THE COST OF CAUTION

Are UK SMEs getting the growth versus stability balance right?

Growth lending

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Foreword

The UK economy today: a moment of reckoning

Foreword by Adam Brinn
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As we enter 2026, the UK finds itself at a pivotal crossroads. Economic growth remains modest – forecast at just 1.2–1.3% in 2025, a level that modestly exceeds 2024's performance but still falls well below long-term potential.

Meanwhile, inflation persists above target, currently sitting near 3.7–3.8%, even after recent downtrends. Adding to the challenge, gilt yields (the cost of government borrowing) have surged to historic highs not seen since the late 1990s, forcing policymakers to confront elevated public debt and financing pressures.

Corporate sentiment mirrors these constraints. Business investment remains muted; forecasts show only 1.6% growth this year, still well below the level needed to stimulate productivity. At the same time, structural weaknesses, especially low productivity, fragmented investment across regions, and wage pressures, are holding back long-term economic resilience.

Why growth through SMEs matters now

In this demanding environment, it is SMEs, especially the rapidly scaling businesses, that offer a lifeline. They are the engines of employment, innovation, and regional prosperity:

- SMEs make up 99.9% of UK private firms, account for around 60% of employment, and drive more than half of private sector growth output, particularly through business investment
- The manufacturing sector also leans heavily on SMEs; more than 250,000 out of 269,000 manufacturing businesses (roughly 90%) are SMEs, underpinning regional production and resilience
- In addition, high-growth SMEs, particularly in tech, health tech and clean energy, deliver outsized gains in productivity, employment and international competitiveness

These businesses are not just contributors to GDP, they are the creators of tomorrow. Amid weak macro-economic signals and elevated uncertainty, they represent the most agile and scalable agents of change.

A call to action

This report is grounded in an urgent imperative: SME leaders must recalibrate how they view capital and lenders must help these leaders to do so. Offering more transparent information around the use of debt in an economy where opportunity windows narrow quickly and the price of delay compounds fast, time becomes as valuable as money. The challenge is clear: we need growth. We need it now.

By reframing debt finance as a strategic tool, and by shedding outdated misconceptions, we can enable SMEs to act with confidence, speed and purpose. Because when these businesses are empowered to grow, the whole economy moves forward.

Growth Lending's mission

Against this backdrop, Growth Lending's purpose is clear: to unlock growth for ambitious SMEs by providing the capital they need, when they need it.

We believe that debt finance, structured with transparency and flexibility, is a positive catalyst for growth. Our role is to help businesses act at speed, seize opportunities, and scale, without sacrificing ownership or control.

By working in partnership with SME leaders, we aim to close the perception gap around borrowing, dismantle the myths that create hesitation, and deliver funding pathways that accelerate success.

Growth Lending exists to ensure that the UK's most dynamic businesses have the resources to grow stronger, faster and further: building resilience not just for themselves, but for the wider economy.

Executive summary

This report provides one of the clearest pictures to date of how UK SMEs perceive debt finance, and the opportunities they risk losing by delaying. Based on survey responses from 300 business leaders across sectors and regions, the findings challenge long-standing myths and highlight the urgency of timely decision-making.

Key findings at a glance:

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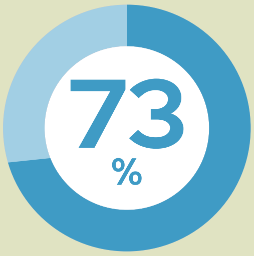
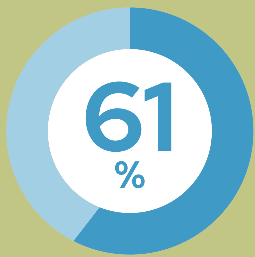
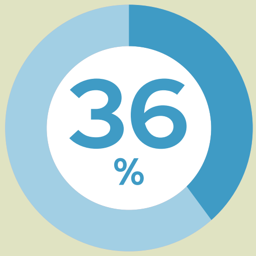


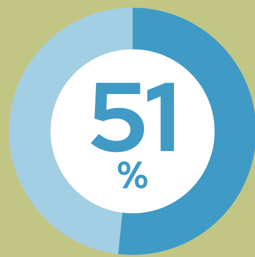
Experience is widespread: Nearly three-quarters of SME leaders have raised debt before, either in their current business (44%) or in a previous one (29%). Only 11% have never raised finance of any kind.



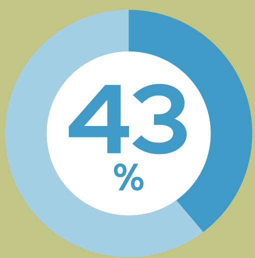
Perceptions remain cautious: 61% say taking on debt feels risky – yet 62% also acknowledge that delaying investment poses a greater risk. This contradiction underpins the UK's debt perception gap.



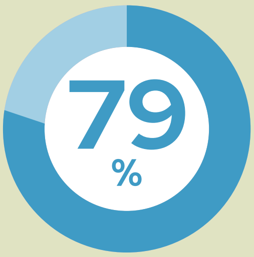
Barriers are literal, not figurative: Leaders cite hidden costs (36%), high interest rates (34%) and restrictive covenants (23%) as blockers to borrowing.



