THE SME BAROMETER

QUARTERLY SMALL & MEDIUM SIZED BUSINESS INSIGHTS.

CAUGHT IN THE COST OF LIVING CROSSWINDS

IN THIS ISSUE...

Prism

CONTENTS

FOREWORD

We begin the PRISM SME Barometer series as Government support eases, the Bank of England increases interest rates in a bid to ward off a recession, and the 'cost of living crisis' fast becomes the 'cost of doing business crisis'.

This year's Queen's Speech delivered to Parliament by Prince Charles, promises to deliver decades of prosperity with a range of economic measures to drive up the economy. But with the cost of living impacting on both individuals and businesses, we are yet to see if the Government's plans for long-term growth will ease the short-term economic pain being felt by so many.

Based on responses from PRISM's research of 2,000 SMEs plus independent research, we assess issues affecting UK SMEs and the economy, including financial performance, digitalisation, employee engagement, and business resilience.

Within the legislative agenda of 38 Bills, set out in Tthe Queen's Speech was a raft of laws designed to exploit the opportunities of Brexit. At its core is the plan to deregulate post-Brexit in the hope that it promotes growth and levelling up to bring prosperity to every region around the UK.

But as the bounce back from the pandemic slows, SMEs are faced with having to factor in additional unforeseen costs. As the cost of living rises so does the need for wages to keep pace, but with the Bank of England warning that a recession is on the horizon, wages are already beginning to stagnate. Rises in interest rates and escalating energy costs are adding to raw material shortages and supply chain challenges, and many SMEs are faced with raising their prices purely to keep their businesses afloat.

The SME sector often suffers from internal inefficiencies in the business environment, and their success depends upon their access to strategic resources such as skills, training, finance, technology innovation and infrastructure, and the ability to engage with collaborative partners. They will need help envisioning a long-term plan that focuses on exceeding recovery, not just returning to their pre-crisis performance but also to get through the aftershocks of the pandemic.

Our research shows that SMEs are being caught in the crosswinds and will need to become even more agile not only for their survival short-term, but also so that they can be ready for their future growth.

INTRODUCTION

As we move to the ‘new normal’ of a post-COVID world, SMEs are being caught in crosswinds that will see a slow and painful return to business growth.

As we move to the ‘new normal’ of a post-COVID world, SMEs are being caught in crosswinds that will see a slow and painful return to business growth. With the repayment of Bounce Back Loans and other government support now due, taxes increasing, soaring input and energy costs, raw materials shortages, disruptions to global supply chains, many businesses are choosing not to pass on higher costs in a bid to keep customers, but instead are reducing their take home pay or scaling back investment and expansion plans. But with the SME sector being hit hard from every direction, many will have no alternative but to pass costs on to customers.

> “For those UK SMEs who export, dealing with significant foreign currency exposure adds to the woes, although the use of forward contracts that lock in a fixed exchange rate for a set period of time can do much to mitigate against exposure”

“For those UK SMEs who export, dealing with significant foreign currency exposure adds to the woes, although the use of forward contracts that lock in a fixed exchange rate for a set period of time can do much to mitigate against exposure”, providing businesses with certainty on costs.

Commercial rent rises are set to eat into profits particularly as most commercial leases specify that they can only be adjusted upwards. This is forcing some SMEs to abandon their office premises altogether and adopt a completely digital remote working business model.

Whilst it is always useful advice for SMEs with commercial premises serving the public to monitor the local rental market 12 months prior to any rent review, the reality is that over the last two years things have hardly been normal. Many retailers have adopted an e-commerce approach to deal with drastically reduced footfall or the government's requirement for them to temporarily close businesses altogether during the pandemic. However, this has given rise to several e-commerce businesses now looking for warehouses.

As the Bank of England tries to tackle the rising cost of living, interest rates have increased to their highest level since 2009, and inflation is forecast to rise above 10% by the end of the year. The decision to increase the base rate will be disappointing news to consumers who are already facing a cost of living crisis, and with further rises anticipated over the next 12 months hitting everyday bills for both consumers and businesses, wages will need to rise if they are to keep pace with rising costs.

