

# Capify SME Business Confidence Survey

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Q4 2023

# Introduction

I am delighted to introduce the latest findings from our most recent Quarterly Business Confidence survey. Running throughout December, we asked respondents to reflect on their business performance across the final quarter of 2023 and to speculate on their prospects for the year ahead.

250 SME business owners took part in our latest research, with responses coming from every sector, industry and region of the UK.

Now in its third year, the survey is an invaluable opportunity to better understand the challenges facing SME owners today and gauge their hopes and fears for the times ahead. As always, we are enormously grateful to those owners and operators who take the time to complete our survey.

Our latest survey shows that UK SME confidence remains at its lowest level since Q4 2022, with smaller business owners grappling with ongoing financial, market and staffing challenges.

The survey found a fall in the number of businesses reporting turnover and profitability growth in the final quarter of the year. These findings reflect ongoing challenges related to unpredictability and difficulty in accurately forecasting future business performance. Accordingly, we found a significant number of SMEs reporting that they were behind targets for the quarter (and the year).

Despite the prevailing operating challenges denting the confidence of UK SMEs, the outlook for the year ahead is more bullish. Perhaps buoyed by positive indications that the worst of the most recent economic challenges may be behind us, the majority of SMEs are expecting turnover and profits to grow in 2024.

These may be the first signs of the green shoots of recovery, but 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.

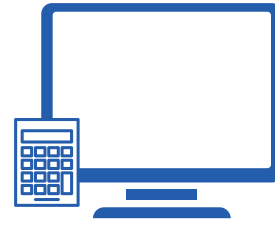
Understanding how these conditions impact smaller businesses enables us to better serve them. We use these insights to help us tell the SME story; to raise awareness of what help is required from legislators, advisory professionals and finance providers. Furthermore, the responses help us adapt our own 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. Unfortunately, we see that confidence in securing that financial support is low.

There is more optimism for the year ahead than there was at this time last year. And, when it does arrive, SMEs will be the engine room of the UK's economic recovery. Their financial viability is essential for future growth and, at Capify, we will be there every step of the way to help smaller businesses fund their operations and fuel their growth.

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**John Rozenbroek**  
COO/CFO



Most represented  
sectors:  
**Professional and  
Business Services  
and IT**

We received  
**243**  
survey responses  
from a range of small  
businesses across  
the UK

Average **turnover** of respondents:

**£2,468,018**

## Respondent profile



Average number  
of **employees**:

**23**

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

**15 years**



Average **cash** in bank position:

