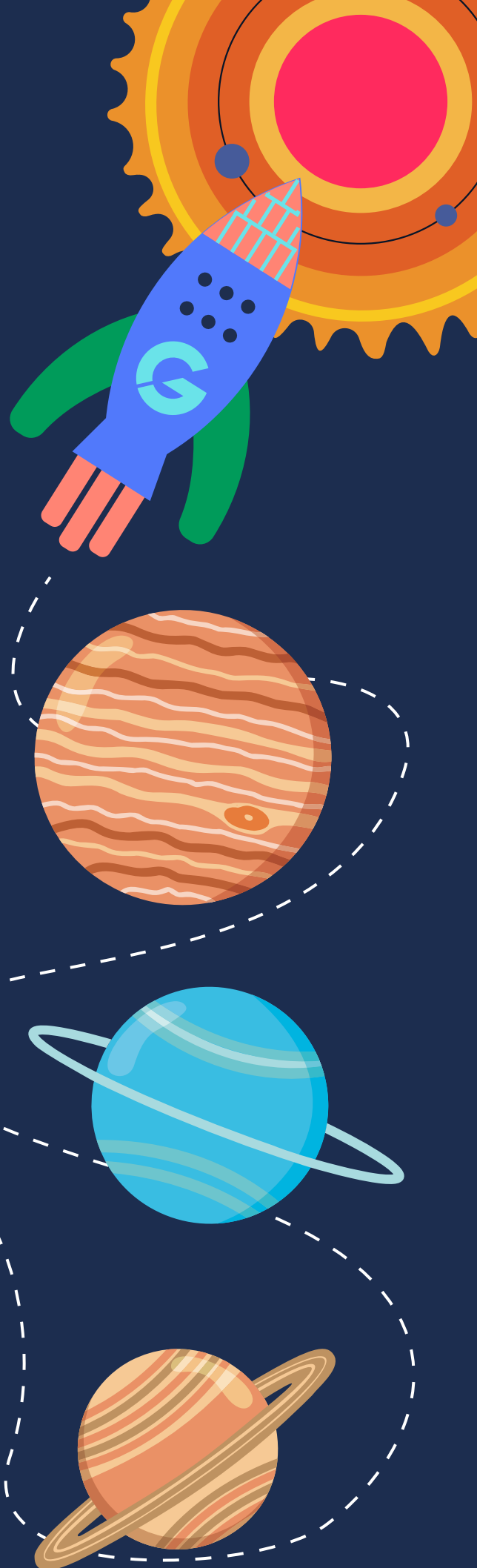


**Growth
lending**

GEARED FOR GROWTH 2025

How UK SMEs are
navigating growth and
the funding landscape



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Foreword from Kimberly Martin

A backdrop of economic instability has become the norm for SMEs during the past few years, plagued by a series of unforeseen events so ubiquitous that we need not list them here.

Those that have been in the industry long enough remember the impact of the 2008 crash and the long recovery. While Covid-19 was as cataclysmic in its impact, it is the cumulative effect over recent years that has been so significant. And change is still ongoing; with the recent Budget under the new Labour government impacting the minimum wage and NI increases, there are further factors for SMEs to navigate.

Yet when I reflect on all this – all these obstacles and all this adversity – what I am continually inspired by is the ability of UK SMEs to adapt, to overcome, and even to thrive in environments that are far from favourable.

This determination to succeed is one of the key themes we explore in this report.

Yes, the challenging trading environment of the past few years has left many businesses struggling – and you will see that ongoing recovery remains a key focus for many business leaders. But what you will also see is a robust optimism reflected across the UK SME community. A belief in growth and a belief in the opportunities that the next 12 months bring.

Growing businesses and Growth Lending

Of course, growth often requires investment to fuel it and that is where our interest lies. Understanding business leaders' attitudes towards funding, their current knowledge of the funding environment and how us lenders can be better at educating the market on the options available.

This research surveys a diverse range of £1m – £50m turnover organisations across the UK and uncovers the key challenges currently facing UK SMEs in achieving growth. The report explores the relationship between growth and fundraising and the perception of business leaders of the opportunities and obstacles they face.

