SME Confidence Tracker Q3 2024:

Irish SMEs remain resilient during a state of flux

SUPPORTING BUSINESS **AMBITION**

BIBBY FINANCIAL SERVICES

Foreword

New Government will have one task – do more to support local indigenous business

Despite a complex year, from an economic and political view, it's very heartening to see that Irish business leaders are positive about the future, with more than two-thirds expecting sales to grow, more than half are planning to invest in their businesses over the coming months and just over one third are hoping to recruit in the next six months.

Costs, however, remain a key challenge for businesses, with concerns relating not only to macro-economic factors such as expenses impacted by global commodities or fiscal and monetary policy, but also the hidden costs-of-doing-business such as bad debt and late payment.

So, as we approach the first general election since the Covid-19 pandemic, businesses in Ireland have many asks of the new Government, but one is ringing out more clearly than others - please do more to support local indigenous businesses. This is based on the fact that 90 percent of SMEs say the Government needs to urgently implement a full review of all the various supports they offer businesses to ensure they are fit for purpose.

This year we have seen companies grappling with mounting costs, which in turn squeeze their margins and dampen prospects for growth and business viability. This has been particularly evident in the retail and hospitality sector in recent months. As a result, it is not surprising that businesses are wondering why they are not seeing more action from Government to ensure the 250,000 SME's that make up the backbone of the economy not only survive, but thrive.

In addition to our domestic situation, ever-shifting global politics present the potential to create turbulence in the import/export landscape, with changes in tariffs, trade agreements, and diplomatic relations directly impacting the cost and accessibility of goods and services. As a result, there is much speculation about how potential shifts in taxation, regulatory frameworks, and incentives might translate into policies that could directly impact their operations.

And if a business needs extra cashflow to facilitate any challenges or opportunities in the coming months, they need to make sure to cast the net wider than mainstream funders for the supports required, particularly if they don't want to take on extra unwanted debt. More sustainable solutions such as Invoice Finance allows businesses access to money outstanding from their unpaid invoices, helping them to access income they have already earned but not yet received - meaning you don't have to borrow any money.

This shift to more alternative funding options shows that there's an increasing requirement for more collaboration across traditional banks and independent financial providers to ensure we are learning from each other and, more importantly, are able to offer businesses a wider spectrum of funding options. Our ongoing partnership with PTSB to offer businesses access to the entire spectrum of funding options is facilitating this market trend. This relationship between one of Ireland's leading retail and SME banks and a specialist lender is one of the first of its kind in Ireland and is currently transforming the Irish financial services landscape.

So, while SME's need to be prepared for an unpredictable few months ahead, a combination of careful financial planning, staying informed on the political landscape, developing a mindset of adaptability and resilience as well as engaging a proactive approach to addressing challenges as they arise, will help SMEs across the country lay the foundations for long-term success.

Mark O'Rourke
Ireland Managing Director
Bibby Financial Services

in Mark O'Rourke

Research highlights

90%

of SMEs say the Government needs a full review of the supports they offer businesses to ensure they are fit for purpose

67%

of SMEs expect sales to grow in the next six months

61%

of businesses that have suffered from bad debt in the past 12 months have been rejected for external finance

