

SME Manufacturers and the Covid crisis

Analysis of data collected from the
Manufacturing Growth Programme

Data from August and September 2020





Foreword

The Manufacturing Growth Programme

MGP is the UK's leading and largest business support programme aimed specifically at manufacturing SMEs. We have tracked the impact of Covid-19 on the UK's manufacturing sector through our quarterly Manufacturing Barometer report and seen significant supply chain issues. To shine a light on these, we commissioned leading policy experts SQW to analyse the data that we collected from almost 300 businesses.

The SQW analysis highlights the importance of resilience in supply chain planning in the face of the continuing uncertainties around future demand, the reliability of suppliers and the implications of Brexit. We will use these insights to strengthen and develop the support that we offer to manufacturing SMEs. We also encourage policymakers to use these findings to inform the development of effective policy to support the recovery and growth of UK manufacturing.

Oxford Innovation Services, October 2020

Introduction

Despite a great deal of discussion about the effects of the Covid crisis on the economy, generally there has been a lot less detailed analysis about how it has impacted on specific types of business. This analysis uses data collected by the Manufacturing Growth Programme (MGP) over the past couple of months to provide more insight into the effects on companies' order book, suppliers and preparations for Brexit.

Data was collected from 289 SME manufacturers applying for support through the MGP during August and September 2020. It uses a questionnaire designed by Oxford Innovation Services, the company that delivers MGP, and SQW, to gather data on a number of aspects of business performance and outlook.

Overview

Above all, the results highlight the importance of resilience in supply chain planning in the face of the continuing uncertainties around future demand, the reliability of suppliers and the implications of Brexit.

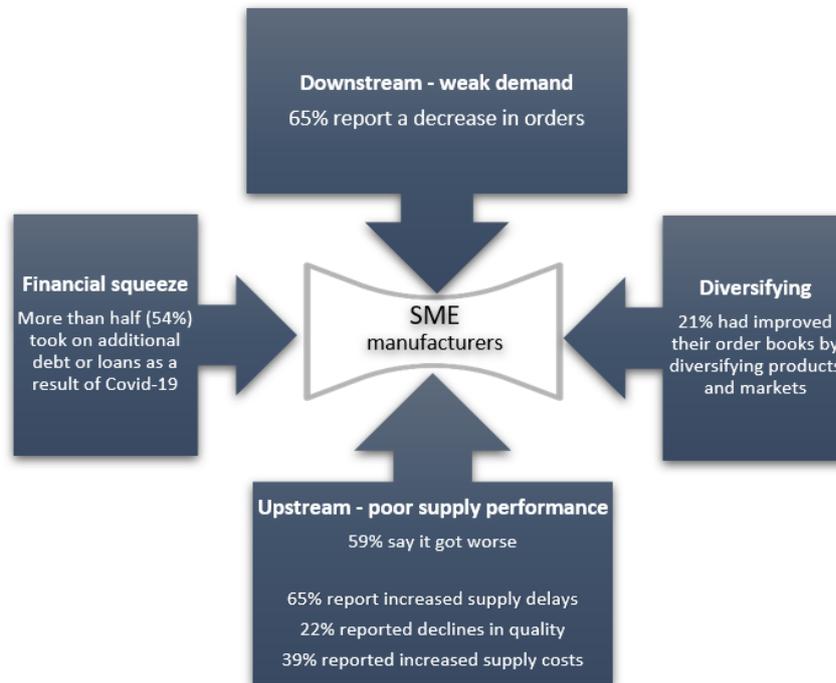
The survey found that during the Covid crisis SME manufacturers have been squeezed between sharply weakening demand and poorer supplier performance. As a result, more than half of the businesses in the sample have taken on additional debt. However, a significant minority (a fifth) has managed to increase their order books, where companies have been able to diversify into new products and new markets.

Only 10% of sales from these businesses is directly to the EU and the majority of their suppliers are based in the UK. Even so, there was still a lot of uncertainty about the potential impact of Brexit. Among the bigger exporters, 35% thought Brexit would have a negative impact, 10% a positive effect and 33% were unsure (20% thought there would be no change).