About Growth Lending

Founded in 2011, Growth Lending is a leading, UK-based independent asset manager that specialises at funding fast-growth, small and medium enterprises.

The team, which is spread across the UK, with regional hubs in London, Bristol and Manchester, boasts decades of experience from within institutional lenders, alternative finance and equity capital providers.

Having deployed more than £1bn of growth and working capital to date, the team has a thorough understanding of the challenges that growing businesses face, particularly when it comes to raising finance. Growth Lending's response is a commitment to operate with speed and flexibility, offering a tailored approach to funding that gives ambitious businesses the funding support they need and the ability to accelerate their growth.

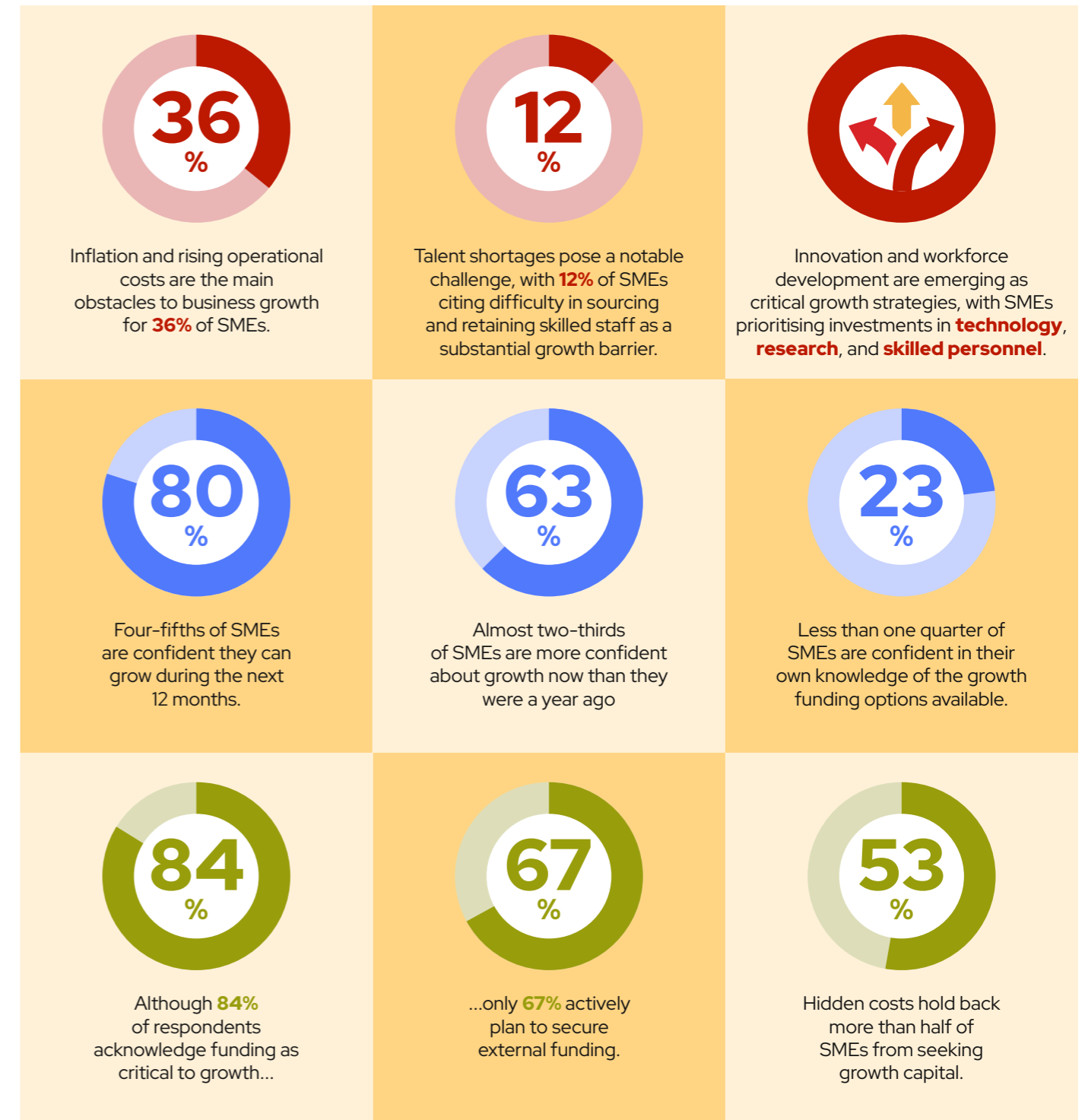


Kimberly Martin,
Managing Director
at Growth Lending

Executive summary

We surveyed SMEs from across the UK, in a range of sectors, to better understand their attitudes towards growth, their confidence in their growth ambitions and their knowledge of the funding options that can fuel this growth. Representing all regions of the country, the SMEs ranged in annual turnover, with the majority between £1m and £50m.

Our research reveals that:



Chapter 1: Economic challenges facing UK SMEs

36% of SMEs point to inflation and rising costs as the most significant challenge during the past 12 months

Inflation and operational costs

A significant proportion of SMEs (36%) cited inflation and rising operational costs as the most substantial impacts on their businesses during the past year. With the cost of energy, raw materials and essential services surging, maintaining a steady cash flow has become a balancing act for most SMEs.

It is not realistic for most businesses to continually absorb rising costs, so they are often left with a difficult choice: increase pricing or cut costs internally, both of which can impact profitability, competitiveness and ultimately, growth.

