

UK SMEs: Brexit and Beyond



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Introduction

Small and medium-sized enterprises (SMEs) make up [99.3% of all private sector businesses](#) and contribute a combined annual turnover of £1.9 trillion to the UK economy.

Tim Vine, Head of European Trade Credit
Dun & Bradstreet

While the UK is still ranked in the [top ten most competitive economies](#) by the World Economic Forum, this is far from assured after Brexit. The health of our small businesses will be critical to the country's future. In these times of uncertainty and rapid change, it's more important than ever to understand the position of SMEs – the environment where they operate, the biggest challenges and opportunities, and their plans beyond Article 50.

Our latest survey of SMEs shows that business confidence has dropped by 19% in the last 12 months. Although uncertainty might not be surprising as Brexit approaches, nearly a third of SMEs are considering leaving the UK altogether – a concerning trend that could jeopardise the future of the sector.

Although there has been government commitment to tackling late payments, this remains a prevalent challenge for small businesses. Those we surveyed have seen the average amount owed to them rise by almost a quarter from £64,000 in 2017 to £80,000 in 2018, impacting cash flow and future growth. Financial support can help bridge financial gaps and help SMEs take their next big step, whether as a start-up or a scaling business – but only 43% of respondents received financial support this year.

Small business leaders point to other factors impacting growth, including the adoption of new technology, recruitment of the right talent, and managing compliance with new regulations like the GDPR. It continues to be a turbulent environment for business leaders, and 65% of SMEs felt that there should be more support from government to help them weather current challenges.

The next 12 months will be pivotal for the future of the UK economy and the small businesses vital to it. Luckily, small businesses are resilient. Over half (58%) are confident that their business can achieve financial growth over the next five years, suggesting that SMEs remain optimistic and determined to succeed.

SME business confidence has dropped by 19% in the past year.



Changing times

It's common to focus on large businesses when considering the impact of economic, regulatory, and political change. But business leaders surveyed make it clear that these factors also have a critical impact on the prosperity and confidence of small and medium-sized enterprises.

In our 2017 survey, the single most important (and negative) external factor for SMEs was Brexit. This remains top of mind, but this year's results suggest that concerns are more centred on the wider issues linked to the UK's imminent departure from the European Union.



Three quarters (75%) of small business leaders see recruitment of the right talent as having the most impact on their future growth. Many are concerned about potential skills shortages caused by curbs on migration; 41% believe Brexit could negatively impact their ability to recruit the right talent in the future.

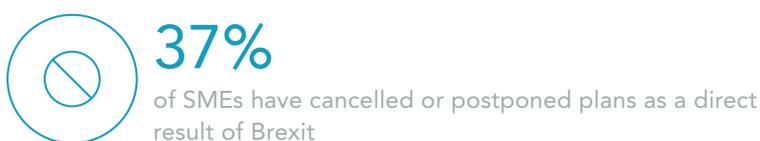
SME have also been impacted by the fluctuating value of the pound, with 69% of respondents saying this has had an impact. Currency values are critical to small businesses who are importing and exporting to and from other countries, and the final trading arrangements post-Brexit will undoubtedly impact the future of many of the UK's SMEs.



BREXIT LOOMS LARGE

Nearly two thirds (64%) of respondents say that the outcome of Brexit is most important for their success. With only months until the UK's exit from the EU, many aspects of the final settlement are still to be finalised and the impact of this uncertainty has been felt by many businesses. Two fifths (40%) of respondents indicate that Brexit has significantly slowed their growth.

And it has impacted businesses' strategies, with 37% cancelling or postponing plans in the last year as a direct result of Brexit, a slight increase from 35% in 2017. Evaluating Brexit's impact on their business is a top priority for 31% of SMEs.



41% believe Brexit could negatively impact their ability to recruit the right talent in the future

SECTOR FOCUS: DUN & BRADSTREET'S UK INDUSTRY REPORT

SME SALES BY SECTOR FROM 2017 TO 2018:



BUSINESS FAILURES BY SECTOR FROM Q4 2017 – Q3 2018



INCREASE IN NEW BUSINESSES STARTED IN 2018 COMPARED TO 2017



**Ed Thorne, Managing Director UK
Dun & Bradstreet:**

“Change is an accepted constant in the business landscape but can be particularly challenging for small businesses who operate in a competitive marketplace and have less cash reserves and resources to draw on to help them through turbulent times.

