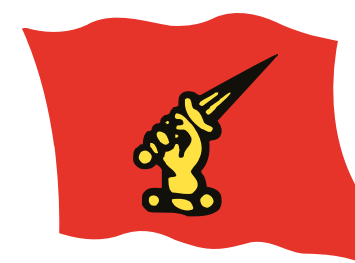


# SME Confidence Tracker

Spring 2025



**BIBBY**  
FINANCIAL SERVICES





# Small business investment holds up, despite the economic backdrop



**Derek Ryan**

UK Managing Director  
Bibby Financial Services



"The sentiment among small business leaders reflects the uneven economic backdrop. However, data points to a mood of cautious optimism."

**Last autumn, the Government had an opportunity to lay the foundations for its economic growth agenda, but the Chancellor, Rachel Reeves' inaugural Budget was a mixed bag.**

There were some promising initiatives, such as the pledge to deliver £100 billion of capital commitments over the next five years and unlocking £1.9 billion of targeted support for small businesses by freezing the small business rates multiplier (the number used to calculate rates for small business premises).

The most recent performance statistics for the UK economy were noteworthy because of the modest 0.1% growth achieved in the last quarter of 2024. Of course, expansion by any degree is welcome, but these results are hardly a resounding measure of success. What's more likely to be top of mind for most business leaders is the recent gloomy reassessment of GDP growth forecasts for this year. The Bank of England's stark downward revision from 1.5 percent to 0.75 percent is a clear indication that the road ahead could be considerably bumpier than expected.

Inflation remains volatile, too, with the current 3 percent rate still hovering stubbornly above target. According to the Bank of England, inflation will climb to 3.7 percent by the end of the year, driven

by higher global energy costs and regulated prices. Nevertheless, in February 2025, the Bank cut interest rates from 4.75 percent to 4.5 percent and signposted possible further reductions before the year is out. This should be a welcome boost for business, specifically raising hopes that pressure on borrowing costs will ease.

The sentiment among leaders of small and medium sized businesses seems to reflect the uneven economic backdrop. However, the data from our latest SME Confidence Tracker survey points to a mood of cautious optimism, albeit with considerable variations depending on the size of businesses.

For some, there is confidence in the potential for positive performance, as evidenced by the three in five (60%) respondents describing themselves as profitable, and the 66 percent who anticipate that their sales will grow over the next six months. But the cost of doing business and pressure on cashflow remain obstacles for many. One in four SMEs see high costs and inflation as the single greatest concern keeping them up at night; and worries over cashflow are particularly acute for businesses at the smaller end of the spectrum – 42 percent of which view it is a key concern.

Despite this environment, the majority of SMEs (87%) seem to be holding firm to their investment intentions, although only 15 percent of them will be doing so for expansion purposes. For smaller businesses, in particular, capital investment clearly needs to work as hard as possible. This could explain why 29 percent of companies with between one and nine employees plan to prioritise the replacement of equipment and tech.

We're on the cusp of the Chancellor's next big set-piece announcement. Arguably, what she says now will be even more critical than what she said back in the autumn. She has zero fiscal headroom and little space for manoeuvre in the face of unexpected economic shocks, but the UK's SMEs will be waiting eagerly to hear how she might adjust the direction of travel for the economy. Mostly, they'll be hoping she avoids extinguishing any of the faint green shoots that are currently visible by adding to the tax burden for businesses.



# Research highlights



**87%**

of SME decision makers  
plan to invest this year



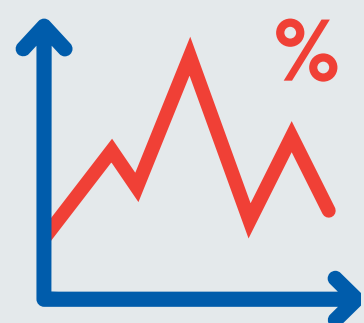
**66%**

expect their sales to increase  
in the next six months



**48%**

are deferring capital expenditure  
until after the Spring Statement



**63%**

say a lower interest rate  
environment would make them  
more confident to invest



**52%**

are less likely to invest in their  
business in the short-term due  
to increased employer National  
Insurance contributions





# SMEs remain resilient despite an uncertain future

**UK SMEs are continuing to show signs of growth and positivity, but ambitions are being hampered by external factors, including ongoing cost pressures and the impacts of legislation.**

Our latest research of 1,000 SME owners and decision makers conducted in Q1 2025 shows a mixed outlook for SMEs, reflective of the fluctuating industry predictions and economic data.

