

## BEIS Committee Submission from Sage: Post-pandemic economic growth

September 2020

### About Sage

Sage is the UK's largest technology company and the global market leader for software that provides small and medium businesses (SMEs) with the visibility, flexibility, and efficiency to manage finances, operations, and people. This technology includes integrated accounting, payroll and HR native cloud systems, as well as on-premise and connected cloud.

We are passionate supporters of the UK's small and medium sized business community. Our 2,500 Sage colleagues in the UK support over 1 million SMEs through our products, partners, and advice.

### Introduction

We welcome the BEIS Select Committee's important and timely inquiry into post-pandemic economic growth. This response will not seek to answer every question posed in Committee's call for evidence, as we have chosen to focus on the areas where Sage is best placed to provide feedback.

At its core, this submission from Sage focuses on the need for an enterprise-led, SME focused recovery.

Since March 2020, as the economic impacts of COVID-19 began to be felt in by SMES in the UK most acutely, Sage has frequently polled SMEs, speaking to 7000 SMEs in total. We wanted to understand the challenges faced by small and mid-sized businesses and gain knowledge of how best to champion measures to support their recovery.

In July we published *Survival, Resilience and Growth – a report on the UK's economic recovery* outlining through an SME lens the challenges posed by COVID-19 and suggestions for the future ahead<sup>1</sup>.

*Businesses have had to radically change their plans and strategies, adapting to unprecedented ways of working. But this has created the potential to drive up productivity, especially where processes have been digitised and we now need to ensure government support is geared to helping an enterprise-led recovery.*

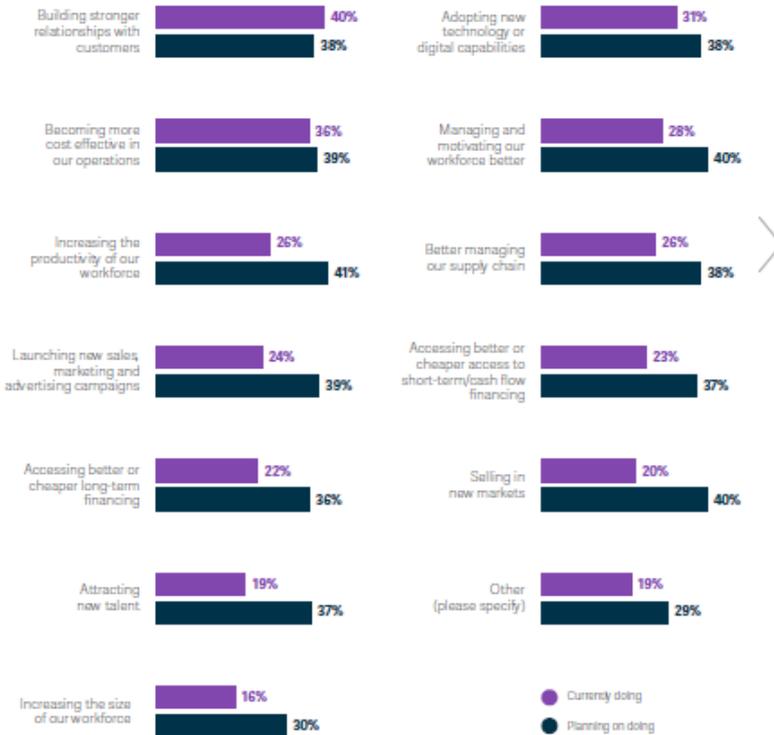
Despite the huge negative impact on revenues across most sectors:

- **8 out of 10 businesses** thought they were handling challenges resulting from the Covid-19 pandemic 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.

