The Business Barometer Report

Foreword

Here's to a fresh start in 2022 - a new chapter, the chance to rebuild and regain momentum for the long term, for the first time in a long time. For two long years, small business owners have been battling with the devastating economic and societal impacts of the coronavirus pandemic, forcing most into unprecedented situations in which they have had to adapt. Now, as the pandemic hopefully begins to fade, and with the worst of it over, the task at hand for all of us is to pick up the pieces, to dust off, and to move on.

The world has changed immeasurably, and faces radically different challenges to even five to 10 years ago. The climate crisis is real, we are running out of time to tackle it, and it will need the meaningful efforts and support of everyone – not just those at the top - to do so. Meanwhile, technology has completely transformed the world of work, particularly during the pandemic, forcing businesses to adapt and embrace it as never before.

For us, 2022 is the year where Hitachi Capital Business Finance becomes Novuna Business Finance – this is an exciting evolution for the business as we set out our ambitions for the future and adapt to a changed world. All the while, however, our established partners will continue to see exemplary high standards that they are used to.

This report therefore comes at a pivotal time. Now in our 30th quarterly cycle of the British Business Barometer, we have tracked confidence of the small business community, the challenges they have had to overcome and the factors that threaten their future growth plans. As business planning for all starts in earnest, it is an opportunity to boldly look forward, yet also a moment to reflect on the last seven years.

Throughout this time, we have charted the SME mindset, the challenges faced and hunger to innovate, as well as the timeless challenges that still need to be tackled. This quarterly research allows us to identify changes in outlook each quarter and to ensure our services and support for the UK's small business community adapt and respond to evolving market needs.

The Business Barometer has provided us with a comprehensive and unique picture of the small business community. The ability to listen and learn has helped make us a better business – and by sharing some highlights from our various cycles of research, we hope this report will help others to better understand the needs, issues and ambitions of the small business community in Britain today.

Geoff Maleham,
Managing Director,
Novuna Business Finance

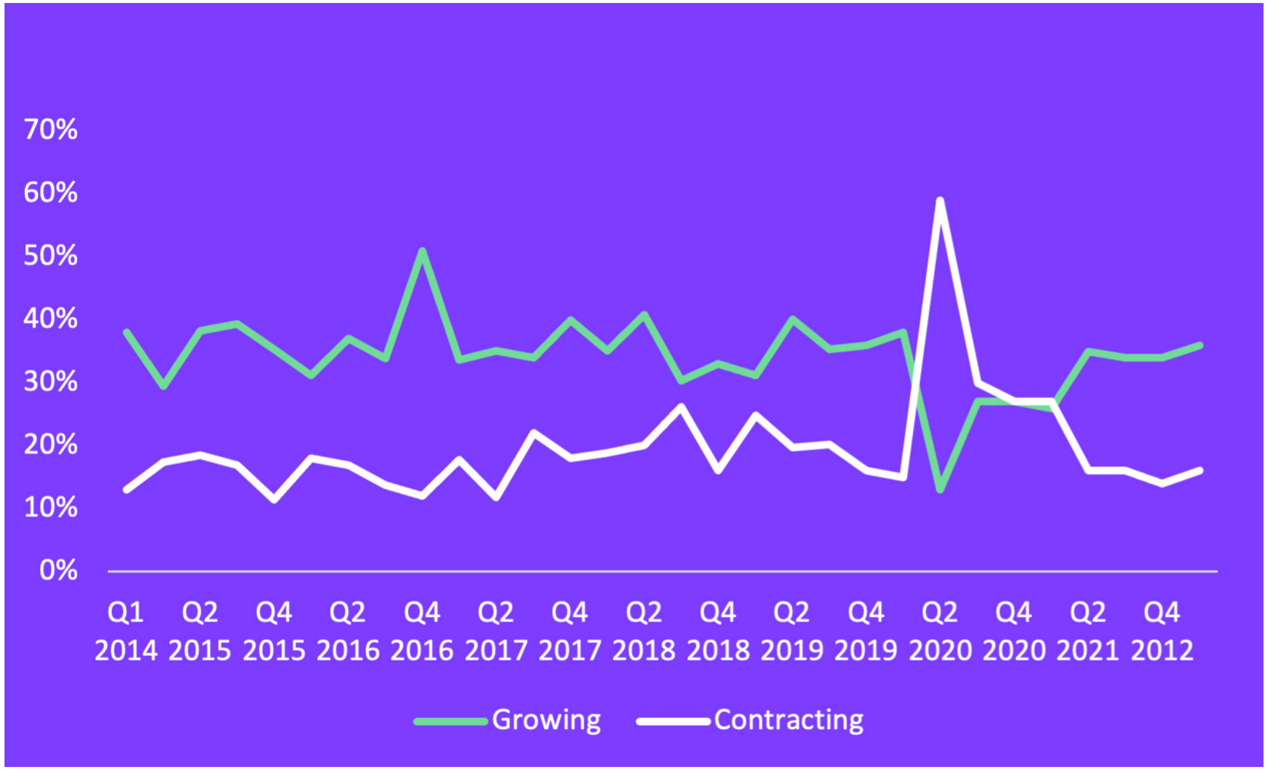
Chapter One

Small business growth predictions: 2014–2022

Since October 2014, the Business Barometer study has tracked the growth outlook of UK small business owners by exploring owners' confidence levels.

With our 30th quarterly cycle of tracking research complete, this chapter examines small business growth forecasts over time. Every quarter we have asked a representative sample of more than 1,000 small business owners what their growth outlook has been for the next three months. Respondents are allowed to indicate one of five responses: two levels of positive growth—significant or modest; no change for the next three-months; or two levels of decline—either downsizing or struggling to survive.

Net percentage of small businesses predicting significant or organic growth by quarter



Throughout the course of our research backdrop was one of constant change – from elections and referenda, the uncertainty of Brexit right up to the pandemic. During this time, the quarterly growth outlook of small business owners since 2014 has been remarkably bullish and consistent. Over 30 consecutive quarters, the proportion of small business owners predicting growth for the three months ahead has ranged from 38–45% with few variations. In the same period, 40–50% of small businesses have predicted 'no change.'

Over three-quarters of all small businesses surveyed, then, remained steady or predicted growth, suggesting a bedrock of consistency underpinning business planning. Notably, the percentage of enterprises anticipating contraction or collapse has consistently remained in single figures—apart from Q2 2020, when Covid-19 arrived in the UK.

Fluctuations from the trend: Political and Brexit uncertainty

Before Covid-19, there were only two meaningful deviations from the steady trend of consistent growth forecasts, and both relate to macro-economic uncertainty following significant political change.

In Q3 2016, the result of the Brexit referendum—and Prime Minister David Cameron's sudden resignation—triggered an immediate fall in small business confidence. For the first time in eight consecutive quarters, the percentage of small business owners predicting growth fell from the early 40s to 32%—with the percentage of those predicting 'no change' hitting a two-year peak of 52%. This was, perhaps, an early indication that small businesses responded to political and economic uncertainty by revising growth plans and sitting tight until a clear economic picture emerged
.
In the following year, Q2 2017, economic uncertainty about the General Election, with Brexit uncertainty to the fore, also resulted in a dip in small business outlook. The percentages of business owners predicting growth fell from the mid-40s to 35% and, once again, the percentage of enterprises predicting no change rose to 52%.

From Q3 2018, the percentage of small businesses predicting growth slipped a little and stayed low for 18 months. The once regular level of 40–45% of small businesses predicting some form of growth settled at the mid-30s. Brexit uncertainty dominated the headlines and, with many enterprises having links to the EU, the slight revision in overall growth forecasts is understandable. Nevertheless, given that at the start of 2020, most small businesses (55%) said they were in favour of remaining in the EU, and that 48% reported they could see no business opportunities resulting from Brexit, the overall downward revision of growth forecasts is relatively small. Small business owners in general adjusted, and the overall trend of steady growth predictions continued.

This data suggests that smaller enterprises are generally more adaptable and agile in the face of change than many of their bigger counterparts. This certainly proved true when Covid-19 struck in March 2020.