54%

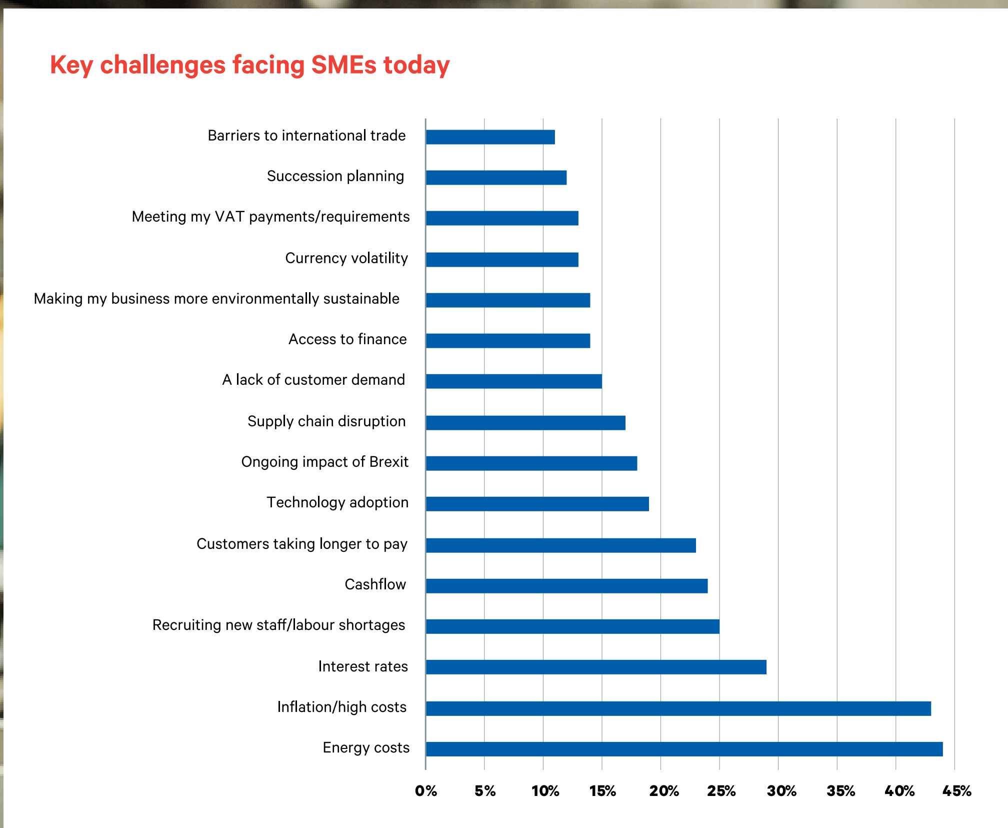
of SMEs think that the external finance landscape is complex and disjointed