The wage bill discussion may be uncomfortable, but it becomes counterproductive for both businesses and the economy if people are constantly worrying about money. There is much to gain from an engaged workforce – and not just higher business profits. Businesses who pay well and advocate a healthy and flexible work/life balance for its employees, provide the right tools for them to do their jobs productively, and are keen on addressing climate / environment issues, are the ones that can retain and attract talent.

"Companies and consumers are already braced for further rate rises which run the risk of making the cost of living and business more expensive. The toxic combination of high commodity costs, supply chain issues and the fight for labour is already weighing on demand, and the worry is that if rates rise too rapidly it could tip the economy into a downturn," says Susannah Streeter, Senior Investment and Market Analyst, Hargreaves Lansdown.

As the double shock of COVID-19 and the Russian invasion of Ukraine causes inflation to surge and growth to slow around the world, commentators ponder whether we are on the cusp of seeing a return of a 1970s style global stagflation – striking fear into policymakers as there are few monetary tools to address it. Raising interest rates may help reduce inflation, but increased borrowing costs depress growth.

"This is why a softly-softly approach is expected from the Bank of England especially when it comes to the further unwinding of its mass stimulus programme. It's already said it won't reinvest profits of those bond purchases", but getting the timing right to start selling off its $847 billion of holdings without unsettling the bond markets and leading to a hike in government borrowing costs won't be easy," says Streeter.

"The Bank has a difficult balancing act as the current cost of living crisis combined with higher interest rates and higher taxes means that the growth outlook for the UK is gloomier than it has been since the dark days of COVID, and we're likely to see a material slowdown in economic activity throughout 2022," adds Dan Boardman-Weston, CEO & CIO, BRI Wealth Management. "The Bank will need to tread carefully and not raise rates too quickly or too aggressively otherwise they risk tipping the economy into a deeper recession. The inflation continues to be largely supply-driven and interest rate increases are not going to assist with these contributory factors to inflation. 2022 will likely be a pivotal year for monetary policy. The risks of a misstep and a recession have increased significantly."

Worryingly, with the looming recession we could also see the return of mass unemployment. The Association of Professional Staffing Companies (APSCo) is deeply concerned about the absence of the Employment Bill in the Queen's speech.

"The UK's employment market is not fit for purpose in the current economic landscape and APSCo has warned that this long-awaited Bill needs to be pushed forward swiftly if the country is to recover from the impact of the pandemic and Brexit," says Tania Bowers, Global Public Policy Director, APSCo.

"It's clear that the future of the labour market needs to be flexible, dynamic, and fair, but current legislation is not designed to support this. The self-employed have a crucial role to play in the skills short environment that we are experiencing and to ensure these individuals are adequately supported and able to operate in a flexible manner without being penalised is important. We're already seeing Off Payroll case law impacting this segment of the market and the UK is at risk of diminishing its own flexible workforce if action isn't taken. Self-employed status needs to be defined in legislation that differentiates highly skilled self-employed independent professionals from dependent contractors, workers, other variants of self-employment and the lower skilled, less independent elements of the gig economy."

"Regulation of the Umbrella market is also needed if the UK's economy is to be strengthened. Government must futureproof employment legislation and consider steps such as Single Enforcement Body (SEB) licensing of the "umbrella" market, the mandatory use of client accounts and the introduction of statutory compliance codes," continues Bowers.

"As the UK economy struggles to recover post-COVID, it is crucial that we continue to build and borrow vital skills by any means necessary. Only then, can we create a dynamic, flexible, and future-proof labour market with enough skilled workers to enable the country to build back better post-pandemic. This absence of the Employment Bill as many predicted, raises concerns that the skills agenda is beginning to slip down the list of priorities for the Government."

LEVELLING UP

There needs to be more of a concerted effort to tackle geographic inequality across the UK. The gap between London and the rest of the country has widened.

There needs to be more of a concerted effort to tackle geographic inequality across the UK. The gap between London and the rest of the country has widened. London and the South East has roughly three times more investment per head in transport compared to the rest of the country; has the most successful education system and attracts the best talent. It also attracts three times as much foreign direct investment and boast of exports in excess of £100 billion compared to other regions.

