



# Money Matters

**Navigating the impact of economic conditions  
on the cash flow of UK small businesses**



# About this report

This report is based on the collated responses from an online survey conducted in English only, with 1,007 small businesses (with up to 50 employees) across the UK, recruited from an online market panel. Responses were collected between 16-27 September 2023.

The information and commentary in this report is a guide only and should not be taken as taxation, financial or legal advice – we recommend you always check with an independent expert that what you're doing is right for you and your business.

## Note

- All £ amounts referred to in this report are in GBP
- In some tables, percentages may not add up to exactly 100% due to rounding
- In some tables, percentages may add to more than 100% where participants could answer more than one option

## Definitions

### • **Small business**

For the purpose of this report, when we use the term 'small business', we mean businesses with up to 50 employees.

*In this report, we have also referenced small businesses by their business size:*

- **Sole traders** with no employees (excluding the Founder/Owner)
- **Smaller businesses** with 2-9 employees (including the Founder/Owner)
- **Larger businesses** with 10-50 employees (including the Founder/Owner)



# Introduction

## **The economic environment in the UK has become more challenging over the past year for everyone, including for small businesses.**

Higher inflation, supply chain shortages and slower growth of demand have contributed to declines in small business conditions and confidence. These factors are weighing heavily on the minds of small businesses, with half (50%) worried about the financial future of their business.

Cash flow challenges are more than just balance sheet discrepancies; and our survey of over 1,000 small businesses reveals they're deeply personal struggles for business owners. The inability to pay themselves, coupled with the emotional and physical ramifications – stress, anxiety, sleep deprivation, and reduced time with loved ones – paints a poignant picture of the sacrifices and struggles inherent in running a small business.

In the face of these headwinds, our survey found that small business owners are pulling different levers to manage their cash flow. A combination of revenue-raising and cost-cutting approaches have been taken by businesses to manage cash flow challenges over the last 12 months. While some are employing new digital tools and payment methods, technology uptake and adoption still lags behind peers in other countries.

This is where Xero comes in. Our suite of tools, including Xero Analytics and Analytics Plus, offer real time financial insights for small businesses and their advisors

to better manage cash flow and measure financial performance. By giving small businesses trusted and insightful data to help them understand where they are now and where they might be in the future, we aim to be a trusted partner in their journey.

In the UK, we're also rolling out a new bill payments experience which is underpinned by open banking, offering small businesses a simple and secure way to pay bills and save time on everyday admin. This is an important element of cash flow management, because it helps small businesses get an accurate view of their cash flow.

The current economic uncertainty underscores the importance of financial resilience for small businesses. It's crucial for small businesses to have robust tools and strategies at their disposal. We hope that by sharing these insights on how small businesses are currently managing their cash flow, it helps to identify opportunities to improve cash flow management and feel better prepared for any challenges ahead.