**£ 92,653**

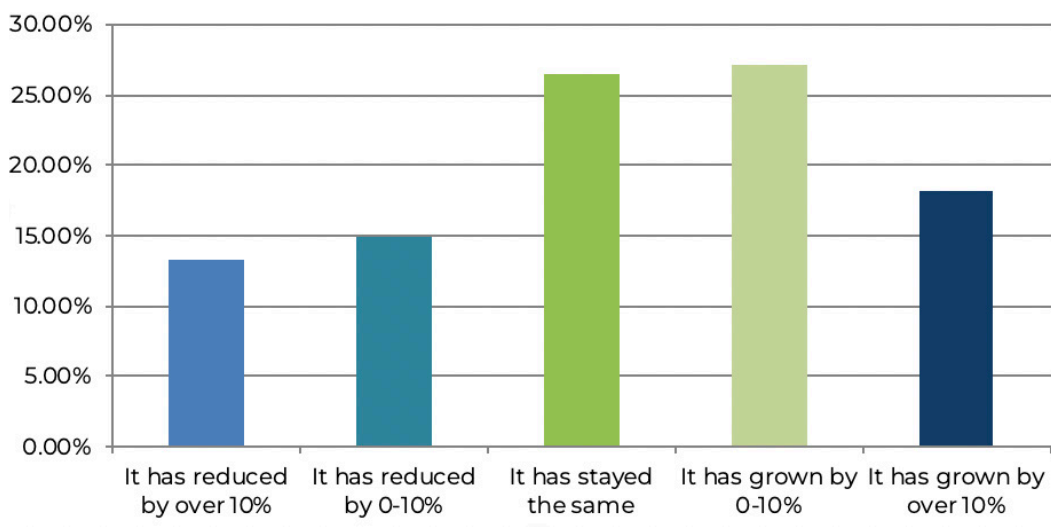
# Business Performance

The Q4 2023 Survey reveals a volatile operating environment with only a quarter of businesses trading on the same basis as the previous quarter. The myriad challenges of the past year – including inflation, high interest rates and reduced consumer confidence – have made for particularly challenging times. Accordingly, the number of businesses reporting quarterly turnover growth has reduced, whilst the number reporting a reduction in turnover has increased.

**45%** have seen turnover grow in the past quarter, a 4pp drop on Q3 2023

**28%** reported a quarterly reduction in turnover, a 2pp increase on Q3 2023

HOW DOES YOUR TURNOVER FOR Q4 (OCT-DEC) COMPARE TO THE PREVIOUS QUARTER (JUL-SEP)?



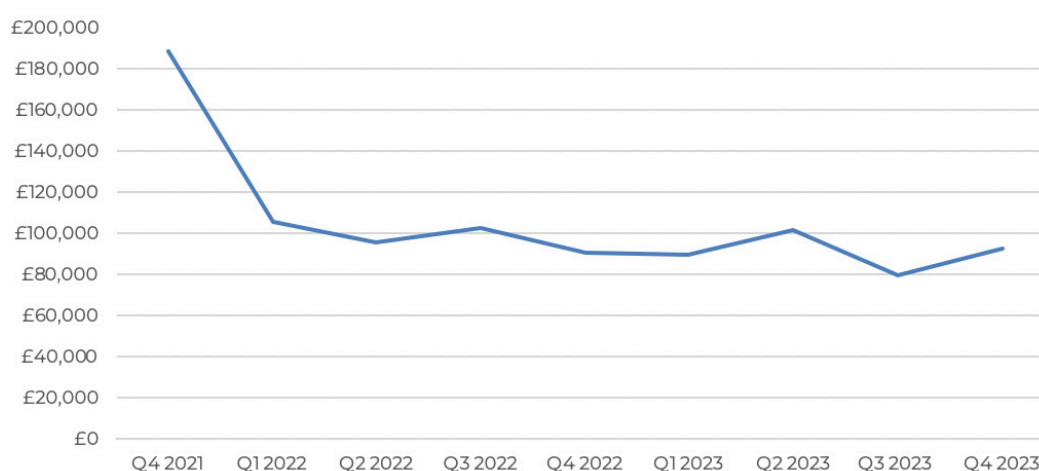
**45%**

have seen turnover  
grow in the past  
quarter

**25%**  
are currently  
tracking ahead of  
their targets

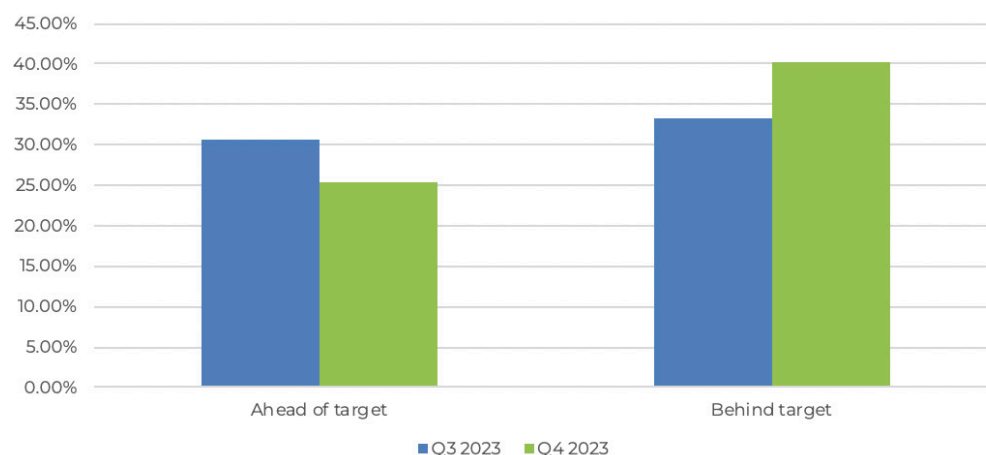
The survey found that the average cash in bank position has increased across the fourth quarter. On average, SMEs are reporting a cash balance of **£92,653**, an increase of £13k on the previous quarter.

