

Public Sector Practice

How the COVID-19 crisis is affecting UK small and medium-size enterprises

Small and medium-size enterprises are the lifeblood of the UK economy. They are increasingly worried about the country's weak economic outlook.

by Maria Albonico, Zdravko Mladenov, and Ruchi Sharma



Small and medium-size enterprises (SMEs) account for 50 percent of the total revenue generated by UK businesses and 44 percent of the country's labor force.¹ With the COVID-19 pandemic causing a crisis that affects both lives and livelihoods, how are these vital parts of the economy feeling?

According to a recent McKinsey online survey of UK SMEs, more than half view the country's economy as very or extremely weak (Exhibit 1), and half expect market stagnation or recession.² Those perceptions likely reflect their own business performance, which worsened in May 2020 compared with April 2020.

The effect of the COVID-19 crisis on SME performance across the United Kingdom is immense. Of surveyed SMEs, 80 percent report stable or growing revenue for the year before the pandemic began. Today, 80 percent of SMEs say their revenues are declining (Exhibit 2). They also report several related effects:

- concern about defaulting on loans (one of four)
- concern about their ability to retain employees (24 percent) and doubt in their ability to sustain their supply chains (28 percent)
- expectations of reducing headcount in the aftermath of the pandemic (28 percent) and postponing growth projects (36 percent)

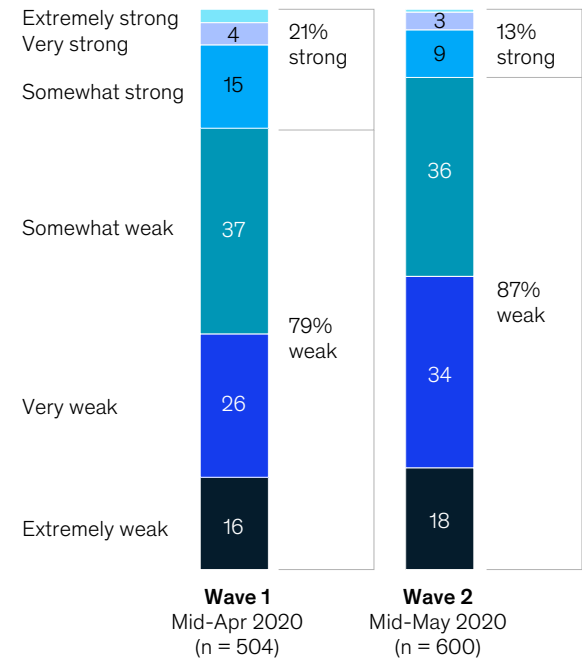
It is worth noting that there are differences across UK sectors. The most negatively affected sectors are logistics, construction, and agriculture (more than 90 percent of surveyed SMEs in these sectors report reductions in revenue), while the least affected SMEs are those in scientific, finance and insurance, and education sectors.

In all, the bleak expectations for the overall UK economy and the negative trends in SME revenue paint a worrisome picture. Under current conditions, nearly one of five surveyed SMEs believe they will be out of business by August 2020. That figure increases to 60 percent for April 2021 (Exhibit 3). A drop in SME revenue would have a disproportionate impact on SME survival: nearly three of four say they

Exhibit 1

An increasing number of UK small and medium-size enterprises perceive the UK economy as weak.

UK small and medium-size enterprises' view of current UK economy,¹ % of respondents



Note: Figures may not sum to 100%, because of rounding.
¹Question: How did your company revenue change in the past year (before COVID-19)?
²Question: How has COVID-19 affected your company's revenues?
 Source: McKinsey UK Small and Medium-Size Enterprise Survey conducted week of May 11, 2020

¹ UK Department for Business, Energy & Industrial Strategy, gov.uk.

