



SME Insights Report

Simply Business | July 2022



“Our report highlights the very real concerns owners have for their businesses. But it also shows the impressive levels of innovation and adaptability that continue to run throughout the UK’s self-employed community.

Alan Thomas
Simply Business UK CEO



Foreword

Small businesses across the country have faced a series of challenges over the past few years, with Covid-19 restrictions and lockdowns, followed by supply issues and soaring costs. These challenges not only impact profit, but have also taken a significant toll on the emotional and mental wellbeing of business owners.

For 70 per cent of business owners, rising costs – as many still battle the lasting effects of the pandemic – represent the single biggest risk to recovery. This has left many owners with little choice but to put survival tactics in place.

With almost six million SMEs in the UK – accounting for over 99 per cent of all businesses, 33 per cent of employment and 21 per cent of all turnover – it’s vital that they weather this summer of uncertainty and beyond.

Yet it’s encouraging to see that SME confidence is improving as we emerge from the pandemic. Indeed, the majority of owners are both confident and optimistic for the future of their business. Seven per cent even say they’re likely to start another new business this year. And with a third of people in the UK now running their own side hustle – 55 per cent of which were set up during the pandemic – this once again shows the resilience, resourcefulness and creativity among small businesses nationwide.

Insuring 530,000 small businesses – from cleaners and accountants to builders and restaurants – allows us to see first-hand how small businesses can adapt in the most challenging circumstances. That’s why it’s more important than ever for the nation to support small businesses and help them not just survive, but thrive for years to come.

Alan Thomas
Simply Business UK CEO

An economist's view

Small businesses in the UK have had to cope with overlapping economic shocks over the past three years – the pandemic, Brexit, and now the cost of living crisis. What this report shows is that despite the general economic pessimism, most businesses remain resilient. Like consumers, they expect the UK economy to worsen significantly over the next year, but they remain reasonably confident about their own prospects in the face of rising cost pressures.

This suggests that while the squeeze on real incomes as a result of rising energy and food prices will indeed be painful for households and consumers, it's unlikely to result in a wave of business failures and job losses.

Small businesses should be positioned to take advantage of a recovery in incomes, assuming that inflation does indeed fall back as forecast over the next year.

Professor Jonathan Portes

Jonathan Portes is Professor of Economics and Public Policy at King's College London. Previously he was Director of the National Institute of Economic and Social Research (NIESR), the UK's longest established independent economic research institute, and prior to that Chief Economist at the Cabinet Office. His current research concentrates on the economic implications of Brexit; and immigration.



Executive summary

Small business owners say that rising costs are the greatest threat to their survival in 2022. Coupled with an environment where many think the economy will get worse before it gets better, the nation's self-employed face mounting pressures and a squeeze on profits.

Many SMEs are having to put survival tactics in place as inflation hits a 30-year high and the cost of living soars. Indeed, half of small businesses are planning to increase their prices to help get them through the rest of the year.

However as businesses look to recover from the pandemic, many are emerging with confidence. In fact nearly three quarters (71 per cent) of small business owners remain confident about business prospects over the next six months. This is in stark contrast to confidence levels we reported in July 2020, when one in five small businesses didn't expect to survive another lockdown.

We surveyed 1,013 small business owners from across the UK to get an in-depth understanding of challenges, trends, and business prospects. Data was collected in May 2022 and can be used as an indicator of the health of this crucial section of the UK economy.

Key findings

70%

say rising costs is their biggest challenge

3 in 5

small businesses think the economy will 'probably' or 'definitely' worsen in 2022

49%

of SME owners plan to increase their prices in the next six months

59%

want government to review or reduce the energy price cap

71%

remain confident about business prospects over the next six months

Timeline of key events for small businesses 2020 to 2022

2020

23 March 2020 – UK announces first lockdown

15 June 2020 – Non-essential shops allowed to reopen

4 July 2020 – Pubs, restaurants and hairdressers reopen (following Covid-19 guidance)

8 July 2020 – Temporary reduced rate (5%) of VAT introduced for supplies related to hospitality, hotel and holiday accommodation, and admissions to certain attractions



