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THE SME BAROMETER

QUARTERLY SMALL & MEDIUM SIZED BUSINESS INSIGHTS.

GROWTH'S DOUBLE-EDGED SWORD.

A DETAILED LOOK AT THE CHALLENGES FACING SMEs AS THE GOVERNMENT GAMBLES ON THE FUTURE

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Business confidence grows as green shoots emerge

Securing capital relies on reducing the barriers to finance

International markets beckon

Wages rise as labour market cools

Being a force for good in an uncertain world

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With their collective turnover of more than £2.4 trillion and contributing over 50% of the nation's GDP, SMEs in the UK are considered as the backbone of a healthy economy. As such they are in a prime position to help foster greater ethics in business, creating a better future by being a force for good.

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FOREWORD

Chancellor Jeremy Hunt billed his Spring Statement as the 'Budget for Long Term Growth' with a raft of spending promises and tax cuts to help stimulate growth in the economy.

Now with the International Monetary Fund reporting that the UK economy is growing faster than expected and inflation is falling,

PRIME MINISTER RISHI SUNAK HAS CALLED A SNAP SUMMER GENERAL ELECTION FOR 4TH JULY. THERE IS NOW EVERYTHING TO PLAY FOR AS SMES FACE THE INCOMING 'STORM OF UNCERTAINTY' AND GOVERNMENT GAMBLES ON THE FUTURE.

For SMEs periods of growth can be a double-edged sword. "Company failures can be rife in times of growth, and more companies have been known to crash and burn during growth periods than normal insolvency conditions. Expanding too quickly is a killer. Rapid growth whether through trade or acquisition can put SMEs at a high risk of cashflow indigestion and overtrading," warns Nick Hood, Senior Advisor, Opus Business Advisory Group.

"As the SME starts to expand, everybody's very happy; the sales department, even the marketing department is thrilled. Chief Executives find themselves sort of grinning in the mirror first thing in the morning – all seems wonderful," says Hood. "And then cash gets tight as management try to run a £1 million turnover business that has become a £1.2 million or £1.5 million turnover business with the same working capital, they have for the £1 million business. Suddenly everything gets squeezed and cash becomes even tighter, and the business bumps up against its overdraft limit; the bank refuses to extend the company's overdraft yet again; or the invoice discounting and/or factoring company refuses to continue servicing the account – all are getting nervous because their risk exposure is going up, and up and up – and the risk of insolvency begins to emerge."

"By the time management realise it needs to raise more money, they are 'forced' borrowers. The company struggles to raise the extra money it needs to service its business growth, and the insolvency cycle begins to speed up. The company begins delaying payments to suppliers because cash is tight and supply chains get disrupted, and commits to more and more contracts with new customers, only to let them down and its business reputation is damaged in the process. Cash haemorrhages from the business at an alarming rate leaving it unable to pay its staff, rent, or HMRC obligations – and CRASH – the business falls over – FAST!"

According to Companies House, 1 in 175 companies on the Companies House register (at a rate of 57.0 per 10,000 companies) entered insolvency

between 1 May 2023 and 30 April 2024 and was an increase from the 52.6 per 10,000 companies that entered insolvency in the 12 months ending 30 April 2023.

Latest Insolvency Statistics

Source: https://www.gov.uk/government/statistics/company-insolvency-statistics-april-2024

For April 2024 show that the number of registered corporate insolvencies (also known as 'company insolvencies') in England and Wales stood at 2,177 for the month, 18% higher compared to March 2024 (1,838), and 18% higher at 1,838 recorded in April 2023.

Compared to the March 2024 which saw an abrupt drop of 24% in the year-on-year figures there has been a quick return to growth in insolvencies. In April 2024 there were 300 compulsory liquidations, 1,715 creditors' voluntary liquidations (CVLs), 144 administrations and 18 company voluntary arrangements (CVAs).

CVLs accounted for 79% of all company insolvencies in April 2024, an increase of 18% compared to the month before, and was 17% higher compared to April 2023. "One factor in the increase in CVLs is likely to be down to directors closing their business at the end of the financial year – either because they believe the market won't improve or because they've simply had enough after four tough years. Another possibility could be difficulties in small businesses in distress being able to access more complex and more expensive forms of restructuring and having to resort to liquidation as a means of dealing with unserviceable debt," comments Tim Cooper, President of R3, the UK's insolvency and restructuring trade body, and a Partner at Addleshaw Goddard LLP.

"Since the end of the pandemic we have seen an explosion in Creditors' Voluntary Liquidations (CVLs) and there has been a sharp fall in the number of business rescues through the Administration route stretching back as far as 2009," adds Hood. "This suggests that many entrepreneurs have concluded that their businesses were simply too badly damaged to contemplate trying to rescue them. At the same time, debt enforcement through the courts via Compulsory Liquidations (CWU) using statutory demands and certain winding-up petitions that lead to compulsory liquidations, has also fallen dramatically since pre-pandemic in 2019/20, with creditor actions recovering only slowly from the restriction imposed by the Government from 2020 to 2022 to protect vulnerable businesses."

Although the number of compulsory liquidations in 2023 increased by 44% from 2022, they remained 4% lower than in 2019. In the 12 months to April 2024, CWUs increased from 11% to 13%, whereas pre-pandemic CWUs accounted for 20% of all insolvencies.

Number of compulsory liquidations in 2023 increased by

44%

from 2022

Compared to March 2024, the number of Administrations recorded in April 2024 was 36% higher, and 25% higher than those in 2023, whilst the number of CVAs was 50% higher in April 2024 compared to a year ago, and twice as many as in March 2024.

"While the increase in Administrations isn't by a large number, it does suggest that there is an increasing volume of businesses that could potentially be rescued rather than wound-up and as the economy recovers, we would anticipate this rise will continue," says Cooper. "We will need to keep a close eye on this, as the trendline is upwards and the causes are not clear against a backdrop of an apparent increase in business confidence and the so-called 'green shoots' of economic recovery. One would expect liquidations to level out or decline, as rescue mechanisms begin to replace closures – but we shall have to wait and see."

In our Q4 2022 SME Barometer, Nick Hood, Senior Advisor, Opus Business Advisory Group warned that

30,000 SMES

forecast to go bust during 2023

HISTORICALLY, INSOLVENCY PEAKS HAVE MARKED THE END OF RECESSIONS AND THE START OF RECOVERIES, BUT THE BIG QUESTION IS: WHEN WILL THE PEAK BE AT THIS TIME? SAYS HOOD.

"Although SMEs often assess whether the operations side of their business can cope with an influx of new orders in times of growth, they seldom consider whether the company has the cash resources to cope – they just hope that more sales means bigger profits and everything will be alright. However, it does mean that a business will need to have more working capital in place from day one of the growth phase. Ultimately, a growth SME will need more working capital. Expanding too quickly is one of the biggest killers facing SMEs, and they need to be on their guard as the UK economy starts accelerating."

The latest report from the International Monetary Fund (IMF) forecasts that the UK economy is expected to grow 0.7% in 2024, before rising to 1.5% in 2025 "as disinflation buoys real incomes and financial conditions ease"

Source: https://www.imf.org/en/News/Articles/2024/05/20/mcs052124-united-kingdom-staff-concluding-statement-of-the-2024-article-iv-mission

The news comes on the back of reports from the Office of National Statistics that inflation has fallen to 2.3%, just shy of the Bank of England's target of 2%

Source: https://www.ons.gov.uk/economyinflationandpriceindices/bulletins/consumerpriceinflation/april2024

and the rise in the Gross Domestic Product (GDP) that increased by 0.7% in Q1 (January to March 2024), following declines of 0.3% in Q4 (October to December 2023), and 0.1% in Q3 (July to September 2023).