The impact of Covid-19 on growth predictions

Every aspect of UK life changed when Covid-19 hit, and the country went into the first of many national lockdowns. After 22 quarters of consistent growth forecasts, small business growth forecasts crashed in April 2020 from a steady average of 35% to just 13%. Simultaneously, the percentage of small businesses predicting contraction (30%) or collapse (29%) rocketed into double digits for the first time in years.

Despite this shock, the two-phase bounce back was impressive. In Q3 2020, the percentage of small businesses predicting growth doubled to 27%, and it stayed at this level for the next three consecutive quarters. In Q2 2021, confidence rose further to 36%—its pre-Covid-19 level—and has remained there.

	Net % predicting any form of growth	% predicting significant expansion
Q3 2018	35%	7%
Q4 2018	36%	5%
Q1 2019	34%	5%
Q2 2019	34%	4%
Q3 2019	35%	5%
Q4 2019	36%	7%
Q1 2020	38%	6%
Q2 2020	13%	3%
Q3 2020	27%	4%
Q4 2020	26%	4%
Q1 2021	26%	4%
Q2 2021	35%	6%
Q3 2021	34%	6%
Q4 2021	34%	5%
Q1 2022	36%	4%

Percentage of small business owners that predict growth

Two takeaways emerge from this bounce-back data:

1. After the first lockdown, small businesses adapted quickly

Many worked from home, embraced technology, and/or re-purposed their business. These factors enabled many small businesses to remain open and re-forecast growth plans—albeit at a lower level than the pre-pandemic years.

2. Confidence bounced back quickly

By April 2020, business growth predictions had returned to their pre-Covid levels and have been maintained—even with the recent Plan B restrictions of Christmas 2021 confidence overall continued to grow, reaching the same levels seen pre-pandemic for the first time in Q1 2022.

The speed with which small businesses adapt and their ability to recover from economic shocks underline their importance to the overall UK economic recovery after Covid-19. Consistency, agility, and determination are what the UK economy needs to rebuild consumer confidence—and the small business sector is already demonstrating these attributes.

Analysis of small business growth outlook since 2014 also reveals thematic trends, when comparing small business respondents by size, age, sector, and region.

Business outlook by size

For this analysis the relative size of businesses was defined by turnover, rather than employee number.

From 2014, smaller businesses in their first year of trading were more agile than their larger, more established, counterparts. Around two thirds of small business owners consistently predicted growth for the three months ahead—a far higher percentage than businesses with a turnover of 1-10 million, where around one in two predicted growth. After economic shocks, smaller businesses proved resilient, bouncing back in mid-2019 from the 18-month dip in confidence aligned with Brexit uncertainty. Smaller businesses were also the hardest hit by advent of Covid-19—growth forecasts falling to 11%—but by Q2 2021, they had quickly and emphatically bounced back to pre-Covid levels.

In contrast, larger enterprises have had more frequent blips in confidence. Disruption from Covid-19 has had a longer-term impact: although larger businesses' confidence has recovered, to this day it has not returned to pre-pandemic levels.

While start-up businesses inevitably have a strong growth agenda, the research data does suggest that small businesses find it easier to adapt.

Business outlook by age

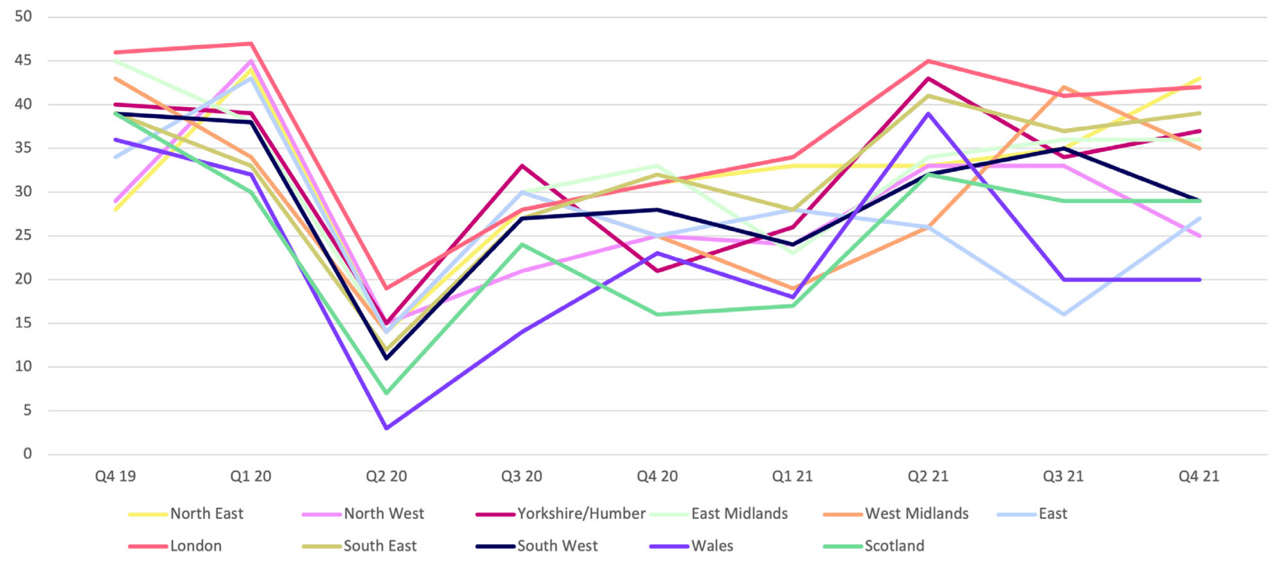
Younger businesses were more consistently likely to have confident growth outlook (typically ranging from 45%–50% since 2014) than older businesses (ranging more broadly between 24%-38%). Younger businesses' growth forecasts were less affected by Covid-19 and they bounced back to pre-Covid levels more quickly.

Younger businesses are usually smaller, which probably makes it easier for them to adapt and re-forecast. However, the research suggests there are more factors than size. Younger businesses are more likely to be run by younger owners, who are more likely to deploy the latest technology to make their business more efficient and agile. For example, at the start of 2021, leaders of smaller businesses were most likely to say they had used technology to positively support their business (78%) in providing a faster service (27%), cutting down travel time to meetings (26%), improving productivity (23%), and reducing office overheads (19%).

Business outlook by region

Business outlook is currently most confident in London and the South East. However, prior to 2018, business growth outlook across the regions was more closely aligned. Covid-19 precipitated a universal plunge in business confidence—most deeply felt by small businesses in Scotland and Wales—but the bounce back shows greater variance in confidence levels across the regions.

This trend should be monitored closely in 2022. The outcome will inform whether, post-Covid-19, the small business sector can be seen as a national community, or whether greater attention needs to be given to supporting rebuild and recovery on a region-by-region basis.

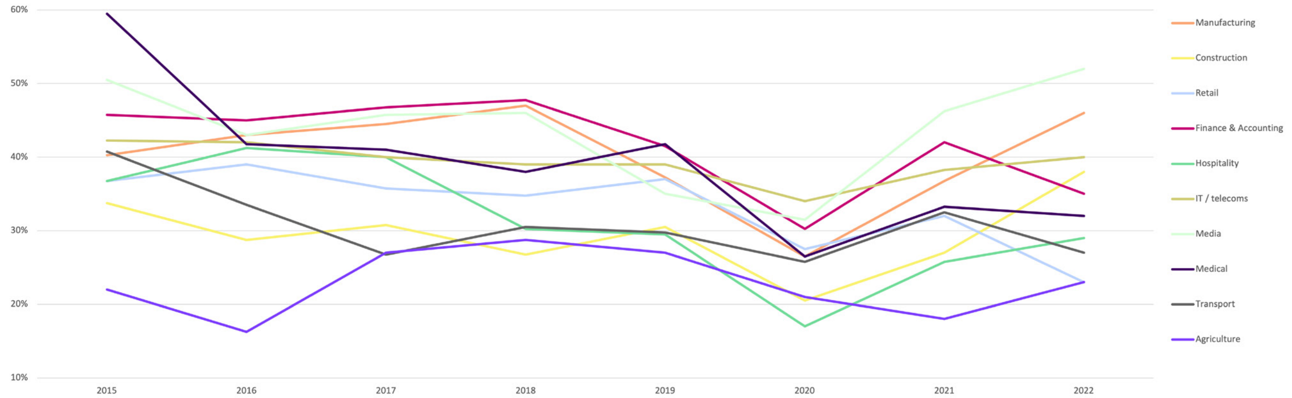


Regional outlook

Business outlook by sector

A more detailed assessment of key industry sectors is shared in Chapter Three of this report, but an overview specifically looking at growth outlook presents an interesting picture over time. From 2014–17, growth forecasts varied widely by sector as businesses reacted to sector and seasonal issues. When the UK entered the 18-month period of Brexit uncertainty, confidence overall fell a little, but there was greater consensus by sector.

