

SME **Q2 2023** Barometer

An SME Led Recovery

TRANSPORT



paragon



A word from **Dale Trenam**

Head of Transport

When the UK economy returns to growth, it will be thanks to the dedication and skill of SMEs – and transport SMEs are set to play a vital role in this process.

Following the challenges of recent years, transport SMEs are preparing for the future. New polling commissioned by Paragon Bank, where I am Head of Transport Finance, and conducted by Opinium has identified the proactive steps businesses are taking, providing a behind the scenes look at what is in store for the sector.

Published today in our new report, An SME Led Recovery, the data finds that transport SMEs are confident, investing and looking to the future – creating the conditions necessary for the economy to bounce back.

With the positive news that transport SMEs are planning to invest and grow their operations, it is vital that they can access the funding they need to achieve their goals and fulfil their role in driving forward economic recovery.

As SME lending specialists, the Paragon team works with businesses daily – providing us with a first-hand understanding of not only the sector, but also the requirements of individual businesses. By doing so we can develop bespoke deals to ensure that transport SMEs can acquire the assets they need in a way that supports their growth plans.

After the challenges of recent years, we can now see the beginnings of economic revival and, as An SME Led Recovery shows, transport SMEs are ready to play a leading role.

Plans for investment

Transport SMEs are planning to increase investment over the next six months, with fresh spending planned and under consideration across key operational areas.

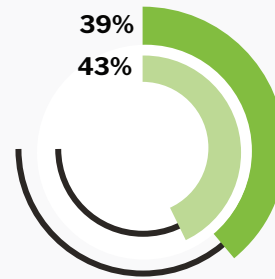
The renewed investment will also see the number of transport SMEs investing in electric vehicles rise from 18% in the last six months to 31% across the next six – higher than the proportion of firms that are due to invest in HGVs and LCVs.

The transport sector has also shown interest in continuing equipment and machinery asset investment, with 39% and 22% respectively responding positively.