August 2020 – Eat Out to Help Out scheme, offering a 50% discount on meals up to £10 per person, begins in the UK

September 2020 – One in five small businesses don't expect to survive another lockdown*

5 November 2020 – 2nd national lockdown (4 weeks)

2021

6 January 2021 – 3rd national lockdown



July 2021 – Covid-19 restrictions are lifted



September 2021 – Temporary reduced rate of VAT increases to 12.5%

2022

January 2022 – Plan B restrictions in England (masks/vaccine passports) are lifted

March 2022 – Two years since first national lockdown – 1 in 6 small businesses say they'll never financially recover**



April 2022 –

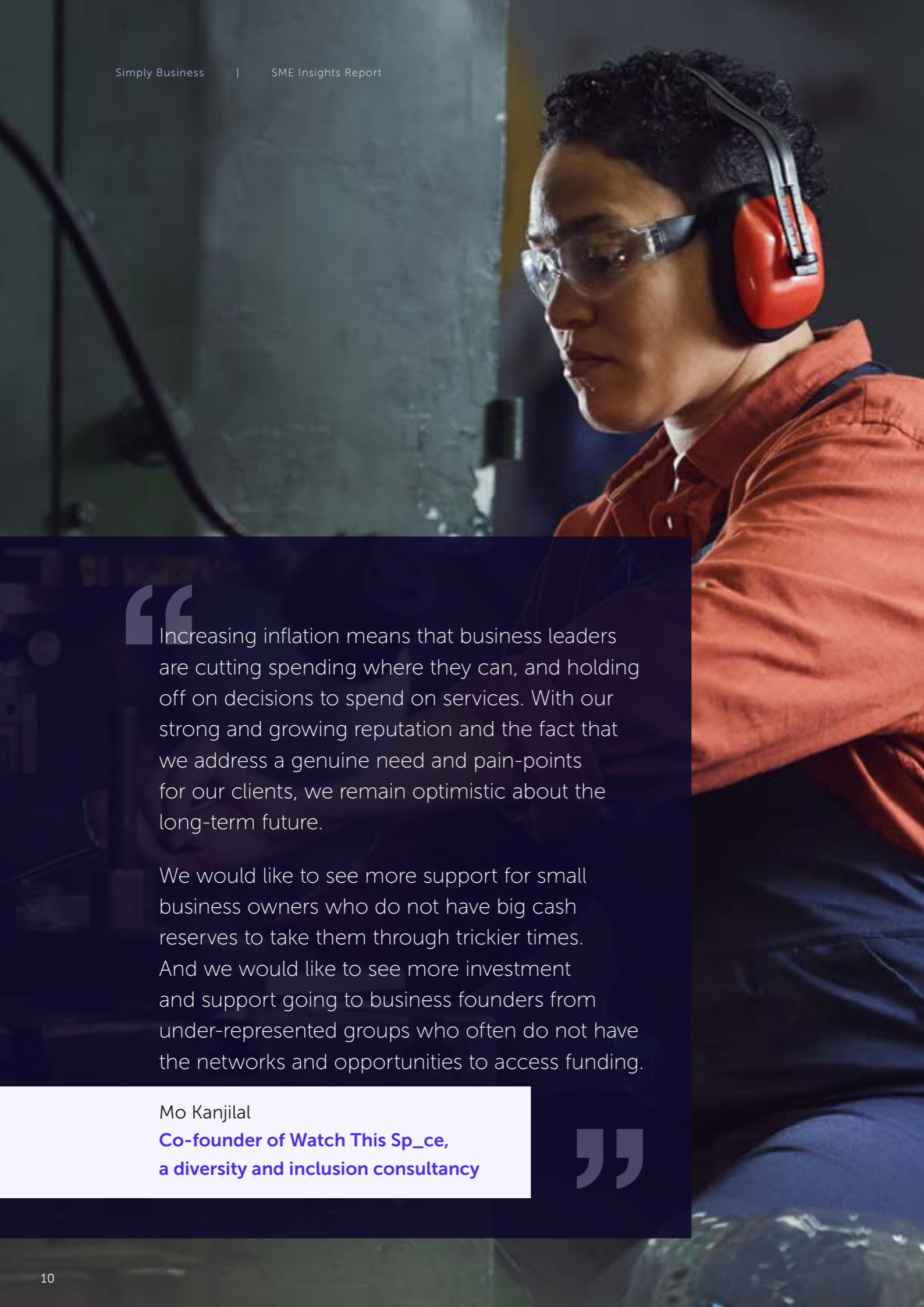
- National Insurance increases 1.25 percentage points
- Energy price cap increases
- VAT returns to 20% for hospitality and leisure businesses
- Business rates: Retail, hospitality and leisure relief replaces the retail discount