When Covid-19 struck in early 2020, positive-growth outlook fell sharply across sectors. The initial bounceback was relatively even but, as 2021 progressed, variance grew again between the sectors. This may suggest some sectors were able to rebuild faster than others, but it is possibly also a sign of overall sector recovery because the sector-by-sector picture is showing signs of returning to the pre-Brexit era.



Regional outlook by sector

Sector growth outlook: The impact of Covid-19 hitting the UK, and the return to pre-Covid confidence levels in most sectors by the end of 2021 (column percentages)

	Q1 20	Q2 20	Q4 21
Manufacturing	44	8	48
Construction	31	12	26
Retail	29	20	29
Finance & Accounting	47	16	41
Hospitality	25	11	34
Legal	44	10	40
IT /Telecoms	47	21	36
Media	47	15	47
Medical	38	13	39
Education	25	9	18
Transport	28	10	29
Real Estate	47	7	24
Agriculture	29	18	12

Growth outlook by trading status

Analysis suggests that, after Covid-19 struck, small business growth forecasts took 12 months to recover to pre-Covid levels and have now enjoyed nine (12 in Q1) months of stability.

During the first wave of national lockdowns, many small businesses had to fundamentally review their trading status. Some were unaffected whilst others, tragically, had to close temporarily. Big adjustments also had to be faced as thousands of enterprises geared up for home working, whilst others re-engineered their business by diversifying and offering new services.

The table below shows that, by the start of 2021, trading status had a direct bearing on the percentage of small businesses predicting growth. By the second half of 2021, growth forecasts were healthy across the categories—with even those that had closed or re-purposed reporting strong growth plans. Perhaps this is the ultimate indication of full and sustainable recovery and confidence returning to the sector.

	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Unaffected	31%	NA	36%	37%
Temporary shut down	7%	NA	23%	25%
Open but work from home	31%	NA	37%	34%
Repurpose the business	15%	NA	28%	37%

Concluding remarks

"The growth outlook of UK small business owners is a strong indication of confidence levels. One can feel confident without predicting business growth, where is predicting growth is built on confidence. Against the backdrop of high levels of uncertainty which have persisted throughout the course of our research, it is somewhat remarkable that such a consistently high proportion have remained optimistic about their growth outlook.

Particularly after such unprecedented levels of uncertainty during the past two years, all will be hoping for a period of calm after the storm – a chance to draw breath, and make plans longer term plans, and gradually build momentum. Battling the elements has used up vital energy and reserves – a period of stability is needed to replenish them."

Jo Morris,
Head of Marketing & Insight,
Novuna Business Finance

Chapter Two

Facing the barriers and managing the opportunities

For seven years, we have tracked barriers to growth every 6 to 12 months and explored what businesses are working on to secure growth. This chapter looks at the opportunities and persistent threats as well as fleeting menaces.

In alternating quarters, we asked businesses the same two questions. Firstly, we asked decision-makers about the growth of their company in the next three months and what factors they identified as inhibiting business growth.

Secondly, we asked what businesses were considering doing to try and achieve business growth in the next six months, looking both at the ways they are investing in the business for growth, and the measures taken to control their finances. We have been able to track how viewpoints and priorities have changed over seven years, as more businesses have responded to different challenges. Assessing the data in its entirety, we can now also see longer term trends among small businesses.

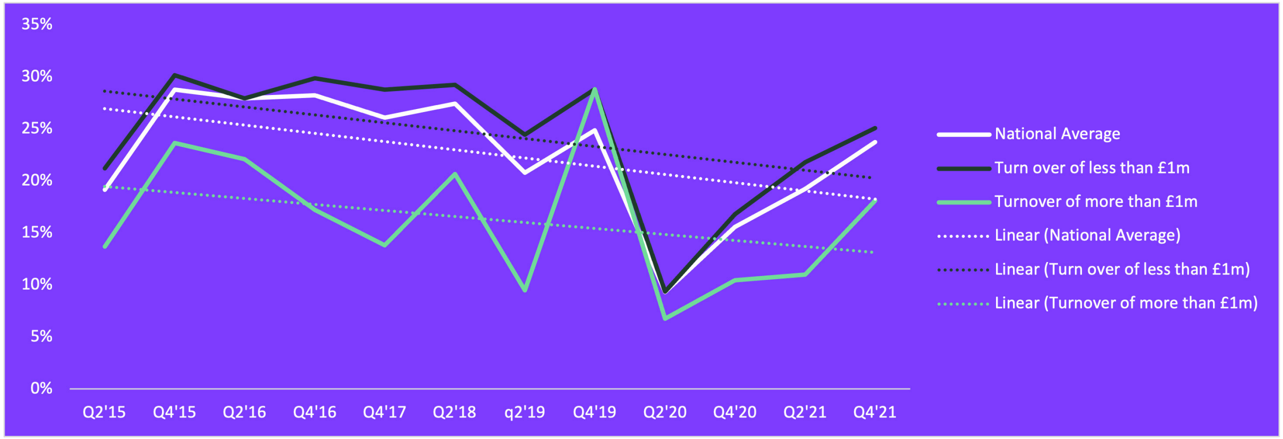
Bruising period has changed business owners’ perception of barriers to growth

In the first chapter, we saw overall robustness and resilience among small businesses in the face of adversity. In this chapter we see that repeated setbacks have had a visible impact on small businesses’ outlook.

The pandemic and events leading up to it—from Brexit referendum, subsequent General Elections, and the worst recession in memory—have created a rollercoaster ride of uncertainty.

The research clearly indicates that the cumulative impact of these various events has affected owners’ perception of barriers to business growth and has made those owners more cautious. While there have been peaks and troughs in the proportion of businesses that believed there were no direct inhibitors to growth, this proportion has dwindled over the past seven years. In 2015, around 30% believed there were no barriers to their growth; today, that figure is closer to 20%.

The drop is more pronounced in smaller businesses. Among companies with a turnover of less than £1 million, the proportion dropped by 10% (from 29% in 2015 to 19% today). Meanwhile, for enterprises with a turnover of more than £1 million, the drop was approximately 5% (from 20% to around 15%).



Proportion of businesses who believed there were no direct inhibitors to growth in the next 6 months

Key barriers to growth

Market uncertainty:

Since 2015, the chief priority for business growth plans has been keeping fixed costs down. The proportion prioritising this has stayed around 55% consistently, rising to 61% at the start of 2021.

Cash flows:

Accessing cash and managing volatile cash flow has been a primary concern for small businesses, peaking during the pandemic and as the recession bit (around one in five small businesses said this inhibited their growth in Q2 2020). Similarly, anxiety about banks' restricting loans has consistently featured in the list of concerns. This also peaked during the height of the recession, following the same pattern as cash flow.

Red tape:

Reassessing finance commitments has had the biggest proportional rise (+7% on average), peaking in Q3 2020 as the recession took hold.

Brexit:

When the UK formally withdrew from the European Union in January 2021, Brexit and the economic impact on individual businesses was a barrier to growth for around one in five (21%) businesses. For businesses with a turnover of more than £1 million, concerns about Brexit peaked later in Q2 2021 at 29%, falling away to 26% by the end of the year.

Cost of labour:

Following the CBI warning, in October 2021, that the UK is facing two years of labour shortages, concerns about the cost of labour have risen among business owners. In Q4 2021, the proportion saying that this was limiting their growth rose to 11%—the highest since Q2 2019. This was most keenly felt among businesses with a turnover of more than £1 million.

