

The SME Opportunity: Mobilising Smaller Firms for Productivity and Sustainability Impact

Authors:

Suzanne Peters^x

Jonatan Pinkse^y

Laura Spence^y

Britt Regal^y

Date:

February 2026

The Productivity Institute

Productivity Insights Paper No. 077

^xUniversity of Manchester

^yKing's College London

Key words

SMEs, net zero, garment manufacturing, house building, COVID-19, Brexit

Copyright

© S. Peters, J. Pinkse, L. Spence, B. Regal (2026)

Suggested citation

S. Peters, J. Pinkse, L. Spence, B. Regal (2026) *The SME Opportunity: Mobilising Smaller Firms for Productivity and Sustainability Impact*. Productivity Insights Paper No. 077, The Productivity Institute.

The Productivity Institute is an organisation that works across academia, business and policy to better understand, measure and enable productivity across the UK. It is funded by the Economic and Social Research Council (grant number ES/V002740/1).

The Productivity Institute is headquartered at Alliance Manchester Business School, The University of Manchester, Booth Street West, Manchester, M15 6PB. More information can be found on [The Productivity Institute's website](#). Contact us at theproductivityinstitute@manchester.ac.uk

Abstract

This paper examines whether small- and medium-sized enterprises (SMEs) could play a more significant role in advancing the UK's productivity and sustainability goals – two priorities often assumed to be mutually reinforcing, yet difficult to achieve in practice. While large firms have traditionally been viewed as the engines of innovation and low-carbon transition, progress has been slow, and the majority of the economy, comprised overwhelmingly of SMEs, remains under-supported. Despite recent policy initiatives, their overall business confidence remains low, with many struggling simply to stay afloat.

This research explores the conditions under which SMEs operate and how these shape their ability to improve productivity and reduce environmental impacts. Using in-depth evidence from two long-standing UK industries – garment manufacturing and house building – we illustrate how macroeconomic volatility, supply-chain fragility, planning constraints and shortages of skilled labour combine to reduce firms' capacity for experimentation or strategic change.

Interviews reveal widespread uncertainty and frustration, with many business leaders expressing that they are continually in survival mode, leaving little room for long-term investment. As a result, productivity remains an abstract concern, and sustainability ambitions, though often well-intentioned, are deprioritised in favour of immediate operational needs.

The findings highlight the risks of relying on SMEs to drive major economic or environmental improvements without substantial, targeted support. Rather than viewing them as smaller versions of large firms, policymakers must recognise their distinct circumstances and uneven capabilities.

Contents

Introduction.....	2
The complex realities of two distinct manufacturing settings.....	5
Productivity considerations.....	8
Small, incremental changes are typical in SMEs	8
A necessary pragmatism.....	9
Sustainability Impact	12
Limited attention and understanding.....	13
Necessarily practical and parsimonious.....	14
Questioning the business case	15
And... it's expensive	17
Abdication of responsibility.....	18
Desire but not the means.....	19
Macro Factors Impacting Firm Viability	21
Challenges in the Local Business Environment	25
Labour Supply	25
Shrinking Industry.....	26
Approvals for Housebuilders.....	27
Considerations Specific to Smaller Firms.....	30
Little to no slack in firm resources	31
Policy Implications and Opportunities	35
Simplify & Insulate.....	35
Prioritise Fairness.....	37
Conclusion.....	39
References	40
Appendix	42

Introduction

Advancements in productivity and sustainability each generate significant advantages for the economy and society and are increasingly mandated in public and private sector organisational objectives. Optimistically, the two are positioned as complementary and represent a virtuous circle of modernization. In practice this complementarity has been difficult to demonstrate consistently, and represents a significant challenge for businesses that often

bear primary responsibility for achieving these objectives.¹ Policymakers and advocates seem to assume that these two goals can go hand-in-hand and that firms can readily deliver them, with hopes for the future usually pinned on large firms, industries with above average growth and returns, and the future “superstars.”² Large firms have been the purveyors of the low-hanging fruit to advance productivity and sustainability objectives as they can devote resources to innovation and long-term strategies. At present, however, efforts to further advance productivity and reinvigorate the transition to net zero have stagnated. Even within the green economy, it has proven challenging to push past the current productivity frontier and further scale up green technologies across the whole economy. In the majority of industry, the twin goals of productivity and sustainability have been still further elusive. Recognizing the need to engage more widely with business, policymakers are turning – as they so often do - to the innovation and flexibility of small- to medium-sized enterprises (SMEs) in the hope that they can also contribute to solving these challenges.

SMEs comprise 99.05% of UK-based firms³ and tend to be heralded as the backbone of the economy. However, they often lack the capacity to enact meaningful change on either productivity or sustainability, as they operate with small teams, have limited expertise beyond their core functions, and have constrained financial resources. Currently, too few small firms are benefiting from the economy’s growth. Although the government has unveiled an industrial strategy⁴ and small business plan,⁵ along with further initiatives, to support SMEs, dismal views keep coming from insolvency reports which show a significant 19% increase in administration activity, year over year.⁶ To make a meaningful impact for a more productive and sustainable economy, SMEs need increased support and resources as many are stretched too thin to thrive and grow.

In this paper, we address the question if greater understanding, support and activation of SMEs could indeed be an untapped opportunity to improve productivity and sustainability

¹ Jonatan Pinkse, *The Green Transition: Net Zero as an Opportunity to Improve Productivity*, 024, Productivity Insights Paper (The Productivity Institute, 2023); Mark Hart and Karen Bonner, *Productivity Puzzles, Long Tails and Productivity Heroes: Developing a New Focus for Small Business Policy in the UK* (Enterprise Research Centre, 2024).

² *The UK’s Modern Industrial Strategy*, CP 1451 (Department for Business and Trade, 2025), pp. 1–160.

³ *Business Population Estimates for the UK and Regions 2023: Statistical Release* (GOV UK, 2023).

⁴ *The UK’s Modern Industrial Strategy*.

⁵ *Backing Your Business: Our Plan for Small and Medium Sized Businesses*, CP 1358 (Department for Business and Trade, 2025), pp. 1–62.

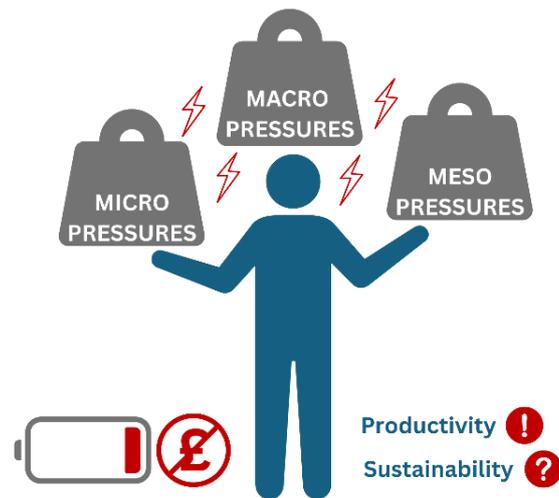
⁶ E. Tuersley, *Commentary - Company Insolvency Statistics October 2025*, Accredited official statistics (The Insolvency Service, 2025).

outcomes. That is, what could be achieved if we leveraged small and large firms alike with equal gusto in a concerted programme to lift the broader economy and bolster efforts for greater productivity and sustainability for the nation? In this research funded by The Productivity Institute, we highlight under which conditions smaller firms tend to operate and examine how likely it is for them to deliver productivity improvements and reductions in environmental impact.

The findings of this research highlight significant concerns and underscore the need for prompt action. They point to a business environment where SMEs are challenged to survive in suboptimal conditions, including post-COVID recovery, skills and finance shortages, and shifting political goals. Most SMEs are therefore necessarily myopic and focused on quotidian challenges with little capacity (time or money) for experimentation, innovation, or investments that can help to minimise environmental impacts and alleviate or improve social issues (see Figure 1). The findings demonstrate the hazards from expecting significant changes to be driven from within the ranks of SMEs and present a compelling case for more targeted government support.⁷ These firms can benefit from a wide range of support, but it is important that any initiatives recognise their diverse and distinctive needs. SMEs are often mistakenly viewed as a homogenous group, and simply smaller versions of large firms, but their divergent needs and challenges require more customized support to enhance productivity and sustainability.