These financial pressures are exacerbated by the fact that spending power, both for businesses and consumers, has diminished. While some SMEs have managed to maintain or even increase customer demand (15% of businesses surveyed pointed to their growing customer appeal as a factor that needs to be managed), almost one in ten businesses (8%) are facing a decline in customer demand as consumers decrease their spending. This tricky economic environment compels businesses to re-evaluate their growth projections and spending priorities, focusing on core operations and efficiency over expansion.

Political uncertainty not a key concern

Just 8% of SMEs pointed to political uncertainty as a business impact in the past 12 months, and the same number (8%) see ongoing political and economic uncertainty as a barrier for growth during the next 12 months.

Similarly, only a small minority pointed to Brexit (4%) as a significant factor for their business to consider in the past year, despite Brexit's aftermath still being felt across industries that depend on European supply chains.

Talent acquisition and workforce challenges

An increasingly challenging labour market has made sourcing and retaining skilled talent one of the most significant obstacles for UK SMEs. For 12% of SMEs, talent shortages are not only a critical issue but also a primary impediment to growth. The ongoing shortage of qualified workers, especially in sectors such as technology, digital marketing and engineering, means that many SMEs must compete fiercely against larger companies for top talent.

To address these challenges, SMEs are increasingly considering flexible work environments, competitive compensation and investment in workforce development. While 6% of firms report remote work and hybrid models as minor operational difficulties, the primary concern remains finding the right personnel to support their strategic ambitions. In this highly competitive environment, the ability to attract and retain skilled employees has emerged as a significant determinant of SME success.

Chapter 2: Are business leaders confident about growth?