The results clearly demonstrate the challenges faced by small manufacturers and the urgency of providing help to support supply chains. Specifically, through:

- Helping manufacturers to diversify products and markets to rebuild demand
- Help to build resilience by reviewing suppliers and securing better performance
- Focused support for exporters in the face of weak demand and Brexit uncertainties.

Figure 1: The impact of the Covid pandemic on SME manufacturers and supply chains



Source: SQW based on MGP survey of 289 firms

Analysis

This section sets out the characteristics of the sample of 289 companies that provided data. Businesses were predominantly based in the West, East and South East Midlands, with a small number in Yorkshire and the South.

Half of the businesses in the sample employed 13 or fewer people (median employment) and had a turnover of less than £1.3 million.

Table 1 shows that almost all the businesses were small businesses (10 -100 employees) or micro (less than 10 employees).

Table 1: Size of firms in the MGP survey sample

	Number	% of sample
Mean employment	24	-
Mean turnover	£2.9 million	-
Median employment	13	-
Median turnover	£1.3 million	-
Micro (1-9 employees)	131	45%
Small (10 -99 employees)	142	49%
Medium (100-250 employees)	8	3%
Not known	8	3%
All	289	100%

Source: SQW analysis of MGP survey, n=289

Exporting

Across the sample just over half (57%) undertake some form of exporting. The likelihood of exporting increases among the companies with more than 10 employees (the small and medium businesses) in the sample. **Among the micro businesses, 50% do not export at all** compared with 38% of the small companies and 13% of the medium ones. Overall a quarter of the sample exports more than 20% of their output.

As a benchmark, the 57% that export can be compared with the estimates in a BEIS paper (2018)¹ which found that 20% of all UKs SMEs export. These manufacturing companies are far more likely to export than the overall SME population.

Table 2: Proportion of sales exported by size of firm

Size of business	No exports	Up to 20% of sales exported	More than 20% of sales exported
Micro	50%	29%	21%
Small	38%	36%	26%
Medium	13%	25%	63%
Total	43%	32%	25%

Source: SQW analysis of MGP survey, n=289

Although 57% of the companies export to some extent, by value, this only represents 21% of all sales their sales (Table 3). **Almost 80% of sales are made to customers in the UK** (£638

¹ BEIS (2019), Longitudinal Small Business Survey: SME employers (businesses with 1-249 employees) – UK, 2018

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/803645/LSBS_2018_employers.pdf

million compared with the £165 million which is exported). However, this is only part of a supply chain and the UK companies that these firms are supplying may themselves be exporters.

Table 3: Value of sales made to each market (£ millions)

Markets	Value of sales made to each market (£ millions)	% of all sales
UK	638	79%
EU	80	10%
Rest of world	85	11%
All sales	803	100%

Source: SQW analysis of MGP survey, n=289

Sectors

The sample covers a wide set of manufacturing sectors with the most common being engineering, electrical equipment and food and drink manufacture. Sectors with less than five cases have been aggregated into the “other” category (Table 4).

Table 4: Sample structure by sector and size

Sectors	Micro (1-9)	Small (10 -99)	Medium (100-250)	All	No. of cases
Sample by size	131	142	8	-	281
Engineering	15%	18%	25%	17%	48
Electrical / Electronic Equipment	13%	13%	13%	13%	36
Food and Drink	16%	8%	0%	11%	32
Metals & Other Basic Metal Products	6%	9%	25%	8%	23
Rubber & Plastic Products	7%	8%	0%	7%	21
Construction	5%	7%	13%	6%	18
Packaging / Paper / Print	3%	9%	0%	6%	17
Textiles	5%	4%	0%	4%	12
Medical / Lifesciences	5%	3%	0%	4%	11
Carpentry, Joinery & Other Wood Products	5%	4%	0%	4%	11
Automotive / Trailers / Other Transport	5%	4%	0%	4%	11
Other	2%	4%	13%	4%	10
NEC - Jewellery / Musical Instruments / Games & Toys	3%	4%	0%	3%	9

