

# SME **Q3 2023** Barometer

*Investing for success*





## A word from **John Phillipou**

*Managing Director of SME Lending*

Our latest report, *Investing for Success*, highlights how the country's SMEs are gearing up to invest in new assets and equipment to propel their businesses and achieve their ambitions.

With new data highlighting the drivers behind the renewed investment, the report demonstrates how businesses are taking pragmatic decisions to grow at a time when costs have continued to put pressure on bottom lines. With the proportion of businesses investing in green assets also rising, it is clear that SMEs are planning for the future.

Even after facing the continued challenge of cost increases, our report sees that SME confidence remains high – with a majority having a positive outlook for their business. The increasing confidence of businesses in both their sectors and the wider UK economy points towards future

success, and SMEs are right to start preparing their operations for the new opportunities in the year ahead.

By looking closely at four key sectors, *Investing for Success* provides vital insight into the potential of the UK economy – but if this is to be achieved it is essential that SMEs continue to be able to access funding.

With the proportion of SMEs seeking finance rising substantially to 75%, Paragon is ready to continue our work supporting SMEs to innovate, adapt, and grow.

Thanks to our expert teams, with in-depth knowledge of a range of sectors, Paragon is proud to back UK SMEs and we are looking forward to supporting their success.



## Investment plans

SMEs are planning to invest in a range of critical assets over the next six months.

Plant and machinery is set for a hike in investment - 39% of firms said they planned to invest in plant and machinery in the next six months, a 14 percentage point increase on the previous six month period.

An increasing proportion of SMEs are also planning to invest in electric vehicles, rising from 14% to 26%.

Other areas where businesses are looking to invest in the coming six months are general equipment (35%), recruitment (28%) and HGVs (28%).

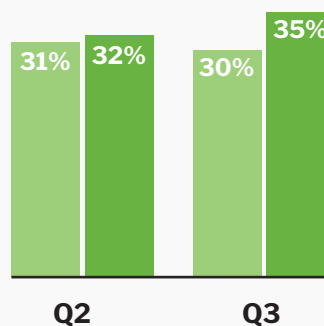


### Past vs. planned investment

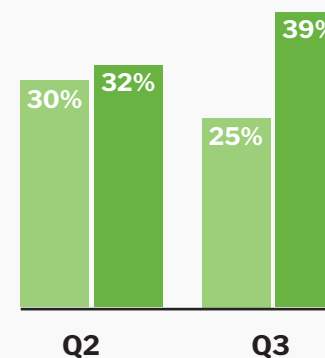
■ Last six months

■ Next six months

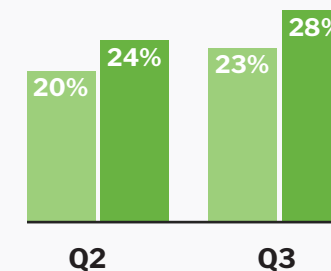
#### Equipment



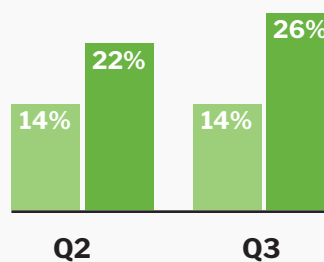
#### Plant and machinery



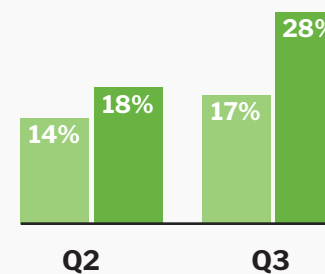
#### Recruitment



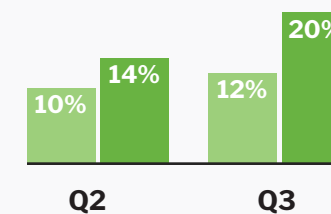
#### Electric vehicles



#### HGVs



#### LCVs



## Investment levels

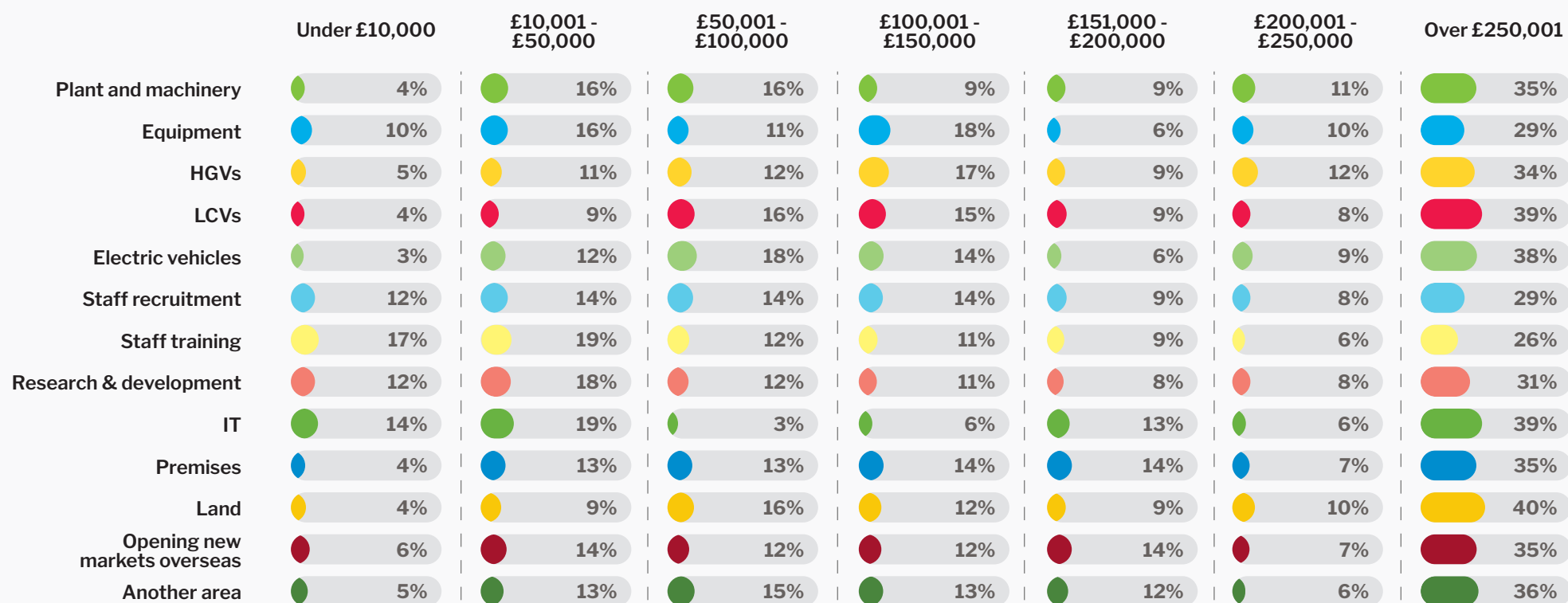
Of those businesses planning to invest, transport assets, IT, and land are set to lead spending by SMEs over the next six months.

