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# SME Guide to Success

Six rules to build your business post COVID-19

# The SME guide to success: six rules to build your business post COVID-19

COVID-19 has presented the biggest challenge to the UK economy of the post-war era. The immediate effects of the crisis were felt deeply across the country, and Britain will continue to face many hurdles as it navigates its way out of the uncertainty.

Within this, small and medium sized enterprises (SMEs) will play a more important role than ever before. These businesses are responsible for a huge amount of the UK's productivity, which in turn powers the wider economy. According to the Federation of Small Businesses, SMEs account for three fifths of employment in the entire UK private sector and around half its turnover. Unfortunately, with a smaller pool of resources to fall back on, many have proven to be the most vulnerable to challenges brought about by COVID-19.

However, thanks to their size, small and medium-sized businesses are also uniquely well placed to react quickly and nimbly to these new conditions. We've already seen plenty of examples of this when the UK went into lockdown, where SMEs adapted their offering to continue to meet their customers' needs.

At Allica Bank, we're dedicated to empowering such businesses with the tools they need to succeed. To support this, we've created a special guide to help small and medium-sized businesses to navigate these uncertain times. It's packed with decades of insight from our executive team, and backed up with data from a specially commissioned survey by Allica Bank and the Centre for Economics & Business Research (CEBR) of leading small businesses.

By identifying six key themes that successful small and medium-sized businesses consistently demonstrated, I hope this guide will provide some food for thought around how to empower your business to achieve success in a post COVID-19 world.

Good luck and stay safe,
**Chris Weller, Chief Commercial Officer, Allica Bank.**

# Methodology



This research uses data from a survey commissioned by Allica Bank and the Centre for Economics & Business Research (CEBR) of 1,001 senior decision makers at UK SMEs. Conducted by YouGov between 25th February and 4th March 2020, it was designed to analyse the statistical relationships between an SMEs' performance and various factors that could have contributed it.

Of course, success is not an objective concept – it often means different things to different companies. To capture a range of outcomes that feed into a business' overall level of success, CEBR has compiled an SME Performance Index. This Index incorporates data on:

1. Productivity. Indicating the average profits generated per employee each year, this is a core metric used by many businesses to gauge and track their success from year to year.

2. Growth. This indicator analyses how SMEs' revenues have grown over the past three years, reflecting how successful they have been in expanding their product offering or market share.

3. Consistency. Another key outcome that businesses aspire to is a steady and reliable stream of profits from year to year. This indicator is therefore based on how often in the past five years that SMEs have registered a profit.

4. Outlook. This adds a forward-looking element to the SME Performance Index, by asking SMEs how confident they are that they will remain operational throughout the next five years. This will reflect a variety of factors such as the strength and reliability of the customer base, the financial position of the company, and the prospects for the market as a whole.

Each business in the survey is assigned a score ranging from 1 to 100 for each of the four indicators, with a score of 1 representing the weakest performance and a score of 100 representing the strongest performance. The results for each indicator are then combined to produce an overall SME Performance Index score for each SME in the survey.

This data was then supplemented by SMEs' qualitative assessments of what have been the crucial factors in driving their success. The development of the SME Performance Index allows the top performing businesses in the survey to be identified.

In researching the most crucial drivers for success, this research looked to the most successful SMEs – of which there were 100 – to identify trends and commonalities among them. A comprehensive range of factors has been considered that cover different aspects of a business's operations, such as the composition of the workforce, interactions with clients, and financial decision-making.

The six rules we give in this guide are largely formed by analysing factors apparent in the top 100 SMEs and, conversely, what has not been found in businesses scoring the lowest on the SME Performance Index.

## Rule 1: Provide regular training for your staff



Your employees are one of your company's most valuable assets, and with the right training and development you can enhance their skills and capabilities even further. High-quality and formalised training can also help to improve morale and staff retention.

