

A Third; A Third; A Third: different Firm positions on Recovery

If the next six weeks deliver the Restart, the next six months determine the Recovery. Already the Chancellor and his teams are sifting through multiple proposals and considering which ones may be best tried when. The approach is naturally about policy levers and is mainly macroeconomics. Very little of it appears to be driven by the microeconomics of firm level factors and the behavioural economics of what decisions millions of business owners are likely to take and why.

This lens – the likely decisions of business owners and managers – is the one we care about most. Because if the economy is to avoid permanent scarring, then we need to know what it will take for firms to feel the same way; for them to individually and in aggregate choose to innovate and grow rather than settle for less. To choose resilience of course, but not risk aversion. To shape their own destiny rather than feel forever at the mercy of events.

In the three months of the COVID-19 lockdown, Be the Business has been engaging thousands of firms around the country. Webinars, our COVID advice hub, round tables and forums have reached 350,000 businesspeople across every sector and region. We have also worked with Opinium to run 3 surveys of businesses, in April, May and June. The most recent of these was a survey of 1,530 small businesses with employees in the UK between 12th – 18th June, focusing on how businesses have responded to the pandemic; innovation; technology and their feelings about, and forecasts for, the recovery. This survey, like the previous ones, followed deep one-to-one interviews to uncover the factors most at play.

In our white paper published in May we described the lockdown postures of UK businesses: hibernators, survivors, pivoters and thrivers. This time our interviews revealed a shift in leadership reality. Leaders have moved from taking big decisions forced upon them to a new set of big decisions which are in their hands, and with no set timescales. For these owners, it turns out that lockdown was simpler than restart and they, like the Chancellor, are now choosing whether to move fast or wait and see.

FINDINGS

First good news: Pandemic Driving Rapid Change and Innovation

The COVID-19 pandemic and lockdown of the economy have spurred businesses to an unprecedented pace of change and innovation. Businesses have been faced with making major decisions almost daily whereas, in normal times, they may only make a handful each year. Many have been choosing new ways of working, new products and new technologies.

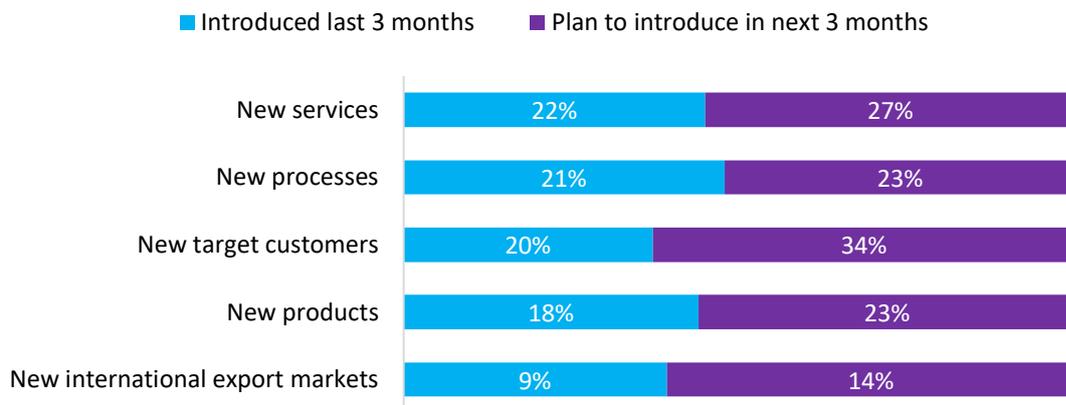
Over half a million businesses (37%) have changed or are changing their operating model to find new ways to meet customers' needs. Meanwhile 27% have had staff working in new ways or roles to develop new revenue streams.

In the last three months the pace of change has been huge:

- One in five (22%) businesses has introduced new services for customers
- A similar number has brought in new processes such as sourcing goods or delivery, identified and targeted new kinds of customers
- 18% introduced a new product
- And an even larger number have plans to make changes in the coming three months; some 27% of businesses will introduce new services, 23% new products.

The scale of this innovation should not be underestimated.