⁷ ILO, What policy mix works for MSMEs. November 2025
<https://www.ilo.org/sites/default/files/2025-12/JT%20Policy%20Brief%20-%20What%20policy%20mix%20works%20for%20MSMEs%20with%20DOI.pdf>

Figure 1: Graphic illustration of the pressures on SME operators and the tolls



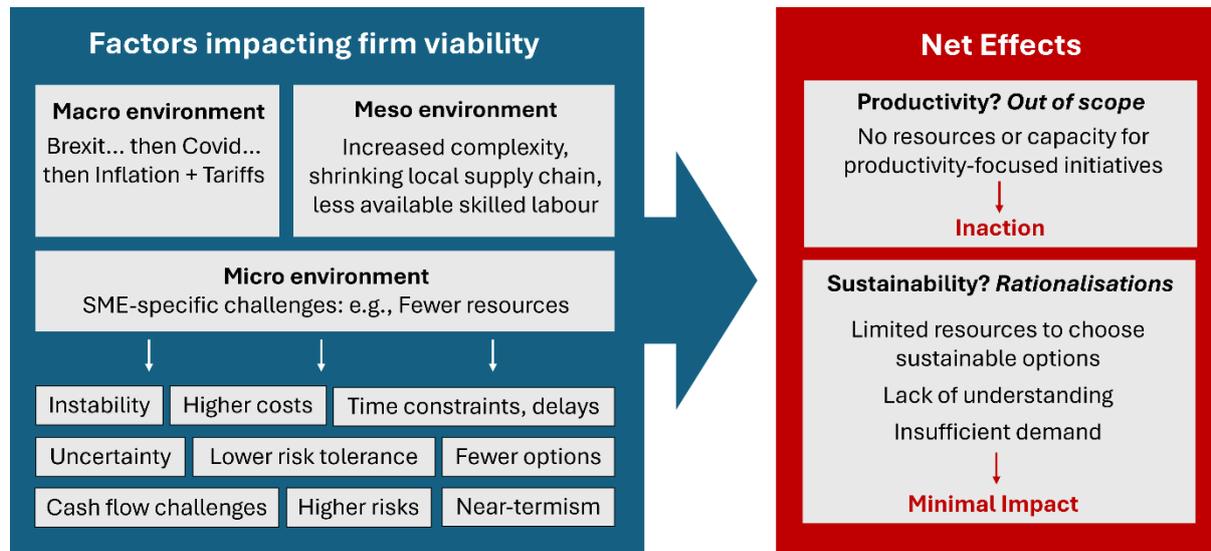
The complex realities of two distinct manufacturing settings

This paper shares research and analysis⁸ from two historically significant UK industries – garment manufacturing and house building – that remain vital and yet are struggling to prosper and advance. Both industries rely heavily on manual labour and supply chains. Garment manufacturing faces intense competition from low-cost global competitors while house building navigates extreme risks at home from ongoing challenges with rising supply chain costs and the planning system.⁹ Both are searching for stable ground and continue to feel the effects of Brexit and the COVID-19 pandemic, while navigating more recent inflationary effects and the uncertainty brought about through global tariff changes. Locally, they face challenges with key partners through a mix of shrinking industries and growing complexity, less certainty from both customers and their supply chains, and diminishing pools of skilled labour. Figure 2 provides an illustration of the compounding effects these firms contend with.

⁸ Data collection included seventeen interviews building on past research by the team (see Appendix Table 1), particularly focused on productivity and sustainability transitions, social implications and SMEs. A broad review of past and current industry and government literature was also critical to the research and analysis.

⁹ *Land Use and Planning Reforms: Strategic Context, Challenges and Policy Recommendations* (The Productivity Institute, 2024); Kate Barker, *Barker Review of Land Use Planning Final Report - Recommendations* (UK Government, 2006).

Figure 2: Illustrative example of the circumstances for many SMEs in the UK



The pressures feel unrelenting, and emotions can be raw, as we heard from representatives of both industries. A director from a garment producer conveyed that “We’re seeing that it’s kind of like the industry’s taking a pounding and we’re currently still in the process of taking that pounding” (Interview 13). In a similar vein, the managing director of an SME housebuilder shared this perspective of his industry: “We’ve been sort of milked as a golden goose for the last 15 years, as an industry, and it’s just hit a point where it’s just – there’s a crunch point and it doesn’t work” (Interview 4). These sentiments are evidenced broadly among SMEs, as demonstrated in a recent UK Small Business Index, which found that only 18% of firms expect to grow over the next year and confidence was at its lowest level since the onset of the pandemic.¹⁰ Among SME housebuilders, two thirds of those surveyed believe the current business environment is a major barrier to delivering homes.¹¹

Macro-level influences combined with impacts from the meso-level generate higher costs, cash flow turbulence and resource scarcity. These breed instability and uncertainty for entrepreneurs and their firms, which results in a near-sighted focus on efforts to ensure their survival but leaves little room for experimentation and investments that could generate growth and technological advancements. As we heard from the founder of a now-2nd-generation firm supplying cut fabrics to garment manufacturers: “How can you adapt and change when none of

¹⁰ *FSB Voice of Small Business Index* (The Federation of Small Businesses, 2025), pp. 1–22.

¹¹ *Challenges and Opportunities Facing SME Home Builders*, State of Play Report (Home Builders Federation, 2025), pp. 1–19.

us know what's happening tomorrow?" (Interview 17). This issue is especially severe for small firms with limited financial and human resources. Given their size, those responsible for driving change are working in small teams and often just with one leading individual to perhaps a few operating at a management level. With these numbers, these firms have little available capacity to task to longer-term initiatives.

In terms of ambitions to improve productivity and become more sustainable, two main firm-level responses became apparent. With respect to productivity, for most firms this concept was abstract and largely out of scope while they manage day-to-day operations. Regarding sustainability, firms had good intentions but also rational justifications for absolving themselves of responsibility to push a sustainability agenda. The net effect is that productivity efforts are minimal, at best, and sustainability efforts are rationalised away. In both cases, the result is an abdication of responsibility to drive meaningful change, which is an unfortunate yet defensible reality. Without greater support to enable advancements in these firms, the UK will continue to be significantly constrained in reaching productivity and sustainability targets.

In the following sections, we elaborate on how these factors affect the productivity agenda and the nation's transition to net zero. We then review the factors impacting firm viability, starting with the macro environment, followed by ecosystem-based challenges (meso level) and issues specific to SMEs (micro level). We conclude by outlining policy implications and near-term opportunities to improve outcomes for smaller firms.

Productivity considerations

Garment manufacturing and housebuilding are both fettered by methods that have extremely long histories and deeply entrenched practices. Bricklaying is a prime example, with today's methods differing little from the Roman era. Fired bricks have been the main component for well over 6,000 years. Timber framing methods for building houses have been common for over 2,000 years and advancements in framing – using structural insulated panels (SIPs), for example – is still only marginally used in advanced economies. While the sewing machine has evolved since it was invented in the 1700s, garment manufacturing is still very much a hands-on process with the machine completing stitches in tandem with the worker's guiding of the process: “it's 150 years of well – it's essentially the same operation” (Interview 2: Advisor, Garment Industry Intermediary).

There are impressive efforts by some housebuilders, including a Scottish firm we interviewed that works exclusively with modern methods (SIPs and closed panel systems) and have significant plans for further expansion (Interview 8: Co-Founder, SME housebuilder). While textile manufacturing has advanced their methods and invest in research and development,¹² in garment manufacturing, there is a significant lack of productivity improvements. We were told that “the moment it comes to product ... that's when we have this complete automation gap” apart from standardised work on large volume orders, such as a belt loop on mass-produced denims (Interview 2: Advisor, Garment Industry Intermediary). There are, however, opportunities for more digital processes to assist with operational plans and cost reductions, which can be helpful to more innovative firms (Interview 16: Co-Founder, SME Garment Producer).

Small, incremental changes are typical in SMEs

Across our interviews, the concept of productivity seemed abstract for all but a few. This was consistent for both industries studied. Two ends of a spectrum were well illustrated among the garment manufacturers, with one interviewee sharing his tongue-in-cheek view of the current state of more modern methods of garment manufacturing in the UK: “bright lights and a clean workspace. That's quite modern” (Interview 15: Co-Founder, SME Garment

¹² In *The Fashion & Textile Industry's Footprint in the UK* (Oxford Economics & UKFT, 2023) it was reported that the UK fashion and textile industry invested £1.4 billion in R&D in the decade up to 2022 .

Producer). In contrast, another garment manufacturer was quite intentional about efforts to improve productivity in their work:

We look at marginal gains as a way of life or an everyday basis. So, we look at like why are we moving from this point to this point or why are we moving our hand like that? Can we move a hand like this? ...Why don't we move the station closer to where the activity is?

- *Interview 16: Co-Founder, SME Garment Producer*

All the firms interviewed expressed a keen desire to advance and improve, but it was typically deemed too difficult and risky to make significant changes. The reality is that they are working to make small changes – effectively nano, micro or marginal innovations – when possible, as evidenced in the above quote. They take a cautious and prudent approach to continuous improvement rather than moving forward with materially substantive steps.

In housebuilding, it is also incredibly difficult to drive innovation. On a build site, it can be dangerous, costly and inefficient, and risks running afoul of regulations and inspections. Moving aspects of housebuilding to a factory environment has demonstrated potential for productivity improvement, but advancements have been slow to gain traction, and the industry is notoriously risk averse. Costly, high-profile failures of more modern methods have made innovation an unattractive proposition.¹³ Even among the more innovative and larger housebuilders, innovation is undertaken cautiously and carries a toll: “we have tried to change too fast, and do too much, we’ve had to now scale back” (Interview 11: Director, Volume Housebuilder).

