

SME CONFIDENCE TRACKER

Q1 2019



1 IN 5

HAVE BUILT UP CASH
RESERVES TO PREPARE
FOR BREXIT

15%

HAVE STOCKPILED GOODS

ALMOST

1 IN 6

HAVE ESTABLISHED
NEW SUPPLY SOURCES
FOR GOODS

KEY FINDINGS: Q1 2019



Over half believe
a recession is likely
in 2019



Well over a third
expect sales to increase
in Q2 2019



One in five plan to
expand within the UK
in Q2 2019



Nearly a third have
experienced bad debt
in Q1 2019

FOREWORD

IS BREXIT THE DEAD WEIGHT ON OUR OTHERWISE ROBUST ECONOMY?

At the end of 2018, I discussed how the UK economy remained robust, despite the challenges of Brexit. Recent economic signals indicate that little has changed in 2019, even though growth is noticeably sluggish. Employment continues to beat previous records and wages are experiencing the fastest growth rate in a decade, but the Brexit process has continued to dampen confidence. Our SME Confidence Index shows that while confidence has increased slightly in Q1 to 59.10 from 58.03, this seasonal upward trend is the weakest we've seen since 2014.

SMEs are signalling trouble ahead for the economy. Most worryingly, over half (57%) believe that the UK is likely to enter a recession this year. In fact, our quarterly findings suggest Brexit is a likely driver of this sentiment as over two in five (41%) of those surveyed believe Brexit will have a negative impact on their business.

SMEs are also facing operational difficulties, with almost one in five (19%) citing rising costs as their biggest challenge which perhaps reflects the tougher trading conditions a weaker pound has had on the cost of raw materials. Separately, others believe increased competition from firms (16%) and late payment (16%) are their biggest challenges.

Collectively, these challenges are limiting the investment plans of SMEs which could have long term implications. The average amount SMEs plan to invest fell for the fourth consecutive quarter - from £68,967 in Q4 2018 to £64,600 in Q1 2019.

This is especially worrying for those that believe investing is key for growth. While the number of SMEs choosing to invest remains firm at 71 per cent, the spending power of SMEs has been in decline since Q1 2018, with a drop of £39,048 in investment.

Regardless of the economic challenges, our SMEs should not be pulling back on spend when it can help them through these uncertain times. In Q4, I said that I hoped the Brexit issue would be less of a burden for SMEs in 2019, but that was wishful thinking. The reality is that the Parliamentary process has unfairly dominated our national conversation

and it is imperative we get a resolution soon. Whatever the outcome, the UK is, and will continue to be, a good place to do business, but it will be even better when the Brexit fog finally lifts.

Our research shows a clear need for support from the Government to help SMEs compete and thrive in these testing times. Over two thirds (68%) of SMEs are calling for tax breaks, almost two thirds (65%) want lower business rates, and half (50%) want assurance that tariffs on goods to the EU will be avoided. Collectively, the desire for this support shows that there's a real opportunity for the Government to throw their weight behind SMEs and act.

We can hope for more certainty, but we must all accept that our exit from the EU is the start of a new chapter. The UK's priority will be about defining a new role for itself, both within Europe and further afield, and recalibrating its trading relationships to replace those changed to accommodate Brexit.



EDWARD WINTERTON

UK Chief Executive,
Bibby Financial Services
April 2019

[@TedWinterton](#)

[Edward Winterton](#)