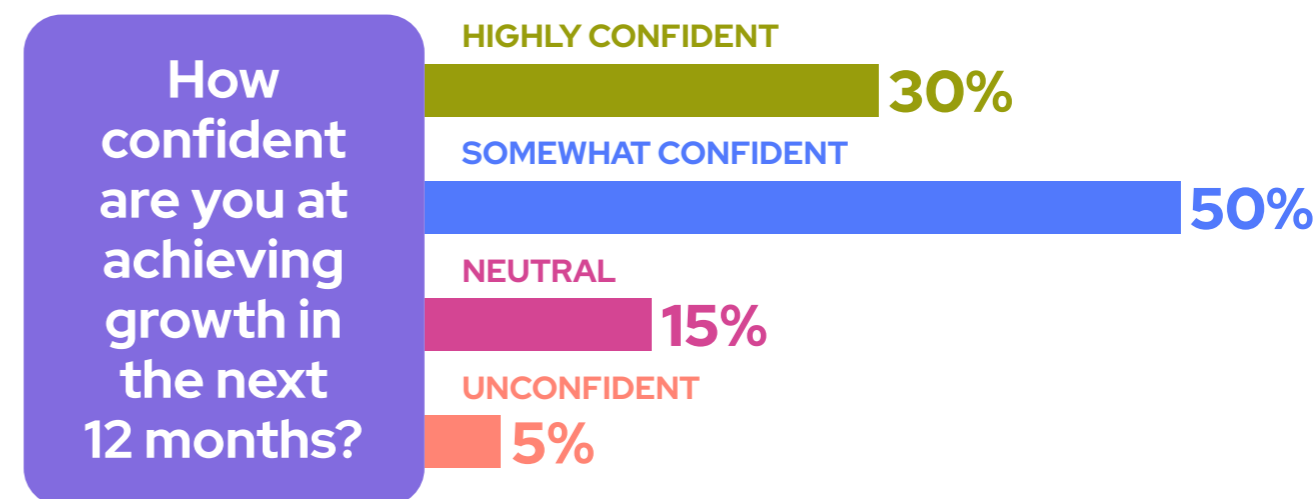
Almost two thirds of SMEs feel more confident now than they did a year ago

Despite considerable challenges, our research reveals an underlying resilience among UK SMEs, with the majority expressing optimism about their growth potential. Nearly two-thirds (63%) of respondents indicated that they feel more confident about achieving growth in the current economic climate than they did a year ago. This optimism, tempered by caution, reflects the adaptability and tenacity of SMEs as they navigate today's economic climate.

Cautiously optimistic

Looking ahead at the next 12 months, around 30% of SMEs reported being highly confident about their growth outlook, while an additional 50% described their confidence as moderate. This positive sentiment underscores SMEs' ability to adapt to changing conditions and identify strategic opportunities, even in challenging times.

However, many firms are redirecting focus toward efficiency and cost management rather than aggressive expansion, indicating a preference for a slower and more cautious approach to growth. More than a third (40%) of respondents anticipate revenue growth of only 5-10% in the next 12 months, with a smaller 24% expecting growth of 10-25%. These restrained projections suggest that SMEs are scaling back their expectations in response to broader external forces, yet remain committed to incremental, sustainable growth.



Strategic priorities

The primary areas of focus for SMEs during the next 12 months reflect this cautious optimism, as almost a third (32%) will prioritise efforts to manage inflationary pressures and rising operational costs.

More positively, almost half of SMEs are considering how they can actively invest in growth, with 30% intending to spend on technology and R&D to improve the business and a further 18% wanting to secure funding to support business growth.

For 16% of respondents, securing the right talent is a top priority, as the ability to recruit and retain highly skilled employees is crucial for meeting growth targets and maintaining a competitive edge.

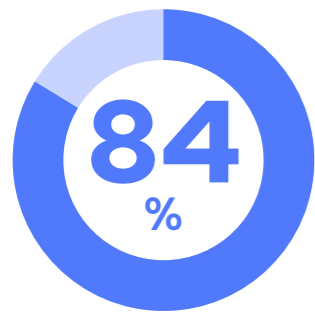
Chapter 3: Attitudes toward funding

84% of SMEs agree that “Securing funding is an essential part of business growth”

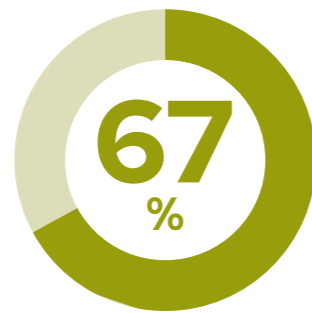
Funding as a growth enabler

For most SMEs, funding is widely acknowledged as a vital component of growth, with 84% of respondents agreeing that securing funding is an essential part of business growth.