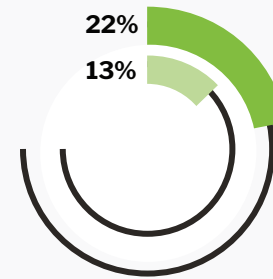


Past vs. planned investment

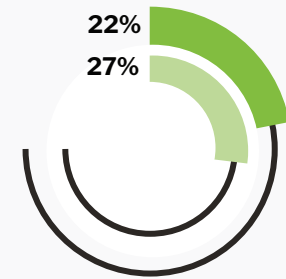
■ Last six months ■ Next six months



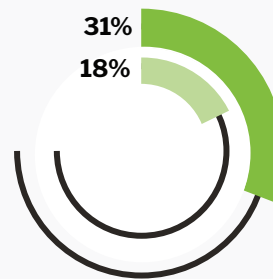
Equipment



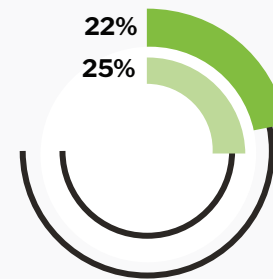
Machinery



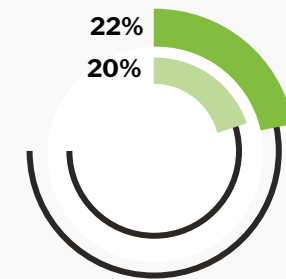
Recruitment



Electric Vehicles



HGVs



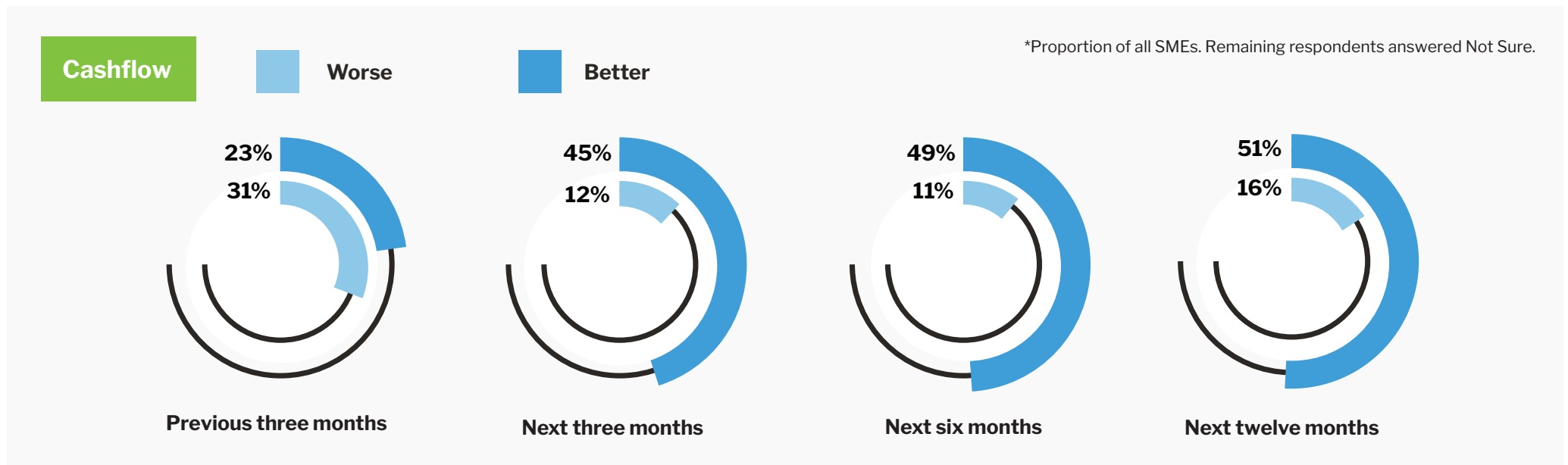
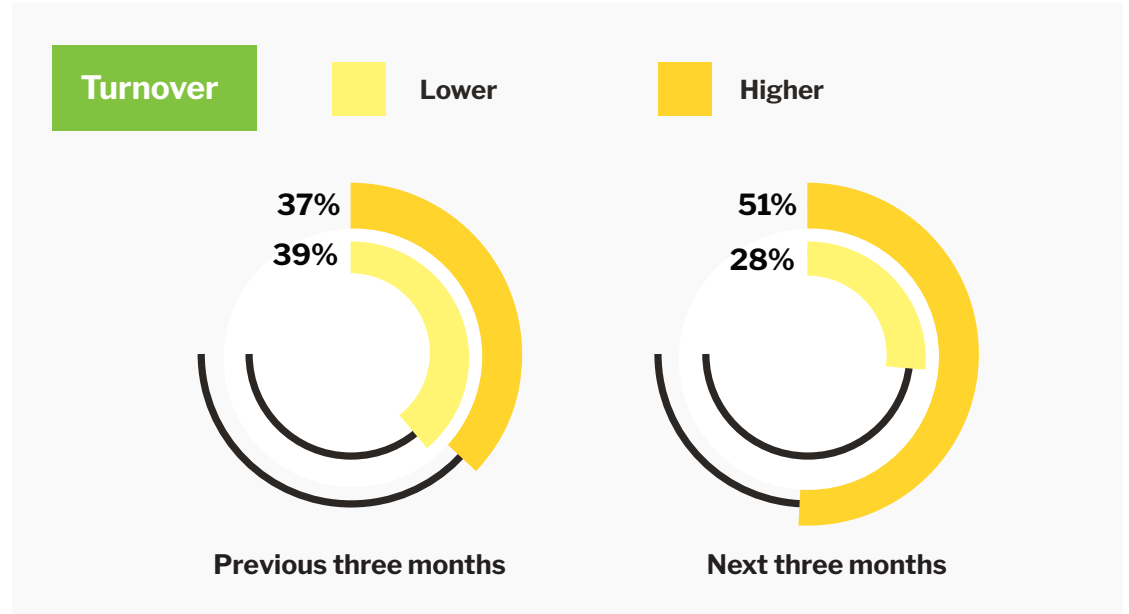
LCVs

Cashflow and turnover improvements

Plans to increase investment are matched by the expectations of transport SMEs for strong improvements to cashflow over the next year.

