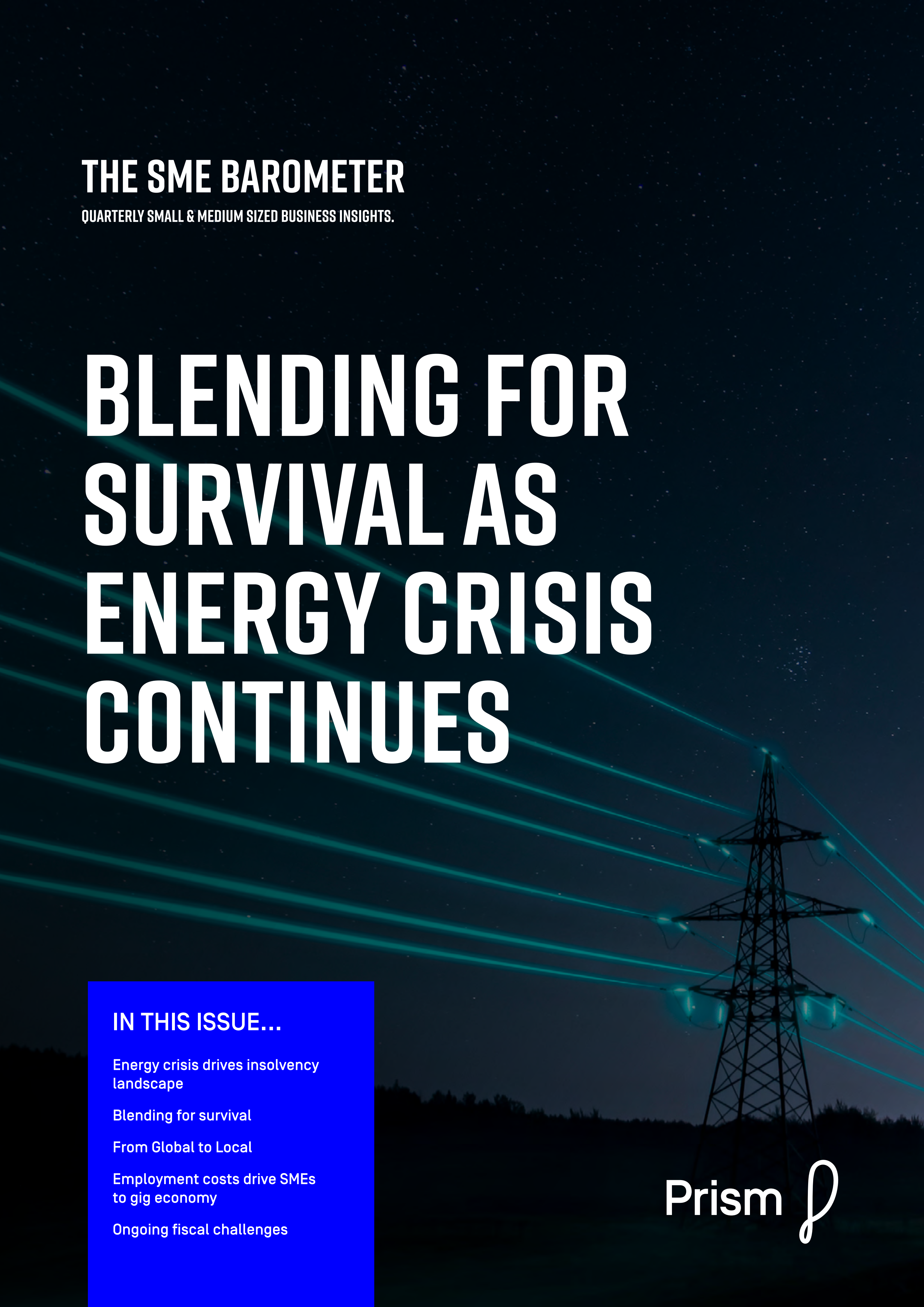

THE SME BAROMETER

QUARTERLY SMALL & MEDIUM SIZED BUSINESS INSIGHTS.

BLENDING FOR SURVIVAL AS ENERGY CRISIS CONTINUES

IN THIS ISSUE...

- Energy crisis drives insolvency landscape
- Blending for survival
- From Global to Local
- Employment costs drive SMEs to gig economy
- Ongoing fiscal challenges

Prism

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FOREWORD

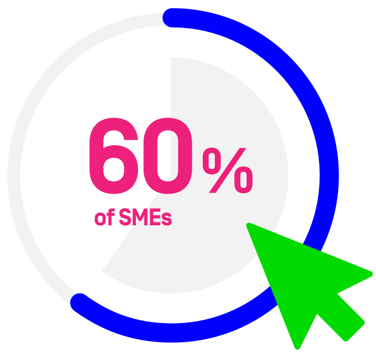
Nearly 30,000 SMEs are forecast to go bust in 2023 with the energy crisis posing the biggest threat to company survival. The crosswinds we reported in our previous SME Barometer are whipping up a ferocious storm as the war in Ukraine continues to fuel the energy crisis.

As interest rates rise in an attempt to curb inflation, sterling has fallen to its lowest level with the Bank of England having to prop up markets after the previous Chancellor Kwasi Kwarteng disastrous mini-budget left financial markets reeling in turmoil, only for him to be replaced three weeks later by a new Chancellor Jeremy Hunt, who promptly reversed much of the mini-budget in a bid to calm markets.

Amid the chaos, the collapse of sterling and increase in government borrowing costs found the Bank of England finding itself needing to repeatedly step in and take emergency measures to buy long-dated government bonds in the gilt market because of a material risk on the markets to financial stability. Since the mini-budget, the IMF have been quite critical of the UK Government saying that the uncosted tax cuts that the Chancellor and the Prime Minister wanted to introduce might boost growth to a certain extent but would be likely to increase inequality. The very fact that the IMF – as guardians of global financial stability – are questioning how the £45 billion worth of tax reductions or reversals of tax increases announced by the Chancellor are going to be paid for, has also spooked the markets. With political tensions escalating between the central bank and the Treasury, the Bank of England could be forced to launch an emergency rise in interest rates to shore up confidence in the UK economy. SMEs are finding themselves caught in the tug of war between the Bank of England and the Government.

The IMF's warning of higher recession risk and darker global outlook for 2023 means SMEs could face difficulty accessing capital to invest in new products and services, or struggle to keep up with changes in technology that could aid their survival.

Digital strategies a top priority.



According to PRISM research, nearly 60% of SMEs say that development in digital strategies and blending digital with all communication channels is a top priority for their business, with an 28% expecting to capture far high-margin business compared to relying on just digital alone. They believe that this will also allow them to survive the ongoing fiscal challenges they are facing.

Transforming revenue operations is gaining momentum as businesses identify new ways of reaching their customers and establishing new revenue streams. In the financial sector for instance, Gartner predicts that 20% of all test data for consumer-facing use cases will be synthetically generated in applications such as debt management, personal finance assistants and automated lending. (source: Sturgill, N. and Sau, M. (29 April 2022). The Top Strategic Technology Trends in Banking and Investment Services for 2022. Gartner. Available at: https://www.gartner.com/en/doc/764169-top-strategic-technology-trends-in-banking-and-investment-services-for-2022

"Gartner's predictions are going to be no easy feat. Our own research at Conga has shown, only 37% of organisations experience success with the digital transformation of their commercial functions. Many aspire to be disrupters, picking a technology like artificial intelligence (AI) and implementing it at speed to keep up with rivals. However, they have no understanding of how it can impact their business or how to implement it successfully," warns Ash Finnegan, Digital Transformation Officer, Conga.