“Confidence in future financial success amongst respondents appears to have taken a significant hit – down from 77% in 2017 to 58% in 2017 – and our survey shows that SMEs have been impacted by uncertainty around Brexit as well as fluctuations in the value of the pound, changing business rates, and the introduction of new regulation.

“It’s always difficult to plan for the unknown, but SMEs are looking at contingency planning around Brexit and reviewing potential impact on their supply chains, customer bases, and business relationships – all of which can help to mitigate risk and impact on their business.”

Changing times (cont.)

BREXIT LOOMS LARGE (CONT.)

Views on the impact of Brexit vary according to business size and revenue. While 14% of businesses with a turnover of up to £100,000 report they have been significantly impacted, this rises to 50% of those with £500 million or more.

Some SMEs have even reached the conclusion that their business might be better off outside of the UK, with 31% admitting that they have considered leaving the country to gain better support and increase their chance of success.

Ongoing uncertainty is clearly taking its toll.



WIDER CHALLENGES

SMEs have also had to contend with other challenges in the last 12 months. Two thirds (67%) say that the introduction of the General Data Protection Regulation (GDPR) has impacted their growth, which is a reminder of the effect that meeting new regulatory obligations can have for smaller organisations.

The significance of business rates reform was highlighted by 64% of SMEs. This is likely to reflect the fact that properties were re-evaluated in 2017, which saw an increase in the taxation applied to many small businesses. This concern may be mitigated in the months ahead, after the Chancellor of the Exchequer announced a cut in rates for smaller businesses as part of the 2018 Autumn Statement.

No two SMEs are the same, and there is a significant range in the challenges faced by SMEs according to the sectors and regions where businesses operate.

The fluctuating value of the pound has impacted professional services the most (80%), followed by manufacturing and health (both 72%).

By contrast, the GDPR has impacted manufacturers the least, with 48% saying they have not been affected, compared to 83% of professional services firms who have felt the impact.

This is a useful reminder that while Brexit remains important, small and medium-sized businesses are influenced by a wide range of factors that can help or hinder their success.

PERCENTAGE OF SMEs WHO HAVE SEEN A SIGNIFICANT IMPACT OF BREXIT ON GROWTH BY AVERAGE ANNUAL TURNOVER

Brexit has significantly impacted growth in my business



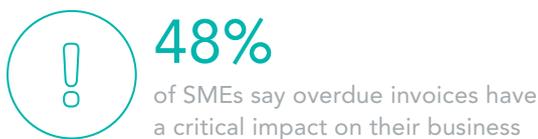
THE FACTORS THAT HAVE MOST SIGNIFICANTLY IMPACTED BUSINESS GROWTH FOR EACH SECTOR



Even later payments

Late payments continue to be a critically important issue for small and medium-sized enterprises. Smaller businesses are typically more dependent on cash flow than their larger counterparts, with smaller cash reserves and fewer options to fall back on while awaiting payments.

Overdue invoices can have a hugely damaging impact on operations. Half (48%) of SMEs surveyed say this has a critical impact on their business.



But despite growing media and government focus, the problem of late payments appears to be getting worse.

Over the past 12 months, SMEs were owed an average of £80,141 in late payments, nearly a quarter more than in 2017 when the average was £63,881. Nearly a fifth (17%) are owed between £100,000 and £500,000.

The average amount owed in late payments has increased by nearly 25% in the past 12 months.

In London, the average overdue payment is considerably higher at £107,766.

Poor payment practice appears to be a widespread phenomenon. And it's not just large companies who are the worst offenders,

as is often widely reported. Survey respondents reported a problem across the board with 28% of late payments from large businesses, 28% from fellow small businesses and 27% from the public sector.

IMPACT ON THE BOTTOM LINE

Late payments put pressure on the finances and stability of small businesses. The most common consequences for SMEs are:

- Cash flow difficulties (31%)
- Delayed payments to SMEs' own suppliers (28%)
- Ceasing the supply of goods and services to late-paying customers (25%)

The personal impact of late payments can be significant, as 15% of business leaders say that they have used their own savings or assets to cover the shortfall.

