

A woman with curly hair, wearing a light blue denim shirt, is standing in a workshop or factory. She is holding a tablet computer and looking at it. The background shows industrial equipment, including a green machine. The scene is lit with warm, natural light from a window. A red L-shaped graphic element is overlaid on the left and bottom edges of the image.

# SME CONFIDENCE TRACKER

MAY 2022

SUPPORTING BUSINESS. **AS USUAL.**

**BIBBY**  
FINANCIAL SERVICES





FOREWORD

# AMBITION, CHALLENGE AND OPTIMISM AMONG UK SMES

**Despite residual effects of the pandemic continuing to pose challenges for businesses, by the onset of 2022, the UK economy was largely back open following the phased lifting of restrictions throughout 2021. Government fiscal support had rowed-back and some semblance of consumer confidence had returned to the high-street providing a multiplier effect to wider industries.**

As a result, business optimism had started to rebound and this was borne-out in January in a survey by Deloitte which found that financial officers were keener to invest in 2022 than in any other year since 2009.

However, while things appeared to be returning to a more benign environment for SMEs, such optimism would be short-lived. At the time of writing, we are amid the greatest threat to peace and stability in Europe since 1945, with punitive sanctions placed on Russia in an attempt to thwart its ongoing invasion of Ukraine, which has led to widespread uncertainty in markets across the world.

On top of this worrying development, UK businesses face a heady cocktail of issues that threaten to impact growth forecasts for 2022 and beyond, including soaring inflation,

skills shortages, and a cost of living crisis not seen on such a scale in the 21st century.

To understand how these challenges are impacting UK SMEs, and – importantly – how they plan to overcome them – we undertook a study of 500 business owners and decision makers at the end of March.

The findings are somewhat surprising. Rather than showing a business population anxious about the challenges they are facing, results demonstrate a stoic resilience amongst the UK SME community.

Two-thirds say they expect sales to increase over the next six months, despite ongoing challenges and 86 per cent plan to invest in their businesses in 2022 with sales and marketing, digital technology and machinery equipment being the top three areas of capital expenditure.

Some 44 per cent of firms say sales levels have returned to or exceed those prior to the pandemic, and eight out of 10 businesses are now actively seeking support to enable them to thrive and grow. Additionally, our own Business Factors Index data shows SME turnover reached its highest point since October 2019 in March 2022, reflecting a return to 'typical' sales volumes.

Notwithstanding this much needed optimism, there will undoubtedly be further challenges to contend with as we move through the year. Not least, SMEs need to ensure they can recruit and train staff to ramp up capacity;

supply chains will need to be fine-tuned in light of geopolitical developments and – critically – business leaders will need to carefully manage the rising cost of raw materials, without losing customers.

The fact many businesses are seeking help, however, is encouraging, and this support is available.


This year, Bibby Financial Services celebrates 40 years of helping SMEs to survive, thrive and grow. From humble beginnings in Liverpool in 1982, four decades on, we remain committed to helping businesses to overcome challenges and take advantage of opportunities presented.

While the aforementioned challenges are undeniably significant, the resilience of UK SMEs and their ability to adapt and change – coupled with the support available from the private and public sectors – will see SMEs continue to play a pivotal role in the UK's economic recovery over the coming months.

**DEREK RYAN**  
UK MANAGING DIRECTOR,  
BIBBY FINANCIAL SERVICES

 Derek Ryan

# EXECUTIVE SUMMARY



**Our annual survey of the UK's SME community paints a picture of a hugely diverse range of businesses connected by a shared experience, namely the journey through the Covid-19 pandemic and the unprecedented challenges they dealt with along the way – and that they still face today.**

Our research shows that many are dusting themselves down, and are keen to get back to business after a period of sustained uncertainty. But this ambition and optimism for the year ahead is tempered by the echoes of the pandemic – which still dog the global economy – namely the lack of confidence in supply chains, rising costs and a shortage of staff – as well as new geopolitical challenges unleashed by the war in Ukraine.

This is causing fragility among smaller businesses – many of whom describe themselves as 'just about breaking even'. This is a situation made worse by overdue payments and cashflow challenges – which could hold back over £838 billion of potential investment – and a bad debt mountain that could see up to £16 billion written off this year.

We have identified three key areas of focus for business owners, advisors and private and public sector organisations to consider over the coming months to support and encourage SME growth.

## 1 OVERCOMING FINANCIAL BARRIERS TO AID THE UK'S ECONOMIC RECOVERY

Notwithstanding renewed positivity, it's evident that challenges remain for SMEs in accessing the support they need to thrive and grow. Four in 10 describe themselves as 'just about breaking even' and one in 10 are currently operating at a loss. More than a quarter say cashflow is a key concern, and a third say they do not have the cashflow they need to grow. Thus, there is a clear need for greater access to both working capital and growth finance.

While measures introduced by the Treasury during the pandemic undoubtedly saved many SMEs from failure, the Government should now consider how it can reinvigorate the Bank Referral Scheme which was intended to improve access to appropriate finance by requiring UK banks to refer businesses they turn-down to Government platforms. While we welcome the scheme's purpose, its impact to date has been minimal. With renewed emphasis, it could be a much needed route for SMEs seeking working capital to grow, or as a means of survival for those 'just about breaking even'.

## 2 HELPING SMES WITH THE COST OF LIVING CRISIS

It's apparent that energy prices and the cost of raw materials are significant challenges for SMEs, and both are issues that threaten to hold-back the UK's economic recovery. Though the Chancellor's decision in the Spring Statement to cut National Insurance bills for employers by increasing the employment allowance will benefit some SMEs, without further support, we risk undermining these crucial businesses and the people and communities behind them.

The Government should heed the concerns of SMEs across the country and consider wider tax cuts and energy grants to help SMEs overcome rising inflationary pressures and supply chain issues.

## 3 PROTECTING CURRENT AND FUTURE REVENUE

Perennial issues of late payment and bad debt – owing to customer non-payment or protracted default – persist for SMEs. More than a quarter (28%) say they have suffered from bad debt in the past 12 months, with an average of £10,329 written-off per business.

In order to protect current and future revenue, SME owners and decision makers should consider how they can insulate themselves from bad debt, be it through securing appropriate trade credit insurance or bad debt protection on offer by the private sector.