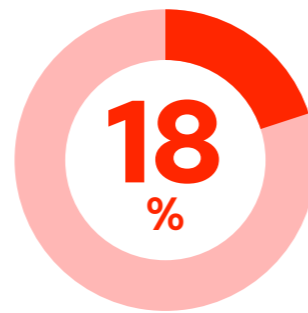
Yet despite this shared belief, there is a disconnect between attitudes and actions, as 31% of SMEs reported not having applied for funding in the past year, even though they recognise its importance for growth. This highlights that there is still a gap between lenders and business leaders’ understanding – many business leaders do not have the funding knowledge sufficient to give them confidence in pursuing the process, and many more are led by perception and misconception, rather than the reality of fundraising.



of SMEs agree that securing funding is essential for business growth



of SMEs intend to secure funding within the next 12 months



cited lack of funding as the biggest barrier to their growth

More promisingly, 67% of the SMEs surveyed do intend to secure funding within the next 12 months, suggesting a renewed openness to exploring external financial support. In fact, for a notable portion of respondents – 18% – securing funding is their primary focus for achieving growth. This aligns closely with the 18% who cited lack of funding as the biggest barrier to their growth, reiterating the important relationship between growth and funding and the challenges that are created for businesses that struggle with access to capital.

Tried and tested remains the crowd favourite

Our research suggests that SMEs favour what they perceive as “more established” funding sources, with almost half (47%) saying they are most likely to secure growth funding from a bank. This is followed by equity at 21% and alternative lending at 8%.

For those that have previously obtained funding, there is a clear trend of seeking support from the same providers. More than a quarter (26%) of businesses that currently have external funding have turned to equity and 23% secured debt funding from a bank. Seemingly, businesses that have previously worked with familiar lenders are likely to return to these sources, a finding that underscores the value of building trust in funding relationships.

This inclination can potentially create a limitation for SMEs, as relying on the same funding sources may lead to missed opportunities, with other lenders offering more tailored or competitive terms. Building awareness around diverse funding options could thus encourage SMEs to leverage a wider variety of resources for optimal growth.

Barriers to seeking funding

Despite overall agreement on the importance of funding, with 84% confirming it is essential for growth, our research reveals a somewhat insidious alternative viewpoint.

78% of respondents either somewhat or strongly agree that it is “more admirable when businesses achieve growth organically, without external funding support”.



Such strong sentiment towards organic growth could imply that these business leaders perceive success as being tied to self-sufficiency, which could be impacting their willingness to seek external financial support, even when it could significantly accelerate their growth trajectory.

Interestingly, 87% of respondents also somewhat or strongly agreed with the statement: “It is quicker and/or easier for a business to grow when it has external funding to support it”. While it is positive that business leaders recognise the strategic advantage that funding provides, it is fascinating that organic growth is still so coveted, even if this growth were to happen over a much longer timeline than a financially-backed business.

SMEs must be encouraged to recalibrate their perceptions around external funding support, to more clearly see funding as a tool that complements, rather than diminishes, a business’ ability to be self-sufficient.

Chapter 4: The funding ecosystem – Opportunities & barriers

53% of SMEs believe that hidden costs are the biggest barrier to securing funding

Opportunities in traditional and alternative funding

SMEs today have access to an expansive array of funding options, from traditional bank loans to more flexible, growth-focused capital.