Source: https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/januarytomarch2024

"Getting back within touching distance of the Bank of England's 2% target has been a difficult road for many small businesses, who will overwhelmingly feel relief that inflation has fallen precipitously in recent months," says Tina McKenzie, Policy Chair, Federation of Small Businesses (FSB). "However, they're still feeling battered and bruised by the impact that spiralling prices have had on them since inflation hit a peak in October 2022 and are

still having to adjust to prices that are significantly higher than they were a couple of years ago."

"While the fall in inflation is positive news, it remains above the Bank of England's 2% target and core inflation remains higher than its historical average at 3.9%. Paired with strong wage growth data, we believe that elevated services inflation will remain an upwards risk to inflationary pressures in the second half of this year. As a result, the Monetary Policy Committee (MPC) may exert caution at its upcoming meeting and hold interest rates, despite the encouraging fall in the headline rate," says Paula Bejarano Carbo, Economist, National Institute of Economic and Social Research (NIESR).

While indicators of underlying inflationary pressures all fell on the month, they remain high, which may require the MPC to exercise caution in monetary loosening. "NIESR's measure of underlying inflation, which excludes 5% of the highest and lowest price changes to eliminate volatility and separate the signal from the 'noise', fell to 2.5% in April from 3.1% in March; core CPI fell to 3.9% from 4.2%; and services inflation fell to 5.9% from 6.0%. These measures indicate that underlying inflationary pressures remain elevated. It will be important to keep an eye on month-on-month inflation figures (essentially 'new' inflation) to determine to what extent we will see inflation rebound in the second half of 2024. In fact, the pace at which inflation softened in April was slower than we expected, due to higher than projected month-on-month inflation," says Carbo.

It's worth remembering that while inflation has eased, it does not mean that the prices of goods and services are coming down – just that they are rising less quickly. Shoppers are already faced with smaller product quantity at high prices in the shops, with many food manufacturers reiterating that to keep products competitive they have needed to reduce product sizes or switch to cheaper ingredients – or both.

"A big fall in inflation was always on the cards for April, given Ofgem's 12% cut to the energy price cap," says Alpesh Paleja, Lead Economist, Confederation of British Industry (CBI).

"Households and businesses will welcome a more benign inflationary environment, but it's worth noting that many will still be struggling with a high level of prices, particularly in food and energy bills."

"The fall in inflation figures has been driven by a reduction in Ofgem's energy price cap as well as cooling food and tobacco inflation, partly offset by slightly higher petrol prices," says Victoria Scholar, Head of Investment, interactive investor. "UK April CPI slowed to 2.3% year-on-year, down from 3.2% in March but ahead of expectations for 2.1%. It is inching closer to the Bank of England's 2% target, reaching the lowest level in nearly three years. However, it came in above expectations alongside core inflation and services sector inflation which were also both hotter than anticipated."

While the latest inflationary data sets the stage for interest rate cuts in the coming months, the MPC is likely to be holding out for more definitive falls in

measures of domestic price pressures before reducing interest rates over the summer. "Inflation temporarily falling close to the Bank of England's target is good news, but wages are still catching up with post pandemic price increases. This is why it's important that the Bank of England does not hamper the UK's nascent recovery by leaving interest rates too high for too long. If the Bank tightens the screws too much, it will hold back the economy and wage growth going forward," says Carsten Jung, Senior Economist, Institute for Public Policy Research (IPPR).

The Bank of England recently admitted that inflation is falling faster than it originally thought, after Ben Bernanke, former US Federal Reserve chairman was invited to review the Bank and found its forecasting had 'deteriorated significantly' and was 'relatively less accurate' than other banks, after its woefully gloom and wrong prediction that the UK would face a two-year long recession.

Collectively, the latest statistics must have put a spring in the Chancellor's step. Commenting on the inflation rate Prime Minister Rishi Sunak said,

""

TODAY MARKS A MAJOR MOMENT FOR THE ECONOMY, WITH INFLATION BACK TO NORMAL. THIS IS PROOF THAT THE PLAN IS WORKING AND THAT THE DIFFICULT DECISIONS WE HAVE TAKEN ARE PAYING OFF. BRIGHTER DAYS ARE AHEAD, BUT ONLY IF WE STICK TO THE PLAN TO IMPROVE ECONOMIC SECURITY AND OPPORTUNITY FOR EVERYONE.

So, it came as a bit of a surprise that by the end of the same day, after much speculation and rumours in Westminster, the Prime Minister called for a snap Summer General Election on 4th July.

"Although some of the more severe headwinds have eased, the Conservatives will go into this election facing an electorate still struggling with the cost-of-living. Inflation has come down towards target, but it has disappointingly missed forecasts, which means prospects for an interest rate cut have been pushed further into the distance," comments Susannah Streeter, Head of Money and Markets, Hargreaves Lansdown.

"Growth forecasts have been upgraded for the UK this year by the IMF from 0.5 to 0.7%, but it's hardly shooting the lights out. The Chancellor has pledged to cut personal taxes further, with more tinkering to National Insurance looking likely, to try and stimulate growth. The latest public sector borrowing snapshot arguably offers the government even less wiggle room to bestow treats on voters. Borrowing in April totalled £20.5 billion, above the forecast of the Office for Budget Responsibility and overall borrowing for the year was revised upwards. It seems further tax cuts would come at the expense of public services. Already current government spending plans would involve a large cut to departmental budgets over the rest of the decade, according to the IFS, to meet the government's own fiscal rules," says Streeter.

"The Spring Budget has continued the current Government's overriding aim of addressing and identifying the pathway needed to drive the UK's public finances forward to generate economic growth. While the Chancellor continues to strive to clear up the disastrous mess left behind by the ill-conceived 2021 and 2022 budgets, the

Spring Budget 2024 has continued the current Government's overriding aim of addressing and identifying the pathway needed to drive the UK's public finances forward to generate economic growth. It is my belief that the UK SME business community may be encouraged by the attempts to positively impact the UK economy by reducing inflation and curbing the increasing burden of public debt," says Paul Rowland, Senior Partner, Invictus Risk Solutions LLP.

"Whether the Chancellor has been able to generate the deep-rooted stability he was seeking is open to conjecture and debate. For the UK SME business community there is no immediate barriers or cushioning of the impact of the increasingly destructive costs of doing business and inflationary pressures," continues Rowland. "Additionally, there is a sense of palpable disappointment that the business taxes situation within the UK remains in a position that can still repeatedly appear to make the UK significantly less attractive to inward foreign investment."

In our Winter SME Barometer we asked, 'Are we there yet?' Data now shows, 'We are almost there'. Backed up by independent research and commentary from some of the leading industry experts, our Spring/Summer Barometer continues to put 200 SMEs under the microscope. There is everything to play for as businesses prepare for the challenges ahead and Government gambles on its future.

OUR SPRING/SUMMER BAROMETER CONTINUES TO PUT 200 SMES UNDER THE MICROSCOPE.

AT A GLANCE...

Although the number of compulsory liquidations in 2023 increased by 44% from 2022, they remained 4% lower than in 2019. In the 12 months to April 2024, CWUs increased from 11% to 13%, whereas pre-pandemic CWUs accounted for 20% of all insolvencies.

Number of compulsory liquidations in 2023 increased by

from 2022

In its quarterly survey, credit lender, Iwoca reports that 77% of finance brokers serving the SME market believe that the funding gap for SMEs is widening as high street lenders begin prioritising lending to larger firms over SMEs.