Land is a priority for the largest proportion of firms, with 40% planning to spend over £250,000 over the next six months – closely followed by IT (39%).

The proportion of firms set to spend over £250,000 on electric vehicles was found to be only marginally lower (38%) than those that plan to spend the same amount on Light Commercial Vehicles (39%).

Alongside high levels of spending in staff recruitment (29%) and training (26%), substantial investment is also planned in equipment (29%) and plant and machinery (35%).

### Planned investment spend by SMEs in the next six months



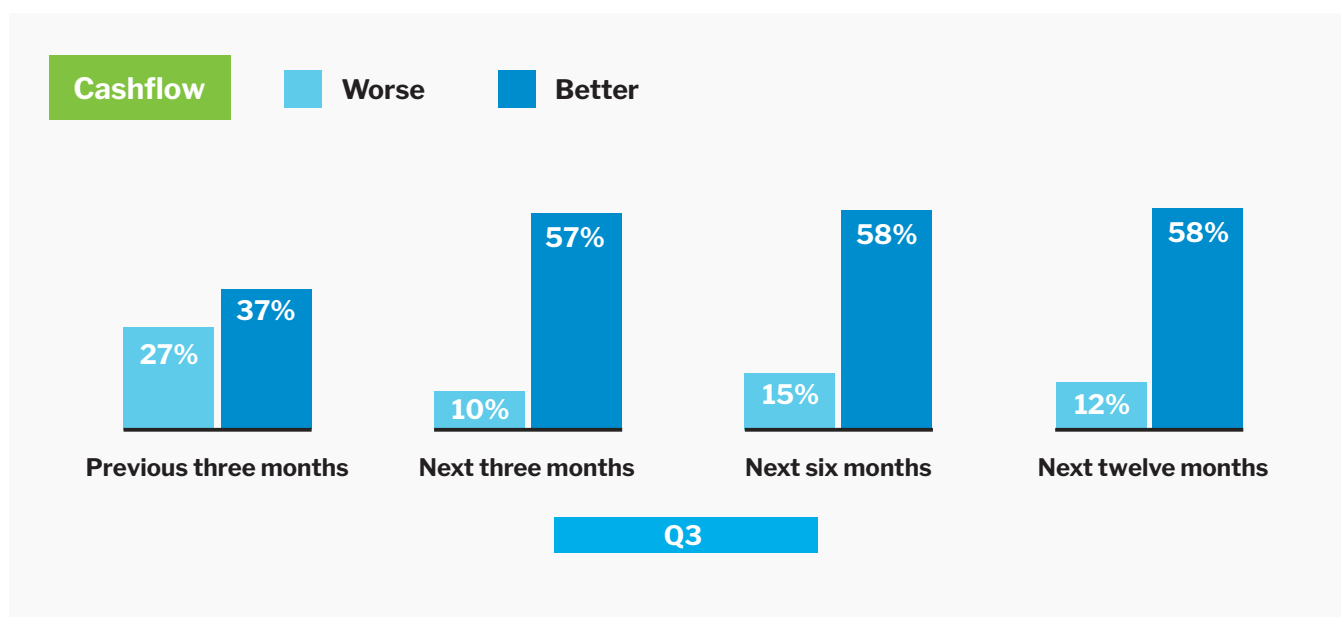
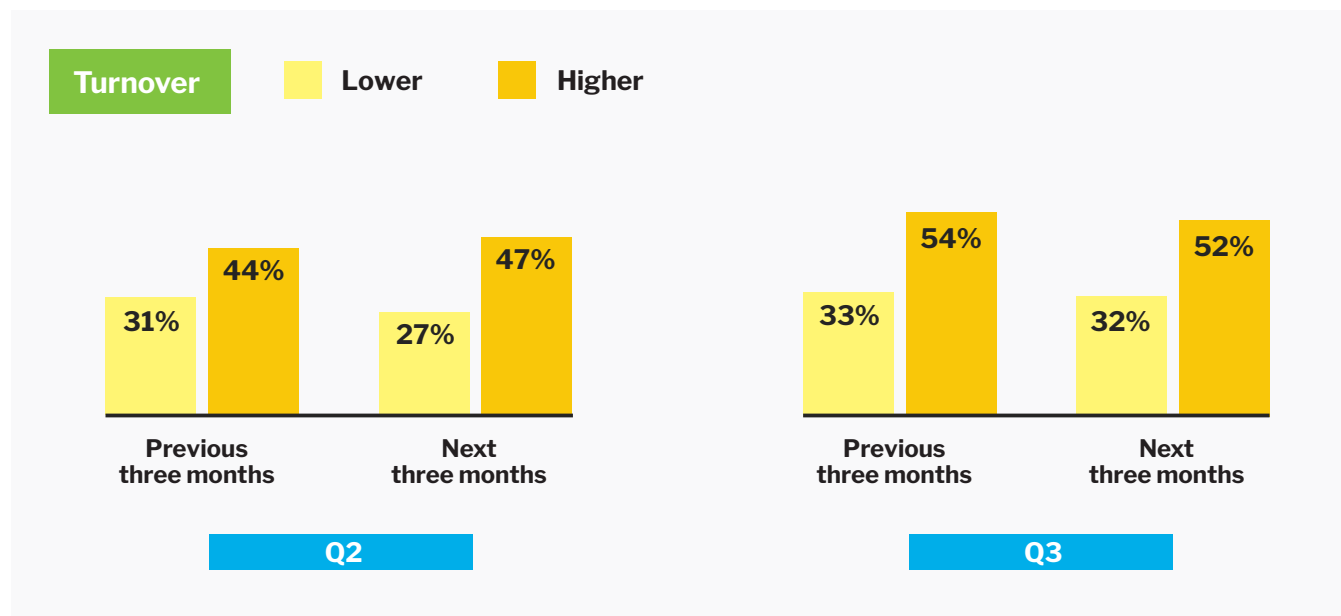
## Cashflow and turnover

