



# NEW HORIZONS:

HOW SMALL FIRMS ARE NAVIGATING THE COVID-19 CRISIS

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# ACKNOWLEDGEMENTS

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This report was authored by Chinara Rustamova, Senior Policy Advisor for Innovation and Skills.

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# WHO WE ARE

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The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established over 40 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including legal advice, financial expertise, access to finance, support, and a powerful voice in government.

FSB is the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed. Our lobbying arm starts with the work of our team in Westminster, which focuses on UK and English policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

# NEW HORIZONS: HOW SMALL FIRMS ARE NAVIGATING THE COVID-19 CRISIS



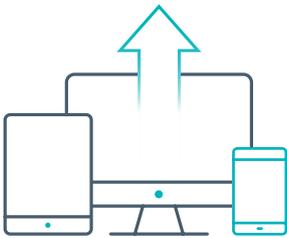
**57%**

of small firms are carrying out **community roles** during the crisis



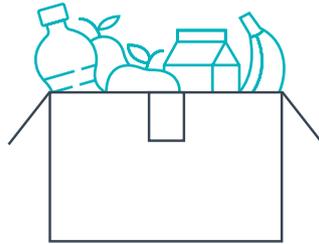
**23%**

of small businesses **helping key workers** by providing PPE, volunteering and offering accommodation



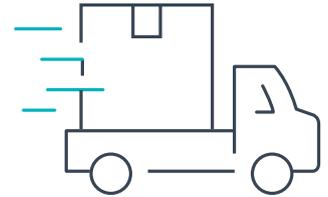
**16%**

of small businesses developed a new, or increased, their **online presence**



**24%**

of small firms **donating** to **local food banks**



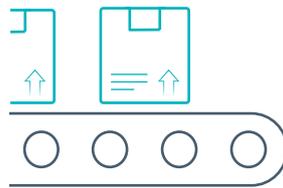
**30%**

of all small business owners **prioritised** and **supported vulnerable customers**, with 19 per cent offering **free home deliveries**



**10%**

of all small businesses diversified into **producing new services** during the lockdown



**6%**

of all small businesses diversified into **producing new products/goods** during the lockdown



**30%**

of small businesses reported that they altered their business practices to accommodate **working from home**

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# KEY FINDINGS

## Community role

- 57 per cent of all small business owners carried out a community role during the COVID-19 crisis.
- 30 per cent of all small business owners prioritised and supported vulnerable customers, with 19 per cent offering free home deliveries.
- 24 per cent donated provisions to local food banks.
- 4 per cent of all small business owners acted as either a military reservist (4%) or volunteer police officer (<1%).
- 23 per cent of all small business owners provided support to key workers, through:
  - Signing up to become an NHS volunteer (9%)
  - Returning as an NHS professional (2%)
  - Providing PPE and hand sanitiser (9%)
  - Offering free support/services/accommodation (8%)

## Digital engagement

- 16 per cent of small businesses developed a new/increased their online presence (e.g. social media) including delivering their offering online during the coronavirus lockdown. For those businesses that expect to 'remain open' this figure rises to 21 per cent.
- 24 per cent of all small businesses adopted or increased their use of digital technologies (e.g. Zoom, Microsoft teams) to facilitate working from home. For those businesses that expect to 'remain open' this figure rises to 39 per cent.

## New services or products

- 10 per cent of all small businesses diversified into producing new services during the lockdown. For those businesses that expect to 'remain open' this figure rises to 15 per cent.
- 6 per cent of all small businesses diversified into producing new products/goods during the lockdown. For those businesses that expect to 'remain open' this figure rises to 10 per cent.
- 9 per cent of all small businesses started making deliveries to customers' homes. For those businesses that expect to 'remain open' this figure rises to 11 per cent.

## Business practices and processes

- 14 per cent of all small business in the UK made structural changes that allow them to keep trading while respecting social distancing. For those businesses that expect to 'remain open' this figure rises to 23 per cent.
- 30 per cent of small businesses reported that they altered their business practices to accommodate working from home. For those businesses that expect to 'remain open' this figure rises to 41 per cent.

## Leadership and management skills

- 51 per cent of small businesses reported that leadership and management skills are most important for the future growth of their business, 34 per cent for product or service innovation and 22 per cent for organisational innovation.
- 53 per cent of small businesses invested in or introduced improvements to working practices and processes, 49 per cent into technology or machinery and 41 per cent into staff training and development over the last year.
- 75 per cent of small businesses report that they set the strategy for their company themselves and 45 per cent report that they determine and execute the strategy depending on their analysis of the business situation.

# RECOMMENDATIONS

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Small businesses are the backbone of the UK economy and account for 52 per cent of the turnover and 60 per cent of employment in the private sector.<sup>1</sup> They will take any government support they can get to survive the coronavirus crisis and will need help to recover from the expected recession. FSB suggests that the Government considers the following recommendations to help small businesses to recover.

## Helping small businesses to support their local communities

- **Support local businesses through the Business Improvement Districts (BIDs) to encourage local trading.** This would have a significant positive impact on small businesses and their communities and help with the recovery after the coronavirus crisis. The funding announced for BIDs<sup>2</sup> should be used to help smaller businesses to bounce back by delivering services and selling goods locally. The Government should continue to keep funding for BIDs under review to ensure that they have sufficient funding available to be able to support small businesses through the recovery.
- **Local authorities should publish contact details or create an accessible database of local market traders and small businesses if they are available to deliver or sell locally.** This would help save businesses with no or little market and help reduce waste. Such a database would be particularly important during emergencies and would help vulnerable individuals to access essential items from within their local communities. Local authorities could also help small businesses to publicise their online services locally in their catchment areas. Many small businesses are willing to deliver products free of charge locally.
- **Double down on efforts to ensure public sector procurement is fully accessible to small businesses during the recovery.** The demand for Personal Protective Equipment (PPE) and hand sanitiser will remain high for the remainder of the year. If a small firm is in a position to support the national effort by providing PPE that meets all necessary standards, and in sufficient numbers, then public procurement processes need to be accessible to them. The public sector has made important progress in disaggregating large contracts into smaller lots and this work needs to continue at pace.
- **Support small businesses to manage employment costs.** We have welcomed both the extension of the Job Retention Scheme until the end of October 2020 and the introduction of part-time furloughing from the 1<sup>st</sup> of August. This will prevent avoidable redundancies and enable small business employers to stagger back the return of furloughed employees. However, it is clear that as we enter into the predicted recession, once the Job Retention Scheme has come to an end, smaller businesses will need further help in relation to employment costs. We welcomed the recent increase in the Employment Allowance from £3000 to £4000. Small business employers will need further help in the upcoming Budget.
- **Ensure business support is prioritised in the upcoming Spending Review with urgent engagement on the shape of the UK Shared Prosperity Fund.** It is vital that business support in England is revitalised and no longer seen as the poor relation of public policy support. The current crisis will have brought into sharp relief whether there is a sufficiently strong delivery mechanism for the provision of meaningful business support. As we move from the crisis phase towards recovery, it is essential that local authorities, devolved agencies, Local Enterprise Partnerships and local growth hubs have the wherewithal to support small businesses to rebuild and to improve their resilience. For example, this could mean supporting the development of digital skills and the adoption of digital technologies.
- **Once the 90 per cent target of non-discretionary funding is allocated, HM Treasury should underwrite any overspend up to a maximum of 10 per cent of that local authorities' original allocation.** Both the Small Business Grant Scheme and the Retail, Hospitality and Leisure Grant Scheme have acted as vital lifelines to small businesses hit hardest by the pandemic. FSB wishes to see local authorities both encouraged to reach the 90 per cent mark of non-discretionary

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1 <https://www.gov.uk/government/publications/business-population-estimates-2019/business-population-estimates-for-the-uk-and-regions-2019-statistical-release-html>

2 <https://www.gov.uk/government/news/6-1-million-funding-boost-to-help-high-streets-and-town-centres-through-pandemic>

funding allocated, and empowered to use underspend as well as top-up funding to support small businesses struggling in their areas. Local authorities should reach a baseline of 90 per cent allocation, of the number of businesses identified as being eligible for the grants under non-discretionary powers. Once this target is reached, HMT should underwrite any overspend up to a maximum of 10 per cent of that local authorities' original allocation. This allows local authorities to use their top-up funding, as well as up to 10 per cent of their underspend from their original funds, without fear that they may be left with the costs should those businesses claiming under the original system do so at a later date.