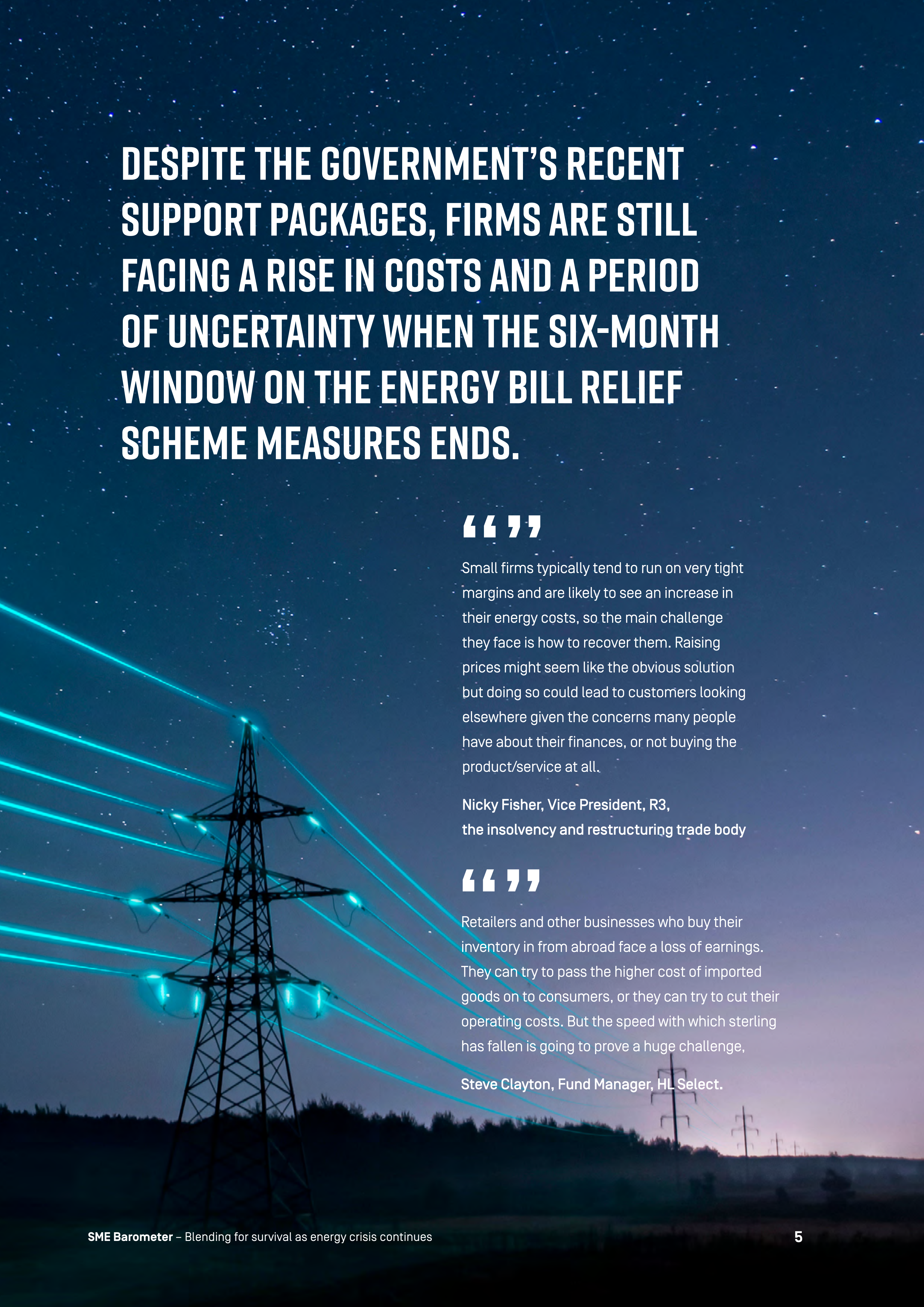
"AI is not a silver bullet – it is only as good as the data provided. It is also only beneficial if it accelerates key business processes and provides real data intelligence. All data needs to be auditable, available, and actionable – that is the only way AI or machine learning will be successful and add real value."

SMEs who adopt automation carefully will have far greater insight into data streams and will be able to identify trends and areas of improvement that will accelerate their revenue streams. A key factor given that in less than a year, interest rates have raced up from 0.1% to 2.25%, and with inflation set to peak at 11%, the warning is clear – if inflation continues to be persistent, policymakers won't hesitate to respond forcefully. Although, as HM Treasury officials are keen to point out, without the Government's bold energy plan for both consumers and businesses, inflation would be up to five points higher.

In addressing the energy crisis affecting businesses, the Government's new Energy Bill Relief Scheme for businesses, charities and public sector organisations will see energy bills cut by more than a half this winter following the Business Secretary Jacob Rees-Mogg's announcement that the government has set a Supported Wholesale Price – expected to be £211 per MWh for electricity and £75 per MWh for gas – matching the wholesale element of the Energy Price Guarantee for households.

However, as British Gas has been keen to point out in advertisements in the national press, it is only the price per unit that has been capped, not the entire bill. The more energy you use, the higher your bill will be. It is hoped that by capping the price per unit, it will give a vital lifeline to all businesses and stem a wave of insolvencies, but businesses will need to be careful in their energy use.

SMES WHO ADOPT AUTOMATION CAREFULLY WILL HAVE FAR GREATER INSIGHT INTO DATA STREAMS AND WILL BE ABLE TO IDENTIFY TRENDS AND AREAS OF IMPROVEMENT THAT WILL ACCELERATE THEIR REVENUE STREAMS.



DESPITE THE GOVERNMENT'S RECENT SUPPORT PACKAGES, FIRMS ARE STILL FACING A RISE IN COSTS AND A PERIOD OF UNCERTAINTY WHEN THE SIX-MONTH WINDOW ON THE ENERGY BILL RELIEF SCHEME MEASURES ENDS.

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Small firms typically tend to run on very tight margins and are likely to see an increase in their energy costs, so the main challenge they face is how to recover them. Raising prices might seem like the obvious solution but doing so could lead to customers looking elsewhere given the concerns many people have about their finances, or not buying the product/service at all.

Nicky Fisher, Vice President, R3, the insolvency and restructuring trade body

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Retailers and other businesses who buy their inventory in from abroad face a loss of earnings. They can try to pass the higher cost of imported goods on to consumers, or they can try to cut their operating costs. But the speed with which sterling has fallen is going to prove a huge challenge,

Steve Clayton, Fund Manager, HL Select.

With firms under pressure not to pass on rising costs, there is a risk that vital business investment is paused or halted entirely. “This could pose a real threat to the UK’s economic recovery and net zero transition,” adds Matthew Fell, Chief Policy Director, CBI.

For SMEs trying to accelerate their own path to net zero, the current tax relief on investments into green and renewable equipment isn’t enough to make it economic for most companies to really make the transition or substantial financial commitment needed.

“The payback time for investment in renewable energy is typically five to seven years, so one of the best ways to encourage companies to sink money into renewables would be an interest free loan scheme available to fund green investment, which could be paid back over five to ten years, effectively smoothing out energy costs,” explains Rachel Nutt, Partner, MHA MacIntyre Hudson. “Alternatively, companies could receive accelerated or enhanced tax relief, as happens with R&D relief, where you receive in excess of 100% relief on the amount you spend.”

As employees deal with the cost of living and rising energy prices, the rise in labour costs is seeing a greater use of overdrafts by SMEs. Some are also turning to asset-based finance or seeking funds via peer-to-peer platforms and crowdfunding as they struggle with cash flow and the cost of doing business continues to bite.

Based on responses from PRISM’s research of 2,000 SMEs, plus independent research, and commentary from some of the leading industry experts, in our latest Barometer we look at how SMEs can pivot and blend so that they are ready to face the challenges ahead.

AS EMPLOYEES DEAL WITH THE COST OF LIVING AND RISING ENERGY PRICES, THE RISE IN LABOUR COSTS IS SEEING A GREATER USE OF OVERDRAFTS BY SMES.

ENERGY CRISIS DRIVES INSOLVENCY LANDSCAPE

When the Insolvency Service published its statistics for the second quarter of 2022 all the attention was on the headline of the overall numbers.

Source: Rising business insolvencies and high energy prices (7 October 2022), Office of National Statistics.
Available at: https://www.ons.gov.uk/businessindustryandtrade/changestobusiness/bankruptcyinsolvency/articles/risingbusinessinsolvenciesandhighenergyprices/2022-10-07

But as Opus Business Advisory Group explains, a more meaningful comparison given the restrictions on creditor enforcement during the pandemic is to look back to the equivalent period before Coronavirus, Q2 2019, when there were 4,321 company failures. On this basis, insolvencies are now running 30% higher than before COVID laid waste to much of the UK economy.

"There was much talk in late 2021 both inside and outside the insolvency profession about a potential tsunami of business failures once the government's many protective measures introduced during the Pandemic were withdrawn. More recently, the anxiety about the financial health of the UK's SME has transferred to concerns about the impact of the war in Ukraine and then the parallel inflation, cost of living and energy price crises," explains Nick Hood, Senior Advisor, Opus Business Advisory Group.