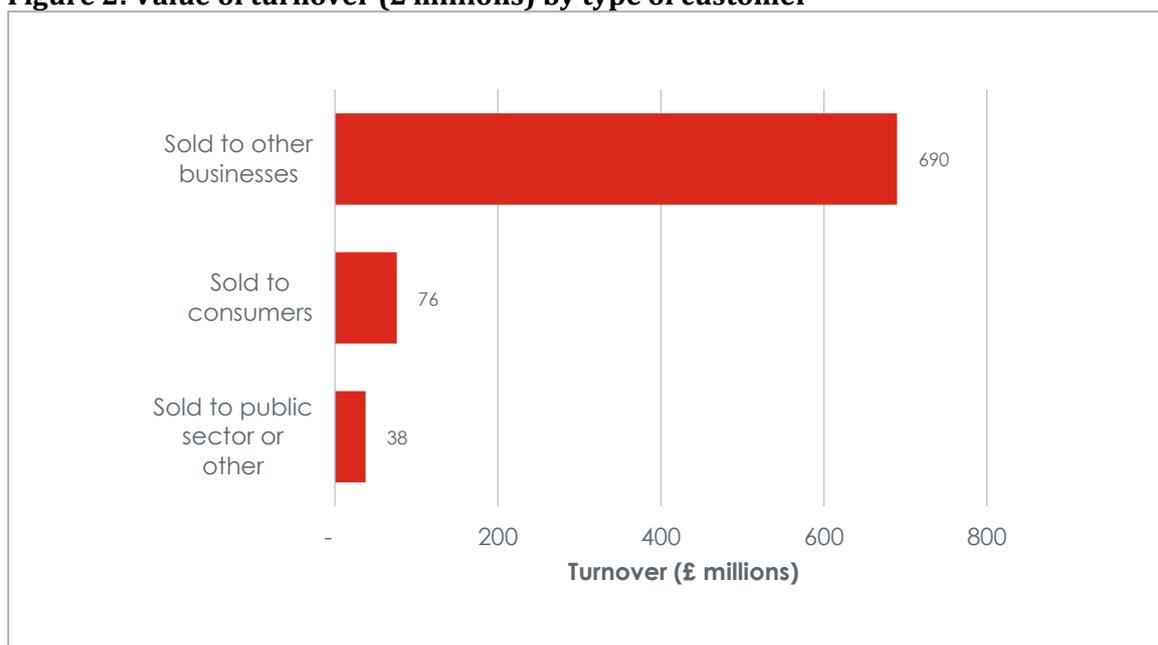
Sectors	Micro (1-9)	Small (10 -99)	Medium (100-250)	All	No. of cases
Furniture	5%	2%	0%	3%	9
Chemicals / Refining	3%	2%	13%	3%	8
Software / IT	2%	2%	0%	2%	5

Source: SQW analysis of MGP survey, n=281

Supply chain

These businesses had a combined turnover of £803 million in the last financial year. Of this, the large majority £690 million (86%) is sold to other businesses and only £76 million is sold to consumers. There are 218 companies that entirely, or mainly, sell to other businesses and 48 that sell only, or mainly, to consumers.

