



A springboard to recovery

Building back
better together



NatWest

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Foreword

A springboard to recovery

The last 12 months have been like no other in living memory.

However, thanks to the amazing work by our scientists and to an incredible logistical exercise, we have some early glimpses of light at the end of the tunnel – although unfortunately the economic and social impacts of the pandemic will be considerable and long lasting. We have always said that SMEs are the lifeblood of the economy, and now more than ever it is imperative that we support the UK's businesses as we look to recover – an opportunity, our research highlights, worth £140 billion to the economy.

As a bank that is committed to removing barriers to enterprise and supporting customers at every stage of their life cycle, we have carried out in-depth analysis of the support SMEs need to build back better and stronger. This research has been done in consultation with a range of organisations, including the Federation of Small Business, British Chambers of Commerce and subject-matter experts like the Scaleup Institute. We would like to thank McKinsey & Company for its support on the research and analysis underpinning the report.

NatWest is also pleased to be a leading supporter of the UK Government's 'Help to Grow' initiative announced in Budget 2021. This programme will support small businesses to improve their management and digital adoption, and reach their growth potential.

At NatWest we have a unique vantage point, with access to about 1 million SME customers, a network of Relationship Managers across the UK, extensive existing support, including our award-winning Accelerator programme, alongside strategic partnerships with business groups and corporate partners. The NatWest SME Transformation Taskforce also brings industry experts and politicians together collaboratively to discuss and develop the right support mechanisms needed to bring SMEs back to growth.

Through this collaboration, and more targeted, tailored support, we want to ensure we play our part in helping the UK's SMEs contribute to our economic recovery.

We would like the insight from this SME Recovery Report to be a springboard for collective action to support the UK's SMEs. The biggest opportunities for unlocking the £140 billion in gross value added (GVA) to the UK economy lie in five areas:

- 1. Finally achieving the step-change in SME productivity;**
- 2. Boosting scaleup numbers to drive economic recovery post COVID-19;**
- 3. Increasing female entrepreneurship and the productivity of women-led businesses;**
- 4. Achieving representative Black, Asian and Minority Ethnic workforce participation and career progression; and**
- 5. Driving an SME shift towards sustainability.**

Underpinning these challenges, we have identified that existing support programmes are not moving the needle on SME productivity due to two core pinch points: ability of SMEs to find the best support programme that is tailored to their needs – only 1 in 5 SMEs find the right programme and decide to enrol; and SMEs' ability to capture a productivity impact by doing what it takes to change the business after participating in a programme – only 1 in 20 SMEs capture a high productivity impact after taking part.

As a bank, we are committed to doing everything we can to work with our partners across the public and private sectors to achieve the prize for the UK economy.



Paul Thwaite

*Chief Executive Officer,
Commercial Banking
NatWest Group*

The insights in this report are based on NatWest's in-depth analysis of the UK SME landscape (firms with 1-249 employees).

Research included:

- Survey of 1,000 SMEs carried out in March 2021 (80 percent participated in at least one support programme in the last 5 years)
- In-depth literature review of more than 100 reports with a UK and global focus
- Analysis of 50 support programmes with a UK and global focus
- Interviews with more than 20 support programmes and organisations in this space
- Focus groups that included leaders of around 20 SMEs from across the UK.

As the country looks ahead with tentative hope to a return to ‘normal’ in the summer, the UK economy could get a much-needed boost from helping small- and medium-sized businesses to reach their potential. New research by NatWest indicates that a thriving SME sector could deliver as much as £140 billion in gross value added (GVA) to the UK economy by 2030 – equivalent to creating 3.2 million jobs across the UK.

Unlocking this £140 billion prize will not be easy, however. While the country’s 1.4 million SMEs (firms with 1-249 employees) drive almost half of UK turnover and employ 43 percent of the private-sector workforce, SME productivity still trails that of larger firms by 15 percent. Business- and government-run interventions aimed at boosting SME productivity and growth are working hard to change this, but a clearer understanding is needed of how they can speed up progress.

