

# The State of Small Business Britain

## Navigating Uncertainty

### 1 Small businesses and the economy

There were **5.7 million businesses** in the UK in 2025

- **99.9%** of these were classified as SMEs (0-249 employees)
- **99.2%** were small firms (0 to 49 employees)
- **95%** were micro-businesses (0-9 employees)
- **74%** of businesses have no employees<sup>1</sup>

**36%**  
of working-age individuals **intend to start a business** within the next 3 years or are trying to start/already running a business<sup>2</sup>

### 2 Small business growth

Each year many small businesses are born in the UK, but **most do not survive** in the longer term, and only a minority experience 'high growth'



Sustained turnover growth is also uncommon. Just **under 15 per cent** of SMEs **achieved sustained growth** between 2021-2024<sup>3</sup>



Looking over the long term, micro-businesses make a disproportionate **contribution to job growth**, creating more jobs on average than larger business

### 3 Business challenges

Key challenges for small businesses include:



Technological change



Geo-political instability



Cost of living

Top constraints on small business turnover include:



Economic uncertainty



Increasing competition



Cost of labour<sup>4</sup>

### 4 Investment and innovation

External shocks (Brexit and Covid-19) have adversely affected investment in firms



Micro-businesses consistently **lag behind** larger SMEs on **R&D investment and innovation**



The proportion of SMEs reporting product or service innovation has **decreased every year since 2021**



The proportion of SMEs reporting either **product or service innovation** fell to

**24%** in 2024<sup>5</sup>

## 5 Digital adoption

More firms are seeking assistance with **digital adoption**, but micro-businesses lag behind

AI has notably high adoption rates compared to other digital technologies:

**45%** of all businesses said they had **adopted AI**



The rate of AI adoption **increases with firm size**, and frontier firms are amongst the highest adopters<sup>6</sup>

**Digital adoption can bring risks.**

**47% of businesses** said they had experienced a cyber security breach or attack during the last 12 months, with small firms more vulnerable<sup>7</sup>



## 6 Workplace mental health and wellbeing

Our research shows workplace mental health issues are widely experienced by businesses:



**37%** of businesses reported issues with **presenteeism** in the workplace



**25%** of businesses reported incidence of **mental health absence**



The long-term adoption of initiatives is associated with **better productivity**



But only **50%** of businesses had **adopted mental health initiatives**



Smaller businesses were much **less likely to adopt initiatives**<sup>8</sup>

## 7 The small business ecosystem

Experts surveyed for the GEM Survey<sup>9</sup> rate the UK's entrepreneurial environment as



**'less than sufficient'**



Financing emerges as a key area of concern, with the **sufficiency and ease** of getting financing both rated as **below adequate**



**Entrepreneurial education** is also an area of concern, particularly at school age



The level of support for **women's entrepreneurship** was rated as inadequate



More widely, the UK's business support system remains fragmented, and is now **under severe funding threat**

## 8 Priorities for action



**Stabilise the business support system**



**Provide better support for micro-businesses**



**Encourage and enable more innovation**