What is clear, is that 2025 will continue to present challenges for SMEs and the wider economy. The data suggests that while many SMEs are feeling resilient and positive, this is weighed against a high sense of caution. As a result, 2025 may see SMEs focus more on operational efficiency than aggressive growth.

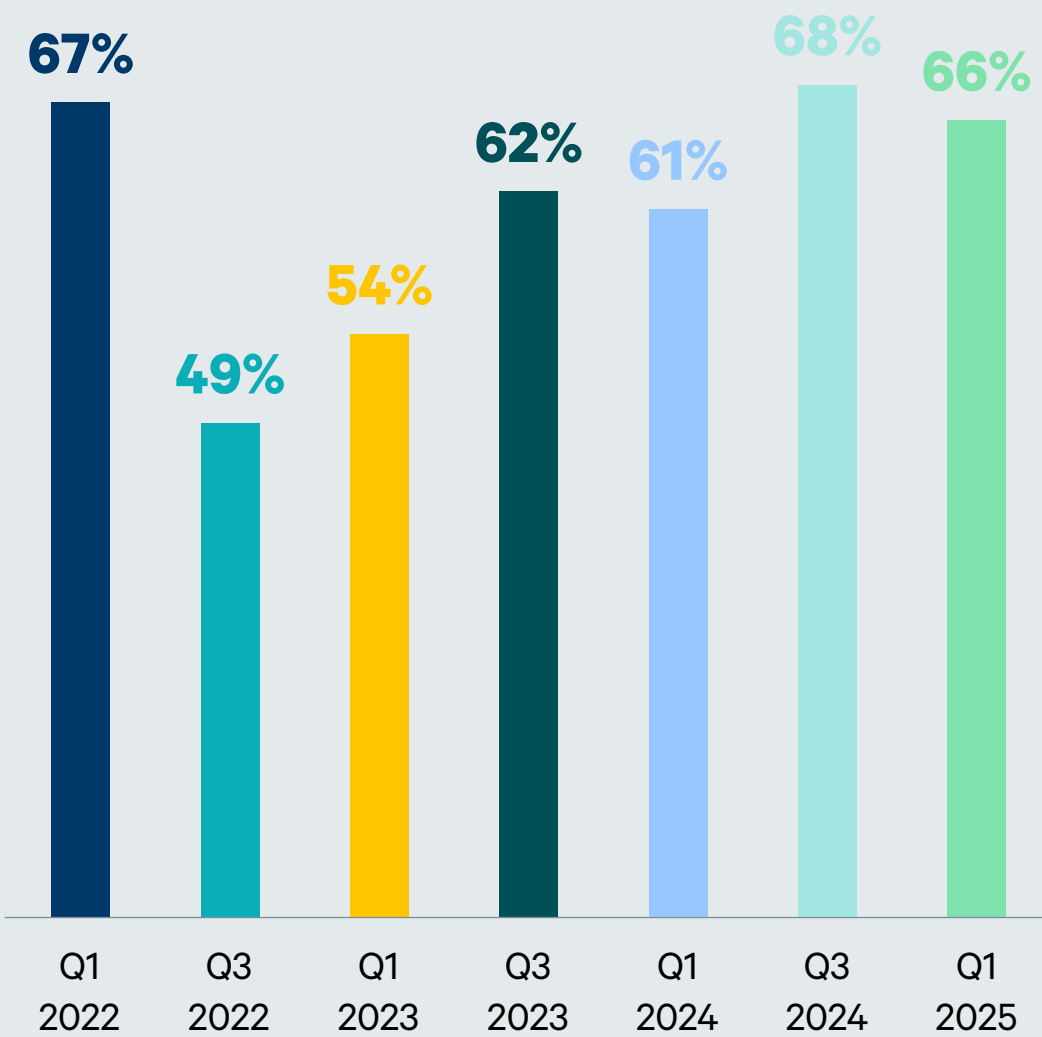
**Business confidence remains strong as pressures ease**

It's promising to see that most SMEs remain bullish, demonstrating a relatively high level of confidence about their business's health and prospects. Three-fifths say they are profitable today, while 66 percent expect sales to increase in the next six months.