> "The only danger is that by focusing on the relative inequality as well as absolute improvement might lead policymakers to reject policies that would improve Britain's international competitiveness"

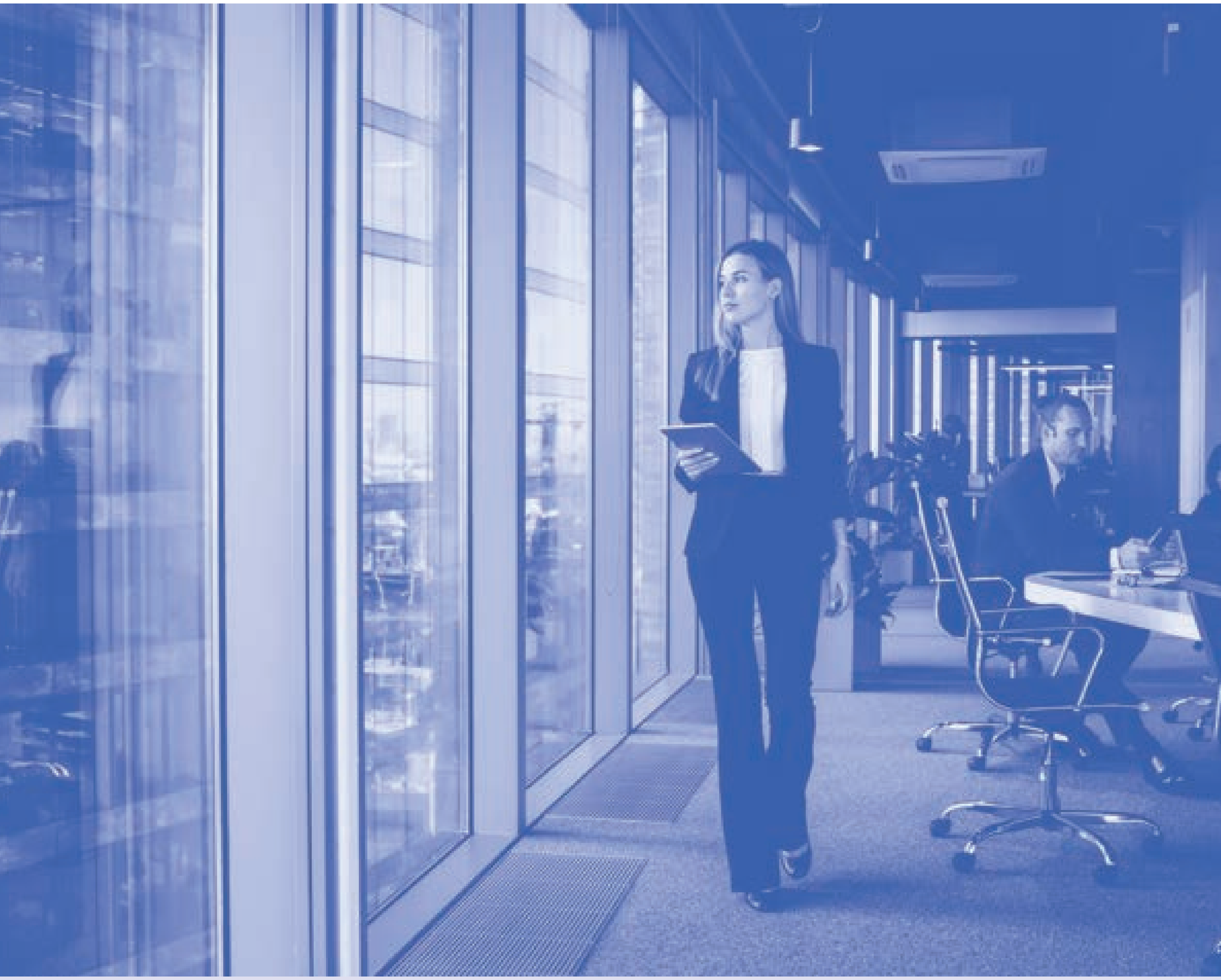
Commentators believe that the private sector is the only reliable means of developing sustainable local economies and helping 'level up' local areas in the long-term. "Whether this is achieved through devolution, infrastructure investment, a revamped approach to skills and education or the introduction of new business-friendly 'Opportunity Zones', the only way to close the gap and to bring about economic growth around the country is by giving the private sector every reason to invest and operate in those parts of our country that need investment most," says Nick King, Head of Business Policy at the Centre for Policy Studies.

