

Fintechs will bring festive cheer for struggling SMEs

The festive season is crucial for thousands of small businesses in the UK. Many depend on this period to make the vast majority of their sales - and more so this year than ever.

But due to the cost of living crisis and major supply chain disruption, SMEs are facing devastating challenges and will struggle to survive what should be the most wonderful time of the year.

Luckily, fintech solutions could provide a lifeline for the small businesses struggling through disruption. In particular, innovative tools like supply chain finance can enable businesses to optimise cash flow at a time when they need it the most.

The current economic landscape is setting SMEs up for failure

Small businesses just can't seem to catch a break.

Brexit shrank customer bases for half of UK businesses whilst also causing supply chain issues for 43% of enterprises. Price hikes also meant two in five businesses saw an increase in the cost of importing goods.

Covid then *thoroughly confused consumer demand* and reduced sales. Businesses estimate that between April and June 2020, sales were 30% less than they should have been were the country not in lockdown. Labour

shortages are still causing problems, with over half (59%) of firms finding it 'much harder' to recruit new employees than it was before Covid hit.

Russia's invasion of Ukraine only exacerbated the impact of the pandemic, raising the cost of energy, shipping and commodities and disrupting supply chains once more. All this has resulted in an ever-worsening cost of living crisis that is causing consumers to tighten their belts.

Fundamental changes to fiscal and tax policy have hit small businesses in the UK particularly hard. In November's Autumn Budget, Jeremy Hunt announced stealth tax freezes that will likely erode the post-tax income of SMEs just when they need a boost. Increasing the national minimum wage will also increase their costs.

According to the Federation of Small Businesses, electricity costs increased by an average of 349% between February 2021 and August 2022. Plus, the Customer Prices Index shows that the national inflation rate is at its highest since the report was first published in 1997.

While all this means small businesses will face higher costs and less security all-round, the continued supply chain chaos is leading to bigger problems. SMEs supply chains are now under attack with major sectors such as haulage seeing large staff shortages. Price hikes of some commodities plus unfavourable exchange rates are already forcing over 40% of SMEs to close.

Overall, small businesses are facing unprecedented challenges which can – and are – jeopardising their chance for success in 2023.

The importance of the festive season for businesses

Data now suggests that small and medium-sized businesses expect to make two-thirds of their annual revenue from November to January this year. In fact, 75% of UK SMEs expect to generate more revenue this holiday season than they did in 2021. Some 67% of UK consumers say they plan to spend as much around Christmas as they did last year, or even more.

Cost of living pressures and supply chain issues could derail hopes for the bumper season they so desperately need. There's a worrying prospect 88% of consumers admit they will cut spending if economic problems get worse.

And if consumers do attempt to spend the amount they hope, there's no guarantee that small businesses will be able to fulfil their orders. Nearly nine in ten (89%) of UK small businesses predict that they won't have the inventory

they need to meet festive demand, and 96% are already experiencing shipping or fulfilment challenges.

SMEs need help mitigating these issues as they step into the festive season.

Fintechs are here to save the day

Small businesses are being forced to look for extra financial support during this difficult time. But very few banks are able to offer tailored solutions to help them. This is because they don't tick enough boxes for standard financial institutions, and therefore often have to rely on an ordinary overdraft or credit card to access extra cash.

Fintechs are smaller and more agile, and use innovative technology to come up with tailored solutions for their customers. Providers like Muse are launching alternative finance solutions to help SMEs access essential funding without sending them further into debt.

One of these solutions is supply finance. This allows businesses to lengthen supplier payment terms and gives them the option to get paid by customers early. It's a lifeline for businesses who might want to take advantage of the festive rush even if they're struggling to meet supplier invoices with short credit terms.

Each provider will offer a slightly different service, but they'll all be a better option than anything a bank can offer. For example, Muse's solution gives you 120 days to repay the invoice, and in the meantime you can sell your products to customers and keep your focus on business growth.

Small businesses had no time to recover from Covid before the cost-of-living crisis reared its ugly head. Each year, they need the festive season to boost annual profits and put them in good stead for the next. Fortunately, fintechs could provide much-needed financial support and bring back some festive cheer for business owners.

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