Looking back at our data from the last three years, overall sales growth confidence has remained stable

over the last six months, regaining levels last seen in Q1 2022 after a period of significant turbulence. Indeed, in Q3 2022, just prior to Liz Truss's short tenure as Prime Minister, confidence in sales growth was as low as 49 percent.

**Business expectations of sales growth in next six months**



The current optimistic outlook can be attributed to a range of factors. After a period characterised by high levels of insolvencies and bad debt, these pressures seem to be easing. Only 31 percent of respondents say their business has suffered from bad debt in the past year, down from 40 percent in our previous Q3 2024 Tracker<sup>1</sup>. However, data from the Insolvency Service in January showed a year-on-year increase, the highest level registered in January for more than five years. This comes after the Service previously reported a slight decline in insolvencies in Q4 2024 year-on-year, indicating that the picture is complex and obscure.

Access to finance is cited as less of a key challenge for businesses, down to 15 percent today from 18 percent in our Q3 2024 survey. This echoes the findings of UK Finance's most recent Business Finance Review<sup>2</sup>, which noted that overall lending to SMEs was stable, and that lending levels had improved year-on-year by the end of 2024. In tandem with this however, nearly half (47%) say it is more difficult to access external finance now than it was six months ago, highlighting that issues here are still prevalent and unresolved for SMEs.

While some of these developments are encouraging, the data shows that SMEs' ambitions, opportunities and challenges vary significantly depending on business size.



1. <https://www.bibbyfinancialservices.com/knowledge-hub/news/2024/confidence-returns-little-by-little>  
2. <https://www.ukfinance.org.uk/system/files/2024-12/Business%20Finance%20Review%202024%20Q3.pdf>



# Business challenges

## Cashflow constraints remain for smaller businesses

Cashflow is a particular challenge for the smallest of businesses and is likely to be a key focus for them in ensuring their business is set up for success. Businesses with the smallest headcount (of up to nine employees) are the most concerned about cashflow at 42 percent, compared to 29 percent of mid-sized SMEs with between 10 and 50 employees, and 25 percent of the largest SMEs with 51 or more employees.

Additionally, while six in 10 (60%) of all SMEs say their business's cashflow is stable and meets their needs, this falls to 44 percent of businesses with the smallest headcount. The figure rises to 72 percent for the SMEs with the largest headcount, re-iterating that issues around cashflow are less prevalent for bigger businesses.

