



COVID-19: a catalyst for change amongst SMEs

Paragon Bank research shows UK SMEs are showing resilience, agility and innovation as they enter the second phase of the coronavirus pandemic





COVID-19: a catalyst for change amongst SMEs



John Phillipou
Managing Director
Paragon Bank SME Lending

There were 5.9 million small or medium-sized businesses (SMEs) recorded in the UK in 2019, accounting for 60% of all private sector jobs. They are undoubtedly crucial to the UK economy and have faced a multitude of challenges over the past few months. With there being no defined end in sight for the coronavirus pandemic, the future is uncertain for many.

However, whilst it has been a difficult time, we have seen resilience and innovation come to the fore of our SME customer base, as businesses remain agile and evolve to the changing environment – targeting new customers, changing suppliers, producing new

products and considering new technologies.

They are taking the learnings from the first wave of the pandemic and implementing them permanently in their business, to the benefit of both the company and the wellbeing of employees.

So, is it possible that whilst challenging, the coronavirus pandemic has been a needed catalyst for change for many SMEs? This research explores the areas in which SME decision makers have seen this evolution take place across their companies and how it might underpin businesses as we enter the second phase of the pandemic.

Summary

Despite the challenges presented for SMEs over the past few months, results show that it has been a constructive period for some, as a fifth (18%) say COVID-19 has in fact had a positive impact on customer demand and 16% say it has had a positive impact on productivity. Overall, 15% of SMEs stated that they were faring better as a result of the pandemic.

Businesses say employee working arrangements have improved, with more productive ways of working adopted and with both home working and flexible hours being ingrained in the ways in which they operate. Half stated that there was no impact on recruitment. This was notably higher among smaller businesses.

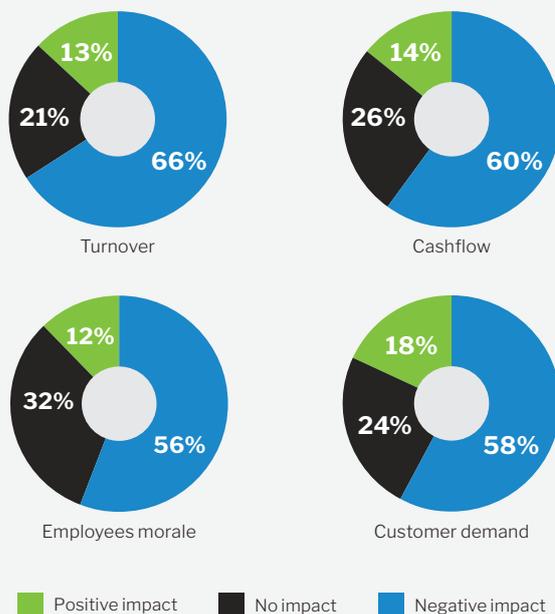
Customer bases and geographical reach has changed for many, particularly for consumer-focussed businesses who saw a shift to more of a business-to-business model. Alongside customer bases, distribution channels are evolving, with more businesses moving online and upping their social media use.

Despite the positive steps businesses are taking to become more resilient, the impact of coronavirus has clearly been felt by many. SMEs owners did report turnover (66%) and cash flow (60%) to have been the most negatively impacted by the pandemic, followed by customer demand (58%) and employee morale (56%).

Despite these challenges, many SMEs have used this time as an opportunity to move towards a stronger and more successful future.



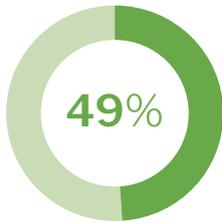
Impact of COVID-19 on SMEs



Many SME owners identified that COVID-19 has forced a need to reinvent their businesses, which will enable them to bounce back and become even more resilient in the future.

