



SMEs:
**FOCUSING ON
GROWTH FOR
2022**

OCTOBER 2021

BIBBY
FINANCIAL SERVICES



FOREWORD

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Looking back at 2020, it is safe to say that there has been no year quite like it in memory. We have come a long way to get to this point in the pandemic, through dark days and anxious nights. Since the outbreak of Covid-19, the economy has experienced a series of ups and downs, reflecting the stop-start nature of society over the past 18 months as restrictions to our daily lives became (almost) normal.

The global development of vaccinations to tackle the virus has been nothing short of remarkable with Ireland in top place in Europe in terms of vaccination rates, with over 91.5% of adults now fully vaccinated and the percentage of the total population fully vaccinated at 74%.

I believe there is genuine light at the end of the tunnel both for businesses and the economy. The times are changing and the world has a different feel to it now with hopes that we can begin to move forward with confidence.

The indicators are that Ireland is on a good path, with the latest quarterly bulletin by the Central Bank stating that a stronger than expected recovery forecast will result in the domestic economy returning to pre-pandemic levels this year.

Government support measures introduced during the pandemic were absolutely necessary to support the economy and

have no doubt saved many businesses, but they were only ever intended as short-term measures and we have yet to see the true extent of the pandemic's impact on the business landscape.

To understand the challenges and opportunities facing Irish SMEs at this pivotal moment in time, we undertook a study of 200 businesses in September 2021. Notwithstanding some challenges, our findings reflect a significant sense of confidence as we emerge from restrictions and move forward.

The majority of the businesses (84%) we spoke with said they are confident about opportunities as we head into 2022, and the same proportion said they plan to invest over the coming months. Such expenditure will act as a huge boost to the economy, and a catalyst for employment.

Interestingly, it also seems that the pandemic has encouraged many to adapt the way they operate. Almost two-fifths say they plan to provide employees with greater flexibility, highlighting a much needed focus on striking the right work-life balance, while maintaining productivity. Additionally, one third of respondents say that as the world of work is changing, working remotely will become normal for their business model.

There is also keen focus on transitioning towards digital technology to meet changing customer demands.

It's true that challenges from pre-Covid times also remain, such as Brexit and disruptions to trade flows. Unfortunately, the pandemic

has further exposed the intricacies of supply chains, causing unprecedented trade disruption right across the world. Irish businesses are dealing with a critical supply chain squeeze that is further hampering business activity. Longer lead times, shortages in components and raw materials, and the inherent container shortage are all leading to increased costs, which are certainly set to continue in the short term at least.

As businesses recover and get back on their feet, it's concerning that a third say their greatest challenge is rising business costs, while almost a quarter say they need cash flow support more than ever before.

However, where there is challenge, there is opportunity and support. As we near the end of restrictions, the private and public sectors remain focused on providing this support, enabling SMEs to do what they do best: drive employment, boost output, and fulfil consumer demand.

This help comes in many forms, be it through the provision of funding to unlock cash flow, supporting businesses in overcoming the complexities of trading overseas in a post-Brexit world or helping SMEs to understand changing customer behaviours and transitioning to digital operating models.

Though times have certainly been more testing than ever before, I believe that Irish SMEs are now on the cusp of a strong recovery as we look towards 2022.

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EXECUTIVE SUMMARY

BFS' research among Irish SMEs reveals a significant sense of optimism for the business community as we finally start to see light from the dark days of the pandemic. While it is evident that the impact of the pandemic has been significant, many are eager to plan ahead and take advantage of returning consumer demand over the coming months as we see an end to restrictions.

Notwithstanding growing optimism, key fiscal and operational challenges remain for Ireland SMEs. This report identifies three areas of focus for business owners, advisors, private and public sector organisations to consider over the coming months in order to support and encourage SME growth into 2022, as the Irish economy continues to recover and rebuild.

1 OVERCOMING THE FINANCIAL BARRIERS TO RECOVERY AND PROTECTING FUTURE REVENUE

The true economic impact of the pandemic is unlikely to be known for some time. However, it is evident that managing cash flow and accessing working capital is a key consideration for SMEs moving forward. Findings show, almost a quarter of SMEs (22%) need cash flow support more than ever before. Even more worryingly, 30 per cent say they have written off sums of bad debt, with an average sum of €28,164 lost, representing a significant economic leakage. Protecting new and existing revenue streams should be a key focus for business owners over the coming months.

While government supports have been a lifeline for a significant number of businesses, the phased easing of fiscal support measures including the Employer Wage Subsidiary Scheme, the Covid-19 Credit Guarantee Scheme and various grants will be critical in helping the Irish economy to sustainably rebuild. This will be augmented with help from the private sector to provide longer-term funding support to these businesses. Additionally, considering solutions that protect against bad debt and offer access to working capital available from the private sector will provide both certainty of payment, and sustainable sources of liquidity for businesses.

2 STABILISING SUPPLY CHAINS

A fundamental problem facing SMEs is the scale of disruption caused to supply chains throughout the pandemic. A quarter of SMEs (26%) - rising to 41 per cent for wholesale businesses - say they are currently experiencing supply chain issues. Coupled with the scale of bad debt written off, now is the time for businesses to consider how they can better manage supply chains and develop closer relationships with customers and suppliers.