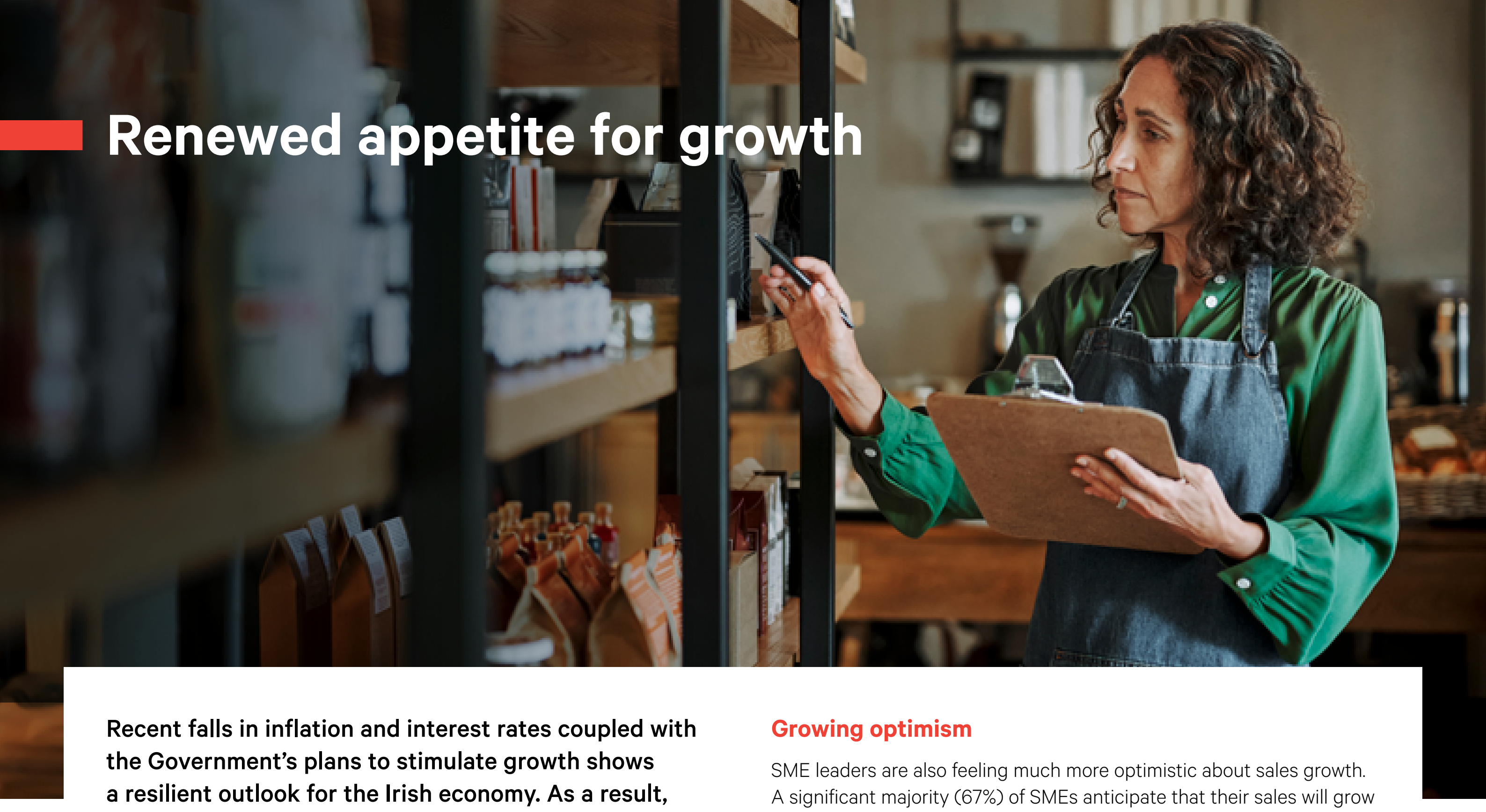
53%

of SMEs say they have experienced their incumbent bank or financier reducing the amount of finance or credit they have made available to them in the past six months

33%

of SME leaders say the Government are doing more to support large foreign direct investment multi-national companies than SMEs





Renewed appetite for growth

Recent falls in inflation and interest rates coupled with the Government's plans to stimulate growth shows a resilient outlook for the Irish economy. As a result, confidence is seemingly returning to SMEs.

Our recent research of 220 SME owners and decision makers offers an encouraging glimpse of improving sentiment and greater optimism among Ireland's small businesses.

According to the European Commission[1], Ireland's GDP is expected to grow by around 1.2% in 2024 despite the contracted -3.2% recorded in 2023. This was mainly due to the wreaked global performance and reduced exports by multinational companies. However, Gross National Product (GNP), which is a measure of economic activity that excludes the profits of multinationals, grew by 5.5% in the year.

For many SMEs, this evolving era of relative economic stability has brought reawakened their latent ambitions to invest and grow.

Business ambitions

As a result, SMEs say they plan to invest an average of €275,696.91 in the next 12 months, with nearly one in five planning to invest over €100k. When asked where that investment will be focused over the next six months, 28 percent say recruitment of staff, 28 percent cite staff training and development, 28 percent say digital technology and IT, 27 percent identify new products or services and 25 percent acknowledge focus on sustainability.

28% **Recruitment**

28% **Staff training and development**

28% **Digital technology / IT**

27% **New products or services**

25% **Sustainability**

Growing optimism

SME leaders are also feeling much more optimistic about sales growth. A significant majority (67%) of SMEs anticipate that their sales will grow in the next six months.

Over half (53%) see attracting new customers as a key opportunity for their business over the next six months, while 33 percent aim to take on new staff, and 23 percent highlight adopting new technology such as AI. A further 23 percent identify new product innovation and the same number want to build new supplier relationships.

Irish SMEs are confident about business prospects and opportunities over the next 6 months, however the high cost of doing business remains a barrier to growth, despite of inflation subsiding.

Top inflation-related pain points for SMEs

30% **Energy costs**

19% **Wage expectations / labour costs**

13% **Raw materials**

Lingering high costs

Recent figures indicate that inflation in Ireland has fallen to its lowest level in over three years. The EU Harmonised Index of Consumer Prices (HICP) indicates inflation increased by 1.1 percent in Ireland in the 12 months to August and rose by 0.1 percent between July and August.

However, despite inflation rates lowering, the high cost of doing business remains a barrier to growth, with 43 percent of SME owners still identifying inflation and high costs as one of the key challenges they face.

Energy costs are also still a key concern for SMEs, with 44 percent seeing them as a key challenge, reflecting macroeconomic data.

In addition to high costs, cashflow continues to make life tricky for a quarter (24%) of SMEs who identify this as a significant challenge.