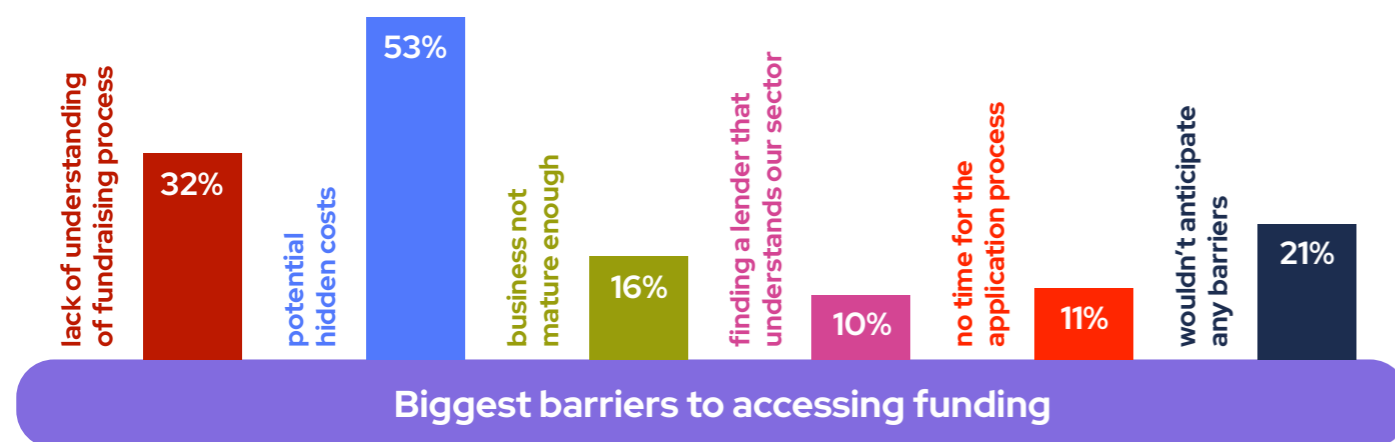
Despite the increased availability of alternative finance, traditional bank loans remain the most popular choice, with 47% of SMEs indicating that they expect to secure future funding from banks. For many, banks represent a familiar and trusted option, especially for more established SMEs that neatly fit within a traditional bank's lending profile. But what about the businesses that don't match this criteria?

Growth capital, such as term loans or growth credit, has become increasingly popular among SMEs that are perhaps less established, fast growing, or fall outside of the bank's lending criteria. These loans offer businesses the freedom to pursue growth strategies such as M&A, expansion, R&D investment and more, but without diluting any ownership. Equity finance still plays an important role in businesses at an earlier point in their lifecycle, but growth capital provides an excellent bridge between equity and the banks, for the SMEs that find themselves in this position.

Hidden costs are a barrier to access

Despite the availability of multiple funding options, 53% of SMEs identified hidden costs and fees as a primary barrier to securing growth capital. Many businesses report feeling apprehensive about unexpected expenses that only become apparent after the financing agreement is signed.

From a lender's perspective, addressing this issue requires a commitment to transparent communication, particularly around terms, fees and associated costs. Providing clear, up-front information is really the bare minimum that lenders should be offering businesses, but clearly more needs to be done to foster trust and improve SMEs' confidence in engaging with funders.



Knowledge gaps and lending criteria

Another significant barrier highlighted in our research is a lack of awareness around available funding solutions, with 29% of SMEs indicating insufficient knowledge of the fundraising process and the options available.

Paradoxically, when asked how they'd rate their own knowledge of available growth funding options, 23% of respondents claimed they'd rate it as 'very good' and 47% as 'good, but with a reliance on an advisor's expertise to fill in knowledge gaps'.

This inconsistency in responses only provides further evidence of a knowledge gap, because even where business leaders feel confident in their own understanding, it is clearly not sufficient to instil the confidence of the whole management team and/or business. There is a need for more accessible financial education, particularly regarding alternative finance options that are newer to the market and therefore less understood, because these can often be a better fit for businesses than traditional banking products.

For some SMEs, restrictive lending criteria pose additional challenges. Approximately 16% of respondents feel that their business is not mature or profitable enough to qualify for traditional loans, particularly those that are early in their business lifecycle. For about 10% of respondents, sector-specific issues present a further complication, as they believe certain lenders lack the nuanced understanding necessary to serve their industries effectively.

Overcoming these hurdles requires targeted support and clearer pathways for younger, high-potential companies that clearly want to fundraise, but do not know where to start.

Perception	Reality
53% of businesses believe that seeking funding will encompass hidden costs	Alternative lenders like Growth Lending pride themselves on transparency, with all costs clearly outlined at the beginning of the process
32% of businesses believe that a lack of understanding of the funding process is a major barrier to access	Funding should be a partnership, so if your lender or advisor isn't supporting you in understanding the process, there will be others out there who will
16% of businesses believe that they are not mature/profitable enough to access debt funding	Alternative lenders can offer more flexibility than the traditional banks, meaning that pre-profit and earlier-stage firms are eligible for debt funding too
10% of businesses believe that no lender would have a strong enough understanding of their sector	Non-bank lenders are usually more specialised, choosing to focus on a small number of sectors where they have a depth of knowledge, rather than being a catch-all solution. If you haven't yet spoken to a lender that understands your business, keep looking – the right one is out there