# ASSESSING THE IMPACT OF THE PANDEMIC

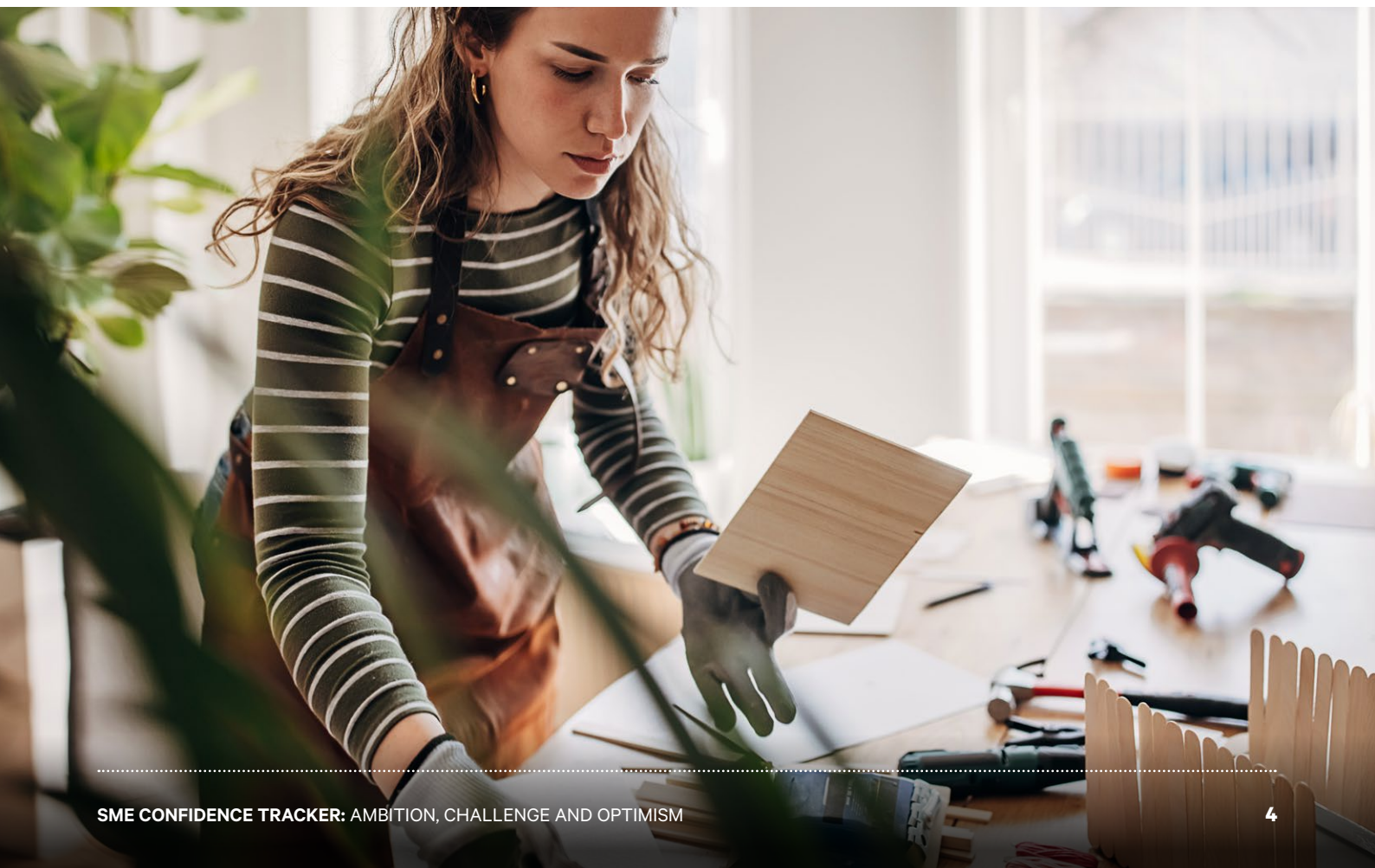
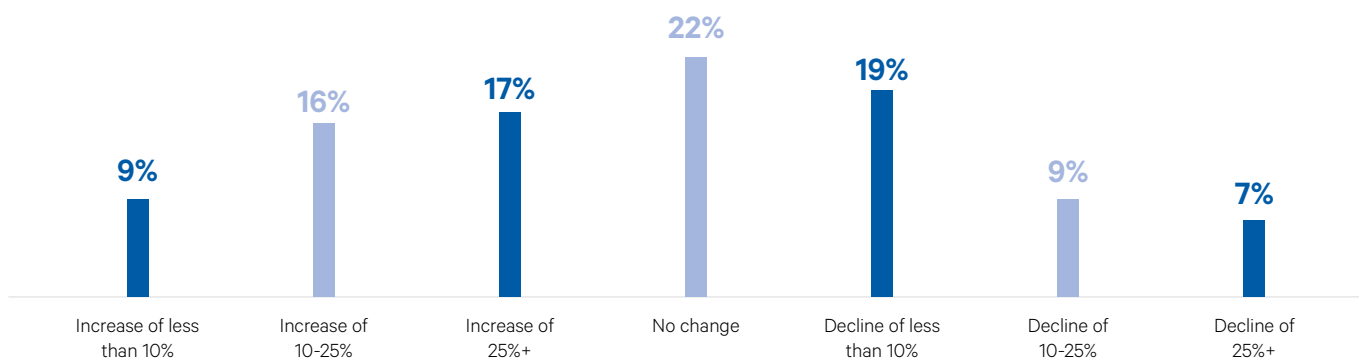
The pandemic's bearing on British businesses cannot be underestimated. According to The Bank of England's Impacts of the Covid-19 Crisis report, it coincided with a 30 percentage point reduction in turnover growth for the average SME. Our own Business Factors Index showed a starker fall in turnover, dropping from 110 in March 2020, to 66 just two months later.

Additionally, our research throughout 2020 and 2021 revealed specific issues plaguing SMEs, with more than a quarter shutting down operations entirely for a period, one in 10 making permanent redundancies and 12% withholding payments from suppliers to alleviate cashflow pressure.