There is a lot at stake. Much of the UK SME sector is still reeling from the impact of the COVID-19 pandemic, and accelerating recovery in the sector would drive significant value for the UK economy in the decade ahead. It would also unlock growth and prosperity in communities, regions and parts of the economy that are currently held back from achieving their full potential.



£140bn
GVA opportunity
to the economy

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NatWest's in-depth look at the SME landscape shows that the projected £140 billion impact will come from five distinct areas. The first is **achieving a step-change in SME productivity** and lifting about 900,000 SMEs to the next decile of productivity, unlocking £35 billion in GVA.

In the UK, the ratio of female to male entrepreneurs is 30% lower than in the US

Second, as The Alison Rose Review of Female Entrepreneurship (the Rose Review) sets out, **driving increased female entrepreneurship and improving the productivity of women-led businesses** is a significant potential economic value add. In the UK, the ratio of female to male entrepreneurs is 30 percent lower than in the US. We estimate that more than doubling the number of female-led businesses and increasing their productivity by about 40 percent (thereby closing one third of the gap to male-led firms) would drive around £50 billion in GVA. This would add around 50,000 new female entrepreneurs and would result in 260,000 more women-led businesses in the UK economy by 2030.

The third area – **improving Black, Asian and Minority Ethnic workforce participation and career progression** – could result in £18-20 billion in GVA, around 310,000 new Black, Asian and Minority Ethnic workers in the SME workforce, and about 950,000 such workers receiving fair pay in line with other workers with similar qualifications.

The fourth – **driving the SME shift toward sustainability and reduced carbon emissions¹** – will also be key. The UK currently emits 1.1 percent of global emissions, with SMEs driving around half of UK emissions². To remain on the UK's net zero pathway, SMEs need to reduce their carbon footprint by 80-85 MtCO₂e³ by 2030 through shifting toward sustainable business operating models.



260,000 more women-led businesses by 2030

1. UK and global emissions and temperature trends, House of Commons Library, UK Parliament, June 2020

2. Analysis by McKinsey & Co based on ONS and HM Government Business Population Estimates 2020 (published in CCC Policy Advisory Group Report, 9 December 2020)

3. The Sixth Carbon Budget, Climate Change Committee, December 2020

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The fifth and crucial impact will come from **transforming a greater share of SMEs into 'scaleups'** – enterprises that grow by more than 20 percent year-on-year (YoY) in turnover and/or employment for at least three years. As research by the ScaleUp institute shows, scaleups are 50 percent more productive than other SMEs and employ 30 percent of the SME workforce in the UK; however only 2.5 percent of UK's SMEs are scaleups today⁴.

Scaleups are **50% more** productive than other SMEs

To unlock the £140 billion opportunity across the SME landscape, we need the right enabling ecosystem, in every local economy, including easier access to finance. A change of approach by SME support programmes can make a difference too. NatWest's research indicates that while SME support programmes are focused on the right issues like innovation, managerial skills and digital adoption, there is a real opportunity to amplify their effectiveness. Our recent SME survey indicates that, currently, 20 percent of UK SMEs participate, but less than five percent end up seeing a real business uplift as a result.

Productivity lag and scaleup opportunities point to untapped potential

While there have been pockets of good progress, the UK's overall productivity picture is patchy. The UK closed some of the productivity gap versus peers two decades ago, but that gap has widened once more. UK productivity lags that of the United States by 17 percent and that of Germany by 12 percent (Exhibit 1). Productivity also varies significantly across the country and across industries. The productivity of an average UK SME worker trails that of the average worker by up to 60 percent depending on the sector, while the highest-performing region has around 70 percent higher productivity than the lowest performing region⁵. Sectors like IT services and real estate are doing well compared with peer countries, while the accommodation/food services and health/social work industries offer real room for a productivity uplift.