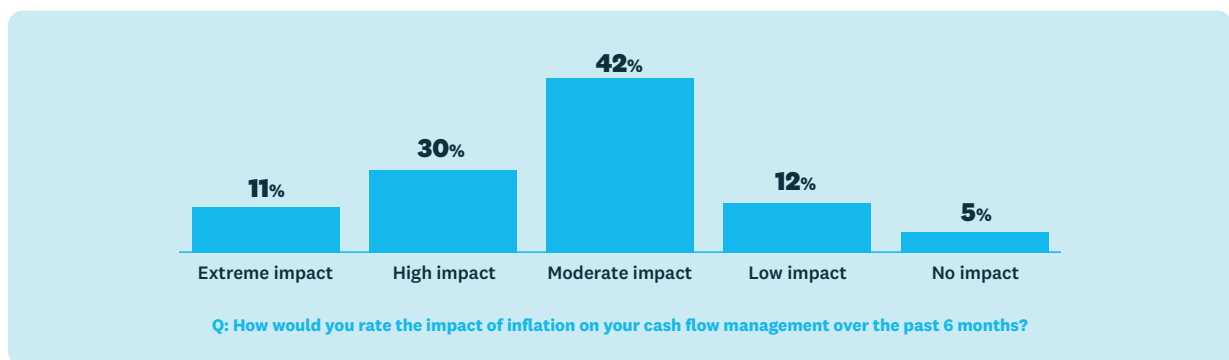
**Leigh O'Neill**  
EGM Money, Xero

# Businesses are facing cash flow challenges

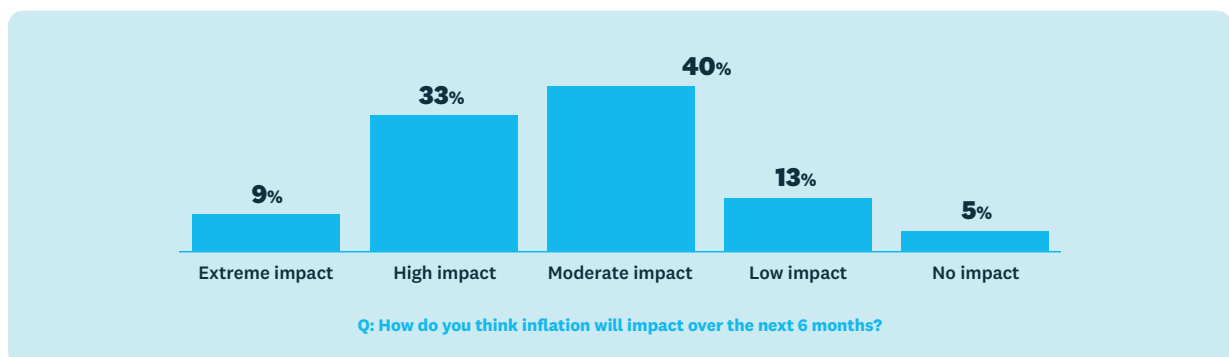
## Inflationary pressures continue to bite at small businesses

Small businesses in the UK are bearing the brunt of stubborn inflation, juggling the rising cost of running their business while having limited capacity to raise their own prices. According to survey respondents, four in ten (41%) cite inflation has had a high or extreme impact on their cash flow management in the past six months.

This impact has been felt more by larger businesses with 10-50 employees, with 60% saying they have been highly impacted. While all industries have felt some impact, the retail and manufacturing sectors have felt an extreme or high impact on their business, at 51% and 63% respectively.



Around the same amount (42%) of small businesses expect inflation to have a high or extreme impact on their cash flow management in the next six months. Interestingly, larger businesses are moderated in their expectations of the inflationary impact, with 41% expecting inflation to have some impact in the next six months, compared to 60% who said inflation has had an impact in the past six months.



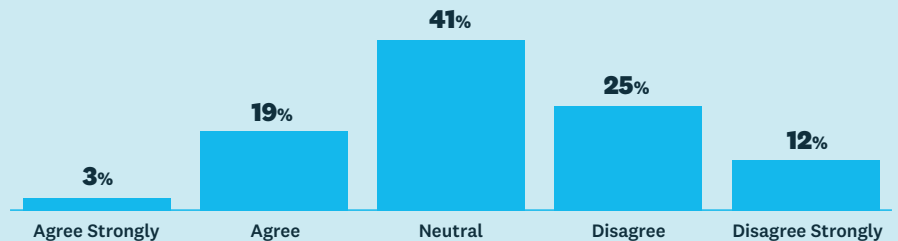
Supply chain issues could be contributing to inflationary pressures, with over a third (34%) of larger businesses experiencing extreme or high impact from supply chain disruptions on their cash flow in the past six months. This was particularly relevant for construction and manufacturing businesses who were most impacted (32% and 39% respectively). Supply chain disruptions are expected to have a sustained impact on cash flow, particularly among small businesses with 2-9 employees (30%) and larger businesses with 10-50 employees (35%).

## Economic conditions weighing on small business confidence

A volatile economic environment could be contributing to worsening small business conditions and confidence, with 50% of small business respondents worried about their businesses' financial future.

