



# SME CONFIDENCE TRACKER



Q1 2019

## FOREWORD

# IRELAND'S SMEs CONTINUE TO THINK POSITIVE FOR 2019, AS BREXIT AND OTHER CHALLENGES LOOM

How you see Ireland's economic prospects may depend on whether you are a glass half full or half empty kind of person. The latest CSO numbers put GDP growth for 2018 at 6.7 per cent, which is greater than that of China, and enough to make Ireland the fastest growing EU country for the fifth year running. Equally, the ESRI expects Ireland's economy to grow by 3 per cent in 2019 - although a no-deal Brexit would see this tumble to 1 per cent. It's clear then that while there's plenty to be bullish about, warning signs have begun to flash in recent months as we brace for Brexit and a global slowdown.

Our research shows that almost half of Irish SMEs expect to see either a slight (37% of SMEs) or significant (12% SMEs) increase in sales in Q2 of 2019, despite the increasing uncertainty regarding the outcome of Brexit. A further 38 per cent expect their sales to remain steady.

However, the research found that Brexit was still having a negative effect on SMEs' confidence, with sales expectations trending downwards since Q3 of 2018, when two thirds of SMEs anticipated an increase in sales.

In the run-up to the original 29 March Brexit deadline, 80 per cent of SMEs have been investing in their business. Of these, the main areas of focus are staff training and development (42%) and digital and IT capabilities (33%). A further 33 per cent are investing in additional machinery and equipment.

Investment of this nature is crucial for generating growth not for SME businesses but also for the wider economy. Growth does not come from sitting on cash or waiting for things to get better, and so conversely even as costs are rising, I urge SMEs to look at their spending for the year and set aside capital to invest in their people, products and plans.

The economic and political uncertainty surrounding Brexit is a constant in our news cycle since the referendum in the UK in 2016, and there is little sign of the uncertainty dissipating. The Central Bank of Ireland has estimated that there could be a reduction of up to 10 per cent in the trade of goods between Ireland and the UK. This would be a significant shock to the Irish economy and the SME sector, but is unsurprising given the close trade and business links between the two countries.

There is no doubt that Brexit, whatever its final form, will impact small and medium sized businesses, but the impact is and will be different for different businesses, its impact has already been felt on the value of sterling, with knock-on effects for Irish imports and exports.

More than half of SME owners cited the UK's exit from the EU as the single biggest challenge they face and preventing them from investing in their business. Additional causes of concern include domestic economic uncertainty (38%), cash flow issues (36%) and rising cost (31%).

With many trying to navigate in an uncertain business environment, there is also continued dissatisfaction with the amount of state support provided for SMEs ahead of Brexit.

Almost two-thirds (63%) of SMEs feel the government should be providing them with more support, in the form of tax breaks (71%), a lower VAT rate (70%) and assistance in mentoring and growing their company (58%).

As a highly open economy, Ireland is also particularly exposed to changes in the international taxation and trade environment. Brexit isn't the only external risk to the Irish economy, as risks to global growth tilt to the downside. The U.S. is the most important export destination for Irish goods, and its economy is decelerating with fears rising of an outright recession in the next 18 months.

The Eurozone economy is back at crawl speed, with a few of its larger economies in, or close to, recession. China is becoming an increasingly important export destination, having recorded its weakest year of economic growth in three decades in 2018 and it is expected to slow further.

Clearly, as reflected in the high concerns about geopolitical risks, Brexit is a key disruptor. With the ongoing developments in the UK and Brussels, businesses still lack clarity on Brexit and the risk of a disorderly exit has increased. Irish businesses need to intensify their no-deal contingency planning, as a hard Brexit scenario would likely lead to a credit crunch for those businesses that do not have sufficient credit lines and funding in place, at the same time as they are readjusting to alternative trading relationships.



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April 2019

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Source: [www.cso.ie/en/statistics/nationalaccounts/quarterlynationalaccounts](http://www.cso.ie/en/statistics/nationalaccounts/quarterlynationalaccounts)

## KEY FINDINGS IN Q1 2019



Almost half of Irish SMEs expect sales to increase in Q1 2019



The UK's departure from the EU remains the biggest challenge for 32% of Irish SMEs



of Irish SMEs believe government needs to offer greater support



SMEs plan to invest €110k on average in Q2 2019



Almost a quarter of SMEs regularly suffer from cashflow issues



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



Of those SMEs experiencing bad debt, over half have written off up to €10k



SMEs are waiting an average of 33 days for payment



# SME CONFIDENCE INDEX

The SME Confidence Index is compiled by equally weighting SME sales performance over the past three months with expected sales performance over the three-month period ahead.