May 2022 – 71% of small businesses are confident about their business' prospects this year**

October 2022 – Energy price cap likely to increase again

*Survey of 529 small business owners from across the UK, conducted in August 2020

**Survey of 550 small business owners from across the UK, conducted in March 2022



Compounding pressures on small businesses

Small businesses reveal their main worries and challenges for the rest of 2022.

Running a small business often means juggling many different roles, and it's common for solo entrepreneurs to be managing finances one minute and customer service the next.

With this comes a host of challenges in today's economic climate. From marketing and reaching customers to compounding financial pressures, here's what small business owners are concerned about in 2022.

Biggest challenge

-  **70%**
Rising costs
-  **36%**
Tax and National Insurance hikes
-  **22%**
Lack of funds or access to credit
-  **26%**
Marketing and the ability to find customers
-  **18%**
Recovering from pandemic related losses

“Increasing inflation means that business leaders are cutting spending where they can, and holding off on decisions to spend on services. With our strong and growing reputation and the fact that we address a genuine need and pain-points for our clients, we remain optimistic about the long-term future.

We would like to see more support for small business owners who do not have big cash reserves to take them through trickier times. And we would like to see more investment and support going to business founders from under-represented groups who often do not have the networks and opportunities to access funding.

Mo Kanjilal
Co-founder of Watch This Sp_ace,
a diversity and inclusion consultancy

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It's no surprise that fuel prices, tax hikes – especially the National Insurance rise – and other cost pressures are the main concerns. And as yet, despite Bank of England rate hikes, interest rates aren't a major concern. This suggests that there's still space for the Bank of England to raise rates again without having a major negative impact on small business cash flow.

Jonathan Portes
**Professor of Economics and Public Policy,
 King's College London**



3 in 5

small businesses think the economy will 'probably' or 'definitely' worsen in 2022

12%

predict it will remain the same throughout the year, for better or for worse

19%

of small businesses expect profit to decrease by up to 20%

The UK economy is slowing down

As small businesses are a big contributor to the economy, a slowdown in their ability to weather tough times will be felt across the country.

Many businesses tackled rising costs throughout the second half of 2021, coupled with supply and labour shortages.

These pressures still exist, but have been compounded by the war in Ukraine and lockdowns in China.

Inflation has subsequently reached a 30-year high, with soaring energy costs a big contributor to that measure.

To combat rising inflation, the Bank of England raised interest rates to 1.25 per cent in June 2022. This encourages consumers to spend less and save more, further adding to pressures on small business growth.

How are businesses feeling about the future?

When thinking about the next six months, small businesses are feeling:



What about Brexit's impact?

Laid on top of these challenges is Brexit, but its impact is a mixed story for small businesses.

The majority of small business owners haven't felt Brexit's impact, but it's likely that they don't trade directly with the EU.

Some have noticed increased costs and more delays, compounding the challenges described earlier.

“

The cost pressures resulting from higher energy and food prices – which are a global phenomenon – are the main issue confronting small businesses. Yet a significant minority (about a fifth) identify Brexit as negatively affecting their business.

Yet only a small proportion of businesses – no more than six to eight per cent – trade directly with the EU. This implies that a considerably wider range of businesses are experiencing negative Brexit impacts, whether through labour shortages or through supply chains.