Concerningly, 35% say they are only just coping and are worried about the financial health of their business, and 37% believe that they don't have capacity to absorb a financial shock.

Despite being most impacted by high inflation and supply chain disruptions, over half (51%) of larger businesses with 10-50 employees feel on track to achieving their business financial goals, compared to 42% of smaller businesses and 28% of sole traders. This could be because larger businesses have more resources and are pulling more levers to manage their cash flow and navigate future challenges.



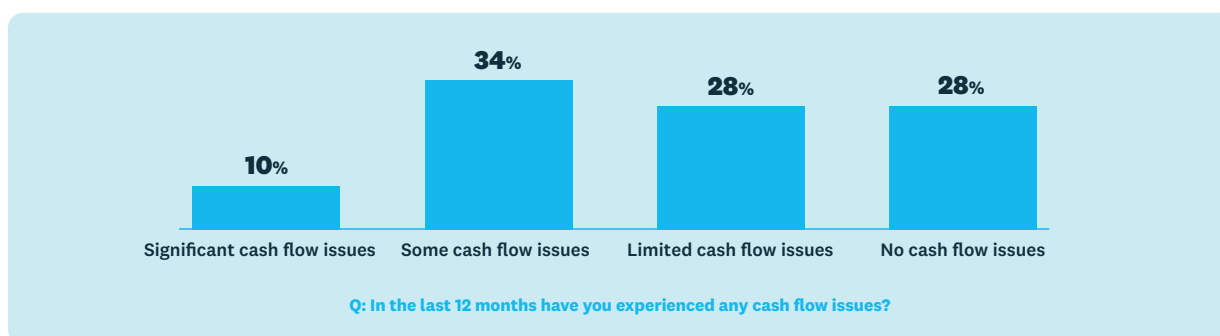
Q: On a scale of 1 - 5 where 1 is disagree strongly to 5 agree strongly: We have capacity to absorb financial shock

**Tip:** Feeling in control of your cash flow can have a **positive flow-on effect** to your financial wellbeing and confidence. **Better cash flow management** starts by understanding the finances coming in and out of your business, and forecasting your future sales and expenses. It can also help to work with an accountant to forecast and analyse cash flow and create a financial plan and budget that works for you.

**Tip:** Manage, approve and securely pay bills all in one place. Set up **direct bank transfer as a payment method for bills**, and securely make payments from your bank account using open banking (available 27 November 2023). It's a **simple and secure way to pay your bills** without leaving Xero, saving time on everyday admin and giving you real time insights and the visibility needed to take control of your cash flow.

# The financial and personal impacts of cash flow crunches

Small businesses have felt the impact of the current economic environment, with 72% experiencing at least some cash flow issues in the past 12 months. One in five retail businesses said they have experienced significant cash flow issues, while 45% of small businesses in the professional services industry have experienced no cash flow issues in the past 12 months.



Poor cash flow has affected the financial health of small businesses, with 41% of small businesses owners having to forgo their own salaries. Other cash flow issues include being unable to pay bills (24%), stalled revenue (18%) and having to renegotiate payment terms with suppliers (13%).

In times of reduced cash flow, many small businesses, particularly sole traders, have looked to supplement their income through freelancing and picking up extra work outside the business.

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It keeps me awake at night. I am unable to contribute financially, I've gone from earning a proper income to pocket money. It's soul destroying.”