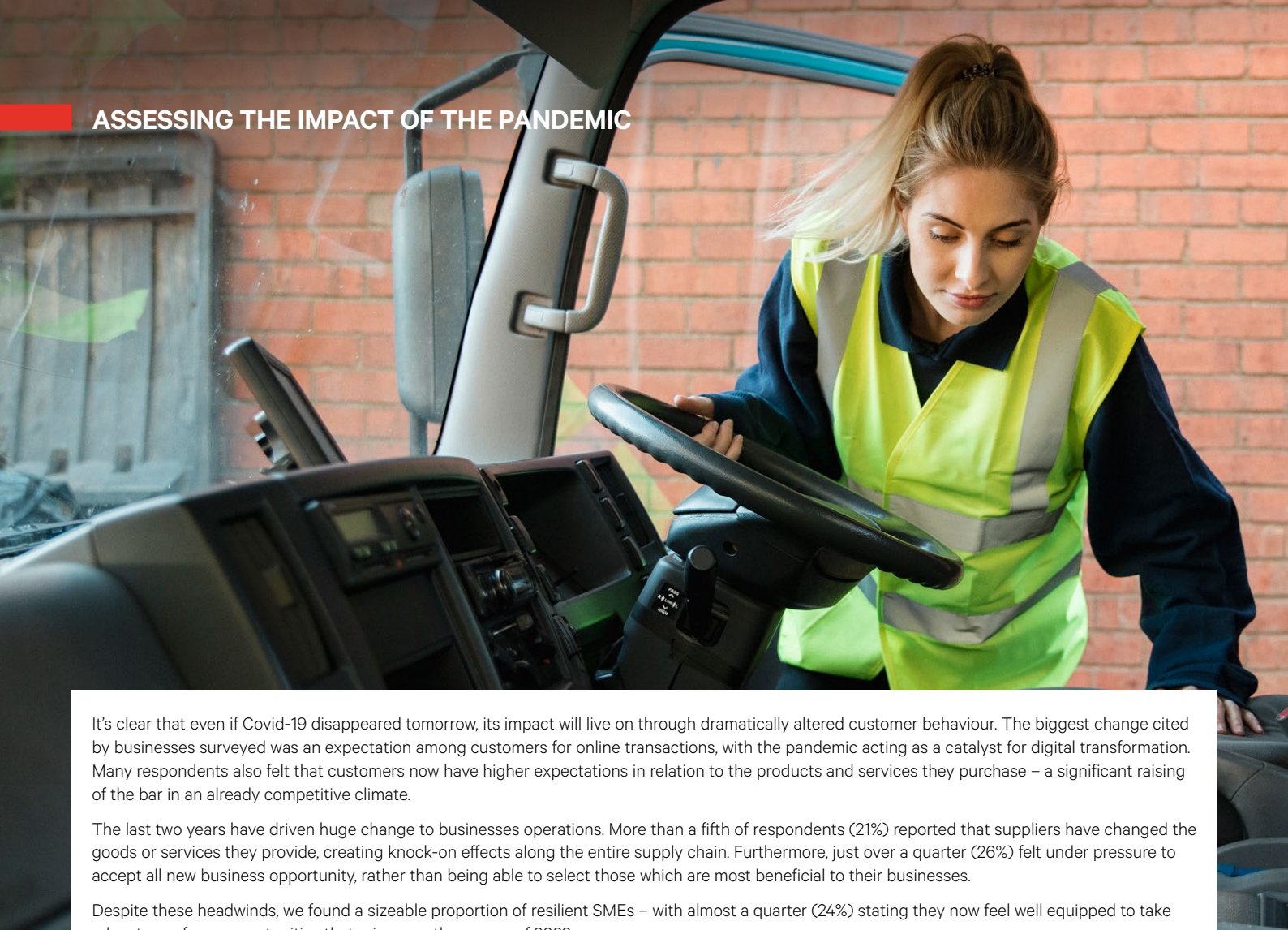
However, SMEs are often the most agile and creative thinkers when faced with a challenge and our most recent research highlights how they have stepped up, adapted to – and in some cases – thrived within their new operating environments.

While many respondents saw a marked impact on their performance - with over a third (35%) reporting a dip in turnover as a result of the pandemic - over the past six months things have dramatically improved with 56% of businesses now reporting a 'slight' or 'significant' increase in sales over recent months.

## IMPACT OF COVID-19 ON TURNOVER



## ASSESSING THE IMPACT OF THE PANDEMIC

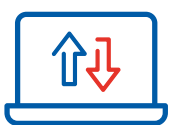


It's clear that even if Covid-19 disappeared tomorrow, its impact will live on through dramatically altered customer behaviour. The biggest change cited by businesses surveyed was an expectation among customers for online transactions, with the pandemic acting as a catalyst for digital transformation. Many respondents also felt that customers now have higher expectations in relation to the products and services they purchase – a significant raising of the bar in an already competitive climate.

The last two years have driven huge change to businesses operations. More than a fifth of respondents (21%) reported that suppliers have changed the goods or services they provide, creating knock-on effects along the entire supply chain. Furthermore, just over a quarter (26%) felt under pressure to accept all new business opportunity, rather than being able to select those which are most beneficial to their businesses.

Despite these headwinds, we found a sizeable proportion of resilient SMEs – with almost a quarter (24%) stating they now feel well equipped to take advantage of any opportunities that arise over the course of 2022.

### TOP FIVE CHANGES EXPERIENCED SINCE THE COVID-19 PANDEMIC



**29%**

say customers expect to be able to transact digitally more than ever



**24%**

say their businesses are well equipped to take advantage of opportunities that arise



**21%**

say suppliers have changed the goods or services they provide due to the pandemic



**23%**

believe customers have higher expectations of the products and services they provide



**26%**

feel they need to accept any orders/new business right now, rather than choosing the ones that are best for their businesses

# BUSINESS CONFIDENCE

Business confidence in 2022 is now 82%, up six percentage points on the previous year's total of 76%. Meanwhile our Business Factors Index data shows that after a turbulent two years, SME turnover in March 2022 was at its highest level since October 2019.