More than half of SMEs (54%) reported increased levels of turnover during the previous three months, with a fifth of companies experiencing growth of between 2.5% and 5%, and 17% of firms growing turnover by 5% or more.

A third of businesses reported reduced turnover levels during the quarter, with 8% of firms experiencing a reduction of 7.5% or more. On average turnover grew by 0.9 percentage points over the period.

Looking forward, confidence is more muted, with 52% of SMEs expecting turnover growth and 32% forecasting contracting turnover.

Around a quarter (27%) of firms reported that their cashflow position is worse than it was three months ago, with a higher proportion (37%) reporting it had improved. By the end of Q3, 57% of firms expect cashflow to have improved, rising to 58% in 12 months' time.



## Business confidence

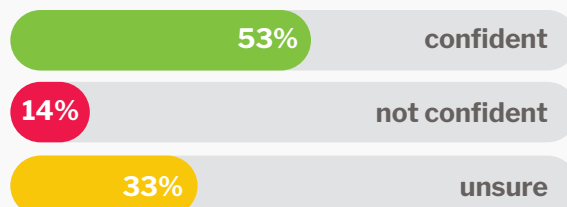
Half of SMEs surveyed were confident about the prospects of their own business over the next three months, a slight fall from the 53% recorded in Q2. This small reduction is though offset by an increase in those SMEs confident in their sector – rising from 51% to 56%. This small reduction is though offset by an increase in those SMEs confident in their sector – rising from 51% to 56%.

SME confidence in the wider UK economy has also improved. Only 38% of businesses surveyed in Q2 expressed confidence in the quarter ahead for the economy, but the latest wave records an increase to 44%.

