

# Strategies to power growth: Small business outlook over time

Quarterly insights from the  
Business Barometer study

Edition 3

Tomorrow. Together

# Introduction

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## Welcome to the third 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 through a study called The Business Barometer. This quarterly study covers 13 industry sectors and 12 UK regions, and also explores the various stages of development that small businesses go through.

By comparing findings each quarter, we have built a robust picture of the small business outlook, which offers a more nuanced understanding than a snapshot survey conducted at a single point in time. Since our inception, we have observed how small businesses have responded to seismic events—such as devolution, changes in government, Brexit, a global pandemic, the war in Ukraine, and, most recently, the cost-of-living crisis.

Every three months, we select one of the many focus topics from our research archive to share key insights. For this third edition, we take a look at the priority initiatives that small businesses are working on in an effort to secure future growth. These include enterprises planning expansion or struggling businesses looking at strategies to turn their fortunes around.

At Novuna Business Finance, we are focussed on helping enterprises reach their true potential. Operating across a range of business sectors, we offer a variety of funding products designed for established small businesses, sustainable project developers, franchise businesses, and intermediaries. We understand the cycles and challenges that small businesses face and we devise solutions and tools framed by knowledge, empathy and understanding.

We hope you enjoy this third 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 finance to SMEs and bigger corporations across the UK. This includes asset finance, stocking, block discounting and sustainable project finance provided through brokers, vendor organisations, manufacturers and direct to the business community.

With an asset portfolio of more than £1.7bn, the business is active across multiple sectors from transport and agriculture to construction and manufacturing and was awarded Best Leasing and Asset Finance Provider at the 2023 Business Moneyfacts Awards.

The business' Sustainable Project Finance team is also supporting the development and construction of sustainable energy and transport projects, which are critical to the decarbonisation of the UK's infrastructure.

Novuna Business Finance is a trading style of Mitsubishi HC Capital UK PLC, part of

Mitsubishi HC Capital Inc., one of the world's largest and most diversified financial groups, with over £60bn of assets.

Discover more at:

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

## Methodology

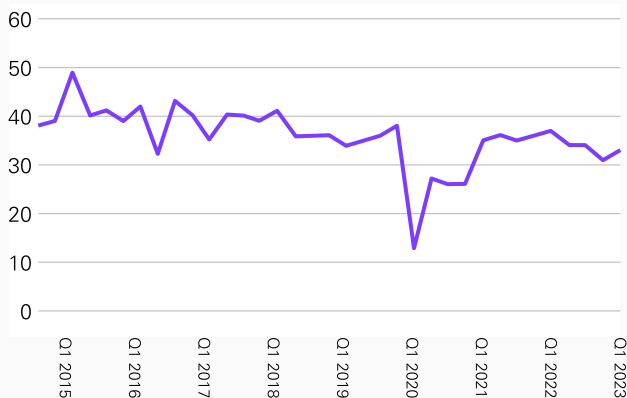
The research for this quarterly report was conducted by YouGov at six-monthly intervals, twice-yearly - during Q1 and Q3 every year since 2017.

For each 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.

# The restless ambition to generate growth

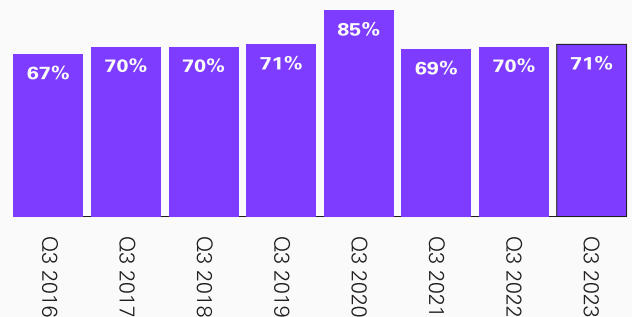
Every quarter since 2014, Novuna Business Finance has tracked the percentage of small businesses that predict growth. Accounting for the inevitable disruption when Britain entered its first lockdown in Spring 2020, the percentage of small business owners predicting growth has remained remarkably consistent, ranging between 30% and 40% for any given quarter.