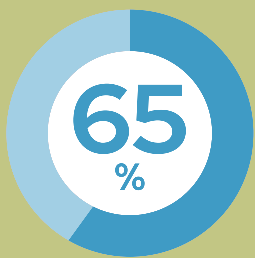
Time frames are short: 51% of SMEs believe they have between three and six months to act on opportunities before they close; 28% say less than three months. Delay is not neutral – it is a competitive disadvantage.



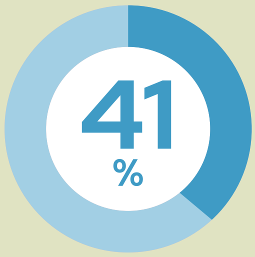
The cost of caution is measurable: 43% report losing between £250k and £1m in revenue due to insufficient cashflow, while 12% cite losses of £1m–£5m. Multi-million-pound erosion of value is a reality for cautious firms.



Debt is a growth enabler: 79% of SMEs say they must act within six months before opportunities disappear. It's the fast-growth firms that turn that urgency into an advantage, viewing debt as a growth enabler that slower peers can't match.



Equity isn't free: Despite 65% believing equity is cheaper than debt, this isn't necessarily the case, long-term. Structured debt enables preservation of ownership, which means any increase in value need not be shared.



Appetite for debt is real: 41% of SMEs say they are likely or very likely to seek debt finance in the next 12 months, with preferred facilities ranging from term loans and asset-based lending to invoice finance and revolving credit.

Introduction – Research rationale and market overview

The 'so what' for SME leaders

The message is clear: the greatest risk is not borrowing – it is waiting. Opportunity windows are closing, competitors are moving faster and the financial penalty of delay is rising. Debt finance, when structured transparently and aligned to growth needs, enables SMEs to act at speed, protect ownership and build resilience.

For SME leaders, the choice is not between risk and safety, but between seizing growth or watching it slip away.

For ambitious SMEs, growth is rarely a straight line. Markets shift, competitors move quickly, and opportunities can vanish as fast as they emerge. Yet one consistent truth remains: access to the right kind of finance determines whether a business can seize its moment or stand still.

In the UK, this question of access to finance has been debated for decades. Successive governments have highlighted SMEs as the backbone of the economy, accounting for 99.9% of private firms and more than half of national output. Yet these same firms repeatedly report difficulty in accessing capital when it matters most. Traditional banking models, shaped by risk aversion and stringent collateral demands, often leave a gap between ambition and action.

Into this gap step alternative finance providers such as Growth Lending, offering structured debt that is designed to match business needs more closely than one-size-fits-all facilities.

Why this research?

Growth Lending commissioned this study to better understand how UK SMEs approach debt finance today. While equity often dominates headlines – reinforced by media coverage of venture capital rounds and high-profile exits – debt remains one of the most immediate, flexible and scalable tools for enabling growth. Despite this, too many leaders remain wary of borrowing, and misconceptions about risk continue to hold companies back.

The survey targeted decision-makers in SMEs with revenues of £2m and above; businesses already on a growth journey and facing critical choices about funding their next stage of development.

It sought to answer three core questions:

1. **How do leaders really perceive debt, and what barriers stop them from using it?**
2. **What is the cost of delaying investment decisions, and how quickly do opportunities close?**
3. **When and why is debt finance the most appropriate funding choice for growing SMEs?**

What the data shows

The findings are clear: debt finance is not an abstract or unfamiliar concept. Nearly three-quarters of SME leaders (73%) have raised debt before, either in their current business (44%) or in a previous role (29%). Only 11% have never raised finance of any kind.

Yet despite this knowledge, hesitation persists. Many leaders continue to treat debt as a last resort rather than a proactive tool. Some of this stems from the scars of the 2008 financial crisis, when debt was associated with collapse rather than resilience. Others reflect cultural attitudes in the UK, where caution and conservatism often outweigh boldness when it comes to financial decision-making.

The data also underscores the fragmented nature of SME experiences. While some sectors – particularly tech and health tech – are accustomed to raising external finance, others such as logistics or professional services remain far more conservative. Regional differences also shape perception: firms in London and the South East report greater openness to borrowing, while those in the North and Midlands are more sceptical, often citing lack of trusted advice as a barrier.

Why this matters

The research shows that the debate is not whether SMEs understand debt, but whether they trust it. By exploring both the myths and the measurable outcomes of financing decisions, this report aims to reframe debt as a strategic tool.

For Growth Lending, the rationale is simple. If SMEs can unlock growth through structured borrowing, the UK economy as a whole benefits. Every product launched, every international market entered, and every new hire supported by debt finance contributes to productivity, competitiveness, and resilience. In an environment where the UK struggles with low productivity growth and subdued investment, unlocking SME finance is not a niche issue – it is central to national economic renewal.