Figure 2: Value of turnover (£ millions) by type of customer



Source: SQW analysis of MGP survey, n=281

Order books

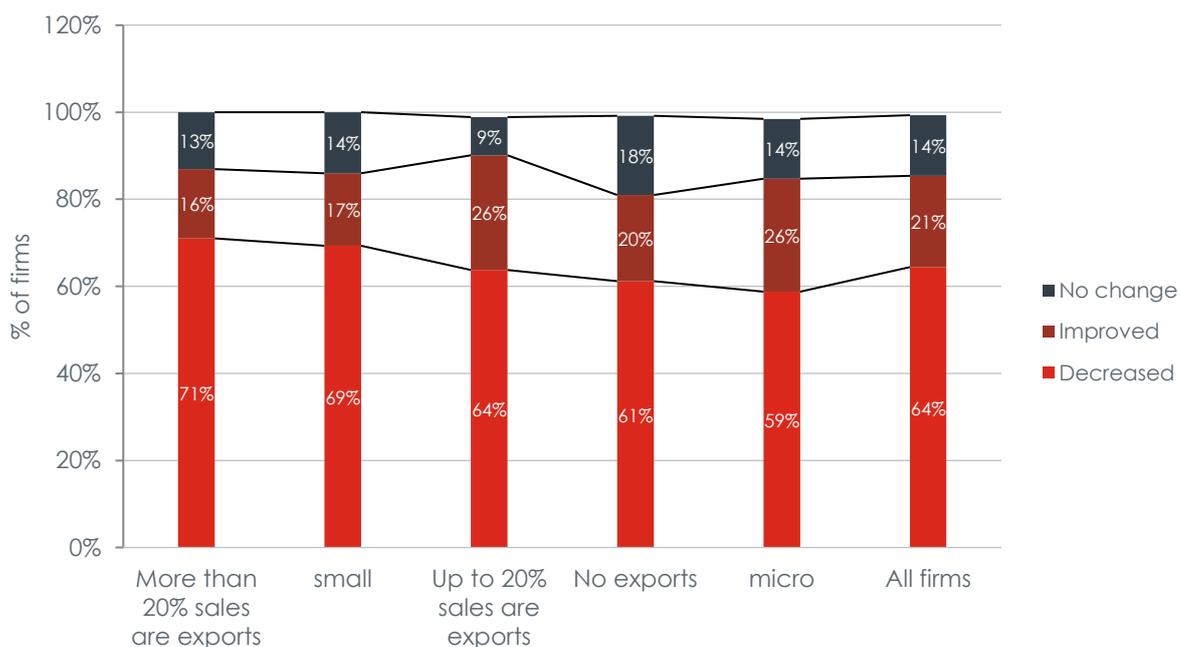
The Covid pandemic and public health measures have had a major negative effect on SME manufacturers' order books. Two thirds reported a decrease in their orders. The bigger firms and exporters are most likely to have seen order books decline.

- 64% reported a decrease in orders
- 21% an increase in orders, and

- 14% no change².

Figure 3 shows the responses from micro (less than 10 employees) and small businesses, and for businesses with no exports, up to 20% of exports and more than 20% of exports. Although the differences are marginal, it was exporters and the companies with more than 10 employees, that were most likely to report declining order books.

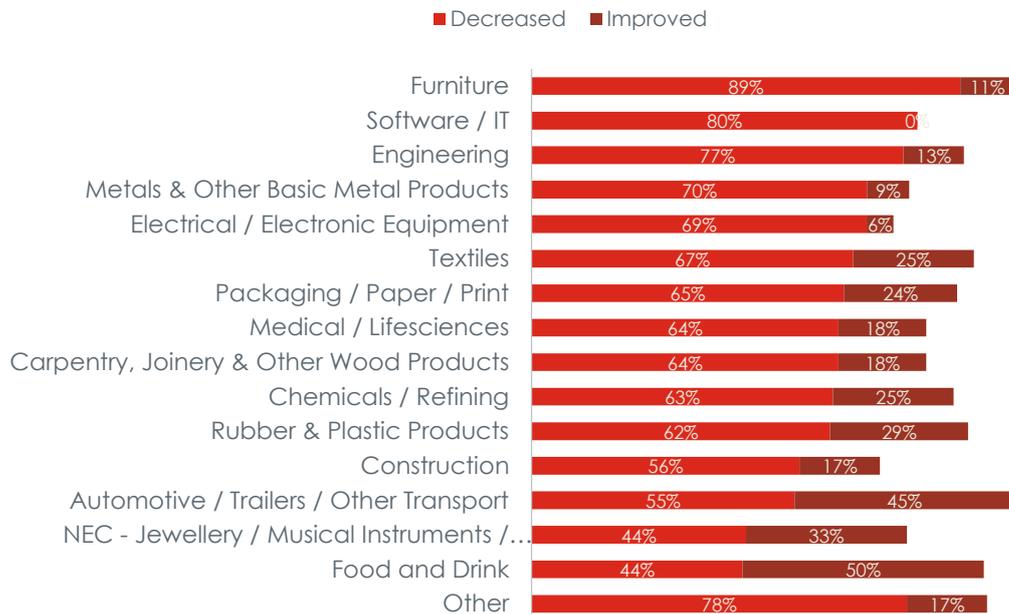
Figure 3: In general, how has your order book been affected by Covid-19?