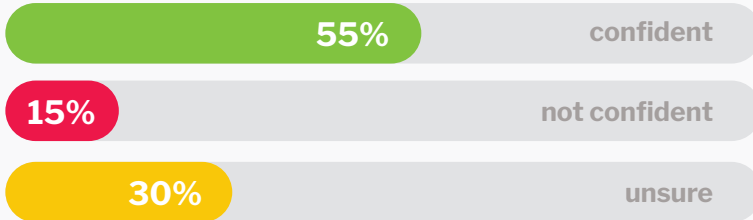
Whilst only 23% of the firms surveyed say their current cashflow is better than it was three months ago, over half (45%) expect it to increase over the next three – and this rises again to 49% in six months and then to 51% across the year ahead.

Turnover is also set to improve – 44% of businesses reported rising turnover levels during the first quarter of the year, with 47% expecting turnover to improve further during the second quarter, compared to 27% that forecast a fall.

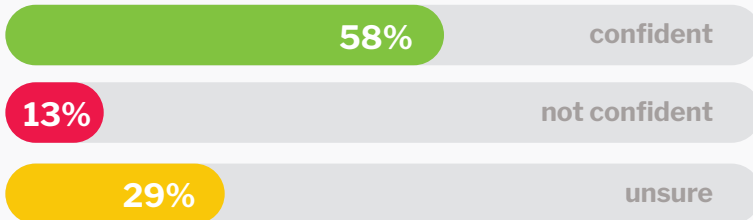


Confidence in the next three months

Own Business



Own Sector



UK Economy



*Other respondents Prefer not to Say.

Renewed confidence

Transport SMEs expressed confidence in their prospects for their own businesses and the sector in which they operate but were less confident about the macro environment. Over half said they were confident in their own business (55%) and their sector (58%) in the next three months, compared to 15% and 13% respectively that were not confident.

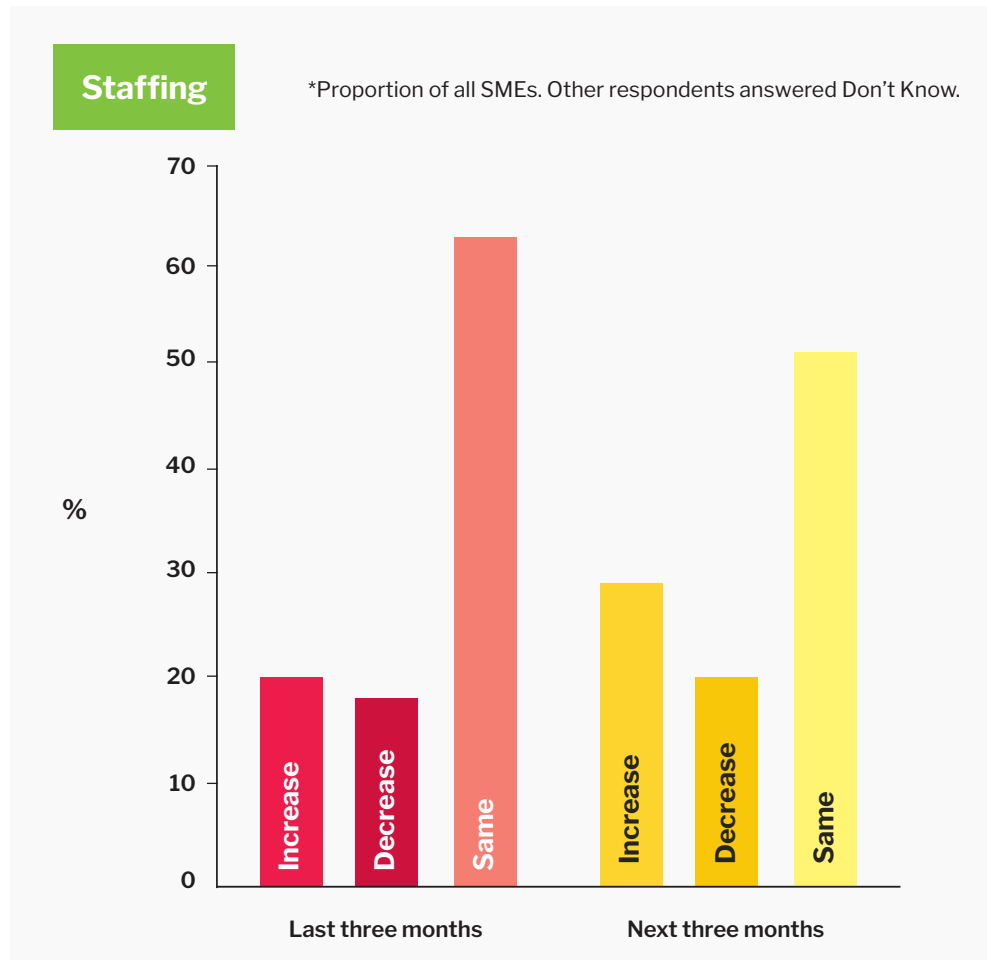
Confidence was less strong in the UK economy, with only 39% of transport SMEs surveyed expressing confidence.