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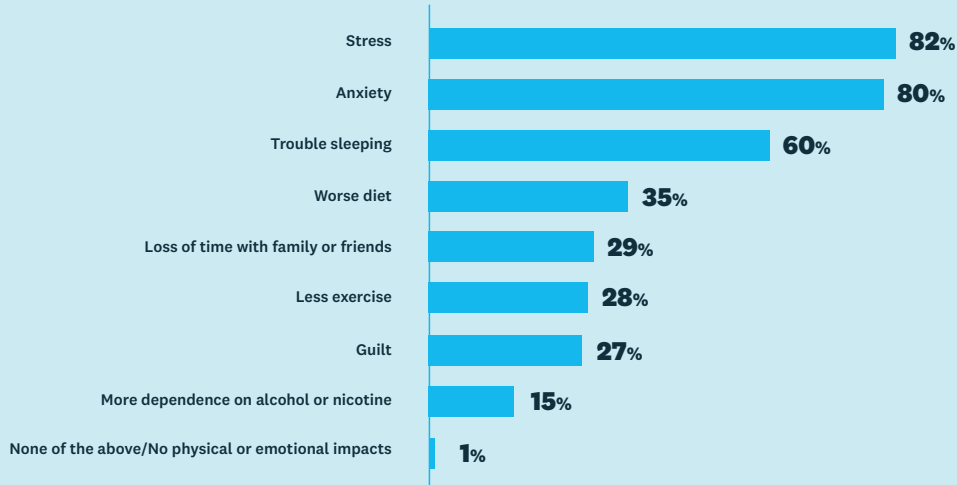
I had to let go of any freelance staff that were supporting me and am gradually having to reduce all costs. It's just a slow decline as there's never enough money to keep running the business and survive. I'm now looking for other work to live on so I can leave more in the business.”

“

It's always on my mind. I'm constantly juggling money, and moving it from different accounts. I'm deciding whether to keep the business or move onto something different.”

## Cash flow issues aren't only a financial challenge; they're deeply personal too

Many small businesses have felt the emotional and physical impacts of cash flow management, the top three being stress (82%), anxiety (80%), and sleepless nights (60%). The emotional toll of meeting financial obligations, paying bills and keeping the business going is also spilling into their personal lives, with 35% experiencing a worse diet and 29% missing out on time with family and friends.



Q: What are some of the emotional and physical impacts of cash flow management you have experienced over the past 12 months?  
[Of those that have experienced negative impact with cash flow issues]

“

Having less cash flow indicates that the business is struggling which may result in me becoming unemployed. I've spent nights worrying and stressing how I can provide for my child and keep on top of personal finances as well as my business.”

“

My personal income has gone down in real terms. My savings have been severely depleted as overdraft interest rates have gone up at the same time and clients aren't paying my invoices on time. I'm working longer hours than I ever did as an employee and making about three quarters less in terms of salary and benefits. My lifestyle is reduced. I can't afford holidays or to do a lot of the things many people take for granted.”