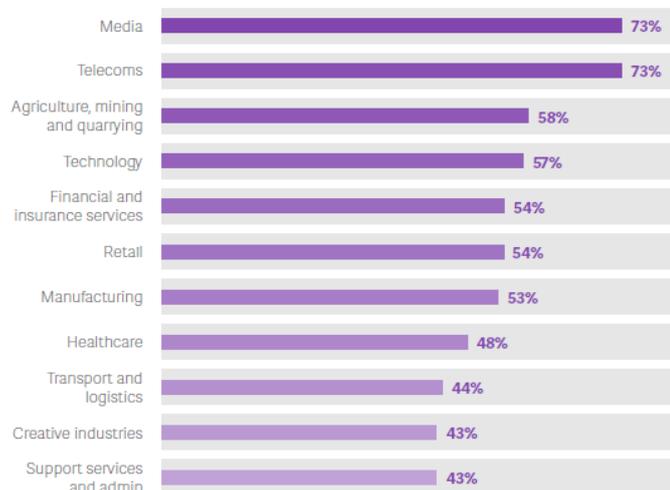
---

<sup>1</sup> <https://www.sage.com/en-gb/blog/survival-resilience-growth-report/>

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



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



However **15%** said they **would not survive a second spike**, and 50% were not confident they could survive a further -20% drop in revenue

Therefore with only 54% of businesses prepared for challenges that may lie ahead – stability and a business-friendly operating environment will be vital to prevent more SMEs failing and higher job losses in the coming months.

That is why Sage is calling on the Government to take action in the following areas to position businesses to make an enterprise-led recovery:

**A. Introduction of immediate support to invest in technology.**

SMEs said that investment incentives and further digitisation would support job creation - **40% believe that a technology grant** from the Government would help support their recovery and increase hiring. This could be in the form of:

- digital vouchers or grants, a simple and direct way for businesses to get the technology they need
- link loan repayment relief on CBILS and Bounce Back Loans to technology investment or
- claiming a reduction against their tax bill of 200% of the value of the investment.

**B. Back new jobs, innovation and investment by encouraging by helping the unemployed to start a new business through:**

- Developing and giving access to short courses on essential skills, funded by the apprenticeship levy, to start a business such as business planning, managing cashflow, digital skills
- Embarking on a major comms initiative amongst businesses making redundancies to signpost people to the right advice
- Ensuring all job centres and higher education institutions are sharing the value of entrepreneurship as career advancement opportunities.

**C. Help SMEs in many more sectors boost their productivity and increase revenues from abroad with digital export support:**

- Extending DIT's new Export Academy for the tech sectors to other sectors showing an interest in exporting
- Funding regional export strategies across the country offering tailored support

**Response to enquiry questions:**

**1. What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?**

The coronavirus pandemic has been catastrophic for millions of the UK's small and mid-sized companies. When Sage polled 2,000 SME leaders on the impacts of the COVID-19 pandemic at the end of June, just 50% of SMEs were turning a profit. The expectation for many is that the negative impacts of the pandemic will be felt for a long-time, with 1 in 4 SMEs saying they do not expect to be profitable by June 2021<sup>2</sup>.

The fact that many SMEs have an expectation of continued negative impact on their productivity has several causes. In June 2020, significant proportions of businesses were still experiencing issues related to adapting to restrictions (65%), to reduced demand (44%), managing cash flow problems

---

<sup>2</sup> Polling for Sage, 2000 decision makers in SMEs, fieldwork conducted 18/06/20 – 22/06/20

(39%) and supply chain disruption (32%)<sup>3</sup>. These are just some of the many significant challenges that the pandemic has posed to UK businesses

SMEs, who prior to the pandemic accounted for over 99% of the number of businesses and 60% of private sector employment<sup>4</sup>, are the lifeblood of the UK economy. This is never truer than following an economic crisis, where SMEs tend to drive economic recovery. For example, following the 2008 financial crash many more SMEs were established, and impressively they delivered 73% of all new jobs<sup>5</sup>.

It is therefore clear that to achieve a strong, sustainable recovery, the UK Government must put SMEs at the heart of their plan. Further recovery packages must look to deliver an enterprise-led recovery post-COVID, that enables SMEs not only to return to growth quickly, but also puts them on a path to a high-productivity and resilient future.