Source: SQW analysis of MGP survey, n=281

Figure 4 shows the proportion reporting a decrease or increase in their order book, for each sector in the sample. For example, 89% of furniture manufactures had experienced a decrease (and 11% an increase). The impacts were highest among furniture manufacturers, IT, engineering, metal manufactures and electrical engineering. The negative effects were weaker for food and drink, jewellery, musical instruments, automotive-related manufacture and construction. Food and drink manufacturers were evenly split between those that had been negatively affected and those that benefitted.

² 1% were unsure

Figure 4: Change in order books by sector

Source: SQW analysis of MGP survey, n=281

The main reason for the decrease in orders has been the sharp drop in demand. A relatively small minority (14%) reported that their production had been so limited that they had been unable to meet demand.

Table 5: Where orders have decreased, why is this?

	%
Reduced demand	89%
Production has been limited and we have been unable to meet demand	14%
Other	4%

Source: All respondents that reporting a decrease in order books 187 – sums to more than 100% as several respondents indicated more than one reason

Just over a third of all the companies (35%) reported that their production had been constrained in some way as a result of the Covid crisis. This was because of a reduction in the supply of inputs for 19% and the availability of workers for 18% (Table 6). The constraints caused by the reduction in inputs was slightly higher among firms that import compared with those with UK suppliers.

Table 6: Production constraints

Location of main suppliers	Production constrained (all reasons)	Reduction in the supply of raw input materials / components	Reduction in our human resources	Increased unit costs due to an increase in our supplier costs	Other
UK	39%	17%	23%	6%	6%
Mostly UK	30%	16%	13%	1%	7%
Mostly/all overseas	37%	27%	22%	7%	7%
Grand Total	35%	19%	18%	4%	7%

Source: SQW analysis of MGP survey, n=289 - sums to more than 100% as respondents could indicate more than one reason

Product diversification

A fifth of companies (21%) had seen an improvement in their order book through the Coronavirus crisis. The sectors that benefitted included; food and drink, construction, and manufacturers of jewellery, instruments, games and toys. In all these cases, companies had made efforts to diversify products and find new markets.

Of those that had improved their order book:

- 62% of those that had *improved their order book* had **diversified into new markets**
- 52% of those that had *improved their order book* had **introduced new products**
- 11% had **reduced prices**.

Supplier performance

For small manufacturers the impact of the pandemic on their supply chain has been significant. Almost 60% reported that the performance of suppliers has been worse. This is consistent across UK and overseas suppliers.

The biggest effect has been on delivery times which two thirds of firms indicated had increased (although 14% also reported improvements). Costs had increased for around 40%. Within the sample most are supplied from within the UK and the issues for these manufacturers have been domestic rather than international.

Table 7: Supplier performance and the effect of Covid 19

	In general, how has the performance of your suppliers been affected by Covid-19?		How has the quality of materials, products, components or services from your suppliers been affected?		How has the cost of materials, products, components or services been affected		How have the delivery times of the materials, products, components or services been affected	
	Worsened	Improved	Worsened	Improved	Increased	Decreased	Increased	Decreased
All UK	53%	4%	20%	1%	30%	3%	57%	15%
Mostly UK	62%	1%	23%	0%	44%	2%	69%	12%
Mostly overseas	59%	0%	20%	0%	42%	2%	66%	19%
Grand Total	59%	2%	22%	0%	39%	2%	65%	14%

Source: SQW analysis of MGP survey, n=289

Brexit

A relatively small percentage of the sample felt that Brexit would have an effect on their business (34%). While 23% felt that it would have a negative effect, 11% considered it likely to be positive. The remainder were either unsure (31%) or did not think it would mean any change (35%) (Table 8).

The results reflect the small share of trade that is done with the EU among these companies (10% of all turnover is exported to the EU) and the fact that most of their inputs are sourced from within the UK. Predictably, the number that considered Brexit as a threat increased among exporters and importers. Of the 69 companies that export more than 20% of their turnover, 35% considered that Brexit would have a negative impact compared with 10% that considered it positive.