¹ Labour market wage growth, ONS, 19 March 2019

SME CONFIDENCE INDEX

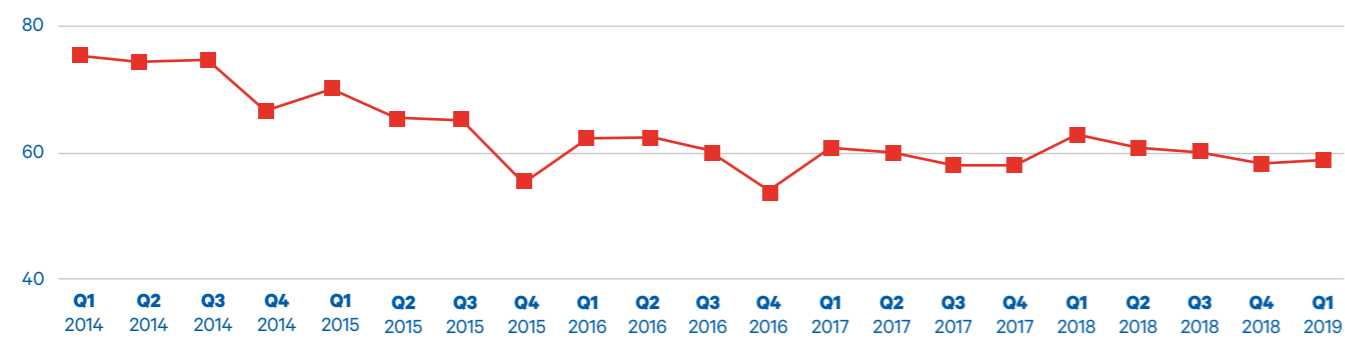
The SME Confidence Index is compiled by equally weighting SME sales performance over the past three months with anticipated sales performance for the three months ahead.

The Index for Q1 2019 showed an increase in confidence from Q4 2018, rising by 1.7 points to 59.10, from 58.03.

Although confidence has increased this quarter, it can largely be attributed to seasonal factors which are typically seen at the beginning of a new year when optimism tends to be high.

This year, however, sees a relatively weak uptick in seasonal confidence, compared to an average 4.57 increase seen in previous years, suggesting that Brexit related uncertainty is suppressing business confidence.

CONFIDENCE INDEX



THE PRESSURE ON SMEs



SHARON WILTSHIRE
UK Commercial Director,
Bibby Financial Services

CREEPING COSTS

Our research this quarter shows that SMEs are under pressure to keep costs low with nearly a fifth (19%) signalling the rising price of raw materials and overheads as their biggest challenge, with the manufacturing (23%), wholesale (22%) and construction (21%) sectors worst affected.

The root cause of the problem is twofold. On the one hand, a strong employment market is pushing up the cost of labour. On the other hand, a weak pound has increased the cost of raw materials. Therefore, it has inevitably placed more pressure on those sectors that rely on a high turnover of labour and materials to operate.

To compensate for these changes, over a fifth (21%) are unlocking capital to invest in measures to reduce their costs and increase efficiency, this is evident across transport (22%) and wholesale (22%) businesses, which are investing most heavily for this reason.

On a regional basis, we have seen nearly a third (32%) of SMEs in the South East invest for this reason, by far the highest, contrasting strongly with London (14%), where metropolitan based SMEs are more likely to be operating different business models. SMEs in the capital tend to use digital models and make use of shared office space, leading to fewer overheads.

While businesses operate with very different models, they should all be concerned with maintaining a low-cost base. To do this SMEs should regularly review their supply chains, currency needs and investment priorities. It is within these areas that SMEs can most easily act to prevent rising costs from becoming a problem.

CASHFLOW CHALLENGES

This quarter, many SMEs experienced cashflow issues. If these aren't acted upon and brought under control, they can become an impediment to growth. In Yorkshire and Humber, two in five (40%) are suffering from cashflow issues, closely followed by SMEs in the North East (37%), South West (34%) and London (34%), respectively.

Nationally, nearly a third (31%) are experiencing 'occasional' cashflow problems. Cashflow can easily become a more 'severe' problem and this quarter we've seen eight per cent of SMEs in Scotland and East Anglia experience this too, outstripping the national average of five per cent.

Facing cashflow challenges head-on is the most effective way to tackle them. Many SMEs suffer from overly long payment terms which impede cashflow, so have started to take matters into their own hands. Over half (54%) now have robust payment terms in place and over half (53%) request payment upfront.

Unfortunately, SMEs have also had to seek more drastic measures with half (50%) avoiding work with late paying customers. This is arguably a double-edged sword as it locks out potential business when it could also be managed with funding solutions that restore or enhance cashflow. Whilst SMEs face a variety of challenges, cost issues and cashflow need not be headaches with the right support.