New products / services introduced or being introduced into the business



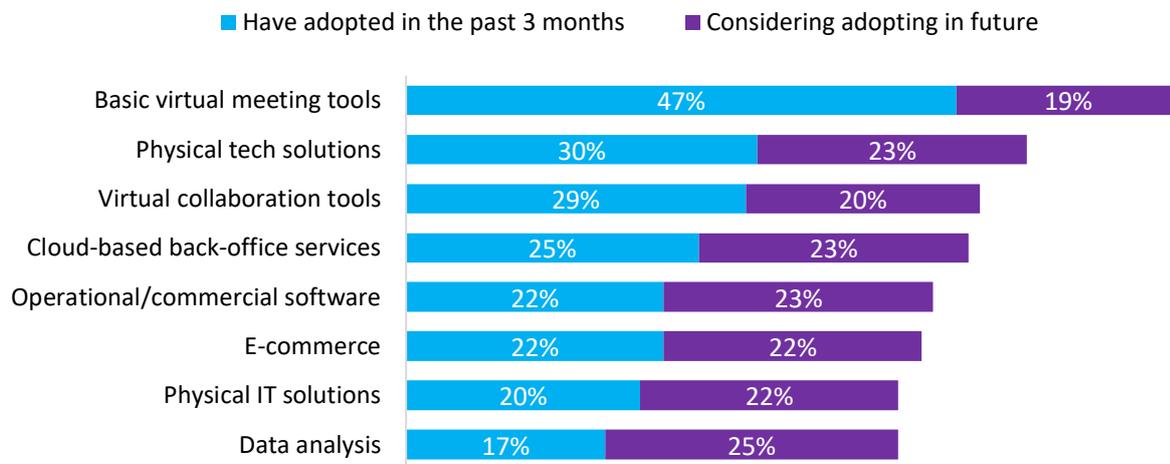
Be the Business research shows businesses have made three years' worth of innovation in just three months. In comparison to the 18% in the above chart, the 2019 BEIS Small Business Survey¹ showed that over the last 3 years, 15% of small businesses had introduced new or significantly improved products whilst 26% have introduced new or significantly improved services.

Second good news: Accelerated Technology Adoption

Britain's small businesses are also turning to technology to help them survive and recover. Nearly half (47%) of businesses have started using virtual meeting technology such as the ubiquitous Zoom but the adoption of technology goes much further. 29% have started using collaboration tools such as project management systems, 25% cloud-based back office systems and 22% have embarked on e-commerce.

¹ Small Business Survey 2019: businesses with employees., published: 4th June 2020., <https://www.gov.uk/government/statistics/small-business-survey-2019-businesses-with-employees>.

Technologies adopted/being considered due to coronavirus (% of those who have changed their use of tech)



Overall, 66% of businesses have either adopted new technology or are actively considering it. This is a huge shift in the adoption of technology by smaller British businesses. Even in the most mature tech categories such as e-commerce, the pace of adoption has been rapid. The data suggests adoption is four times faster in the crisis than the whole of 2019².

Taken together, and no doubt born of necessity, this is a new, innovation mindset.

The global pandemic has created the greatest change for business since the war. Between a third and half of businesses have altered how they do business, by introducing new processes, services and technology. It has also changed how businesses see their future. At least a third of businesses have become more open to changes, from introducing new products and services, to new ways of operating and thinking about how they use space.

Take for example Chiltern Brewery. When the crisis hit, co-owner Tom Jenkinson pivoted from selling direct to pubs and went straight to the customer. They added on new services like a food hall and a takeaway and delivery service. They also shifted towards online sales and invested in new technology to improve their retail and EPOS systems. As a result of the rapid changes to their business model and technology, trading during lockdown has been slightly higher than during business as usual. They plan to continue with these changes for as long as the demand is there.

There have also been examples of businesses which, in the face of completely shutting down, have chosen to instead repurpose their assets to launch an entirely new kind of business venture.

When Snaffling Pig's sales fell by 80 percent, co-founder Nick Coleman had an idea. With many businesses now having to forge closer relationships with their end customer to continue trading, Nick wanted to put their assets to good use. Their new business,

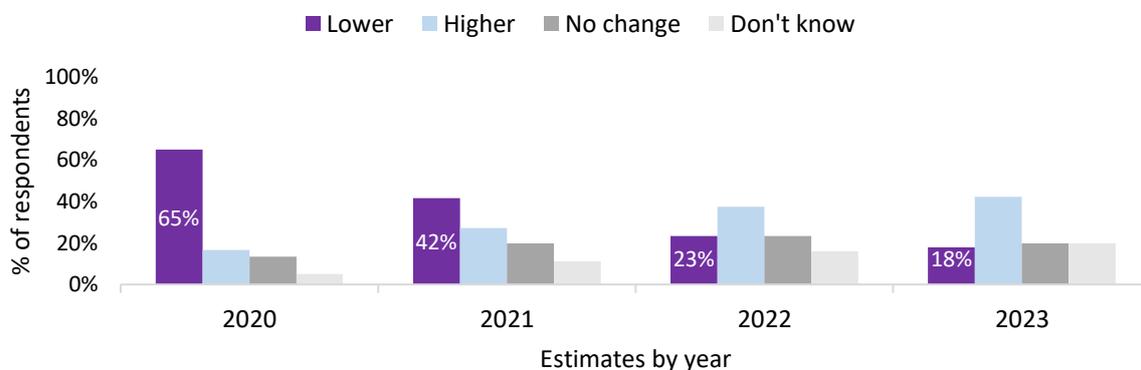
² OECD.Stat: ICT Access and Usage by Businesses, Question: B2, Country: United Kingdom (Survey: E-commerce survey, 2019, Office of National Statistics); 2020.