## Supporting small businesses with increased digitisation

- Support small businesses who adopted and would like to adopt new digital technologies by widening the definition of 'R&D' and introducing digital vouchers for small businesses.** Currently there are a plethora of initiatives to support new-to-market innovation such as the R&D tax credit and Innovate UK grant programmes but very little financial support for new-to-firm innovation. The Business Basics Scheme is a step in the right direction but the current crisis requires an intervention of a different order of magnitude. As our research shows new to firm digital innovation will be even more important to enable smaller businesses to adapt to social distancing and to recover. That is why we need to see both a widening of the definition of the scope of 'development' within R&D tax credits and the introduction of digital vouchers for smaller businesses seeking to enhance their adoption of digital technologies. On the former the Government announced in March that it would consult on whether expenditure on data and cloud computing should qualify for R&D tax credits. Changes to the tax system are welcome but it is also essential that immediate support is made available to small businesses that need to adopt digital technologies in the here and now.
- Use digital vouchers to help smaller businesses to tackle cybercrime.** Cybercrime has emerged as a major threat over the past 20 years because of the exponential growth in the use of digital networked technology. The widespread use of digital networked technologies has increased the vulnerability of many small firms to criminals who – with ever-growing sophistication – are exploiting the weaknesses in common technologies and the lack of knowledge/experience of those operating them. There are concerns that the coronavirus crisis will increase the number of cyber-attacks on small businesses.<sup>3</sup> FSB research shows that around one in five (20%) smaller firms across England and Wales say they were victims of cybercrime at least once in the previous two years. Of those smaller businesses that experienced cybercrime in the previous two years, the most frequently-reported types are: phishing – including spear phishing (51%), malware (36%) and processing fraudulent payment online (29%).<sup>4</sup>
- Support small businesses that trade on online platforms.** Many businesses moved to operating online over trading platforms during the coronavirus lockdown. The Government should support small businesses by closely examining the practices and policies of platforms towards their small business users and rectifying current barriers, for example, in relation to fake reviews. It should also address the issue of fair competition across digital platforms, with the CMA reporting an exponential increase in reports of price hiking on online platforms with some suspicion that this has also occurred in supply chains. FSB research found that small firms suffered from malicious or fake reviews (20%), sudden changes to terms and conditions (19%), and infringement of intellectual property (13%) when trading over online platforms.<sup>5</sup> Increased online trading due to the lockdown will exacerbate these challenges. The recent developments on fake reviews in response to the work carried out by the Competition and Markets Authority is welcome but more needs to be done.<sup>6</sup>

- **Deliver full fibre connectivity to all premises as soon as possible given the new circumstances or gigabit capability if that is not possible in some of the most remote areas and accelerate the planned increase in mobile coverage.** Smaller firms struggle with poor broadband and mobile connectivity. Prior to the outbreak, FSB research found that 41 per cent of small businesses reported that their broadband is often unreliable and almost half (47%) of small businesses said that they experience unreliable mobile data connectivity. This is worse in rural areas where 39 per cent of small businesses consider their broadband speeds to be insufficient for their current needs.<sup>7</sup> The Government, industry and regulators should work together to deliver full fibre connectivity to all premises as soon as possible. If that is not possible in some of the most remote areas, those premises should be made gigabit capable, which widens the scope of technologies available to achieve such a connection. This is especially important in light of the increase in the number of small businesses operating online.

## Helping small businesses to foster economic growth

- **Provide further investment for innovative projects on a regular basis to boost the UK's resilience to the impact of the pandemic.** The Government initially made available £20 million to boost the UK's resilience to the long-term impact of the COVID-19 outbreak through the Fast Start Competition managed by Innovate UK.<sup>8</sup> Businesses were able to apply for up to £50,000 of grants to develop new ways of working and help build resilience in sectors ranging from delivery services, food manufacturing, retail and transport in April 2020. In May 2020, the Government doubled investment in the Fast Start Competition with an additional £20 million and announced that the funding for the first round will be distributed to over 800 projects.<sup>9</sup> The investment in innovative projects, businesses and UK's resilience will help to build a better future for everyone. The Government must commit to providing further funding rounds of the Fast Start Competition to help small businesses recover from the crisis. FSB also welcomes the setting up of the business advisory support services providing tailored advice and support to around 6,000 scaling up high-growth SMEs delivered via Enterprise Europe Network. However, again the Government may need to scale up the funding to help more scaling up, high-growth entrepreneurs.
- **Allow a greater regulatory freedom for small businesses to stimulate economic growth and help businesses to innovate.** A more flexible regulatory framework fosters and stimulates innovation.<sup>10</sup> The regulatory sandbox created by the Financial Conduct Authority allowed new products and services to come to market.<sup>11</sup> Similar to the sandbox, but not necessarily regulator-led approaches could be adopted to give small businesses a greater regulatory freedom to innovate. Such initiatives could help entrepreneurs to start new firms, invest in R&D or create new products much quicker.
- **Help new firms to start by encouraging change in institutional culture and perception of insolvencies and administration and incentivising the unemployed to become self-employed.** Helping new firms to start will be essential given that crisis will negatively affect entrepreneurs' appetite for risk. The Enterprise Research Centre analysis found that there has already been a drop-off in the number of business starts and the number of firms going out of business in March 2020 was 70 per cent higher than in March 2019.<sup>12</sup> Many entrepreneurs will struggle to restart their lives, take loans and start new businesses. The government should encourage and incentivise the unemployed through regulation, taxation and access to external finance to become self-employed. Change of culture and perception around insolvencies and administration at institutional level would allow individuals to bounce back with the help of financial organisations. The government should seek to change this to embolden entrepreneurs to start new businesses without the fear of failure.

- **Quickly implement provisions within the Corporate Insolvency and Governance Bill, currently passing through Parliament, to help small firms that find themselves in financial distress and at risk of insolvency.** Legislative measures such as the moratorium against insolvency procedures, the temporary suspension of statutory demands and wind-up petitions and the suspension of wrongful trading provisions will help smaller businesses in the precarious stages of early recovery.
- **Enable smaller firms to reskill, retrain and upskill their workforce through the National Skills Fund.** Helping small businesses with reskilling, retraining and upskilling their staff quickly will be important for rapid economic growth. The government must support small businesses through the National Skills Fund and allow the workforce to quickly acquire new skills, including digital skills. It could be delivered through a digital platform linked to digital accounts with allocated funding for small businesses. The government could target the sectors that have struggled the most during the crisis and those who have been made redundant across such sectors.
- **Support small businesses to hire young people with joint apprenticeships and employment schemes.** Research shows that young people leaving education will be substantially impacted and will struggle to find a good-quality work in the current labour market.<sup>13</sup> The government should consider offering joint apprenticeships for young people whereby two employers could come together to employ an apprentice each paying one of half of the apprentice's wage. This would be especially important in light of the sharp reduction in the number of apprenticeship starts and completions and decline in training provision. The government could also offer employment schemes that pay the wages of young people (16-24 years old) for the first three to six months of their employment.

# INTRODUCTION

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Small businesses have been hit hard by the COVID-19 pandemic and are fighting to stay afloat. Most smaller firms have lost their income or experienced a decline in their revenues as a result of the country-wide lockdown. Complete or partial loss of disposable income has made it difficult for businesses to maintain the pre-crisis level of operational capacity and activity.