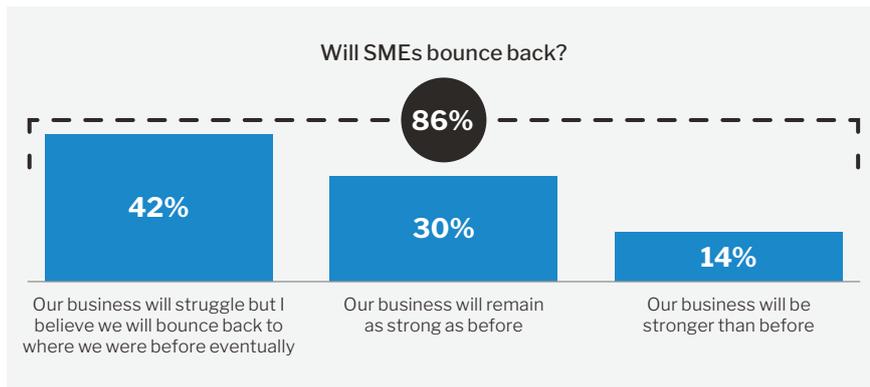
Businesses are showing resilience to the challenge

Despite the obvious difficulties caused by the pandemic, half of the SMEs surveyed are feeling positive about the future of their business.



believe that the learnings from the pandemic will help their business become more resilient in the future.

Decision makers commented that COVID-19 forced a positive **need to reinvent their business** which will make them stronger moving forward. This was in a variety of ways, from changes in proposition, customer base, on-boarding new technologies to finetuning customer experience and employee working arrangements.



Businesses have taken a number of actions during the pandemic, ranging from reducing costs, to broadening customer bases. Four in five implemented measures to support the business through the crisis.

Interestingly, one in five businesses has introduced a new product or service. The most common measure taken by businesses was **reducing costs (34%)** followed by **targeting new customers (33%)** and **increasing customer communication (30%)**.

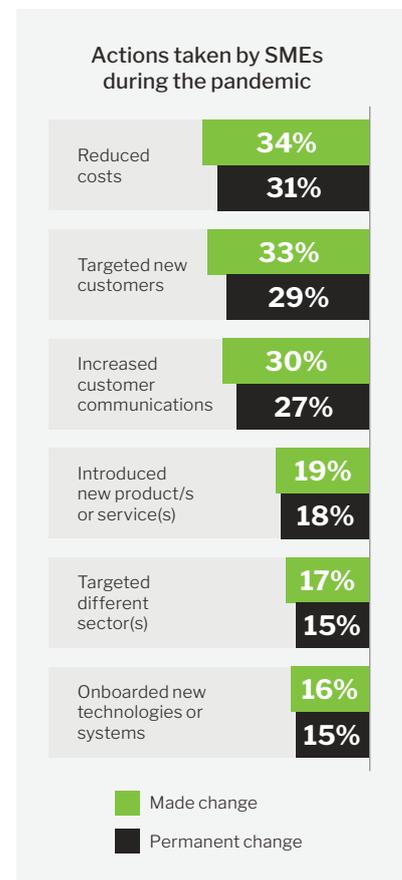
For the majority, these changes are **permanent**, with **73% keeping costs reduced** and **70% continuing to target new customers** and **communicate with customers more**.

How are SME owners feeling?

Working from home has improved productivity and improved employees' work life balance, which is a good thing.

Realisation that much of what we do can be performed from home; hence **reducing the cost, stress and hassle of having to commute**. We will not be going back to everyone working in the office full time.

Possibly a kick up the backside. Much thought has gone into how to find new customers and **give a better service with added services on offer**.



Businesses have broadened their customer base and opened new distribution channels

