

HOW SMES ARE SOLVING THEIR BIGGEST BUSINESS CHALLENGES

2024 Insights

RESEARCH REPORT

Compiled By

GENERATE &
CONNECT

Generate.

CONNECT



sales@generate-fs.co.uk



020 7231 0349



generate-fs.co.uk/connect/



THE 2024 GROWING BUSINESS OWNERS & LEADERS' RESEARCH SURVEY 2024



It's no secret that times are tough for small and growing businesses. 90% of startups fail, and following the resilience and unexpected agile opportunities presented by the pandemic, last year was a particularly difficult period: over 3,000 UK start-ups ceased trading in 2023.

The majority of failed business ventures were backed by private equity and sufficient capital, evidencing that expert advice and financial support will only get a company so far: leaders must find a gap in their market, apply the right resources and capability to service their target audience, and be supported by the right partners in every area, not just finance.

With global uncertainty and economic difficulties setting the stage for the rest of the year, 2024 will present yet more challenges for SME leaders. But how can Founders and Managing Directors face these challenges head on to deliver growth out of adversity?

Generate Connect surveyed 200 small business owners and leaders on their challenges and predictions for the future. This report details insights from business leaders across the UK, including:

- Surprising differences between business challenges according to sector and size
- Most significant problems day-to-day and long-term
- Root causes and hidden factors behind these challenges
- How start-up and SME leaders are tackling these challenges - and which activities truly deliver ROI
- How the UK's economic climate will impact future small business success.

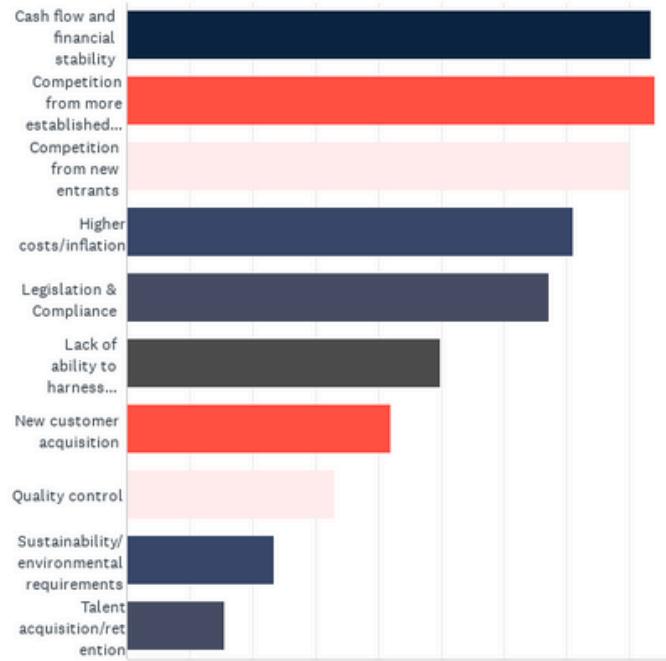
Read on to discover the experiences, insights and ideas of other growing business leaders to see how your organisation can thrive in the year ahead.

THE GREATEST CHALLENGES FACING SMES & START-UPS

In trying economic times, it's not shocking that smaller businesses are most challenged by cash flow and financial stability, however what might surprise is that competition from new entrants is equally as much of a problem as competition with long-established large competitors.

NatWest [report](#) that a record 900,000 new companies launched in 2023 - a 12% increase on the year before - driven mainly by online retailers entering the market, with takeaway food enterprises also leading the start-up boom.

Which challenges are most significant for your company this year?



Whilst excellent news for entrepreneurial spirit and wider choice for consumers, small businesses now face more competition than ever before. In 2024 it's even more important for growing companies to stand out with a powerful brand and proposition that truly differentiates them in a crowded marketplace. Financial and competitor challenges are being experienced by start-ups and SMEs across industries, but sector and size have a marked impact on the next most urgent challenges for growing businesses this year.

When entrepreneurs were asked to rank their most significant challenges, there were similarities and differences by business and industry sector:

Cash Flow and Financial Stability



Competition from Large Businesses



Higher Costs/Inflation



Competition from New Market Entrants



THE **ROOT CAUSES** OF THE MOST SIGNIFICANT BUSINESS CHALLENGES

Although macroeconomic factors and competitor advantage present major obstacles for SMEs, the root causes of most smaller business challenges often lie in strategic direction, high-level decisions and daily tactics. This means that Founders and owners have a level of autonomy and choice about how to move forward, even if these options are not immediately clear or accessible.