A necessary pragmatism

For those that strive for change, there are practical limits inherent in the work of these firms. For housebuilders, the risks of trying new materials and products mean that incorporating changes is often ill-advised.

I mean, we're just going to copy someone, but I'm going to have to wait till they've done it and then see what the guidance is – then I'll copy it,

¹³ Suzanne Peters, Jonatan Pinkse, and Graham Winch, *Driving Change in UK Housing Construction: A Sisyphean Task?*, no. 017, Productivity Insights Paper (The Productivity Institute, 2023).

make a few mistakes and try and get it right next time. And that is just a bit of a probably a false position in many ways, but from an economics and financial perspective, it's one unfortunately that you have to do.

- Interview 12: Managing Director, SME Housebuilder

While garment manufacturing takes place in a controlled factory environment, they face limits too:

When you're seeing high product variability, you know, and very low orders for clients, there's very little opportunity to invest in any automated process stage... In terms of like full automation, the difficult aspect is that it's a soft, malleable material. So that is a very, very difficult material to automate with because you need the dexterity to be able to control it.

- Interview 2: Advisor, Garment industry Intermediary

Increased demand from buyers for more styles in smaller quantities and faster turnaround times has made process improvements harder. Garment manufacturers are finding their customers are being inconsistent as “very rarely they repeat” and firms thus “have to be responsive” (Interview 17: Founder, Fabric Cutting Firm). Industry shifts have increased costs for these firms, and they actively try to educate buyers on the impact of the changes in their orders. One firm shared that they provide transparency in their pricing and host seminars to educate buyers so that they better understand the actual costs and the limits in cost reductions. They evolve their business to meet their customer needs, but there are cost implications that the firms cannot completely absorb, such as when they must expand to manage greater variation in styles with smaller order quantities:

In any week we produce 70 styles on our sewing lines with 60-odd machinists. A lot of that stuff you touch multiple times, so it's very inefficient, but you have to do it because that's where the business is. And so having a bigger floor space allows us to hire more machinists where we're noticing bottlenecks but also allows us to keep that flow of work in that room and it makes it a bit more efficient.

- Interview 13: Director, SME Garment Producer

The interviews in this research evidenced much interest in technological advancements, improved efficiency and less reliance on skilled labour, but the firms showed limited appetite to take it on in their current context. One firm shared how they are trying to shift their traditionally wholesale business towards being predominantly retail-oriented: “shifting toward retail means you can get a higher margin, which just allows us to, God imagine, like, invest in stuff and research and design and stuff that is sort of almost extra to business” (Interview 7: Partner, SME Garment Producer). However, it is slow to change and capture sufficient market share.

An important insight of this research is that – largely for SMEs in traditional labour-intensive industries like housebuilding and garment manufacturing – meaningful innovation is something that they are waiting for someone else to do. Even the large firms see it similarly: “It needs someone like a crazy inventor basically to come along and say, ‘Right, this is what we’re going to do’ – with a bit of capital behind them – and change the industry” (Interview 11: Director, Volume Housebuilder). Indeed, everyone interviewed was reticent to suggest there was much in their purview that could meaningfully improve their productivity.

Sustainability Impact

There are many examples of firms taking measured steps to improve their impact on the environment. One housebuilder we met with found a way to offer triple-glazed windows as standard by economising on the insulation. They were able to improve their marketing appeal while simultaneously managing costs and meeting thermal efficiency standards (Interview 4: Managing Director, SME Housebuilder). Another firm builds their homes in a factory with a concerted effort to recycle, upcycle and minimise material waste to the extent that “nothing goes to landfill” (Interview 10: Director, SME Housebuilder).

Garment producers have made strides, too, through various efforts. A partner in one SME interviewed that they are “trying to sort of make as many things local as we can, reduce plastics in what we do, reduce transportation” and “trying to make clothes that last – that's always something we've been doing” (Interview 7). Some find it challenging to minimise their impact when sandwiched between supply chain constraints and customer demands. For these firms, energy usage is one thing that they feel they can affect:

So far as net zero, the way we've kind of interpreted it is ideally reducing our electricity cost for the garments. We kind of offset that ideally through entirely renewable sources, whether that's our solar panels or whether it's dealing with utility suppliers that only source from renewables, then it's also about making sure that when our goods are delivered, the transports that are used are battery operated rather than burning fossil fuels.

- Interview 13: Director, SME Garment Producer

Although initiatives exist and there is a desire for greater sustainability, the firms, much like their difficulties in implementing significant productivity improvements, continue to face challenges in making real progress towards 'greening' their operations. There are several underlying causes that became evident through this research. For some firms, there is a lack of awareness and understanding, but there were also many examples of the impracticality of pursuing more sustainable options due to material constraints and customer requirements. Finances play a central role, too, particularly the implications of more expensive materials and processes. Across the value chain of manufacturing, who is to bear those costs? In the face of these considerations and others, firms sought to rationalise their inaction with pragmatic

defenses and credible reasons to shift responsibility to others. This research very much evidenced that small firms believe they cannot be expected to lead the transition to net zero, though they do wish to follow.

Limited attention and understanding

A recent report from the Federation of Small Businesses (FSB) found that only a quarter of smaller firms believe they have the knowledge to neutralise their carbon output and only 14% believe they can successfully transition to net zero by 2050.¹⁴ In our own research, interviewees were more likely to relate to concepts closer to their operations, such as waste and energy: specifically, the costs of waste disposal, challenges of recycling, and efforts to keep their energy bills low. Even for a housebuilder who is presently contending with new requirements for the Future Homes Standard,¹⁵ which is designed to reduce carbon emissions, the terminology seemed foreign: “So net zero, I’ll be totally honest, as an SME builder, it’s nothing that’s ever come on our radar” (Interview 4: Managing Director, SME Housebuilder). In sessions hosted by the FSB to help firms understand the transition to net zero, it became clear that educating SMEs on net zero is a lengthy process:

It takes me a good five hours sometimes to, you know, get a group to the topic, understand it in depth, understand where the government support is, the eligibility for that ... as a small business when you’re trying to do that in your day-to-day, it’s really difficult.

- Interview 14: Advisor, SME Intermediary

From another intermediary working with firms to help them manage business challenges like sustainability, the view they see within firms is quite myopic:

[Net zero] requires skills, requires people, requires a higher cost.

There’s an impact to that that the business necessarily can’t calculate for... the increase in National Insurance contributions effectively wiped out all their profit... that’s essentially what they have: starving

¹⁴ *New Growth: How to Support Small Businesses to Cut Carbon and Costs on the Road to Net Zero* (Federation of Small Businesses & Zurich, 2025).

¹⁵ Under the Future Homes Standard, all homes built from 2025 will produce 75-80% less carbon emissions than homes delivered under current regulations.

businesses.

- *Interview 2: Advisor, Garment Industry Intermediary*

Necessarily practical and parsimonious

For firms with more awareness of what's involved in being more sustainable, it is sometimes simply impractical to make their operations more sustainable:

I'm also aware that paper is not the solution to everything because it's heavier than plastic and so we're using more shipping... The jumpers, though, are still all stored in plastic bags... Paper sort of isn't tough enough and you can't see through it... So, there's still a lot of plastic bags around. I haven't figured out yet how to get rid of them. There's a lot to do really.

- *Interview 7: Partner, SME Garment Producer*

In clothing manufacturing, materials for storing and shipping are problematic but also the materials for the garments themselves. In some instances, more environmentally friendly components can be less durable:

To make a sustainable garment, that garment itself has to be sustainable in terms of staying in one piece. And so, when you, when you're adding a plastic free material and if that lowers the durability of that garment, that garment is now, yes, you can say it's more sustainable, but it is now less sustainable.

- *Interview 15: Co-Founder, SME Garment Producer*

These firms are also disinclined to take on the risk when they see little upside and are already wary of adverse outcomes. This was illustrated by one interview – partner of a 2nd generation garment producer – who wants to use natural dyes on their wool but, “didn't want to risk experimenting with natural dyes on £30 grand of yarn. I just thought it was a safe bet to use oil-based dyes” (Interview 7).

Some firms have attempted to improve and transition with technological advancements like installing LED lights with motion sensors (Interview 7: Partner, SME Garment Producer), while others are more philosophical about the limitations: “Everything was going to be plastic

free. And so, you sort of then build yourself a kind of cage that you have to work in... sometimes I wonder if this isn't all just an art project” (Interview 15: Co-Founder, SME Garment Producer). For those that commit to doing more to be sustainable, there are expected consequences that can lead to waste and higher costs. The sustainability ambitions of that garment manufacturer also meant that moving to plastic-free elastics resulted in a ten-fold increase in the costs of their elastics.

