


Planning for growth: Small business outlook over time (2014-2023)

Quarterly insights from the
Business Barometer study

April 2023 edition

Tomorrow. Together

A woman with dark hair and glasses, wearing an orange button-down shirt, is standing and speaking. She is holding a white marker in her right hand. In the foreground, the back of a man's head and shoulders is visible; he is wearing glasses and a dark blue shirt, looking towards the woman. The background is a plain, light-colored wall with a whiteboard partially visible on the right side.

Introduction



Welcome to the new quarterly Business Barometer insight bulletin from Novuna Business Finance.

Since 2014 we have researched the viewpoints of a representative sample of more than 1,000 small business leaders – a study called the Novuna Finance Business Barometer. The quarterly study spans 13 industry sectors, 12 UK regions and also explores the various development stages that small businesses evolve through.

By comparing findings every quarter we have built up a picture of small business outlook over time, which is far more telling than a snapshot survey done at a single point in time. Since 2014, we have observed how small businesses have reacted to seismic events – such as devolution, changes of government, Brexit, a global pandemic, war in Ukraine, and most recently, the cost-of-living crisis.

Rather than issuing one major report, over the next year we will be sharing a series of bulletins, each looking at a particular issue or topic from our research archive. The thing we have learned from supporting the small business community is that it is always evolving – and, with that in mind, so should the research reports we share.

We hope you enjoy this first bulletin and if you have any discussion points or requests for further information, we would love to hear from you.

Geoff Maleham
Managing Director
Novuna Business Finance



About Novuna Business Finance

Novuna Business Finance provides business asset financing to small to medium sized enterprises (SMEs) and to bigger corporations across the UK. Asset financing includes hire purchase, finance lease solutions, stocking and block discounting provided through brokers, vendor organisations, manufacturers and direct to the business community.

With an asset portfolio of more than £1.6bn, the business is active across multiple sectors from transport and agriculture to construction and manufacturing and was awarded Best Service from an Asset Based Finance Provider at the 2022 Business Moneyfacts Awards.

The business is also supporting the Group's multiple sustainable energy projects and

purchased a £10m equity share in Gridserve Holdings Ltd, the parent company of Gridserve Sustainable Energy Ltd.

Discover more at:

<https://www.novuna.co.uk/business-finance>

Methodology

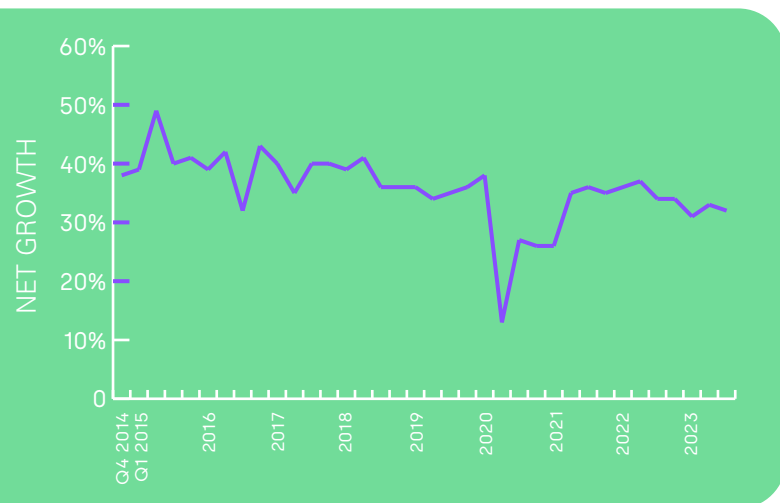
The research for this report was conducted by YouGov at quarterly intervals since 2014.

For each quarterly cycle of research, a nationally representative sample of more than 1,000 small business decision makers and owners of UK small businesses were surveyed.

The research was conducted online.

Growth outlook over the last nine years

Every quarter since 2014, Novuna Business Finance has tracked the growth forecasts of a representative sample of more than 1,000 small businesses. From those that predict significant expansion and those that foresee modest organic growth, a net growth score is ascertained each quarter. Typically, the ratio of modest growth to significant expansion is consistent each quarter, at a ratio of around five to one.



