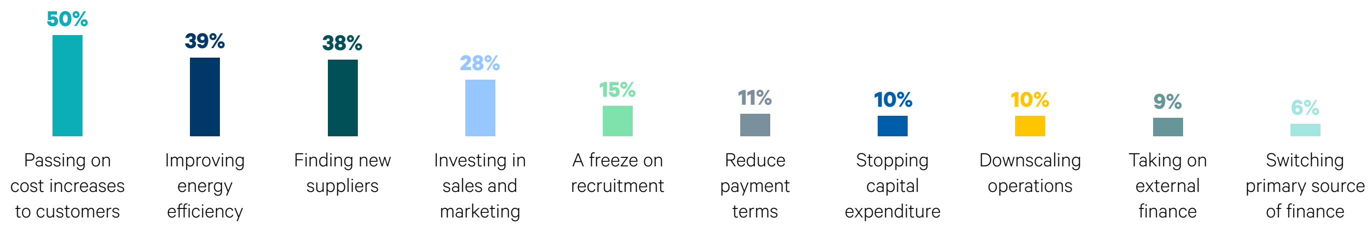
Asked about how they are coping with inflation, a quarter (24%) say they are prepared and are doing well, and just under half (46%) say that while they aren't as prepared as needed, they are doing okay. Just over one in ten (11%) say they are not prepared, and that inflation is impacting their business somewhat.

While most businesses are coping, for some, this may not be sustainable in the long run. Around a third (31%) have dipped into their company reserves to stay afloat, and almost one in ten (9%) have even taken loans from friends and family. It's clear that productivity, efficiency and resilience - and getting a grip on cashflow - will need to remain a priority in the coming months.

Indeed, our research shows that many SMEs are continuing to adapt the way they do business. As they continue to manage the difficulties caused by the rising cost of doing business, passing on costs increases to customers is the primary strategy being implemented. Half (50%) say they plan to increase prices, and this figure increases depending on geography. In the North West, for example, it rises to 71 percent, and in West Midlands it rises to 60 percent.

Nearly one in four (39%) businesses are looking to reduce their outgoings by improving their energy efficiency. A similar proportion (38%) are finding new suppliers for better deals.

How SMEs plan to deal with the Cost of Doing Business crisis



Opportunities overseas

International trade adds complexities to doing business, but it also brings great opportunities.

Businesses we surveyed that trade internationally reported greater growth over the past six months. Half (50%) of businesses that import and 48 percent of businesses that export saw an uplift in sales compared to only 32 percent of those that trade domestically.

Meanwhile, those that trade internationally also demonstrate greater ambition and optimism about their growth. Six in ten businesses that export (62%) and 57 percent of those that import expect sales to grow within the next six months, compared to 48 percent of those that only trade domestically.

Although, SMEs that trade overseas are facing clear challenges as well. Supply chain disruption has been an ongoing issue for businesses that import or export over the past few years, and 45 percent of importers and 44 percent of exporters still cite this as a key challenge for their business today.

The ongoing impact of Brexit is a particular trial for exporters, with 43 percent saying it's a key challenge, compared to 34 percent of importers and just 15 percent of SMEs that trade domestically. Naturally, currency volatility is also top of mind for businesses that are embracing overseas opportunities. This affects 17 percent of exporters and 15 percent of importers, compared to only 4 percent of those that trade domestically.

Working with overseas buyers can also increase the risk of customers falling foul of payment terms. Our data shows businesses that trade internationally are more likely to have suffered bad debt in the last 12 months. Unpaid invoices have impacted 40 percent of businesses importing and 33 percent of those exporting, versus 20 percent of those that only trade domestically. And these SMEs also report that it's taking longer for customers to pay them in full, 18 percent of businesses that import and 15 percent of those that export say this is the case, compared to 11 percent of businesses that only trade domestically.