Source:
https://www.iwoca.co.uk/research/sme-expert-indexdata

LATEST INSIGHTS FROM HMRC SHOWS THAT IN THE TAX YEAR 2022 TO 2023, 4,205 COMPANIES RAISED A TOTAL OF £1,957 MILLION OF FUNDS UNDER THE EIS SCHEME WITH COMPANIES FROM THE INFORMATION AND COMMUNICATION SECTOR ACCOUNTING FOR £660 MILLION OF INVESTMENT

of all EIS investment

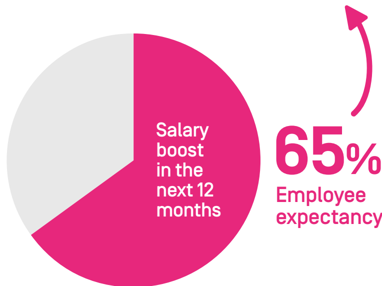
Source: https://www.gov.uk/government/statistics/enterprise-investment-scheme-seed-enterprise-investment-scheme-and-social-investment-tax-relief-may-2024

To cope with the increase in trade expected from an upturn in the economy,

33% **of firms say they are planning to upscale their employee base.**

This comes with the burden of a rising wage bill, with nearly 80% of firms saying they are expecting their costs to rise over the year just on the wage bill alone.

Source: https://www.britishchambers.org.uk/wp-content/uploads/2024/04/QES-infosheet-Q1-2024.pdf



65%
Employee expectancy

BUSINESS CONFIDENCE GROWS AS GREEN SHOOTS EMERGE

Green shoots are showing as the economy turns a corner, but while SMEs anticipate higher revenue and investment levels as business confidence rises, worries about the prospects for their own organisations remain of concern.

The unexpected lows in business confidence data recorded at the start of the year have given way to better news after the latest research by the Institute of Directors (IoD) revealed that business confidence amongst its members leapt forward in March and is on an upward trajectory in April 2024 rising to -10 from -12 in March. Given that the IoD Confidence Index for June 2023 recorded a low point of -31, the latest data shows that optimism is steadily recovering.

source: https://www.iod.com/news/uk-economy/iod-press-release-economic-confidence-of-business-leaders-continues-to-edge-up-in-april/

"The economy is stuck in a rut of weak business confidence, inadequate business investment, and poor productivity growth. Without a solution to this problem, the UK will be condemned to a future of constrained public finances and declining living standards," says Dr. Roger Barker, Director of Policy, Institute of Directors (IoD).

Net revenue expectations fell from +44 recording in March to +40 in April, and business leaders' optimism for the future of their own organisations has also taken a dive falling from +42 recorded in March 2024, down to +38 in April 2024, with 16% of firms saying they feel 'quite' and 'very' pessimistic about their own firm, with a further 39% citing worries about the wider UK economy. "Business leaders are, on balance, pessimistic about UK economic prospects," continues Barker. "A significant obstacle to improving business confidence is the current high level of UK interest rates and SMEs will be looking for a significant shift in the monetary stance of the Bank of England before they are able to buy into a rosier economic outlook."

MANY SMES CONTINUE TO STRUGGLE TO MAKE ENDS MEET WHILE TRADING IN A VOLATILE GLOBAL ENVIRONMENT. THIS IS GENERATING A SUSTAINED CRISIS IN CONFIDENCE WHERE THERE APPEARS TO BE NO SAFE HAVEN IN WHICH TO OPERATE,

comments Paul Rowland, Senior Partner, Invictus Risk Solutions.

"Inflation, higher interest rates, liquidity and every lengthening credit cycles continue to face SMEs. Disaster can strike virtually overnight, and the financial uncertainties currently being faced

only serve to underline how quickly a manageable fragility can create really destructive vulnerability. On a corporate balance sheet, account receivables may make up more than 40% of current assets, and under corporate management these account receivables must be cashed without fail."

It is so easy to see a business descend from the calm of profitability to the chaos of collapse and liquidation, as Nick Hood, Senior Advisor, Opus Business Advisory Group explains, "One of the key liquidity measures in a company's balance sheet is the ratio between so-called 'quick' assets like cash, trade receivables and inventory and short-term liabilities, such as sums owed to suppliers, HMRC for VAT and payroll debts and the bank overdraft, which is of course repayable on demand. But in challenging conditions, as the number of creditors to sales escalates and creditor payment days begin increasing, creditor relationships begin to sour, and credit terms are being tightened. **Finance facilities harden and rather than moving between peaks and troughs, the SME finds the overdraft or/and invoice discounting facilities they are using are constantly up against their limits,**" continues Hood. "Before the SME knows it, Capex falls away so that fixed asset values drop not through disposals but because depreciation and amortisation outweigh new spending. Debt gearing heads off the chart, either in net or gross terms, or both, and interest costs rise not just because of increased borrowings, but because lenders have re-priced their facilities because of the obvious balance sheet strain."

"In a climate of financial volatility, it is not uncommon to see between 80% to 90% of UK SME trade conducted on an unprotected cash or short-term credit basis. The continuation of trading against open credit terms coming at the same time as volatility in the UK's leading banks and financial markets, is being heightened by jittery corporate investors in the square mile," comments Rowland.

In its quarterly survey, credit lender, Iwoca reports that 77% of finance brokers serving the SME market believe that the funding gap for SMEs is widening as high street lenders begin prioritising lending to larger firms over SMEs.

77% BELIEVE THE FUNDING GAP IS WIDENING

Source:
https://www.iwoca.co.uk/research/sme-expert-indexdata

The Treasury Committee's Inquiry into the accessibility of finance and lending to SMEs found over 140,000 SMEs had their accounts closed in 2023 after being 'debanked' by their lender, with unfair banking practices such as the alleged requirement of collateral for disproportionately small loans and the misuse of personal guarantees, further limiting and suppressing demand.

Source: https://committees.parliament.uk/work/7809/sme-finance/

The decline in SME funding by large high street banks has seen the growth of emerging challenger banks and alternative finance providers. However, SMEs are not necessarily aware of them and do not tend to seek them out, the Inquiry found. "Data from the British Business Bank suggests that SMEs have little interest in shopping around with only 5% of respondents considering another lender if not offered the full loan amount from their own Bank".

Source: https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2023-07/SME-Finance-Survey-2021-Report.pdf

Although this is disincentivising risk-taking, innovation and, potentially, growth for SMEs, business confidence remains steady. For the third month in a row, research by Lloyds Banking Group

shows that in April 2024, 42% of firms say they feel more confidence about the future with 57% of firms expressing greater optimism about their economic prospects.

Source: https://www.lloydsbankinggroup.com/media/press-releases/2024/lloyds-bank-2024/april-2024-business-barometer html)

"Businesses are feeling increasingly confident about the economy, coinciding with falling inflation and hopes that interest rates will start to fall this year," says Hann-Ju Ho, Senior Economist, Lloyds Bank Commercial Banking. "There continues to be a mixed picture among the regions, with the biggest rises seen in Wales and the South West. The strongest confidence was reported in the East of England, with confidence rising for the third consecutive month. Confidence in the North East eased slightly but remained strong in April. The second quarter of 2024 has started brightly for businesses, and we are seeing firms expressing greater confidence in an enduring economic recovery."

"SMEs' confidence levels started to rise over the first quarter of this year, and we want to see this valuable momentum keep and even pick up pace, rather than stalling or slipping back again," says Tina McKenzie, Policy Chair, Federation of Small Businesses (FSB). "The economic growth we all want to see will be powered to a great degree by the SME sector, so it is vital to get their growth ambitions back on track, not held back by cost pressures and high interest rates. The needs of SMEs should be top-of-mind for policymakers and politicians, as it is their trajectory which will shape the future direction of the economy."

ONS inflationary data shows that the economy is slowing heading in the right direction, higher costs are on the agenda for businesses. "Our most recent Quarterly Economic Survey showed almost half of firms in fact expect their prices to rise over the next three months. Labour costs are cited as the main driver, but increasing political and global uncertainty is becoming a key factor," says David Bharier, Head of Research, British Chambers of Commerce.