The period since 2014 has been one of great turbulence – a Scottish referendum, the Brexit referendum and a global pandemic all created periods of great uncertainty. Despite these external challenges, the percentage of small business owners predicting growth each quarter has remained remarkably consistent.

Following the Brexit referendum of June 2016, the percentage of small businesses

predicting growth fell from a seven consecutive quarter run at 40% down to 32%, but confidence recovered quickly – and went on to peak at a record-high 43% by the final quarter of 2016. Whilst small business owners were evenly split between the ‘remain’ and ‘leave’ camps, they were unified in wanting certainty to plan against.

The percentage of small businesses predicting growth slid to the mid 30s for three quarters in 2019, probably a reflection of the ongoing political and economic uncertainty that surrounded the actual terms of the UK’s exit from the EU. Whilst this showed signs of recovery at the start of 2020, following the General Election, everything then changed as the UK went into a national lockdown with the onset of the Covid pandemic.

The impact of the pandemic on small business growth forecasts was seismic and immediate: the percentage of small businesses predicting growth fell sharply from 38% to 13% within a matter of weeks at the start of quarter two – and the percentage of enterprises fearing they would go out of business soared from 5% to a record-high 29% in just three months.

Despite the huge shocks, small businesses showed the will to adapt to a period of unprecedented change. Three months into the first lockdown, growth forecasts returned to 26-27% and this was maintained for three consecutive quarters. Whilst some way below pre-pandemic levels, the consistency of quarterly growth forecasts from summer 2020 showed an underlying resilience and a willingness to adapt.

By summer 2021 the percentage of small businesses predicting growth hit 36%, a step change that was maintained for nine months. But as the impact of war in Ukraine triggered a cost of living crisis in the UK - with soaring energy prices and volatility in world markets - the post-Covid high in confidence receded

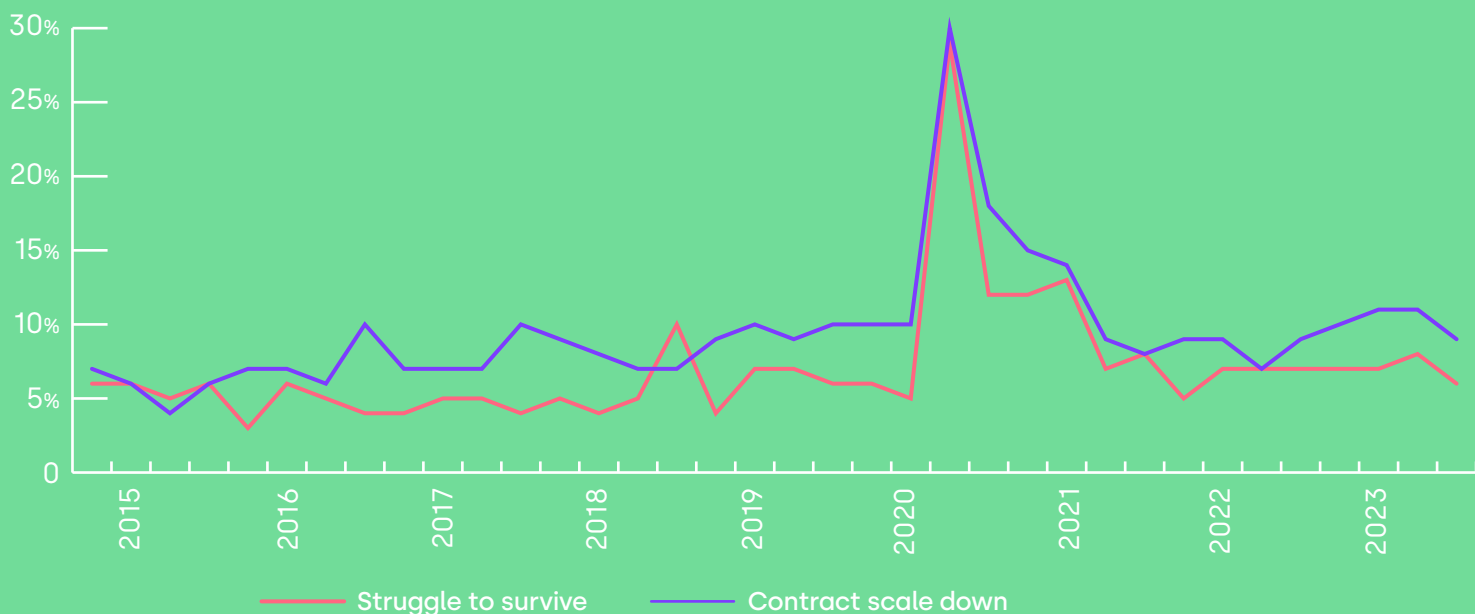
from the mid 30s to the low 30s. Midst this uncertainty, small business leaders pointed to a range of macro market factors that were holding their enterprises back - economic uncertainty (36%) coupled with labour shortages (16%), the economic impact of Brexit (24%) and the long tail of the Covid disruption on UK operations (14%). In addition to this, 80% of business owners reported they were refocusing on exploring growth opportunities in the domestic UK market.

