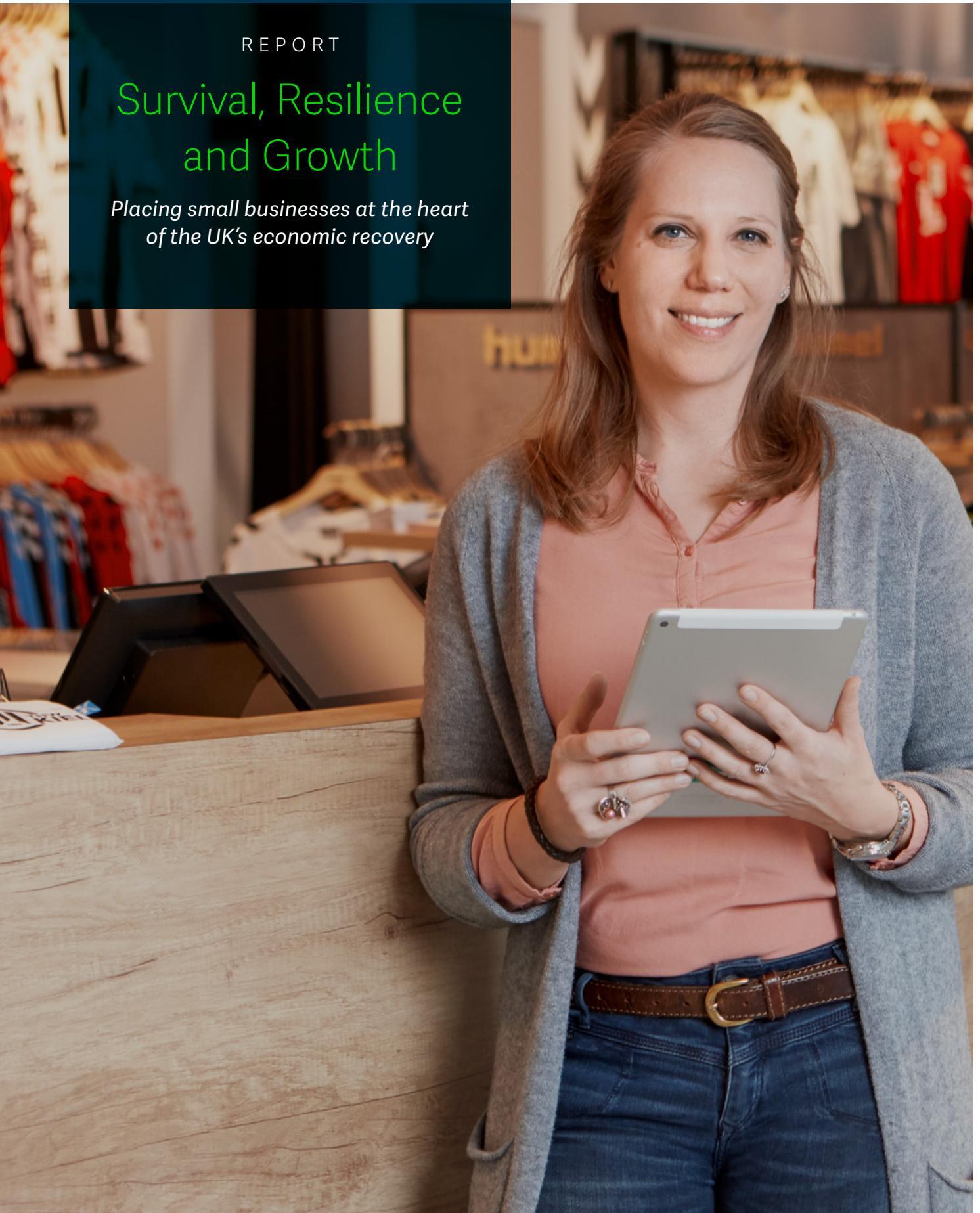


REPORT

Survival, Resilience and Growth

*Placing small businesses at the heart
of the UK's economic recovery*



Introduction

The UK stands at a turning point in its response to the COVID-19 pandemic. As of early July, lockdown restrictions are being eased further in England, Scotland, Wales and Northern Ireland, heralding a return to some form of normality for businesses of all sizes.

This was a particularly welcome shift for millions of small and medium-sized businesses (SMEs) across the country, enabling them to revive their operations, stabilise their finances and plan for the future. Many SMEs who had been unable to function well during lockdown were **already embracing opportunities to improve profitability and efficiency, to get closer to their customers and access new markets;** and the loosening of lockdown provided a further impetus for this.

But as the recovery begins to take shape, are SMEs equipped to deal with the challenges ahead? Where do they see the opportunities – and risks – and how can we best support them?

This report analyses research into **2,000 SMEs across the UK** to provide in-depth answers to these questions. It assesses four main dimensions of business health, looking at the capacity for survival, resilience, recovery and growth over the next year. Commissioned by Sage and conducted by Portland between the 18th and 22nd of June, it surveys a diverse range of SME decision makers across all sectors and all regions of the UK.

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Foreword

In the words of one of our customers, the insights in this report are a ‘gut-wrenching’ read. Behind the stark statistics lie thousands of individual stories of people whose livelihoods and passions are under threat. Where businesses have had to radically change their plans and their strategies and adapt to unprecedented ways of working, most are now hopeful they will survive the crisis, however, **79% do not expect to be making the same profit they did pre-pandemic by the end of 2020.** We have some tough months ahead with many unknowns.

But one thing is certain, small and medium businesses are the engine and the lifeblood of this country’s economy. Following the financial crash in 2008, many more small and medium businesses were created, and impressively they delivered 73% of all new jobs.

I am confident in time businesses will come back stronger, early indicators point to the potential of a V-shaped recovery. The extreme impact of the COVID-19 pandemic has accelerated businesses’ plans for radical changes, which in the long run can improve productivity – whether it’s diversifying the supply chain, engaging with customers in new ways, exporting more or investing in tech.

However, the effect of increased unemployment, inability to absorb shocks like a second spike and rapid changes in regulation, all create little bandwidth for growth. **We must help businesses invest and overcome barriers by helping them access technology and finance.** What businesses really need now is flexibility and stability so they can move ahead and adapt – which is why their preferred option is a grant to spend on technologies, and they believe this will do more to help them increase hiring than support for retraining.

It is a privilege to speak to the nation’s business owners every day and to represent their voice with this report. I hope it shows why government should put SMEs and entrepreneurs at the heart of the recovery. And we must not forget that entrepreneurship is going to be a vital route out of poverty and unemployment in the future, and we must empower people to fulfil that potential.

Sabby Gill

Managing Director, Sage UK



With SMEs making up the majority of UK businesses, understanding the impacts of COVID-19 on these businesses, as well as their own sense of how they will recover is key to developing the right interventions to support. This work, undertaken by Sage, will be a critical component of that understanding.

It's heartening to see that over 70% of businesses are coping well with the issues they're facing and the majority of those surveyed feel they will be making a profit by June next year.

However, there are several challenges SMEs have highlighted as part of this survey, and these must be addressed through appropriate policy levers.

It's heartening to see that over 70% of businesses are coping well with the issues they're facing.

Issues such as the **restrictions of lockdown, lack of finance and lack of technologies** have been highlighted by SMEs as barriers to growth, with as many as two thirds struggling to adapt to the restrictions. Government policy must therefore consider the needs of SMEs, who play an important role in sustaining our economy, providing essential services across the business community.

As highlighted by the survey, with almost **four in ten businesses are unsure whether they will return to profitability by December 2020**, many of these businesses cannot wait until autumn for action by government. That is why the CBI has called for an extension to existing grant support schemes for SMEs via the Local Authorities, business rates relief, and an extension to the CBILs deadline, beyond September, for a further three months.

On top of this, fewer than 60% of the businesses surveyed are prepared for future shocks, including Brexit. It's for this reason that the CBI has emphasised the importance of an ambitious Brexit deal as part of the UK's recovery. The bottom line is that businesses are not, and cannot prepare for a no-deal Brexit in the middle of a pandemic.