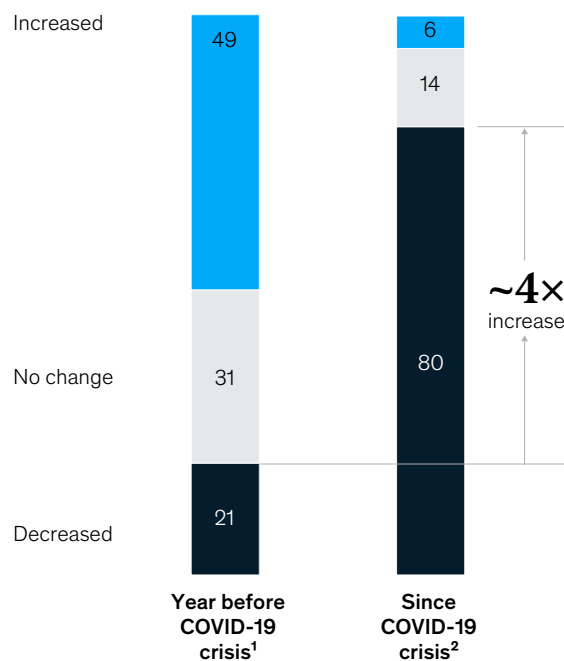
² McKinsey UK COVID-19 Survey of 600 small and medium-size enterprises (with 250 employees or less) across England, Northern Ireland, Scotland, and Wales conducted in the week beginning May 11, 2020. The sample is representative of 16 sectors (accommodation and food services; administrative and support services; agriculture; arts, entertainment, and recreation; business consulting; construction; education; finance and insurance; health; information and communication; logistics; manufacturing; property; retail; scientific; and wholesale).

In aggregate, 50 percent of SMEs in the United Kingdom either already have or are planning to take advantage of the government's furlough program.

Exhibit 2

Around 80 percent of UK small and medium-size enterprises have seen a revenue impact from the COVID-19 crisis.

UK small and medium-size enterprises' revenue change, % of respondents (n = 600)



Note: Figures may not sum to 100%, because of rounding.
¹Question: How did your company's revenue change in the last year (before COVID-19)?
²Question: How has COVID-19 impacted your company's revenues?
 Source: McKinsey UK Small and Medium-Size Enterprise Survey conducted week of May 11, 2020

would be out of business by January 2021 if their revenue were to decrease by 10 to 30 percent.

The improvement in individual business expectations seen in May compared with April likely reflects the key role that public-sector support has played for most SMEs. That dynamic is not expected to change. In aggregate, 50 percent of SMEs in the United Kingdom either already have or are planning to take advantage of the government's furlough program (in which the UK government pays up to 80 percent of a furloughed employee's salary, up to a maximum of £2,500 per month). That figure increases to more than 75 percent for enterprises with more than ten employees. Those businesses employ more than two-thirds of the overall SME labor force.

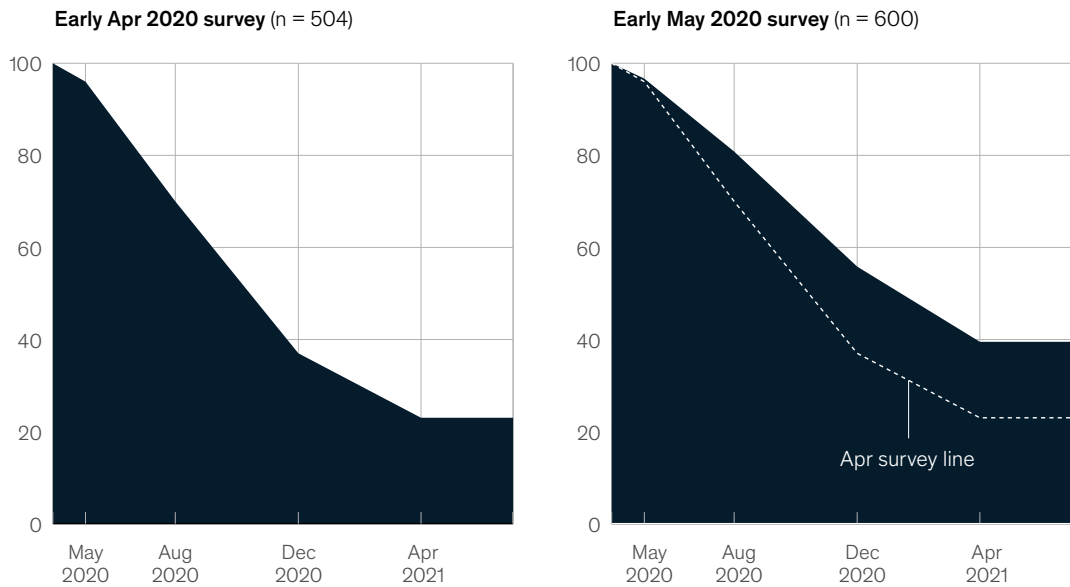
In addition to taking part in the furlough initiative, SMEs are drawing on other forms of government support; participation in various programs is expected to approximately double in the near future. Uptake has also varied by program. For example, according to the survey results, nearly a quarter of SMEs have applied for business-rate³ relief and deferral of tax payments, with smaller numbers having sought loans, claimed statutory sick pay, and requested protection from eviction (Exhibit 4).