## The high cost of doing business is still a key concern

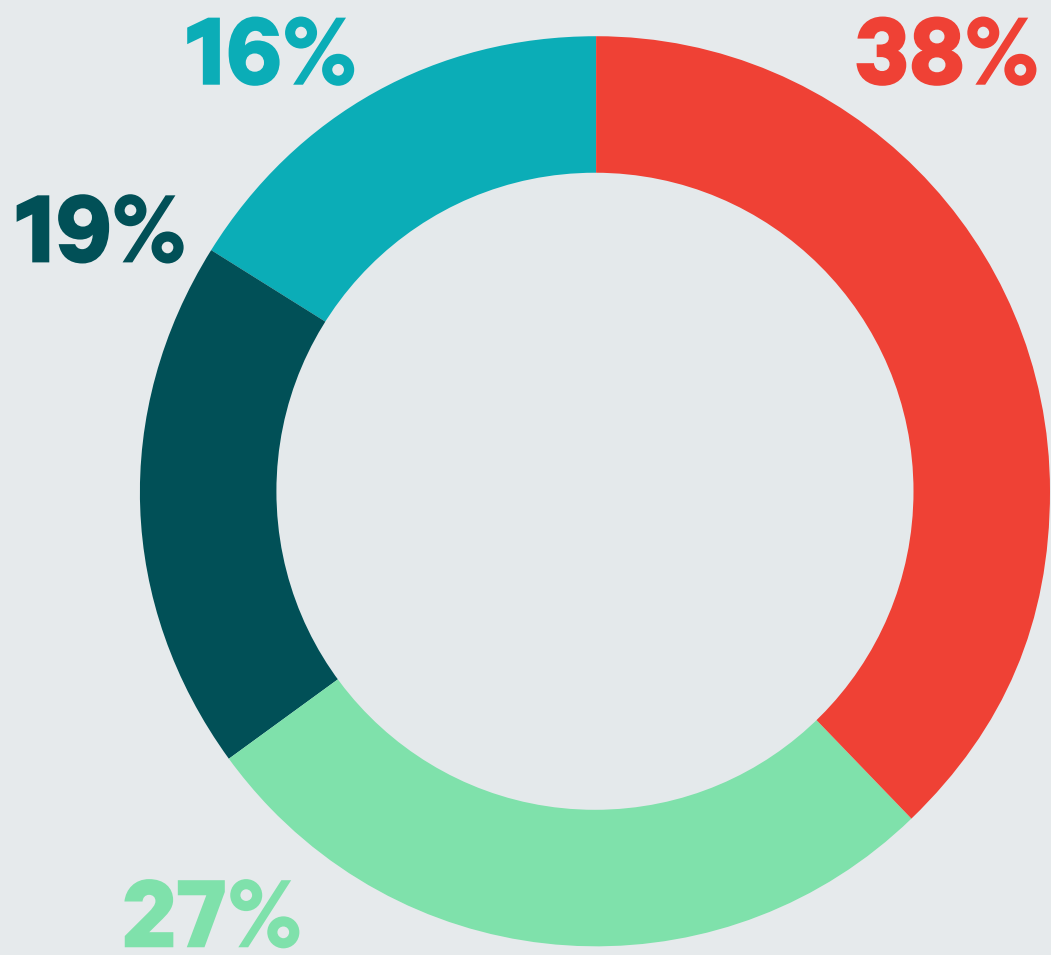
Crucially, SMEs across the board continue to be impacted by high costs and inflation. Overall, more than one in four (26%) say these issues are the greatest concern keeping them up at night, and more than six in 10 (66%) say costs are a challenge for their business today.

Two-fifths (39%) specifically call out energy costs as an issue, while 28 percent reference interest rates. Today's high-cost environment is being further exacerbated by recent Government policies, such as the increase to employer National Insurance contributions, which are coming into force in April 2025.

The increase in both National Insurance contributions and the minimum wage are the factors that, according to four in 10 (38%) SMEs, will most affect the cost of doing business. This could play a part in January's insolvency figures, with businesses displaying caution and shutting their doors before the measures come into effect.



Impact of National Insurance changes



- Cost of doing business
- Cashflow
- Ability to recruit new staff
- Profit margins