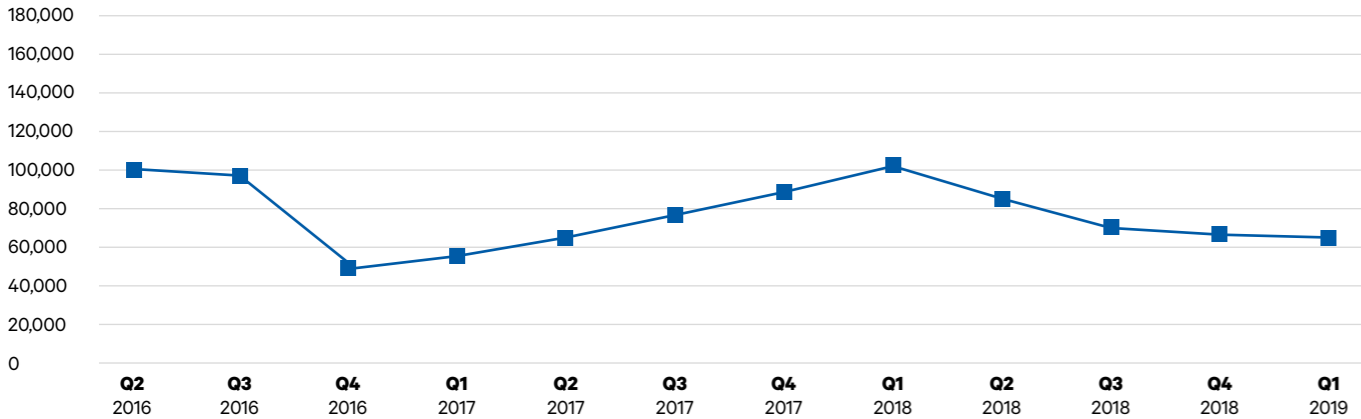
WORST AFFECTED SMEs DUE TO RISING COST OF RAW MATERIALS:



WHAT'S STOPPING SME INVESTMENT?

As the UK navigates through a sensitive political period, SMEs continue to invest slowly amid an unpredictable environment. This quarter reveals that the number of SMEs holding back investment due to economic uncertainty has reached a three-year high, falling by 11 per cent since Q4 2018. The average amount SMEs are prepared to spend has also fallen year-on-year, from £103,648 in Q1 2018 to £64,600 in Q1 2019.

