

# Are UK SMEs gearing up for growth?



A study of the attitudes of UK Small and Medium sized Businesses  
towards the road to recovery

**April 2010**

Commissioned by Easynet Connect

Primary research conducted by OpinionMatters

**#easynet  
connect**

## Overview

As this report is being published, our politicians are travelling the length and breadth of the country to convince us that they have the answer to the UK's economic situation. No politician is ignoring the importance of small and medium-sized enterprises (SMEs) in their campaigns, and rightly so. According to the Department for Business, Innovation & Skills, SMEs together account for more than half of private sector employment and turnover.<sup>1</sup> With smaller revenues, fewer staff and more limited financial options compared with their larger counterparts, SMEs are much more sensitive to economic shocks. At the same time, their smaller size can be advantageous, potentially allowing them to capitalise on an upturn much sooner. The views of SMEs should therefore be seen as a critical indicator of the state of the UK's economy recovery. If SMEs are optimistic, this will likely filter to the larger economy. If they are not, we know we have much further to go.

This report shows that optimism is returning to UK plc., but we are not out of the woods just yet. While 84% of SMEs feel positive that a return to sustained growth is on the way, most are still exercising considerable caution and seem to envisage a long and winding road to recovery. The focus for SMEs over the next 12 months therefore is to get their houses in order, ready to take advantage of the market improvements expected in 2011.

## About the Research

Easynet Connect commissioned this research to get an insight into how businesses are feeling about the road to recovery, and what they are doing to prepare for change. The primary research for this report was conducted by OpinionMatters, an independent pan-European market research company. The research was commissioned by Easynet Connect in order to gain insight into when SMEs envisage a return to sustained growth, and how they are preparing for it.

OpinionMatters interviewed 256 IT decision-makers in SMEs (defined as organisations with between 1 and 250 employees), split equally between male and female respondents across a range of age groups. The research was conducted and compiled in April 2010.

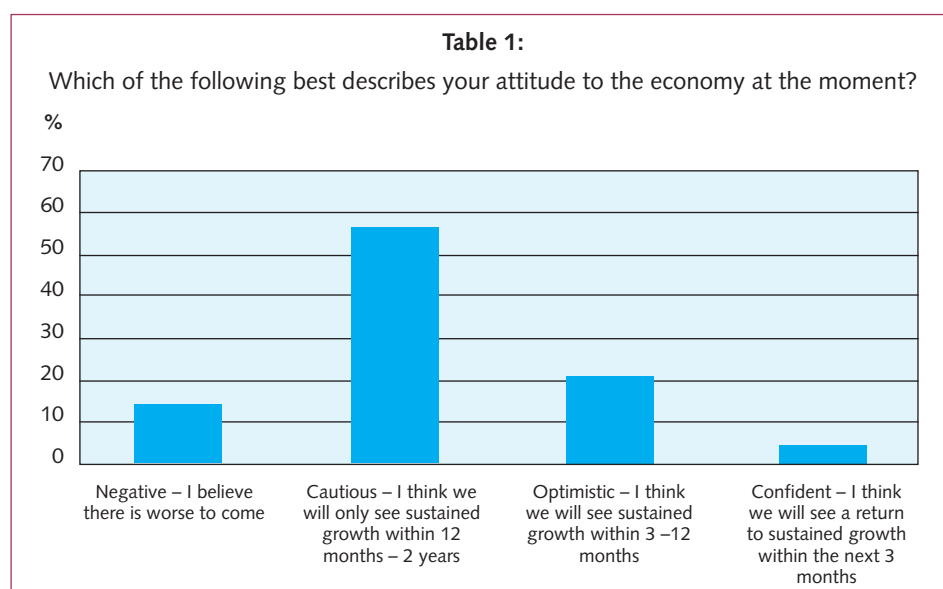
<sup>1</sup> SMEs account for 59.4% of private sector employment and 50.1% of private sector turnover in the UK (Department for Business, Innovation & Skills, *Statistical Press Release*, 14 October 2009, <http://stats.berr.gov.uk/ed/sme/smestats2008-ukspr.pdf>)

## Section 1. A timeline for recovery

**Question: Which of the following best describes your attitude to the economy at the moment?**

Although GDP figures show that the UK officially emerged from recession in Q4 2009, 58% of UK SMEs said that they continue to feel cautious about the state of the economy, and think that a return to sustained growth will only be seen in between 12 months and 2 years time. 15% feel that there is worse to come.