Startup Logistics, is now offering food and drink businesses warehouse space and transport logistics to continue trading their products. Their primary focus now is adopting the right technology to make the digital experience as seamless as possible for customers.

Now, reality check: Fear of Scarring

The unlocking of the economy brings with it fear and uncertainty. There is a real level of fear about the pace of recovery. One in four businesses believe that their turnover in two years' time will be lower and even 18% think it will still be lower in three years' time.

A significant number of businesses fear their turnover will still be lower in three years time



These fears can be seen in the attitudes of businesses to bringing employees back from furlough. Three-fifths (58%) of businesses in our most recent sample have furloughed staff. Sadly, over a quarter have already had to make redundancies and as the economy unlocks, businesses expect to lay off 11% of the workers they have furloughed.

This could become much worse, with 31% believing that it is too early to know what they will be able to offer furloughed employees. Over half of all businesses are cautious or very cautious about what the future holds as lockdown ends and are therefore unclear about their future plans for the business. More than two in every five businesses think that the situation is still too uncertain to make major business decisions and are waiting to see what happens before committing to change.

A construction recruitment firm highlighted that in their sector they can't plan at all right now. Due to a lack of confidence, and uncertainty in future prospects, their customers are making decisions month by month, forcing them to do the same. A significant proportion of the team was on furlough at the end of May, and the market would need to bounce back before they could bring them back.

For a large number therefore, the uncertainty around both the nature and scale of demand is holding businesses back from action – either sustaining their changes or acting on good intentions. 53% of firms feel they have insufficient clarity to make decisions now, with these firms - many in the Hospitality sector - much lower adopters of technology.

ANALYSIS – A THIRD; A THIRD; A THIRD

Deeper analysis of the data reveals three groups of business whose approach towards recovery is different



- 1) **The Innovators (31%) – the businesses who’ve done it already.** Around a third of businesses who have pivoted, tried new processes, introduced new products or adopted new technology. They have responded to the crisis by innovating to survive. Some may have had plans which they have carried out, while others will have improvised to find new ways to serve customers. Many of these businesses have been forced to innovate and so while their innovation is inspiring, their prospects are far from certain. However, this segment also includes a lot of younger businesses and younger business owners who are clearly ambitious and far more confident in borrowing and using technology.

“Whatever happens, I do think there will be some new opportunities that come out of all this, we’ll go wherever the demand is.” Chiltern Brewery, Tom Jenkinson (co-owner)

- 2) **The Stickers (33%) – those who intend to carry on or go back to the way they were before the lockdown.** The third of businesses who have only made small changes to their business and do not plan to make significant ones. As more long-established, often micro, businesses, they are confident in their business models and are focused on getting back to business as usual. Some of them will have thrived through the crisis, while others may have hibernated but are betting that as normality returns so will their customers and profits. This segment contains an older demographic of both firm and owner, who are resistant to borrowing and tech adoption. It is not clear at all that these firms' prospects are poor – every card player knows there’s a time to stick - but they are going to be harder to engage and change with interventions to stimulate growth.

“We’re not making any big changes; our structure and processes are proven. We’re looking for smaller efficiencies or adding little extras to customer service.” Key Production Group, Karen Emanuel (CEO)

- 3) **The Undecided (36%) – intent on change but not yet committing.** The third of businesses that have not recently made changes to their business but are open and in

many cases planning to do so. Around two in five have already adopted new technology, but this has not yet carried through to making bigger changes or new products and services. Some of them will be those which have been making plans but not yet executed them, perhaps due to uncertainty or lack of funds. Others are more uncertain, with the fast-changing context making planning almost impossible – they are waiting to see before committing themselves.

“We’re looking at ways in which we can completely restructure the business.” Lovingly Artisan, Catherine Conner (co-founder)

These segments are a reflection of where businesses are today; they are not fixed. An innovator which has had to pivot to stay in business may go back to their old business model as the economy unlocks on 4th July, moving from an Innovator to a Sticker. Or an Undecided, largely in hibernation since March, could have spent the time planning for the unlocking with a number of major changes and new products, becoming an innovator.

memcom, a recruitment and events agency for the non-profit sector, is a good example of a business in this situation. With in-person conferences on pause, their business shut down almost completely overnight. Over the past few months, they have developed a free five-day digital service which was accessed by almost four times the number of usual delegates. They are taking their time to think through their next move and are starting to reimagine services alongside their customers, including shifting to a membership model.