The call to action

The introduction of this report sets the tone for what follows: a clear-eyed exploration of the perception gap, the risks of delay, and the sectoral nuances that shape financing behaviour. It is not enough to tell SMEs that debt can help them grow; we must show them, through data and analysis, why acting with speed and confidence is essential.

By bridging the perception gap and providing a clearer pathway to funding, businesses can make informed, timely decisions that strengthen both resilience and competitiveness. The chapters that follow build on this foundation, addressing the myths, modelling the cost of caution, and mapping the pathways that can turn ambition into achievement.

Chapter 1: Is growth worth the risk?

Two-thirds of SME leaders agree that delaying strategic investment poses a greater risk than borrowing.

If experience with debt is widespread among UK SMEs, why does hesitation persist? Our research reveals that the barrier is not capability, but perception. The paradox is striking: business leaders are familiar with debt, many have used it successfully, yet a deep-rooted sense of unease continues to surround borrowing.

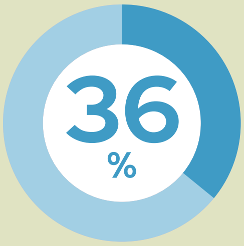
The scale of the perception issue

When asked directly, **61% of SME leaders agreed that taking on debt finance feels inherently risky**. This instinctive wariness stands in sharp contrast to the opportunities debt can unlock and suggests that negative perceptions continue to outweigh lived experience.

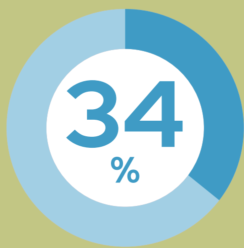
Yet the same dataset exposes a telling contradiction. **Almost two-thirds (62%) agreed that delaying strategic investment poses a greater risk than borrowing**. Leaders are, in effect, acknowledging the paradox at the heart of UK business culture: the fear of debt overshadows the fear of missed opportunity, even when the latter is clearly recognised as more dangerous.

What sits behind this contradiction?

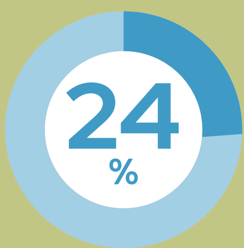
The survey sheds light on the factors that amplify this perception gap. The most frequently cited barriers include:



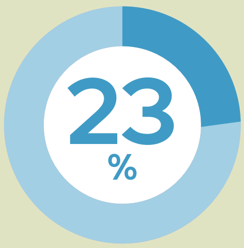
Hidden costs – 36% worry they will be hit with hidden fees or charges during the funding process.



High interest rates – 34% believe debt is simply too expensive in a high-inflation, high interest rate environment.



Lenders not understanding their business – 24% feel misunderstood or mismatched with mainstream providers.



Restrictive covenants – 23% highlight concerns that debt comes with strings attached, reducing their flexibility.

These concerns reveal that scepticism is not irrational. They point to lived frustrations with lenders and financing processes. SMEs are not rejecting debt outright; they are rejecting complexity, opacity, and a perceived imbalance of power.

Cultural and historical drivers

Beyond the immediate barriers, cultural attitudes play a role. The UK has a long history of conservative financial management. For many SME owners, particularly those who built their businesses organically, borrowing feels like ceding independence. The legacy of the 2008 financial crisis lingers too, when debt was linked in public discourse to collapse and instability. For younger entrepreneurs in high-growth sectors, these associations may be weaker, but for more established leaders they remain powerful.

International comparisons underscore this point. In the US, for example, borrowing is more widely accepted as a tool for expansion, with businesses often carrying higher levels of debt relative to equity. In continental Europe, meanwhile, cultural norms vary, but in many markets SMEs show greater comfort with structured finance. By contrast, the UK stands out for its persistent caution, even when opportunity costs are clearly recognised.

Why the perception gap matters

This gap has real consequences. If myths around cost, complexity, or loss of control remain unchallenged, SMEs will continue to default to caution – even when data shows that caution itself is the riskier path. The contradiction between perceived risk and recognised opportunity loss leads to inertia, slowing the pace of innovation and leaving SMEs vulnerable to faster-moving competitors.

Moreover, the perception gap creates inefficiencies in the financial system. Capital that could be productively deployed remains unused, while businesses that could thrive hesitate at the threshold. For lenders, this represents a missed opportunity to support the very companies that drive economic growth.

Reframing the narrative

The challenge is therefore not simply to provide capital, but to change the story around debt. This means:

- **Demystifying debt** – making costs, terms, and repayment structures transparent.
- **Highlighting positive case studies** – demonstrating how SMEs have used debt to accelerate growth without jeopardising resilience.
- **Addressing myths head-on** – challenging assumptions that equity is always cheaper, or that debt inevitably restricts flexibility.
- **Building trust** – positioning lenders as partners who understand sector-specific needs, not as remote institutions with rigid models.

A leadership issue

Ultimately, the perception gap is not only about finance — it is about leadership. Business leaders who can separate myth from reality, and who are willing to embrace informed risk-taking, are those most likely to thrive. By contrast, leaders who cling to outdated fears risk locking their businesses into cycles of missed opportunity.

