Novuna®
Business Finance

Access to funding: small business outlook over time (2017-2023)

Quarterly insights from the Business Barometer study

July 2023 edition

Tomorrow. **Together**

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 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.

Every three months, we pick one of the many focus topics from our research archive and share key insights. For this second edition we take a look at a topic close to our hearts – access to funding. Specifically, this edition will look at how important this is to small businesses in moving forward with growth plans. This specific topic we have been tracking at intervals since 2017.

We're committed to supporting small businesses with funding to help them fulfil their true potential. Operating across a range of business sectors, we have a number of funding products available for established small businesses, sustainable project developers, franchise businesses and intermediaries. We understand the cycles and the challenges that businesses go through and we devise solutions and tools framed by knowledge, empathy and understanding.

We hope you enjoy this second 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 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 £1.7bn, 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 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 £60bn of assets.

Methodology

The research for this report was conducted by YouGov at quarterly intervals since 2017.

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.

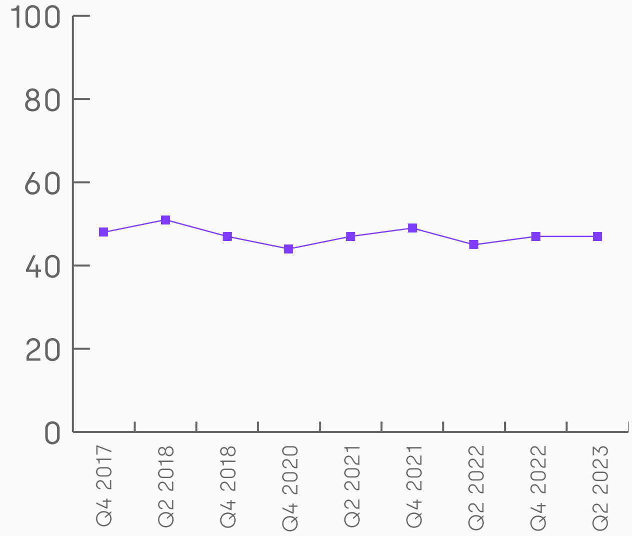
Funding: the one constant at a time of change

After a period of seismic change – when small businesses have been disrupted by Brexit, a global pandemic and then a cost-of-living crisis – one constant has been their need for funding support to power expansion, to invest in new equipment and assets, to accelerate product development and to improve tech proficiency in a digital age. The need for funding applies for businesses growing quickly and it is also needed by those enterprises working hard to re-purpose and rebuild after testing economic times. It is needed by businesses big and small and geographically the need for funding is prevalent across all UK regions.

As part of Novuna's quarterly research, which tracks the growth ambitions of small businesses, the study has also asked small business owners how important funding was to putting growth plans into action. To get a measure of this, since 2017 we have tracked the extent to which growth plans are conditional on securing funding or borrowing.

In March 2023, 53% of small business owners said they would have to put various growth initiatives on hold if they were unable to secure business funding or borrow money. This represented only a 1% change on the position seven years previously. Looking at the survey results over time, the consistency of position here is remarkable given the scale of economic, political and social shock waves that small businesses have had to cope with and adapt to. In a world of unprecedented change, the one constant for small businesses is the need for funding – and its unshakable connection to business owners actioning growth initiatives.

The percentage of small businesses that would have to put off growth plans if they were unable to secure funding or borrowing:

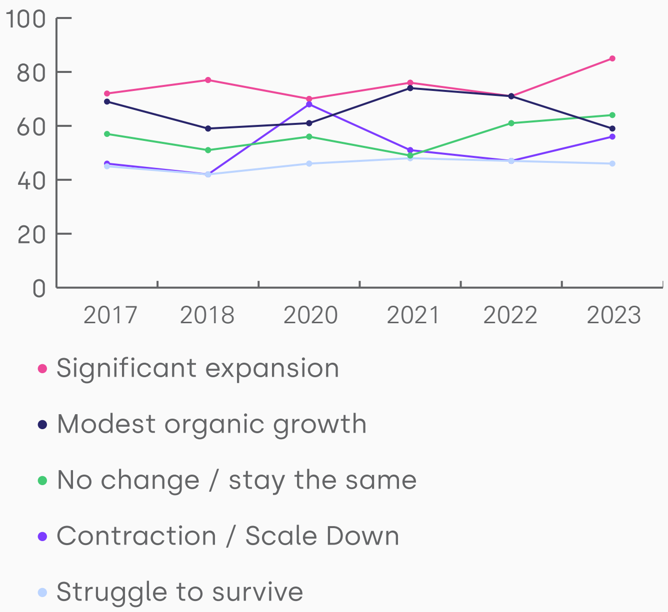


Finance to expand or to survive?