AVERAGE INVESTMENT SPEND



SPENDING IN UNCERTAIN TIMES

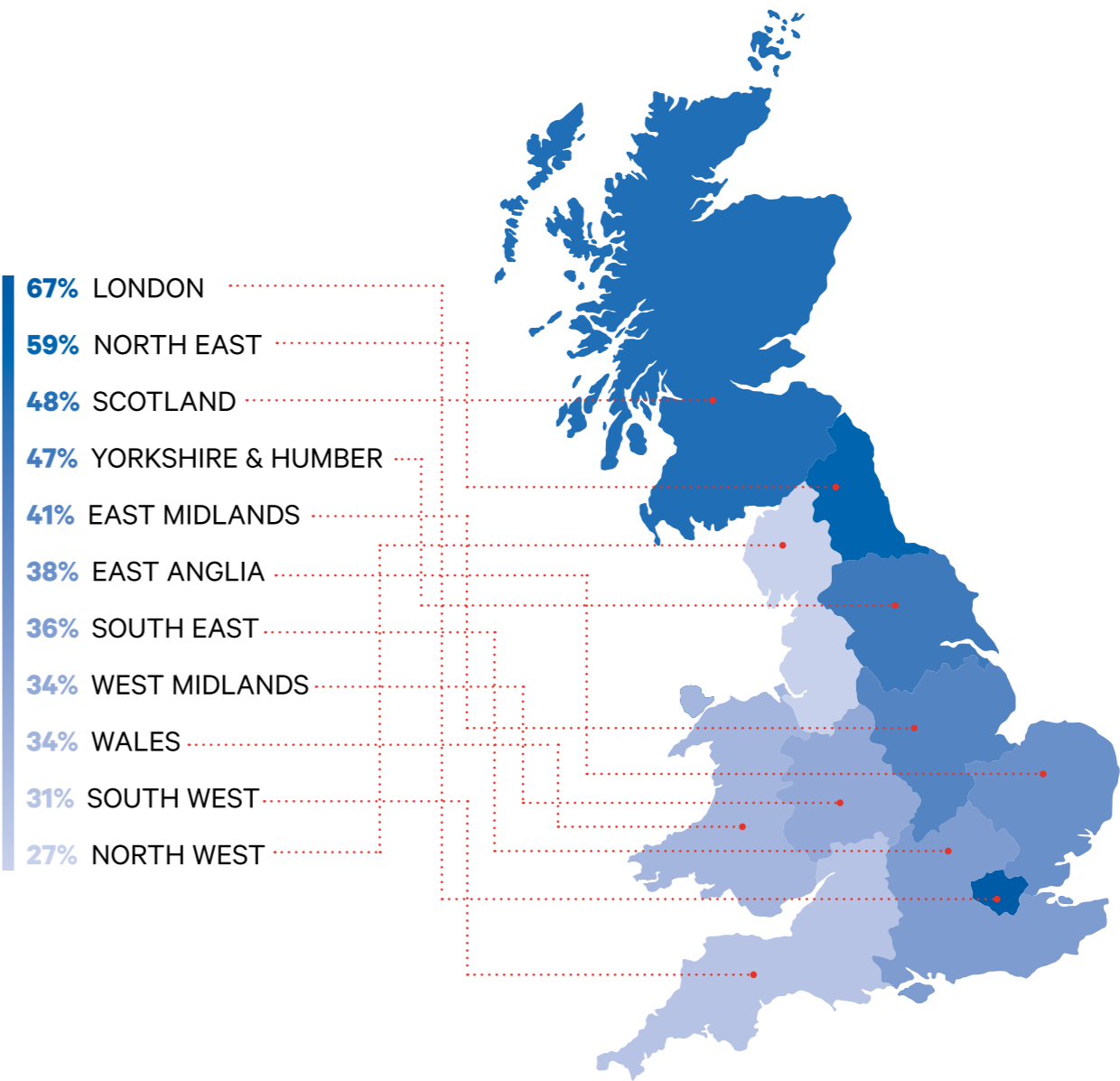
While SMEs remain cautious about investment, it is worth noting that over a third (35%) of SMEs have invested in staff training and development this year, suggesting that talent attraction and retention is a key business priority.

Nearly a quarter (22%) of SMEs that invested did so to stay ahead of the competition, while one in five (20%) plan to expand within the UK.

Recruitment is also high on the agenda in Q1, with nearly a quarter (24%) of SMEs in the UK identifying this as a priority. This rises to nearly a third (31%) for smaller businesses (with a turnover below £500K), suggesting that hiring intent has remained strong throughout the Brexit process.