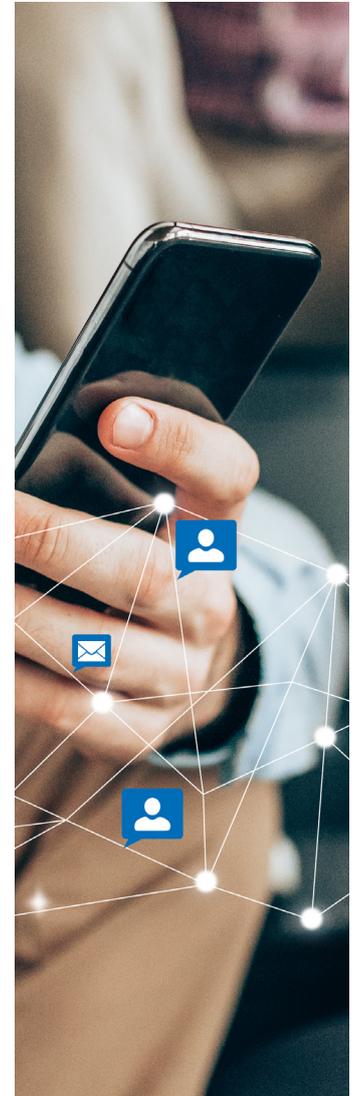
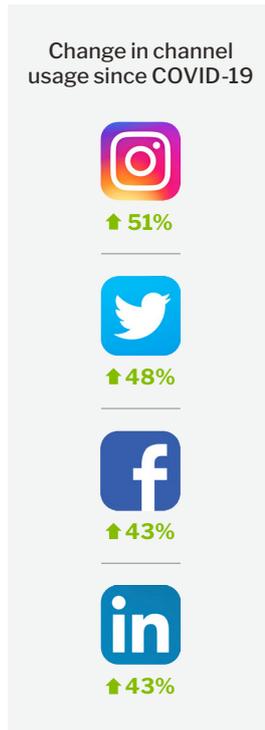
A key trend from the survey is the move towards online distribution, as well as greater use of social media to attract customers.

Over half (**52%**) of SMEs operating online have seen their **sales increase** as a result of the pandemic and **21%** have started to offer products or services online for the first time as a result.

Meanwhile, nearly half of respondents stated that the use of Instagram and Twitter for their business has increased, at an average of **49%**.

Customer bases have also evolved as a result of the pandemic with region, profile and type of customer changing for many businesses.

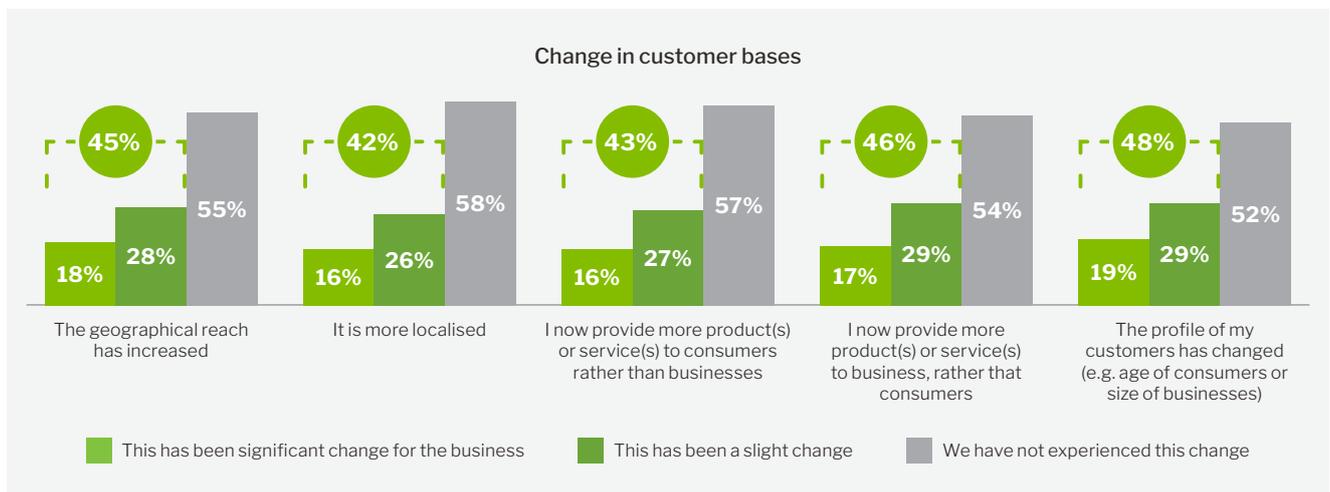
In addition, two in five (42%) businesses say their business is now more **localised**, however, 45% **have increased their geographical reach**.



