

REPORT

3 Months On: Learnings from Lockdown

How the Coronavirus pandemic has impacted SMEs



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Introduction

Tuesday 23rd June marks three months since the start of lockdown restrictions in the UK. For the country's small and medium sized businesses (SMEs), the lockdown period has been defined by some of the most extreme uncertainty and significant continuity challenges they have faced for generations.

Sage has been monitoring sentiment among the SME community on a weekly basis over this period, polling 5,000 respondents in total between 23rd March and 27th May.

This data paints a picture of how UK SMEs have weathered the crisis so far and how they can best be supported as they embark on the long and uncertain road to recovery.

Executive summary: A shifting landscape

Businesses entered the lockdown expecting intense short-term disruption. As the weeks went on, it became increasingly clear that this would be a more fundamental turning point for the UK's entrepreneurs. Expectations of a return to normality quickly decreased, as businesses confronted the prospect of long-term change and tough decisions.

Support for Government action remained high throughout the lockdown period, and peaked in early May just before the Government's workplace guidance was issued. This guidance served as a crucial turning point for SMEs - for some sectors more than others - helping them prepare for the months ahead and understand the requirements for change.

Although the average longer-term financial outlook has seen sustained improvement over the course of lockdown, sales and operations remain severely impacted and some sectors have seen no improvement.

Over 60% of businesses were still making a loss in late May, and 50% expected this to continue into Q3 and beyond.

Looking ahead, technology and trade are emerging as the key focus areas for many – and will be vital tools to drive resilience against further disruption and encourage much-needed growth.



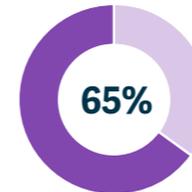
Support for Government action

Backing from businesses remained high throughout lockdown and peaked as thoughts turned to easing restrictions

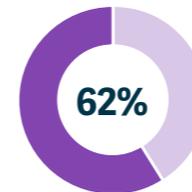
In general, Government has commanded the confidence of most businesses throughout the crisis so far. Support among SMEs for the actions taken by Government grew, and remained consistently high across the lockdown period as over £350bn was pledged to help companies pay wages or access finance.

At the start of lockdown 47% of businesses agreed that the Government was giving them the right level of support; this increased in late March and tracked consistently higher throughout April and May. Support peaked in early May, just before the Government's workplace guidance was issued and as details of the recovery strategy began to emerge in the media.

Following Boris Johnson's address to the nation and the launch of the new 'Stay Alert' slogan on 10th May