Among the most successful SMEs, there was a strong trend for providing ongoing training and development for employees. Of the top performing businesses in the survey, 47% provided training for employees at least on a quarterly basis, compared to just 32% of other businesses. Overall, 21% of respondents provided training every month, 46% did this just once a year, and 15% admitted they never provided any training for their staff at all.

Training and developing a workforce allows a business to get more out of its employees, and in the aftermath of COVID-19 this will be even more important. Not only will businesses have to champion efficiency and productivity as part of their recovery, but their workforces will need to be prepared for the challenges this new normal will bring.

**Toby Mason, COO, Allica Bank**

"Regular training can have a huge impact on your employees on an individual level. But it is also a tell-tale sign of a healthy, efficient business that is thinking about the long-term."

However, as with any expense, it's important to understand if a specific training course is right for your staff or your business. Training for training's sake is not the aim and the right programme can help empower a business on a wider level. For instance, if better financial knowledge was extended beyond the management level in a small business, employees would have a better understanding of cost-effective productivity and how their own output impacts this. Fortunately, there are now more ways of accessing training online, making this a lot easier from a logistical angle.

## Rule 1: Provide regular training for your staff

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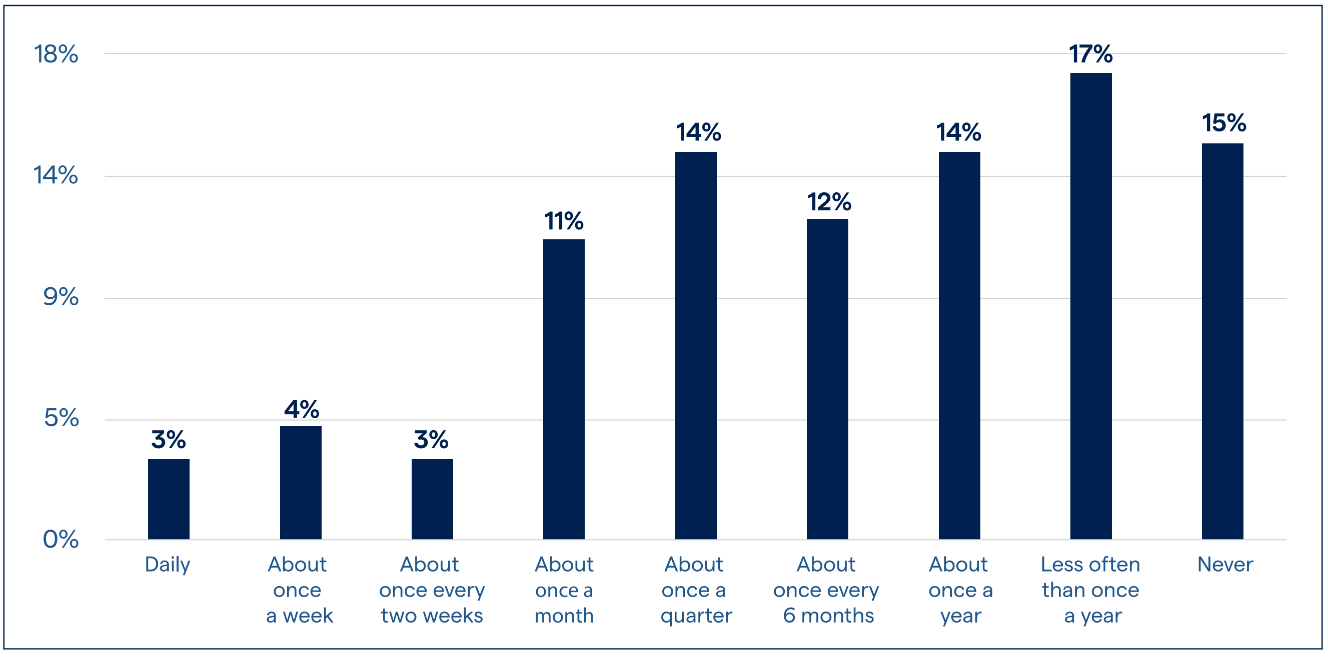
Some business owners have told us they worry about investing in training for employees, only to see them leave once they've received it. However, we see this as an outdated concept. Besides, high-quality training and development can actually lead to stronger employee retention by boosting morale and inspiring motivation in a way that salaries don't.

