

Capify SME Business Confidence Survey

Q3 2023

Introduction

It gives me great pleasure to introduce the findings from our latest Quarterly Business Confidence survey. Over 240 SME business owners took part in our latest research, with responses coming from every sector, industry and region of the UK.

We launched the survey in the midst of the Covid-19 pandemic, to better understand the unique challenges the UK SME sector was experiencing and to adapt our services to meet their needs. Since then, we have collected over 3,000 responses to our surveys, on a broad range of subjects and topics. As always, we are enormously grateful to those owners and operators who take the time to complete our survey and tell us how they are feeling about the current business conditions and their outlook for future trading performance.

Our latest survey shows another small dip in UK SME confidence. After a modest improvement in confidence in the first quarter of this year, it seems the continued pressure of inflation and rising costs has impacted the outlook of many of our respondents in the past two quarters.

Reduced cash reserves are a large contributor to the overall fall in confidence. The survey found that the average cash in bank position has fallen in across the third quarter. On average, SMEs are reporting a cash balance of £79,554 in their business, down £22k on the previous quarter.

Brighter outlook

Potentially triggered by the hope that inflation may be falling and the interest rate rises of recent years are coming to an end, there are signs of a brighter outlook ahead. Over half of businesses are expecting to add headcount in the next twelve months, while 53% of businesses expect turnover to increase (although this is a modest decrease on Q2's level of 58%).

This tentative optimism is also being witnessed in SMEs' investment intentions. Overall, the number of areas in which respondents were looking to invest has increased quarter-on-quarter. SME owners are now looking to commit to an average of 2.55 investment activities or areas in the next 12 months. This is a sharp increase from the previous quarter, where owners expected to be funding 1.84 separate investment areas.

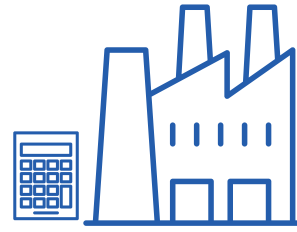
Despite these green shoots, there remain significant challenges facing smaller businesses. The period of inflationary pressure has impacted the flow of cash in and out of businesses and significant concerns about inflation, cash reserves and unpaid invoices remain.

Understanding how these conditions impact smaller businesses enables us to better serve them. We use these insights to help us tell the SME story; to raise awareness of what help is required from legislators, advisory professionals and finance providers. Furthermore, the responses help us adapt our own offering and allow us to deliver the best service we can to support and service the specific requirements of smaller businesses.

Whilst the period of economic turbulence continues, it is absolutely essential that SME owners have access to the funding they need to weather the storm. Sadly, we see that confidence in securing that financial support is waning.

SMEs will be the engine room of the UK's economic recovery, when it comes, and their financial viability is essential for future growth. At Capify, we will be there every step of the way to help smaller businesses fund their operations and fuel their growth.

John Rozenbroek
COO/CFO



Most represented
sectors:

**Business and
Professional Services
and Manufacturing
(non-food)**

Average **turnover** of respondents:

£1,705,651

Respondent profile



Average number
of **employees**:

21

Nearly **60%** of businesses
have been trading for over

15 years



Average **cash** in bank position:

£79,554

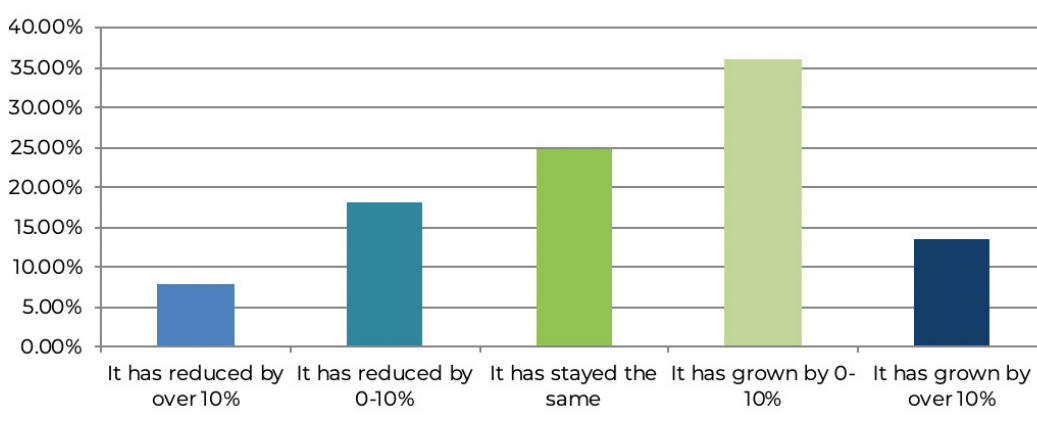
Business Performance

The Q3 2023 Survey discovers a SME community still struggling with the myriad challenges related to inflationary pressures and suppressed consumer confidence. Very few businesses are trading on the same basis as the previous quarter. Whilst there's a modest improvement in those reporting turnover and profit growth in Q3, there is also an increase in those reporting reduced turnover and profit.

49.35% have seen turnover grow in the past quarter.

25.97% reported a quarterly reduction in turnover, a 5pp decrease on Q2 2023.

HOW DOES YOUR TURNOVER FOR Q3 (JUL-SEP) COMPARE TO THE PREVIOUS QUARTER (APR-JUN)?