"In fact, corporate insolvencies have not surged in 2022, instead they have grown steadily until after eight months they totalled 15,414, equivalent to an annual rate of more than 23,000. This would be the second worst level since the global financial crisis when there were around 26,000 companies filed for insolvency."

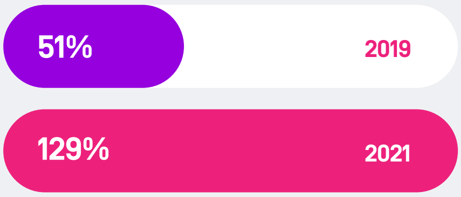
"After the recent turmoil in the markets and the consequent interest rate rises and with inflation on business input and labour costs still trending sharply upwards, there is a real risk that the 2009 figure could be matched and even far exceeded in 2023, with up to 30,000 insolvencies occurring," continues Hood.

"There is also a worrying level of balance sheet scarring at many companies, in particular their bloated borrowings and legacy liabilities for deferred HMRC liabilities and rent obligations. The overwhelming majority of business failures will be in the SME market, because of their generally more fragile financial strength. The major question then would be whether the insolvency profession has the capacity to cope that level of work; if not it will lead to lower recoveries for the creditors of failed SMEs."

INSOLVENCIES ARE NOW RUNNING 30% HIGHER THAN BEFORE COVID LAID WASTE TO MUCH OF THE UK ECONOMY.

ALL SECTORS ARE AFFECTED.

Health & Social Care Insolvency



The impact of the pandemic and labour market issues have made survival difficult in the health and social care sector which according to Insolvency Service figures was up 129% for Q2 2021 compared to 51% in Q2 2019. Smaller, less well-capitalised social care providers have been particularly hit.

Source: Which sectors are most affected by corporate insolvencies? [2 September 2022]. Opus Business Advisory Group. Available at: https://opusllp.com/blog/which-sectors-are-most-affected-by-corporate-insolvencies

"No sector was as harshly treated by the government in its efforts to preserve businesses impacted by the pandemic than the real estate sector," says Hood. "Landlords had all their debt enforcement tools neutralised for two years while even some profitable and cash-rich major tenants took advantage by withholding rent payments. This saw real estate activities rise by 128% for Q2 2021 compared to 46% for the same period in 2019."

Supply chain disruptions caused by the pandemic coupled with labour shortages and Brexit has made efficient operation in manufacturing difficult and insolvencies in the sector have risen 100% for Q2 2021 compared to only 24% in Q2 2019. With fluctuations in demand from customers and extended closures saw bricks and mortar-dominated retailers and wholesaler insolvencies rise from 32% for Q2 2019 to 122% for Q2 last year.

However, there are several sectors bucking the trend. "Despite always being the sector with the biggest percentage of insolvencies [usually close to 20% of all failures], construction has matched the average for the whole economy on the Q2 2019/Q2 2021 comparison," says Hood. "This may reflect the impressive speed with which the industry got back to work after the initial shock of Coronavirus, but it is surprising given the significant increases in input material and labour costs it has suffered. It indicates that contract pricing flexibility is greater than past experience would suggest. It may be that the pernicious influence of fixed price contracts is finally waning, especially in the sub-contractor part of the construction supply chain."

Another promising sector is transportation and storage with only a small rise of 5% in insolvencies when comparing 39% for Q2 2019 and 44% for Q2 2021. "The logistics sector has featured in many media stories about the impact of the pandemic's supply chain difficulties and labour market shortages, particularly of HGV drivers," continues Hood. "But it may be one of the few parts of the economy where Brexit has had a positive impact overall as businesses re-shored activities and manufacturers went from 'just in time' on their inventory strategy to 'just in case', needing more warehousing as a consequence." [see PRISM's Vision Paper, Redefining Property – Role of Digitalisation in a Changing World. Available at: https://www.prism.uk.com/content/uploads/2020/11/PSM_PROPERTY_WHITEPAPER.pdf

Perhaps the most surprising outcome has been the accommodation and food services sector with the number of insolvencies up 59% on Q2 2021 compared to only 2% on Q2 2019 figures. The extent of government support needs to be considered when looking at the sector. Opus's research into the hospitality industry shows that the list of measures such as VAT reduction, business rates holiday, the Eat Out to Help Out scheme, local grants, landlord and creditor enforcement bans, HMRC deferrals and Time-to-Pay deals and no questions asked loans through the Bounce Back scheme, meant that aspects of the finances of the sector have improved during the pandemic, although from a very low base.

Source: Financial uncertainty for the hospitality industry (August 2022), Opus Business Advisory Group. Available at: https://opusllp.com/report/financial-uncertainty-for-the-hospitality-industry

"With the sheer magnitude of the energy crisis, the speed with which inflation is accelerating and where it might peak and ongoing labour shortages, the fear is that corporate insolvency volumes could accelerate over the next year or longer," explains Hood.

PERHAPS THE MOST SURPRISING OUTCOME HAS BEEN THE ACCOMMODATION AND FOOD SERVICES SECTOR

Insolvencies up 59% on Q2 2021
Only 2% on Q2 2019.

"If the much-criticised growth plan from the new government starts to work and if economic conditions ease with sterling strengthening against the dollar, interest rates falling and inflation easing back during the year, we are still likely to see as many insolvencies in 2023 as in 2022. Too many businesses are simply too damaged and their owners too battle-weary from the troubled times over the past three years for the failure rate to fall back to any significant extent."

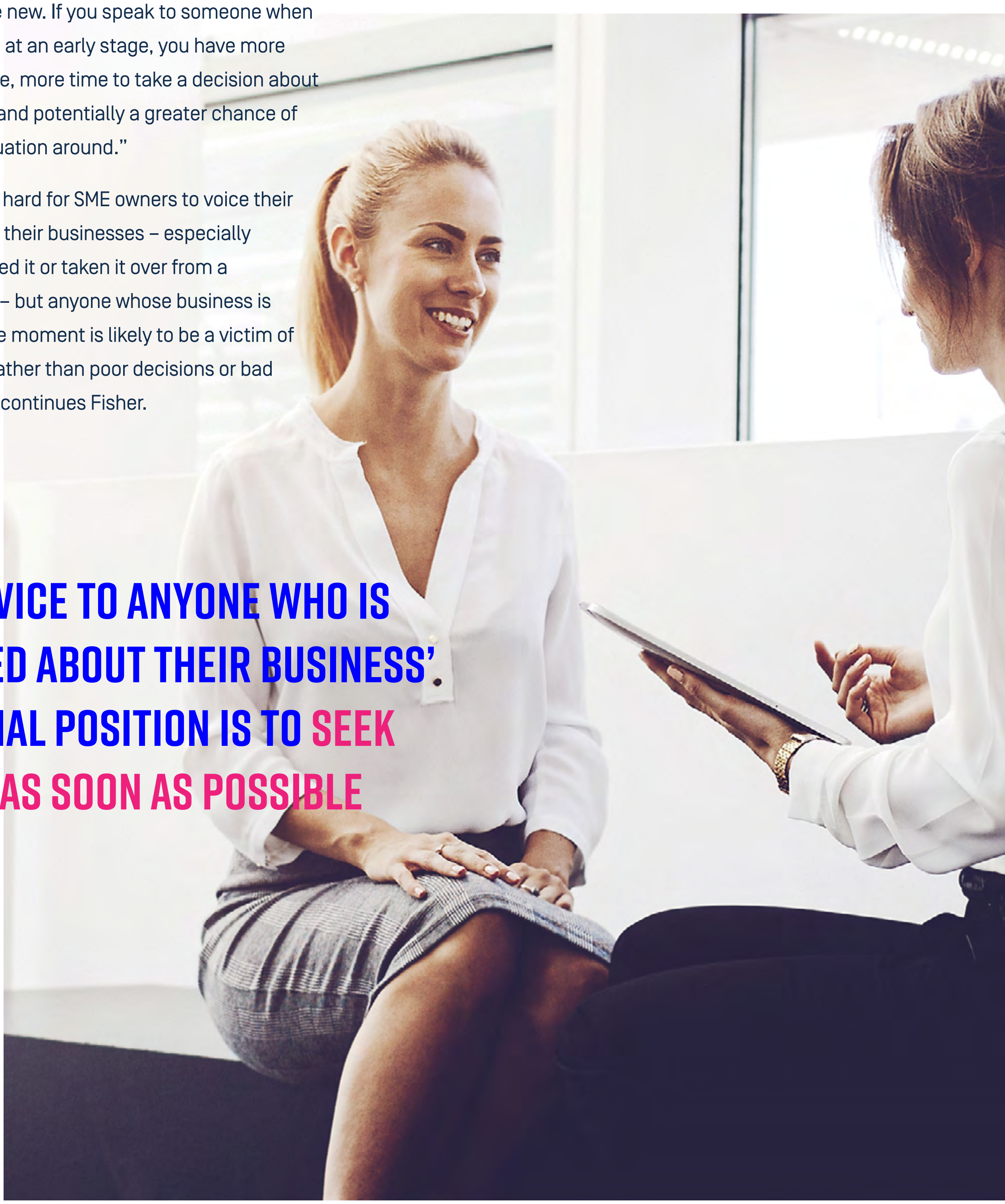
"For company directors concerned about their prospects in the months ahead, now is the time to make sure they have a clear plan in place for the future. The economy is particularly fragile now and businesses should be prepared for this to deteriorate as we enter the second half of the year," urges Christina Fitzgerald, President, R3, the insolvency and restructuring trade body.