Conclusion

The findings of this chapter set up a central theme for the report: UK SMEs are not constrained by lack of access to debt, but by lack of confidence in using it strategically. Addressing this gap is not simply an academic exercise. It is a call to action for SME leaders to reassess their assumptions, and for lenders like Growth Lending to provide the clarity and partnership that can transform hesitation into momentum.

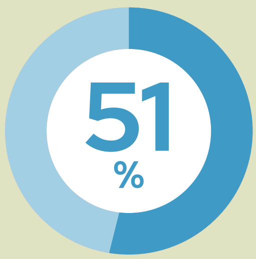
Chapter 2: Opportunity windows close quickly

Half of SMEs say they've delayed investment because they fear the economic climate will worsen.

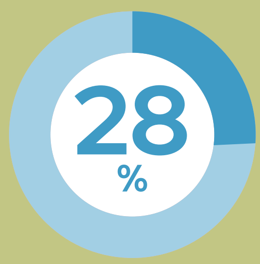
Growth opportunities rarely remain open-ended. Markets move fast, competitors adapt quickly, and customers shift loyalties at pace. For SMEs, the ability to seize a moment often determines whether they become market leaders or remain followers. Our research confirms just how narrow these windows have become for UK SMEs – and why hesitation carries such a heavy price.

How long do leaders think they have?

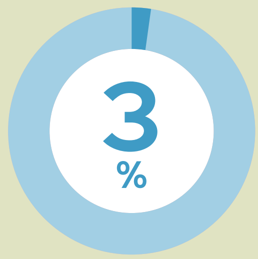
When asked how long they believe they have to act on a growth opportunity before it closes, the majority of leaders pointed to sharply limited timeframes:



51% said between three and six months



28% said less than three months



Only a small minority believed opportunities remained viable beyond a year

This finding demonstrates that SMEs view their operating environment as one where timing is critical. A six-month delay is no longer a minor setback – it can mean the difference between capturing market share and watching it disappear.

The paradox of awareness without action

The research also highlights a paradox. Leaders clearly recognise the short time frames in which opportunities remain open, yet many remain reluctant to use debt finance to move quickly. This hesitation reflects the perception gap identified in Chapter 1. Leaders see the window narrowing but hesitate to reach for the tools that could help them act. The risk, therefore, is not ignorance of timing, but failure to align financial strategy with market realities.

Sector dynamics: where the clock ticks fastest

- **Technology and health tech**: In these sectors, innovation cycles move at lightning speed. A six-month delay in launching a new product or entering a market can enable competitors to establish dominance. Leaders in these fields were among the most likely to describe opportunity windows as closing within three months.
- **Advanced manufacturing**: Here, the urgency comes from global competition and supply chain pressures. Investments in automation, sustainability, and capacity must be made quickly to keep pace with international rivals.
- **Professional services and logistics**: Although these sectors reported slightly longer opportunity windows, they too acknowledged that delay erodes compound growth. For service-based businesses, time lost often translates into missed contracts or weaker client relationships.

The cost of waiting in practice

Consider a fast-growth health tech business planning to scale into Europe. If funding is delayed by six months, competitors may capture key distribution partners, regulators may shift requirements, or customer trust may be secured by rivals. By the time the business is ready, the opportunity has either shrunk or vanished.

This is why timing matters so profoundly. Growth opportunities are not just about having the right idea; they are about executing faster than the competition.

Debt vs equity in the race against time

One of the strongest implications of this research is the relative advantage of debt over equity when speed is paramount. Equity deals often take months to negotiate and finalise, involving complex due diligence, valuation debates, and shareholder agreements. Debt facilities, by contrast, can be secured and deployed much faster – sometimes within weeks.

In an environment where most SMEs believe they have six months or less to act, this difference is critical. Debt provides agility, enabling leaders to match financing speed with market dynamics.

Leadership implications

For decision-makers, these findings should serve as a wake-up call. Leaders who cling to caution risk not only losing opportunities, but also signalling indecision to investors, employees, and customers. In today's competitive environment, the perception of hesitancy can be almost as damaging as the delay itself.

Conversely, leaders who act with conviction send a powerful signal of resilience and ambition. By aligning financing strategies with the short windows available, they demonstrate that they understand both the urgency of the market and the tools required to compete.

Conclusion

Opportunity windows are closing faster than ever. The research shows that SME leaders recognise this reality, but many remain slow to adapt their financing strategies accordingly. The contradiction is stark: businesses cannot afford to be cautious when the market clock is ticking.

For Growth Lending, the message is clear. SMEs need better support to act before these opportunity windows close. They need well-structured debt facilities that are tailored to the specific demands of their business, provided by a lender that truly understands their vision for growth. In a world where opportunity is measured in months, not years, debt is not just an option: it is a competitive necessity.