The focus must remain on **how we can build back better**. For many SMEs the crisis will have a significant impact on the workforce. Unemployment is likely to fall unevenly, and if the impacts aren't mitigated this could leave generational scars. The Government should focus on creating inclusive jobs in the short term, supporting long-term sustainable growth as a priority.

Finally, support must recognise that there are certain sectors that may be unable to open alongside other businesses, particularly where social distancing remains impossible. Over a third of SMEs surveyed in media, beauty and not-for-profit are concerned that by June 2021 they will still be operating at a loss. For the SMEs in these and other leisure, hospitality and creative industries, further support will be needed. The focus on rescuing viable firms cannot slip whilst the UK looks to recover, or earlier efforts will have been wasted.

Anna Leach

Deputy Chief Economist of CBI
(Confederation of British Industry)



SMEs are now more open to innovation than ever before, but we must be ready to support them.

For me, the most important takeaway from this impressive piece of work is that while UK SMEs are optimistic for the future, this is a precarious recovery. SMEs have weathered the storm of the pandemic and are now looking to the future. Most say they will be making a profit by the end of the year, and around a third say they will be making more profit than they did pre-pandemic. You cannot help but be impressed by the ability of small business leaders to stay the course in the face of adversity.

However, there is a caveat to this optimistic outlook, and this is where I believe policy makers and business support networks must focus their attention. SMEs are not well prepared for a second wave of the pandemic or any other significant external shock.

I believe the answer to the question of how we should protect this fragile recovery is found within those SMEs that are thinking about tech adoption but have not yet acted. **Over 80% of SMEs think that technology will be important in restarting their business post lockdown**, but a much smaller proportion – about 32% – are actually planning to make a significant investment in tech. These business leaders remain on the fence.

This has also been borne out in research 'Be the Business' carried out on crisis driven innovation amongst SMEs. We found that although many SMEs have adopted new technology, it has not been used to make major changes to their business processes. Other SMEs have been making plans but have not yet executed them, they are waiting to see what will happen next before committing.

Unfortunately, the reality is that these **businesses do not have time to stay 'on the fence'** on this decision. The world around them is changing rapidly, and they need to respond rapidly to survive. We need to start viewing innovation and tech adoption through the lens of resilience as well as productivity.

As SMEs move out of lockdown and have a chance look ahead, we are presented with an opportunity. SMEs are now more open to innovation than ever before, but we must be ready to support them. We need to back the innovators for sure, but we also need to engage and persuade those still on the fence. They will need our support to take that uncertain step towards technology. Now is the time to use tech to make our recovery resilient and sustainable.

Tony Danker

Chief Executive of Be the Business



Executive summary

This report unveils the priorities for the economic recovery over the months that lie ahead.

Confidence is creeping back as a gradual recovery begins

- 50% of businesses think they will be profitable in June 2020, 75% predict they will by June 2021.
- Their biggest challenges today are adapting to restrictions (65%), reduced demand (44%), cash flow problems (39%) and supply chain disruption (32%).
- Yet, 8 out of 10 businesses are confident they are handling these problems well.

The crisis has triggered bold moves towards productivity-enhancing measures

- 26% are taking major steps such as getting closer to customers, introducing cost efficiencies or managing their workforce better, 37% are planning to do so.
- 47% are taking measures to increase export revenues and 20% are planning to.

Despite rising optimism, too few SMEs are prepared for the challenges ahead

- 86% say a second COVID spike would have a negative impact and 39% say it would be severe.
- Half of SMEs are not confident they would survive a 20% drop in revenue before September.
- Only 54% of businesses are prepared for risks ahead such as a cyber attack, Brexit, climate change or cash flow problems.

Half of SMEs are not confident they would survive a 20% drop in revenue before September.

The outlook varies significantly by sector and therefore by region

- Higher-tech, service sectors are performing the best.
- Whilst SMEs in London and the South East report higher levels of redundancies and negative impacts, they are the most bullish regions for the future.

The recovery is triggering a significant restructure of the workforce

- 62% of SMEs have made or are planning to make redundancies, 65% say this is because wages were too high or they were over staffed before the pandemic.
- Managerial roles and firms in the London area are most likely to be impacted.
- 57% are concerned about employees' productivity at work.

Businesses want to invest in productivity-enhancing processes that would boost job creation

- 40% of SMEs believe that a technology grant from the Government would increase hiring.
- 80% say technology will help their business post lockdown, only 33% are actively planning investment in the wake of the crisis.

That is why, for an enterprise-led recovery, the following will be critical:



Incentives to support digital adoption and continued access to low cost finance to facilitate bold moves to adapt and enhance productivity.



Stability and help to reduce risk including effective tracing of COVID, preparation for Brexit, cyber awareness and tackling climate change have never been more important.



Flexible access to the apprenticeship levy fund for in-work training to tackle low motivation and upskill employees.



Data driven local SME growth plans to account for different sector strengths.



Capitalise on significant potential for export growth across a range of sectors.



Widespread provision of skills and mentoring to start a business as a route out of unemployment.

Green shoots

Confidence creeps back as a gradual recovery begins.

Lockdown restrictions have weighed heavily on the profitability of UK SMEs. 82% of businesses reported making a profit in March, but this plummeted to 44% during April and May as companies have had to wrestle with fundamental changes to their operations and a precipitous drop in demand. **Most businesses are still experiencing issues related to the outbreak**, ranging from problems adapting to restrictions (65%) to reduced demand (44%), managing cash flow problems (39%) and supply chain disruption (32%).

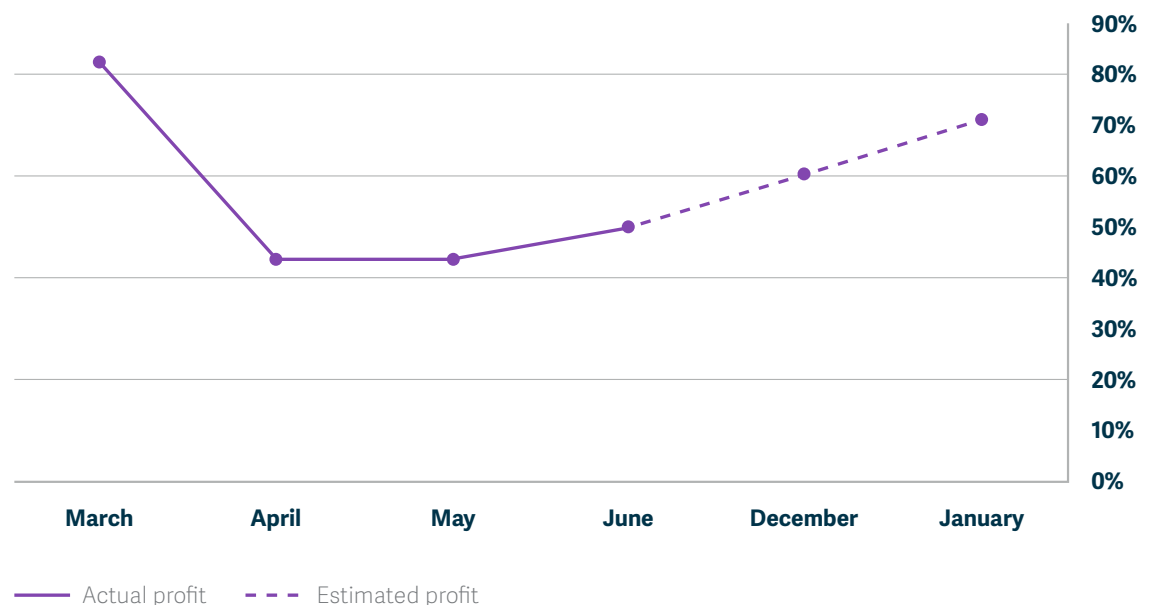
However, the tide is starting to turn. June saw an improvement in profitability - with 50% of SMEs expecting to turn a profit – and this trend is likely to continue in July as more significant steps are taken towards re-opening the economy.

