

SME CONFIDENCE TRACKER

Q3 2019





33%
 A THIRD OF SMES
 HAVE NOT PREPARED
 FOR BREXIT

KEY FINDINGS: Q3 2019



Almost two thirds of SMEs feel Brexit will have a negative impact on their business



Sales have increased by 42 per cent in Q3



78 per cent of SMEs plan to invest €80k in Q4



Over one third of SMEs experienced Bad Debt in the past 12 months

FOREWORD

BREXIT FOG IS DAMPENING ENTHUSIASM AMONG IRISH SMES

At the beginning of 2019, I discussed how Irish SMEs were taking heart in the strong performance of the Irish economy as a whole, despite the ongoing challenges presented by Brexit. However, since then there have been a number of warning signs that this encouraging environment may have peaked, dampening optimism within the sector.

SMEs are widely seen as the backbone of the Irish economy, accounting for 90 per cent of Irish businesses and employing over 400,000 people. However, they also face a number of challenges both domestically, such as pressure on cashflow, and internationally, with Brexit looming large on the horizon. As such their views offer an insider's perspective on the current health and future direction of the Irish economy.

It's an uncertain time for the global economy, with the negativity surrounding the US-China trade war and the destabilising effects of Brexit trickling down to dampen the enthusiasm of Irish SMEs. Falling confidence within the sector is tracked in our SME Confidence Index, which shows a downward trend over the past year, from an aggregate score of 73 out of 100 in Q3 2018 to its current score of 63.

Worryingly, almost two thirds of SMEs feel that Brexit will have a negative impact on their business. More alarming still, however, is the fact that, of those surveyed, a third say they have not prepared for Brexit in any way. On the other hand, many SMEs are adapting and finding new ways to do business in advance of the departure of our major trading partner from the EU. Over a third of SMEs - 38 per cent - have already obtained new supply sources for goods and raw materials.

Irish SMEs will also have taken heart from some of the measures outlined in Budget 2020. While some of the measures that SMEs have been looking for - such as more tax breaks and lower VAT rates - have not materialised, the 5 per cent increase in the R&D tax credit will be of benefit to SMEs in reducing the overall amount of corporation tax paid.

Similarly, the €1.2 billion Brexit contingency fund is a welcome commitment that supports will be there for businesses if and when they are required. In particular, €110m will be earmarked for those businesses, of all sizes, that are deemed 'vulnerable but viable'. There will also be a particular focus on those sectors deemed most exposed to the ill-effects of Brexit, which will be of some comfort to businesses dependent on imports from or exports to the UK.

On a more positive note, and despite Brexit woes, our research shows that almost half (46%) of Irish SMEs expect to see either a slight (34% of SMEs) or significant (12% SMEs) increase in sales in the last quarter of 2019, although this total is down from 65 per cent in Q3 of 2018. A further 30 per cent expect their sales to remain steady.

SMEs are also facing operational difficulties, with over one in five (21%) citing rising costs as their biggest challenge, which perhaps reflects the tougher trading conditions and effect of currency volatility on the cost of raw materials.

Given these challenging conditions, Irish SMEs are cutting their cloth to suit their needs. However, it's more important than ever that Brexit is concluded one way or another, and its dampening effects on the Irish SME sector resolved.



MARK O'ROURKE
 Managing Director,
 Bibby Financial Services Ireland
 October 2019

Mark O'Rourke

CONFIDENCE INDEX CHANGE



CONFIDENCE INDEX CHANGE

67.4  **63.2**
Q1 2019 Q3 2019

The SME Confidence Index is compiled by equally weighting SME sales performance over the past three months with anticipated sales performance for the three months ahead.

The Index for Q3 2019 showed a decrease in confidence for the second consecutive quarter, falling by 4.2 points to 63.2, down from 67.4 in Q1 2019.

Since Q3 2018 overall confidence has fallen from 73.2, suggesting that Brexit-related uncertainty is suppressing business confidence. This also reflects broader signals in the slowing Irish economy, with the ERSI noting tightening lending conditions from banks for small and medium-sized firms, and credit refusals running at twice the Euro area average.

IRISH SMES LOOK TO EXPAND THEIR HORIZONS



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 Stephen McCarthy

As our latest figures reveal, 34 per cent of SMEs exported and 41 per cent imported goods in Q3 of 2019. This is an increase compared to Q1 2019, of 8 per cent and 6 per cent respectively, and reflects the fact that Ireland, as one of the largest importers from the UK, is believed to be the most vulnerable economy in the event of a 'no-deal' Brexit. Due to the uncertainty and delay in Brexit, SMEs have piled up their stocks for the coming quarters so as to avoid spending more on their supply chain.