Overheads:

With remote and hybrid working becoming mainstream during the pandemic, attention turned to fixed costs and overheads. The proportion that said this was an inhibiting factor for their business rose from 7% in Q4 2020 to 11% in Q4 2021. Smaller businesses felt this most acutely. Fifteen per cent of businesses with a turnover of less than £1 million pointed to their overhead as an inhibiting factor (the proportion rising for three consecutive quarters), compared to 9% of larger businesses.

Plans to power growth - and the appetite for risk

Set against the backdrop of seven years of caution and rising concern around barriers to growth, there has been an appreciable change in small businesses' appetite for risk.

In Quarters 1 and 3 every year since 2015 we have asked small businesses about their plans to achieve growth in the coming quarter. The questions have focused on active investment plans and cost control measures. Together, these give us a sense of the risk levels that small business owners are comfortable with, and the actions they are taking which demonstrate this.

Slight decrease in active investment

Hiring:

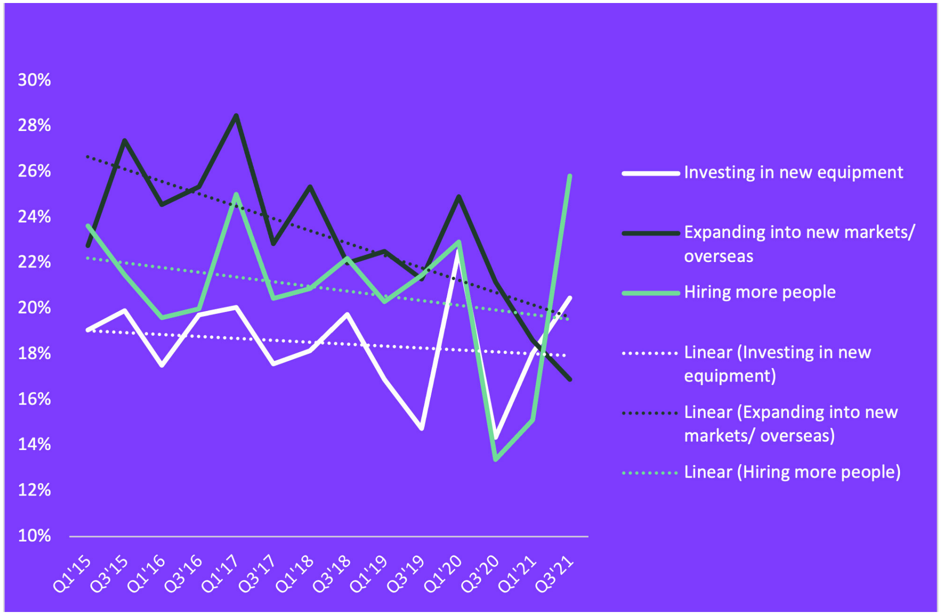
While the proportion of businesses actively hiring reached its highest figure on records in Q3 21 (26%), the trend across the past seven years has seen a gradual decline from 23% in 2015 to an average of around 19% today.

Expanding into new markets overseas:

There is a dramatic decline here, with an average fall of around 7% over seven years. The impact of Brexit is clear—from around 27% of small businesses intending to expand into new markets overseas pre-referendum to 17% in Q3 2021.

Investing in new equipment::

The proportion of small businesses actively investing in new equipment has remained consistent. In 2015, around 19% were investing in new equipment for their business. Despite striking dips in Q3 2019 (15%) and Q3 2020 (13%), it has returned to 20% (Q3 2021).



Active investment plans

Purse strings gradually tightening

As active spending measures decreased, the results showed that cost control measures either increased or stayed the same.

Fixed costs:

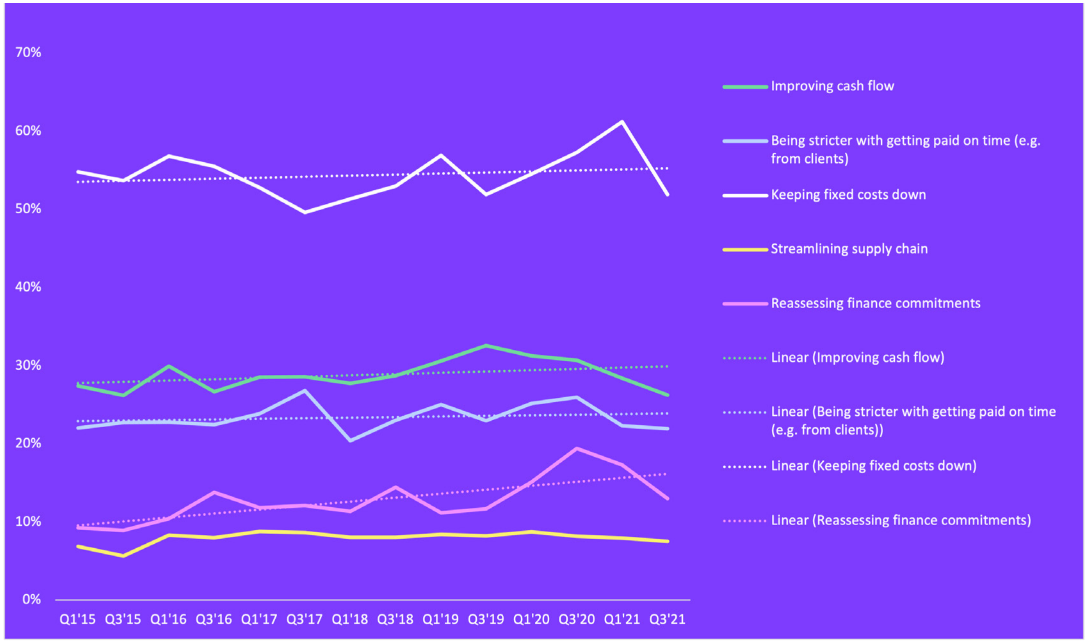
Since 2015, the chief priority for business growth plans has been keeping fixed costs down. The proportion prioritising this has stayed around 55% consistently, rising to 61% at the start of 2021.

Cash flow and getting strict with clients:

Improving cash flow and insisting that invoices are paid on time are increasingly important to small businesses. The proportion of businesses prioritising these has increased by around 5 per cent.

Reassessing finance commitments:

Reassessing finance commitments has had the biggest proportional rise (+7% on average), peaking in Q3 2020 as the recession took hold.



Control costs

Concluding remarks

"Whilst chapter one presented a picture of resilience from small business owners, maintaining a strong growth outlook despite a challenging context, this chapter shows how hard it has been for many to adapt and respond to unforeseen market shocks. Barriers to growth have been a serious cause of concern and investment strategies for growth have often had to be measured and pragmatic.

The issues in this chapter underline how hard small businesses have had to work to maintain a positive outlook, and it underlines the financial support many will in 2022 as they rebuild and plan for growth after Covid restrictions."