The Office for National Statistics (ONS) Business Impact of Coronavirus (COVID-19) Survey found that 24 per cent of businesses had temporarily closed or paused trading between 6 April to 19 April 2020 whilst 76 per cent continued trading. Of responding businesses that were continuing trading, 24 per cent reported their turnover had decreased by more than 50 per cent.<sup>14</sup>

Small businesses are likely to suffer most during a crisis and are least prepared for such events.<sup>15</sup> FSB research found that 41 per cent of smaller firms closed their businesses by 30 April 2020. Another nine per cent were expecting to close within three to six months. Of these, 56 per cent believe that their business will reopen again.<sup>16</sup> The economy is losing existing businesses at a faster pace along with a large reduction in new starts.<sup>17</sup>

The government support schemes have been crucial and tremendously helpful for many small businesses. Local authorities and devolved governments have stepped up to provide support locally and reached out to small businesses to deliver the government grants. Importantly, FSB has also heard positive stories of how other organisations have been helping out small businesses in this critical period. Such organisations have found their own unique ways to support small businesses and help them survive the coronavirus crisis.

Despite facing so many difficulties, small businesses themselves are helping others and their communities in extraordinary ways. FSB research shows that 80 per cent of FSB members volunteered and/or contributed to a local community organisation or charitable cause before the coronavirus outbreak.<sup>18</sup>

The acts of kindness on the part of small businesses are perhaps the most common stories emerging from all parts of the country. Small businesses in towns, cities and rural areas innovated and reinvented themselves whilst helping their communities in the process. Small business leaders carried out a community role during the crisis (57%), prioritised and supported vulnerable customers (30%), donated provisions to local food banks (24%), provided support to key workers (23%) and home deliveries to vulnerable customers free of charge (19%), signed up to be NHS volunteers (9%) and acted as either a military reservist (4%) or volunteer police officer (<1%). They have demonstrated great leadership, tenacity and flexibility to pull through the economic downturn. Many small businesses have moved online or enhanced their digital offers.

Positive stories about small businesses can therefore be divided into two main categories:

- Small businesses as recipients or beneficiaries
- Small businesses as benefactors or changemakers

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14 <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukconomyandsocietyfasterindicators/30april2020#business-impact-of-the-coronavirus>

15 <https://www.enterpriseresearch.ac.uk/wp-content/uploads/2020/04/ERC-Insight-The-business-effects-of-pandemics-%E2%80%93-a-rapid-literature-review-Final.pdf>

16 FSB Impact of COVID-19 Survey 2020.

17 <https://www.enterpriseresearch.ac.uk/uk-companies-facing-covid-19-pincer-movement-data-shows/>

18 <https://www.fsb.org.uk/resource-report/small-business-big-heart-communities-report.html>

# SMALL BUSINESSES AS RECIPIENTS OR BENEFICIARIES

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Altruistic gestures of other organisations or businesses to help small businesses have not gone unnoticed. Smaller firms highly value their help and support through this critical period. There are many examples of such support for small businesses who are the backbone of the UK economy.

For example, Fuller's cancelled the rent costs for around 200 of its tenants until further notice after all pubs were ordered to close.<sup>19</sup> The Arch Company which is the UK's largest small business landlord has announced that small businesses severely affected by the crisis will be eligible for a three-month rent-free period.<sup>20</sup> The company has also set up an independent employment law email helpline for its tenants.<sup>21</sup> National Trading Standards launched Businesses Against Scams – a free online training tool to protect businesses, employees and customers from costly scams during the crisis.<sup>22</sup>

FSB has been advocating for other positive actions for small businesses, e.g. the costs of mail redirection (£216 minimum for three months) and diversion (£1005 for three months) has been raised as a significant deterrent for forwarding mail from small business offices during the lockdown. Many small business owners have been unable to access their offices and have missed important communications from local councils. FSB has raised this issue with Royal Mail and would like to see positive developments for small businesses.<sup>23</sup>

## Local authorities in England

Both the Small Business Grant Scheme and the Retail, Hospitality and Leisure Grant Scheme announced by the government in the early days of the crisis have acted as vital lifelines to small businesses in England hit hardest by the pandemic. Local authorities have, in most cases, been quick to issue the funds to eligible businesses, with some local authorities using their own reserves to issue the funds ahead of receiving their own official allocation.

At time of writing, 82 per cent of eligible businesses (identified at the start of the scheme) have received funds.<sup>24</sup> In most cases local authorities will not reach 100 per cent allocation, due to a number of factors, such as state aid limitations, lack of details for certain businesses, or businesses in some cases handing back the grant funding and not wishing to receive it. Having said this FSB would still wish to see local authorities surpass the 90 per cent mark on the number of grants issued to eligible businesses.

Government has also issued top-up funding and given further discretionary guidance to allow local authorities to issue grants of up to <£10,000, £10,000 and £25,000 to small businesses that have fallen through the gaps of the original scheme. This could be for example where a business pays rent which includes business rates, meaning that they are not themselves registered for business rates and therefore would not otherwise receive a grant delivered via the business rates system.

Although FSB welcomes this and strongly encourages local authorities to use their discretion when assessing which businesses should receive grants and at what level, there are a number of concerns with regards to funding these discretionary cases.

Although £671 million will be shared across England to facilitate this discretionary grant funding, local authorities may remain cautious about committing any underspend from the initial allocation. Local authorities could foresee a situation where they have fully utilised the additional top-up funding and underspend to support local businesses using their discretionary powers, but would be left penniless if any businesses suddenly came forward making a claim to a grant under non-discretionary circumstances.

FSB wishes to see local authorities both encouraged to reach the 90 per cent mark of non-discretionary funding allocated, and empowered to use underspend as well as top-up funding to support small businesses struggling in their areas. This is why FSB believes that HM Treasury should underwrite up to 10 per cent overspend for local authorities, should they receive requests for non-discretionary payments once the 90 per cent allocation target has been met.

19 <https://www.mirror.co.uk/money/coronavirus-fullers-cancels-rent-costs-21737336>

20 <https://www.thearchco.com/news/the-arch-company-announces-three-month-rent-free-for-small-businesses/>

21 <https://www.thearchco.com/news/independent-employment-law-helpline-for-tenants/>

22 <https://www.friendsagainstscams.org.uk/BAS>

23 <https://www.mailonsunday.co.uk/money/markets/article-8222863/Two-powerful-men-Royal-Mail-running-service-homes-Continent.html>

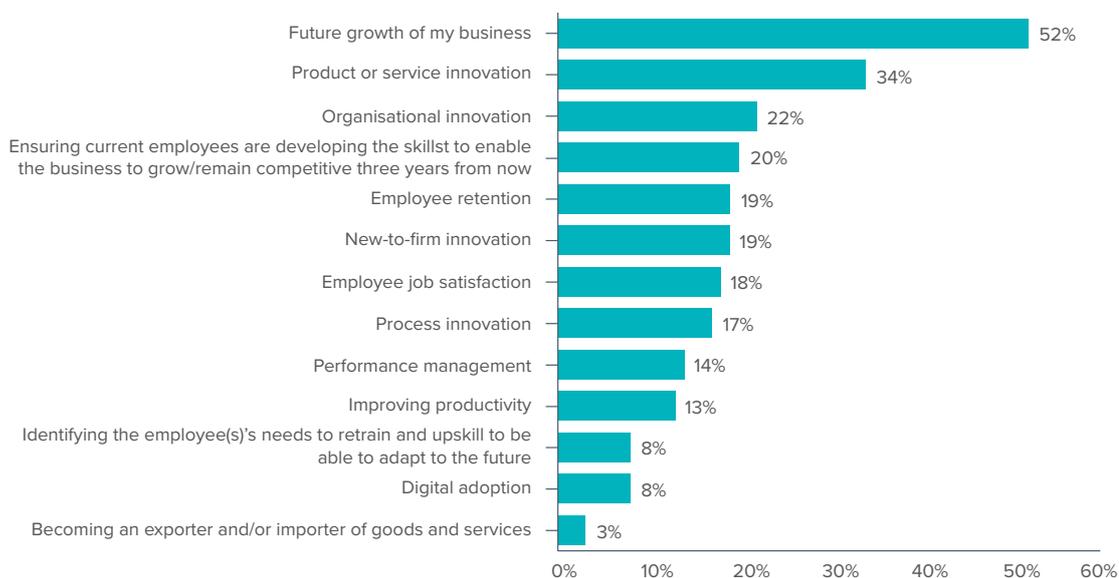
24 <https://www.gov.uk/government/publications/coronavirus-grant-funding-local-authority-payments-to-small-and-medium-businesses>