The segments also come with no guaranteed outcome for growth or profit. The Innovators have made major changes because of the COVID crisis. They believed that taking action was less risky than staying still. The Stickers in contrast may be more confident in the economic outlook and their business models, which is why they do not intend to change.

But to avoid scarring, we need to support the Innovators and the Undecided. Together they amount to almost a million (67%) businesses, with the potential to drive an innovation recovery that delivers growth. The Innovators must be encouraged, supported, and given the resources to continue to build on their innovations to date. The Undecided need to be engaged and persuaded to implement their plans and given the tools and resources they need.

IMPLICATIONS

For businesses:

- Innovators:
 - The opportunity for these businesses is to sustain these innovations and gain first-mover advantage as market trends change
 - The risk is that supporting these new models is expensive and requires far-reaching change at too fast a pace.
- Stickers:

- The opportunity is to optimise their business, find efficiencies and opportunities for smaller and faster innovation
- The risk is that a business model that worked before the crisis no longer fits a changed world with altered or new consumer and customer behaviour. Others may overtake.
- Undecided:
 - The opportunity is to put the plans they've made into action, learning from the innovators' experiences, and be fast followers to growth
 - The risk is waiting too long or burning through cash if not done smartly.

For Government:

The Innovators and The Undecided should be the focus of government support because it is where there is the greatest potential to influence outcomes and can realise the best bang for buck.

The Government should:

- back innovation at scale through incentives for firms, mechanisms for rapid diffusion, and agile interventions that build absorptive capacity
- back engagement campaigns rooted in behavioural science which can quickly reach and inspire the huge number of undecided firms
- back technology adoption NOW while there is a once-in-a-generation opportunity.

For the Financial sector:

As the UK financial sector looks at recapitalising British business, the Innovators and Undecided should also be a focus. The Innovators are likely to be more advanced but need to continue their approach to deliver growth. The Undecided need the confidence to now execute growth plans. Both these segments represent the most likely to pursue the growth trajectories needed for repayment or expected in equity finance.

For Be the Business and the wider business support eco-system:

Back the 1.4 million business owners as they confront some of the biggest decisions of their lives. This should include launching engagement campaigns, providing trusted expertise especially around innovation and technology, growing access to mentors and multiple peer-to-peer networks. At Be the Business, this is already in train via our Rebuild platform, now launched on bethebusiness.com.

ANNEX 1: RECOVERY CASE STUDIES

The Innovators

1. Chiltern Brewery, Tom Jenkinson (co-owner)

“Whatever happens, I do think there will be some new opportunities that come out of all this, we’ll go wherever the demand is.”

- Brewery and brewery shop in Buckinghamshire supplying mainly pubs and restaurants.
- Continued trading throughout the crisis by creating new services and supplying customers directly.
- Pivoted to online sales and deliveries and developed a drive-through service.
- Transformed their one pub into a food hall offering takeaway beers and meals for collection or delivery.
- Trading during lockdown has been slightly ahead of business as usual.
- Investing in new technology to improve their retail and EPOS system.
- Will continue with this new business model so long as demand is there.

2. Snaffling Pig, Nick Coleman (co-founder)

“If they [business owners] don’t think the world is about to be very different, then their business will die. Your consumer base will not be shopping in the same way as before, so you have to think in an innovative way.”

- Five-year-old business producing pork scratchings and other similar products.
- Sales dried up by 80 percent due to pub closures and changes in supermarket spending habits.
- Started an entirely new business, Startup Logistics, to forge closer relationships with their end customers and put their extra warehouse space to use.
- The new business is running as a storage, picking, packing and delivery business specialising in food and drink.
- Demand has led to the leasing of a new 5,000 sq ft warehouse and a roster of 12 food brands.
- Now focused on brand building and adopting the right tech for a seamless digital experience for customers.

3. St Michaels Hotel and Spa, Louise Uys-Jones (Resort Director)

“From the start the owners told me to see this time as a gift; because who has the time to examine these things while they are in motion?”

- A hotel and spa in Falmouth with a community gym, spa, restaurant and café.
- 152 of the 160 employees were furloughed and the hotel is closed until reopening on the 4th July.

- Used the closure to adopt new technology and introduce four new major systems, including an EPOS system, a health and safety system to monitor risk, a new finance system with an in-built procurement model and a training and appraisal system.
- This significant overhaul of systems, paired with new ways of working to meet physical distancing guidelines, has also required a large investment in staff training.
- The hotel also conducted maintenance and large-scale refurbishment projects.