Geoff Maleham,
Managing Director,
Novuna Business Finance

Chapter Three

Sectors in focus

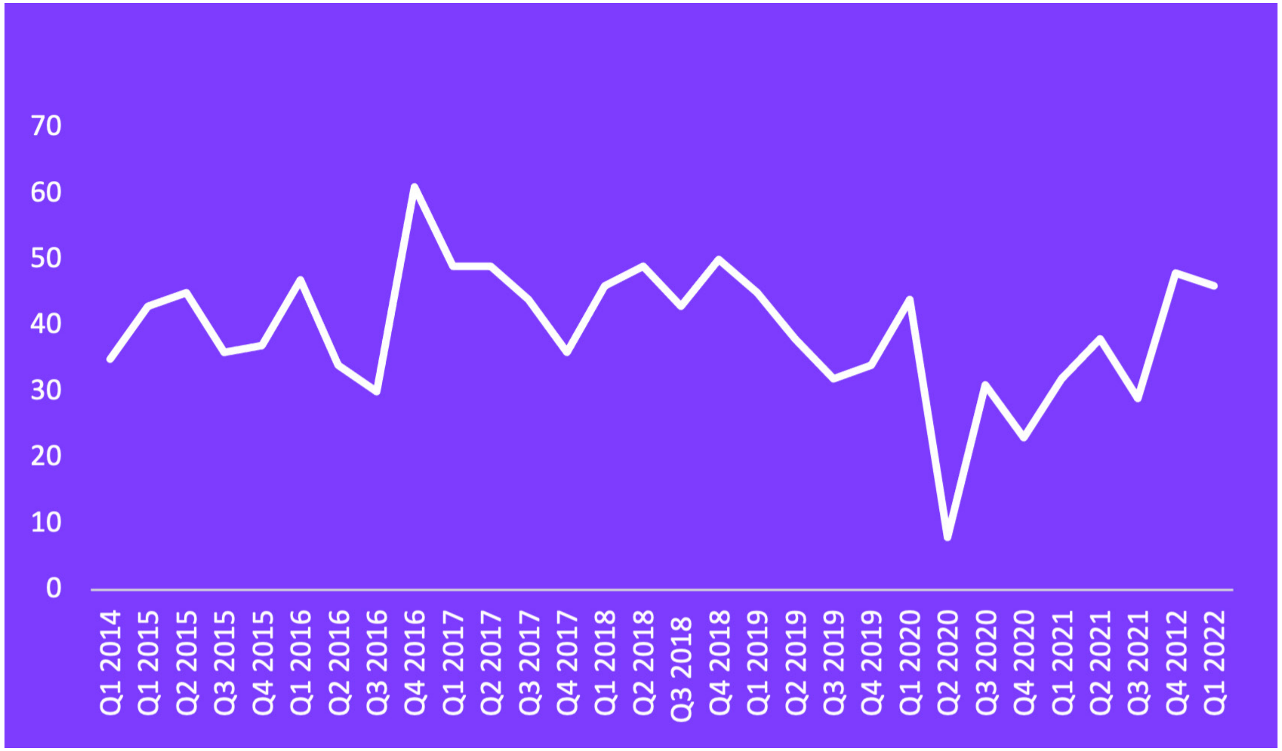
Novuna's Business Barometer recorded progress across 13 industry sectors, exploring small business growth ambitions, opportunities, and threats in each.

This chapter examines four sectors—Manufacturing, Construction, Agriculture, Hospitality & Leisure—from the Business Barometer's 2014 launch to the present.

Manufacturing

According to the United Nations Conference on Trade and Development, the UK is the ninth largest manufacturer in the world with an output of £192 billion, employs 2.7 million people, and accounts for 45% of total exports. Even allowing for the 1970s decline, the manufacturing sector has increased by 1.4% every year since 1948. 2016 was the year of the referendum. While initial uncertainty meant confidence dropped in the quarter immediately after the referendum result, the recovery into Q4 of that year was one of the sharpest on record.

Spirits were high as the manufacturing sector emerged as the most likely to see opportunities from leaving the EU: almost three-quarters (70%) cited reasons to be optimistic about Brexit, including the weak pound and possible reductions in red tape. The highest growth forecast since the Business Barometer began was recorded in Q1 2016 when almost half (47%) of the small business owners in manufacturing were planning on growing the business over the next quarter, higher than the national average of 39%.



Manufacturing

This was the sector most likely to see opportunities elsewhere. Nearly a third (32%) of the sector were planning to expand into overseas markets, such as North America, to achieve growth over the next 12 months. Confidence had been buoyed by the prospects of cheaper exports and, whilst trying to keep fixed costs down, manufacturing enterprises were investing in new equipment and expanding the workforce. Before the General Election in June, the sector was the keenest to see strong Brexit leadership from the Government that they believed would negotiate favourable trade deals beyond the EU. Manufacturing emerged as the least likely sector to want a reversal on the decision to leave the EU—26%, compared to the national average of 31%. However, uncertainty before and immediately after the election precipitated a drop in confidence.

Throughout the election period, optimism declined for the manufacturing sector, and the relatively buoyant business mood fell sharply over the course of a year. The reasons to be optimistic at the beginning of the year were slowly muted, with increased concerns over a weak pound, less possibility of there being less red tape, and fewer enterprises thinking Brexit would result in the UK Government supporting UK businesses more.

In 2018, the manufacturing sector shifted its growth agenda from Brexit to finance. Whilst 81% were looking to grow in Q1 2018 (by keeping fixed costs down, improving cash flow and getting paid on time), 71% were worrying about the future of their business. By the second quarter more than half of manufacturing enterprises (52%) said they needed access to finance to grow and support their business. According to our findings, Manufacturing was one of the sectors most affected by late payments, and in July keeping fixed costs down became the number one priority. Reflecting on the past twelve months, almost half (48%) of the manufacturing sector were uncertain about the future of the business and were the most likely to cite Brexit as having one of the biggest negative impacts on expansion during 2018.

Opinions about Brexit started to shift again in Q1 2019 when 55% of manufacturers could perceive opportunities, rising to 64% in 12 months. However, growth prospects for the small business community plummeted to an all-time low in Q2 2020 as the first effects of Covid-19 were felt across the industry. The proportion anticipating a contraction in this quarter (66%) was higher than the proportion of businesses anticipating growth at any other time on record. Just 13% of decision makers were optimistic about the future—falling to 9% of those in manufacturing.

Due to repeated restrictions throughout the year, some companies had to work from home, many had to furlough staff, and others closed doors for the foreseeable future (some permanently). With contraction rising to 66%, manufacturing small businesses were not planning for growth but survival. Their strategies included diversifying products and services, and allocating resources to make the most of opportunities, even as they reduced fixed costs.

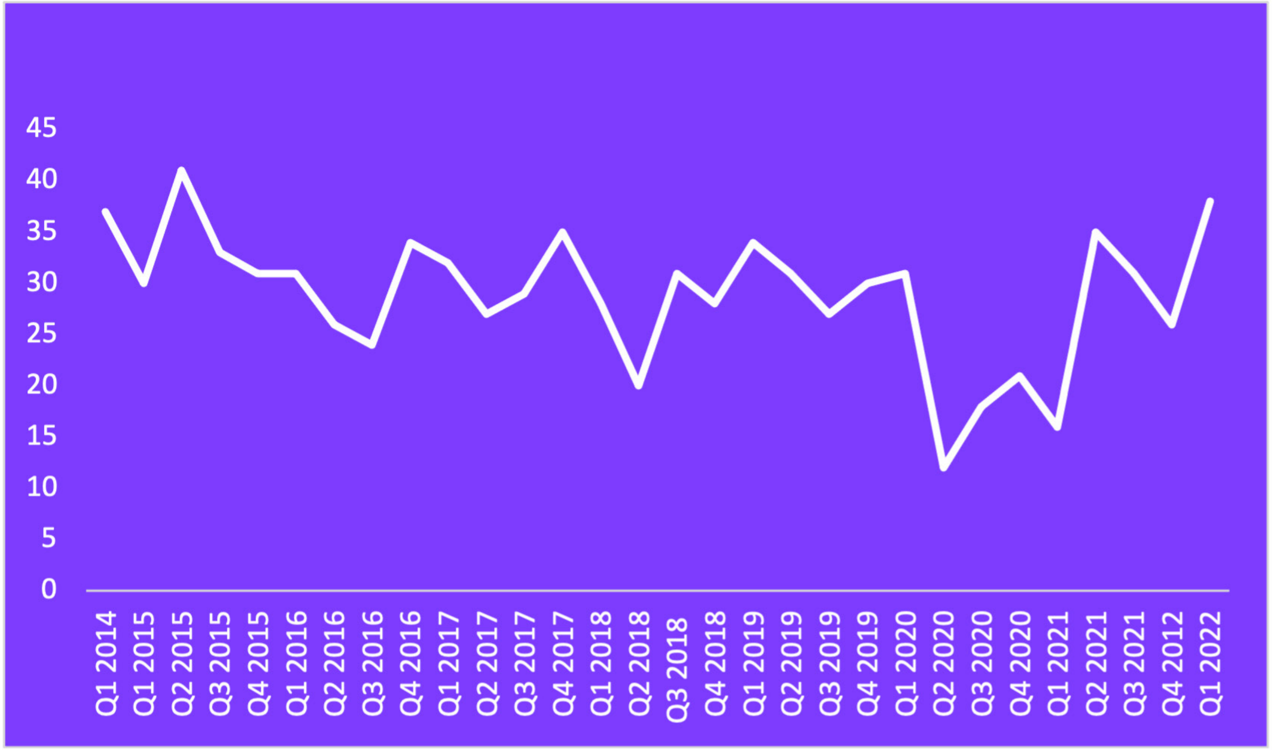
Meanwhile, Brexit worries dropped from 44% in Q4 2020 to 30% at the beginning of 2021— with only 26% of manufacturing businesses citing Brexit as preventing their expansion. By the end of the year, manufacturing emerged as the sector most likely to be looking to develop partnerships with non-EU-based partners in the new year, looking to expand into the EU and the Far East in 2021.

