



# SME Confidence Tracker


Q3 2024

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Foreword

# Confidence returns, little by little

**Much has happened since our SME Confidence Tracker in the spring. After 14 years, the Conservative Party's dominance over British politics came to an end in July as Keir Starmer's Labour Party won a majority in the 2024 general election.**

Inflation has stabilised, and interest rates fell to 5 percent in August, marking the first reduction since March 2022. Oasis have even reformed.

Though the Labour Party's term is set to a maximum of five years, whether falling inflation, a more benign interest rate environment, and Oasis's return will last are anyone's guess, but I believe we are entering a period of downward pressure on rates. Time will tell.

The signs, however, are looking better for the UK economy this autumn, and this is borne out in the results of our latest SME Confidence Tracker. The persistent uncertainty witnessed in the UK - and around the world - over the past four years appears to have faded to some extent.

Overwhelmingly, business leaders are positive about the future with more than two-thirds

expecting sales to grow, and more than half planning to invest in their businesses over the coming months. A quarter plan to recruit, and 36 percent are hoping to invest in digital technology or IT in the next six months.

**“Costs, however, remain a key challenge for businesses - particularly SMEs. Such concerns relate not only to macroeconomic factors such as expenses impacted by global commodities or fiscal and monetary policy, but also the hidden costs-of-doing-business such as bad debt and late payment.”**

Two-fifths of SME owners have suffered due to the non-payment of invoices by customers in the past year, an increase of 10 percent when compared with our study published in March. The chronic issue of late payment continues to hamper the plans of SMEs too, eroding cashflow required to pay wages and purchase stock, and ultimately to invest in growth. It's these supply chain costs that SMEs need help to overcome.

Notwithstanding a more confident outlook among business leaders in recent months, the new Prime Minister's tone since taking-up his post has been pragmatic at best, at worst

downbeat, warning of a “painful” budget approaching. Businesses are now braced for tax rises and spending cuts.

Whether this is a masterclass in expectation management, or an inadvertent slip that takes the wind out of the sails of the UK's 5.5 million SMEs is yet to be seen, but business leaders are clear in their asks of the new Government: tax policy reforms, improved access to finance and greater support for running their businesses.

The eyes of such SME owners across the country will now be firmly focused on Chancellor Rachel Reeves' inaugural Autumn Budget on 30 October to find out whether the Government can deliver on its manifesto pledges. If this isn't the case, we may see the confidence that has rebounded in recent months quickly start to fade away.

**Derek Ryan**  
UK Managing Director  
Bibby Financial Services

 Derek Ryan

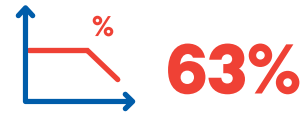
# Research highlights



of SMEs want the new Government to implement better tax incentives to help them



of SMEs expect sales to grow in the next six months



of SMEs say lower interest rates make them more confident about investing in their business