## **2. How can the Government borrow and/or invest to help the UK deliver on these principles?**

One key area that would likely have a significant effect on achieving the ambition outlined at the end of our answer to question 1 is to help businesses' resilience, the ability to weather future shocks, and support strategies to recovery by driving a step change in the adoption of digital tools within SMEs.

In particular Government should look to introduce financial incentives for SMEs to adopt technology to boost post-pandemic growth and cure some of the long-term productivity challenges experienced in the UK economy.

While the disruption caused by the pandemic has been unique in so many ways, it has also shone a light on some chronic issues that our national economy has experienced over several years. Before the crisis, millions of UK small and mid-sized businesses had failed to adopt the digital tools required to take the UK beyond fractional productivity growth<sup>6</sup>. Just 20% of SMEs say their processes were fully digitised before the pandemic<sup>7</sup>.

The use of technology by SMEs has arguably never been more important. At the end of June 2020, 80% of SMEs said technology will help their business restart as they come out of lockdown. However, only 33% are actively planning investment in the wake of the crisis. An additional 41% of SMEs are poised to invest, but will only do so with the right incentives, highlighting a significant opportunity for Government to transform digital adoption levels and boost economic growth<sup>8</sup>.

There is evidence of demand among SMEs for such an incentive. Sage polling shows that when asked what would be the most effective additional support measure that Government could offer to business during the pandemic, the most popular response was "a grant to help your business invest in technologies to adapt to the changed economic circumstances". Nearly 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%)<sup>9</sup>.

---

<sup>3</sup> Polling for Sage, 2000 decision makers in SMEs, fieldwork conducted 18/06/20 – 22/06/20

<sup>4</sup> UK Small Business Stats, Business Population Estimates for the UK and Regions in 2018, accessed from [FSB.org.uk](http://FSB.org.uk)

<sup>5</sup> Sage & Nesta, 2016, <http://stateofsmallbiz.com>

<sup>6</sup> ONS productivity stats, UK economy, 7 April 2020

<sup>7</sup> Polling for Sage, 2000 decision makers in SMEs, fieldwork conducted 18/06/20 – 22/06/20

<sup>8</sup> *ibid*

<sup>9</sup> Polling for Sage, 500 decision makers in SMEs, fieldwork conducted: 21:30 -08:30 18/05/20 to 19/05/20

For SMEs, this does not appear to be just about their immediate needs and enabling the resumption of their business operations. 40% of SMEs believe that a technology grant from Government would increase their hiring beyond current plans, with this being viewed as more effective job creating measure than cutting NICs or apprenticeship support<sup>10</sup>.

There are several approaches the UK Government could offer such an incentive. To provide some examples, this could be delivered in one of the following ways:

- Introducing digital adoption vouchers for SMEs, where businesses could be reimbursed up to a cap for a portion of the upfront and subscription expenditure when adopting new productivity enhancing digital tools.
- Providing incentives through the tax system, for example allowing SMEs to write off 200% of their expenditure on upfront and subscription costs of new tech adoption.
- Establishing an SME grant scheme for tech adoption, where businesses could apply for a small grants to reclaim against the cost of upfront and subscription costs of new productivity boosting tech.

This policy would also help to cure one of the long-term challenges of low productivity. Digital adoption is proven to stimulate productivity growth, creating a more sustainable and prosperous economic recovery into the future.

### **3. What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?**

Our answer to question 2 proposes that the provision of measures and financial incentives to boost digital adoption among SMEs holds significant potential to stimulate sustainable economic growth. However, this is not the only area where it will be important for Government to act to restore confidence and build an economy that is match fit for the long-term.

There is clearly an urgent need for Government and industry to support SMEs who have been significantly negatively impacted by COVID-19 to prevent unnecessary business failure. However, it is essential that Government does not lose sight of challenges and risks that could hinder a burgeoning recovery when businesses can least afford it.

Our COVID SME polling showed that only 54% of businesses are prepared for risks ahead such as a cyber-attack, the end of the UK's transition period with the EU, climate change or cash flow problems<sup>11</sup>.