"I would urge company directors to understand how to spot the first signs of business distress and to seek advice from a qualified professional as soon as they become concerned. Doing so will give them more time to think about the future of their business and more options to turn their financial situation around."

"Our advice to anyone who is worried about their business' financial position is to seek advice as soon as possible," adds Fisher. "There may be steps people can take to reduce their costs that might make the rise in energy prices more tolerable, but the critical point is that they seek out this advice while their worries are new. If you speak to someone when your worries are at an early stage, you have more options available, more time to take a decision about your next step, and potentially a greater chance of turning your situation around."

"It can be really hard for SME owners to voice their concerns about their businesses – especially if they've founded it or taken it over from a family member – but anyone whose business is struggling at the moment is likely to be a victim of circumstance rather than poor decisions or bad management," continues Fisher.

"Most R3 members will give free initial advice to directors to enable them to understand more about their circumstances and explain the potential options that are open to them to help resolve their situation."



"" OUR ADVICE TO ANYONE WHO IS WORRIED ABOUT THEIR BUSINESS' FINANCIAL POSITION IS TO SEEK ADVICE AS SOON AS POSSIBLE

BLENDING FOR SURVIVAL

Digitisation and emerging technologies are not only upending SMEs but are also remaking who and what they are as organisations.

"Changing what your company is and does – requires understanding where the value is shifting in your industry (and in others), spotting opportunities in the inflection points, and taking purposeful actions to seize them," says Chris Bradley, Senior Partner, McKinsey.

Source: Bradley, C., de Jong, M. and Walden, W. (10 October 2019), Why your next transformation should be 'all in'. McKinsey. Available at: https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/why-your-next-transformation-should-be-all-in

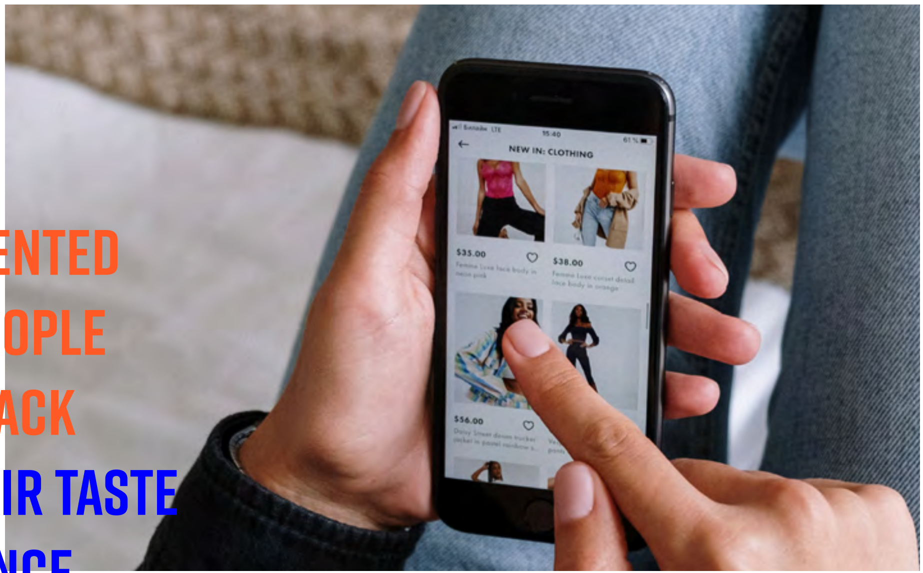
"It's entirely possible for organisations to ramp up their bottom-line performance even as they secure game-changing portfolio wins that redefine what a company is and does. What's more, "all-in" transformations that focus on the organisation's performance and portfolio appear to load the dice in favour of transformational results. By developing these two complementary sets of muscles, companies can aspire to flex them in a coordinated way, using performance improvements to carry them to the next set of portfolio moves, which in turn creates momentum propelling the company to the next level."

SMEs need to take an entrepreneurial approach and develop an unstoppable self-belief and energy that attracts investors. SMEs can form tribes of committed followers and kill old methods and business practices, create wealth out of change, and new business out of crises.

Re-envisioning existing products and services can create renewed enthusiasm from many areas of the business that drives forward transformation, especially when people have a clear vision of where you are going, they become passionate about making it a reality. This in turn drives innovation, encouraging great ideas to deliver concrete solutions, practical down-to-earth immediate actions to get great results at an astonishing fast pace.

According to PRISM research, over 70% of SMEs now view digitalisation as a key requirement for survival. But with dependence on legacy technology stifling the digital transformation and pivotal ambitions of many SMEs, 50% of firms say they feel unable to cope with the IT challenges that pivoting presents.

Digitalisation. A key requirement for survival.



AN UNPRECEDENTED NUMBER OF PEOPLE ARE MOVING BACK ONLINE AS THEIR TASTE FOR E-COMMENCE CONTINUES.

The pandemic has driven changes to the e-commerce business model for all industry sectors, not just retail. During the pandemic we saw a rapid growth in online shopping. After periods of shopping in isolation, a frantic return to socialisation saw a return to in-store shopping. However, an unprecedented number of people are moving back online as their taste for e-commence continues.

This means SMEs need to reimagine their products and services for the digital world. Regardless of the client's communication channel of choice, businesses need to engage with clients in the most frictionless manner as possible at each 'touchpoint' along the client's journey. Often, clients will change the communications channel they are using throughout a session, and they need to be able to do so without losing progress. For instance, a client might research a product on a company's website, adding the product into their cart and pay for the product using their mobile phone, before visiting a physical store to collect the item.

Irrespective of whether a SME business is dealing with consumers or another business, and regardless of the channel being used to connect with the brand, both customers and clients what the seamless shopping experience that comes from adopting the omnichannel approach.

New ways of working which were driven by the Working from Home (WFH) initiative during the pandemic resulted in people becoming more comfortable with virtual platforms with the option to 'digitally visit' properties or 'digitally test drive' new cars, has the potential to create new business models, and a fundamental business system redesign.

As companies reimagine products and services for the digital world, they need to give the same experience from the local brick-and-mortar approach and blend it into the faster, convenient, and personalised interaction which can be achieved using online.

At PRISM, we call this the "B2B Retail experience" whereby regardless of whether a business is using digital tools to engage customers, they still need to create an environment that to the customer feels is like a face-to-face experience – but by using digital tools.

The ability to collect data from each point along the customer and client journey become a linchpin in creating fresh revenue streams and for developing new product and service offerings. In exploring the ways to nurture digital customers and reap the benefits of the data they generate, Mohan Subramaniam, Professor of Strategy and Digital Transformation at the International Institute for Management Development (IMD) and the author of 'The Future of Competitive Strategy: Unleashing the Power of Data and Digital Ecosystems' says, "Customers aren't just people who buy your products, but are people who give you very valuable data, and you have to treat them as such ... the ability to capture a continuous stream of data at every customer touch point also generates a new class of insights that play a more expansive role in growing businesses."

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CUSTOMERS AREN'T JUST PEOPLE WHO BUY YOUR PRODUCTS, BUT ARE PEOPLE WHO GIVE YOU VERY VALUABLE DATA, AND YOU HAVE TO TREAT THEM AS SUCH

Mohan Subramaniam,
Professor of Strategy and Digital Transformation

Having multiple channels for customer interaction is not enough: customers are ever-changing their ways of interaction with a brand, so it becomes increasingly more complicated to have a unified view of customer data owing to the range of disparate channels being used.

