Enginuity®

SME Snapshot

July 2025

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Foreword

With the government laser-focused on driving economic growth, ensuring SMEs (small and medium sized enterprises) are heard by policymakers is critical to the success of this mission. Representing more than 90% of the manufacturing sector alone, SMEs are the backbone of the UK economy.

Enginuity - a former Industry Training Board and Sector Skills Body - have produced this report as part of our mission to help employers in the manufacturing and engineering sectors to close the skills gap. The report captures insight from **135 manufacturing and engineering micro and SMEs** from across the UK, who represent **6,500 employees** and **£1.1 billion pounds worth of sales**.[1]

When it comes to accessing the talent they need, the message from SMEs is clear: The UK labour market and skills system is not working for the majority. Only 15% of SMEs think that the UK labour market is attractive, and only 24% said that labour and skills shortages have not affected their business. 80% of SMEs also experienced difficulties finding suitable staff when recruiting in the last 6 months.

The publication of the Industrial Strategy and the recognition of Advanced Manufacturing as a growth driving sector is a much-needed signal of the Government's intent to kickstart economic growth. This report demonstrates that awareness of these publications is high, with 79% of SMEs stating that they are aware of the Industrial Strategy and Advanced Manufacturing Plan. Looking to the future, there is a lack of consensus about how these publications will affect their business outlook: 30% of SMEs have a slightly more optimistic or significantly more optimistic outlook for their business over the next 12 months, whilst 44% report no change to their outlook for the next 12 months

SME's welcome the Government's mission to break down barriers to opportunity, and the mandate for Skills England to work with stakeholders to create better skills for better jobs, enabling growth and opportunity. But since taking office, the Government has introduced a flurry of skills reforms in England: shorter apprenticeships, Level 7 funding changes, new foundation apprenticeships, apprenticeship assessment reform and the transition from IfATE to Skills England. These reforms, though well-intentioned, risk overwhelming SMEs rather than supporting them; they represent significant changes to a skills landscape SMEs already struggle to engage with, due to previous cycles of rapid policy change from the last decade of government.

At the same time, last year's Autumn Budget hit SMEs hard, raising employment costs and forcing them to focus on balancing their books, rather than pursuing growth opportunities. The results of this survey evidently demonstrate that impact, with almost 9 in 10 (89%) SMEs identifying labour costs as a source of pressure to raise prices.

[1]based on data gathered from Dun and Bradstreet Hoovers (where possible) combined with average values from the survey, where further data could not be gathered.

To unlock public and private sector investment in skills we need to replace fragmentation with cohesion, complexity with clarity. We need strong institutional arrangements, employer commitment, cultural esteem for vocational learning, and long-term policy continuity. This will allow SMEs to help the Government meet its ambition to kickstart economic growth, break down the barriers to opportunity, and make Britain a clean energy superpower.

We have two asks of Government based on the findings of this report:

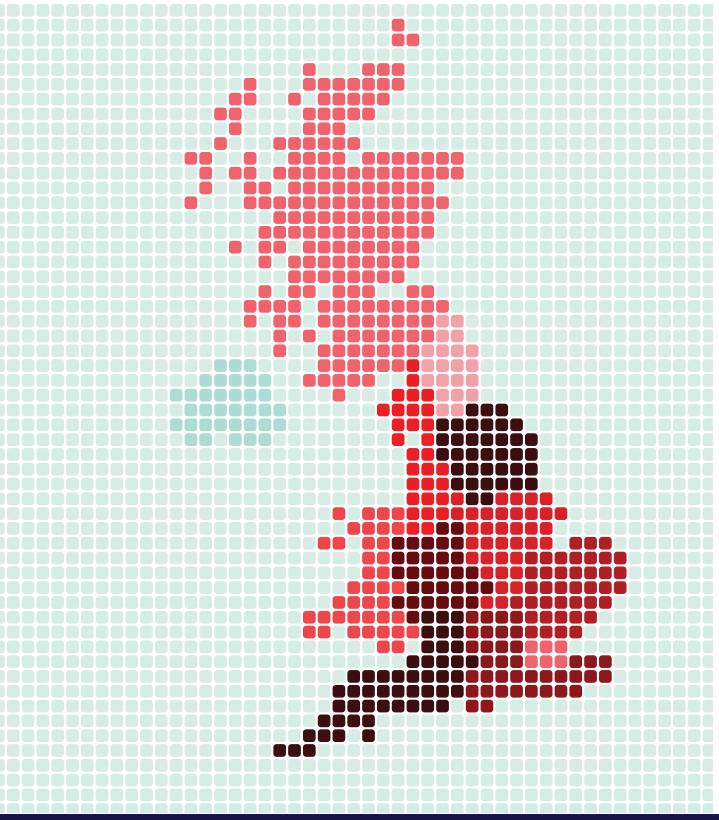
- **Move past short term policy chop and change and inject stability into the skills system, giving stakeholders time for reforms to embed and yield benefits.** The Industrial Strategy sets a helpful 10-year vision, and DfE should strive to match this longevity within the upcoming skills strategy. To refine its remit, Skills England's focus should be targeted at big picture strategic planning, rather than short term adjustments that create disruption, confusion and uncertainty.
- **Embed SME engagement into policy creation to ensure that skills interventions are employer led and truly accommodate industry needs.** To be a genuine partner in the Government's growth agenda and deploy significant investment in training, SMEs must be able to help shape the skills landscape they operate within. From inception to consultation, and right through to implementation, SME input needs to be built into the policy governance process. To secure successful delivery, policy changes should be tried and tested with SMEs from a range of sectors. A good starting point would be to introduce SME representation into the Industrial Strategy Council and Skills England board, where it is currently absent.