The Stickers

4. Key Production Group, Karen Emanuel (CEO)

“We’re not making any big changes; our structure and processes are proven. We’re looking for smaller efficiencies or adding little extras to customer service.”

- 30-year old manufacturing business creating bespoke packaging for the music industry.
- 16 out of 56 employees were furloughed after sales dropped significantly.
- Spending a lot of time speaking with customers, trend watching and forecasting for all future scenarios.
- Unable to reduce expenses on office overheads, so most cost cutting has been around furloughed employees. Had some working capital set aside for emergencies which has enabled them to top up furloughed employee wages.
- Now starting to bring back furloughed employees, the company is keen to retain their entire team.
- Coming out of crisis management phase and thinking about small changes or new services they could offer to bring in more customers.

5. A construction recruitment agency

- Construction recruitment agency with 25 employees.
- Some core employees still working but for the most part business is on hold.
- Cutting costs where they can with 10 employees on furlough and others made redundant.
- Once the furlough scheme begins to taper, they will consider more redundancies.
- Due to the Covid-19 crisis, and Brexit planning before it, the sector has suffered from a lack of confidence and their hiring services have therefore not been in demand.
- Concerned about a second wave of coronavirus and consequences of Brexit.
- Unwilling to take out loans or invest until there is more certainty in the economy and confidence in the sector.

The Undecided

6. Kendal Hostel, Kristina Rowe (co-owner)

- 14 room and 67-bed hostel in Cumbria.
- Closed throughout crisis but planning to reopen in the coming month.

- Were able to reduce overheads through utility bills. Also secured a £10,000 cash grant. Eligible for a loan but is reluctant to take on any debt.
- Largely at a loss for what will come next and waiting to see what guidance government provides.
- Considering changes to the Hostel to meet physical distancing guidelines. The changes could impact business efficiency in both positive and negative ways.
- Changes include self-check-in systems, restricting use of large rooms to families or single households only, leaving rooms empty for two days between guests, and timed entries for shared spaces.

7. memcom, Julian Smith (Director)

“Small businesses are time poor and expertise poor. It is still very difficult to do the sort of things in terms of proper market research. My first thought is how do I bring in enough to pay salaries.”

- Recruitment and events for non-profit sector for the last nine years. Had to shut down overnight
- Have been considering a digital approach for a few years but it hasn't been prioritised.
- With in-person conferences on pause, they piloted “memcom interactive”, a five-day free service.
- Over the last ten weeks they have been reimagining the business, listening to customers, providing them with a digital peer support forum and thinking through a membership model.
- Responses to a survey, answered by 120 non-profit CEOs, encouraged memcom to implement a membership model with offers of support before they even launched.

8. Lovingly Artisan, Catherine Conner (co-founder)

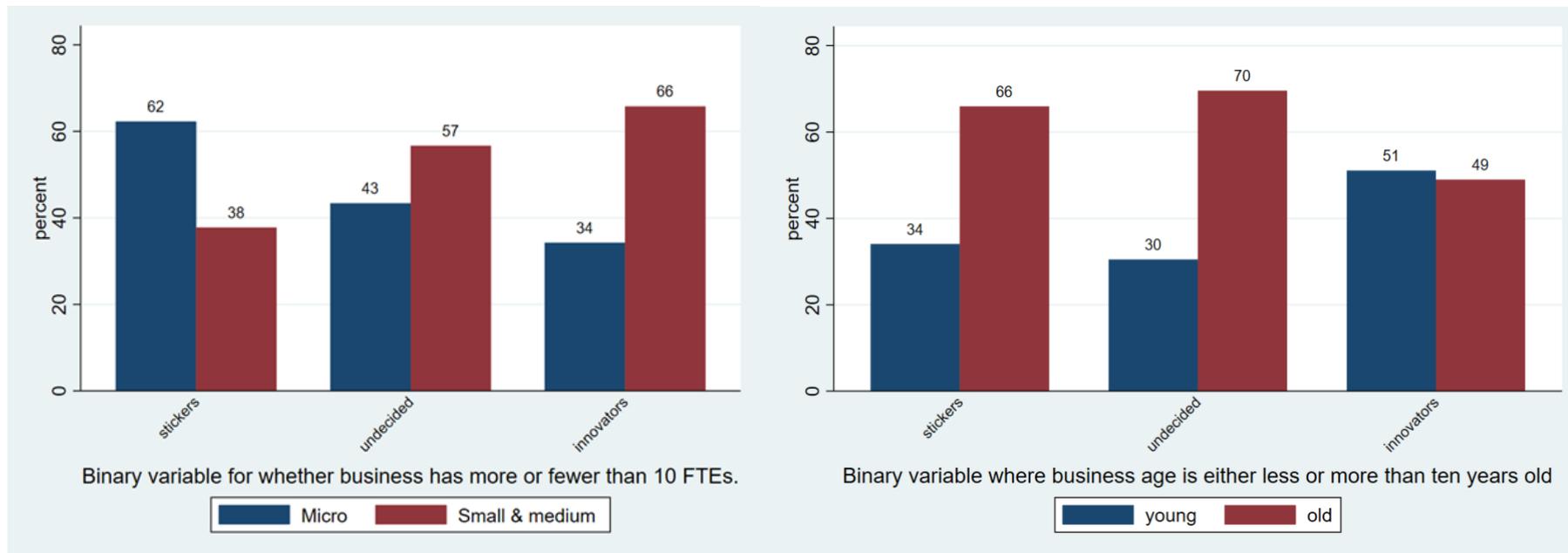
“We're looking at ways in which we can completely restructure the business.”