[1] Ireland Economic Outlook - May 2024

Bad debt and insolvencies on the rise

While the macroeconomic outlook shows a positive upward trajectory, the real economy still needs time to adjust. Consequently, SMEs remain in a tough trading environment with pressure on supply chains persisting.

Late payments and bad debt are chronic issues for SMEs, but worryingly the data suggest that this has become even worse over the course of the past year. More than two thirds (68%) say it's taking longer for customers to pay invoices in full when compared with a year ago, with just three percent saying customers are paying more quickly.

Bad debt levels are also escalating with 43 percent of SMEs saying they've suffered a bad debt due to customer nonpayment in the last 12 months, up from 29 percent in our 2023 Global Business Monitor survey. Interestingly, this figure increase to 47 percent with SMEs who have turnover bands of €1 million+. The average value that each of these businesses has had to write off has increased by 60 percent to €34,927 - up from €21,076 - since last year. In stark comparison, this is 88 percent more than the average figure in 2022.

68%

of SMEs say it's taking longer for customers to pay invoices in full compared to a year ago

43%

of SMEs have suffered a bad debt in the last 12 months

€34,927

is the average value written off in the last 12 months due to bad debt

No doubt, the issue is compounded by increasing levels of corporate insolvencies which surged by 25 percent in June year-on-year, according to the latest insolvency figures from Deloitte[2].

This is reflected in our data which show high levels of customer and supplier insolvencies. On average, 47 percent of SME leaders have seen up to five of their customers become insolvent in the last six months and 49 percent have seen up to five suppliers cease trading over the same period.

The combined negative impact of late payments, bad debt and insolvencies is an ongoing inhibitor to progress for many SMEs. This suggests a clear need for coordinated interventions from the government and other agencies to help SMEs surmount these barriers and stay on track for future growth.

[2] https://www.deloitte.com/ie/en/about/press-room/corporate-insolvencies-q2-2024.html

Back in the market for external finance

Following a prolonged period of economic and geopolitical uncertainty, SMEs' renewed confidence in market conditions seems to be matched by their growing appetite for external capital to fund investment for expansion, innovation and diversification.

Compared with six months ago, 44 percent of SMEs are now more likely to use external finance than before. This is reflected by Central Bank of Ireland's insight, in which banks predicted an increase in demand for credit in 2024, particularly in short-term lending[3].

As SMEs' appetite for finance grows, they will be using third-party capital injections as much to support their day-to-day operations as to invest in expansion.

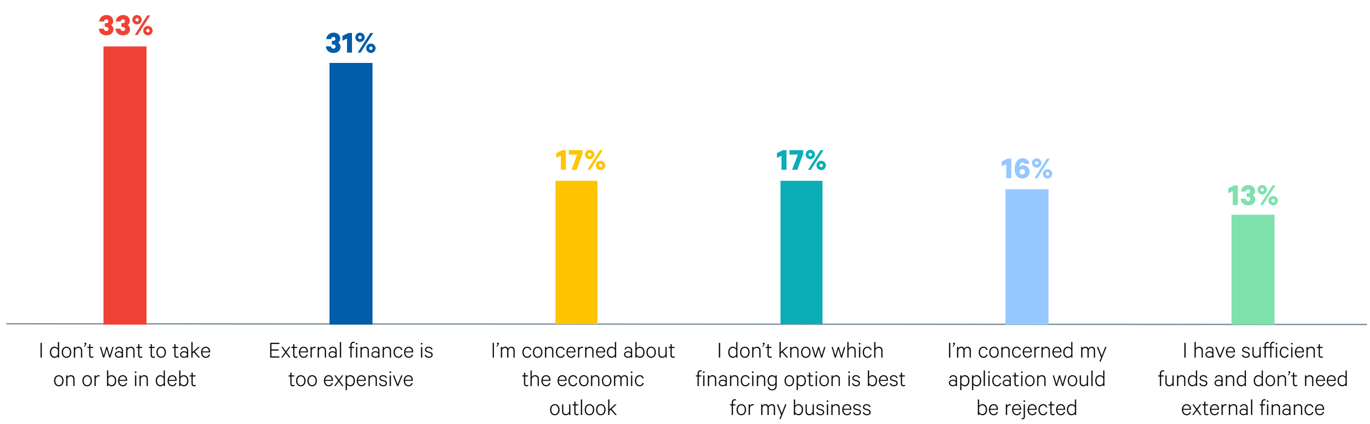
A third (33%) say they already use external finance; and a further 15 percent who don't currently make use of third-party funding say they'll consider doing so over the next 12 months. Over a third (35%) intend to use to support their day-to-day operations so that their businesses continue running smoothly following a prolonged period of difficult trading. A similar number (32%) identify paying off a debt as the main use of any external finance.