Jonathan Portes

**Professor of Economics and Public Policy,
King's College London**

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19%
of small
businesses say it's
had a **negative**
impact

7%
say Brexit has
affected them by
**increasing the
cost of imports
and exports**

8%
say Brexit has
affected them by
**causing delays
of products and
stock**

60%
say they've felt
little or no impact
from Brexit



The cost of Covid-19

The pandemic pushed many small businesses to breaking point. Repeated lockdowns and operational restrictions meant that many small businesses suffered setbacks and heavy losses. And while government support proved to be a lifeline for some, many were unable to access any financial support whatsoever.

In a separate study of small business owners in March 2022, we found:

87%

lost money during the pandemic, averaging a total of £20,981 each*

18%

say that recovering losses made during the pandemic is a major concern for them in 2022*

1 in 6

say they'll never recover financially*

£126.6bn

In total, Covid-19 is expected to cost SMEs upwards of £126.6bn – double the amount projected in 2020**

*conducted in March 2022

**Figure taken from Simply Business's [The impact of Covid-19 on UK small business report](#) published in June 2021

Adaptability and resilience of small businesses

As rising prices hit self-employed profits and wellbeing, many small businesses are having to pass these costs onto consumers.

Rising costs, combined with the long-term recovery from the Covid-19 pandemic, mean that many small businesses are having to take drastic measures to survive.

Due to sharply rising energy and fuel costs, as well as higher manufacturing costs, profit margins are being squeezed.

As a result, almost half (49 per cent) of small businesses are likely to pass their increased costs onto customers in the next six months by increasing prices.

“When we put our prices up, our customer base were understanding and we received very little feedback. Small businesses shouldn't be afraid to put their prices up in line with their own costs, but they have to do it at the right time.

Adam Cozens
Managing director and co-founder of Perky Blenders, a specialty coffee roastery in East London



But how much do small business owners anticipate increasing their prices by this year?





Yet some businesses feel unable to increase prices

It's worth highlighting that while 70 per cent of small business owners are worried about rising costs, not everyone feels able to pass these costs onto their customers this year. Businesses may wait to increase their prices, or perhaps they'll opt for alternative ways to increase their profit margin.

“ I really need to put my prices up to cover costs, but I'm too concerned about losing customers to attempt it yet. Hopefully if things pick up by the end of the year I may try.

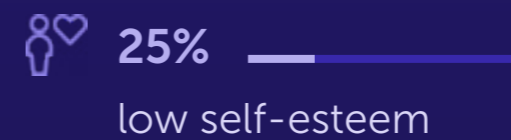
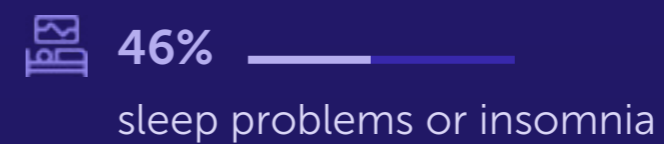
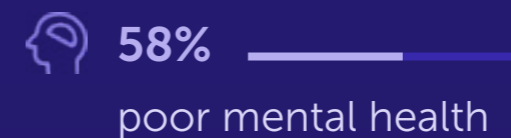
Tradesperson, South East England
Surveyed March 2022



How does this impact wellbeing?

It's not surprising that these pressures are impacting the emotional and mental health of small business owners. In a separate study of 550 small business owners in March 2022, we found out just how much their wellbeing has been impacted by the pandemic.

Between March 2021 and March 2022, here's how the self-employed said they'd been feeling:



What are businesses doing to adapt to challenging conditions?

Alongside increasing their prices, businesses are making difficult decisions when it comes to things like expansion, hiring new staff, and buying new equipment.

By reining in their spending now, small business owners are hoping to protect the future of their companies.

Here's how businesses are adapting their spending plans in the next six months.