34% of traditionally business-to-business SMEs have increased sales to business customers

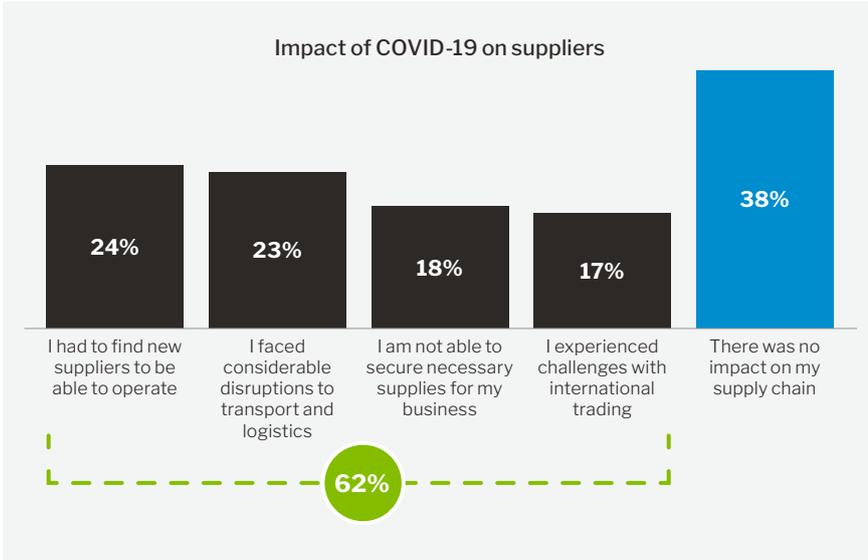


24% of traditionally business-to-business SMEs have increased sales to consumers

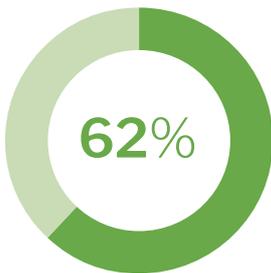


Three in five businesses impacted by changes to suppliers

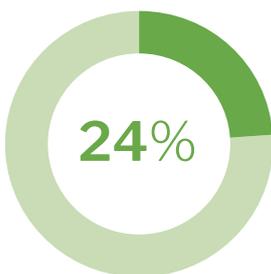
The majority (**62%**) of SMEs experienced disruption when it came to their **suppliers**, with a **quarter (24%)** having to find **new suppliers to be able to operate**.



As well as customer payment terms changing, **supplier payment terms have changed for the majority of businesses (52%)**, with **21%** saying their supplier now **demands payment on supply**.



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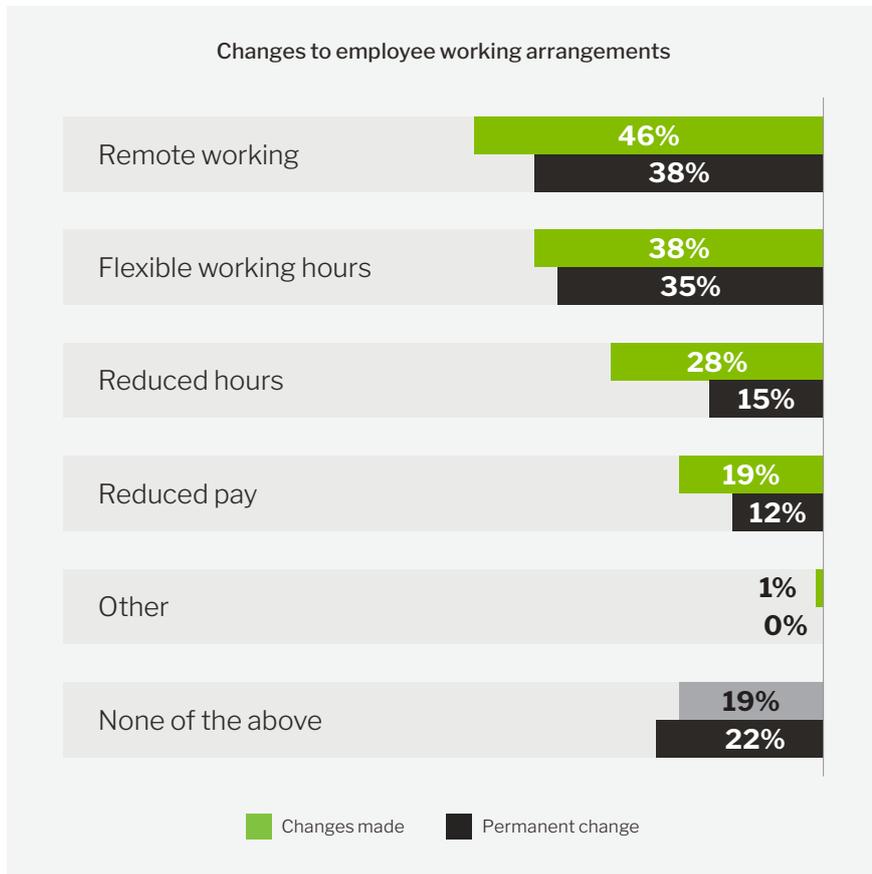