According to PRISM research, nearly one third of SMEs surveyed are adopting a more proactive approach to data analytics, while 28% say they are expecting to capture high-margin business through their greater use of data analytic solutions.

Many SMEs have already shifted into a long-term virtual sales model. "Being able to meet face-to-face will be a massive help with new clients, but we need to avoid going back to pre-covid networking events and pre-sales," says nearly half of those surveyed. With McKinsey reporting that 70% of businesses are saying that their customers prefer doing business remotely

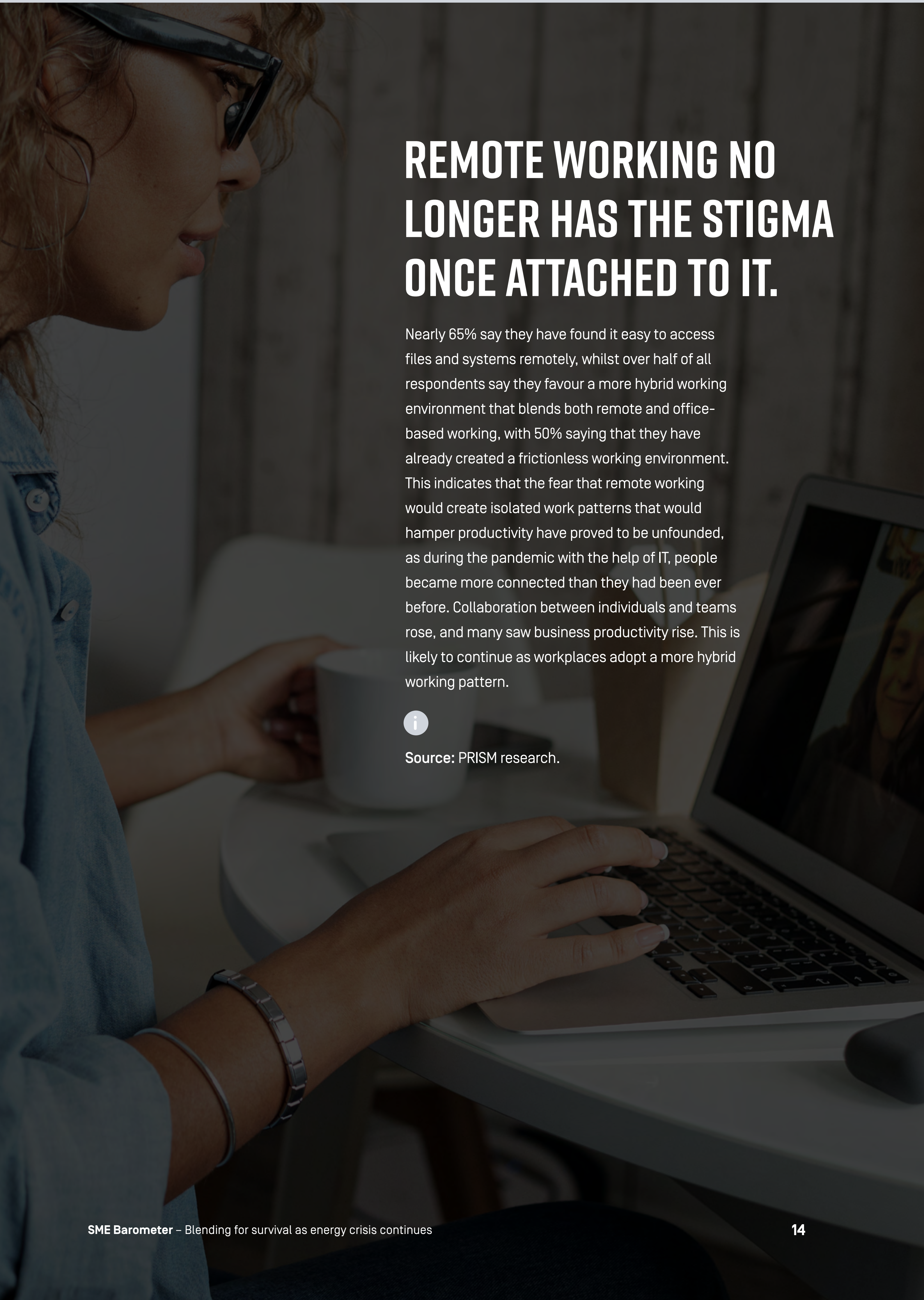
Source: Stanley, J. and Köstring, J. Webinar: Embracing the B2B omnichannel opportunity. McKinsey. Available at: https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/embracing-the-b2b-omnichannel-opportunity-in-2021

It is not surprising that PRISM research found that the shift to a virtual sales model is now the preferred option for seven in ten SMEs.

When they can embrace the three keys to omnichannel success of speed, transparency and expertise to deliver outstanding digital experiences, SMEs are more than twice as likely to be chosen as a primary supplier, with 24/7 live chat now being a top-three requirement for best-in-class suppliers. As such PRISM research found that nearly 75% of firms say that digital transformation throughout the whole organisation is now a key priority for their businesses as the time and cost saving benefits that technology brings have given them the time to successfully deepen client relationships.

75%

OF FIRMS SAY THAT DIGITAL TRANSFORMATION IS NOW A KEY PRIORITY FOR THEIR BUSINESSES



REMOTE WORKING NO LONGER HAS THE STIGMA ONCE ATTACHED TO IT.

Nearly 65% say they have found it easy to access files and systems remotely, whilst over half of all respondents say they favour a more hybrid working environment that blends both remote and office-based working, with 50% saying that they have already created a frictionless working environment. This indicates that the fear that remote working would create isolated work patterns that would hamper productivity have proved to be unfounded, as during the pandemic with the help of IT, people became more connected than they had been ever before. Collaboration between individuals and teams rose, and many saw business productivity rise. This is likely to continue as workplaces adopt a more hybrid working pattern.

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Source: PRISM research.

However, time and money remain a challenge. As one respondent says, "Whilst we encourage a culture of thinking more digitally and pro-actively embrace change these things take time to implement, which is time away from delivering core services."

For some, the rapid shift to digital is serving as an unwelcome wake-up call. According to McKinsey research one firm said they felt they were "not as digital as they thought", whilst an international consumer packaged goods (CPG) company said it was "unable to fulfil the massive surge in orders which came through its website".

This shows that many SMEs still need to work on creating their omnichannel successes. They need to look at the decision journey which each client takes, what the granular data along each touchpoint shows, how clients are inspired, what they value, and how this can be used to help foster client loyalty.

It is also important in creating an outstanding and frictionless omnichannel experience to maintain the human connection. Being able to blend human interaction with digital interaction, ensures that clients get a seamless and personalised experience both online and in-person.

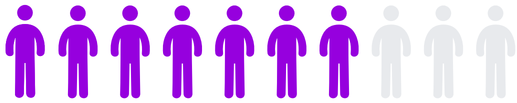
"SMEs who add the human touch to digital sales consistently outperform their peers ... organisations who make more capital expenditures in digital technology are twice as likely to report outsize revenue growth," says McKinsey

Source: LeBerge, L., O'Toole, C., Schneider, J. and Smaje, K. (5 October 2020), How COVID-19 has pushed companies over the technology tipping point – and transformed business forever https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever

By putting the client at the heart of its omnichannel strategy, SMEs will be able to harmonise both their physical and digital channels that will not only strengthen their e-commerce capabilities, but also delight clients in creating new and meaningful ways in which to interact with them at every major touchpoint.

Amazon and eBay may have fuelled the growth of business-to-consumer (B2C) shopping, but it is from the likes of eWorldTrade, Tradeshift, Alibaba, IndiaMART, ECVV, ECPlaza etc. that we have seen how the business-to-business (B2B) marketplace can grow. These marketplaces enable companies to connect with other organisations around the world and conduct business all in one place with orders and transactions being processed entirely online via their platforms.

OMNICHANNEL IS PROVING MORE EFFECTIVE COMPARED TO TRADITIONAL METHODS.



With McKinsey research revealing that eight in ten B2B decision makers prefer remote human interactions and digital self-service functionality with 41% of firms saying compared to in-person, e-commerce is now their most effective sales route.

