



SME CONFIDENCE TRACKER

RESILIENCE, OPTIMISM AND
CHALLENGES - SME'S REFLECT
ON WHAT 2023 HOLDS

SEPTEMBER 2022

SUPPORTING BUSINESS. **AS USUAL.**

BIBBY
FINANCIAL SERVICES



FOREWORD

SME'S DEMONSTRATE RESILIENCE AND DISPLAY OPTIMISM IN THE FACE OF UNPRECEDENTED CHALLENGES AS WE HEAD INTO 2023



As Ireland looked to prosper once more as it emerged from Covid-19 restrictions, the situation appeared to be returning to a more benign environment for SMEs. Unfortunately, such optimism would be short-lived. Now, Irish businesses are once again bracing themselves for further economic volatility thanks to a range of domestic and international hurdles that are largely outside of their control.

Irish businesses are facing into a perfect storm of issues that threaten to impact growth forecasts for 2022 and beyond, including soaring inflation, skills shortages, and a cost of living and energy crisis not seen on such a scale in the 21st century.

To understand how these challenges are impacting Irish SMEs, and - importantly - how they plan to overcome them, we undertook a study of 200 business owners and decision makers at the end of August 2022.

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 SME community.

Over half of SMEs (54%) say they expect sales to increase over the next twelve months, 38% say their turnover will stay the same while only 9% expect a decline in sales.

89% of businesses say they are planning to invest in their business over the coming 12 months, recruitment of new staff, training and development, and sales and marketing being the top three areas of capital expenditure.

Despite this rebounding sense of optimism following the Covid-19 pandemic, there is a sense of growing uncertainty about the looming challenges ahead. Currently, 55% of all SMEs say that increased energy bills are an issue for their business right now, while 49% mention the rising cost of raw materials due to inflation. Looking to the next 12 months, energy prices (53%) and economic issues due to geopolitical events (45%) are stated as the top two concerns.

The warning signs have been in plain sight for months. Already increasing inflation - due to raw material shortages - has now been catapulted even further by the escalating energy crisis. We are currently facing a level of inflation we have not seen in 40 years, with Ireland recording an annual inflation rate in July of 9.6%. The latest inflation figures for August report an inflation rate of 9%.

“Though our latest research reflects the stoic nature of SMEs, it is difficult to overstate the challenges facing them today.”

On top of this worrying development, as I write this, the OECD has just announced that global economic growth is slowing more than was forecast a few months ago after Russia's

invasion of Ukraine, as energy and inflation crises risk snowballing into recessions in major economies (26th September 2022).

These tough times are certainly more testing than ever before, meaning the backdrop to this year's Budget was unprecedented. While the package of measures announced by the Government to support businesses and households is welcome, the question now is whether it will go far enough to ensure the survival of many businesses. Only time will tell the true extent of the impact on the business landscape.

While the aforementioned challenges are undeniably significant, the resilience of Irish SMEs and their ability to adapt and change - coupled with the wide ranging support available from the private and public sectors - will hopefully fuel SMEs who continue to play a pivotal role in the Ireland's economic solidarity over the coming months.

MARK O'ROURKE
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 Mark O'Rourke

BUSINESS CONFIDENCE

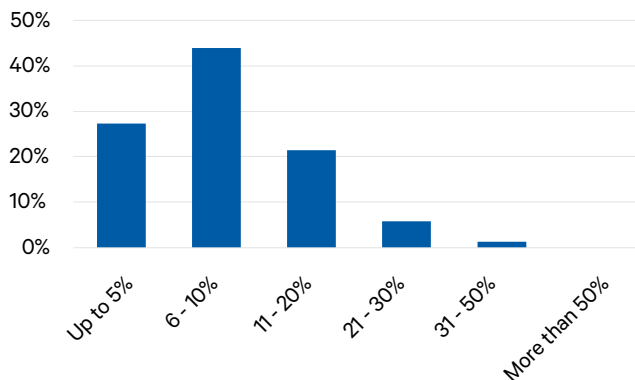
Business confidence in 2022 is now at 87%, up three points on the previous year's total of 84%. Respondents said they are confident about opportunities for growth as we head into 2023 despite the uncertain economic times we're living in, with slight variation in confidence by region.

Further analysis of our survey data shows sales volumes returning to, or exceeding, pre-pandemic levels for many businesses (56%), and this trend is expected to continue with the majority of businesses (54%) believing sales will increase further in the year ahead.