Ahead of the publication of the post-16 strategy and in preparation for the next fiscal event, we urge policymakers to consider the challenging impact of recent policy announcements on SMEs and the culminative burdens they are facing.

We hope this snapshot supports policymakers, industry bodies, and investors to better understand not just the pressures SMEs face – but how to support the role they play in driving the UK's next chapter of growth.

Poppy Bramford
Policy Manager

The Sample



- South West **22%**
- Yorkshire & Humber **21%**
- West Midlands **18%**
- South East **11%**
- East of England **8%**
- East Midlands **7%**
- North West **5%**
- Wales **4%**
- London **2%**
- Scotland **2%**
- North East **1%**

The SME Snapshot was developed to better understand how these firms are responding to current economic and policy developments. The report offers insights for policymakers and our SME community on their priorities, pressures and plans.

135 employers completed the survey, representing **6,500** employees and **£1.1 billion** pounds worth of sales.[2]

How many employees does your company employ in the UK?

1-9 **20%**

10-50 **50%**

51-250 **28%**

251-499 **2%**

What are the main sectors that the company operates in?*

Industrial Manufacturing **56%**

Automotive **29%**

Mechanical Engineering **26%**

*Respondents were given the option to select up to 3 sectors that they supply into. SME manufacturers and engineering businesses often do not fit neatly into a single sector definition.

[2]based on data gathered from Dun and Bradstreet Hoovers (where possible) combined with average values from the survey, where further data could not be gathered.

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Access to talent

The labour market and skills system are not working well for the majority of SMEs

Only 15% of SMEs agree or strongly agree that the UK labour market is an attractive place to do business. More than half of the SMEs who attempted to recruit in the last 6 months experienced difficulties finding suitable staff.

Of the 70% of SMEs that attempted to recruit during the last 6 months of the year, 80% experienced difficulties finding suitable staff during recruitment.

Fig. 1 Have you attempted to recruit staff over the last 6 months?

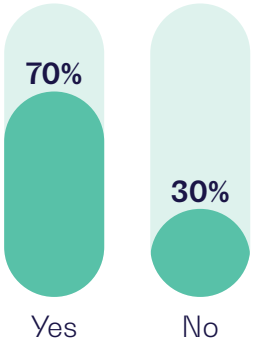
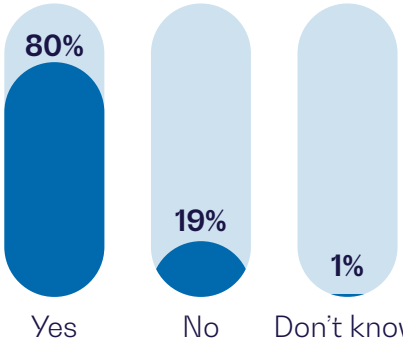


Fig. 2 Did you experience any difficulties finding suitable staff during recruitment?



The two biggest threats identified by employers to the competitiveness of the UK labour market are skills shortages, where the labour is available but not with the right skills for the role (73%) and labour costs (70%).