SMEs are, by their very nature, at their best when they are leveraging the ecosystems in which they operate in, whether it's joining forces to cross-promote products and services, or networking to find new suppliers and customers, collaboration between SMEs will be a vital tool for a more sustainable future. With the majority of SMEs believing pre-pandemic levels of demand will return in 2022, now is the time for SMEs to plan ahead, build their networks, and consider new distribution methods and sources of supply.

3 FUTURE OF FLEXIBLE WORK AND SUPPORTING WELLBEING

The way we work continues to evolve, and findings show the pandemic has provided much food for thought for businesses in embracing ways to improve, whether this is through the use of digital technology, working remotely, or providing greater flexibility to employees.

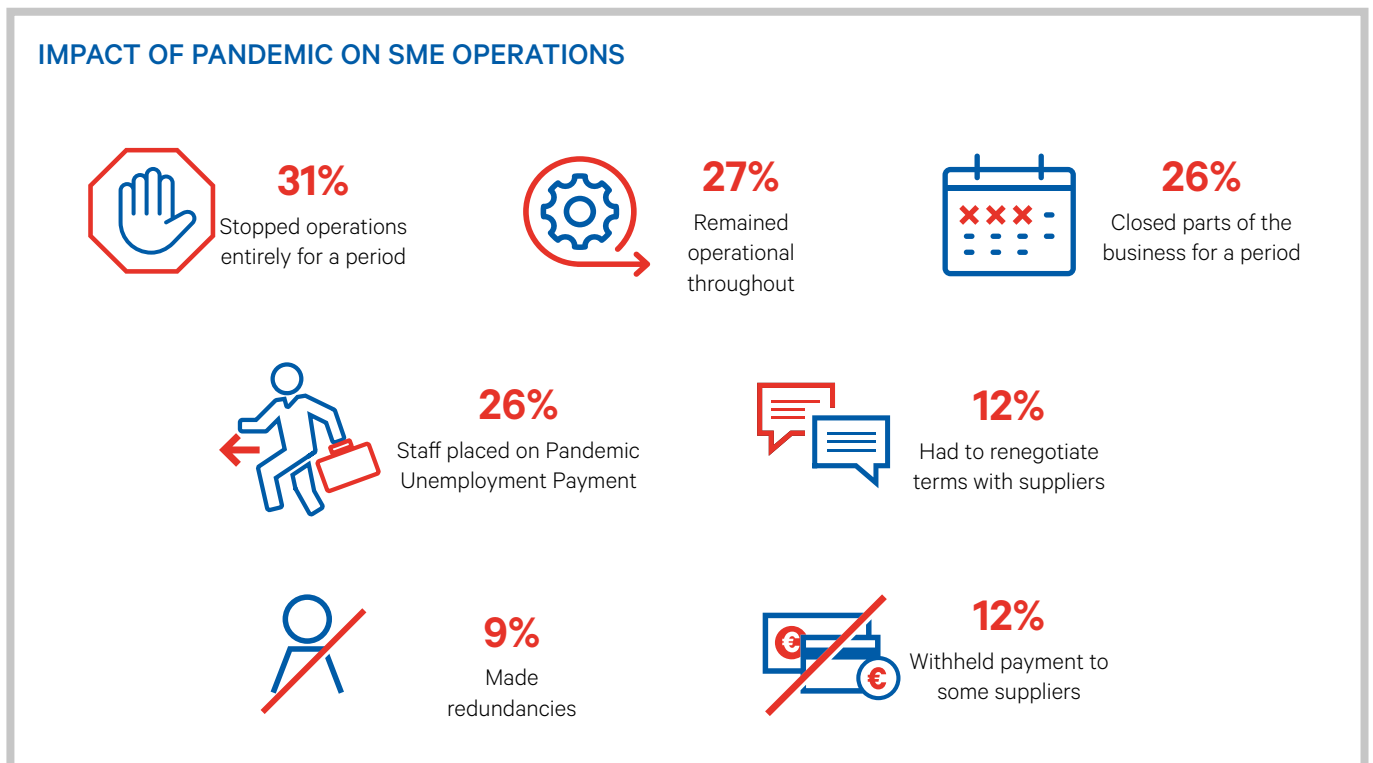
Small businesses have shown tremendous resilience in the face of numerous challenges since the pandemic began. Amid the backdrop of a wider international mental health crisis as a result of isolation and restrictions to daily-life, SME owners are experiencing specific challenges with regard to shouldering the responsibility of keeping their businesses afloat and retaining jobs for employees.

It is vital that businesses and government work-together, to ensure SME owners and their employees can work effectively in an evolved workplace without entirely sacrificing their work-life balance.