Overall, 84% of businesses believe the economy will return to growth, but of that group only 5% think it will happen in the next 3 months, 21% think it will take 3 to 12 months, and 58% think it will be within 12 months to 2 years. The predominant sentiment seems to be one of 'cautious optimism' – businesses know that growth will come, but do not expect it immediately.



In most instances, the size of a company does not appear to affect its view of the economy and the likely shape of recovery. However, the smallest SMEs (those with 1-9 employees) do appear the most negative. Of all the respondents who think there is worse to come, 57% were from businesses with less than 10 employees.

### Further analysis

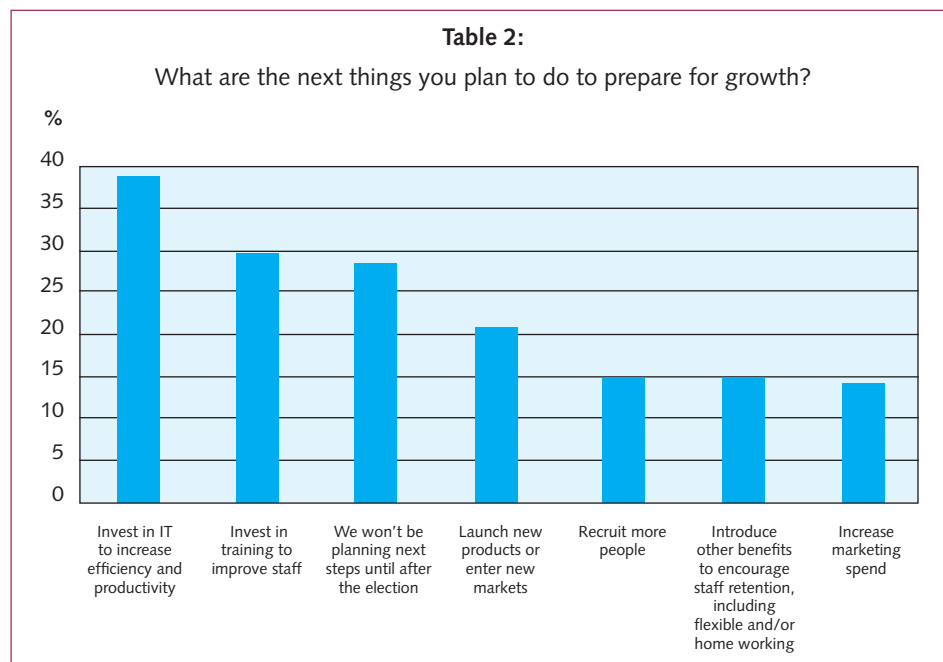
- The sectors that most commonly say they are feeling cautious about the economy are the travel & transport sector (83% of respondents from this sector answered in this way) and the professional HR industry (75%). The uncertainty faced by the HR sector is also corroborated by the finding that only 15.2% of UK SMEs said they are recruiting as part of their plans for preparing for growth (see section two).

