

## Collaborate UK 2015



## Foreward

### By Patrick Gallagher, CEO, CitySprint

They say that change is the only constant. This mantra is lived and breathed every day by the UK's small and medium sized entrepreneurs, who continue to adjust to an ever-changing world.

I am tremendously proud of our Collaborate research project. This is the third report in the series, which has charted the path of the UK's SMEs through the recession, into growth, and now over a period of relative stability.

It is fascinating to watch businesses adapt to both survive and thrive – cutting their cloth in tough times, then innovating and building new networks to fuel growth in more optimistic conditions. One thing remains true: whether in good times or bad, SMEs have turned to each other for support.

The journey continues this year. Our respondents have made it abundantly clear that the uncertainty caused by a possible exit from the EU is of serious concern, especially as they seek to generate growth at both a national and international level.

There may be further clouds on the horizon. Many commentators are predicting a tough start to the year ahead, despite the improved economic conditions of late. As a result, stimulating customer demand is the biggest challenge facing the UK's SMEs in 2016. Despite this, their overall outlook is optimistic.

It is reassuring that so many say the partnerships they formed in tougher times have put them in a better position to face the future. But they must continue to remember the value of these relationships if the recovery stalls. Too few put collaboration on their list of priority actions if conditions worsen. Have SMEs forgotten the lessons they learned in hard times?

Whatever 2016 heralds, I know the UK's SMEs will continue to face it head on - and we are proud to support them.



88%

of SMEs are in the same or better shape financially than 12 months ago

85%

of SMEs are sharing skills, expertise and mutual networks to drive their business forward

1.45

million SMEs are seeking international opportunities to grow

86%

say the collaborative partnerships formed in tougher times have placed them in better stead for the future

60%

of SMEs believe uncertainty about the UK's future in the EU is affecting long-term growth plans

## Small but perfectly formed. Why SMEs are a critical part of the UK's economic backbone

According to the Department for Business, Innovation and Skills there are a record 5.4 million private sector businesses in the UK in 2015 – and small to medium sized enterprises account for 99.9% of these. Since 2000, the number of SMEs in the UK has grown by 56%, equating to some 1.9 million new businesses operating across all major industries and sectors.

Small and medium sized businesses remain a critical driving force behind the UK economy, accounting for 60% of all private sector employment (some 15.6 million people). Their combined annual turnover equates to £1.8 trillion - almost half of the total private sector turnover.

*(Source: Business Population Estimates for the UK and Regions 2015, BIS)*

## 2015 – a strong year for SMEs

The performance of UK SMEs in our survey reflects the improved economic conditions of the last year. Over half of SMEs (53%) say their business is in a better financial position today compared to 12 months ago.

Overall, 88% say they are in the same or better shape financially. This figure has risen steadily since our first Collaborate UK report in 2013, where it was just 78%. However, there is only a marginal 2 or 3% increase on 2014's figure, indicating that growth may have levelled off. It is difficult to imagine this high performance bar rising much further.

## London vs the rest of the UK

The London region retains its position as a significant centre of growth - and not just one reserved solely for larger and multinational firms. An astonishing two-thirds (66%) of SMEs there report an improved financial position compared to 2014.