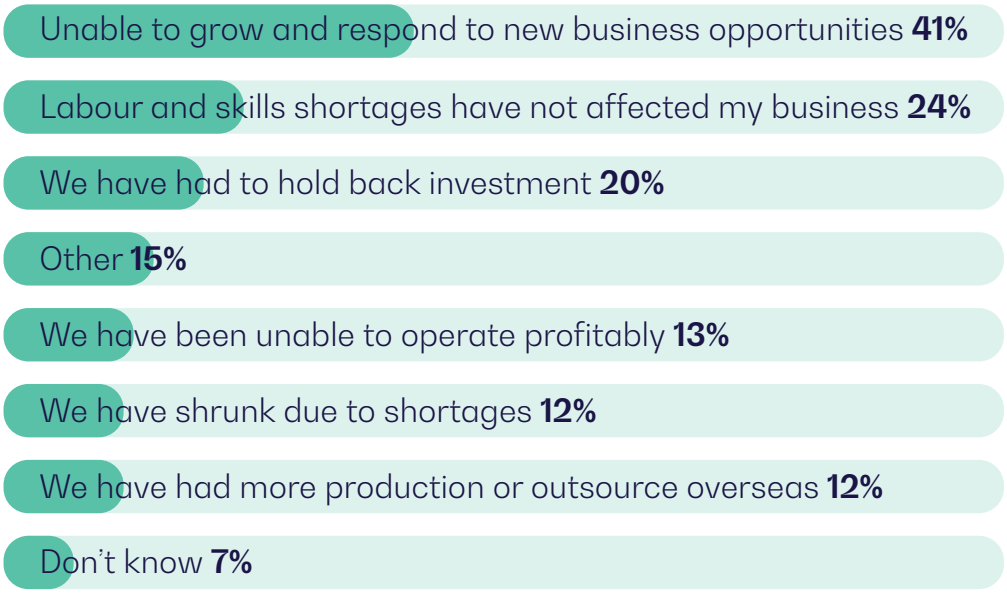
Skills shortages were much more commonly cited (73%) than labour shortages (44%). This aligns with research that shows manufacturing has the 3rd highest skills shortage vacancy density, sitting at 42% of all vacancies in 2022 (up from 29% in 2017).[3]

[3]DfE, Employer Skills Survey, 2023.

When asked about the impact of labour and skills shortages, 41% of SMEs told us that they have been unable to grow and respond to new business opportunities despite demand. 20% have had to hold back investment.

Only 24% of SMEs said that labour and skills shortages have not affected their business and that they have not had difficulties filling vacancies, suggesting that the current labour market and skills system is only working well for a minority of SMEs.

*Fig. 3 Over recent years, businesses have reported difficulties filling vacancies and a shortage of workers and skills. How, if at all, has your business been impacted?**

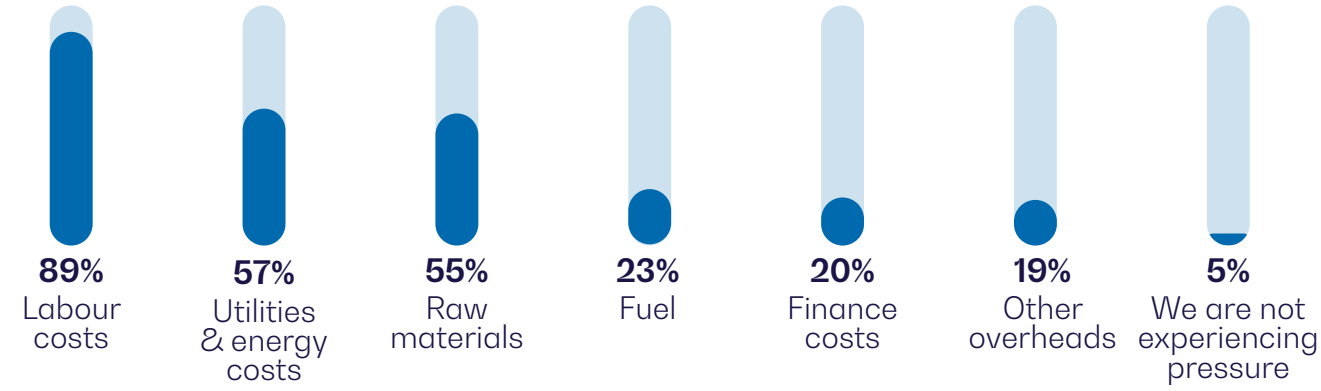


*Respondents were invited to select more than one answer. Percentage totals may therefore exceed 100%.

Labour costs are driving up prices creating inflationary headwinds

Only 5% of employers we surveyed are not facing pressure to raise prices. Almost 9 in 10 (89%) SMEs identified labour costs as a source of pressure to raise prices. Utilities and energy costs (57%) were the second most commonly cited source of pressure to raise prices, followed by raw materials (55%).