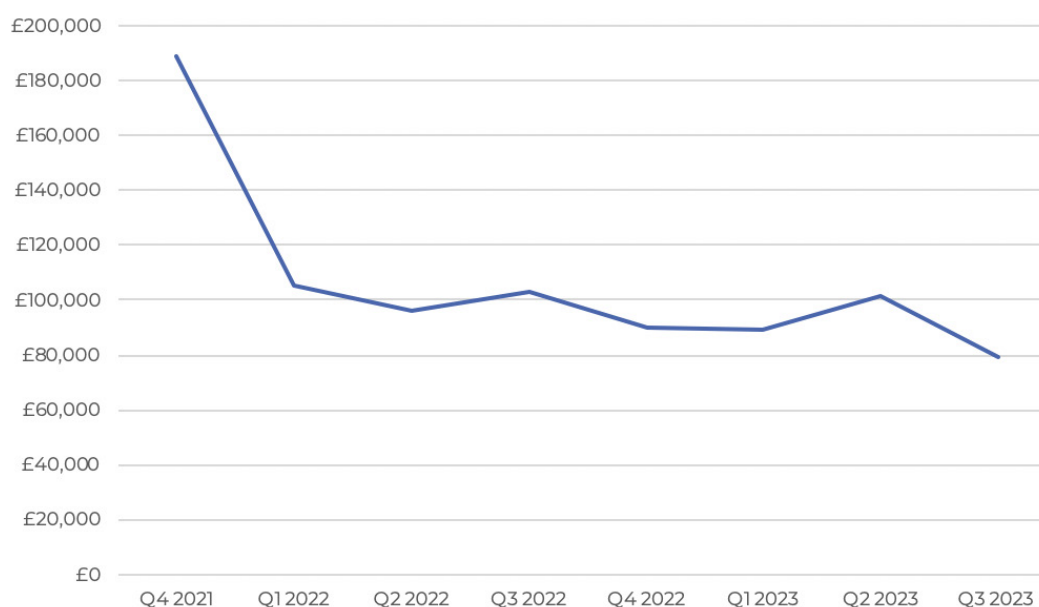


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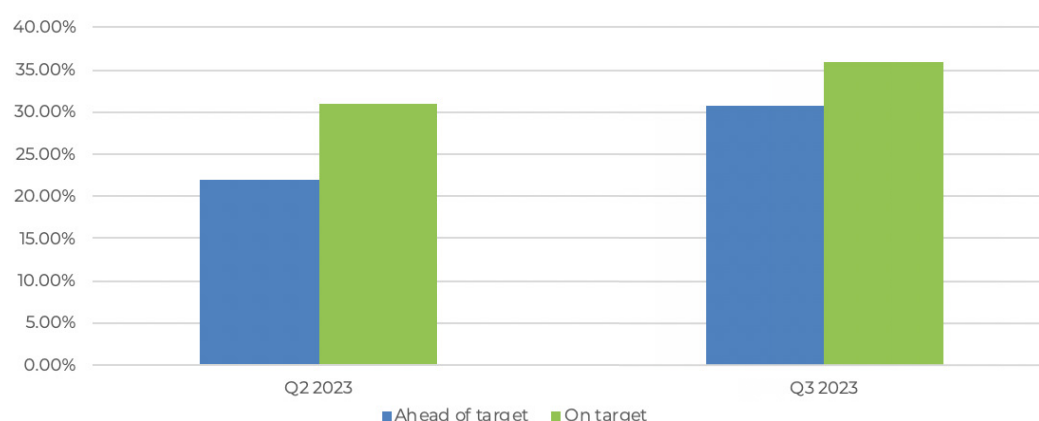
The survey found that the average cash in bank position has fallen in across the third quarter. On average, SMEs are reporting a cash balance of **£79,554** in their business, down £22k on the previous quarter.

RESPONDENTS' 'CASH IN BANK' AVERAGE



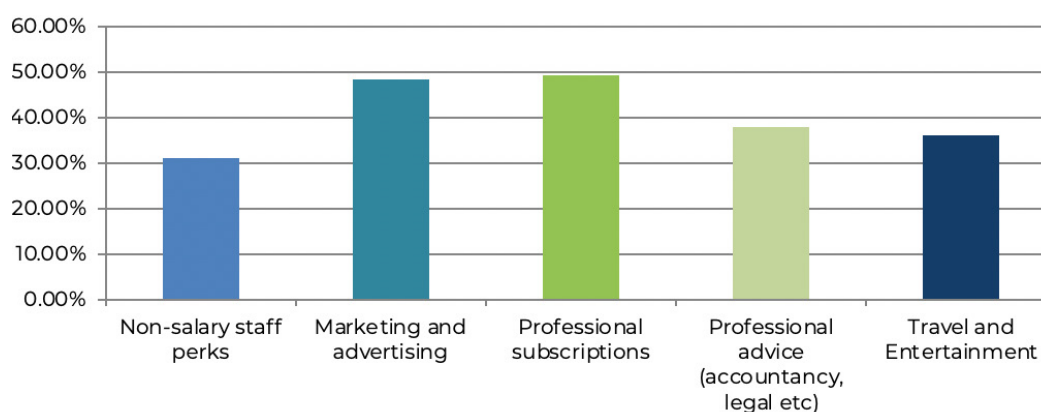
Despite the overall fall in confidence, the number of SMEs reporting that they were on target for the quarter increased by 5pp. Equally positive was the increase in the number of SMEs reporting that they were currently tracking ahead of their targets: **31%** compared to 22% in Q2.

PERCENTAGE OF BUSINESSES REPORTING BEING 'AHEAD OF' OR 'ON' TARGET IN Q3 2023



An integral part of keeping on par with – or ahead of – forecast is ensuring that discretionary costs are under control. In response to mounting inflationary pressure nearly half of firms (**49%**) have reduced spend on professional subscriptions and **48%** have reduced marketing and advertising outlays.

HAVE YOU REDUCED YOUR SPENDING ON ANY OF THE FOLLOWING AS A RESULT OF INFLATIONARY PRESSURES?



Cash collection is also a vital tactic in maintaining healthy cash flow. Our survey found that the average SME is currently sitting on **£46,138** of unpaid invoices.

49%
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Evergreen and cyclical challenges

Consistent with previous surveys, we find SME owners being kept awake at night by a range of different worries. Some are directly linked to the economic cycle and others are more evergreen.