Set against this backdrop, the percentage of small businesses investing in initiatives to fuel future growth is considerably higher. Since Summer 2016, this figure has remained consistent at around 70%. This perhaps offers a more accurate gauge of the true resilience of UK small business owners—regardless of their current growth outlook, the majority of enterprises are exploring new avenues for future expansion. In fact, during times of extreme strain, the

percentage of small businesses focusing on growth strategies has actually increased. A case in point was the summer of 2020. After a dramatic drop in the percentage of enterprises predicting growth in Spring 2020 due to the impact of COVID-19 on the UK—falling from 38% to 13%—the percentage of businesses working on new initiatives to secure future growth surged from 71% to 85%.

The percentage of small businesses working on new initiatives to secure future growth



The Business Barometer's latest half-yearly findings on this topic underscore the fact that the drive among business owners to explore new avenues for future growth extends well beyond those enterprises currently on a strong growth trajectory:

## Percentage of small businesses working on future growth projects by current growth status

Significant expansion	93%
Modest / organic growth	84%
No change / stay the same	63%
Contraction	68%
Struggle to survive	75%

## Focus on different things

While it is positive news that most businesses dedicate time and resources to investing in future growth initiatives, their current growth status does have a direct bearing on the types of projects that business owners are prioritising. According to the latest data for Q3 2023, businesses that are growing are most likely to invest in initiatives aimed at accelerating further expansion. On the other hand, businesses that are contracting are more likely to focus on measures to control costs. These findings underscore the fact that small business owners recognise there are two primary ways to sustain their businesses: either by expanding and increasing sales or, if that is not possible, by reducing costs.

### Most common growth initiatives by current status:

Expanding businesses are most likely to be:

- Hiring people (48%)
- Investing in new equipment (32%)
- Moving to bigger offices (19%)

Businesses anticipating no change on last quarter are most likely to:

- Focus on keeping fixed costs down (37%)
- Tackle late payment issues (17%)

Small businesses currently struggling to survive are most likely to be working on:

- Reducing fixed costs (48%)
- Improving cash flow (25%)
- Re-assessing finance commitments (27%)

Expanding businesses have also invested time in managing their costs, addressing late payments, and researching favourable funding deals. This good housekeeping has perhaps provided them with the solid foundation needed to plan further expansion.

For businesses that are stagnant or experiencing modest contraction, the research suggests that it's important not to delay addressing these matters. Cost control and reviewing funding options should be seen as precursors to growth, not just as damage limitation measures when a business is trying to reverse a period of decline.

## Sector assessment

Looking back at the period since COVID-19 restrictions ended in the UK, five industry sectors have reached a three-year high in the percentage of small businesses investing resources to support specific growth initiatives: manufacturing (86%), construction (75%), agriculture (74%), IT/telecoms (74%), and finance/accounting (70%). These data points don't necessarily imply that these sectors are where businesses are most likely to be experiencing growth. Rather, they indicate sectors where small businesses are most committed to investing in initiatives aimed at securing long-term growth. Our Business Barometer tracking study will enable us to review the landscape next year and determine whether this current investment of time and resources translates into more businesses achieving organic or significant growth in 2024.



## Sectors where there is a year-on-year peak in the percentage of small businesses investing resources into growth initiatives

	2021 Q1	2021 Q3	2022 Q1	2022 Q3	2023 Q1	2023 Q3
Manufacturing	77%	71%	74%	86%	86%	86%
Construction	57%	71%	74%	66%	68%	75%
Agriculture	64%	59%	74%	63%	64%	74%
IT / telecoms	72%	71%	73%	70%	74%	74%
Finance / accounting	65%	63%	58%	64%	63%	70%

As with findings shared earlier in this report, the sector-by-sector breakdown reaffirms the fact that—in every industry sector—there are far more businesses working on growth plans for the future than there are businesses predicting growth for the current quarter. In many respects, the gap between these two sets of numbers serves as an effective measure of small business resilience and longer-term optimism within the sector.