Nearly half (48%) of SMEs even say that overdue payments put their business at risk of failure. Perhaps unsurprisingly, two-thirds (63%) say that late payments have the most significant impact on their business of *any* external factor.



48% of SMEs say that overdue payments put their business at risk of failure

Overdue invoices frequently force SMEs to delay payments to their own suppliers, perpetuating the issue and creating challenges throughout the supply chain. Changing the payments culture at larger organisations could have a significant impact throughout the business community.

ADDRESSING THE ISSUE

There are demands from across the business community for measures to tackle poor payment practice, with the Federation of Small Businesses (FSB) calling on government to introduce penalties for late-paying public bodies and to automatically pay interest on overdue cash.

In October 2018, the [government announced proposals](#) to empower trade bodies, such as the FSB, to highlight the worst offenders and create further pressure for change.

Government departments will also aim to pay undisputed invoices to SMEs within five days, to improve their own payments practice and set an example for others.



62%

of SMEs believe legislation is needed to tackle late payments

However, many SMEs want to see tougher action. Nearly two-thirds (62%) believe that legislation should be passed to tackle the issue, while 63% would want financial penalties in place to penalise offenders.



63% of SMEs want financial penalties in place to penalise those who pay late

Tim Vine, Head of European Trade Credit, Dun & Bradstreet:

"Late payments are a very real issue for SMEs. Overdue invoices can have a significant impact on cash flow and stifle growth. SMEs are often dependent on larger enterprises, so it can be difficult to simply walk away from a customer just because they are not paying on time.

"The government has made positive moves to tackle the issue in the last 18 months, including the Prompt Payments Code and setting out the intention to improve its own payments performance.

"However, our survey shows that the average payment is increasing so there is clearly more to do to support small businesses in the difficult months ahead. SMEs can help to protect themselves by understanding the previous payment behaviour of customers and potential customers to mitigate the impact on their cash flow."

Finding finance

In addition to focusing on day-to-day challenges such as late payments, many small and medium-sized enterprises are also looking ahead at investing in the future, and for that, it's critical that they have access to both finance and support.

Considering all external factors, 67% of SMEs say that the availability of finance has a significant impact on their business success, with small businesses in London (83%), Scotland (82%), and the North East (75%) being impacted the most.



67%

of SMEs say that the availability of finance has a significant impact on their business success

The number of SMEs receiving financial support appears to have remained unchanged. In both 2017 and 2018, 43% received financial support whereas 57% did not.

The sources of that capital are varied, with changes in the balance taking place over the last 12 months. The most popular sources of funding are:

- A business loan from bank (42%)
- A personal loan from a friend or family member (27%)
- Private investor (25%)
- A government scheme (25%)



65% of SMEs believe that government could do more to support them

ALTERNATIVE SOURCES

Banks are under pressure to offer more support to small businesses, particularly in the wake of revelations about the treatment of SMEs by large organisations during the financial crisis.

However, there has been a notable decline in the proportion of SMEs receiving support from banks, dropping by a nearly fifth from 58% in 2017 to 42% in 2018. This could be due to less availability or less SMEs applying for loans due to the current uncertain environment.



42%

of SMEs are receiving finance from banks compared to 58% in 2017

This trend might equally reflect the growing availability of alternative finance options. SMEs are increasingly accessing funding competitions (15%) or crowdfunding (12%) sources.

With all of these options, a quarter of SMEs (24%) would find an overview of available funding sources useful.



15%

of SMEs are accessing funding competitions

12%

of SMEs are getting finance from crowdfunding sources

25% of SMEs have received non-financial support from banks and insurance companies

BEYOND MONEY

There is also a wider need for non-financial support for SMEs, to ensure that business leaders have the guidance and mentorship needed to grow.

Many business leaders are already benefitting from this support. A quarter (25%) have received non-financial support from banks and insurance companies, while a similar proportion (24%) drew on a forum of their SME peers.

A further fifth (21%) received non-financial support from local government.