# SMALL BUSINESSES AS BENEFACTORS OR CHANGEMAKERS

Many small business leaders have demonstrated strong leadership and high levels of resourcefulness in the face of adversity. Leadership and management skills are key to small business resilience and responses to the crisis. Many small business leaders have rapidly adapted, innovated and reinvented their business models and strategies to respond to the COVID-19 crisis.

FSB research identified that small businesses report that leadership and management skills are most important for ‘future growth of business’ (52%), ‘product or service innovation’ (34%) and ‘organisational innovation’ (22%). Many businesses have indeed introduced a product or service innovation or organisational innovation to adapt to the new circumstances created by COVID -19.

**Figure 1: Small business views on what leadership and management skills are most important for**  
**Source: FSB Leadership and Management Survey (2020)**



Small business responses to the crisis have often been creative and innovative but also compassionately mindful and supportive of the local communities where the businesses operate. FSB has heard a number of compelling stories of how small businesses have gone above and beyond to help their communities through the pandemic. Many of these initiatives have focused on helping the NHS, care homes and the elderly in their communities. The initiatives were both follow-ups to requests and new endeavours started by business owners looking for ways to help.

FSB member SL Engineering based near Grantham, Lincolnshire has responded to the Government’s call for help with manufacturing ventilators and volunteered to make ventilator components for the NHS via the Ventilator Consortium which includes a number of companies. The consortium started the ventilator component production at the beginning of April and have received orders for more than 8,000 units from the Government.

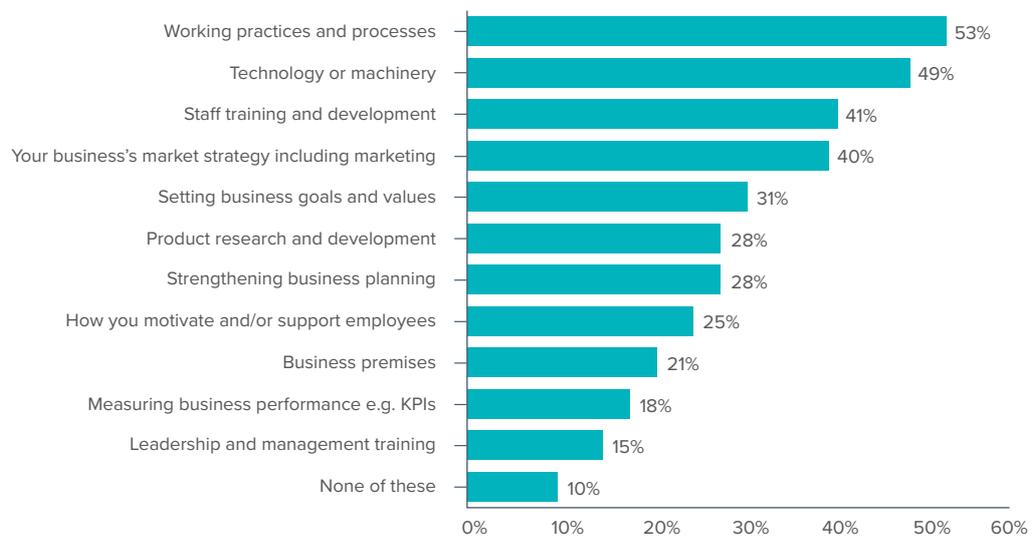
The responses of small businesses to the COVID-19 crisis has followed two main pathways, both of which have been directed either at enhancing an existing, or creating a new, stream of income and/ or helping communities:

- Changes to products and services;
- Changes to working practices and processes.

FSB research shows that small businesses have invested in or introduced improvements to working practices and processes (53%), technology or machinery (49%) and staff training and development (41%) over the last year (Figure 2). These businesses would have benefited from the improvements they made prior to the coronavirus pandemic, especially their investment in technology and digital development. Equally there will be smaller firms in many sectors that will count this investment as a financial loss if they have not been able to operate during the lockdown.

**Figure 2: Small business investment and improvements over the last year**

**Source: FSB Leadership and Management Survey (2020)**



FSB member self-employed GP Dr Lorien Cameron-Ross and her husband Kevin ran a gin distillery Loch Ness Spirits prior to the pandemic. They halted gin-making activities and started producing hand sanitisers for health and social care workers as a response to the coronavirus. Initially excise duties on alcohol had hampered their efforts but after the regulation was relaxed Loch Ness Spirits carried on producing hand gel for their community.

## Industries and sectors

Industries and sectors differed in their ability to respond to the coronavirus lockdown and the economic crisis. According to ONS data, food stores and non-store retailing were the only sectors that demonstrated growth in March 2020. Food stores showed the strongest growth on record, at 10 per cent.<sup>25</sup> Tech driven sectors that enable remote working were also positively impacted.<sup>26</sup>

The top five most at risk from the COVID-19 crisis industries are believed to be mining/oil and gas, transportation, employment services, travel arrangements, and leisure and hospitality.<sup>27</sup> The latter has faced a sharp decline in customer demand. Others, for example, manufacturing and wholesale trade sectors have suffered from disrupted supply chains.<sup>28</sup>

The ONS survey found that a higher proportion of smaller firms in arts entertainment and recreation (91%) and accommodation and food service activities (90%) reported that their turnover was lower than normal between 9 March to 22 March 2020 (Figure 3).<sup>29</sup> Between 6 April to 19 April 2020, these sectors had the largest proportion of the workforce furloughed at 70 per cent for the former and 73 per cent for the latter.<sup>30</sup>

<sup>25</sup> <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/march2020>

<sup>26</sup> <https://about.beauhurst.com/wp-content/uploads/2020/04/COVID-19-Business-Impact.pdf>

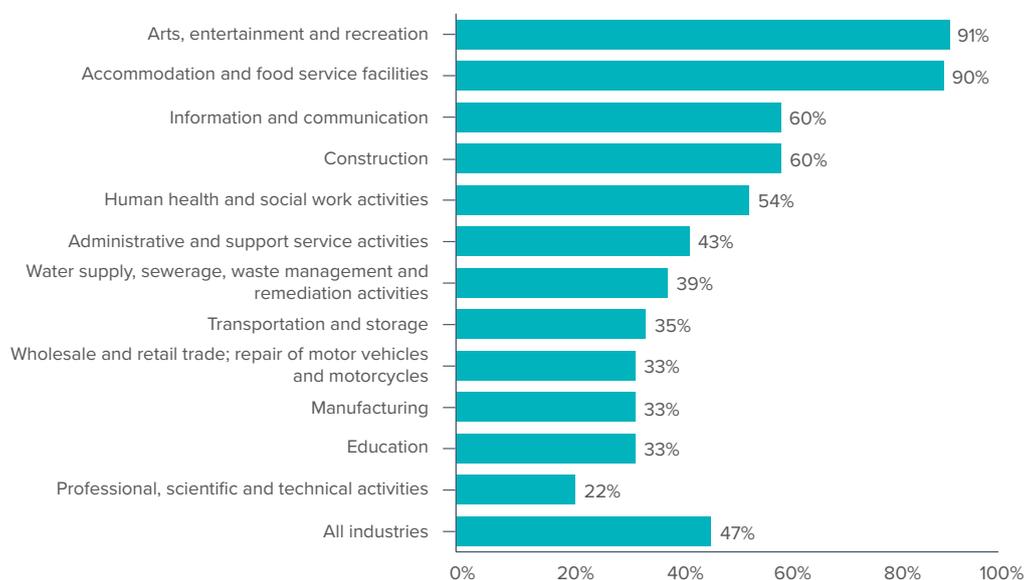
<sup>27</sup> <https://www.brookings.edu/blog/the-avenue/2020/03/17/the-places-a-covid-19-recession-will-likely-hit-hardest/>