The firm above had some struggles internally to make decisions for the firm and to keep the partners on the same page, which we heard from others as well. There are also practical limitations to recycling that can thwart implementation of good intentions, such as with this garment manufacturer who paid a firm to collect offcuts to be upcycled:

My [Finance Director] was like, ‘You know, we don't have enough margins to for you to, like, be green... unless you maybe pass this on as a green tax to your client?’ So, I was trying to talk to [customers]... ‘We're trying to offset our carbon footprint – would you be able to pay like a pound extra on these pieces?’ And they're like, ‘absolutely not’.

- Interview 16: Co-Founder, SME Garment Producer

Questioning the business case

Firms are constantly reviewing their financials and often into the minutiae. Moving to reduce operational carbon or produce a more sustainable product is typically a cost-prohibitive exercise. For manufacturers, electricity is a key consideration, and many find that “there's not a business case realistically there for small business to decarbonise because the cost of electricity is not drastically lower than the cost of gas” (Interview 14: Advisor, SMEs Intermediary). One firm committing to plastic-free elastics has also committed to local manufacturing. To do this, they serve a small market with a premium product and have had to manage the consequences of their commitments:

We really are trying to make money with one hand tied behind our back, really – I mean, to nail to the mast: ‘we are only going to make stuff in Britain’. We must be bloody stupid.

- Interview 15: Co-Founder, SME Garment Producer

Several of the firms talked about wanting to keep their supply chain local and to support local industry, but in practice it is very difficult:

The wool we buy going all around the world – that's why I want to do our own wool. Partly sustainable, partly the farmers around here are getting nothing for their wool... But that is the biggest challenge for me – doing that project – because it's a cash flow struggle making the wool the first two years ... So, we would never buy processing our own wool – it's, I mean, it's a fool's game.

- *Interview 7: Partner, SME Garment Producer*

Housebuilders have similar problems on the path to a more sustainable operation. In many respects there are impractical aspects to improving the sustainability of homes. Several mentioned that more sustainable homes with the “zero bills” promise from efficiency enhancements, solar and battery storage, are not yet viable financially:

So just up-front costs for us, and then the clients they're offering and uplifting the revenues to suit, but it doesn't encompass the actual costs of install... it's putting us out of pocket by going to a battery storage solution for instance or a ‘zero bills’ solution.

- *Interview 3: Director, SME Housebuilder*

Others pointed to examples where ‘best practice’ homes which view sustainability more holistically (e.g., a passive house)¹⁶ with less common approaches to sustainability are impressive and effective, but not scalable.

You'll go to open days and seminars and King's Trust and all that stuff... So, like lime plaster, breathable walls, you know, as an example, that's not achievable on a commercial volume basis.

- *Interview 4: Managing Director, SME Housebuilder*

¹⁶ Passive house is a voluntary standard for energy efficiency in a building that reduces the building's carbon footprint by requiring less energy for heating and cooling.

The result in many developments is that so-called ‘green’ enhancements on traditionally built homes are an impractical solution.

What the big boys are doing now in order to make some of their homes more sustainable is to add on what one or two favourite super-eco architect friends of mine have referred to as ‘Eco bling’... A standard home which is going to have the standard cost of build, and then you're adding to it the cost of this eco bling, which isn't only expensive to start with, it's probably going to be quite expensive to run, not to mention to maintain and then replace when it comes to that point.

- Interview 5: Principal, Housing Developer

This research points to very current and practical disconnects between industry readiness, market demands and regulatory standards for the greening of homes, as well as garment manufacturers seeking to improve their approach but contending with constraints from their suppliers and customers.

And... it's expensive

The costs are currently quite high to meet new housebuilding standards including the Future Homes Standard and more stringent fire-related measures. It is commonly accepted that the cost to meet these standards are, at least, an additional £5,000 to £8,000 per plot¹⁷ or 4-8% per home.¹⁸ The question for housebuilders, as with garment manufacturers, is who is going to bear this cost when, “you can't always just keep loading that cost up onto the sales price” (Interview 1: Director, Housebuilding Intermediary). There is a premium on sustainable homes that unfortunately can relegate them to high-end properties where buyers are willing to absorb the costs:

That cost can be more greatly absorbed in a higher value home. So, we're targeting you know, probably, you know, the top 25-30% of the housing market because you bolt on £20,000 worth of costs in an

¹⁷ *Arcadis Report Highlights Challenges to Delivering Government's Vision for Net Zero Housing* (Arcadis, 2025).

¹⁸ *The cost and premium for new eco-homes* (Savills, 2023)

£800,000 house, so that's a very small percentage. If you try and bolt on £20,000 of costs on a £250,000 house, you're nearly 10% of the build cost.

- *Interview 6: Managing Director, SME Housebuilder*

For garment manufacturing, more environmentally conscious approaches are unquestionably niche. With respect to clothing manufacturing, the margins are incredibly lean, and manufacturers are unable to absorb the higher costs of reducing their carbon footprint. Downstream, brands and retailers are unwilling to take on the costs, and most customers are price conscious – and either unable or disinclined – to pay more for a sustainably produced item versus a more economical alternative.

Abdication of responsibility

In the face of these complicating factors, firms rationalise their decisions and lack of progress. They offer a myriad of reasons with a propensity to shift responsibility to others. Garment manufacturers, for example, note the role of client-based decisions – such as which fabrics are chosen – that are outside of their control and sphere of influence (Interview 13: Director, SME Garment Producer; Interview 16: Co-Founder, SME Garment Producer). Placing the onus on utility providers was also offered as a rationalised way to relinquish some responsibility:

I'm using a machine that's drawing energy off a grid. So, how do I reach a net zero target when I'm not controlling how the energy is created? I just need a utility supplier to finally figure it out and then I can achieve that target.

- *Interview 2: Advisor, Garment Industry Intermediary*

This same interviewee also mentioned ecosystem-based limitations such as what can be recycled, as it is very hard to recycle mixed fabrics (e.g., polycotton).¹⁹ This is particularly challenging in garment manufacturing even when they are willing to sort, but there is not always a recycling vendor willing or able to take the offcuts.

¹⁹ *Automatic-Sorting for Circularity in Textiles: ACT UK Final Report* (ACT UK Project Consortium, 2025).

There are also limitations for those based in a rented space, such as with one housebuilder who told us: “We wanted to do PV on the roof to try and reduce our carbon input impact, but we weren't allowed to” (Interview 6: Managing Director, SME Housebuilder). In addition, there is a perceived lack of resources and support for firms that want to be more sustainable:

We don't get no encouragement from council or government. No input. Nothing about your waste... We don't get no input from anybody... By doing what we do it benefits ourselves in our own way of, you know, own way of dealing with the planet changes.
- Interview 17: Founder, Fabric Cutting Firm

The net effect is a sense of guilt but also a deemed release from the obligation to change. Many suggested that little will change unless it is explicitly required, including this interviewee characterising the industry approach: “As an industry we're very much driven by regulation, so the net zero element will only start impacting on us as an industry when it's regulated” (Interview 4: Managing Director, SME Housebuilder). Regulation may be seen as a ‘stick’ approach to driving change, but it also has the benefit of raising standards and levelling the playing field so that all players can be competitive with a more sustainable product and greener operations.²⁰

Desire but not the means

This research provides evidence that both these industries have not yet reached a tipping point that would lead to better support and changes that would facilitate widespread adoption of more sustainable operations. Firms in both industries pointed to a lack of appetite among their buyers, and also among end consumers who are unlikely to pay more up front and benefit from that investment over time. This is commonly understood in housebuilding:

You can have a street of five houses – all identical – one of them is an eco home and the other four aren't. But they'll value all five of them the same. The fact that the eco one will save the person, the people living in

²⁰ S. Hampton and others, ‘Crisis and Opportunity: Transforming Climate Governance for SMEs’, *Global Environmental Change*, 82 (2023), p. 102707.

there, two or £3000 a year doesn't cross their minds.

- Interview 6: Managing Director, SME Housebuilder

In garment manufacturing there is also an understanding that the overall economics of a purchase price are rarely taken into account:

If you're buying a jumper that's £100, you know, that's quite a lot more money than one you might buy in M&S. So why bother? I mean, apart from, you know, locally made and stuff. And so, we're saying, 'Well, they last longer as well. That's the thing. You're buying something that lasts 20 years.'

- Interview 7: Partner, SME Garment Producer

Until there is a meaningful shift in the market, some of these future-oriented offerings represent a considerable burden for SMEs to undertake. It is simply untenable for a significant number of SMEs.

I think it basically makes us really expensive and sometimes I worry that it could also be the reason why we don't survive as a business... If I keep on the path that I am, then I'm going to be one of the most expensive factories in London, which basically means I'm going to deter the clients because there will always be a cheaper option.

- Interview 16: Co-Founder, SME Garment Producer

So, while there has been progress, it is clearly at the periphery only and somewhat stagnating. There are some signs of traction in the higher end of the markets, but it is very much contingent on buyer perceptions, consumer demand and marketing potential. To advance on sustainability measures, firms need both the business environment to be more conducive and for their firm to be on solid footing to take the necessary steps.