A focus on helping SMEs guard against these risks must be maintained even as the Government pursues immediate priorities around returning the economy to growth. In part, this can be enabled by Government taking measures to establish a business-friendly and effective regulatory environment, which guides businesses towards beneficial actions that will mitigate against future risk.

Government must also remain laser-focused on creating certainty and stability in the wider economy. For example, the UK Government will need to start engaging in a sustained and clear way on the actions SMEs should take to prepare for the end of the EU transition period as soon as possible. Central Government will need to ensure that SME readiness is at sufficient levels to ensure

---

<sup>10</sup> Polling for Sage, 2000 decision makers in SMEs, fieldwork conducted 18/06/20 – 22/06/20

<sup>11</sup>ibid

a smooth transition to our new relationship with the EU and keep a potential post-COVID economic recovery on track.

Other key measures for an enterprise-led recovery, as outlined above are to fund measures such as dedicated apprenticeships to help the unemployed to start a new business and help SMEs in more sectors boost their productivity and increase revenues from abroad with digital export support.

**4. Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?**

While the comments we have made in answer to the previous questions concern all sectors of the SME economy – it is undeniable that some sectors have been harder hit than others.

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.

**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. For example, 63% of SMEs in financial services, but only 28% of SMEs in hospitality, expected to be profitable in June 2020<sup>12</sup>.

---

<sup>12</sup> ibid



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

1. 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.
2. 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.
3. 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.
4. The index reveals 'V' shaped-sectors where there have been huge challenges but expect a significant bounce back – 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.

We have welcomed measures undertaken by Government to introduce support for those sectors at more significant risk of business failure resulting directly from COVID-19 business impacts, such as grant funding for SMEs in the retail and hospitality sector. It is imperative that national and local Government do all they can to ensure that all businesses who are eligible for these payments receive the grant from their local authority.

Further such measures may be required in sectors that struggle to resume normal trading activities due to ongoing, or a return of, COVID-19 restrictions. Government should continue to identify and act in sectors at risk of seeing otherwise viable firms succumb to business failure, which will aid a swifter economic recovery once pandemic operating restrictions are fully lifted.

#### **5. How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?**

A focus on driving attainment of entrepreneurial skills is an immediate priority area that will enable a swift recovery and a stronger long-term economy. Our research points to a significant restructuring of the workforce, with 62% of SMEs saying they have made or are planning to make redundancies<sup>13</sup>. This shift will almost certainly trigger a new wave of entrepreneurs, who if empowered to make their new venture a success, have the potential to be the driving force of post-pandemic job growth.

Our research shows that COVID-related redundancies will most likely come from those occupying managerial roles. But regardless of career experience to date, setting up and running a business for the first time requires the utilisation of specific skills that new entrepreneurs will not have developed in their career to date. Government should look to move quickly to provide new funding or flexibility within the apprenticeship levy to provide scale and improve access to entrepreneurial skills programmes, such as short courses on skills to start your own business.

Extending the provision and amplifying the availability of early support and mentoring for start-ups also has the potential to make a critical difference.

#### **6. How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?**

The impacts of COVID-19 have not been felt uniformly by SMEs across the country. In addition to policies that need to be delivered on a national scale, such as financial incentives for digital adoption, recovery packages should empower LEPs, devolved administrations and local authorities to deliver programmes that support businesses depending on local needs.

Our SME polling in June showed that 62% of businesses have made or were planning to make redundancies. Among those who had already needed to lay off staff, business in London had made the most redundancies (25%), likely due to their heavy reliance on the services sector. London was followed by the West Midlands, where 18% of SMEs had made redundancies. However, areas such as Wales, the East, Yorkshire and the Humber, the South West and Scotland had 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<sup>14</sup>.

---

<sup>13</sup> ibid

<sup>14</sup> ibid

Despite London-based businesses tending to move first on making redundancies, this same polling showed that business in London and the South East were most bullish on the recovery. Other parts of the UK expect their recovery to take longer.