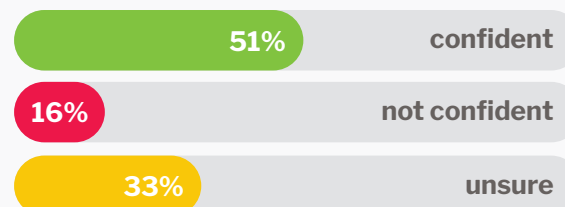
### Confidence in the next three months

#### Q2

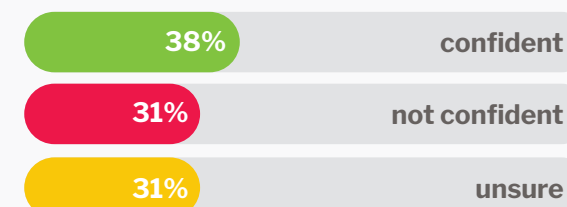
##### Own business



##### Own sector (agriculture, transport, manufacturing and construction)

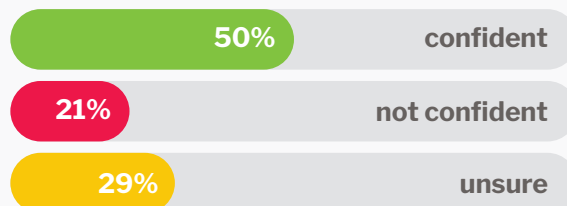


##### UK economy

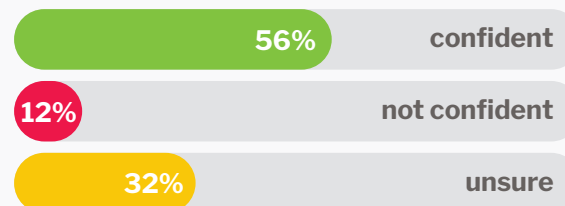


#### Q3

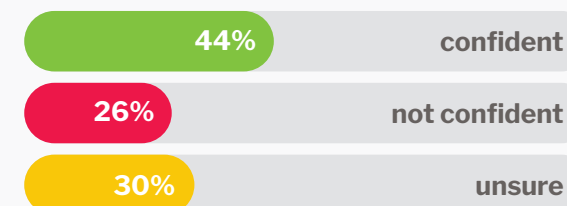
##### Own business



##### Own sector (agriculture, transport, manufacturing and construction)



##### UK economy

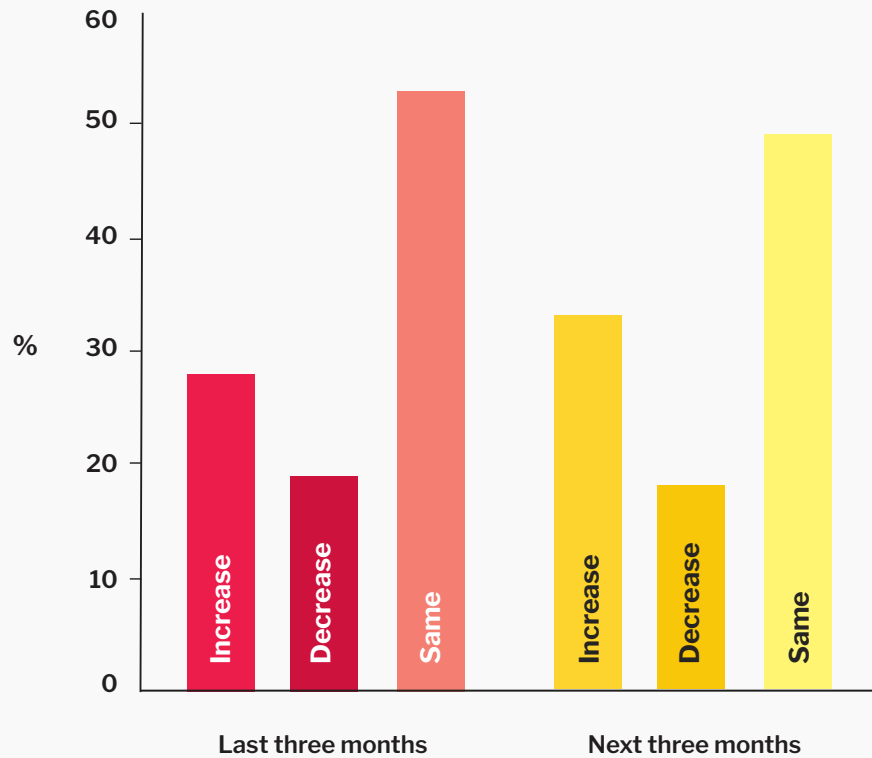


## Employment and recruitment

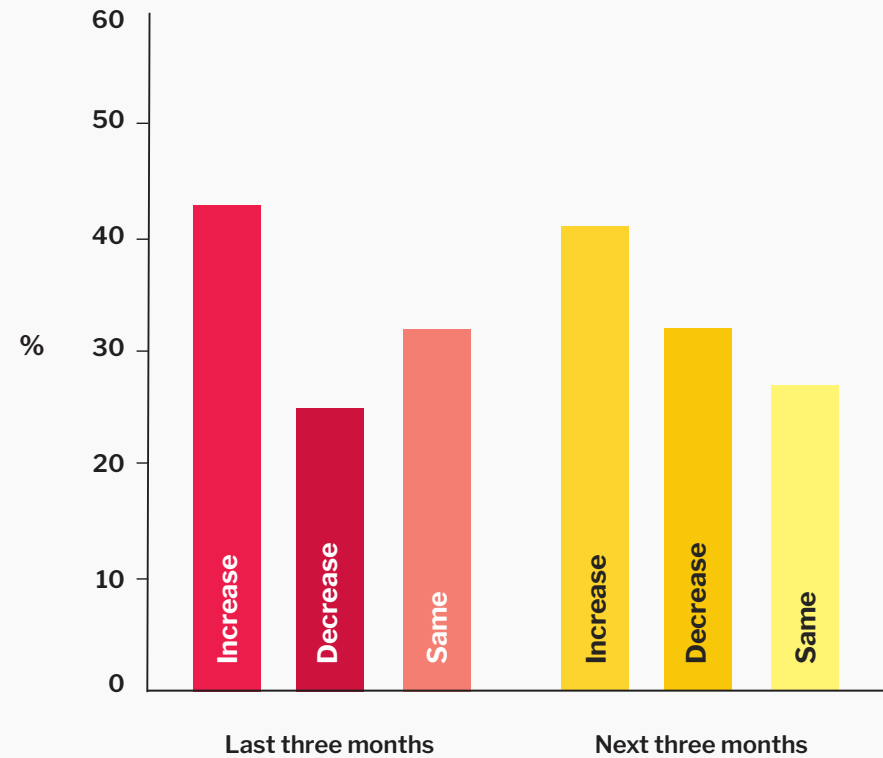
Over four-in-ten SMEs (43%) have increased full-time staff numbers in the past three months, with 25% of firms reporting reduced employment levels and just under a third maintaining numbers.

Looking forward, 41% of companies intend to grow full-time employee numbers during the third quarter, with a third (32%) expecting employment levels to be lower.