When asked about what they believe to be the underlying causes of their most significant challenges, most popular answers from business leaders included:

Lack of skills, knowledge & training for existing employees

High costs, particularly energy costs

Economic uncertainty and recession

Inflation

Attracting enough talent

Cashflow and investment

Engaging the labour workforce

Technology adoption

Not attracting enough talent was identified as the top root cause for the most urgent growing business challenges of 2024, with 34% – more than 1 in 3 – business leaders stating that a lack of skilled labour was their most pressing need. In late January 2024, the ONS reported that 19% of businesses in general were experiencing worker shortages, meaning that small businesses are 79% more likely to suffer a labour shortage than their larger competitors.

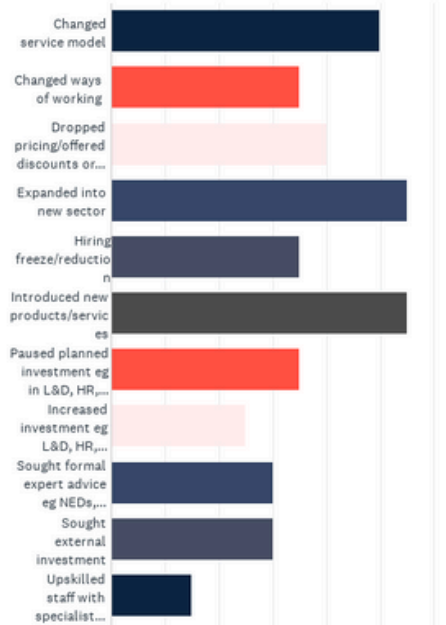
Whilst UK business overall saw a very slight hiring slowdown, small businesses created over 300,000 new jobs last year alone. Over the past quarter of a century, small businesses have been responsible for 2 out of every 3 jobs created, positioning start-ups and SMEs as the core lifeblood of the UK economy and every aspect of British working life.

Whilst business leaders did not rate talent acquisition and retention as amongst their most impactful business challenges, these factors are recognised as the number one root cause of the most urgent business challenges of 2024. Almost 1 in 4 – 24% – of business leaders actively froze or reduced hiring in the past year, which will have contributed to talent acquisition obstacles, but do not explain the monumental scale of the root cause. Hiring freezing is often a response to inability to source talent or general labour shortages, suggesting that Directors and managers are increasingly accepting a lack of skilled labour as a standard difficulty and have given up trying to recruit for long periods of time – meaning that the right partners and approach can make a world of difference to urgent business challenges.

EFFORT VS RETURN: WHAT'S ACTUALLY WORKING FOR SMALL BUSINESSES

Founders and leaders are constantly investing, reinventing, creating and working harder than ever to maintain business continuity despite an uphill struggle. But how many of the strategies and tactics business leaders pour their time, efforts and money into are actually paying off – and may pay off for others?

Q7 What actions have you tried in an attempt to resolve your challenges?

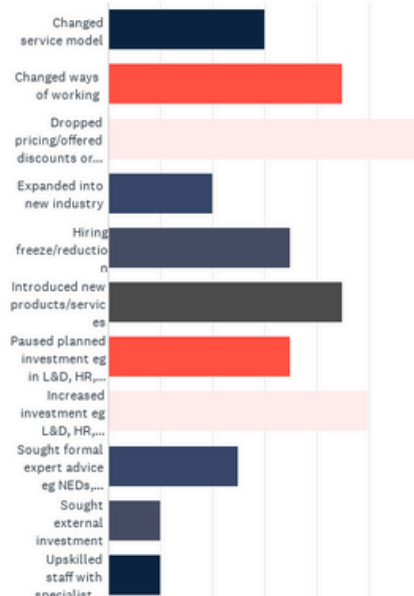


Increasing investment in people and tech was the second most impactful action taken, with 35% of business leaders reporting measurable impact, despite it being one of the least popular actions. Whilst long-term investment such as marketing, L&D and IT upgrades are often seen as a 'choice' that are nice to have when a company is performing well, but first to cut during cash flow issues, the effects of neglecting investment in these areas can do more damage in the medium- and long-term than any economic/business emergency itself.