#### RESPONDENTS' CASH IN BANK POSITION



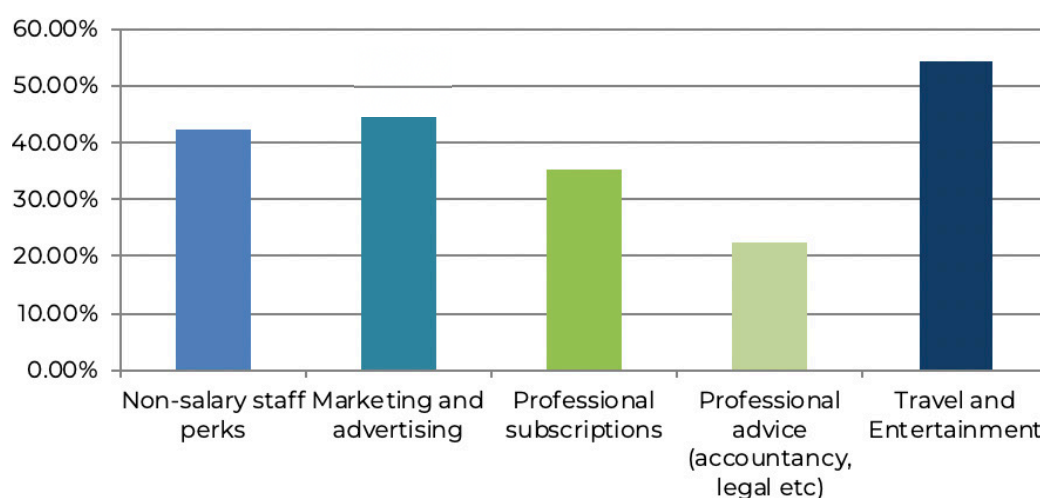
A significant contributor to the overall low level of confidence, the number of SMEs reporting that they were behind target for the quarter increased by **7pp**. Correspondingly, the number of SMEs reporting that they were currently tracking ahead of their targets fell to **25%**, compared to 31% in Q3.

#### PERFORMANCE AGAINST TARGET Q3 V Q4 2023



Cost control is an integral part of keeping performance on track when revenues drop. In response to mounting inflationary pressure, over half of firms (**55%**) have reduced spend on travel and entertainment, whilst **44%** 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 **£31,726** of unpaid invoices.

**44%**  
have reduced  
marketing and  
advertising outlays

# Evergreen and cyclical challenges

The survey found some evidence to suggest that SMEs are developing a growing resilience to the turbulence of the last few years. The average number of issues keeping smaller business owners awake at night has fallen to **2.71** – a reduction of 0.88 on Q3's finding.