"The best way to level up Britain's regions is not to punish the south for its prosperity, but to give every part of Britain the freedom, and the tools, to compete for talent, investment and infrastructure," adds Robert Colvile, Director, Centre of Policy Studies. "It's no coincidence that we are simultaneously one of the most centralised countries in Europe and one of the most geographically unequal."

So, it is encouraging to hear that the Queen's Speech moves forward the levelling up and regeneration bill. "The only danger is that by focusing on the relative inequality as well as absolute improvement might lead policymakers to reject policies that would improve Britain's international competitiveness," warns Tom Clougherty, Head of Tax, Centre for Policy Studies.

“It is important to use the tax system to incentivise investment, in a little over a year, the super-deduction will expire, the annual investment allowance will fall by 80%, and the headline rate of corporation tax will rise by six percentage points. There seems to be a gap here between the government’s long-term vision, and their nearer-term decision making.”

To help provide better services and faster economic growth the idea of allowing more regions to elect powerful mayors and extending London-style devolution across England will help restore a sense of pride in the places which need it the most. If the government also explores which meaningful tax responsibilities could be handed back by Whitehall to local communities alongside new spending powers, we could see a revival of Britain’s industrial heartlands along net-zero lines paving the way for private investment to develop the clean technologies of the future.



THE SME MARKET

Whilst the cost of living, inflation, and price rises can have a devasting impact on SME confidence, the ability of the SME sector to flex and scale almost at will, places it above larger entities who struggle to adapt to uncertainty and changing market conditions.

This gives SMEs resilience, and many have benefited from significant efficiencies made during the pandemic, meaning they are better placed to absorb inflationary pressures.

There are now 400 million SMEs worldwide

There are now 400 million SMEs worldwide (source: https://globalnaps.org/issue/small-medium-enterprises-smes) accounting for over 95% of firms and creating around 85% of new jobs. SMEs are so important that any failure to protect them creates a ripple effect impacting on broader economies.

A healthy SME sector has the power to pull a country's economy out of recession and back to growth. As such at the start of the pandemic governments around the world began issuing unprecedented stimulus support packages aimed at improving liquidity through postponement of payments, payroll support and balance-sheet support such as bounce-back loans and furlough schemes to protect the sector.

The OECD reports that of 40 business surveys conducted at the height of the pandemic 50% of SMEs reported a drop in revenue and feared going out of business, two thirds of which were micro and small enterprises. Due to the limited scale of government support in developing countries SMEs have been particularly hit. (source: https://read.oecd-ilibrary.org/industry-and-services/financing-smes-and-entrepreneurs-2022_e9073a0f-en#page26).

The SME market snapshot

- Traditionally, defined as having less than 250 employees, SMEs employ 16.3 million people, and have a combined turnover of over £2.3 trillion
- 400 million SMEs worldwide
- 5.6 million SMEs in the UK
- SMEs make up 99% of the business community in the EU
- SMEs account for three fifths of the employment and around half of turnover in the UK private sector.
- SMEs account for 45% of total employment in emerging countries, and 70% of employment in OECD countries.

(source: https://www.gov.uk/government/statistics/business-population-estimates-2021/business-population-estimates-for-the-uk-and-regions-2021-statistical-release-html)

(source: Federation of Small Businesses)

With the late payment crisis exacerbated by the pandemic easing and debt recovery restrictions lifting, investment into the SME sector is once again on the cards. According to figures released by HMRC, 3,755 companies raised funds through the Enterprise Investment Scheme (EIS) which helps younger companies find funds to scale up operations.