Macro Factors Impacting Firm Viability

These barriers to advancements in productivity and sustainability are the result of headwinds firms face from micro-, meso- and macro-level forces. At the macro level, challenges uncovered in this research confound these two labour-intensive industries which have commonalities with other industries across the country. In many instances, the factors testing the resilience of smaller firms are virtually ever-present and unrelenting, as summarised by one trade organisation interviewed early in the research: “There's nothing new, I'll be honest... I think the issue is the compounding of the problems: they have rising labour, energy costs, increased skills gaps and we have a real stigma about trying to attract people – new entrants” (Interview 2: Advisor, Garment Industry Intermediary). While this, on its own, may not seem revelatory, it is nonetheless a realistic assessment of the business environment firms across the UK contend with, and which SMEs can be particularly sensitive to.

Significant financial events globally have continuously challenged firms, both large and small. The firms interviewed in this research have had to weather major events over the past decade from Brexit and the COVID-19 pandemic, to supply chain disruptions exacerbated by the 2021 Suez Canal blockage, the war in Ukraine, surging inflation and volatile tariffs. These hits, along with the day-to-day operational challenges and competitive market shifts, have kept small firms on the defensive.

One clothing manufacturer shared the struggle of frequent pivots to survive, starting with how they managed after their sole design partner, a vital component of their value chain, “disappeared overnight” in 2017. The design house was a casualty of the hard push towards fast fashion.²¹ For this firm, the fallout led to a series of transitions in response to the design house closure. They started by hiring a design team which seemed to work well until business slowed dramatically due to the pandemic. A PPE contract for the NHS then bridged the gap until regular business resumed and they could continue building up to do their design work in house. When the war in Ukraine escalated and inflationary pressures started to rise, they found that they could no longer be competitive with their current model despite their efforts to evolve. They had to pivot once again – their fourth major shift in six years – when moved to offer a “Test & React” model: “Now that's the entire business – it's all about these trial runs.... and then that

²¹ [Boohoo business model pushes fast fashion to step up a gear](#) Conor Sullivan, ‘Boohoo Business Model Pushes Fast Fashion to Step up a Gear’, *Financial Times*, 22 May 2017.; [Is British Fast Fashion Too Fast? - Racked](#) Chavie Lieber, ‘Is British Fast Fashion Too Fast?’, *Racked by Vox Media*, 16 May 2017.

guides whether or not they want to repeat the order, i.e., do from 200 pieces to 500 or 600 pieces, maybe try in a different colour” (Interview 13: Director, SME Garment Producer).

For a firm of this size, each pivot affected their entire operation: investments of time and money, efforts to sell their concept to new customers, work to transform the thinking of past and existing customers, adjust their supply chain arrangements, reconfigure processes and support their staff in evolving to the new requirements of the business, and all while attempting to cover payroll and operating costs as they urgently work to replace revenue streams.

Another firm shared with us the cyclical nature of pressures to their business that they must be prepared to navigate. Each cycle has its own needs for resources, resilience and know-how within the firm to ensure they remain viable as conditions change.

If the demand is low, then you can get people... where we are now as a country is probably at that pivot point where you can see the interest rates are coming down, mortgage rates will start to come down, we'll probably see a new incentive scheme from the government and there'll be a load of land getting allocated for housing, right? 'Everyone go out and build me 1.5 million homes' and that seesaw effect will kick in and you're going to then be hit with the challenges of inflation, labour availability.

- Interview 12: Managing Director, SME Housebuilder

Following the UK's exit from the European Union, for many firms the availability and cost of labour continue to be significant concerns within the UK, impeding efforts of manufacturing industries. Other more transportable products, such as clothing, compete with more affordable labour in other countries. One firm shared that their cost of labour is almost five times that of their counterparts in Bulgaria for the same quality of product (Interview 16: Co-Founder, SME Garment Producer). A trade group for garment manufacturers noted how this can limit their offer and thus their potential market:

They've got much bigger industries overseas; they've got the labour force. You know, as often three quarters of the country are employed in fashion and textiles, as we see across Southeast Asia... they can provide a lot of services, cheap manufacturing, that's where the orders go for mass market. Whereas here we have high costs. It's a high-cost

context manufacturing destination, so it tends to lean towards particular profiles of business who produce here.”

- Interview 2: Advisor, Garment industry Intermediary

In addition to the challenges of a more attractive cost structure in other markets, UK-based firms also face limitations due to the structure of the local industry which can be incongruent with customer preferences and industry trends. There are two main approaches to garment manufacturing: Cut, Make, Trim (CMT) and Fully Factored Manufacturing (FFM). The former is a manufacturing service where a factory creates a final product for a clothing company by following the specifications of the client’s designer, often using provided materials. In contrast, FFM is a complete end-to-end service from consultation and pattern development, to sourcing materials, creating samples and ultimately delivery of the final product. The UK industry is largely limited to CMT because there is not the breadth or depth of industry participants to support an efficient FFM model. This reality can disadvantage UK-based firms who cannot compete with markets that offer a more comprehensive solution:

It's so difficult growing existing accounts. I mean a lot of them have, you know, pivoted – changed the product category, gone into athleisure. As soon as you go into athleisure like you don't need CMT services, you start looking at fully factored services and fully factored services are usually overseas like Portugal is renowned for fully factored as well, because they buy the yarn, buy the trims, buy the zips, do the whole thing and all the selling is like the finished good to you.

- Interview 16: Co-Founder, SME Garment Producer

Multiple interviewees also noted that large retailers actively diversify their orders away from UK-based manufacturers: “It’s been very tough, yeah. Very tough... The main [retailers] don’t really want to use UK. They don’t use UK” (Interview 17: Founder, Fabric Cutting Firm). Some will also limit the order sizes of certain categories for local manufacturing, prompting some firms to enter new categories in an effort to capture more of a retailer’s order book:

We've been pushed to now know or be able to offer the product categories of swimwear and woven wear and the reason for that is because we've realised that the customer only wants to purchase a set

percentage of their jersey from the UK... to expand our business we'd have to go for the different ones, woven and swimwear, where there's again another percentage that they would commit to the UK for.

- *Interview 13: Director, SME Garment Producer*

These shifts draw on firm resources to capture typically quite marginal gains, and yet even small changes are nonetheless critical to efforts to maintain relevance and provide a competitive offering.

Consumer preferences feed into some of the challenges, particularly with the trends towards extremely inexpensive 'on trend' clothing (e.g., "fast fashion"). For those consumer groups, the higher cost of domestic manufacturing is simply not what they're shopping for: "The biggest challenge of every UK clothing brand is just imports... they're not my direct competitor, but they are because the money [consumers] spend on a £100 jumper is probably going to buy fifty items from Shein or one of those places" (Interview 7: Partner, SME Garment Producer).

The net effect of shifting marketplace dynamics is that macro-level issues from the past decade are still very present-day challenges for these firms, whether from tolls absorbed previously or ripple effects that impact their current operations, market strategies and balance sheets. Compounding matters, these firms are also facing current headlines and uncertainty due to volatility in global trade and tariffs, to which product-centred firms are particularly sensitive. A lot of firms may not have the cash reserves to survive rising tariffs hitting either their supply chain or their customers' orders (Interview 16: Co-Founder, SME Garment Producer). These realities also intensify with impacts to firms that originate closer to their region and ecosystem, which we will review in the next section.

Challenges in the Local Business Environment

Smaller firms regularly face challenges in acquiring the resources to fulfill their mandate: from people to do the work either as a team member or contractor, to a robust supply chain to fulfill their needs for materials and services, to an efficient regulatory environment within which they can operate. The firms interviewed for this research all shared examples of struggles with these aspects of their business. It was clear that these are daily considerations.

Labour Supply

Shortages in labour supply are a common refrain in labour-intensive industries across the UK. Both industries struggle to find, afford and retain the labour required for their industry-specific hands-on work. For firms in this situation, the shortages are persistently “gnawing away” (Interview 2: Advisor, Garment Industry Intermediary). There are several issues that worsen the situation such as shortages in the quantity of skilled labour and inconsistencies in the quality of skilled labour:

So, I think a skills shortage is that we can't get enough bricklayers... and then a skills gap is the bricklayers don't really know how to do a good job or they don't know how to understand the details of stuff – that's a really simple example, but could be the same with plasterers, electricians, timber frame erectors.

- Interview 11: Director, Volume Housebuilder

The problem is severe and growing in housebuilding, where the workforce is aging and shrinking, with a need to triple current recruitment into the industry.²² While this is a headline issue in the housebuilding industry as they strive to reach housing targets, most manufacturing industries are similarly afflicted. The following quote is from the co-founder of an SME garment producer, and this would not be an uncommon refrain in other low-wage and labour-intensive industries:

²² *Who Will Be the Builders? Modular's Role in Solving the Housing Labour Crisis* (Make UK Modular, 2023).

We are working with a workforce which is not getting any younger. We are not getting that workforce replaced by younger generation. So that skill set is actually at the verge of, you know, being lost essentially ... It's an ageing workforce as well, which basically means that people have a lot of, like, back issues, eyesight issues.