To cope with the increase in trade expected from an upturn in the economy,

33% of firms say they are planning to upscale their employee base.

This comes with the burden of a rising wage bill, with nearly 80% of firms saying they are expecting their costs to rise over the year just on the wage bill alone.

Source: https://www.britishchambers.org.uk/wp-content/uploads/2024/04/QES-infosheet-Q1-2024.pdf

Overall, PRISM research found that 41.5% of SMEs intend to recruit additional team members in the coming year.

The Chancellor's approach in his Spring Budget remains consistent from the Autumn Statement with continued monetary boosts to businesses. "The move to include full expensing tax relief on leased assets will enable businesses to be more efficient by leasing assets to nurture productivity by getting the newest, cleanest and most efficient plant and machinery into the hands of business owners," says Glenn Collins, Head of Technical and Strategic Engagement, the Association of Chartered Certified Accountants (ACCA).

"Increasing the VAT threshold to £90,000 – the first increase in seven years and something ACCA had called for – is a shot in the arm for many SMEs dealing with increased costs, as well as removing what can sometimes be an artificial barrier to

business growth," says Collins. However, Gerry Myton, Head of Indirect Tax, HW Fisher warns that "the increase in the VAT registration threshold only moves the glass ceiling to growth, but it does not encourage businesses trading around the threshold to grow further."

Nigel Holmes, Director, Research and Development at Ryan, a tax firm says: "While the 2% reduction to employees' National Insurance Contributions (NIC) is undoubtedly welcome, it is important to consider the potential impact on the Research & Development (R&D) tax relief PAYE cap. This cap, crucial for determining tax credits accessible to loss-making companies, is calculated by combining £20,000 with three times a company's PAYE and NIC. The issue is that as the NIC decreases, so does the PAYE cap, which could potentially reduce tax relief opportunities for loss-making R&D claimants in certain scenarios."

"The flash PMI survey data for May signalled a further expansion of UK business activity, suggesting the economy continues to recover from the mild recession seen late last year. The survey data are

According to S&P Global's Flash Purchasing Managers' Index (PMI) for May 2024, after a prolonged spell of decline, UK manufacturing production is showing a strong rebound with the latest data marking the fastest rate of growth since April 2022 to stand at 51.3.

Source: https://www.pmi.spglobal.com/Public/Home/

consistent with GDP rising by around 0.3% in the second quarter, with an encouraging revival of manufacturing accompanied by sustained, but slower, service sector growth," says Chris Williamson, Chief Business Economist, S&P Global Market Intelligence.

Strong competition continues to limit the scope of firms to raise prices. Together with the headline inflation falling close to target and companies reporting the slowest price growth in over three years, PMI data supports the view that the Bank of England will start cutting interest rates in August providing the data continues to move in the right direction over the summer.

However, it remains an uncertain time. "SMEs are being asked to unnecessarily swallow, for much longer than necessary, the Bank of England's interest rate and inflation forecasting model," comments Rowland. "If the UK is to be prevented from falling back into unnecessary and ultimately avoidable recession, SMEs will need a more sober economic policy."

IN THE FACE OF ADVERSITY, THE ENTHUSIASM, GRIT, AND RESILIENCE OF THE SMES IS IMPRESSIVE.

"There are moments when one asks oneself, 'Does moral courage really exist and matter?' and the answer that appears to reverberate throughout the UK SME business community is a resounding 'YES'," says Rowland.

"SMEs demonstrate the characteristic of dogged determination that is reminiscent of the speech Winston Churchill gave to the House of Commons on 10th May 1940, 'If you are going through hell, keep going. Never, never, never give up'. SMEs are, and will remain, the very backbone of the UK economy."

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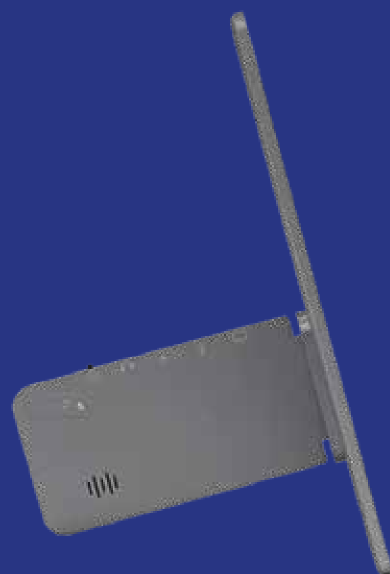

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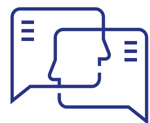


Engage | By Prism

SECURING CAPITAL RELIES ON REDUCING THE BARRIERS TO FINANCE

SMEs need to be able to access a range of sources of finance from debt to equity, public and private, and at the scale they need.

But with unpredictability continuing to dominate 2024 with half the planet heading to polling booths and the world facing the greatest level of geopolitical tension for generations, this is impacting on markets and investor confidence – and ultimately, the availability or otherwise of finance.

"Today, SMEs are responsible for close to half of UK business investment," says Nick Hood, Senior Advisor, Opus Business Advisory Group. "Last year, the British Venture Capital Association were startled to find that almost half of their survey respondents described themselves as "permanent non-borrowers", while 75% confirmed that they would rather have a lower rate of growth if it meant that they could fund the expansion of the company from their own resources, rather than loading extra debt onto their already fragile balance sheets."

Source: https://www.bvca.co.uk/Research/Investment-Activity

THE UK HAS LONG STRUGGLED WITH WEAK BUSINESS INVESTMENT WHICH DAMPENED PRODUCTIVITY AND ECONOMIC GROWTH.

"Investment in a typical G7 country remains at 20-25%, but the reduction in spending on machinery and equipment, including information and communications technology (ICT) equipment since the late 1980s has seen the UK go from being above average investors – both from private and public sources – to below its competitors including Germany, France and Japan."

Source: https://www.economicsobservatory.com/boosting-productivity-why-doesnt-the-uk-invest-enough

Whether the Chancellor's Spring Budget has been able to generate the debt-rooted stability he was seeking when it comes to investment, is open to conjecture and debate. "For SMEs there was no immediate barriers or cushioning of the impact of the increasing destructive costs of doing business and inflationary pressures," says Paul Rowland, Senior Partner, Invictus Risk Solutions. "In addition, there was sense of palpable disappointment that the business taxes situation within the UK remains in a position that can still repeatedly appear to make SMEs significantly less attractive to inward foreign investment."

Enabling firms to secure the capital they need for investment means supporting the risk appetite in the economy to reduce the burdens and barriers to raising finance. The Government showed its commitment to start-ups when the Chancellor announced in his Autumn Statement that the Enterprise Investment Scheme (EIS) will be extended beyond its 2025 sunset clause to 2035, stresses that "early-stage, innovative companies have access to the investment they need to grow and develop."

LATEST INSIGHTS FROM HMRC SHOWS THAT IN THE TAX YEAR 2022 TO 2023, 4,205 COMPANIES RAISED A TOTAL OF £1,957 MILLION OF FUNDS UNDER THE EIS SCHEME WITH COMPANIES FROM THE INFORMATION AND COMMUNICATION SECTOR ACCOUNTING FOR £660 MILLION OF INVESTMENT

34% of all EIS investment

Source: https://www.gov.uk/government/statistics/enterprise-investment-scheme-seed-enterprise-investment-scheme-and-social-investment-tax-relief-may-2024

Under the Seed Enterprise Investment Scheme (SEIS) for the period 2022 to 2023, 1,815 companies raised a total of £157 million of funds. Between 2021 and 2022, funding decreased by 15%, when 4,455 companies raised £2,297 million. Whilst funding for the period 2022 to 2023 fell by 24% from 2021 to 2022 when 2,295 companies raised £207 million.