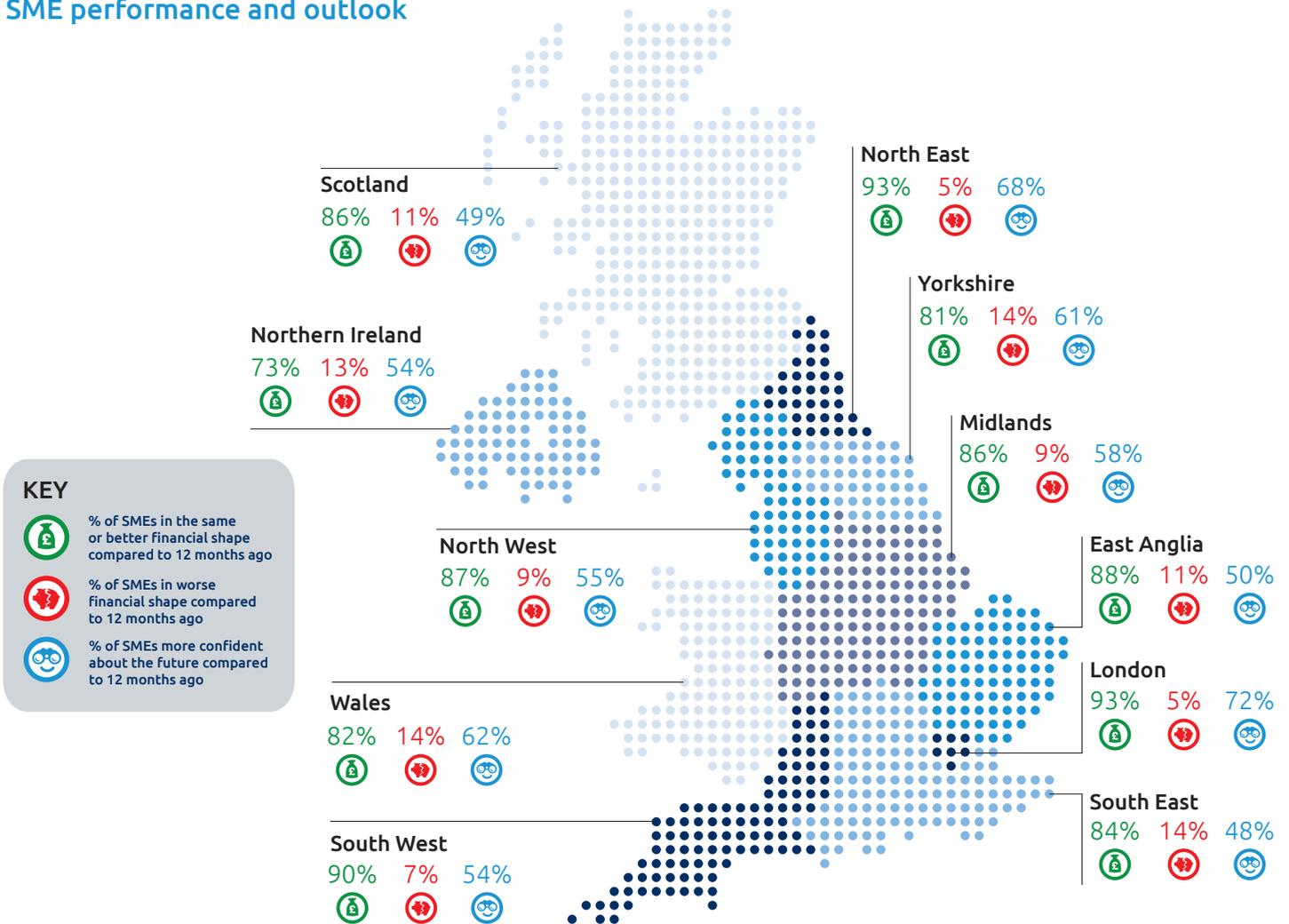
This is closely followed by Wales, with 61% of businesses there reporting that their finances have improved compared to last year. However, the overall picture in this area is clearly mixed; Wales also has a relatively high percentage indicating that the financial position of their business has worsened in this time (14%).

There is further good news to be found beyond the capital. Just one in twenty SMEs in the North East say they are in a worse financial position today. The South West and North West have similarly low numbers reporting a decline in fortunes.

But the cause for celebration is not, alas, universal. Yorkshire, the South East join Wales (as above) with the highest proportions of SMEs saying they are in a worse financial position today (all at around 14%).

If the true value of the Northern Powerhouse is to be unlocked, businesses in this part of the country must do more to work together. Further growth may also be stimulated through wider devolution of budgetary control to the regions, such as we have seen in 2015.

## SME performance and outlook



## The challenges ahead

As they look ahead, 85% of the UK's SMEs are more or as confident about the future compared to this time 12 months ago. This figure shows a marginal increase on the 83% in the 2014 report.

In spite of this confidence, SMEs are clear about the obstacles they face in 2016 that may hold them back.