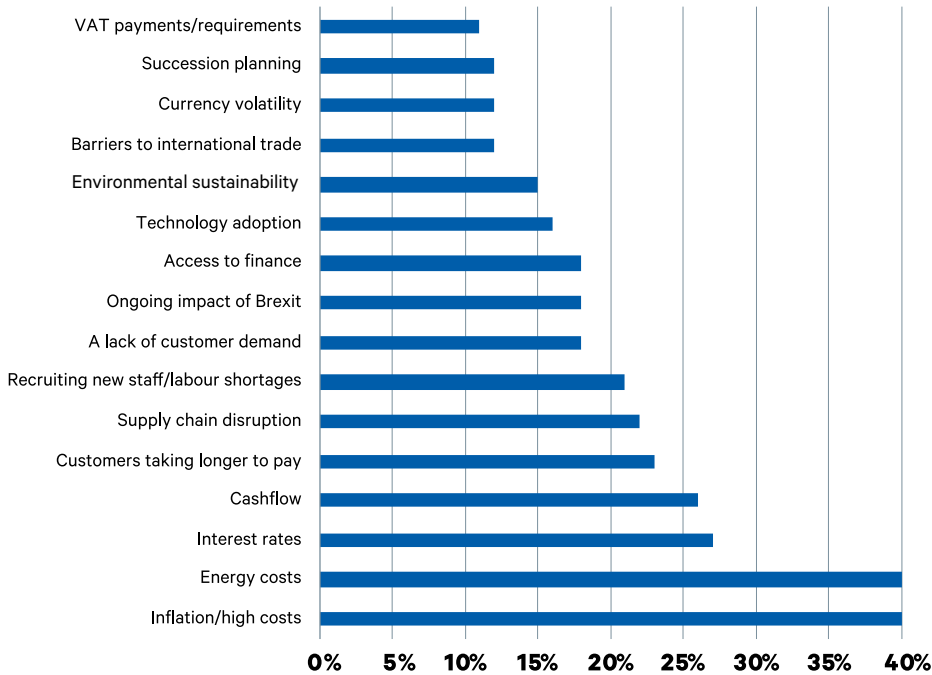


of SMEs think that the external finance landscape is complex and disjointed



of SME leaders have never heard of the Bank Referral Scheme

## Key challenges facing SMEs today



# Increased confidence and a renewed appetite for growth



**Recent falls in inflation and interest rates coupled with the new Government's plans for growth have clearly stabilised the outlook for the UK economy. As a result, confidence is seemingly returning to SMEs.**

Our recent research of 1,000 SME owners and decision makers offers an encouraging glimpse of improving sentiment and greater optimism among Britain's small businesses.

According to PWC<sup>1</sup>, UK GDP is expected to grow by around 1 percent in 2024 and the UK will likely be the third fastest growing G7 economy over the next decade, behind the US and Canada. For many SMEs, this evolving era of relative economic stability has brought to the fore their latent ambitions to invest and grow.

## Great expectations

In our Q1 2024 SME Confidence Tracker, the data showed many business leaders were hesitant to invest in their business, waiting for the General Election and a drop in interest rates to take place before committing to capital expenditure.

Now that election uncertainty has passed, over half of SME leaders (52%) say they feel more inclined to make major investments in their businesses. Meanwhile, the Bank of England's Monetary Policy Committee made the first interest rate cut in over four years in August 2024, providing SMEs with a significant boost. 63 percent of SMEs agree that lower interest rates make them feel more confident about investing in their businesses.

SMEs plan to invest an average of £293,318 in the next 12 months, with nearly one in four (23%) planning to invest over £100K. When asked where that investment will be focused over the next six months, 36 percent say digital technology and IT, 32 percent identify new products or services, and 30 percent cite staff training and development.

## Target areas for investment in the next six months



**36%** Digital technology / IT



**32%** New products or services



**30%** Staff training and development



**26%** Recruitment



**26%** Machinery or equipment

## Optimism on the rise

SME leaders are also feeling much more optimistic about sales growth. A significant majority (68%) anticipate that their sales will grow in the next six months - an uplift of 7 percent on the figures from our last survey in Q1 2024.

Half (50%) see attracting new customers as a key opportunity for their business over the next six months, while 29 percent identify new product innovation as an opportunity, and 26 percent highlight adopting new technology such as AI. A further 27 percent aim to take on new staff and the same number want to build new supplier relationships.

## Top inflation-related pain points for SMEs



**23%** Energy costs



**18%** Wage expectations / labour costs



**15%** Machinery or equipment

## Lingering high costs

Despite inflation subsiding, the high cost of doing business remains a barrier to growth, with 40 percent of SME owners identifying inflation/high costs as one of the key challenges they face. Nonetheless, this figure has decreased from the 50 percent registered in Q1 2024, showing this is becoming more manageable.

Energy costs are also still a key concern for SMEs, with 40 percent seeing them as a key challenge, reflecting macroeconomic data. The uptick in the Bank of England's target rate of inflation from 2 percent in Q1 2024 to 2.2 percent in the 12 months to July was largely driven by prices of gas and electricity falling by less than they did a year before.

In addition to high costs, cashflow continues to make life tricky for over a quarter (26%) of SMEs who identify this as a significant challenge. However, this still denotes a marginal improvement on the 29 percent who identified cashflow as a problem earlier this year.

<sup>1</sup>UK Economic Outlook - July 2024



# Bad debt and insolvencies on the rise

**While the macroeconomic outlook shows a positive upward trajectory, the real economy still needs time to adjust. Consequently, SMEs remain in a tough trading environment with pressure on supply chains persisting.**

Late payments and bad debt are chronic issues for SMEs, but worryingly the data suggests that this has become even worse over the course of the past year. More than two thirds (67%) say it's taking longer for customers to pay invoices in full compared with a year ago, with just 3 percent saying customers are paying more quickly.