Notably, two-thirds (65%) of small business leaders believe that government could do more to support SMEs. Ultimately, accessing both financial and non-financial support will be vital for the future.

Tim Vine, Head of European Trade Credit, Dun & Bradstreet:

“Finance is critical for enabling small and medium-sized businesses to grow, and getting the best credit terms possible can make a significant difference to their prospects. The government has recognised the need to drive greater access to finance for smaller enterprises and create more competition between lenders. Designated Credit Reference Agencies are now able to access lending data from the larger banks, delivering increased transparency across the marketplace.

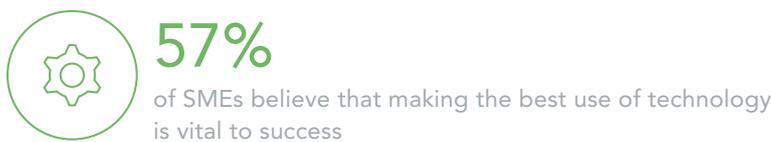
“When considering applying for finance, there are also measures that SMEs can take to better understand their own position and the options available to them. Businesses can access their own credit profile, to understand how their credit score is determined and the ways they can improve it. By accessing the same information available to lenders, small business leaders can ensure that they are able to access finance and grow at the right moment.”

SOURCES OF FINANCIAL SUPPORT FOR SMEs		
	2017	2018
Business loan from a bank	58%	42%
A personal loan from a friend/family member	27%	27%
Private investor	25%	25%
A government scheme	24%	25%
A funding contest (e.g., Amazon Web Services Start-Up Challenge)	3%	15%
Crowdfunding	5%	12%
Other, please specify	1%	1%

Keeping pace with tech and talent

The long-term success of small and medium-sized enterprises is also dependent on accessing the right technology and talent. And when it comes to technology, SMEs are aware of the value that can be added to the business and are feeling the pressure to adopt new tools.

The majority (57%) of business owners believe that being able to make the best use of technology will be vital to their future success. The implementation of new technology is an ongoing process, with 54% excited about the way that it is changing their business.



SMEs are mainly using technology to support more administratively focused tasks, including payroll (55%), accounting (49%), and cloud collaboration (47%).

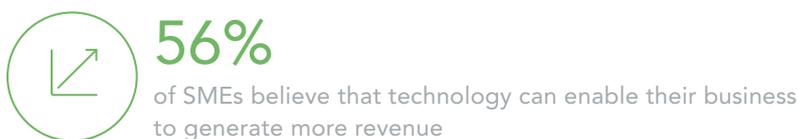
Perhaps as a result, the main benefits of technology are believed to be improving efficiency (58%), ensuring the security of business and customer data (38%), and helping the business to save money in the long run (37%).

ADDING VALUE

There are indications that SMEs are not yet using technology to gain valuable business insights or improve the way that their business works.

Almost half don't use and don't plan to use the business intelligence (48%), enterprise resource planning (48%), and customer relationship management (37%) tools that could enhance their sales, HR, and overall business strategies.

Given that the majority of business leaders (56%) believe that technology could enable their business to generate more revenue, this appears to be an important area of development over the coming years.



The main barrier preventing SMEs from adopting new technologies is cost (57%), followed by concerns about reliability (33%), lack of skills within the business (33%), and technology's suitability for small businesses (33%).

Main benefits of technology:

- 58%
Improving efficiency
 - 38%
Ensuring the security of business and customer data
 - 37%
Helping the business to save money
-

Keeping pace with tech and talent (cont.)

ADDING VALUE (CONT.)

Given business leaders' understanding of the importance of technology, it's not surprising that 38% are concerned about how it will impact their competitiveness and ability to grow. Over half (53%) of business leaders believe that there should be more support for SMEs to keep up with the pace of change.

But today there are digital platforms that are both affordable and accessible for SMEs and it's important that smaller enterprises can access the support they need to use these tools.

SUITABLE SKILLS

Accessing the right skills is also crucial for SMEs to both grow the business and make use of new technology. Over a third of business leaders surveyed (35%) say that talent is the factor with the biggest impact on their success.

Digital skills are also particularly important, but at present only 56% believe that people within their business have the right skills needed to use new technology. For SMEs to maintain their competitiveness, this will need to improve in the years ahead.