Some of the major shifts in SME worries in Q4 2023 were:



**Cash flow**

**45%**

(+2% on Q3 2023)



**Taxes and other business expenses**

**26%**

(-11% on Q3 2023)



**Staffing/resource**

**26%**

(-18% on Q3 2023)



**Managing red tape**

**14%**

(+4% on Q3 2023)



**Finding new customers**

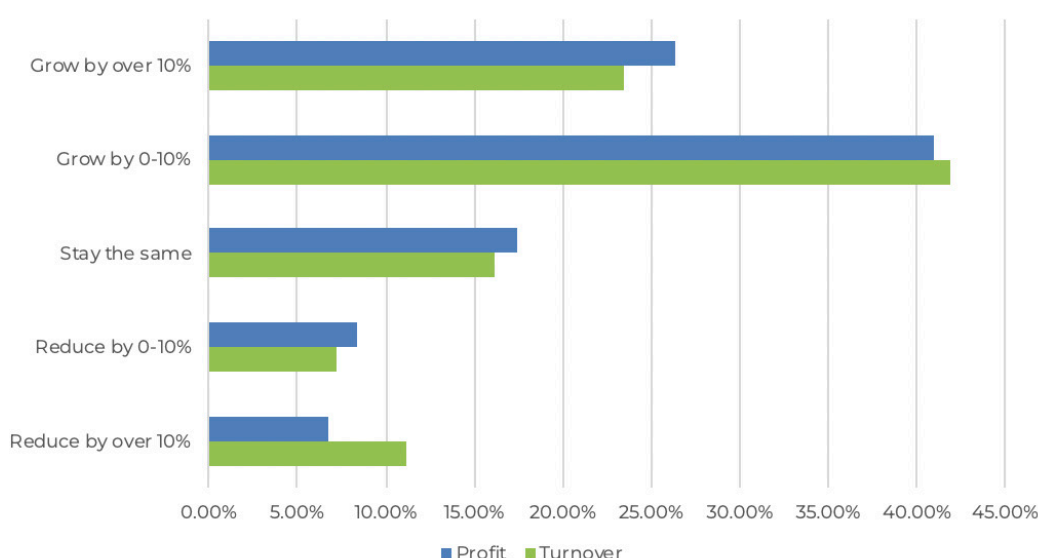
**40%**

(-6% on Q3 2023)

# Business Outlook

Despite the prevailing operating challenges denting the confidence of UK SMEs, the outlook for the year ahead is more bullish. Perhaps buoyed by positive indications that the worst of the most recent economic challenges may be behind us, **65%** of SMEs are expecting turnover to grow in 2024 whilst **67%** expect to grow profits in the same period.

PROFIT AND TURNOVER EXPECTATIONS FOR THE YEAR AHEAD



There is slightly less optimism when we look at SMEs' hiring intentions however. Only **38%** of firms expect to increase their headcounts over 2023/4, a significant 19pp drop on the Q3 survey finding.

## 38%

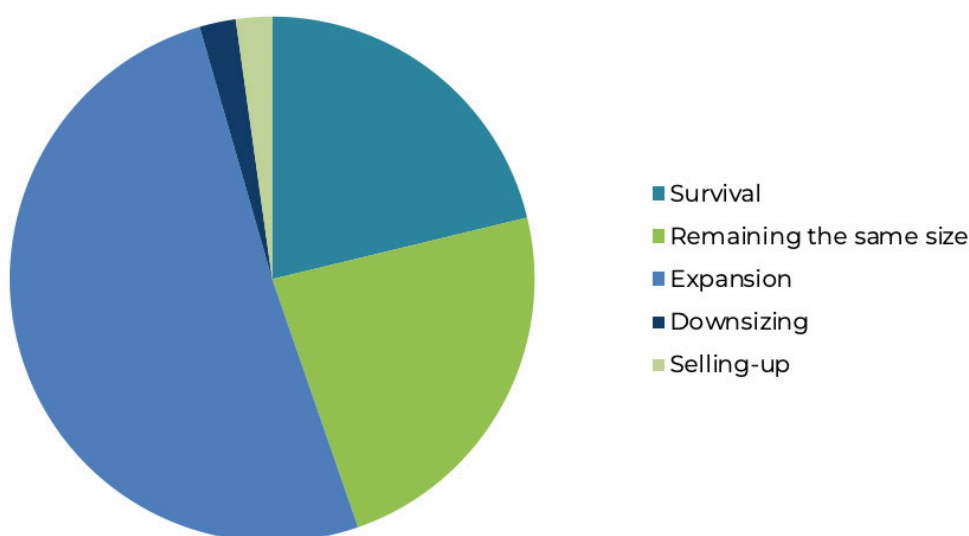
of firms expect  
to increase their  
headcounts over  
2023/4



Of those firms expecting headcount growth, the departments in which roles are to be added are operations (**32%**) and sales/marketing (**21%**).