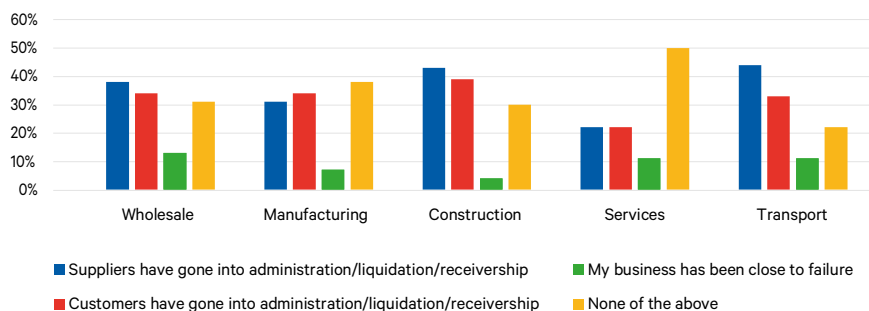
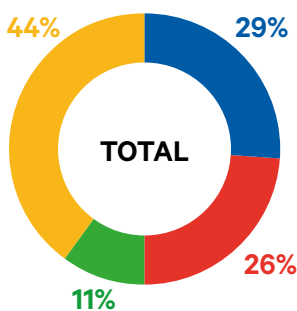
IMPACT ON SME OPERATIONS AND SUPPLY CHAINS

SMEs have been forced to make a number of changes to their businesses in order to survive the past 18 months. This includes leveraging government support measures, closing all or parts of their operations, and renegotiating terms with suppliers. Only a quarter (27%) of businesses remained fully operational throughout the pandemic, rising slightly higher in services and transportation businesses. Not surprisingly construction and wholesale businesses stated the highest closures over this timeframe, 69 per cent and 82 per cent respectively.

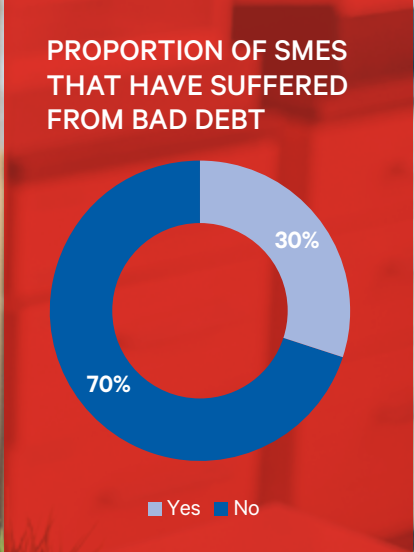
Among the pandemic's most problematic impacts has been disruption to supply chains. More than a quarter (29%) say suppliers have gone into administration, liquidation or receivership, with this rising to 43 per cent in the construction sector and to 38 per cent for wholesale businesses, highlighting the fragility of supply chains within the distribution sector in the wake of the pandemic. Further demonstrating the supply chain impact of the pandemic, more than one in ten (12%) say they have withheld payments to suppliers. Less than one in ten made redundancies (9%), with this rising to 14 per cent for businesses in the manufacturing sector.



IMPACT ON SME SUPPLY CHAINS



IMPACT ON BUSINESS PAYMENTS

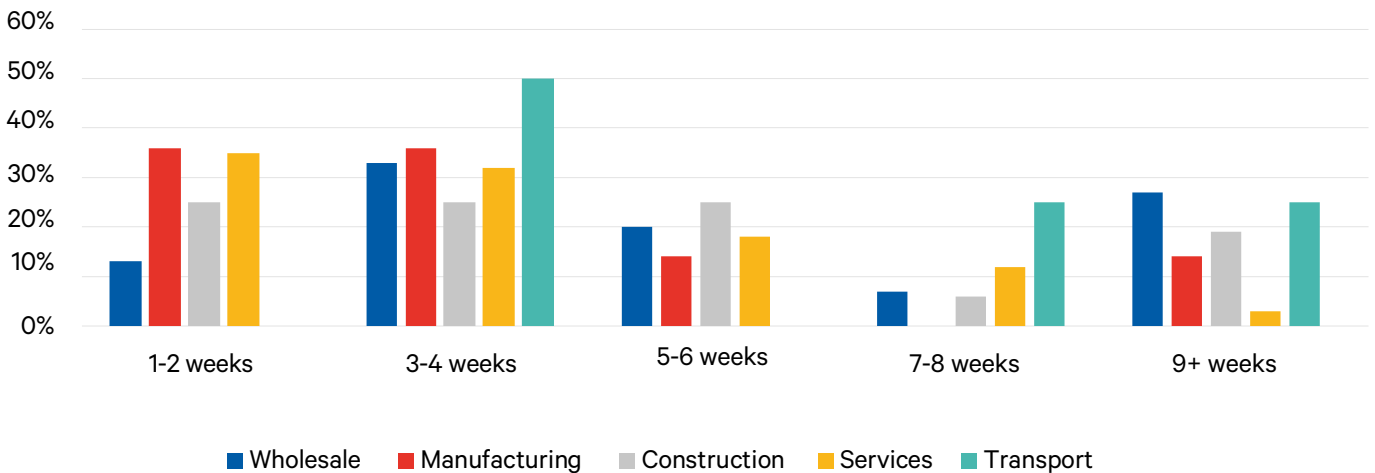


The swift decline in demand for goods and services following the wave of lockdowns has caused ripples throughout the supply chains of businesses across the world.