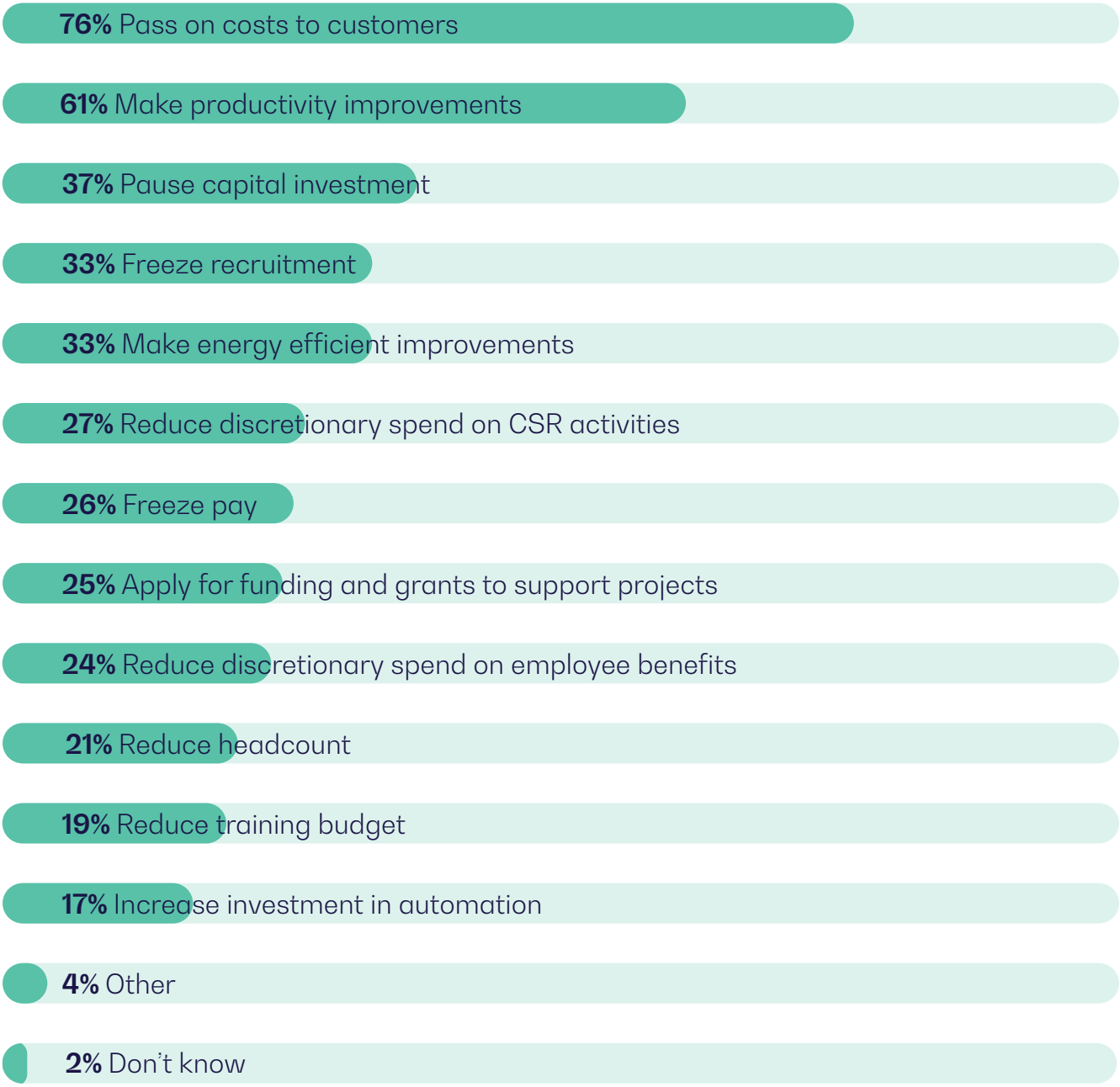
Fig. 4 Is your business facing pressure to raise prices from any of the following sources?



To offset rising costs, the vast majority of employers plan to pass on costs to customers (76%), demonstrating the inflationary ripple effect of rising employment costs. Unfortunately, 37% said that they would pause capital investment to offset rising costs, and 33% said they would freeze recruitment.

On a positive note, 61% of employers said they would make productivity improvements to offset rising costs.

Fig. 5 How do you plan to offset rising costs?