Four fifths of SMEs have made changes to their employee working arrangements during COVID-19

Nearly half (**48%**) of decision makers **developed more productive ways of working** as a result of COVID-19.

New working arrangements, especially **working from home** was most commonly embraced as a positive change, which was attributed to cost reduction, boosted employee morale, better engagement and increased wellbeing.

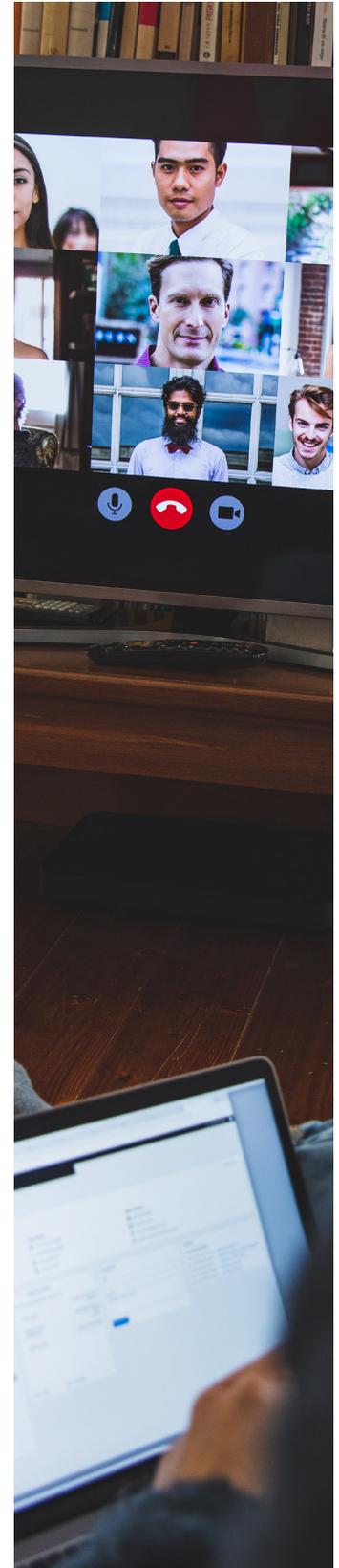
Remote working and flexible hours are set to stay and become permanent changes for **38%** and **35%** of SMEs.



For half of SMEs (**48%**), recruitment has not been impacted at all - a number that rises amongst the smaller businesses with 10-19 employees (61%).