Dropped pricing and offering discounts has seen the biggest impact for SMEs, with 41% of business leaders saying pricing changes have made a difference to their business continuity and growth goals. Microsoft recently found that 80% of consumers would try a new brand that they hadn't heard of before if it offered them a discount.

Discounts and lower pricing have long been popular pre-recession choices, and as the majority of shoppers both use coupons and proactively look out for offers when considering a purchase, the challenge of standing out from competitors could be helped by convincing consumers to try a product or service for better perceived value.

Q8 Which of these actions has actually started to help you overcome your challenges?



Companies that invest in innovation through a crisis outperform peers during the recovery, which was demonstrated by businesses in Covid-19. Consumer brands who kept investing or even increased investment in their brand throughout the pandemic, despite far lower ability for customers to purchase and experience the brand in-person, saw much higher rates of recovery after the pandemic than those who stopped their spend altogether.

Interestingly, the most popular responses to business challenges often saw the least impact proportionately on business success. Whilst 38% of business leaders have expanded into new sectors in an effort to grow their business in 2024, only 13% - one in three of those who tried - have seen any impact from sector expansion. More than one fifth - 21% - of small business leaders sought external investment, but only 7% said this had any impact on their revenue and profit.

What is working for one market might not work for the next, as demonstrated by the differences in strategy vs success rates by company industry and by size:

Activities with Greatest Impact by Business Industry

Finance - Changed service model

Courier Delivery - Changed service model, dropped pricing/offered discounts or pricing flexibility

Chauffeur/ Private Hire - Dropped pricing/offered discounts or pricing flexibility

Fitness/ Healthcare - Changing ways of working and offering discounts

Security - Increased investment eg L&D, HR, Operations or Technology, introduced new products/services

Activities with Greatest Impact by Business Size

Businesses with Under 50 Permanent Staff - Changed ways of working, dropped pricing/offered discounts or pricing flexibility, sought formal expert advice from consultants/ industry/ non-executive advisors

51-100 Staff - Dropped pricing/offered discounts/ flexibility, paused planned investment

101-250 Staff - Changed ways of working saw improvements, but 100% of these businesses reported best impact from increased investment.

The differences in effectiveness of different strategies and tactics evidences the power of openness to new ideas, particularly those that may seem to present additional costs or unprecedented approaches, and testing and learning to see which endeavours could add value to every individual business.

HOW LEADERS ARE PREPARING FOR THE CHALLENGES OF 2024 & 2025

When asked how they were preparing to act to guarantee business continuity and strive for growth despite the challenges of the coming years, the majority of business leaders are planning to take the following actions:

Recruiting more employees and changing approach to skill assessment

Service quality improvement

Making efficiencies

Widening range of products and services

Increase investment in technology

Advertising and brand investment

Working more hours

Financial and professional advice

Improving customer service

These responses demonstrate that small business leaders are thinking long-term, despite the short-term challenges of cash flow and previous unrealised investments, and the uncertainty caused by political and economic changes around the world. The most popular plan of action is hiring more skills, with 31% of leaders actively planning to invest in the coming months. Assuming that talent acquisition is successful, start-ups and SMEs will require a new level of external support for systems and processes, in addition to helping business leaders collaborate with their teams and facilitate their ability to deliver quality services.

Working more hours was a tactic stated by multiple respondents, suggesting that Founders are still thinking about business growth as an internal responsibility rather than seeking help and support. This is particularly concerning as almost 9 in 10 - 88% - of all entrepreneurs struggle with at least one mental health issue. The inevitable stress and administrative burdens of business leadership can be significantly reduced by hiring the right internal talent, working with the right partners and harnessing the tools and techniques already on offer.



HOW THE GOVERNMENT & INDUSTRIES CAN HELP GROWING BUSINESSES

The impact of government and industry support for small businesses is often determined less by the actual support on offer, and more by both levels of availability and awareness in the entrepreneur community. Although a variety of services and solutions exist to help SMEs innovate, change and grow, the practical channels to access these services and solutions, and their direct application to industries and specific challenges, can too often present more questions than answers for small business leaders.