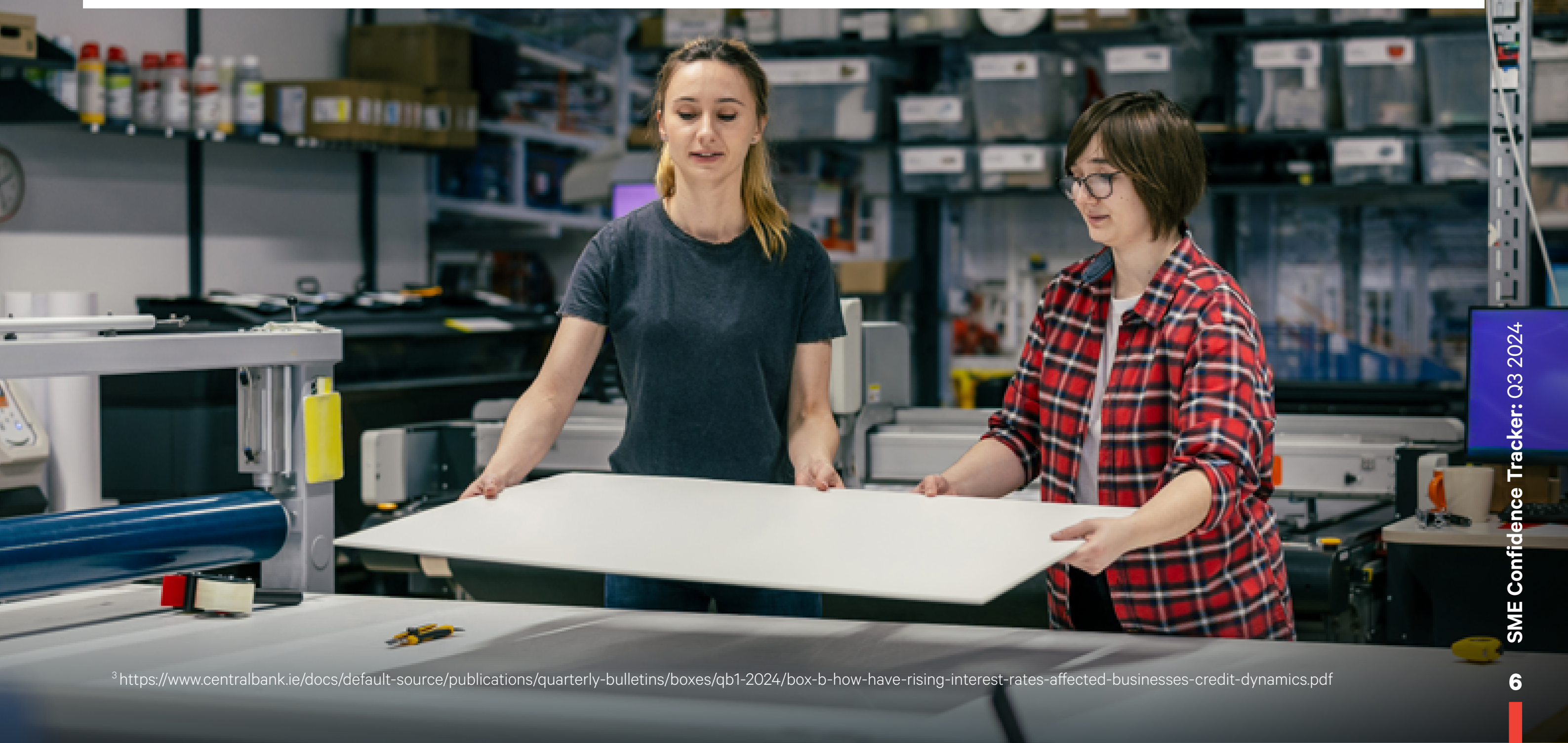
This data points to a clear positive correlation between the use of external finance and profitability - highlighting the significant contribution external finance can make to a business's growth potential. SMEs reporting that their businesses are profitable are more likely to say they use external finance (38%), compared to those that are just about breaking even (26%) or running at a loss (29%).