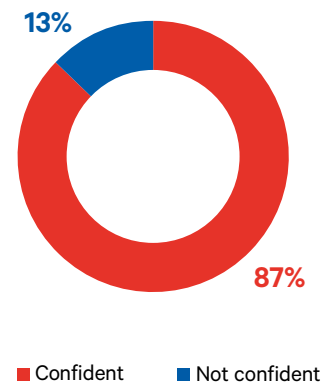
Of those SMEs expecting an increase in turnover, almost 3 in 4 anticipate a rise of up to 10%. 9% of SMEs expect their turnover to decline over the next 12 months, with almost half of these expecting a decrease of between 6-10%.

Nine in 10 respondents (95%) who experienced an increase in sales over the past six months say they're confident about their business's prospects in 2023. In contrast, despite current performance, 60% of businesses that have experienced a decline in sales are confident about an increase in future revenues.

EXPECTED INCREASE IN TURNOVER OVER THE NEXT 12 MONTHS



BUSINESS CONFIDENCE

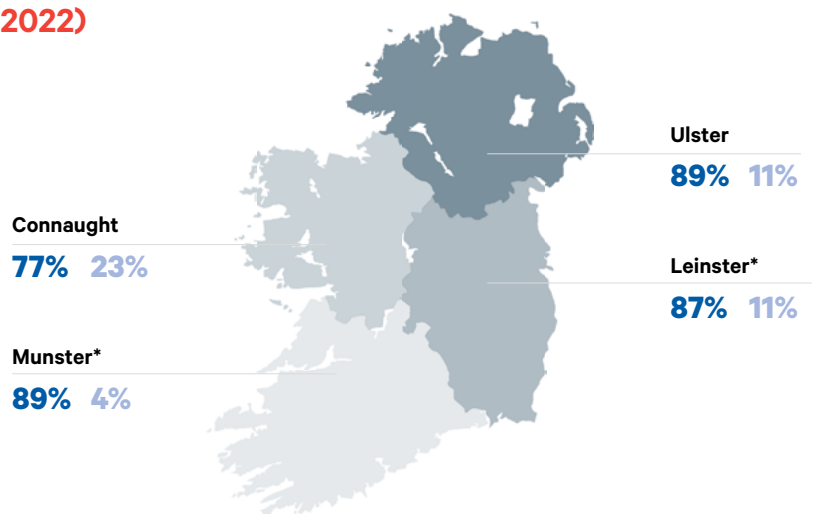


BUSINESS CONFIDENCE BY REGION (2022)

Nationally SMEs (87%) are confident about business prospects and opportunities over the next 12 months, signaling a very strong sentiment among this cohort of businesses currently. Regionally we see a similar pattern with the exception of Connaught where this falls by ten points.

■ Confident ■ Not confident

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



BUSINESS CONFIDENCE

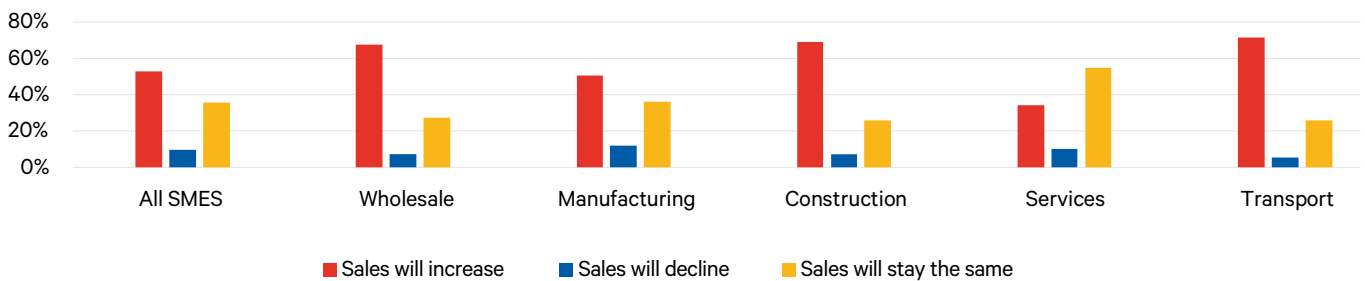
A BREAKDOWN BY SECTOR

At a sector level, SMEs in transport, construction and wholesale top confidence rankings, registering the biggest uplift in sales over the last six months.