4. Scaleup Institute

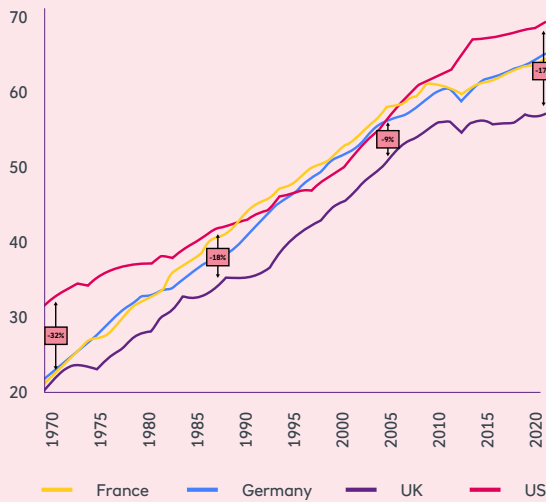
5. ONS Labour Productivity Data

Exhibit 1:

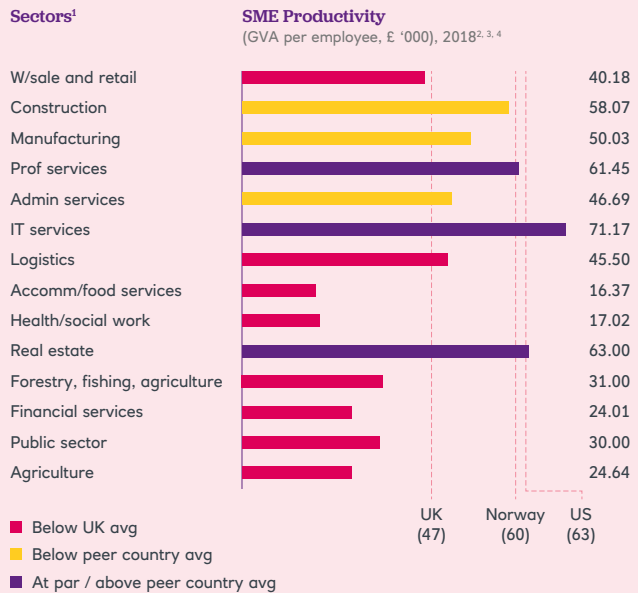
UK businesses have long-standing and widening productivity shortfalls versus peers; SMEs in most sectors are ~20-30% less productive than UK average

While the UK closed some of the productivity gap vs. peers two decades ago, the gap has now widened

GDP per hour worked, \$, 2010 PPP, 1970-2018



SMEs in many sectors are significantly less productive than UK average and peer countries



1. Other Services includes service activities and water/waste management; data for agriculture (except support activities), finance/insurance and public sector activities unavailable; mining/electricity excluded as they each represent ~0.1% of SME workforce; 2. Constant price using 2016 prices; 3. Ranked by total SME turnover 4. US/Norway GVA per employee derived from OECD ratios between 2018 GDP per person employed at 2015 USD constant prices

Source: OECD; Annual Business Survey, ONS 1998-2018

**£35bn
GVA boost to
the economy
from scaleups**

Low productivity is a serious drag on the UK’s economic recovery, but also an indicator of latent potential within the country’s small and medium businesses. There is an opportunity to transform more small and medium businesses into fast-growing scaleups. Accelerating scaleup growth would result in a £35 billion GVA boost to the economy. And with twice the density of scaleups in the highest density⁶ region versus the lowest, there’s significant room to improve in many parts of the country. There’s also substantial scope to increase the representation of women entrepreneurs as well as people from Black, Asian and Minority Ethnic communities, who make up 14 percent of the population but whose workforce participation rate lags by around 12 percentage points⁷.