- Interview 16: Co-Founder, SME Garment Producer

The garment industry feels a systemic lack of support and virtually no pipeline for the next generation to carry the industry forward. The current workforce is largely made up of immigrants who have brought their skills with them: “There's a big training gap. I mean, the vast majority of people working in factories in clothing manufacturing factories in Britain right now will be from Eastern Europe or maybe first or second generation from Bangladesh or Pakistan or India – that's what we see” (Interview 15: Co-Founder, SME Garment Producer).

Left unchecked, this will inevitably cede the UK-based garment manufacturing industry to countries that have a more vibrant industry and it will not reach its potential, which has been estimated as double its current size in terms of employment alone.²³ The industry has noticeably weakened in recent years and the current batch of firms are likely to wind down operations if they are not among the resourceful and resilient few who are trying to forge a viable niche for their firms.

Shrinking Industry

For parts of the country such as Leicestershire, the collapse of the industry is palpable. Today there are a fraction of firms in operation versus a decade ago when initiatives were underway to futureproof the sector.²⁴ We heard, for example, that there are only “a couple people” (Interview 15: Co-Founder, SME Garment Producer) making good quality overshirts in Britain and the supply chain has become vacuous in the past five to ten years:

The industry collapsed. There were fewer fabric mills, there were fewer printers, there were fewer dye houses. I mean now in Leicester, having gone from about 5 or 6 dyehouses only one that's planning to carry on

²³ *The Fashion & Textile Industry's Footprint in the UK.*

²⁴ N Hammer and others, *New Industry on a Skewed Playing Field: Supply Chain Relations and Working Conditions in UK Garment Manufacturing*, Centre for Sustainable Work and Employment Futures (University of Leicester, 2015).

through the rest of this year. Yeah, there's another one that's currently there on paper, but it's closing down. Printers? Similar story you've gone from having about 50 or so printers to now only having about five or six.

- Interview 13: Director, SME Garment Producer

The reliability of a local supply chain is important both in housebuilding and garment manufacturing. For the former, the costs and delays of internationally sourced materials can be problematic. For some firms, it is simply not contemplated as we heard from one firm: “our culture is about localism and as low carbon footprint as you can... If you’re not in the UK, we’re not trading with you” (Interview 10: Director, SME Housebuilder). Admittedly, this stance is an unaffordable luxury for many firms. Yet, in garment manufacturing a different consideration is driving a need for a vibrant local supply chain as they struggle to access the required materials. A clothing industry shift towards small batches and quick delivery,²⁵ such as with the ‘Test & React’ model, means they need a wide variety of materials available locally for immediate use. One of the firms leading in this space explained that a new design is typically delivered to their customer’s warehouse within two weeks and already listed for sale on their website with freshly taken photos (Interview 13: Director, SME Garment Producer). To meet this demand, it is vital that a sufficient supply of materials is readily available locally.

While firms in both industries may leverage global suppliers, they only do so in limited instances. And, with the increasing complexities and costs of international trade, they would prefer to source supplies domestically to the greatest extent possible. For these firms, a vibrant local supply chain is of critical importance to their operations.

Approvals for Housebuilders

For housebuilders, the largest issue is well publicised: the resources and time required to attain local planning approvals are onerous and fraught with risk. One SME builder shared that it is typical for them to spend £200,000 to £400,000 on a site before they can secure permission from the necessary authorities to continue construction (Interview 12: Managing

²⁵ ‘Asos Launches Design Collection Using Test & React Model’, *Apparel Resources*, 19 December 2024.

Director, SME Housebuilder).²⁶ An industry expert with deep knowledge of the issues explained how onerous the process has become and with unintended consequences:

The volume of evidence and information and expertise that you have to provide is absolutely enormous and... The whole purpose of sort of loading in more questions or having more proof and evidence and guarantees through various reports or surveys was to provide comfort and satisfaction that all areas had been covered, so it should be easier to give a consent, but actually it's the opposite. There's been more evidence now in order to base a refusal or more questions asked because there's more information.

- Interview 1: Director, Housebuilding Intermediary

This interviewee shared that the process could take up to two years and result in a “non-implementable planning consent, meaning that there are so many conditions... 50, 60, 70 planning conditions so horribly intertwined where you can't actually unravel them” versus ten or twelve basic conditions on planning consents of a decade or so ago. For SMEs, the costs and risks are incredibly high. Volume housebuilders can insulate themselves a bit better with significantly higher numbers that give a more consistent pipeline even with the delays of planning approvals. In relative terms, smaller firms have significantly higher risks in each application.

We also heard of specific issues that unreasonably complicate builds and approvals, increasing costs and adding to delays. For example, there are sometimes added requirements for fake chimneys to make a modern house look more traditional (Interview 11: Director, Volume Housebuilder) and for solar panel mandates to require expensive and inefficient installations on north-facing roof tops which is suboptimal in the northern hemisphere where panels should be facing due south for maximum efficiency (Interview 4: Managing Director, SME Housebuilder). Another builder shared their frustration about a new requirement for ecologist reports when there was insufficient capacity in the system to create and process the reports:

²⁶ A site would contain multiple homes and for this builder they would have multiple sites underway at any given point to diversify workflows and timelines. For context, this builder released six affordable homes in 2024 as well as thirty open market sales averaging £374,000 each.

Suddenly we've multiplied the workload of the UK's ecologists probably by a factor of four overnight and so suddenly it's 12 to 15 weeks to get an ecologist's report... The Council look at it six months later, then realise they haven't got an ecologist to send it onto... I still haven't got consent and it's currently just approaching year two now.

- Interview 4: Managing Director, SME Housebuilder

Firms operating in this landscape must always be vigilant in expecting significant costs and delays – not a question of *if*, but rather *when, how much* and *for how long*.

Considerations Specific to Smaller Firms

While many challenges facing firms often apply to large and small firms alike, for the latter there can be additional unhelpful factors resulting from their size. There can certainly be a lack of resources that affects their operations, costs and strategies, and that also limits their ability to undertake additional projects. And, while they can be nimble, it is often difficult for smaller firms to make meaningful investments in technology, research and innovation. Perhaps the most common refrain for SME manufacturers is the mounting costs of doing business. While inflationary pressures and regulatory costs have widespread impacts, SMEs are more sensitive to the fluctuations:

What the SMEs don't have is the buying power of the larger developers... So, they're not getting the economies of scale with being able to buy at bulk. So, the cost to build to these updated standards is usually considerably more for the SME market than it is for the larger developers.

- Interview 1: Director, Housebuilding Intermediary

For these firms, the big decisions and costs are not simply part of the job, they are incredibly personal. The risks are high, too, with SMEs counting for 98% of insolvencies.²⁷ One interviewee noted the sharp decline in the number of SMEs in housebuilding: “There's SMEs who are literally just leaving the construction industry. They're tying up their loose ends, building out on the sites that they've got, and they're no longer looking for new land.... It's becoming harder and harder to survive.” (Interview 1: Director, Housebuilding Intermediary).

In addition to limited ability to benefit from economies of scale and scope, their cash constraints limit their flexibility to adapt and change. They are “more likely to rent, less likely to want to invest, less likely to want to incur debt” (Interview 14: Advisor, SMEs Intermediary). For these smaller firms, their opportunity to engage in activities beyond their current scope is minimal and often largely out of reach. This point was emphasised by the co-founder of an SME clothing company interviewed who shared that “it kind of feels so futile because we're such a tiny little company (Interview 15). And similarly, we heard this from the managing director of an SME housebuilder: “We are a small organization, so trying to do everything all at the same

²⁷ PricewaterhouseCoopers (PwC), ‘Restructuring Insights Q2 2024: Insolvency Trends Uncovered’, 2024.

time... the day-to-day prime role of the business, which is to build houses, takes the majority of our efforts” (Interview 6).

The trials of these firms are also deeply personal and quite top-of-mind in their daily operations, especially where they are family firms. Money lost is not abstractly from the firm’s coffers, but rather directly linked to their own fortunes as one interviewee shared: “I’m a shareholder, so if I lose £10 grand on a site, £3 grand of that is mine and the other £6 grand is my brother and sister, so you know, everything means something” (Interview 4: Managing Director, SME Housebuilder). Fluctuations also weigh on the mind of entrepreneurs in another profound way, as we heard from a co-founder of an SME clothing company: “My mood, my mental health and state is entirely linked to how much turnover we’ve done the previous day” (Interview 15). The leaders of these firms are at the proverbial coalface – uninsulated from the economic environment and their operations and often making decisions with very few resources to count on.

These struggles resonate deeply for the leaders of smaller firms and is felt most acutely by those in shrinking industries:

I really don't know who to turn to when we have a question to solve. I think manufacturers are like the forgotten past in the UK... Thankfully I'm self motivated. Now that you've made me think about it, it makes me feel very lonely.