What businesses must do is ensure they have a real platform in place for training so it's available and readily accessible for your employees. As well as formal training programs, this can also include simple things like providing interpretations of government guidance around COVID-19 and how to make this work in a practical sense (for instance, how staff can realistically follow social distancing guidelines in the workplace, while continuing to provide an excellent and personal customer service).

Fig 1. On average, how often, if ever, does each employee in your business receive formalised training?




## Rule 2: Make time to focus on innovation and technology

As a smaller business, you're always evolving. And – due to your size – you can be nimbler than your bigger competitors. Make time to actively explore new ways of embracing innovation and the latest technologies that could take your business to the next level.

We asked our survey respondents about how often their business considers ways in they can innovate – and improve – their products and services. Through deeper analysis, it was found that the level of focus on innovation is the strongest predictor of businesses' performance (out of those considered in this study).

Looking again to the best performing businesses, 76% were found to either continually (39%) or often (37%) be considering new opportunities for technology in their business. This is compared to only 51% for businesses considered to be outside of the top ranks, out of which only 27% admitted to continually looking for new technology opportunities.

## Rule 2: Make time to focus on innovation and technology

As damaging and disruptive as it has been, COVID-19 provided a catalyst for a lot of businesses to innovate and re-evaluate their products and services. We've already seen many impressive examples of this during the pandemic, such as restaurants creating home delivery services from scratch and manufacturers overhauling their setups to make PPE on a large scale.

Looking forward, make special time to deliberately think about how your business can further innovate, whether that's through using new technology, adapting your products, or changing processes. At the same time, ask yourself when you last innovated and assess what innovation could really look like in your sector.

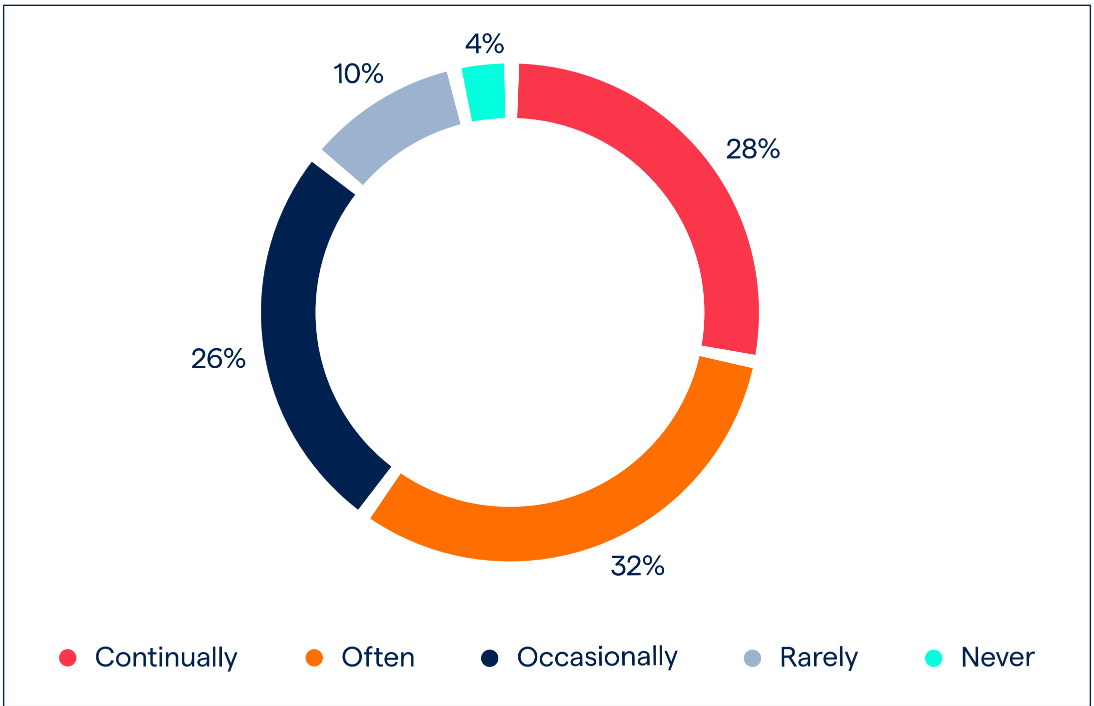
For instance, should your sector have to abide by certain social distancing measures, how could you use technology to help a remote workforce stay productive? Could you further integrate technology into how you gather, measure and act upon customer feedback? Are there ways customers could access your products or services without having to visit you onsite?