When asked to suggest one single action that the UK government could take to help business leaders overcome the most urgent challenges, the most popular responses were:



General economy,
inflation and cost of
living improvements



Financial support for
small businesses



Reduce tax rate for small
businesses



Support with energy
costs



Support with investment
in sustainability and
technology

Although reducing small business tax rates was a common mention, survey respondents overall want the new Labour government to focus on improving the economy generally, with a belief that the positive effects will then trickle down the economy. The UK government have planned to introduce new initiatives specifically aimed at business continuity and expansion, including:



Investment - Leveraging public investment to de-risk and attract private investment by creating a National Wealth Fund, capitalised with £7.3 billion



Infrastructure - Developing a service transformation authority to deliver major regional and country-wide projects to empower trade and movement across Britain's roads, railways, and reservoirs



Transport - Increasing the number of electric vehicle charging points and reforming the railway system by bringing it back into public ownership to provide reliable commuting services and empower more small businesses to use electric vehicles, making delivery and logistics more cost-effective and efficient



Connectivity - Achieving nationwide gigabit broadband and 5G coverage by 2030, boosting connectivity and supporting digital businesses.

The 2024 Labour party manifesto promised a Business Tax Roadmap to allow businesses to 'plan investments with more confidence'. Expected to be published in the next few months, the report will demystify exactly what the government has planned for corporation tax relief and capital allowances, and the impact this will have on start-ups and SMEs.

Industry bodies have a major role to play in advocating for economic reform and prioritisation of investment, but are woefully underutilised as sources of direct support for small businesses. When asked to suggest one action that industry bodies could take to help overcome this year's most significant challenges, business leaders stated the following:

Helping to develop a skilled workforce

Loans & financial support

**Opportunities to connect
with other business leaders
with the same challenges**

**Lower membership
prices/discounted
rates for training,
tools and facility
usage**

In addition to appetite for monetary support, opportunities to connect were overwhelmingly popular, with Founders of growing businesses keen to learn from peers and competitors, particularly those facing the same sector-specific challenges and serving the same local markets. Networking events are one of the main benefits of memberships to business organisations, with the following providing different types of opportunities for different needs and goals:

[Federation of Small Businesses](#)
[City of London SME Support](#)
[British Independent Retailers](#)
[Association](#)

[National Courier and Despatch](#)
[Association](#)
[Sports and Fitness Industry](#)
[Association](#)

THE HEART OF THE UK ECONOMY – WHAT LEADERS ARE STRIVING FOR NOW

Amongst the many challenges stacked against small business leaders, there is a lot of optimism about the near future, with many hopes and goals leading the UK's business innovation. Business leaders' most important professional goals for this year included:

Obtaining financial investment for the business

Business expansion into new locations, offices and markets

Creating meaning and achieve social purpose/personal goals

Becoming financially stable

International expansion

Increasing profit

Building professional networks

Acquiring new customers



With a range of challenges and an even wider range of choices, how can SME and start-up entrepreneurs make the right moves towards maximum growth? Selecting the best partners for the best support is vital.

SOLVE YOUR BIGGEST BUSINESS CHALLENGES

Generate Connect makes it easier to manage your workforce so you can concentrate on strategic growth. Quickly pay and support your subcontractors, ensure a hassle-free working experience, and retain your labour force to enable growth. Here's how Generate Connect solve your biggest business challenges:

Cash Flow and Financial Stability: Full financial transparency, access to third-party partners for help with financing, refinancing, competitive van prices etc, and better financial wellbeing for workers through the correct tax schemes.

Increased Competition: Stay ahead with the latest tech to optimise your daily operations and a white-glove consultancy service for insider market insights.

Legislation and Compliance: Navigate regulatory requirements with expert advice to protect your business. Alleviate your admin burden and prepare for any external risks and pressures with the best support and guidance. Rest assured knowing that subcontractor accountancy requirements are taken care of, with full clarity around tax affairs, to protect against any reputational risks.

Technology Adoption: Designed to be simple, user-friendly and effective, our market-leading tech is supported by a number of exclusive benefits to improve your daily operations.

High Costs and Inflation: Through our marketplace, our clients access a 'best-of-breed' list of vetted partners to help maximise profit and keep costs low. Our standard service to Main Contractors is free, including use of our technology, payments services and invoicing.

Get in touch to find out how Generate Connect can help your business.

Generate.

CONNECT



sales@generate-fs.co.uk



020 7231 0349



generate-fs.co.uk/connect