Whilst some industries are still feeling the ongoing effects of the Omicron variant, the Manufacturing sector has returned to pre-pandemic levels with almost half of small companies (48%) in the sector predicting growth ahead of the new year.

Construction

Since the Barometer began at the end of 2014, growth has remained steady within the construction sector despite crises including the collapse of Carillion, fluctuating exchange rates, a referendum, a general election, extreme weather, and the loss of staff.

2018 was a worrying year for the construction industry—more than one in five companies (22%) said their biggest concern was economic volatility. The fall of Carillion at the beginning of the year and spells of bad weather affected small business confidence in the second half of 2018. Further, December 2018 saw the construction industry hit a three-month low, amid Brexit concerns and a declining demand for commercial projects.



Construction

10 biggest issues for future growth from 2018

Uncertainty about the future, as a direct result of Brexit	48%
Introducing company pension for staff (e.g., auto-enrolment)	20%
Rising cost of imports	19%
Falling value of sterling	18%
Reductions in tax allowances on dividends for company shareholders in the March budget	16%
Preparing for changes to data protection laws (e.g., GDPR)	16%
The outcome of the General Election	16%
Tax digitisation and the prospect of quarterly tax returns	15%
Increases in small business rates	14%
Banks lending less to small businesses	13%
Proposed changes to the freedom of movement/hiring foreign staff as a direct result of Brexit	13%

By the end of 2019, half of the businesses operating in construction (50%) admitted they would face challenges if they were unable to secure finance. Their biggest challenge would be hiring new people (27%); 22% said they would struggle to compete with larger companies; and 21% would not be able to afford new vehicles.

Covid-19 hit the construction sector hard in Q2 2020. Three in five small construction businesses (65%) predicted they would be scaling down the company's operations with a strong possibility of closures.

Just 16% of small businesses decision makers in construction headed into 2021 with ambitions for growth—some of the lowest results over the Business Barometer's seven years of tracking. Nevertheless, this dip in confidence didn't stop construction companies from trying to grow.

10 ways small construction businesses were looking to grow at the beginning of 2021

Keeping fixed costs down	48%
Being stricter with getting paid on time (e.g., from clients)	20%
Improving cash flow	19%
Reassessing finance commitments	18%
Investing in new equipment	16%
Hiring more people	16%
Expanding into new markets/ overseas	16%
Seeking financial funding via a partner/ company other than our bank	15%
Streamlining supply chain	14%
Moving to a different location/ bigger office	13%
Securing financing to replace a vital business asset(s)	13%

Despite attempts to remain positive in the face of supply chain, finances and staffing issues, the sector was one of four to harbour concerns about the long-term impact of Covid-19 on business growth – along with Hospitality & Leisure, Manufacturing, and Retail.

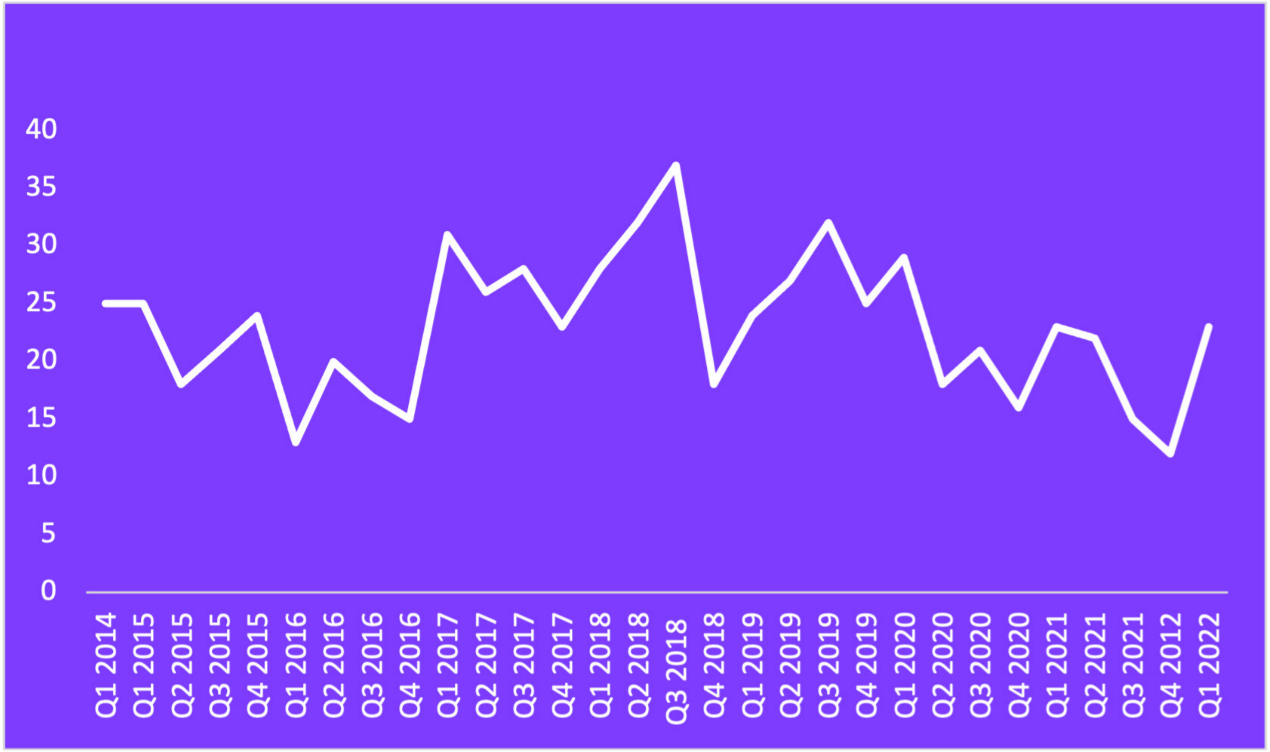
The year 2021 has ended, and % of small construction businesses are optimistic about 2022. Plans are underway to make the small businesses in the sector stronger with better financial management. Almost two in five small businesses in construction (37%) are concentrating on building up the company's financial reserves; some are looking to increase new business sales (36%); whilst others will be attempting to reduce fixed costs (24%).

The findings further reveal that businesses will be planning ahead with business budgeting, will be adapting financial forecasts to allow for seasonal highs and lows, and will also be looking for professional help and advice. After a challenging year, the results indicate cautiousness amongst construction small businesses as owners try to focus on safeguarding for the year ahead—showing that they have learnt from past challenges.

Agriculture

Farming is the bedrock of the UK economy; the sector employs more than 4 million people and contributes over £120 billion to the country's economy. It secures a food system within our shores, feeding the nation through good and challenging times, and delivering a wide range of environmental and rural community benefits enjoyed far beyond the gates of a farm.

At the beginning of 2016, small agricultural businesses were filled with uncertainty arising from the EU referendum; only 13% were optimistic about future growth. The industry was central to the debate, and it was reported that farmers were divided in their views: some could see the benefits; others felt being separated from Europe would create trade difficulties.



Agriculture

However, by the beginning of 2017, more than half of small businesses in the Agricultural sector (52%) were optimistic about the opportunities arising from leaving the EU—despite being faced with subsidiary shortages and a loss of labour. Remaining positive about the divorce from Europe, nearly a third of small agricultural enterprises (31%) anticipated less red tape.