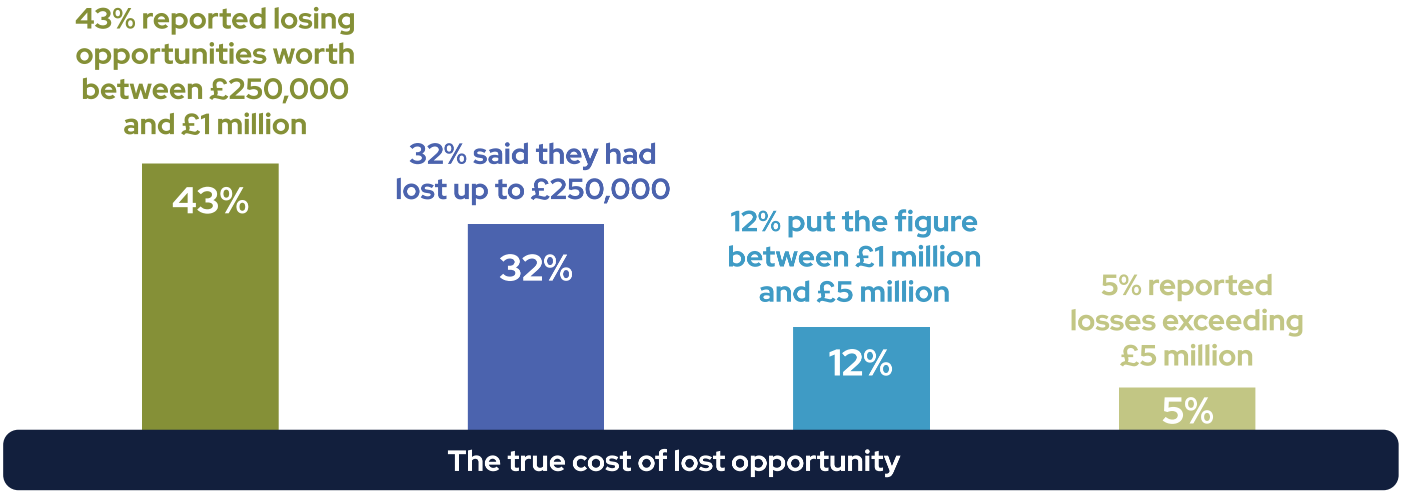
Chapter 3: The cost of caution - why speed matters

One in three firms admit missed opportunities due to delayed finance decisions.

Caution is often framed as prudence — but in the world of fast-moving SMEs, it can be one of the costliest decisions a leader makes. While restraint may protect against overextension, it also carries a less visible price: missed opportunities, eroded valuations, and diminished competitiveness. Our research quantifies just how heavy this cost can be.

What SMEs report losing

We asked business leaders to estimate the financial value of growth opportunities they had lost due to insufficient cashflow or delayed access to finance. The results are sobering:



For many SMEs, even a £250,000 missed opportunity can represent a year's worth of R&D, a new product line, or a regional expansion. At the higher end, multi-million-pound losses directly erode valuations, stunt growth trajectories, and in some cases, threaten long-term survival.

How delay compounds

The cost of caution is not static — it grows over time. Scenario modelling makes the picture starker still:

This compounding effect explains why many SMEs that delay investment find themselves in a "catch-up cycle" — perpetually reacting to competitors rather than setting the pace.

Beyond the balance sheet

The true cost of caution extends beyond financial metrics. Delays can:

- **Undermine investor confidence**, as external stakeholders interpret inaction as indecision.
- **Erode employee morale**, with teams frustrated by stalled projects or missed chances to innovate.
- **Damage customer relationships**, as clients gravitate toward competitors that act faster to meet evolving needs.

These intangible effects, though harder to quantify, weigh heavily on long-term resilience.

Equity vs. debt in avoiding delay

Equity often appears attractive because it provides capital without immediate repayment obligations. Yet equity deals can take months to negotiate and frequently involve dilution of ownership. For SMEs aware that opportunities may vanish in under six months, this timescale is misaligned. Debt, by contrast, can be accessed quickly, structured around business needs, and repaid in line with future revenues.

This speed advantage is central to addressing the cost of caution. By deploying debt decisively, SMEs can convert opportunity into action before the window closes, avoiding the compounding penalties of delay.

Leadership mindset: reframing prudence

The data shows that many SME leaders equate caution with safety. But true prudence in today's economy lies not in avoiding debt, but in deploying it strategically. Leaders who remain overly cautious risk stagnation. Those who act with informed boldness – balancing manageable levels of debt against measurable returns – are the ones who safeguard long-term resilience.

Conclusion

The research makes one point unambiguous: caution has a cost, and it is often higher than the cost of borrowing. For SMEs, delaying investment is not a neutral choice – it is a decision with tangible financial, operational, and cultural penalties.

Debt finance, when accessed decisively and structured transparently, changes this equation. It enables businesses to act before opportunities slip away, ensuring that prudence means securing the funds needed to grow, not waiting until it's too late.