The subsequent impact on the flow of payments between Irish businesses is expected, but its effects are likely to be long-standing. Findings show:

- The already chronic issue of late payment has worsened with two-fifths (45%) stating that it is taking longer for business customers to pay since the pandemic began;
- On average, payment has been delayed by almost five weeks for those experiencing extended payment times (4.98);
- Bad debt, owing to the inability to pay or protracted default of debtors, is an issue for a proportion of SMEs, with a third writing-off sums owed (30%) and an average of €28,164 lost per business;
- The wholesale sector has been disproportionately impacted by payment issues, with 47 per cent of those businesses suffering from bad debt, and on average, payment has been delayed by over six weeks (6.33).

PAYMENT DELAYS (SECTOR)



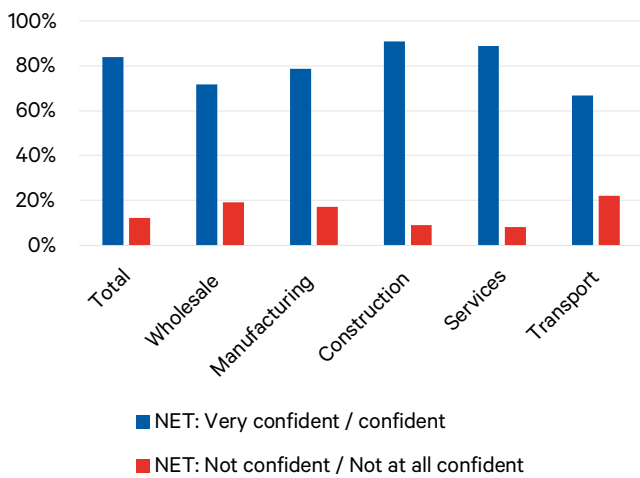
BUSINESS OUTLOOK FOR 2021

Despite challenges remaining, the successful vaccination roll-out, coupled with the looming end of lockdown restrictions, has stimulated optimism amongst many SMEs. The majority of businesses (84%) say they are either confident or very confident about their business prospects for the remainder of the year and into 2022, with 54% identifying new customers as a priority area for growth.

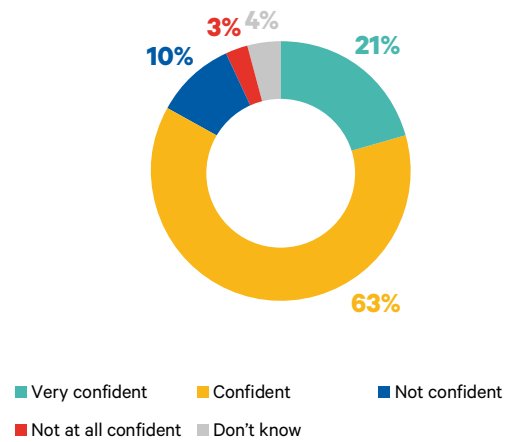
More than a quarter (28%) say that demand has not been impacted by the pandemic, for those impacted almost half (45%) of SME businesses expecting a return of demand believe this will happen within the next six months.

With the remaining third (35%) of businesses don't believe return to pre-pandemic levels will recover until after Q1 2022, this sentiment is felt strongest by transport and wholesale businesses who believe that demand will not return until at least August 2022.

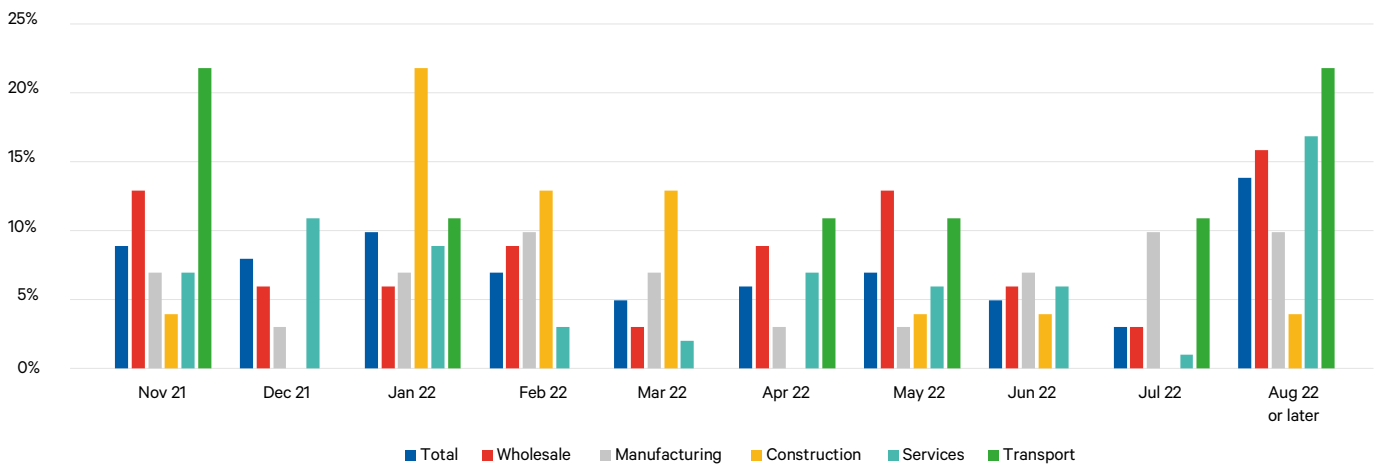
SME CONFIDENCE IN BUSINESS PROSPECTS (SECTOR)