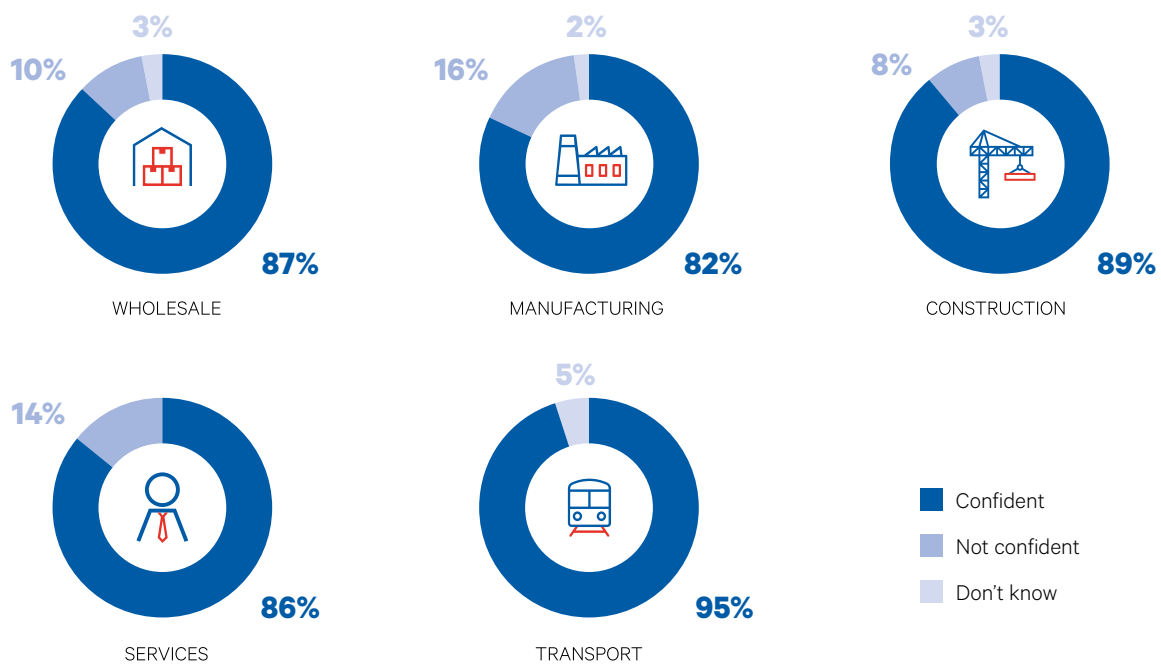
Transport (71%), Construction (68%) and Wholesale (67%) SMEs are also the most optimistic about sales growth over the coming year, while Transport businesses are the most confident about their prospects into 2023. This may be in part due to the sector's support of Ireland's growing international trade given Brexit and increased opportunities both north and south of the border. Interestingly two-thirds of the sector service import and export activities.

SMEs in manufacturing and services are less confident, with these sectors reporting sales expectations to remain the same over the next 12 months. Amongst manufacturing SMEs, two thirds of manufacturers state that they have both an import and export element to their business, it's evidence that the external pressures are mounting on this sector with soaring inflation and rising costs of energy and materials.

SALES EXPECTATIONS BY SECTOR (NEXT 12 MONTHS)



BUSINESS CONFIDENCE BY SECTOR



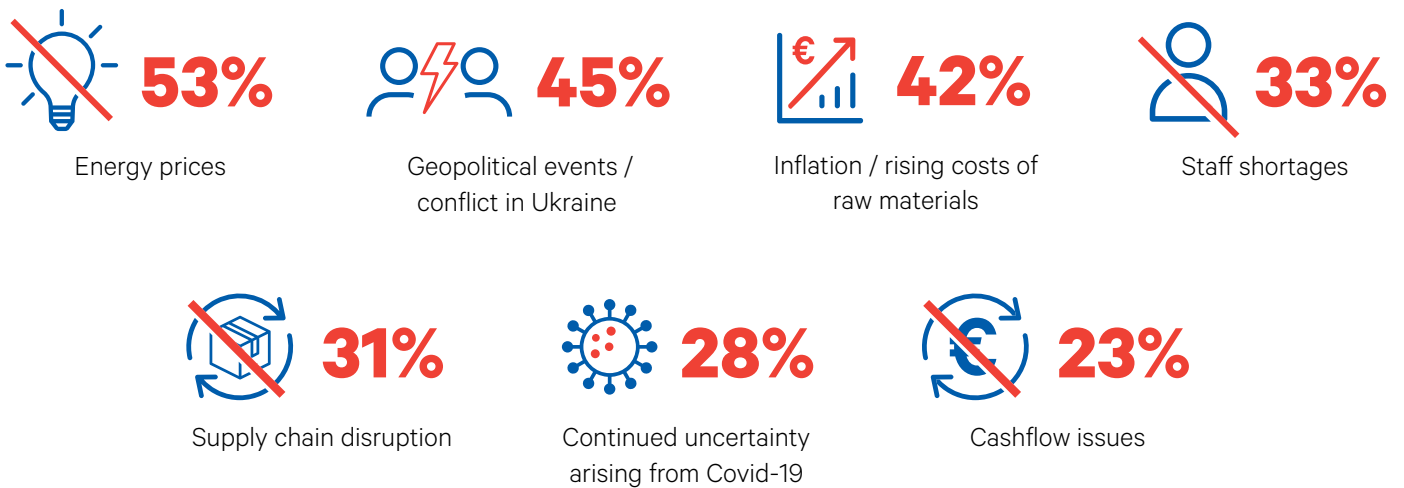
NAVIGATING KEY CHALLENGES & OPPORTUNITIES