Among those business owners who don't currently use and have plans to start accessing external finance, there are evidently lingering concerns over debt and the state of the economy. In addition, 33 percent of small business owners are unwilling to take on debt, while 31 percent are put off by external finance being too expensive.

For 17 percent of our survey respondents, a lack of knowledge and information is a factor in their decision not to seek external finance because they don't know which financing options might work best for them. Plugging the information gap is obviously an important issue to resolve if SMEs are to have the best chance of making decisions that will help them to thrive.

Top 5 reasons why SMEs aren't using external finance





[3] https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/boxes/qb1-2024/box-b-how-have-rising-interest-rates-affected-businesses-credit-dynamics.pdf

Broadening access to finance

Despite the growing need for finance, access remains an issue. Given the Government's ambitions to return the Irish economy to sustainable growth, ensuring SMEs can access the most appropriate form of finance for their businesses should be a key area of policy focus over the next 12 months.

Businesses are tired of rejection

Currently, the field is anything but level. Small businesses have the ambition, and the inspiration, but not always the finance they need to grow. One in three (34%) SMEs say they have been rejected for external finance in the past 12 months. And despite data from the SME Credit Demand Survey 2023 (issued April 24) pointing to a high rate of finance approvals[4], 53 percent of respondents to our survey say that in the past six months their bank or financier has reduced the amount of cash or credit they're prepared to provide.

Further data from our survey identify additional difficulties when bad debt is a factor, with nearly two-thirds (61%) of SMEs who have suffered from bad debt in the last 12 months saying they have been rejected for external finance. Similarly, the low-risk appetite among many banks and financiers is still a barrier - 38 percent of SMEs say they have been denied finance due to their business being considered high risk.

Knowledge is power

This, coupled with a lack of knowledge amongst SMEs about the finance options available to them, makes it harder to secure the funding they need to achieve their growth ambitions.

Indeed, over half (54%) of SMEs believe the external finance landscape is complex and disjointed, with 65 percent saying they wish there was more unbiased and accessible financial advice available online.

This knowledge gap becomes even more critical when business owners are starting out, or don't have an established network - a problem that is understood to be particularly acute for women business owners. When SMEs are looking for information or advice on their business's finances, they are most likely to turn to their professional network or a professional business or financial adviser.

Top four sources of information for SMEs

44% Professional business / financial adviser

43% Professional network

31% Google or other search engine

25% Existing business finance provider

[4] https://www.gov.ie/en/press-release/ded3c-minister-mcgrath-publishes-sme-credit-demand-survey-2023

Ireland’s SME sector drives merger and acquisition activity

Ireland’s Merger & Acquisition landscape has witnessed a remarkable surge in recent years, driven by a confluence of factors. The country’s economic stability, strategic location within the EU, industry consolidation, technological advancements, and abundant capital availability have all contributed to this robust growth.

Despite a global downturn in Merger & Acquisition activity, Ireland’s market defied expectations in 2023. According to Davys, the number of Merger & Acquisition deals reached 405, a modest 9 percent decline compared to the previous year. This resilience is particularly noteworthy considering the 23 percent drop in global Merger & Acquisition volumes. Ireland’s transaction volume in 2023 was a substantial 38 percent higher than the pre-pandemic average. This positive trend has continued into 2024, with a 14 percent increase in Merger & Acquisition activity during the first quarter.

Our survey further reinforces this optimistic outlook, with nearly half of all SMEs (46%) expressing their intention to pursue Merger & Acquisition opportunities within the next 12 months. Of these, 14 percent are considering a management buy-in, another 14 percent are exploring a management buy-out, and 20 percent are open to a complete sale of their business to an external entity.

Beyond the surge in Merger & Acquisition activity, a significant shift has occurred in how businesses are funding their growth ambitions. While private equity was once the dominant funding source, business owners are now exploring a diverse range of financial solutions. This transition underscores the increasing need for collaboration between traditional banks and independent financial providers. By working together, these institutions can offer businesses a broader spectrum of funding options, tailored to their specific needs and growth aspirations.