	Percentage planning initiatives to support future growth	Percentage currently predicting growth
Manufacturing	86%	32%
Leisure and hospitality	80%	34%
Construction	75%	24%
Agriculture	74%	31%
IT / telecoms	74%	35%
Legal services	73%	30%
Finance / accounting	70%	40%
Media / marketing	70%	36%
Transport and distribution	69%	35%
Retail	66%	27%
Real estate	60%	24%
Medical services	58%	34%

## The specific initiatives backed to deliver long-term growth

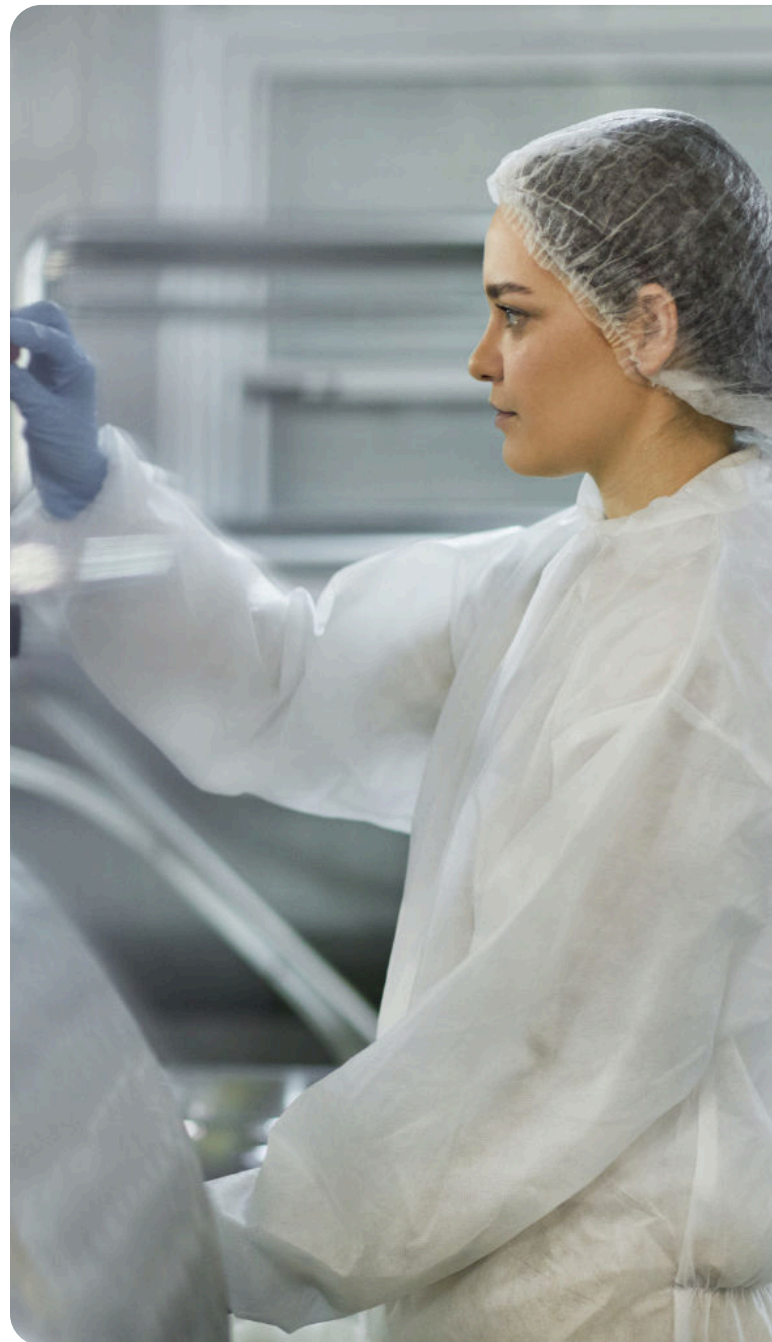
At a time when businesses across the country have been hit hard by the cost-of-living crisis, soaring inflation, and a series of interest rate hikes, the national picture for summer 2023 suggests that cost control is the key area where small business leaders are focusing their attention to prepare their enterprises for growth.

Nationally, keeping fixed costs down remained the top priority for 58% of respondents, followed by improving cash flow (30%) and being much stricter about chasing late payments. Reducing headcount remained an important focus for 21%—down from its peak of 28% in Q1 2022.