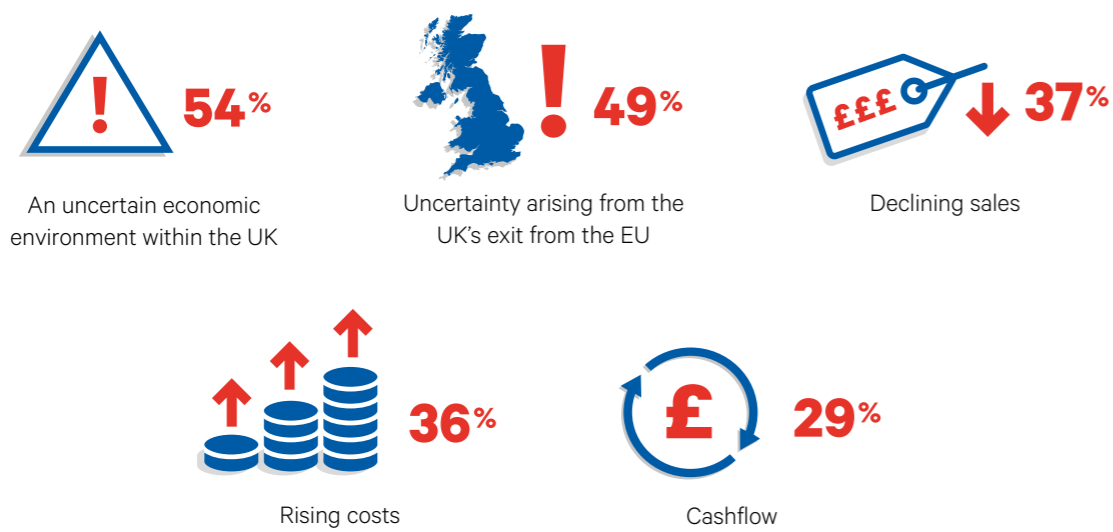
BREXIT PESSIMISM AT A GLANCE

This map highlights the regional proportions of SMEs that believe Brexit will have a negative impact on their business.



THE BARRIERS TO INVESTMENT

There are several reasons for weaker investment, with the top cited reasons being:



In Q1, nearly a quarter of SMEs (24%) report a decline in sales over the last three months, compared to 19 per cent in Q4 2018. As a result of an expected decrease in profits, SMEs will have less money to invest in activities that drive growth and innovation.

UK TRADE AND BREXIT

- WHERE DO WE GO FROM HERE?



GARY GRIFFITHS
Managing Director
of Trade Finance,
Bibby Financial Services

The UK's trade policy has unsurprisingly been hotly debated throughout Brexit discussions. For a long time, the UK has prided itself on established and streamlined import and export processes, which allow British businesses to trade in tandem with the EU. After years of development, Brexit threatens to alter these carefully mapped connections.

Indeed, three years since discussions began, we're still no clearer on what to expect from our new trade policy: deal, or no-deal. If there is one thing the negotiations have made clear, it is how heavily SMEs rely on trade, particularly imports, and the threat Brexit represents to them.

IMPORTING REMAINS IMPORTANT

Historically, imports haven't had the same focus as exports when it comes to the UK's trade targets. But we are surrounded by imported goods, whether we recognise it or not, and many SMEs need these imports to survive. Our research found that over a quarter (28%) of SMEs currently import, a figure that has been gradually increasing since Q2 2018.

Our Q3 2018 SME Confidence Tracker revealed that a third of the 1.1 million UK SMEs with EU suppliers would be unable to operate without imports from the Single Market, while three fifths (61%) would see a decline in profits, illustrating the true extent of SME reliance on EU suppliers for survival and business growth.

It is little wonder that SMEs are demanding more from the Government with regards to both clarity and support with trade. Half (50%) of SMEs say they want the Government to ensure tariffs on goods to the EU are avoided, while almost two fifths (38%) want trade deals with new markets. That is, of course, if the UK leaves with a deal.

The UK relies on goods being moved quickly through the border. A no-deal scenario would equal a customs nightmare. If paperwork is introduced and completed incorrectly, it will hold up the queue and potentially create a huge blockage; slowing down supply chains and negatively impacting business and customer relations.

Even with simplified customs procedures for those SMEs that have registered for Transitional Simplified Procedures (TSP), the consequences would be catastrophic. The imported goods SMEs need to operate would likely be delayed, causing revenues to fall and a shortage of goods on shelves for consumers.

ADJUSTING SUPPLY CHAINS

At BFS, we're encouraging SMEs to be proactive amid Brexit uncertainty. Whether that is registering for a UK Economic Operator Registration and Identification (EORI) number, supply-chain mapping or renegotiating contracts with suppliers, there are numerous steps that can be taken to adequately prepare. For example, SMEs could offer to pay for goods in advance. As well as helping to bolster relationships, suppliers might be more open to offering a discount if they are paid up-front, enabling better cashflow management.

Whatever happens, trade deals need to remain a top priority for the Government in the weeks and months ahead.

THE KEY CHALLENGES IN Q1 2019

Whilst an uncertain economic environment prevents SMEs from investing, businesses across the UK also face many other challenges.



AT A GLANCE

SECTOR AND REGIONAL CHALLENGES



LATE PAYMENT

Nearly a quarter (24%) of SMEs working in the construction sector cite late payments as their biggest challenge



PAYING A PREMIUM ON RAW MATERIALS?