Michael McGowan
Managing Director for Foreign Exchange, Bibby Financial Services

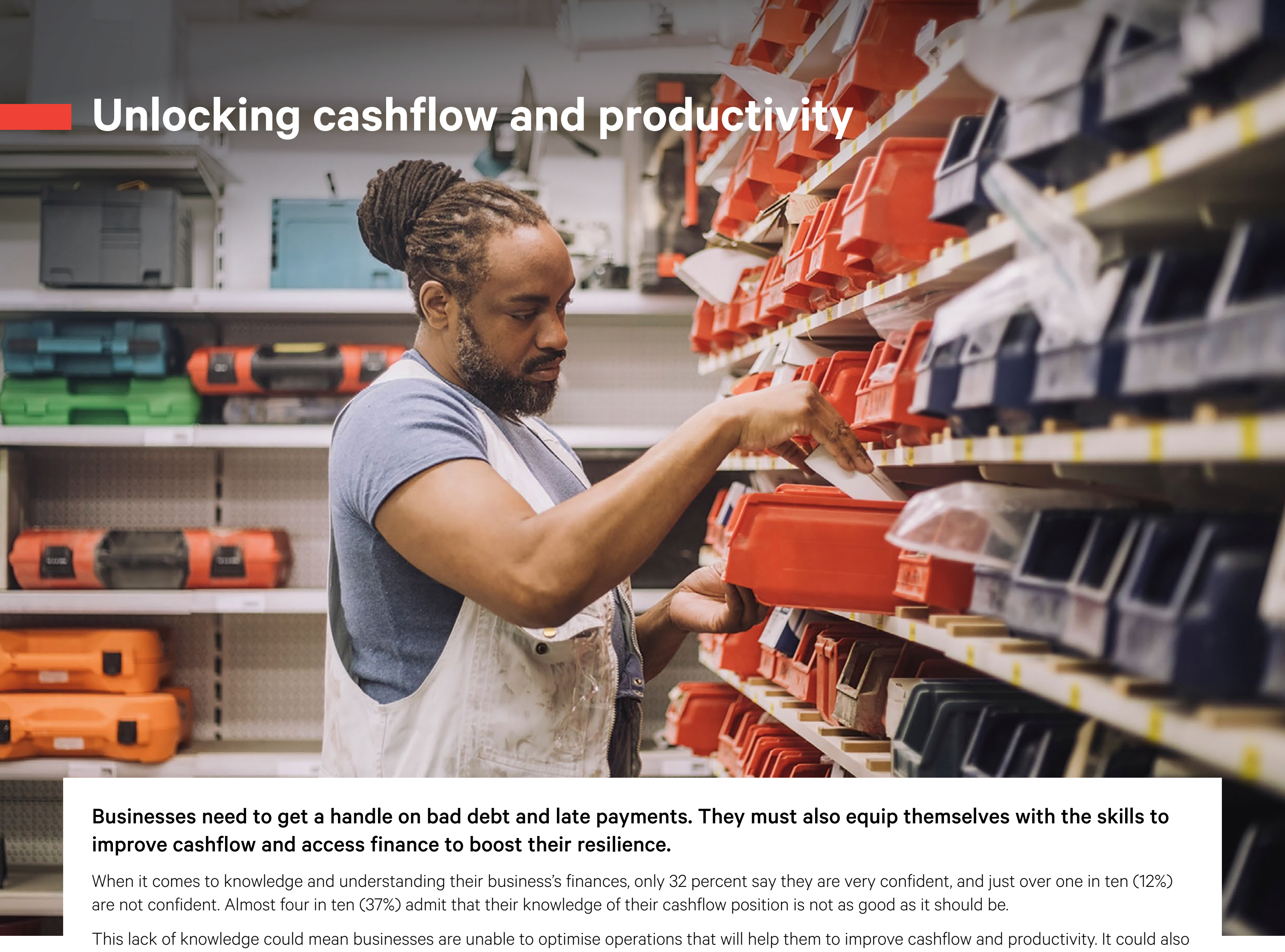
62% of exporters and **57%** of importers expect sales to increase in the next six months

59% of exporters and **59%** of importers say they're profitable

24% of exporters and **23%** of importers expect to grow in the next 12 months

17% of businesses that export and **15%** of businesses that import say currency volatility is a key challenge for their business today

Unlocking cashflow and productivity



Businesses need to get a handle on bad debt and late payments. They must also equip themselves with the skills to improve cashflow and access finance to boost their resilience.

When it comes to knowledge and understanding their business's finances, only 32 percent say they are very confident, and just over one in ten (12%) are not confident. Almost four in ten (37%) admit that their knowledge of their cashflow position is not as good as it should be.

This lack of knowledge could mean businesses are unable to optimise operations that will help them to improve cashflow and productivity. It could also hold them back from finding or securing funding solutions.