- Wholesale and artisan bakery in the North West of England.
- 23 employees, majority of whom are furloughed and will remain so until the scheme begins to taper off.
- Before lockdown they were scaling up and focused mainly on wholesale to restaurants, cafes and bars.
- Over the past three months, and with a very small team, they have refocused their efforts on selling from their shop fronts and are going direct to consumer with local food box schemes.
- Lovingly Artisan is now considering how to restructure the business in the future to become more resilient, increase their profit margins and operate a leaner model.

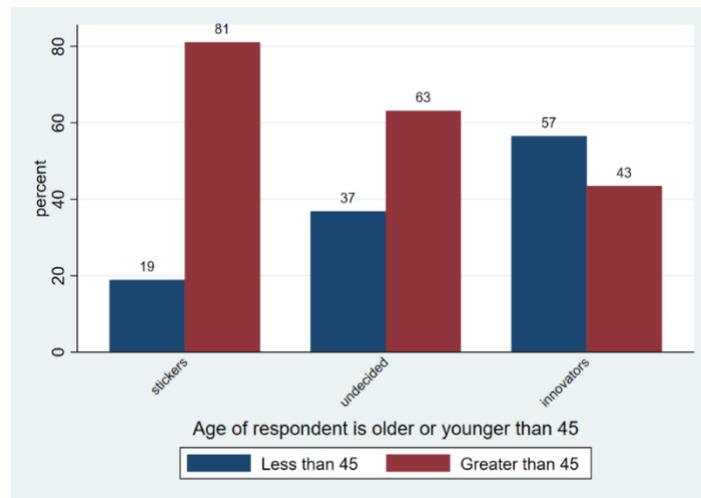
ANNEX 2: CHARTS AND TABLES – TEN CHARTS WE FOUND INTERESTING

We have conducted a full analysis of all 20 questions we asked and produced cross cuts by age, sector, region and segment building a picture of what businesses have done during a crisis and their plans and confidence about the future. Below are a few of the graphs we found most interesting.

On average innovators are larger but younger than stickers.

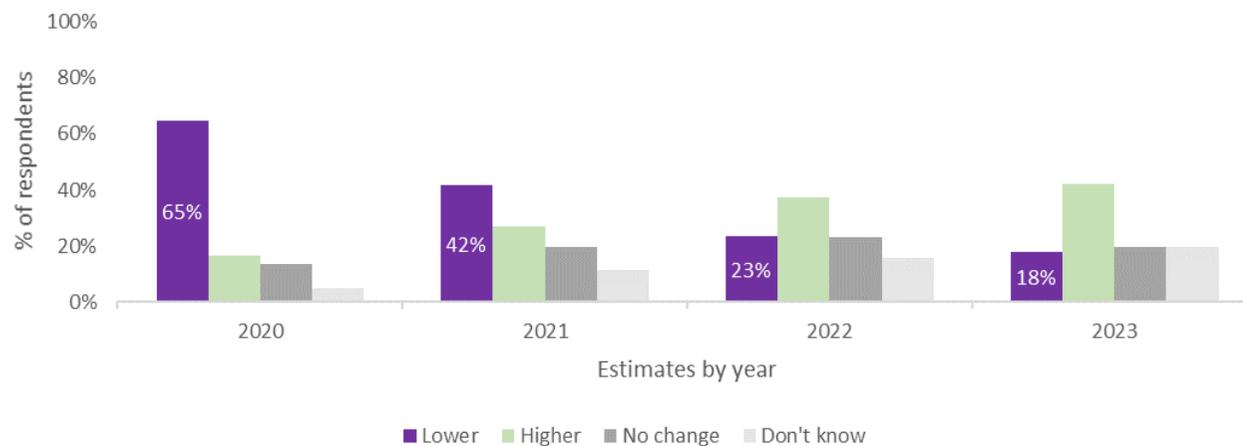


Innovators are the youngest segment. Oldest group are stickers.