In terms of overall ambition, roughly **half** of SMEs are planning to expand their operations in 2024 – a finding consistent with the previous quarter. Whilst just over **1 in 5** are simply aiming to survive the year ahead.

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



Of those who aren't expecting expansion, **31%** cite cashflow and working capital as a barrier to growth (a 9pp increase on Q3).

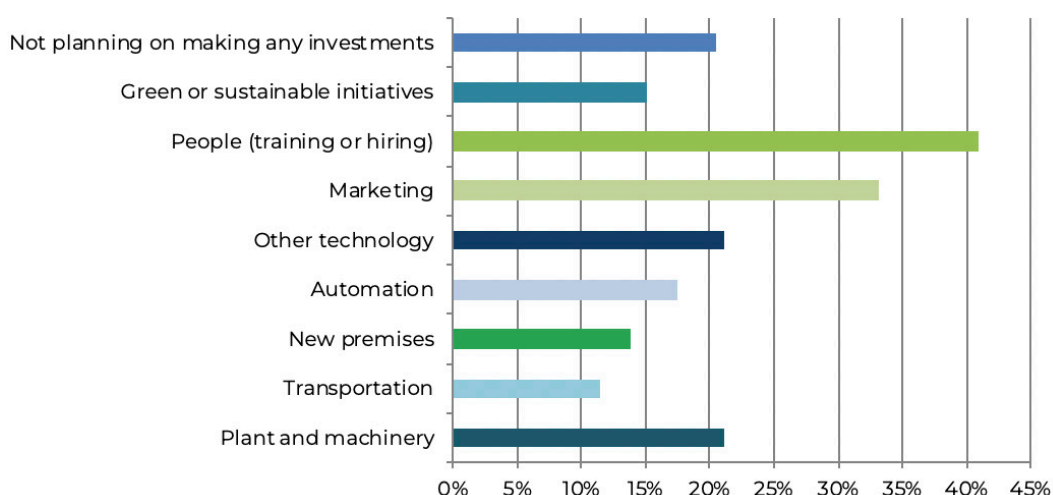
**50%**  
of firms are  
planning business  
expansion over the  
next 12 months

# Investment

Overall, the number of areas in which respondents were looking to invest has decreased quarter-on-quarter. Our survey found that SMEs were looking to invest in **1.82** areas across their business (compared to 2.55 in Q3 2023). The survey also reports that, on average, SMEs will only commit **£21,169** to areas of investment this year, a significant downgrade on the estimated spend of £44k in Q3.

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?