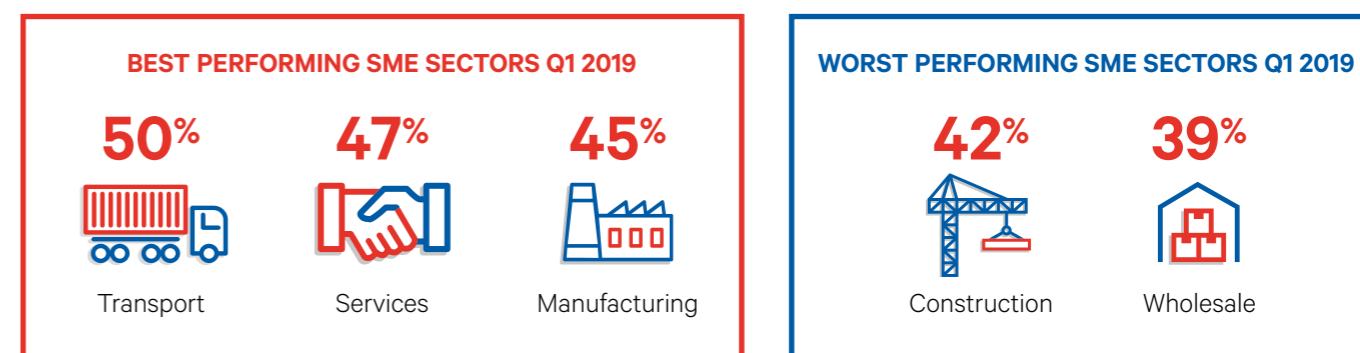
The Index for Q1 2019 showed a decrease in confidence, falling by 6 points to 67, down from 73 in Q3 2018.

Overall, the decline in confidence is reflective of the performance of the Irish economy. Influenced by the lower carry-over from 2018 and the less favourable outlook for global demand, Ireland's GDP growth is forecast to moderate to 3.8 per cent in 2019 and 3.2 per cent in 2020 according to the ERSI.

Source: [www.esri.ie/publications/quarterly-economic-commentary-spring-2019](http://www.esri.ie/publications/quarterly-economic-commentary-spring-2019)

## CONFIDENCE AMONG IRISH SMEs

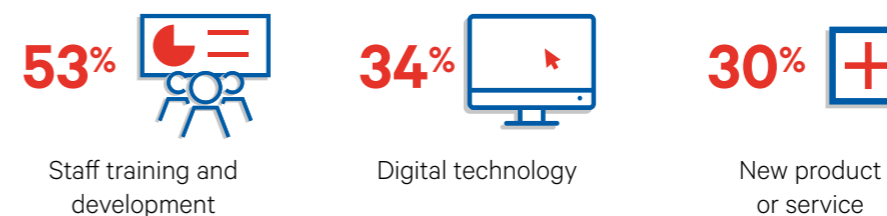
The overall business environment in Ireland appears favourable for small to medium sized businesses with over two-fifths (44%) of businesses surveyed reporting an increase in sales during the first quarter of 2019, and a further 49 per cent expecting sales to increase in Q2 2019.



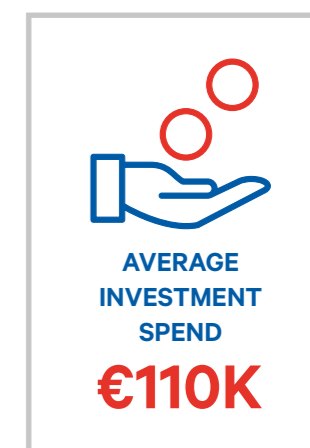
## SMES CONTINUE TO INVEST FOR SUCCESS

Four in five SMEs (79%) expect to invest in their businesses between April and July 2019. This is similar to the proportion of SMEs that expected to invest (80%) in Q1 2018.

### THE TOP THREE AREAS OF INVESTMENT FOR SMES IN Q2 ARE:



### THE PRIMARY DRIVERS FOR INVESTMENT IN Q2 ARE:



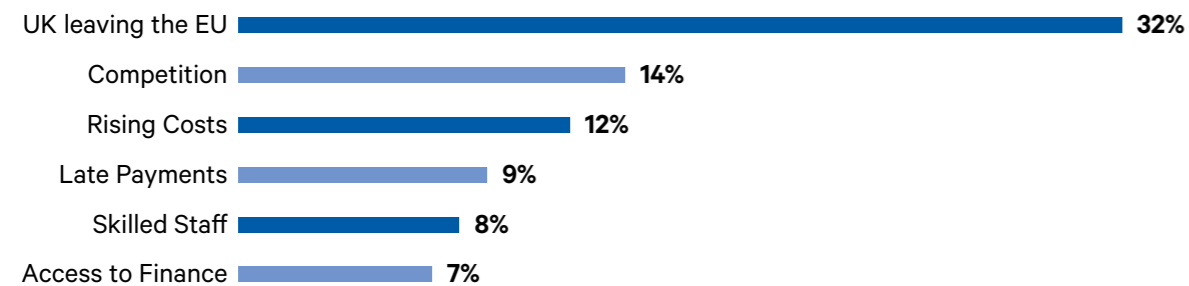
These investment choices reflect a continuation of trends seen in Q3 2018 when SMEs opted to invest in similar levels in equipment or technology (24%), costs and efficiency (23%) and keeping ahead of competitors (20%).