## Section 2. Preparing for growth

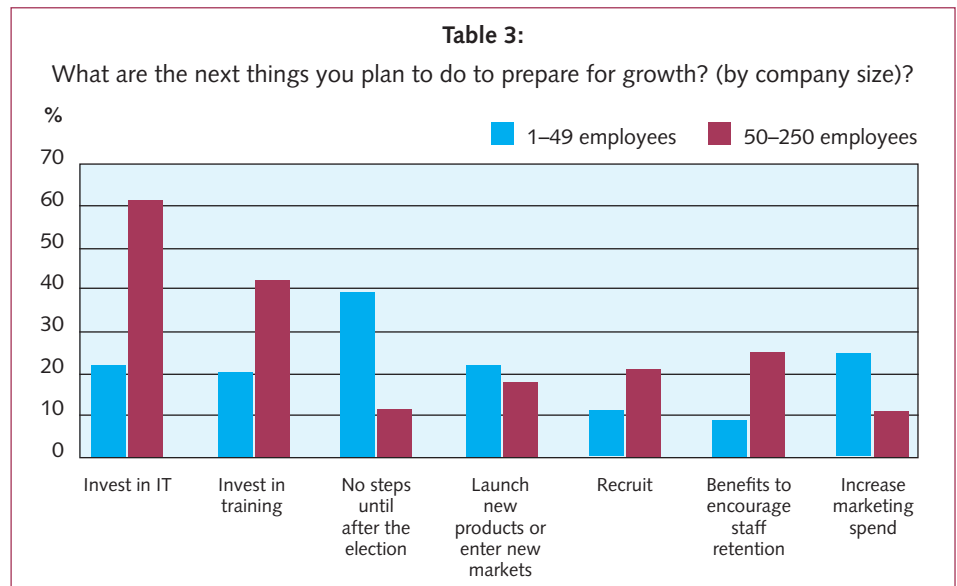
### Question: What are the next things you plan to do to prepare for growth?

UK SMEs are facing a number of options for ensuring that when the upturn comes, they are in the best possible position to take advantage of the opportunities that arise. Comparing which strategies they are prioritising with the timescales they are working to gives a useful insight into what shape they expect the recovery will take.

Well over a third of respondents (38%) said that they will invest in their IT infrastructure, while just under a third (30%) will invest in staff training, and around 15% are looking at recruiting more people and introducing benefits aimed at improving staff retention. All of these measures suggest that businesses are concentrating on improving internal processes, and ensuring that they are as efficient and productive as possible. Meanwhile, lower down the list of priorities comes launching new products and entering new markets (21%) and increasing marketing spend (14%). Looking back to the first section, this reflects the finding that although most SMEs agree that recovery is coming, most do not believe that a return to sustained growth will happen for at least 12 months. It seems likely that these businesses are concentrating first on strengthening their position from within (to ensure they are well equipped and ready when the upturn comes), and opting to leave external activities until later on, once the market is moving again.