Since 2009, the number of SMEs signing up for investment has been steadily increasing, and whilst during the height of the pandemic there was a drop of 11%, latest figures show a rebound back to pre-pandemic levels, and there is now a general upward trend as awareness and opportunities to access EIS funding increases.

Investment of early-stage start-ups has increased to £175 million via the Seed Enterprise Investment Scheme (SEIS). Out of 2,065 companies, 80% were raising money for the first time, with companies registered in London and the Southeast accounting for 68% of all the SEIS investment.

Launched in 1994, the EIS scheme has now helped 65,910 companies receiving investment of £25.6 billion, and since its launch in 2012, SEIS has raised £1.5 billion for 19,350 companies.

"As we emerge out the other side of the pandemic, we are expecting to see more entrepreneurs looking to raise EIS and SEIS investment to scale up operations and kick start new launches, and this is being matched by an increasing appetite among investors to back qualifying companies," says Alex Davies, CEO and founder, Wealth Club. "The opportunity to invest in innovative businesses and potentially find 'the next big thing' such as Gousto, Bloom & Wild or Interactive Investor – all of which were EIS backed – is an incredibly exciting concept. It's a win-win-win for British businesses, investors and economic growth."

To compensate for the additional risk of backing entrepreneurs, investors can reduce their tax with EIS tax relief of 30%, and SEIS relief at 50%. Investors also benefit from tax free capital gains. "The EIS and SEIS schemes are clearly having a real positive impact on funding innovative businesses, but we believe the government can go further and increase the amount a company can raise, especially for SEIS, which is currently capped at £150,000 and rumours are circulating that this may indeed be currently under review," says Davies.

It is important to remember that SMEs are disproportionately affected by market failures and barriers. In April 2022, just over 30% of SMEs reported that their production and/or suppliers had been affected by recent increases in energy prices, with those in the hotel and food sectors reporting the highest percentage at 64%. While 50% of businesses say that the price of materials, goods or services purchased in the previous month has risen from 39% in February, and almost a third of SMEs report that an increase in energy prices was the main factor for businesses considering raising their prices. Nearly 40% of businesses say that they are having to absorb costs, whilst 27% say that they have passed price increases on to customers. (source: https://www.ons.gov.uk/economy/economicoutputandproductivity/output/bulletins/economicactivityandsocialchangeintheukrealtimeindicators/5may2022).

As key players in the economy, SMEs ability to adapt, thrive, flex, scale and more openly participate in digital transformation means they are essential in boosting economic growth – cementing their part in the wider ecosystem of business.

UNDERSTANDING DIGITALISATION PRIORITIES

With opportunities continuing to present themselves as the global economy moves out of the pandemic SMEs need to search for new ways to grow if they are to successfully embrace the future. Like every business, during the pandemic, SMEs have had to intensify their use of digital technologies.

Lockdowns and social distancing measures meant a radical rethinking of business models, and many firms moved operations online to survive and protect supply chains. This brings with it the need to replicate a face-to-face experience in an online environment, but this takes skill. Regardless of whether a business is using digital tools to engage the customer, it still needs to create an environment that feels like a face-to-face experience – but by using digital tools. At PRISM, we call this the "B2B Retail experience".

At PRISM, we call this the "B2B Retail experience."

Respondents to the PRISM survey said that while being able to meet face-to-face is a massive help with new clients, video calls have become acceptable although it has demanded a greater upskilling in communication tools, but many report that they have gained more meaningful and deeper client relationships as a result.

The digital approach forced on many during the pandemic is now the No. 1 priority with 57% of SMEs telling us that they are making digital transformation a strategic priority in their business. Just over half of all respondents to the PRISM survey say they were confident that their business can cope with IT challenges when it comes to creating a frictionless digital environment.

Over 70% of SMEs report that the cumulative benefits such as lower costs and increased revenue that can be achieved from digitalisation in the next five years, gives them the opportunity to capture high-margin business through improved customer insights from data analytics, say 28% of respondents.

With this comes a more rigorous investment in technology and a greater understanding of the return realised on those investments. Cloud-based technologies have the highest adoption rate in SMEs giving them the opportunity to access the same technologies as giant multinational companies at a fraction of the cost. However, some businesses have not had the time, or the advice needed to plan the transition well. In their rush they adopted the wrong digital solution resulting in security compromises as remote employees become targets of hackers trying to gain access to corporate networks.