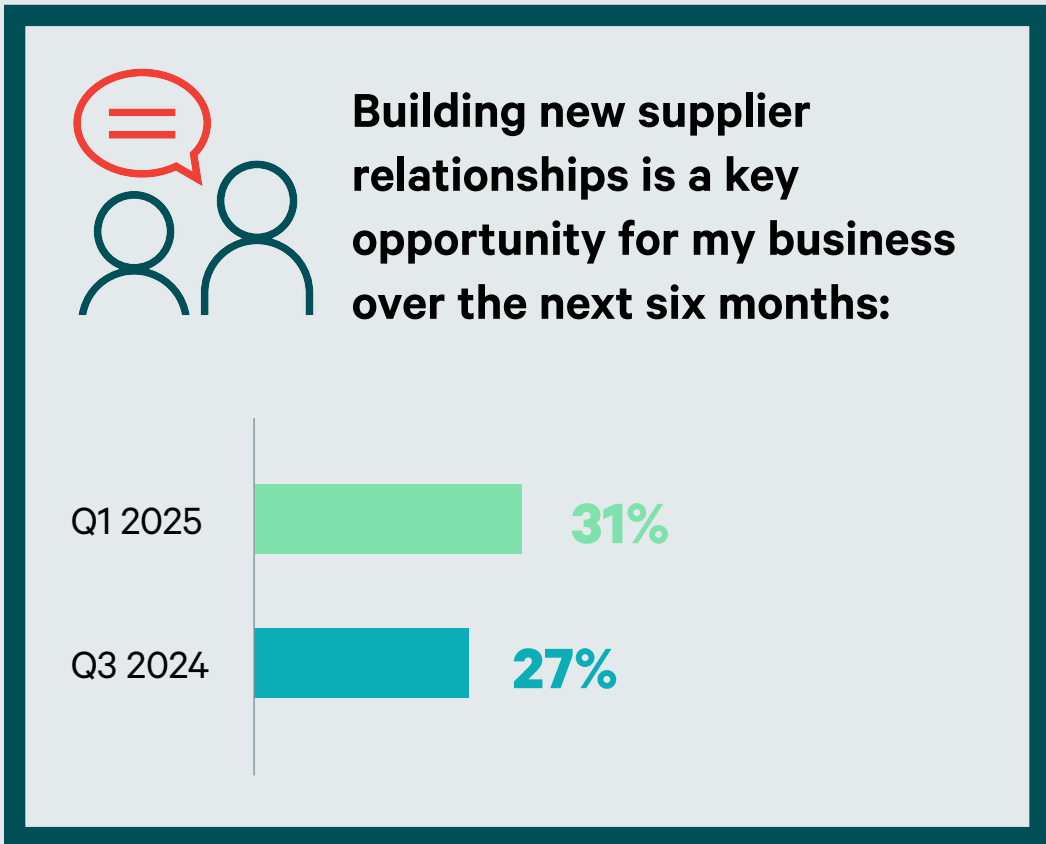
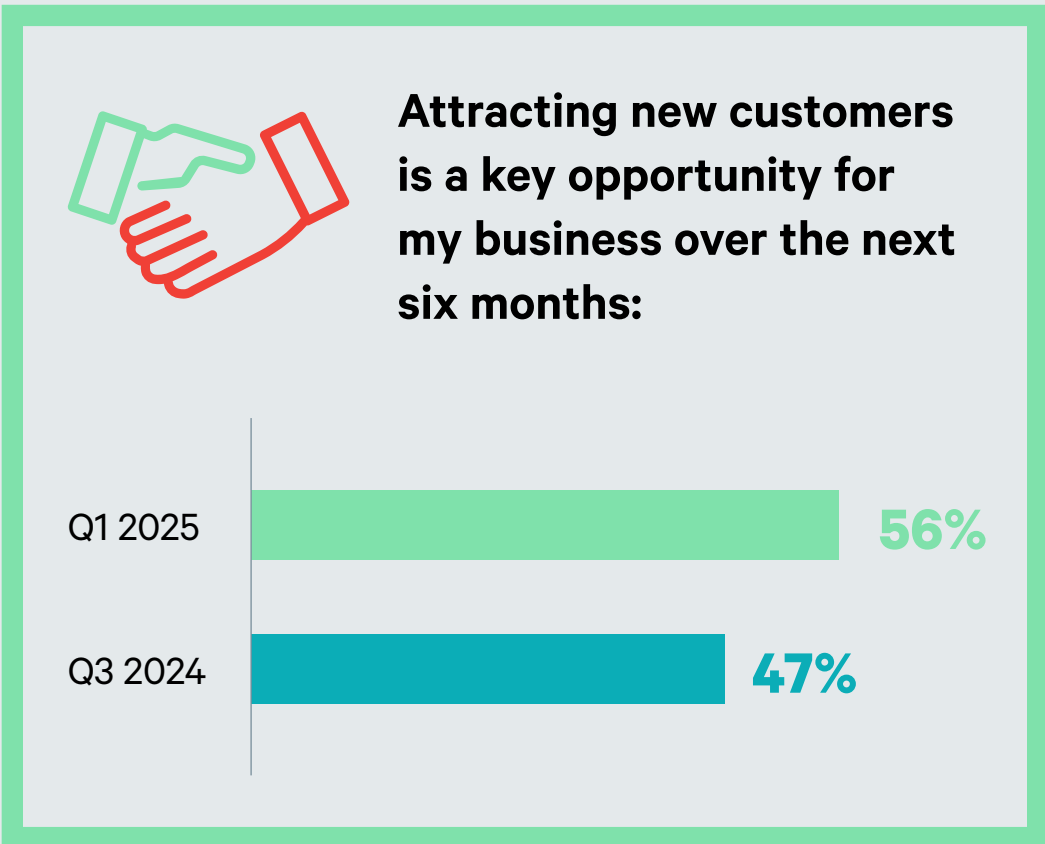


# Business opportunities

## Nurturing relationships to boost success

Looking at opportunities in the coming year, SMEs see the expansion of their business networks as critical to their success. Overall, 59 percent say attracting new customers is a key opportunity for their business over the next six months, while 31 percent cite building new supplier relationships as a focus. This reflects an improvement by nine and four percentage points respectively since our Q3 2024 survey, indicating that SMEs are increasingly ambitious to drive new business and to shop around for better prices and deals.