Bad debt levels are also escalating. 40 percent of SMEs say they've suffered a bad debt due to customer nonpayment in the last 12 months, up from 30 percent in our Q1 2024 SME Confidence Tracker. The average value that each of these businesses has had to write off has more than doubled to £39,847 - up from £17,590.



**67%**

of SMEs say it's taking longer for customers to pay invoices in full



**40%**

of SMEs have suffered a bad debt in the last 12 months



**£39,847**

is the average value written off in the last 12 months due to bad debt

No doubt, the issue is compounded by increasing levels of corporate insolvencies which surged by 16 percent in July year-on-year, according to the August figures from the Insolvency Service<sup>2</sup>.

This is reflected in our data which shows high levels of customer and supplier insolvencies. On average, 47 percent of SME leaders have seen up to five of their customers become insolvent in the last six months and 54 percent have seen up to five suppliers cease trading over the same period.

The combined negative impact of late payments, bad debt and insolvencies is an ongoing inhibitor to progress for many SMEs. This suggests a clear need for coordinated interventions from central government and agencies, such as the British Business Bank, to help SMEs surmount these barriers and stay on track for future growth.



<sup>2</sup> <https://www.gov.uk/government/statistics/company-insolvency-statistics-july-2024/commentary-company-insolvency-statistics-july-2024>

# Back in the market for external finance

Following a prolonged period of economic and political uncertainty, SMEs' renewed confidence in market conditions seems to be matched by their growing appetite for external capital to fund investment for expansion, innovation and diversification.

Compared with six months ago, 44 percent of SMEs are now more likely to use external finance. This reflects the broader encouraging market context highlighted by UK Finance in its Business Finance Review 2024 Q1<sup>3</sup>, which shows a quarter-on-quarter uplift in the level of approvals for external finance while at the same time deposits being run down at a faster pace.

As SMEs' appetite for finance grows, they will be using third-party capital injections as much to support their day-to-day operations as to invest in expansion.