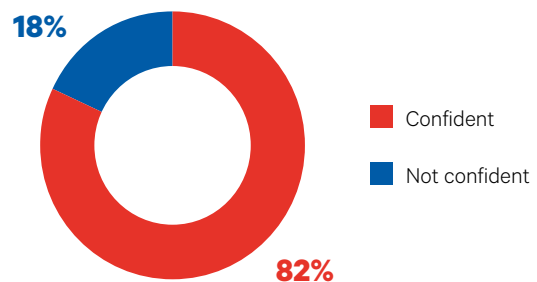
Further analysis of our survey data shows sales volumes returning to, or exceeding, pre-pandemic levels for many businesses (44%), and this trend is expected to continue with the majority of businesses (67%) believing sales will increase further in the next six months.

This is likely driving confidence levels among roughly eight in 10 respondents (82%) who say they're 'somewhat' or 'very' confident about their business's prospects in 2022, despite ongoing challenges.

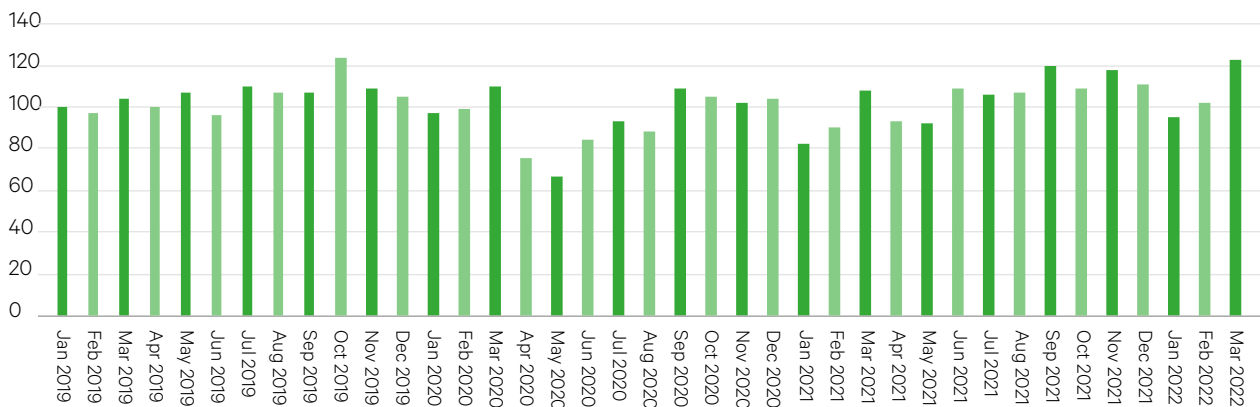
## IMPACT ON SALES VOLUMES

Our sales weren't affected by the pandemic	19%
Sales have already returned to pre-pandemic levels	22%
Sales are better than before the pandemic	22%
Sales will return to pre-pandemic levels in 2022	22%

## BUSINESS CONFIDENCE



## BUSINESS FACTORS INDEX: SME TURNOVER



## WHAT IS THE BUSINESS FACTORS INDEX?

BFS's Business Factors Index is a composite index tracking SME turnover across key sectors such as manufacturing, construction, transport, wholesale and services. It is calculated using aggregate turnover levels of more than 2,500 UK-based SMEs, starting in January 2019, providing unique insight into business performance prior, during and after lockdown measures.