However, these ambitions and opportunities differ depending on the scale of a business. Larger businesses are more likely to prioritise relationships to help aid their business growth than smaller SMEs. The data shows that the focus on building new supplier relationships is strongest for the largest SMEs (36%) compared to mid-sized (34%) and micro businesses (24%).

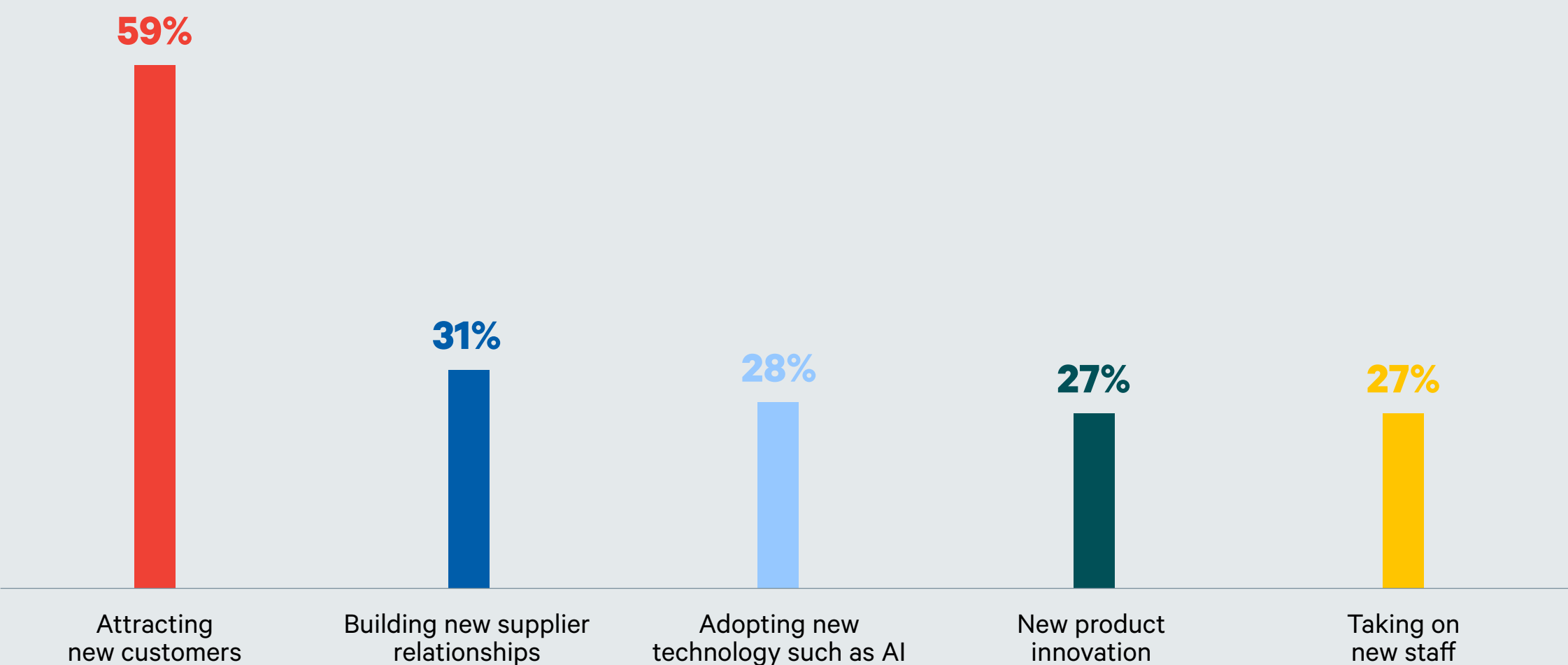


## AI may be the future, but are SMEs ready for it?

In January 2025, the Government unveiled an action plan<sup>3</sup> to make the UK a world leader in AI. Amongst other areas, the plan highlighted how “a particular focus should be put on supporting SMEs” in the quest to drive AI adoption across the UK.