With fears of a recession following the Covid restrictions era, 31% of small business owners finished 2022 predicting growth for 2023.

The struggle to survive

Set against those enterprises that predicted growth each quarter, the percentage of small business owners predicting contraction or collapse has remained steady at being relatively low. There was a significant peak when Covid struck the UK, but the ability of many enterprises to repurpose and adjust ensuring this worrying peak was relatively short-lived.

The last six months has been a challenge for many enterprises, with a rise in the percentage of business predicting contraction, a position that has remained in double digit figures for the last two quarters.



Adapting to Covid

The ability of small businesses to adapt relatively quickly and move forward during the two-year period of pandemic restrictions has played an important role in the consistency of growth outlook that has been recorded in recent years. As 2021 started and the UK faced a second year with Covid, only 14% of small businesses said they had been forced to close over the first two lockdowns. Set against this, 42% had fully transitioned to home working and 10% had repurposed their business to open up new income streams. Just over a third of enterprises (34%) said they were unaffected by lockdown restrictions, a reminder that not all small businesses operate from offices or factories.

This ability to adapt and move forward contributed to the relatively quick recovery of small business growth forecasts. By summer 2021, more small businesses that had adjusted to home working predicted growth than those enterprises that claimed to have been unaffected by Covid restrictions. There were also positive signs of growth from small businesses that had gone through a

transformation process and signs of recovery from enterprises that had re-opened their doors after being forced to close temporarily.

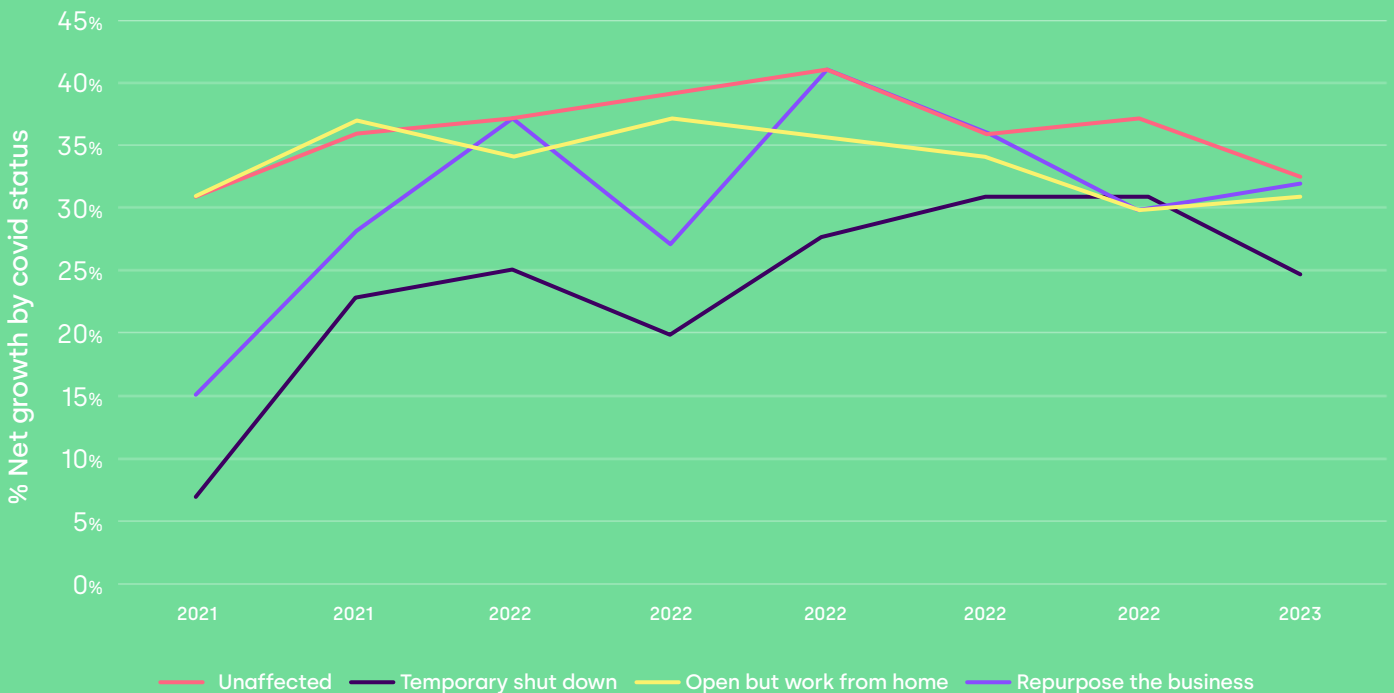
Looking more broadly at the picture over three years, whilst there is greater diversity in how businesses choose to operate, there is now much closer alignment regarding their propensity to predict growth than was the case two years ago. This in itself is an affirmative statement on the resilience of many UK small businesses – their ability to adapt to grow.