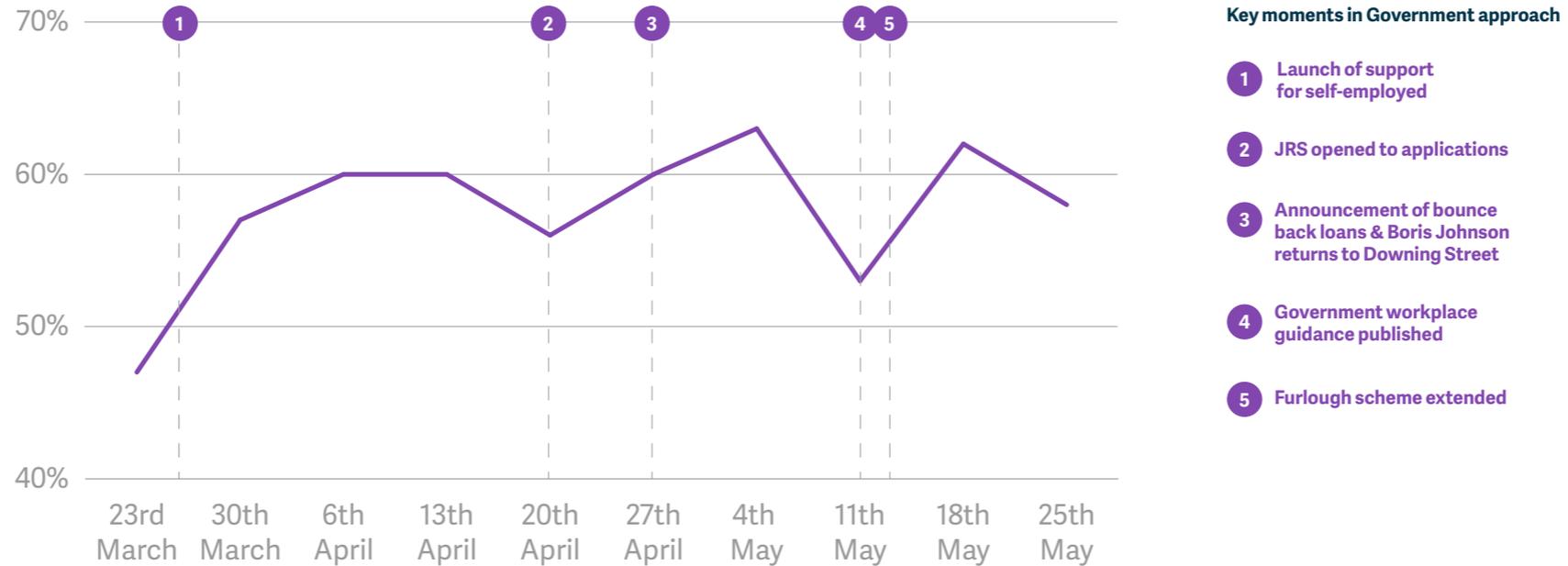


65% agreed that the Government had given the right advice for protecting health and managing the economy.



62% were confident they could keep their workforce safe after the guidelines for returning to work were published.

Q: Overall, do you agree or disagree that the Government is giving your business the right level of support?



Financial impact

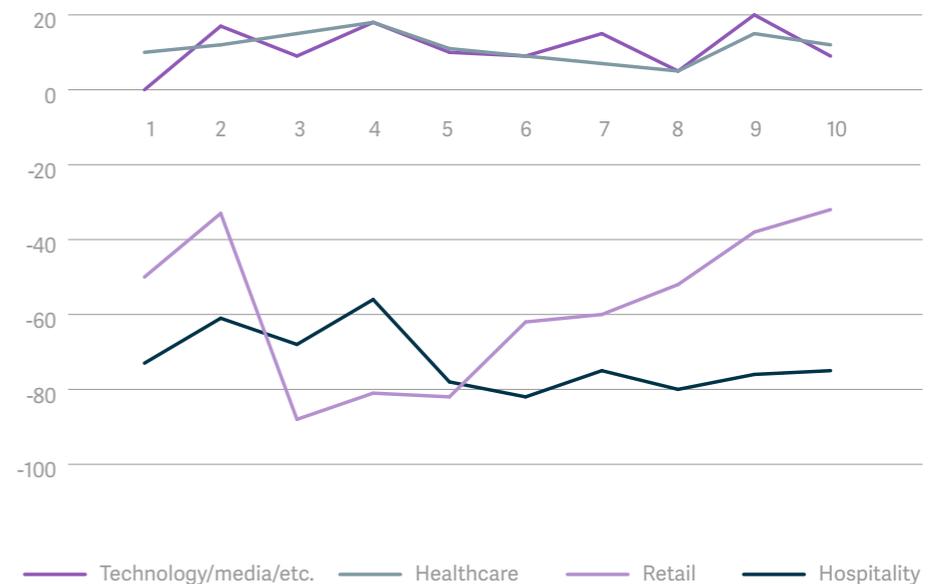
Average outlook has improved, but critical challenges remain – particularly for certain sectors

Since the start of lockdown, business optimism about the overall financial disruption of the impact has considerably improved. SMEs entered lockdown in March expecting, on average, a -29% hit to 2020 revenue. By late May, this had moderated to -10% as businesses adjusted to the new environment.

However, the divide between sectors has widened – and for some businesses there has been no improvement in outlook. Unsurprisingly, the hospitality and retail sectors continue to face acute challenges. Even by late May, the hospitality sector maintained expectations of a -75% hit to revenue; in line with the -73% expected at the start of lockdown. Retailers also face a greater financial hit, with expected revenue impact reaching -88% in early April and stabilising around -32% in late May. In contrast, SMEs in healthcare, technology and media expect an increase in revenue of between 9 and 12%.

Despite an overall reduction in the expected impact of the pandemic, the near-term financial and operational consequences remain severe. Over 60% of businesses were still operating at a loss in late May, and over 50% expected this to continue into Q3 and beyond; 20% expected to still be loss-making until September or beyond. 39% of businesses have seen their sales halve since the beginning of the pandemic.

Q: What do you estimate the possible financial implications on your businesses' revenue to be from the outbreak overall?



Adaptation and transformation

Long-term change on the horizon

Over the course of the lockdown, it has become increasingly clear that the pandemic will drive lasting change for the business community. Many of the adaptations made during the last few months, from digitisation to use of office space and structure of workforce, are expected to become permanent.