SME CONFIDENCE IN BUSINESS PROSPECTS IN 2021 (ALL)



SME EXPECTATIONS OF DEMAND RETURNING TO PRE-PANDEMIC LEVELS (SECTOR)



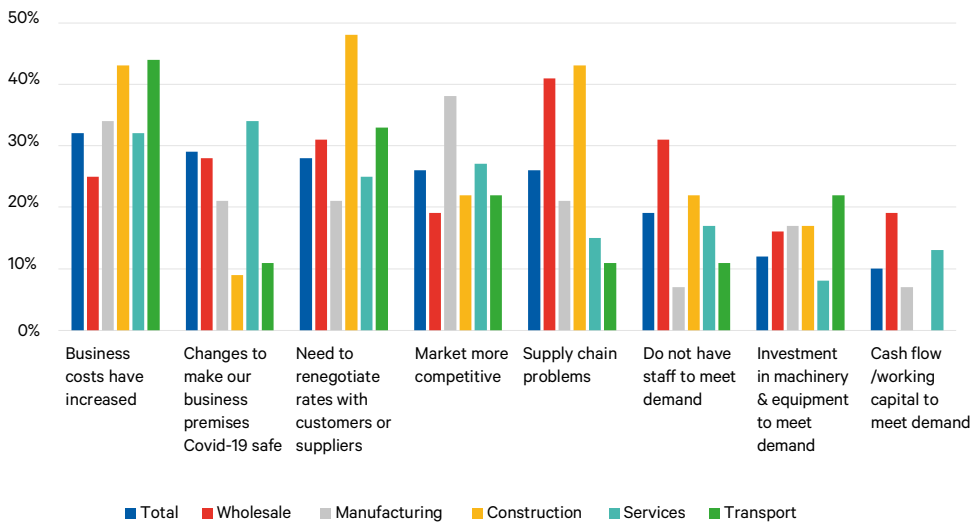
KEY CHALLENGES & OPPORTUNITIES



While challenges vary by sector, common themes have emerged. Business costs, increasing competition and supply chain pressures are seen as the key issues facing businesses over the coming months. Conversely, the prospect of new customers is overwhelming seen as the key opportunity for businesses as return starts to return.

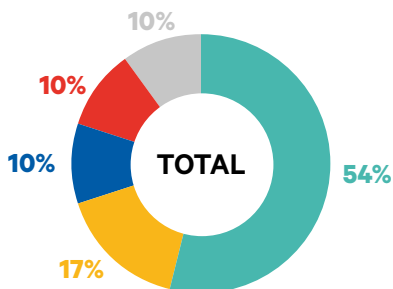
Despite further guidance from the government on returning to workplaces, almost a third (29%) say making their business premises Covid-19 safe is something they will need to consider carefully. While generally welcomed by businesses across the country, it will still take some time for many to reintegrate colleagues and customers.

SME VIEWS ON KEY BUSINESS CHALLENGES (SECTOR)