SMEs are optimistic about the year ahead, despite operating in a labour market they find challenging

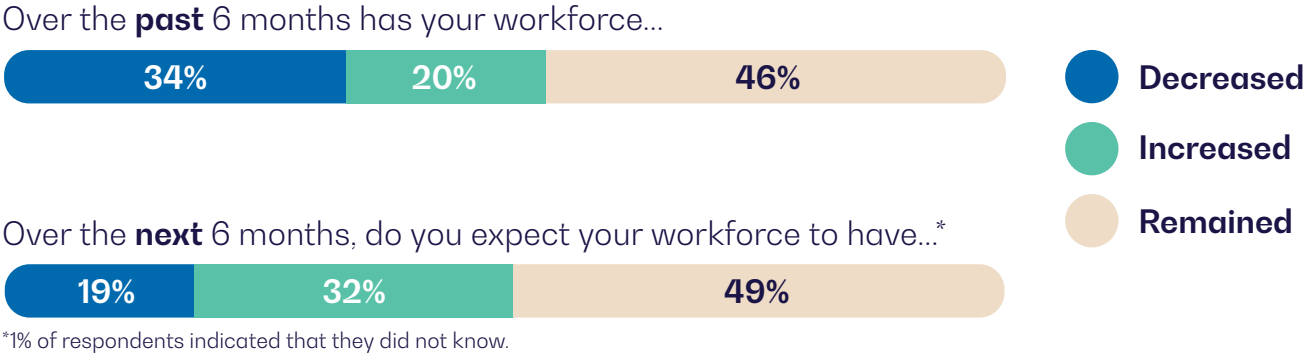
38% of SMEs agree or strongly agree that their business is optimistic about the year ahead and 80% expect their workforce to remain constant or increase over the next 6 months.

In the past six months, 20% of SMEs reported an increase in their workforce. Looking ahead, 32% expect their workforce to grow over the next six months.

1 in 3 (34%) SMEs have seen their workforce decrease in the last 6 months. Anecdotal evidence from SME engagement suggests that firms may have paused on backfilling roles during challenging moments in the last year. Just 19% expect their workforce to decrease in the next 6 months.

Only 7% of SMEs said that they will be making redundancies over the next 6 months.

Fig. 6 Please indicate what has been the trend over the past 6 months and what are the expected trends over the next 6 months.



*1% of respondents indicated that they did not know.

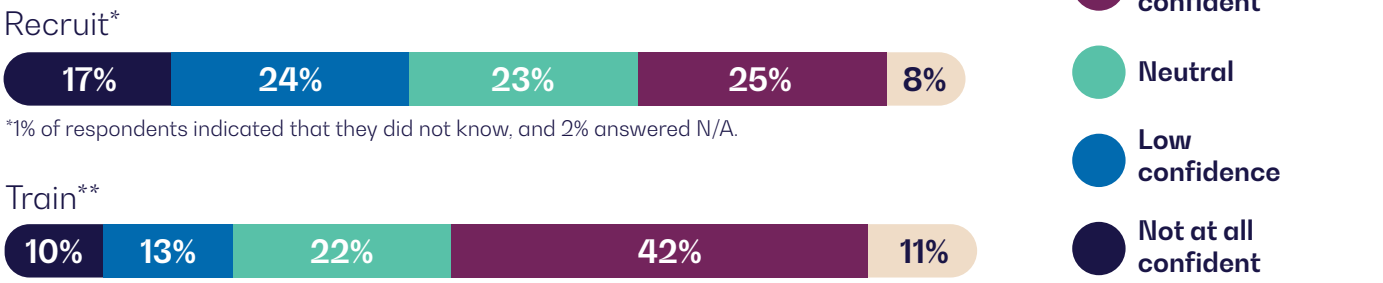
SMEs are more confident in their ability to train staff than to recruit them into their business

When it comes to employer confidence in being able to recruit or train enough workers to meet their organisation's skills needs over the next 3-5 years, employers are much more confident in their ability to train than recruit.

53% of SMEs were slightly confident or very confident that they could train enough workers to meet their needs. Conversely, just 33% of SMEs felt slightly confident or very confident that they could recruit enough workers to meet their needs.

This is reflected at the other end of the spectrum, with almost double (41%) the proportion of SMEs stating that they had low confidence or were not at all confident that they could recruit enough workers, compared to those with low or no confidence that they could train enough workers (23%).

Fig. 7 How confident are you that you will be able to recruit or train enough workers to meet your organisation's skills needs over the next 3-5 years?



*1% of respondents indicated that they did not know, and 2% answered N/A.

**1% of respondents indicated that they did not know, and 1% answered N/A.

Only 16% of SMEs that we surveyed said they did not have a skills gap in their business. The most common driver of skills gaps in SMEs was the lack of candidates with appropriate, industry level qualifications (58%). This is unsurprising, given the lack of employer confidence in their ability to recruit staff, illustrated above. It also demonstrates the importance of qualifications as an understood currency of competence to this cohort of businesses.

The second most cited reason was a lack of candidates with appropriate meta skills (38%), demonstrating the importance to employers of high order transferable skills such as adaptability, critical thinking, problem solving, self-management, learning how to learn, creativity, communication and resilience.