Indeed, looking at external finance alone, nearly a third (32%) of businesses say they are more likely to rely on external finance compared to a year ago, but 11 percent lack sufficient awareness of the finance options available to them.

And when it comes to accessing and paying off external finance, rising interest rates and the tougher economic climate have already been hitting businesses hard.

Almost three in five (59%) SMEs say it's harder to secure a business loan now compared to pre-pandemic, and 11 percent say they have struggled to secure finance for their business in the last six months. Meanwhile, nearly four in ten (39%) are worried they won't be able to pay off loans if interest rates go up further.

As traditional lenders tighten their belts, businesses need to understand what alternative finance schemes are open to them. The Banking Referral Scheme has been set up to help businesses access other finance options, however, disappointingly there is still relatively low awareness of the initiative. Nearly half (47%) of SMEs are aware of the Bank Referral Scheme, and just under a third (29%) understand what it does or had used it previously.

Tellingly, as they look for ways to survive and thrive in the current period of economic and political instability, SMEs are not confident in the Government's ability to support them. Over two thirds (67%) of respondents say they are not confident that the Spring budget will deliver the support their business needs, and four fifths (80%) believe government support for SMEs, in general, is insufficient.

59%

Three in five SMEs say it's harder to secure a business loan now compared to pre-pandemic

80%

Four fifths of SMEs don't think the government is providing enough support for SMEs

47%

Only half of respondents are aware of the Banking Referral Scheme

37%

Four in ten admit that their knowledge of their cashflow position is not as good as it should be

Untapped potential

Access to finance is critical to business success. However, despite having equal potential to their male counterparts, this is an area where women business owners are often left behind.

Data highlights a clear confidence gap, whereby women business owners are less confident in their knowledge of their business's finances or their cashflow position. But, crucially, this may not indicate that these businesses are actually worse off than the male-led businesses surveyed.

When asked about the current state of their cashflow, nearly half (49%) of female respondents report that their cashflow is stable and meets their needs, compared to two thirds (66%) of male respondents. Meanwhile, 43 percent of female business leaders say they don't have the cashflow they need to grow, compared to 29 percent of male business leaders.

And, when quizzed about their cashflow, more female respondents (42%) say knowledge of their cashflow position is not as good as it should be, compared with male respondents (33%).

This confidence gap is also seen in how women leaders feel about rising interest rates. Just under half (48%) of female business leaders are worried about not being able to pay back loans if interest rates rise further, compared to almost a third (32%) of their male counterparts.

But it goes beyond confidence. It's well known that women business owners find it harder to secure financing for their business and this plays through in the research findings. Five out of eight (62%) of female SME leaders say it's harder to secure a business loan now compared to pre-pandemic, compared to 57 percent of male business leaders.

Similarly, 67 percent of female respondents register a low awareness of the Bank Referral Scheme - which would help them to access alternative finance - compared with 41 percent of male respondents.

It's no surprise then that female business leaders are much less likely to feel supported by the government. Indeed, 72 percent are not confident that the Spring budget will deliver the support they need. This compares with 62 percent of male business leaders. More generally, 85 percent of female business leaders don't think the government is providing enough support for SMEs, versus 77 percent of their male peers.

Diversity, innovation and growth all go hand in hand. So, we should seize this opportunity to support women business leaders and do everything we can to make sure businesses of all shapes, sizes, and backgrounds are surviving, thriving, and driving the UK's economic recovery and growth story.

Sharon Wiltshire
UK Operations Director,
Bibby Financial Services

49%

of female respondents report that their cashflow is stable and meets their needs

Methodology

This study is based on a poll of 500 UK SME owners and decision makers across the manufacturing, construction, wholesale, transport and services sectors.

Research was conducted by independent specialists, Critical Research, between 31 January and 6 February 2023.

About Bibby Financial Services

Bibby Financial Services (BFS) is a leading independent financial services partner to over 8,500 businesses worldwide.

We provide specialist and adaptable trade, asset and working capital finance, FX and insurance services helping businesses to grow in domestic and international markets.

Formed in 1982, BFS is part of the Bibby Line Group (BLG), a diverse and forward- looking family business delivering personal, responsive and flexible customer solutions for over 200 years.

To find out more about Bibby Financial Services, visit:
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