Business leaders are prioritising recruiting the right talent, with most leaders (37%) saying that this is their main priority in the year ahead.

On the positive side, SMEs plan to recruit an average of 29 people in the next 12 months, with Yorkshire and Humberside (47), London (45), and Northern Ireland (38) planning to add even more.

However, it's worth remembering that two-fifths (41%) of business leaders believe Brexit could hinder their ability to recruit the right talent in the future. To continue to grow, it will be critical for SMEs to access the pool of skills – both digital and otherwise – that they need.



56% of SMEs believe that people within their business have the right skills needed to use new technology

**Ed Thorne, Managing Director UK
Dun & Bradstreet:**

"Keeping up with the pace of technological change is challenging for businesses of every size, but there is a real opportunity for SMEs to embrace the increasing availability of new digital platforms to help drive growth.

"SMEs are becoming more sophisticated in their approach and adopting platforms such as customer relationship management (CRM) systems and enterprise resource planning (ERP) tools. Although larger enterprises may have more funding available, SMEs are often more agile and able to integrate new technology quicker.

"Recruiting people with the right skills is a concern for small businesses, and with Brexit potentially limiting the candidates available, SMEs may face more competition for talent in the future. One solution is to look at investing in upskilling existing staff where possible and maximising local (UK) resources."

SMEs CONFIDENCE IN THEIR EMPLOYEES HAVING THE RIGHT SKILLS TO TAKE ADVANTAGE OF NEW TECHNOLOGY BY BUSINESS SIZE

2 to 9 employees



Are confident

10 to 49 employees



Are confident

50 to 99 employees



Are confident

100 to 250 employees



Are confident

SMEs CONFIDENCE IN THEIR EMPLOYEES HAVING THE RIGHT SKILLS TO TAKE ADVANTAGE OF NEW TECHNOLOGY BY SECTOR

Professional services



Are confident

Retail



Are confident

Health



Are confident

Manufacturing



Are confident

TECHNOLOGY TOOLS SMEs CURRENTLY USE

Customer relationship management (CRM) systems (e.g., Salesforce, Microsoft Dynamics CRM, NetSuite, Insightly, SAP)	35%
Enterprise resource planning (ERP) systems (e.g., SAP ERP, Odoo, Microsoft Dynamics, Dynamics 365)	26%
Web tools (e.g., Adobe, Wordpress, Google Chrome, Java Script)	56%
Payroll software (e.g., Sage, Zenefits, Gusto)	55%
Database software (e.g., Oracle, Amazon, MongoDB, MySQL, Microsoft Access)	46%
Accounting software (e.g., QuickBooks, Zoho Office Suite, Microsoft Dynamics, SAP, Sage)	49%
Business Intelligence (BI) tools (e.g., Power BI, Oracle, Crystal Reports, SAS)	23%
Software Asset Management (SAM) tools (e.g., IBM Maximo, Resource Space, Cumulus)	20%
Cloud-based collaboration (e.g., Microsoft Teams, Slack, Dropbox, SharePoint or other instant messengers)	47%

Conclusion: Not all doom and gloom

The UK's small and medium-sized businesses are facing challenges that are impacting growth plans. But despite the uncertainty, SME business leaders can see clear opportunities for growth resulting from the economic progress of the UK (29%), from finding new customers and markets to target (27%), and from government support for small businesses (21%).

Half of SMEs (54%) also still believe the UK is a great place to start a small business – and 55% are increasingly confident in their future success.

2019 will be a crucial year for the future of the UK, and businesses of all sizes will need to manage both the challenges and opportunities of a changing landscape. Monitoring the progress of Brexit and changes to government policy, business rates, and currency value will continue to be key to successful business planning.

Additional data on potential new suppliers, markets, customers, and talent will be crucial to future success as the UK's role in Europe, and beyond, evolves over the coming months.

METHODOLOGY

This survey of 502 business leaders in companies with 2 to 250 employees was conducted by Censuswide in October 2018. Respondents included businesses in the manufacturing, retail, professional services, health, and education sectors.



GROWING RELATIONSHIPS THROUGH DATA

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ABOUT DUN & BRADSTREET

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