One in four (25%) recognized opportunities in UK consumers 'buying British' and 24% reported the weak pound at the time as good news for exports. Small businesses in the sector were the most likely to see an opportunity in being able to develop business partnerships with non-EU-based entities (14%). Almost half of agricultural small businesses (48%) were keen to see a government commit to negotiating favourable trade deals beyond the EU—far higher than the 24% average across all sectors.

In 2018, the Barometer recorded the highest growth since 2014. Almost a third of small business decision-makers (32%) in the sector were confident of future growth. Whilst optimism gradually dipped again during the year—small agricultural businesses were twice as likely as the national average to say that cash flow was holding their business back (28% vs 14%)—it was back to 32% in Q3 2019. Of the 14 sectors surveyed at that time, small agricultural businesses were the most likely to intend to invest in new equipment and reassess the company's financial commitments, whilst keeping fixed costs down. This was the last time Novuna's Business Barometer saw small agricultural businesses, out of all the sectors surveyed, as the most positive about growth.

In Q2 2021, the sector was battling Covid-19, lockdowns, major supply chain shortages, lack of staff due to sickness, and financial instability. The sector experienced its most extreme contraction on record with businesses struggling to survive and some risking closure (37%). Agricultural was the only sector where growth forecasts failed to rise, with 76% saying there were barriers to the businesses' growth, reducing to 74% by Q4 2021.

The last quarter of 2021 saw the Business Barometer track its lowest growth for small businesses in Agriculture (12%). Findings revealed that concerns about the future had risen over a 6-month period. Whilst worries about Brexit and Covid-19 faded, concerns about the cost of skilled labour, extreme weather, and excessive red tape intensified. A mammoth task lies ahead in securing a sustainable economic recovery and, as they get back to full strength, small businesses are up against supply chain disruption, spiralling costs, and skills shortages.

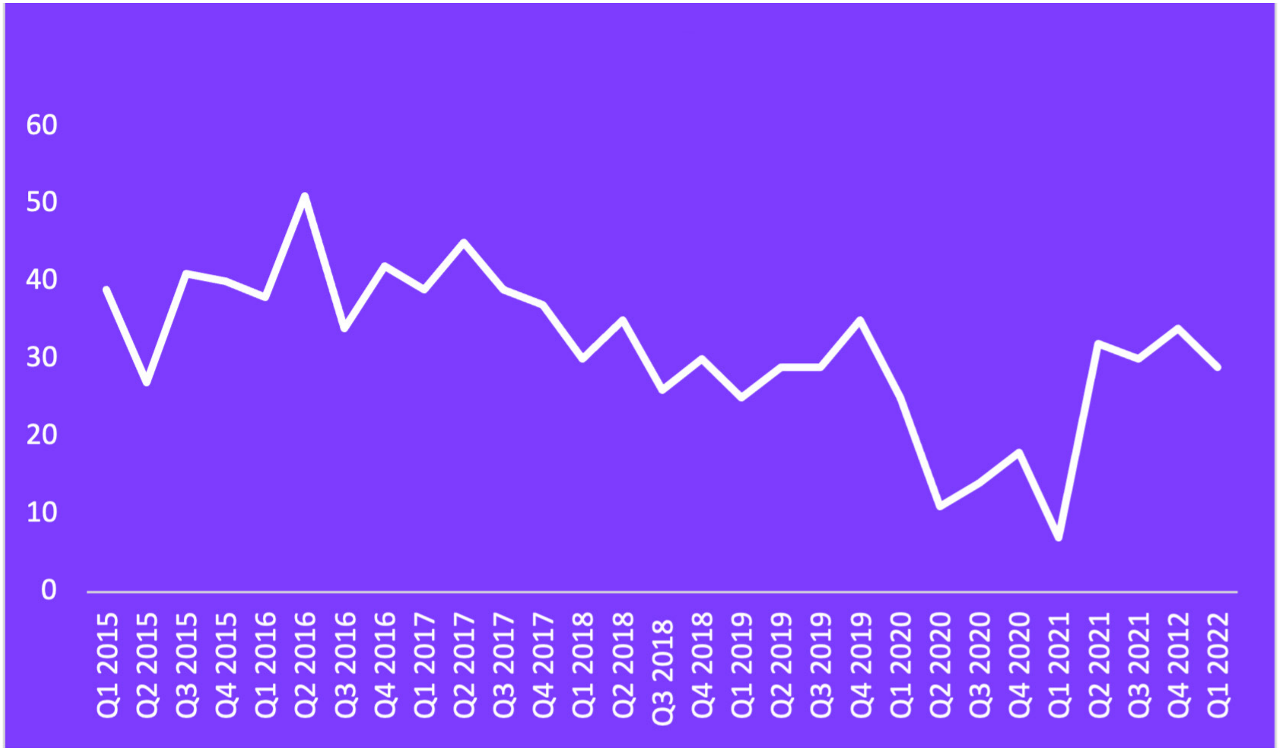
Top 15 barriers to growth for small businesses in the Agricultural sector (Q2 2021 vs Q4 2021)

	Q2 2021	Q4 2021
Unpredictable/extreme weather	33%	38%
Red tape (i.e., excessive bureaucracy and regulation)	26%	34%
General market uncertainty	24%	20%
Brexit and the economic impact on my business	21%	12%
The direct impact of Covid-19 on my business operations	19%	6%
Other	13%	12%
Cost of skilled labour	11%	12%
High fixed costs/overheads	11%	10%
Volatile cash flow	11%	10%
Having old/out-of-date equipment	11%	8%
Uncertainty as to the future of my business's outlook/ prospects	9%	14%
An unwillingness within the business to take risks	9%	6%
Banks being restrictive on lending money	8%	8%

Hospitality & Leisure

The Business Barometer shows the Hospitality & Leisure sector businesses were relatively bullish about the future at the beginning of 2016. Q2 saw the sector hit its highest growth on record with more than half of small businesses (51%) predicting significant expansion or modest growth in the next few months. This optimism came despite fears that the EU referendum could possibly hinder future growth.

The research suggests that small business outlook in this sector was largely unaffected by the pros and cons of leaving the EU as well as the fluctuating oil prices at the time. Small business confidence seemed to be based more on the strength of their own plans and immediate supply chain relationships. At the beginning of 2016, Hospitality & Leisure small businesses were looking to keep fixed costs down, improve the company's cash flow, and invest in new equipment.



Hospitality

10 areas for achieving growth at the start of 2016

After a slight peak in growth in Q2 2017, the findings show us that optimism waned until Q1 2020 when the Hospitality & Leisure sector immediately felt the effects of Covid-19. The sector hit its highest recorded contraction over seven years of tracking—53% of small businesses within the sector were scaling down and struggling to survive. Hospitality & Leisure was among the most likely sectors, along with Retail, Construction, and Manufacturing, to be concerned about Covid-19's long-term economic impact.

Although there were signs that growth forecasts started to recover for troubled sectors (Hospitality & Leisure, Retail, and Construction), confidence was still fragile—with many owners acutely aware of how further Covid-19 developments could destabilise their businesses.

Keeping fixed costs down	61%
Improving cash flow	34%
Investing in new equipment	23%
Hiring more people	18%
Being stricter with getting paid on time (e.g., from clients)	14%
Streamlining supply chain	11%
Reassessing finance commitments	10%
Expanding into new markets/overseas	8%
Moving to a different location/bigger office	7%
Securing financing to replace a vital business asset(s)	6%
Seeking financial funding via a partner/company other than our bank	5%

Areas small businesses would struggle to grow without more finance (Q2 2021)

Even with the various measures taken by government to support hospitality businesses, such as the 'eat out to help out scheme,' the sector was hit hard financially. By Q2 2020, Hospitality & Leisure businesses were those most focused on building up the company's financial reserves (30%) as a means of survival. The sector admitted that they needed additional funds and would struggle without further financial support.

By the end of 2021, just a third of small businesses in the sector were optimistic about future growth. The Hospitality and Leisure sector is emerging as the industry most crippled by Omicron: Christmas reservations were cancelled as the British public tried to protect themselves and their families.

After fresh calls for increased governmental support, the Chancellor announced a £1bn fund to help businesses hit by the rise in Covid-19 cases. Hospitality businesses will be able to apply for cash grants of up to £6,000 per premises. Following a challenging year, we can only hope this help is not too late for British businesses in the Hospitality and Leisure sector.