- Interview 16: Co-Founder, SME Garment Producer

There was a unique sense of resignation among the firms that they must ‘keep calm and carry on’ despite of the lack of support and dwindling prospects. Several mentioned a lack of support for SMEs. It was also noted that government may lack awareness and understanding of what smaller firms need. Across all interviews, there was a palpable sense that smaller firms are not receiving sufficient support. As we heard from an advisor to SMEs: “there's a lot of support for bigger businesses out there and there's a lot of support for domestic consumers, but there's SMEs falling in the gap” (Interview 14).

Little to no slack in firm resources

The challenges covered thus far are, expectedly and unfortunately, not the end of the list. Firms bear the burden of unrelenting headwinds: “I think the issue is the compounding of the problems: they have rising labour, energy costs, increased skills gaps and we have a real

stigma about trying to attract people, new entrants into industry” (Interview 2: Advisor, Garment Industry Intermediary). Many firms survived Brexit and the pandemic weakened by the sustained impacts of these events, but holding on for a healthier economy. And yet waves of further disruptions have left firms too barren to absorb further turbulence.

Inflationary pressures are stressing firm margins with costs rising and commercial buyers unwilling to accept costs being passed on through their orders. One garment manufacturer has been frustrated by strong-arm tactics being used on their firms, going so far as to challenge workers’ pay in the wake of an increase in minimum wages:

For us to operate – operate ethically straightforward – there's always tough price negotiations... minimum wage goes up, we then increase all our workers... and the retailer says, “No – why they should all be on that wage?”

- Interview 13: Director, SME Garment Producer

A recent increase in National Insurance rates²⁸ has affected firms across all industries. In housing construction, they have felt this increase along with wages, materials and land prices:

Generally, you find out a lot of your large material suppliers, your bricks, your blocks, your aggregates, plasterboard, pipes, clay or plastic, they're all made generally, in factories that directly employ people so that those manufacturers are now trying to recoup the cost off either us or subcontractors.

- Interview 12: Managing Director, SME Housebuilder

Small firms operating in today’s markets have even more severely restricted cash flows than is commonly the case (Interview 16: Co-Founder, SME Garment Producer), which makes operations challenging as they juggle timelines to pay their employees, suppliers and other expenses. They are also challenged with a lack of consistency in cash flow and order flows (Interview 17: Founder, Fabric Cutting Firm), which creates volatility in their accounts and

²⁸ In the Autumn Budget 2024, effective April 2025 the employer contributions to National Insurance increased from 13.8% to 15% and the threshold triggering payments was reduced from £9,100 annually to £5,000. Source: M. Keep and others, *Autumn Budget 2024: A Summary*, Research Briefing (House of Commons Library, 2024).

operations. One firm explained the impact of delays in contracts and site work that ultimately affected their staffing levels:

We had contracts that we thought were coming in earlier and they've come in later... which kind of coincided with some delays onsite to projects that we were working... We have lost one or two members of the team and we made eight redundancies in the factory just before the end of November and we've had two or three people leave and go onto kind of more stable Tier 1s.

- Interview 9: Founder & Managing Director, SME Housebuilder

Another interviewee shared the frustrations of garment manufacturers trying to manage with unpredictable order books and precarious customer relationships: "It's very, very difficult to plan any type of expansion, any type of resource development, anything. Anything for business is really difficult to plan if you don't know when your next orders coming through" (Interview 2: Advisor, Garment Industry Intermediary).

Firms must also contend with competitive pressures within their industry. Garment manufacturers are under threat locally (Interview 7: Partner, SME Garment Producer) and globally. In addition, they must manage new industry shifts as well as the implications of legacy industry structures that are difficult to change. When demand for UK-based clothing manufacturers diminished after 2019, the net effects have been dramatic as we heard from one interviewee: "At one point of time there was a factory which opened like a Leicester branch and a London branch, and they also opened an Indian branch because there was so much demand for UK manufacturing. But that's a dwindling down... in 2019, every one sales meeting would convert into an account for us and now I do five sales meeting to do one conversion" (Interview 16: Co-Founder, SME Garment Producer).

For UK-based manufacturers, the shrinking ecosystem has significantly constrained their ability to grow and compete. They are very much niche players who serve a small portion of the domestic market and – for those who export – their international orders are usually even smaller: "We miss out a lot on international orders because we just don't have that variety of services, which means that we can't rise with the tide of a global economy" (Interview 2: Advisor, Garment Industry Intermediary). Those trying to survive are learning to try new models such as shifting away from wholesale toward retail in a bid to capture greater margins: "You can't continue to grow a wholesale model in the UK... our wholesale margins are tiny because

it's traditionally how we've set it up, but a lot of wholesalers these days are people who are buying stuff in from China, able to add in four times the margin on it, and then still sell it for a retailer who can get a decent margin on it. Whereas if we did that, our items wouldn't be competitive” (Interview 7: Partner, SME Garment Producer).

Others are trying to diversify their client list and the types of garments they are producing. One manufacturer contending with a 60% drop in their production is humbled by the experience but remains hopeful they can keep their business lean and find a path to remain viable. They have conceded that their business is more “niche” now and that they need to diversify away from fast fashion, because “fast fashion is governed by price” which is highly competitive and not a viable path to profits (Interview 17: Founder, Fabric Cutting Firm).

Policy Implications and Opportunities

This research undertaking did not present an enthusiastic story of optimism and potential, but rather the essential pragmatism and banality that dictates the days and weeks within smaller firms. Firms interviewed were often dancing around the fringes of viability and even the more stable ones acutely feel the uncertainty of the future. For many firms, slight changes (either helpful or detrimental) can have a material impact on their business. The upside is that even a modicum of support can help unleash their potential and better position them to grow and evolve, and to contribute to advancements in productivity and sustainability.

As discussed at the outset, a notable challenge in supporting smaller firms is the incredible diversity of firms captured under the SME label. For support to meaningfully advance SMEs, that challenge needs to be met. For example, some firms may thrive with measures that provide flexibility while others will benefit from stability, and some may need a balance of both. Similarly, a sound and fertile business environment may be an elixir to fuel many firms into a strong future while others will hunger for runways and a business environment that can serve as a platform for ambitious growth.

Simplify & Insulate

This research has highlighted the precarious state of SMEs and identified opportunities to tailor resources and assistance to suit their unique needs, and to position them to contribute to productivity growth and improved sustainability. Broadly speaking, programmes for SMEs should be created with two overarching objectives: simplification and insulation. With their limited resources, any effort to simplify matters for them can increase positive effects; given their precariousness, initiatives that insulate them from the broader environment can helpfully decrease negative effects.

Simplification can be achieved by streamlining information and access, as well as minimizing complexity and churn. It must be more straightforward for firms to benefit from programmes designed for them: easier to locate, understand and activate. Firms, for example, struggle to understand net zero, how to measure their carbon footprint, and how to evaluate options to improve²⁹, despite the reams of information available. There are also opportunities to simplify the tax and customs requirements that can disproportionately affect SMEs given their

²⁹ *New Growth: How to Support Small Businesses to Cut Carbon and Costs on the Road to Net Zero.*

limited resources to manage these burdens. To find and develop their workforce, smaller firms would also welcome very clear and direct paths to finding skilled workers. Better alignment of skills development programmes could benefit both employers and job seekers, helping to arm workers for today's business requirements but also with the resources and aptitude for tomorrow too. Programmes can also be bolstered to incentivise uptake of training, recruitment and sustained quality employment, ensuring that today's investments are investments in the future as well.

Insulating smaller firms from micro stressors and larger shocks will help them staying in the game and enable them to stretch into the uncomfortable and potentially costly areas that can help unlock productivity improvements and advancements in sustainability. This can be accomplished through funding, including tax credits, grants, loans and loan sureties. The current state of global affairs rests heavily on SMEs, whether they be more sensitive to tariffs, inflation or whether – as is often the case – both charges having a material impact on their business. These firms are also contending with intellectual property (IP) infringement that has become an outsized risk with the proliferation of artificial intelligence (AI). Efforts to insulate firms from the detrimental effects of tariff uncertainty, rising inflation and IP and AI threats have the potential to greatly benefit firms and are areas of significant vulnerability, giving them much-needed space to focus on growth and advancement.

To maximally affect productivity improvements, programs need to meet a high bar: deliver solutions for today that will have a lasting and growing impact. For example, advancing the quality of skills and education, bolstering strengths, and fuelling collaboration and innovation will have greater potential to move the needle on efforts to simultaneously improve productivity and sustainability. Programmes focused on SMEs should be straightforward and strategically honed to incentivise and support businesses that see a new opportunity to improve outcomes in meaningful ways: operational efficiencies, vertical integration, tapping global markets and delivering product innovations. Measures to support firms with sustainability goals can encourage efforts to improved durability and resilience, and to reduce waste and carbon emissions. In sum, deliver programmes that will help SMEs to improve their viability, productivity and sustainability, and to grow their business in a future-oriented/proofof manner.