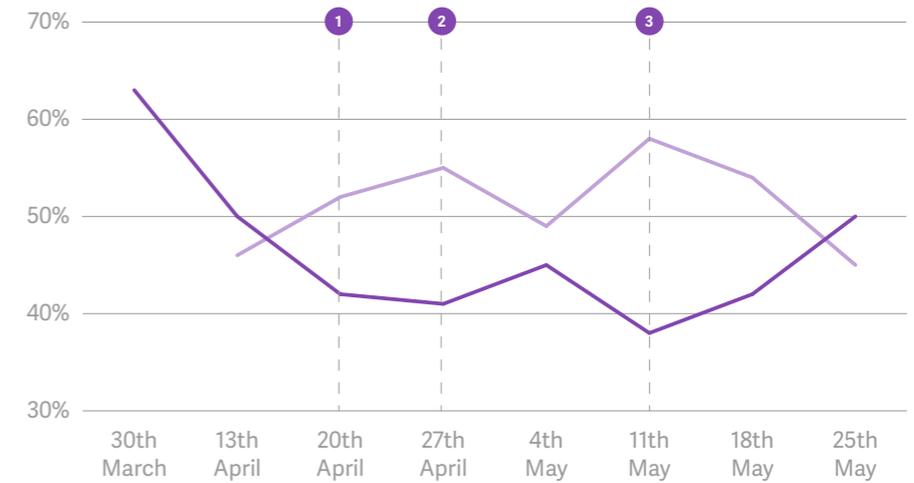
In the first week of lockdown, the majority of businesses (63%) were confident they would return to trading as normal post-outbreak. This reduced significantly as the longer-term implications of the crisis became clear, dropping to lows of 38% by early May around the publication of the Government's return to work guidance. The proportion predicting long-term change rose to almost 60% as businesses grappled with the extension of social distancing guidelines.

This change can be expected to take a variety of forms. In mid-May, 28% of businesses indicated they had starting conducting business online as a result of the pandemic, 42% reported they were planning to reduce expenditure on offices and production sites, 37% planned to increase trade with international markets and 57% expected the size of their workforce to change over the next 6 months.

As the economy has started to re-open in the last month, SMEs have become slightly more confident that they will eventually return to normality. But still only half of businesses across all sectors now expect their business to return to operating as it did before the outbreak.

4% of businesses predict they will not be able to return to trading at all as a result of the pandemic. This remained constant throughout lockdown – suggesting that over 200,000 businesses across the UK continue to face the prospect of imminent insolvency.

Q: After the coronavirus outbreak do you think your business will:



— Return to trading as it did before the outbreak
— Return to trading but will change for the long term

Key moments in Government approach

- 1 JRS opened to applications
- 2 Announcement of bounce back loans
- 3 Government workplace guidance published

Preparations for the months ahead

Government guidance was a turning point – but for some sectors more than others

The Government's workplace guidance served as a catalyst for confidence and preparedness among SMEs, helping set them up to prepare for the months ahead despite ongoing disruption to sales and operations.

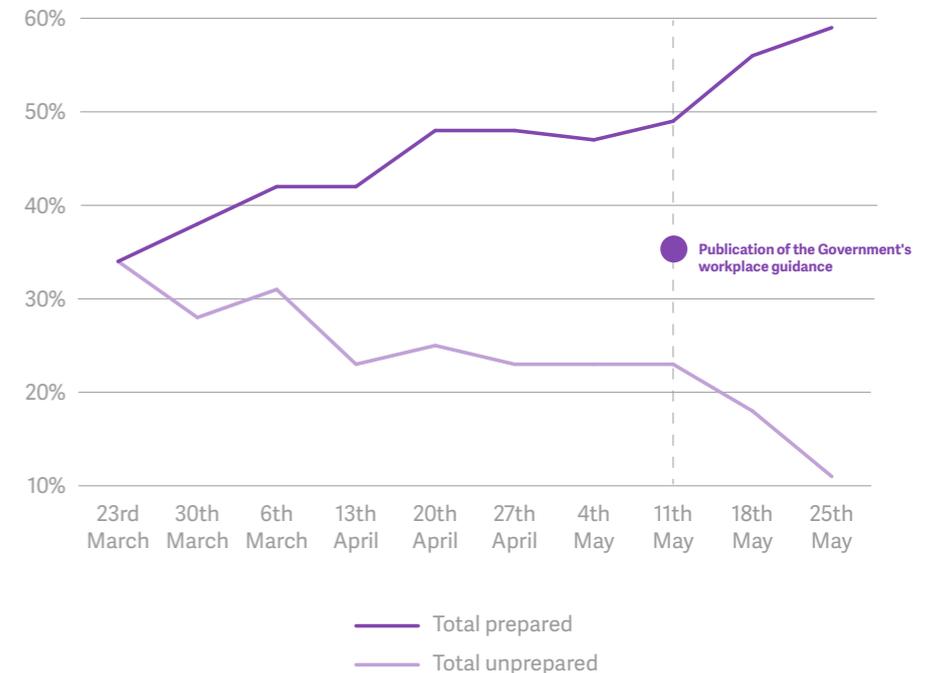
Following the publication of the detailed guidance on the 11th May, the proportion of businesses feeling unprepared to deal with the next three months fell from 23% to just 10%, and there was a clear improvement in levels of preparation driven by greater clarity on both the short and medium term outlook. Prior to the guidance, only half of SMEs whose businesses were impacted by social distancing had started planning for a partial lifting of restrictions.