The top five concerns for SME owners were:



1. Rising cost/ inflation

49%

(+4% on Q2 2023)



2. Managing red tape

10%

(-7% on Q2 2023)



3. Work-life balance

38%

(+4% on Q2 2023)



4. Cash flow

43%

(+7% on Q2 2023)



5. Staffing/ resource

43%

(+9% on Q2 2023)

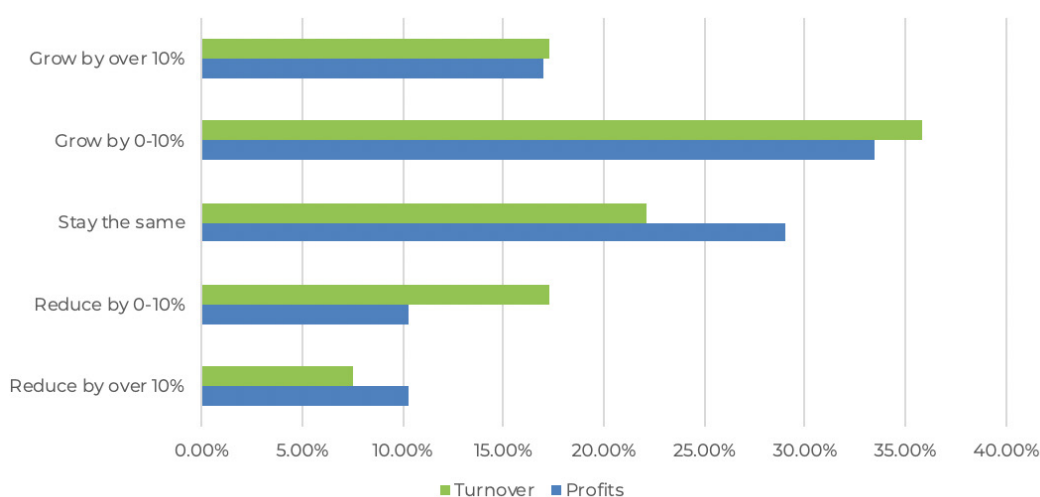
Capify has produced some practical guidance for how owners can overcome some of these evergreen challenges. You can access the article [here](#).

Business Outlook

Despite the improvements in trading against forecast, outlook for the year ahead appears dampened in survey respondents.

The level of businesses expecting turnover growth in the next twelve months has fallen by 5%, to **53%**. Whilst those expecting profits to increase over the same period has also fallen by 2pp to **50%**.

PROFIT AND TURNOVER EXPECTATIONS FOR THE YEAR AHEAD



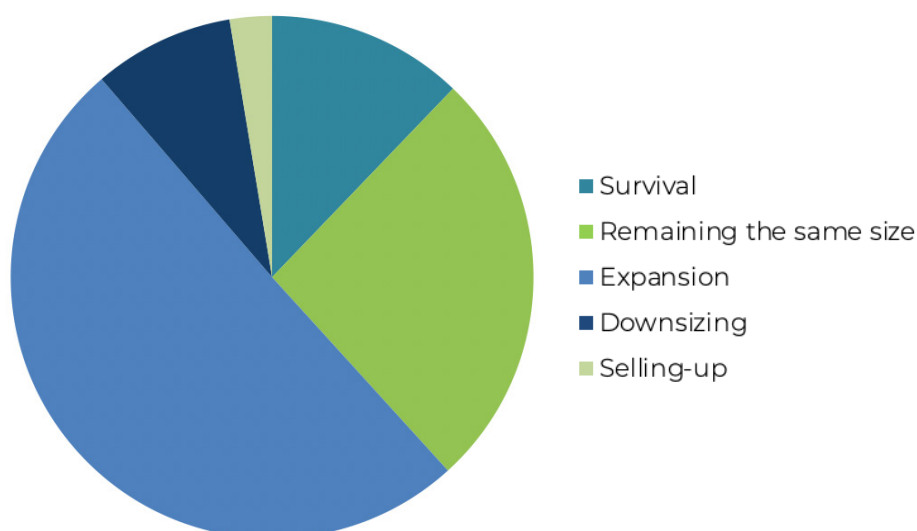
There is slightly more optimism when we look at SMEs' hiring intentions however. **57%** of firms expect to increase their headcounts over 2023/4, a significant 16pp increase on the Q2 survey finding.

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It seems that at least some of this headcount growth may be to address existing staff shortages rather than expansion. Indeed, only **50%** of firms are planning business expansion over the next 12 months (compared to 59% in Q2 2023).