"The 2022/23 data, whilst lower than the 2021/22 record breaking numbers, is now returning to pre-pandemic levels," says Christiana Stewart-Lockhart, Director General, Enterprise Investment Scheme Association. "The East of England has bucked the trend and seen an increase in EIS investment compared to 2021-22, likely influenced by the Cambridge science and technology hubs, as has Northern Ireland. Northern Ireland stands out with a 11% growth in the number of businesses using EIS with an 57% increase in the amount of investment raised. The Enterprise Investment Scheme Association (EISA) is committed to increasing the number of startups benefiting from EIS and SEIS across the whole of the UK."

In the long run, technological innovation and progress are the main drivers of productivity for the economy. For UK SMEs to be internationally competitive, and to facilitate the absorption and adoption of technologies developed elsewhere, the UK must have an active domestic Research and Development (R&D) programme.

ACCORDING TO RESEARCH BY ESMT BERLIN, ESTABLISHED FIRMS CONTRIBUTE TO THE STARTUP ECOSYSTEM.

Firms that receive R&D credits are much more likely to acquire venture capital (VC) backed startups, alongside investing in their own R&D efforts. However, when R&D taxation increases these firms are less likely to acquire startups. "For firms that receive R&D credits, much of the spending will go on human capital, for instance, wages and expenses for inventors," says Professor Sevilir. "However, there is no guarantee here that this R&D investment will prove to be cost effective or even create any new developments. For larger firms, it can make more sense to acquire a startup who is already creating an innovative product or service, and help to fund their journey, as opposed to starting from scratch on their own."

Source: https://www.econstor.eu/bitstream/10419/273323/1/1851821171.pdf

Acquisition by a larger firm can be a huge positive to a startup that typically lacks the taxable income necessary to benefit from tax credits, therefore being acquired allows them to boost their growth

and innovation capabilities through a greater cash injection. Established firms play a significant role in the startup ecosystem. Firms who acquire high performing startups can diversify their R&D efforts and are much more likely to improve their future potential innovations by using an outsourced team to invest, as well as their own. This reallocation effect of R&D tax credit-induced M&A activity by established firms plays a significant role in supporting startups, which have a high need for capital but limited access to it.

"IN TODAY'S UNPREDICTABLE ECONOMIC ENVIRONMENT, STARTUPS ARE FACED WITH THE UNDENIABLE CHALLENGE OF SECURING THEIR FUTURE. TO NAVIGATE THESE CHOPPY WATERS, IT'S CRUCIAL THAT THEY ARM THEMSELVES WITH FORESIGHT, CONTINUALLY ASSESSING THEIR FINANCIAL HEALTH AND THE REAL-TIME IMPLICATIONS OF THE BROADER MARKET,"

says Claire Trachet, Founder and CEO of business advisory, Trachet.

"Despite the challenges, it is vital that founders are honest in terms of the long-term viability of their businesses and start planning for an exit as soon as the end of the runway is in sight. If not, dealmakers can often capitalise on last-minute desperation leaving startups with a less than favourable deal, compared to if they had acted from a point of strength."

The reluctance in planning an exit strategy is evident with 72% of SMEs saying they have no plan in place for exiting their business either by its sale or merger.

Source: PRISM research

The fintech landscape continues to grow. Globally, the fintech market continues to grow and is expected to be worth more than $340.10 billion by the end of 2024. Last year, $16 trillion flowed through the fintech market, and this year that figure is expected to jump 12.5% and hit the $18 trillion market driven by technological advancements and surging consumer demands. Besides a massive increase in the amount of money flowing through the fintech market, the number of fintech companies has also surged. The UK is now the leading fintech hub in Europe, with more than 3,200 fintechs headquartered in the UK. The UK fintech contributes an estimated £11 billion to the economy and over 76,000 jobs to the UK labour market.

"A storm of global challenges made 2023 an incredibly tough year for the UK fintech market.

However, as interest rates reduce, we can expect investment in the sector to begin to pick up in Q3/Q4 2024," says John Hallsworth, Client Lead Partner for Banking and Fintech, KPMG UK. "The UK remains the capital of European fintech innovation with British fintechs still attracting more funding than those in France, Germany, China, India, Brazil and Canada combined."

With fintech revenues expecting to growth almost three times faster than those in the traditional banking sector, 2024 could be an interesting year for the UK fintech industry. Compared with the 6% annual revenue growth for traditional banking, fintechs could post annual revenue growth of 15% over the next five years.

Source: https://www.mckinsey.com/industries/financial-services our-insights/fintechs-a-new-paradigm-of-growth

WITH FINTECH REVENUES EXPECTING TO GROWTH ALMOST THREE TIMES FASTER THAN THOSE IN THE TRADITIONAL BANKING SECTOR, 2024 COULD BE AN INTERESTING YEAR FOR THE UK FINTECH INDUSTRY.

INTERNATIONAL MARKETS BECKON AS GOVERNMENT SIGNS CPTPP, BUT SUPPLY CHAIN DISRUPTION REMAINS A CHALLENGE

The UK is now the world's fourth largest exporter, overtaking France, the Netherlands and Japan, and with the UK joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), over 99% of current UK goods exports to CPTPP members will be eligible for tariff-free trade.

Earlier than expected the UK has completed its key step required for joining CPTPP. Encompassing 500 million consumers in some of the world's large current and future economies, the potential for increased trade for SMEs is huge. "Business and Trade Secretary Kemi Badenoch has been a key influence in securing the UK's participation with the CPTPP. Once the final ratification is completed, the CPTPP could generate £12 trillion for the UK in global trade. This will give a boost to the UK's economic and political position and will offer reduced tariffs, create cheaper import prices, lessen red tape and territorial barriers to facilitate quicker access to the UK's world-class goods and services," explains Paul Rowland, Senior Partner, Invictus Risk Solutions.

"There are immense opportunities for all members to collaborate and to benefit from economic growth, a platform for the easier and safer transfer of service sector data, the generation of new industries, jobs and markets, the creation of more inward and outward investment opportunities. Overall, the CPTPP is the foundation of a strategically important deal to shape the future direction of a more collegiate global trading platform to establish resilient, robust and shock absorbing supply chain to and from some of the fastest growing markets in the world."

"There are few multi-national trade agreements like this one. The UK's addition to this bloc will open new opportunities for both inward and outward investment," adds William Bain, Head of Trade Policy, British Chambers of Commerce. "Trade rules will be more favourable for manufacturers looking to sell products to other member countries and data transfers for firms in the services sector will also be more straightforward."

In the meantime, Business and Trade Secretary Kemi Badenoch and the Minister for Trade Policy, Greg Hands, have reached a Double Taxation Agreement (DTA) with Peru. Unknown to many UK SMEs,

PERU HAS ESTABLISHED ITSELF AS A LONGSTANDING AND LOYAL TRADING AND BUSINESS PARTNER OF THE UK GENERATING BILATERAL TRADE OF £1.8 BILLION IN 2023.

"The new DTA will significantly support contract certainty and the existing bilateral investment and trading relationship by reducing the cost of 'doing business' together. This will be achieved by specifically removing the need for a business to

be taxed twice in Peru and the UK for the same transaction. A simple but hugely effective legal stroke of the diplomatic quill," comments Rowland.

Elsewhere supply chains are being disrupted. The impact of the drought upon the performance of the Panama Canal as a global vital shipping route, has seen the number of ships passing through each day fall from its normal 38 down to a mere dozen, with most of these needing to have significant reductions in their draft levels forcing them to carry up to 30% less cargo than usual.

