



SME CONFIDENCE TRACKER



Q3 2018

BIBBY
FINANCIAL SERVICES



FOREWORD

THE FORECAST IS BRIGHT FOR IRISH SME'S BUT BREXIT HAS POTENTIAL TO CAST A SHADOW

The Irish economy continues to grow at a robust pace, supported by the strength of activity on the domestic side of the economy and a favourable international growth environment – the ESRI predicts growth of 4.5% for 2019 and the OECD, although more cautious, foresees growth of 2.9%.

Our inaugural SME Confidence Tracker shows many positive indicators for Irish business, almost half of SMEs (48%) say that sales increased and 81% of those surveyed are investing in growth and development in the third quarter of 2018. The key areas for investment are staff training and development (45%), IT (39%), recruitment (39%) and machinery and equipment (25%).

The survey also found that almost half (48%) of SMEs saw sales grow in the period of July to September 2018 and a very encouraging 65% expect to see their sales increase over the final three months of the year. A quarter (26%) of SMEs are forecasting sales to remain the same over the next three months.

Encouragingly, 80% of SMEs plan to invest in their business over the next three months; in addition to staff training and development (43%), IT (33%) and recruitment (31%), significant areas for investment are new products or services (23%) and overseas trade (14%). Despite many entrepreneurs and business leaders having exciting and ambitious plans for their companies, confidence in the Irish economy among SMEs remains a concern however, with more than a third (36%) claiming that uncertainty around the country's economic environment is preventing them from investing in their business before the end of 2018.

Uncertainty arising from the UK's departure from the EU is also cause for unease with Irish SMEs; a further 36% say it is a key factor preventing them from investing in their business in Q3. Other barriers to investment include cash flow (36%), rising costs (36%) and the uncertain economic environment within Europe (23%).

Thus far, the impact of Brexit concerns on the Irish economy has been reasonably contained at the 'macro' level. The pound has been volatile in recent months and remains a lot higher than desirable for Irish exporters.

Positive vibes coming out of the UK and Brussels as regards the Brexit negotiations will be required if the pound is to regain lost ground and see a sustained appreciation against the euro, but that still doesn't appear to be forthcoming.

The macro-economic outlook worries many business leaders, the UK leaving the EU and global economy continues to waver, its unsurprising that SMEs are feeling more pessimistic. Given the concerns around the knock-on effect of Brexit, its unsurprising that SMEs are feeling more pessimistic and this is reflected in our findings with almost 9 in 10 Irish SMEs (88%) believing that the government should be providing more support to fend off the challenges of Brexit.

With just five months to go until Article 50 is formally completed, many commentators now believe negotiations will be delayed far into quarter four, giving Irish SMEs even less time to prepare.

Research commissioned by the British Chamber of Commerce and Bibby Financial Services UK highlights a major area of concern, in the lack of preparation among UK business that Irish firms rely on for cross-border trade. This means that regardless of how organised Irish SMEs are, if their UK counterparts haven't taken the necessary steps to prepare for Brexit, there will be challenges ahead.

Irish SMEs need to take steps to insulate themselves from the potential ill-effects of the UK's departure from the EU and ensure they are equipped, because despite the transition period, Brexit is going to happen and businesses need to prepare. Irish SMEs will need to be flexible enough to manage whatever scenario arises.



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November 2018

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KEY FINDINGS IN Q3 2018



The majority of SMEs plan to invest in their business over the next three months



Almost two-thirds of SMEs expect sales to increase in Q4 2018



More than half of SMEs are taking steps to prepare for Brexit, with 38 per cent exploring new markets and 26 per cent diversifying their business



say the UK's departure from the EU is the biggest challenge they are currently facing



of Irish SMEs believe government needs to offer greater support



More than a third of SMEs suffered from a bad debt in the past 12 months

CONFIDENCE AND INVESTMENT

The overall business environment in Ireland appears favourable for small to medium enterprises (SMEs) with almost half of businesses surveyed (48%) reporting an increase in sales during the third quarter of 2018, with a further 65% expecting sales to increase for the last quarter of the year.

Sectors reporting increased sales include wholesale (57%), transport (52%) and construction (50%), while businesses in manufacturing (40%) and services (44%) fared less favourably in Q3.

Our data reveals Irish SMEs are continuing to invest in their businesses, with 81% of those surveyed saying they have done so in the third quarter of 2018. The key areas for investment are staff training and development (45%), IT (39%), recruitment (39%) and machinery and equipment (25%).

Reasons for this investment approach may vary, however one explanation could be an increasingly competitive environment in Ireland. 80% of SMEs say they plan to invest in the final three months of the year, with one in five (20%) stating that their primary reason for investment is to keep ahead of competitors.

TOP AREAS OF INVESTMENT FOR Q4 2018



However, despite SMEs' confidence in the Irish economy, concerns remain with more than a third (36%) of those surveyed claiming that uncertainty around the country's economic environment is preventing them from investing in their business before the end of 2018.

On a more positive note, there appears to be an appetite amongst small businesses to shrug off their concerns around Brexit and search for growth beyond the United Kingdom with 38% exploring new markets. On a sector by sector basis, it is Ireland's manufacturers that are leading the way in exploring export opportunities.