To facilitate this collaborative approach, our partnership with PTSB provides businesses with access to the entire spectrum of funding solutions, ensuring they have the necessary financial resources to support both short-term and long-term growth initiatives.

Top five considered business transactions

23%
Merger with another business

23%
Purchase of a new business

20%
Full sale of business to an outside entity

14%
Management Buy Out

14%
Management Buy In

Wishlist for the Irish Government

The survey finds that 90 percent of SMEs think the Government needs to engage a full review of the supports they offer businesses to ensure they are fit for purpose and effective in addressing their current business challenges.

Other data from the research highlights that 52 percent of SMEs say the government are doing more to support large foreign direct investment multi-national companies than SMEs. With small and medium-sized enterprises accounting for 99.8 percent of all active enterprises in Ireland and 69.2 percent of total persons employed in the business economy, there is now a real requirement for the incoming Government to step up and implement a realistic and practical framework to support homegrown businesses. This has to be done if we want to building a sustainable and resilient economy.

In addition, with a further 56 percent of survey respondents saying they don't believe that the government is doing enough to support female entrepreneurs, this also needs to be addressed.

A road map for growth

A scattergun approach to supporting SMEs will not provide them with the optimal conditions to survive, prosper, and grow. Instead, thinking about the measures small businesses have told us they want, the Government would do well to ponder the following three considerations as part of its plan for small business:

1. Business cost reforms

Cost will always be to the forefront of business owners' minds. While inflation, interest rates and energy prices begin to ease, commercial rates and cost of employment is also a challenge for many. To ensure competitiveness, the new Government must ease business burdens and address high business costs.

2. Improved access to finance

SME's need to realise that there is a wide range of funding options open to them. The traditional banking landscape has changed dramatically over the past few years and while Irish banks were once the mainstays of finance providers for Irish businesses, there is now a significant range of alternative financial institutions who offer a range of reliable solutions.

Instead of operating as silos, there's an increasing need for more collaboration across traditional banks, independent financial providers and fintechs to ensure we are learning from each other and in a position to offer businesses a wider spectrum of funding options. Organisations such as the Strategic Banking Corporation of Ireland, a government agency representing a wide array of SME funders, stand as a good example of helping SME's finance their businesses, allowing them to thrive and grow. Having greater awareness of and access to the entire spectrum of funding options would enable SMEs to address any short and long term challenges.

3. Better access to education and information

Small business owners don many hats, from HR Director to CFO and company secretary and it can be overwhelming to navigate financial decisions alone. Working more closely with the financial services industry, the Government has an important opportunity to create and promote initiatives targeted at improving accessibility to financial education and knowledge-sharing for small business owners. The focus should be on enabling SMEs to make better informed financial planning decisions, including how and where to access external funding. This will help level the playing field for small businesses and allow them to compete with larger firms, ultimately contributing more significantly to the economy through job creation and innovation.

Methodology

This study is based on a poll of 200 Irish SME owners and decision makers across the manufacturing, construction, wholesale, transport and services sectors.

Research was conducted by independent specialists, Critical Research, between 30 July and 13 August 2024.

About Bibby Financial Services

Bibby Financial Services is Ireland's largest independent provider of financial funding solutions to Irish SMEs. Operating across the island of Ireland for 18+ years, the company, on average, facilitates over €1m+ a week in new funding limits - in addition to the millions in weekly payments to existing clients - to enable a range of scenarios including cashflow funding, growth and expansion, management buy-ins and buy-outs, refinancing, corporate restructuring and mergers and acquisitions.

A people-led business, the local Bibby Financial Services team of 35+ experts offer support to businesses with a turnover from €750,000. Sectors serviced include Manufacturing, Food and Beverage, Wholesale, Transport, Construction, Recruitment and a variety of professional business services. This includes a range of exporters and Enterprise Ireland supported companies.

Bibby Financial Services (BFS) group is a leading family-owned financial services partner to over 8,500 businesses worldwide. Formed in 1982, BFS is part of the Bibby Line Group (BLG), a diverse and forward-looking family business delivering personal, responsive and flexible customer solutions for over 200 years.

To find out more about Bibby Financial Services, visit:
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