Summer 2023: Growth predictions by operating status



- Unaffected by Covid restrictions ----- 36%
- Temporarily had to shut down ----- 23%
- Employees work from home ----- 37%
- Repurposed the business ----- 28%

% Net growth by Covid status

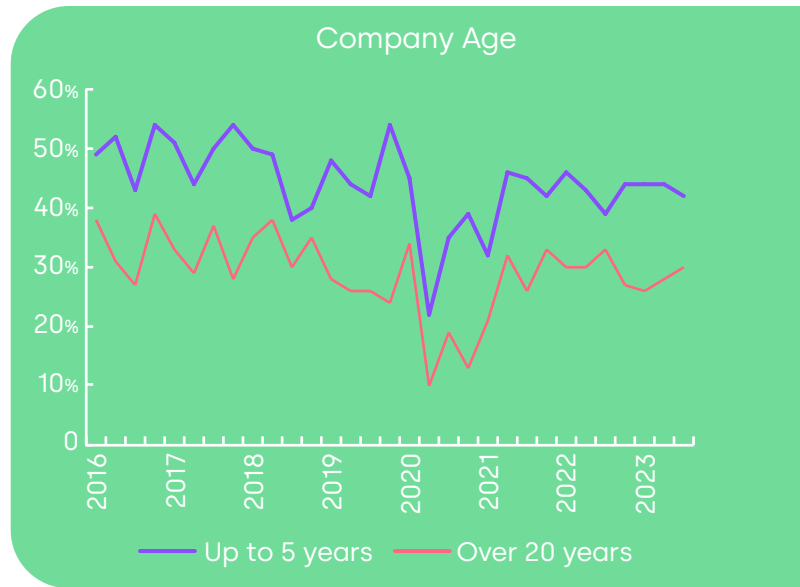


Age of business and growth forecasts

Novuna Business Finance focuses on supporting established businesses and our study has compared those that have been trading for five years with more mature enterprises that have been operating for 20 years or more. The consistent picture that emerges over nine years is that younger businesses are more likely to predict growth. In some ways they are more agile, more digitally savvy and they are in the stage of their growth cycle where they are more likely to be investing in new equipment or moving into new product categories and markets. Key to maintaining these healthy growth forecasts is access to finance, a topic we will cover in more detail in a future quarterly report.