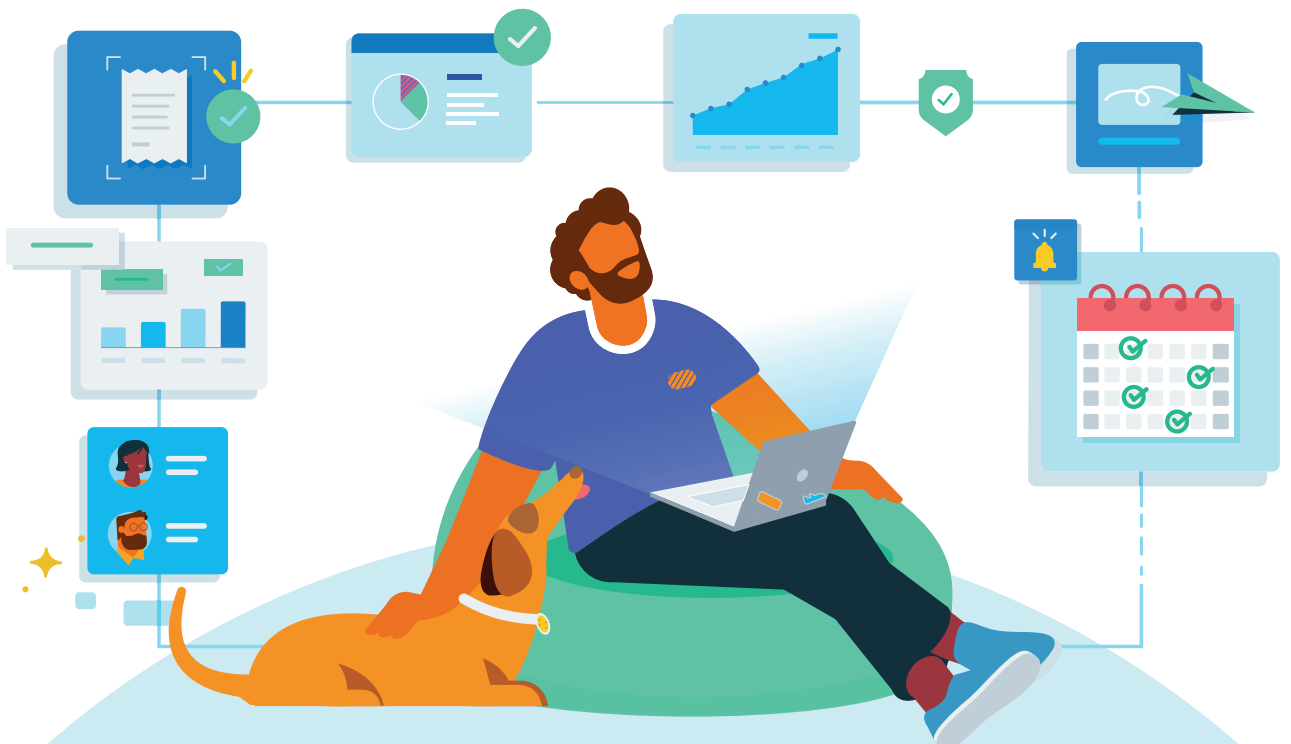
“

My mind is always elsewhere and not focused on my family. I'm irritable because I don't sleep.”

“

I'm struggling to afford bills, leading to severe stress and anxiety about potential homelessness, which in turn makes it harder to work.”

**Tip:** Health and wellbeing is important for small business owners, but sometimes it can be hard to know how to get the right support when needed. For those wondering where to look, Xero offers the [Unmind toolkit](#).





# Measures taken by business owners to manage cash flow crunches

## Cash flow management is top of mind for small business owners

Given the challenges and pressures that diminishing cash flow has on small businesses, managing cash flow is a priority for 62% of small businesses in the UK. So much so that 78% of small business owners check their cash flow at least once a week, with over a third (34%) checking daily.

Almost a quarter (23%) of small businesses deem cash flow management a very strong priority, with this figure even higher among businesses who have felt the negative effects of cash flow issues in the past 12 months (48%). These same businesses are also more likely to check their cash flow daily (58%).

Larger businesses with 10-50 employees allocate more time to cash flow monitoring, with 52% spending three or more hours a week on this task, compared to 46% of sole traders who spend less than one hour a week. This could be due to the more complex nature of larger business operations, including managing more input costs like energy prices, wages, transport and insurance.

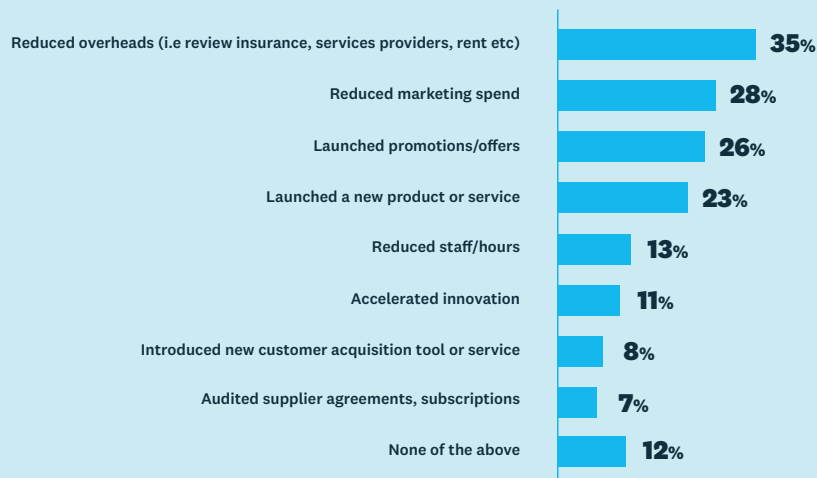
Small businesses in the UK are relying on a number of levers to try and help them manage their cash flow. Increasing prices is the top approach used by 39% of small businesses, followed by tapping into personal savings (34%), chasing up overdue payments (27%) and using credit cards (26%).