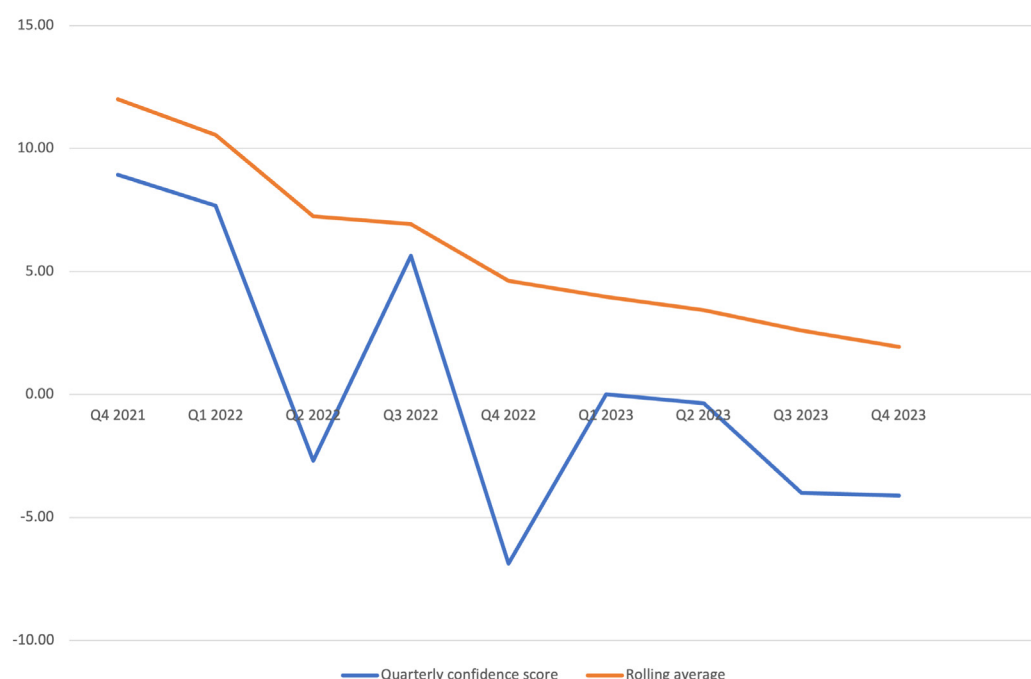


The Q3  
Confidence Score  
now sits at  
**-4.1%**

Despite this decrease in appetite for investment, the survey's overall outlook score remained consistent with the previous quarter. The Q4 Confidence Score now sits at **-4.1** compared to -4 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



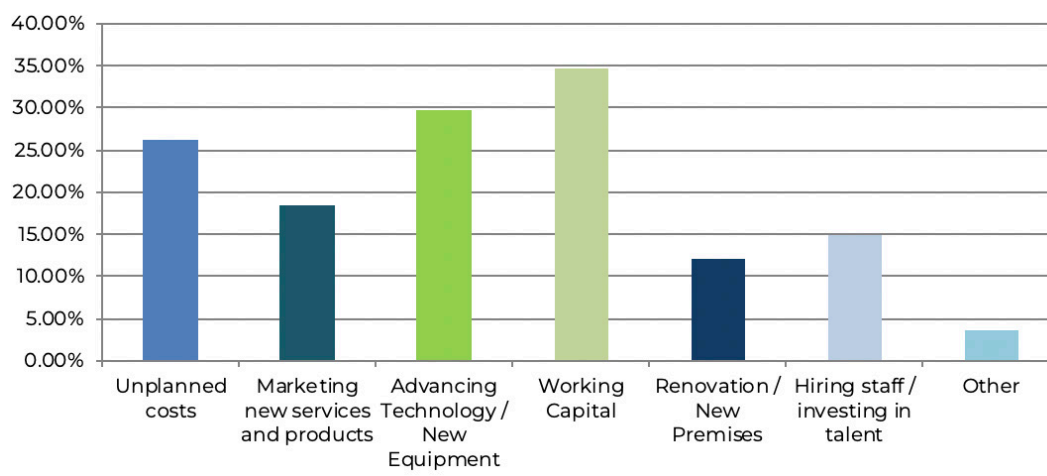
# Finding funding

SME access to finance continues to be problematic, with **48%** of firms not confident of being able to secure external finance from their existing banking partners.

Nearly half of owners reported having required external funding to help cash flow issues and/or working capital shortfalls in the past. Only **30%** of those individuals secured that funding from a bank, whilst **55%** 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, **35%** feel that that working capital or cash flow challenges would be the reason they would need an injection of finance. **30%** would seek external finance to fund an investment in technology or equipment.

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



**Capify Confidence  
Survey Contact:**

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**For more details about Capify, visit: [capify.co.uk](http://capify.co.uk)**