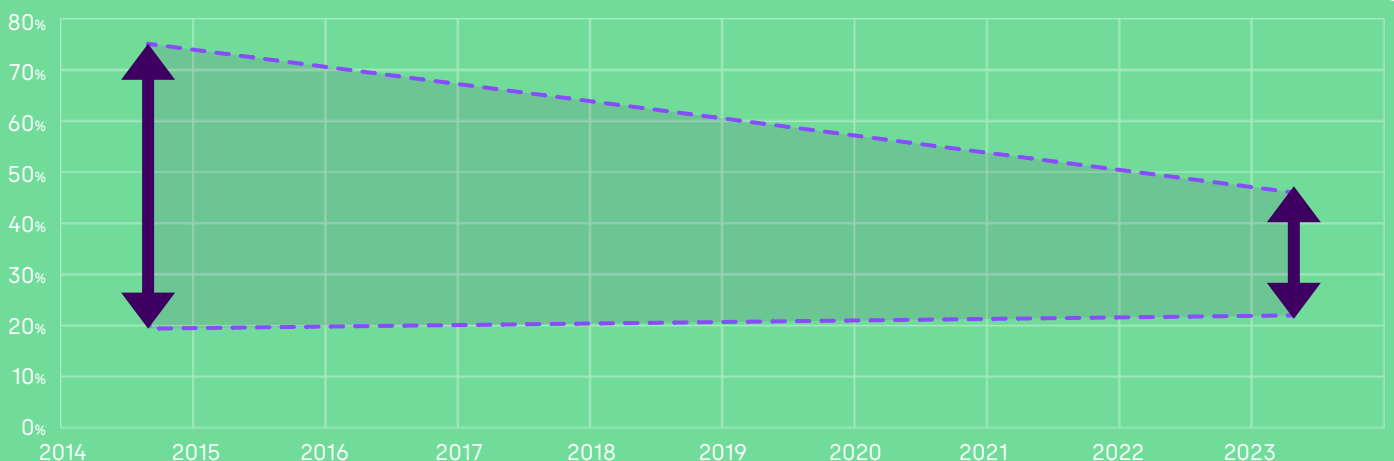
Sector assessment

Since 2014 we have reported on small business growth forecasts that span 13 industry sectors, and during the course of the next year we will be publishing specific sector reports on our website. The image below shows the variance of those predicting growth by industry sector over time. For this, we contrasted the highest and lowest growth prediction figures by sector to get a sense of the relative consistency or variance. The notable point to reflect on from this



graphic is how the range has narrowed over time. In 2015 growth predictions by sector ranged between 18% to 73% and at the higher and lower ends of this scale there was greater quarter-on-quarter volatility. By the start of 2023 the range by sector had narrowed across all sectors - growth predictions ranged between 20% and 44%.

This suggests that the shared experience of dealing with a pandemic and economic disruption has given all businesses common challenges to face and their journeys have become more similar. At the end of 2022, all small businesses were reacting to the prospect of a recession by focusing on the same things – keeping costs down, improving cash flow, tackling late payments and investing in new equipment to support growth plans.



Assessment

A reflection on the research

By Jo Morris, Head of Insight,
Novuna Business Finance

“At a time when big businesses in a number of sectors have been hit hard by the challenging economic headwinds, the growth outlook of UK small businesses has been remarkably strong and consistent. The sequence of market challenges and disruption they have faced since 2014 is unprecedented, yet the percentage of enterprises predicting growth at the start of 2023 has only changed by 5% since 2014. In many respects, this is a remarkable reflection on the community’s ability to adapt to change and find ways to move forward.”

“Within this overall context, there have been some big variations by sector. The agricultural sector faced significant challenges after Brexit – whilst retail and hospitality were hit especially hard during the lockdown years. We will explore these sector profiles over time in a future Business Barometer bulletin.”

“In the current economic climate, many enterprises are focusing on financial strength as the platform from which to plan business growth. For many, this involves managing late payment and protecting cash flow and many enterprises also see 2023 as a time to invest – in new equipment and capabilities. For established businesses looking to drive growth in 2023, Novuna Business Finance is committed to helping them fulfil their true potential. We understand the growth cycles that small businesses go through and we have both the products and toolkits to support their growth ambitions.”

www.novuna.co.uk/business-finance

January 2023: Top priorities to support growth



Keeping fixed costs down ----- 57%

Improving cash flow ----- 31%

Tackle late payment ----- 24%

Investing in new equipment ----- 18%