Whilst this guidance was a crucial turning point for SMEs in general, it was particularly impactful for the manufacturing, construction, financial and professional services sectors. The hospitality, healthcare, retail and transport sectors continued to report lower levels of preparedness.

Larger businesses consistently reported feeling more prepared throughout the crisis, with sole traders (businesses with 1 employee or less) feeling the least prepared at every stage. On average over the 10 week period, 61% of medium-sized businesses (with 250 – 499 employees) said they felt very or mostly prepared for the next 3 months, compared to 45% of businesses with 1 employee.

Notably, levels of preparation for a second spike in the pandemic are already relatively high. By late May, 65% were making preparations to deal with a resurgence and a further tightening of restrictions.

Q: To what extent is your business prepared to deal with the outbreak over the next six months?



Workforce challenges

Redundancies likely to peak over the summer as wage costs remain a key concern

The challenges of retaining and supporting personnel have remained one of the greatest areas of concern for smaller businesses throughout lockdown.

By the last week of May, SMEs still ranked wage costs as the biggest area of cost concern over the next three months, higher than bills, property, debt and tax payments. This is despite widespread reliance on the Government's Job Retention Scheme, which has provided a vital lifeline to almost half of small and medium sized businesses across the country.

This is indicative of the many tough decisions that will face businesses over the summer, as the furlough scheme enters its second phase and **redundancies are likely to peak**.

Over 60% of businesses reported they were considering redundancies in late May, with the majority expecting these to occur in August once employers are required to resume paying NI and pension contributions.

Reliance on the Job Retention Scheme has been highest in the automotive, manufacturing, distribution and hospitality sectors, and the extent of furloughing has been significant. Of SMEs that had furloughed employees by mid-May, 56% had furloughed more than half of their staff.

Businesses are also facing challenges supporting and motivating their teams. Managing stress is the biggest pain-point; in April, half of SMEs reported a surge in stress levels among employees.

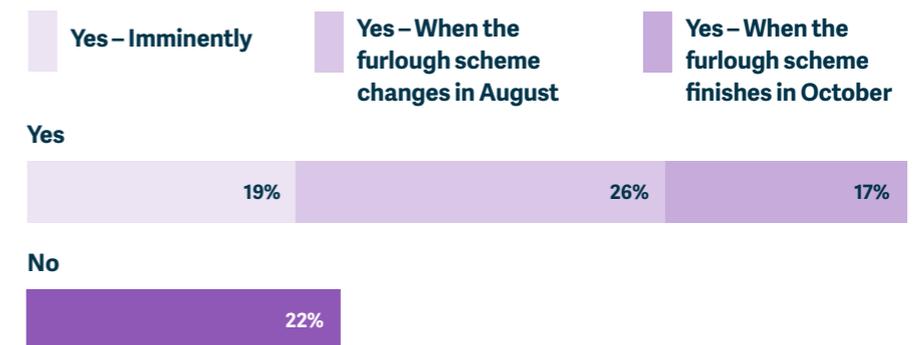


39% also reported a decrease in employee motivation.



37% reported a decrease in productivity.

Q: Is your firm considering redundancies?



Technology and digitisation pre- and post- crisis

SMEs agree that technology will drive recovery – but incentives are needed

Digital transformation will be core to the economic recovery – and to driving greater resilience among businesses to help cope with future disruption. But support is needed to help this translate into action. Although 70% of SMEs believe that technology will play a key role in helping them adjust to the impact of Covid-19, severe and ongoing cash constraints mean that only a small proportion are actively planning to increase digitisation of key processes - and the level of digitisation in general remains low.