**Chris Weller, CCO, Allica Bank**

"You don't need a team of software developers or lab technicians to be innovative. Some of the best innovations come from simply reimagining your existing products or services, or finding new markets to sell them in."

However you choose to innovate – from navigating new working conditions to developing stronger connections with your customers – it's important you remain alert to innovation opportunities and stay nimble enough to take advantage of them.

Fig 2. How often does your business consider ways in which new technologies can improve its products or processes?



# Rule 3: Have a formal, long-term vision (and don't forget it)

Building a successful business isn't just about what you do today. Make time to create a formal, long-term vision of where you want your business to go and what you want it to look like one day. Most importantly, always keep your vision in mind.

From the research, another strong predictor of an SME's success was whether or not they had a formal, long-term vision. Nearly two thirds (66%) of the most successful businesses in the survey had such a vision, compared to just 50% of businesses outside the top 100. And, looking to the businesses that scored the lowest on the SME Performance index, only 37% claimed to have a formal, long-term vision.

**Toby Mason, COO, Allica Bank**

"Your long-term vision defines where you want your business to be, while your business plan lays out how you're going to get there. In times of uncertainty, you may need to change your business plan to fit the circumstances. But never forget what you ultimately set out to do."

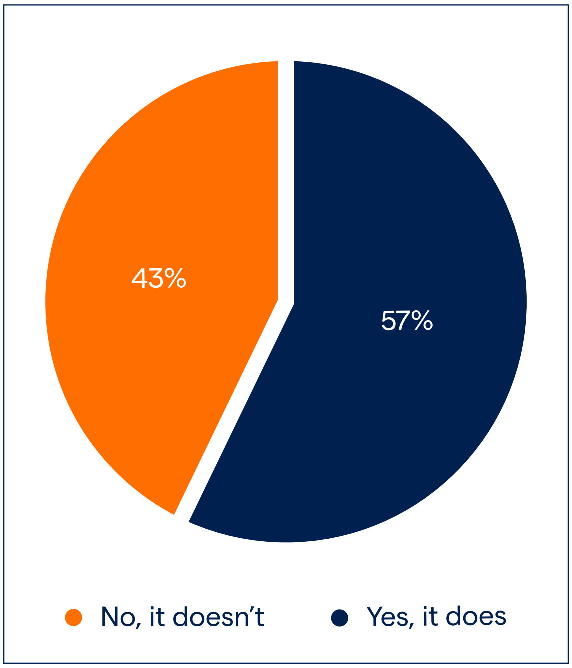
It's one thing to have a general ambition for your business, but real value can be added for those that have taken the time to establish a defined vision. This can give more than just direction. It also helps to align decision-making with goals, motivate employees, and strengthen coordination efforts. Your vision could be customer focused or mission-oriented, but it's important that it allows your staff, team nd customers to understand the purpose of your business.

With this, though, comes accountability. You need to hold yourself and your business accountable for keeping the vision alive and working towards achieving it. Using an OKR (Objectives & Key Results) and KPI (Key Performance Indicator) model could be an effective way to track and measure how you're doing. Try to make sure these indicators aren't vague by including as many points of reference as possible (for instance, number of employees, amount of markets being operated in etc). These can be changed but should hopefully provide a useful guide for how your business is performing against it.