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Improving cash flow	34%
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Chapter Four

Celebrating all business types

The Business Barometer has been an effective tool to measure the growth outlook of UK small businesses and to assess the relative opportunities and threats faced by the whole business community.

Over the years, Novuna has covered a variety of topics, all providing value-rich data into how situational factors affect a business and revealing the variegated types of the small business community. These include:

- Single parent owned businesses
- Businesses run by women
- Family-owned businesses
- Businesses with different approaches to work (i.e., home working, hybrid working, working outdoors, or sticking to the workplace)
- Businesses run by introverts vs extroverts

  In this final chapter, we share insights on some of these various types.

Introverts Vs extroverts

Are extroverts better leaders? With introverts stereotyped as quiet, cautious, and retiring wallflowers, we might expect a typical business leader to be extroverted—outgoing, loud and assertive. However, Novuna Capital's research returned data which questions this assumption.

At the beginning of 2016, small agricultural businesses were filled with uncertainty arising from the EU referendum; only 13% were optimistic about future growth. The industry was central to the debate, and it was reported that farmers were divided in their views: some could see the benefits; others felt being separated from Europe would create trade difficulties.

When asked in 2020 about growth prospects in the next year, more than a quarter of introverts said they expected to see modest or significant expansion (28%) compared with more than a third of extroverts (37%). A steady, mindful approach was adopted in most businesses run by introverts, stating their plan was to not change their approach during lockdown and Covid-19 restrictions, but instead to continue as normal in the uncharted climate (52% introverts vs 44% extroverts).

Despite extroverts dominating sectors most severely affected by the pandemic—retail and hospitality—they were still the most optimistic in their growth outlook, and most likely to be working on new ideas (37%). Extroverts embraced change, whereas introverts looked to minimise risk. The mindset of the business owner was equally if not more influential in shaping business strategy as the sector or region in which the enterprise was based.

Working from home has presented many new challenges not previously encountered as people have adjusted to virtual meetings, lack of office socialisation, and a new, blurred sense of home vs work.

Noruna's research revealed that introverts were better at working from home. Introverted bosses were more likely to notice a greater sense of focus and productivity across their workforce (21% vs 18% extroverts), and attribute it to the lack of small talk and greater independence afforded to their employees (21% vs 17% extroverts).

Where introverts excelled at home working, extroverts struggled. Extroverts were twice as likely to say that getting hold of their staff was an issue whilst working remotely (8% vs 14% introverts) and more likely to believe that their employees were having difficulties with this working method (19% vs 17%).

Family-owned businesses

Every town in the UK is home to long-established family businesses that are invested in local communities and pride themselves on traditional values. Novuna Business Finance polled family business owners during 2020 to explore how they were coping with the succession of lockdowns and social restrictions.

The research found that, as a response to the pandemic and general unrest from the past couple of years, family-owned businesses were more likely than the average small business to have invested time and resources into re-skilling and re-training their current staff (25% vs 20% national average). A quarter of respondents also adapted their business model to achieve growth—popular strategies included introducing new competitive pricing and promotional offers for their clients (24%) and simplifying product lines to focus on and invest in core strengths.

This research was conducted with the pandemic raging, no vaccine yet in sight, and growing concern about the nation's mental health. Family-owned businesses responded by prioritising a happy and motivated workforce, with nearly two-thirds of family businesses prioritising health and wellbeing (57%).

When asked about the work environment and looking after staff members since the easing of lockdown, family-run small businesses also emerged as those most likely to be taking proactive measures to support the wellbeing of their employees (18%). Their main priorities were:

- introducing flexible working hours (26%);
- improving sick pay for those employees isolating or experiencing Covid-19 symptoms (15%);
- organising motivational team meetings (13%);
- initiating one-to-one pastoral calls with employees (12%).

Family businesses tend to be more traditional, more community-based, and built on relationships between people—we can see this reflected in employees' treatment.

Single parent business owners

When the UK economy went through an unprecedented period of uncertainty and change, the pressure on home life increased. Amongst the more than 5.7 million small businesses in the UK there is one group that has proven how adaptable they are—single parent business owners. Novuna Capital decided to launch a survey of single parent business owners to ascertain the various struggles and obstacles they face.

Single parents were among the most forward-thinking when it came to ensuring their staff were able to achieve a sensible work-life balance. Despite being the group most likely to struggle with ensuring a work-life balance for themselves, with single parents working longer hours than other business owners (37 hours compared with 35 hours national average), they were twice as likely to offer flexible working to their employees (29% vs 15%), with one in six offering part-time and job share contracts (18% vs 12% average).

They also tend to inspire loyalty by focussing on things that make a difference to employees' lives outside work, including offering additional holidays (31%), socialising with their employees (27%), and remembering employees' birthdays (24%).

While single parent business owners were successful at growing their businesses against the odds, this did not come without personal sacrifice. Although, as a group they are masters at ensuring their families are happy and healthy, they are also guilty of over-working. Two in five single parent business owners (40%) say they always work on a bank holiday, whilst a further 48% say they have worked on the bank holiday on occasion. This was higher than the national average (33%), and almost twice as high as the average female business owner (25%).

Concluding remarks

"These three audience profiles underline how thin the line can be between work and home for a small business owner. Often, research is targeted at a sector, turnover, or region only. The results don't always tell you how small business owners think, what motivates them, what they worry about, and why. The three profile groups summarised here start the process of understanding business owners as human beings. There are many more typologies and groupings to study and understand and, after two years of Covid-19, the psychological, home life, and cultural influences that shape small business outlook should not be ignored."

Jo Morris,
Head of Marketing & Insight,
Novuna Business Finance

Methodology

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1140 Senior Decision Makers in Small Businesses. The survey was carried out online. The figures have been weighted and are representative of all Senior Decision Makers in Small Businesses.

Dates of the fieldwork for the research used in this report:

Q1 2018	8th - 20th January 2018
Q2 2018	3rd - 18th April 2018
Q3 2018	2nd - 12th July 2018
Q4 2018	1st - 10th October 2018
Q1 2019	7th - 24th January 2019
Q2 2019	8th - 18th April 2019
Q3 2019	1st - 17th July 2019
Q4 2019	7th - 17th October 2019
Q1 2020	6th - 24th January 2020
Q2 2020	7th - 14th April 2020
Q3 2020	7th - 15th July 2020
Q4 2020	29th September - 13th October 2020
Q1 2021	6th - 24th January 2021
Q2 2021	8th - 19th April 2021
Q3 2021	8th - 16th July 2021
Q4 2021	30th September - 14th October 2021
Q1 2022	7th - 25th January 2022

About Novuna

Novuna is a trading style of Mitsubishi HC Capital UK PLC, the new name for Hitachi Capital (UK) PLC and a leading financial services company, authorised and regulated by the Financial Conduct Authority (FCA).

We have over 1,600 employees, £5.9bn of net earning assets and over 1.3 million customers across five business divisions; Novuna Consumer Finance, Novuna Vehicle Solutions, Novuna Business Finance, Novuna Business Cash Flow and our European division specialising in Vendor Finance. For over 40 years, formerly as Hitachi Capital (UK) PLC, we have worked with consumers and small to medium enterprises (SMEs) as well as corporate multinationals in the UK and mainland Europe, enabling millions of consumers and businesses to achieve their ambitions.

From 1 April 2021 we became a wholly owned subsidiary of Mitsubishi HC Capital Inc., strengthening our relationship with one of the world's largest and most diversified financial groups with over £66bn of assets.

Novuna Business

Novuna Business Finance, the new name for Hitachi Capital Business Finance, provides business asset finance to SMEs and bigger corporations across the UK. This 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 £1.4bn, the business is active across multiple sectors from transport and agriculture to construction and manufacturing and was awarded Best Service from an Asset Based Lender at the 2021 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.

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 £66bn of assets.

Notes:
infographics; Small Business Britain: The Impact of COVID-19 To-Date
https://www.goldmansachs.com/citizenship/10000-small-businesses/UK/infographics/small-business-britain/

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