<sup>28</sup> <https://think.ing.com/articles/all-sectors-will-feel-coronavirus-hit-but-some-will-recover-quicker-than-others/#a7>

<sup>29</sup> <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessimpactofcovid19surveybics/current>

<sup>30</sup> <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/coronavirusandtheeconomicimpactsonteuk/7may2020#workforce>

**Figure 3: Lower turnover than normal as reported by smaller firms between 9 - 22 March 2020**  
**Source: ONS Business Impact of COVID-19 Survey (BICS)**



Some sectors were already struggling before the pandemic and are likely to suffer more. The lockdown is likely to not be lifted across all sectors at the same time. Some leisure, hospitality and food and drink businesses, e.g. pubs or restaurants, are expected to return to a more normal working environment at a much later date. Whilst the manufacturing sector might experience a sharp rebound, the services sector may struggle for longer.<sup>31</sup>

The severity of the impact on the sectors will inevitably affect their ability to bounce back and how quickly they manage to do so in the long-term. The impact on some industries will have a knock-on effect on other sectors. This is why the government should introduce a sector-specific response during the recovery.

## Digital capability

The coronavirus lockdown made smaller firms to adopt digital technologies or services faster than predicted. Being digital or digitally capable has played a significant role in the ability of small businesses across most industries and sectors to demonstrate resilience and adjust their business practices. Digital presence became a widespread necessity because of the need to reach out to customers.

The ONS data shows that online sales as a proportion of retailing reached a record high of 22 per cent in March 2020.<sup>32</sup> As a consequence, there was an increase in online prices for high-demand products.<sup>33</sup> Meetings and communications were mostly conducted through online communications technologies, e.g. Skype.

FSB research found that 16 per cent of small businesses developed a new/increased their online presence (e.g. social media) during the coronavirus lockdown and 24 per cent increased or adopted new digital technologies (e.g. Zoom, Microsoft teams) including online communications technologies to facilitate working from home. For those businesses that expect to 'remain open' these figures rise to 21 and 39 per cent. Most businesses altered their products and/or services to allow for a greater digital engagement. This was relatively easier for some businesses and difficult for others depending on their level of digital maturity. Based on the latter and if they were able to continue to operate during the lockdown, small businesses can roughly be grouped into three categories:

<sup>31</sup> <https://www.nesta.org.uk/blog/act-fast-and-do-whatever-it-takes/>

<sup>32</sup> <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/march2020>

<sup>33</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukereconomyandsocietyfasterindicators/30april2020>

- **Digital adoption prior to the pandemic – small businesses that were offering products online when the lockdown started:** These firms were digitally capable and were already taking orders online, either directly or through digital trading platforms, e.g. eBay, and delivering goods or services to customers. As a result of the lockdown, they moved entirely to taking orders online and improved their online marketing strategies. Some businesses, e.g. personal trainers or coaches, have started using online communications services, e.g. Skype or Zoom, to continue to provide services. Despite the reports of increased online sales, not all small businesses were able to benefit from the new status quo. Many small businesses lost customers, experienced disrupted supply chains and reported a decline in orders for non-essential items. The latter was partly the consequence of income loss or uncertainty in the population and across industries.
- **Digital adoption during the pandemic – small businesses that started offering products online when the lockdown started:** This group is particularly noteworthy as they managed to move online relatively quickly whether through direct orders or trading platforms. For example, an FSB member selling plants who was not able to open their premises started a new online system linked to a van delivery service. Those who already had a website were able to add online ordering systems and publicise the new services through different platforms, e.g. social media. Others quickly adopted new digital connectivity methods using their networks and available technological support. Although generally positive, this group have cyber security concerns as such businesses are likely to become victims of fraudulent activities.
- **Alternative digital access - businesses that are finding alternative ways of offering their products online:** Some small businesses that were not delivering products online found alternative ways to sell their products. They worked with or reached out to online delivery companies willing to take their stock to sell the products for them. These small businesses all faced a similar challenge - customers required time to get to know new suppliers and buy their products. This group with a lower digital capability could be affected most severely, especially if they are selling products with a shorter shelf-life. They need support and help with developing digital capability.

Digital capability helped many businesses to provide or enhance the provision of products at a national level. Small businesses that were already digital or were quick to adopt digital solutions across less badly hit sectors will fare better in the long-term. Despite differences in digital adoption, all these businesses face similar challenges. They work hard to reach out to a wider pool of customers who do not know about their products or services. They need help to connect with customers at both national and local levels.

Many small businesses operating online have been importing their stock, raw material or intermediate goods. There has been a gradual decrease in daily ship visits, including all vessels, cargos and tankers, to the UK during the past few weeks.<sup>34</sup> With disrupted supply chains, they are likely to run out of stock shortly. The Government could support local businesses through the Business Improvement Districts and local authorities. For example, local authorities could publish contact details or create an accessible database of local market traders and small businesses if they are available to deliver or sell locally. They could also help small businesses to publicise their online services locally in their catchment areas.

Mass digital adoption during the lockdown increased the use of trading platforms. In the US, Amazon advertised for an additional 100,000 workers whilst small businesses were laying off their staff.<sup>35</sup> Prior to the pandemic, FSB research found that small firms suffered from malicious or fake reviews (20%), sudden changes to terms and conditions (19%), and infringement of intellectual property (13%) when trading through online platforms.<sup>36</sup> The Government should support small businesses by closely examining the practices and policies of platforms towards their small business users and rectifying current barriers, for example, in relation to fake reviews. It should also address the issue of fair competition across digital platforms, with the CMA reporting an exponential increase in reports of price hiking on online platforms with some suspicion that this has

34 <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukconomyandsocietyfasterindicators/30april2020#business-impact-of-the-coronavirus>

35 <https://www.theguardian.com/commentisfree/2020/mar/24/coronavirus-crisis-change-world-financial-global-capitalism>

36 <https://www.fsb.org.uk/resources-page/destination-digital-report-pdf.html>

also occurred in supply chains. The recent developments on fake reviews in response to the work carried out by the Competition and Markets Authority is welcome but more needs to be done.<sup>37</sup>

Small businesses also need help with cyber security. FSB research shows that around one in five (20%) smaller firms across England and Wales say they were victims of cybercrime at least once in the previous two years. Of those smaller businesses that experienced cybercrime in the previous two years, the most frequently-reported types are: phishing – including spear phishing (51%), malware (36%) and processing fraudulent payment online (29%).<sup>38</sup> There are concerns that the coronavirus crisis will increase the number of cyber-attacks on small businesses.<sup>39</sup> Employees working from home often have to make decisions without their colleagues' support which makes small businesses more susceptible to cyber-attacks. The government must use digital vouchers to help smaller businesses to tackle cybercrime.