## Cost cutting and raising prices are popular strategies to secure cash flow

Over the past 12 months, small businesses have taken a combination of revenue raising and cost cutting approaches to manage cash flow challenges including reducing overheads (35%) and reducing marketing spend (28%).

Larger businesses with 10-50 employees are more likely to reduce staff hours to stimulate revenue, with 36% using this approach compared to 26% of smaller businesses and 7% of sole traders. On the other hand, smaller businesses with 2-9 employees were more likely to reduce marketing spend, with 42% using this approach compared to 32% of larger businesses and 24% of sole traders.





**Q: What are the different ways you have stimulated revenue and/or cut costs during the last 12 months?**

Small businesses in the UK also recalibrated their pricing strategies. Over half (56%) have raised prices in the past year, with almost a third (31%) planning to do so in the coming year. Larger businesses with 10-50 employees were more likely to increase their prices, with 72% doing so compared to 52% of sole traders. Sole traders are also less inclined to raise their prices over the next 12 months.

Of the small businesses that lifted prices, a third (33%) increased prices by 6-8%. Almost a quarter (24%) of small businesses lifted prices as high as 9-12%. Interestingly, only 27% of small businesses sought advice from an accountant or bookkeeper when raising their prices. Half of larger businesses with 10-50 employees plan to speak to an advisor when raising their prices in the next 12 months.

Managing higher material and operational costs was the top reason for adjusting prices among businesses, followed by increasing profit and maintaining or accelerating business growth.