6. Density: Scaleup density is defined as the number of scaleups per 100,000 population

7. BEIS Analysis, February 2017

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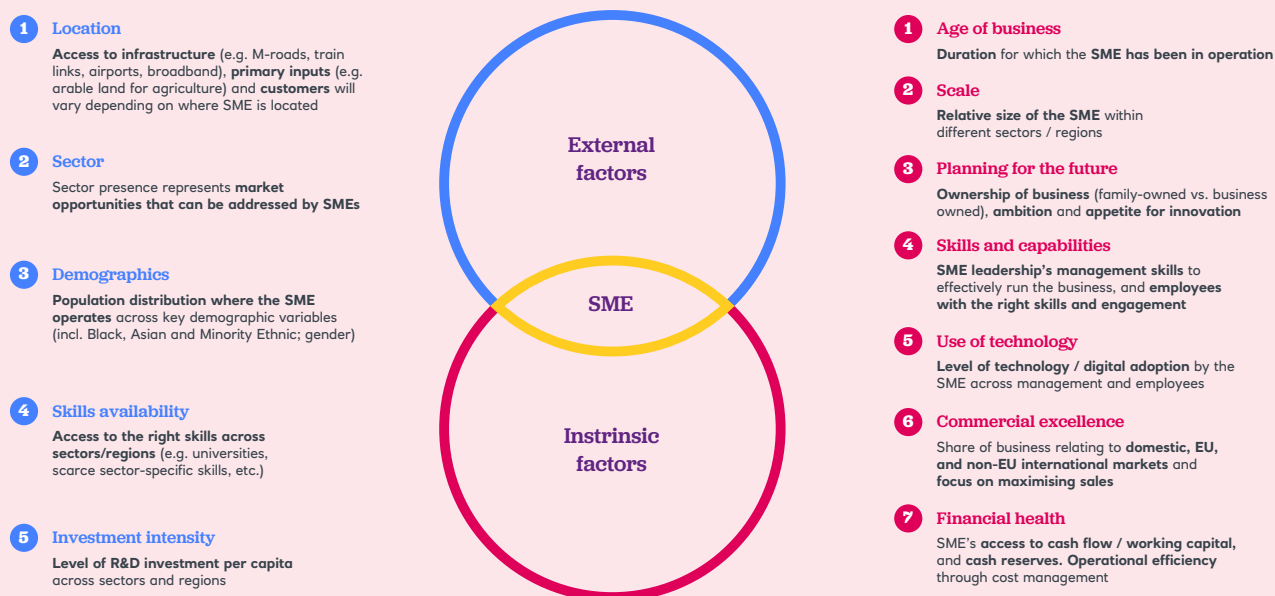
Despite so much to go after, SME support interventions have not fully delivered on their enormous promise – something many of them admit to themselves. As the representative of one programme responded: *“There’s a lot of support out there but it doesn’t reach businesses who need it the most.”* Another pointed to the lack of a coordinated approach as a key factor holding SME support efforts back from delivering their full impact: *“There’s no one knitting things together – who’s bringing all the great programmes together and playing that convening role to deliver more persistently across the UK?”*

There is wide recognition from SME support practitioners, and from the Government, that a radical change in approach is needed. NatWest is pleased to be a member of the Help to Grow Advisory Council and a lead supporter of the scheme announced in Budget 2021.

NatWest’s broad research initiative on SMEs in the UK provides fresh insight to underpin this change in approach. It shines a spotlight on UK SMEs’ current challenges and future growth plans and prospects, and it delves deeper into why many support programmes are falling short of their intended outcomes. What emerges from this analysis is a picture of an incredibly diverse SME sector, both in terms of external business factors like sector or location, and intrinsic ones such as skills and capabilities, use of technology and financial health (Exhibit 2). Catering for these different needs in a more tailored and personalised way holds the key to unlocking UK SME growth over the next decade.