Other investment drivers including expansion within the Irish market (15%) and expansion into international markets (11%), remain unchanged.

# CHALLENGES FOR SMEs

Irish SMEs are bracing themselves for uncharted territory with almost a third (32%) stating that the UK leaving the EU is the biggest challenge facing their business today. The UK remains one of Ireland's largest trading partners - particularly for food and agricultural products - and its departure will have significant implications for Irish businesses' supply chains, as well as leading to further fluctuations in the value of Sterling. Additional uncertainty for Irish traders may come in the form of changes to U.S. tax and trade policy, which, together with Brexit, have the potential to leave Irish businesses exposed.

In addition to Brexit, Irish SMEs point to increasing competition (14%) and rising costs (12%) as their major areas of concerns, highlighting how Ireland is becoming an increasingly competitive environment with regard to winning new customers. Late payments from customers (9%), a lack of skilled staff (8%), access to finance (7%) were also cited as key concerns for businesses.



Governor of the Central Bank of Ireland, Bank Philip Lane recently highlighted how the crash resulted in a number of banks exiting the market, diluting competition and the leading to a prohibitive cost of lending for smaller Irish firms.

However, while the departure of some of the major banks was certainly a blow, Irish SMEs are often unaware of the range of options available to them when it comes to securing finance, and the benefits of looking beyond the major banks. This is all the more important given the current strength of the Irish economy and some of the challenges facing Irish firms in the coming years.

In the face of these challenges, alternative lending solutions can deliver real value, offering in-depth market knowledge and strong client relationships. Often there is greater scope to consider both an SME's current and future needs, taking into account a range of factors including supply chain pressures, debtor payment cycles, trading relationships and currency fluctuations, and tailor it's funding accordingly to find a solution that is right for their business.



# WHY BUSINESS RESILIENCE IS KEY TO MANAGING RISK



**RICHARD CARTER**  
CEO Europe and Asia,  
Bibby Financial Services

Richard Carter

Risk has become a more important factor in business operations as business functions become ever more connected and sensitive to external events. Undoubtedly part of the blame lies with the increasing uncertainty regarding the UK's exit from the EU.

This tells only one part of the story. Recent events in the global economy suggest that the bigger picture could also be impacting SMEs too. The World Bank recently suggested that trade wars, increasing national debt and weaker growth are all key risks for the global economy in 2019.

Taking these risks into account, there has never been a more important time to take stock and think about the potential challenges and opportunities ahead.

Whilst risks do need to be managed carefully there is also an opportunity for smart and agile SMEs to get ahead of the competition. To do this they need to be in tune with their wider world and be prepared to absorb the shocks of economic pressures.

Conducting due diligence on business partners is key here, and SMEs should make use of credit ratings, credit insurance data and other public information sources that might provide a better picture of risk and opportunity to become more resilient.

## GROWTH ALONE IS NOT ENOUGH

No business has ever survived through growth alone. SMEs that succeed aren't just good at unlocking growth, they're also able to adapt to survive the challenges caused by a difficult environment.

Forward thinking business owners may already be anticipating supply chain shortages and adapting by taking measures to stockpile key resources. This could lead to price volatility and SMEs that are left behind could lose market share or see their costs increase.

Whilst stockpiling may be prudent for some, it does carry risks for working capital. For example, SMEs that opt to purchase and warehouse stock may find that their bank or funder no longer wants to take on the risk of funding the business.

Unsold stock is a risk to profitability and can act as a drag on growth if a business cannot then find enough buyers - especially concerning for perishable goods.

SMEs that decide to stockpile should consider the funding risks to their business too and seek advice on their funding options.

## SEEKING OUT SUPPORT AND PLANNING AHEAD

Whilst some of the political rhetoric on trade suggests that supply chains may become simpler, the opposite is happening as chains lengthen and the number of participants increases.

All of this means SMEs will probably not have enough visibility of the many tiers within their own supply chain, but this does not mean they should not start to unpick the layers.

To help them, SMEs should speak to their funding partners to build a better picture of their own risk profile and that of their business partners. This is especially important for SMEs in vulnerable sectors like construction as they may need specialist support if a main contractor's future becomes uncertain.

Contingency planning needs to be the number one priority of SMEs in 2019. Without a plan in place SMEs will not be able to build their resilience or capitalise on the opportunities of a more competitive environment.