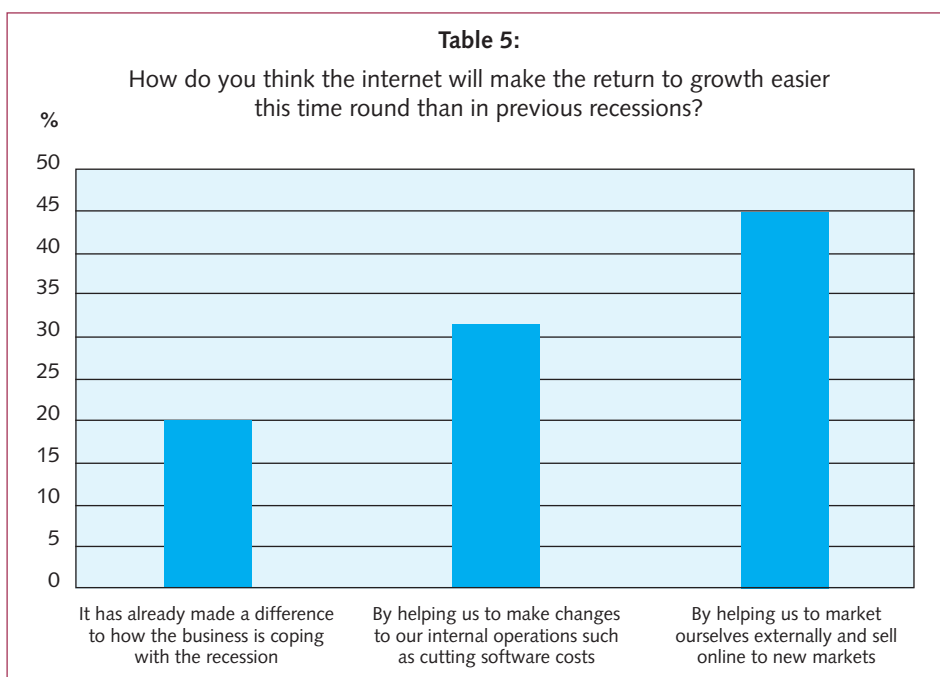
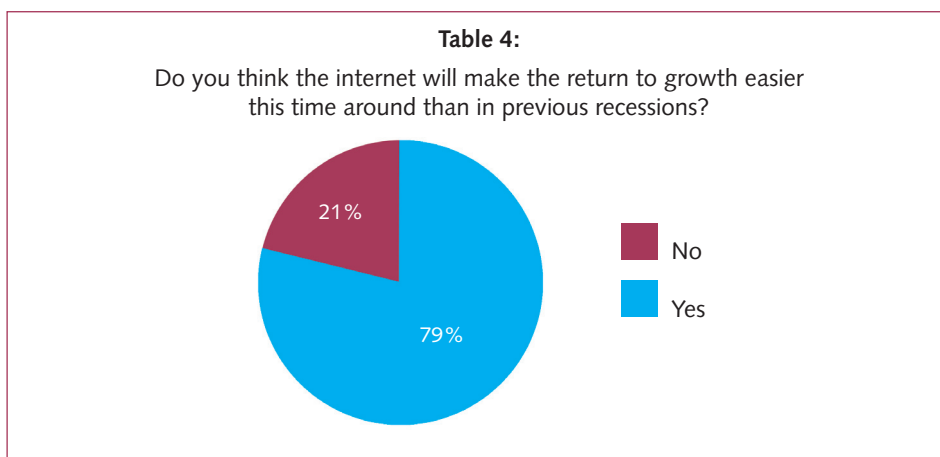
Despite having a longer timeframe and a more cautious view of when sustained growth can be expected, it is the smaller companies that are most positive about exploring new markets and launching new products in order to drive growth. Of companies with less than 50 employees, 24% plan to launch new products and enter new markets, compared to 17% of firms with 50 employees and above. Meanwhile, companies with over 50 employees are the most concerned with improving internal processes, with nearly half (45%) prioritising staff training, and 68% investing in IT. In companies of under 50 employees, conversely, only 21% are looking at staff training, and 25% are planning to invest in IT.



### Section 3. Leveraging the Internet

**Question: Do you think the Internet will make the return to growth easier this time round than in previous recessions?**

It had barely been invented when the UK was last in recession, but less than 20 years later, the Internet is providing a life line to small businesses recovering from recession. As much as 79% (see table 4 below) of SMEs think that the Internet will make the road to recovery easier this time round. Nearly half (45%) feel it will enable them to market themselves externally and offer them opportunities to sell online to new markets. A further third (32%) think the Internet is will help them to make changes to their internal operations such as cutting software costs and enabling staff to work remotely. One in five firms reported that they have already seen a positive impact of the Internet on how the business has coped with the downturn.