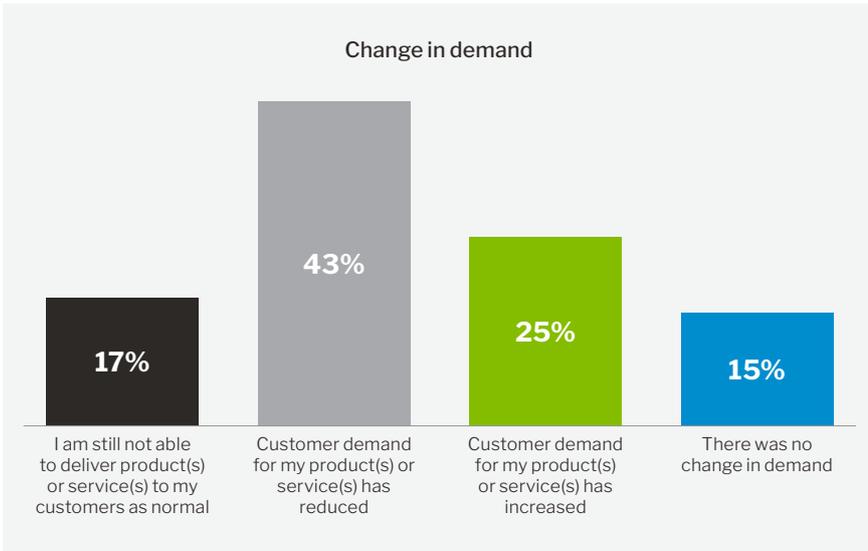
48% of SMEs have not had recruitment impacted

32% of SMEs have seen recruitment come to a halt, with larger sized businesses (100-249 employees) more likely to be impacted

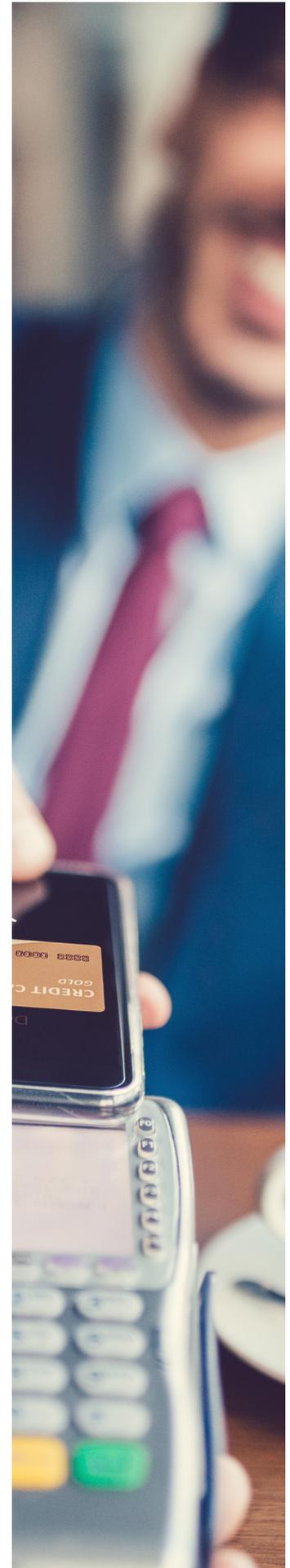
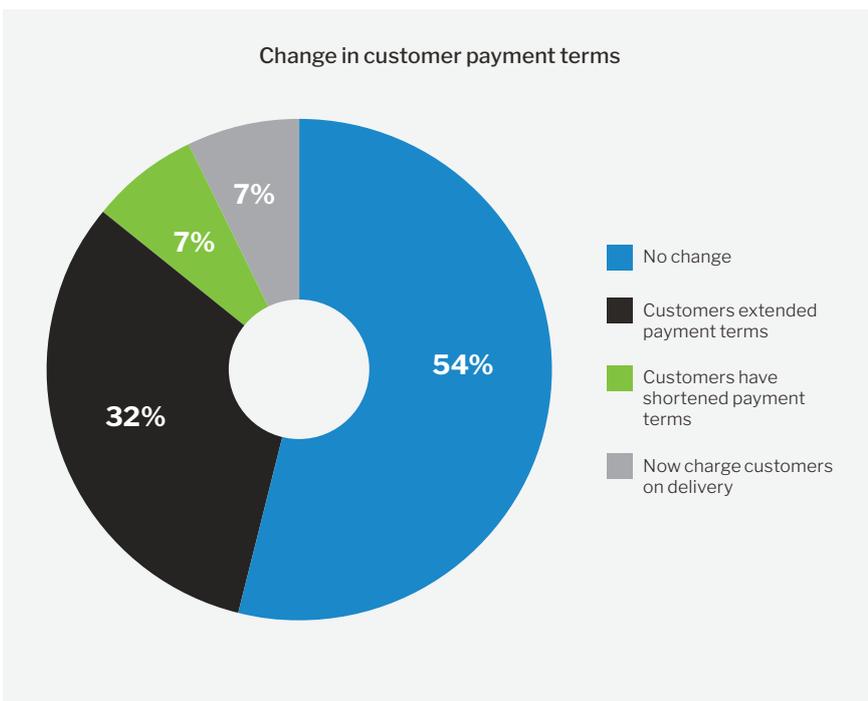