Chapter 5: Prioritising innovation & investment for growth

A third of SMEs believe R&D is essential for continued innovation and sustainable growth

Technology and digital transformation

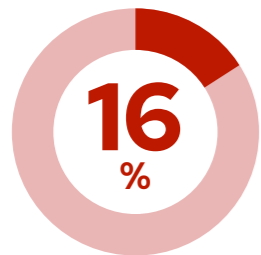
As UK SMEs strive to stay competitive, technology and digital transformation have emerged as vital growth strategies. According to our research, around 16% of respondents identified technology integration as a core area of focus. Investments in advanced tools such as AI, automation and cloud computing are enabling businesses to streamline operations, reduce overhead costs and improve customer interactions.

These technology investments provide SMEs with the flexibility to scale their operations without incurring the substantial upfront costs associated with physical expansion. For many, digital solutions are not just an operational enhancement but a foundation for long-term competitiveness in an increasingly digital market.

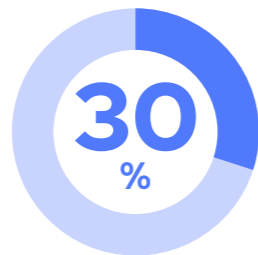
R&D for sustained innovation

Approximately 30% of SMEs have highlighted research and development (R&D) as essential for innovation and sustainable growth. While traditionally associated with sectors such as manufacturing and technology, R&D is increasingly important across various industries, as businesses look to create a sustainable competitive advantage. For some SMEs, investing in R&D is a way to keep pace with evolving market demands, develop unique products and ensure their offerings remain relevant in an ever-evolving environment.

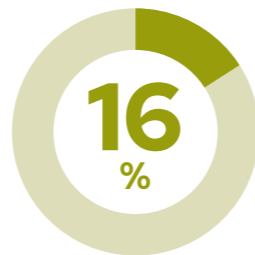
This commitment to R&D underscores the importance of innovation as a growth driver, enabling SMEs to continuously refine their value propositions and meet the shifting needs of their customer bases.



Technology integration



R&D



Talent

SMEs' biggest focus to support growth in the next 12 months

Talent acquisition as a strategic priority

As the competition for skilled workers intensifies, talent acquisition and workforce development have become essential components of growth strategies for UK SMEs. A notable 16% of respondents view talent acquisition as critical to achieving their expansion goals. The ability to attract, retain, and develop skilled employees is vital for implementing growth initiatives and maintaining competitiveness.

To navigate the talent shortage, many SMEs are embracing flexible work arrangements, investing in training programs and fostering inclusive, purpose-driven cultures. These strategies enable SMEs to offer an attractive alternative to larger companies that have greater financial resources but less flexibility. In the long term, developing an adaptable and skilled workforce is likely to be a crucial factor in SMEs' continued growth and resilience.

Closing words: Supporting UK SME growth in 2025

Given the challenges that businesses have overcome in recent years, breaking down barriers to growth and supporting thriving SMEs is essential for a flourishing UK business market. Our research highlights both the adaptability of UK SMEs as they chart a course through economic instability, but also the challenges they face as they begin to fundraise and accelerate growth.

It is promising to see such optimism from a community that has been plagued by challenge, but this report has revealed that much more is needed for these businesses to feel fully supported on their journey. Access to funding remains a pivotal concern, but hidden costs and lack of understanding are also key issues, highlighting the need for transparency and education to empower business leaders to make informed funding decisions.

The good news is that there is a growing ecosystem of support available to UK SMEs from public and nonprofit organisations, specialist corporate finance and debt advisory firms.

Our regional heads at Growth Lending have offered their own advice on how UK businesses can make their growth aspirations a reality:



Adam Brinn,
Regional Head

The past three years have been turbulent for business owners with a revolving door of pandemic, global supply chain issues, the war in Ukraine, the cost of living crisis and domestic political instability. Yet despite this uncertainty, it is pleasing to note that two thirds of business owners are confident in their growth prospects for 2025. This resilience has become the fuel for many entrepreneurs who are focused on moving forward.