Source: B2B Pulse: How B2B decision makers are responding to the coronavirus crisis collection (February 2023). McKinsey. Available at: https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/how-b2b-decision-makers-are-responding-to-the-coronavirus-crisis

This is creating a change in traditional sales roles, and we see a rise of the hybrid rep (those who interact with clients more remotely than in-person). According to PRISM research, over 80% of SMEs say that during the next five years they are expecting revenues from omnichannel to increase because of developments in their omnichannel and digitalisation strategies. But to do so, will rely on them rethinking their ecosystems through trusted IT partners who have the knowledge and capabilities to build resilient and frictionless connected ecosystems.

IN JUST THE LAST TWO YEARS, ENTERPRISE DATA VOLUME HAS DOUBLED BECAUSE OF BOOMING ONLINE INTERACTIONS.

With the creation of new digital touchpoints, consumers will generate volumes of data that can be used for strategic insight. In just the last two years, enterprise data volume has doubled because of booming online interactions. Unfortunately, many organisations don't have the data infrastructure in place to glean valuable insights from that data. Only 37% of survey participants believe they have a well-developed enterprise data architecture that enables high-quality, data-driven, and personalised customer experience. For many, data becomes siloed across the various touchpoints, with 48% saying it is difficult to access the data. Of the data that is accessible, 45% believe it isn't relevant or current, and they believe an insufficient investment in customer experience is the problem.

Source: How Data is Driving Next Generation Customer Experiences. Precisely. Available at: https://www.precisely.com/resource-center/analystreports/how-data-is-driving-next-generation-customer-experiences

"Legacy systems are the most common theme holding organisations back from achieving their customer experience goals – and 54% of survey participants agree," says Greg Van den Heuvel, EVP and General Manager, EngageOne at Precisely. "If your company is aiming to achieve a consistent and holistic approach to customer engagement, taking advantage of a single, unified platform is significantly more effective than using a disjointed toolset to try and accomplish that objective."

This means that many SMEs are planning to invest in data integration, data integrity, or data enrichment technologies. While many organisations are equipped with the right in-house resources to optimise data, being able to partner with a managed service provider (MSP) helps SMEs to achieve three core competencies which can reduce costs, provide better customer communications, and improve operational efficiency through MSP integrated customer communications management platforms that leverage cloud-enabled technologies, anchored in data.

FROM GLOBAL TO LOCAL

As international market pressures increase, SMEs who can diversify their products and services offering to cater for a local market, are not only well placed to support local communities and workforces but can also gain additional revenues through a previously untapped marketplace.

For example, a wine merchant may reposition itself by offering organic fare and incorporating a café into its premises, or a dry cleaner may add a home cleaning service to its activities to diversify its offerings.

"Everyone wants to use local businesses including big businesses in the area. However, often local businesses can be so busy that matching the right documentation and dialogue to an invoice often results in someone physically having to pick up the phone or email because something has simply been forgotten. This causes a major bottleneck in activities and a major headache for local SMEs," explains Jack Wright, Director, YourDMS.

"This is exactly what happened to one of our newest customers. They make cakes, but they don't necessarily see themselves as a bakery – yet in many ways they are. They use local manufacturers and local suppliers but had found that they had been constantly moving from one supplier to another simply because they are just so busy that the delay in trying to get documentation matched up to pay the right invoice not only was affecting their reputation but was also causing a major bottleneck in their operation."

But technology is the enabler that gets things done. "Using a document management system, we have helped them reduce the time on approvals simply by getting the system to give the documents to the relevant person to approve straightaway – and in a simple fashion. It is not just presenting the person with the information by sending them an email notification, etc, it needs to be made simple," says Wright.

TECHNOLOGY IS THE ENABLER THAT GETS THINGS DONE.

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EVERY SYSTEM NEEDS TO BE EASY AND QUICK TO USE – AND THE PROCESS MUST BE RIGHT FOR THE USER.

Jack Wright,
Director, YourDMS.

"Every system needs to be easy and quick to use – and the process must be right for the user – because I believe nine out of ten times, people don't use a system because it's difficult. For instance, if I say, you've got 50 steps to use a system, you would have already zoned out before I had even started to explain step one. Systems must be simple to use."

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OFTEN DELAYS IN DOCUMENTATION ISN’T JUST A BUSINESS FAULT, IT’S AN INDIVIDUAL’S FAULT.

Jack Wright, Director, YourDMS.

“It is also important that documents within systems can be escalated,” explains Wright. “Often delays in documentation isn’t just a business fault, it’s an individual’s fault. Controls need to be put in place whereby if the person is on holiday, and they are the only person that can deal with it – and if the business has, for example, 50-200 people, that can be quite hard to manage, even if the business has a holiday system. It is therefore important that the system used can escalate an action. For instance, if say an invoice comes in, and has a five-day approval process, and if it is not approved in five days, it moves on to someone who can deal with it, and then it moves on another three days to another person to deal with it because no one is actioning the task. Then you have an eight-day period where the document is constantly moving.”

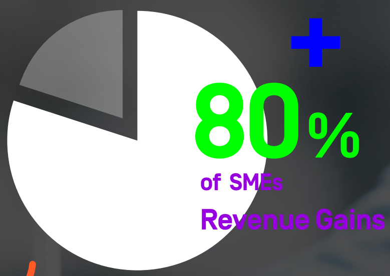
“Taking this a step further, if you were doing it from an email perspective, the invoice would have arrived in someone’s inbox. Then the supplier will call up to speak to the person who is on holiday, and they are put through to someone else who doesn’t know anything about it, they’ll says, ‘Oh, can you just send that invoice in again?’ Now when that invoice comes in again, there are now two versions of the same document inside the business,” says Wright.

“When the person returns from holiday or sick or wherever, they could process the invoice in their inbox, unbeknown that a colleague had already passed the invoice for payment, and before you know it the business could have made duplicate payments, and the business then has the difficult task of trying to get funds returned.”

Weakness in end-to-end activity revealed by the pandemic means that more SMEs need to have greater resilience and agility. For SME manufacturers reshoring and bringing manufacturing back to where customers reside has been given a boost with the use of digital factories as these are less expensive to operate and can cater for high levels of customisation to meet changing consumer preferences and demands. [See PRISM Vision Paper, Manufacturers and Digital Transformation – the Enabling Force in a Disruptive World. Available at: https://www.prism.uk.com/content/uploads/2020/06/PSM_MANUFACTURING_WHITEPAPER.pdf

WEAKNESS IN END-TO-END ACTIVITY REVEALED BY THE PANDEMIC MEANS THAT MORE SMES NEED TO HAVE GREATER RESILIENCE AND AGILITY.

CUSTOMISED PRODUCTS FOR A LOCAL MARKET GENERATE HIGHER MARGINS THAN MASS-MANUFACTURE OFFERINGS FOR LOCAL MANUFACTURERS.



Over the next five years, more than 80% of SME manufacturers say they are on course to secure significant revenue gains from both lower cost and added revenue.

Source: PRISM research.

Technology is playing a huge part in this. The foundation for smart local manufacturing is Industrial Internet of Things (IIoT), with data analytics, and cloud coming in close second and third.

Using local manufacturing it is easier for SMEs to prioritise predictive maintenance to ensure that costly downtimes are kept to a minimum, unlike when using offshore manufacturers when decisions may be out of their control.

In addition, financial incentives include tariff or fiscal exemptions are often available for local producers. Supporting the local economic sector, SMEs can help revitalise areas and benefit local communities.

Local manufacturing is also re-shaping investment portfolios. Financial incentives including tariff or fiscal exemptions are often available for local manufacturers, and investors are keen to fund companies who are not subject to international pressures and where local demand – not exports – are the main driver.

According to accountants and business advisers, Kreston Reeves, 84% of businesses in a survey intend to focus growth plans on domestic markets over international markets in the next 12 months.

Source: Griggs, A. (20 September 2022), Global Britain? A report on the global ambitions of UK businesses. Kreston Reeves. Available at: https://www.krestonreeves.com/publications/global-britain-global-ambitions-report

"The impact of the new trading arrangements with the European Union, the COVID pandemic and conflict in Ukraine will continue to hamper international trade for many months to come," says Andrew Griggs, Senior Partner and Head of International, Kreston Reeves.

"Whilst businesses are increasingly international and global in their outlook and expect to see significant revenues from global markets over the next three years, for the next 12 months, businesses intend focusing on domestic markets which is surprising considering the UK is heading towards a recession."

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THE IMPACT OF THE NEW TRADING ARRANGEMENTS WITH THE EUROPEAN UNION, THE COVID PANDEMIC AND CONFLICT IN UKRAINE WILL CONTINUE TO HAMPER INTERNATIONAL TRADE FOR MANY MONTHS TO COME.