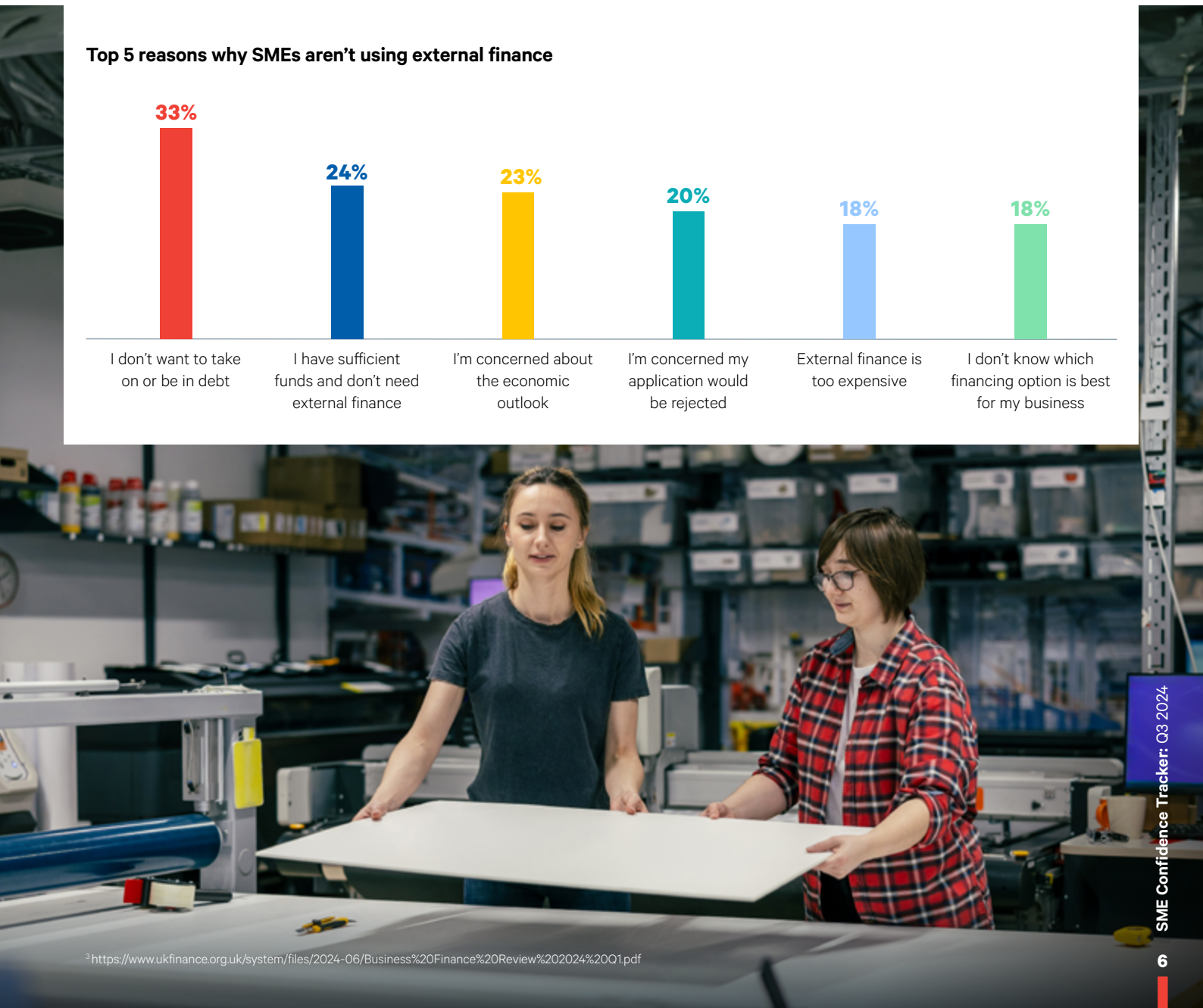
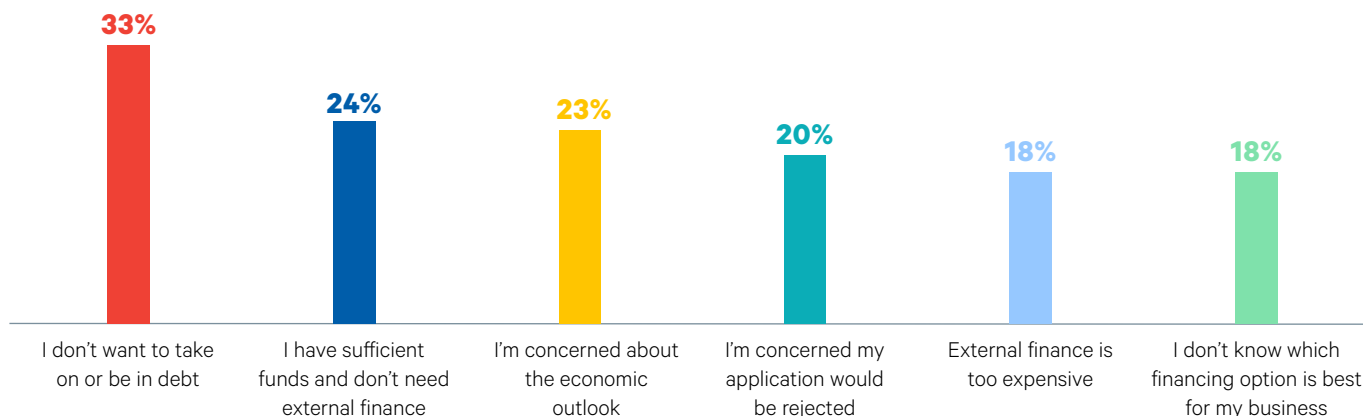
Nearly a third (32%) say they already use external finance, and a further 20 percent who don't currently make use of third-party funding say they'll consider doing so over the next 12 months. Over a third (36%) identify expansion as the main use of any external finance. A similar number (35%) intend to use it to support their day-to-day operations, so their businesses continue running smoothly following a prolonged period of difficult trading.

The data points to a clear positive correlation between the use of external finance and profitability - highlighting the significant contribution external finance can make to a business's growth potential. SMEs reporting that their businesses are profitable are more likely to say they use external finance (36%), compared to those that are just about breaking even (27%) or running at a loss (19%).

Among those business owners who don't use, and who have no plans to start using, external finance, there are evidently lingering concerns over debt and the state of the economy. For example, 33 percent of small business owners are unwilling to take on debt, while 23 percent are put off by anxieties about the economic outlook.