Exhibit 2:

SMEs are not a monolith: personalisation is required, recognising the 5 external and 7 intrinsic characteristics that shape their profiles



Source: Global literature review; External / Internal stakeholder interviews

The UK's diverse SMEs have a wide range of support needs and drivers

Understanding the diversity of the UK SME sector – and how these factors influence SME mindset, behaviour and growth prospects – is fundamental to designing transformational interventions that can accelerate growth.

NatWest's recent SME survey sheds new light on how this diversity plays out in terms of SMEs' appetite for growth and improved productivity. These characteristics can be best understood through four dimensions: the context the SME is operating in; the market they are serving; the mindsets of their management; and the way the SME is run.

Where **business context** is concerned, for example, female-led businesses were found to be around 20 percent more likely to self-select out of adopting digital solutions to improve productivity; just 37 percent of female owners believe digitisation can improve productivity versus 46 percent of their male counterparts. Addressing this gap and driving increased technological adoption by female-led businesses will drive considerable productivity gains and help those businesses achieve their scaleup ambitions.

Female-led businesses were 20% more likely to self-select out of adopting digital solutions to improve productivity

In terms of **markets served**, those SMEs that have ambitious growth targets for the next five years have twice as much turnover from exports, with just under 40 percent of their sales coming from online channels. This is in contrast to 30 percent for SMEs who plan to stay stable over the same timeframe.

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Management mindset is an important influencing factor. Businesses that are more than 20 years old are 1.5 to 2 times less likely to plan to grow, spend half as much on training their employees, and are half as likely as younger businesses to see sustainability and improving gender and Black, Asian and Minority Ethnic representation as key productivity drivers. They are also half as likely to trust institutions such as banks for support. The age of business owners matters, too. Owners who are close to retirement, at 55 years or older, are significantly less likely to be open to growth or seek help from outside for general advice.

The **way the SME is run**, including its focus on skills and capabilities, technological adoption, and financial health, are equally important. The survey revealed a greener and more tech-savvy mindset among the best performing businesses, with growing SMEs identifying a shift to sustainability and digitisation as the top two sources of future growth. Meanwhile, SMEs in rapid financial decline of more than 20 percent year-on-year, or undergoing rapid growth of more than 20 percent year-on-year, are the least likely to rely on external help for immediate survival or future growth.

Read together, these findings create an opportunity for SME support programmes to think differently about how they serve small businesses – and could help them target interventions where they are most needed, while overcoming barriers to uptake and active participation.





Alicia 'Grounded Ambition'

Alicia owns an ecommerce business based in Manchester. What started as a passion project from her home office 12 years ago now employs more than 50 people. Business was booming before the pandemic, and while it has since taken a hit, Alicia knows there's big potential to keep growing. She's ambitious and keen to use technology to full effect.

Alicia knows she needs help to take her business to the next level, but with so many support programmes to choose between, she's taking her time to pick one. She's looking for the perfect match, not the fastest match. She values

programmes that have high-quality staff and can tailor their pitch to her situation – a business with strong aspirations and in need of advanced technology solutions.