When you encounter challenging circumstances, which you may do in an uncertain post COVID-19 world, your business's formal, long-term vision can provide a valuable anchoring point for decision-making processes. And while it can be easy to get into a flow of taking each day as it comes, taking time to formally review your progress against this vision can be extremely useful. At these points, ask how is the business is doing? Do you need to change your strategy of implementation? And is the vision still valid?

This a very important process that, alongside things like financial planning and following a recruitment strategy, can be hugely beneficial to your business in the long term and should be repeated on a fairly regular basis.

Fig 3. Does your business have a formal long-term vision?



## Rule 4: Broaden your customer reach and find new markets

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**Any growth plan relies on increasing your number of customers. Therefore, formally consider where your business could expand into new customer markets – this could be as simple as developing your brand on social media channels, or even opening up additional premises in new locations. Alongside boosting your revenue stream, expanding into new customer markets can also help diversify the risk your business faces.**

There is only so much revenue that can be repeatedly extracted from a given customer base. Therefore, it's very important that smaller and medium sized businesses think proactively about how they can broaden their customer reach and expand where possible. In demonstrating this point, our survey respondents picked out selling products and services internationally as the most commonly chosen driver of success.

For instance, of the top performing businesses, 65% of these have overseas customers compared to just 40% of the worst performing businesses. Of the best performing SMEs, over a third (34%) identified international expansion as one of the top three drivers for their success. COVID-19 has obviously made international expansion extremely difficult for the timebeing, but there are still many other ways to broaden your business's reach, and the good news is this doesn't have to be an expensive process.

**Chris Weller, CCO, Allica Bank**

"In times of uncertainty, having several different sources of revenue can be the difference between continuing to trade and coming to a complete stop. Finding new markets is a great way to futureproof your business."

For example, looking at your customer base, ask yourself where are similar customers based and how can you reach them? This could be done with a marketing campaign which, through the targeted use of social media, doesn't have to be as expensive as you might think. Not only could this help you branch out into new markets, but it could also help you further connect with customers in existing locations.

# Rule 4: Broaden your customer reach and find new markets

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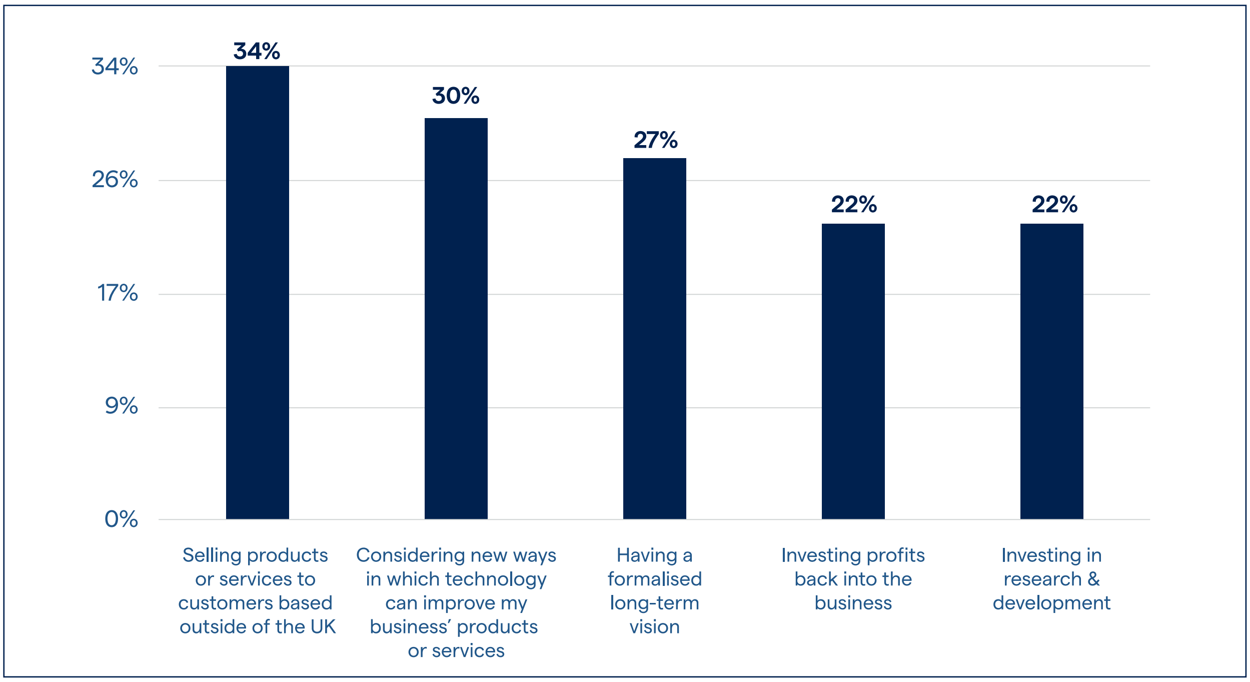
Another great way to expand your business, and open up to new customers is to consider what other products and services you could provide. For example, if you run a garage and have access to many vehicles, are you in a position to buy stock and resell it, thereby creating a dealership? Or, could you sell cars in another way and establish a scrappage service? Depending on the sector you operate in, there may be several opportunities for your business to expand laterally.