Our data echoes this, finding that smaller businesses struggling with business-critical issues such as cashflow have less appetite or opportunity to reap the rewards of AI – and as a result, such businesses risk lagging behind on this front. While 28 percent of SMEs see the adoption of AI as a key opportunity over the next six months, this number increases with business size: from micro-businesses (14%), mid-sized (27%), to larger SMEs (43%).

## Key opportunities cited by SMEs over the next six months



3. <https://www.gov.uk/government/publications/ai-opportunities-action-plan/ai-opportunities-action-plan#foreword-by-the-secretary-of-state-for-science-innovation-and-technology>

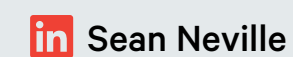


# Unlocking growth through funding and capital expenditure



**Sean Neville**

Managing Director  
Bibby Asset Finance



**Data shows that many SMEs aim to boost growth through capital investment this year. More than one in four (28%) SMEs expect to invest in machinery or equipment in 2025, up marginally from 26 percent in 2024. Replacing deteriorating equipment or technology remains the primary driver to invest for one in five (20%) SMEs.**

The smallest businesses are the most likely to invest in machinery this year. Amongst SMEs with a turnover of up to £250K, 28 percent plan to replace equipment in the next 12 months, as do 29 percent of micro businesses.

However, for these smaller SMEs, the cost of replacing equipment is often a significant challenge, as they face greater pressure to maintain or replace critical assets due to tighter cashflow. Yet, current attitudes toward external finance remain divided. Over half (52%) of SMEs do not use external finance and have no plans to. Concerningly, this figure rises to 59 percent for smaller businesses turning over up to £250K, who could use this money to invest in much needed technology upgrades.

Mid-sized SMEs are more likely to view external finance as a tool for growth, often using it to manage cashflow during investments. Specifically, 49% of SMEs with annual turnovers between £500K and £1M use external finance this way, compared to just 26% of SMEs with turnovers of up to £250K. This reflects a confidence gap, with mid-sized businesses more willing to take calculated financial risks to drive growth.

According to the data, the propensity to invest is greater among those using external sources of finance. While six percent of those using external finance have no plans to invest, this more than doubles to 14 percent for businesses that are self-funded.

Bridging this gap by building greater awareness of flexible financing options could unlock significant potential for smaller SMEs and support wider economic growth. Interestingly, SMEs who use external finance reported a 15 percent greater expectation for sales growth in the next six months (76%) compared to those who do not use external finance and have no plans to (62%).



of SMEs using external finance plan to invest this year



expect to invest in machinery or equipment in 2025



of businesses are deferring major investments until after the Spring Statement



# Business demands of Government

Six months on from the General Election, SMEs remain divided in their confidence about the UK Government as it moves forward with its “Invest 2035” industrial strategy.