### Staffing



Q2

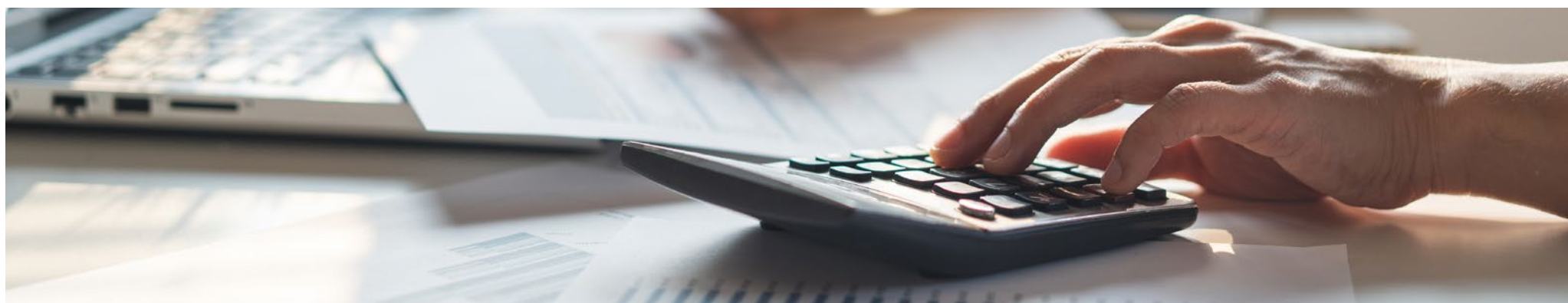
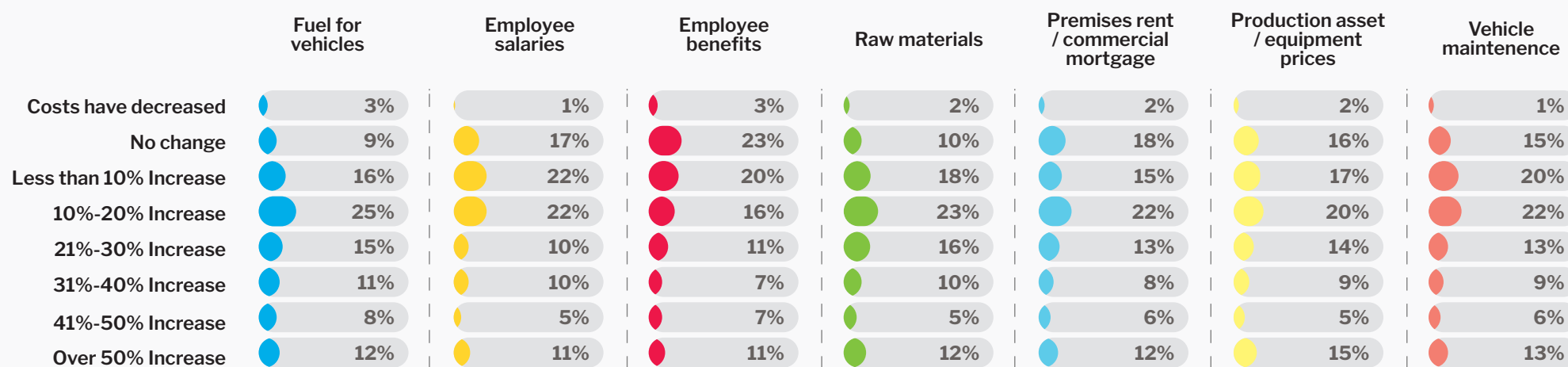


Q3

## Business costs

SMEs have continued to face inflationary pressures across several areas of their business. A significant 87% of SMEs said that energy costs had continued to rise during the period, with 86% of companies also highlighting increased vehicle fuel costs and 85% of firms noting increases to raw material costs.

Cost increases of over 50% were also recorded in raw materials for 13% of SMEs, employee salaries (11%) and premises rent or mortgage costs (11%).





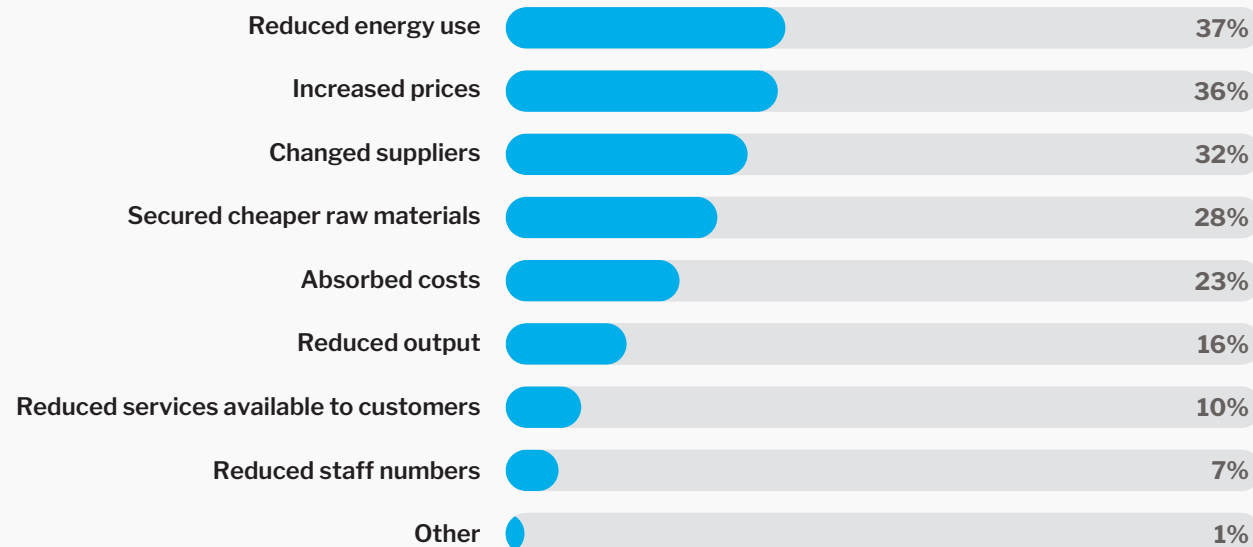
## Business cost response

SMEs have adopted a range of measures in response to the rise in business costs.

Over a third (37%) of SMEs have reduced energy use, 16% have cut output, and 10% have limited the range of services available to customers.

SMEs have also sought to address rising costs by seeking cheaper materials (28%) and changing suppliers (32%) to find better value.

A quarter of SMEs have increased prices – but 23% of businesses surveyed have chosen to absorb all costs without passing on increases.

