

Public & Social Sector Practice

# UK small and medium-size enterprises: Impact of the COVID-19 crisis

Survey results reported toward the end of 2020 suggested that the outlook for UK SMEs was improving. Will that last?

*by Jonathan Dimson and Ruchi Sharma*



**The results of a McKinsey survey** conducted online in November 2020 suggested glimmers of hope among UK small and medium-size enterprises (SMEs), which had been struggling to thrive because of the tough trading restrictions imposed during the COVID-19 pandemic. At that time, 52 percent of the 653 SMEs surveyed said they could be out of business in fewer than 12 months under the trading conditions of the time.

That was a worrying prospect not just for the SMEs concerned but for the wider economy, as SMEs account for 50 percent of the total revenue generated by UK businesses and 44 percent of the labor force.<sup>1</sup> Nevertheless, the figure was an improvement on the results of similar surveys conducted in August and May of 2020, when

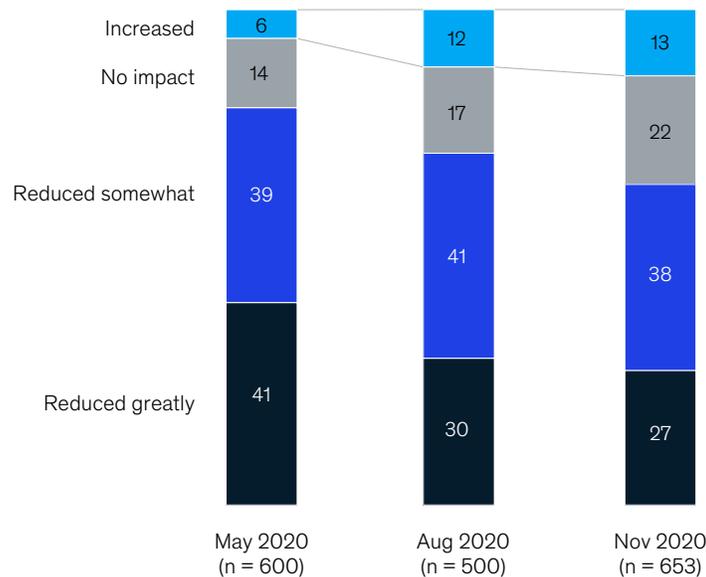
57 percent and 60 percent of respondents, respectively, said they would be out of business in 12 months.

In line with that improving trend, revenues reported by UK SME respondents were stronger in November 2020 than those reported in previous survey results—albeit from a low base. In May 2020, 80 percent of respondents said their revenues had fallen because of the COVID-19 crisis. That figure had dropped to 65 percent by November 2020, although some sectors were faring much worse than others were (Exhibit 1). Nearly 90 percent of SME respondents in accommodation and food services reported a reduction in revenues in November 2020 (Exhibit 2). In logistics, that figure was 30 percent.

Exhibit 1

### The share of UK small and medium-size enterprises reporting decreased revenue because of the COVID-19 crisis dropped from previous months.

Impact of COVID-19 pandemic on revenue of UK small and medium-size enterprises,<sup>1</sup> % of respondents



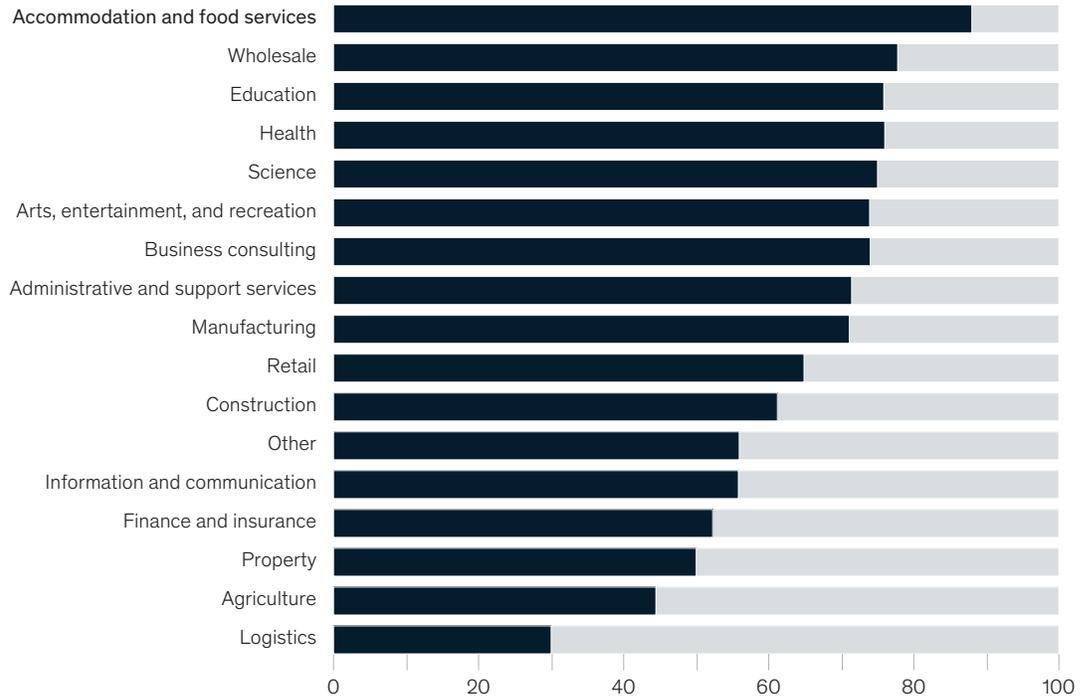
<sup>1</sup>Question: How has the COVID-19 pandemic affected your company's revenues?  
Source: McKinsey Survey of UK Small and Medium-Size Enterprises