Looking forward, the picture improves further – but very gradually. **Most SMEs believe they will be back in the black by the end of the year**, and by June 2021 75% of SMEs across all sectors predict that they will be making a profit. 32% believe they will be making a greater profit than before COVID-19 by this time next year.

Given the challenges SMEs are still facing, confidence seems high. On average, SMEs rate their confidence in their businesses' future a six on a scale out of ten. Businesses also generally believe they are successfully navigating the challenges thrown at them; almost eight in ten (77%) believe they are coping with these issues well. 49% believe that the way their workforce is currently operating is sustainable for the next six months.

On average, SMEs rate their confidence in their businesses' future a 6 out of 10.

Percentage of business operating at a profit:



The sector view

Whilst the overall picture is improving, there is variation between sectors; 63% of SMEs in financial services, but only 28% of SMEs in hospitality, expected to be profitable by June 2020.

Hospitality businesses are also the worst-hit by cash flow problems, with over half suffering a cash deficit, and the least likely to believe they are coping well with the challenges they are facing. In contrast, financial services SMEs are the least likely to be experiencing cash flow problems and the most confident that they are coping well with the issues they are facing (90%).

Financial services is the most confident sector, with an average rating of 6.4 out of 10, and media the least confident at 5.2. Over one third of businesses in media, beauty and not-for-profit are concerned they will still be operating at a loss in a year's time.

Half of manufacturing companies and non-essential retailers are experiencing supply chain disruption, compared to only 20% of those in the support services, creative, telecoms or education industries. However, manufacturing is also one of the more confident sectors, with 36% rating their confidence levels as higher than eight out of ten.

And even within sectors, the experience of lockdown has varied enormously. In retail, for example, essential retailers are coping much better with the issues they are facing than non-essential retailers. They are less likely to be facing supply chain disruption and feel more prepared to deal with future challenges.





“The impact of entering lockdown was softened for businesses thanks to government support through furlough and grants. Restarting will present, in many ways, a more significant challenge.”

Derrick is the owner of DPR Motorsport based in Surrey, and has been since 2007.

“We have formed some significant new partner business relationships as a result of the changes caused by lockdown. For example, we have significantly stepped up our involvement in virtual motorsport, both in selling simulator rigs and in integrating virtual racing into our existing race driver development programme. **Being in lockdown has also provided a valuable opportunity to improve some of our business processes.**

The impact of entering lockdown was softened for businesses thanks to government support through furlough and grants. Restarting will present, in many ways, a more significant challenge than lockdown for many in terms of maintaining cash flow, as staff costs and re-stocking can easily outstrip revenue. Staff redundancies may become inevitable if revenue does not return to pre-shutdown levels.

We have had good results from the Government’s support for apprentices. Tackling the upcoming youth employment crisis will require this investment to be very significantly increased.”

Derrick Rowe

Owner of DPR Motorsport in Surrey

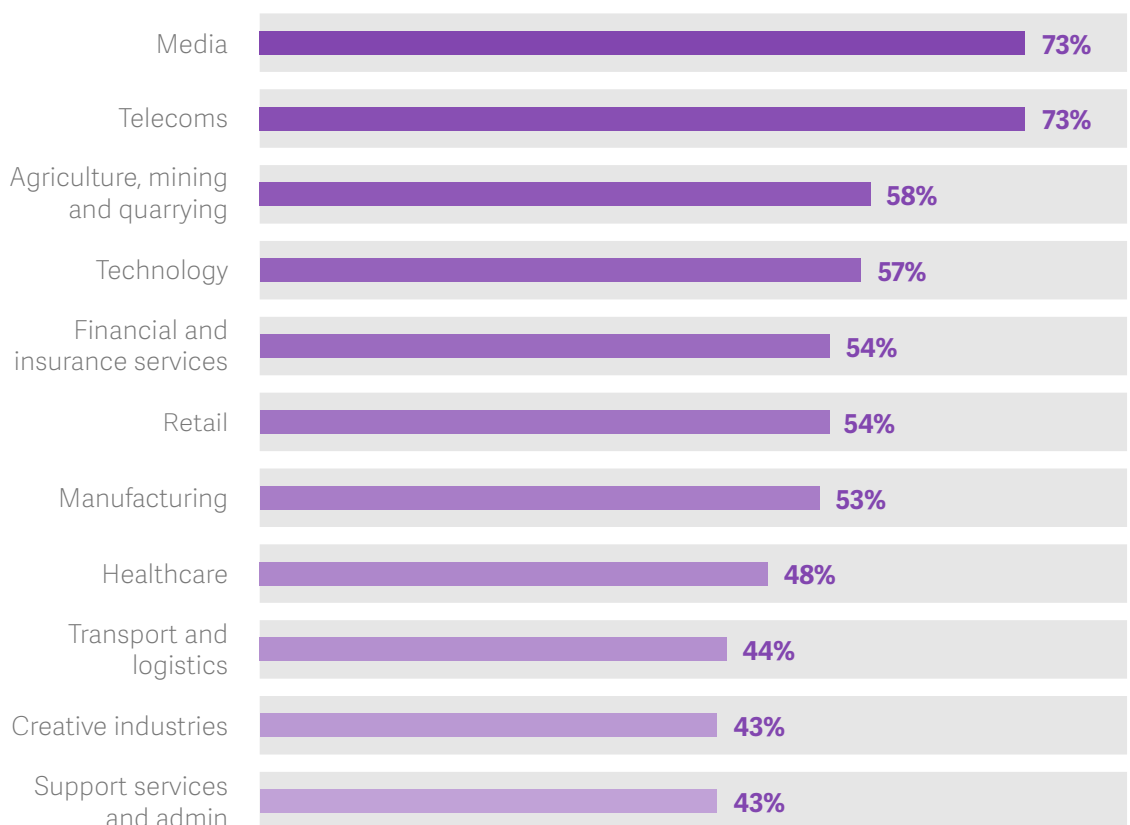
The fightback begins

Businesses are pivoting to recovery by taking productivity-enhancing measures.

Significant numbers of businesses have been forced to take drastic action to adapt and survive during the COVID-19 pandemic. This looks likely to continue as thoughts turn to boosting efficiency and stimulating growth. 26% of businesses have already made major changes to the way they operate as a result of the pandemic, and 37% are planning further changes.

One of the most striking changes is a drive among SMEs to increase exports. Almost half of businesses surveyed – 47% – are already taking active measures to increase revenues from exporting, and a further 20% are planning to do so. The media, telecommunications, agriculture, technology and financial services sectors top the list of those actively driving export revenue.