The need for funding by small businesses was most acute in the two extremes of growth outlook – among those enterprises poised for significant growth and also for those businesses struggling to survive. The important point of note here is successfully securing finance has the ability to change the growth outlook of an enterprise. For example, those predicting significant growth could end up reigning back this forecast if they were unable to secure the funding they needed. Conversely, those struggling to survive could well upgrade their forecast if they secured funding, given that many businesses in recent years have been focusing on rebuilding and diversifying after the pandemic and cost of living crisis.

Small businesses predicting no change in their growth outlook are those least likely to need funding, but that may also be a reason why they were not growing in the first place.

The percentage of small businesses that would have to put off growth plans if they were unable to secure funding or borrowing – by current growth outlook for the business



Seasonality

Since the final stages of the pandemic, we have also looked closely at seasonality. Sectors such as hospitality and agriculture are areas where businesses have defined seasonal peaks each year, which plays out in business planning. Brexit had a big impact on the farming community and it is well documented how the hospitality sector was decimated by the era of COVID lockdown.

Our study on access to finance suggests that seasonal businesses have a more significant reliance on finance in order to implement growth plans. These are sectors where businesses are more likely to be focusing on rebuilding after the pandemic, needing to diversify their product offering, invest in new assets and equipment or build up their headcount. As the table below shows, small businesses that have seasonal fluctuations are more likely to say they would have to put off growth plans if they were unable to secure finance. This is even more pronounced among those enterprises that are unable to foresee or plan for seasonal variations in their business planning.

Size of business

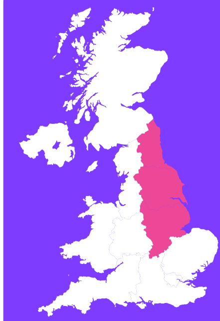
Whilst many start-up businesses may need funding to establish themselves, it was larger enterprises for whom investing in growth plans was more likely to be conditional on securing finance. In fact the need for funding has grown among bigger firms over time. For those employing 10-50 staff the percentage saying growth was conditional on securing funding has risen from 49% in 2018 to 63% this year. In contrast, for enterprises employing fewer than 10 people, the figure has been consistent at around 50% over the last five years. This trend is mirrored when exploring the position by turnover, with bigger firms in greater need of funding to support growth.

The percentage of small businesses that would have to put off growth plans if they were unable to secure funding or borrowing – by seasonality status of the business

	Q2 2022	Q4 2022	Q2 2023
My business does not change seasonally	52%	48%	47%
My business changes seasonally and we can foresee and prepare for these changes	54%	55%	57%
My business changes seasonally but we can't foresee or prepare for these changes	67%	70%	65%

An East-West divide

Over the last seven years an interesting regional picture has emerged on two counts. Firstly English businesses are far more likely to see access to funding as a requirement in order to push ahead with growth plans. Also, an interesting East-West divide clearly emerges. Over the course of seven years, dependency on funding for businesses in regions in the east of England has increased significantly; whereas it has fallen in the west. Whilst it's hard to know why this is the case, a reason could be that many of the cities undergoing massive regeneration projects in 2023 veer to the west of the country - such as Liverpool, Birmingham and Manchester. Wolverhampton and Sheffield are the first cities that have been selected for the Government's levelling up programme. The findings from our study specifically relate to the need for funding for small businesses to implement growth plans – and the possible reasons behind this East-West divide is something we will explore further in future cycles of the tracking study in 2023 and beyond.



The East: then and now

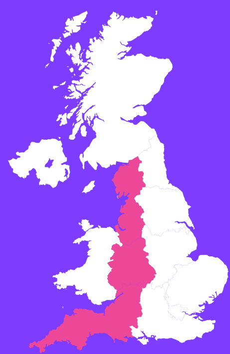
Increase in the percentage of small businesses that would have to put off growth plans if they were unable to secure funding or borrowing

	2017	2023
North East	54%	62%
East Midlands	44%	57%
East	48%	58%

The West: then and now

Decrease in the percentage of small businesses that would have to put off growth plans if they were unable to secure funding or borrowing

	2017	2023
North West	59%	42%
West Midlands	60%	55%
South West	57%	43%



The growth plans that risk being put on hold

Over time, there have been 16 areas of investment that small business owners have cited as areas where their business growth depends on securing finance. This in itself underlines the scale of business operations that can be adversely affected if access to funding is threatened.

Looking back over the last seven years, the months following the falling away of Covid restrictions in early 2022 saw the most notable peaks in dependency on funding to support business growth initiatives. On a range of fronts, small business owners pointed to activities they wanted to do but would have to put on hold without funding.

All these activities related to a period of bouncing back after years of restriction – investing in new machinery, new people and a new or bigger premises. Spring 2022 was perhaps the defining period of this study when the viability of business growth plans most directly correlated to securing funding to power growth. After a peak in Q2 2022, the figures dipped back to previous levels.