Andrew Griggs,
Senior Partner and Head of International,
Kreston Reeves.

EMPLOYMENT COSTS DRIVE SMES TO GIG ECONOMY

Costs are driving changes in SME employment. Last year, over 16.3 million people were employed by SME firms with more than three in every five people employed in the UK private sector.

But with the Office of National Statistics reporting that the number of UK job vacancies between June to August 2022 have dropped by 34,000 from the previous quarter there are signs of changes ahead on the employment scene.

THE NUMBER OF UK JOB VACANCIES BETWEEN JUNE TO AUGUST 2022 HAVE DROPPED BY 34,000 FROM THE PREVIOUS QUARTER

Source: Employment in the UK: October 2022 (11 October 2022). Office of National Statistics. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/october2022

Analysing the data between August 2020 and August 2022, the Association of Professional Staffing Companies (APSCo) says while the number of permanent roles during this period have increased, salaries has failed to keep pace with changes across the economy and have dropped by 8%.

"Increasing salaries while our economic stability is being questioned is understandably unlikely to be a priority or even feasible for many businesses, but to see a decline in pre- and post-COVID salaries is worrying," says Ann Swain, CEO, APSCo. "Since 2019 we've witnessed a demand for talent on a significant scale and an initial surge in economic activity as restrictions were lifted, but salaries across the professional, highly skilled sectors haven't risen in line with this. The result is now being felt across the country. With the impact of Brexit also still playing out, this decline in financial incentives for new hires will only have a detrimental impact on the country's ability to attract the skills needed to bolster the UK's economy."

"The unemployment rate is still lower than pre-COVID levels and with a limited availability of job seekers, employers will struggle to source the highly skilled resources they need – it is a problem that cannot be addressed without access to a truly global and flexible workforce," adds Tania Bowers, Global Public Policy Director, APSCo.

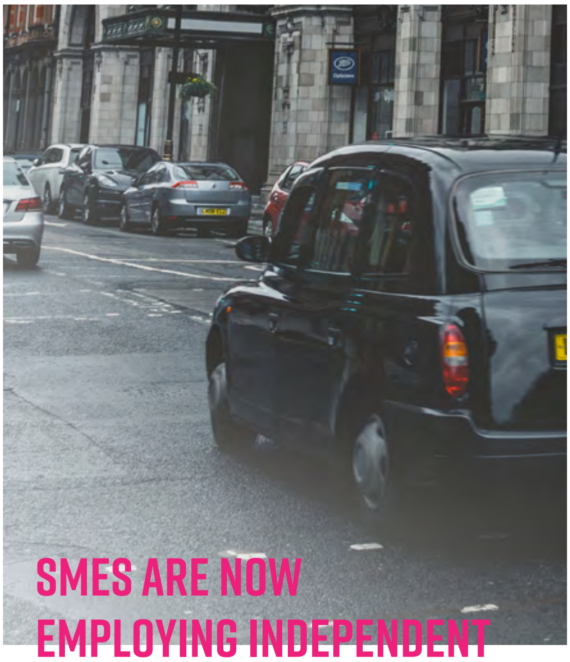
"We have already called on the new Prime Minister to prioritise the employment and skills agenda for the UK. This includes ensuring global trade deals are negotiated to include skills, the workforce and the mutual recognition of services and professional qualifications as well as tariffs and goods. The simplification of the process by which self-employed contractors obtain visas is also needed in a skill short economy."

57%

SAY THEY PREFER HYBRID JOBS, 43% ARE HAPPY TO CONSIDER ROLES THAT ARE ENTIRELY OFFICE-BASED.

PRISM research shows that while 57% say they prefer hybrid jobs, 43% are happy to consider roles that are entirely office-based. But with the number of contract roles on offer rising to over 70% this year, many SMEs are now employing independent contractors and freelancers instead of full-time employees in a bid to save time and money. The popularity of the 'Gig' economy and its flexible working pattern means that an estimated 7.25 million workers are getting a second stream of income from being 'gig' workers, and gig economy companies are contributing £20 billion to the British economy each year.

Gig workers are proving attractive for the SME sector. Having access to quality talent is a key factor in achieving company success, and the flexibility of gig workers means that a firm has access to talent anywhere in the world. For SMEs facing increasing pressure from competition and the need to maximise profits, the costs savings that gig workers bring means that firms don't need to provide any employee benefit packages for gig workers such as retirement plans or paid sick leaves. They also don't need to provide office space, as gig workers work in their own spaces such as working from home or driving a car for Uber for example. Gig workforces can also be matched exactly to business requirements without the need for a lengthy hiring process.



SMES ARE NOW EMPLOYING INDEPENDENT CONTRACTORS AND FREELANCERS INSTEAD OF FULL-TIME EMPLOYEES IN A BID TO SAVE TIME AND MONEY.

Source: The Six-Hour Workday Infographic (29 July 2022. Ohio University.
Available at: https://onlinemasters.ohio.edu/blog/benefits-of-a-shorter-work-week/

The benefit to the gig worker is that they can work the hours which suit them. A study by Ohio University reveals that working in short bursts (rather than eight hours a day) make people more productive and efficient.

This in turn directly impacts motivation, creating a positive correlation to output production. Gig workers seem to have a stronger incentive to achieve long-term objectives compared to employees as employees tend to be motivated by other factors such as employment benefits, managing office politics and other internal business issues – whereas gig workers just get on with the job – their flexibility mean they don't need to worry about 'additional' issues.

While there are many benefits for SMEs in adopting a gig workforce, many argue that gig economy companies push much of the cost of their business onto workers and that people who work for on-demand companies should enjoy the same rights and protections of employees. As a result, gig economy companies are not generally known to incentivise their employees, but many gig companies such as Uber and Lyft argue that making drivers employees could drastically change their ability to stay in business.

With 48% of gig workers in the UK also having full-time jobs (source: Fennell, A. (June 2022), Gig Economy Statistics UK. StandOut CV. Available at: https://standout-cv.com/gig-economy-statistics-uk, as the cost of living continues to bite worldwide, the global gig economy is predicted to grow at a compound annual rate of 17.4% to $455 billion by next year.

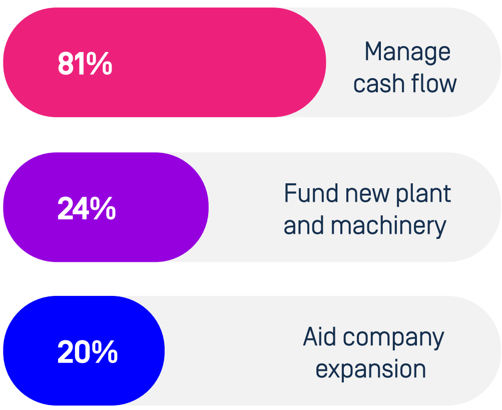
Source: Broda, K. (6 February 2022), Gig Economy – The Economic Backbone of the Future? Brodmin. Available at: https://brodmin.com/case-studies/gig-economy-case-study

As a result, the gig worker economy may, in the short-term, solve The Great Resignation challenge facing businesses.

ONGOING FISCAL CHALLENGES

Faced with a global economy threatened by increasing interest rates, reductions in liquidity, rising energy costs, and supply chain disruptions, SMEs are turning to overdrafts to help service cash flow.

Of the companies who have secured finance so far in 2022, a whopping 81% say they plan to use it to manage cash flow, with 24% saying that they plan to use overdraft funds to fund new plant and machinery, while nearly 20% say the funding is needed to aid company expansion.



When it comes to funding recruitment activities, just 4% of firms say they are allocating separate funds to deal witzrecruitment activities.

Source: SME Finance Monitor Q4 2021, (March 2022). BVA BDRC. Available at: https://www.bva-bdrc.com/wp-content/uploads/2022/03/BVA-BDRC_SME_FM_Q4_2021_Report_Final.pdf

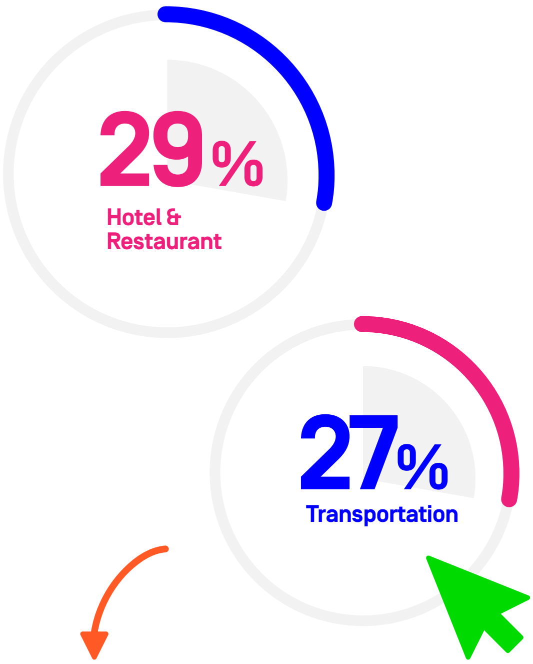
Whilst the use of bank overdrafts is rising, a quarter of SMEs surveyed say they have turned to asset-based finance such as invoice finance, while 7% of firms have sought funds via peer-to-peer platforms and crowdfunding.