Smaller firms also struggle with poor broadband and mobile connectivity. Prior to the outbreak, FSB research found that 41 per cent of small businesses reported that their broadband is often unreliable and almost half (47%) of small businesses said that they experience unreliable mobile data connectivity. This is worse in rural areas where 39 per cent of small businesses consider their broadband speeds to be insufficient for their current needs.<sup>40</sup> The Government, industry and regulators should work together to deliver full fibre connectivity to all premises as soon as possible. If that is not possible in some of the most remote areas, those premises should be made gigabit capable, which widens the scope of technologies available to achieve such a connection. This is especially important in light of the increase in the number of small businesses operating online.

## 1. Changes to products and services

Small business owners are primary drivers of business strategies and plans in their firms. FSB research shows that 75 per cent of small business owners report that they set the strategy for the company themselves and 45 per cent report that they determine and execute the strategy depending on their analysis of the business situation.<sup>41</sup> This allowed small businesses to rapidly find solutions and change to fit new circumstances.

Small business leaders quickly introduced a new service or product innovation with a shorter turnaround time alongside or without greater digital engagement. They developed or found innovative and creative ways of offering new or existing products during the pandemic. These were mostly 'frugal innovations' made with minimal resources as a response to the physical and financial limitations imposed by the lockdown.<sup>42</sup>

To sell their services and products, small businesses came up with a wide range of marketing strategies, e.g. a café offered virtual coffee mornings. A number of businesses operating online removed their postal charges from online services to encourage greater interest. Others increased their advertising activities or found ways, e.g. ran social media competitions, to direct customers to their websites.

Magherafelt-based manufacturer FSB member Bloc Blinds started producing Personal Protective Equipment (PPE) as a coronavirus response. After creating a prototype, the company repurposed the production line and produced 22,000 face shields per day. Mid Ulster District Council supported the business by providing the use of Meadowbank Sports Arena to facilitate the production work.

37 <https://www.gov.uk/cma-cases/fake-and-misleading-online-reviews>

38 <https://www.fsb.org.uk/resource-report/calling-time-on-business-crime.html>

39 <https://www.fsb.org.uk/resources-page/will-coronavirus-result-in-more-cyber-attacks-for-small-businesses.html>

40 <https://www.fsb.org.uk/resource-report/lost-connection-how-poor-broadband-and-mobile-connectivity-hinders-small-firms.html>

41 FSB Leadership and Management Survey (2020).

42 <https://www.nesta.org.uk/feature/frugal-innovations/>

## Services

Services is the area that had the largest number of innovations. Small businesses either started offering brand-new services or enhanced existing services. FSB research found that ten per cent of small businesses diversified into offering new services, which rises to 15 per cent for those who plan to ‘remain open’, and 23 per cent of small businesses provided support to key workers. There are many examples of service innovations that enabled small businesses to reach out to new customers during the lockdown. The following list shows some of these innovations:

- Businesses increased deliveries to customers’ homes. FSB research shows that nine per cent of smaller firms have made deliveries to customers’ homes and 19 per cent offered free home deliveries. Food and drink suppliers used doorstep deliveries through milk wholesalers to sell their products.
- Depending on the nature of their products, businesses that normally operate nationally increased their local reach and vice versa.
- Food and drink businesses offered ‘cooked to order’ food, many with special offers, and deliveries within the local area.
- A local farm shop took phone orders from the elderly and prepacked the orders for collection.
- Educational activities, mentoring, teaching (e.g. cookery or music classes), coaching, etc. moved to online. An FSB member who is a fitness trainer offered free workout or motivation sessions through online communications software, e.g. Skype or Zoom, to keep the business running and help people stay healthy whilst at home.
- Pubs and other similar establishments operated as takeaways or converted their business space to sell essential items.
- Many businesses delivered free food and other services to NHS workers and the elderly. FSB research found that eight per cent of small businesses provided free support, services and accommodation to key workers. For example, a pub landlord created opportunities for NHS workers to buy groceries.<sup>43</sup> A coffee company, an Indian takeaway and another food business delivered free food and coffee to NHS workers.<sup>44</sup>
- Repair companies offered to pick up and return cars or other items with no direct contact with customers.
- Some businesses set up crowdfunding pages to help their local communities with different necessities, e.g. hand sanitisers.

One of the first service innovations reported in the media was that pubs, cafes and restaurants started offering takeaways and deliveries. By late March, the delivery company Deliveroo reported that it registered about 3000 new restaurants on its platform.<sup>45</sup> Relaxed regulations have helped with the adoption of this business model. Not all establishments in the food and drink industry were able to compete with the businesses that specialise in takeaways. Smaller businesses located rurally especially struggled with generating demand for takeaways. As a result, many food and drink small businesses had to shut down and furlough their staff after the initial attempts to innovate in this way.

It is important to note that not all businesses were able to innovate with their services due to the nature of their business, e.g. hotels, or because of the specifics of their situation, e.g. remote location. Many of these small businesses worked hard to continue to provide the same services whilst following social distancing rules. For example, a number of hotels and guest houses signed up to offer accommodation services to key workers. Nurseries continued to look after key workers’ children. Companies providing plumbing, gas and electricity services took emergency orders for maintenance and repair works. An equestrian business closed for riding lessons but continued to operate as a livery yard.

43 <https://www.bbc.co.uk/news/uk-england-norfolk-51995321>

44 <https://www.fsb.org.uk/resources-page/smallbusinessescommunitycoronavirus.html>

45 <https://london.eater.com/2020/3/23/21190601/coronavirus-uk-restaurant-delivery-deliveroo-gordon-ramsay-dishoom-michelin-star>

## Products

Alex Pawle, director of FSB member Pegasus Precision Limited, and Mark Knowlton, of Locate in Kent, launched the makemasksuk.org campaign to encourage local SMEs with a sewing capability to start producing non-medical face coverings in the UK. The aim was to provide added protection for staff in companies still operating across Kent and East Sussex during lockdown. The makemasksuk.org team have contacted companies across Kent and East Sussex asking for support. Several companies with a sewing capability offered their help as well as professional dressmakers working from home.

Many businesses added new products to their existing list of offers and purchased new items, both essential and non-essential items, to sell. FSB research shows that six per cent of smaller firms diversified into producing new products and goods during the lockdown. This figure rises to 10 per cent for those businesses that expect to 'remain open'. A number of smaller manufacturers started producing completely new products for the NHS and the elderly using available raw material or intermediate goods and existing skills and expertise. Where possible, smaller firms offered free of charge goods and services to NHS workers. Nine per cent of small businesses produced and provided PPE and hand sanitisers. The following list shows some examples of product innovations and is not exhaustive:

- FSB research found that five per cent of smaller firms started making hand sanitisers to support the coronavirus response. Gin distilleries in Scotland, Yorkshire and Cornwall stopped producing spirits and made hand sanitisers for the NHS, care homes and vulnerable people during the lockdown. Another food manufacturer in Kent who used to make vinegar switched to producing hand sanitisers.
- Many businesses designed, produced and delivered PPE for the NHS. FSB research identified that five per cent of small businesses started producing PPE to support the coronavirus response during the lockdown, e.g. an FSB engineer member in Inverness joined up with other small engineering companies to design, produce and deliver 'Corran' full-face visors for Raigmore Hospital.<sup>46</sup>
- Businesses started producing ventilator components for the NHS, e.g. FSB member SL Engineering based in Lincolnshire (page 12).
- An exhibition stands and events business designed and offered screens to help with social distancing in workplaces.

Llanelli-based FSB member and Human Sciences Research firm K Sharp has completely adapted its business as usual model to support frontline NHS workers. When lockdown was announced, Managing Director, Barry moved his 3D printers from his office to his living room, and has joined with the Amman Valley Makerspace on their "Frontline 3D Print Farm" initiative which is printing vital PPE for the NHS. This is a complete change in direction for the business which usually works with frontline military personnel.