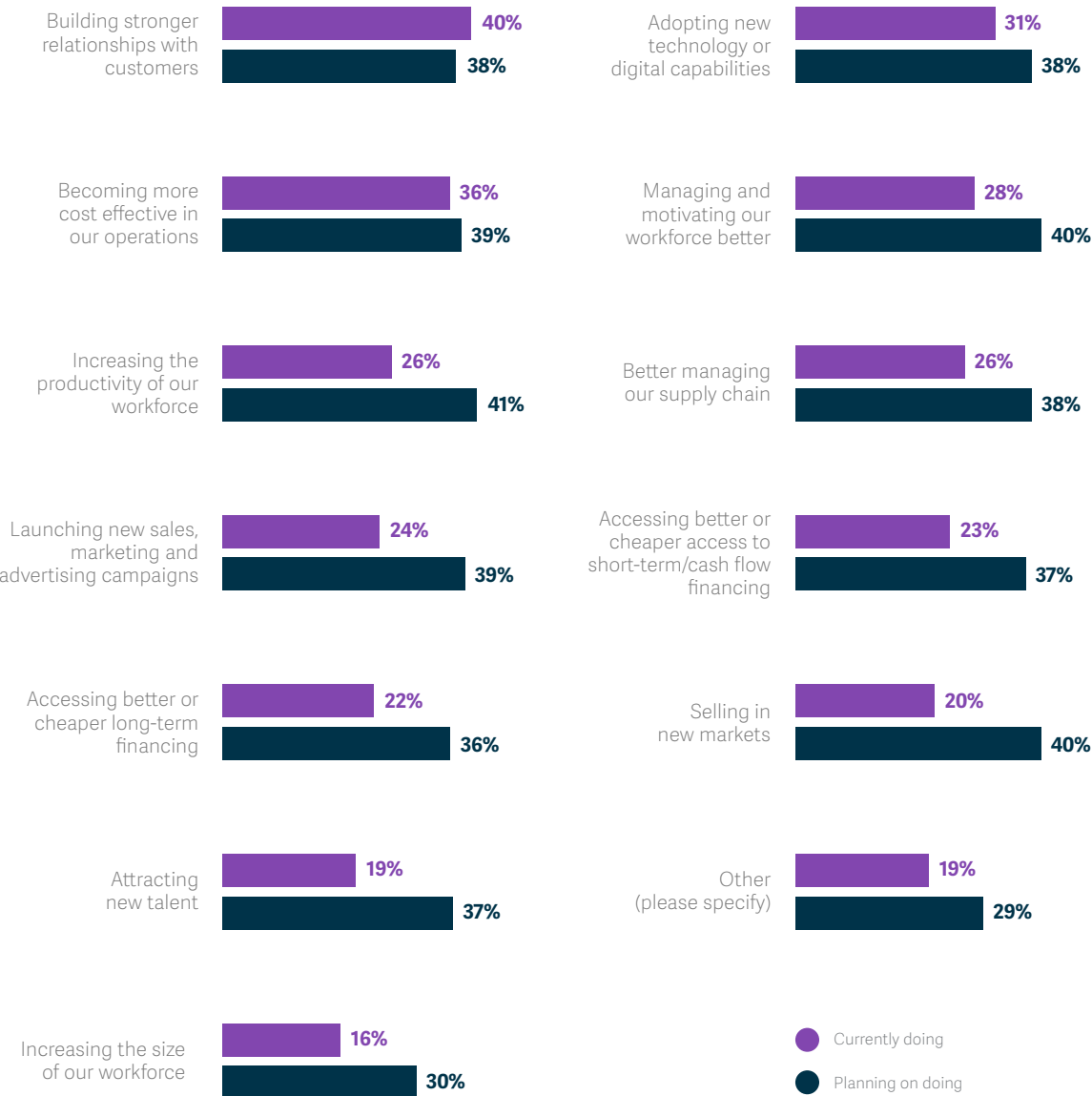
% of companies actively taking or planning to take measures to increase export revenues, by sector:



The majority of businesses are also taking, or planning to take, wider growth-related actions such as launching new sales, marketing and advertising initiatives, building stronger relationships with customers and adopting new technology.

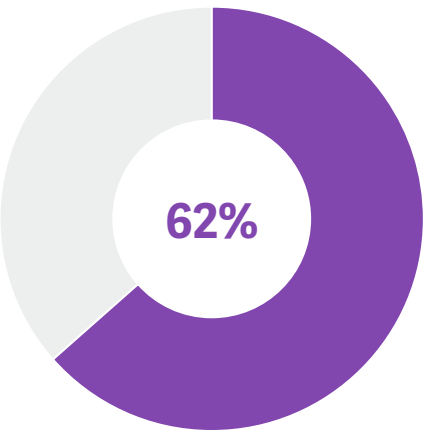
Other key focus areas are enhancing productivity and efficiency, improving management and motivation of the workforce and accessing better or cheaper financing.

If any, which of the following actions is your business taking or planning to take?

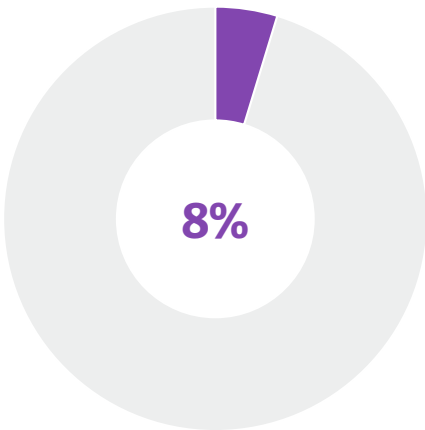


For those who haven't yet taken these steps towards growth, the key barriers have been ongoing restrictions from lockdown (28%), lack of finance (22%) and lack of technology (15%). Significant growth potential could therefore be unlocked through **improved access to finance and technology**, alongside the easing of lockdown.

To fund the changes needed so far, SMEs have looked to mainstream commercial lenders in large numbers. The most popular financing options have been bank overdraft facilities (27%), credit cards (24%) and loans (20%), followed by Government loans (21%) and grants (11%). 21% of businesses have drawn on personal funds from Directors/Owners. 62% of those that have taken out finance are confident they will be in a position to repay it as needed, and only 8% are not. However, there is a gap of 30% where we don't know if they will be confident to repay or not.



of those that have taken out finance are confident they will be in a position to repay it as needed.



of those that have taken out finance are not confident they will be in a position to repay it as needed.



“Throughout lockdown my village came together in a way I had never seen before. I believe it is in this new sense of community where the solution lies.”

Jen is the founder of the Split Screen Coffee Company. She was named one of the UK's top 100 female entrepreneurs of 2019 as part of the f:Entrepreneur initiative.

“Business models have had to change dramatically these past few months and my business has evolved due to COVID-19, with the help of a blog post written for Sage describing my experience of having to mothball my business. After reading about the cancelling of all my events the owner of my local zero-waste/craft beer shop kindly asked if I would like to team-up and provide coffee out of their high street premises meaning I could operate again, effectively saving my business.

Throughout lockdown, my village came together in a way I had never seen before. I believe it is in this new sense of community where the solution lies.

Support through policy changes and grants needs to reach down to the SMEs on the ground, fortifying local businesses who are there to support their communities. **We need to work out how we keep a healthy circular economy within our communities** that will make businesses resilient to the tribulations of a chaotic and unpredictable global economy that is likely to be with us for some time.

Of course everyone can do their bit by shopping in their local shops, prioritising local suppliers and taking on a more locally-based procurement process but we also need a brave value shift that values SMEs and will see us Building Back Better despite the rough waters ahead.”

Jennifer Walker

Owner of The Split Screen Coffee Company in Nottinghamshire

A fragile recovery

Despite rising optimism and an improved operating environment, too few SMEs are prepared for the challenges ahead.

With no medical breakthrough, the risk of future spikes in the pandemic will remain high. But a second spike in the virus and a resulting tightening of lockdown restrictions in the UK would, without doubt, be devastating for SMEs; **a significant proportion do not believe they could make it through another widespread outbreak.** 86% say a second wave would have a negative impact and 39% say it would be severe, with a further 15% saying their business could not survive it.

Sales have already been hit hard by the pandemic; at the end of May, 39% of SMEs still claimed to be

making less than half their normal level of sales. In this environment, a further financial hit could be catastrophic. **One in two SMEs are not confident they could survive a further 20% drop in revenue between now and September.** Given that many businesses (39%) are already not sure they will return to profitability by December 2020, this threatens to destabilise an already fragile recovery.

SMEs are naturally agile and rely on their ability to adjust quickly to changes in the landscape. But an uncertain outlook and regulatory change driven by Brexit could undermine those steps in 2020.

Only 54% of SMEs are prepared for further potential shocks or challenges, including...

Problems adapting to lockdown restrictions

Significantly reduced demand

Cash flow/liquidity problems

A second COVID-19 spike

Disruptions in the supply chain

Reliant on too few customers

A less connected and engaged workforce

Increased competition

Losing key talent

Changes associated with Brexit

Legal and regulatory changes

Reputational risks

Cyber or data security

Critical interruptions to operations

Disruption from climate change

Over half of businesses, on average, say they are prepared for further potential shocks or challenges on the horizon this year. 52% say they are prepared for a second COVID-19 spike, 58% for a cyber or data security incident, 56% for changes associated with Brexit, 56% for legal and regulatory changes, 53% for cash flow problems and 53% for supply chain disruption. Preparedness is higher, on average, for companies in sectors with higher general levels of regulation and administration such as transport and logistics, motor sales, financial and insurance services, technology and manufacturing. It is lowest among companies in the beauty and wellbeing, hospitality, media and creative sectors.