For 18 percent of our survey respondents, a lack of knowledge and information is a factor in their decision not to seek external finance because they don't know which financing options might work best for them. Plugging the information gap is obviously an important issue to resolve if SMEs are to have the best chance of making decisions that will help them to thrive.

## Top 5 reasons why SMEs aren't using external finance



<sup>3</sup> <https://www.ukfinance.org.uk/system/files/2024-06/Business%20Finance%20Review%202024%20Q1.pdf>



# Broadening access to finance

Despite the growing need for finance, access remains an issue. Given the new Government's ambitions to return the UK economy to sustainable growth, ensuring SMEs can access the most appropriate form of finance for their businesses should be a key area of policy focus over the next 12 months.

## Businesses are tired of rejection

Currently, the field is anything but level. Small businesses have the ambition, and the inspiration, but not always the finance they need to grow. One in four (24%) SMEs say they have been rejected for external finance in the past 12 months. And despite data from UK Finance pointing to a rise in finance approvals<sup>4</sup>, 44 percent of respondents to our survey say that in the past six months their bank or financier has reduced their credit availability.

This picture mirrors the findings of the British Business Bank<sup>5</sup>, which has identified a decade-long downward trend in lending - with banks' share of lending to smaller businesses hitting a series low of 41 percent in 2023. The British Business Bank suggests the situation is exacerbated depending on where SMEs are located, with regional challenges remaining in relation to access to finance.

Our survey also identifies additional difficulties when bad debt is a factor, with half (48%) of SMEs who have suffered from bad debt in the last 12 months saying they have been rejected for external finance. Similarly, the low-risk appetite among many banks and financiers is still a barrier with 36 percent of SMEs stating they have been denied finance due to their business being considered high risk.

## Knowledge is power

This, coupled with a lack of knowledge amongst SMEs about the finance options available to them, makes it harder to secure the funding they need to grow.

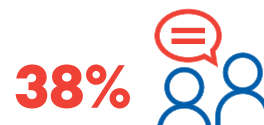
Indeed, half (49%) of SMEs believe the external finance landscape is complex and disjointed, with 60 percent saying they wish there was more unbiased and accessible financial advice available online.

This knowledge gap becomes even more critical when business owners are starting out, or don't have an established network - a problem that is understood to be particularly acute for women business owners. When SMEs are looking for information or advice on their business's finances, they are most likely to turn to their professional network or a professional business or financial adviser.

## Top four sources of information for SMEs



Professional network



Professional business / financial adviser



Google or other search engine



Friends and family

## Putting all the options on the table

Plans are in the works to improve access to finance for SMEs. This report precedes the UK Government's anticipated reform of the British Business Bank and consequently the Bank Referral Scheme - change that is sorely needed.

Under the current Bank Referral Scheme, if a high street bank is unable to offer a small business a lending facility, the business will be automatically offered a referral to one of three designated referral platforms. These platforms connect small businesses with alternative lenders, who can help them access the finance they need - enabling more of them to survive and grow.

However, our research indicates that the Bank Referral Scheme is underutilised. Only 18 percent of SMEs have used it, and a staggering one in three (33%) report having never heard of the scheme at all.

It's no surprise that SMEs don't know where to turn in finding the finance they need. In fact, two in three (65%) would welcome a trusted online resource for SMEs equivalent to Martin Lewis' MoneySavingExpert platform.

To overcome the general lack of information and knowledge about, and access to, external finance, SMEs clearly require more support from both the wider financial services industry and the Government. This help will play a significant role in enabling small businesses to unlock their growth potential.

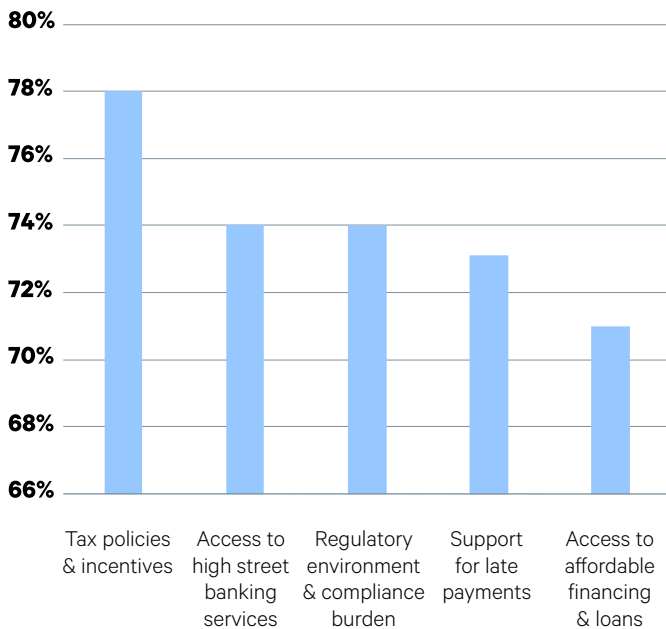
<sup>4</sup> <https://www.ukfinance.org.uk/system/files/2024-06/Business%20Finance%20Review%202024%20Q1.pdf>