These are just some examples showing the regional variations of COVID-19 economic impacts. It highlights that a strong national agenda to stimulate the post-pandemic economic recovery must also be complemented by enabling regional and local Government in England to provide further remedies.

Central Government will likely achieve a much quicker and stronger return to growth if local authorities and devolved Governments are provided resources to drive sector-based growth plans, rooted in data showing where targeted interventions in their local economy are required.

- 7. What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling up' agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?**
  
- 8. What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?**

The comments we have put forward in answer to question 2 are also relevant to questions 7 and 8.

When looking at “levelling-up”, cracking the UK's long-term productivity challenge and creating a stronger resilience within the UK business community, the impacts of the pandemic have driven home the importance of the digital adoption agenda.

The businesses who are technology enabled have been shown during the pandemic to be the most resilient, as they are enabled to be much more agile when responding to disruption. Digital tools allow SMEs to ensure their colleague can work from anywhere 24/7, they offer multiple routes to serving existing customers and reaching new ones, and provide SMEs the ability to increase or reduce scale quickly to react to market conditions.

The businesses that could pivot to working remotely quickly – and continue to serve customers through digital channels – are likely to have seen a lower impact on their bottom line during the pandemic. As a best practice approach to digital adoption is also proven to make businesses more productive, these businesses are also likely to have been entering the pandemic and subsequent economic crisis in a much healthier position.

The data points we have cited in answer 2 shows that without Government support, there will be an significant gap between those business leaders who want to invest in technology, and those who are able to make these necessary investments in the current climate. 41% of SMEs are poised to adopt new digital tools if they are enabled to do so by Government.

Tech adoption will be essential in future for businesses to remain competitive both nationally and globally. Without measures from Government to help SMEs adopt technology and truly drive a step change in establishing SMEs who are effectively tech enabled, then many businesses will be left behind as the economy recovers.

There has been debate over the extent to which businesses will prioritise environmental sustainability in the recovery from the pandemic and support the strategy for Net Zero. Prior to the pandemic, 84% of SMEs said they had some or significant activity in place to reduce carbon emissions and support environmental sustainability<sup>15</sup>.

Views on how this will evolve after the pandemic are mixed, but the majority (67%) plan to either maintain or increase their investment in this activity – 36% say they will increase it. We recommend more action is taken to understand what kind of investment businesses be looking to make. This is likely to support technology adoption to support more sustainable work practices with a more remote work force as well as cutting emissions and delivering efficiencies.

## **9. What opportunities exist for the UK economy post Brexit and the pandemic for export growth?**

While the pandemic has undoubtedly caused significant negative impacts to swathes of businesses, the UK's SMEs and entrepreneurs are innovators who are rising to the challenge.

We have seen thousands of businesses already make bold moves to emerge from the crisis stronger, including improving customer engagement, strengthening supply chains, and motivating their workforce.

Growing exports is another one of these areas. Nearly half – 47% - of SMEs said at the end of June that they were already taking active measures to increase revenues from exporting. A further 20% are planning to do so<sup>16</sup>. The fact that half of SMEs are already actively working to increase revenues generated from overseas trading activity is a hugely encouraging sign towards overcoming another of the UK's long-term economic challenges, a lack of exporting.

This shift in mindset will provide significant momentum for Government to capitalise on. Making DIT support programmes more accessible to SMEs through digital trade shows and virtual meet the buyer opportunities, along with ensuring SMEs are put at the heart of future trade negotiations, will help even more businesses take the exporting leap.

The government must ensure businesses that trade with the EU have the information and tools they need to continue to trade confidently and with minimal disruption. Separately we are evaluating the compliance impact on our customers and will be supporting the comms efforts of government to prepare them. There are some areas where uncertainty still exists and with time running out would urge the government to consider negotiating an implementation period with the EU to allow businesses time to adjust to changes in areas like VAT reporting.

---

<sup>15</sup> Sage UK SME tracker w/c 25 May 2020

<sup>16</sup>ibid