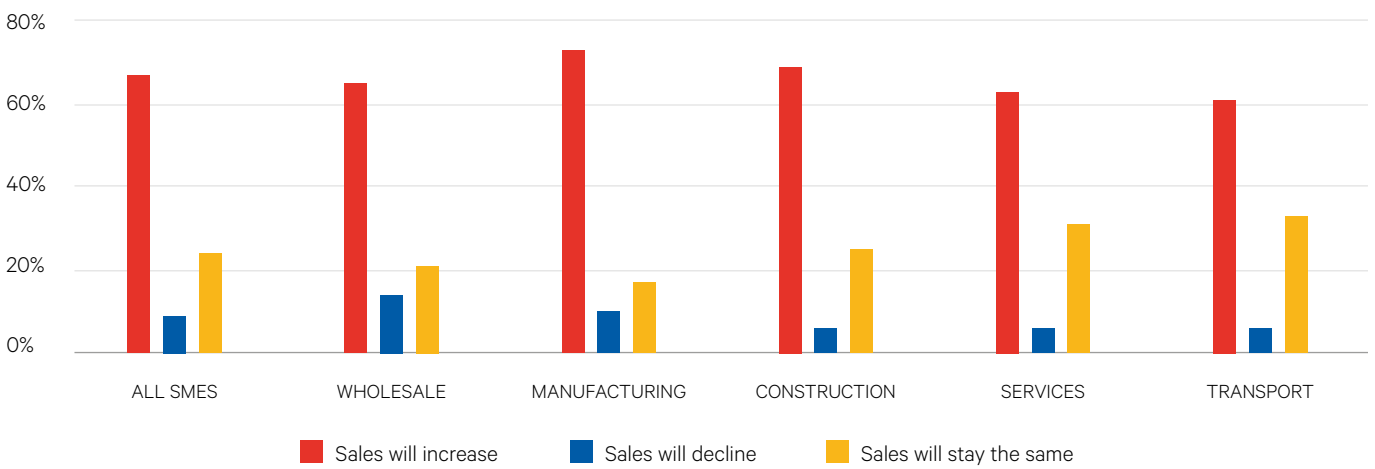
# BUSINESS CONFIDENCE

## CONFIDENCE: A BREAKDOWN BY SECTOR

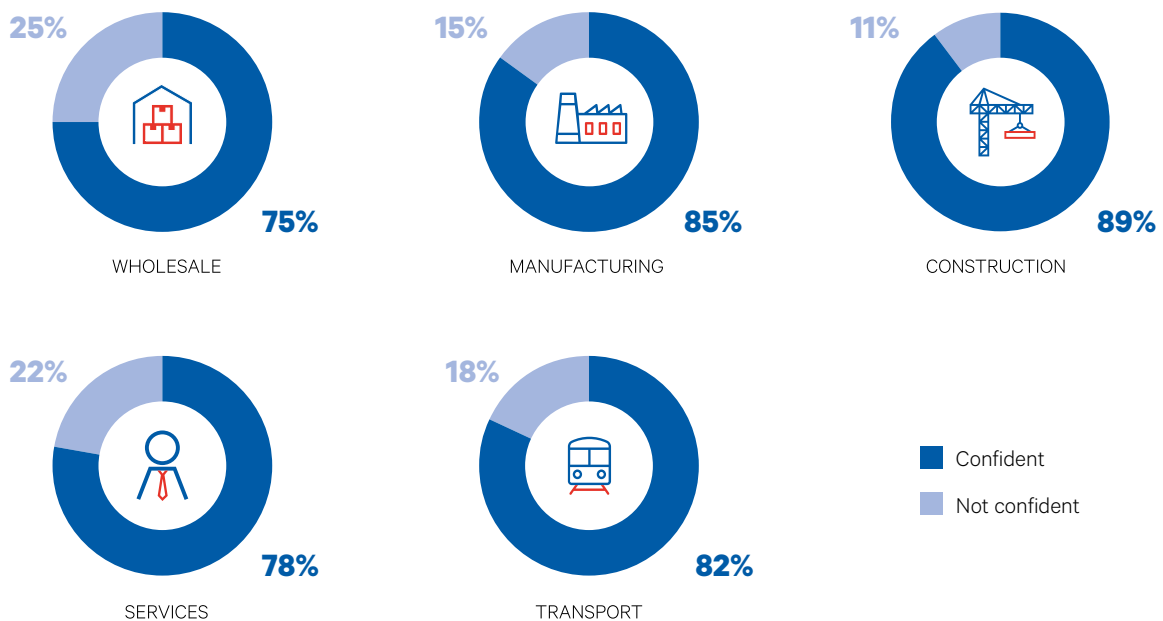
At a sector level, SMEs in manufacturing and construction top the performance and confidence rankings, with the biggest uplift in sales over the last six months. Manufacturing SMEs are the most optimistic about sales growth over the coming months, and construction businesses are the most confident about prospects for the remainder of 2022. This may be in part due to the sector's seasonal peak in the summer months for residential work, but could also indicate growing optimism across commercial, industrial, and infrastructure projects.

SMEs in wholesale, transport and services are less confident, with these sectors reporting the greatest decline in sales, with over a quarter of wholesale businesses stating falling volumes in the past six months. It's perhaps unsurprising, therefore, that businesses in these sectors were least confident in their prospects over the coming months.

## SALES EXPECTATIONS BY SECTOR (NEXT SIX MONTHS)

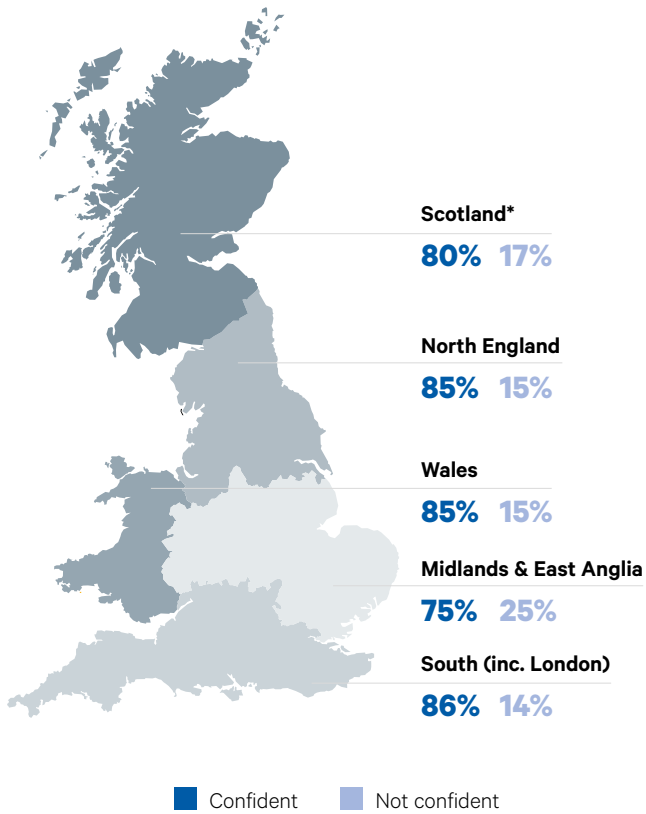


## BUSINESS CONFIDENCE BY SECTOR (2022)



More generally, one in 10 SMEs don't believe sales will return to pre-pandemic levels – a sobering reminder that for some businesses, the change may be permanent. This patchy outlook is reflected geographically with confidence among SMEs in the Midlands, East Anglia and Scotland regions lagging behind the rest of the UK.

**BUSINESS CONFIDENCE BY REGION (2022)**



\* Net confidence - 'don't know' responses omitted





# NAVIGATING CHALLENGES AND OPPORTUNITIES IN 2022

Despite overcoming huge Covid-19 related obstacles, many SMEs still endure challenges, such as supply chain issues, access to talent and the associated increase in costs. This is before we factor in the seismic impact of the war in Ukraine and knock-on geopolitical uncertainty.

Respondents ranked their top three challenges for the year ahead as inflation (42%), conflict in Europe (37%) and supply chain disruption (33%). Understandably, these concerns vary by industry with the manufacturing sector most worried about inflation, the rising costs of raw materials – such as steel - and staff costs.

The construction and wholesale sectors are mostly pre-occupied by conflict in Europe. For transport businesses the biggest concerns relate to cashflow, Brexit and staff shortages, as well as a lack of lorry drivers and the impact of red tape on cross-border trade.

## TOP CHALLENGES FOR SMES IN 2022



**42%**

Inflation/rising costs



**37%**

Conflict in Europe



**36%**

Supply chain disruption



**33%**

Uncertainty arising from Covid-19



**26%**

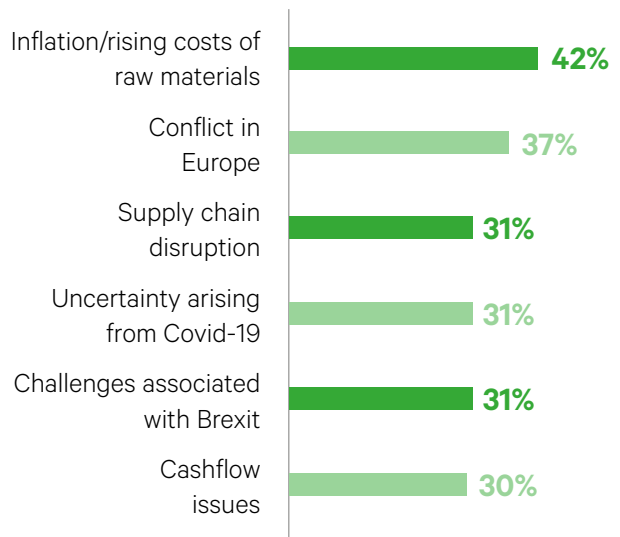
Cashflow issues

### SECTOR VIEW: TRANSPORT

“Supply chains seem to be affected by a never-ending range of issues in recent years, such as Brexit, the Suez Canal blockage, the pandemic, and most recently the conflict in Ukraine. This affects my business when a customer suddenly no longer needs a transportation truck as their materials have not been delivered to the UK. It’s yet another problem to navigate when it comes to my profit margins.”