Similarly, among the 57 companies with suppliers “mostly outside the UK”, 34% considered that Brexit would have a negative impact compared with 12% that considered it positive. Those figures fall to 10% and 9% for firms with suppliers solely in the UK.

Table 8: Do you think that Brexit will have an impact on your business?

Row Labels	Positive	Negative	No change	Not sure	Number of cases
All firms	11%	23%	32%	35%	289
By exports					
Export more than 20% of turnover	10%	35%	22%	33%	69
Export up to 20% of turnover	14%	21%	38%	26%	91
No exports	9%	18%	33%	41%	129
By suppliers					
Suppliers mostly overseas	12%	34%	32%	22%	57
Suppliers mostly UK	11%	28%	28%	34%	132
All suppliers are UK	9%	10%	37%	45%	90

Source: SQW analysis of MGP survey, n=289

There were 98 companies that thought that Brexit would have an effect, positive or negative, on their business (34%). Table 9 shows the proportion of the whole sample that felt that the Covid crisis would affect their preparations for Brexit (13%). In total, 8% think it will impact on preparations because it leaves less cashflow to invest in managing changes and 10% because dealing with the crisis reduces the time to prepare.

Table 9: Are you concerned that Covid-19 will affect your preparations for Brexit?

Results for full sample	All	Cases
All cases	100%	289
All that think Brexit will have <i>some</i> effect	34%	98
% that think the Covid crisis will impact on preparations	13%	39
% that think it will impact on preparations because it leaves less cashflow to invest in managing the changes	8%	23
% that think it will impact on preparations because it leaves less time to prepare	10%	29

Source: SQW analysis of MGP survey, n=289

Loans

More than half of the sample (54%) have taken on additional loans or debt. The figure was slightly higher among micro businesses. This in part highlights the financial squeeze that these manufacturers have faced and is likely to mean a fall in investment in the future. Repayment of the debt may slow the recovery and mean that businesses are in a weaker position to deal with the combined uncertainties of Covid and Brexit (Table 10).

Table 10: Have you taken on any additional debt or loans as a result of Covid-19?

	Micro (1-9)	Small (10 - 99)	Medium (100-250)	All	Cases
Loan	58%	52%	25%	54%	152
No loan	39%	44%	63%	42%	118
Not sure	3%	4%	13%	4%	11

Source: SQW analysis of MGP survey, n=289

Overall

SME manufacturers have been hit hard by the pandemic and the evidence from the survey shows that they are being squeezed between a huge drop in demand *and* weaker supply chains. Demand from businesses upstream has clearly fallen heavily and the survey shows the repercussions throughout the supply chain. It also highlights significant problems for suppliers, primarily around delays and costs, which make recovery harder. There is also a significant minority that have managed to increase their order books through diversifying into new products and new markets.

Despite only 10% of all turnover from these businesses being sold in the EU, there is still a lot of uncertainty about the potential impact of Brexit with most concern, understandably, amongst the bigger exporters. The results raise important questions about resilience, both up and downstream for these small businesses, particularly given the uncertainties in the economy, and highlights the urgency of considering supply chains in delivering support. Specifically, by:

- Helping manufacturers to diversify products and markets to rebuild demand
- Help to build resilience by reviewing suppliers and securing better performance
- Focused support for exporters in the face of weak demand and Brexit uncertainties.

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About us

The Manufacturing Growth Programme

MGP is the UK's largest and leading business support programme making improvements to Manufacturing SMEs. It is funded by the European Regional Development Fund (ERDF) and delivered by Oxford Innovation Services. Supporting growth in manufacturing since October 2016, the MGP has supported more than 3,100 SME manufacturers to improve and grow as well as creating more than 4,300 new jobs. Support is delivered through a dedicated team of Manufacturing Growth Managers across 17 local enterprise partnership areas.

www.manufacturinggrowthprogramme.co.uk

Oxford Innovation Services

Oxford Innovation Services has been making a positive difference for over 30 years; we help SMEs to overcome their challenges, take opportunities and achieve their growth ambitions through the provision of incubation, business advice and connections to investors. We're here to help businesses reach their full potential.

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