48%

are unlikely to hire any additional employees

40%

are holding off on opening new or additional business premises

20%

are unlikely to buy any new equipment or tools

“

Apart from raising prices, the main response to these adverse pressures from businesses is likely to be to simply hunker down, reduce costs where possible, and get on with it.

The crucial factor here is likely to be consumer confidence and consumer demand. This has clearly taken a severe hit in recent months, but may recover if inflation reduces and real incomes return to growth.

Jonathan Portes
**Professor of Economics and Public Policy,
King's College London**

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A call for more government support

After Boris Johnson's resignation, how can the next leadership help support small businesses as they get back on their feet after the pandemic?

We saw many different support measures aimed at helping businesses through the pandemic, including government grants, loans, and tax relief.

Yet with loans to pay back and nearly a fifth of small businesses saying they're still concerned about recovering losses from the past two years of disruption, it's clear that the nation's self-employed are still struggling.

To add to this, the start of the new tax year in April saw National Insurance increase and VAT return to 20 per cent, just as everyone felt the sting of rising costs and energy prices.


“ While UK businesses remain resilient in the face of further economic turmoil, they need and deserve a more coherent longer-term strategy for the UK economy.


Jonathan Portes
Professor of Economics and Public Policy,
King's College London


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What more can the government do to support small businesses?

Small businesses say the government could do more to help:

 **59%**
Review or reduce the energy price cap

 **12%**
Review or reduce National Insurance

 **21%**
Review or extend VAT cut



Looking ahead

There's a feeling of optimism among small businesses emerging from the pandemic, and new trends are taking off.

Despite clear economic challenges and survival tactics, small business owners are feeling confident about their business and where it's going.

71%

remain confident about the future of their business

22%

are 'very confident'

34%

of business owners are more confident than 6 to 12 months ago



“

The contrast between general pessimism about the UK economy and optimism about their own prospects is striking.

About two-thirds of small business owners are pessimistic about the broader UK economic outlook, but an even greater number are optimistic about their own. While a third are more, not less, optimistic than they were a year ago.

The key question for UK economic prospects for the next year is whether small businesses have been too optimistic about their individual businesses, or perhaps they're right about their individual businesses and the UK economy could surprise us for the better.

Jonathan Portes

**Professor of Economics and Public Policy,
King's College London**

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We asked small businesses how they feel about business prospects for the second half of 2022.