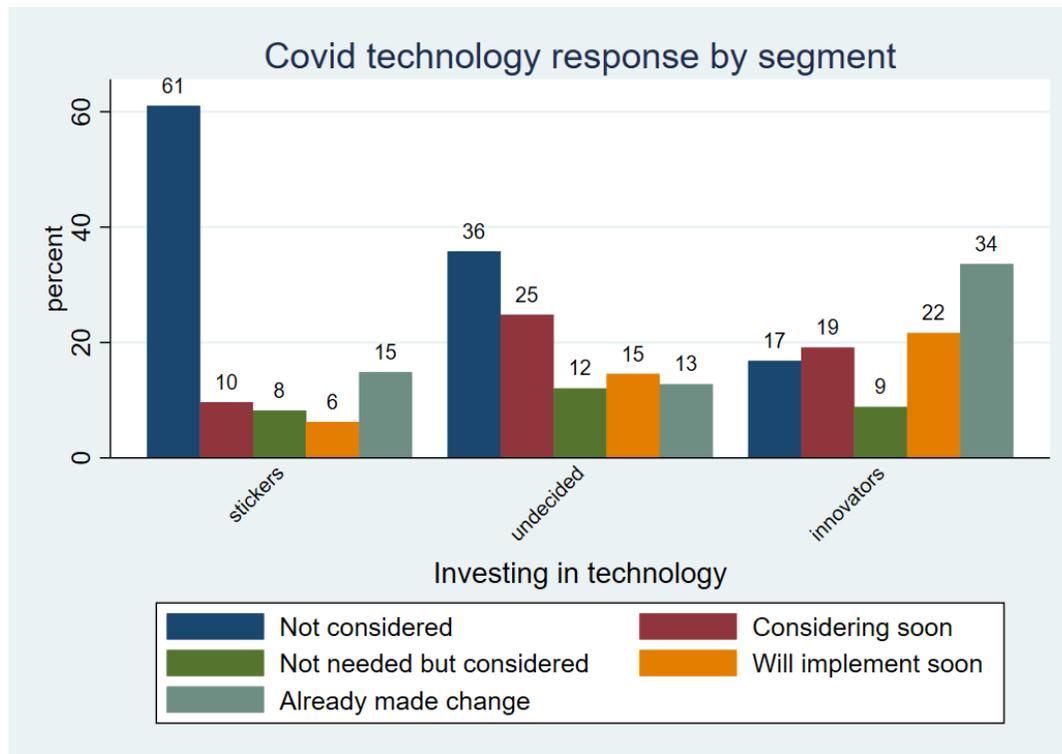
Turnover estimates show lower confidence still has an impact on firms in three years

A significant number of businesses fear their turnover will still be lower in three years time