Staffing increases

Along with increased asset investment and improved cashflows, transport SMEs are also planning to increase their full-time work forces to meet the needs of increased activity. Over the next three month 29% of businesses planning to recruit, an increase from the 20% who have recruited over the last six months, compared with 20 planning on reductions.

The proportion of businesses seeking to increase their workforces may reflect a skills shortage, with SMEs seeking to fill gaps in their operations in the months ahead.



Planned financing

The research also found that 44% of transport SMEs sought additional financing over the last three months, with 52% of those businesses seeking over £100,000.

While 5% of this group received no additional financing, 17% received some of the finance they were seeking, and the remaining 22% received all the financing they sought.



Financing sought

Under £50,000	<div></div>	27%
£50,001 to £75,000	<div></div>	5%
£75,001 to £100,000	<div></div>	14%
£100,001 to £250,000	<div></div>	16%
£250,001 to £500,000	<div></div>	25%
£500,001 to £1,000,000	<div></div>	9%
£1,000,001 to £2,500,000	<div></div>	0%
More than £2,500,000	<div></div>	2%

Financing received

Under £50,000	<div></div>	35%
£50,001 to £75,000	<div></div>	35%
£75,001 to £100,000	<div></div>	18%
£100,001 to £250,000	<div></div>	6%
£250,001 to £500,000	<div></div>	6%
£500,001 to £1,000,000	<div></div>	0%
£1,000,001 to £2,500,000	<div></div>	0%
More than £2,500,000	<div></div>	0%

*Proportion of all SMEs. Remaining respondents answered Prefer not to say.

Business costs

Increases to vehicle fuel costs impacted 88% of transport SMEs over the previous three months, closely followed by vehicle maintenance with 85% reporting increases.

Asset and equipment cost increases affected 81% of firms surveyed. Transport SMEs also reported increases to staffing costs, with salaries increases reported in 72% of firms and 61% spending more on employee benefits.

Businesses not reporting increases to their operating costs may be a result of their benefiting from prior fixed-pricing agreements with suppliers covering the period in question.



	Fuel for vehicles	Employee salaries	Employee benefits	Raw materials	Premises rent / commercial mortgage	Production asset / equipment prices	Vehicle maintenance
Costs have decreased	5%	1%	1%	2%	2%	0%	0%
No Change	7%	27%	38%	23%	28%	19%	15%
Less than 10% Increase	18%	30%	17%	25%	20%	21%	27%
10%-20% Increase	37%	18%	17%	12%	11%	29%	26%
21%-30% Increase	10%	5%	6%	6%	9%	10%	11%
31%-40% Increase	9%	11%	4%	14%	7%	5%	10%
41%-50% Increase	4%	1%	5%	2%	4%	3%	3%
51%-60% Increase	2%	1%	0%	1%	3%	2%	8%