**DANIEL CHAPMAN**, JDC HAULAGE

### TOP CHALLENGES FOR TRANSPORT SECTOR SMES IN 2022



## NAVIGATING CHALLENGES AND OPPORTUNITIES IN 2022

Yet again, SME resilience shone through when asked about opportunities in the year ahead. Attracting new customers (52%) and expanding their customer bases is seen as the biggest opportunity for SMEs in 2022.

It's no surprise then that sales and marketing is a key investment focus this year. Digital technology and IT is a close second, with the pandemic acting as a catalyst for digital transformation to keep pace with growing customer expectations around a seamless digital experience.

The manufacturing, construction and transport industries all plan to take on new staff or train existing staff in anticipation of business growth. This contrasts with the service sector where SMEs don't expect significant growth. In fact, just over a fifth (22%) of services sector businesses confirmed they had no investment plans at all this year.

### TOP AREAS FOR INVESTMENT (ALL SMEs)



**33%**

Marketing and sales



**31%**

Digital tech and IT



**23%**

Machinery or equipment



**22%**

Staff training and development



**19%**

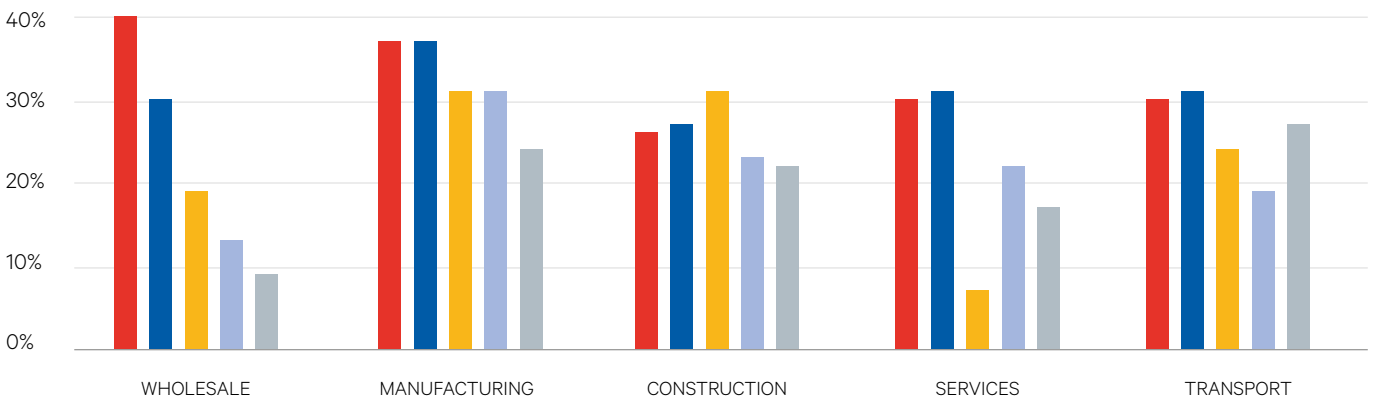
New staff



**18%**

Existing premises

### TOP AREAS FOR INVESTMENT (SECTOR)



■ Marketing and sales    
 ■ Digital technology and IT    
 ■ Machinery or equipment (inc commercial vehicles)    
 ■ Staff training & development    
 ■ New staff

## NAVIGATING CHALLENGES AND OPPORTUNITIES IN 2022

On average those SMEs who are planning to invest are looking to inject £173,921 into their businesses in 2022. This could equal more than £830 billion of SME investment into the UK economy. This is a £20,000 increase in investment per business on average compared to 2021, indicating higher levels of business confidence. SMEs are also feeling more certain about their plans and their funding compared to last year – in 2021 more than half (55%) of businesses that planned to invest were unsure how much they would have at their disposal to invest. This has decreased to 30% in 2022.



£830 billion investment into UK economy planned by SMEs



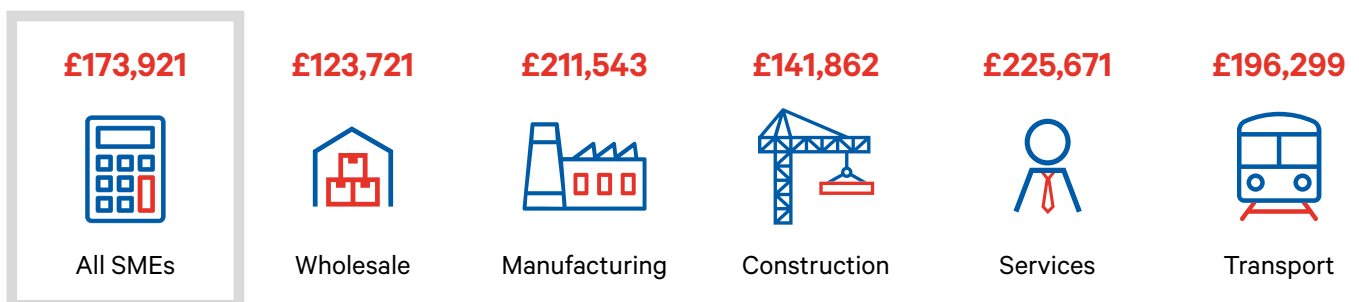
Once again, the manufacturing sector leads the pack with businesses looking at a mean investment of £211,543 each.



The picture within the services sector is patchy. On the one hand some respondents plan to invest significant sums, but on the other, more businesses said they wouldn't invest at all. And of those that said they would, almost half (44%) said they didn't know how much they might invest. It's clear that the recovery isn't universally felt within this sector.