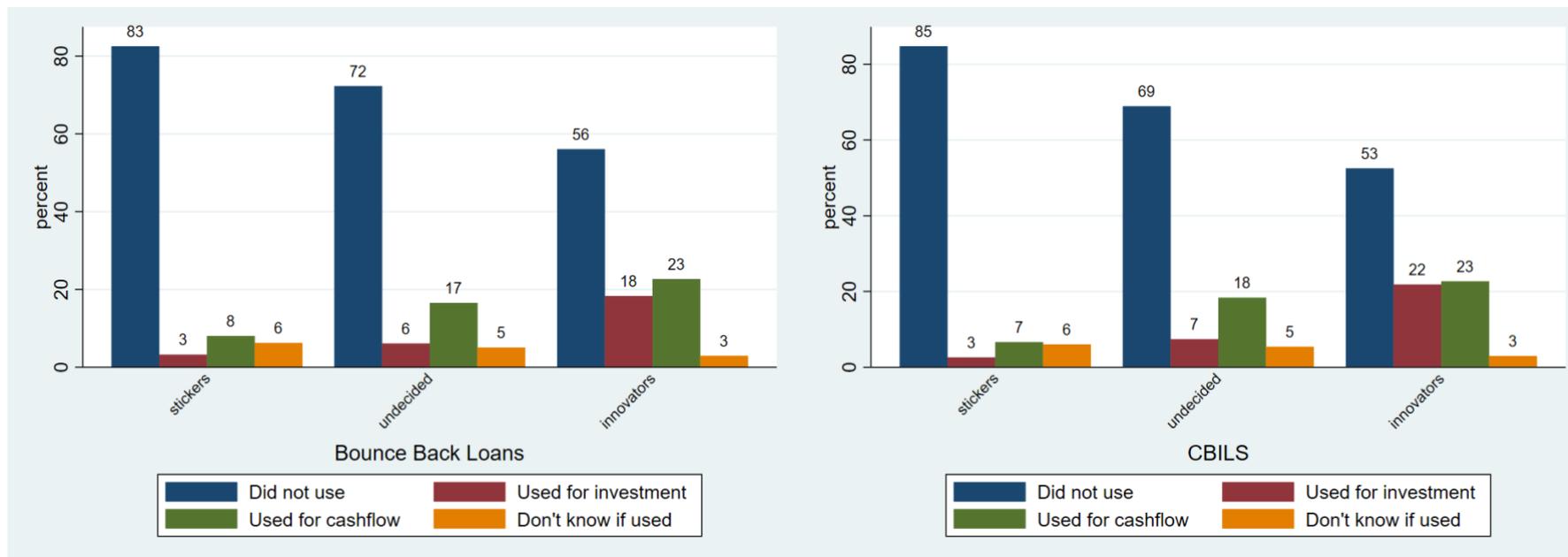


technology with 34% having already made a change since coronavirus and a further 22% about to adopt.

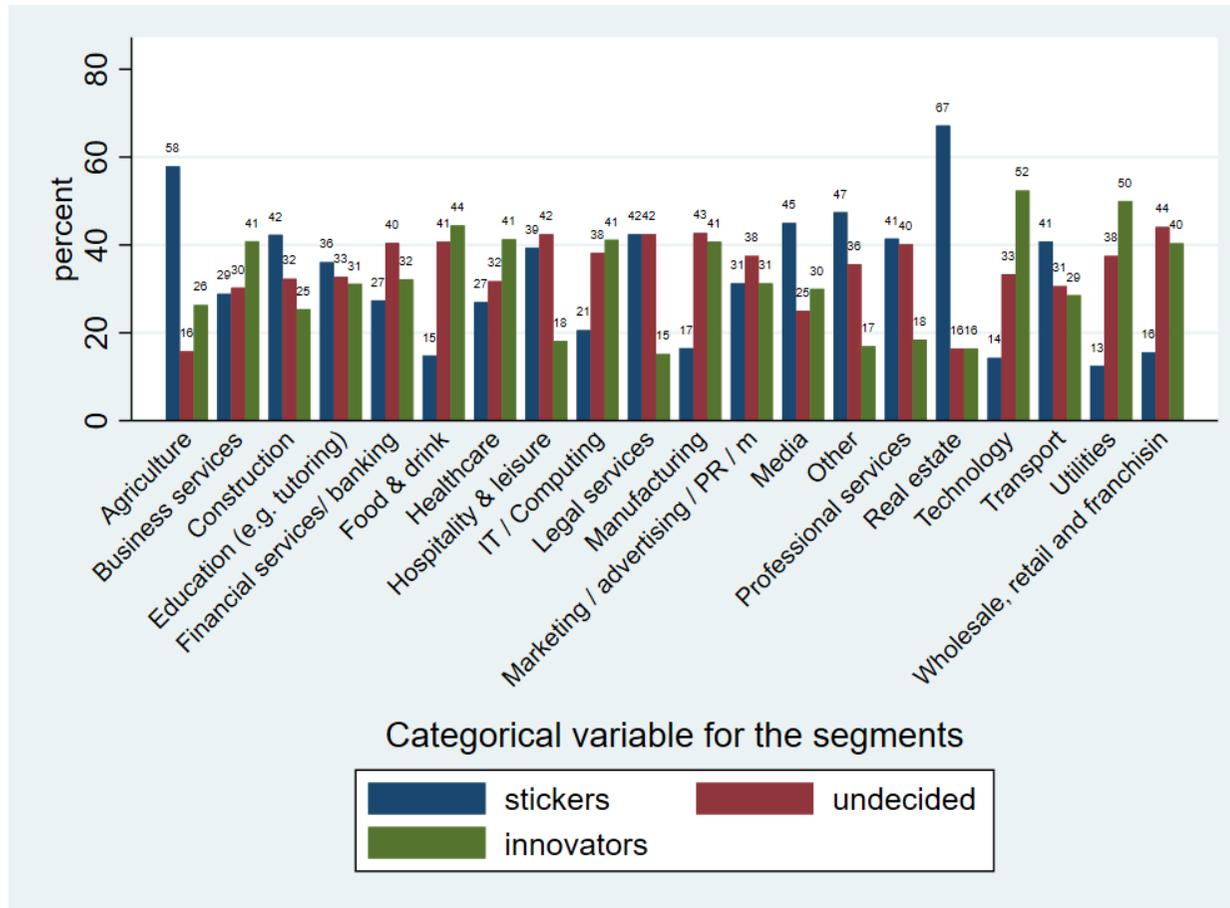
Innovators are actively pursuing



Uptake for loans highest for innovators



Sector breakdown



Regional breakdown