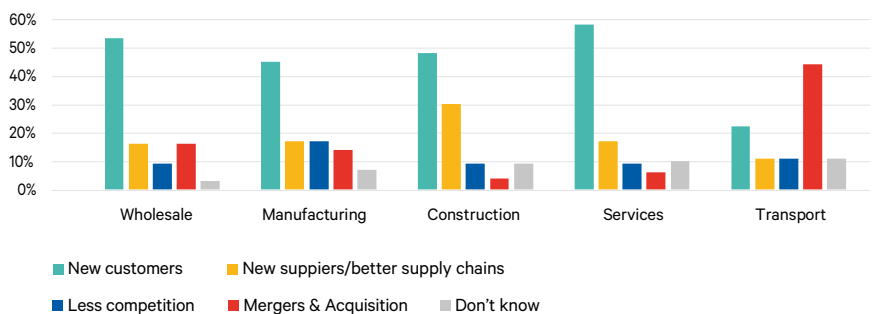


32%
OF SMES SAY INCREASING BUSINESS COSTS ARE A KEY CONCERN FOR THEM

SME CONFIDENCE IN BUSINESS GROWTH



BUSINESS GROWTH OPPORTUNITIES BY SECTOR



MERGER AND ACQUISITION OPPORTUNITIES

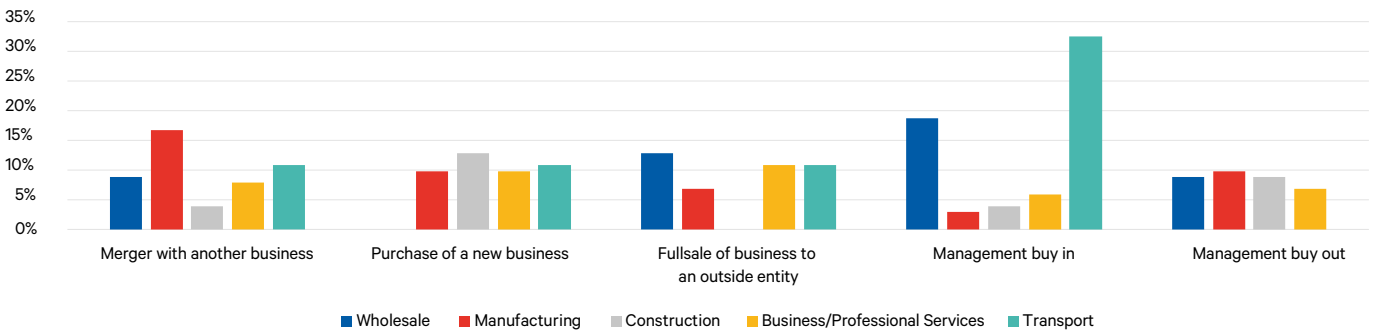
The pandemic has offered businesses an opportunity to reflect, with some entrepreneurs and business owners deciding whether it's time to restructure, refocus, innovate and grow, while others have come to the conclusion that it's time to exit their business totally.

As a result, the market has seen a significant increase in mergers and acquisitions (M&A) activity as well as management buy-outs (MBO) and management buy-ins (MBI).

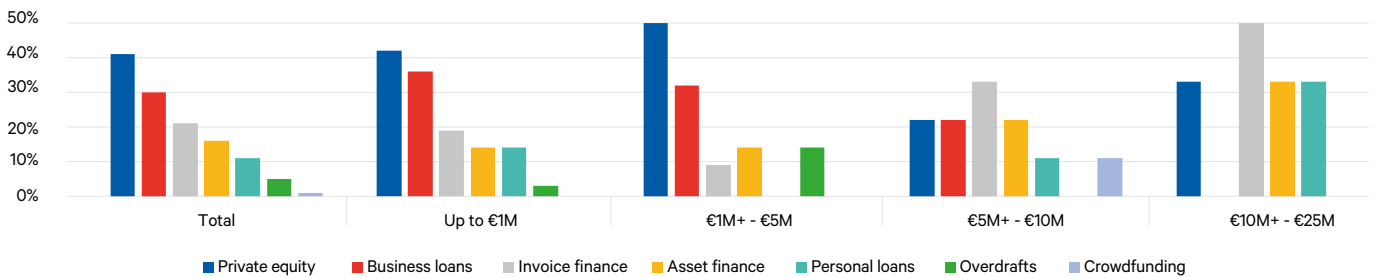
Over a third businesses (36%) say they are considering merger and acquisitions opportunities in the coming months. One in ten (9%) SME owners are considering a management buy-in, rising to 19% wholesale and 33% for transportation businesses.

When it comes to funding transactions, SME owners consider private equity, business loans and invoice finance as the top three ways to finance merger or acquisition activity. Interestingly, this varies by turnover, with smaller businesses stating a turnover of up to €5m leaning towards private equity and business loans, while larger companies with a €5m + turnover say they would be focused on invoice finance solutions.

M&A ACTIVITY BY SECTOR



FUNDING OPTIONS BY TURNOVER



THIS NEW REPORT FROM BIBBY FINANCIAL SERVICES IRELAND SHOWS HOW OUR PARTNERSHIP WILL BENEFIT A CHANGING ECONOMIC LANDSCAPE IN RESPONSE TO A SIGNIFICANT 18 MONTHS. THOUGH SOME CHALLENGES MAY REMAIN AROUND SUPPLY CHAINS, RECRUITMENT AND BUSINESS COSTS, IT IS CLEAR THAT BUSINESSES ARE LOOKING TO GROW AFTER SOME DIFFICULT TIMES BOTH ORGANICALLY AND THROUGH MERGERS AND ACQUISITIONS.

OUR RELATIONSHIP AND PRODUCT OFFERING WITH BIBBY FINANCIAL SERVICES CAN CLEARLY AID A MULTITUDE OF BUSINESSES AS INDICATED FROM THE REPORT. WITH A LARGE NUMBER OF BUSINESSES LOOKING TO FUND GROWTH THROUGH PRIVATE EQUITY, IT IS CLEAR THERE IS A PLACE FOR INNOVATION IN STRUCTURING SENIOR DEBT DEALS, USING INVOICE FINANCE ALONGSIDE BANK DEBT TO EFFECTIVELY AND EFFICIENTLY FUND BUSINESS GROWTH, ACQUISITIONS, MBOS AND LBOS. THE REPORT SHOWS A LARGE NUMBER OF SME OWNERS WITH A TURNOVER OF OVER €5M AND WE BELIEVE OUR PARTNERSHIP WITH BIBBY, CAN HELP SUPPORT THESE COMPANIES WITH THEIR FINANCING NEEDS. WE ARE LOOKING FORWARD TO EXPANDING FURTHER INTO THIS MARKET TOGETHER.