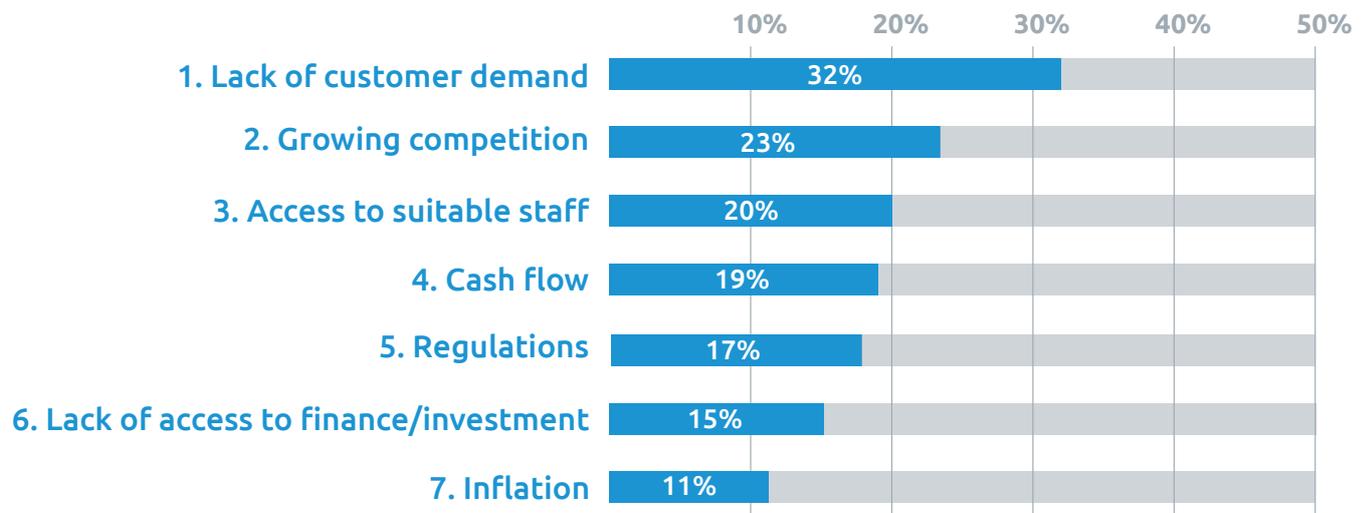
Perhaps surprisingly, despite the improved operating conditions, a lack of customer demand continues to be their biggest concern. A third in our survey (32%) cited this as the biggest problem, followed by increased competition for around a quarter (23%). This confirms that SMEs see a more challenging start to the year ahead, despite their broader optimism about the future.

No surprise then to find that SMEs continue to look to collaborative partners to help tackle these issues, relying on them to generate sales leads and win new business.

The other issues they see holding them back in 2016 are all familiar problems. One in five SMEs continue to cite access to suitable staff (20%) as a problem for the next year. Cash flow (19%) and keeping up with the regulatory agenda (17%) also remain of concern – all worries found in previous Collaborate reports that have not been fully addressed.

Once again, we wonder if there is more that policymakers, government and bigger businesses can do to help SMEs in these three areas.

## The seven obstacles to SME success in the next 12 months



## Going global for growth

The UK's smaller businesses enjoy proving that exporting doesn't have to be left to big business - despite disappointing overall UK export figures, which reached a six-year low towards the end of 2015.

While the majority (52%) are seeking growth opportunities at a national level, over a quarter (27%) are looking further afield to international markets. This equates to some 1.45 million businesses that are looking to win business overseas.

But it is exactly this desire to expand internationally that may derail them. A potential exit from the EU is the biggest cause of uncertainty among senior leaders and owners of SMEs; over a quarter in our survey highlighted this as a concern. This is followed by further political uncertainty within the UK (26%).

When asked specifically about the impact of a potential exit from the EU, almost two-thirds (60%) say this uncertainty is affecting their long-term growth plans. Almost a quarter (25%) say this prevents them planning ahead to a significant degree.

A quarter (26%) say it will limit their ability to look at international markets and a similar proportion (24%) say it poses a risk to their existing customer base.

With such significant consequences for the growth and performance of UK businesses this will be a crucial point of debate ahead of the planned referendum in 2017.

It is also an opportunity for SMEs to take joint action and leave policymakers in no doubt about their concerns.

## The biggest 'uncertainty factors' for SMEs in 2016

1. EU referendum / potential UK exit from the EU (27%)
2. UK political uncertainty (26%)
3. Staff / talent shortages (19%)
4. Increased staff / talent costs (pay etc.) (17%)
5. Competitors (15%)
6. Increased overheads (14%)
7. Further British regional devolution (14%)
8. Further national UK devolution (such as in Scotland) (14%)

## Forgetting the lessons learned in tougher times

The appetite among UK SMEs to build networks and forge new partnerships to help them succeed remains reassuringly strong. In fact, it is at an all-time high. But collaboration is disappointingly low on the priority list if the recovery stalls – suggesting many have not learned the tough lessons of the downturn. Businesses will need to look again at their partnerships if times get harder.