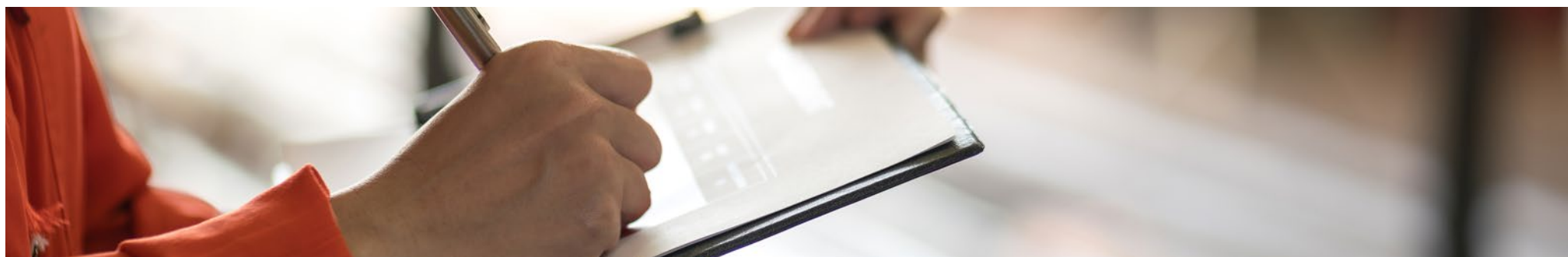
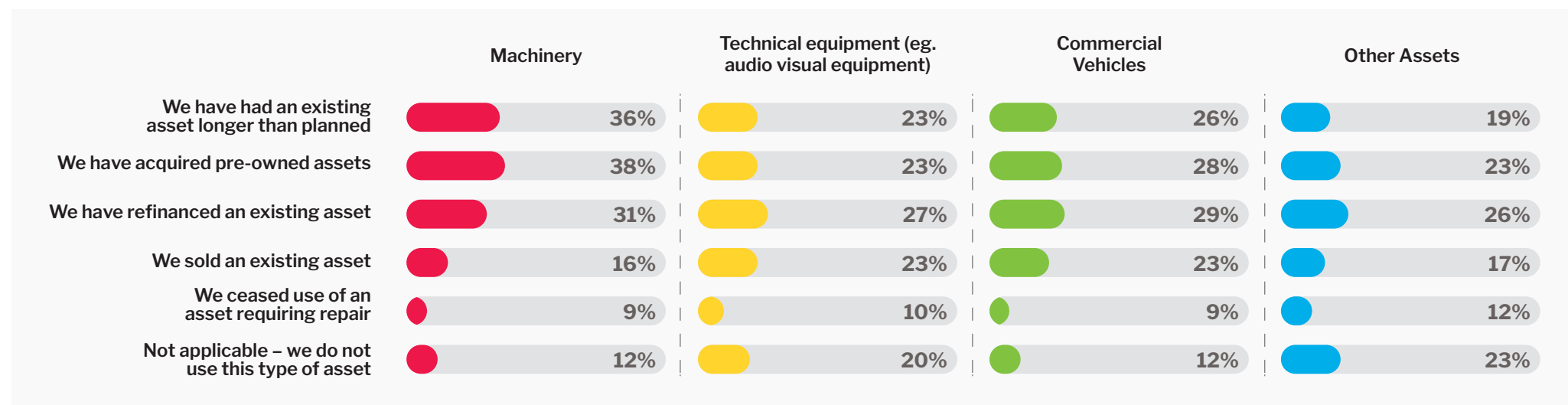


## Asset availability

Supply chains are continuing to force SMEs to extend the life of their existing assets due to the reduced availability of new assets. Though seeing a small decrease from the 30% recorded in Q2, the latest data shows that 28% of SMEs surveyed are using assets longer than planned.

The data also highlights a sharp rise in the proportion of SMEs acquiring pre-owned machinery (38%) and commercial vehicles (28%), a 9% and 8% percentage point rise respectively on the second quarter.

Refinancing of assets has also increased. The previous data found that 20% of SMEs had refinanced machinery, with this now increasing to 31%. The refinancing of commercial vehicles has also seen a sharp increase, rising from 18% to 29%.



## Past and planned Green investment

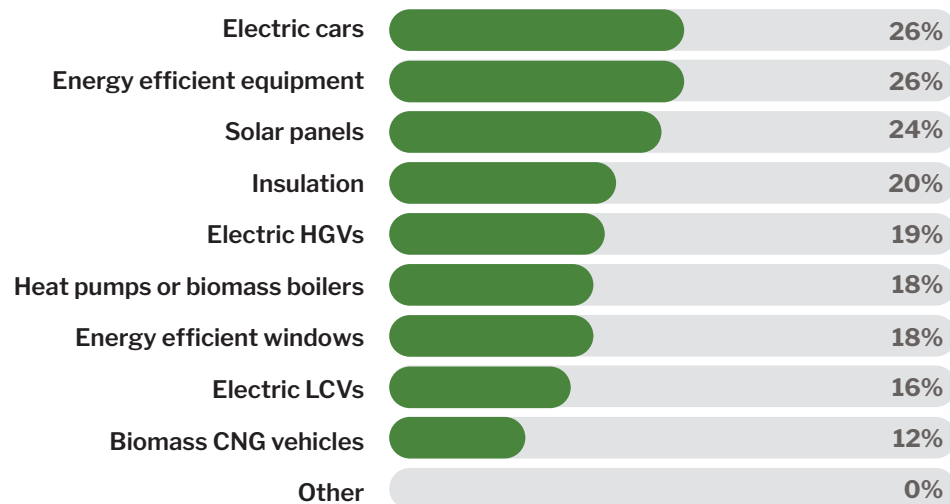
Over the last 12 months, 82% of businesses have made some investment in green technology or assets - with electric cars (26%), energy-efficient equipment (26%), and solar panels (24%) leading the areas for investment.

The proportion of SMEs investing in green technology and assets is set to increase to 86% over the next 12 months - with a modest increase in those investing in electric cars (27%), energy-efficient equipment (29%), and solar panels (27%).