WHAT ARE YOUR AMBITIONS FOR THE BUSINESS OVER THE NEXT 12 MONTHS?



Of those who aren't expecting expansion, **23%** cite cashflow and working capital as a barrier to growth.

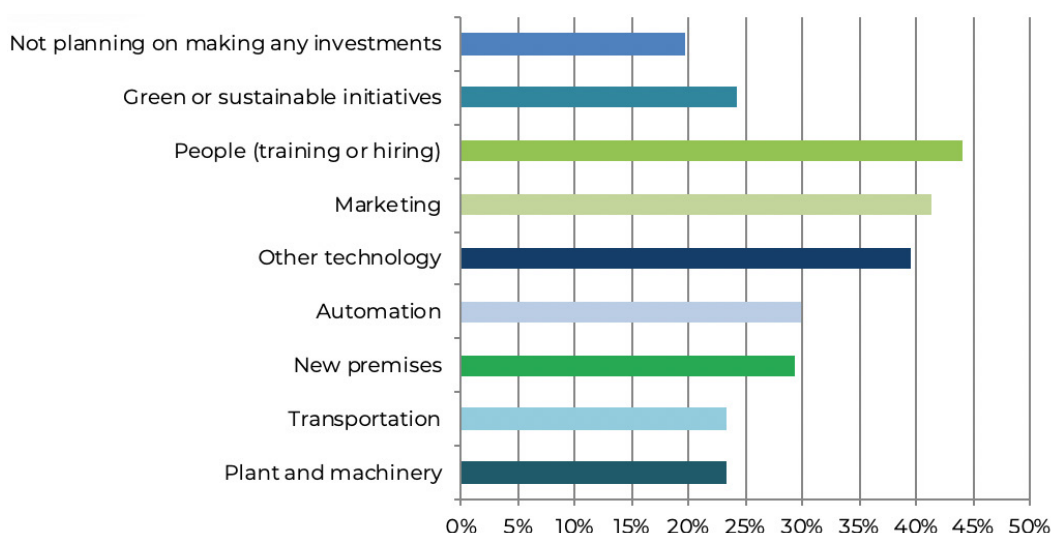
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Investment

Overall, the number of areas in which respondents were looking to invest has increased quarter-on-quarter. Our survey found that SMEs were looking to invest in **2.55** areas across their business (compared to 1.82 in Q2 2023). The survey reports that, on average, SMEs will commit **£44,659** to areas of investment this year, a 10% increase on the £40k of estimated spend in Q2 2023.

Perhaps in recognition of continuing issues with the labour market, investing in people (training and hiring) was the most frequently cited area of planned investment.

DO YOU EXPECT TO BE INVESTING IN ANY OF THE FOLLOWING AREAS IN THE NEXT 12 MONTHS?