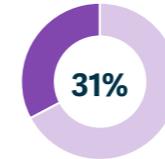
Only 20% of businesses said that business processes such as forecasting, sales, supply chain and payments were fully digitised before the start of the pandemic. Whilst many plan to maintain their expenditure, only 30% of businesses said that the pandemic has made it more likely they will increase digitisation.

There is significant demand among SMEs for incentives and support to help drive technology investment. When asked what would be the most effective additional measure that Government could offer to businesses, the most popular response was “a grant to help your business invest in technologies to adapt to the changed economic circumstances”. 4 in 10 SMEs (38%) chose this response – ahead of a cut in VAT (33%), extending the business rates holiday to all sectors (19%), or a cut in corporation tax (17%).

In some areas, technology has already proven a powerful business continuity tool.



In early May, 28% of businesses reported that they had started selling or servicing customers online as a direct result of the outbreak...



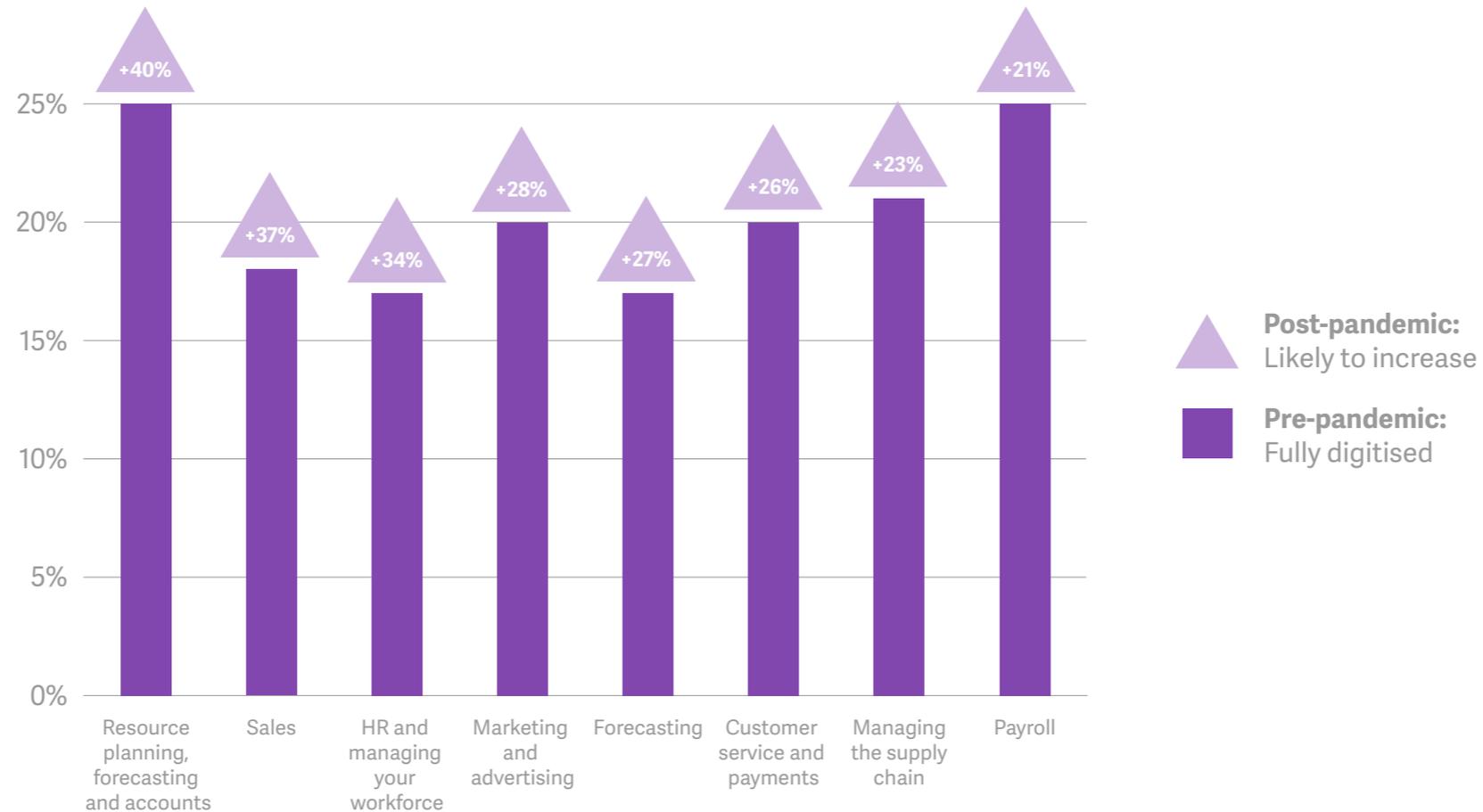
...a significant shift given only 31% were selling online before the outbreak.