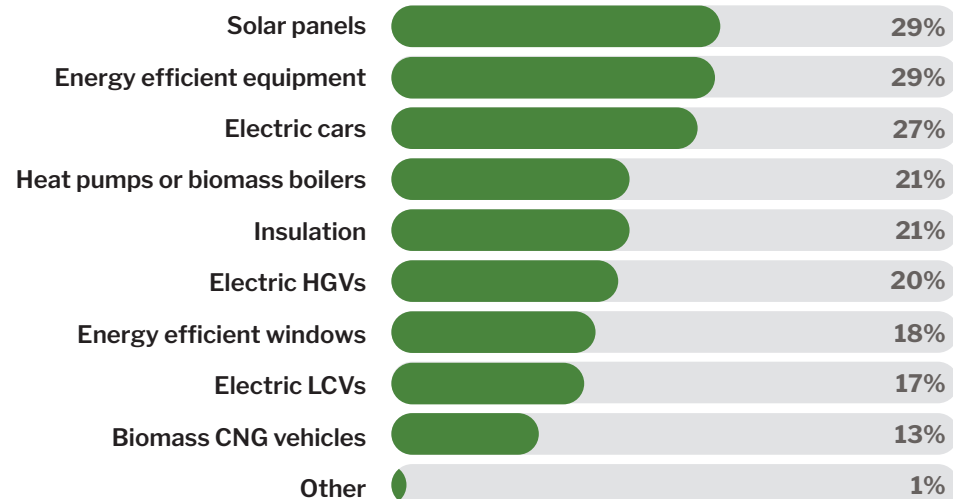
### Past investment

0-50%



### Planned investment

0-50%





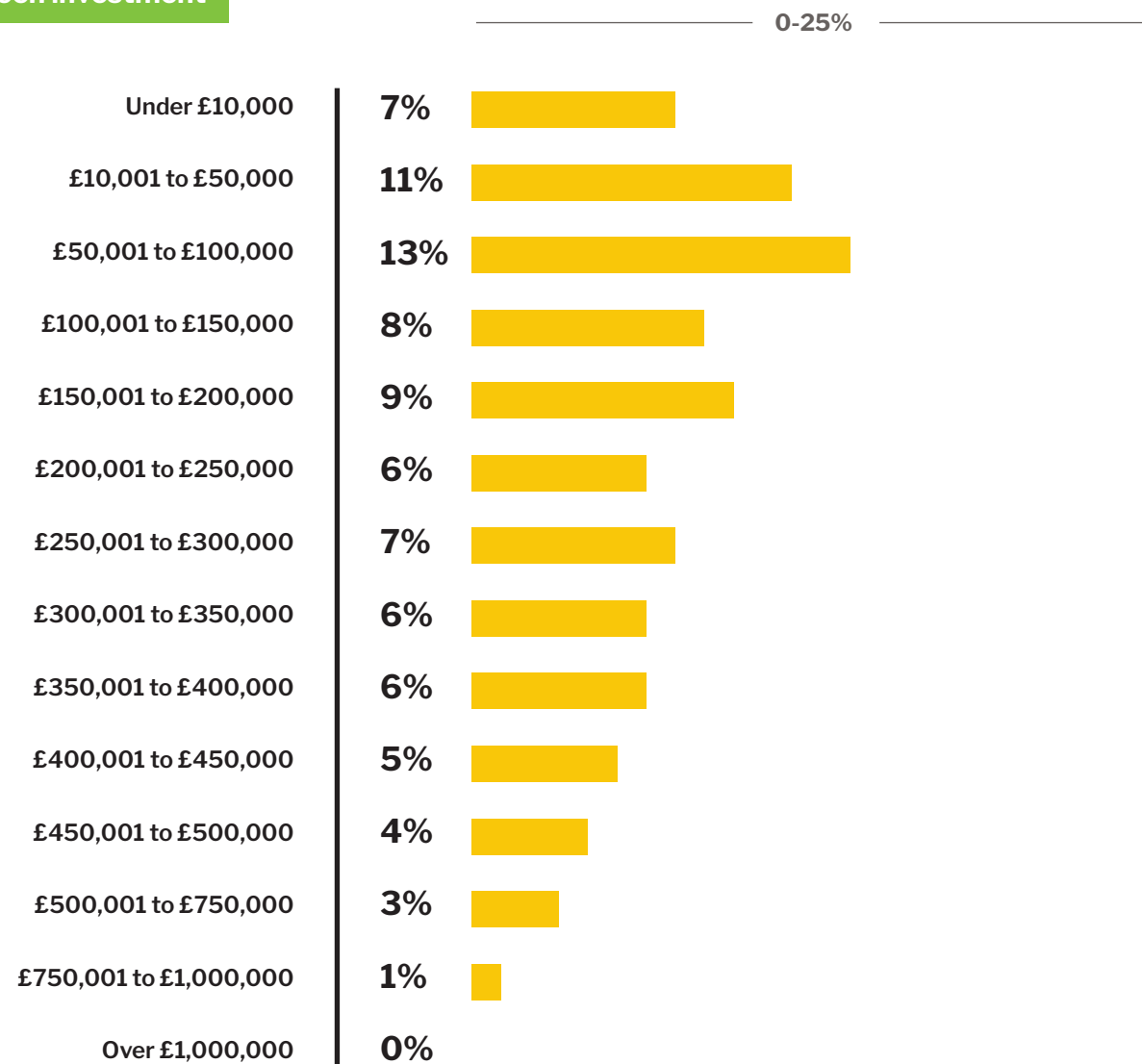
## Green investment levels

Almost a third (32%) of SMEs plan to invest over £250,000 in green technology and assets in the next year. Only 14% of those surveyed plan to make no investment, with just over half (54%) of businesses planning to invest up to £250,000.