### PLANNED INVESTMENT IN 2022



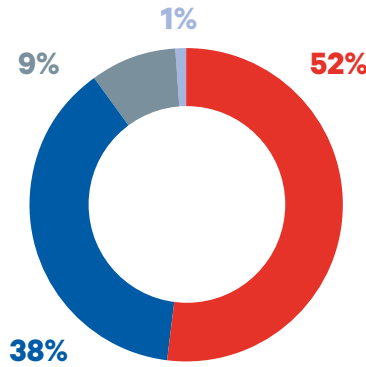
# JUST ABOUT BREAKING EVEN

Despite most SMEs feeling positive about the year ahead, it's clear that the 'here and now' is far from ideal for many businesses. We identified a new group – the Just About Breaking Evens (JABEs) – who are barely profitable. In fact, among our respondents, almost four in 10 (38%) described themselves as JABEs whilst 9% revealed they are operating at a loss.

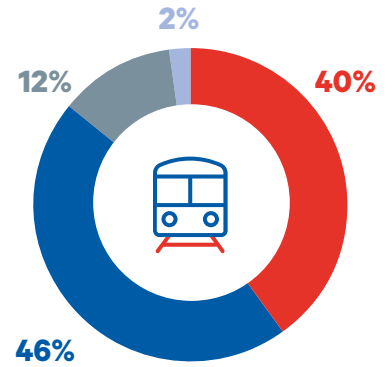
Astonishingly, only just over half (52%) of respondents described themselves as profitable.

We found many SMEs lacking the cashflow they need to invest in their business and fuel growth. A third of businesses (33%) said they don't have the cashflow needed to grow and 9% don't even have the cashflow they need to operate on a day-to-day basis.

ALL SMEs



TRANSPORT



■ We're a profitable business   
 ■ We're just about breaking even  
■ We're running at a loss   
 ■ Don't know

## SECTOR VIEW: TRANSPORT

“Although I launched JDC Haulage just before the pandemic hit, the business has proven to be resilient and I feel lucky that I have been able to offer my employees stability during such an uncertain time. That being said, I've worked in the haulage industry for over 15 years, and the current landscape we are now trying to navigate with rising costs, is genuinely worse than it was during the 2008 recession.”

**DANIEL CHAPMAN**, JDC HAULAGE



## JUST ABOUT BREAKING EVEN



It's no surprise that a great number of SMEs rely on external finance to keep going. As many as 15% of businesses rely on external finance to support their operations and 17% have a frequent need for external finance, due to substantial cashflow challenges. Over a quarter (28%) of SMEs say external finance isn't critical but that they use it to enable business growth and provide smooth cashflow – in the manufacturing industry more than a third (34%) of businesses say this is the case.

In the next 12 months, 81% of SMEs said they would be considering some sort of cash injection from external sources to support their business.

### PREFERRED FINANCE OPTIONS IN 2022



Business Loans



Credit cards



Overdrafts



Government loans



Invoice Finance



Private Equity



Asset Finance



Crowdfunding



I wouldn't consider external finance for my business

# BAD DEBT BARRIER

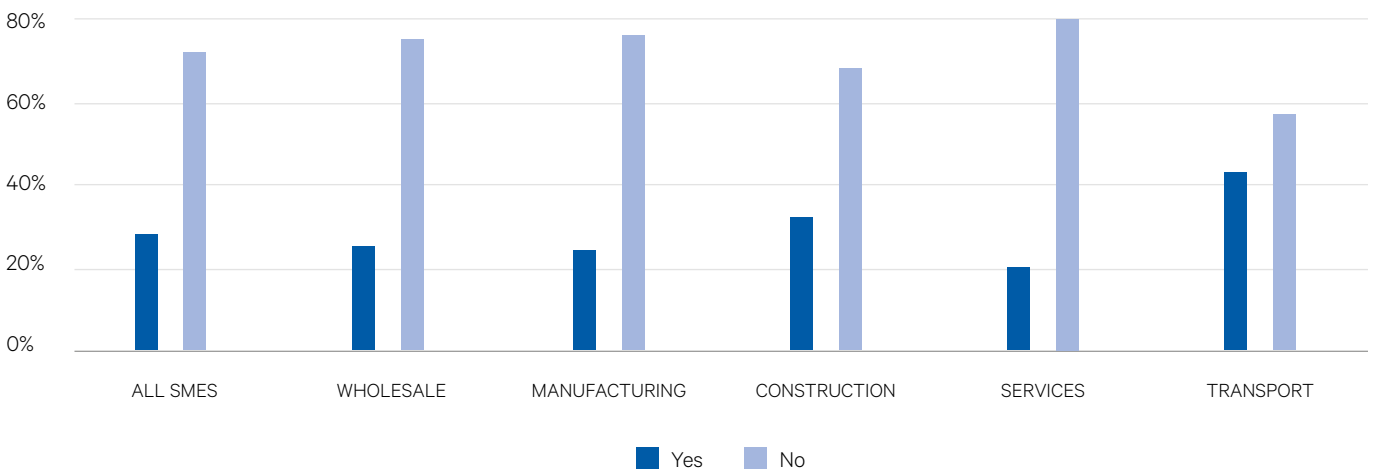
SMES HAVE WRITTEN OFF **£16 BILLION** OF BAD DEBT OVER THE PAST YEAR

When cashflow is so critical to business survival, late or failed payments can be fatal. More than a quarter (28%) of SMEs say they have suffered as the result of a bad debt in the previous 12 months – significantly higher than the 20% reported in 2021. There’s also a North / South divide when it comes to bad debt, with SMEs in the North and Midlands carrying a larger bad debt burden than those in the South.