When asked what the key driver to increase resilience in their business would be, SMEs identified three top priorities: preparation, liquidity, digitisation and technology.



Preparation

“To have a contingency plan and strategy on what to offer our clients”

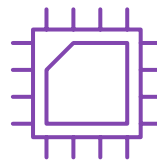
– Media SME



Liquidity

“To increase the amount of cash reserves to soften the impact of emergencies”

– Professional services SME



Digitisation and technology

“For all my employees to be technologically more savvy, so that we can digitise a lot more aspects of the business to enable increased productivity when working remotely”

– Motor vehicles SME

“Improvements in technology – both hardware and software – which would allow us to be in a better place to handle future risks such as a second wave of COVID”

– Creative industries SME

The sector view

The beauty & wellbeing, creative, hospitality and media industries are the least confident about being able to withstand a second wave of the pandemic or a further large drop in revenue.

On average, 64% of businesses in these sectors say a second spike would have a severely negative impact or spell the end of their company. The same sectors are also the least prepared to face future cashflow problems, with only 44% on average prepared to deal with this.

Again, the financial services sector – along with the technology sector – is one of the most confident about being able to survive a second wave. 20% of these businesses say a second spike would have only a minimal impact.



Reshaping the workforce

The recovery is likely to trigger a significant restructuring of the workforce, with London the hardest hit and managerial roles most at risk.

Despite rapid and well-targeted Government intervention to support employment, the recession caused by the COVID-19 crisis will lead to major changes in the workforce at large. With almost 17 million UK workers (60% of the working population) employed by small and medium sized businesses, SME employees may well, regrettably, bear the brunt of these changes.

But not all planned workforce changes among SMEs are directly caused by the acute pressures arising from the pandemic.

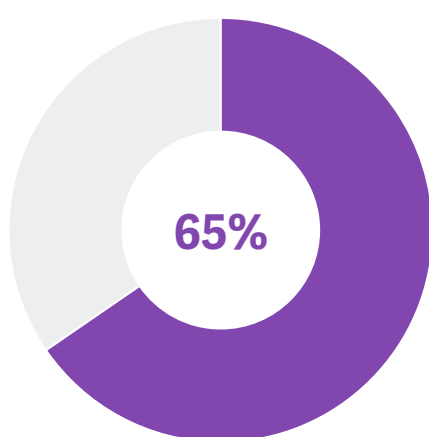
65% of businesses planning redundancies attribute this to excessive wage costs or overstaffing that existed before COVID-19. Only 35% are making redundancies as a direct result of cash flow or capacity restrictions caused by the pandemic.

Whilst the challenges brought by lockdown have exacerbated existing pressures, part of the restructuring of the workforce may be an acceleration of trends that were already at work in the labour market. 28% of those making

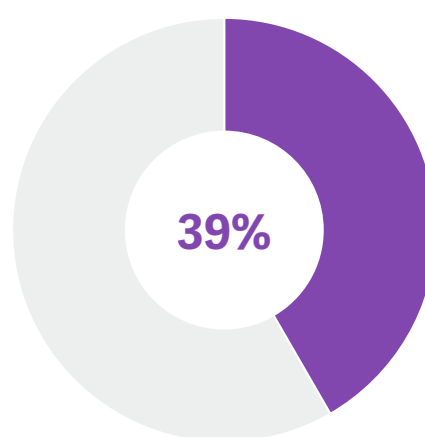
redundancies believe this will help the business be **more efficient in the long run**, compared to 24% who believe they are critical to the survival of the business.

And for the 33% of businesses who are not considering redundancies, there are positive signs. Almost 70% say they are seeing a recovery in demand or high demand for their products and services.

Across the country, managerial roles are most likely to be impacted by redundancies. 39% of those planning redundancies say that management or senior management roles with decision-making responsibilities are most likely to be impacted. This compares to 16% for administrative staff and 15% for manual staff. This is partially a result of the presence of micro businesses (<5 employees) in the sample – but taken together with **a widespread belief that wage costs before the pandemic were too high**, it suggests that senior roles are generally the most at risk within the SME community.



of businesses planning redundancies attribute this to excessive wage costs or overstaffing that existed before COVID-19.

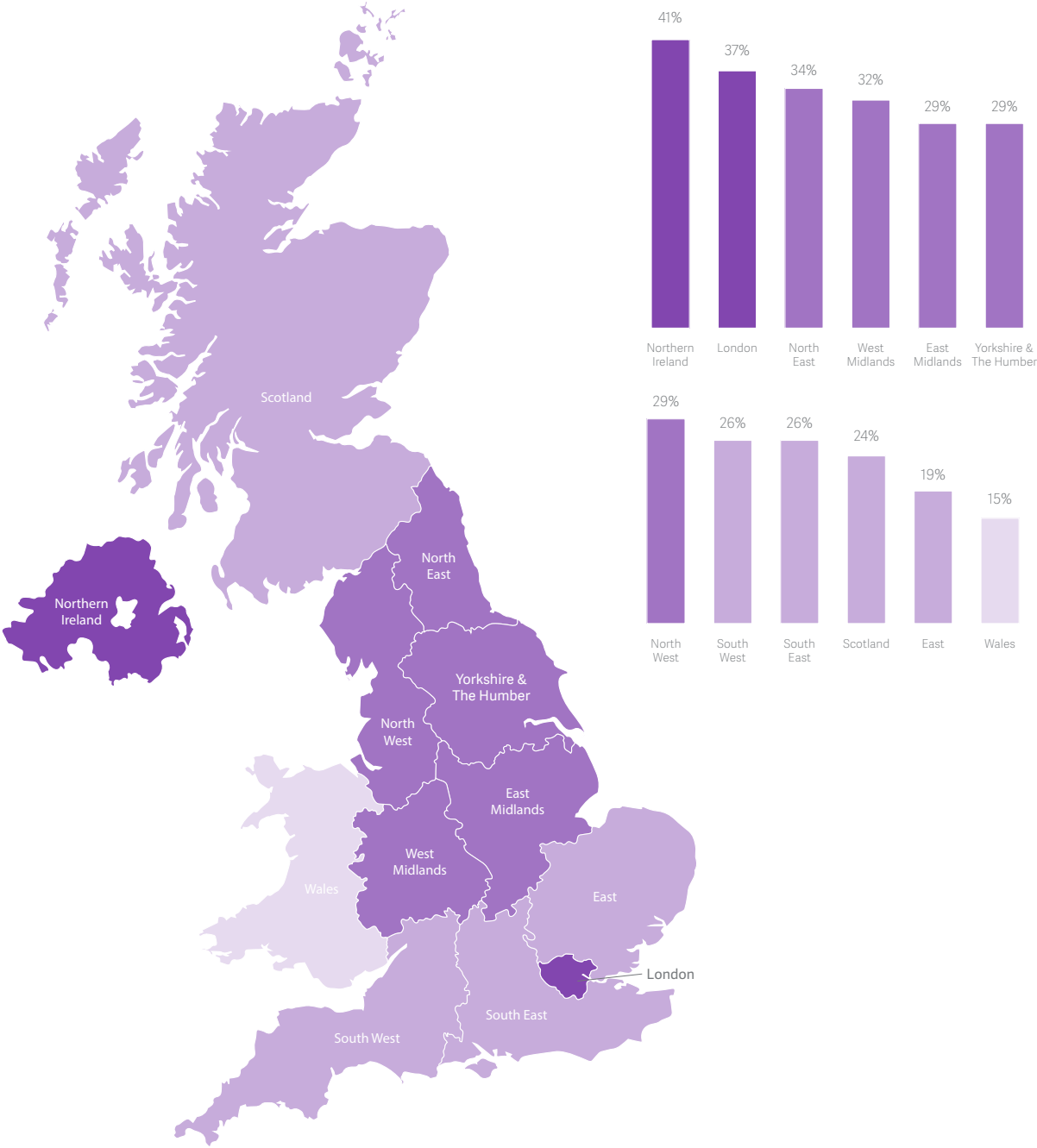


of those planning redundancies say that management or senior management roles with decision-making responsibilities are most likely to be impacted.