<sup>5</sup> <https://www.british-business-bank.co.uk/about/research-and-publications/small-business-finance-markets-report-2024>

# Wish list for the UK Government

Earlier this year, SMEs expressed a strong desire for firm commitments from Government and legislative change. As the new UK Government strives to build a strong and resilient economy, a framework to support small business growth must remain at the heart of economic decision making.

## SMEs' top five asks of Government



SMEs' current wishlist for Government is reasonably extensive, but it's also pragmatic and reasonable. Perhaps unsurprisingly, uppermost on the minds of many small business owners is a desire for central government to review fiscal policy.

The survey finds 87 percent of respondents consider the introduction of tax incentives as an important issue for their business. Other data from the research highlights that 81 percent of SMEs are also keen to have access to low interest loans or grants for business expansion and job creation. A further 80 percent cite the need for improved educational resources specifically geared toward the small business audience.

Clearly, tax is a particularly important consideration for Government ahead of its upcoming first Autumn Budget. SMEs will doubtless pay very close attention to this all-important set piece political event, which will set the tone and direction of travel for the ongoing recovery of the UK economy.

The hope among SMEs will likely be that the Autumn Budget provides greater clarity specifically on elements of fiscal policy that might directly impact them. In its 'plan for small business', for example, the Government has already stated its intention to replace the business rate system with an alternative model that's fairer. However, the devil remains in the detail - as it does in relation to the Government's well-trailed plan to review inheritance tax, which affects family-run small businesses in particular.

## A road map for growth

A scattergun approach to supporting SMEs will not provide them with the optimal conditions to survive, prosper, and grow. Instead, thinking about the measures small businesses have told us they want, the new Government would do well to ponder the following three considerations as part of its live 'plan for small business':

### 1. Tax policy reforms

The Prime Minister has warned that the Autumn Budget will be "painful", but it's important that the Government does not row back on its manifesto promise of a new business tax roadmap, including business rate reform. Not only will streamlining the tax system relieve the burden on small business owners, but it could also encourage investment into UK businesses, and spark growth for the wider UK economy - further delivering on their promise to make the UK the best place to start-up and scale-up.

### 2. Improved access to high street banking and finance

Many SMEs still rely on high street banks as their first port of call, with data showing that access to banking services is a critical concern (74%). The Government has promised to guarantee small businesses access to banking services on their high street by changing regulations to accelerate the rollout of banking hubs. However, there is also a strong incentive for it to further increase competition in the commercial lending sector and work with the wider financial services industry to do so. Through the British Business Bank, £12.4 billion<sup>6</sup> of finance has already been unlocked to support SMEs. But our data suggests that access to this kind of funding remains less straightforward and less widespread than it could or should be.

A new Bank Referral Scheme, which includes input from a wider array of SME funders and commercial finance brokers, would ensure the Government gives SMEs greater agency over how they finance their businesses, to allow them to thrive and grow.

### 3. Better access to education and information

Small business owners don many hats, from HR Director to CFO and company secretary and it can be overwhelming to navigate financial decisions alone. Working more closely with the financial services industry, the new Government has an important opportunity to create and promote initiatives targeted at improving accessibility to financial education and knowledge-sharing for small business owners. The focus should be on enabling SMEs to make better informed financial planning decisions, including how and where to access external funding. This will help level the playing field for small businesses and allow them to compete with larger firms, ultimately contributing more significantly to the economy through job creation and innovation.

<sup>6</sup> <https://www.gov.uk/government/news/boost-for-new-national-wealth-fund-to-unlock-private-investment>



## 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 30 July and 13 August 2024.

## About Bibby Financial Services

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

We provide specialist and adaptable asset and working capital finance and FX solutions helping businesses 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.

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