Prioritise Fairness

With much at stake and a lengthy list of seemingly lofty and potentially incongruous goals to do much to support many firms, it is nonetheless important to also prioritise fairness and be cognisant that there is great potential in benefiting the many rather than the few. Smaller firms are more likely to be disadvantaged in a system that has not been expressly considerate of their unique needs. SMEs, by definition, are more likely to have fewer resources – including time, people and funds – to take risks and make significant strides, and to absorb shocks and downturns. While their size can make them nimble and quick, the current business environment and cumulative viability pressures have severely constrained their ability to seize new opportunities.

Levelling the playing field for these firms can deliver massive upsides. With smaller firms representing over half of the turnover in the UK private sector,³⁰ even a 1% increase would add over £320 billion to the economy by 2030.³¹ The broader impact can include positive effects on individuals and communities: greater wealth across a population is associated with better education and health, and entrepreneurship unlocks social mobility and economic growth.

Looking at housing alone, there are two tangible outcomes from greater support of smaller firms: more homes and greater societal benefits. SME housebuilders believe they could increase their output over 50% – an extra 35,000 homes each year – with better aligned policies to support their businesses.³² In just three years, that could deliver over 100,000 additional homes to help address the housing crisis and improve the odds of first-time homebuyers getting on the property ladder. Housing shortages have tremendous social and economic impacts that provide wide-reaching benefits. For example, temporary and unsuitable housing is substandard for its residents and expensive for local councils and causes real challenges in providing stability that is necessary for employment and education; the housing crisis is also associated with rental and energy costs that consume an increasing amount of personal income.³³ Increasing the housing supply can help improve matters and provide housing security that supports the workforce and budding entrepreneurs and adds an important measure of stability to communities and businesses.

³⁰ *Business Population Estimates for the UK and Regions 2025: Statistical Release*, Official Statistics (Department for Business & Trade, 2025).

³¹ *Backing Your Business: Our Plan for Small and Medium Sized Businesses*.

³² *Challenges and Opportunities Facing SME Home Builders*.

³³ *Let's Fix the Housing Crisis: Delivering a Long-Term Plan for Housing* (National Housing Federation, 2024).

Improving productivity and sustainability is paramount to a vibrant future for the UK. Unfortunately, disadvantaging firms and individuals is a hazard on the path to growth and this needs to be kept in view and adequately addressed. Focusing on inclusive programs to support firms will unlock the potential of a larger and more diverse set of firms working toward productivity growth and advancements in sustainability.

Conclusion

The firms studied in this research illustrate the realities of millions of firms across the UK. It is evident that the concept of ‘business as usual’ is an impossible utopia and those driving change and policy agendas for the country need to be attuned to the plight of the smaller firms. They are a quiet majority of employers and doers with unique needs and sincere ambitions, but unfortunately, they often lack a sufficient catalyst to support changes outside of the scope of their day-to-day operations. As a result, productivity improvements are incremental micro changes at best, and these firms are largely relying on low-carbon transitions in power, transport and heating – carried by others – to facilitate their own transition to net zero.

Helping these firms helps the economy and will bolster efforts to improve productivity and sustainability. The current government has stressed the criticality of rewarding innovation and investment,³⁴ but to push past the productivity frontier and reinvigorate the transition to net zero, we need programmes that also recognise resilience and consistency of millions of SMEs that are the backbone of the economy. The firms that employ locally, buy locally, pay their taxes, and maintain – and build – businesses with products and services that are important, though perhaps not game changing. While they may not all be in a league of market leaders, these firms are nonetheless vital to a vibrant and productive nation, and essential to thriving communities and robust business environments.

While this research may have painted a disconcerting picture, the resilience of individuals in SMEs – and as a result the businesses themselves – shows tremendous potential. If the country is to achieve its aims for productivity growth and sustainability targets, these firms must do more than survive if they are to contribute, and the present-day viability of firms should not be overestimated. This report is a call to do more to support and enable the 5.6 million³⁵ businesses that are so vital to the present and future of the country. Given more optimal and suitable support, they can be a meaningful part of the country’s stability, prosperity, advancement and growth, and be key to driving important gains in productivity and sustainability.

³⁴ *The UK’s Modern Industrial Strategy.*

³⁵ *Business Population Estimates for the UK and Regions 2023: Statistical Release.*

References

- ‘Asos Launches Design Collection Using Test & React Model’, *Apparel Resources*, 19 December 2024
- Automatic-Sorting for Circularity in Textiles: ACT UK Final Report*, (ACT UK Project Consortium, 2025)
- Backing Your Business: Our Plan for Small and Medium Sized Businesses*, CP 1358 (Department for Business and Trade, 2025), pp. 1–62
- Barker, Kate, *Barker Review of Land Use Planning Final Report - Recommendations* (UK Government, 2006)
- Business Population Estimates for the UK and Regions 2023: Statistical Release*, (GOV UK, 2023)
- Business Population Estimates for the UK and Regions 2025: Statistical Release*, Official Statistics (Department for Business & Trade, 2025)
- Challenges and Opportunities Facing SME Home Builders*, State of Play Report (Home Builders Federation, 2025), pp. 1–19
- FSB Voice of Small Business Index*, (The Federation of Small Businesses, 2025), pp. 1–22
- Hammer, N, and others, *New Industry on a Skewed Playing Field: Supply Chain Relations and Working Conditions in UK Garment Manufacturing*, Centre for Sustainable Work and Employment Futures (University of Leicester, 2015)
- Hampton, S., and others, ‘Crisis and Opportunity: Transforming Climate Governance for SMEs’, *Global Environmental Change*, 82 (2023), p. 102707
- Hart, Mark, and Karen Bonner, *Productivity Puzzles, Long Tails and Productivity Heroes: Developing a New Focus for Small Business Policy in the UK* (Enterprise Research Centre, 2024)
- Keep, M., and others, *Autumn Budget 2024: A Summary*, Research Briefing (House of Commons Library, 2024)
- Land Use and Planning Reforms: Strategic Context, Challenges and Policy Recommendations*, (The Productivity Institute, 2024)
- Let’s Fix the Housing Crisis: Delivering a Long-Term Plan for Housing*, (National Housing Federation, 2024)
- Lieber, Chavie, ‘Is British Fast Fashion Too Fast?’, *Racked by Vox Media*, 16 May 2017
- New Growth: How to Support Small Businesses to Cut Carbon and Costs on the Road to Net Zero*, (Federation of Small Businesses & Zurich, 2025)

Peters, Suzanne, Jonatan Pinkse, and Graham Winch, *Driving Change in UK Housing Construction: A Sisyphean Task?*, no. 017, Productivity Insights Paper (The Productivity Institute, 2023)

Pinkse, Jonatan, *The Green Transition: Net Zero as an Opportunity to Improve Productivity*, no. 024, Productivity Insights Paper (The Productivity Institute, 2023)

PricewaterhouseCoopers (PwC), 'Restructuring Insights Q2 2024: Insolvency Trends Uncovered', 2024

Sullivan, Conor, 'Boohoo Business Model Pushes Fast Fashion to Step up a Gear', *Financial Times*, 22 May 2017

The Fashion & Textile Industry's Footprint in the UK, (Oxford Economics & UKFT, 2023)

The UK's Modern Industrial Strategy, CP 1451 (Department for Business and Trade, 2025), pp. 1–160

Tuersley, E., *Commentary - Company Insolvency Statistics October 2025*, Accredited official statistics (The Insolvency Service, 2025)

Who Will Be the Builders? Modular's Role in Solving the Housing Labour Crisis, (Make UK Modular, 2023)

Appendix

Table 1: List of Interviews

	Firm Type	Role of Interviewee(s)	Date	Duration
1	Intermediary: Housebuilding	Director	17-Dec-2024	1 hour 10 mins
2	Intermediary: Garment industry	Advisor	14-Jan-2025	1 hour 7 mins
3	SME housebuilder	Director	21-Jan-2025	59 mins
4	SME housebuilder	Managing Director	21-Jan-2025	1 hour 23 mins
5	Housing developer	Principal	24-Jan-2025	1 hour 14 mins
6	SME housebuilder	Managing Director	24-Jan-2025	1 hour 10 mins
7	SME garment producer	Partner	24-Jan-2025	45 mins
8	SME housebuilder	Co-Founder	28-Jan-2025	1 hour 1 min
9	SME housebuilder	Founder & Managing Director	7-Feb-2025	55 mins
10	SME housebuilder	Director	10-Feb-2025	59 mins
11	Volume housebuilder	Director	11-Feb-2025	1 hour 25 mins
12	SME housebuilder	Managing Director	18-Feb-2025	1 hour 3 mins
13	SME garment producer	Director	21-Feb-2025	1 hour 9 mins
14	Intermediary: SMEs	Advisor	3-Mar-2025	51 mins
15	SME garment producer	Co-Founder	10-Mar-2025	54 mins
16	SME garment producer	Co-Founder	4-Apr-2025	1 hour 9 mins
17	Fabric Cutter	Founder	16-May-2025	46 mins