"The congestion crisis in the Panama Canal and surrounding waters of massive container ships is predicted to last for several more months across 2024 and even into 2025. As such, it will continue to have a far-reaching impact across the global trade and its supply chain with delays of up to four weeks particularly for the countries of America, Chile, China, Colombia, Japan, and South Korea whose vessels are the most common users of the route," says Rowland.

"The Panama Canal Authority's cost of entrance for a single vessel to the canal via an average auction price has risen from £140,000 to £3 million for shipping companies wishing to bypass the extended waiting times and move their vessel to the front of the queue. In addition, food, energy and hi spec tech goods such as iphones have risen in price as grain, fruit, fuels, and other goods are among the major supplies transported through the canal that have suffered significant delays with an 8-hour transit now needing two weeks before proceeding," explains Rowland.

"Shipping companies and their clients have sought alternative routes through the Egyptian Suez Canal. However, the additional journey time of one to two months has of course increased the freight transit costs and the final price of the goods once they reach their markets with the multi layered impact of a less efficient supply chain with diluted capacity, higher costs, and more journeys."

"At the same time there has been an additional disruption in maritime transport through the Red Sea that is a of crucial concern for the world economy. The shipping routes of the Bab-el-Mandeb Strait leads to the Suez Canal in the Red Sea region connects Asia to Europe and the Mediterranean Sea to the Indian Ocean. As one of the busiest shipping routes in the world, the raising fears of a prolonged bottlenecks and blockage by sustained rocket attacks from the Iranian backed Houthi militias is forcing global shipping lines to take longer alternate routes via the tip of South Africa and the Cape of Good Hope. The result is that very expensive war risk surcharges are being imposed pushing up freight rates and the cost of products by 20% to 30%," comments Rowland.

WITH 80% OF THE GLOBAL GOODS TRADE CARRIED BY SEA, THE UNPRECEDENTED GLOBAL TRADE AND SUPPLY CHAIN DISRUPTION HAS RAISED SEVERAL QUESTIONS IN THE INSURANCE REALM.

"In the context of unpaid receivables, one important consideration for companies is whether trade credit insurance policies will provide coverage for losses arising out of the crisis. The answer is 'yes' if a company took out the cover prior to the impact taking hold and the policy was tailored to the specific needs of a particular insured," continues Rowland.

TRADE CREDIT INSURANCE HAS BEEN ABLE TO PROTECT AN INSURED FROM NON-PAYMENT OF A COMMERCIAL DEBT ARISING FROM ACCOUNT RECEIVABLES MAKING UP A SIGNIFICANT PERCENTAGE OF THEIR ASSETS WHEREBY THE POLICY PROVIDES PROTECTION AGAINST THE RISK THAT A CUSTOMER MAY DEFAULT ON A DEBT.

Aside from offering protection to businesses, Trade Credit Insurance has helped companies to sustain themselves as they have been able to maintain the ability to sell on an open account (rather than on a secured basis) that presents a competitive advantage in the marketplace. "By promoting risk avoidance, Trade Credit Insurance can provide a more informed position when making commercial decisions to promote sales growth, enhance credit management to improve cash flow and reduce 'days sales outstanding'. Borrowings and other lines of finance are made more accessible/cheaper due to increased Bank security with bad debt reserves reduced to free up capital," says Rowland.

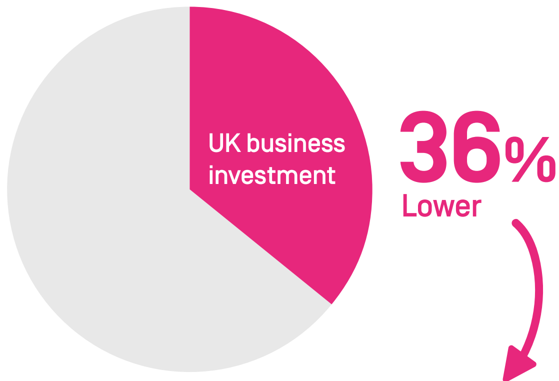
"The global primary and reinsurance Trade credit insurance underwriting market losses due to the Covid-19 pandemic are still being calculated but could reach as high as USD$46 billion over the next couple of years. The majority of this global loss exposure is channelled through the European marketplace and its major Trade Credit Insurance underwriting panel," continues Rowland.

"I would suggest that the Panama Canal crisis will not reach such figures and currently there are no analysts ready to highlight a specific number relating to the overall exposure and potential losses. That said, primary insurers will undoubtedly suffer a broad market loss as they carry a relatively significant exposure. Regardless of possible government intervention measures, reinsurance underwriters through their quota share mechanism will likely take the bulk of the losses (up to 70% of the overall value of losses) despite the deployment of restrictive excess of loss deductibles."

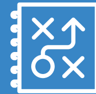
The UK's SME economic revival remains very firmly linked to Europe's recovery which in turn is linked to America's financial wellbeing. "The much-quoted chaos theory of schoolboy economics: 'When America sneezes, Europe catches a cold!' remains true today as it did when the phrase originated back in 1929 during the aftermath of the Wall Street crash," says Rowland.

HOWEVER, THE POST BREXIT UK ECONOMY HAS MANAGED TO EVIDENCE A ROBUST CORE BY EXPANDING FASTER THAN ITS EUROPEAN NEIGHBOURS AND MANY LEADING WORLD ECONOMIES WITH A POSITIVE GROWTH FORECAST ACROSS 2024 AS THE UK SEEKS TO REDUCE DEBT, REWARD HARD WORK, AND SPARK AND SUSTAIN A PERIOD OF LONG-TERM AND MEANINGFUL ECONOMIC GROWTH.

On a more cautious note, Nick Hood, Senior Business Adviser, Opus Business Advisory Group, is concerned that the UK's short- and longer-term growth will be restricted by its abject failure to match its global rivals over many years on the key economic metric of business investment.



"UK business investment has been an average of 36% lower than other members of the G7 since 1990 according to a report published in 2023 by The International Monetary Fund. With the most recent disruptions caused by Brexit, the pandemic and the invasion of Ukraine, the IMF also confirms that real-terms business investment in the UK had settled at a slightly lower level by the end of 2022 than in 2016 while other G7 economies experienced a 14% increase on average over this period. Without stronger business investment, neither the UK nor any other modern economy can sustain meaningful growth."

 Strategic Consulting

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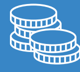 Fundraising

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"In the dynamic realm of start-ups, SMEs and even Corporates, innovation and adaptability are the keys to success.

These enterprises are the heartbeat of our economy, injecting and kneading fresh ideas and entrepreneurial spirit into industries across the board.

As the CEO of our Boutique Strategic Consulting and Venture Capital firm, I believe that nurturing small ventures as well as ambitious corporates with strategic guidance and smart investments is not just a business strategy but a commitment to fostering growth and innovation in our ever-changing world. Together, we pave the way for a brighter future where small, medium-sized enterprises and big companies thrive together."

Andrea Maria Cosentino
Founder & CEO – Impact Fundry

WAGES RISE AS LABOUR MARKET COOLS

Real wages are growing at their fastest rate in over two years and are expected to remain strong as the labour market cools.

But with the UK's economic slowdown last year causing a workforce shrinkage of one million workers, job recovery is faltering.

AS UNEMPLOYMENT RISES, SKILLS WILL NEED TO BE A KEY FOCUS FOR SMES.

The labour market is cooling, according to data from the Office of National Statistics (ONS) that shows the estimated number of vacancies fell by 898,000 in February to April – the 22nd consecutive period of decline since April to June 2022.

Source: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/may2024

"While most major economies have already surpassed their pre-pandemic employment rates, the UK's employment recovery has been flat or falling for the past six months, and the current 16-64 employment rate of 74.5% is closer to the pandemic employment low of 74.1% than the pre-pandemic rate of 76.2%. Britain's post-pandemic workforce has shrunk by the equivalent of one million workers," says Nye Cominetti, Principal Economist, the Resolution Foundation.