Nearly a quarter (23%) of manufacturers cite rising costs as their biggest challenge



COMPETITION IN THE FAST LANE

Over one in five (21%) businesses in the services sector say an increase in competition is their top challenge

ARE OTHER **LENDERS** **PULLING BACK** FROM THE LEASING MARKET?



IAN WILKINS
Managing Director
of Leasing,
Bibby Financial Services

Historically, the asset finance market has been robust. According to the most recent figures from The Finance & Leasing Association, new business increased by 5 per cent in 2018, to reach a record level of almost £32 billion, the market's seventh consecutive year of growth.

This level of demand reflects the scale and breadth of a growing market but does not tell the whole story. Our research indicates that demand is being fuelled by businesses seeking to expand their productive capacity. For example, in the first quarter of 2019, over a quarter (26%) of UK SMEs invested in new machinery and equipment, demonstrating that the ability to purchase new assets plays a crucial role in business growth.

On a sector level, there is strong demand for refinancing transactions in the construction and manufacturing industries. Firms in these sectors are often reliant on the purchase of high-class, specialised machinery. In fact, over a third of SMEs in both the manufacturing (37%) and construction (34%) industries invested in new machinery and equipment in the last quarter of 2018.

Servicing these types of business can be complex, but there are signs that some lenders are pulling back. The root cause is the risk of a potential economic downturn fuelled by Brexit uncertainty and the potential impact of a no-deal scenario. The market is also wary of the continued over supply of liquidity assets which are driving down market yields.

For SMEs, this means they need to explore the number of funding options carefully and take advantage of the competition in the market. As a broker led funder, BFS offers a service which is designed to ensure SMEs are gaining the highest possible level of expertise in tune with their needs.

To do this we have listened to our brokers who tell us they value quick decision making on new deals, a consistent approach to risk appetite, fast and efficient payment of deals, and access to decision makers with an ability to discuss individual transactions.

It is vital that investment across the market is maintained and managed effectively over the next 12 months. Part of the challenge is to help SMEs retain their current levels of investment and understand the role asset finance can play as a funding option.

SMES NEED PROTECTION FROM BREXIT

“THERE IS OFTEN TALK OF PROTECTING THE CITY OF LONDON FROM BREXIT, BUT OUR SMES NEED PROTECTION TOO. I HOPE THE GOVERNMENT WILL ACT TO REDUCE THE IMPACT OF BREXIT ON UK BUSINESSES.”

EDWARD WINTERTON
UK Chief Executive,
Bibby Financial Services

68%

WOULD LIKE THE GOVERNMENT TO INTRODUCE TAX BREAKS FOR BUSINESSES

65%

WANT LOWER BUSINESS RATES

50%

THINK THE GOVERNMENT SHOULD ENSURE THAT TARIFFS ON GOODS TO THE EU ARE AVOIDED

WHAT IS THE SME CONFIDENCE TRACKER?

The SME Confidence Tracker surveys over 1,000 of the UK's small and medium sized businesses on a quarterly basis. The Tracker charts the confidence of owners and senior decision-makers of businesses in manufacturing, construction, wholesale, transport and services sectors. Field work for Q1 2019 took place between 11th February and 15th March 2019 and respondent businesses had average annual turnover of £1.8m.

ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services is a leading independent financial services partner to more than 7,000 UK SMEs.

Our total funding capability exceeds £1bn and through our network of 19 regional offices we handle annual client turnover of £6bn.

Formed in 1982, we are a member of UK Finance, supporting the growth of businesses in over 300 industry sectors.

In 2011, 2012, 2014, 2015, 2016, 2017, 2018 and 2019 the company was awarded a place in The Sunday Times 100 Best Companies to Work For, ranking 42nd in the most recent poll.

To find out more about Bibby Financial Services, visit:

www.bibbyfinancialservices.com

CONTACT

CHARLOTTE KNIGHT

PR and Content Manager
Bibby Financial Services

charlotte.knight@bibbyfinancialservices.com

Connect with us on:



 **CALL US ON 0808 2310 865**

 **VISIT** bibbyfinancialservices.com

WE BELIEVE IN YOUR BUSINESS

INVOICE FINANCE • ASSET FINANCE • TRADE FINANCE • STOCK FINANCE • FX