During and after Covid restrictions: The most common growth activities that small businesses would have to put off if they were unable to secure funding or borrowing

	Q2 2021	Q4 2021	**Q2 2022**	Q4 2022
Increase headcount/ hire new people	27%	30%	**32%**	28%
Modernise IT capability/ purchase new IT equipment	21%	19%	**30%**	24%
Launch new products/ services	25%	25%	**29%**	25%
Run a marketing/ advertising campaign	21%	24%	**27%**	21%
Move to a better location/ bigger space	19%	22%	**27%**	20%
Pitch for major accounts/ compete with larger competitors	23%	19%	**24%**	17%
Investing in new production lines / machinery	18%	17%	**21%**	18%

Aside from this post-Covid restrictions peak, a more general look at the research since 2017 makes clear that the need for funding across a wide range of areas has remained consistent - even through periods of seismic change. For example, during the lockdown era many small businesses had to adapt to remote working, deal with temporary closure or diversify – but even through this the need for funding remained a constant, as did the material impact of not securing it. The table below demonstrates this, looking at key points over the last seven years.

The top 10 growth activities that small businesses that would have to put off if they were unable to secure funding or borrowing (2017-22)

	Q4 2017	Q4 2018	Q4 2020	Q4 2021	Q4 2022
Increase headcount/ hire new people	25%	29%	29%	30%	28%
Launch new products/ services	23%	29%	27%	25%	25%
Modernise IT capability/ purchase new IT equipment	21%	22%	22%	19%	24%
Run a marketing/ advertising campaign	23%	23%	22%	24%	21%
Move to a better location/ bigger space	22%	20%	16%	22%	20%
Invest in new vehicles	14%	21%	18%	22%	19%
Investing in new production lines / machinery	14%	17%	15%	17%	18%
Expand into new market segments in the UK	16%	17%	19%	17%	17%
Pitch for major accounts/ compete with larger competitors	26%	16%	23%	19%	17%
Invest in staff training programmes	16%	26%	18%	16%	16%

Sector overview

The picture by sector varies, but five industries stood out for this study – sectors where more businesses are reliant on securing funding than they were before the pandemic.

Looking at these five sectors, they all have one thing in common for 2023 – namely, they are all more likely than the national average to predict growth for the year ahead. Yet they are also more likely to say that failure to secure funding will mean they have to pause specific growth plans. Here is a very clear indication that the problems small businesses may experience if they don't secure funding and how it will adversely impact the potential positive growth outlook of the UK economy at large.

The percentage of small businesses in various sectors that would have to put off growth plans if they were unable to secure funding or borrowing: A seven-year comparison

	2017	2023
Media and Marketing	57%	62%
Hospitality	52%	61%
Manufacturing	55%	60%
Construction	52%	58%
IT / telecoms	50%	58%

Manufacturing

34% predict expansion this year
17% anticipate contraction

Initiatives most likely to be halted without finance:
– Investment in new machinery 37%
– Running a marketing campaign 29%
– Paying suppliers on time 25%

Construction

34% predict expansion this year
10% anticipate contraction

Initiatives most likely to be halted without finance:
– Invest in staff training programmes 27%
– Investing in new vehicles 24%
– Modernise IT capability/ purchase new IT equipment 22%

Hospitality

38% predict expansion this year
14% anticipate contraction

Initiatives most likely to be halted without finance:
– Launch new products and services 35%
– Investing in new vehicles 26%
– Running a marketing campaign 25%

Media & Marketing

37% predict expansion this year
15% anticipate contraction

Initiatives most likely to be halted without finance:
– Increasing headcount 41%
– Modernise IT capability/ purchase new IT equipment 30%
– Running a marketing campaign 48%

IT / Telecoms

41% predict expansion this year
6% anticipate contraction

Initiatives most likely to be halted without finance:
– Increasing headcount 34%
– Running a marketing campaign 33%
– Pitch for business against larger businesses 25%

Assessment

A reflection on the research

By Jo Morris, Head of Insight, Novuna Business Finance

"With business finance, there is ample commentary on who offers finance and funding and lots of brands talk about what they offer – but there is very little attention given to the 'invisible' subject on what happens when small businesses can't secure funding. We wanted to look at this topic and follow it over time and the results show that, without funding, many small businesses have to put on hold initiatives that would secure growth. This doesn't just hurt the business in question, it impacts the health of the broader community, the supply chain and job creation more broadly.

"Over the last few years, small businesses have been thrown almost every challenge imaginable. Brexit, the Scottish referendum, a global pandemic and a cost-of-living crisis. Set against all these challenges, UK small businesses have found ways to adapt, and many have forged new remedial plans in order to move forward. The key for many is financial support, the right funding at the right time. This report makes clear the tangible impact on small businesses growth prospects if they are unable to secure funding when they need it.
www.novuna.co.uk/business-finance