The SME Confidence Tracker reveals the top three sectors that are planning investment in trading overseas:



BREXIT THE GREATEST CHALLENGE FOR SMES

Irish SMEs are bracing themselves for uncharted territory with over a fifth (20%) of SMEs stating that the UK leaving the EU is the biggest challenge facing their business today, which is unsurprising given the trade relations between both nations.

Businesses have cited that increasing competition from other business (14%) and a lack of skilled staff (13%) as their top areas of concerns, which highlights that Ireland is becoming an increasingly competitive environment in relation to winning new customers and retaining quality staff.

Late payments from customers (14%), rising costs (11%), a lack of domestic demand (10%) were also cited as key concerns for businesses.





LATE PAYMENTS

The average number of days SMEs waited for payment in Q3 was 33, with 40% of businesses having to wait more than 30 days for payment.

Cashflow concerns among SMEs are intrinsically linked to the perennial issue of late payment and our survey results found that 36% of businesses feel that cashflow is a headache they need support with.

Payment delays can present a real business risk, placing pressure on cashflow and restricting the capacity to expand. Even when a business is thriving, it can take just a few unpaid invoices to create significant issues. Getting debts paid promptly and agreeing reasonable payment terms remains critical for all businesses in all sectors.

BAD DEBTS

Each year Irish businesses lose thousands of euros due to poor payment practices as an unpaid invoice can sometimes mean the difference between a successful month and a dangerous financial shortfall.

The results of the Q3 Confidence Tracker revealed that almost a third (32%) of SMEs have suffered from bad debt over the past 12 months.

The average SME has written off up to €20,000 as a result of bad debt in the past year, a problem which was found to be most prevalent in the services (48%) and construction (40%) sectors.

COUNTDOWN TO BREXIT



ELIZABETH BRADLEY
Head of Sales, Bibby
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 Elizabeth Bradley

With around five months to go until the UK leaves the EU, SMEs are at a crossroads. Britain has yet to agree a deal with the EU and their Prime Minister, Theresa May, has faced serious challenges to her authority as she attempts to sell her proposed Brexit deal to the Conservative Party.

The EU summit in October 2018, thoroughly alluded to as the ‘deal day’, brought a lack of information to the table and the controversial Irish border and “Brexit backstop” continues to be a divisive issue for all parties. The backstop is a position of last resort, to maintain an open border on the island of Ireland in the event that the UK leaves the EU without securing an all-encompassing deal.

The UK is Ireland’s largest trading partner, with €1.2 billion worth of trade in goods and services between the two countries each week. Despite this reliance, a recent study by the British Chamber of Commerce and Bibby Financial Services showed that 62 per cent of UK firms have not yet undertaken a risk assessment of the impact of Brexit on their businesses.

Time is running out and with no clarity as yet about trade, borders, tariffs or any other issues which affect SME’s on a regular basis, there is a growing restlessness amongst Irish businesses about what is coming down the tracks.

With limited time left to prepare, businesses must not hold out for a Brexit deal that may never come. To adequately prepare, businesses that work with suppliers and customers based in the Single Market should look to communicate with their overseas partners and agree contingency plans, should UK and EU trade fall back to World Trade Organisation rules post-29 March.

Business owners should use this time to deepen their relationships with key suppliers and negotiate discounts on goods. One way to secure a discount could be to offer to pay suppliers for goods in advance of them being shipped.

This can be achieved by accessing funding to pay suppliers earlier in the trade cycle, alleviating cashflow pressure and enhancing bargaining power. Potential discounts could partly offset the cost of any tariffs that might be imposed after the UK leaves the EU.

While the Irish government is working to negotiate a frictionless border with the EU and the UK, businesses reliant on the UK export market (14% of Irish export goods and services) or the UK land bridge (two-thirds of exporters go through the UK to get their produce to customers on mainland Europe and further afield) must still prepare for a no deal scenario in case negotiations are unsuccessful.

Moreover, Brexit is likely to make business with our nearest neighbour more complex with new customs laws implemented. Some sectors will be affected more than others (for instance FMCG, energy, gas, retail, tourism, fishers and aviation), as well as some types of company like small and medium enterprises (SMEs) exporting to the UK. It is very important to anticipate these challenges and review business models accordingly.

Another option for SMEs preparing for Brexit, by diversifying your trade country partners and looking for other markets.

WHAT IS THE SME CONFIDENCE TRACKER?

The SME Confidence Tracker surveys 200 of Ireland's small and medium sized businesses on a quarterly basis. The Tracker charts the confidence of owners and senior decision-makers of businesses in manufacturing, construction, wholesale, transport and services sectors. Field work for Q3 2018 took place throughout August and September 2018.

ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services is a leading independent financial services partner to over 10,000 businesses worldwide.

Formed in 1982, Bibby Financial Services is part of Bibby Line Group (BLG), a diverse and forward-looking family business with over 200 years' experience of providing personal, responsive and flexible customer solutions.

With over 40 operations in 14 countries spanning Europe, North America and Asia, we provide specialist and adaptable trade, asset and working capital funding, helping businesses to grow in domestic and international markets.

To find out more about Bibby Financial Services, visit:

www.bibbyfinancialservices.ie

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