Despite overcoming huge Covid-19 related obstacles, many SMEs now face new challenges due to the ongoing impact of the war in Ukraine and the knock-on geopolitical uncertainty resulting in rising energy costs, inflationary pressure not seen for decades and the associated disruption to supply chains.

Respondents ranked their top three challenges for the year ahead as energy prices (53%), geopolitical events and the ongoing conflict in Europe (45%), followed by inflation and the rising cost of raw materials (42%).

Understandably, these concerns vary by industry with the manufacturing sector most worried about energy prices, supply chain disruption and inflation, as well as the rising costs of raw materials such as steel. Unsurprisingly, all sectors related to the ongoing energy crisis, with the wholesale sector most concerned. The service sector is mostly pre-occupied by the conflict in Europe and staff shortages. For transport businesses, the biggest concerns relate to cash flow and rising operating costs, as well as a staff shortage to offset increase in demand.

TOP CHALLENGES FOR SMEs



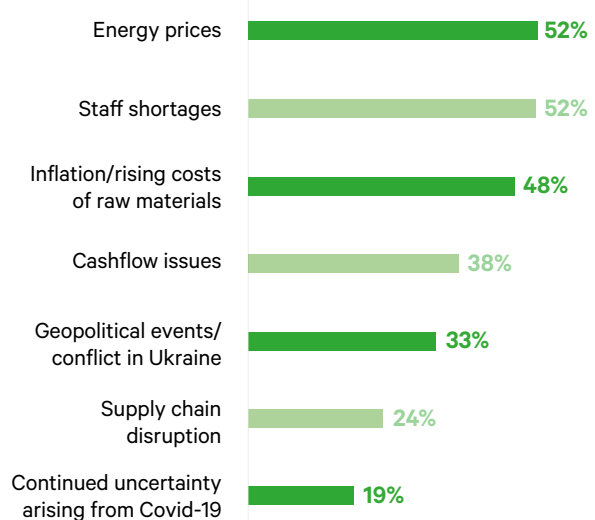
SECTOR VIEW: TRANSPORT

“Supply chains seem to be affected by a never-ending range of issues in recent years, such as Brexit, uncertainty around north and south trade with the NI Protocol, increasing administration, the pandemic, and most recently the conflict in Ukraine.

Returning demand, increased opportunities and rising costs amount to a perfect storm for transport businesses, and it is here that cash flow is king to help ease this range of pressures, and allow businesses to remain competitive.”

STEPHEN MCCARTHY
HEAD OF BUSINESS DEVELOPMENT

TOP CHALLENGES FOR TRANSPORT SECTOR SMEs



NAVIGATING KEY CHALLENGES & OPPORTUNITIES

Yet again, SME resilience shone through when asked about opportunities in the year ahead. Attracting new customers (69%) and expanding their customer base is seen as the biggest opportunity for SMEs.

Ongoing challenges in the current labour market combined with the lowest unemployment rates seen in some time meant that attracting new staff, development and retention of existing staff is a key investment focus for SMEs over the next 12 months. 23% say trading internationally is an opportunity, while 12% cite Mergers and Acquisition activity as a prospect.

All industries plan to take on new staff or retain existing staff in anticipation of business growth, however the transport and construction sectors in particular have cited staff shortages as a barrier to business growth. This contrasts with the service sector where SMEs don't expect significant growth. In fact, almost a fifth (18%) of services sector businesses confirmed they had no investment plans at all this year.