For those looking to invest in their growth capabilities, the data revealed a 12-month high in the percentage of small businesses seeking funding for new equipment, at 18%. In connection with this, 12% of small businesses are reassessing their funding arrangements with lenders. This was particularly pronounced in three sectors—agriculture (18%), media (18%), and hospitality/leisure (14%). Reviewing funding partners also emerged as a significantly more pressing issue in the North, with 29% of enterprises in the North East and 14% in the North West prioritising this, compared to 11% in the South East and 12% in the South West.

Looking back over the past seven years, the focus on improving cash flow, tackling late payments, and investing in new equipment has remained unchanged. This suggests that their perceived importance is consistent, regardless of the market context.

	Q3 2023	Q3 2017
Improving cash flow	31%	30%
Chasing late payment	29%	26%
Investing in new equipment	18%	19%



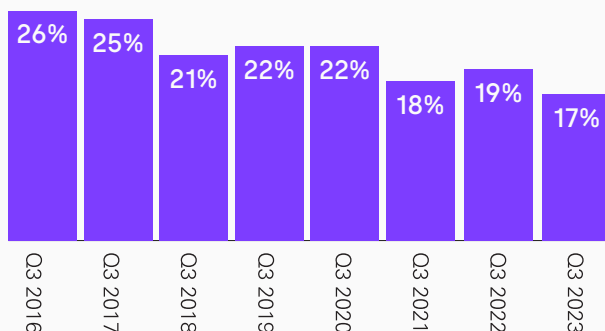
## Longer-term trends

The COVID-19 era shaped some of the growth initiatives that small businesses prioritised, particularly at a time when many were forced to adapt to survive. For example, the focus on keeping fixed costs down peaked as a priority during the COVID-19 lockdowns. Throughout 2017-2018, a consistent 50% of small businesses focused on managing fixed costs to facilitate long-term growth. However, this figure soared to 61% in Q3 2020 and further rose to 64% by Q1 2021.

Also during this period, there was a sharp decline in the percentage of businesses looking to increase headcount—falling from 24% before the COVID-19 pandemic to 14% by Q3 2020.

Brexit may also have had a long-term impact on many small businesses. Tracking data from the Business Barometer points to a slow but continual decline since 2016 in the percentage of businesses prioritising overseas expansion as a strategy to support long-term growth.

### Percentage of small businesses prioritising expansion into overseas markets as part of a long-term growth strategy





# Assessment

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## A reflection on the research

By Jo Morris, Head of Insight, Novuna Business Finance

Over the last few years, small businesses have faced almost every challenge imaginable: Brexit uncertainty, the Scottish referendum, a global pandemic, and a cost-of-living crisis. Despite these hurdles, UK small businesses have found ways to adapt and many have formulated new plans to move forward.

Our tracking research has shown that the percentage of small businesses predicting growth has remained resiliently consistent over many quarters. This new piece of research provides clues about what might be next. If business owners are currently working on future growth initiatives, we should expect to see an uptick in the overall proportion of businesses reporting growth in the coming autumn and winter months.

While it's important and valid to monitor the percentage of businesses reporting growth at a given time—as we do—this parallel exploration of the work being done to improve long-term prospects offers a more meaningful measure of underlying confidence. The current picture is clear: for every business predicting growth today,

there are two working on achieving it tomorrow. As an organisation focused on providing funding and helping established businesses reach their full potential, it's tomorrow's landscape and success stories that should truly capture our investment and attention.

We also note from our latest research that, beyond cost control, many enterprises are looking to invest in new equipment and to reassess their funding relationships. There are often merits in small business owners reviewing their funding partners early in the planning process, seeing it as a supportive measure for growth rather than a last-resort step for cost control.

At Novuna Business Finance, we work with our intermediaries and small business owners to offer flexible, tailored financial solutions that empower SME's to achieve their true potential. We are committed to supporting a sustainable growth agenda for UK businesses this year and beyond.

[www.novuna.co.uk/business-finance](http://www.novuna.co.uk/business-finance)