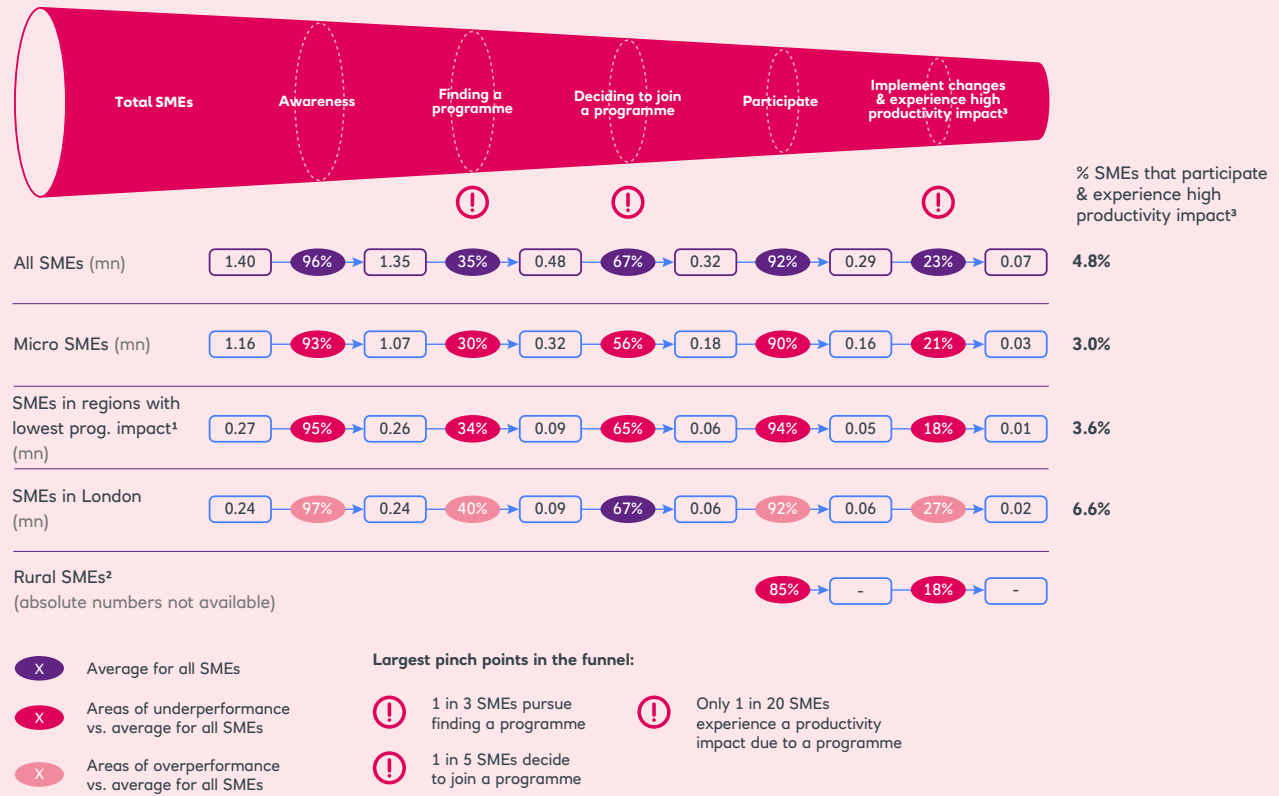
Like many business owners, Alicia is time poor. She needs a self-paced programme with flexibility to access on-demand support when she needs it. Ideally it should provide her business with targeted longer-term implementation and funding support to really unlock her business's potential growth. How will she find her perfect match? And will it really deliver the goods?

Personalised programme design holds key to unlocking SME potential

There are hundreds of SME support programmes doing excellent work across the UK, but considerable unmet potential to translate their efforts into greater aggregate impact on SME productivity. By looking at SMEs' pain points and uncovering what top performing programmes are doing well, this research points to ways to rethink how SME programmes are delivered and build a much more effective 'funnel' from awareness to impact (Exhibit 3).

Exhibit 3:

**The need to strengthen the SME programme adoption funnel:
 <5% of SMEs participate and benefit from programmes; this is
 even lower among underserved groups**



Note: Funnel based on 11,000 SMEs who entered survey, of which 1,000 SMEs met screening criteria / completed the survey.

- Regions with lowest programme impact defined as the 3 regions with lowest share of SMEs who participated in a programme and experienced a high productivity impact – North East, Yorkshire & the Humberside, and the South West.
- Rural is defined as small town, village, or hamlet.
- Productivity impact defined using % participants responding to survey question with a score of 9 or 10: How much impact did [PROGRAMME] have or did not have on your business's productivity? (0-10 scale with 10 = very strong impact)

Source: ONS; Survey of 1,000 SMEs in the UK conducted in March 2021

While SMEs face many barriers along their programme-adoption journey, there are three key common pinch points that can limit the impact of such programmes: finding a programme, deciding to join, and then implementing changes that positively impact productivity. The effort is worth it, however. Those businesses that successfully navigate the challenges can expect to see a clear uplift in performance.