In this year's survey, 85% of SMEs are collaborating with other businesses – sharing skills, expertise and mutual networks. This represents an astonishing increase on the 2014 survey, where it was just 68%. Back in 2013 this figure was 77%.

## What do we mean by collaborate? How SMEs are working with other businesses

**43%** Use other businesses to get sales leads and win new business

**36%** Share best practice and advice with other businesses

**28%** Outsource some of their functions

**23%** Share operating costs

**18%** Have contra deals and arrangements in place

**11%** Work with other businesses when their clients request it

This means some 4.5 million SMEs in the UK are partnering with others to help drive their business forward. And the majority in the research (86%) say that the collaborative partnerships they forged in the downturn and tougher economic times has placed them in better stead for the future.

Given this, it is therefore disheartening to see that less than one in five say collaborating and partnering with SMEs is one of the first actions they would take if economic conditions worsen.

## What SMEs will do first if the recovery stalls in 2016

1. Undertake careful financial management / reduce costs (34%)
2. Reduce overheads (28%)
3. Adjust / reduce headcount as needed (23%)
4. Increase focus on our core customers (22%)
5. Diversify / change our offer, service or product (22%)
6. Secure additional funding / investment (21%)
7. **Collaborate and partner with other SMEs (19%)**

It is vital that SMEs revisit and refresh their partnerships and rebuild their network to maintain performance in difficult times. They will need to work with different partners to survive in a more challenging climate. As we saw back in 2013, SMEs are able to use their size to their advantage and adopt 'lean collaboration' to help achieve reduced costs and overheads (their first and second priority actions in the event of harder circumstances).

## The true value of collaboration

There is still further evidence of the impact of collaboration in our research. Having established the high value SMEs place on collaboration overall - and seen that despite this it remains low on their hit list if conditions worsen - we wanted to pinpoint the legacy that partnerships with other businesses can generate.

To do this we looked at the cohort in the survey (just under half of the respondents) that are the most positive about the value of collaboration. We used the responses of this group to explore the impact of these supportive relationships.

The results are encouraging. Almost all in this group (93%) said their business is the same or better financial shape compared to a year ago.

In addition, compared to the overall sample in the survey, this group are:

- More likely to say their business is in better financial shape compared to a year ago (rising from 53% overall to 68% for this group)
- More confident about the future (rising from 60% to 76%)
- Less concerned about competitors (the proportion citing this as an 'uncertainty factor' about the future drops from 9%)

This high-performing, pro-collaboration group is also more worried about the interruption to their business caused by a possible EU exit and the impact of further political uncertainty in the UK.

Furthermore, if the recovery does stall this group will take a slightly different course of action to their counterparts. While first on their list of immediate priorities remains reducing costs and careful financial management, in third place is collaborating and partnering with other SMEs (which is eighth for the overall sample).

If conditions one again become tougher, this group is more worried about access to investment and finance, rather than harbouring any concerns about cash flow. They understand that to survive in difficult times investment and positive action are called for, rather than battenning down the hatches.

And they know that to weather any storm, they need to rebuild their network and take a fresh look at the partners they need to maintain growth.

## Methodology

The Collaborate UK report findings are based on a survey of 1003 UK business owners and senior decision makers from small and medium sized businesses (<250 employees). The research was conducted by Censuswide, on behalf of CitySprint, in November 2015.

## Who we are

CitySprint is the UK's leading same day distribution network, offering SameDay Courier and Logistics services, as well as International Courier and UK Overnight deliveries.

Around three quarters of our 25,000 customers are SMEs and we are privileged to see first hand how they are collaborating with other businesses to succeed every day.

That's why our annual Collaborate UK report is so important to us. It helps us not only better understand the challenges facing our SME customers but also the partnerships and networks they are forming to grow.

This helps us provide a better service and meet their business needs. And by sharing this report, we hope we can encourage and inspire other businesses to seek new ways of working together, explore new opportunities and expand their reach.

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