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 that SMEs may not have enough total visibility of the many tiers within their own supply chain.

Given the increasing globalisation of the international marketplace, this is perhaps unavoidable. Many small-to-medium sized businesses will often lack the resources and in-house skills needed to manage the complexities of buying and selling overseas - but this need not mean that they miss out on this important path to growth, or that they should limit themselves to the domestic sphere.

Tailored trade finance products, in particular, can be a flexible way of boosting businesses' capacity for international trade - allowing them to buy, receive and sell goods before needing to pay for them.

Brexit will undoubtedly have a profound effect on the trading environment for many Irish SMEs. But with 9 per cent of SMEs saying they have invested in their capacity for trading overseas in Q3, it is clear that no matter how it is resolved Irish SMEs are increasingly recognising the need to expand their horizons to drive growth.

Our survey also asked businesses whether they had turned to a bank, building society, invoice finance provider, government grant, or other type of external funding over the past six months. While two thirds of SMEs had not availed of any of these sources, most of those who had done so had opted to apply to a bank or for a government grant. But, given that the process of securing finance in this way can often be a slow and complicated one, it is unfortunate that more SMEs are not casting the net wider in order to secure the supports they require.

This is where 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 pressure payment cycles, complex international commercial terms and currency fluctuations, and tailor its funding accordingly to find a solution that is right for their business. Ultimately, those SMEs that embrace the range of financial and trade options available to them will be best placed to thrive in a post-Brexit economy.



EXPORT
↑ 8% FROM Q1 2019
TO Q3 2019

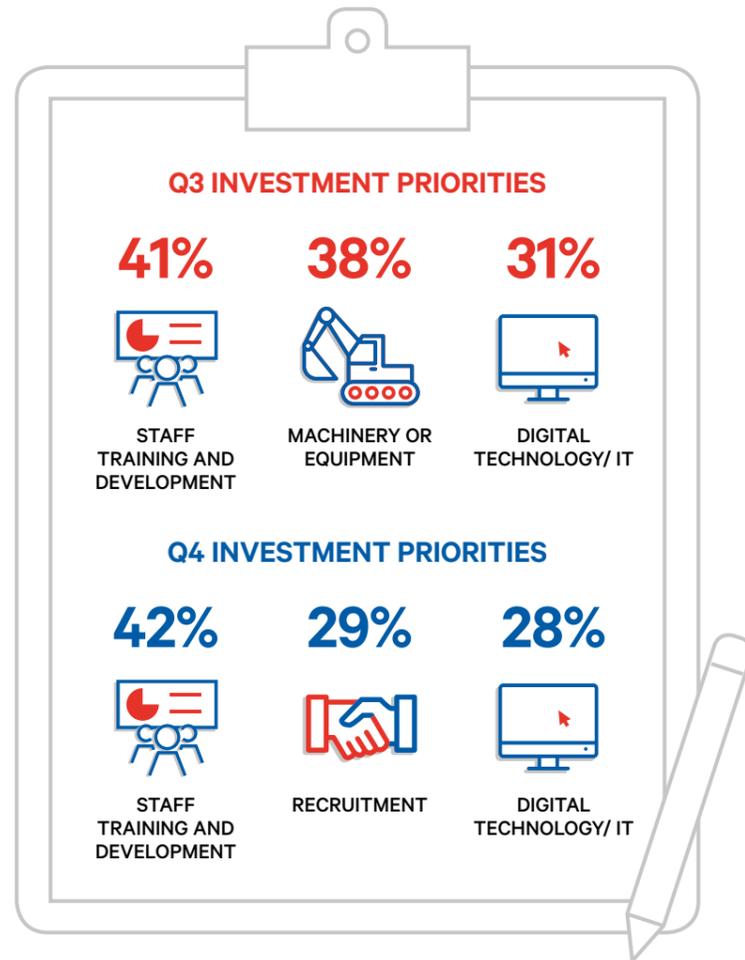
IMPORT
↑ 6% FROM Q1 2019
TO Q3 2019

SKILLS AND DIGITALISATION AT THE TOP OF THE SHOPPING LIST

SMEs are choosing to prioritise their skills and digital competencies. The data reveals that spend in Q3 and planned spend in Q4 is being allocated into longer-term business plans designed to maintain staff development and IT equipment.