51%

are 'optimistic' about the future

1 in 5

are 'excited' about the next 6 months











12%

expect profit to increase by between 10% and 20% this year

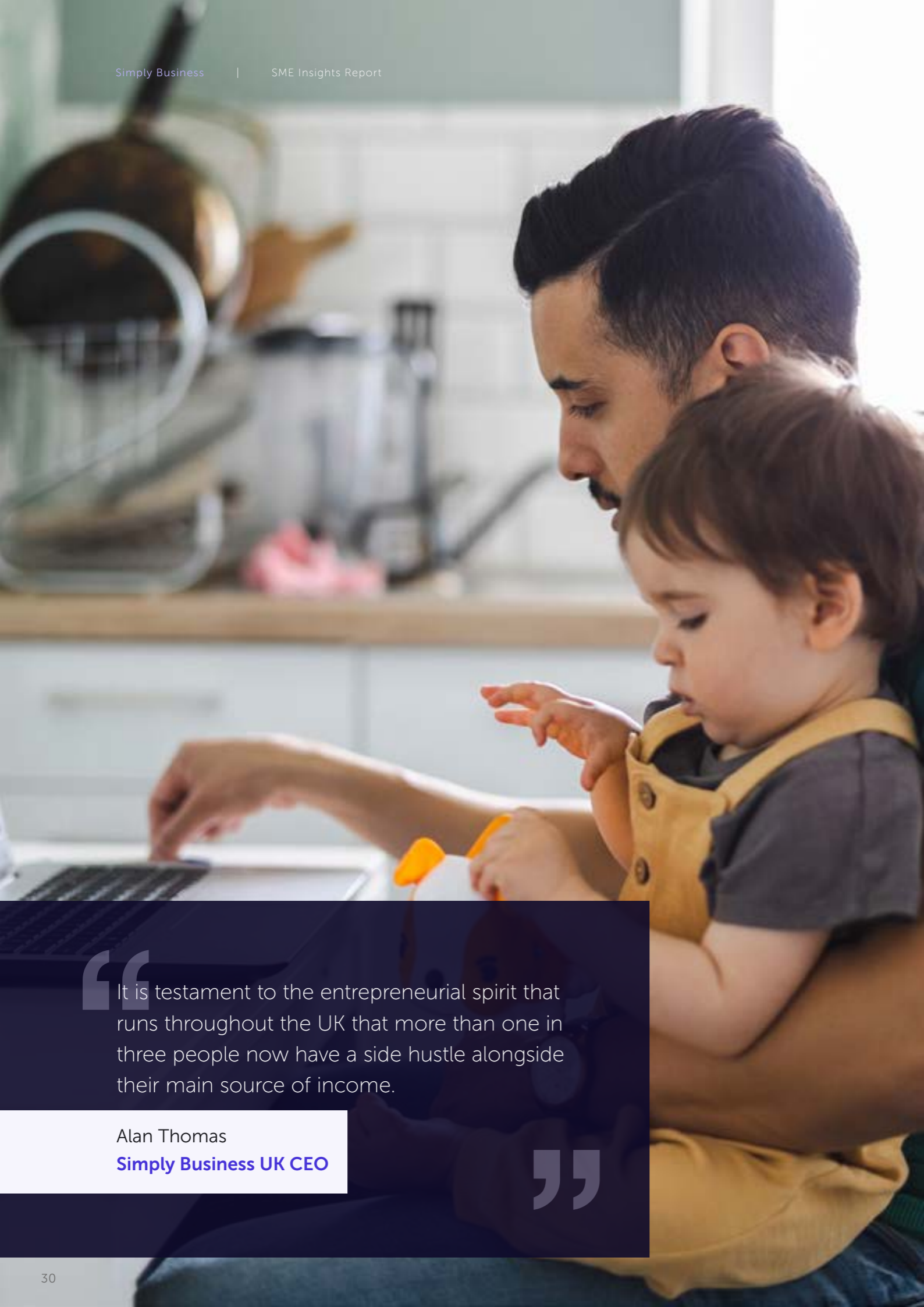
What are the fastest growing businesses?

Many of the most popular and creative small business ideas have been shaped by the pandemic, from selling online or turning a hobby into a business, to operating outside or providing services for a rising number of pets.

Simply Business analysed all new business insurance policies taken out in 2020 and 2021 to find the fastest growing small business sectors in the UK, and upcoming trends.

- | | |
|--|---|
|  1.
Craft stall |  2.
Market stall |
|  3.
Online retailer |  4.
Photographer |
|  5.
Handyman |  6.
Caterer |
|  7.
Teacher |  8.
Home baker |
|  9.
Dog walker |  10.
Accountant |





Side hustles are booming

There's been a side hustle boom in the UK and it shows no sign of slowing down.

A third of people in the UK now run their own side business, according to a separate study of 1,001 people in October 2021. And at the time, 31 per cent of people said they're thinking of setting up a side business but haven't got it up and running yet.

Now, our latest SME Insights Report data shows seven per cent of small business owners are still 'very likely' or 'fairly likely' to start another business in the next six months.

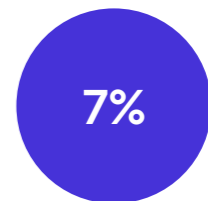
We already know 55 per cent of side hustles were set up during the pandemic as people used their time, energy, and a need for extra income to start a business.* So with costs continuing to rise amidst a challenging economic climate, it's highly possible business owners will look for additional revenue streams or start a new business entirely.

“It is testament to the entrepreneurial spirit that runs throughout the UK that more than one in three people now have a side hustle alongside their main source of income.”

Alan Thomas
Simply Business UK CEO



of side hustles were set up during the pandemic



of business owners likely to start a new business in 2022

*Survey of 1,001 UK adults conducted October 2021



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