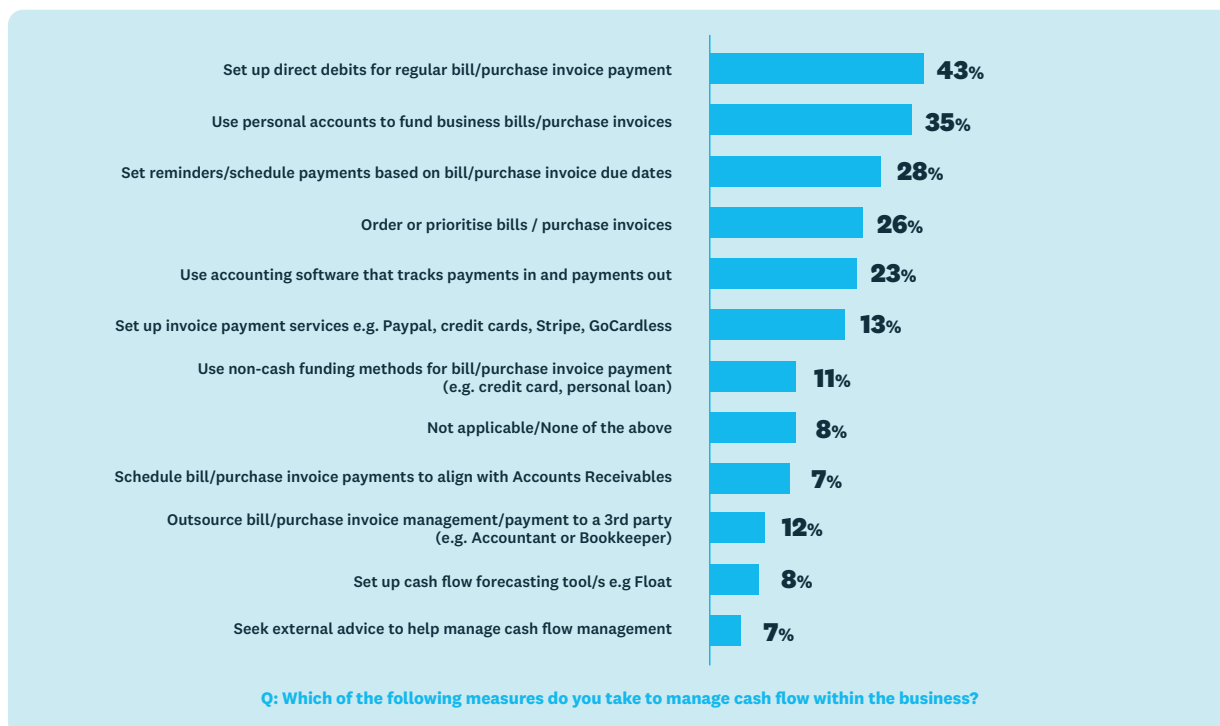


**Q: Why have you increased prices in the last 12 months, or why do you plan to increase prices in the next 12 months?**

## Small businesses slow to adopt new payment solutions to manage cash flow

A growing number of small businesses are employing digital technology to better manage their cash flow. Almost a quarter (24%) of small businesses use accounting software to track payments, while 28% are using automated payment schedules and reminders.

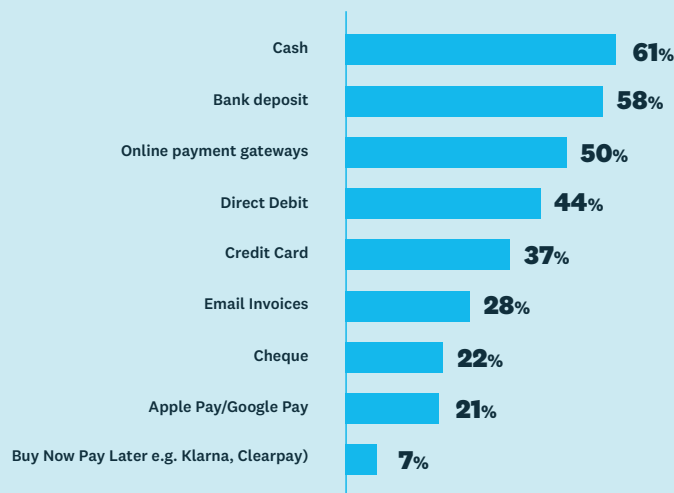
Larger businesses with 10-50 employees also employ more sophisticated approaches to manage their cash flow, with 26% using cash flow forecasting tools and 30% using invoice payment services.



**Tip:** Cash flow forecasting helps you navigate your financial future with **clarity and confidence**. With the right tools, cash flow forecasting is effective in identifying potential shortfalls in advance, allocating resources more efficiently and addressing challenges before they become critical. In the UK, [Xero Analytics Plus](#) is already available to customers on the Ultimate plan and uses data from your Xero account to analyse trends and give **better forecasts and actionable insights**.

**Tip:** Remove the need for awkward conversations and **take the stress out of chasing payments** with Xero's [automatic invoice reminders](#). They're easy to set up, you can choose how often you want reminders emailed, and they're completely [customisable](#) to your business.

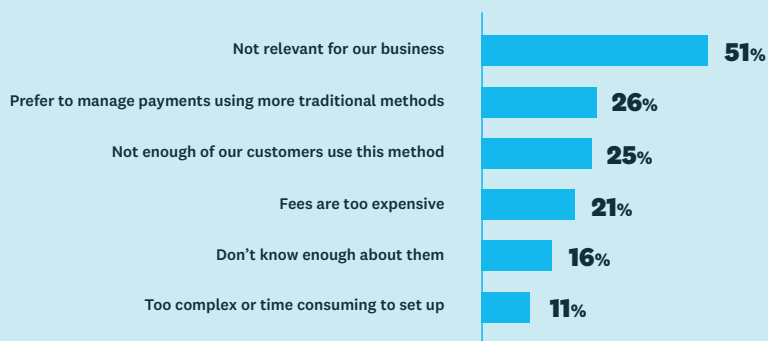
While 50% of small businesses are utilising online payment gateways, most small businesses favour traditional payments including cash (61%) and bank deposit (58%). Only 7% of small businesses in the UK use Buy Now Pay Later services like Klarna or Clearpay.