Chapter 4: The dilution dilemma

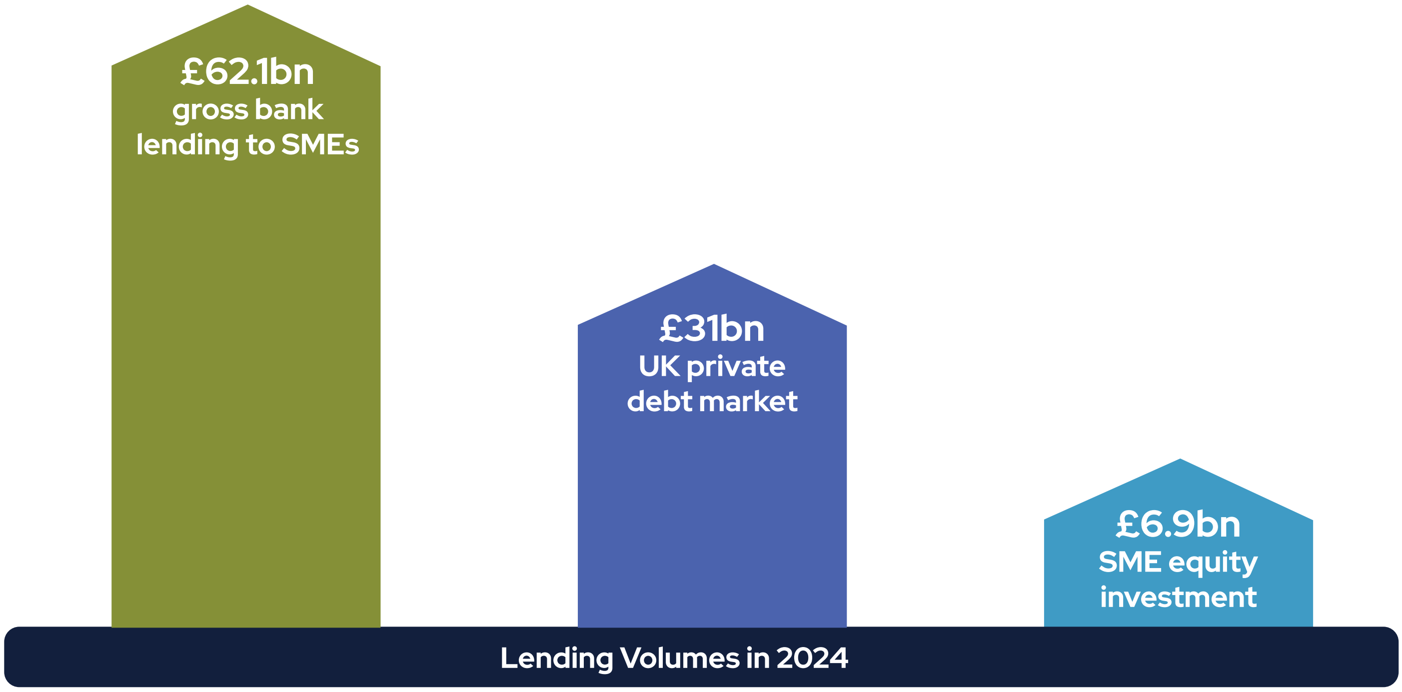
The UK's equity finance market has retreated to pre-pandemic levels, while mid-market private-debt has increased 74%

Recent data from The British Business Bank reveals a cooling in equity markets and a renewed reliance on debt across the UK SME landscape*.

Gross bank lending to SMEs reached £62.1bn in 2024, up 4.9% year-on-year and the third-highest total since records began in 2012.

By contrast, the UK's equity finance market has retreated to pre-pandemic levels. Total SME equity investment was £6.9bn across the first three quarters of 2024, only 7% higher than 2023 and comparable with 2019–2020 activity. Deal volumes tell a starker story: 1,303 equity deals were completed in that period, 24% fewer than 2023 and the lowest count since 2016.

Within that total, growth-stage companies raised £2.95bn (up 30% year-on-year) and seed-stage firms secured £1.26bn (up 8%), but venture-stage investment fell 12%. The third quarter of 2024 was the weakest since 2013, signalling investor caution amid high borrowing costs and few exit opportunities.



At the same time, private debt markets strengthened. Mid-market private-debt deals rose 74% year-on-year, and the UK remained Europe's largest private-debt hub, averaging 59 deals per quarter versus 48 in France. The total value of UK private-debt fundraising reached £31bn, down 35% on an exceptionally strong 2023, but still the second-highest year on record, reflecting continued investor appetite for yield in a high-rate environment.

The overall picture is one of correction: equity capital remains constrained by subdued valuations and longer exit timelines, while debt, particularly asset-backed and private-fund structures, is regaining ground as a more accessible and, for many SMEs, cheaper source of growth capital.

*Source: www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2025-02/small-business-finance-market-report-2025.pdf

Why equity feels cheaper

Equity has long been portrayed as the "safer" route to accessing growth capital – a way to avoid repayment obligations and bring in supportive investors. Yet this perception overlooks the hidden cost of dilution. Our research highlights how pervasive this misconception is: 65% of SME leaders believe equity finance seems more affordable than debt.