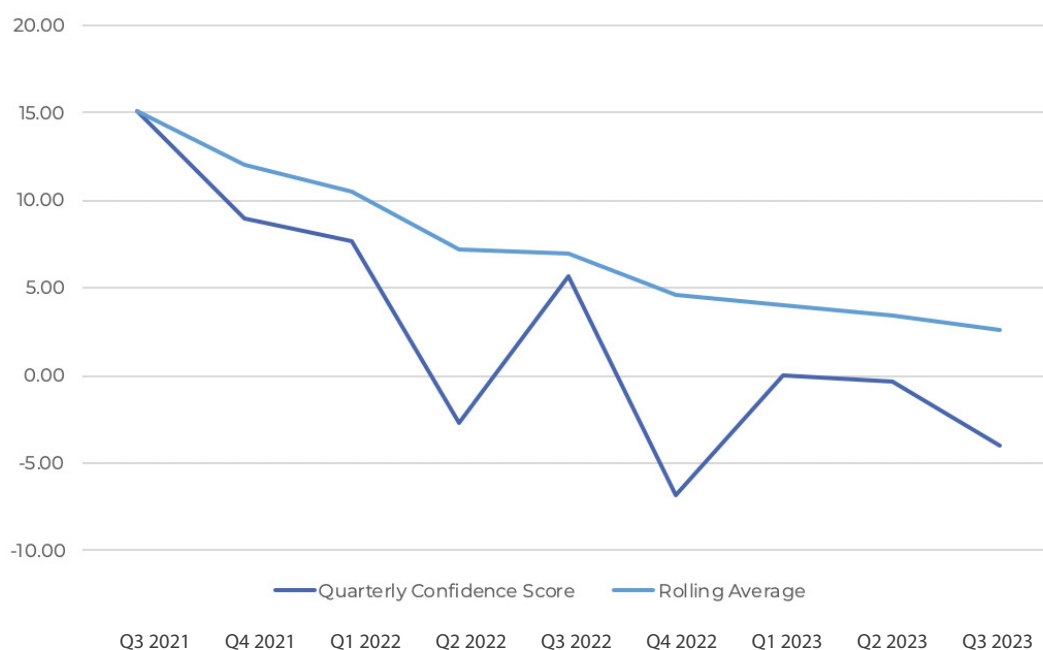


The Q3
Confidence Score
now sits at
-4%

Despite this increase in appetite for investment, the Survey's overall outlook score showed a sharp decrease on the previous quarter. The Q2 Confidence Score now sits at **-4.00** compared to -0.35 in the previous quarter.

The Survey uses business owners' responses on business performance, confidence, and investment intentions to produce an overall confidence score between -10 (very unconfident) and +20 (highly confident).

CAPIFY CONFIDENCE SCORE



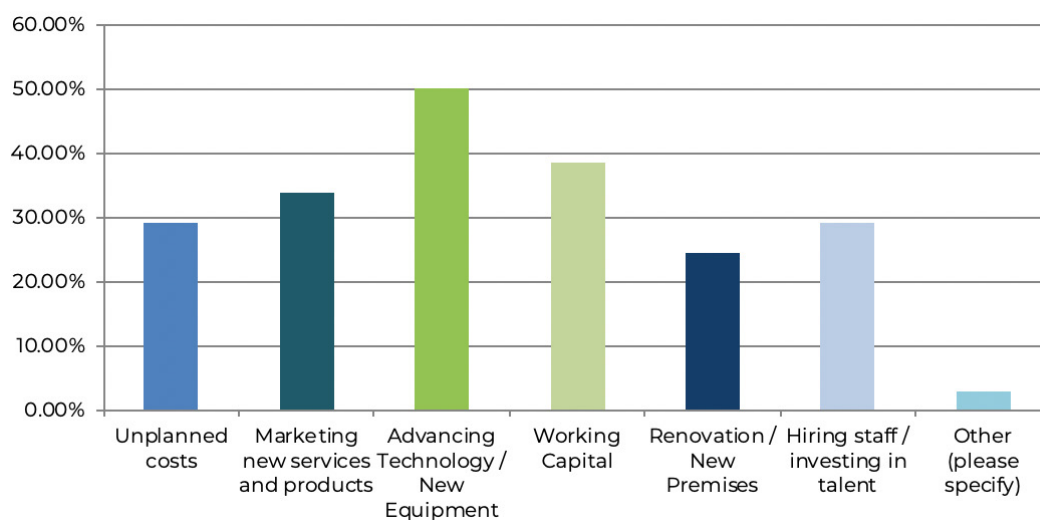
Finding funding

SME access to finance continues to be problematic, with a worrying **57%** of firms not confident of being able to secure external finance from their existing banking partners.

Two in three owners reported having required external funding to help cash flow issues and/or working capital shortfalls in the past. Only **33%** of those individuals secured that funding from a bank, whilst **50%** found financial support through an alternative lender or other, non-traditional, sources.

For those who are expected to require external funding in the near future, **50%** would use that money for advancing the business' technology or for financing new equipment. **38%** feel that that working capital or cash flow challenges would be the reason they would need an injection of finance – a 5pp increase on Q2 2023.

IF YOUR BUSINESS WERE TO NEED FINANCE, WHAT WOULD IT BE DRIVEN BY?



**Capify Confidence
Survey Contact:**

Ian Wood, Marketing Director
iwood@capify.co.uk
0161 393 9536