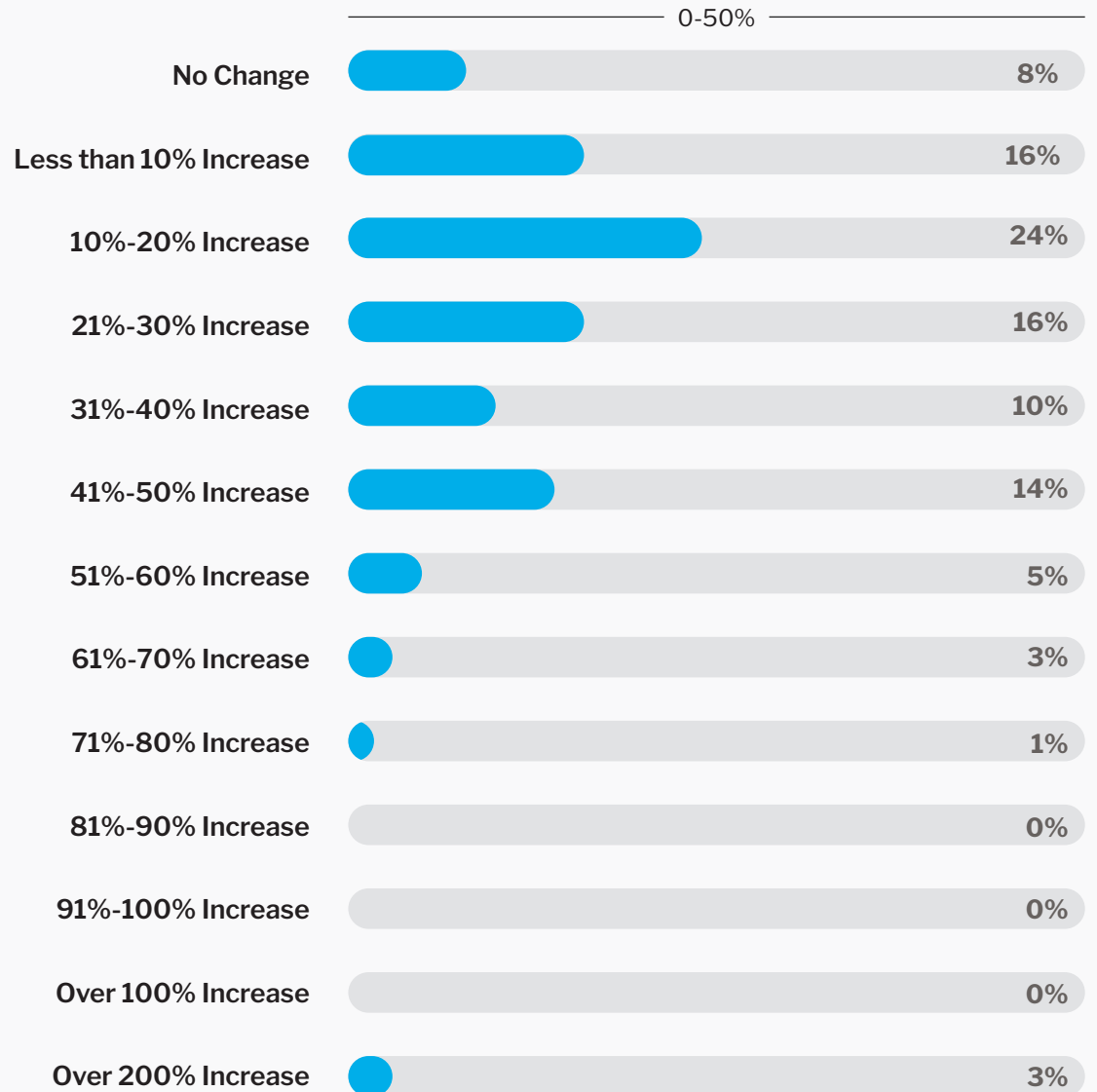
*Respondents asked to select all that apply to their business.

Energy costs

Over nine in 10 (92%) transport SMEs have reported increases in their energy costs in 2023, including 40% reporting an increase of between 20% and 50% - and 9% recording an energy bill hike in excess of this.