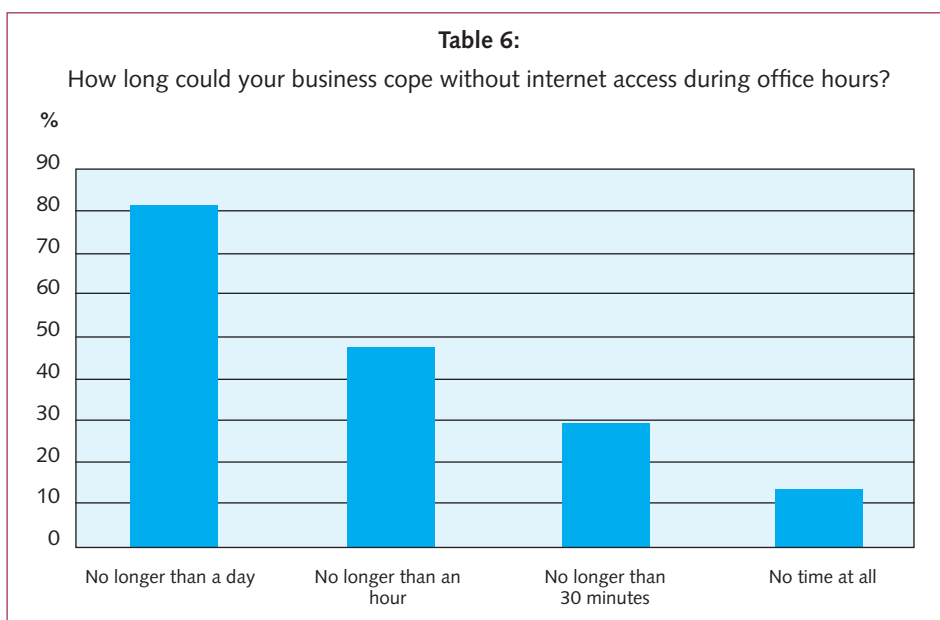


## Section 4. The IT backbones of recovery

**Question: How long could your business cope without Internet access during office hours?**

The research underlines how business use of the internet has become part of a long-term strategy, with the overwhelming majority (81%) of interviewees acknowledging that their business could not cope any longer than a day without it. This is a significant rise compared with a similar study carried out in 2008, which found that 71% of SMEs could not survive for more than a day without the Internet.

Perhaps even more significant, just under half of SMEs (48%) could survive no longer than one hour without Internet access. A further 29% could survive no longer than 30 minutes.



## Preparing for growth, but playing the long game



### Commentary on the research results from Chris Stening, managing director, Easynet Connect

With 58% of SMEs setting a timeframe of between 12 months and two years for a return to sustained growth, 2010 looks to be the year of bedding in and planning for growth in 2011. Businesses expect recovery to come, but do not think it will be in the immediate term. They are therefore putting long-term improvement plans into action in the interim. Investing in IT, investing in training, ramping up recruitment and focusing on staff retention are all sensible strategies for consolidating positions before the upturn comes.

Of particular interest considering the timing of this poll, is the finding that the election could have a significant effect on *when* SMEs start to put their growth plans into action. Nearly a third (28%) of those asked stated that their business will not be making plans until after the General Election. This figure rises to 38% when looking just at those companies with less than 50 employees. Each party has its own solution for cutting the national deficit and reinvigorating UK businesses, so it is understandable that SMEs are choosing to wait. With the possibility of a hung parliament looming large, this period of indecision could be set to last.

With 81% of SMEs unable to cope for more than a day without the Internet, connectivity is clearly a key factor in their recovery. If they didn't know it already, then the recession has taught many SMEs how to fully exploit new technology to market themselves and maximise revenues. The Internet wasn't even around in the last recession, but now it is seen as a utility, with as many as 79% of SMEs thinking it will play an important part in helping them back to growth this time around.

Earlier this year we found that 2010 would be the year SMEs embraced cloud computing<sup>2</sup>. With most small-to-medium businesses not expecting growth this year, we can see that this spend on cloud computing, as with investment in other aspects of IT, training, and recruitment is all part of the strategy to future-proof their business in preparation for growth in 2011 and beyond. In contrast to previous downturns, the Internet increasingly lies at the core of small businesses' operations – from marketing their products, conducting research, collaborating with colleagues or providing access to significantly better value cloud computing software and services. Since they are investing for scale, small businesses need to ensure their Internet capabilities – essentially the very heart of their business – can scale with them. For many, fibre connections, with their ability to scale far beyond their current 100 Mbps speeds in the future, are proving to be the cost-effective solution to this problem.

<sup>2</sup> Easynet Connect, *Is 2010 the year SMEs fully embrace cloud computing*, January 2010, <http://www.easynetconnect.net/industry-insight/whitepapers-and-reports/cloud-computing-2010.aspx>