Expansion may seem an expensive and daunting prospect. Though, while there is of course risk and expense, think about how you can leverage what your business already has to help it expand. Do you have a strong brand reputation that would resonate in neighbouring regions? Are your existing premises large enough to be used in new and additional ways? And do you have any existing relationships where, upon review, you could cut out the middleperson and take on more of the value chain? Expansion will be different for all small and medium-sized businesses, but there will always be opportunities to take advantage of, too.

Fig 4. Share of top 100 performing SMEs listing factor as one of the top three drivers of their success




# Rule 5: Develop a reinvestment plan to strengthen your business

Investing back into your business can help it move forward and grow. Whether this is through research & development, new technologies, or hiring extra staff, decide on how much of your profits could be reinvested into your business to propel it forward.

After overseas expansion, innovation and having a strong vision, reinvestment of profits was identified as the next most important driver of success, according to our respondents. Of the best performing SMEs, 22% of these have reinvested some of their profits in the past three years with an average 9% of profits being redeployed. Tellingly, this is nearly double what other businesses admit to reinvesting in their business (5%).

## Rule 5: Develop a reinvestment plan to strengthen your business

COVID-19 has made reinvestment a more difficult prospect for many businesses, especially those that have had to eat into their cash reserves just to survive. As a result, more detailed and thorough planning needs to be done for reinvestment post COVID-19. Take time to thoroughly assess your business's needs and where investment could have the biggest impact, and try and give this a figure. Then, look at the money you have available – how much of this can be side-lined for reinvestment and how much do you need for other purposes?