Interestingly, those with a turnover of between €10m and €25m have a slightly different focus for investment, with staff retention (37%) topping the list, followed by staff training and development (32%), digital technology and IT (32%) and more renewable energy options (32%).

TOP AREAS FOR INVESTMENT (ALL SMEs)



36%

New staff



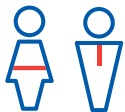
32%

Staff training and development



29%

Marketing and sales



29%

Retaining staff



26%

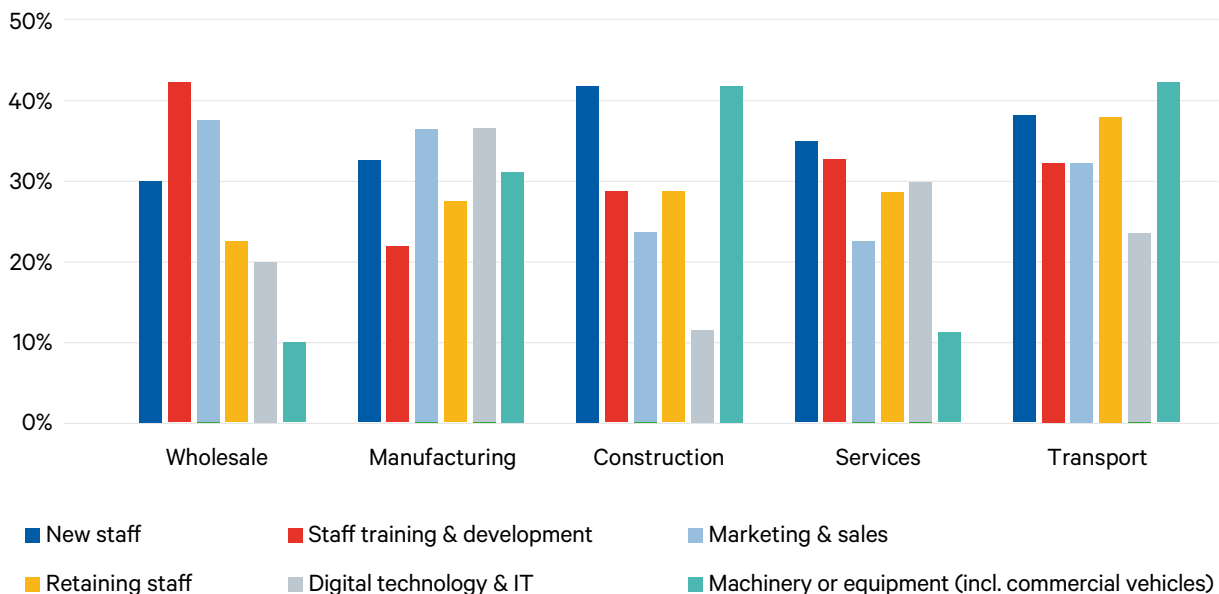
Digital technology and IT



25%

Machinery or equipment (including commercial vehicles)