Customer demand and payment terms have also changed

Customer demand has reduced for **43%** whilst 17% are still unable to deliver to customers as normal. However, **25%** stated that demand for their products or services has increased.

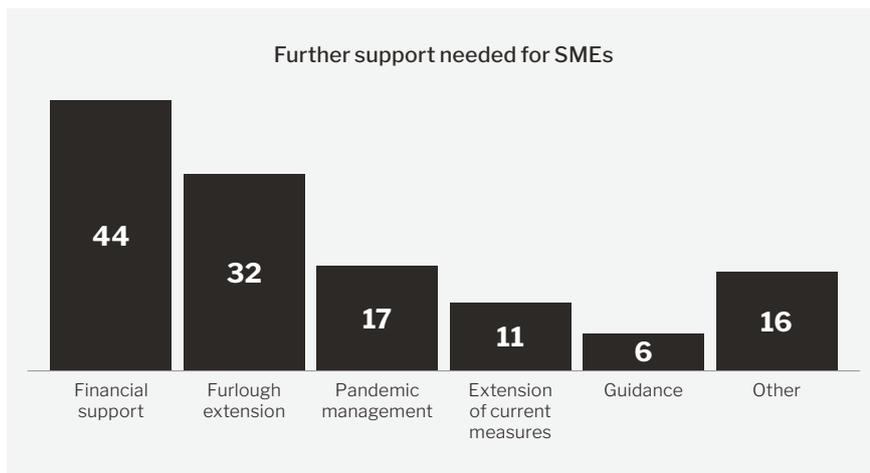


In addition **32%** say **customers have extended payment terms**, potentially putting a strain on many businesses across the country, so SMEs are likely to need further support moving forward.



What do SMEs want to see moving forward?

Whilst over half of SME decision makers (**52%**) are **satisfied with the level of support provided by the Government** during the crisis, respondents commented on other initiatives that the Government should offer in the future to help businesses cope with the pandemic, including financial support through VAT reductions, grants and reduced business rates and also a prolonged furlough scheme.



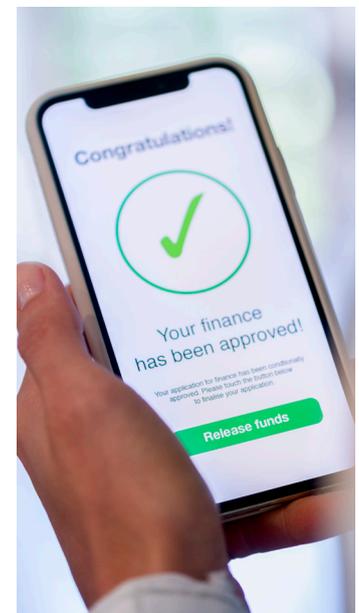
A third (**34%**) of SME decision makers **still have some employees currently on furlough**, while a similar proportion (34%) **had all or some of their employees enrolled on the furlough scheme who have now returned**.

From the survey, 15% of SME decision makers say that **termination of the furlough scheme is likely to lead to redundancies** in their business, so the additional Government support recently announced as part of the Chancellor's Winter Economy Plan will be a welcome addition.

What further support do SME owners want?

Business support like reduction in VAT and grants should only be provided if they do not resort to redundancies

Grants to support product development and exploring new markets once Brexit is in place in January 2021



For further information please contact:

Amy Lange
Media Relations Manager
Paragon Bank

☎ 0121 712 2526