<sup>1</sup> Maria Albonico, Zdravko Mladenov, and Ruchi Sharma, "How the COVID-19 crisis is affecting UK small and medium-size enterprises," June 16, 2020, McKinsey.com.

Exhibit 2

**Depending on the sector, 30 to 90 percent of small and medium-size enterprises have reported a drop in revenue in 2020.**

**UK small and medium-size enterprises reporting reduced revenue in 2020 vs 2019 because of COVID-19 pandemic by sector, % of respondents<sup>1</sup>**



<sup>1</sup>Question: How has the COVID-19 pandemic affected your company's revenues compared with 2019 revenues? (n = 653). Source: McKinsey Survey of UK Small and Medium-Size Enterprises

In addition, fewer UK SME respondents were concerned that they would have to postpone growth projects (36 percent in May 2020 versus 27 percent in November 2020). And the numbers worried that they would not be able to pay leases and repay loans were 15 percent and 18 percent, respectively, holding steady with survey results from August 2020. The comparative May 2020 figures were 18 percent for both categories.

The reported job prospects for SMEs in the United Kingdom continued to deteriorate, however. Respondents in the November 2020 survey said they had furloughed or were planning to furlough 60 percent of their staff, on average, compared with 50 percent in August 2020 and 54 percent in May 2020. And by November, they had laid off 23 percent

of their staff, on average, compared with 18 percent at the time of the August and May surveys.

The UK SMEs surveyed in November 2020 were marginally more hopeful about the economic outlook than previous respondents had been. In that survey, 55 percent of respondents said they were optimistic that economic conditions would improve once the COVID-19 pandemic abated, compared with 50 percent and 44 percent in August 2020 and May 2020, respectively. It remains to be seen, however, whether such optimism will be sustained by the progress in rolling out effective COVID-19 vaccines in the coming weeks and months—and by extended government-support initiatives—or whether the new lockdowns imposed at the start of 2021 will prove to be the final straw for many SMEs.

In the November 2020 survey, 67 percent of respondents said they would cease trading within 12 months if the trading situation were to worsen such that revenues decreased between 10 and 30 percent. The survey results also suggested how hard it can be to recover from trading restrictions in such an uncertain environment. Between the first national lockdown in March 2020 and the second lockdown in England in November 2020, just 10 percent of survey respondents said revenues had recovered to prelockdown levels.

Meanwhile, large numbers of SMEs are still claiming financial support from the UK government. For example, 46 percent of SME respondents in the

November 2020 survey said they had applied for or planned to apply for the national government's furlough plan, and 41 percent said they had applied or planned to apply for government loans (Exhibit 3).

For the time being, at least, it seems clear that the health of UK SMEs is reliant on government assistance. Since November 2020, the new lockdowns and extended support initiatives will have had a material impact on SMEs. Only time will tell the COVID-19 pandemic's final toll on the sector—and, by extension, the overall UK economy.

Exhibit 3

### More than 40 percent of UK small and medium-size enterprises have applied or plan to apply for government support because of the COVID-19 crisis.

UK small and medium-size enterprises reporting reliance on government help because of COVID-19 pandemic by type of support, % of respondents<sup>1</sup>



<sup>1</sup>Question: Have you applied for government assistance as a result of the COVID-19 pandemic? (n = 653).  
Source: McKinsey Survey of UK Small and Medium-Size Enterprises

**Jonathan Dimson** is a senior partner and **Ruchi Sharma** is an associate partner in McKinsey's London office.

The authors wish to thank Dani Ball and Nadya Snezhkova for their contributions to this article.

Designed by McKinsey Global Publishing  
Copyright © 2021 McKinsey & Company. All rights reserved.