Finding a programme is typically time-intensive for SMEs – on average they use around 20 different sources to find the right programme. SMEs are also very cautious about enrolling: 72% percent of them research for at least three weeks before deciding to join and dedicate more than 30

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hours a week to this research. When they do join, the top driver of dissatisfaction is lack of employee capacity and knowledge to implement changes to the business. Around 40 percent of SMEs received 10 hours or less of implementation support from their programme.

72% of SMEs research
for at least three weeks
before deciding to join

New thinking and bold innovation are needed to overcome these challenges. NatWest's analysis points to eight data-backed 'golden principles' – approaches that can help programmes better tailor their approach to SMEs' specific business contexts, challenges, needs and preferences.

The 8 Golden Principles:

1. Leverage multiple channels to drive awareness and enrolment

Despite broad-based awareness of support programmes in the SME community, with 96 percent of SMEs saying they'd heard of support available, only one in five SMEs actually participate. Marketing and awareness efforts can be honed to improve conversions and sign ups.

A critical point of engagement is how programmes market themselves and reach their intended target businesses. The research indicates that top programmes make 1.5 times more use of online search and social media, for example. There's also twice the chance that those SME participants with significant productivity improvement learnt about the programme from a friend, mentor, or at a conference or industry event in the area.

Programmes can leverage mass-marketing channels to educate SMEs both on levers to improve their business and on how existing programmes can help. They should also actively seek out SMEs on the channels they frequent, rather than waiting to be found.

2. Speak the language of the SME

The top-performing programmes are twice as likely to clearly articulate benefits that are tailored to SME needs or pain points – and show convincing evidence of a track record. This is particularly important as SMEs reported they would have found these elements particularly powerful if they had been available to them.

Programmes can generate greater interest by providing a simple, transparent explanation of benefits, evidence of impact (ideally quantified) and case studies that are clear and relatable to target businesses.

3. A high-quality team builds trusted relationships

Well-recognised programmes do better at attracting SMEs, but the quality of staff matters too. Top programmes are 1.5 times more likely to have high-quality staff who are responsive and knowledgeable, and can tailor discussions to the SME's context, challenges and needs.

It is vital to invest in high-quality, trained personnel, ideally with relevant experience – for example, founders or those who have worked in SMEs themselves.

In addition, for programmes outside urban areas, partnering with trusted providers and grassroots or community organisations can help build trusted relationships with SMEs. Many SMEs consider the level of trust in the provider to be their most important decision factor, and their top three trusted providers are banks, governments and universities.

4. Simplicity and flexibility are key

SMEs are often big on ambition but short on time to invest in their own growth and development. *“The biggest problem we have is not access to advisers but time we can commit,”* said one business owner. *“If we went to every session we were invited to, it would be 15-20 hours a month.”*

The research shows that top programmes are 1.5 times more likely to have an easy sign-up process. Such a process, be it digital or self-paced with human support, needs to be flexible enough to fit a busy business-owner's schedule.

5. Ensure commitment, especially in blended programmes

Participants in the top programmes were found to be more likely to pay fees to participate, though this could be because these programmes subsidise a larger share of costs. The leading programmes were three times more likely to provide funding support for SMEs to participate, and 1.7 times more likely to provide financial assistance to SMEs to pilot and/or implement changes in their business.

To ensure commitment, especially in blended programmes which offer digital, self-paced learning complemented by human support, programmes could curate SME participants, and consider charging a fee or unlocking access based on the achievement of specific milestones.

6. “One-stop shop” implementation support

The top driver of dissatisfaction with poorly performing programmes was a lack of employee capacity or knowledge to implement changes. The research also found that SMEs are very willing to pay for on-demand access to training materials, experts and advisers during and after the programme.