Many SMEs report that they are worried about data security when moving from an on-premise IT infrastructure to the cloud. Coronavirus-related scams, phishing campaigns, and ransomware attacks have risen, and it is important for businesses to update their security measures to keep both in-office and remote workers safe. The impact of a ransomware attack can be large, and often beyond the cash reserves of the average SME.

Technology is the enabler that helps SMEs scale up, but many small firms lag behind in the transition to digital, and for those SMEs with 10-49 employees they have continued to suffer digital adoption gaps, compared to larger firms, particularly over the last ten years. Digitalisation is an important driver of productivity growth, so these gaps have impacted on wage growth and contributed to increased inequalities among people, places, and firms.

As the pace of innovation accelerates it threatens to widen the performance gap amongst SMEs, and those who fail to upgrade their employees' digital skills, or to fully customise and understand the potential that digitalisation brings, for these firms, the transition is not yet complete, and comes with risks.

The failure to keep up with compliance requirements and stay audit-ready can result in heavy fines. Digital transformation consultancies, such as PRISM, spend an increasing amount of time with customers on strategic issues outside of the day-to-day technology concerns to help the SME align its digital need with its business goals. This is regardless of whether this is scaling up a business or reimaging a business by scalng-down to meet business needs.

Digital transformation consultancies help businesses run smoothly, grow and become a success. Getting the user experience right is a critical part of business transformation, to ensure a new productive environment is developed that enables employees to achieve. Choosing how and where to deliver applications relies on partnering with the right digital transformation consultancy which is skilled in integrating silo systems and applications, bringing together legacy systems and state-of-the-art technologies into a seamless ecosystem where IT innovation and infrastructure is supported.

Some workforces may never fully return to the office. In our survey 57% of respondents tell us that they favour a more hybrid working environment working partly remotely and part office based. With employees demanding more agile ways of working hybrid IT services are set to become the new norm and this will naturally have an impact on commercial office design. To help reduce the risk of future pandemics spreading in a crowded work environment, we see the trend towards densification and open-plan layouts will need to be reversed, and instead offices will become flexible, on demand workspaces

Home offices will be given as much attention as the kitchen and be as ergonomically organised into highly functional places with enterprise-grade technology. The use of high-quality professional headsets, and HD video conferencing cameras can be brought into the home to create a professional home workspace whereby staff can join meetings and have the same experience as those physically in a meeting room. With the rise of AI in video conferencing solutions which allow for automatic speaker tracking and split screen functionality, true collaboration can be brought together to create a frictionless experience that immerses all participants in the meeting regardless of whether they are accessing the meeting remotely or are in-person in the room.

For every SME, the pandemic has been a game-changer that has resulted in the radical rethink of business models with firms implementing smarter working solutions at short notice to remain in business.

For example, digital transformation of law firms has been moved forward by five years as they pivot their digital agendas as clients now expect their lawyer to be digitally advanced and technologically sound in all areas. Technology is exerting a significant effect on the legal sector, and for law firms, the recovery from COVID-19 is going to be digital.

But the legal sector is under attack from some of the world's largest consulting and accountancy firms such as the Big Four – Deloitte, EY, KPMG and PwC who have extended their offering into supplying legal services and are already drawing an additional revenue of $30 billion (Source: ALM Intelligence, Elephants in the Room Part 1: The Big Four's Expansion in the Legal Services) from the legal services market.

The rise of online accounting, and disruptors such as Cloud computing, GDPR and Making Tax Digital (MTD), and with the development of AI technologies, blockchain and cryptocurrencies already having a huge impact on the accountancy profession, clients are driving better ways of working within firms reshaping the modern workplace, and tech-savvy accountancy firms are being pushed to the front of the queue when it comes to securing new clients.