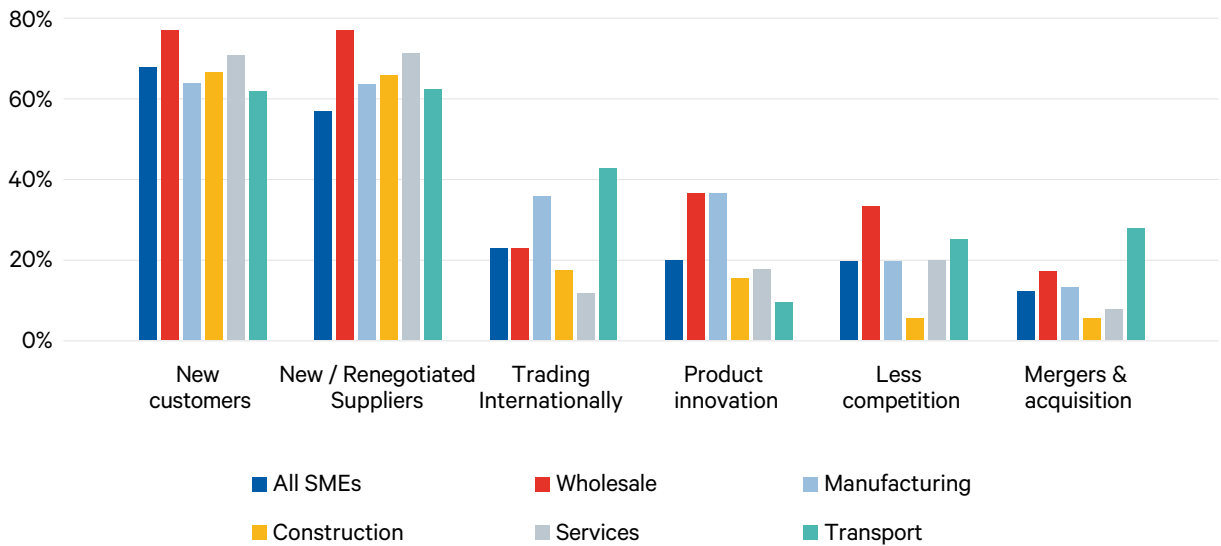
TOP AREAS FOR INVESTMENT BY SECTOR



NAVIGATING KEY CHALLENGES & OPPORTUNITIES



BUSINESS GROWTH OPPORTUNITIES (BY SECTOR)



PLANNED INVESTMENT IN THE NEXT 12 MONTHS

On average those SMEs who are planning to invest are looking to inject €227,665 into their businesses in the next 12 months, a reflection of the high levels of business confidence.

EXPECTED INVESTMENT BY SECTOR

€249,900



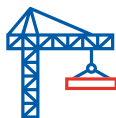
Wholesale

€228,276



Manufacturing

€319,878



Construction

€178,831



Services

€172,226



Transport

€227,665



Average

SUPPORT FOR SMEs

ACCESS TO FINANCE

Our findings show that a third of businesses (33%) say they don't have the required cash flow to operate effectively on a day-to-day basis or for future growth. Such funding will be vital in enabling businesses to deal with this current energy crisis, cope with inflation, overcome supply chain disruptions, fulfil demand, and invest in business growth in these uncertain times.

It's no surprise that a great number of SMEs rely on external finance to enable business growth and provide smooth cash flow. In the next 12 months, 82% of SMEs said they would be considering some sort of cash injection from external sources to support their business.

Business loans are the most popular form of financing mentioned by 38%, followed by credit cards (30%) and private equity (27%) which rises to 50% for SMEs with a turnover between €5 million and €25 million.

PREFERRED FINANCE OPTIONS



Business loans



Credit cards



Private equity



Overdrafts



Asset Finance



Invoice Finance (Invoice Discounting or Factoring)



Government loans



Crowdfunding



I wouldn't consider external finance for my business

33%

SAY THEY DON'T HAVE THE CASHFLOW THEY NEED TO OPERATE DAY-TO-DAY OR GROW

SUPPORT FOR SMEs ACCESS TO FINANCE

KBC and Ulster Bank exit

The exit of both KBC and Ulster Bank from the Irish market will mean that over 570,000 accounts will need to be switched to different financial institutions, of which Ulster Bank business banking current accounts with an overdraft facility account for 70,000.

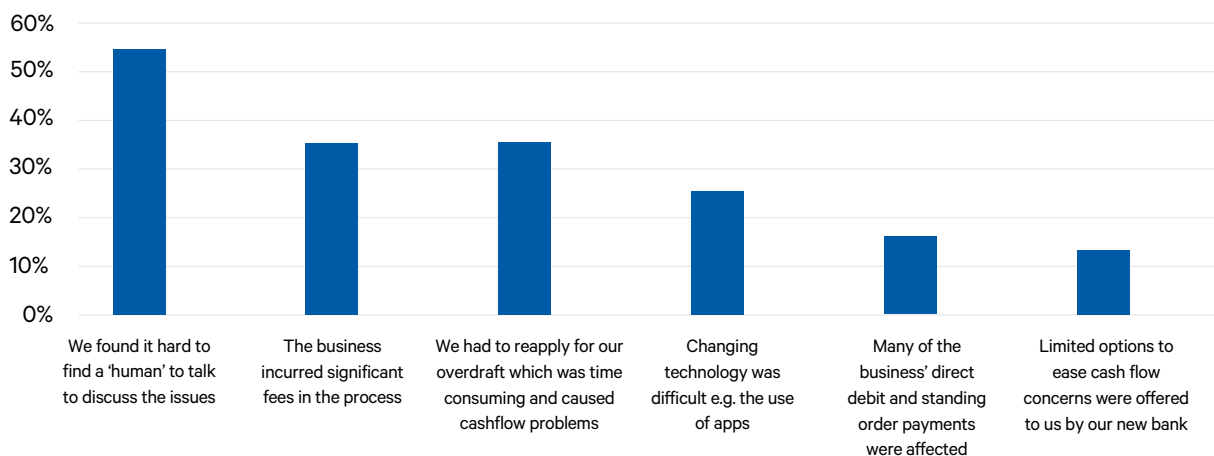
Almost a third of respondents say they will have to open a new business account due to their bank's departure, rising to 53% for transport businesses. Of those who have had to open a new business account due to the imminent departure of KBC and Ulster Bank, 55% said they found it hard to find a 'human' to talk to discuss their issues, while 36% said that incurring significant fees and cash flow problems caused by having to reapply for overdrafts were an issue.