To be clear, this is not about regurgitating the age-old debt versus equity debate.

Capital raised via equity requires no monthly repayments, no interest charges, and the injection of capital often comes with external validation – investors willing to back a business signals confidence across the market. Earlier-stage businesses also benefit from the expertise and access to a professional network that equity investment often entails.

At the right time, for the right business, equity absolutely is the right choice. But is it over-used in situations where actually, debt would be more appropriate?

When debt compares favourably

For scaling businesses that have already raised cash via equity funding (and therefore already yielded ownership stakes), pursuing a fundraising route that involves further dilution may not be the most appealing option.

Similarly, if such a business is on a high-growth trajectory, the perception that equity is "cheap" capital is flawed. In reality, an equity investor's stake could be worth considerably more than the equivalent interest on debt once the business has achieved its growth goals.

Equity funding	Debt funding
Loss of control: New investors may demand board representation, influence over strategy, or veto-rights on major decisions. Founders may find their vision compromised.	**Preservation of ownership:** Founders and early investors retain control of their vision and reap the full benefits of success.
Dilution of returns: Giving away 10% of equity may seem reasonable today, but if the business grows tenfold, that stake represents a vast transfer of value away from original shareholders.	**Alignment with revenue growth:** Facilities can be structured so that repayment schedules align with cashflow, reducing pressure during growth phases.
Extended timelines: Equity deals can take months to negotiate, delaying the very growth they are designed to fund. In fast-moving markets, this delay can mean missed opportunities.	**Speed of access:** Some debt facilities can be secured within a matter of weeks, enabling businesses to act on opportunities before they close.
	Flexibility: There is a vast range of debt facilities on the market, designed for all types of business challenges. Non-bank lenders are also more likely to tailor facilities to the specific needs of a business.

Deeply embedded misconceptions

Debt empowers leaders to act without diluting their long-term reward, but the belief that equity is cheaper and therefore better is reflective of deep-engrained cultural narratives.

In the UK, high-profile stories of venture-backed start-ups dominate headlines, reinforcing the idea that equity is the default pathway to growth. Less visible are the thousands of SMEs that quietly but successfully scale using debt. Changing this narrative requires reframing debt as a strategic enabler that protects ownership, and ensuring that the processes for securing debt finance are simple and transparent.

Implications for leaders

For SME leaders weighing their options, there needs to be an understanding that equity is not free. Debt, when structured transparently and deployed strategically, often proves to be the more cost-effective choice.

Leaders must ask: Is equity truly the right tool for this stage of growth? And if not, what types of debt facility should I be pursuing instead?

Conclusion

Our research shows that a majority of SME leaders misunderstand the true cost of equity - 65% believe equity finance seems more affordable than debt, despite the long-term cost of dilution. Correcting this perception is vital. By highlighting the long-term trade-offs of dilution and the advantages of structured debt, this report aims to empower leaders to make choices that preserve value, accelerate growth, and maintain control.

Chapter 5: Funding pathways

How SMEs plan to fuel their next phase of growth

If the perception of debt is shifting, what types of funding do SMEs actually want – and at what terms? Our research sheds light on the practical pathways leaders are considering. The findings reveal not only current preferences but also the underlying priorities of SMEs as they balance growth ambition with financial prudence.

Preferred facilities

SMEs are not monolithic in their needs. When asked which forms of debt they currently use or would consider, responses were spread across a wide spectrum:

SMEs' debt preferences

39%

Term loans remain the most popular, valued for their clarity and predictability. They are particularly attractive to SMEs making defined investments such as acquisitions or capital projects.

37%

Asset-based lending appeals to manufacturers and capital-intensive sectors, where physical assets provide collateral.

35%

Invoice finance remains a powerful option for firms with long payment cycles, especially in B2B sectors such as logistics or wholesale.

33%

Overdraft or credit card
Short-term liquidity tools remain a mainstay for managing everyday cash pressures.

26%

Revolving credit facilities suits firms with fluctuating cashflow needs, providing flexibility in managing peaks and troughs.

23%

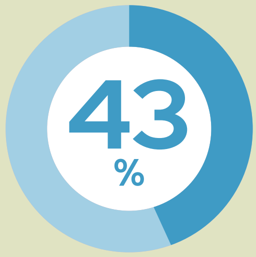
Venture debt loans
Venture debt bridges the gap between equity and conventional lending for high-growth firms.

Growth loans and mezzanine finance are more niche but play a critical role in enabling ambitious firms to scale rapidly without ceding equity.

This diversity suggests that businesses are looking for solutions tailored to their specific cashflow patterns, sector dynamics and investment horizons, rather than a one-size-fits-all approach.

Interest expectations

Pricing expectations also reveal how SMEs view the cost of debt:



Expect interest rates between 6–8%

Place their expectation higher, at 9–11%

Smaller proportions were open to lower or higher ranges

These figures suggest pragmatism. Leaders are not expecting "cheap money" in today's higher-rate environment. Instead, they are prepared to absorb costs if the facility enables growth. What matters is transparency and alignment with business needs not headline rates alone.