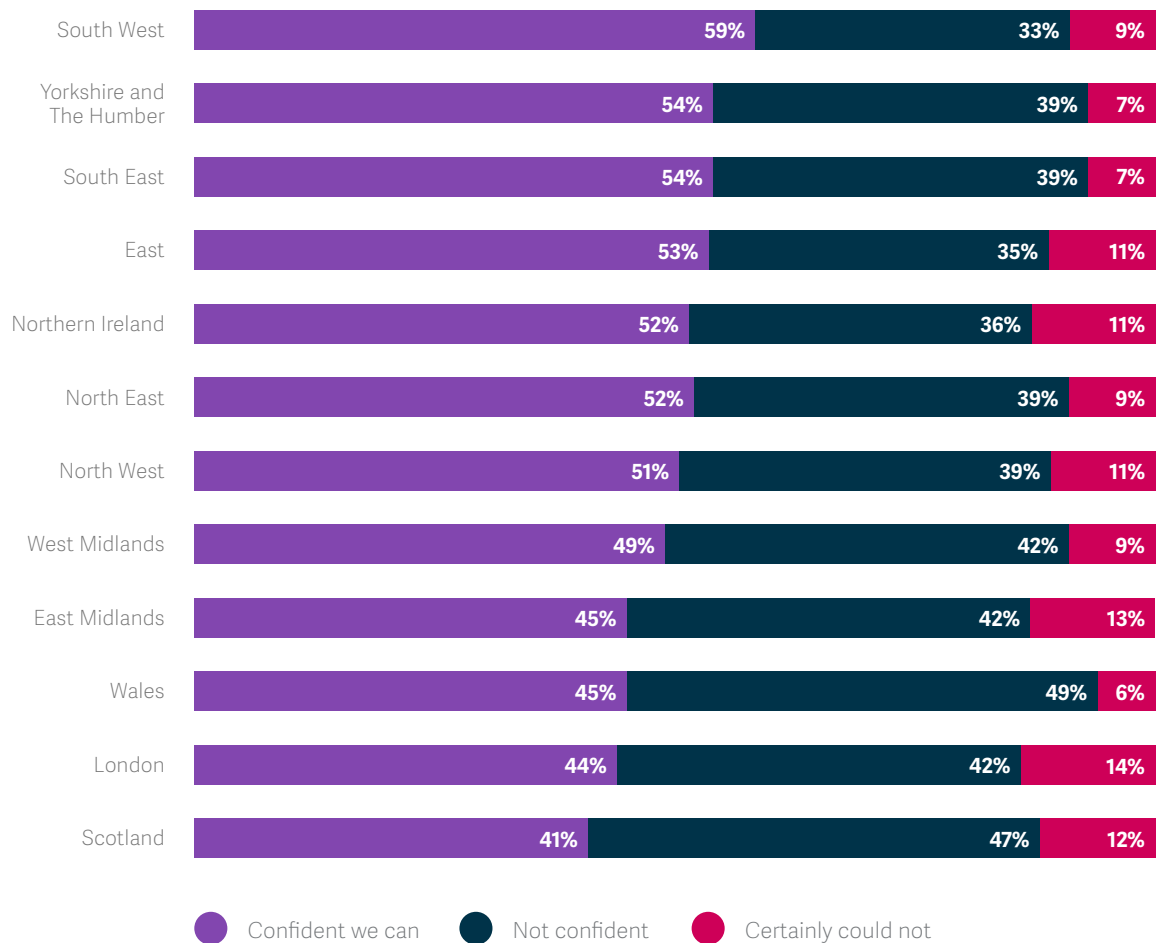
With a heavy reliance on the services sector, businesses in London have made the most redundancies so far (25%) followed by the West Midlands (18%). Wales, the East, Yorkshire and the Humber, the South West and Scotland have seen the least (6 - 9%). Looking ahead, Northern Ireland and London are likely to be the hardest hit by future redundancies, followed by the North East and the Midlands.

London and the Midlands are also among the least confident they could absorb a further 20% drop in revenue, alongside Scotland and Wales.

% of SMEs planning to make redundancies:



SMEs confidence in being able to absorb a further 20% decline in revenue:



Employers will need to be laser-focused on restoring morale and motivation in the workplace

Despite major challenges in employee retention, SMEs see their biggest workforce challenge over the next three months as **maintaining or raising employees' engagement and motivation levels**. Employers are anxious about the welfare and morale of their existing workforce, which appears to be low. 64% of SMEs are concerned about the impact of COVID-19 on their employees' engagement levels with work, 57% are concerned about their productivity and 60% concerned about their satisfaction.

46% of businesses making redundancies are also worried that it will be **costly or difficult to replace staff**, and 16% believe that attracting new talent or hiring skills in specific areas will be the biggest workforce challenge over the next three months. **Only around 6% of SMEs are currently hiring**, but 19% say they are taking actions to attract new talent.



The sector view

The media, motor, technology and beauty sectors are most likely to have made redundancies so far, while those in the education, creative industries, telecommunications and professional services sectors are the least likely. Looking ahead, for those that are planning redundancies the media and creative industries are preparing for the most significant changes, with 50% saying they will look to reduce their team by over 30%.

A significant proportion of retailers are considering or have started making redundancies – 81% with outlets on major high streets, 68% on local high streets, but far fewer among the retailers that sell away from the high street – including online.

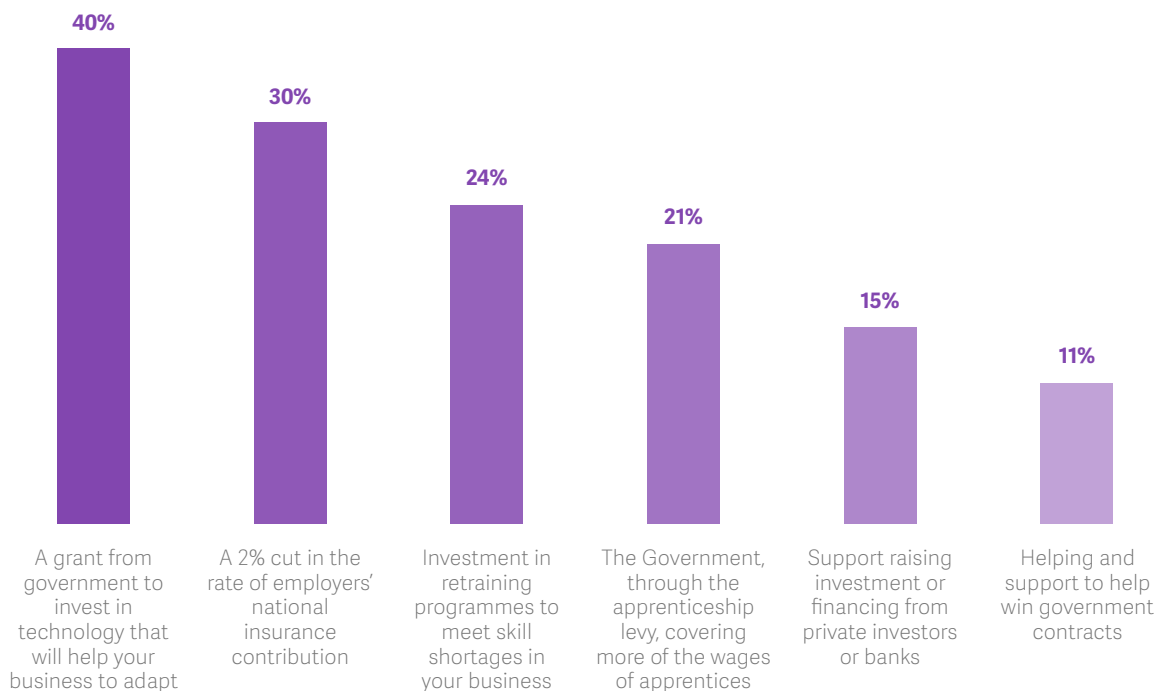


Accelerating the transition to growth

Businesses want to invest in productivity-enhancing moves that could boost job creation.