## IRISH SMEs INVEST IN TRAINING TO TACKLE THE SKILLS SHORTAGE



53%

More than half of SMEs plan to invest in staff training and development in Q2 2019, making it the most common area for planned SME investment



28%

Additionally, over a quarter of SMEs plan to invest in recruitment in Q2 2019



8%

SMEs identified a lack of skilled staff within the top 5 most significant challenges their business currently faces, with 8 per cent of SMEs identifying the skills gap as an issue



## SMES RECRUITING IN A CHANGING ENVIRONMENT



**AOIFE MCGINLEY**  
Head of Operations,  
Bibby Financial Services

[Aoife McGinley](#)

Finding and retaining talent can be a frustrating activity for SMEs, with high employment creating a difficult environment for sourcing the right staff.

According to the Central Bank, Ireland is expected to reach full employment in 2019, while record low unemployment rates are changing the landscape for both employers and recruiters. Employers are having to compete for a smaller pool of skilled and talented candidates, and this is encouraging them to offer higher wages or extra workplace benefits as hiring incentives.

Complicating the matter further, candidates also have the luxury of choice in the jobs market. This means they can pick and choose either long-term positions, or pursue short-term contractor or temporary roles.

As there is anxiety in Ireland around the UK's future and Brexit threatens to exacerbate the current skills shortage, many businesses are thinking on their feet when it comes to higher employment, and broadening their search to include candidates with different skill sets. For example, in some sectors like construction, skills can be nurtured and learnt on the job provided candidates are attracted to the roles on offer.

It is no surprise that our research shows Irish SMEs are planning to invest in training existing staff in Q2 2019. With competition heating up for the limited number of workers on the market, more than half (53%) of SMEs are choosing to put money into developing the talent they already have, up from 42 per cent the previous quarter. This has meant that direct recruitment has remained flat, with over a quarter (28%) planning to invest in this area in Q2 2019, compared to 26 per cent in Q1 2019.

A significant amount of work remains to be done if businesses are to close the skills gap. Businesses are reacting with increased focus on training, but only time will tell if they're reacting quickly enough. The talent shortage is a substantial challenge that is likely to take time and further investment to address.

# THE VIEW FROM THE UK



Almost half (44%) of UK SMEs expect sales to increase in Q4 2018



41% of SMEs believe Brexit will have a negative impact on their business

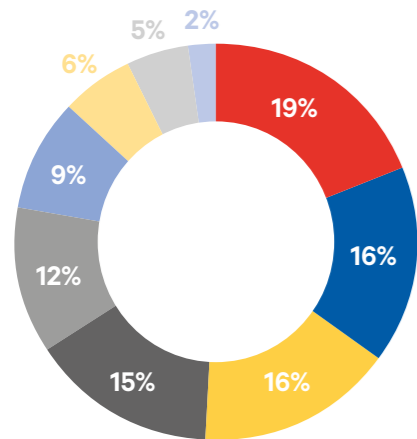


UK SMEs are taking steps to prepare for Brexit, with 21 per cent building up the company's cash reserves, 15 per cent establishing new supply sources for goods and 15 per cent stockpiling goods



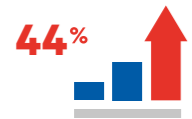
Over two-thirds of SMEs (69%) plan to invest in their business over the next three months, with 34 per cent investing in staff training and development and 28 per cent investing in digital technology

## BUSINESS CHALLENGES



- Rising costs e.g. overheads/raw materials
- Late payment from customers
- Increased competition from other firms
- Lack of domestic demand
- Lack of skilled staff
- Red tape/regulations
- Exchange rate fluctuations
- Access to finance
- Lack of demand in foreign markets

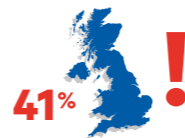
## KEY FINDINGS



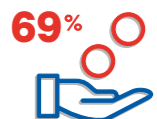
44% of SMEs expect sales to increase in the next 3 months



31% of UK SMEs suffered from a bad debt in the past 12 months



41% of SMEs believe Brexit will have a negative impact on their business



69% of SMEs expect to invest in their businesses in Q2 2019



It takes 34 days on average for SMEs in the UK to be paid



57% of SMEs say that it is likely that the UK will experience a recession this year



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Edward Winterton

"Brexit is continuing to cast a long shadow over SMEs in 2019. This quarter's findings highlight the toll that political uncertainty is taking on businesses, as we observed the lowest bounce in confidence we have recorded at the start of a new year.

"Continued uncertainty is likely to exacerbate concerns around the health of the UK's economy, meaning SMEs will need to take measures to protect their business. The drawn-out Brexit process has resulted in SMEs holding back on investment, at a time it is needed as a catalyst for growth."

## 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 Q1 2019 took place throughout February and March 2019.

## 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](http://www.bibbyfinancialservices.ie)

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