Capacity, cash flow and investment intentions

Three quarters (76%) of SMEs are not operating at full capacity and only a minority have operated profitability over the last 3 months

76% of employers said that their business is currently operating below full capacity. 34% of employers said that their cash flow had decreased over the past 3 months. In addition, 45% of employers said that their profitability had also decreased over the same period. Their predictions for the future suggest a hint of optimism, with just 24% expecting their profitability to decrease over the next 3 months.

Similarly, whilst only 15% of employers said that their profitability had increased during the previous 3 months, this jumps to 29% when SMEs were asked to speculate on their expected profitability for the next 3 months.

A significant proportion of employers say that their profitability has been constant over the last 3 months (39%), and a similar proportion expect business profitability to be constant over the next 3 months (42%).

SME capital investment is limited, but many expect to increase or maintain current training investment during the year ahead

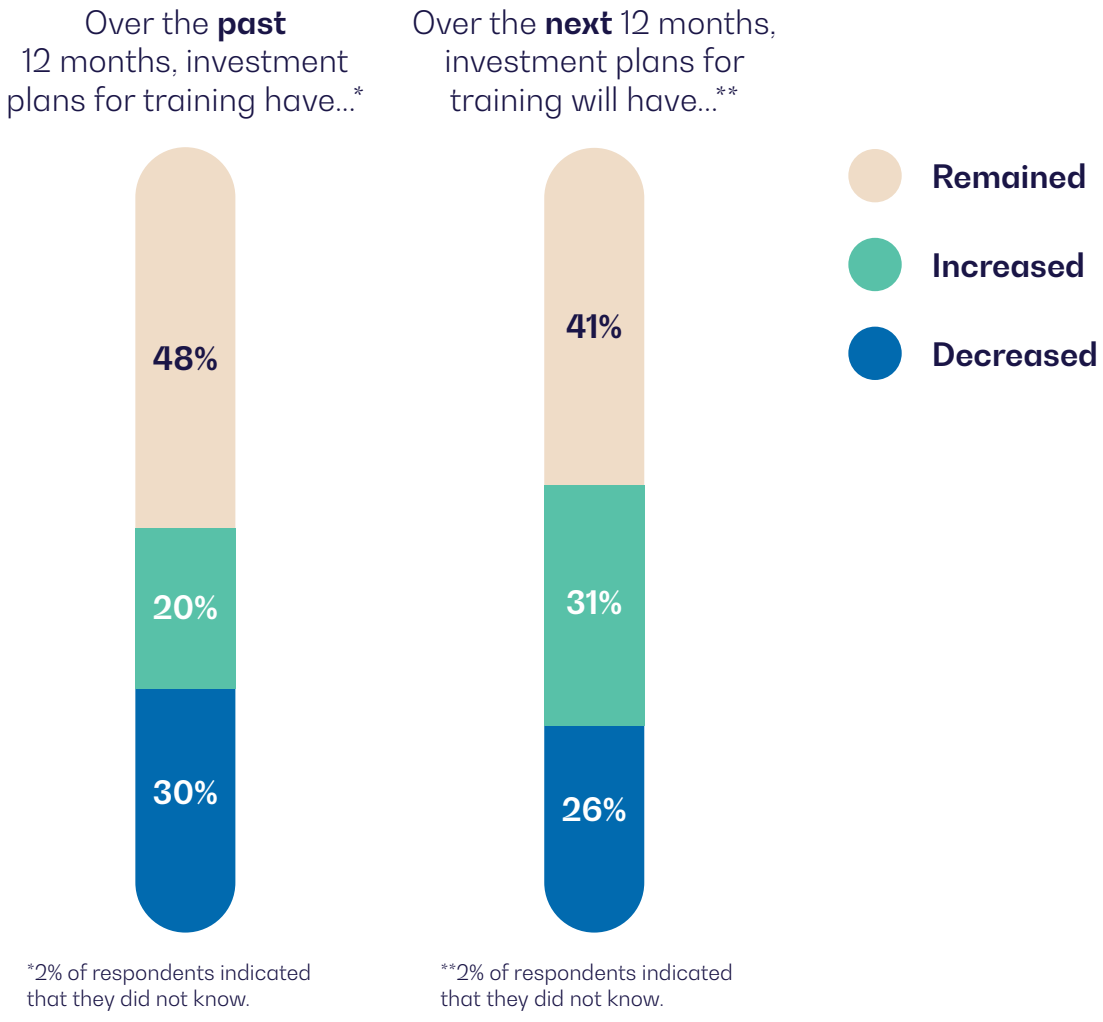
Only 23% of SMEs expect to increase their investment in capital over the next 12 months. 34% expect their investment plans to remain constant.