SMEs would welcome support that enables investment in growth measures. As such, they believe that a grant to support investment in technology would be more likely to increase hiring in the future than government investment in retraining or expanding the apprenticeship levy. 40% of SMEs believe that a technology grant from the Government would encourage them to increase hiring beyond what they had already planned.

The Government measures that would most increase hiring:



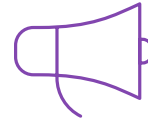
Technology is also the biggest focus for SMEs when asked what one thing would most enable them to increase growth in the future. When asked about the key drivers for growth, SMEs identified three top priorities: **increased use of technology**, **greater use of marketing and advertising**, and **diversifying their offering and client base**.



Increased use of technology

“Increased use of technology especially in a better control of supply chains and communication with customers”

– Transport SME



Marketing and advertising

“More social media marketing and selling online to customers”

– Construction SME

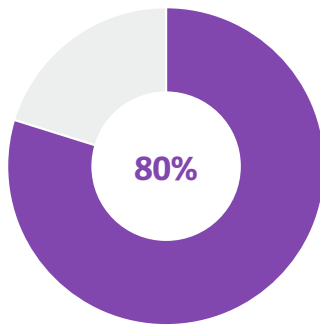


Diversifying offering and client base

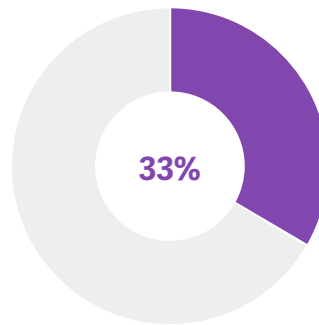
“We have started to increase sales since the lockdown began and also are starting selling abroad, we have been expanding our digital marketing capabilities which will prepare us if there is another pandemic or drastic change”

– Technology SME

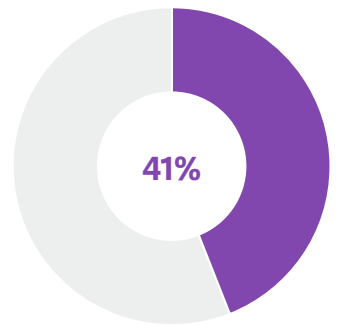
There is also a gap between SMEs' appetite to increase use of technology and their ability to invest. Although over 80% of SMEs think that technology will be very or somewhat important across business functions in restarting their business post lockdown, only a small proportion – 33% - are actively planning investment in technology across key business processes. The majority remain on the fence, considering investment – suggesting a sizeable opportunity to help boost productivity through incentives and support.



think that technology will be very or somewhat important in restarting their business.



actively planning investment in technology.



poised to invest in technology with the right incentives.

Encouraging adoption of technology is equally important, if not more important, to SMEs than building the right infrastructure. 35% of SMEs say that universal high-speed broadband would be the most beneficial technology measure to support their business, but 43% say that tax relief on digital investment or digital vouchers and grants would be the most beneficial.



The sector view

The telecommunications, technology, media, financial services and healthcare sectors are most likely to say that a Government grant to invest in technology would encourage increased hiring. 53% said that this would drive hiring beyond the levels currently planned, well above the 40% cross-sector average.

The same sectors are most likely to be relying on technology as an important tool to restart their business, with 89% of the telecommunications, financial services and healthcare sectors saying tech will be very or somewhat important.

The sample included accountants serving small and medium sized businesses, and the majority reported that their clients are cautious towards adopting new technology and digitising processes.



The SME sentiment index

The UK SME community is defined by its diversity. Ranging from one-person bands to significant local employers, and from financial services and construction to beauty therapy – our nation's small businesses are many and varied. Our approach to analysing and supporting them must reflect this.

Our research reveals significant differences in outlook and experience between different sectors and regions within the UK. This ranges from SMEs who report overcoming the issues they faced and - in some cases - thriving during the crisis; to others who report that their survival is imminently at risk. To illustrate this, we have developed the **Sage SME Sentiment Index**, mapping current levels of resilience against future growth prospects for each segment.

The purpose of this index is to directly compare a range of answers given in our survey and obtain a more detailed understanding of the broad landscape for SME recovery and growth, during and post-COVID-19.

The Sage SME Sentiment Index has two axes:



Resilience

Resilience is defined as an SME's ability to meet external challenges. Resilience was calculated based on eight indicators from our survey, including what further revenue drop they could absorb, the impact the crisis was having on revenue, their access to finance and their ability to repay it, and how well they were coping with the challenges they are facing.



Growth

Growth is defined as an SME's confidence in future growth and the steps that they are taking to achieve it. This includes 5 indicators from our survey, including overall confidence, projected future sales and revenue, and what positive actions are being taken or planned to grow their business.



-5

-4

-3

-2

-1

0

+1

+2

+3

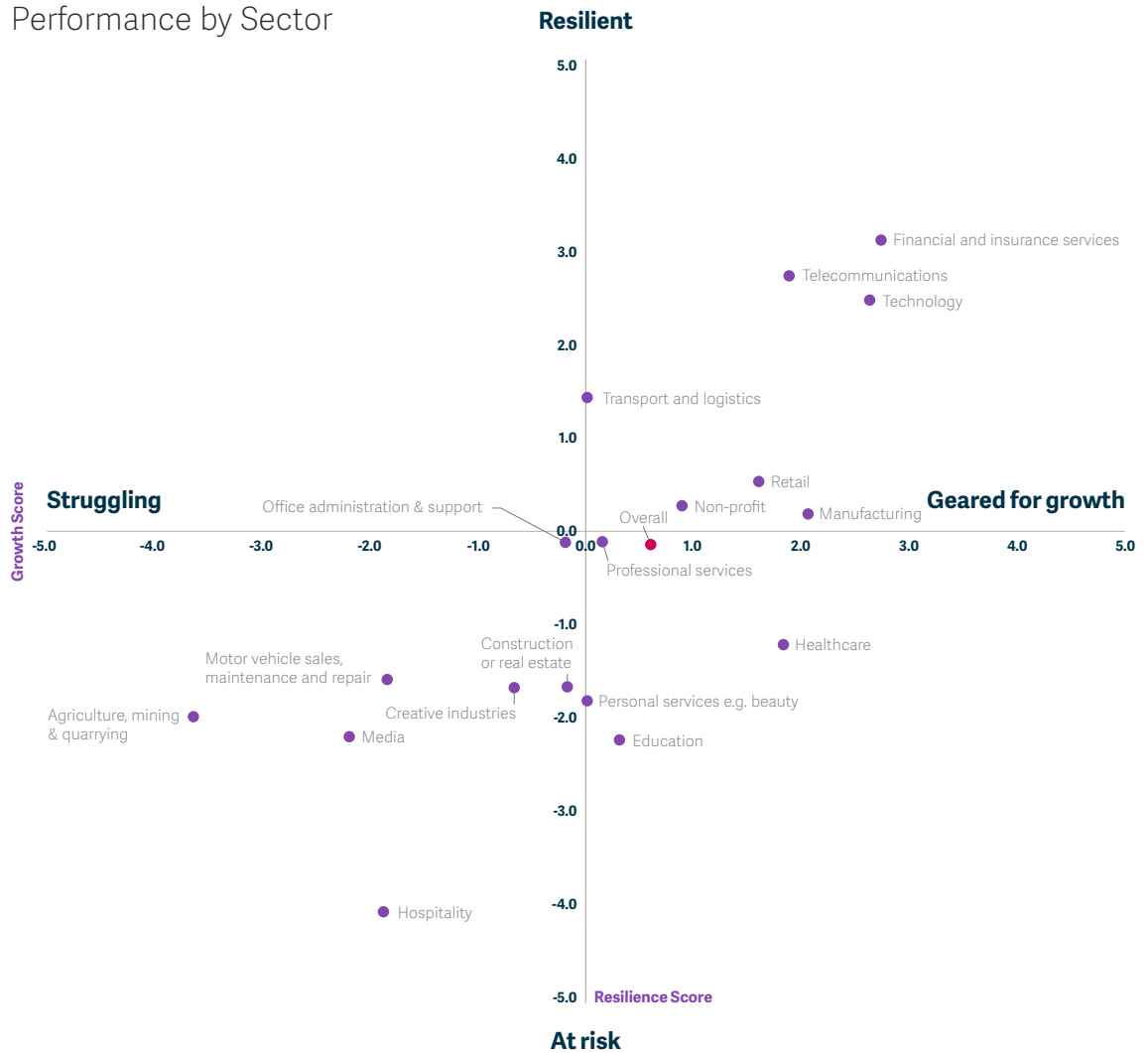
+4

+5



The answers to the survey questions were rescaled onto a scale of +5 to -5. -5 represents the most negative sentiment while +5 refers to the most positive sentiment.