MAGS BRENNAN, HEAD OF BUSINESS BANKING, PERMANENT TSB

INVESTMENT INTENTIONS

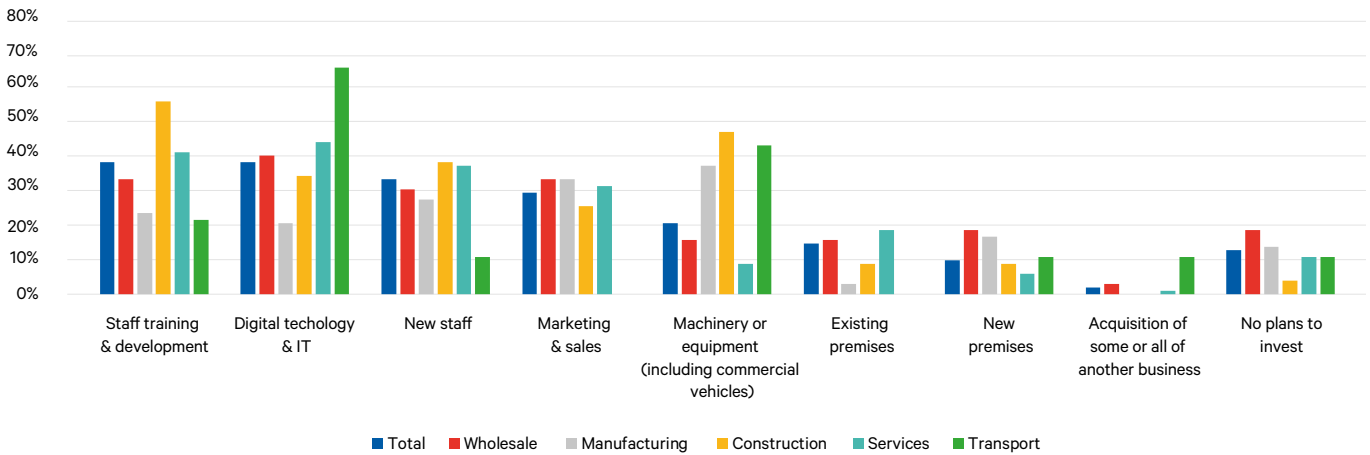
87%

OF BUSINESSES
PLAN TO INVEST
OVER THE COMING
MONTHS AND
INTO 2022

Overall, the majority of businesses (87%) plan to invest over the coming months and into 2022, with staff training and development, digital technology and IT featuring along with recruitment of new staff as the top three areas of capital expenditure.

On average, SMEs plan to invest €114,338, with this rising to €170,342 for service businesses.

EXPECTED AREAS OF INVESTMENT



EXPECTED INVESTMENT BY SECTOR

€54,617



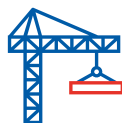
Wholesale

€73,842



Manufacturing

€79,650



Construction

€170,342



Services

€88,333



Transport

€114,338



Average

FUTURE WAYS OF WORKING

If one positive can be taken from the pandemic's impact on business, it is the fact that it has encouraged businesses to consider new ways of working.

Notwithstanding Zoom or Microsoft Teams fatigue experienced by many, the pandemic has expedited the use of new technology by firms big and small, and encouraged SMEs to consider new distribution methods, such as home delivery and e-commerce sales. When reflecting on how their businesses have changed since the pandemic began, overwhelmingly business owners feel confident about the changes they have made.

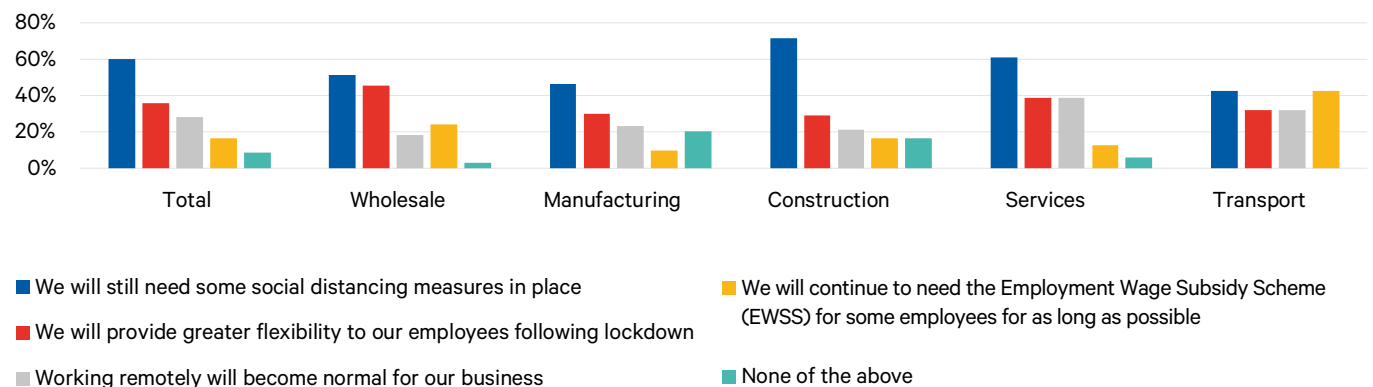
SMEs widely acknowledge that as consumers have become more accustomed to better customer service, faster delivery and digital transactions, it is obvious that offering customers the ability to transact and interact through digital technology should be a key focus for businesses moving forward.