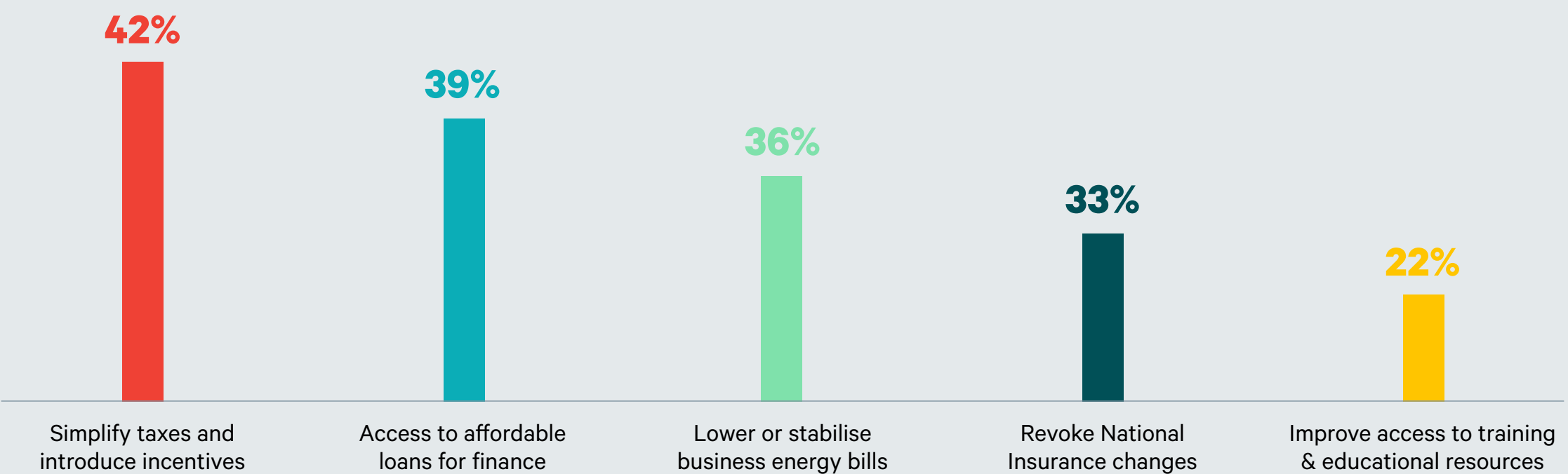
While 37 percent of decision makers are confident in the Government’s support, 36 percent remain doubtful. Smaller SMEs, particularly those with a turnover of up to £250K, are the least confident, with just 27 percent expressing trust, compared to 44 percent of larger SMEs with turnovers exceeding £5M.

The Chancellor’s Autumn Budget, seen as the first key opportunity to win over SMEs, has left opinions split, with only 30 percent of respondents believing the measures announced will benefit their businesses.

Larger SMEs, typically with more resource and liquidity to weather economic challenges, are more optimistic. 40 percent of SMEs turning over £5M believe the measures announced in the Budget will help their business, compared to just 21 percent of those with a turnover of up to £250K.

Despite these divergent perspectives, a key concern remains: only 40 percent of SMEs feel adequately represented in Government consultations on policy changes, highlighting a gap in trust. As the Spring Statement approaches, the UK Government has a critical opportunity to introduce measures that can rebuild trust and lay the groundwork for future economic growth.

Top measures SMEs want Government to implement



What is clear from our research is that small and medium sized business owners are calling for the Government to focus on three specific areas to boost growth:

## 1 Simplifying taxes and introducing incentives

For 42 percent of SMEs, tax complexity remains a major concern, underscoring the need for a more streamlined system. The Government must prioritise reducing tax burdens and providing clear incentives to free up SMEs’ time to focus on innovation and expansion. Notably, 22 percent of SMEs are calling for a reversal of recent Capital Gains tax hikes, highlighting the strain that tax increases place on smaller businesses.

## 2 Improving awareness and access to funding

With 39 percent of SMEs prioritising expansion and job creation, the Government should focus on providing accessible financial support to aid this. This could be through the expansion of government-backed funding options or through strengthened collaboration with funders in the private sector.

Most important is that the Government prioritises raising awareness of the different financial schemes available to SMEs. By supporting SMEs in developing their financial literacy and awareness, the Government can help them access the finance they need to grow.

For example, 43 percent of SMEs are unaware of the Bank Referral Scheme. As the British Business Bank prepares its consultation, we urge them to consider reforms that would broaden access to funding by involving more SME funders and finance brokers in the scheme.

## 3 Tackling the ongoing challenge of late payments

Late payments are a continued pain point, with 58 percent of SMEs believing new measures, such as the Fair Payment Code, don’t go far enough. The Government must take decisive action, such as exploring ways to inject working capital into supply chains more quickly to reduce payment times, ultimately supporting SMEs’ cashflow and growth.





## Methodology

This study is based on research of 1,000 UK SME owners and decision makers across the manufacturing, construction, wholesale, transport and services sectors. Research was conducted by independent specialists, Critical Research, between 16-23rd January 2025.

## About Bibby Financial Services

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

We provide specialist working capital, asset finance and foreign exchange solutions helping businesses to grow and thrive 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 215 years.

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