Over the last 12 months, 43% of employers said their investment plans for plant, machinery, tech or equipment had decreased. A similar proportion (37%) expect their investment plans to decrease during the next 12 months.

When it comes to investment in training, the data suggests that a solid proportion (72%) of SMEs expect their investment in training to remain constant or increase in the next 12 months.
Just over 1 in 4 (26%) SMEs said that their investment plans for training will decrease over the next 12 months. Further research is needed to understand how this could affect apprenticeship recruitment if internal training is prioritised.

30% of SMEs said their training budget had decreased over the past 12 months.

Fig. 8 Please indicate what has been the trend over the past 12 months and what are the expected trends over the next 12 months.



*2% of respondents indicated that they did not know.

**2% of respondents indicated that they did not know.

SME reaction to the Industrial Strategy and Advanced Manufacturing Plan

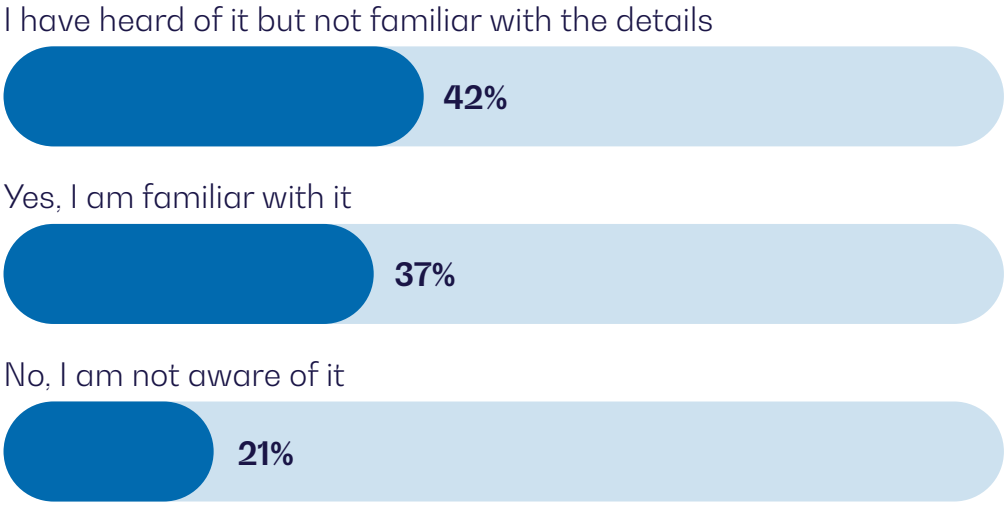
Awareness of the 2025 Industrial Strategy and the Advanced Manufacturing Plan is high, with 79% of SMEs stating they've heard of it

On the 23 June 2025, the Government published its Industrial Strategy, which identified 8 growth driving sectors, of which Advanced Manufacturing was one. As a result, the Government also produced an Advanced Manufacturing Plan for the sector.

37% of SMEs employers are familiar with these publications, whilst 42% have heard of them but are not familiar with the details.

21% of SMEs said they were not aware of the Government's Industrial Strategy and Advanced Manufacturing Plan.