Additionally, the pandemic has exposed the intricacies of supply chains which is causing unprecedented trade disruption not just in Ireland but across the world. Compounded by the challenges of Brexit, Irish businesses trading at home and abroad are pivoting and adapting quickly to the critical global supply chain squeeze by creating new supplier relations, changing inventory and services to ensure they are equipped to take advantage of any new opportunities that arise.

SME VIEWS ON MARKET / SECTOR CHANGES

	Total	Wholesale	Manufacturing	Construction	Services	Transport
Our customers expect to be able to transact digitally more than ever	38%	31%	41%	48%	38%	22%
Our customers have higher expectations of the products and services we provide	26%	25%	21%	17%	28%	22%
Our business is well equipped to take advantage of opportunities that arise over the coming months	26%	25%	21%	39%	24%	11%
Our suppliers have changed the goods or services they provide due to the pandemic	25%	38%	21%	22%	23%	33%
We need cash flow support more than we did before the pandemic	22%	28%	17%	26%	22%	11%
We feel we need to accept any orders/new business right now, rather than choosing the ones that are best for my business	22%	25%	28%	17%	22%	22%
We have changed the goods or services we provide based upon the pandemic	14%	22%	7%	9%	11%	33%
None of the above	11%		17%	9%	14%	

SME EXPECTATIONS FOLLOWING LIFTING OF ALL RESTRICTIONS (SECTOR)

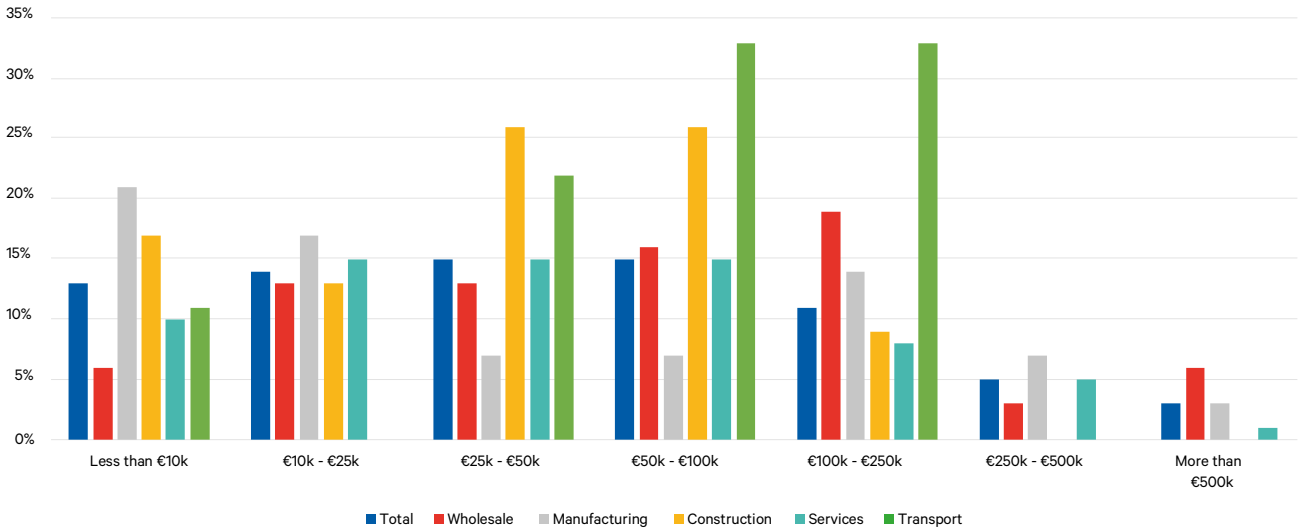


SUPPORT FOR SMES

Findings show that almost two-fifths (38%) say they will require additional funding into 2022 as they look beyond the pandemic and return to future growth. Such funding will be vital in enabling businesses to deal with inflation, overcome supply chain disruptions, ramp up recruitment to fulfil demand, and to invest.

With many SMEs taking advantage of government supports over the past 18 months, it will be critical that financial supports remain in some form for businesses to address the challenges that lie ahead such as growing price inflation. It's here that the public and private sector are well placed to offer additional support.

SME EXPECTATIONS FOR FINANCING REQUIRED INTO 2022 (SECTOR)



38%
 SAY THEY REQUIRE
 ADDITIONAL
 FUNDING AS THEY
 START TO LOOK TO
 FUTURE GROWTH

ABOUT THE RESEARCH

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 and fieldwork took place between 20 – 30 September 2021. Respondent businesses had an average annual turnover of €3.2m.

ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services Ireland (BFSI) is a leading provider of financial support and funding solutions to Irish SMEs. We're helping businesses to grow in domestic and international markets by providing tailored and flexible funding solutions for a range of scenarios including cash flow funding, new equipment purchase, growth and expansion, management buy-ins and buy-outs, refinancing, corporate restructuring and mergers and acquisitions.

BFSI is part of Bibby Financial Services (BFS) is part of BFS group, a leading independent financial services partner to over 9,000 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.

In February 2021, joined forces in an exclusive partnership to offer Permanent TSB customers an enhanced range of funding solutions designed to improve cash flow and fund their growth ambitions.

To find out more about Bibby Financial Services, visit:

www.bibbyfinancialservices.ie

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