SMEs may be responding to ongoing recruitment difficulties caused by historically high employment levels and have reprioritised attracting top talent for the coming quarter rather than focusing on machinery and equipment. This shift in thinking suggests that, no matter where Brexit goes from here, the ability to hire will be central to SME success.

In Q3, almost a third (30%) of SMEs cited a reduction in operating costs and a need to boost efficiencies as the primary reason for investing, while almost a quarter (21%) who invested did so to keep ahead of competitors and replace deteriorated equipment or technology.



PLANNED INVESTMENT SPEND

As the UK and the EU navigate a sensitive political period, this unpredictable environment is causing SMEs to be more cautious in their approach to investment.

Q3 findings reveal that the number of SMEs holding back investment due to economic uncertainty has risen. Significantly, the average amount SMEs plan to spend has also seen a decline of over 40 per cent when compared to the same period last year, from €142,839 in Q3 2018 down to just €79,927 in Q3 2019.



THE BARRIERS TO INVESTMENT

SMEs are being discouraged from investing by several factors, with the most cited reasons being:



AT A GLANCE

SMEs DIVERSIFY SUPPLY SOURCES AHEAD OF BREXIT



Almost two thirds of SMEs (64%) feel that Brexit is likely to have a negative impact on their business.



In preparation for Brexit, 38 per cent of SMEs say that they have established new supply sources for goods and 32 per cent say they have negotiated new agreements with buyers and suppliers.



A third of SMEs say they have not prepared in any way for Brexit.

THE SME CASHFLOW POSITION

Over a third (39%) of Irish SMEs are suffering from some form of cashflow problem, a 5 per cent increase from earlier this year (34%).
Larger businesses and those in the transport and wholesale sectors are more likely to avoid cashflow issues. This is possibly due to the nature of these businesses which have adapted to cope with cashflow problems as they are more prone to them.

THE KEY BUSINESS CHALLENGES IN Q3 2019

One in five (21%) SMEs said that rising costs are their biggest challenge this quarter. This is followed by increased competition from other firms (17%) and lack of skilled staff (14%).

These challenges perhaps reflect the wider experience of uncertainty currently impacting the Irish economy.

At sector level, there are several insights from the data which show the most pressing concerns unique to each field. For example, almost a third (29%) of manufacturing businesses believe rising costs in areas such as overheads and raw materials is their biggest challenge.

However, four in ten (40%) businesses in the transport sector are faced with the difficulty of increased competition from other firms.

THE TOP THREE CHALLENGES BY SECTOR

 CONSTRUCTION	29% Rising costs	18% Increased competition from other firms	15% Lack of skilled staff
 MANUFACTURING	29% Rising costs	22% Lack of skilled staff	14% Cashflow
 SERVICES	21% Increased competition from other firms	18% Rising costs	18% Late payment from customers
 TRANSPORT	40% Increased competition from other firms	20% Cashflow	20% Red tape / regulations
 WHOLESALE	22% Lack of domestic demand	20% Increased competition from other firms	11% Late payments / Exchange rate fluctuations



SPOTLIGHT ON BAD DEBT

Over a third of SMEs (35%) suffered from a bad debt in the past 12 months, a similar number to Q1 2019. The average amount written off as bad debt in 2019 Q3 was €15,633, a sizable sum depending on the size of the business.

With Brexit likely to cause considerable disruption to customers and suppliers in the UK, the chances of Irish SMEs incurring bad debts may increase.

35% OVER A THIRD OF SMEs SUFFERED FROM A BAD DEBT IN THE PAST 12 MONTHS



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 took place between 28th August and 4th October 2019 and respondent businesses had an average turnover of €3m.

ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services Ireland is a leading provider of financial support and funding solutions to Irish SMEs. The company helps businesses to thrive and grow in domestic and international markets by providing tailored and flexible funding solutions for a range of scenarios including cashflow funding, new equipment purchase, growth and expansion, management buy-ins and buy-outs, refinancing, corporate restructuring and mergers and acquisitions.

Bibby Financial Services Ireland's funding portfolio includes confidential invoice, trade and export finance, foreign exchange services, bad debt protection and specialist funding for a range of sectors. With a 95% client satisfaction rating, our clients have confidence that we support their business.

Bibby Financial Services Ireland is part of Bibby Financial Services Group, a leading global financial services partner operating in 40 locations across 14 countries. With 40 years' experience, the business has a funding capability that exceeds £1 billion and an annual collective client turnover of £10.1 billion.

To find out more about Bibby Financial Services, visit:

www.bibbyfinancialservices.ie

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