When considering a finance provider, attributes considered to be most important are the level of finance available and a relationship-based approach / personal service, both mentioned by 44% of businesses.

For Manufacturing, Service and Transport SMEs, the level of finance is the most important attribute (53%, 47%, 48%).

For Wholesale and Construction SMEs, a relationship-based approach/ personal service is the most important attribute.

ISSUES SMEs ENCOUNTERED CHANGING BANK ACCOUNTS

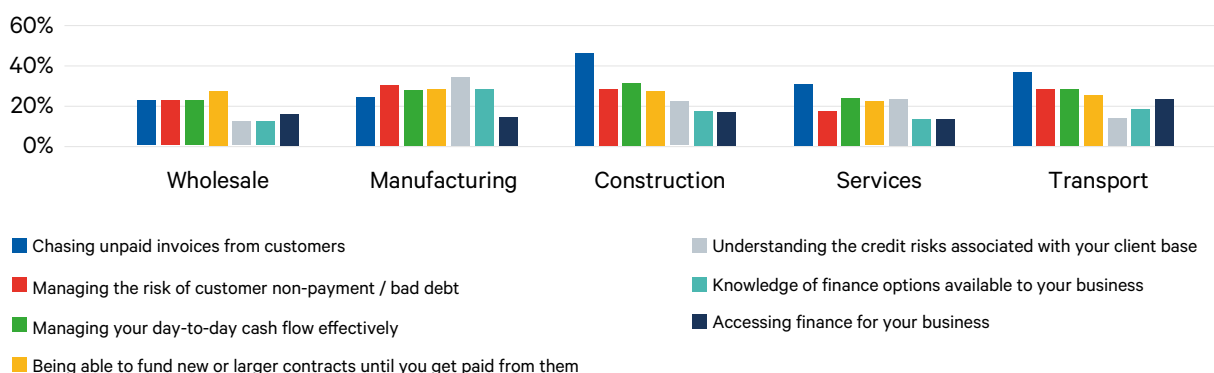


SMEs with a turnover between €5 million and €10 million note that they find it most difficult to access finance (27%), while those with a turnover between €10 million and €25 million find it difficult to manage day-to-day cash flow (53%).

By sector, manufacturing SMEs top financing issue is understanding the credit risks associated with their client base (36%), compared with wholesale SMEs top financing issue is being able to fund new or larger contracts until you get paid from them (27%).

With many SMEs anxiously watching as world economies hover on the brink of recession, it will be critical that financial supports remain in some form for businesses to address the challenges that lie ahead. It's here that Government / public and private sector are well placed to offer additional support.

FINANCIAL CHALLENGES (BY SECTOR)



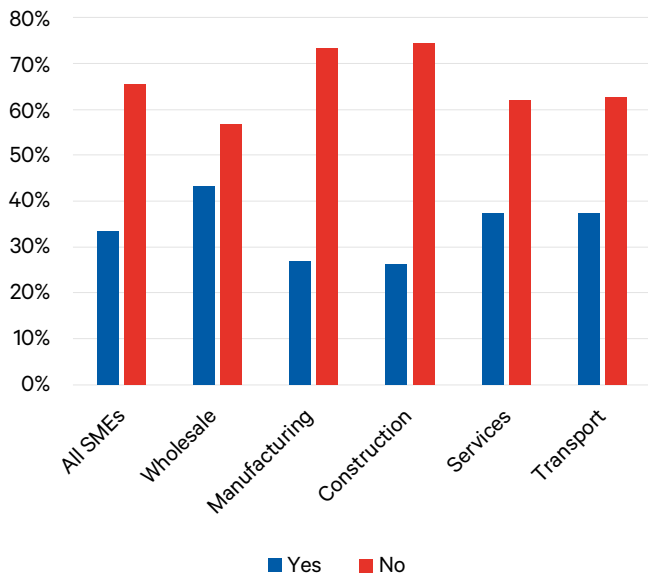
BAD DEBT BARRIER

When cashflow is so critical to business survival, late or failed payments can be fatal. A third (32%) of SMEs say they have suffered as the result of a bad debt in the previous 12 months.