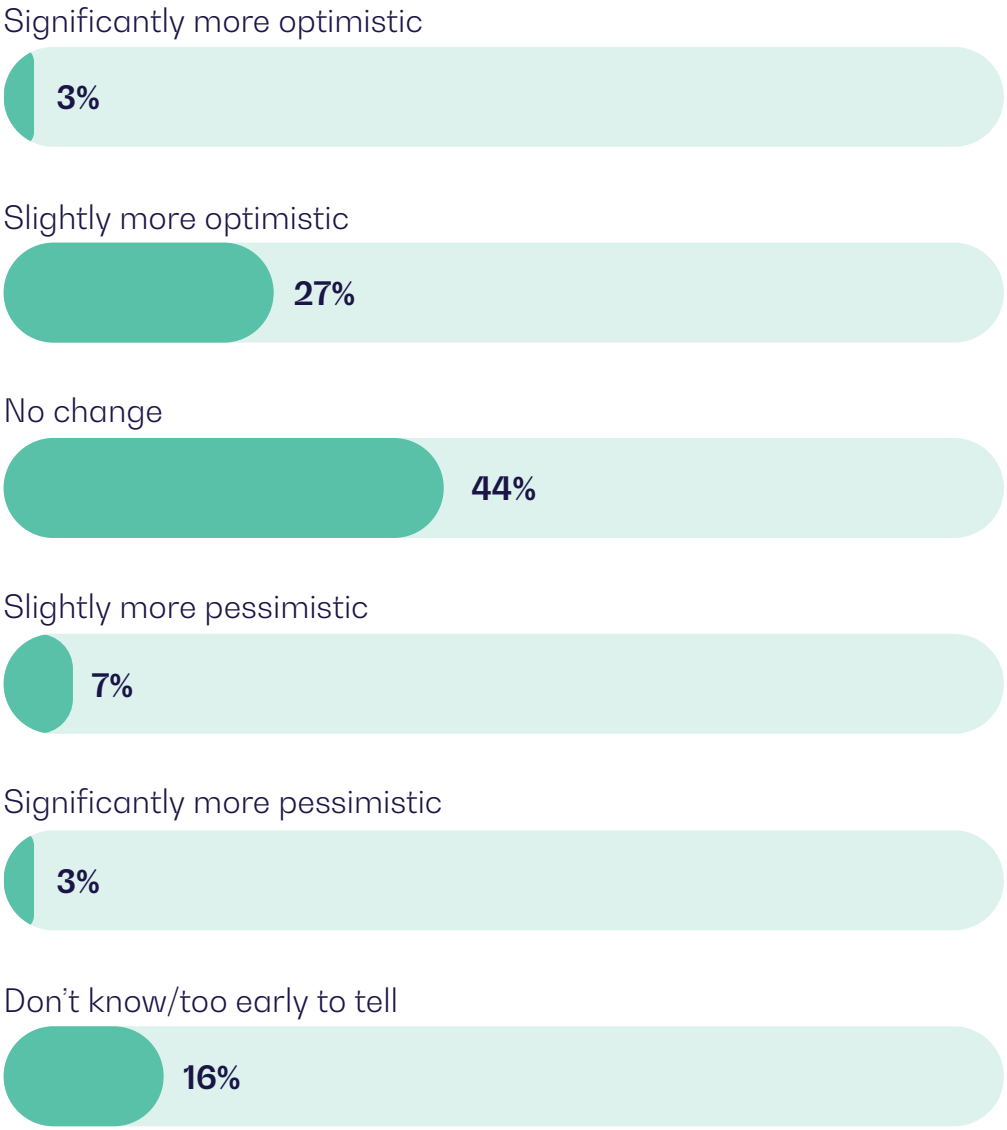
Fig. 9 Are you aware of the UK Government's new Industrial Strategy and Advanced Manufacturing Plan, which was published on the 23rd June 2025?



...and many remain divided about whether these announcements have changed the outlook for their business over the next 12 months

1 in 3 (30%) SMEs have a slightly more optimistic or significantly more optimistic outlook for their business over the next 12 months following the announcement of the Industrial Strategy and Advanced Manufacturing Plan. 44% reported no change to their outlook for the next 12 months. 10% of SMEs said that the publications made them feel slightly or significantly more pessimistic about the next 12 months.

Fig. 10 How has the announcement of the Industrial Strategy and Advanced Manufacturing Plan influenced your outlook for your business over the next 12 months?



About Enginuity

Enginuity is a charity dedicated to helping employers in the manufacturing and engineering sectors to close the skills gap.

As a former Industry Training Board and Sector Skills Body (previously known as Semta), Enginuity is now a self-funded independent organisation that invests £2 million pounds annually to improve access to skills

We combine a unique approach to sector data with a deep understanding of skills challenges, to help employers ensure that the sector has a highly skilled, globally competitive workforce, now and in the future. We test policy proposals, gather employer perspectives and develop policy solutions via our employer-led groups – the SME Advisory Council and the Strategic Advisory Board – as well as via our engagement with the National Manufacturing Skills Taskforce which we co-founded.

Our charitable work spans a wide range of initiatives - from supporting alternative provision and breaking down barriers for neurodiverse young people, to improving retention, enabling career-break returns, engaging schools, and developing leadership skills within SMEs.

We use our charitable funds to break down barriers, reduce disadvantage, and drive greater representation across engineering and manufacturing. We champion and fund initiatives that support those who are currently underrepresented and have historically faced barriers to entry and progression.

Report Methodology:

150 employers engaged with the survey, of which 135 were included in this report. Responses were excluded if the respondent only completed the first 7 identifier questions but failed to answer any further questions. Employers were also excluded if they had more than 500 employees. For the purposes of this report an SME is defined as a firm with 250 employees or less.

The results from this survey represent the views of 135 employers in the manufacturing and engineering sectors, who collectively employ **6,500 staff** and produce **£1.1 billion pounds in sales**.

The survey was open from Wednesday 25th June 2025 to Friday 11th July 2025 inclusive.

The SME Snapshot was developed to better understand how these firms are responding to current economic and policy developments. The report offers insights for policymakers and our SME community on their priorities, pressures and plans.

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