## 2. Changes to working practices and processes

FSB research found that 14 per cent of smaller firms made structural changes to their businesses to keep trading whilst respecting social distancing during the lockdown. For those businesses that expect to 'remain open' this figure rises to 23 per cent. Employees in many businesses were asked to work from home and/or took up new roles or responsibilities to help their employers operate. According to the ONS, of those businesses that were still trading between 23 March to 5 April

<sup>46</sup> <https://www.fsb.org.uk/resources-page/smallbusinessescommunity/coronavirus.html>

2020, 47 per cent of staff were working remotely.<sup>47</sup> Between 6 April to 19 April 2020, for businesses continuing to trade 19 per cent of the workforce had been furloughed.<sup>48</sup>

FSB research shows that 30 per cent of small businesses reported that they altered their business practices to accommodate working from home. For those businesses that expect to 'remain open' this figure rises to 41 per cent. In family-owned and family-run businesses, each family member had to step up to help the business. Employees at some businesses started working in brand-new ways, e.g. handling online orders. This could potentially lead to the development or improvement of the digital skills capability of the workforce.

Those who furloughed their employees or whose employees had to self-isolate operated on a skeleton-staff to keep the business running. The ONS found that an average of 21 per cent of the workforce had been furloughed and 5 per cent of the workforce were off sick or in self-isolation at businesses that were still trading between 23 March to 5 April 2020.<sup>49</sup> The proportion of furloughed employees increased to 28 per cent between 6 April to 19 April.<sup>50</sup> In addition depending on demand and urgency of need, working hours of employees were either extended or shortened. One business owner called those staff members who worked hard to support the employer 'stalwarts'.

Working practices and processes changed rapidly and are likely to change again during the recovery from the crisis. In many cases, small businesses will not go back to the old ways of running business and will maintain and advance the new business practices and processes which present new opportunities for the future of work. The new skills acquired or services developed during the lockdown will help those small businesses with recovery.

FSB member Andy Herrington, founder of Ainsty Ales Brewery in Acaster Malbis, York reinvented his business to help the elderly in the village. The village has a large number of residents who are over 60 and does not have any shops or local amenities. His business was negatively affected as soon as people were asked to stay away from pubs. Andy Herrington has purchased household items from a wholesaler and opened a weekly 'community drive-thru' on Thursdays. This initiative attracted a steady flow of clients and helped the elderly who did not want to leave the village because of the lockdown.

47 <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukconomyandsocietyfasterindicators/latest>

48 <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/coronavirusandtheeconomicimpactsontheuk/7may2020#workforce>

49 <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukconomyandsocietyfasterindicators/latest>

50 <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/coronavirusandtheeconomicimpactsontheuk/7may2020#workforce>

# RECOVERY

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The Office for Budget Responsibility estimates around a 35 per cent fall in GDP and a rise in the unemployment rate of up to ten per cent in the second quarter of 2020.<sup>51</sup> The Bank of England expects UK GDP to fall by around three per cent in the first quarter and then by a further 25 per cent in the second quarter of 2020 with the latter being close to 30 per cent lower than at the end of 2019. It also expects unemployment to rise to nine per cent in the second quarter of 2020.<sup>52</sup> The coronavirus recession is expected to be one of the worst in our recent history.<sup>53</sup> This, however, will not be a 'normal recession' and will wipe out many highly productive businesses.<sup>54</sup> There will be significant increases in bankruptcy, unemployment, underemployment and working in poverty.<sup>55</sup> Many small businesses will stack up huge debts and face financial hardships.

The UK may not have a 'V-shaped' economic recovery depending on the severity of the impact on sectors and their contribution to the economy. The recovery could be muted due to confidence effects, lost income in the services sector, bankruptcies among small businesses and credit constraints.<sup>56</sup> The government must act and provide reassurances with aggressive fiscal measures to support small businesses.<sup>57</sup> Small businesses must continue to receive government support whilst sectors gradually transition from the lockdown. A cliff-edge cut-down of the support could destroy businesses' ability to bounce back in the long-term.

Smaller firms have disproportionately driven job creation in the UK since 2010.<sup>58</sup> The likely recession will hit small businesses and therefore employment at different levels across the UK cities and towns. London, Greater Manchester and other areas with a larger proportion of jobs in shut-down sectors or local businesses are likely to face higher unemployment levels.<sup>59</sup> The devastating impact of the crisis on employment would not be counter-balanced by other sectors, e.g. supermarkets, home care companies, etc.<sup>60</sup>, that hired more workers during the crisis. Reducing unemployment will be a key goal in the next few years.

Cities and towns will recover at varying rates depending on a number of factors. The breakdown of particular industries, such as aviation industry, will inevitably lead to an economic downturn in places with less diverse economies, e.g. Crawley<sup>61</sup>. Coastal and ex-industrial towns will also be hit hard by the crisis.<sup>62</sup> Any measures for the post-pandemic recovery should take into account the geographic spread of industries across the country. The government's support to protect transport links, freight services and rail systems will help with some of the geographical challenges.<sup>63</sup>

High streets already struggling due to changes in consumer behaviour and technological shifts will suffer even more. It is expected that a 50 per cent reduction in the number of shops on a typical high street will now happen over a shorter timeframe.<sup>64</sup> It is welcome that the government has set out a temporary measure to protect high streets from aggressive debt recovery actions<sup>65</sup> and also announced a separate stream of funding for the Business Improvement Districts (BIDs).<sup>66</sup> The latter should be used to help local businesses to bounce back by trading locally. The Government should continue to keep funding for BIDs under review to ensure that they have sufficient funding available to be able to support small businesses through the recovery.

Local authorities and devolved agencies throughout the UK have been at the coalface of the coronavirus response and stepped up, taken on more responsibilities, innovated and invested in their digital capabilities.<sup>67</sup> Using this upward shift and new capabilities, the government should

51 [https://cdn.obr.uk/Coronavirus\\_reference\\_scenario\\_commentary.pdf](https://cdn.obr.uk/Coronavirus_reference_scenario_commentary.pdf)

52 <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020.pdf>

53 <https://www.imf.org/en/News/Articles/2020/03/23/pr2098-imf-managing-director-statement-following-a-g20-ministerial-call-on-the-coronavirus-emergency>

54 [https://www.tenentrepreneurs.org/blog/coronavirusukeconomy?mc\\_cid=75c7ee3a96&mc\\_eid=c8476f5fd9](https://www.tenentrepreneurs.org/blog/coronavirusukeconomy?mc_cid=75c7ee3a96&mc_eid=c8476f5fd9)

55 <https://www.nesta.org.uk/blog/there-will-be-no-back-normal/>

56 <https://voxeu.org/content/mitigating-covid-economic-crisis-act-fast-and-do-whatever-it-takes>

57 <https://www.nesta.org.uk/blog/act-fast-and-do-whatever-it-takes/>

58 <https://media.nesta.org.uk/documents/the-state-of-small-business-uk.pdf>

59 <https://www.learningandwork.org.uk/wp-content/uploads/2020/04/Coronavirus-labour-market.pdf>

60 <https://www.bbc.co.uk/news/business-52040539>

61 <https://www.centreforcities.org/blog/what-does-the-covid-19-crisis-mean-for-the-economies-of-british-cities-and-large-towns/>

62 <https://news.sky.com/story/coronavirus-coastal-and-ex-industrial-towns-most-economically-at-risk-11977233>

63 <https://www.gov.uk/government/news/vital-routes-for-supplies-and-people-kept-open-through-coronavirus-support-package>

64 <https://www.theguardian.com/business/2020/apr/30/pandemic-will-vastly-accelerate-decline-of-uk-high-street-mps-told>

65 <https://www.gov.uk/government/news/new-measures-to-protect-uk-high-street-from-aggressive-rent-collection-and-closure>

66 <https://www.gov.uk/government/news/6-1-million-funding-boost-to-help-high-streets-and-town-centres-through-pandemic>

67 <https://medium.com/loti/beyond-the-crisis-how-local-government-can-build-a-positive-legacy-after-covid-3ac6e3d32a24>

introduce support schemes to help businesses locally through councils and devolved agencies. The UK Shared Prosperity Fund (UKSPF) will play a vital role in levelling up different parts of the country now that the UK has left the EU<sup>68</sup> and could be used for this purpose. The government must ensure that business support is prioritised in the upcoming Spending Review with urgent engagement on the shape of the UKSPF. It is vital that business support in England is revitalised and no longer seen as the poor relation of public policy support. As we move from the crisis phase towards recovery, it is essential that local authorities, devolved agencies, Local Enterprise Partnerships and local growth hubs have the wherewithal to support small businesses to rebuild and to improve their resilience. This could mean for example supporting the development of digital skills and the adoption of digital technologies.