Borrowing intentions

Crucially, appetite for debt is not theoretical. **41% of SMEs say they are likely or very likely to seek debt finance within the next 12 months**. A further 28% are neutral, representing a persuadable middle ground, while 31% remain unlikely or very unlikely.

This split creates a clear commercial opportunity. There is an immediate market of willing borrowers, alongside a large cohort who could be swayed if concerns around cost, transparency, and lender understanding are addressed.

Sectoral nuances

Technology and health tech firms are more likely to seek flexible facilities such as growth loans or revolving credit, aligning financing with rapid expansion needs.

Manufacturers lean toward asset-based lending, using machinery or property as collateral.

Professional services and logistics often express interest in invoice finance, smoothing cashflow during client billing cycles.

These preferences underscore the need for lenders to understand sector-specific dynamics rather than offering generic products.

The product matrix in practice

The market demands a structured product suite that can:

- Support both working capital needs and strategic investment
- Offer flexibility without hidden costs or restrictive covenants
- Scale alongside business growth without forcing premature equity dilution

This means alternative lenders must offer a matrix of options that SMEs can navigate depending on their size, sector, and stage of growth. For example, an early-stage tech company with recurring revenues may require a growth loan structured around future ARR (annual recurring revenue). A mature manufacturer may need a longer-term facility secured against equipment. A logistics firm might value revolving credit to handle seasonal peaks.

Addressing barriers

Our earlier findings (Chapter 4) showed that SMEs remain concerned about hidden costs, restrictive covenants, and lenders not understanding their business. Funding pathways therefore need to address not just the mechanics of products, but the trust deficit between SMEs and lenders. Transparency, tailored structuring, and sector-specific expertise are critical in converting intent into action.

Leadership implications

For SME leaders, the key takeaway is to look beyond surface-level comparisons of cost. The "cheapest" option is not always the most effective. The right facility is the one that aligns with growth ambitions, cashflow realities, and sector dynamics. Leaders must also challenge internal biases – asking whether hesitation reflects real barriers or outdated perceptions.

Conclusion

Funding pathways are not abstract. They are the practical routes that determine whether SMEs can move at the pace of opportunity. The diversity of preferences revealed in this research demonstrates both demand and complexity.

For lenders, the challenge is to provide clarity and choice, ensuring SMEs see debt not as a last resort but as a first-choice enabler of growth. For leaders, the imperative is to act decisively, selecting the facility that best matches their ambition and ensuring finance becomes a tool for resilience, not hesitation.

Conclusion

The insights in this report point to a simple truth: caution carries a cost, and decisive leaders create resilience. To turn research into action, SME decision-makers can follow a clear sequence of steps to evaluate debt finance and move confidently.

Audit your growth pipeline

- Map upcoming opportunities over the next 24 months.
- Categorise them by urgency: what must be seized in the next 3–6 months, and what can wait?

Quantify the cost of delay

- Use internal data to model revenue and valuation impacts of waiting.
- Compare the potential loss against the cost of financing – the figures will often favour acting now.

Challenge perceptions

- Test internal assumptions about debt. Are concerns based on data, or on myths?
- Revisit fears around "hidden costs" or "loss of control" in light of transparent financing structures.

Consider ownership vs. borrowing

- Ask whether equity is really cheaper once dilution is factored in.
- Model long-term outcomes of giving away ownership versus servicing structured debt.

Identify the right facility

- Match facility type (term loan, invoice finance, asset-based, revolving credit) to your growth need.
- Ensure repayment schedules align with expected cashflow.

Select a trusted partner

- Look for lenders who demonstrate sector understanding, flexibility, and transparency.
- Build relationships with those who offer clarity rather than complexity.

Move at speed

- Once decisions are made, act quickly. Opportunity windows are closing faster than ever.
- Treat debt as a catalyst for seizing growth, not as a fallback when equity is unavailable.

By following this checklist, SME leaders can reframe borrowing as a proactive strategy rather than a defensive necessity. The most successful businesses will be those that balance prudence with decisiveness – acting on opportunity, not waiting for it to pass.

Methodology

This report is based on original research commissioned by Growth Lending to explore SME leaders' attitudes toward debt finance.

Fieldwork was conducted via an online survey in **Autumn 2025**, capturing responses from **300 UK business leaders** with responsibility for company finance. All participants represented organisations with an annual revenue of **£2 million or more**, ensuring the findings are directly relevant to larger SMEs with meaningful growth ambitions.

The survey was carried out using a **verified online panel**, with rigorous quality-control measures in place throughout to ensure accuracy and reliability. Respondents covered a wide spread of sectors, growth stages, and regions, allowing meaningful segmentation and comparative analysis across the UK market.

This methodology provides a robust evidence base for the insights presented in this report, enabling Growth Lending to draw clear, data-driven conclusions about the role of debt in supporting SME growth.

Growth lending