The pandemic has reinforced a 'back to basics' mindset for business with insurance taking on added prominence for SMEs who have become increasingly price sensitive and tend to scrutinise insurance products more closely. Insurance for business interruption, directors and officers, and environmental liability are becoming more attractive, and the insurance sector needs to rethink its offering to the SME sector to capitalise on the opportunities post-pandemic. (Look out for our forthcoming vision paper on the Insurance sector).

The leisure sector's foray into digital has given it the opportunity to extend its services. Whilst some restaurants and bars moved their offerings online during the pandemic, others such as comedy clubs and music venues began organising virtual events to keep the connection going with customers – be it in a digital fashion.

Restaurants, bars, hotels, comedy clubs and music venues are critical to the global economy and to local communities and play an important part in making sure our cities and towns are vibrant and appealing. To reopen hospitality businesses have had to adjust to changing consumer sentiment and comfort levels, as well as capacity constraints and the cost of new safety compliance measures. But for some in the leisure sector the foray into digital has given them the opportunity to extend their services and create a hybrid business model so that they can be more resilient in an uncertain world. (Look out for our forthcoming Vision Paper on the Leisure and Hospitality industry).

For SMEs looking to supply the public sector, the Queen's Speech gave them an unexpected boost. "The commitment to opening up public sector procurement processes to smaller businesses isn't new, and is a long-held gripe among smaller companies. Public sector contracts are potentially highly lucrative but tend to ping pong between a handful of large providers. The reduced competition isn't good for taxpayers and could stifle innovation," comments Nicholas Hyett, Investment Analyst, Wealth Club. "Improved access to public contracts has been a target of successive governments though – so don't expect progress to be quick or easy. Still, new technologies such as Opportuni's public sector tending platform, sometimes described as the "tinder for tenders", may help this time round."

"The explicit commitment to improving innovation in agricultural technology will attract attention too," continues Hyett. "It's an area where we've seen increased activity of late, whether that's Hummingbird Technologies' image analytics, which has the potential to enhance crop yields, Aramune's improved animal feeds, or Muddy Machines asparagus harvesting robot called Sprout. Innovative start-ups here can not only prove lucrative in themselves but have the potential to reduce carbon emission and reduce global food costs too.

SMES IN THE INTERNATIONAL MARKET

Globally, the e-commerce market is already well matured accounting for $3.5 trillion pre-pandemic, and as consumers continue to demand the 'Amazon-like' consumer experience that they receive in their personal lives, it is forecast that by 2027 consumer demand will see the growth in e-commerce to rise to $27.15 trillion.

(source: https://www.grandviewresearch.com/industry-analysis/e-commerce-market).

The humblest online seller can be transformed and becoming a global retailer is now more accessible than it's ever been as millions of people now conceive businesses from their homes or offices around the world. But many embarking on the e-commerce market forget about insurance – particularly shipping and cargo insurance.

According to data from Lloyd's List, an estimated $9.6 billion of trade was held up equating to $400 million and 3.3 million tonnes of cargo an hour, or $6.7 million a minute when the container ship, the Ever Green, run aground in the Suez Canal causing the world's heaviest traffic jam. The blockage held up over 360 ships, carrying everything from cars to oil to grain, waiting at the canal's northern and southern entrances, and an additional 300 ships being en route to the canal over the following two weeks – delays in shipments come at a high cost to businesses. (source: Harper, J. (26 March 2021), "Suez blockage is holding up $9.6bn of goods a day", BBC. Available at: https://www.bbc.co.uk/news/business-56533250)

SMEs need to rethink their investment into the digitalisation of their supply chains. The post-EU dynamic and Brexit related issues for SME manufacturers are causing challenges with 54% reporting exporting complications and 56% citing importing problems, since the start of the year according to a survey by manufacturing consultants, SWMAS.

SMEs need to rethink their investment into the digitalisation of their supply chains.

Less than a third of SME manufacturers say they feel they are getting the right support and guidance from government on how to navigate changes caused by Brexit related issues, and over 20% of businesses say they believe Brexit could deliver new reshoring opportunities that would bring supply chains closer to home. [insert link to PRISM vision paper – Manufacturers and Digital Transformation: The Enabling Force in a Disruptive World].