Suspending or relaxing regulation and rules across a wide range of areas<sup>69</sup> to respond to the pandemic has been useful for businesses and communities. For example, relaxed competition rules have allowed dairy farmers and producers to work together to manage milk supply.<sup>70</sup> The temporary change to the regulatory requirements for producing PPE and hand sanitisers has helped businesses to deliver these products faster, whilst maintaining quality.<sup>71</sup>

A more flexible regulatory framework fosters and stimulates innovation.<sup>72</sup> During the recovery, regulations, especially those that withhold competition, will need to be further relaxed to stimulate economic growth, allow new firms to emerge quickly and help businesses to innovate. The regulatory sandbox created by the Financial Conduct Authority allowed new products and services to come to market.<sup>73</sup> Similar approaches to the sandbox, but not necessarily regulator-led, could be adopted to give small businesses a greater regulatory freedom to innovate. Such initiatives could help entrepreneurs to start new firms, invest in R&D or create new products much quicker.

Innovation will have to be at the heart of the recovery and help small businesses bring in a new Renaissance era. The Government initially made available £20 million to boost the UK's resilience to the long-term impact of the COVID-19 outbreak through the Fast Start Competition managed by Innovate UK. Businesses were able to apply for up to £50,000 of grants to develop new ways of working and help build resilience in sectors ranging from delivery services, food manufacturing, retail and transport in April 2020.<sup>74</sup> In May 2020, the Government doubled investment in the Fast Start Competition with an additional £20 million and announced that the funding for the first round will be distributed to over 800 projects.<sup>75</sup> The investment in innovative projects, businesses and UK's resilience will help to build a better future for everyone. The Government must commit to providing further funding rounds of the Fast Start Competition to help small businesses recover from the crisis. FSB also welcomes the setting up of the business advisory support services providing tailored advice and support to around 6,000 scaling up high-growth SMEs delivered via Enterprise Europe Network. However, again the Government may need to scale up the funding to help more scaling up, high-growth entrepreneurs.

Research shows that the proportion of firms undertaking R&D halved during the last recession, with even lower levels of participation in smaller firms. This is expected to reoccur during the predicted coronavirus recession. Recovery is likely to be stronger in services and larger firms.<sup>76</sup> The government must encourage smaller firms to invest in R&D through regulation, tax credits and access to external finance.

Currently there are a plethora of initiatives to support new-to-market innovation such as the R&D tax credit and Innovate UK grant programmes but very little financial support for new-to-firm innovation. The Business Basics Scheme is a step in the right direction but the current crisis requires an intervention of a different order of magnitude. As our research shows new-to-firm digital innovation will be even more important to enable smaller businesses to adapt to social distancing and to recover.

68 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/882481/Europe\\_2020\\_-\\_UK\\_National\\_Reform\\_Programme\\_2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/882481/Europe_2020_-_UK_National_Reform_Programme_2020.pdf)

69 <https://www.gov.uk/guidance/rules-that-have-been-relaxed-to-help-businesses-during-the-coronavirus-pandemic>

70 <https://www.gov.uk/government/news/dairy-industry-to-join-together-to-manage-milk-supply>

71 <https://www.gov.uk/guidance/opss-coronavirus-covid-19-guidance-for-business-and-local-authorities>

72 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/807792/regulation-fourth-industrial-strategy-white-paper-web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/807792/regulation-fourth-industrial-strategy-white-paper-web.pdf)

73 <https://www.fca.org.uk/publication/research-and-data/regulatory-sandbox-lessons-learned-report.pdf>

74 <https://www.gov.uk/government/news/20-million-for-ambitious-technologies-to-build-uk-resilience-following-coronavirus-outbreak>

75 <https://www.gov.uk/government/news/40m-boost-for-cutting-edge-start-ups>

76 <https://www.enterpriseresearch.ac.uk/wp-content/uploads/2020/05/ERC-Insight-Final-RD-and-innovation-after-Covid-19.pdf>

That is why it is important that the government widens the definition of the scope of ‘development’ within R&D tax credits and introduces digital vouchers for smaller businesses seeking to enhance their adoption of digital technologies. On the former the Government announced in March that it would consult on whether expenditure on data and cloud computing should qualify for R&D tax credits. Changes to the tax system are welcome but it is also essential that immediate support is made available to small businesses that need to adopt digital technologies in the here and now.

Helping new firms to start-up will be essential given that this crisis will negatively affect entrepreneurs’ appetite for risk. The Enterprise Research Centre analysis found that there has already been a drop-off in the number of business starts and the number of firms going out of business in March 2020 was 70 per cent higher than in March 2019.<sup>77</sup> The government should encourage and incentivise the unemployed through regulation, taxation and access to external finance to become self-employed. Changing the culture and perception around insolvencies and administration at an institutional level would allow individuals to bounce back with the help of financial organisations. The government should seek to change this to embolden entrepreneurs to start new businesses without the fear of failure.

Small businesses benefited from tax relief and deferral during the lockdown.<sup>78,79</sup> They will need further support with taxation and other costs. A US study found that allowing small businesses to skip rent and utilities during the lockdown and repay these bills later would bring a net benefit to the economy.<sup>80</sup> Although firms cut down their business costs, rent and overheads are still taking a toll on them.<sup>81</sup> The ban on commercial evictions until June 2020 has been a helpful move.<sup>82</sup> During the recovery small businesses will need help with rent and commercial evictions whilst they pick up speed and start generating income. The latter might be particularly difficult for many businesses in the long-term if consumer behaviour does not go back to normal because of the fear of catching COVID-19.

It has been encouraging to see the new websites launched by the Department for Environment, Food and Rural Affairs (Defra) and other organisations to help businesses hire seasonal workers to harvest fruit and vegetables over the coming months. The website was designed to act as a central hub signposting individuals to the available jobs.<sup>83</sup>

Another good initiative is the Skills Toolkit developed by the government to help individuals to learn digital and numeracy skills online.<sup>84</sup> Small businesses will need more support with retraining, upskilling and reskilling their employees, especially with digital skills. The government could look at the possibility of offering joint apprenticeships and employment schemes for young people who are leaving education to work in small businesses. It is expected that this group will be substantially affected by labour market turmoil.<sup>85</sup>

Smaller firms will need many more initiatives to support them during the expected recession. Recovery will require a greater collaboration between all government departments and joint working across cross-cutting areas. Smaller firms will take any help they can get to further adapt, survive, innovate and recover. The Government will have to step up and support small businesses with everything it can. It must use the agility of smaller businesses to create a better future for everyone.

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77 <https://www.enterpriseresearch.ac.uk/uk-companies-facing-covid-19-pincer-movement-data-shows/>

78 <https://www.gov.uk/government/publications/support-for-those-affected-by-covid-19/support-for-those-affected-by-covid-19>

79 <https://www.gov.uk/guidance/deferral-of-vat-payments-due-to-coronavirus-covid-19>

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81 <https://www.standard.co.uk/comment/comment/london-businesses-like-mine-face-extinction-a-rent-break-could-save-us-a4429556.html>

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