"The fall in employment isn't just about lower participation – demand from employers is also weakening. Vacancies continue to fall, and unemployment has risen in the past four months, rising 0.5 percentage points to its current rate of 4.3%. The number of employee jobs in HMRC's PAYE data has fallen for three months in a row. The big question is whether the UK's recent economic recovery will boost employment and raise output per worker, which will be needed to sustain its mini pay recovery."

DESPITE THE RISE IN THE LEVEL OF UNEMPLOYMENT, WAGE GROWTH REMAINS STRONG.

In Q1 2024, the annual growth rate of average weekly earnings (including bonuses) stands at 5.7%, with pay growth (excluding bonuses) currently standing at 6%. In real terms, there has been an economy-wide total pay of 1.7%, its highest level since October 2021.

"Pay growth remains steamy, with bonuses in March the highest on record. This may keep policymakers at the Bank of England a bit hot under the collar and worries about the persistence of inflationary pressures. However, with unemployment rising there are signs the labour market should keep cooling, keeping hopes for a summer rate cut alive," says Susannah Streeter, Head of Money and Markets, Hargreaves Lansdown.

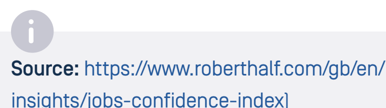
"The persistence of high wage growth together with the minimum wage hike means inflation may be stickier than previously thought, leading the Bank of England to remain cautious with regards to interest rate cuts," adds Monica George Michail, Associate Economist, National Institute of Economic and Social Research (NIESR). "We expect wage growth to remain high by historical standards amidst the minimum wage hike in April, still tight labour market and stronger than expected economic recovery. However, falling vacancies relative to unemployment indicates that the labour market continues to cool, hinting an easing of wage pressures in Q2 2024."

This correlates with the findings of Robert Half's Jobs Confidence Index (JCI) – an economic confidence tracker produced in partnership with the Centre for Economics and Business Research (Cebr) that indicates the UK's pay inflation may have finally peaked.

Average pay increase of 3.8%

According to the JCI

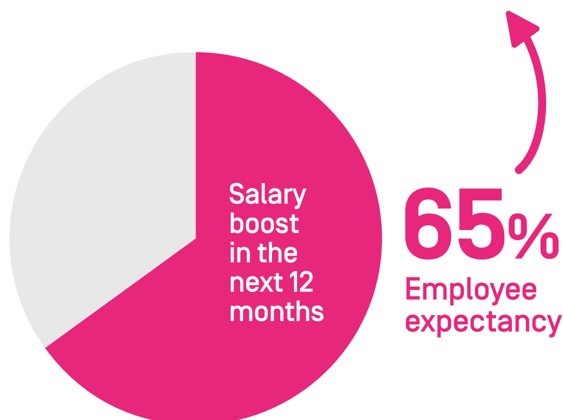
According to the JCI, employees were expecting an average pay increase of 3.8% in the 12 months from May, below the 4.6% planned by employers suggesting businesses are budgeting against the skills shortages which continue to impact every sector.



Source: https://www.roberthalf.com/gb/en/insights/jobs-confidence-index)

"Employers are acutely aware of the dearth of specialist talent and the impact this will have on the costs of acquiring the skills of the future in the domestic employment market," says Matt Weston, Senior Managing Director UK & Ireland, Robert Half. "Data from the JCI reveals that of those expecting a pay rise, there is an uptick of 5.1%. These are likely the workers operating in sectors where skills shortages are particularly acute and who can command higher rates of remuneration as a result. This is further evidenced by the fact that those with degrees expect a 4.4% pay rise, compared to those without (2.8%)."

Although the latest iteration of the JCI demonstrates a fall in the number of people expecting a pay rise – favouring stability and job security, overpay rises in the current economic climate – the data does suggest that the majority still expect something this year with almost two thirds (65%) of employees predicting they will receive a salary boost in the next 12 months.



Of those expecting a pay increase, 25% of those say they would take no action if this wasn't offered. While 20% would consider changing employer for better pay, others are instead opting for alternative money-saving options as the cost-of-living crisis and economic uncertainty continue to impact households. Just over 16% stated that they would reduce spending on non-essentials if they did not receive a pay rise, while 13% would look for additional sources of income such as a side hustle, and 7% would relocate to an area with lower living costs.

Source: https://www.roberthalf.com/gb/en/insights/jobs-confidence-index

According to PRISM research, 65.5% of SMEs say that inflation is affecting their business's approach to annual pay reviews.

Source: PRISM research

"Wage inflation hasn't fallen as expected, but what is perhaps more notable is that the fall we have seen hasn't translated into a positive impact for people's wallets. The cost-of-living crisis is still very much prevalent in the UK and workers are feeling the pinch, hence the large number hoping for pay rises. However, the uncertainty of the market at the moment means that many are taking a more realistic approach," says Weston.

"Many workers are also clearly opting for safety and security over jumping ship for better pay. This 'Great Stay' that we're seeing in the workforce at the moment is further evidence that people are reluctant to move jobs in the current climate. For skills short remits this is both positive and negative in that it aids retention, but also further reduces talent pools. Employers are going to have to work harder to attract the core staff they need, and pay isn't always going to cut it as a solution."

ACCESS TO SKILLED TALENT IS SET TO REMAIN A CHALLENGE FOR SMES.

"More must be done to ensure that employers can access the skills they need. The latest ONS data on the labour market chimes with the picture we are hearing from businesses. Competition for skills, increased wage costs and high interest rates continue to ramp up pressure on businesses and act as a drag on investment and growth," adds Jane Gratton, Deputy Director Public Policy, British Chambers of Commerce. "But more needs to be done to stabilise costs and bring people back into the workforce. While flexible and inclusive workplaces can help employers attract and retain skilled people, businesses will need support to increase their investment in workplace training if we are to tackle ongoing skills shortages."

A recent survey by the British Chambers of Commerce, showed recruitment conditions eased in Q1 2024 with fewer firms facing difficulties hiring, although access to the right level of skills remains a challenge amongst its members.

Source: https://www.britishchambers.org.uk/wp-content/uploads/2024/04/QES-infosheet-Q1-2024.pdf

"While there continue to be signs of the labour market cooling, it is still overheating and there is not yet any indication that pay rises are reducing to a level compatible with easing inflation and reducing interest rates," explains Matthew Percival, Director of Future of Work, CBI.

"Andrew Bailey made it clear that rate setters would be carefully considering the array of economic data barrelling our way between this month's Bank of England decision and the next meeting in June," adds Danni Hewson, Head of Financial Analysis, AJ Bell.

"The latest ONS jobs figures do little to move the dial with the labour market continuing to cool but wage growth coming in hot. Once our nemesis inflation is taken into account average regular earnings jumped 2.4%, the highest in almost three years. Whilst that does mean a few very welcome extra pennies in our pockets, good news for workers is likely to be viewed as bad news by market watchers."

EVERY EXTRA PENNY WE FEEL CONFIDENT TO SPEND HAS THE POTENTIAL TO ADD A LITTLE BIT MORE KINDLING TO THE SMOULDERING INFLATION PYRE AND LOOKING AT RATE CUT EXPECTATION FOLLOWING THE RELEASE OF THE LATEST ONS DATA, IT'S A COIN TOSS AS TO WHETHER THE TEMPERATURE WILL REACH JUST THE RIGHT LEVEL BY THE NEXT MEETING OF THE MPC, says Hewson.