Performance by Sector



Our index shows a complex picture of SMEs' experiences by sector:

- Higher-tech, service sectors generally perform the best across 'growth' and 'resilience' axes although there are some notable exceptions to this** – financial and insurance services, technology and telecommunications rank the highest for 'growth' and 'resilience', although media and the creative industries are significant laggards across both axes of our index.
- There are few simple winners or losers** – it is not the case that there are a group of straightforward sector 'winners' and straightforward sector 'losers'. Rather, it is a complex picture for SMEs with the vast majority of sectors in between. For example, despite reporting having their supply chains significantly hit and high levels of disruption during the crisis, manufacturing is the sector ranked third highest for future confidence in growth.
- Resilience during the crisis doesn't equal future confidence in growth** – there is a weak correlation between growth and resilience. There are sectors who have been resilient during the COVID-19 crisis and report coping with their issues well, such as transport and logistics, but are not as geared for growth as other sectors.
- The index reveals 'V' shaped-sectors where there have been huge challenges but expect a significant bounceback** – there are sectors who report having a positive future outlook despite experiencing significant challenges during the crisis. This is true especially for healthcare, retail, manufacturing and education SMEs.

Performance by Region



Our index shows a complex picture of SMEs' experiences by sector:

- 1. London and South East SMEs report a V-shaped recovery:** SMEs in London and the South East report making higher than average levels of redundancies and experiencing above average negative impacts on revenue as a result of the crisis. Yet, on future growth, they are the most bullish regions for the future.
- 2. SMEs in Scotland, Wales and Northern Ireland are significantly more negative:** Scottish SMEs are the most negative of any region of the country with significantly below average scores for both resilience and growth. This compares with Welsh SMEs, who score 2nd lowest for resilience and 4th lowest for growth. Finally, Northern Irish SMEs also report lagging the rest of the country significantly, with only Scottish and SMEs in Yorkshire and the Humber reporting a more negative outlook on future growth.

Recommendations for an enterprise-led recovery

How government and the business community can support SMEs.

This report unveils the priorities for the economic recovery over the months that lie ahead.

The lockdown restrictions, reduced demand, cash flow and liquidity problems, supply chain disruption and low workforce motivation are the **main problems for businesses**, as many edge back to profitability. Disruption varies by sector, so particular attention needs to be paid to local sector strengths.

Small and medium-sized businesses are agile innovators and most are making, or plan to make, **bold moves to emerge stronger** - improving customer engagement, strengthening supply chains, motivating and restructuring their workforce, and growing exports.

Yet the **recovery is slow and fragile** and the right conditions are essential for enabling positive growth measures. Preventing future lockdowns, providing access to finance and supporting technology adoption will be absolutely critical in keeping it on track.

Only slightly more than half of businesses believe they are resilient to and prepared for **future shocks** which, unfortunately, are highly likely - so in addition, support to ease the impact of those shocks will be essential.

And with many choosing to restructure their workforce, the fallout will be a steep rise in unemployment. Now is the time to encourage all generations to **start a business as a route back to work** – bringing new solutions and innovation and opportunity to many. Short courses and training for people wanting to start their own business must be made widely available and built into further education courses, and could be funded out of the apprenticeship levy.

Only slightly more than half of businesses believe they are resilient to and prepared for future shocks which, unfortunately, are highly likely.

We see eight key priorities for government to help capitalise on the big opportunities facing SMEs and drive job creation and growth in the wider economy:



- 1. Encourage a step change in digital adoption** via targeted and accessible incentives and support. As well as increasing business resilience to withstand disruption, this will help to stimulate growth and create jobs. Incentives could take the form of digital vouchers or enhanced tax incentives. More broadly, the Government's economic recovery strategy should prioritise digital and data innovation such as increasing real-time reporting of business performance and opening up access to government data sets over the long-term.



- 2. Government be laser-focused on creating certainty and stability for business.** Accuracy in tracing the spread of COVID-19 to avoid major spikes is vital for protecting the economy. Similarly, whilst effective regulation is key for a sustainable recovery, regulatory change must be business-friendly, clear and simple. For example, the Government must start engaging now with SMEs on how to prepare for Brexit.

"It is concerning that the Government's COVID-19 management appears to be hindered by a lack of timely and accurate data as to disease locations. Understanding in real time exactly who has the disease and how it was transmitted will be a pre-requisite to localising disease interventions rather than blanket shutdowns."

Derrick Rowe

Owner of DPR Motorsport



- 3. Help SMEs boost our exports.** With half of SMEs already actively working to increase export revenues, there is huge potential to drive up exporting across a range of sectors. Expanded and accessible promotion of trade opportunities, successful trade negotiations and digital adoption will facilitate access to new markets.



- 4. Recruit the next generation of entrepreneurs.** Help for entrepreneurs in more deprived, low income areas will be essential to tackling income inequality as unemployment rises. SMEs created 73% of all jobs following the financial crisis in 2010, and the number of SMEs grew by 23%¹. A short course paid for by the apprentice levy on skills to start your own business, early support and mentoring for start-ups will be key to driving up employment over the longer-term.

¹The State of Small Business <http://stateofsmallbiz.com/>

“SMEs are a source of much innovation in our economy and we are now in a period where reinvention is an essential part of the recovery process, with digital leading the way.”

“This has been a very tough period for all retailers, but without strong financial support many SMEs will be finding life particularly difficult.

SMEs are a source of much innovation in our economy and we are now in a period where reinvention is an essential part of the recovery process, with digital leading the way. SMEs are ideally placed to drive this but we must help them, and other healthy businesses, to weather the current storm.

Flexibility in employment support schemes and the Apprenticeship Levy have a role to play, and if we want to enjoy vibrant high streets in the future then the unequal burden of business rates must be tackled for good. Seeing as many as possible of our SMEs through this phase will accelerate growth and create jobs as the UK recovers.”



Richard Hutton
Finance Director at Greggs



5. **Continued access to low cost, low risk finance is going to be critical so businesses can invest in productivity-enhancing measures.** The Government must work with banks to ensure businesses can continue to apply for finance easily and flexibly and without incurring a large increase in fees.



6. **Use the apprenticeship levy to fund in-work training to motivate and upskill employees to adapt to new processes.** The recovery is all consuming for businesses and resources for investment training are depleted. Immediate access to unspent funds could support adaptation and the pivot to growth.



7. **A sector-based growth plan for continued business support, and local growth plans.** Whilst London is emerging as one of the hardest hit areas of the UK, there is an opportunity now for all regions to vary their response with data-driven local SME growth.



8. **Large companies have an opportunity to increase their links with SMEs.** The most helpful form of support for SMEs would be faster payments, followed by advice and knowledge sharing.



About this report

Portland Communications conducted independent research, commissioned by Sage. A 20 minute online survey was fielded between the 18th June to 22nd June 2020 to **"SME decision makers"**. A sample of 2,000 adults in the UK completed this survey online. Portland drew the sample from an online marketplace 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.

To be eligible for the survey:

- 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 their business.

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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