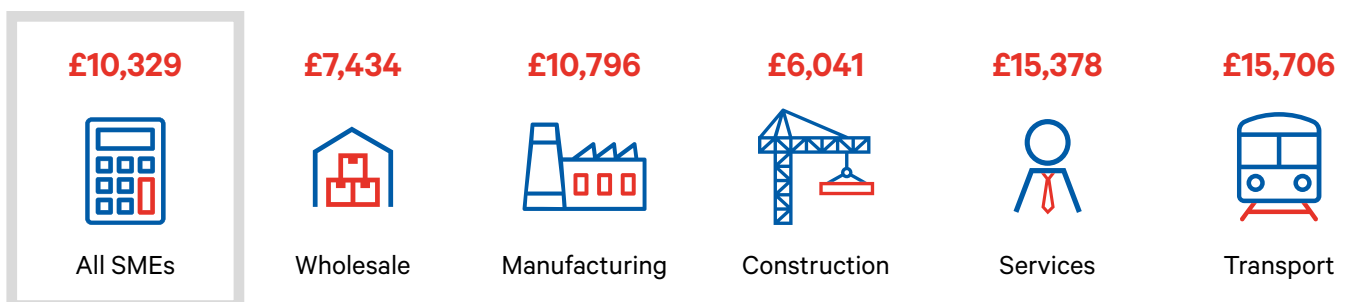
Of those businesses that have suffered a bad debt, the average amount they have written off is £10,329 per business. That equates to UK SMEs writing off more than an astounding £16 billion of bad debt over the past year.

This figure underestimates the scale of the problem with just over one in five (21%) businesses who have suffered a bad debt reporting that they have written off sums of between £20,000 and £50,000. Services and transport businesses were hit hardest by bad debt, whilst businesses in construction were the most successful at recovering some of the outstanding cash owed to them.

## THOSE IMPACTED BY BAD DEBT IN THE PAST YEAR



## BAD DEBT SUMS WRITTEN-OFF



# PAYMENT CHALLENGES

But it's not just 'no payment' it's also 'slow payment' that's hurting SMEs.

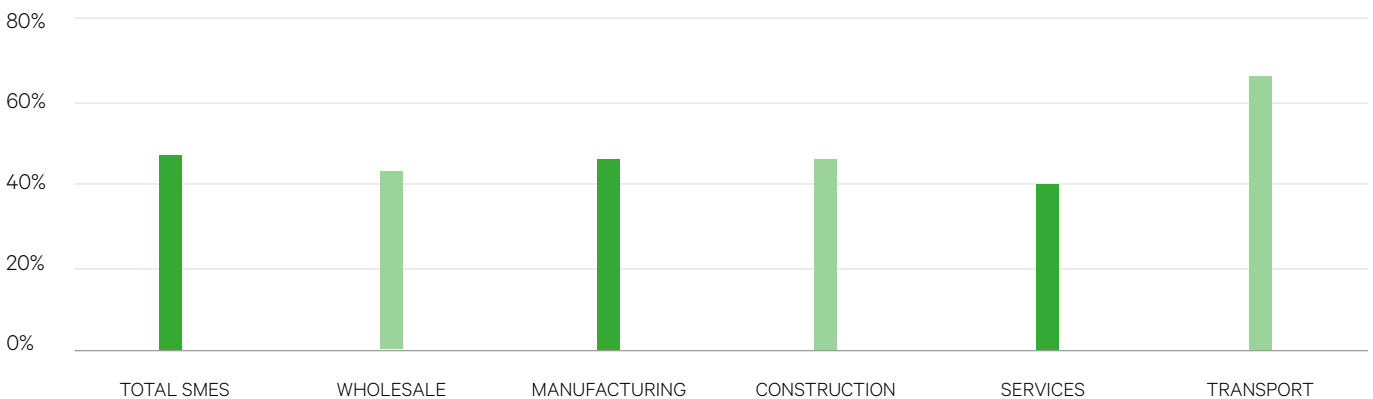
Nearly half (47%) of our respondents said that it's taking longer for customers to pay them than it did pre-pandemic, among which manufacturing and services businesses have felt the impact most keenly – 31% of businesses in these sectors report they're experiencing an average wait time of 31 days or more.

When combined, these two trends starve businesses of the cash they need to survive. Indeed, business failures remain all too real among UK SMEs. Though insolvencies in 2020 were officially 27% lower than the previous year, the figures were no doubt masked by interventions from the Treasury at the peak of the pandemic. By January 2022 total insolvencies were more than double those of the same month a year earlier.

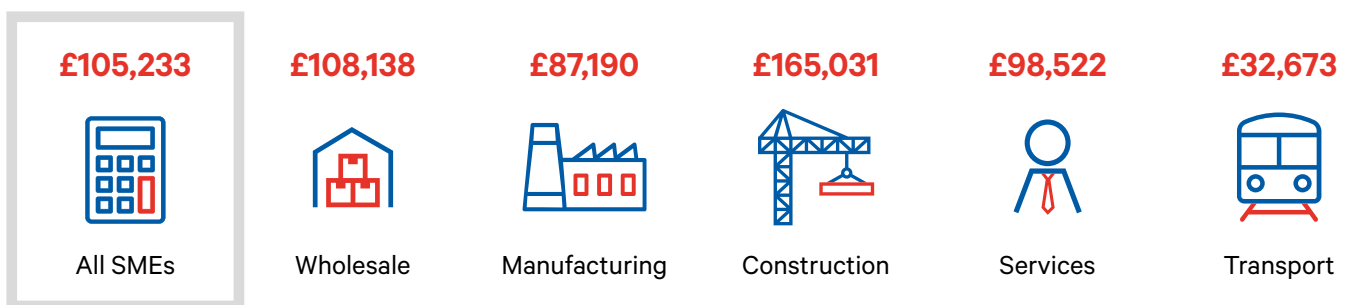
Equally, the twin impacts of late and failed payments can seriously impede the ability of businesses to invest and thrive as they emerge from the pandemic. As at today, we calculate that the average SME is owed around £105,000 in unpaid invoices – which represents over 60% of the average £174,000 of planned investment for the year ahead.

It's little wonder that many SMEs are being backed into a corner.

## THOSE THAT SAY IT'S TAKING LONGER TO BE PAID BY CUSTOMERS SINCE THE PANDEMIC



## AVERAGE AMOUNT OWED TO BUSINESSES IN UNPAID INVOICES



## 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 and fieldwork took place between 18 March and 25 March 2022.

## ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services (BFS) is a leading independent financial services partner to over 9,000 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:**

[www.bibbyfinancialservices.com](http://www.bibbyfinancialservices.com)

## CONTACT

### SEAN CASEY

Head of Corporate Communications  
Bibby Financial Services  
sean.casey@bibbyfinancialservices.com

### TRACEY COTTERILL

Global Head of Insight  
Bibby Financial Services  
tracey.cotterill@bibbyfinancialservices.com

**Connect with us on:**



as at May 2022

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