Programmes should invest in coaches or trained facilitators to create safe spaces for SMEs and shape growth-oriented mindsets. They should also enable SMEs to test and learn iteratively during the programme through a field-and-forum approach. Upon graduation, programmes can invest in building a longer-term relationship with each business through a mix of programme staff check-ins, on-demand access to experts or coaches, and peer mentors or groups.

7. Support SMEs beyond the formal programme scope

SMEs are highly willing to pay for access to wrap-around support to resolve business problems – for example, strategic or implementation support, funding, and capability building for leaders or employees.

Programmes can build in wrap-around support for the participants and their whole firm through on-demand access to the programme’s own or partner-provided employee training resources. Programmes should also seek to answer questions SMEs might encounter during their day-to-day work or project implementation.

According to one support programme: *“Financial support is not enough – in recent pilots, we’ve seen that technical assistance paired with funding leads to more success as SMEs need hands-on support.”*

8. Invest in building engaged peer to peer networks

The research indicates that participants in top programmes were 1.5 times more likely to remain engaged in their programme post-completion, with most supporting marketing efforts, mentoring other SMEs, and participating in the programme – for example, as facilitators. These participants were also 1.5 times more open to learning from SMEs in other industries or regions.

Programmes should invest in building engaged networks of peer SMEs – alumni or current participants – as these businesses place a premium on learning from those with shared experiences. Opportunities should also be created for alumni to participate in the programme, support other SMEs with implementation, and help in marketing or recruitment efforts.

Personalisation can unlock value across the economy

The UK's SME sector stands at a critical fork in the road: either it will create a drag on, or provide a significant boost to, the country's economic recovery.

NatWest's analysis suggests that, if SME support programmes put personalisation at the heart of their design, they will be able to propel significantly larger numbers of businesses to scaleup status. The analysis also shows that new approaches, guided by the eight golden principles, could drive real value for the economy by 2030 in the five areas: productivity, scaleup growth, Black, Asian and Minority Ethnic representation, female entrepreneurship, and carbon-emission reduction. Unlocking each of these prizes could add £140 billion GVA to the UK economy.

The potential and opportunity tied up in this sector are well understood. Organisations of all kinds are already offering a range of support programmes designed to lift SME performance in areas like management training, tech adoption, innovation and efficiency. But there is tremendous untapped potential for these programmes to deliver greater impact at the aggregate level. The research presented in this report shows that the key to unlocking that potential is personalisation – which needs to be at heart of programme design.



Driving real value for the economy by 2030

NatWest scales up its SME commitment to drive growth

In partnership with the UK Government, business bodies and charities, NatWest is committed to helping level up the SME landscape, drive productivity, and encourage economic recovery and growth over the next decade.

The bank's interventions will focus on scaling up micro businesses, unlocking the untapped potential outside London, boosting managerial skills and practices, and supporting technology adoption within SMEs – using resources from within the bank and working with partners in the wider business community. Interventions for each segment will be personalised to maximise uptake, and focus on enhancing SME ability to capture productivity impact.

As well as committing £6 billion* to support SMEs to scale and grow – with £4 billion of this allocated outside London – NatWest will provide opportunities for its own people and customers to share and benefit from the bank's expertise. It will provide a dedicated force of Growth Consultants, and commit to connecting 10,000 NatWest customers to the best training or growth opportunities available.

**Available to UK residents aged 18 or over. Security and Director's guarantee may be required. Product fees may apply. Subject to status, for businesses only.*



NatWest

Rallying together to support SME recovery in the UK



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The insights in this report are based on NatWest's in-depth analysis of the UK SME landscape. Research included a survey of 1,000 SMEs carried out in March 2021, a review of more than 100 reports, analysis of 50 support programmes with a UK and global focus, interviews with more than 20 support programmes and organisations in this space, and focus groups with around 20 SMEs from across the UK.