Complications arising from customs documentation is causing a headache for businesses who have not traded internationally before, and this has led to several delays in the import and export of goods. Add to this the driver shortage problem affecting global supply chains, and the knock-on effect for consumers are rising prices as businesses try to make up for the disruption. This is leading to firms to reduce the kinds of products and services they offer, and one-third of firms surveyed by accountancy and advisory specialists, BDO say businesses are indicating that stock ranges will be affected long-term.

SMES DRIVE THE GREEN AGENDA

SMEs are in a prime position to drive the green agenda. The gathering of world leaders at the United Nations Climate Change Conference (COP26) in Glasgow presented a pivotal calling that everyone must now play their part in managing climate change.

"As countries begin to recover from the Coronavirus pandemic, we must take the historic opportunity to tackle climate change at the same time – to build back better, and greener," says Alok Sharma, COP President-Designate. "We can deliver green recoveries across the globe that bring in good jobs, trillions in investment and ground-breaking new technology."

The growth in circular economy that takes products back at the end of life thereby building a 'circular' business helps move us another step towards becoming 'net zero'. As the Ellen MacArthur Foundation says, "We must transform every element of our take-make-waste system: how we manage resources, how we make and use products, and what we do with the materials afterwards. Only then can we create a thriving circular economy that can benefit everyone within the limits of our planet." (Look out for our forthcoming vision paper on the Circular Economy).

As the world moves towards a low carbon future, digitalisation is the enabler that will help its transition into creating a sustainable, resilient nature positive world.

"We can deliver green recoveries across the globe that bring in good jobs, trillions in investment and ground-breaking new technology."

BRINGING THE FUTURE INTO FOCUS

UK economic growth needs attention. Before the pandemic struck, the Office for Budget Responsibility predicted that the UK's economic growth in 2025 would have grown by 6%. .

Compare this with the Bank of England's own GDP predictions, and over the next three years, the UK economy is expected to have only grown by 1%more than it is today.

Whilst the Further Education bill and promise of lifelong entitlement for training outlined in the Queen's Speech could boost the national stock of skilled workers in the future, it will not solve the immediate talent shortage facing many businesses. It takes an average 63 days to fill a position and employee retention and recruitment has become a burning issue for many businesses already impacted by 'The Great Resignation' – a term coined by Anthony Klotz, an Associate Professor of Management at the May Business School at Texas A&M University to explain how many employees denied the opportunity to continue to work from home or work in a hybrid fashion opted to quit their jobs rather than return to the office full time. In this regard – and it is a trend which is accelerating – the SME sector may have some advantages in the extent to which they can use flexible working patterns.

As businesses try to adapt to this new world of work post-pandemic, not only do they need to create a work schedule whereby employees retain the work/life balance that for many Working from Home (WFH) gave, but they also need to offer enough – whether in wages, benefits or working conditions – to win back workers, and many report that they have had to offer a pay rise or bonus to attract and retain talent at their companies.

For a business, employees typically cost between 18% to 26% more than a worker's base salary. According to Joseph G. Hadzima, a Senior Lecturer at MIT (source: https://mitsloan.mit.edu/faculty/directory/joseph-g-hadzima) who has developed a simple formula to calculate the actual cost of an employee, once a business has taken into consideration basic salary, taxes and benefits, the real costs of employees to a business are typically in the 1.25 to 1.4 times base salary range. In other words, an employee earning £30,000 will cost a business somewhere between £37,500 and £42,000 (source: http://web.mit.edu/e-club/hadzima/how-much-does-an-employee-cost.html).

But with the Bank of England predicting the real household post-tax labour income will drop by 3.25% this year as household bills rise (despite government support), it is forecast that the total household disposable income will fall in 2022 by around 1.75% – representing the second largest annual drop on record.

Despite the gloomy outlook, the SME sector has the greatest opportunity to flex, scale and grow. By doubling-down on digital transformation initiatives SMEs can create an agile but laser-focused approach to enhance their productivity and control costs. For many, it will place them in the very best position as they battle against the crosswinds.

Prism

CONTACT PRISM

CALL

0345 121 7770

EMAIL

info@prism.uk.com

WEB

prism.uk.com

IT at Work