There's also a significant sectoral divide when it comes to bad debt, with SMEs in the wholesale, transportation and service sector carrying a larger bad debt burden than those in the manufacturing and construction.

Of those businesses that have suffered a bad debt, the average amount they have written off is €18,543 per business.

THOSE IMPACTED BY BAD DEBT IN THE PAST YEAR



BAD DEBT SUMS WRITTEN-OFF

€24,573



Wholesale

€21,792



Manufacturing

€30,090



Construction

€25,791



Services

€11,908



Transport

€18,543



All SMEs

PAYMENT CHALLENGES



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

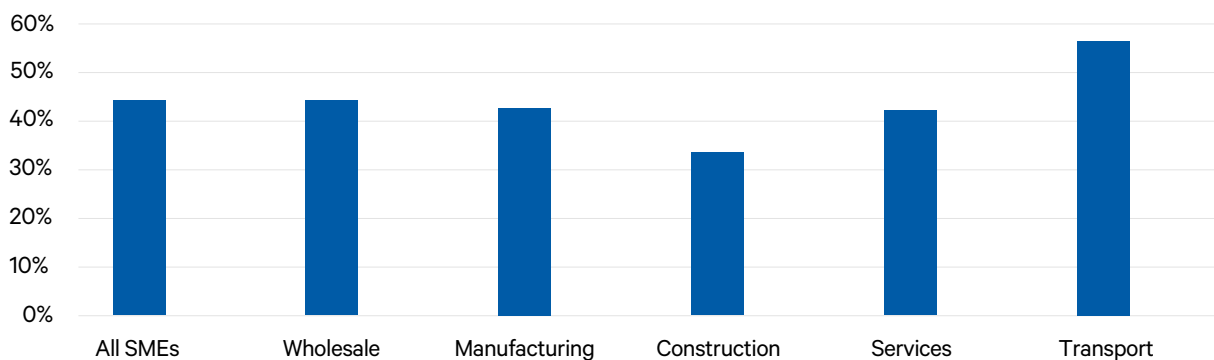
Nearly half (43%) of our respondents said that it's taking longer for customers to pay them, 30% of which reported they're experiencing an average wait time between 1 - 3 months for payments, and among which transport businesses have felt the impact most keenly.

The twin impacts of late and failed payments can starve businesses of the cash they need to survive, and seriously impede the ability of businesses to invest and thrive as they emerge from the pandemic. Indeed, business failures remain all too real among Irish SMEs.

Chasing unpaid invoices is the top financing issue for almost one third of SME's (32%) followed by managing the risk of a customer non-payment / bad debt (27%) and effective management of day-to-day cashflow (27%).

According to Deloitte, based on current insolvency levels and trends in the market, it now appears that the previously forecasted wave of insolvencies is becoming a reality, with the number of corporate insolvencies estimated for the first nine months of the year up over a third on the same period for last year. 378 businesses are set to have become insolvent over the period between January and the end of September, compared to 278 over the same nine months a year ago. In the third quarter of the year alone, the number of insolvencies is forecasted to reach 125, up nearly 50% on the same three months in 2021.

THOSE THAT SAY IT'S TAKING LONGER TO BE PAID BY CUSTOMERS



ABOUT THE RESEARCH

This study is based on a poll of 200 Irish 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 22 - 26 August 2022. Respondent businesses had an average annual turnover of €4.1m.

ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services Ireland (BFSI) is a leading provider of financial support and funding solutions to Irish SMEs. We're helping businesses to grow in domestic and international markets by providing tailored and flexible funding solutions for a range of scenarios including cashflow funding, new equipment purchase, growth and expansion, management buy-ins and buy-outs, refinancing, corporate restructuring and, mergers and acquisitions.

BFSI is part of Bibby Financial Services (BFS) is part of BFS group, a leading independent financial services partner to over 9,000 businesses worldwide. 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. In February 2021, BFS joined forces with Permanent TSB (PTSB) in an exclusive collaboration to offer PTSB customers an enhanced range of funding solutions designed to improve cash flow and fund their growth ambitions.

To find out more about Bibby Financial Services, visit:

www.bibbyfinancialservices.ie

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