Q: Which of the following measures do you take to manage cash flow within the business?



Lack of relevance for their business (51%) is the number one barrier to adopting new digital payments for cash flow management. Around a quarter (26%) say they also prefer to manage payments using traditional methods, while 25% say not enough of their customers use digital payment methods.



Q: Why do you not use other digital payment methods?

**Tip:** Think about how you can make it easier for your customers to pay you. Adding a 'Pay now' button to online invoices in Xero using one of our partners like Stripe or GoCardless gives your customers the **flexibility to pay the way they want to**, such as by card or direct debit. It also helps you get paid twice as fast, reduces the administrative burden with one integrated solution and means you spend less time chasing payments.

**Tip:** eInvoicing is a new way to send and receive invoices electronically between accounting systems. If you register to receive [eInvoices in Xero](#) (also available in Australia, New Zealand and Singapore), invoices are delivered straight to the platform. Not only does it save time on everyday admin, it's also **more accurate and secure**.



# A pinch of planning and a dash of Xero: Spice Kitchen's recipe for cash flow success



**Sanjay Aggarwal**  
Co-founder of  
Spice Kitchen

In the diverse landscape of the UK's small businesses, family business Spice Kitchen has carved a niche for itself with its unique offerings inspired by authentic, home-made spice blends.

Spice Kitchen reflects the culinary legacy of Sanjay's mother and the business' co-founder Shashi Aggarwal and her treasured 100-year-old spice grinder. What started as a hobby for Shashi has evolved into a reputable and multi-award winning brand with her son and co-founder, Sanjay. Spice Kitchen is now sold in hundreds of shops and restaurants across the UK, including high-end department stores, John Lewis and Selfridges.

When Spice Kitchen first launched, Sanjay juggled multiple roles within the business, including managing its finances. The business grapples with seasonal highs and lows, with the Christmas period marking their peak sales time. This fluctuation presents cash flow challenges, but these were particularly evident during economic downturns when retail spending dropped.

While completing a business growth programme, Sanjay received some advice from a business coach that was transformational to Spice Kitchen's growth.

"One of the turning points was acknowledging that the way we were doing our accounting was inefficient and wasn't really proper accounting," Sanjay said.

"It was a watershed moment. Our business coach suggested we move to a mid-sized accounting firm, get an accounting software package and bring in someone in-house to manage our finances," Sanjay explains. This restructuring included the integration of Xero into their operations in 2017.

"Accountancy is not my strength – sales and marketing is. At first I saw it as a huge cost to get support with my accounts, but once I got over that, it freed me up to focus on growing the business."

"Having someone who we can trust and who understands our business needs and can help to build the right technology stack for those needs has made all the difference."

Today, Spice Kitchen utilises Xero comprehensively. "All our sales channels like Shopify and Amazon are integrated with Xero, providing us real-time insights into our transactions," Sanjay said. This integration has streamlined the accounting process, and provided deeper insights into the business. Their in-house finance director is able to use the reporting in Xero to generate weekly sales reports around peak periods, identify purchasing patterns of different customers for the sales team, and understand product performance to inform marketing decisions.

Additionally, Spice Kitchen leverages other apps and products to optimise their operations. "We use Chaser for invoice payments, Dext for expense management, and Soldo for company spending," Sanjay adds, emphasising the ecosystem of tools that integrate seamlessly with Xero.

Despite a challenging year exacerbated by decreased retail spending, Sanjay remains optimistic.

"We've invested significantly in our business, launched a cookbook, and expanded into the US market. We're in a unique position where we're able to re-invest a significant portion of revenue to fuel our growth."

Reflecting on his journey, Sanjay underscores the importance of building the right foundations and having a strong support system.

"It's important to surround yourself with the right people, from employees and freelancers to advisors and coaches. For Spice Kitchen, finding the right accountant was transformational. Having someone who we can trust and who understands our business needs and can help to build the right technology stack for those needs has made all the difference."

**Spice  
Kitchen**



Beautiful business