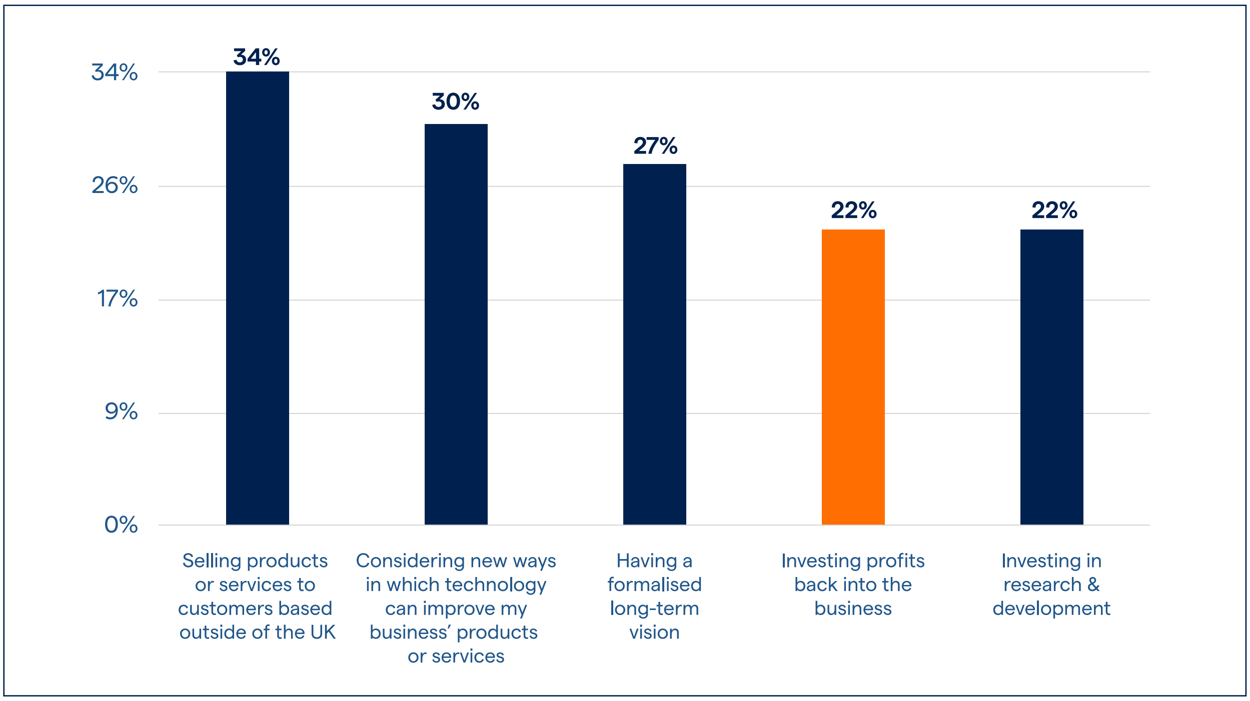
Unfortunately, many business owners may need to make compromises here and this is especially the case when it comes to the income you personally take out of your business. This is why is it so important to have a formal, long-term vision and to appreciate what level of reinvestment is needed for the long-term future of your business.

Such difficult decisions don't need to be made alone, however. Think about where you can find advice on this matter, such as from your accountants, online resources, or third-party connections (see next chapter). Not only can these support business owners, but also challenge them in how they think about reinvestment and what needs should be prioritised.

**James Heath, CFO, Allica Bank**

"Deciding what percentage of your profits to reinvest into your company is tough. But one thing is for sure: investing back into your business is one of the most sure-fire ways to empower your company to achieve success in the long-run."

Fig 5. Share of top 100 performing SMEs listing factor as one of the top three drivers of their success



## Rule 6: Don't be an introvert – look wider and understand the power of your network

Building a business is a challenging and demanding occupation for any individual. However, by looking externally and reaching out you could access valuable resources and support for your business. Taking time to collaborate with the right partners and third-parties could also provide a crucial fresh perspective.

Many of the best performing businesses in the survey had high levels of engagement and interaction with external institutions and resources designed to help businesses. For instance, of the top 100 SMEs, 30% had obtained external credit to expand over the past three years (compared to 24% of other businesses). Meanwhile, only 16% of all other SMEs had engaged with local enterprise partnerships or growth hubs in the past three years (compared to 23% of the top 100 SMEs).

**Chris Weller, CCO, Allica Bank**

"Business owners know their businesses back to front. But they can't be expected to be experts on everything. Tap in to the external resources around you to plug those gaps and propel your business."

Third-parties, such as business clubs, chambers of commerce, trade bodies etc, can be invaluable sources of advice and further resources. Like most people, business owners won't be experts in everything. And although they have excelled in their given field, they may still lack knowledge in many other areas of running and growing a business. Therefore, engaging with third parties can give business owners the kinds of insight – and fresh perspectives – they need to succeed.

