

The Working Capital Gap in UK SMEs:

What's really holding growth back?

Introduction

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Across the UK SME landscape, a familiar pattern is playing out.

Businesses are winning work, growing their revenues and taking on new opportunities. On the surface, things look strong. But behind the scenes, many are still feeling pressure on cash.

This gap between performance and liquidity is becoming increasingly common. This is the working capital gap.

It reflects a broader shift in how SMEs operate, where cash is often tied up in the business for longer, even when trading is strong.



What is the working capital gap?

The working capital gap is the difference between when a business spends money and when it receives it.

In most SMEs, the pattern looks like this:

- costs are paid upfront (staff, suppliers, materials)
- goods or services are delivered
- invoices are issued
- cash is received later, sometimes weeks or months afterwards

That time lag creates a gap.

Why does this gap matter?

The gap exists in almost every business. The issue is how wide it becomes and how often it appears.

As businesses grow, this gap tends to widen because:

- more money is going out earlier
- more revenue is tied up in invoices
- more capital is needed to keep things moving

This means businesses can be doing well on paper but still feel stretched in day-to-day cashflow.

Why do SMEs struggle with cashflow even when profitable?

The answer is profit and cash are not the same thing.

Profit reflects what a business earns over time.

Cash reflects what is actually available right now.

In practice, cash is often sitting inside the business in different forms, including:

- unpaid invoices
- stock and inventory
- equipment and operational assets

So while a business may be profitable, much of its value is not immediately accessible.



What is driving the working capital gap in the UK?

Longer payment terms

It is common for SMEs to wait up to 90 days for payment, particularly when working with larger organisations.

Growth-related spending

Taking on more work often requires hiring additional staff and investment in operational improvements before the resulting cash is received.

More complex supply chains

Given the uncertainty regarding geopolitical issues and fears of disruption, businesses have responded by holding more stock, which ties up cash for longer.

Increasing operating expenses

Elevated wages, energy prices, and material costs contribute to greater cash requirements at the outset.

Individually, these are manageable. Together, they increase the pressure on working capital.



Why the gap often expands during growth

Growth is one of the biggest drivers of working capital pressure.

As businesses scale, they tend to:

- take on larger contracts
- increase production
- hire more people
- invest in assets and infrastructure

All of this requires cash before revenue is received.

In simple terms, **growth means funding more activity ahead of income.**

This is why businesses can feel most stretched at the point where they are expanding most successfully.

Where working capital typically gets tied up

Working capital tends to be spread across different areas of the business:

Receivables (unpaid invoices)

Revenue that has been earned, but not yet received as cash

Inventory and stock

Goods purchased and held before being sold

Equipment and operational assets

Machinery, vehicles or systems that support delivery

Day-to-day operations

Ongoing costs needed to keep the business running

How working capital starts to behave like a system

One of the biggest shifts for growing SMEs is how working capital behaves over time.

It stops being a one-off issue and becomes something more continuous.

For example:

- stock is being purchased while previous stock is still being sold
- new work is underway while earlier invoices are unpaid
- new costs are being committed while cash from past activity is still to arrive

All of these cycles overlap which creates a situation where cash is constantly moving, but not always available at the same time.

Why this creates a constraint on growth

When working capital is tight, businesses have to make trade-offs.

They may need to:

- delay taking on new work
- slow down hiring
- hold back on investment
- manage supplier payments more carefully

In many cases, the issue is not a lack of demand, but a lack of accessible cash at the right moment.

This is why working capital has become such an important factor in how SMEs plan and grow.

Why funding structures matter more as businesses scale

Many SMEs use funding to support cashflow.

This might include:

- **invoice finance**, to unlock cash from receivables
- **asset finance**, to spread the cost of equipment

These can be highly effective.

However, as businesses grow, working capital becomes more spread out across the business. The focus shifts from individual solutions to how funding can support the overall picture.

How asset-based lending fits into the picture

As businesses grow and working capital becomes more spread across the balance sheet, SMEs look beyond single funding solutions.

This is where asset-based lending (ABL) comes in.

ABL allows businesses to access funding against multiple areas at once, such as receivables, inventory and operational assets, rather than relying on just one source of value.

In practical terms, this means:

- funding can reflect the full structure of the business
- liquidity is linked to how different parts of the business perform
- multiple funding needs can be supported within a single framework

For SMEs experiencing growth across several areas at once, this can provide a more connected way to support day-to-day operations.

A more complete view of working capital

Working capital cannot be looked at in isolation.

It is shaped by:

- how the business trades
- how quickly customers pay
- how operations are structured
- how investment decisions are made

And as businesses grow, these factors become more interconnected.

By taking a more joined-up view of working capital, this allows a businesses to:

- better understand where cash is tied up
- plan more effectively for growth
- make more confident financial decisions

Why this will continue to shape SME growth

Across the UK, SMEs remain focused on growth, resilience and efficiency.

But the timing of cash is playing a bigger role than ever in how that growth is achieved.

Success businesses are the ones that:

- understand how their cash cycle works in practice
- recognise where working capital is held
- plan ahead for timing gaps rather than reacting to them

Final thought

The working capital gap is not a new concept, but it is becoming more visible and more important as SMEs grow.

It reflects the reality that businesses often earn revenue before they receive it, and commit cash before it returns.

Understanding that dynamic is the first step. The next is making sure funding and financial strategy reflect it.

Get in touch

If you'd like to understand how Aldermore's invoice finance, asset finance and asset-based lending solutions can support your working capital and help you grow with confidence, **get in touch with our team today.**



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