John Phillipou, Paragon Bank SME Lending Managing Director, said: "The cost of energy has negatively impacted the majority of business throughout the UK, even with the Government support package.

"However, it's also positive that companies have been looking at ways they can reduce their energy bills by making themselves more efficient. We have seen businesses invest in their operations with the addition of more energy efficient equipment, whilst we have also funded changes to premises, such as the addition of solar panels. These are positive steps towards a greener future."

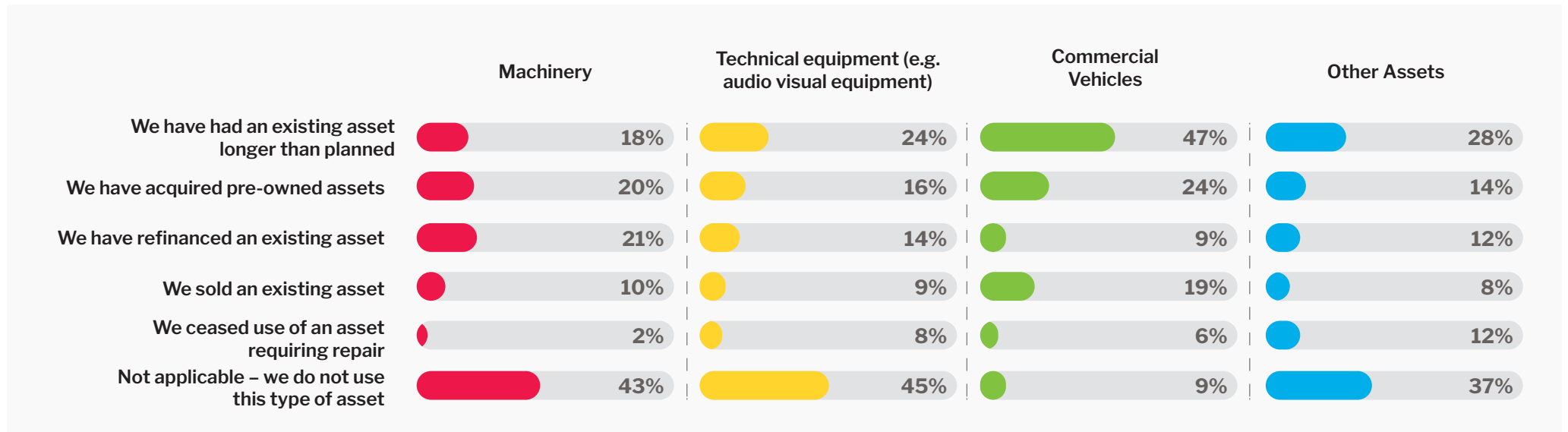


Supply chains

Transport SMEs have been forced to extend the life of their existing assets as global supply chain issues reduce the availability of new assets.

Almost half of transport SMEs (47%) had operated existing commercial vehicles longer than planned in the past 12 months, with 24% acquiring pre-owned assets due to the unavailability of new assets – and 9% reported that they had refinanced existing vehicles.

A similar story was reported with machinery, with 18% of SMEs running these for longer than planned and 20% acquiring pre-owned equipment.



Case study

Nottinghamshire van rental company Newark Vehicle Hire has secured a six-figure funding package from Paragon SME Lending to help expand its fleet, including the addition of electric vans.

The company has acquired eight Mercedes 315 Sprinter Vans and two Maxus Electric Vans. The latest additions bring its total fleet to 259 vehicles, including 23 electric vans.

Newark Vehicle Hire has ambitions for at least half of its fleet to be electric within the next five years. The electric vans will be primarily used for delivery companies to hire on a flexible basis.

The UK government has set a target that the sale of petrol and diesel vehicles will be banned by 2040. Some major manufacturers have committed to cease production of ICE vehicles before 2030. The government is also looking to reduce carbon emissions to zero by 2050, and electric vehicles will play a big role in that.

Newark Vehicle Hire was established in 2013 by Managing Director Dan Fletcher and employs nine people at its base in Abbots Way.