Our report identifies an increasing understanding from business owners on the part that digital transformation has to play in maintaining competitive advantage, which, combined with investment in innovation, will create sustainable value. But "investment" is the key word. Business leaders need to press boldly forward when it comes to fundraising – make preparations early and start conversations with funding partners now – so that competitive edge can be maintained and continued growth becomes a firm reality.



Chris Mears,
Regional Head

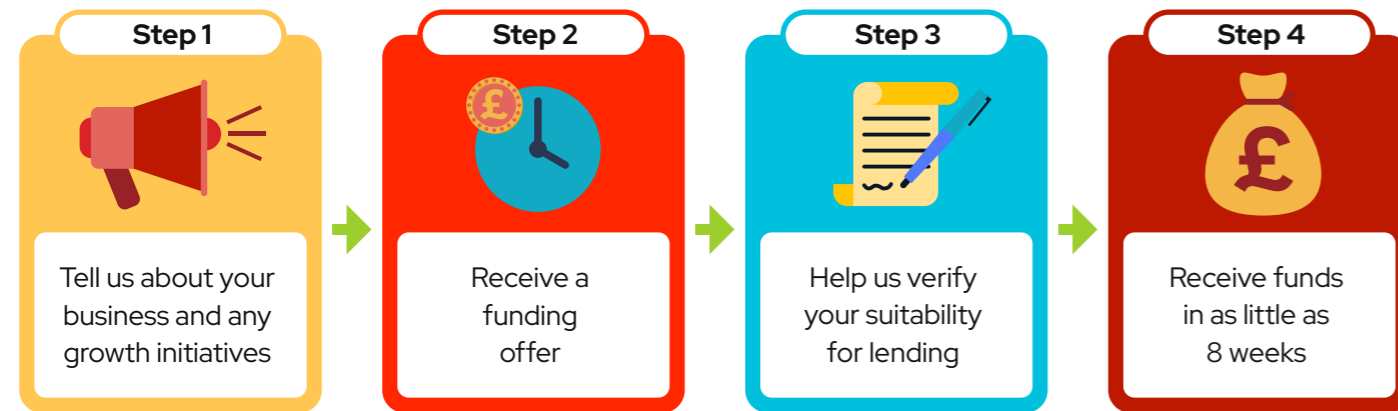
There is no substitute for a well thought-out plan, alongside proactive market engagement when it comes to securing funding for growth. While many businesses report that access to funding remains an issue, this is sometimes due to ineffective interactions with a highly fragmented and confusing funding market. For example, we often meet businesses that are convinced debt funding does not exist to support their plans and that equity is the only choice. We always enjoy coming up with options that unlock their brilliant plans – so the solution is usually out there, the challenge is just finding it!

In order to secure the right funding package it is crucial to build a plan that is credible, flexible and detailed. Embrace the risks and make them central to your planning. How will these risks be managed? What will you do if they play out badly? What is your plan B? In Mike Tyson's words – everyone has a plan until they get punched in the face – so then it's all about how you react. If you can show flexibility in your planning, alongside active market engagement, then you will have a winning formula.

Growth Lending's approach

We know how important funding is for the growth journey of innovative SMEs, which is why we are eager to offer our support, whether firms are just beginning their fundraising process, or are preparing themselves for the next step of their growth plans.

Fundamentally, we believe that the funding process should be smooth and transparent, with no surprises along the way. Take a look at ours below:



Get in touch

To find out more about how we can support your business's growth, please get in touch using the contact details below or at growthlending.com

Adam Brinn

Regional Head

E: adam@growthlending.com

T: 07519 375 314

Katherine Woodfine

Director of Debt Finance

E: katherinew@growthlending.com

T: 07790 802 962

Chris Mears

Regional Head

E: chris@growthlending.com

T: 07761 747 307

Sean McCormick

Director of Debt Finance

E: sean@growthlending.com

T: 07885 594 190

Growth lending