39% of SMEs have paid for additional services in new technology to support their business during the crisis.

Notably, security of data and systems is the lowest priority for digital investment, despite half of SMEs worrying that their business is more vulnerable to a data or cyber breach than before the crisis. Only 6% see enhancing the security of data and systems as a significant priority; most plan to focus on workforce management and adapting operational processes. As more businesses transact and communicate online, the risks here are clear; 32% of businesses have already been the victim of actual or attempted hacks / scams / malware since the beginning of the pandemic.

Q: Before the start of the pandemic, to what extent were the following elements of your business digitised?



Looking forward

Supporting our SMEs through individual and collective action

The evolution of lockdown and the re-opening of the economy has brought a number of encouraging signs that UK businesses are navigating their way through the crisis, and out the other side.

By the end of May, 28% of businesses had started to return furloughed workers. The level of expected financial damage has gradually reduced over the last three months, and there has been a remarkable level of adaptation. Even the smallest and most traditional enterprises have been forced to find entirely new ways of doing business - and have adjusted with incredible speed and agility.

But we cannot underestimate the scale of the challenge ahead, with most businesses still operating at a loss and 68% experiencing a more than 25% reduction in sales. Withstanding a major economic downturn whilst navigating operational restrictions will continue to test small businesses to their limits, particularly when Government support programmes end later this year.

We see three key priorities for Government support going forward:

- **Technology:** Providing simple and effective financial incentives to help SMEs digitise their processes – such as digital grants and vouchers - will build resilience and drive growth, catalysing change that was already underway.
- **Trade:** Facilitating and simplifying access to new markets will be crucial to help SMEs diversify and cope with sustained pressure on demand. The appetite for increased trade is there and greater digitisation will make it easier, but with Brexit on the horizon and SMEs still suffering, tolerance for complexity will be low.
- **A sector-based approach:** Without doubt, some sectors will need more intensive and sustained support than others. The divide between sectors is only widening as the crisis continues, and a nuanced and sophisticated approach – recognising the incredible diversity of small firms – is essential.

As a society, we must also commit ourselves to individual action. Whilst Government support is vital, it will only truly succeed if the demand is there to help small businesses get back on their feet when it ends. And for that we need to look to our own neighbourhoods and our own local networks.

That is why we are backing the Department for Business, Energy & Industrial Strategy's #openforbusiness campaign and independent retailers' calls for the UK to mark its own **'Independents' Day'** on the 4th July, mobilising to support local enterprises of all kinds. This should mark the start of a summer of spending locally, and could take many forms – from shopping at independent retailers to promoting local supply chains, tipping extra in your local restaurant or supporting local artisans, barbers, yoga instructors – the list goes on.

Ensuring our spending is invested back into our communities will provide long-term benefit to ourselves, to future generations and to the 17m UK employees relying on small and medium sized employers.

We face a once-in-a generation opportunity to help our small businesses come out the other side of this crisis stronger, more resilient and better equipped for the future; we must grasp it.

About the Sage SME Tracker

The Sage SME Tracker refers to independent research commissioned by Sage and conducted by Portland between the 23rd March and 27th May 2020. Portland surveyed 5,156 online UK adults in total – decision makers in SMEs - in weekly waves of over 500 online UK adults each.

Portland drew the sample from an online exchange and verified the age, gender, employment status and region of each respondent as well as job responsibilities and the size of the business they work for. All respondents had to work for a business ranging from 1, 2-50, 50-99, 99-250, 250-499 employees. All respondents had to be business owners or hold director-level decision making responsibilities in order to be eligible for the survey. Due to a lack of official statistics, no weighting or target numbers were applied to the demographics of our sample.

About Sage

Sage is the global market leader for technology that provides small and medium businesses with the visibility, flexibility and efficiency to manage finances, operations and people. With our partners, Sage is trusted by millions of customers worldwide to deliver the best cloud technology and support.

Our years of experience mean that our colleagues and partners understand how to serve our customers and communities through the good, and more challenging times. We are here to help, with practical advice, solutions, expertise and insight.



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