With such a strong and healthy population of small and medium-sized businesses in the UK, a large network of local, regional and national business support has developed alongside it. Do some research and find out what kinds of external resources are available to your business.

At the same time, think about areas in your business you feel you may need guidance on or simply want to chat about. Being a part of a broad conversation is a sign of a healthy business and, in the uncertain aftermath of COVID-19, these kinds of relationships may be more important than ever before.

## Rule 6: Don't be an introvert – look wider and understand the power of your network

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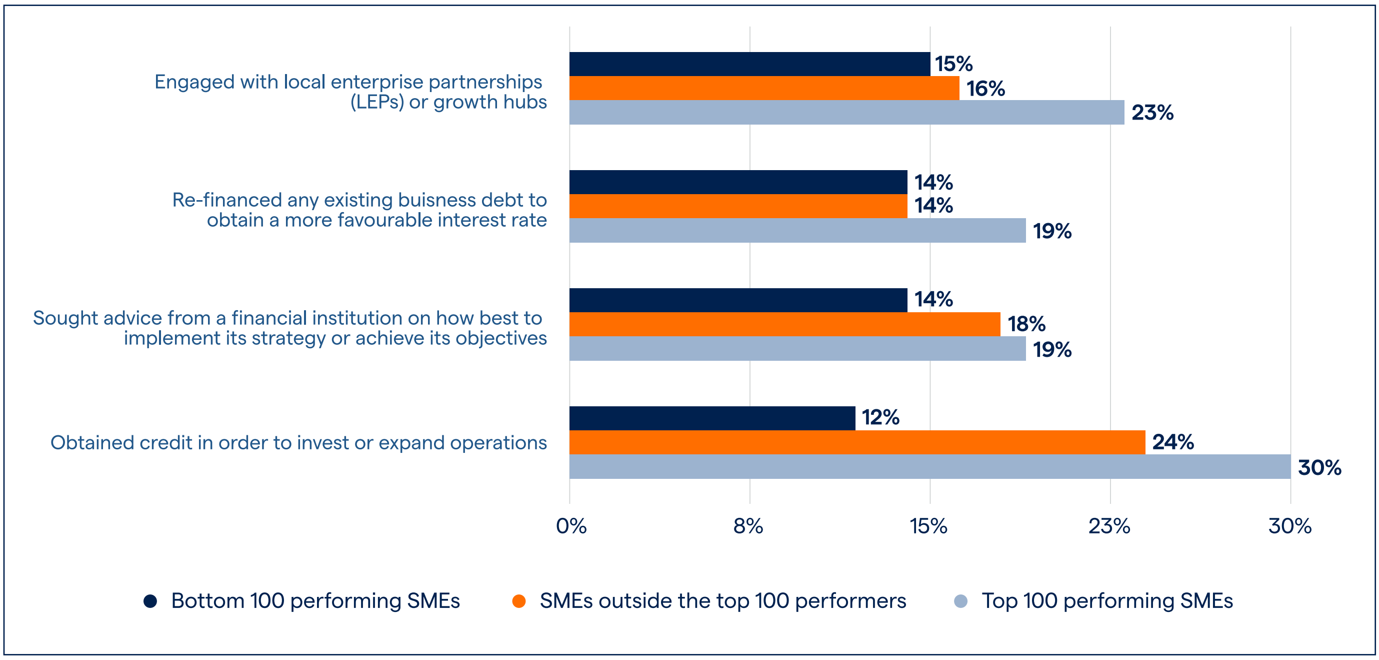
These connections can also provide some incredibly valuable psychological advantages. Running a business is an isolating experience sometimes. Having a support network around you of fellow entrepreneurs and industry professionals that have similar challenges could be a real blessing for your own mental wellbeing.

Fig 6. Over the past three financial years, has your business done any of the following?

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