The overall average investment SMEs plan to make in green technology and assets in the next 12 months was found to be £215,000.



### Green investment

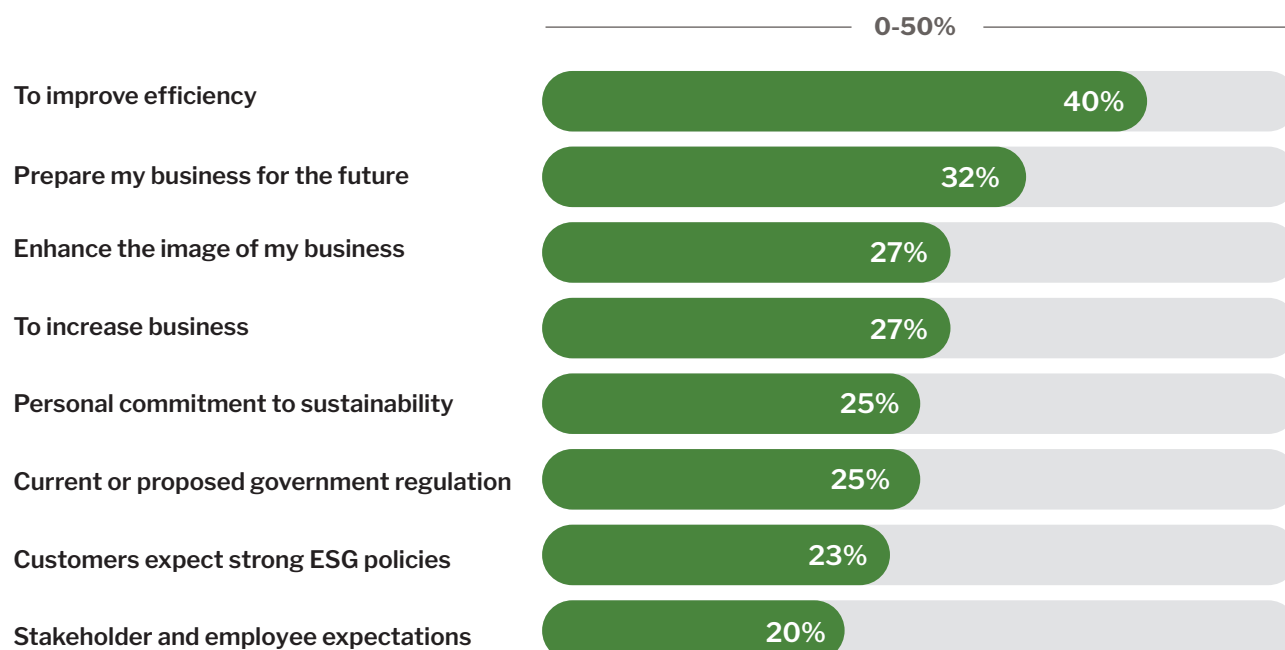




## Reasons for Green investment

The primary drivers for the 82% of SMEs that have invested in green technology and assets over the last 12 months were to improve efficiency (40%), prepare their business for the future (32%), and enhance their image with customers (27%).

A quarter of businesses cited a personal commitment to sustainability, with 27% viewing green investment as a way to increase business and 23% reporting that their customers expect strong ESG standards.



## Benefits of Green investment

Asked about the benefits of green investment to their business, 41% of SMEs cited starting the process of transitioning to sustainable technology, with 36% continuing the process. Reducing energy costs (37%) and lowering manufacturing costs (35%) were also identified as leading benefits of green investment.

To start process of transitioning to sustainable technology

41%

Lower energy costs

37%

To continue the process of transitioning to sustainable technology

36%

Improve manufacturing costs

35%

Replace existing assets

33%

Comply with forthcoming legislation

19%

To assess viability of assets

5%





## CASE STUDY

### Cartonage looks to a greener future with Paragon funding

**Location** Bradford, West Yorkshire

**Asset** New solar panels

**Deal team** Kyle Johnson, Business Development Executive

**Bradford-based carton board packaging company Cartonage is looking to a greener future with the installation of new solar panels on the roof of its premises, financed by Paragon Bank.**

The six-figure finance package has been provided by Paragon's SME Lending division to Adwalton Holdings, the owners of Adwalton Business Park, on which Cartonage is located. The solar panels were supplied by Wetherby-based renewable energy company Local Renewable Services.

Andrew Eastham, who is a director of both the Cartonage and Adwalton Holdings businesses, estimates the solar panels will provide over a quarter of Cartonage's energy requirements when fully operational. Cartonage, established in 1995, designs and manufactures cartonboard food sleeves and folding cartons predominantly, for the UK food industry.

The company saw its energy bill triple earlier this year as a result of the increase in prices. The company has invested in a number of key production areas over the last two years to improve efficiency, which has now allowed it



to implement measures to address the energy challenge, including condensing 10 shifts a fortnight into nine, helping to reduce energy usage whilst maintaining output.

Andrew said the company was now examining how to add solar panels on other units on Adwalton Business Park.

*'We are finding more businesses are looking at how they can cut their energy bills and enquiring about solar energy. We were pleased to support Adwalton Holdings with this funding, which will benefit the Cartonage business during these challenging times.'*

**Kyle Johnson, SME Lending Business Development Executive**

*'We estimate that once the panels are up and running, it will provide around 28% of Cartonage's electricity needs and we are aiming to get this figure to north of 33%. It will make a huge difference to the business and we believe the investment will pay for itself over a four to five year period.'*

*'Our energy consumption was already something we were looking at as part of our focus on ESG, but the events of the past 12 months have sharpened our focus and accelerated our decision to invest in the solar panels.'*

**Andrew Eastham, Director of both the Cartonage and Adwalton Holdings businesses**