According to the Bank of England statistics, 33% of corporate borrowers are worried about repaying their facilities, with SMEs in the UK repaying £0.3 billion in July 2022 compared to £1.4 billion net repayments a month before.

Source: Money and Credit - July 2022 (30 August 2022). Bank of England. https://www.bankofengland.co.uk/statistics/money-and-credit/2022/july-2022

"The increase in the amount borrowed by SMEs through overdrafts is a worrying trend and a reversal of a decade-long trend of falling overdraft use," says James Simmonds, Partner, UHY Hacker Young. "While the availability of Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) during the pandemic reduced the need for overdrafts among SMEs, some firms are now using their overdraft facilities to make repayment on those loans."

AT THE END OF LAST YEAR, SMES WERE BORROWING MORE THAN THEY HAD BEFORE THE PANDEMIC. OF THOSE FIRMS, THE HIGHEST BORROWERS WERE...



At the end of last year, SMEs were borrowing more than they had before the pandemic. Of those firms, the highest borrowers were in the Hotel and Restaurant (29%), or Transportation (27%) sectors.

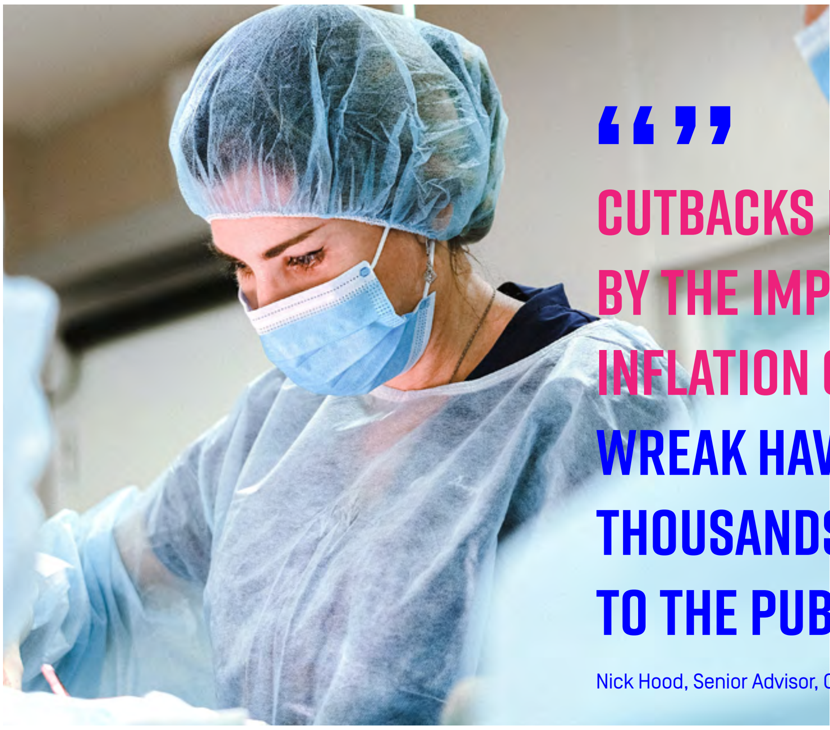
SME manufacturers are being hit with rising costs of raw materials, a rise in labour costs as employees deal with the cost of living, and rising energy costs.

This has seen overdraft borrowing for the sector increase from £680 million to £1.1 billion in the last year alone. Few are in the position to absorb costs other than by relying on their overdrafts to tide them over.

Make UK, Britain's manufacturers association downgraded its forecast for manufacturing growth for next year to just 0.6%. "UK manufacturers have not been able to sell abroad more easily, partly because the high value-added nature of UK manufacturing means many firms sit in the middle of global supply chains so are less well-positioned to take advantage of relative devaluations in sterling," says Stephen Phipson, Chief Executive, Make UK.

"Four in ten manufacturers have adjusted production volumes in response to inflationary pressures, with the overwhelming majority most likely reducing production on lines where margins are either nil or negative. Similarly, 34% of the industry say that they have changed to cheaper suppliers in response."

Source: Manufacturing Outlook 2022 Quarter 3. Make UK. Available at: https://www.makeuk.org/insights/reports/manufacturing-outlook-q3-2022-inflationary-special



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CUTBACKS IN THE NHS CAUSED BY THE IMPACT OF RAMPANT INFLATION ON FIXED BUDGETS WILL WREAK HAVOC AMONG THE TENS OF THOUSANDS OF SMALL SUPPLIERS TO THE PUBLIC HEALTH SECTOR.

Nick Hood, Senior Advisor, Opus Business Advisory Group.

Ongoing supply chain snarl ups are causing problems for SMEs. More than a third (35%) say they are facing ongoing problems with staff shortages with the need for higher wages being offered to lure staff, and with the continued weakness in sterling fanning the flames of inflation even more, imports are becoming more expensive. The strength of the dollar is also a major factor in sterling’s weakness as investors seek safety in the greenback amid the turbulence elsewhere and while storm clouds continue to gather over the global economy, the dollar’s strength looks set to continue.

“The biggest fiscal challenge facing SMEs trying to ride out the storm comes from government policy as they cope with the prospect of sharp falls in public expenditure as the Treasury battles to fund the tax cuts announced by the new Downing Street regime. There is a widespread assumption that only large corporates benefit from government spending. The contrary is true as work cascades down the supply chain to SMEs,” says Hood.

“A prime example is the HS2 rail project, where the main contractors may be huge household name construction companies, but a huge amount of value is pushed down to hordes of smaller and smaller sub-contractors. Any cancellation of the project would have a devastating impact on the SME community within the construction industry. Similarly, cutbacks in the NHS caused by the impact of rampant inflation on fixed budgets will wreak havoc among the tens of thousands of small suppliers to the public health sector.”

But with inflation running at a 40 year high, the need to drive revenue growth during intense price inflation continues. “Businesses worldwide have long been addicted to top line growth, but overtrading kills more small enterprises than any other single cause, especially after a period of economic disruption such as the pandemic. No SME should be chasing revenue growth through increased volumes unless it is sure that it has adequate working capital funding in place,” says Hood.

“Assuming there are sufficient cash and other resources available, there is no problem in looking to increase activity levels providing it is at least as profitable as the existing sales activity. If it is not, the question is why any business would want to go down the ‘busy fools’ route of growing sales but diluting profitability. Currently, SME’s have enough problems with rising input costs without increasing the scale of the issue.”

In September, the UK lost its longest serving Monarch, the late Queen Elizabeth II, resulting in the accession of a new Monarch, King Charles III taking us into the Carolean age. We saw the appointment of a new Prime Minister, Liz Truss (who’s premiership lasted a mere 45 days), and an ex-Chancellor’s mini-budget causing the price of sterling to crash to all-time lows with the IMF criticising the sustainability of the budget. This is leaving the Bank of England to repeatedly issue emergency measures due to the financial material risks.

With interest rates rising, inflation is expected to outpace growth of earnings by over 3:1 in Q4 2022, and as GDP continues to contract, economists are warning that the UK is “teetering on the edge of recession”.

Now with the fallout continuing from the delayed Medium-Term Fiscal Plan, confidence continues to fall as the new Prime Minister Rishi Sunak is appointed and the Conservative Party fights for political survival amidst calls for a General Election. With the storm facing SMEs unlikely to abate anytime soon, we see the business world being caught up in uncertainty in the future for quite some time to come.

WITH THE STORM FACING SMES UNLIKELY TO ABATE ANYTIME SOON, WE SEE THE BUSINESS WORLD BEING CAUGHT UP IN UNCERTAINTY IN THE FUTURE FOR QUITE SOME TIME TO COME.

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