³ Business rates are charged if a property or a part of a property is used for nondomestic purposes.

Exhibit 3

UK small and medium-size enterprises feel more resilient than they did in April 2020, but more than half may be out of business in 12 months.

Survival length of UK small and medium-size enterprises (SMEs) under current conditions,¹
% of respondents

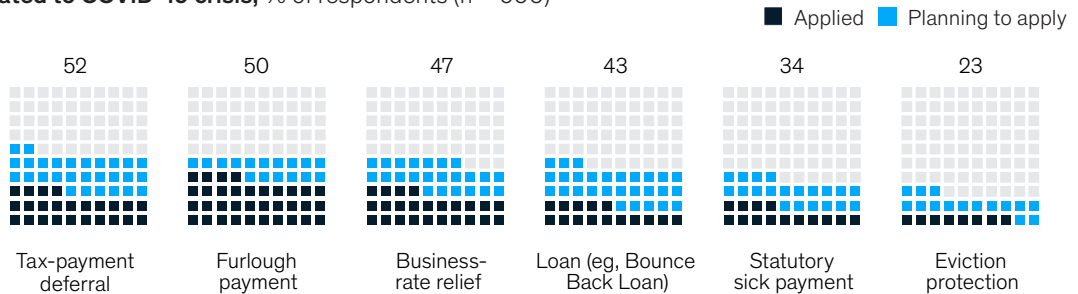


¹Question: How long will your business be able to operate under the current conditions?
Source: McKinsey UK Small and Medium-Size Enterprise Survey conducted week of May 11, 2020

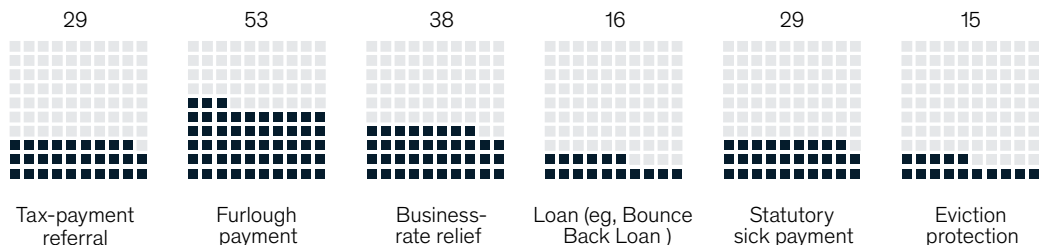
Exhibit 4

UK small and medium-size enterprises, particularly medium-size ones, have been actively using government support.

UK small and medium-size enterprise (SME) crisis-related use of government assistance, related to COVID-19 crisis, % of respondents (n = 600)



Share of UK medium-size enterprises² that applied for government assistance, % of respondents (n = 600)



¹Question: Have you applied for any government assistance in light of coronavirus (COVID-19) impact?
²Defined as ≥50 employees.
Source: McKinsey UK Small and Medium-Size Enterprise Survey conducted week of May 11, 2020

Government support has been particularly critical for larger SMEs. Demand for all types of assistance is markedly higher in companies with more than ten employees and in those with more than £2 million in annual revenue: a third or more have applied for deferral of tax payments and business-rate relief. Similarly, while 35 percent of SMEs surveyed say they would seek a loan or government support in an effort to sustain their business, the percentage

increases to more than 55 percent for SMEs with more than 50 employees.

The COVID-19 crisis has had a severe impact on the revenue of UK SMEs, and government support has been key for these businesses. Policy makers can expect the uptake in various support programs to continue to increase in the short term.

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