Although vacancy numbers are still above pre-pandemic levels, as businesses re-write their plans and positions are filled, it seems the post-pandemic labour boom is well and truly over.

BEING A FORCE FOR GOOD IN AN UNCERTAIN WORLD

There are now over 5.6 million SMEs in the UK generating a collective turnover of more than £2.4 trillion and contribute to over 50% of the nation's GDP.

Employing over 16.7 million, SMEs are considered as the backbone of a healthy economy. As such they are in a prime position to help foster greater ethics in businesses, creating a better future by being a force for good.

THE LINK BETWEEN THOUGHT LEADERSHIP AND BUSINESS ETHICS FOR SMES IS A STRONG AND SYMBIOTIC ONE.

"Thought leadership content and communications should authentically reflect the vision, values and purpose of an organization. On the flipside, thought leadership is also the ideal way to share that vision and purpose and display those ethical business values with key stakeholders, both internally and externally, to ensure alignment of strategy, all the company's messaging and business activities," explains Yogesh Shah, CEO, iResearch Services.

"Evidence and research-based thought leadership and the content created as part of a strategic thought leadership program offers a robust platform for consistent and authentic messaging that helps support, protect and grow the organisation's brand, audience and client base," continues Shah. "Thought leadership is a powerful tool to bring together Sales, Marketing, HR, Communications and other business departments and functions, so they can be consistent in their approach, messaging and go-to-market strategies. This is the same whether companies and budgets are large or small."

But thought leadership extends beyond the boundaries of a business. "Thought leadership can be used successfully to signpost useful data to drive cultural change throughout and beyond an organization – whether that is to support diversity, equity and inclusion (DEI) initiatives; better communication and collaboration across its internal and external ecosystems; or in addressing wider sustainability and environmental, social and governance initiatives in the areas in which the company operates," adds Rachael Kinsella, Editorial & Content Director, iResearch Services.

"It is important to remember the four crucial Pillars of Truth for thought leadership – all inextricably linked to a company's culture: Relationships, Reputation, Revenue and Real-World Impact. One cannot exist without the other. And thought leadership cannot be considered true thought leadership unless it contributes to all four key strategic pillars for the firm. Starting with your firm's culture and putting that at the heart of everything that you do is no mean feat, but it paves the way for credible, consistent communication internally and externally and opens the door for growth and genuine impact outside the organisation."

Source: https://dh-design.foleon.com/psmg/centrum-spring-2024/tech-innovation-iresearch-services

For SMEs creating a truly purposeful and insightful business opens the door to growth. “Building a better business is merely the point of entry into something more far reaching,” says William Buist, business strategist and author of ‘Intentional Mastery – step beyond your expertise and build better business’.

“While it’s not uncommon for larger firms to set up charitable foundations which receive a proportion of corporate profits, for any SME the financial contribution will always be much more limited compared to the power of a large corporate.
But the agile nature of SMEs does raise some interesting questions. What if there was a pooling of resources? What if each contributed a small part of their revenues? What if they could each spare just one person for a week or so each year to work on projects? If only a small proportion of the small business community were moved to take part, these resources would constitute a massive movement. What sort of difference could we all make together?”

Last year, the UK-based charity support initiative PETT (PRISM Empowering Through Technology) that donates to charities the IT equipment they need to engage in today’s world, facilitated the installation of Wi-Fi, laptops and teacher support at the Senator Obama Primary School in Kogelo, Kenya, enabling its students to participate in the historic World Parliament event organised by Wakelet and Microsoft 365 in collaboration with the Children’s Parliament. This groundbreaking online gathering brought together students from around the world to engage in vital discussions on environmental protection and sustainability.

Source: https://pett.uk.com/

Building on the success of this initiative, PETT’s renewed support continues to allow the Senator Obama Primary School to maintain its digital infrastructure and continue participating in global education programmes. This ongoing partnership aims to empower the school’s students with the tools and knowledge necessary to tackle pressing global challenges and contribute their unique perspectives to international discourse.

WE ARE THRILLED TO EXTEND OUR SUPPORT TO THE SENATOR OBAMA PRIMARY SCHOOL FOR ANOTHER YEAR.

says a PETT representative.

“Witnessing the impact of our previous efforts and the enthusiasm of the students has been truly inspiring. By renewing our commitment, we hope to foster a culture of continuous learning, global awareness, and problem-solving among these young minds.”

The Senator Obama Primary School community has expressed its gratitude for PETT’s unwavering support, which has opened doors to invaluable educational opportunities and fostered a sense of global citizenship among its students. With the extension of PETT’s generous technology grant, the Senator Obama Primary School is poised to maintain its position as a beacon of education in the local community, while simultaneously nurturing a generation of global conscious and environmentally responsible leaders.

“”

EVERY SME HAS THE POWER TO MAKE A BETTER FUTURE AND CREATE THE OPPORTUNITIES THAT MAKE A DIFFERENCE THAT GOES WAY BEYOND THE BOUNDARIES OF YOUR BUSINESS. PERHAPS TO CHILDREN IN A FAR-OFF COUNTRY OR TO YOUR LOCAL COMMUNITY,” SAYS BUIST. “IN TODAY’S UNCERTAIN WORLD, WHATEVER MATTERS TO YOU AS AN SME, MATTERS TO US ALL.

For job seekers, corporate ethics continues to dominate the agenda. In a recent Candidate Sentiment Survey produced by specialist recruitment firm Robert Half, with a further 63% indicating that a company’s values would steer their decision to move jobs if similar salaries were on offer, indicating the impact that the skills shortage has on corporate ethics.

50% OF WORKERS SURVEYED SAY THEY WILL NOT WORK FOR AN ORGANISATION WITH VALUES WHICH DON’T MATCH THEIR OWN

Source: https://www.roberthalf.com/gb/en/about/press/two-fifths-of-uk-workers-planning-to-jump-ship-this-year--with-m

The financial impact of this talent shortage adds an additional burden to any struggling SME, despite the rise in GDP and the fall in inflation. So, what does this mean for business failure risk? “Unfortunately, corporate insolvencies are a lagging indicator. Both January and February 2024 saw higher numbers than the year before, so that the rolling 12-month figure for the whole of the UK has burst through the 27,000 barrier, another all-time record. This is now 13% higher than in February 2023 and 46% above immediate pre-pandemic in February 2020. Although we saw an abrupt drop of 24% year-on-year in March, we saw a quick return to growth in insolvencies in April 2024 that were 35% up in April 2023 and 58% higher compared to April 2019 pre-pandemic levels. On a rolling 12 months comparison, 2023/4 is now 13% higher than 2022/23 and 46% on 2019/20. A total of more than 30,000 insolvencies for calendar 2024 is now a very real possibility,” warns Hood.

With the climate of financial volatility continuing for SMEs as we head into the election, whoever wins, fiscal policy will be highly constrained. "Even with very loosely binding fiscal rules (a rolling five-year horizon allows for a lot of obfuscation), an increase in spending will almost certainly need to be matched by tax increases," comments Hetal Mehta, Head of Economic Research, St. James's Place.

With the election announced for 4th July 2024, whether there is a change in government or a change of government policy, some things are certain: the business world will be on tender hooks, markets may rattle, and fiscal uncertainty will continue. "Against the contextual reality of the trading conditions they face, the current confidence of UK SMEs is quite remarkable," says Paul Rowland, Senior Partner, Invictus Risk Solutions. "In business, as in life, it is not the fight that matters, but the courage which one brings to it."

SO, WHATEVER THE OUTCOME, AS THE 'DOUBLED-EDGED SWORD OF GROWTH' BECKONS, THE MANTRA IS ONE OF 'KEEP CALM AND CARRY ON' – FOR SMES EVERYWHERE, YOU HAVE GREATER STRENGTH THAN YOU THINK!

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